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Working Paper 155

Power and Energy Sector in the National Budget FY2024-25

Can the Proposed Measures Address the Challenges?

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CENTRE FOR POLICY DIALOGUE

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The present paper titled ***Power and Energy Sector in the National Budget FY2024-25: Can the Proposed Measures Address the Challenges?*** has been prepared by *Dr Khondaker Golam Moazzem*, Research Director, CPD (moazzem@cpd.org.bd); Ms Helen Mashiyat Preoty, Senior Research Associate, CPD (preoty@cpd.org.bd); *Mr Mashfiq Ahsan Hridoy*, former Research Associate, CPD; Ms Jebunnesa, Programmes Associate, CPD (jebunnesa@cpd.org.bd); and Mr Faisal Quiayuum, Programme Associate, CPD (faisal@cpd.org.bd).

Series Editor: *Dr Fahmida Khatun*, Executive Director, CPD.

Abstract

The national budget for FY2025 holds critical importance for Bangladesh's power and energy sector as it seeks to address the sector's numerous challenges while moving towards sustainable energy and energy transition goals. This study critically examines the national budget's reflection on key priorities in the power and energy sector, including overgeneration capacity, frequent power outages, slow progress in renewable energy, and financial vulnerabilities of public authorities. It evaluates whether the proposed budgetary measures address these issues, focusing on sustainability and energy transition readiness. Despite a significant allocation of BDT 30,317 crore to the sector, the analysis reveals that many initiatives prioritise short-term fixes over long-term energy sustainability, such as increasing generation capacity and reliance on imported fuel. There is inadequate fiscal support for renewable energy projects, and existing overgeneration capacity exacerbates financial burdens. The paper argues for a restructuring of fiscal incentives, enhanced project management, and more strategic investment in renewable energy, transmission systems, and domestic energy resources to ensure a secure and sustainable energy future for Bangladesh.

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Acronyms

ADP	Annual Development Programme
AIS	Air-Insulated Switchgear
BAPEX	Bangladesh Petroleum Exploration & Production Company Limited
BDT	Bangladeshi Taka
BERC	Bangladesh Energy Regulatory Commission
BPC	Bangladesh Petroleum Corporation
BPCC	Bangladesh Petroleum Corporation Company
BPDB	Bangladesh Power Development Board
BREB	Bangladesh Rural Electrification Board
CNG	Compressed Natural Gas
CPD	Centre for Policy Dialogue
DESCO	Dhaka Electric Supply Company
DPDC	Dhaka Power Distribution Company
FY	Fiscal Year
GIS	Geographic Information System
GTCL	Gas Transmission Company Limited
HFO	Heavy Fuel Oil
ITFC	International Islamic Trade Finance Corporation
JP	Jet Propellant (related to Kerosene)
KGDCL	Karnaphuli Gas Distribution Company Limited
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MoPEMR	Ministry of Power, Energy and Mineral Resources
MW	Megawatt
NESCO	Northern Electricity Supply Company Limited
RE	Renewable Energy
RPC	Rural Power Company
SOFR	Secured Overnight Financing Rate
SREDA	Sustainable and Renewable Energy Development Authority
USD	United States Dollar
WZPDCL	West Zone Power Distribution Company Limited

1. INTRODUCTION AND OBJECTIVES

The National Budget for FY2025 has been placed in the National Parliament on 6 June 2024. The Parliament approved the proposed budget on 30 June 2024. Traditionally, the Power and Energy Sector is one of the top priority sectors in the National Budget. However, the sector is currently facing numerous challenges and limitations, which have had adverse effects on various economic activities. The budget holds critical importance as it was the first budget under the 12th National Parliament. It is essential to examine the proposed national budget to determine whether the commitments made during the election campaign and outlined in the election manifestos are reflected. However, it should be noted that not all commitments align with energy sustainability and energy transition objectives.[1]

The power and energy sector has confronted six major crises. These are – (a) over-generation capacity, (b) continuous power outages (load shedding) despite the available generation capacity, (c) slow progress in the transmission and distribution systems, (d) insufficient attention to the expansion of renewable energy, (e) costlier approaches taken to ensure the supply of energy for power generation and (f) continuous financial losses of public authorities related to the power and energy sector. Such challenges emerged because of faulty policies/plans, weak regulatory, institutional and operational structures in the power and energy sector. The national budget could address some of those challenges directly through fiscal and financial measures, and some other challenges through announcing government stances which is reflected in the budget speech of the finance minister.

In this backdrop, the objective of this study is to review the national budget for the power and energy sector from two key perspectives: (a) sustainability of power and energy sector[2], and (b) readiness for energy transition[3]. While 'energy sustainability' indicates energy security in the country, 'energy transition readiness' indicates decarbonising the country. These perspectives are crucial for addressing the current challenges and ensuring a stable and sustainable energy future.

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[1]Key pledges of the then the ruling party include ensuring an uninterrupted and quality power and energy supply, which aligns with energy sustainability. However, increasing the power generation capacity to 40 GW by 2030 and 60 GW by 2041 is marked as energy anti-sustainability, indicating potential challenges in meeting sustainability goals. Other commitments include increasing the number of transmission lines to 24,000 circuit kilometers and the construction and operation of transmission lines under Public Private Partnership (PPP), both of which align with energy sustainability. In terms of fuel production, import, and supply, the government aims to ensure gas and LPG supply in the northern and western regions of the country, enhancing state institutional efficiency, and increasing the fuel oil refinery capacity of the Eastern Refinery. For renewable energy production, supply, and distribution, the government aims to generate 10 GW of electricity from clean energy sources, aligning with the energy transition goals. Additionally, there are plans to make the grid suitable for the transmission of electricity generated by renewable energy and nuclear power plants, further supporting the energy transition. The government also intends to accelerate the import of hydropower from Nepal and Bhutan, which aligns with the energy transition objective.

In terms of policies and planning, the retirement of rental and inefficient power plants will be done in phases, supporting the energy transition. However, the coal policy emphasises special importance on the exploration and extraction of coal and mineral resources, which is marked as energy anti-transition.

[2]Sustainable power and energy is defined as the supply of power and energy as per current requirement using different energy-mixes without affecting future requirements of power and energy (see, https://www.repsol.com/en/energy-and-the-future/future-of-the-world/sustainable-energy).

[3]Readiness for energy transition indicates progress towards reducing GHG emission through various efforts for reducing the use of different fossil-fuels which will ultimately contribute in decarbonisation.

2. REFLECTION OF THE POWER AND ENERGY SECTOR IN THE FY2025 BUDGET SPEECH

2.1 Issues Highlighted in the FY2025 Budget Speech

In his budget speech, the finance minister highlighted several budgetary measures related to the power and energy sector. In the budget speech, several fiscal incentives, and commitments for FY2025 were highlighted which addressed some key areas related with the power and energy sector. Several budgetary measures were also highlighted in the speech including the expansion of power generation capacity, distribution and transmission lines, renewable energy, and domestic resource exploration. Table 1 and Table 2 present their level closeness with 'energy sustainability' and 'energy transition readiness'.

Petroleum Products: The budget proposes to align the value of furnace oil with the international market by fixing the minimum value for furnace oil at USD 480 per Metric Ton (MT). This move has been taken with a view to setting a minimum value of furnace oil which would increase the value by two-fold. However, the move can be viewed as an 'interim arrangement' before moving towards 'energy transition', as higher value of furnace oil would have adverse impact on such fuel-import and fuel-use.

CNG/LPG Filling Station: Currently, materials for establishing or operating CNG/LPG stations can be imported at a concessionary duty of 3 per cent. The budget proposes reducing this facility and increasing the customs duty to 5 per cent for imports under this notification, which can be viewed as an 'interim arrangement' before moving towards 'energy transition' as import cost is likely to be increased because of this initiative.

Table 1: Reflection in the National Budget Speech for FY2025

Issues	Commitments for FY2025	Perspectives on Energy Landscape
Power Generation Expansion	• Power generation target is set at 40,000 MW by 2030 and 60,000 MW by 2040	Anti-sustainable
Power Transmission and Distribution	• Smart grid: By 2041, Smart grid will be established	Pro-energy transition
Renewable Energy Expansion	• It is targeted to generate 40 per cent of renewable energy by 2041 • Investment allocation: BDT 100 crore was proposed to expedite renewable energy	Pro-energy transition
Gas exploration	• BAPEX plans to drill and workover 48 wells under Petrobangla between January 2023 and December 2025 to explore and extract oil/gas in onshore areas to meet the increasing gas demand of the country • Considering the importance of extracting marine resources and its fair use, allocation of BDT 100 crore for research and development activities have been proposed in this sector	Interim arrangement

Source: The Budget Speech for FY2025.

Amendment of Notification Related to Rampal Power Plant and Rental Power Companies: Presently, different types of power generation companies can import their plants, equipment, and erection

materials duty-free. The budget suggests rationalising tax expenditure by reducing these benefits and imposing a 5 per cent customs duty on such imports. This notification is proposed to remain in force until June 30, 2028, and is considered as an 'interim arrangement' before moving towards 'energy transition'.

Power Generation Expansion: The finance minister mentioned that the power generation target is set at 40,000 MW by 2030 and 60,000 MW by 2040. This ambitious target aligns with energy 'anti-sustainability' perspective, as it focuses on increasing the generation capacity beyond the estimated electricity demand (Moazzem and Faisal, 2024) which would ultimately cause financial burden and further promote carbon lock-in in the country.

Power Transmission and Distribution: It is mentioned in the budget speech that a significant commitment is the establishment of a smart grid by 2041, which is expected to facilitate the energy transition by improving the efficiency and reliability of the power transmission and distribution network. Though no major initiative is being undertaken during FY2025, announcement of such a move could be considered as 'pro-transition'.

Renewable Energy Expansion: According to the finance minister, the budget targets generating 40 per cent of energy from renewable sources by 2041. To expedite this transition, an investment allocation of BDT 100 crore has been proposed. These measures reflect a positive commitment to the energy transition.

Gas Exploration: The budget speech highlights that BAPEX plans to drill and work over 48 wells under PetroBangla between January 2023 and December 2025 to explore and extract oil/gas in onshore areas, meeting the increasing gas demand of the country. Additionally, BDT 100 crore has been allocated for research and development activities in the marine resource sector. Such an allocation could be viewed as a pro-energy sustainable initiative.

Fiscal and Financial Issues: There are four fiscal and financial issues highlighted in the national budget for FY2025 (Table 2). These include fixing the market price of furnace oil, concessionary duty on establishing CNG/LPG filling stations, duty-free import facility for Rampal power plant and rationalising tax expenditures for power generation companies. All these measures can be viewed as interim arrangements before moving towards 'energy transition' in the country.

Table 2: Reflection of Fiscal Incentives in the National Budget FY2025

Commitments for FY2025		Perspectives on energy landscape
•	Petroleum Products: To align the value of the furnace oil with the international market price the budget proposes to fix the minimum value for furnace oil as USD 480 per Metric Ton (MT).	Interim arrangement
•	CNG/LPG filling station: At present, materials used for establishing or operating CNG/LPG stations can be imported at a concessionary duty of only 3 per cent.	Interim arrangement
•	Reduction in the facility was proposed, increase of the customs duty to 5 per cent for imports under this notification was recommended.	

(Table 2 contd.)

(Table 2 contd.)

Commitments for FY2025		Perspectives on energy landscape
•	Amendment of notification related to Rampal power plant and rental power companies: Presently different types of power generation companies can import their plant, equipment, and erection materials totally duty free (0 per cent).	Interim arrangement
•	As a measure of rationalising tax expenditure, the budget proposes reduction of benefit and proposes to impose 5 per cent CD for imports of such items by power generation companies.	
•	The budget proposes to keep the notification in force till June 30, 2028.	

Source: The Budget Speech for FY2025.

It is important to note that several important issues requiring distinctive fiscal measures were not addressed in the national budget for FY2025. These include the phaseout of fossil fuel-based power plants, retirement of quick rental power plants, ending the provision of capacity payments in the power purchase agreements, and incentivising renewable energy-based power generation through fiscal measures. Addressing these gaps is crucial for aligning the national budget with long-term sustainability and transition goals.

3. POWER AND ENERGY SECTOR IN THE NATIONAL BUDGET FY2025

3.1 Overview

The Power and Energy sector in the proposed budget for FY2025 has received a significant share of the budget allocation. Over the past decade, the budgetary allocation for this sector has shown a linear upward trend.

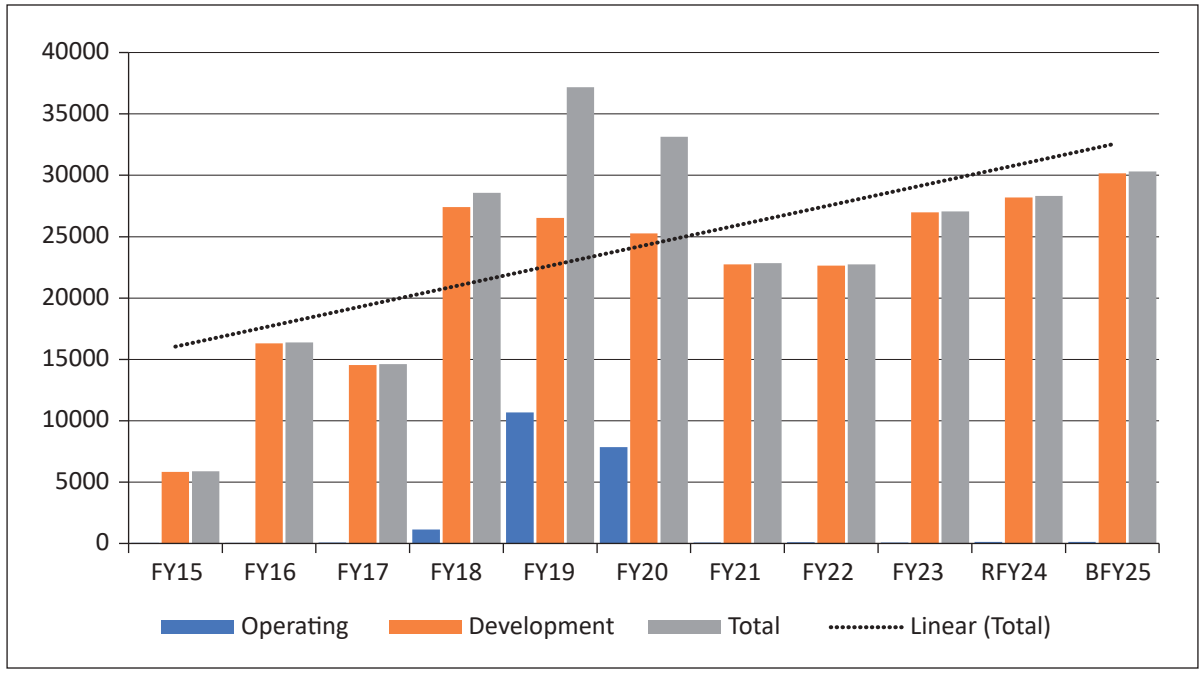
For FY2025, the allocation for Power and Energy sector was BDT 30,317 crore, which is an increase of 7 per cent from the revised budget of FY2024 (RFY2024) (Figure 1). This allocation accounts for 3.8 per cent of the FY2025 total budget, which is lower than 4.6 per cent allocated in the RFY2024. Both the operating and development budgets for FY2025 have increased compared to the revised budget for FY2024 by 11 per cent and 7 per cent, respectively.

The power division receives the lion's share of the total budget allocation. Over the last five years, there has been a consistent upward trend in the allocation for the power division. For FY2025, as much as 96.5 per cent of the total budget for the ministry is allocated to the power division. Figure 1 illustrates the trend in the budget allocation for the Power and Energy sector. It shows the consistent increase in both operating and development budgets, highlighting the government's commitment to enhancing this sector.

Figure 2, depicting the share of the Power and Energy sector in the national budget, shows fluctuations over the years, peaking at 9.5 per cent in FY2019. Despite a slight decrease in the following years, the sector continues to receive a substantial portion of the national budget, emphasising its critical role in the country's overall development strategy.

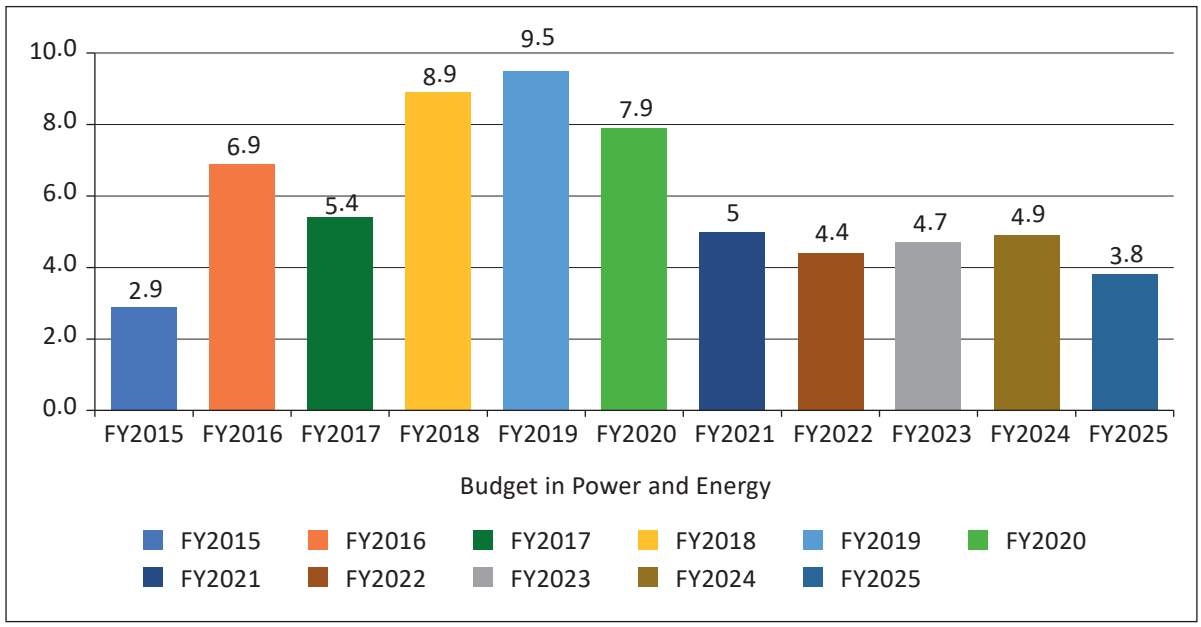
Figure 1: Power and Energy Sector Budget Over the Years

(in BDT crore)



Source: Budget in Brief, Ministry of Finance.

Figure 2: Share of Power and Energy in the National Budget (% of the total budget)



Source: Budget in Brief, Ministry of Finance.

In conclusion, the budget for FY2025 demonstrates a positive outlook to the Power and Energy sector, with a significant increase in allocation, particularly for the power division. However, the fiscal measures and the budgetary allocation for different projects and activities needs to be examined from the perspectives of efficiency, sustainability, and energy transition points of view.

3.2 National Budget for the Power Division

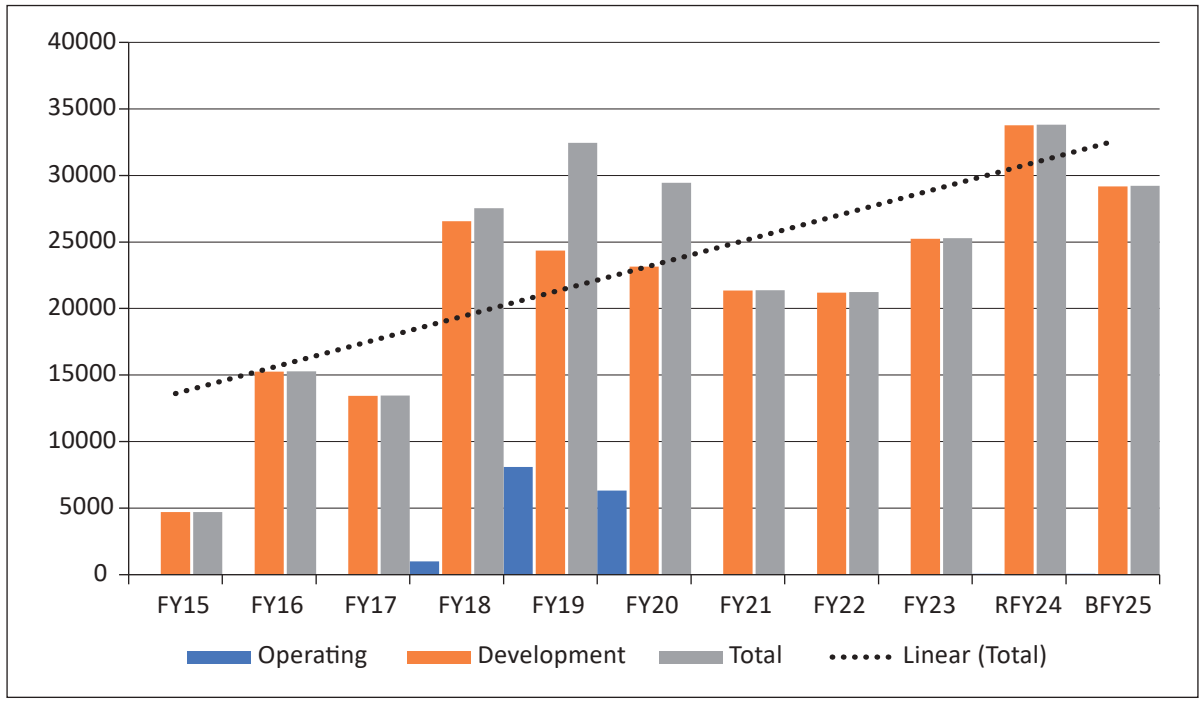
The allocation for the power division has increased by 7.56 per cent compared to RFY2024, primarily due to a higher allocation for the operating budget, which saw a rise of 10.42 per cent (Figure 3). This figure illustrates the budget trend for the power division, showing the allocation increases in both the operating and development budgets over the years. In contrast, the development budget experienced a modest rise of 7.5 per cent compared to the previous year.

A total of 57 projects are being implemented during FY2025. The highest number of projects are related to distribution (28) followed by transmission (16) and distribution (13). Proportionately, higher number of projects under transmission and distribution indicates government's shifting priority beyond generation. Table 3 shows the status of various projects within the power division. The majority of the projects are in the 'concluding' phase, with the number of such projects increasing from 29 to 34. Higher allocation for the projects in the concluding phase underscores the ongoing efforts to complete existing initiatives. Similarly, the number of 'carry-over' projects has also decreased in the current fiscal year- from 29 to 15. No allocation for new projects including those of renewable energy-based generation projects indicate government's lesser priority towards energy transition.

In summary, the budget allocation for the power division partly highlighted energy sustainability issues but less so on energy transition related issues.

Figure 3: Budget of the Power Division over the Years

(in BDT crore)



Source: Budget in Brief, Ministry of Finance.

Table 3: Project Completion Status by Types of Projects

(in number)

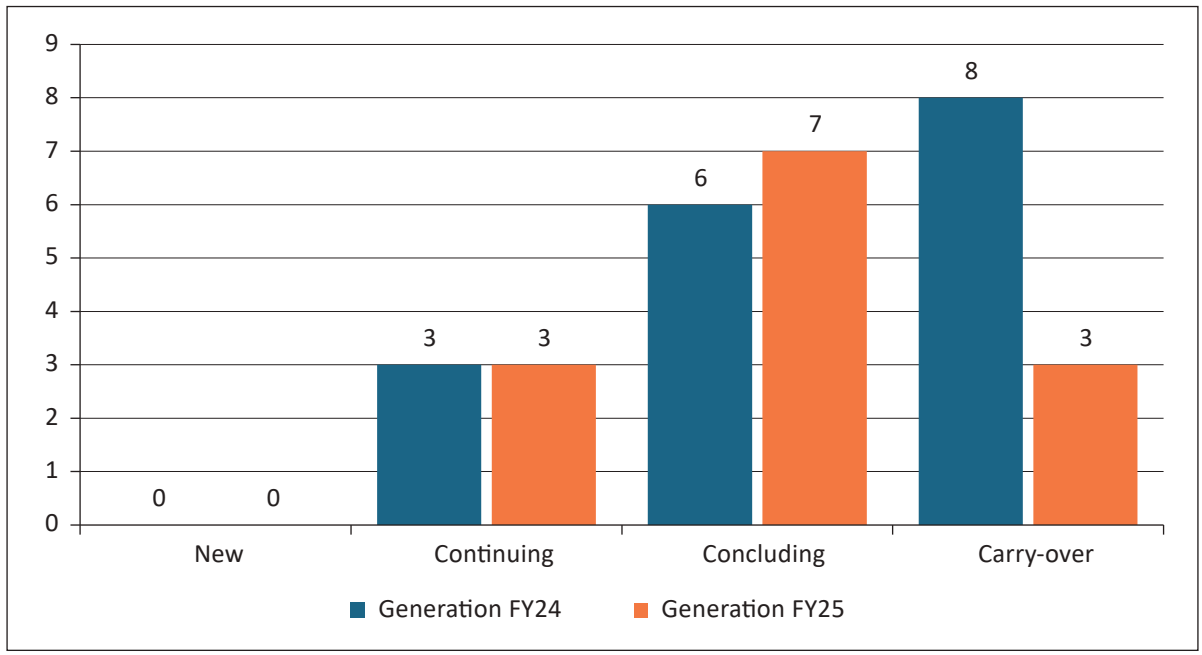
Project	New	Continuing	Concluding	Carry-over	Total
Generation	0	3	7	3	13
Transmission	0	3	10	3	16
Distribution	0	7	12	9	28
Total	**0**	**13**	**29**	**15**	**57**

Source: Authors' Calculation from the ADP FY2025.

3.2.1 Generation

In the national budget for FY2025, a total of 13 generation-related projects are being allocated which are at different stages of development (Figure 4). Of these, three (3) are 'carry-over' projects, seven (7) are 'concluding' projects, and three (3) are 'continuing' projects. It is noteworthy that the number of generation-related projects has decreased, as well as the number of carry-over projects, which has reduced from 8 to 3. However, the budget did not allocate sufficient importance to the generation of renewable energy-based power. There are allocations for only three renewable energy-based projects, highlighting a significant gap in prioritising renewable energy-led initiatives. Table 4 presents the status of selected generation related projects. Although there is no new generation-based project in FY2025, some existing projects need reconsideration. For instance, the 'Rauzan 400MW combined cycle power plant' project, which has a completion rate of 0 per cent,

Figure 4: Generation Projects in FY2024 and FY2025



Source: ADP of FY2025.

is already a carry-over project. Moreover, SREDA has yet to disclose the findings of the renewable energy resource assessment and piloting projects. This disclosure is essential for planning future renewable energy initiatives. Additionally, since the Matarbari power plant is close to completion and there is enough land space yet to be utilised, these lands can be used for solar and wind-related projects, providing an opportunity to enhance renewable energy capacity.

Table 4: Selected Generation Projects

Name of the Project	Maximum Completion Rate	Organisation	Project Status
Ghorashal 4th unit repowering programme (2nd revised)	85 %	BPDB	Carry-over
Ghorashal 3rd unit repairing programme	100 %	BPDB	Continuing
Saidpur 150MW +-10 per cent simple cycle (HSD) based power plant construction	97%	BPDB	Concluding
Matarbari 2*600 MW ultra super critical coal fired power project	94%	CPGCBL	Continuing
Rupsha 800MW combined cycle power plant	54%	NWPGCL	Concluding
Project of Gas pipeline for Mymensingh combined cycle power station from Dhanua to Mymensingh	95%	RPC	Concluding
100 MW solar power plant building in Madarganj	95%	RPC	Concluding
Rauzan 400MW combined cycle power plant	0%	BPDB	Carry-over
Mymensingh 360MW dual fuel combined cycle power plant project	100%	RPC	Concluding
Technical support project for renewable energy resource assessment and piloting	94%	SREDA	Carry-over

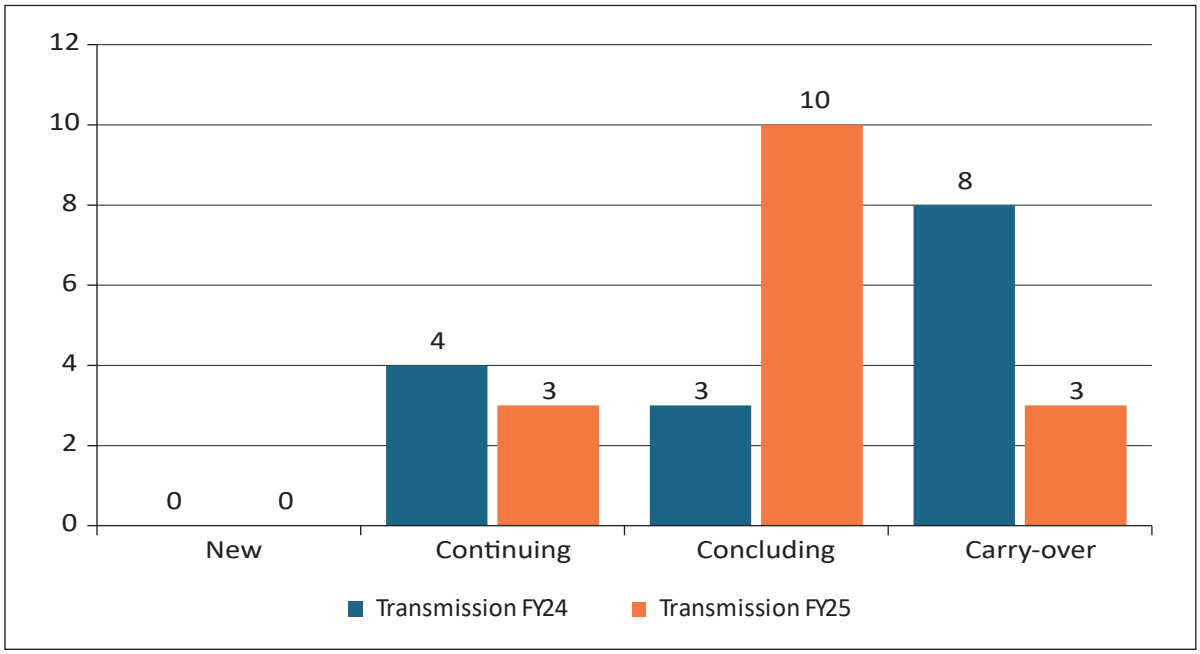
Source: Authors' Calculations from ADP FY2025.

3.2.2 Transmission

In FY2025, a total of 16 transmission-related projects are being implemented (Figure 5). Of these, 3 are 'carry-over' projects, 10 are 'concluding', and 3 are 'continuing' projects. Eight of these 16 projects are concerned with grid upgradation.

Compared to FY2024, the number of carry-over projects has decreased from 8 to 3 in the current fiscal year, and the number of concluding projects has increased from 6 to 10. However, many concluding projects have low completion rates, which could lead to them becoming 'carry-over' projects in the next year. Projects with less than 50 per cent completion rate by the end of FY2025 are particularly concerning, as they will weaken the purpose of reducing carry-over projects (Table 5). Three carry-over projects have already achieved more than a 50 per cent completion rate. Completing these three projects is crucial to improve better transmission of electricity across the country. Hence, more allocation is needed to quickly implement the transmission-related projects.

Figure 5: Transmission Projects in FY2024 and FY2025



Source: ADP of FY2025.

Table 5: Selected Transmission Projects

Name of the Project	Maximum Completion Rate	Organisation	Project Status
Replacing old AIS Ashuganj 132KV substation by new GIS 132KV substation	78%	PGCB	Carry-over
Power grid network strengthening project under PGCB (Revised)	63%	PGCB	Carry-over
Bangladesh power system reliability and efficiency improvement	49%	PGCB	Concluding
Enhancement and capacity enhancement of eastern grid network	84%	PGCB	Carry-over
Feasibility test and technical assistance project for Madunaghat-Bhulta 765KV transmission line	19%	PGCB	Concluding
Dhaka and western grid transmission network enhancement project	49%	PGCB	Concluding

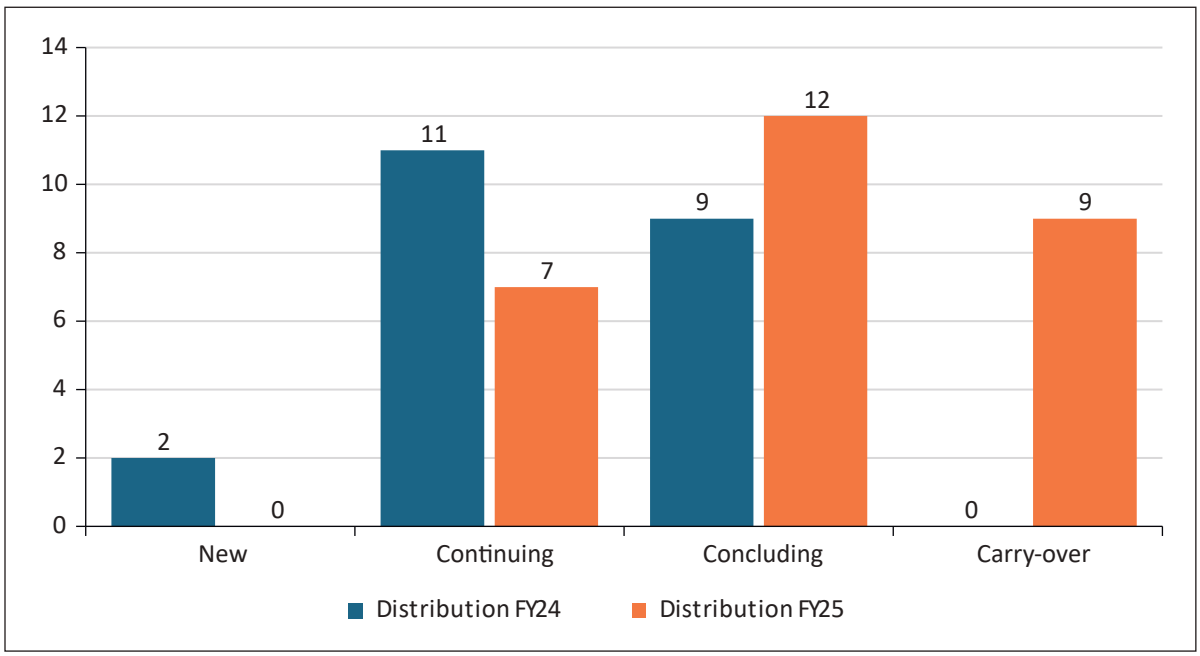
Source: Authors' Calculations from ADP FY2025.

In summary, while the transmission related projects have made progress with a decrease in carry-over projects and an increase in concluding projects, there is a need for more allocation and efficient implementation to ensure timely completion and enhancement of the grid system across the country. This will help in maintaining a stable power supply across the country.

3.2.3 Distribution

The number of distribution-related projects has decreased in FY2025 from 30 to 28 (Figure 6). Of these, 9 are 'carry-over' projects, 12 are 'concluding', and 7 are 'continuing' projects. Notably, the number of 'concluding' and 'carry-over' projects has increased. Six projects are related to metering, but three of them are already 'carried over' projects. While the initiative for meter upgradation is commendable, the fact that it is being 'carried over' creates a burden on the power division. On a positive note, the completion rate of all the 'concluding' projects is at least above 70 per cent, which is a good sign.

Figure 6: Distribution Projects in FY2024 and FY2025



Source: ADP of FY2025.

There is also an increase in the number of projects outside of Dhaka, indicating that zonal prioritisation is being given (Table 6). The focus on T&D (Transmission and Distribution) projects has increased compared to FY2024. However, unless more allocations are made, these projects could soon become 'carry-over projects by the next fiscal year.

Table 6: Selected Distribution Projects

Name of the Project	Maximum Completion Rate	Organisation	Project Status
Power distribution system development projects, Sylhet division (2nd revised)	90%	BPDB	Carry-over
Pre-payment metering for distribution of Cumilla and Mymensingh	98%	BPDB	Carry-over
Agriculture irrigation through solar driven pump	75%	BREB	Concluding

(Table 6 contd.)

(Table 6 contd.)

Name of the Project	Maximum Completion Rate	Organisation	Project Status
Expansion and upgradation of electricity distribution system in Western zone (2nd revised)	95%	WZPDCL[4]	Carry-over
Smart pre-payment meter supply and establishment programme in DESCO region	99%	DESCO	Carry-over
0.85 million smart pre-payment meter establishment programme in the area under DPDC	84%	DPDC	Concluding
Pre-paid metering project for six NOCS division under DPDC	89%	DPDC	Carry-over

Source: ADP of FY2025.

In summary, while the distribution related projects have seen a decrease in the total number of projects, there is an increased focus on completing ongoing projects and upgrading metering systems. However, increased allocation is needed to prevent current projects from being carried out in the next fiscal year. This focus on zonal prioritisation and T&D projects indicates a strategic approach in improving the power distribution network across the country.

3.3 National Budget for Energy and Mineral Resource Division

In FY2025, the Energy Sector received an allocation of BDT 1086 crore, representing a decrease of 4.9 per cent from the Revised budget of FY2024 (RFY2024) (Figure 7). This allocation accounts for 0.13 per cent of the total FY2025 budget, which is lower than the 0.16 per cent share in the RFY2024 budget. Even though the operating budget increased by 10.5 per cent, the development budget saw a 6.1 per cent decrease.

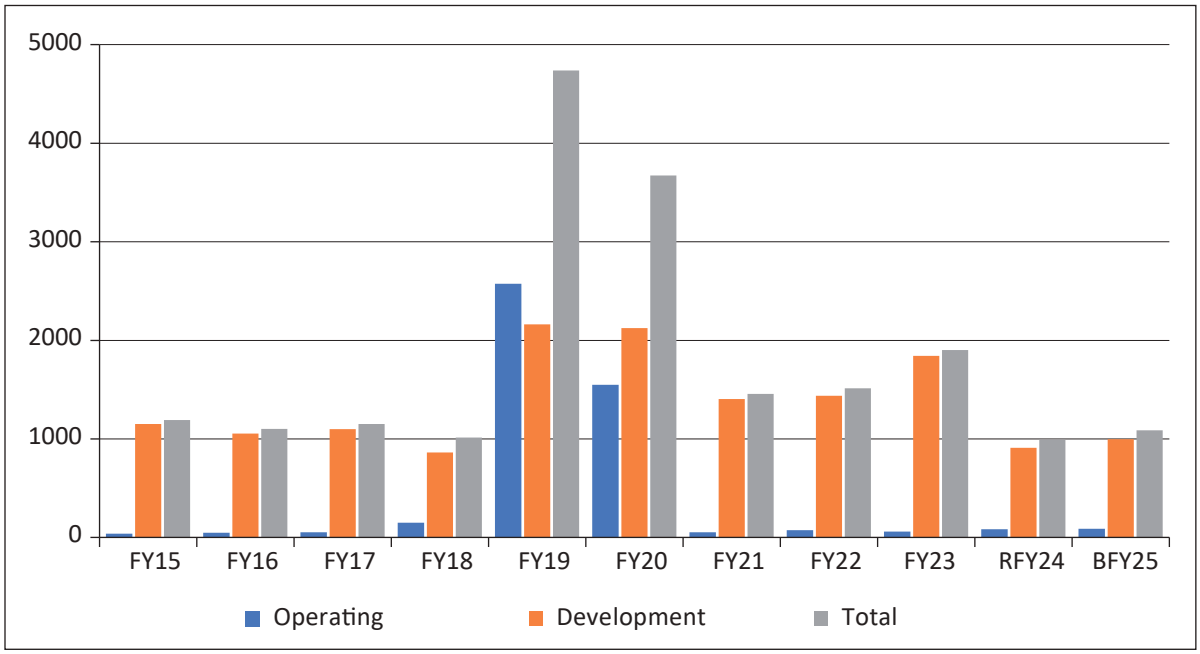
Figure 8 shows the distribution of fuel and energy projects across new, continuing, concluding, and carry-over statuses for FY2024 and FY2025. The data highlights an increase in the total number of projects and a notable focus on concluding projects in FY2025. The number of projects has increased from 34 to 35. While the number of 'carry-over' projects remained the same, the number of 'concluding' projects decreased. The high number of 'carry-over' projects is a concerning issue as it indicates inefficiency and a lack of proper and required allotment in the energy sector. A new project has been undertaken concerning well workover, which is appreciated as it focuses on local gas exploration which will partly contribute to energy security in the country.

In summary, while the Energy and Mineral Resource Division has seen a reduction in its overall budget allocation, there has been an increase in the number of projects. The emphasis on well workover projects indicates a positive move towards local gas exploration, although the high number of carry-over and concluding projects suggests a need for more efficient project management and allocation.

[4]West Zone Power Distribution Company Limited.

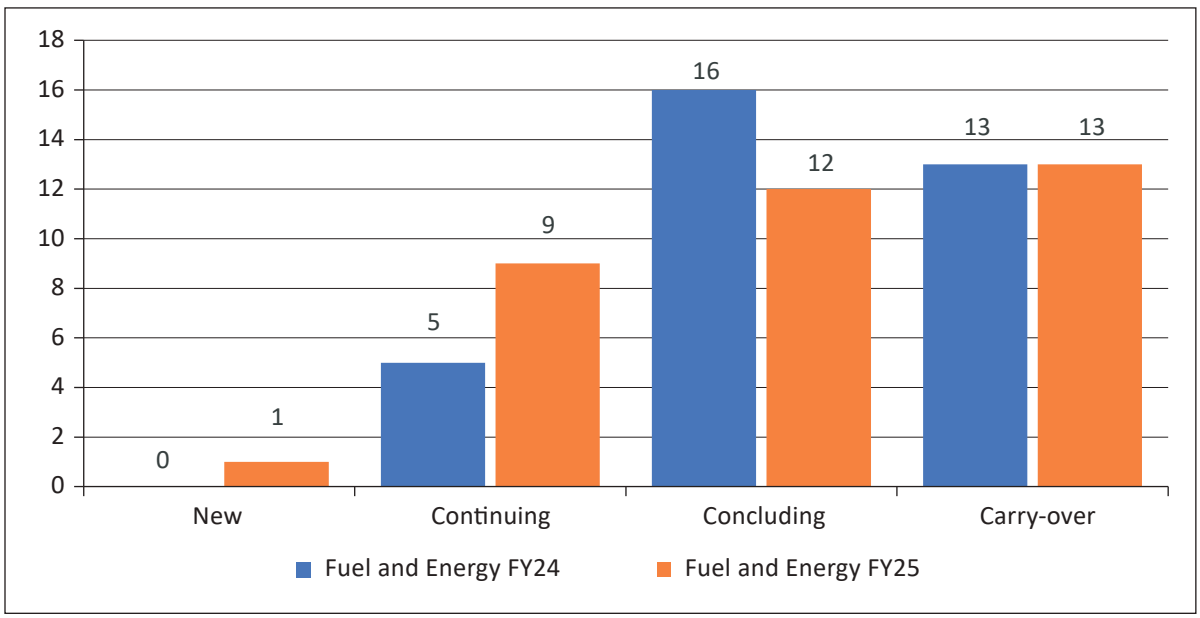
Figure 7: Budget of the Energy and Mineral Resources Division Over the Years

(in BDT crore)



Source: Budget in Brief, Ministry of Finance.

Figure 8: Fuel and Energy Project in FY2024 and FY2025



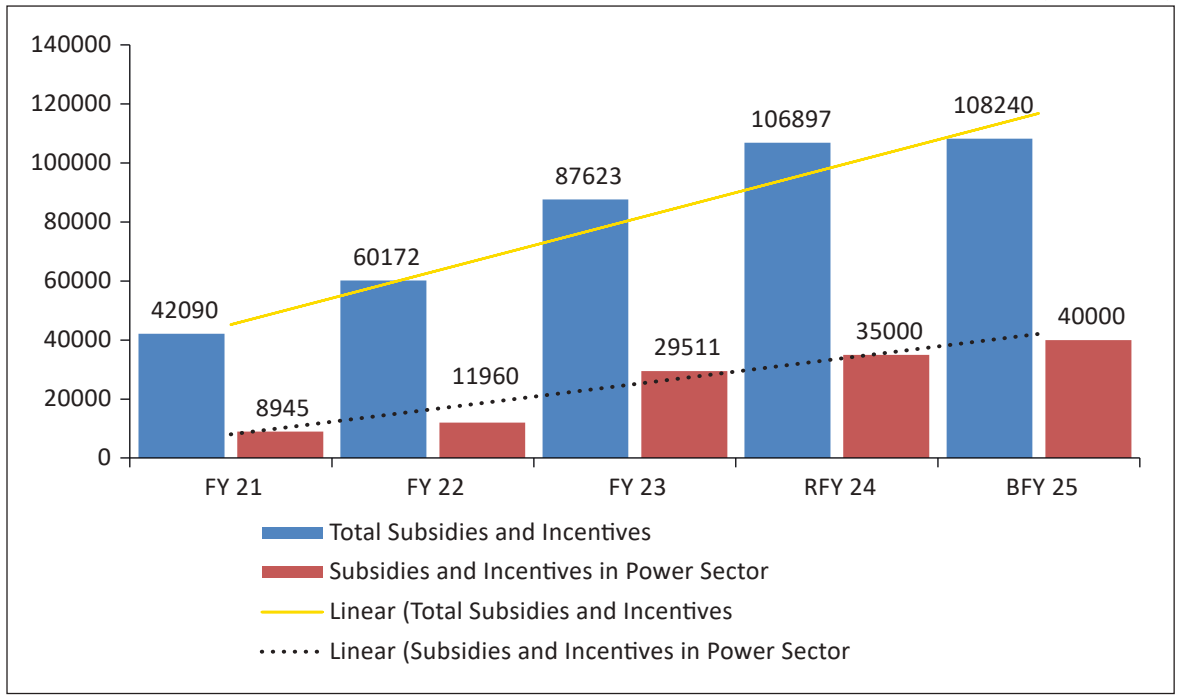
Source: Authors' Calculation from the ADP FY2025.

3.4 Subsidy Allocation and Fiscal Incentives

More than a third of the subsidies (37 per cent of total subsidy) allocated in the new budget is for the power sector, totaling BDT40,000 crore (Figure 9). Most of this allocation is spent on paying capacity charges to independent power producers (IPPs) of power generation. According to the

Figure 9: Subsidies and Incentives in Budget

(In BDT crore)



Source: Authors' Calculations from Bangladesh Macroeconomic Review 2024-25 and Budget Docs.

IEA, global fossil fuel consumption subsidies are decreasing, but in Bangladesh, they are increasing. Figure 9 illustrates the total subsidies and incentives in BDT for the power sector and their linear trends over fiscal years. The data highlights a continuous increase in subsidies and incentives for the power sector.

While the budget allocation for the power sector is significant, there is a pressing need for rationalising subsidy allocations and revising tariffs in a manner that reduces BPDB's financial burden. The BPDB has reported a net loss of BDT 6,117 crore in FY2024 and projected a loss of BDT 18,106 crore in FY2025. BPDB plans to increase power tariff several times in a year as a mechanism to reduce its financial losses. According to CPD (2024) despite increasing the power tariff four times, a significant net loss is still projected. Besides a huge subsidy allocation of BDT 40,000 crore is proposed for the power division, which would help to accommodate its payables to the private power producers. A large part of the expenses of BPDB is related to the BPC which has been selling fuel oils at a very high tariff rate, even though international prices have shown a sharp decline from March 2024 onwards. Overall, an upward tariff revision of electricity and energy is seen as a faulty and inefficient measure to rationalise subsidies under IMF conditionality.

4. MEDIUM TERM BUDGETARY FRAMEWORK (MTBF) FOR THE POWER AND ENERGY SECTOR FOR FY2025-FY2027

4.1 MTBF of the Energy and Mineral Resources Division: Operating and Development Expenditures

The Energy and Mineral Resources Division has laid out a comprehensive budget plan for the fiscal year 2025, with a projection for the following two years (Table 7). The budget for FY2025

includes an operating expenditure of BDT 88.9 crore and a development expenditure of BDT 997.6 crore, totaling BDT 1086.6 crore. The projected budget for FY2025-26 is BDT 1195.2 crore, and for FY2026-27, it is BDT 1314.8 crore. This financial plan aims to address various aspects of the energy and mineral resources sector to ensure its growth and sustainability.

Table 7 MTBF for the Energy and Mineral Resources Division

Description	Budget 2025	Projection (BDT in Thousands)	
		2025-26	2026-27
Operating Expenditure	88,96,00	97,88,00	107,69,00
Development Expenditure	997,59,00	1,097,35,00	1,207,08,00
Total	**1,086,55,00**	**1,195,23,00**	**1,314,77,00**

Source: MTBF Budget of FY2025, Ministry of Finance.

To ensure energy security, the division plans to carry out geological mapping and surveys, explore various sources of energy, and conduct workshops, seminars, research, and training activities. Enhancing fuel storage capacity and refining crude petroleum are also crucial components of this plan. These activities aim to provide a stable and secure energy supply, which is vital for the country's economic stability and growth.

Ensuring the efficient supply and use of energy is another key focus of the MTBF. The division intends to expand gas transmission and distribution pipelines, install pre-paid and remote meters, and disconnect illegal gas connections. Importing, refining, and distributing crude oil and petroleum, along with increasing LPG supply, are essential steps in this direction. Additionally, the division plans to install pipelines, conduct feasibility studies for automation, issue and renew no objection certificates for the safe handling of flammable materials, examine explosives, and prepare energy reserve survey reports. These measures are designed to improve the efficiency and reliability of the energy supply chain.

Exploration and extraction of non-oil and gas mineral resources form the third major target. This includes leasing out and issuing licenses for resource extraction, exploring mineral resources through drilling, and extracting hard rocks. These initiatives aim to diversify the resource base and reduce dependency on traditional energy sources.

The fourth major target focuses on the extraction and increase of energy production. The division plans to conduct 2D and 3D seismic surveys, drill gas development and workover wells, and extract gas through national companies and international oil companies (IOCs). Engaging in coal mining as an alternative fuel and producing petroleum products are also part of this strategy. These efforts are intended to boost domestic energy production and reduce reliance on imported energy. Although these measures are likely to improve energy security, there is little focus of these measures on energy transition in the country.

4.2 MTBF of the Power Division: Operating and Development Expenditures

The Power Division has outlined its budgetary plans for the fiscal year 2025, along with projections for the subsequent two years (Table 8). For the FY2025, the budget includes an operating expenditure of BDT 53.2 crore and a development expenditure of BDT 29176.7 crore totaling BDT 29229.9

crore. The projections for FY2025-26 and FY2026-27 are BDT 31277.5 crore and BDT 33468.8 crore, respectively. These budget allocations reflect the division's strategic focus on enhancing the power sector to meet the growing energy demands of the country.

Table 8: MTBF for the Power Division

Description	Budget 2025	Projection (BDT in crore)	
		2025-26	2026-27
Operating Expenditure	53.2	56.9	60.9
Development Expenditure	29176.7	31220.7	33407.9
Total	**29229.9**	**31277.6**	**33468.8**

Source: MTBF Budget of FY2025, Ministry of Finance.

The Power Division's mid-term budgetary framework focuses on five major targets. First, the development of the power distribution system is a priority. This involves increasing distribution lines, enhancing sub-station capacity, and ensuring an uninterrupted electricity supply. Additionally, the division plans to issue and renew licenses for electricians, electrical supervisors, and contractors, as well as approve electrical substations and fault-free transformers.

Second, enhancing institutional capacity in the power sector is crucial. This includes encouraging research, building the capacity of officials and employees, and reducing distribution system losses and arrears. Improving customer service standards and conducting surveys for development and reform in the power sector are also emphasised.

Third, the development of the power generation system is a key area of focus. The division aims to enhance power generation capacity, improve electricity quality, and implement fast-track projects to accelerate progress.

Fourth, the development of the power transmission system is essential. The division plans to increase transmission lines, expand the capacity of grid substations, and reduce transmission loss to ensure efficient power distribution across the country.

Finally, the development of sustainable and renewable energy is a significant goal in the medium term. Expanding renewable energy sources and enhancing energy efficiency and conservation activities are central to the division's strategy for a sustainable energy future. These initiatives aim to support the transition to a more resilient and environmentally friendly energy sector in Bangladesh.

5. THE CLIMATE BUDGET FOR FY2025: ALLOCATION FOR ENERGY TRANSITION

5.1 Overview

The National Budget for FY2025 published the 6th Annual Climate Budget Report titled 'Climate Financing for Sustainable Development: Budget Report 2025'. The climate budget highlights two key components – (a) budget for adaptation related measures; and (b) budget for mitigation and low carbon development related measures. This report highlights climate budgeting after a gap of four years (Table 9). The climate budget allocates budget for 'mitigation and low-carbon development',

Table 9: Climate-relevant Allocation and Expenditure of 25 Ministries/Divisions in Mitigation and Low Carbon Development (in crore BDT)

Description	2025	2024		2023		2022		2021	
	Budget	Budget	Revised	Revised	Actual	Revised	Actual	Revised	Actual
Mitigation and low-carbon development	5,765.21	4,893.75	4,518.17	3,847.26	3,362.00	4,280.52	3,341.57	2,585.29	2,752.13
% of total CC-relevant allocation	13.66	13.20	10.88	10.34	9.96	15.09	12.73	11.27	13.27
% of Ministry budget	**1.38**	**1.19**	**1.18**	**1.03**	**1.01**	**1.25**	**1.08**	**0.81**	**0.97**

Source: Climate Financing for Sustainable Development: Budget Report 2025.

which can be considered a budget for energy transition. For FY2025, a notable increase in budget for mitigation has been proposed, with the budget set at BDT 5,765 crore. However, the proportion of the total budget allocated to mitigation and low-carbon development across 25 ministries has shown a downward trend, decreasing from 1.47 per cent in FY2022 to 1.19 per cent in FY2024, with a slight increase in FY2025. This trend reflects competing priorities within the ministries and varying levels of commitment to climate mitigation initiatives over the years.

Moreover, the consistent decrease in actual expenditure compared to both the budgeted and revised figures highlights systemic concerns such as bureaucratic delays, challenges in project implementation, and shifting priorities within the government. This reduction raises concerns about the long-term commitment and effectiveness of the government's strategy in achieving its low-carbon development goals. The challenges faced in translating budgetary allocations into effective action underscore the need for a more streamlined and committed approach in addressing climate change and fostering a sustainable energy transition.

5.2 Climate Budget for the Energy and Mineral Resources Division

The climate budget of the Energy and Mineral Resources Division reveals a persistent issue where the actual percentage of the budget utilised tends to be slightly lower than the allocated percentage for climate-relevant activities, particularly in mitigation and low-carbon development (Table 10). This discrepancy points to inefficiency within the ministry in taking necessary actions to facilitate the renewable energy transition. To support long-term planning and effective project implementation, it is crucial to maintain consistent funding dedicated to climate mitigation efforts.

The share of the Energy and Mineral Resources Division's budget that is allocated to mitigation should be increased to highlight its importance and attract potential international support. Although the proportion of the total budget allocated to this division is on the rise, a significant portion is still being used for activities that are not directly related to climate change mitigation. The report should provide more detailed insights into the specific sectors and projects that are using these funds.

Furthermore, unless the overall share of the budget is increased, the mitigation efforts under the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) through this division will progress more slowly than necessary. It is essential to ensure that budget allocations are effectively utilised to achieve the desired impact on climate change mitigation.

5.3 Climate Budget for the Power Division

The Climate Budget for the Power Division reveals a significant increase in budget allocation for mitigation and low-carbon development over the years, with a notable jump in FY2025 to BDT 2,211 crore from BDT 1,849 crore in FY2024 (Table 11). This increase aligns with global trends prioritising the reduction of carbon emissions, which is a positive development. However, there is a concern regarding the dependency on LNG imports for power generation, as it creates a fallacy in the efforts toward energy transition.

To ensure the effectiveness of these budget allocations, regular monitoring and transparent reporting on budget utilisation and project outcomes are crucial. This approach will help maintain focus and improve accountability in climate-relevant spending, reducing the risk of non-accountability and discrepancies in budget utilisation.

Table 10: BCCSAP Thematic Area-wise Budget and Expenditure in Energy and Mineral Resources Division

Budget Description	Annual Budget/Expenditure (in crore BDT)								
	2025	2024		2023		2022		2021	
BCCSAP Thematic Areas	Budget	Budget	Revised	Revised	Actual	Revised	Actual	Revised	Actual
Mitigation and low-carbon development	125.63	64.03	58.46	101.00	80.38	107.27	102.98	132.41	97.08
Per cent of climate-relevant allocation	98.55	97.19	97.22	97.12	98.57	95.23	98.68	96.80	98.86
Per cent of Ministry/Division budget	11.56	6.44	5.11	5.31	4.53	6.52	6.88	7.33	6.66
Capacity building and institutional strengthening	1.85	1.85	1.67	2.99	1.17	5.37	1.38	4.38	1.12
Per cent of climate-relevant allocation	1.45	2.81	2.78	2.88	1.43	4.77	1.32	3.20	1.14
Per cent of Ministry/Division budget	0.17	0.19	0.15	0.16	0.07	0.33	0.09	0.24	0.08
Total Climate Relevance (BDT)	127.48	65.88	60.13	103.99	81.55	112.64	104.36	136.79	98.20
Per cent of Total Budget	**11.73**	**6.63**	**5.26**	**5.47**	**4.60**	**6.85**	**6.97**	**7.57**	**6.74**

Source: Climate Financing for Sustainable Development: Budget Report 2025.

Table 11: BCCSAP Thematic Area-wise Budget and Expenditure in Power Division

Budget Description	Annual Budget/Expenditure (in crore BDT)								
	2025	2024		2023		2022		2021	
BCCSAP Thematic Areas	Budget	Budget	Revised	Revised	Actual	Revised	Actual	Budget	Actual
Mitigation and low-carbon development	2210.89	1849.11	1691.96	985.94	944.71	709.70	636.28	593.52	599.39
Per cent of total CC-relevant allocation	99.82	99.44	99.44	99.11	99.21	98.98	99.15	98.42	98.59
Per cent of Ministry budget	7.56	5.47	6.23	3.90	3.73	3.10	3.00	2.70	2.80
Capacity building and institutional strengthening	4.00	10.44	9.61	8.85	7.57	7.28	5.46	9.50	8.55
Per cent of total CC-relevant allocation	0.18	0.56	0.56	0.89	0.79	10.02	0.85	1.58	1.41
Per cent of Ministry budget	0.01	0.03	0.04	0.03	0.03	0.03	0.03	0.04	0.04
Total CC Relevance (BDT)	2214.89	1859.55	1701.57	994.79	952.28	716.98	641.74	603.02	607.94
Share of Total Budget (%)	**7.58**	**5.50**	**6.26**	**3.93**	**3.76**	**3.13**	**3.02**	**2.74**	**2.84**

Source: Climate Financing for Sustainable Development: Budget Report 2025.

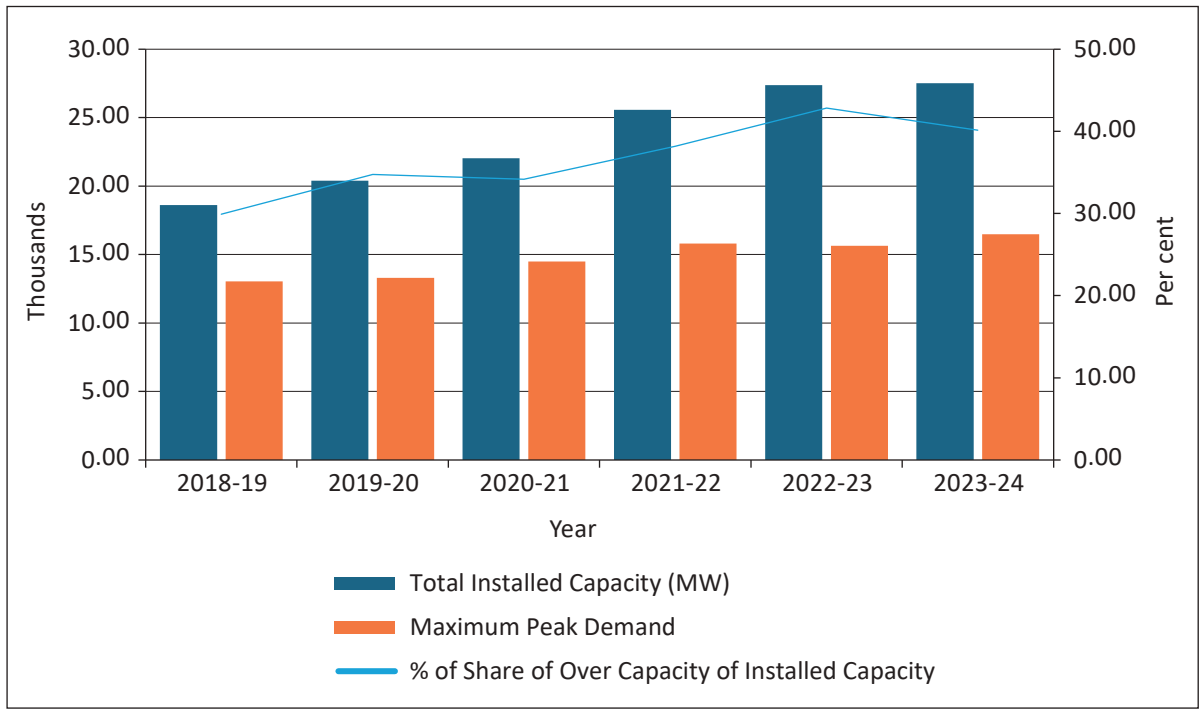
The budget outside the climate budget largely promotes carbon emission through allocation in different ministries. As high as 92.4 per cent of total budget in FY2025 is outside the purview of climate budget. This budget should not be utilised to promote fossil fuel use. A portion of this budget should be redirected towards phasing out fossil fuel-based power plants. Unless the share of the total budget dedicated to climate-related initiatives is increased, the breaking of the carbon lock-in would be difficult.

6. EFFECTIVENESS OF THE PROPOSED BUDGETARY MEASURES TO ADDRESS MAJOR CHALLENGES

6.1 Impact on Reducing Overgeneration Capacity

The first and foremost implication of the national budget for FY2025 for the power and energy sector is to examine how it contributes to reduce overgeneration capacity in the power sector. As of May 31, 2024, Bangladesh's installed electricity generation capacity stands at 30,738 MW, comprising 27,515 MW on-grid and 3,223 MW off-grid. The peak electricity demand, however, is significantly lower at 16,477 MW, resulting a reserve margin of 11,038 MW, which constitutes 40.1 per cent[5] of the installed capacity (Figure 10). This substantial reserve margin highlights a significant underutilisation of the available capacity, contributing to a financial burden on capacity payments.

Figure 10: 'Total Installed Capacity (MW)', 'Maximum Peak Demand', 'Per Cent of Share of Over Capacity of Installed Capacity' by 'Year'



Source: BPDB Key Statistics.

[5]Including Captive Power, off grid Renewable Energy & Off grid HFO Total Installed Capacity in 2024 is (27,515+2,800+418+5) =30,738 MW.

Moazzem and Faisal (2024) estimates that by 2030, electricity demand will reach approximately 19,377 MW. Even when considering a 25 per cent reserve margin as proposed by the IEPMP (2023), the projected capacity requirement would be 23,252 MW, still significantly below the current installed capacity of 27,515 MW. Further budgetary allocations towards fossil-fuel-based power generation projects could exacerbate the existing overcapacity crisis.

In the national budget for FY2025, the ADP allocation for power generation projects decreased to 47 per cent compared to that of 52 per cent in FY2024. This reduction aligns with a broader strategy to manage over-generation capacity.

Despite this decrease, there are still 13 generation-related projects being implemented with a combined capacity of 6,235 MW (Table 12). These projects include 3 carry-over projects, 7 that are concluding, and 3 continuing projects. It is notable that both the overall number of generation-related projects and the number of carry-over projects have decreased significantly, from 17 in FY2024 to 13 in FY2025, and from 8 to 3, respectively. This reduction indicates a focused effort to streamline the power generation sector.

Table 12: Distribution of ADP Projects Focused on Generation

Issues	FY2025	FY2024
New	0	0
Continuing	3 (23.1%)	3 (17.6%)
Concluding	3 7(53.8%)	6 (35.2%)
Carry over	(23.1%)	8 (47.1%)
Total	**13**	**17**

Source: Authors' Calculations.

Table 13 presents status of selected generation related projects for FY2025. It is to be noted that to further address the issue of overgeneration capacity, certain projects, such as the 'Rauzan 400MW combined cycle power plant', could potentially be dropped, particularly as its completion rate remains at 0 per cent despite being carried over from previous years. This project's continuation may not be justifiable, given the sector's current challenges.

Table 13: Selected Generation Projects

Name of the Project	Maximum Completion Rate	Organisation	Project Status
Ghorashal 4th unit repowering programme (2nd revised)	85%	BPDB	Carry-over
Ghorashal 3rd unit repairing programme	100%	BPDB	Continuing
Saidpur 150MW +-10 per cent simple cycle (HSD) based power plant construction	97%	BPDB	Concluding
Matarbari 2*600 MW ultra super critical coal fired power project	94%	CPGCBL	Continuing

(Table 13 contd.)

(Table 13 contd.)

Name of the Project	Maximum Completion Rate	Organisation	Project Status
Rupsha 800MW combined cycle power plant	54%	NWPGCL	Concluding
Project of Gas pipeline for Mymensingh combined cycle power station from Dhanua to Mymensingh	95%	RPC	Concluding
100 MW solar power plant building in Madarganj	95%	RPC	Concluding
Rauzan 400MW combined cycle power plant	0%	BPDB	Carry-over
Mymensingh 360MW dual fuel combined cycle power plant project	100%	RPC	Concluding
Technical support project for renewable energy resource assessment and piloting	94%	SREDA	Carry-over

Source: Authors' Calculations from ADP FY2025.

With the near completion of the Matarbari power plant and the availability of land space, it would be prudent to consider utilising these lands for solar and wind energy projects. This shift could help balance the energy mix and promote renewable energy sources in the country.

Overall, the budget should further reinforce the government's commitment to phasing out old, outdated, and expensive fuel-based plants as they reach the end of their contractual periods. Such a move would align with broader sustainability and transition goals and reduce financial strain on the energy sector.

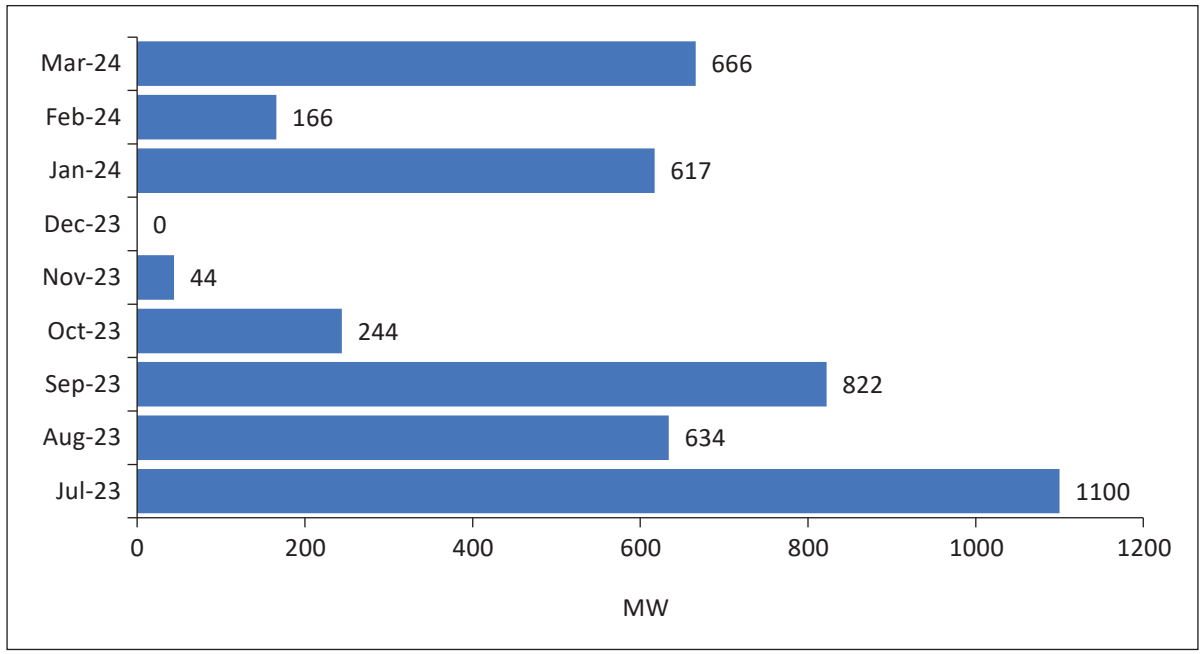
6.2 Implications for Addressing Load Shedding

The second important issue is how the national budget FY2025 contributes to addressing frequent load shedding. It is to be noted that despite possessing an overgeneration capacity, the availability of electricity for economic activities in Bangladesh during FY2024 remained unsatisfactory (Figure 11). This inadequacy is primarily due to a persistent supply-demand gap, which stems from two main challenges: (a) fuel shortages for power generation and (b) power outages caused by a lack of or poor transmission-substation grid network.

Throughout FY2024, the gap between demand and supply of power generation fluctuated between 1,100 MW in July 2023 and 666 MW in March 2024 (Figure 11). Certain regions, such as Mymensingh, Khulna, and Cumilla, experienced more frequent power outages compared to other regions in the country (Figure 12). Moreover, areas like Mymensingh, Sylhet, and Cumilla continued to face power outages even during the winter season, a period when demand is typically at its lowest. This shows the urgent need to improve the transmission system and fuel supply to ensure a steady and reliable electricity supply.

In FY2024, continuous load shedding was further exacerbated by significant interruptions in the transmission grid network. Notable incidents include a partial grid failure in the Sylhet zone in July 2023, causing a load shed of 630 MW, and prolonged outages in August due to tripping and

Figure 11: Monthly Peak Loadshed (MW)



Source: BPDB Daily Generation Report.

emergency maintenance of transmission lines. In April, emergency tripping in the grid system indicated that recent development efforts might not have fully resolved underlying issues.[6]

To address the problems of frequent loadshedding, the national budget needs to focus on improvement of transmission and distribution system. During FY2024, the power and energy sector in Bangladesh experienced slow progress in both the transmission and distribution systems (Table 14).

Table 14: Progress of Transmission System during FY20 to FY2024

Year	Transmission line (Km)	Grid substation capacity (MVA)	Distribution line (Km)
FY20	12283	45194	567000
FY2021	12836	50359	612000
FY2022	13889	56682	629000
FY2023	14717	61525	629000
FY2024 (Up to March)	15357	68564	643000

Source: Authors' Compilation from BPDB Monthly Reports.

In the national budget for FY2025, both the distribution and transmission systems report zero new projects, indicating a strategic focus on managing and completing existing initiatives rather than starting new ones (Table 15). In the distribution system, carry-over projects account for 31 per

[6]The recent flood caused shut down the South Surma Power Substation in Sylhet, which also caused more power outages in several areas. Given these challenges, the National Budget should have focused on strengthening the electricity transmission and distribution system. Special attention is needed for areas like Sylhet, Mymensingh, and Cumilla, which often face power disruptions, ensuring they get the necessary resources.

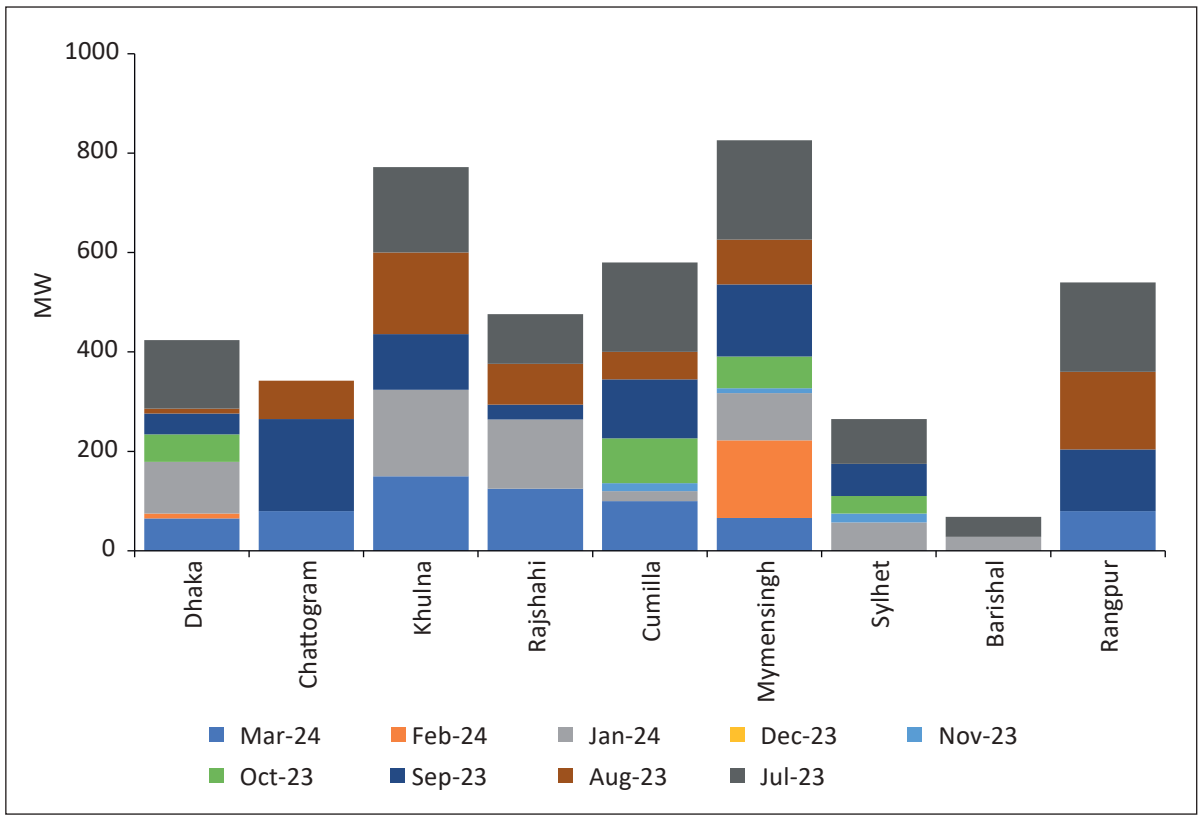
cent of the total, suggesting that a significant portion of ongoing work is from past projects. The transmission system has a smaller portion of carry-over projects, covering only 18.75 per cent. A higher percentage of projects related to the transmission are 'concluding' in nature- 62.5 per cent. This strong focus on completing current projects is likely to free up resources for future developments. Conversely, the distribution system has fewer projects which are 'concluding' in nature, with only 27.6 per cent, which reflects a focus on ongoing work. Overall, the ADP of the FY2025 for the transmission system shows a more robust emphasis on concluding projects, indicating a priority on finishing existing projects rather than initiating new ones. This could be seen as an improvement in terms of project completion and resource utilisation.

Table 15: ADP Projects under Distribution and Transmission System in FY2025 and FY2024

Project Status	Transmission system		Distribution System	
	FY2025	FY2024	FY2025	FY2024
New project	0	0	0	2
Carry over	3 (18.75%)	8	9 (31%)	8
Concluding	10 (62.5%)	3	8 (27.6%)	9
Continuing	3 (18.75%)	4	12 (41.4%)	11
Total	**16**	**15**	**29**	**30**

Source: ADP of FY2025.

Figure 12: Zone-wise Peak Loadshed



Source: BPDB Daily Generation Report.

For the distribution system, there is a minor decrease in the total number of projects and new initiatives, with a small increase in carry-over and continuing projects. The decline in new projects and the increase in concluding projects suggest a focus on managing ongoing projects rather than expanding. This focus on achieving immediate, visible results from ongoing developments could be more effective than allocating funds to new projects, whose benefits and outcomes might take longer to materialise.

It is crucial to note that the current allocation of ADP funds may not be sufficient for the timely conclusion of certain projects by the scheduled deadline of June 30, 2025 (Table 16 and Table 17). These projects, highlighted in the tables provided, indicate a need for strategic reallocation of resources to ensure they are completed on time.

Table 16: Selected Concluding Projects for Reallocation of Funds in the Transmission System

Project Name (Transmission system)	Maximum Completion Possible by FY2025
Expansion and upgradation of electricity distribution system in Monpura island	99%
Implementing Smart Distribution System project in NESCO area	98%
Electricity distribution line and substation expansion and reintegration in Rajshahi division	98%
Electricity distribution line and substation expansion and reintegration in Rangpur division	95%
100 per cent sustainable and reliable electrification in Hatia, Nijhum and Kutubdia Island	91%

Source: Authors' Calculations from ADP FY2025.

Table 17: Selected Concluding Projects for Reallocation of Funds in the Distribution System

Project Name (Distribution system)	Maximum Completion Possible by FY2025
Integrated Capacity Development Project in Bangladesh Electricity Transmission Management	97%
400/230/132KV grid network development projects (1st revised)	92%
Dhaka-Chattogram main power grid strengthening programme	87%
Capacity development project for grid-based power supply	87%
Expansion and strengthening of power transmission system in Chattogram region	80%

Source: Authors' Calculations from ADP FY2025.

For instance, projects like the Integrated Capacity Development Project in Bangladesh Electricity Transmission Management, with a possible completion rate of 97 per cent by FY2025, and the 400/230/132KV grid network development projects, expected to reach 92 per cent completion, are key candidates for additional funding. Similarly, on the transmission system side, projects such as the expansion and upgradation of the electricity distribution system in Monpura Island, which could achieve a 99 per cent completion rate by FY2025, are critical and would benefit from reallocated funds to ensure timely completion. This strategic reallocation and prioritisation are vital to optimising the implementation and functionality of the country's transmission and distribution systems.

6.3 Expediting Renewable Energy Projects

The third most important issue is how the budget for FY2025 is going to enhance generating renewable energy-based electricity in the country. The status of the renewable energy-based power generation in 2024 fails to demonstrate any significant progress due to the lack of importance and emphasis provided to the expansion of renewable energy-based power generation. Currently the existing renewable energy-based power generation capacity is 1373.8 MW including both on grid and off grid (Table 18). The current renewable energy generation capacity stands at only 4.5 per cent, with actual generation even lower. In FY2024, the expansion of renewable energy in Bangladesh received less attention, falling significantly short compared to the required attention and allocation to achieve 40 per cent by 2041.[7]

Table 18: Generation Capacity of RE based Power Plants

Technology	Off-grid (MW)	On-grid (MW)	Total (MW)
Solar	373.82	705.99	1079.82
Wind	2	60.9	62.9
Hydro	0	230	230
Biogas to Electricity	0.69	0	0.69
Biomass to Electricity	0.4	0	0.4
Total	**376.91**	**996.89**	**1373.81**

Source: SREDA Website.

The current generation capacity of RE-based power plants with the majority comes from solar (1,079.8 MW) and hydro (230 MW). The planned renewable energy-based power generation for the years 2024 to 2027 is 4,850 MW (Table 19).

Table 19: Planned RE Based Power Generation (MW)

Year	2024	2025	2026	2027	Total
Public	178	88	453	222	941
Private	359	1182	2038	330	3909
Total	**537**	**1270**	**2491**	**552**	**4850**

Source: BPDB Progress Report.

Given the figures in Table 19, there is a continuous noticeable gap in the government's initiative to focus and invest more in renewable energy, which persisted even in FY2024. Despite a target to increase renewable energy capacity, there was a general tendency to underprioritise this sector. A total of 13 to 16 renewable energy-based power plants were at different stages of implementation, collectively capable of generating 477 MW. However, none of these plants were fully operational and on time during the first half of FY2024, with nearly all experiencing delays (Moazzem et al., 2024). The delayed status of these projects highlights the need for more budgetary allocation to accelerate the expansion of renewable energy. Additionally, there is a strong recommendation for introducing renewable energy-friendly fiscal and budgetary incentives.

[7]Moazzem and Quaiyyum (2024) estimated that in order to achieve 40 per cent target by 2041 would require generating 14,000 MW of electricity from renewable energy sources. Considering the current capacity of 1,374 MW, an additional 12,626 MW of renewable energy capacity would be necessary. BPDB has projected that 4,850 MW will be generated from renewable energy-based power by 2027. However, to meet the 40 per cent renewable energy target by 2041, an additional 7,776 MW needs to be installed between 2028 and 2041.

In FY2025, only five renewable energy related projects are being planned for implementation - a number that remains unchanged from FY2024. Among these projects, three are generation related and two are distribution related projects. All five projects are being implemented by public agencies such as RPC, SREDA, Power Cell, BPDB, and BREB, with most of them being in the concluding phase (Table 20). Four of the five power projects are concluding projects, whereas there is only one power project that is carried-over projects with 49 per cent project completion rate.

Table 20: Renewable Energy Projects being Implemented in FY2025

Name of the Project	Maximum Completion Rate	Organisation	Type of Project	Project Status	Ministry
100 MW solar power plant building in Madarganj	95%	RPC	Generation	Concluding	MoPEMR
Technical support project for renewable energy resource assessment and piloting	94%	SREDA	Generation	Carried- over	MoPEMR
TA for strengthening and development of sustainable power sector in Bangladesh	49%	Power Cell	Generation	Concluding	MoPEMR
100 per cent sustainable and reliable electrification in Hatia, Nijhum and Kutubdia Island	91%	BPDB	Distribution	Concluding	MoPEMR
Agriculture irrigation through solar driven pump	75%	BREB	Distribution	Concluding	MoPEM

Source: Authors' Calculations from ADP FY2025.

To achieve the targeted renewable energy levels by 2027 and 2030, both public and private sector investments will be equally important. Agencies like BPDB and SREDA should take a more proactive approach in expanding renewable energy projects, including solar (rooftop, utility-scale, and solar parks), and off-shore and on-shore wind-based power plants.

Currently, two distribution-related projects are being implemented, one of which involves mini-grid distribution. Notably, there is no project related to the development of a smart grid system in the budget for FY2025. Investing in smart grid is crucial for upgrading the grid system to meet the 2030 target, and this area demands urgent attention.

6.4 Reducing Energy Import Dependency

Reducing the dependency on imported energy is one of the important issues that needs to be examined in the national budget for FY2025. As discussed, the power and energy sector is currently suffering from shortages of fuel which is import-based. Reducing the dependency on imported fuel can be done by making substantial investment in renewable energy and exploring domestic gas (though gas is carbon emitter). Prioritising these actions would help solve the current issues in the power and energy sector. The financial burden due to energy imports has been significantly

impacted Bangladesh economy. Compared to the pre-COVID year FY2019, there has been a moderate increase in the import of crude oil and refined oil. However, the costs associated with these imports have risen dramatically, with the price of JP, kerosene, octane, and HSD increasing by as much as 108.74 per cent between FY2019 and FY2023 (Table 21). This surge in import costs has led to substantial loans and debt accumulation for PetroBangla with various international banks and financial institutions.

Table 21: Percentage Change in Fuel Import in FY2023 Compared to FY2019

Fuel	Change in imported amount (MT) (%)	Change in price (BDT) (%)	Change in price (USD) (%)
Crude Oil	13.87	80.39	49.40
JP, Kerosine, Octane, HSD	13.29	108.74	-
Furnace Oil	36.71	67.34	-

Source: BPC Website.

The use of short-term credit to fund these imports has posed additional challenges. The International Islamic Trade Finance Corporation (ITFC) is providing USD 2.1 billion in funding for Bangladesh Petroleum Corporation (BPC) petroleum product imports and PetroBangla for LNG imports. The interest rate for these loans is based on the Secured Overnight Financing Rate (SOFR) plus 2 per cent, amounting to around 7.31 per cent currently. Repaying such high-cost credit within a short period (less than one year) would further exacerbate the balance of payment situation, constraining future borrowing capacity. Therefore, it is crucial to reduce dependence on such high-cost credit by seeking low-cost long-term financing and investment in alternative energy sources.

In the national budget for FY2025, several budgetary measures have been undertaken to reduce fuel shortages (Table 20). According to the budget speech, 48 wells are planned to be dug by December 2025, with the goal of increasing fuel supply. However, progress is slow, as only 6 new wells are currently in the drilling phase, with an additional 7 expected to begin in FY2025. This means that out of the 15 wells with budget allocation in FY2025, 5 are new, while the remaining 10 are older wells in need of workover (Table 22).

The commitment to drill 48 wells by December 2025, starting from FY2023, seems ambitious, as only 8 new wells have been dug so far. If 5 more wells are completed, the total number of new wells will be 13, falling short of the targeted 48 wells. This suggests that the goal may not be fully achievable within the given timeframe. Prioritising the distribution and transmission network for the gas extracted from these wells is also crucial. The transmission system's focus is on completing projects, with 62.5 per cent of them expected to conclude in FY2025.

Table 22: Well-related Projects that Got Allocation in FY2025

Projects	Number of Well
Digging 2 exploration well and 1 valuation cum development well	3
Digging Sylhet well no. 10 (evaluation/developing well)	1
Digging Koilastila 8 no. well (inquiry well)	1
Well workover at Kailastila-2, Rashidpur-5 and Sylhet-7	3
7 well workover in Titas, Habiganj, Bakhrabad and Meghna field	7
Total	**15**

Source: ADP FY2025.

In FY2025, a total of 16 gas-related projects are currently under implementation, which is fewer than in FY2024 (Table 23). Among these, 5 are carry-over projects, 8 are concluding, 2 are continuing, and 1 is a new project. The decrease in allocation for FY2024's continuing projects has contributed to an increase in the number of carry-over projects in FY2025. Among the gas related projects, the increase in the number of projects for well digging, metering, and survey is commendable. Prioritising the distribution and transmission network of the drilled gas is appreciated. It is essential to undertake more well workover projects to ensure that the daily gas requirement, estimated at 2,000 mmcf/d, is primarily met with local gas sources.

Table 23: Rate of Implementation of Gas-related Projects

Project	Project Type	Maximum Possible Completion by FY2025	Organisation	Project status
Bakhrabad-Meghnaghat-Haripur gas transmission pipeline construction	Gas	91%	Petrobangla	Carry-over
Gas distribution pipeline network building in Rangpur, Nilphamari, Pirganj and adjacent area	Gas	85%	Petrobangla	Continuing
Digging 2 exploration well and 1 valuation cum development well	Gas	52%	Petrobangla	Carry-over
Gas transmission pipeline construction programme in Bangabandhu Sheikh Mujib Railway bridge	Gas	16%	Petrobangla	Concluding
Establishing and modification of gas station project for GTCL's off-transmission point	Gas	46%	Petrobangla	Carry-over
Well workover at Kailastila-2, Rashidpur-5 and Sylhet-7	Gas	71%	Petrobangla	Concluding
2d seismic survey over exploration block-6B South and 10	Gas	51%	Petrobangla	Concluding
7 well workover in Titash, Habiganj, Bakhrabad and Meghna field	Gas	46%	Petrobangla	New

Source: Authors' Calculations from ADP FY2025.

Putting focus on developing LNG based physical infrastructure would undermine exploring domestic gas (though it is carbon emitter). Bangladesh has witnessed an increase in annual LNG imports, with 2023 seeing the import of 5.2 million tonnes of LNG. So far in 2024, 2.6 million tonnes have been imported. This rise in LNG imports could hinder the country's renewable energy transition.

A subsidy allocation of BDT 7,000 crore for LNG imports is proposed in FY2025, an increase from BDT 6,000 crore in FY2024. This allocation surpasses the total export sector's value, suggesting that funds might be better allocated to domestic gas exploration rather than enhancing LNG imports. Relying heavily on imported LNG could make Bangladesh more vulnerable to fluctuations in global prices and political issues between countries.

In FY2025, two LNG-related projects are being planned to be financed in continuation of financing in the previous year (Table 24). The first project involves conducting a study on the LNG terminal at Matarbari, which has already become a carry-over project. However, it is recommended that this project should not advance as it contradicts the commitment to achieving energy transition and energy security.

Table 24: Rate of Implementation of LNG Related Projects

Project	Project Type	Maximum Possible Completion by FY2025	Organisation	Project status
Perform technical and economic feasibility study, engineering and tender management services for the construction of the land-based LNG terminal at Matarbari, Cox's Bazar	LNG	79%	Petrobangla	Carry-over
Procurement of an individual legal consultant for LNG terminal development, LNG import, and other LNG activities	LNG	81%	Petrobangla	Continuing

Source: Authors' Calculations from ADP FY2025.

6.5 Addressing Financial Vulnerability of Power and Energy related Public Authorities

It is important to review how the national budget for FY2025 could address financial weaknesses of state-owned enterprises in the power and energy sector. In FY2024, public authorities related to power and energy, particularly the Bangladesh Power Development Board (BPDB), faced continuous financial losses. The projected loss for BPDB in FY2025 is likely to increase to nearly 196 per cent, amounting to BDT -18,106 crore (Table 25). This substantial net loss is largely attributed to non-revenue generating expenses, such as capacity charges, which significantly inflate operational costs. Despite a modest 20 per cent increase in total generation costs from the previous year, these non-revenue generating expenses continue to heavily strain BPDB's financial situation.

Table 25 Net Income of Government Organisations During FY2023 and FY2025

Organisation	FY2025 (According to BFY2025)	FY2024 (According to RBFY2024)	FY2024 (According to BFY2024)	FY2023 (According to Actual FY2023)
BPDB	-18,106.3	-6,117.2	-5,219.5	-11,166

Source: Authors' Compilation from the SOE Budget Summary FY2025.

Managing this net loss will likely require better management of subsidies and debt. However, concerns remain about whether BPDB has sufficient financial capacity to manage such a substantial loss through debt management. There is a need for critical review of the expenditure on non-revenue generating activities and thereby prioritise initiatives that can either reduce these costs or convert them into revenue-generating operations.

Other public authorities, state-owned enterprises and corporations including PetroBangla, BPC and the units functioning under BPC, and the Bangladesh Energy Regulatory Commission (BERC)

demonstrated financial resilience in FY2024 (Table 26). Notably, the Bangladesh Oil, Gas and Mineral Corporation (Petrobangla) remained profitable, although it has declines. BPC units showed steady profit growth compared to previous fiscal years, while BERC reported a slight increase in profit in FY2025 over the Revised FY2024, though still below FY2023 levels.

Table 26: Net Income of Government Organisations During FY2023 to FY2025

Organisations	FY2025 (According to BFY2025)	FY2024 (According to RBFY2024)	FY2024 (According to BFY2024)	FY2023 (According to Actual FY2023)
Petrobangla	277.8	414.6	448.8	501.2
BPC	-5,563	3,841.5	-10,019	4,586.1
BPC Units	1,102.3	1,033.9	905.7	1,067.8
BERC	21.8	20.4	8.1	40

Source: Authors' Compilation from the SOE Budget Summary FY2025.

A significant concern arose with BPC, which showed a dramatic budgetary reversal. The organisation moved from a profit in the revised FY2024 Budget to a projected loss of -5,563 crore BDT in FY2025, marking a negative change of BDT 9,404.5 crore. Initially, the proposed FY2024 budget had indicated a loss, but the revised FY2024 Budget surprisingly showed a profit, signaling an unexpected positive shift in financial performance and the tendency of the relevant authorities to under-report their performance, attributed to their possible intention of receiving subsidies.

The debt-equity ratio is an important financial indicator to understand the financial health of an enterprise. In FY2024, the financial vulnerability of public authorities, particularly the BPDB, became apparent through poor debt-equity ratio (Table 27). The projected debt-equity ratio for BPDB in FY2025 is 111: -11, indicating negative equity. This situation reflects severe financial distress and an unhealthy level of debt for the organisation. PetroBangla, on the other hand, experienced severe financial distress, reflected in a heavily skewed debt-equity ratio of 133: -33 in the proposed FY2025 budget. Although still negative, this ratio shows a slight improvement from the previous fiscal year, moving in a better direction. In contrast, BPC maintained a relatively stable debt-equity ratio, indicating efforts to keep its financial structure balanced. The consistency in BPC's ratio between FY2023 and FY2025 suggests a positive trend, though the debt level remains high.

Table 27: Debt-Equity Ratio of Government Organisations Associated with Power and Energy Sector during FY2023 to FY2025

Organisations	FY2025 (According to BFY2025)	FY2024 (According to RBFY2024)	FY2024 (According to BFY2024)	FY2023 (According to Actual FY2023)
BPDB	111: -11	101: -1	98:2	98:2
PetroBangla	133: -33	134: -34	184: -84	135: -35
BPC	72:28	63:37	94:6	64:36
BPC Units	82:18	82:18	78:22	81:19
BERC	-11:111	-6:106	-13:113	0:100

Source: Authors' Compilation from the SOE Budget Summary FY2025.

Standard practice recommends implementing robust debt management strategies that include refinancing options and improved terms on existing debts. Additionally, restructuring debt to more manageable levels and allocating additional funds to asset-generating projects will help alleviate financial distress.

In the national budget for FY2025, the power sector remains the leading recipient of government guarantees, accounting for 45.8 per cent of total guarantees, a slight decrease from 52.2 per cent in FY2024. Although the government has been gradually reducing the guarantees in recent years, the total amount is projected to increase from BDT 51,496 crore in FY2024 to BDT 53,596 crore in FY2025. This increase highlights the ongoing financial strain within the power sector, primarily driven by capacity payments, rising international energy prices and rising import costs associated with depreciating the domestic currency.

Despite planned power tariff increases over the next three years, subsidies are still deemed essential to cover the impending charges from new power plants. In total, the subsidy allocation for FY2025 is BDT 108,240 crore, with the power sector receiving BDT 40,000 crore, representing 37 per cent of the total subsidy. This allocation continues the trend from FY2024, where the power sector received BDT 35,000 crore out of BDT 106,897 crore. The strategy behind raising the electricity tariff to reduce subsidies within the power sector seems contradictory, given the sector's deep financial woes. Notably, the BPDB would likely have faced bankruptcy without the government's subsidy and contingent liability support. This situation is alarming, especially as the BPDB plans to incur even more debt for FY2025 without corresponding equity and any visible actions, further deepening its financial vulnerability.

7. OVERSIGHT AND FOLLOW-UP ACTIVITIES UNDERTAKEN DURING FY2024

7.1 Oversight Activities of the Parliamentary Standing Committee on Ministry of Power Energy and Mineral Resources

The activities of the Ministry of Power, Energy, and Mineral Resources (MoPEMR) are supposed to be overseen by the National Parliament. However, only two meetings were held by the Parliamentary Standing Committee on Power, Energy, and Mineral Resources during FY2024, which took place on 26 September 2023 and 21 April 2024 (Table 28). The limited number of meetings and the lack of public reporting on the meeting agendas, discussions, and decisions indicate a weak role played by the standing committee regarding ensuring implementation of the committed activities. The limited number of meetings suggests less robust role of the standing committee with limited level of effectiveness of oversight on the power and energy sector.

Table 28: Meetings of the Standing Committee of Power Energy and Mineral Resources During FY2024

Meeting Date	Meeting Agenda
26 September 2023	• Update and review the progress of last meeting's decisions • Discussion on how to reduce load shedding in the REB areas • Discussion on status of progress of implementation of coal, liquid fuel and natural gas related power plants
21 April 2024	• Introduction with the staff of the power, energy, and mineral resources departments and associated organisations

Source: Authors Findings.

The minimal engagement and oversight by the Parliamentary Standing Committee reflects the need for stronger and more frequent evaluations to ensure the Ministry of Power, Energy, and Mineral Resources is held accountable and that their initiatives align with national goals for energy sustainability and efficiency.

7.2 Follow-up Status of Activities Committed in the Last Year's National Budget

In the last year's national budget (FY2024), various budgetary measures and proposals were made regarding the addition of generation, transmission, and distribution capacity, power import, renewable energy expansion, and gas exploration (Table 29). However, those targets and commitments were not implemented properly during the ongoing fiscal year.

Table 29: Follow-up Status of Activities Mentioned in the National Budget Speech of FY2024

Issue	Commitments for FY2024	Status of Progress
Power Import	• Importing 9,000 MW of electricity from neighboring countries by 2041 • Agreement for importing 500 MW of hydroelectric power from Nepal	• No progress, still in the final stage
Power Transmission and Distribution	• Expand transmission lines to 28,000 km by 2030	• Only 7,357 km increased, 12,643 km needed
Renewable Energy Expansion	• Generate 10 per cent of total electricity from renewable energy by 2030 • Generate 40 per cent by 2041	• Includes fossil fuels disguised as clean energy
Fuel Mix	• Use environmentally friendly fuels, diversify energy mix	• Not enough measures, increased LNG dependence
Gas Exploration	• Drill 46 gas wells by December 2024	• Only eight gas wells explored

Source: Prepared by Authors Based on the Budget Document for FY2024.

Overall, there is a wide gap observed between the commitment made in the budget document and budget speech against those which are finally implemented. Such a wide gap undermines the importance of the budget related commitments made by the government to the domestic and overseas investors, financiers, development partners and project implementers.

Power Import: It was mentioned in last year's budget speech that as part of importing 9,000 MW of electricity from neighbouring countries by 2041, a signing agreement was said to be at the final stage for the import of 500 MW of electricity from a hydroelectric power plant in collaboration with Nepal. However, the signing of such a contract remains in the final stage.

Power Transmission and Distribution: It was mentioned in last year's budget speech that the target for expansion of the transmission lines to 28,000 km by 2030. However, no substantive progress has been made during FY2024 as the total expansion of transmission lines from 2009 to 2024 was only 7,357 km.

Renewable Energy Expansion: It was mentioned in last year's budget speech that 10 per cent of total electricity will be generated from renewable energy by 2030 and 40 per cent by 2041. But the notion of 'clean energy' as mentioned in the IEPMP 2023 (approved in November 2023) is flawed as it includes fossil fuels disguised as advanced technologies.

Fuel Mix: It was mentioned in last year's budget speech that the usage of environmentally friendly fuels for power generation will be promoted and diversifying the energy mix will be emphasised, including coal, LNG, liquid fuel, dual-fuel, nuclear power plants, and renewable energy. Not enough measures had been taken to diversify the fuel mix, and rather dependence on LNG import-based power generation had increased.

Gas Exploration: It was mentioned in last year's budget speech that the initiative was to drill 46 gas wells by December 2024. Only eight gas wells have been explored so far.

8. CONCLUDING REMARKS AND RECOMMENDATIONS

The budget for the power and energy sector in FY2025 faces significant challenges in aligning with the critical need for energy sustainability and a smooth energy transition. Despite the growing urgency to move towards more sustainable energy practices, the current budget allocation falls short in addressing the fiscal and financial demands necessary for a comprehensive transition. The following recommendations are made in light of these observations, emphasising the need for strategic restructuring, enhanced fiscal discipline, and a strong focus on sustainable energy solutions.

(a) Align Budget with Energy Sustainability and Transition Goals

The budget for the power and energy sector in FY2025 should be realigned to prioritise energy sustainability and transition. This includes ensuring proper planning, allocation, implementation, and monitoring to meet sustainability goals. The budget must also fully reflect different policy commitments including retiring inefficient power plants, importing hydropower, and advancing smart grid initiatives. Additionally, the promotion of anti-transition and anti-sustainability measures, such as increasing dependency on coal and putting unrealistic targets for power demand, should be revised to support a sustainable energy future. The government should halt funding for new fossil-fuel based power generation projects and reinforce its commitment to phasing out outdated, expensive plants nearing the end of their contracts.

(b) Proper Utilisation of Special Allocation for Renewable Energy Needs to be Ensured

A special allocation of BDT 100 crore has been proposed by the finance minister to encourage the development and use of renewable energy. Although the amount is relatively small, the initiative is commendable as it signifies a step towards breaking the carbon lock-in in the country. Given the limited budget, following measures can be undertaken which include – (a) researching methods to balance load and manage demand-response in a grid with high renewable penetration; (b) developing technologies for better grid management and integration of power from both conventional and renewable sources; (c) conducting research on effective methods to raise public awareness and support for renewable energy adoption, which is crucial for breaking the carbon lock-in; (d) investigating alternative energy storage methods, such as pumped hydro storage, compressed air energy storage, or flywheel energy storage, specifically in the context of Bangladesh; and (e) researching improvements in turbine technology to enhance the efficiency and lifespan of the Kaptai hydropower plant.

(c) Extending Fiscal Support for Promoting Energy Transition

The discriminatory fiscal structure against renewable energy projects needs reform, including extending tax holidays from 5 to 10 years for renewables-based power plants, offering 100 per cent duty waivers for small-scale solar projects, and lowering the cumulative tax rate on solar power-related accessories to encourage growth in the renewable energy sector. These measures would support the scaling up of renewable energy initiatives and contribute to achieving long-term energy sustainability goals.

(d) Targeted Allocation for Transmission, Distribution, and Smart Grid Development

To enhance the efficiency and reliability of the power sector, it is essential to allocate targeted funding for the completion of transmission and distribution (T&D) projects. Additionally, specific budget allocations are needed for the development of a smart grid system, which is crucial for modernising the energy infrastructure and supporting future energy demands.

(e) Prioritise Domestic Gas Exploration to Reduce Energy Import Dependency

To ensure energy security and reduce dependency on imported LNG, it is crucial to shift the focus from LNG imports to domestic gas exploration (though it is carbon emitter). The current target of drilling 48 wells by 2025 is unlikely to be met unless priority is given to expanding domestic gas production. Additional well workover projects should be undertaken to meet the daily gas requirement of 2,000 mmcf/d with local resources. Government should not prioritise LNG related infrastructure development at present.

(f) Strengthen Financial Stability of Public Authorities and BPDB

To address the ongoing financial vulnerability of public authorities, the government should prioritise improving the insolvency issues faced by the Bangladesh Power Development Board (BPDB) and gradually reduce the debt-equity ratios of other public authorities to healthier levels. BPDB should focus on reducing capacity payments through structural reforms to minimise debt accumulation. Additionally, reallocating funds towards the transmission and distribution system will build infrastructure, improve the debt-equity ratio, and add value to the organisation's assets. Moreover, transitioning towards renewable and financially sustainable power plants is essential to avoid non-revenue-generating expenditures, thereby enhancing the overall financial stability of BPDB and other related authorities.

(g) Redirect Budgetary Allocation of Climate Budget to Support Energy Transition

The non-climate change related budget, which constitutes 92.4 per cent in FY2025, should not be used to promote fossil fuel-based power generation. Instead, a portion of this budget should be allocated to phasing out fossil fuel-based power plants. To effectively break the carbon lock-in within the power division, it is essential to increase the percentage of the total budget dedicated to supporting energy transition efforts.

(h) Enhance Accountability and Oversight in the Power and Energy Sector

The Parliamentary Standing Committee on the Ministry of Power, Energy, and Mineral Resources must take a more proactive role in ensuring compliance within the power and energy sector. The committee should conduct regular follow-ups and ensure the implementation of decisions made during meetings, thereby strengthening accountability and improving the overall governance of the sector.

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