Star BUSINESS

New budget faces revenue execution risks: Fitch

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The first budget under the newly elected BNP government sets ambitious revenue targets that may prove difficult to achieve, given the country's persistent constraints in tax collection and uneven progress in implementing reforms, according to Fitch Ratings.

In a report yesterday, the ratings agency said the budget for financial year 2026-27 aims to raise the revenue-to-GDP ratio to 10.2 percent from around 8 percent in FY26. If achieved, it would mark Bangladesh's highest ratio since 1993.

Fitch said revenue collection would be the main test of the budget's credibility. The government is targeting 18 percent nominal revenue growth year-on-year while planning to increase spending by 19 percent.

Measures proposed to boost collections include simplifying tax procedures, reducing tax exemptions, easing value-added tax compliance for small and medium-sized enterprises, and increasing non-tax revenue from government investments in state-owned enterprises, corporations and banks.

While these initiatives could broaden the tax base over time, Fitch said weak implementation has limited the effectiveness of previous reform efforts.

The pressure to meet revenue targets is heightened by the government's spending commitments. Social protection and related programmes account for 29.7 percent of total expenditure, while physical infrastructure makes up 18.7 percent, reflecting the government's election pledges.

However, Bangladesh's history of underspending could help contain the fiscal deficit if implementation again falls short of budget plans, said Fitch.

FITCH FLAGS REVENUE RISKS

Current baseline

- Revenue-to-GDP around 8%
- Weak tax mobilisation remains structural constraint

Next year target (FY27)

Revenue-to-GDP **10.2%** | Nominal revenue growth **18%**

The rating agency said measures aimed at the energy sector could support medium-term growth if carried out effectively.

More than 40 percent of the country's electricity generation capacity is gas-based, and the budget prioritises domestic gas exploration, efficiency improvements across generation and distribution, and stronger infrastructure to support liquefied natural gas supplies.

In the face of global energy volatility triggered by the war in the Gulf, Bangladesh has requested a new programme from the International Monetary Fund (IMF).

Fitch noted that completing the final review of the current arrangement, which expires in January 2027, appeared unlikely.

It added that reaching agreement on a reform agenda could take time, meaning the credit implications of the FY27 budget would depend largely on whether the government could improve revenue mobilisation and investment execution.

The agency also questioned the government's growth assumptions.

The authorities expect the economy to expand by 6.5 percent in FY27. Fitch, however, forecasts growth of 3.5 percent,

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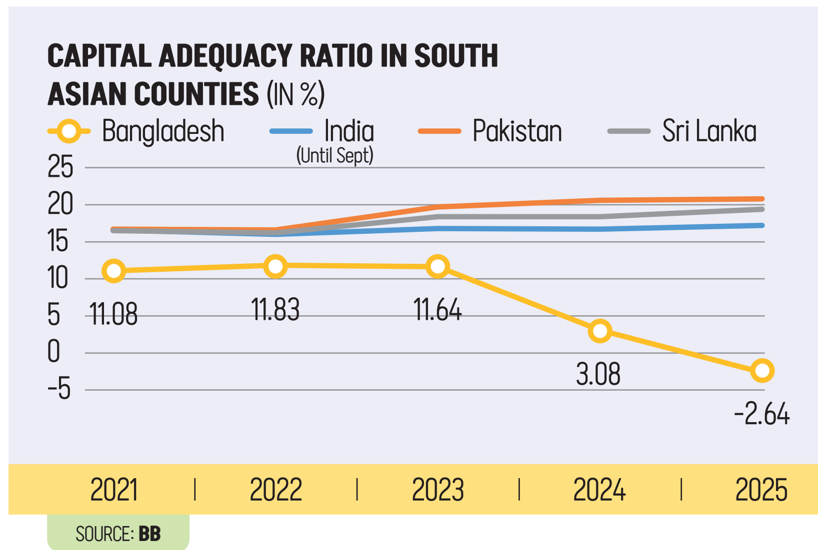
Capital position of Bangladeshi banks turns negative

It is the weakest in South Asia as hidden bad loans surfaced after 2024 political changeover



KEY POINTS

- Bank capital buffer turns negative, weakest in South Asia
- Hidden bad loans and scams erode capital
- Capital adequacy worsened since 2024
- Govt injects billions into weak banks
- Experts warn of deeper crisis ahead

MD MEHEDI HASAN

Bangladeshi banks have emerged as the weakest in South Asia in their ability to absorb financial shocks, after a large volume of previously hidden bad loans came to light following the fall of the Awami League-led government in August 2024.

As these losses surfaced, capital buffers of banks were eroded, pushing their capital adequacy ratio into negative territory by the end of 2025, according to Bangladesh Bank's latest Financial Stability Report yesterday.

The capital adequacy ratio, also known as the Capital to Risk-Weighted Assets Ratio (CRAR), measures how much money a bank holds as a safety cushion against risky lending. In simple terms, it shows whether a bank has enough capital to absorb losses if borrowers fail to repay loans. A negative ratio means losses have wiped out that buffer entirely.

At the end of 2025, Bangladesh's CRAR stood at minus 2.64 percent. By comparison, it was 17.20 percent in India as of September last year, 19.40 percent in Sri Lanka, and 20.80 percent in Pakistan at the end of 2025.

Under international Basel III rules, banks are expected to maintain a minimum capital adequacy ratio of 10 percent, plus an additional 2.5 percent buffer to protect against financial stress. Bangladesh is now far below that threshold.

The central bank report shows that Bangladesh's banking sector was relatively stronger until 2023, but its financial position deteriorated drastically from 2024 after the political changeover.

In 2024, the sector's capital adequacy ratio stood at 3.08 percent, compared with 16.7 percent in India, 20.6 percent in Pakistan and 18.4 percent in Sri Lanka.

Banking sector insiders say the collapse shows years of irregularities and large-scale financial scams during the Awami League government, which led to massive losses that were not fully disclosed at the time.

Syed Mahbubur Rahman, managing director and chief executive officer of Mutual Trust Bank and a former chairman of the Association of Bankers, Bangladesh (ABB), said the capital position of the banking sector has turned negative due to widespread financial scams.

According to Rahman, a number of banks have also availed themselves of regulatory deferral facilities. These are temporary measures that allow banks to delay recognising losses or meeting certain regulatory requirements, often used to ease short-term pressure on their balance sheets.

He said the situation could worsen further once these facilities are withdrawn or expire.

Bangladesh's banking sector has long operated with lower capital levels than its regional peers, averaging around 11 percent in recent years. However, the ratio saw a steep decline of more than 8.5 percentage points from 11.64 percent a year earlier to minus 2.64 percent at the end of December 2025.

At the end of 2025, some 42 banks remained compliant with Basel III requirements, together accounting for more than 60 percent of total banking sector assets, according to the report.

It said the overall decline was driven mainly by weak capital positions in Islamic private commercial banks, specialised development banks and several state-owned banks.

Non-performing loans (NPLs), loans on which borrowers have stopped making repayments, were the central pressure point.

At the end of last year, bad loans in the sector stood at Tk 557,217 crore, or 30.60 percent of total loans. By March this year, the amount had risen further to Tk 588,704 crore, or 32.26 percent, according to Bangladesh Bank data.

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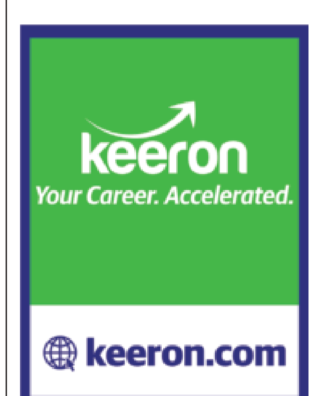

Mir Nadia Nivin made chairman of Idra

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The government has appointed Mir Nadia Nivin as the chairman of the Insurance Development and Regulatory Authority (Idra) for a three-year term.

Nivin, who received her higher education from Harvard University in the United States, will be Idra's first female chairperson, according to a circular issued by the Financial Institutions Division yesterday.

A Bangladeshi governance and institutional reform specialist, she served as a member of the Electoral System Reform Commission, established by the interim government in October 2024.

She brings extensive experience in democratic governance, institutional reform, and peacebuilding, having held senior roles with the United Nations Development Programme (UNDP) in Bangladesh, Afghanistan, and Malaysia.

From 2020 to 2023, she led UNDP's Strategic

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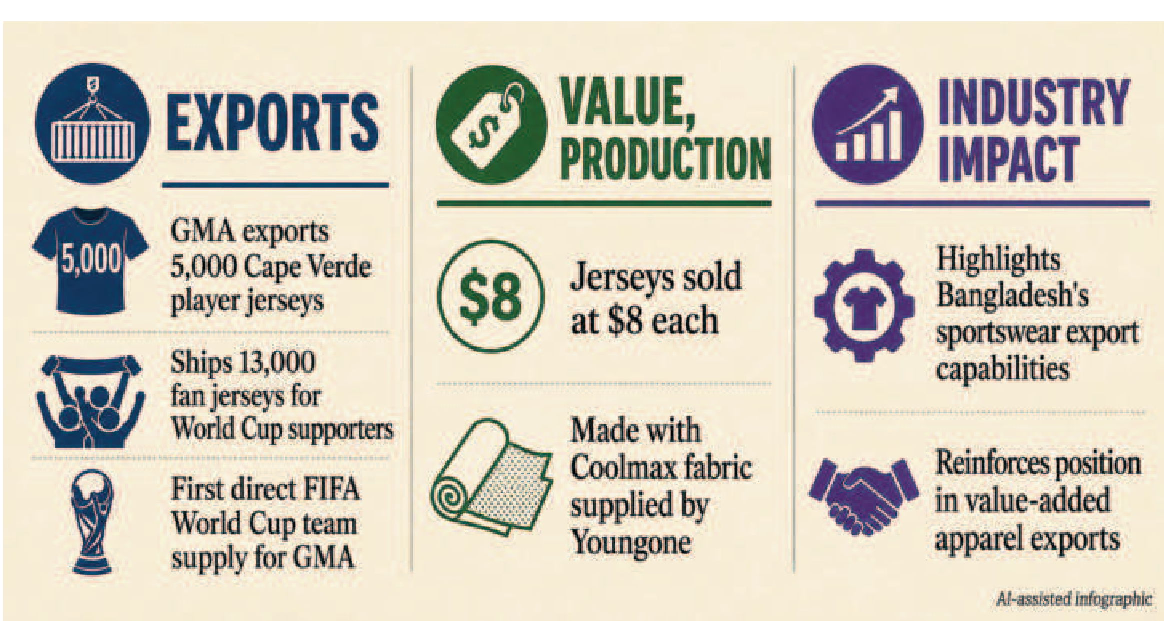
Made in Bangladesh jerseys reach FIFA World Cup 2026



REFAYET ULLAH MIRDHA

Although a Bangladeshi team is not taking part in the FIFA World Cup 2026, products "made in Bangladesh" have still made their way to football's biggest stage.

Jerseys manufactured in Bangladesh were worn by the Cape Verde national team during their World Cup debut match against Spain in Atlanta on Monday night, a game that ended in a draw.

The jerseys were produced by Garments Manufacturing and Assembling Ltd (GMA), a factory located in Dhaka's Turag area. The company supplied 5,000 player jerseys through New York-based sportswear company Capelli Sport.

"Not only the 5,000 jerseys for the players, but also 13,000 fan jerseys of different countries were exported through Capelli Sport," GMA Manager Showmik Barmon told The Daily Star over the phone.

Fan jerseys are sold to supporters in stadiums, while player jerseys are worn directly by national team players at the World Cup.

GMA, established in 2019, has been producing sports garments and supplying them to Capelli Sport from the beginning, Barmon said.

Capelli Sport placed the order in January this year, and GMA delivered the jerseys to Cape Verde in March. Each player's jersey was sold at $8, he added.

Barmon also said that making football jerseys requires Coolmax fabric, which is made from special yarn designed to reduce sweating during matches.

Another local garment giant, Youngone Corporation, supplied the fabric to GMA after importing the special yarn.

Although GMA has produced sports garments since its inception, this is the first time it has supplied player jerseys for a FIFA World Cup, he added.

Bangladesh supplies jerseys for major global sporting events, including football and cricket World Cups and other international tournaments, and has built a strong

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Budget proposes lower deposits for tax appeals

MD ASADUZ ZAMAN

Businesses will face a lower financial burden when contesting tax demands from the next fiscal year, as the government has proposed sharply reduced deposit rates for dispute cases across different stages of appeal.

The proposed budget for fiscal year 2026-27, starting July 1, seeks to sharply cut these upfront deposits across all types of tax disputes -- income tax, VAT and customs -- at two out of three levels of the appeals process. Finance Minister Amir Khosru Mahmud Chowdhury placed the proposals before parliament on June 11.

Tax experts say the changes could make the system significantly fairer for businesses, as currently they have to deposit a large portion of the disputed tax amount, sometimes as much as 25 percent, before their case is even heard. That money sits locked up during what can be a lengthy legal process, regardless of whether the business ultimately wins.

Under the proposed changes for income tax disputes, the deposit required at the First Appeal stage rises to 1 percent from zero previously. At the next stage, the Tax Appeal Tribunal, it drops to 3 percent from 10 percent. At the High Court, it falls to 10 percent from a maximum of 25 percent. The combined rate drops from 35 percent to 14 percent.

For VAT disputes, the cuts are steeper. The deposit currently stands at a flat 10 percent at all three stages. Under the proposal, it falls to 1 percent at both the First Appeal and Tribunal stages, and to 2 percent at the High Court.

If implemented, the measures will bring down the total payable rate to 4 percent from 20 percent.

For customs disputes, the rate for the first two stages drops to 1 percent from 10 percent, with the High Court rate set at 2 percent, reducing the overall rate from 20 percent to 4 percent.

The budget also proposes abolishing the power of tax officials to personally decide whether to accept or reject an appeal.

Debabrata Roy Chowdhury, company secretary and head of legal and taxation at Nestlé Bangladesh, called the move progressive.

"It would improve businesses' access to justice and reduce the financial burden of contesting tax assessments," he said. Previously, he noted, taxpayers had to make substantial deposits just to challenge demands, making justice costly and difficult.

He also stressed that faster disposal of cases would be essential to prevent abuse of the lower deposit requirements.

Snehasish Barua, director of financial consulting firm SMAC Advisory Services Limited, said businesses had long pushed for exactly this kind of change, noting that the previous system was largely seen as a tool for harassment.

"The prevailing complaint among businesses was that if they contested an

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KEY POINTS

- Lower deposits proposed for tax dispute appeals
- Income tax dispute rate falls to 14% from 35%
- VAT and customs disputes drop to 4% from 20%
- Appeal deposits drop to 4-14% from 20-35%