BUDGET SPECIAL

It's time for survival. Growth can wait

Anwar-Ul-Alam Chowdhury (Parvez), president of Bangladesh Chamber of Industries, says budget should restore business confidence

Anwar-Ul-Alam Chowdhury (Parvez)

JAGARAN CHAKMA

The government should focus on stabilising businesses in the upcoming budget for fiscal year 2026-27 rather than chasing ambitious growth targets, according to a top business leader, as he says confidence remains fragile at home and global risks are rising.

"The immediate target should be survival. Growth can come later," said Anwar-Ul-Alam Chowdhury (Parvez), president of the Bangladesh Chamber of Industries (BCI), in an interview with The Daily Star.

He said the first priority of the new budget should be to restore business confidence, followed by reducing the cost of doing business and ensuring policy consistency.

"For businesses, stability matters more than headline incentives," he said.

"Tax incentives alone can't yield much if uncertainty persists," said Chowdhury, adding that the FY27 budget should provide the country's private sector with decisive policy support to improve the fragile business confidence.

The business leader said confidence has improved since the national election in February, which brought the BNP to power in a landslide.

The forthcoming budget will be the new government's first. But he commented that business sentiment has not fully recovered.

"There was an expectation that political stability would bring economic stability. But people are yet to feel that improvement fully," he said, pointing to law-and-order concerns and a "mob culture" that "continues to unsettle investors".

He said the new government has inherited a difficult economic backdrop, including high inflation and rising non-performing loans. While discipline in foreign exchange management has improved, broader macroeconomic stress is still constraining business expansion.

At the same time, private sector credit appetite has weakened, and unemployment is rising, adding to social and economic pressure.

Global developments are compounding those strains. Volatility in oil markets has pushed up import costs and heightened uncertainty over energy supply.

After war broke out in the Middle East in the last week of February, oil prices crossed $100 a barrel. Even with a truce currently in place, prices are above $90, compared with around $69 before the conflict.

Chowdhury said a prolonged war could intensify fiscal pressure for the government, with industry bearing the cost of higher energy financing.

Against that backdrop, he called for a comprehensive effort to lower business costs.

"High interest rates, unreliable energy supply, logistics bottlenecks and complex regulation are all squeezing companies," he said.

At the centre of the problem, in the view of the BCI president, is bureaucracy.

> **High interest rates, unreliable energy supply, logistics bottlenecks and complex regulation are all squeezing companies. At the centre of the problem is bureaucracy. Procedural complications and harassment are major barriers. If those are reduced, costs will fall naturally**

"Procedural complications and harassment are major barriers. If those are reduced, costs will fall naturally," he said.

He cited arbitrary disallowance of expenses, inconsistent interpretation of tax rules and complications in self-assessment procedures, which often force companies into repeated explanations and audits.

In some cases, he said, effective corporate tax rates climb far above the official rate, reaching 42 percent to 50 percent because of hidden costs and disallowances.

"One of the most striking concerns is the narrow tax base," he added.

Bangladesh has around 1.18 crore business entities and millions of professionals, yet only about 32 lakh taxpayers actively contribute, according to Chowdhury. "This is not because people do not want to pay tax. They simply avoid it because the system feels complicated and punitive."

To widen the tax net, he proposed a simplified, slab-based tax system for small businesses, similar to India, under which firms with lower turnover would pay a fixed amount instead of navigating complex compliance rules.

"This would encourage voluntary compliance and expand the tax base," he said.

For local businesses, Chowdhury said, liquidity pressures are also mounting. He said high rates of tax deducted at source (TDS) often exceed actual profit margins, leaving firms short of working capital.

"Companies also face scrutiny from multiple authorities, including joint commissioners, intelligence units and audit teams, sometimes reviewing the same file repeatedly over several years."

"This slows down operations, increases manpower costs and reduces efficiency," he said, calling for a "single assessment, single closure" system to prevent tax files being reopened without cause.

High lending rates are another deterrent to investment, said the business leader.

"Banks are charging 14 percent to 15 percent, which is not sustainable for most businesses," Chowdhury said. "The underlying cost of funds is closer to 5 percent to 6 percent but is inflated by inefficiencies and bank margins."

He also talked about a crowding-out effect for the private firms as banks shift towards government securities. "Why take risks with businesses when treasury bonds offer safe returns?" he said.

To ease borrowing costs, he urged the government to act decisively, including reducing the policy rate to bring down lending rates.

Energy security, he said, is equally critical. Industry needs uninterrupted and reasonably priced power to survive. The government should maximise domestic energy sources, expand solar generation and ensure adequate gas supply for industry and fertiliser production, especially as food security concerns grow.

He said logistics costs are another drag on competitiveness. Higher port charges and transport inefficiencies have raised production costs.

"Reducing logistics costs could significantly improve competitiveness," said Chowdhury.

He argued that weak implementation of the budget, not poor policy design, is the deeper problem. "But, without strong commitment, even the best policies will fail."

He also called for closer coordination between policymakers, businesses and economists. "Every stakeholder sees only part of the picture. Real solutions require a combined effort," he said.

High duties on solar parts slow green transition

Vidiya Amrit Khan, vice-president of BGMEA, says small factories struggle to meet compliance requirements

REFAYET ULLAH MIRDHA

The government should reduce import duties on solar equipment in the upcoming budget for fiscal year 2026-27 to encourage wider adoption of renewable energy and help exporters meet international compliance requirements, said Vidiya Amrit Khan, vice-president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

In an interview with The Daily Star, she said high import duties discourage garment exporters from installing renewable energy systems at factories. While a few large garment and textile factories can afford solar installations, small and medium-sized enterprises continue to lag behind.

The European Union (EU) -- the largest destination for Bangladesh's garment exports -- has adopted regulations that could restrict market access or reduce the competitiveness of products manufactured using fossil fuel-intensive processes by 2035.

The Corporate Sustainability Due Diligence Directive aims to significantly reduce fossil fuel use across global supply chains and advance Environmental, Social and Governance goals.

Vidiya Amrit Khan

The EU accounts for more than 60 percent, or around $25 billion, of Bangladesh's annual garment exports. Bangladesh is currently the largest garment exporter to the EU by volume, having overtaken China in the market two years ago.

To maintain export growth in the EU market, Bangladesh must accelerate its transition from fossil fuels to renewable energy, Vidiya said.

However, adoption remains slow. Less than 5 percent of the power used in the garment sector currently comes from renewable sources.

For years, Bangladeshi exporters have faced growing pressure from international, particularly EU-based, retailers and brands to shift towards clean energy.

Vidiya said import duties on solar panels currently range from 37 percent to 58 percent, creating a major obstacle to investment. Duties on solar batteries are also excessively high and should be reduced, she added.

She said BGMEA has been promoting renewable energy adoption through various awareness programmes across the country.

According to Vidiya, Bangladesh's competitors in the garment sector -- including India, Pakistan, Vietnam, China and Turkey -- have already made significant progress in renewable energy adoption, while Bangladesh continues to lag behind.

She also called for measures to improve the ease of doing business, including the introduction of single-digit lending rates to lower business costs and improve competitiveness.

As many garment factories have recently been operating below capacity because of inadequate gas and electricity supply, she urged the government to ensure an uninterrupted energy supply to industries.

Vidiya also drew attention to the extortion and harassment businesses face while seeking services from various authorities, saying such practices continue to undermine the country's business environment.

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Can FY27 budget bring

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Banks, facing a captive and low-risk sovereign borrower, have less appetite and less capacity to lend to businesses.

The result is a crowding-out effect that is not theoretical; it is already showing up in the data.

Above all, persistently high inflation and a rapidly rising debt-servicing burden are squeezing the country's fiscal space, leaving the government with less room to support growth, investment and jobs.

Business leaders and economists are clear-eyed about the risk.

Unless the government demonstrates genuine fiscal discipline, meaningfully expands the tax base, and takes visible steps to restore confidence in the investment climate, the budget's revenue and growth targets will likely join a long line of lofty projections that quietly missed their marks.

That pattern of targets set, revised, and forgotten is precisely what erodes the business confidence the government now needs to rebuild.

Business Initiative Leading Development (BUILD) Chairperson Abul Kasem Khan has called for a shift away from "stereotypical" budget-making, urging realism, deregulation and broader reforms.

"We do not want a continuation of the stereotypical approach in the budget; rather we want novelty, modernisation, and genuine deregulation," he said.

He questioned the feasibility of ambitious revenue targets in a slowing economy.

"If GDP growth has fallen from around 7 percent to nearly 3.5 percent, then expecting disproportionately high revenue collection raises serious questions," he noted, adding that pressure on a narrow tax base could undermine compliance.

On the business environment, Khan stressed reducing the cost of doing business.

"As businessmen, what we want most is a reduction in the cost of doing business. That includes reforming advance income tax, addressing refund delays, and removing the back-and-forth policy approach that has long created uncertainty," he said.

He also called for faster circulation of money and stronger consumption. "If we want the economy to function properly, we must allow money to circulate and consumption to grow. People's purchasing power must increase so that they feel confident to spend, which in turn drives production and investment," he added.

Khan further emphasised broad-based deregulation.

"Deregulation must be broad-based and meaningful. A small entrepreneur should be able to start a business within a day or two, without navigating months of licensing procedures," he said, adding that implementation has lagged behind repeated reform promises.

Fazlul Hoque, former president of Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), said, "The government is still new, and we do not yet have a clear understanding of its performance capacity."

"Perhaps it would have been better if the budget had been presented a little later, after fully assessing the economic realities."

Hoque noted an "unwritten trend" of expanding budgets each year, driven partly by political considerations, and warned that weak revenues amid slowing activity could make targets difficult.

"When economic activities slow down, revenue earnings naturally decline. Imports fall, exports face difficulties and domestic consumption weakens," he said, adding that large revenue gaps may force higher government borrowing and squeeze private credit.

"A large portion of government expenditure is now going toward interest payments on debt," he said, stressing stronger fiscal discipline and reduced corruption.

"If corruption can be reduced, government income will rise while expenditure will fall at the same time," he added.

The former BKMEA president also warned of inflationary pressure after the new pay scale for public employees and said weak fiscal management could hurt private sector credit and jobs.

"The government wants to create 1 crore jobs, but if the private sector suffers because of tighter credit conditions and higher interest rates, achieving that target will become difficult," he said.

Kamran T Rahman, president of the Metropolitan Chamber of Commerce and Industry (MCCI), said relying on ambitious revenue targets without expanding the tax base is unsustainable.

"Putting additional pressure on existing taxpayers will only make the situation more difficult," he said, noting that despite 1.28 crore TIN (taxpayer identification numbers) holders, only 40-45 lakh file returns, many of them zero returns.

How Bangladesh got caught

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What makes this particularly pressing is the speed at which debt servicing -- the combined cost of repaying principal and paying interest -- is rising.

In its Consultation Report, IMF projected Bangladesh will spend $30.59 billion servicing public debt in the ongoing FY26 -- covering both principal and interest on domestic and foreign loans. In FY25, the figure was $26.63 billion, and in the upcoming FY27, the amount is expected to reach $33.84 billion.

Much of this pressure stems from non-concessional foreign loans taken in earlier years, carrying higher interest rates and shorter grace periods, say economists. Successive governments also borrowed heavily to finance mega-projects and sustain the budget during and after the Covid-19 pandemic, obligations that are now coming due, they also note.

The growing repayment burden is narrowing fiscal space and making budget management increasingly difficult.

To reduce exposure to foreign exchange risk and build a more resilient fiscal framework, governments have increasingly turned to domestic borrowing.

But this shift has driven up interest costs sharply.

In FY25, of the total money spent by the government on servicing debt, 89.4 percent accounted for domestic loans, significantly above comparable economies, according to the IMF.

The Fund also warned that heavy reliance on bank borrowing risks crowding out private-sector credit, adding pressure to an already strained financial system.

Without improvements in revenue collection, the debt servicing burden will become increasingly more difficult.

"The elevated debt service-to-revenue ratio, including interest payments, poses significant rollover risks over the medium term," it said.

Bangladesh's tax-to-GDP ratio remains below 7 percent, one of the lowest in the region, limiting the government's capacity to manage rising debt obligations.

Former finance adviser Salehuddin Ahmed, in a note to his successor, said loan repayments were growing faster than export earnings and government revenues. He urged the new government to prioritise stronger revenue mobilisation and cautioned against taking high-interest non-concessional loans.

The IMF and economists alike stress that without serious reforms in revenue administration, banking governance, and debt management, financing future budgets without destabilising public finances will become increasingly difficult.