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Star BUSINESS

Weak institutions cost Bangladesh billions in tax revenue: WB

STAR BUSINESS REPORT

Weak public institutions are holding back Bangladesh's economic growth and costing the country billions in lost tax revenue, the World Bank said yesterday, urging reforms to tax administration, procurement, auditing and project implementation.

"These are facts, but they are also symptoms of deeper structural issues. At the core of those issues are weak institutions," said Jean Pesme, World Bank country director for Bangladesh, at the launch of the Strengthening Institutions for Transparency and Accountability (SITA) project in Dhaka.

Citing the WB's Country-Level Institutional Assessment and Review based on 2023 data, Jean said Bangladesh ranks in the bottom quartile among upper-middle-income countries in eight of 13 institutional clusters. The areas include political institutions, social institutions, integrity, justice, human resource management, public finance, labour and social protection, and service delivery.

The costs are heavy. Jean pointed out that Bangladesh's tax-to-GDP ratio stood at only 6.9 percent in fiscal year 2024-25, which is less than half of the roughly 15 percent considered necessary to finance the country's development ambitions.

KEY FINDINGS

Tax-to-GDP ratio stuck at 6.9% in FY25	70% of govt revenue comes from indirect taxes
Public projects face 30% average cost overruns	Project implementation delays average three years

Around 70 percent of government revenue comes from indirect taxes, reflecting a narrow and inequitable tax base, he added.

According to the WB, public investment projects face average cost overruns of around 30 percent and implementation delays of about three years, while Bangladesh ranks 116th among 137 countries in infrastructure quality.

"Weaknesses in procurement and public investment management undermine infrastructure outcomes and public service delivery," Jean said.

He described Bangladesh as being at an "inflection point", with economic growth slowing over the past three years, fiscal pressures mounting, job creation weakening and external shocks exposing long-standing structural vulnerabilities.

Poverty reduction has also slowed, with 8.9 percent of the population projected to live below the $3-a-day poverty line in 2025.

"The next game for Bangladesh will depend less on policies alone and much more on how effectively institutions can implement them and close the execution gap," he said.

He welcomed the government's decision to separate tax policymaking from tax administration, calling it an important step toward stronger accountability and taxpayer confidence.

According to the WB official, the FY27 budget's revenue and service delivery targets were ambitious but contingent on institutional capacity to deliver.

"It's about outcomes and results," he said, adding that the government's emphasis on digitalising tax administration and improving compliance is consistent with the reform agenda supported by the WB.

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Govt takes twin-track approach to retain EU duty-free access

Dhaka pushes for both FTA and GSP Plus as LDC graduation clock is ticking

RACE TO RETAIN EU DUTY-FREE ACCESS

Options Free Trade Agreement (FTA) | EU GSP Plus

FTA	GSP Plus
Negotiations under way	Bangladesh working to meet eligibility conditions
Could be FTA, CEPA or Economic Partnership Agreement	Requires compliance with 32 international conventions
Negotiations likely to take years	May not fully benefit garments because of safeguard rules
Would preserve international export competitiveness	Labour reforms are key requirement

Govt strategy

Pursue both tracks simultaneously while seeking to delay LDC graduation

What the EU means for Bangladesh

- More than 50% of Bangladesh's exports go to the EU
- 94% of EU imports from Bangladesh are textiles
- Bangladesh is the largest EBA beneficiary of EU

REFAYET ULLAH MIRDHA

Bangladesh is pursuing a dual-track strategy to retain duty-free access to the European Union after graduating from the least developed country (LDC) category, negotiating a free trade agreement (FTA) with the bloc while also seeking to qualify for its GSP Plus trade preference scheme.

With the clock ticking towards the end of its LDC trade privileges, businesses say that failing to secure an alternative arrangement could dent the country's export competitiveness in its largest overseas market and hurt the overall economy.

The stakes are high as nearly half of Bangladesh's merchandise exports are shipped to the EU. To the European market, they currently enjoy duty-free and quota-free access under the Everything But Arms (EBA) scheme for least developed countries.

The pressure is greater because the two biggest competitors of Bangladesh in the apparel market, India and Vietnam, already have trade agreements with the EU. Once Bangladesh loses its LDC preferences, exporters fear the market peers will gain a further competitive edge.

Bangladesh is scheduled to graduate from LDC status in November this year. The government has, however, sought a three-year postponement, and officials say the response from the relevant UN body has so far been positive.

Even if the graduation goes ahead as scheduled, the EU has agreed to continue its trade preferences for Bangladesh for another three years. That means regular tariffs will come into effect from 2029 under the current timeline.

Studies have estimated that Bangladesh could lose exports worth as much as $17.5 billion a year after graduation, as around 73 percent of the country's exports currently benefit from LDC-related preferences.

"Eventually, we are heading towards signing an FTA with the EU, but it may take a long time because of the negotiations by both parties," Commerce Minister Khandakar Abdul Muktadir told The Daily Star over the phone.

Negotiating an FTA, however, is rarely a quick process. India, for example, took around two decades to conclude its trade agreement with the EU.

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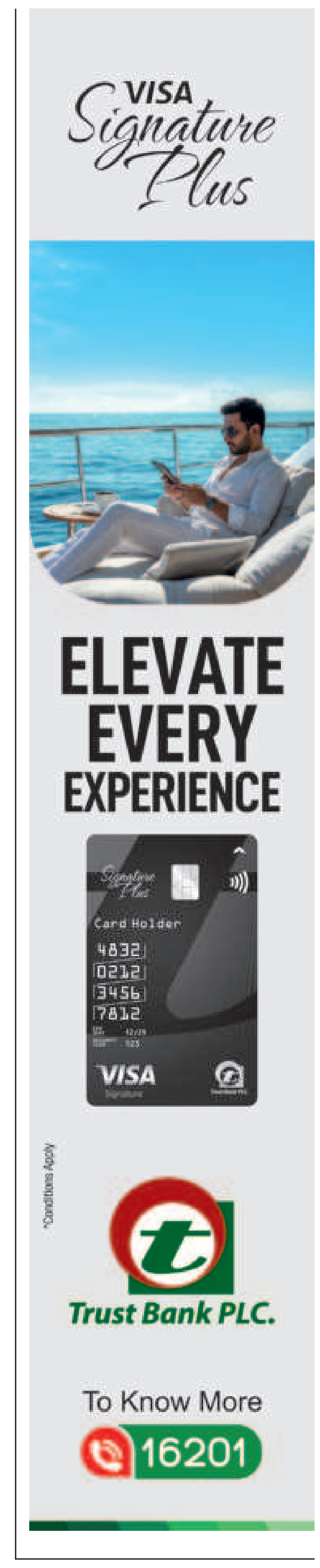
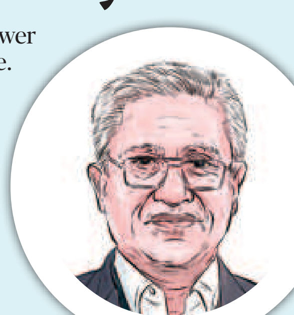


The political economy of industrial slowdown

ZAHID HUSSAIN



Industrial production grew by only 2.86 percent in the outgoing fiscal year -- the slowest pace in recent memory. Yet the budget projects that growth will somehow jump to 7 percent next year and continue rising thereafter. Such an acceleration is not impossible, but it demands a transformation far deeper than anything currently underway.

This gap between performance and aspiration raises an uncomfortable question: why do the same constraints -- weak logistics, unreliable energy, low foreign investment, anti-export policy bias, and chronic skill shortages -- persist after decades of being diagnosed and rediagnosed? The answer cannot be ignorance. Policymakers have long understood these problems, and the solutions are hardly mysterious.

The persistence of these constraints points to something more structural. Industrial stagnation cannot be understood solely as the result of technical bottlenecks. It also reflects the institutional incentives that shape industrial policy, competition, and investment decisions. Understanding those incentives requires looking beyond the familiar explanations that dominate policy debates.

THE CONVENTIONAL EXPLANATION

The prevailing explanation traces Bangladesh's industrial underperformance to weak state capacity, policy inconsistency, and short political time horizons rather than to the incentives shaping policy choices. Bureaucratic fragmentation, cumbersome regulations, inadequate infrastructure, fiscal constraints, and limited administrative capability make it difficult to implement coherent industrial strategies. Governments, whether democratic or authoritarian, also tend to prioritise visible short-term projects over long-term investments in education, energy, logistics, and institutional reform.

These explanations are neither trivial nor incorrect. Weak institutions, limited technical capacity, and political incentives all matter. But they are insufficient to explain why many of the same constraints have persisted for decades despite being widely recognised. Policymakers have long understood the

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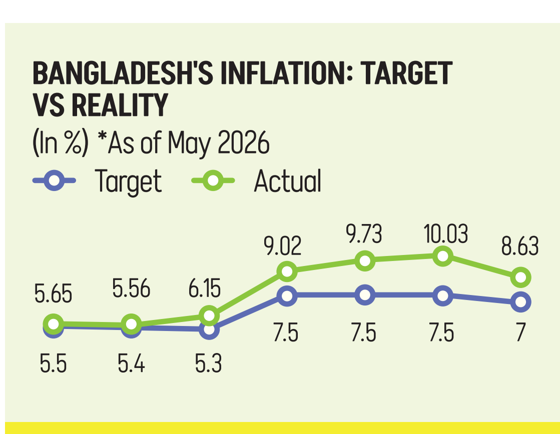
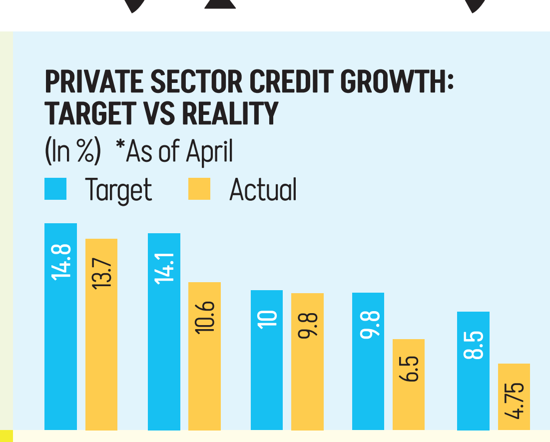
Why inflation remains stubborn despite tighter monetary policy

SOHEL PARVEZ





SOURCE: BB

"Excessive prices"

Few phrases have dominated public discourse in Bangladesh over the past several years as much as these two words. They have haunted households and policymakers alike.

The impact is felt daily. Travelling a short distance by rickshaw in Dhaka for Tk 10 is a thing of the past. A bundle of leafy vegetables for Tk 10 requires hard bargaining with the floating vendor in neighbourhood alleys. Prices have risen so much that Tk 100 vanishes into a vegetable bag soon after it comes out of the wallet.

For a four-member family, keeping weekly bills for vegetables, eggs and other essentials within Tk 500 has become nearly impossible. That note now buys far less than it did two years ago. And there is no sign of prices cooling.

The Bangladesh Bank (BB) has maintained a contractionary monetary policy stance since the first half of fiscal year 2023-24 to make money more expensive and tame excess demand to curb inflation. It started raising the policy rate, or repo rate – at which it lends to commercial banks – in May 2022 and hiked it to 10 percent in October 2024. The rate is yet to come down.

Yet inflation – a measure of the increase in the prices of a basket of goods and services purchased by an average consumer – remains stubborn.

Month-on-month inflation stood at 9.42 percent at the end of May, with the 12-month average above 8.6 percent, indicating that overall inflation is likely to hover well above the BB's target of 7 percent at the end of June this year.

This would be at least the sixth consecutive year inflation has exceeded the central bank's targets. In FY25, average inflation hit 10 percent, more than 2 percentage points above target. The year before, it was 9.73 percent in June 2024, 2.23 percentage points above the BB's goal.

Similarly, actual private-sector credit growth fell short of its targets set in the successive monetary policies.

In April 2026, it expanded by only 4.75 percent year-on-year, against a BB target of 8.5 percent by end-June. In April 2025, private-sector credit growth was 7.50 percent.

Public-sector credit growth, by contrast, exceeded its projected level.

The question is, why? What's wrong with monetary policy that has failed to contain spiralling prices meaningfully, reverse sluggish demand and accelerate economic activity?

In its recent monetary policy statements, the BB attributed persistently high inflation to a combination of factors – the Russia-Ukraine war and conflicts in the Middle East, a more than 40 percent depreciation of the taka against the US dollar, and volatility in global commodity prices.

Domestically, years of a lending rate cap at 9 percent kept real interest rates negative for a while, repeated fuel and energy price hikes led to higher production and transportation costs, and government continued to borrow heavily to finance budget deficits.

This coincided with domestic production and supply disruptions caused by recurrent floods and rising inflation expectations, causing prices to trend upward.

FISCAL AND MONETARY FAILURES

Birupaksha Paul, professor of economics at the State University of New York at Cortland and a former chief economist at the BB, argues inflation has remained high "because of both fiscal and monetary failures."

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First short-term sukuk oversubscribed by 10 times

STAR BUSINESS REPORT

Bangladesh's first-ever short-term shariah-based sukuk drew overwhelming interest from individuals and institutions at its debut auction yesterday.

Investors submitted bids worth Tk 56,607 crore for the 273-day sukuk, more than 10 times the issuance target of Tk 5,500 crore.

The shariah-based bond, issued by the government to finance the Important Rural Infrastructure Development Project-2 (IRIDP-2), carries an annual rental rate of 9.36 percent. The Bangladesh Bank (BB) held the auction in Dhaka on behalf of the government.

Shariah-based banks and financial institutions, Islamic banking branches and windows of conventional banks, institutional investors, and individual investors participated in the auction, the BB said in a statement. Given the overwhelming demand, the sukuk was allotted to investors on a pro-rata basis.

Interest in shariah-compliant instruments has been rising since their launch in December 2020. With yesterday's auction, the total amount raised by the government through sukuk has exceeded Tk 53,000 crore.

The BB said the introduction of a short-term sukuk, alongside existing long-term Islamic securities, would strengthen liquidity management for shariah-based banks and financial institutions. The central bank plans to issue more sukuk bonds in days to come.

In this regard, Istequemal Hussain, director of the Debt Management Department at BB, told The Daily Star that they plan to raise Tk 30,000 crore in the next fiscal year through the issuance of various sukuk bonds, which will be open to individual investors.

The BB said the issuance expands shariah-compliant investment opportunities for Islamic financial institutions and individual investors.

The short-term sukuk will qualify as a Statutory Liquidity Reserve (SLR) asset for eligible banks and financial institutions, while Islamic banks will be able to use it as collateral to access the central bank's Islamic Banks Liquidity Facility (IBLF).

Trading of the sukuk in the secondary market will begin today, allowing banks, financial institutions, insurance companies, provident and mutual funds, and individual investors to buy and sell the instrument. According to the BB, 727 successful bids from individual investors, provident funds, mutual funds, and deposit insurance entities were allotted sukuk worth around Tk 87.37 crore.