Independent Review of

iRBD

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বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD's Recommendations for the National Budget FY2025-26

(Draft)

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Contents

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The CPD IRBD 2025 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

CPD's Recommendations for the National Budget FY2025-26

SECTION I. INTRODUCTION

The national budget for fiscal year 2025-26 (FY2026) holds significant importance as it is being formulated by the interim government amid a challenging macroeconomic environment. The interim government inherited an economy characterised by high inflation, subdued revenue collection, sluggish budget implementation, a liquidity crunch in the banking sector, and declining foreign exchange reserves. The lower momentum in export earnings and remittance inflows has further exacerbated economic vulnerabilities.

The FY2026 budget, therefore, needs to address these pressing challenges through focused short-term measures while laying the foundation for medium-term reforms aimed at stabilising the economy and enhancing structural resilience.

In this context, the Centre for Policy Dialogue (CPD) has prepared a set of budgetary recommendations and fiscal measures to guide the upcoming budget for FY2026. These proposals focus on reinforcing macroeconomic stability, improving resource mobilisation, strengthening public finance management, improving social sectors such as health and education, addressing the financial situation of the power and energy sector, overcoming environmental challenges, and supporting small and medium enterprises. The recommendations take into account the current economic realities and propose pragmatic strategies to navigate the prevailing uncertainties while promoting medium to long-term economic sustainability.

SECTION II. SNAPSHOT OF MACROECONOMIC CORRELATES

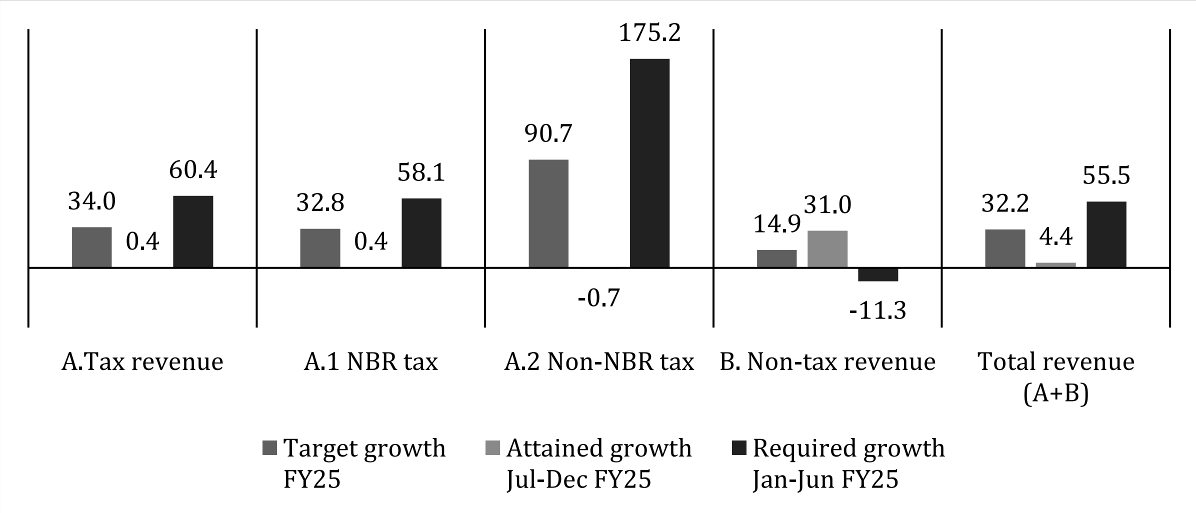
Key recommendations

- The key macroeconomic management stance ought to be restoring macroeconomic stability via curbing high inflationary rate, maintaining a stable foreign exchange reserve and enhancing fiscal space.
- A balanced approach is required when it comes to financing of the budget deficit, especially considering the impact on the private sector.
- Precautionary measures must be put in place considering the growing uncertainty in the global economy.

2.1 Fiscal space shrunk during the first half of FY2025

Growth of revenue mobilisation was rather subdued during the July-December period of FY2025. In the aforementioned time period, total revenue collection recorded a growth of 4.4 per cent. This implies that if the annual growth target of 32.2 per cent is to be met, then total revenue collection will need to increase by a whopping 55.5 per cent during the second half of FY2025 (Figure 2.1). This is indeed a highly unlikely prospect. If the current trend of revenue mobilisation continues, then revenue shortfall could reach BDT 105,000 crore at the end of FY2025.

Figure 2.1: Revenue mobilisation growth by sources (in per cent)



Source: Author's calculation from MoF (2025).

During the July-December period of FY2025, overall budget utilisation was 28.3 per cent, whereas the corresponding figure for FY2024 was 25.5 per cent (MoF, 2025). The implementation rate of Annual Development Programme (ADP) slowed down – reaching 14.8 per cent during the first half of FY2025 from 15.9 per cent during the corresponding period of FY2024 (MoF, 2025)[1]. In this regard, it needs to be mentioned that following the mass uprising in July-August 2024,

[1] According to data from the Implementation Monitoring and Evaluation Division (IMED) of the Ministry of Planning, ADP utilisation during July-December of FY2025 was 17.3 per cent (IMED, 2025a), which reached to 20.8 per cent during July-January of FY2025 (IMED, 2025b).

considerable reprioritisation and re-evaluation of development projects as well as reshuffling of the administration took place. These are likely to be the major factors behind the slow implementation of ADP. On the other hand, utilisation of non-ADP budget shot up – reaching 35.1 per cent during July-December of FY2025 from 30.6 per cent during July-December of FY2024. The major drivers of this phenomenon were the sharp increases in domestic interest payment and expenditures owing to subsidy and incentives.

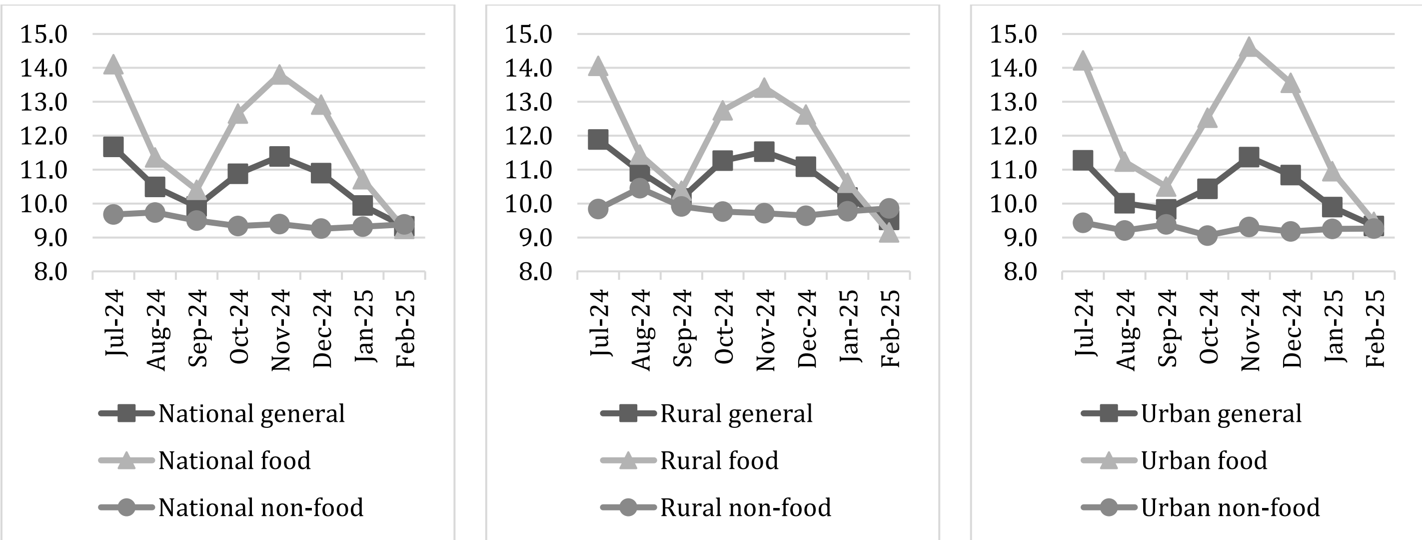
While budget deficit increased, the composition of deficit financing turned out to be the more problematic issue. During the July-December period of FY2025, the budget deficit was BDT 29,527 crore. The corresponding figure was BDT 7,321 crore during the July-December FY2024 period (MoF, 2025). Borrowing from scheduled banks was catering the majority of deficit financing, which was affecting private sector credit growth and adding to the ballooning interest payment liabilities.

2.2 Inflationary pressures continued throughout the fiscal year

During the July-February period of FY2025, general inflation remained over 9 per cent at national, rural, and urban levels (Figure 2.2). In both urban and rural areas, food inflation was generally higher than non-food inflation. On average, inflation in rural areas was higher than in urban areas. If the proposal to hike gas prices is accepted, then it is likely to adversely impact the inflation scenario – particularly that of non-food items. The uncertainty in the global economy owing to the tariff war might add to this. The Bangladesh Bank's target to contain inflation within a 7-8 per cent range by end-June 2025 (Bangladesh Bank, 2025a) is likely to be missed if the aforementioned dynamics unfold.

Figure 2.2: Inflationary trend during July-February FY2025 (in per cent)

National **Rural** **Urban**



Source: Author's compilation from Bangladesh Bureau of Statistics [BBS] (2024, 2025a, 2025b).

2.3 Monetary aggregates are unlikely to meet the monetary policy targets

During the first seven months of FY2025, net foreign assets decreased by (-) 2.6 per cent (Table 2.1) owing to public sector debt service payments and lower than expected foreign support for budget financing. The higher than targeted growth of net domestic assets can be mainly attributed to the central bank's considerable liquidity support to a number of banks to meet their daily liquidity requirements. The reliance on bank borrowing to finance budget deficit is evident from the high growth of credit to the public sector. On the other hand, the historical low growth of credit to the private sector implies that net credit to the private sector will need to increase by more than 66 per cent during the last five months of FY2025. This is a highly unlikely prospect.

Table 2.1: Growth of monetary aggregates (in per cent)

As of	Net foreign assets	Net domestic assets	Domestic credit	Credit to the public sector	Credit to the private sector	Broad money	Reserve money
January FY2025	-2.6	9.8	9.1	16.6	7.2	8.0	9.0
June FY2025 (MPS target)	7.7	8.5	12.0	19.8	9.8	8.4	1.0

Source: Bangladesh Bank (2025a, n.d.a).

2.4 External sector performance shows signs of recovery

In terms of growth of both export earnings and import payments, recovery from earlier dismal scenario was observed. Remittance inflow exhibited an impressive 22.6 per cent growth during the first eight months of FY2025 (Table 2.2). However, overseas migration recorded a considerable decline of (-) 22.0 per cent during the aforementioned time period. Significant improvements were observed both in the cases of current account and financial account balances. As a result, overall balance of payments exhibited an improvement to the tune of USD 3.5 billion. Both foreign exchange reserve and exchange rate of BDT against USD have stabilised compared to the earlier situation.

Table 2.2: Key indicators of the external sector

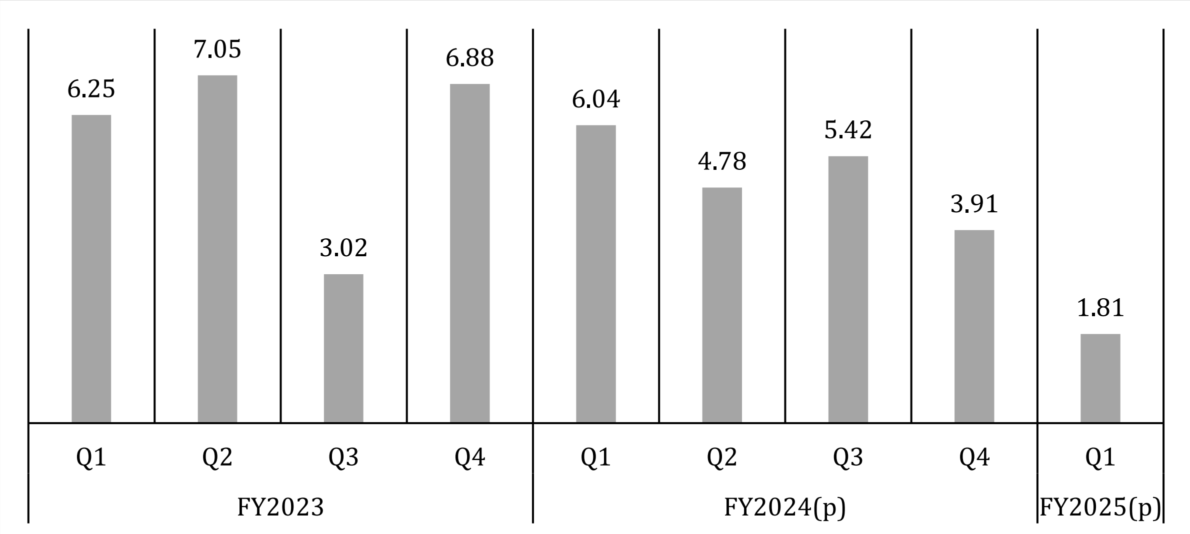
Indicator	Unit	Timeframe	FY2024	FY2025
Export earnings growth	Per cent	July-February	-6.4	10.5
Import payments growth	Per cent	July-January	-18.3	4.3
Remittance growth	Per cent	July-February	7.6	22.6
Overseas migration growth	Per cent	July-February	15.8	-22.0
Current A/C balance	Million USD	July-January	-4,280	-552
Financial A/C balance	Million USD	July-January	81	850
Overall balance	Million USD	July-January	-4,687	-1,170
Forex reserve	Million USD	As of February	20,528	20,907
Exchange rate	BDT/USD	As of February	110.0	122.0

Source: Author's compilation and calculation from Bangladesh Bank (2025b, n.d.b, n.d.c, n.d.d), BMET (n.d.), and EPB (n.d.).

2.5 GDP growth declined in the first quarter of FY2025

During the July-September period of FY2025, estimated GDP growth was 1.81 per cent (Figure 2.3). The corresponding figure for FY2024 was 6.04 per cent. In this connection, it needs to be mentioned that the annual GDP growth target for FY2025 was set at 6.75 per cent in the national budget for FY2025. As has been reported in the media, this target will be adjusted downward to 5.25 per cent in the revised budget for FY2025 (Byron and Hasan, 2025). Whether this curtailed target can be achieved remains a question. For instance, World Bank (2025) forecasts Bangladesh's GDP growth for FY2025 to be 4.1 per cent. Other multilateral organisations such as the IMF and ADB have also made downward adjustments regarding Bangladesh's GDP growth in FY2025.

Figure 2.3: Quarterly GDP growth in Bangladesh (in per cent)



Source: Author's compilation from BBS (2025c).

Given the current dynamics, the key macroeconomic management stance ought to be restoring macroeconomic stability via curbing the high inflationary rate, maintaining a stable foreign exchange reserve and enhancing the fiscal space.

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SECTION III. FORMULATING THE FY2026 BUDGET: CONSIDERATIONS AND ALIGNMENT WITH LDC GRADUATION

Key recommendations

- The design and fiscal targets of the upcoming FY2026 should be set in a realistic manner, taking cognisance of both domestic and external economic scenario and drawing lessons from the experiences of the previous years.
- In light of the current foreign exchange reserve scenario, the government should prioritise implementing all ADP projects that are supported by foreign sources.
- To access the special and differential treatment accorded to developing countries after LDC graduation, tariff lines will need to be identified where customs duties and other charges exceed respective bound duties which were committed by Bangladesh.

3.1 Context

The budget for FY2026 is likely going to be the only budget prepared by the current interim government as discussions for national elections in December 2025 are widespread. It is going to be prepared under new leadership at the Ministry of Finance as well. Given this context, the national budget for the upcoming FY2026 provides a unique opportunity for the interim government to break free from the formulaic mould, initiate short-term reforms and lay the foundation for medium-term reforms in public finance management in Bangladesh. Preparation of a credible fiscal framework can be the starting point in this regard.

3.2 Setting the budgetary targets for FY2026 in a realistic manner

Whether the FY2025 public finance framework was designed considering the correct set of assumptions remains a critically important question. During its 'Analysis of the National Budget for FY2024-25' in June 2024, CPD observed that 'the targets to be set for the macroeconomic framework for FY2025 did not take cognisance of the current realities and are too optimistic' (CPD, 2024). This led to the fiscal framework for FY2025 being rather formulaic in nature and was underpinned by the notion that a business-as-usual scenario would prevail. As a result, lofty and highly optimistic budgetary targets were set that had a high probability of missing their marks by a considerable margin at the end of the fiscal year. Regrettably, many of the concerns are turning out to be true as FY2025 draws to a close and more up-to-date data becomes available.

The design and fiscal targets of the upcoming FY2026 budget must be set in a realistic manner – drawing lessons from the experiences of the previous years, and taking into account the emergent macroeconomic scenario. Recent developments in both domestic and external fronts must be taken into cognisance in this regard. While the issue of realistic target setting is discussed, the revenue collection targets for FY2025 can provide a perfect example. The proposed budget for FY2025 considered a fiscal framework which targeted a revenue mobilisation growth of 13.2 per cent over the revised budgetary target of FY2024. The growth target for FY2025, however, becomes 32.2 per cent, more than double the anticipated growth rate, when the actual revenue collection of FY2024 is taken into account. This illustration emphasises how important it is to set realistic targets when formulating a budget.

As has been reported in the media, the size of the national budget for FY2026 may be equal or less than that of the ongoing FY2025 (Islam, 2025). The primary reason behind this is the subdued momentum of revenue mobilisation along with heightened pressure of debt servicing (as discussed in Section 2). This, perhaps, is an indication of steps in the right direction while taking cognisance of the current realities.

3.3 Streamlining public expenditure

It must be ensured that the current austerity measures have as little of an impact as possible on the social safety net, the health and education sectors, agriculture, and small and medium-sized enterprises (SMEs), even though they must be maintained due to prudent macroeconomic management and IMF conditionalities. It will be necessary to maintain the newly started practice of removing unproductive activities from the ADP. Simultaneously, the ADP's infrastructure-heavy formulation will need to be reassessed in order to give the sectors involved in human capital formation the attention they deserve. Additionally, it is important to continue the efforts to reduce wasteful and expensive public spending, such as purchasing government vehicles and traveling abroad.

In light of the current foreign exchange reserve scenario, the government should prioritise implementing all ADP projects that are supported by foreign sources. Projects that are almost complete (implementation rate of 85 per cent or above in June 2025) should be given higher priority by the government. Projects with an implementation rate of 10 per cent or less up till end of FY2025 ought to be deprioritised. To support their continuation, "carryover projects" with a maximum implementation rate of less than 30 per cent till the end of FY2025 should be re-examined.

3.4 Maintaining balance in budget deficit financing

Receiving financing from foreign sources will be a significant challenge in FY2026. The majority of foreign borrowing is dependent on the ability of government agencies to design and implement ADP. The majority of budget support is reliant on policy reforms. It is unlikely that non-bank borrowing targets will be met. Since people are saving less amid high inflation and interest rates for bank deposits and other instruments are rising, the sale of NSD certificates may remain sub-par. Consequently, there will probably be added pressure on bank borrowing to cover the budget deficit. The government's fiscal space will be constrained if private sector borrowings are not to be squeezed out, given the commercial banks' liquidity situation and the government's decision not to borrow from the central bank.

3.5 Safeguarding the interests of limited income, vulnerable and disadvantaged groups

Due consideration should be given to the economy-wide implications and equity concerns related to enhancing fiscal space and streamlining governmental spending. Supporting limited income, disadvantaged and vulnerable groups should be a primary priority of fiscal management in the days ahead, both for measures related to revenue and expenditures. For instance, given the prevailing high inflationary situation, tax-free income threshold for personal income should be increased to Tk. 4.00 lakh. The public expenditure framework also needs to address the issue of persistently high costs for necessities. Small farmers and households with low or limited incomes should receive special attention in this regard. A substantial and targeted investment in social safety net programmes that aim marginalised populations, such as women, youth, and people with disabilities, will be necessary.

3.6 Aligning with the LDC graduation agenda

In view of the upcoming graduation from the least developed country (LDC) category in November 2026, Bangladesh's tax policies will need to ensure compliance with World Trade Organisation (WTO) rules and obligations as applicable for (non-LDC) developing country members. The country's tariffs, customs duties and other charges will need to be reviewed and rationalised, and aligned with WTO obligations as under various agreements. In doing so, *special and differential treatment* accorded to developing country members under the various WTO Agreements should also be taken into cognisance to take advantage of the flexibilities.

As part of the aforesaid exercise, tariff lines will need to be identified where customs duties and other charges exceed respective bound duties which were committed by Bangladesh when it acceded to the WTO in 1995 as one of its founding members. For example, Bangladesh had bound duties on alcohol and cigarettes at 200 per cent, milk powder at 45 per cent, and biscuits at 30 per cent. Currently, the total import taxes on these items (which include customs duties [CDs], supplementary duties [SDs] and regulatory duties [RDs], import VAT, advanced income tax [AIT]) exceed Bangladesh's bound rates. Already 60 such lines have been identified by the NBR which will need to be brought down to bound tariff rates to ensure *trade neutrality* (i.e., duty structure is not allowed to discriminate between imported and domestically produced items). This exercise will have to be continued till November 2026, the time of graduation, at which point compliance will have to be established. To note, Bangladesh has a binding coverage of 17 per cent of tariff lines which means 83 per cent of tariff lines remain unbound. Bangladesh will continue to enjoy the flexibility related to tariffs on non-bound items even after graduation. NBR should be aware of and take advantage of this.

Bangladesh has minimum import prices for a number of imported goods. These will need to be withdrawn following LDC graduation since such practices are not WTO-compatible. As is known, SDs, RDs, AIT, advance VAT etc. along with CDs are a common feature of Bangladesh's import duty structure. Such non-CD charges will need to be done away with in respect of imported items in cases where the principle of *trade neutrality* is violated (e.g., when such duties are imposed on imported items but not on similar domestically produced items).

LDC graduation will mean that direct export incentives (e.g. the 3-4 per cent cash incentive for export-oriented apparels sector, and the 20 per cent cash incentive for agricultural exports) will no longer be permissible under the WTO. Such export incentives will need to be phased out and WTO-compliance ensured. To support exporters, Bangladesh will need to put in place other supportive measures (non-cash incentive type) that do not violate WTO regulations.

Frequency of notification as regards changes in trade and tariff policies concerning agriculture subsidy will rise once Bangladesh graduates out of the LDC group. These will have to be notified to the WTO in a timely fashion. Notifications as regards domestic support will need to be submitted every year instead of submission on biennial basis (which has been the case for Bangladesh as an LDC).

As may be recalled, majority of Category A, B and C submissions in the context of the *Trade Facilitation Agreement* (TFA) concerns the broad areas of customs and logistics facilitation. NBR should review Bangladesh's commitments with regard to the TFA. This is particularly important in view of *Category B* (time-bound commitments) and *Category C* (compliance to be assured subject to technical assistance). In view of LDC graduation, initiatives must be undertaken with regard to implementing *Category B* obligations. Technical assistance should be brought in a timely manner to ensure compliance with *Category C* commitments.

The WTO's 13th Ministerial Conference (MC13) decision stipulates that graduating LDCs will not be taken to WTO Dispute Settlement Body (WTO-DSB) for three years following graduation of the LDCs. There is a need to build adequate national capacity to deal with possible disputes in the WTO in view of the expiry of this provision in 2029. The national budget for FY2026 should make appropriate allocations to build national human resource capacity to deal with trade-related disputes.

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SECTION IV. REFORMS OF THE NBR AND THE TAXATION SYSTEM

Key recommendations

- Initiate institutional reforms of the NBR by putting in place two distinct entities- Revenue Policy Department and Revenue Administration Department, with a view to separating policy making functions and policy implementation functions concerning domestic resource mobilisation.
- With a view to digitalisation, automation and modernisation of the taxation system, put in place a separate Digitalisation Wing which will be tasked to coordinate digitalisation of the various wings of the NBR and ensure interoperability of the various systems and softwares, and in the process to promote the development of local IT companies by involving them in greater numbers in implementing digitalisation programmes and projects.
- Align expenditure pattern with income tax statement by introducing a unique number (e.g., the NID) which will need to be provided while undertaking certain expenditures (Tax Administration may decide which), and making submission of the number mandatory while submitting tax returns.

This section focuses on proposed initiatives in the areas of reforms of Bangladesh's revenue system with a view to modernise the system and making the revenue administration structure more efficient and effective. The section also highlights the need to set up a separate entity to be tasked with the responsibilities of digitalising Bangladesh's taxation system. The section proposes measures to reform the VAT system, and explores additional tax measures as part of the reforms of taxation. The section also underscores the changes that are needed to make the newly introduced Income Tax Act 2023 more effective and taxpayer friendly.

4.1 NBR institutional reforms

As far as Bangladesh's revenue mobilisation was concerned, the disquieting trend is that Bangladesh's revenue-GDP ratio has been on a secular decline over the recent past years. The ratio fell from 10.9 per cent in FY2015 to 8.2 per cent in FY2024. To recall, the 7th FYP had set a target to raise the ratio from 10.9 per cent in FY2015 to 16.1 per cent by FY2020! Evidently, the country has a long way to go to reverse this declining trend. Thus, it is not surprising that the *Interim Government* has put reforms of the NBR and the taxation system as one of its topmost policy priorities. The urgency of the reforms is underpinned by the need to transform NBR into a twenty-first century revenue agency that has (a) the institutional capacity to design, plan and propose appropriate tax and revenue policies, (b) the ability to provide hassle-free and efficient services to the taxpayers, and (c) the capability to ensure significant rise in revenue earnings and raise the country's revenue-GDP ratio. To this end, the NBR has constituted a five-member *Advisory Committee* to come up with concrete recommendation for reforms of the NBR and the taxation system in general, as also as regards administrative and governance structure that will be required to make the reforms successful. The Committee has already submitted its *interim report*. The NBR is also taking various steps on its own towards the betterment of the taxation system.

The Advisory Committee has proposed separation of policy formulation and revenue collection functions of the NBR both of which are at present vested in the NBR. It is to be noted that separation of policy and implementation tasks of the NBR is also one of the IMF conditionalities for the USD 4.7 billion loan that Bangladesh has taken from the Fund, in June 2023.

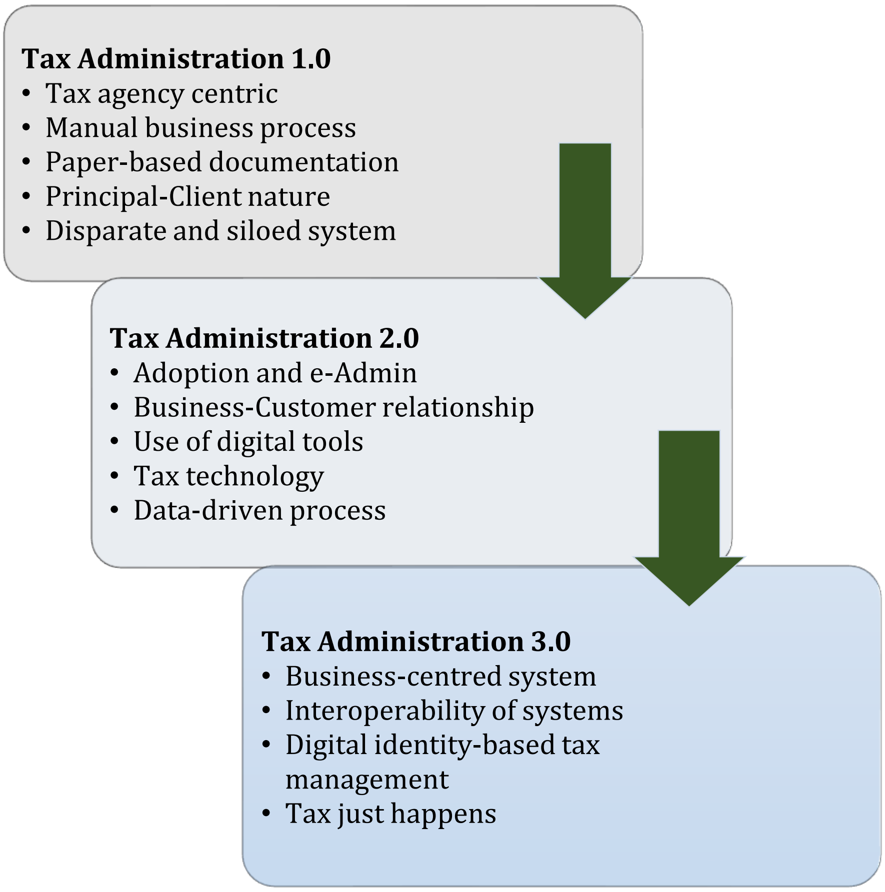
It has been proposed that the NBR be reorganised both *horizontally* and *vertically*. Two separate Departments have been proposed: *Revenue Policy Department* and *Revenue Administration Department.* Both the Departments are to be placed under the Ministry of Finance. At present, NBR activities are carried out under the *Internal Resource Department*, which in turn works under the Ministry of Finance. The proposed and envisaged changes will require replacement of the *National Board of Revenue Order 1972*. The Revenue Administration Department has been proposed to carry out the functions which are currently performed by the NBR. The Revenue Policy Department's mandate will be to deal with policy matters. This bifurcation of responsibility is expected to enhance both accountability and efficiency of the taxation system.

The need to set up separate, independent, and specialised entities with the mandate to implement the overall taxation policy of the country is a long-felt one. The criticism against the prevailing system in place is that it puts the focus primarily on revenue collection, to the detriment of formulating policies that are aligned with the needs of the economy, requirements of the taxpayers and that serves the overall developmental strategies of the country. For example, the 8th FYP (2021-2025) envisaged a gradual reduction of the average nominal protection rate by 3-5 percentage points annually till 2025. Till now, the NBR has not taken any tangible move towards implementation of this directive. The implementation of newly put in place National Tariff Policy 2023 (NTP 2023) provides an opportunity now to undertake tariff rationalisation along these lines. Setting concrete plans, targets and timelines for tariff rationalisation and ensuring accountability and responsibility to implement the plan will be the mandate of the proposed Policy Department. Separation of tax policy will also be important in formulating taxation policies keeping in the perspective the need of the various FTA/CEPA/ETCA negotiations which Bangladesh is undertaking at present and is planning to undertake in future. The Policy Department will also be required to take cognisance of WTO commitments and the country's trade and investment strategies as also the broader issues of developmental interests. The Revenue Administration Department will be tasked to implement these policies.

The Policy Department needs to include, besides tax-revenue officials, representatives from businesses, accounting professionals, economists, academia, think tanks and the civil society. The Department should be headed by a professional of high repute who has wide-ranging and in-depth knowledge about taxation policy and economic issues, and is also equipped with proper technical knowledge.

Bangladesh's tax system will need to move away from the currently prevailing *Tax Administration 1.0* to *Tax Administration 3.0* (Figure 4.1), through leapfrogging. The reforms under consideration will need to ensure that the taxation system is able to work independently, free from administrative control and unnecessary interventions by various entities and vested interests. The NBR Chairman will report directly to the Minister of Finance. Two Vice-Chairmen posts have been proposed to be created- one for direct taxes and the other for indirect taxes. These will need to work in a coordinated manner. A shift from trade taxes to income taxes and VAT, and within the broad categories, a shift from indirect taxes to direct taxes will need to be ensured.

Figure 4.1: Tax Administration 1.0 to Tax Administration 3.0



Source: Rahman and Rozario (2024).

Because of entrenched vested interests, systemic reforms of the NBR will not be easy to carry out. To recall, a similar initiative was taken in 2008 by the then *Caretaker Government*. However, this was not followed up by the newly elected *Awami League Government.* Expeditious decision making and timely implementation of the decision in view of above proposed reforms are of crucial importance. The interim Government's tenure provides *a window of opportunities* in this regard. However, only systemic reforms will not be enough to achieve the targets of higher DRM. Digitalisation of the taxation system and with its help, raising the efficacy of revenue mobilisation ought to be seen as necessary next steps to attain the goals of higher DRM.

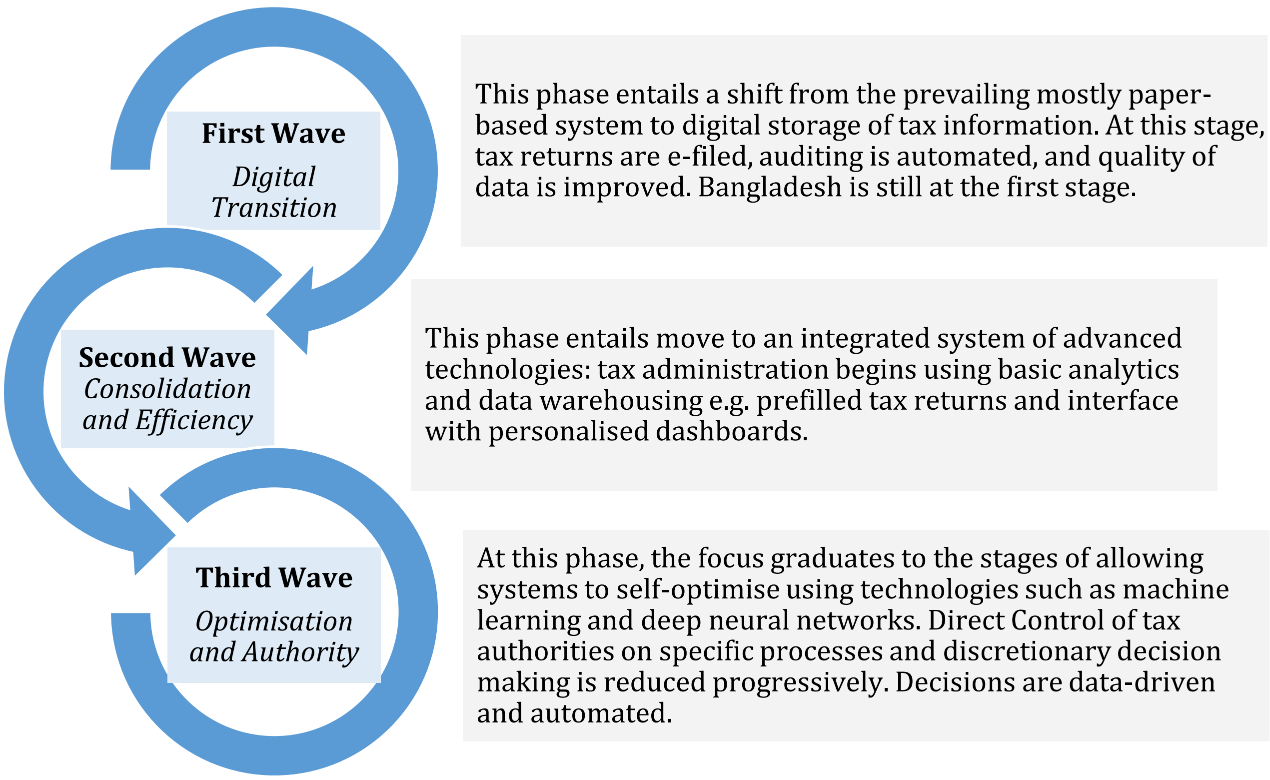
4.2 Digitalisation of NBR

Globally, countries are moving towards *digital transformation* of income tax and revenue collection systems, rather than *mere automation*. The current reforms in Bangladesh will need to be geared towards transformation and modernisation of the taxation system. An earlier CPD study (2024) had reported that among its peers Bangladesh would potentially generate the highest rate of return from the investment in modernising the tax system: 400 Taka additional revenue earnings could potentially be generated for one taka invested in tax system digitalisation, automation and modernisation. Thus, investing in these activities will definitely prove to be *good value for money*.

In view of the above, the NBR should put in place a separate *Digitalisation Cell*. At present, the various components of the NBR (VAT, Customs and Income Tax) are taking up digitalisation programmes on their own, in an uncoordinated manner. This is creating difficulties since there is a lack of interface between the different software systems. A separate and dedicated *Digitalisation Cell* will help coordinate the digitalisation efforts by all concerned entities. The Cell will need to particularly ensure interoperability of the various systems which is crucial to put in operation systemic interface, deter tax avoidance and facilitate revenue mobilisation. By further strengthening the successfully implemented e-TIN system, the e-Return should now be made mandatory beyond the current limited classes of taxpayers (government officials and bankers). Corporate tax return submission will also need to be brought under e-filing.

However, only three tax functions have been brought under the ambit of digitalisation: tax registration (e-TIN), tax deducted at source (e-TDS, that also only partially) and individual returns filing (e-Return). These will need to be expanded in a planned manner.

Figure 4.2: Three waves of digitalisation



Source: Rahman and Rozario (2024).

In undertaking digitalisation, three waves may be envisaged (Figure 4.2). Bangladesh will be required to move from the current *first wave of digitalisation* to the second wave, and finally to the *third wave of digitalisation*, in a time-bound manner. To note, Bangladesh does not need to necessarily follow the aforesaid waves sequentially. Through technological leapfrogging, some intermediate stages, with regard to some of the elements, may be skipped in order to reach a higher stage.

To recall and note, while in the past Bangladesh has taken various initiatives in areas of digitalisation of the taxation system, the results have been far from satisfactory (Rahman et al, 2024). According to the World Bank, for example, the iVAS currently offers only 43 per cent of the benchmark features in spite of the substantial investment made over the past years (Rahman and Rozario, 2024). Foreign vendors implementing digitalisation projects were often not able to deliver the outputs they were expected to. On the other hand, there are many Bangladeshi tech companies and IT professionals who have acquired the expertise needed to implement many of the digitalisation programmes currently under consideration. However, due to various stringent eligibility conditions and requirements, local IT companies are not able to participate in the bidding process. There is a need to revisit the tender requirements and create a conducive environment to enable capable local companies and firms to take part in tenders and bidding processes floated by the NBR as part of implementing programmes and projects in the areas of digitalisation and modernisation of the taxation system.

4.3 Strengthening NBR's capacity towards revenue mobilisation

Institutional capacity of the NBR will need to be strengthened significantly through the allocation of adequate resources. Adequate investment will have to be made to build up the required human and implementation capacities. NBR should put in place a system to ensure reconciliation of expenditure information with income data. This will go a long way to detect tax evasion. For example, in India, the *Aadhar* number is linked to a host of services such as mobile sim cards, bank accounts, land registration, vehicle registration etc. for purposes of reporting. Since 2021, submission of Aadhar number has been made mandatory while submitting income tax returns along with respective PAN (Permanent Account Number). NBR can think of introducing such a system by adjusting this to the Bangladesh context.

According to the current rules and regulations, parliament members can introduce tax exemption proposals at parliament sessions. In the past, parliament members having business interests or being influenced by business and prompted by vested interests often submitted tax exemption proposals at budget sessions of the parliament. These in most cases did not serve the interest of the economy and the cause of revenue mobilisation. This provision needs to be revisited. It should be the NBR which should be entrusted with the responsibility of placing tax exemption proposals to the parliament (following wide-ranging consultation with the concerned stakeholders).

Efforts will need to be geared to put in place *single-window customs clearance* to facilitate export-oriented activities in particular, and trade in general. NBR may also think of operationalising the OECD Standard for *Automatic Exchange of Information* to track global assets. NBR may also think of establishing a high net wealth unit within the large taxpayer unit to ensure financial data transparency. In view of the WTO-MC12 decision concerning the *withdrawal of the moratorium on taxing E-commerce* (March 2026 or MC14 whichever is earlier), NBR should adjust Bangladesh's import duties on E-commerce accordingly.

4.4 Reforms of the VAT

There is a need to bring all VAT-related functions *under one roof* by introducing a comprehensive national system. Such a system could cover the wide spectrum of VAT-related activities including collection, issuance of challan, accounting, submission of returns and others. There is a need to fast track NBR's plans in this regard.

As is known, NBR has now made VAT registration mandatory for businesses that have an annual turnover exceeding BDT 5.0 million (instead of BDT 30.0 million) and VAT enlistment mandatory for businesses with annual turnover of between BDT 5.0 million and BDT 30.0 million (instead of annual turnover between BDT 3.0 million and BDT 5.0 million with the applicable turnover tax of 4 per cent). NBR may consider *reducing the prevailing VAT rate (15 per cent) by moving towards a general uniform lower VAT rate* (perhaps 10 per cent flat rate) by reducing exceptions but taking into cognisance SME interests. To note, at present, the number of entities with VAT registration stands at only about 5.0 lac, while the actual number of VAT-eligible entities is way higher than this. VAT points from where VAT is collected are much higher than VAT points from which VAT is actually deposited to the government. Evidently, there is widespread and largescale leakage and corruption embedded in the prevailing system. Energetic steps will need to be taken to plug the existing loopholes.

4.5 Reforms of the bonded warehouse facility (BWF)

The NBR will need to expeditiously reform the current *bonded warehouse licensing system* to facilitate duty-free import of raw materials by non-bonded, small-scale exporters. The current system excludes more than 70 per cent of exporters who accounted for about a fifth of the country's total exports in FY2024. A large number of such exporters import export-oriented inputs and intermediates which do not enjoy bonded warehouse facility at present. The NBR is considering allowing import of raw materials without duty if the concerned exporter can provide a *bank guarantee* equivalent to the applicable import duties. If implemented, this will significantly reduce the hassle faced currently by such exporters in claiming *duty drawback* from the DEDO (Duty Exemption and Drawback Office). It will reduce the cost of doing export business, and save time on the part of the exporters. NBR needs to operationalise the newly proposed system in a speedy manner. At the same time, the work on *bond automation* will also need to be expeditiously completed to operationalise the expanded bond system. Exporters should be required to renew bond licenses with less frequency than is currently the case.

4.6 Identifying new avenues of taxation

In the emergent economic environment, an increasing share of business activities in Bangladesh is taking place in the arena of the digital economy: E-commerce, F-commerce, freelancing, business process outsourcing and others. There should be a plan as regards taxing the country's growing digital economy (Rahman and Purification, 2023). At present, 28 IT-enabled services are enjoying tax incentives (no income tax). A plan should be there to phase out some of these incentives.

To guard against corporate tax evasion, additional measures besides the *Document Verification System* (DVS) will need to be introduced. These could include requiring audit firms to verify actual transactions rather than relying solely on company-provided information.

NBR should develop a policy as regards taxing wealth (*wealth tax*) and inheritance (*inheritance tax*) towards a more equitable tax system. All tax expenditures and incentives should have time-bound and predictable sunset clause, so that businesses and entrepreneurs can plan their business model accordingly. Additionally, a plan will need to be put in place to reduce *tax expenditure* significantly, keeping in the perspective of the country's trade and industrial policies and strategies on the one hand, and the interests of higher revenue mobilisation on the other.

4.7 Reforms of Income Tax Act 2023

Implementation of the new *Income Tax Act 2023* has revealed a number of problems which are making operationalisation difficult. These will need to be addressed in a speedy manner.

Submission of proof of tax deduction at source, every month, is proving to be onerous on the part of the taxpayers. The requirements should be reset at two times per year (which was in place previously; if not, then at most on a quarterly basis, i.e. at four times per year).

The definition used for *Company* in the Income Tax Act 2023 is quite wide-ranging and extensive (e.g., education institutions are also covered under the definition). Since companies are required to maintain and submit a significant number of additional documents, compliance burden is quite onerous particularly for groups such as the aforementioned ones. Indeed, many such entities are not being able to submit all the required documents creating problems both for the taxpayers and the NBR officials dealing with entities. The definition may be reviewed and changed accordingly to deal with the emergent situation.

The Act requires engagement of several tax officials from various circles for purposes of audit of randomly selected taxpayers. NBR's intentions are well-understood and well-appreciated, it plans to make the system more robust and address the issue of tax evasion. However, the implementation difficulties on the ground will also need to be taken cognisance of. According to one report, under the new system as many as seven tax officials will be required for undertaking a single audit (Prothom Alo, 2023). It is apprehended that the proposed multilayered audit will raise compliance burden significantly on the part of the taxpayers. On the other hand, with limited human resources at the NBR, its officials are also finding it difficult to implement the audit. The proposed system may be revised to make it more actionable and effective.

4.8 Final remarks

It goes without saying that reforms of the NBR and Bangladesh's taxation system are long overdue. Lack of reforms have been imposing high costs on the country and the economy. The tenure of the *Interim government* provides a rare *window of opportunities* to address the attendant problems and challenges and the underlying reasons. In the preceding sections, the discussion has highlighted a number of areas where structural, operational and systemic changes will be called for if Bangladesh's taxation system is to embrace rationalisation, automation, digitalisation and modernisation. What is also no less important, the country's taxation systems also need to be taxpayer friendly. Time for concrete and targeted actions is now.

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SECTION V. FISCAL POLICY FOR CONTROLLING INFLATION

Key recommendations

- Prioritise spending on critical sectors such as healthcare, education, and agricultural infrastructure while cutting non-essential expenditures to reduce aggregate demand and alleviate inflationary pressures.
- Expand cold storage facilities for agricultural products to create a strategic buffer stock for stabilising prices.
- Strengthen the role of the Competition Commission by hiring skilled professionals to monitor markets, investigate market manipulation, and enforce anti-trust laws with a zero-tolerance policy.

5.1 Introduction

Inflation has become a significant economic challenge for Bangladesh in recent years. Under the former autocratic regime, high prices and high inflation had become the norm for the economy, causing immense suffering for millions. The persistent inflationary pressure diminished purchasing power, especially for low-income households, and jeopardised economic stability. After the July revolution, Bangladesh Bank raised the policy rate three times till October 2024 — from 8.5 to 9 per cent in the last week of August (Bangladesh Bank 2024a), to 9.5 per cent in September 2024 (Bangladesh Bank 2024b) and finally to 10 per cent in October 2024 (Bangladesh Bank 2024c). However, due to the overall expansionary stance in fiscal policy, such monetary measures had limited impact.

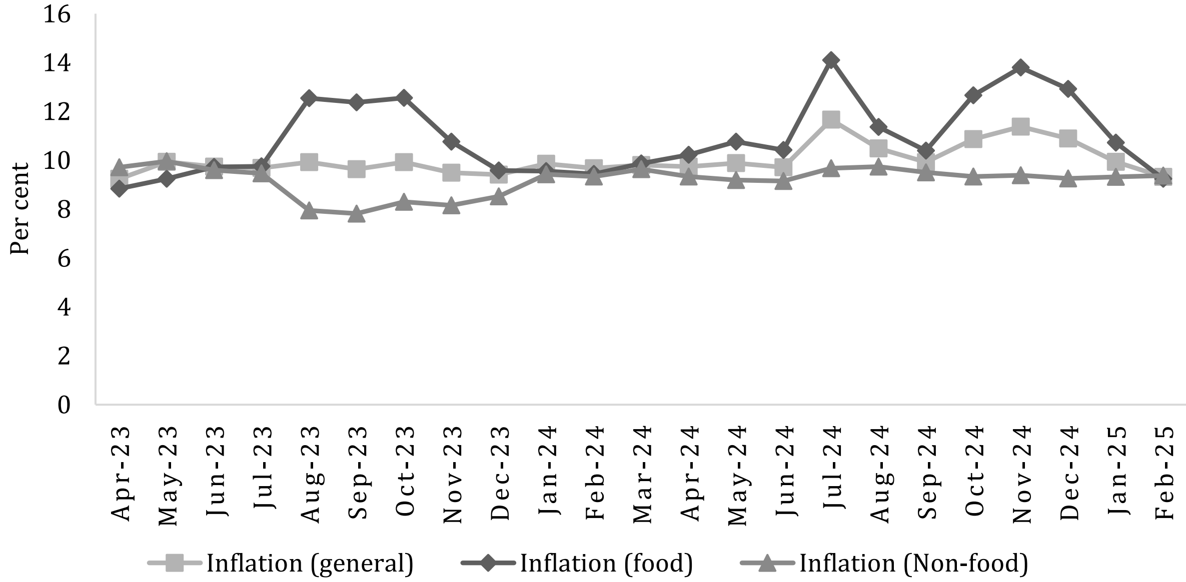
Fiscal policy is a demand-side tool that may influence inflation by regulating aggregate demand through government expenditure and tax changes. When it comes to supply-side inflation, which is often driven by cost-push factors like increasing material prices, targeted fiscal policies that boost productivity and lower production costs are the most effective way forward. A balanced fiscal strategy is crucial in the context of Bangladesh, where both demand-pull and cost-push variables drive inflation. Spending cuts on non-essential government programs may reduce aggregate demand and thereby reduce demand-pull inflation. The government should strategically invest in critical infrastructure, agriculture, and energy to combat cost-push inflation while easing supply-side limitations. Improving specific social safety net programs like food assistance and cash transfers may shield low-income people from the adverse consequences of inflation without substantially raising overall demand. This chapter explores how fiscal policy tools can be strategically employed to reduce inflation in Bangladesh, with specific recommendations for the national budget for the fiscal year (FY) 2026.

5.2 Recent trends of inflation

Food, non-food, and general point-to-point CPI inflation have been hovering around 10 per cent (Bangladesh Bank 2024d) since April 2023, the Bangladesh Bureau of Statistics (BBS) introduced a new base and basket for CPI (Figure 5.1). In Bangladesh, food inflation is a major contributor to overall inflation. Food prices have increased due to several factors, including regional pricing differences (CPD 2023), growing import expenses (Eichengreen 2024), cartel influence (Saha

2013), and agricultural product hoarding (CPD 2023). Another possible reason for the elevated inflation rates could be the disastrous flood in the eastern region of Bangladesh in June 2024 (CPD 2024a). Nevertheless, after seven months of assuming office, the interim government brought down the point-to-point national general, food, and non-food inflation within single digits (Figure 5.1). As of February 2025, the point-to-point general inflation rate was 9.32 per cent, the point-to-point food inflation rate was 9.24 per cent, and the point-to-point non-food inflation rate was 9.38 per cent.

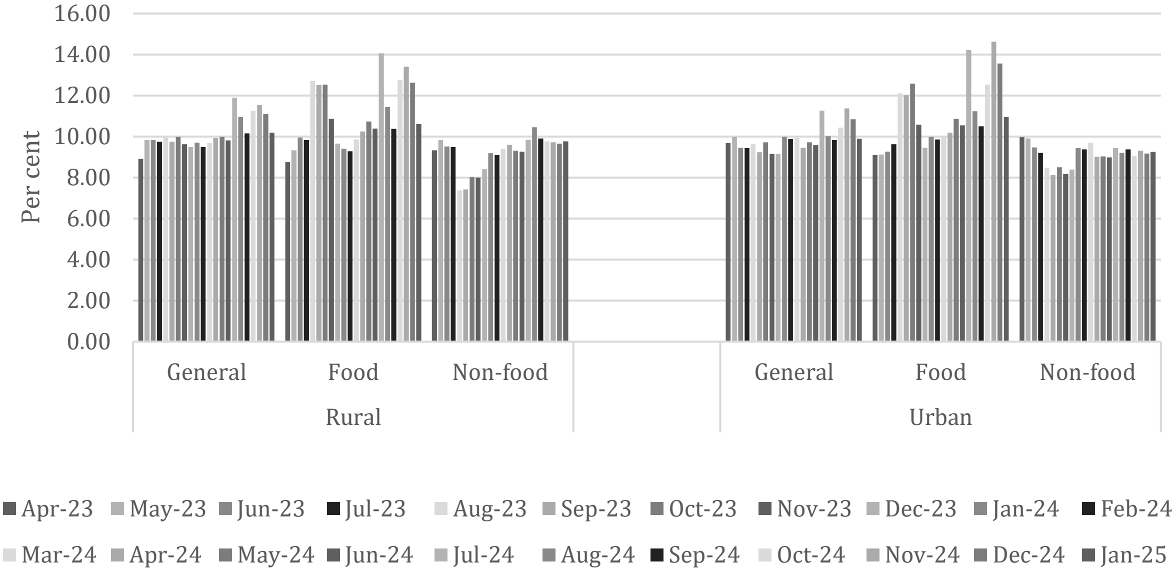
Figure 5.1: Point-to-point general, food, and non-food CPI inflation in Bangladesh (in per cent) (Base Index 2021-22=100)



Source: CPD illustration based on data from the Bangladesh Bureau of Statistics (BBS) (BBS 2025)

In terms of geographic differences, point-to-point general, food, and non-food inflation have been decreasing in both rural and urban areas of Bangladesh in the first two months of 2025 (BBS 2025) (Figure 5.2). Notably, food inflation decreased from 10.61 per cent in January 2025 to 9.15 per cent in February 2025 in rural areas and from 10.95 per cent in January 2025 to 9.47 per cent in February 2025 in urban areas (BBS 2025). However, the point-to-point general CPI inflation rate was higher in rural areas than urban areas for 18 months out of the 23 months between April 2023 and February 2025 (BBS 2025). Such an increase in the price level in rural areas is alarming since people in rural areas tend to have lower per capita income and are more vulnerable to shocks than people in urban areas.

Figure 5.2: Point-to-point general, food, and non-food CPI inflation in rural and urban areas of Bangladesh (in per cent) (Base Index 2021-22=100)



Source: CPD illustration based on data from the Bangladesh Bureau of Statistics (BBS) (BBS 2025)

5.3 Some measures taken by the interim government to control inflation

When the interim government took office in August 2024, controlling inflation was one of its major economic priorities. In the past few months, the interim government has taken several measures to control inflation. Under the interim government, the Trading Corporation of Bangladesh (TCB) has verified, printed and delivered 57 lakh smart family cards to local administration offices for nationwide distribution free of charge (New Age 2025). Smart family cardholders were provided the opportunity to purchase 2 litres of edible oil for BDT 200, 2 kilograms of lentils for BDT 120, and 1 kilogram of sugar for BDT 70 (The Business Standard 2024).

The interim government has also announced that fifty lakh families will receive 30 kilograms (kg) of rice at BDT 15 per kg under the food-friendly programme in March and April. Furthermore, as an Eid gift from the interim government, one crore low-income families will receive 10 kg of rice free of cost (The Business Standard 2025). Furthermore, according to the National Board of Revenue (NBR), customers will not have to pay the additional 7.5 per cent trade value-added tax (VAT) when shopping at supermarkets (The Daily Star 2025). Under the revised VAT structure, supermarkets will now be subject to a 15 per cent VAT. However, they can claim input tax credits, ensuring customers do not face additional costs separately. Instead, VAT will be incorporated into product prices, helping ease consumers' financial burden.

Nevertheless, high inflation has revealed the inherent weakness in the government's domestic resource mobilisation approach, mainly dependent on revenue collection from indirect taxes. If inflation continues at the present rate, the government may be compelled to withdraw indirect taxes on essential items. Thus, fiscal policy, highly dependent on indirect taxes, propagates economic inequality in society and forces the government to trade off revenue generation in the face of high inflation. It is urgently required to increase revenue collection from direct taxation and reduce dependence on indirect taxes, especially since Bangladesh is now poised to graduate from the Least Developed Countries (LDC) group.

Regrettably, the interim government did not take notable steps to address irregularities, such as extortion, hoarding, or price fixing by cartels, in the supply chains of essential goods. Therefore, the measures taken by the interim government to control inflation have so far been only partly successful. The Competition Commission's role should be strengthened. Skilled professionals should be hired to monitor markets for essential commodities regularly. The Commission should create a database, monitor the operations of prominent market players regularly, investigate market control and manipulation (if any), and take appropriate action. An adequate budget should be earmarked for the Commission to perform these duties. To this end, the Ministry of Commerce should also work with the Commission. The Bangladesh Competition Commission should adopt a strong stance against cartels and a zero-tolerance policy towards collusive practices. Furthermore, the Competition Act 2012 should be revised to address monopolies directly and include specific anti-trust clauses and concrete penalties for violators.

5.4 Demand-side measures for controlling inflation

Government expenditure is a crucial fiscal policy tool that may substantially affect inflation. Studies suggest that governmental expenditure, especially in non-productive industries, may result in long-term inflationary pressures (Kundu 2016) (Afrin 2014). Consequently, the appropriate management of government expenditures is crucial for controlling inflation. The government can reduce aggregate demand and alleviate inflationary pressures by curbing non-essential expenses, such as subsidies on non-priority sectors and inefficient public projects. Research indicates that curtailing superfluous government expenditure and redistributing resources to productive sectors may alleviate inflationary pressures (Chakraborty 2024) (Hossain 2020).

Boosting tax collections is a potent fiscal tool for mitigating inflation. Increased tax collections diminish the need for deficit financing, often resulting in inflationary money supply expansion. Studies suggest that augmenting tax revenues might counterbalance expenditures, alleviating inflationary pressures (Alam 2018). Expanding the tax base by integrating informal sectors and enhancing tax collection efficiency may provide supplementary revenue without unduly burdening low-income people. Furthermore, progressive taxation on high-income individuals might diminish disposable income and restrain excessive expenditure, alleviating demand-pull inflation (Raihan and Anjum 2020).

Regulating fiscal deficits is crucial to avert inflation. Expansionary fiscal policies in emerging economies such as Bangladesh often result in elevated inflation owing to increased money supply and aggregate demand. Previous research underscores the need to maintain a manageable level of public debt to regulate inflation (Afrin 2014). Decreasing fiscal deficits and efficiently managing public debt will alleviate long-term inflationary pressures (Chakraborty 2024) (Hossain 2020). Restricting borrowing from the central bank and emphasising productive investments over discretionary spending helps sustain fiscal discipline and mitigate inflation.

5.5 Supply-side measures for controlling inflation

Subsidies and social expenditures are significant fiscal policy tools that could influence inflation. A common criticism of subsidies is that they distort market prices. However, targeted subsidies can help vulnerable populations without making inflation worse. For example, subsidies on vital commodities such as food, fuel, and healthcare may be targeted to assist low-income families, especially ensuring that anti-inflationary policies do not disproportionately impact the impoverished. Studies indicate that targeted subsidies and social expenditures might effectively mitigate inflation while maintaining fiscal stability (Chakraborty 2024) (Hossain 2020).

Targeted fiscal support measures may improve agricultural production and stability, aiding inflation management. Studies demonstrate that effectively structured fiscal assistance programs may expand agricultural acreage, enhance farmers' earnings, and strengthen rural social security systems (Chang 2024). These policies should prioritise subsidies for inputs like seeds, fertilisers, and pesticides to lower agriculture costs and enhance output, thereby alleviating cost-push inflation. Investment in infrastructure development, including irrigation systems, storage facilities, and rural roadways, may enhance agricultural efficiency and mitigate supply chain bottlenecks. Increasing access to low-interest loans for farmers may improve production and mitigate debt-induced inflationary pressures.

Supply-side factors, such as agricultural productivity and supply chain efficiency, play a significant role in inflation dynamics. Fiscal measures that address these factors can help reduce inflation. Water-efficient high-value crops such as maise, spices, oilseeds, and pulses should be promoted in drought-prone northern regions. This can be achieved by distributing high-quality seeds and saplings at subsidised prices and low-interest agricultural credit. In southern regions, Boro rice cultivation should be promoted under special projects with provisions for improved salt-tolerant rice seeds, surface water irrigation systems, and mechanical tillage support. The government should establish cold storage facilities for grains, potatoes, vegetables, and fruits to reduce post-harvest losses. Such facilities, deployed in conjunction with the increased scale and scope of government procurement of agricultural products, can serve as a strategic buffer stock of essential food items that can then be used to stabilise prices as and when required. The establishment of broodstock banks for fish species such as *ruhi, katla, tilapia*, and freshwater prawns is essential to ensure the availability of quality fingerlings. Solar-powered pumps should be encouraged through low-interest loans to minimise dependency on the national grid for electricity in irrigation. Enhancing research and development in agriculture can improve crop yields and reduce production costs. A subsidised insurance program for crops, livestock, and poultry sectors, particularly against natural disasters like hailstorms, floods, and cyclones, should be introduced to protect farmers from income shocks.

5.6 Social protection for coping with inflation

Bangladesh has grappled with high inflation for several years, largely due to policy and institutional failures. Given the prevailing high prices of essential items and the high inflation rate, the budget for FY2025 needed to provide some relief and support to the poor and vulnerable whose savings have been eroded and whose income has lost its purchasing power. The Minimum Wage Board should consider increasing the minimum wages in all industries so that workers earning minimum wages may at least afford basic food. Private sector corporations should consider a higher salary increment in 2024, given that a 5 per cent salary increment in the face of double-digit price hikes is compelling workers to compromise their standard of living severely.

Unfortunately, in the budget for FY2025, the allocation for Open Market Sales (OMS) was proposed to be reduced by 64 per cent, from BDT 5491.74 crore in RBFY2024 to BDT 2004.22 crore in BFY205 (MOF 2024a). The volume of essential commodities sold through the open market sale (OMS) should be increased. The government should set higher targets for foodgrain procurement and food distribution programmes. To reach the goals, adequate resources should be allocated to the FY2023 budget. Furthermore, the distribution of these commodities must be managed efficiently and without

Although 140 SSNPs were listed in the budget for FY2025, the majority of such programmes were very small in scope and scale. Analysis of the allocations for several programmes revealed that beneficiaries were getting less than BDT 500 per month (MOF 2024a), which can hardly be considered useful in this time of high prices and high inflation (Table 5.1).

Table 5.1: Some Programmes with Allocation Less than BDT 500 per Beneficiary per Month in the Proposed Budget for FY2025

Name of programme	Allocation per beneficiary per year (in BDT)	Allocation per beneficiary per month (in BDT)
School Feeding Programmes in Poverty-stricken Areas	125	10
Tottho Apa: Empowering Women Through ICT towards Digital Bangladesh	298	25
Char Development and Settlement Project-bridging	642	54
Vulnerable Group Feeding (VGF)	658	55
Service and Assistance Center for Disabled	669	56
Agricultural Rehabilitation	853	71
Trust for the Protection of the Persons with Neuro-developmental Disabilities	1257	105
National Legal Aid Assistance	1511	126
Student Stipend for Primary Education Level	1539	128
Open Market Sales (OMS)	1831	153
Rehabilitation and Alternative Employment Generation for Beggars	3000	250
Stipend Under Technical and Madrasa Education Division	4072	339
Child Sensitive Social Protection in Bangladesh	4613	384

Source: Authors' compilation based on data from the Ministry of Finance (MOF 2024a).

The low allocation per beneficiary per month raises questions about the effectiveness of Bangladesh's overall social protection strategy. It remains unclear why Bangladesh has been pursuing many small programmes spread out over many different ministries and divisions of the government, budget after budget. Such a policy reduces the ultimate impact of SSNPs on the beneficiaries and creates ample room for inefficiencies to flourish.

It is important to note that while the Ministry of Finance (MoF) publishes the budget allocation and revised budget allocation for SSNPs, the actual expenditure on SSNPs is never published. Various studies have highlighted many problems with Bangladesh's social safety net schemes. Some of the most prevalent issues are inadequate funding, poor targeting, wasted resources, poor communication between organisations responsible for implementation, excessive overhead, and the complete lack of an assessment framework to measure results (Rahman, Choudhury and Ali 2011) (Khatun, Khan and Nabi 2012). Addressing inclusion and exclusion errors, fraud, and corruption in social assistance systems in Bangladesh is challenging due to the lack of comprehensive information and insufficient competence within government ministries to conduct internal audits that may uncover the underlying causes of irregularities in these programmes. Research has shown that the highest likelihood of errors, fraud, and corruption arises when choosing recipients (van Stolk and Tesliuc 2010). In Bangladesh, there is a widespread understanding that beneficiary selection for social security programmes is often flawed. Due to insufficient monitoring and assessment, these irregularities continue without being reduced or stopped. The fact that the actual expenditure on SSNPs in Bangladesh is not publicly disclosed makes it challenging to ascertain how much money is being spent, how many people are being benefitted, and whether there are any anomalies in the expenditure.

5.7 Policy recommendations

Inflation poses a significant threat to Bangladesh's economic stability and social welfare. To address this challenge, the government must adopt a comprehensive fiscal strategy that balances demand-side and supply-side measures. Based on the analysis, the following policy recommendations are proposed for the national budget for FY2026:

- Prioritise spending on critical sectors such as healthcare, education, and agricultural infrastructure while cutting non-essential expenditures to reduce aggregate demand and alleviate inflationary pressures.
- Limit borrowing from the central bank and prioritise productive investments over non-essential expenditures to maintain fiscal discipline and reduce inflation.
- Design subsidies to benefit low-income households, ensuring that essential goods remain affordable without increasing overall spending.
- Increase minimum wages across all industries to ensure workers can afford basic food and encourage private sector corporations to offer higher salary increments in 2024 to mitigate the impact of double-digit price hikes.
- Examine and adjust duty and tax structures on essential commodities at both import and domestic levels to provide relief to low- and limited-income consumers.
- Extend the scope of direct cash or kind assistance programs for low-income population groups.
- Strengthen the role of the Competition Commission by hiring skilled professionals to monitor markets, investigate market manipulation, and enforce anti-trust laws with a zero-tolerance policy.
- Provide additional support for subsidised credit programs in the agriculture sector to incentivise production during the next fiscal year.
- Continue providing stimulus packages to small and medium enterprises to help them survive economic challenges.
- Allocate funds to promote water-efficient, high-value crops in drought-prone regions and salt-tolerant rice varieties in southern regions.
- Establish a subsidised crop insurance program to protect farmers from natural disasters.
- Expand cold storage facilities for agricultural products to create a strategic buffer stock for stabilising prices.
- Encourage the use of solar-powered irrigation systems through low-interest loans.

- Allocate funds for the establishment of broodstock banks to ensure the availability of quality fingerlings for the fisheries sector.
- Increase the volume of essential commodities sold through open market sales (OMS) and set higher targets for foodgrain procurement and distribution programs.
- Review social safety net programs (SSNPs) to determine intervention priorities based on recipient families' changing economic and social profiles.
- Re-evaluate existing SSNPs to improve targeting, avoid overlaps, and introduce finite planning with exit strategies.
- Reallocate resources within social safety net initiatives to ensure equitable distribution and successful outcomes.
- Establish a unified database and framework to rigorously monitor and analyse social safety net initiatives for future planning and budget allocation.
- Improve interministerial coordination and explore program mergers to reduce administrative costs and enhance efficiency.

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SECTION VI. BREAKING THE 'VICIOUS CYCLE' OF FINANCIAL CRUNCH OF THE POWER AND ENERGY SECTOR

Key recommendations

- MoPEMR should discuss with the MoF regarding allocating necessary foreign exchange for clearing overdue loans, bills and charges to foreign-owned companies/foreign funded projects through negotiation with the MDBs including IMF, World Bank and ADB for budget support.
- The MoPEMR needs to discuss with the MoF and the Ministry of Planning regarding how to channel additional resources to the MoPEMR by discouraging allocation of fund for less priority and low-important projects of other ministries/departments.
- Equipment and components related to renewable energy-related supply chains including generation, transmission and distribution where the Customs Duty (CD) should be reduced to 5 per cent and taxes should be eliminated from all renewable energy goods.

The power and energy sector has been going through a prolonged phase of huge financial loss, public debt, and fiscal burden due to faulty policies, lack of transparency and weak governance of the earlier regime. Such huge fiscal and financial burden have passed on to the new regime which find it difficult to address in short terms measures. At present, major challenges confronted by the power and energy sector are: (a) continuous default of import bill payment; (b) repayment of the loans and dues of international companies; (c) disrupted gas and electricity supply; (e) lack of government motivation to explore domestic gas resources; and (f) huge subsidy burden which is passing on to the consumers through increasing power and energy tariff. The national budget for FY2026 to be approved in June 2025 by the interim government, is expected to propose specific fiscal and budgetary measures to address those challenges.

Since the interim government has expressed its commitment to apply market-oriented, competitive and renewable energy-based solutions as part of addressing the challenges of energy security and energy transition in the country, the proposed budget is expected to take measures accordingly. Taking that into account, the priority for the next fiscal year's budget should be on paying off outstanding dues and loans, taking measures to reduce subsidy on power and energy sector, putting emphasis on exploring domestic gas rather than importing LNG, reducing tariff barriers for importing renewable energy related components, and withdrawing all types of discriminatory fiscal incentives/benefits in favour of fossil-fuel based power generation. Detailed of CPD's budget recommendations are given below:

6.1 Addressing the failure of repayment of overdue loans, import bills and charges of BPDB and PetroBangla

The Power Development Board (BPDB) has significant amount of payment overdue to local and foreign-owned and foreign-financed power generation companies. As of February 2024, total overdue amount is as high as Tk.29000 crore. Out of this amount, Tk.21000 crore is overdue with locally owned IPPs while Tk.8000 crore is overdue with foreign owned IPPs. Besides, BPDB has been struggling for failure to clean overdue loans in case of financing large-scale power plants including Adani Power Jharkhand Ltd (APJL) and Rooppur Nuclear Power Plant. The Adani Power has offered Bangladesh to settle overdue payments worth around USD 800 million by June 2025 to avoid a late-payment surcharge stipulated in their Power Purchase Agreement (PPA).[2] On the other hand, Rooppur Nuclear Power Plant has overdue payment amounted to be USD 750 million due for disbursement by December 2024. However, Russia agrees to extend loan disbursement for Rooppur until 2026.

Similarly, PetroBangla has been confronted with due bill against import of LNG and coal. As of January 2025, a total of USD 722 million (around Tk 8,664 crore) owed to foreign companies for import of coal and LNG imports. To address the problem, the finance ministry has decided to clear all gas and electricity sector arrears within the current fiscal year by increasing the revised Annual Development Programme (ADP) outlay by reallocating unspent funds in the sector. The finance ministry's outstanding electricity subsidy stands at approximately Tk38,000 crore, while PetroBangla's gas subsidy dues total around Tk7,000 crore. The current fiscal year's budget allocated Tk.35,000 crore for electricity subsidies, of which Tk20,000 crore has already been disbursed. Finance officials estimate that an additional Tk.30,000 crore may be allocated in the revised budget to clear electricity dues totalling at Tk 50,000 crore in the ongoing fiscal year. With the upcoming summer season, electricity sector subsidies are expected to rise by Tk.4,000 crore per month- about Tk.48,000 crore per year. In other words, both power and energy sector has entered a 'vicious cycle' of overdue loans, bills and payments which could not be managed by allocating higher amount of subsidy in the next fiscal year. The Ministry of Power Energy and Mineral Resources (MoPEMR) and its concerned divisions need to find out a sustainable solution.

Recommendations

1. The MoPEMR particularly BPDB and PetroBangla needs to design a five-year financial payment plan with a view to gradually reduce all overdue to concerned divisions and departments to zero. Such a plan will require gradual phase out of fossil-fuel based power plants after their current contracts will be over. Moreover, such a plan will require withdrawal of 'capacity payment' clause from renewed PPAs as well as PPAs to be signed for new fossil-fuel based power plants. Such a plan need not require increasing tariffs for electricity, gas and LNG at retail level.
2. As a short-term solution, MoPEMR should discuss with the MoF regarding allocating additional funds to the BPDB and PetroBangla as loan to clear overdue of payments of locally funded IPPs and loans. Such funds could be channelled from the ministries and departments which are systematically poor record of utilising allocated fund.
3. Similarly, MoPEMR should discuss with the MoF regarding allocating necessary foreign exchange for clearing overdue loans, bills and charges to foreign-owned companies/foreign funded projects. In this case, the Ministry of Finance especially ERD could negotiate with the MDBs including IMF, World Bank and ADB for necessary budget support. However, the MoPEMR needs to present a medium-long term financial sustainability plan.
4. The MoPEMR needs to discuss with Ministry of Finance and Ministry of Planning regarding how to channel additional resources to the MoPEMR by discouraging allocation of fund for less priority and low-important projects of other ministries/departments.

[2] An amount of 2 per cent monthly interest as a late- payment surcharge on the total outstanding bill compounding to an annual rate of around 27 per cent. Please see, https://thefinancialexpress.com.bd/economy/conglomerate-resumes-full-scale-electricity-export-to-bangladesh

5. The MoPEMR should not pursue setting up any new fossil fuel-based power generation plant under its ADP. The reserve margin (not more than 30 per cent of total generation capacity) should be based on the capacity of renewable energy-based power generation- the MoPEMR should take new projects in ADP accordingly.
6. BPDB needs to phase out the inefficient and old fossil fuel power plants as these power plants require more fuel to run to generate a small amount of electricity.
7. To reduce the subsidy burden, the MoPEMR should renegotiate the electricity purchase prices from the IPPs which were contracted unsolicited under the special Act at a higher price compared to the market price.

6.2 Addressing the energy crisis by putting emphasis on exploring domestic gas reserve

The government has a plan to drill a total of 35 gas wells across the country by 2025. Till date only three key projects have been approved. A total of 10 wells are supposed to be explored using rented rigs, while the remaining 26 will be awarded through open bidding. However, so far, the drilling of only one well has begun, and the survey process for another well has started. Eight new projects are proposed for survey, exploration and extraction of hydrocarbons to enhance gas reserves. Five of the projects will focus on enhancing natural gas supply through surveys and exploration, while two others are meant to strengthen the exploration capabilities of Bangladesh Petroleum Exploration and Production Company Limited (BAPEX) and the department of Geological Survey of Bangladesh (GSB). Another project is for upgrading the existing network of Titas Gas Transmission and Distribution Company Limited (TGTDCL) for preventing leaks and addressing low- pressure problems in Dhaka, Narayanganj and the areas around.[3]

Surprisingly, no local/foreign companies have submitted tender against the tenders floated for exploring gas from offshore blocks. A review committee has been formed to identify the issues and concerns related to the bidding documents/bidding processes. The government has decided to import one cargo of liquefied natural gas (LNG) from the spot market by the first week of March 2025 through the direct purchase method to prevent a shortfall in gas supply. Such a slow pace of gas exploration work and prompt initiatives to import LNG raised concerns regarding the sincerity of the government to follow through their commitments of reducing energy import dependency.

Recommendations

1. PetroBangla should start exploring the wells immediately using its 'gas development fund' instead of relying on the foreign bidders.
2. BAPEX should even take loan for allocating resources for gas exploration for the 10 wells that are supposed to be explored using rented rigs.
3. Since supplying energy is one of the top-most priorities for the national economy, the MoPEMR should discuss with the Ministry of Planning for necessary allocation of resources for ADP projects for development of gas-fields
4. The government should deprioritise importing LNG and should put focus on exploration of domestic natural gas. In this context, recent signing of a deal with USA on supply of LNG would weaken the effort of exploring domestic gas. The government may welcome USA based companies to submit their proposals for exploration of gas in the offshore fields.

[3] https://thefinancialexpress.com.bd/economy/eight-projects-proposed-to-enhance-gas-reserves

5. The review committee should immediately submit their recommendations based on the discussions with the foreign companies and thereby re-tender the offshore gas blocks.

6.3 Addressing the tariff related challenges for Renewable Energy (RE) based investment

One of the significant barriers to attract private and public investment for energy transition is the high tariff structure imposed on the import of essential renewable energy components. The Total Tax Incidence (TTI) on these imported components consists of multiple layers, including Customs Duty (CD), Supplementary Duty (SD), Advance Income Tax (AIT), Advance Tax (AT), and Value Added Tax (VAT), all of which contribute to higher overall costs. As Islam (2024a) put it, the government of Bangladesh applied an average of 26.2 per cent import duty on solar panels (HS Code: 854140), a 37 per cent tax on solar inverters (HS Code: 850440), and a 58.6 per cent import duty on mounting structures in accordance with fiscal budget for FY2023-24. However, the import tariff rates have remained the same in FY2025 too (NBR, 2024). Additionally, other key renewable energy technologies, including wind, hydro, geothermal, and biomass-based power generation, rely on imported equipment and components that are subject to substantial import duties. Wind power technologies such as wind-powered generating sets (850231) and turbine components (850300) face high import tariffs, discouraging investment in wind energy. Similarly, hydropower projects, which depend on hydraulic turbines (841011–841013) and related components (841090), bear considerable import duties, further inflating project costs. Lithium-ion batteries (850760) and lead-acid batteries (850720), which are crucial for renewable energy storage, are subject to a tariff rate of 58.60 per cent and 89.32 per cent respectively, making them highly costly for industrial and residential users. Similarly, electric vehicles (870380, 870390) face high import duties. The overall impact of these tariffs is twofold: (a) they increase the capital expenditure (CAPEX) for renewable energy projects; and (b) slow the adoption of clean energy technologies due to higher financial barriers (Fedoseeva & Zeidan, 2018; Wei, 2014).

Recommendations

1. For parts, equipment and components related with renewable energy-related supply chains including generation, transmission and distribution where the Customs Duty (CD) exceeds 5 per cent, it should be reduced to 5 per cent. Such measures have marginal implications on government's revenue generation.
2. Apart from high Customs Duty, AIT, RD, AT, and SD further discourage investment in solar panels (854140), wind turbines (850231), and battery storage (850760, 850720). The government should eliminate these taxes on all renewable energy goods to reduce costs and boost adoption. Such measures have marginal implications on government's revenue generation.
3. It is also recommended to reduce the VAT on parts, equipment and components related with renewable energy-related supply chains including generation, transmission and distribution to 10 per cent from 15 per cent.

6.4 Promoting distributed scale Renewable Energy through attractive fiscal measures

The recent decision for extending the tax exemption for utility scale power generation companies is a welcome step. However, it is important to note that the benefits apply exclusively to utility scale Independent Power Producers (IPPs) and not to distributed energy producers especially private households or businesses that wish to install solar power systems. Additionally, they need to pay high VAT while purchasing the necessary equipment. This exclusion limits the potential of distributed renewable energy solutions, which have proven effective in expanding access to electricity and reducing reliance on fossil fuels, particularly in developing countries (Gunkel, et al., 2023; Babich, Lobel, & Yucel, 2019). This exclusion results in households and businesses facing significant financial barriers to adopting renewable energy, despite their willingness to invest in cleaner power solutions. At present private renewable energy adopters receive no direct financial benefits beyond access to lower-interest loan schemes, making it difficult for businesses and households to afford renewable energy installations (Hossain, 2024). Despite this cost advantage over fossil-fuel based power plants, renewable energy projects still require some level of financial support because their generation costs remain higher than the existing retail electricity tariff, leading to potential financial losses for BPDB. However, Hossain (2024) emphasises that there is little evidence that Bangladesh's renewable energy sector is receiving any meaningful fiscal incentives from the fiscal budget.

Recommendations

1. Incentives such as income tax rebates or accelerated depreciation benefits etc. which is extended to the utility scale power producers should be extended to the distributed power producers including households, businesses, and other private entities that install solar home systems, rooftop solar, battery storage, and other decentralised renewable energy solutions.
2. The government should reduce the VAT on solar components targeting the utility scale power producers including solar components used for private use which will encourage the households and businesses to install the facilities.
3. The government should introduce low-interest grants, or subsidy schemes to support distributed renewable energy producers including households and businesses investing in solar power.
4. A dedicated 'Renewable Energy Development Fund' should be established to provide financial support for facilitating establishment of distributed renewable energy under private and commercial solar, wind, and biomass production units. To improve access to clean energy in remote and underserved regions, development fund should be allocated for mini-grid solar, battery storage technologies and wind projects.
5. Financial incentives, such as rebates on installation costs or direct subsidy payments for net-metered electricity, could encourage more widespread adoption.

6.5 Addressing the challenges of discriminatory fiscal benefits availed by fossil-fuel based power plants

Addressing the discriminatory fiscal benefits provided to the fossil fuel-based power producers is a major step towards creating a level-playing field for renewable energy-based power producers in the country. According to the *Private Sector Power Generation Policy* any fossil fuel-based power plant shall be exempted from corporate income tax for a period of 15 years and exemption from income tax in Bangladesh for foreign lenders to such companies. The companies will be allowed to import plant and equipment and spare parts up to a maximum of ten per cent (10 per cent) of the original value of total plant and equipment within a period of twelve (12) years of Commercial Operation without payment of customs duties, VAT (Value Added Tax) and any other surcharges as well as import permit fee except for indigenously produced equipment manufactured according to international standards. In case of the imported fuel there is full exemption of custom and import duties; and 5 per cent VAT on the imported fuel as it will be used for power generation process. In the last budget speech, the Amendment of notification related to Rampal power plant and rental power companies was proposed to impose 5 per cent CD for imports of such items by power generation companies, however, it was not passed. Such fiscal benefits have created almost a one-sided supply chain in the power sector where renewable energy-based producers with their limited fiscal benefits could be competitive.

Recommendations

1. The Power Division should discuss with NBR to withdraw the corporate tax exemption for all type of fossil fuel-based companies in case of upcoming power plants.
2. A minimum of 5 per cent custom duty along with a minimum of surcharge should be imposed by the NBR on the import of all the machineries and steel structure of fossil fuel-based power generation companies.
3. The Power Division should review the comparative fiscal and financial benefits provided to the fossil-fuel based companies and compare those benefits with those provided to the renewable energy-based power producers and thereby take initiatives to withdraw all types of discriminatory benefits (which is supposed to be measured in terms of per unit of power generation) provided to the fossil-fuel based power producers. In this context, MoPEMR and the Power Division, BERC and SREDA should take joint initiatives to discuss with the MoF and NBR to withdraw those discriminatory measures which will reduce government's fiscal expenditure as well as will help generate additional revenue.

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SECTION VII. FISCAL MEASURES TARGETING SMES

Key recommendations

- Withdraw the recent decision to lower the VAT and tax eligibility thresholds—reduced to Tk 50 lakh for VAT registration and Tk 30 lakh for turnover tax, from the previous Tk 3 crore and Tk 50 lakh, respectively—and reinstate the original thresholds
- Exempt SMEs from Advance Income Tax (AIT) and Advance VAT; additionally, the non-refundable nature of AIT and Tax Deducted at Source (TDS) should be revised to allow for adjustment against final tax liabilities for SMEs
- In order to ensure balance in the market, the capacity of the Bangladesh Competition Commission should be strengthened by increasing funding for digitalising its market monitoring mechanisms to ensure fair market practices. Additionally, offering direct legal and financial support to SMEs can help them combat the market dominance of large enterprises

7.1 Context

SMEs continue to face disproportionately higher cost of borrowing. SMEs in Bangladesh, which employ around 24 million people, are facing disproportionately higher challenges amid the ongoing economic pressures. Lately, the cost of borrowing has become even higher for SMEs compared to other sectors, increasing the operational cost of running the businesses. In November 2024, the weighted average interest rate (WAIR) for SMEs was 12.19 per cent, whereas it stood at 11.78 per cent for other sectors; the same rate was 6.99 per cent for SMEs and 7.39 per cent for the rest of the sectors in FY2023 (Bangladesh Bank, 2025). The latest data on the volume of credit disbursed to Cottage, Micro, Small, and Medium Enterprises (CMSMEs) also indicated a downward sign – dropped by 13.1 per cent during the April-June quarter of FY2024 compared to FY2023 – suggesting slow or no new investments (Bangladesh Bank, 2025).

The financial burden on SMEs is forcing them to shut down, leading to rising unemployment. The rising operational costs in view of the higher inflation and depreciation of BDT coupled with lower consumer confidence, are resulting in a drop in revenue streams for SMEs. This, in turn, is leading to the closure of SMEs, loss of jobs/layoffs, delayed wage payments, and the depletion of their savings to continue business operations (Halder, 2024). In the last 7 months since the interim government took charge at least 21 factories, including Green Bangla Home Tex Industries, Asian Falcon Garments, GL Fashion, Master Textile, West Best Attires, and Star Cutting and Engineering, have shut down – all of which were small and medium-sized factories (Prothom Alo, 2025).

Accessing funds through specialised schemes remains difficult, especially for small enterprises. Over the years, several financing schemes, including by Bangladesh Bank, have been introduced to enhance SMEs' access to credit. However, their effectiveness remains uncertain as a number of these funds especially targeting women of SMEs, and start-ups, remain undisbursed – allegedly due to collateral-related complications, lack of interest of commercial banks and bureaucratic harassment. Even those funds that have been disbursed are often found to be short-term and have been directed mainly towards medium-sized enterprises that face relatively less severe financing constraints compared to small-size ones (World Bank, 2019). The introduction of new credit schemes for SMEs also faces challenges due to the significant amount of unpaid loans from previous schemes, including the 300-crore emergency loan fund provided to SMEs through the SME Foundation during COVID-19. (Textile Journal, 2024).

The decision of lowering VAT and Turn Over Tax Thresholds might exacerbate the crisis for SMEs. Amidst the challenging times faced by SMEs in Bangladesh, the interim government has recently lowered the thresholds for VAT registration to Tk 50 lakh and for turnover tax to Tk 30 lakh, down from the previous levels of Tk 3 crore and Tk 50 lakh, respectively. Already SMEs are finding it challenging to remain competitive due to the imposition of AIT at 5.0 per cent and TDS at 7.0 per cent. Adding more tax and VAT liability during the ongoing reality could potentially impose an additional financial burden on SMEs.

The structural challenges continue to persist for the SMEs. Along with emerging challenges, several structural issues continue to persist, including the weak regulatory performance of the Bangladesh Competition Commission, which allows large enterprises with significant advantages to undermine SMEs and push them out of the market (Chowdhury, 2025). Additionally, the anticipated disruptions in electricity supply during the upcoming summer will disproportionately impact SMEs, as they lack the capacity, unlike large enterprises, to secure alternative power sources.

SME foundation requested budget allocation for implementation of the new SME policy 2025. The SME Foundation has developed and requested budget allocation for the implementation of the National SME Policy 2025 spanning from July 2025 to June 2030. The objective of the policy is to enhance the SME sector's contribution to the GDP of Bangladesh. The policy focuses on supporting eco-friendly SMEs, promoting financial inclusion for women entrepreneurs, and securing seed capital for innovative ventures and small-scale investments. However, there are allegations regarding the lack of novelty and failure to incorporate lessons learned from the implementation shortcomings of the SME policy of 2019 (Hossain, 2025).

The agro-mechanisation sector can reach its full potential if SMEs receive adequate support. The agro-mechanisation sector in Bangladesh depends significantly on small and medium enterprises (SMEs) for the manufacturing, assembly, and distribution of agricultural machinery. However, the country's current tax and tariff policies are not well-aligned with the needs of the agro-machinery industry. Additionally, Bangladesh lacks a dedicated HS Code for agro-mechanisation products, which complicates the implementation of sector-specific tariffs and incentives.

7.2 Recommendations

Against the above-mentioned context, CPD proposes the following fiscal measures in the upcoming budget of FY2025-26.

- Withdraw the recent decision to lower the VAT and tax eligibility thresholds—reduced to Tk 50 lakh for VAT registration and Tk 30 lakh for turnover tax, from the previous Tk 3 crore and Tk 50 lakh, respectively—and reinstate the original thresholds

- Exempt SMEs from Advance Income Tax (AIT) and Advance VAT; additionally, the non-refundable nature of AIT and Tax Deducted at Source (TDS) should be revised to allow for adjustment against final tax liabilities for SMEs
- In order to ensure balance in the market, the capacity of the Bangladesh Competition Commission should be strengthened by increasing funding for digitalising its market monitoring mechanisms to ensure fair market practices. Additionally, offering direct legal and financial support to SMEs can help them combat the market dominance of large enterprises.
- Introduce energy subsidy measures (such as green energy grants) to SMEs with a focus on promoting the adoption of renewable energy sources, (rooftop solar and mini/micro-grids are found to be viable options for SMEs) to mitigate the effects of unreliable electricity supply and reduce energy costs
- Allocate higher funding to the Ministry of Labour and Employment, Ministry of Youth and Sports, Ministry of Expatriates' Welfare and Overseas Employment, and Ministry of Social Welfare to expand the coverage of social safety net and initiate unemployment insurance
- Allocate additional funds to the NBR for providing tax submission training to grassroots-level SMEs, publishing sector-specific tax guidelines in Bangla, and conducting regular training sessions on these guidelines
- Ensure an increase in the SME loan disbursement target set by Bangladesh Bank, with a specific focus on micro and small enterprises, and ensure its effective implementation to facilitate easier access to finance for SMEs.
- Allocate funds for establishing guarantee funds to back loans for only micro and small enterprises, especially those with limited collateral which would encourage commercial banks to lend more freely to SMEs without requiring stringent guarantees
- Ensure adequate budgetary support for the implementation of the SME Policy 2025 with a focus on innovative and sustainable measures (such as the establishment of innovation hubs). This budget should also be designed to address the lessons learned from the SME Policy 2019 particularly the reasons behind inadequate financial resources for SMEs, limited capacity-building initiatives, limited support for women entrepreneurs, weak monitoring mechanisms etc.
- To support the agro-mechanisation, the government should lower VAT on essential inputs, reallocate subsidies to support local agro-machinery manufacturers and introduce a specialised HS Code 10 for agro-mechanisation products
- Consider introducing a revenue-based financing model, especially for women entrepreneurs of SMEs, where SMEs repay loans as a percentage of revenue rather than fixed instalments.

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SECTION VIII. FISCAL POLICY FOR PROTECTING PUBLIC HEALTH

Key recommendations

- The budget for FY2026 should increase allocation for health to prevent people from being pushed into poverty due to out-of-pocket health expenditures.
- Simple, specific, and universal excise duties are needed to reduce the consumption of cigarettes, other tobacco products, soft drinks, and energy drinks.
- The government should allocate funds to provide financial assistance and medical support to those who were injured and to the families of individuals who died during the July uprising.

8.1 Introduction

Health spending has become a vital area of public investment regardless of a nation's economic standing. The United Nations' 2030 Sustainable Development Agenda recognises the paramount significance of healthcare. Specifically, Sustainable Development Goal (SDG) 3 emphasises the need to ensure healthy lifestyles and promote well-being for all individuals, regardless of age, on a worldwide scale (UN, 2015). The health system of Bangladesh is in a critical state due to a lack of government prioritisation and a lack of good governance. The health sector's infrastructure is weak, and its governance is in disarray. In 2017, the nation had one hospital bed for every 1,196 individuals (BBS, 2019). As of 2017, only 5.1 per cent of health facilities in Bangladesh had emergency transportation, 21.5 per cent had alcohol-based disinfectant, 27.5 per cent had medical masks, 34.5 per cent had lab facilities, 43.1 per cent had regular electricity, 55.1 per cent had soap and water, 83.7 per cent had paracetamol oral suspension, 86.3 per cent had thermometers, and 90.1 per cent had improved water sources (NIPORT, ACPR, and ICF, 2018). In addition to insufficient funding and tools, healthcare institutions in Bangladesh lacked sufficient personnel to give proper treatment. In 2018, the nation had one registered physician for every 1,581 individuals (BBS, 2019). As of 2017, 28 per cent of health facilities in Bangladesh had specialists, 59.1 per cent had general practitioners, and 79.7 per cent had nurses (NIPORT, ACPR, and ICF, 2018). Therefore, substantial investment from the government, private sector and international development partners is required to transform the health sector and build a healthy future for Bangladesh. Without such investments, the ambitious goals outlined in SDG 3 will remain unfulfilled. Along with higher allocation for the health sector, effective utilisation of resources is also crucial. In this context, this chapter examines the health sector budget and makes a set of recommendations for FY2026.

8.2 Overview of the health budget

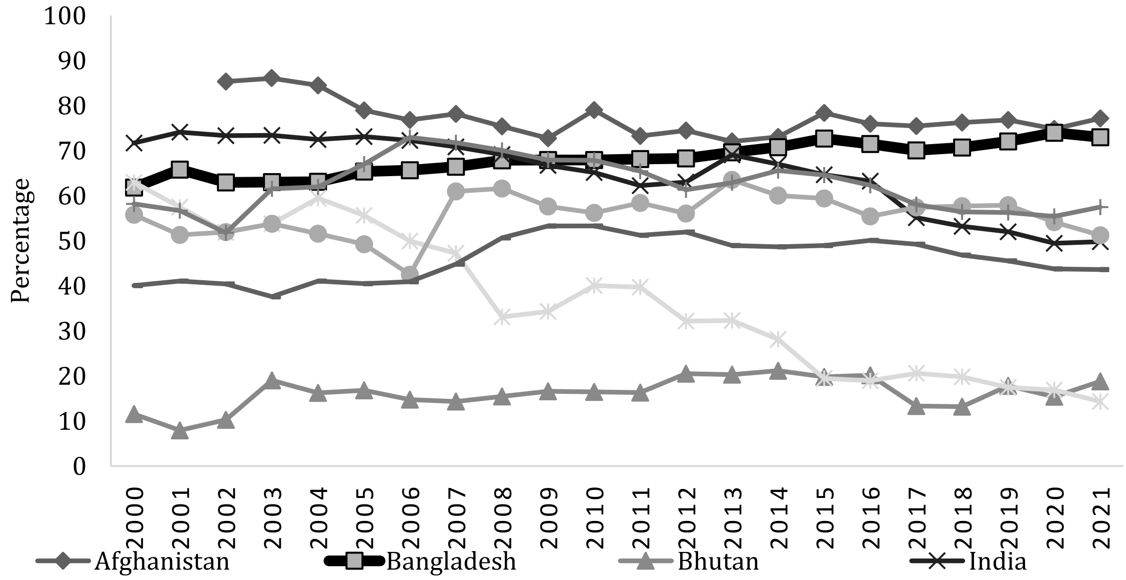
The allocation for health as a share of the total budget decreased from 5.33 per cent in FY2024 to 5.20 per cent in FY2025 (MOF, 2024a). The allocation for health as a share of GDP has declined slightly from 0.75 per cent in FY2024 to 0.74 per cent in FY2025 (MOF, 2024a). Such allocation is marginally lower than the average allocation of 0.75 per cent of GDP during FY2016 to FY2024 (MOF, 2024a).

Budget allocation for health has been less than 1 per cent of GDP for the past 20 years (MOF, 2024a), indicating that healthcare has been one of the least prioritised sectors for the government. The budget allocation on health per person has increased by only BDT 186, from BDT 2,227 in 2023 to BDT 2,413 in 2024 (MOF, 2024a). The Urban Primary Health Care Services Delivery Project, a government social safety net programme (SSNP) initiative aimed at ensuring the delivery of quality primary health care (PHC) services to urban populations, had its budget allocation drastically reduced from BDT 439.38 crore in FY2024 to BDT 180.13 crore in FY2025 (MOF, 2024b). Notably, the portion of the budget allocated to non-development expenditures has consistently been higher than that allocated to development expenditures. This trend suggests that a larger share of the health budget is directed towards operational costs rather than improvements to the healthcare system itself. This could potentially impact the health system's capacity to invest in infrastructure, technology, and other areas that directly contribute to improved health outcomes, highlighting the need for a more balanced approach to budget allocation.

8.3 International comparison of government expenditure on health

A comparison of Bangladesh's government expenditure on health with that of its regional neighbours or other least developed countries (LDCs) reveals a rather gloomy picture. Figure 8.1 depicts out-of-pocket healthcare expenditures as a percentage of current healthcare expenditures for eight South Asian countries- Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka- from 2000 to 2021. It reveals significant variations in out-of-pocket expenditure across the countries. Notably, Bangladesh consistently has one of the highest out-of-pocket spending throughout the period. In 2000, Bangladesh had an out-of-pocket expenditure equal to 61.82 per cent of current health expenditure, which rose to 74 per cent of current health expenditure in 2020. This indicates that a substantial portion of healthcare costs in Bangladesh is borne directly by individuals, bypassing public or private health insurance mechanisms.

Figure 8.1: Out-of-pocket Expenditure (as a percentage of current health expenditure)



Source: Authors' illustration based on data from the World Bank (World Bank, 2024).

While all countries have fluctuations in out-of-pocket expenditure across the years, a downward trend is generally observed over the two decades. This suggests a potential increase in health insurance coverage or government-funded healthcare initiatives in some countries. However, the data for Bangladesh shows a slight upward trend in recent years, which warrants further investigation. In 2021, Bangladesh's out-of-pocket expenditure on health per capita at purchasing power parity was the 8th highest among 45 LDCs (World Bank, 2024). Bangladesh's out-of-pocket expenditure as a percentage of current health expenditure was 73 per cent of current health expenditure in 2021 and showed an increasing trend for the past two decades, whereas the trend is decreasing for countries such as India, Pakistan, Bhutan, Nepal and Sri Lanka (World Bank, 2024). Bangladesh's expenditure on health as a share of GDP was the lowest among 45 LDCs in 2021 – no other LDC has spent less on health than Bangladesh in 2021 (World Bank, 2024). Moreover, in Bangladesh, the proportion of the population pushed below the USD 2.15 poverty line due to out-of-pocket expenditure on healthcare increased from 3.11 per cent in 2010 to 3.74 per cent in 2016 (World Bank, 2024).

8.4 Fiscal measures related to health: Tax on tobacco and related products

In Bangladesh, the price strategy of the tobacco industry promotes the use of cigarettes that are comparatively more affordable. The intricate tiered tobacco tax system facilitates the implementation of varying prices. Differential pricing undermines the original objective of taxes, which is to get favourable public health results. Therefore, it is necessary to simplify Bangladesh's tobacco tax system. The affordability of cigarettes should be decreased due to price rises caused by taxes. With a unified scheme, the government should replace the current tiered taxing structure for tobacco and tobacco-related items. In addition, it is recommended that the ad valorem tax, which is calculated based on a percentage of the retail price, be replaced with a specific tax set per pack. Implementing a standardised and targeted excise tax system on tobacco would significantly streamline the government's administrative process. Additionally, it would allow the government to transfer control of the management of cigarette recommended retail prices (RRPs), which is causing a burden on the tax authorities. The government lacks the resources necessary to oversee and implement RRPs nationwide. The tobacco business exploits this absence of oversight to optimise its financial gains. Therefore, it is recommended that the government let the market determine the appropriate pricing and generate tax income by implementing a uniform specific tax that is not influenced by the price of the tobacco product but based only on the number of sales. CPD proposes implementing a uniform specific excise duty of BDT 10 per cigarette stick on all cigarettes in FY2026 (Table 8.1). This tax should be increased by at least BDT 5 per stick yearly to account for annual inflation and income growth.

Table 8.1: Proposed Tax Structure for Cigarettes (per pack of 10 cigarettes)

	Tax structure for cigarettes in FY2025					CPD's recommendation				
	Retail Price		SD				Retail Price		Specific excise duty	
Tier	Pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in per cent)	Per pack of 10 (in BDT)	Per stick (in BDT)	Tier	Per pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in BDT)	Per stick (in BDT)
Low	50	5.0	60.0	30.00	3	Universal	Market-based	Market-based	100	10
Medium	70	7.0	65.5	45.85	4.58					
High	120	12	65.5	78.60	7.86					
Premium	160	16	65.5	104.80	10.48					

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2024c).

Cigarette prices around the world can be used as a measure of global comparison to understand where Bangladesh stands globally in effectively using taxation strategies to reduce smoking. The worldwide variation of cigarette prices reflects differences in public health policies and taxation strategies across countries.

In the comparative analysis of 127 countries, Bangladesh emerges with the 91st lowest price for cigarettes, with a pack priced at approximately BDT 350 as of 11 March 2025 (Numbeo, 2025). On the other hand, in our neighbouring country, India, the price is much higher at BDT 486.77 (Numbeo, 2025). Developed countries like Australia, New Zealand and the United Kingdom have much higher cigarette prices (Numbeo, 2025). Countries with higher cigarette prices often have strong public health and taxation policies aimed at reducing smoking rates compared to countries with lower cigarette prices, where public health concerns may not be dealt with such seriousness.

In line with the proposed tax structure for cigarettes to increase prices, the tax structure for Bidi, Jarda, and Gul should also be reformed. This will protect low-income groups from health hazards and reduce the burden of health expenditure on the government. Instead of the current tier classification of Bidi into filtered and non-filtered, and additional groupings based on the size of the pack, CPD proposes a specific excise tax of BDT 3 per stick for all Bidi to be implemented in FY2026 and allow the price of Bidi to be determined by the market (Table 8.2). Such a uniform specific tax on all Bidi should be increased by at least BDT 1 each year to account for annual inflation and income growth.

Table 8.2: Proposed Tax Structure for Bidi

	Tax structure in FY2025					CPD's recommendation				
	Retail Price		SD				Retail Price		Specific excise duty	
Type of bidi	Per pack (in BDT)	Per stick (in BDT)	Per pack (in per cent)	Per pack (in BDT)	Per stick (in BDT)	Type of bidi	Per pack (in BDT)	Per stick	Per pack (in BDT)	Per stick (in BDT)
Non-filtered 25-stick handmade bidi	18	0.72	30	5.40	0.22	All	Market-based	Market-based	75	3
Non-filtered 12-stick handmade bidi	9	1.33	30	2.70	0.23				36	

	Tax structure in FY2025					CPD's recommendation				
	Retail Price		SD				Retail Price		Specific excise duty	
Non-filtered eight-stick handmade bidi	6	1.33	30	1.80	0.23				24	
Filtered 20-stick handmade bidi	19	1.05	40	7.60	0.38				60	
Filtered 10-stick handmade bidi	10	1.00	40	4.00	0.40				30	

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2024c).

Finally, the existing tax structure on Jarda and Gul should also be reformulated in cognisance of the severe health risks posed by the long-term consumption of such items. CPD proposes a BDT 6 specific excise duty per gram (gm) of Jarda and Gul to be implemented in FY2026 and to allow the price of Jarda and Gul to be determined by the market (Table 8.3). Such a specific tax on Jarda and Gul should be increased by at least BDT 1 each year to account for annual inflation and income growth.

Table 8.3: Proposed Tax Structure for Jarda and Gul

	Tax structure in FY2025					CPD's recommendation			
	Retail Price		SD			Retail Price		Specific excise duty	
Type of product	Per 10gm (in BDT)	Per gm (in BDT)	Per 10 gm (in per cent)	Per 10 gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)
10gm jarda	48	4.8	55	26.40	2.64	Market-based	Market-based	60	6
10gm gul	25	2.5	55	13.75	1.38				

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2024c).

The Health Development Surcharge Management Policy 2017 states that a 1 per cent surcharge must be charged to tobacco companies in Bangladesh, which is also in accordance with the WHO Framework Convention on Tobacco Control (FCTC), to which Bangladesh is a ratified member (NTCC, 2017). A Statutory Regulatory Order (SRO) issued by the Bangladesh government provides more information on how the funds collected via the Health Development Surcharge should be used. CPD advocates for a further increase in the Health Development Surcharge to strengthen the National Tobacco Control Cell (NTCC) in achieving the goals and reaching the goal of a tobacco-free Bangladesh by 2040. In this connection, CPD proposes that the Health Development Surcharge on cigarettes and other tobacco products be increased from 1 per cent to 5 per cent and the VAT on cigarettes and other tobacco products be increased from 15 per cent to 20 per cent in FY2026 (Table 8.4).

Table 8.4: Proposed Health Development Surcharge and VAT on Cigarettes and Other Tobacco Products

	Tax structure for FY2025		CPD's recommendation	
	Health Development Surcharge (in per cent)	VAT (in per cent)	Health Development Surcharge (in per cent)	VAT (in per cent)
Cigarettes	1	15	5	20
Bidi	1	15	5	20
Jarda	1	15	5	20
Gul	1	15	5	20

Source: Authors' compilation based on data from the National Tobacco Control Cell (NTCC) (NTCC, 2017).

CPD believes corporate taxes should be raised incrementally to achieve a tobacco-free Bangladesh by 2040. In the budget for FY2024, companies manufacturing tobacco products were subject to 45 per cent corporate tax, the same corporate tax rate as non-publicly traded mobile operator companies. Since companies manufacturing tobacco products are directly causing severe public health hazards, it is necessary to ensure that such companies pay corporate tax at a rate which is above the corporate tax rate for all other types of companies. Therefore, in addition to the aforementioned tax reforms, we also propose that the corporate tax on all companies manufacturing tobacco products, such as cigarettes, bidi, chewing tobacco, jarda, and gul, be increased from 45 per cent in FY2025 to 55 per cent in FY2026. The associated surcharge will be increased from 2.5 per cent in FY2025 to 7.5 per cent in FY2026 (Table 8.5).

Table 8.5: Corporate Tax on Tobacco Product Manufacturing Companies

Type of company	Tax structure in FY2025		CPD's proposed tax structure for FY2026	
	Corporate tax (in per cent)	Surcharge (in per cent)	Corporate tax (in per cent)	Surcharge (in per cent)
All companies manufacturing tobacco products, such as cigarettes, bidi, chewing tobacco, jarda, and gul	45	2.5	55	7.5

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2024c).

8.5 Fiscal measures related to health: Tax on soft drinks

Carbonated soft drinks and energy drinks are a significant health concern in Bangladesh. Such beverages have a substantial amount of sugar, which is a significant cause of obesity, diabetes, and tooth decay. Typically, a single soft drink can, around 355 millilitres, contains 39 grams of sugar (Coca-Cola Company, n.d.). This is equivalent to roughly 10 teaspoons of sugar, while the World Health Organization (WHO) recommends that adults should not consume more than six teaspoons of sugar daily to lead a healthy lifestyle (WHO, 2017). In the budget for FY2025, the beverage and carbonated industry is subjected to a 30 per cent SD for carbonated soft drinks, 40 per cent SD for energy drinks, and 15 per cent VAT applicable for both (NBR, 2024). However, a minimum tax on sales revenue of carbonated beverage producers has been reduced from 5 per cent in FY2024 to 3 per cent in FY2025. In Bangladesh, carbonated soft drinks and energy drinks are widely available. Hence, it is necessary to decrease the consumption of such beverages to reduce the associated health risks.

Therefore, CPD recommends that the government should remove the supplementary duty on both soft drinks and energy drinks and replace it with a specific excise duty of BDT 0.10 per millilitre (ml) or BDT 100 per litre (l) on soft drinks and energy drinks produced in Bangladesh in the FY2026 (Table 8.6). Since sweetened beverages are demerit goods, placing a specific excise duty will reduce consumption and provide the government with substantial revenue. CPD also recommends that the government stop giving high tariff protection to local sugar-sweetened beverages (SSB) manufacturers through VAT exemptions for imported raw materials (NBR, 2024). This will be a respite to our shrinking fiscal space.

Table 8.6: Proposed Tax Structure for Soft Drinks and Energy Drinks

	Tax Structure for FY2025		**CPD's recommendation**		
Beverage	SD (%)	VAT (%)	Specific excise duty (BDT per ml)	Specific excise duty (BDT per litre)	VAT (%)
Soft drinks	30	15	0.10	100	15
Energy drinks	40	15	0.10	100	15

Source: Authors' compilation based on data from the Ministry of Finance (NBR, 2024).

Furthermore, limiting sugary beverage intake will help Bangladesh minimise the risks of related diseases and health expenditures of the general population. This will also allow the economy to achieve SDG target 3.4, which aims to reduce non-communicable diseases by one-third by 2030 (UN, 2015). We also propose that the VAT on soft drinks and energy drinks should be increased from 15 per cent in FY2025 to 20 per cent in FY2026.

8.6 Fiscal measures: Bangladesh's LDC graduation and tax on medicine

Bangladesh is import dependent, importing more than 90 per cent of the raw materials necessary yearly for the pharmaceutical business from countries such as China and India, totalling BDT 47 billion (Mitsumori, 2018). Bangladeshi pharmaceutical businesses lack the technological and manufacturing capabilities to create Active Pharmaceutical Ingredient (APIs) (Mitsumori, 2018). According to Table 8.7, the total tax incidence on imported APIs is 31 per cent, which is considerably high. As Bangladesh prepares to transition from a Least Developed Country (LDC) to a developing country in 2026, it will no longer benefit from the trade advantages and exemptions currently available to LDCs.

Table 8.7: Tax Breakdown of Imported Active Pharmaceutical Ingredients (API), FY2025

HS CODE	**Description**	**CD**	**SD**	**VAT**	**AIT**	**RD**	**AT**	**TTI**
29420090	Other Organic Compounds not elsewhere specified	5	0	15	5	0	5	31

Source: Author's compilation based on Duty Calculator, Bangladesh Customs (National Board of Revenue Bangladesh, 2024)

Under the VAT and Supplementary Duty Act 2012, the government imposed 2.4 per cent VAT on pharmaceuticals, including medicines at the local trading stage and 15 per cent VAT on the import of pharmaceutical products and raw materials for the production of medicines (GoB, 2019). As an LDC, Bangladesh's pharmaceutical industry is enjoying the facilities under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) pharmaceutical waiver, which exempts the country from obligations to enforce patent protection for pharmaceutical products (WTO, 1994). Unless Bangladesh gets an extension on the transition period of the TRIPS waiver after it graduates from the LDC group in 2026, the waiver will be withdrawn starting from 2026. So, Bangladesh will lose the LDC-specific international support measures under this agreement.

Therefore, we propose that the VAT on medicines should be exempted starting from FY2026 to ensure that medicines continue to be affordable to all, even after the loss of the TRIPS waiver in 2026. Beyond 2026, the government must implement a plan to protect the local pharmaceutical industry and help retain its competitiveness in the global market. This will also benefit people from low-income groups by allowing them to access medicines and other pharmaceutical products at an affordable price. Furthermore, since the total tax incidence (TTI) on imported APIs stands at 31 per cent as of FY2025, CPD recommends reducing it to zero to support the pharmaceutical industry and enhance competitiveness.

8.7 Taxation on sanitary napkins

Despite the importance of sanitary napkins in ensuring menstrual hygiene among women and girls, the use of sanitary napkins is still less than desired throughout the country. One of the biggest reasons for this is that they are not affordable for most of the population. In FY2025, the government extended the exemption from Value Added Tax (VAT) (excluding AT) and Supplementary Duty (SD) on six imported raw materials out of 12 used in the production of sanitary napkins and diapers until June 2025 (Ministry of Finance, 2024c) (Table 8.8). However, many local companies do not qualify for this temporary tax cut due to certain conditions. Firms must set up machinery on the factory premises to benefit from the tax-free benefits. In addition, a company has to invest a minimum of BDT 76 crore, have its own testing lab, have environmental clearance from the Department of Environment, ensure at least 30 per cent value addition and employ at least 250 Bangladeshis in the factory. In addition, interested companies will have to apply to the National Board of Revenue (NBR) to get the scope of importing the six raw materials without SD and VAT (Daily Star Online Report, 2019). In addition, other import tariffs include Customs Duty (CD), Advance Income Tax (AIT), Regulatory Duty (RD), and Advance Tax (AT). Furthermore, the Total Tax Incidence (TTI) on imported sanitary napkins and diapers is 127.71 per cent (National Board of Revenue Bangladesh, 2024).

Table 8.8: Tax Breakdown of Imported Sanitary Napkins and Raw Materials Required to Make Sanitary Napkins, FY2025

HS CODE	Description	CD	SD	VAT	AIT	RD	AT	TTI
96190000	Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar	25	45	15	5	3	5	127.72
48239094	Air laid paper imported by Ind.IRC.VAT-compliant hygiene product manufacturers	25	20	15	5	0	5	85
35052000	Glues Based on Starches, Dextrins or Other Modified Starches	5	0	15	5	15	5	49
35069110	Adhesives Based on Rubber or Plastic (Incl. Artificial Resins)	25	0	15	5	15	5	73
39069000	Acrylic Polymers, In Primary Forms, Nes	10	0	15	5	0	5	37
39199020	Performance Tape/Closure/Side Tape	25	0	15	5	0	5	55
39201020	Other plates, sheets, film, foil and ethylene are imported by VAT regi. personal	25	0	15	5	3	5	58.6

HS CODE	Description	CD	SD	VAT	AIT	RD	AT	TTI
40021100	Latex Of Styrene-Butadiene or Carboxylated Styrene-Butadiene Rubber	5	0	15	5	0	5	31
47032100	Semi-bleached or Bleached Coniferous Chemical Wood Pulp, Soda., not elsewhere specified	0	0	15	0	0	5	20
48119090	Other Paper, Paperboard, Cellulose Wadding and Webs of Cellulose Fibres not elsewhere specified	25	0	15	5	3	5	58.6
54024400	Other yarn, single, untwisted or with a twist not exceeding 50 turns per metre	5	0	15	5	0	5	31
56031110	Nonwovens Of Man-Made Filaments Weighing <=25g/M2	25	0	15	5	3	5	58.6
63079000	Made Up Articles (Including Dress Patterns) not elsewhere specified	25	0	15	5	3	5	58.6

Source: Author's compilation based on Duty Calculator, Bangladesh Customs (National Board of Revenue Bangladesh, 2024)

8.8 Health cost of the July movement

In July 2024, Bangladesh experienced one of the deadliest periods in its history since gaining independence in 1971, as violence erupted during anti-government protests over the quota reform system. According to the Ministry of Health, 843 deaths were linked to the protests, along with 14,025 injuries (OHCHR, 2025). The Office of the High Commissioner for Human Rights (OHCHR) cross-referenced the Ministry of Health's data with detailed reports from civil society organisations to provide a more accurate estimate. After eliminating duplicate cases, OHCHR concluded that the protests resulted in approximately 1,400 deaths, 12 per cent of whom were children (OHCHR, 2025). Forensic examinations conducted by Dhaka Medical College on 130 fatalities revealed that 66 per cent of deaths were caused by bullets fired from high-powered automatic and semi-automatic rifles used by security forces (OHCHR, 2025). Additionally, OHCHR obtained forensic medical reports indicating that 12 per cent of all protest-related deaths resulted from shotguns loaded with metal pellets (OHCHR, 2025). These pellets inflicted severe injuries on thousands, leading to long-term health consequences. Many victims suffered permanent eye damage or blindness. In Dhaka alone, the National Institute of Ophthalmology and Hospital treated 736 patients with eye injuries related to the protests, 504 of whom required urgent surgery (OHCHR, 2025). Similarly, Sylhet Osmani Medical College Hospital treated 64 individuals with metal pellet injuries, including 36 cases involving eye trauma (OHCHR, 2025). Given the scale of casualties and long-term suffering caused by the violence, it is crucial to allocate government funds to provide financial assistance and medical support to those injured and to the families of those killed during the July uprising.

8.9 Budget recommendations

In light of the aforementioned analysis, the following recommendations are proposed for the upcoming health budget of FY2026:

- Adopt a more balanced approach to budget allocation between developmental initiatives and operational needs of the health sector.
- Establish an extensive monitoring and evaluation framework to track the progress and impact of development initiatives, ensuring that funds are used effectively and efficiently.

- Simplify Bangladesh's tobacco tax system to decrease the affordability of cigarettes through price rises caused by taxes.
- Replace the ad valorem tax, calculated based on a percentage of the retail price, with a specific tax set per pack to significantly streamline the government's administrative process.
- Allow the market to determine appropriate pricing and generate tax income by implementing a uniform specific tax that is not influenced by the price of the tobacco product but based only on the number of sales and implementing a uniform specific excise duty of BDT 10 per cigarette stick on all cigarettes in FY2026.
- Implement a specific excise tax of BDT 3 per stick for all Bidi instead of the current tier classification based on filtering and pack size, allowing the price of Bidi to be determined by the market.
- Impose a BDT 6 specific excise duty per gram (gm) of Jarda and Gul in FY2026, allowing the market to determine the price of Jarda and Gul.
- Increase the Health Development Surcharge on cigarettes and other tobacco products from 1 per cent to 5 per cent and the VAT on cigarettes and other tobacco products from 15 per cent to 20 per cent in FY2026.
- Increase the corporate tax on all companies manufacturing tobacco products from 45 per cent in FY2025 to 55 per cent in FY2026, with the associated surcharge increasing from 2.5 per cent in FY2025 to 7.5 per cent in FY2026.
- Remove the supplementary duty on soft drinks and energy drinks and replacing it with a specific excise duty of BDT 0.10 per millilitre (ml) or BDT 100 per litre (l) on soft drinks and energy drinks produced in Bangladesh in FY2026.
- Increase the VAT on soft drinks and energy drinks from 15 per cent in FY2024 to 20 per cent in FY2026.
- Stop high tariff protection to local sugar-sweetened beverages (SSB) manufacturers through VAT exemptions for imported raw materials.
- Exempt the VAT on medicines starting from FY2026 to ensure that medicines remain affordable to all, even after the loss of the TRIPS waiver in 2026.
- Make TTI on imported API zero from FY2026 to protect the local pharmaceutical industry and help retain its competitiveness in the global market after the LDC graduation, allowing low-income groups to access medicines and other pharmaceutical products at an affordable price.
- Impose zero TTI for raw materials used to make sanitary napkins. TTI of all 12 raw materials used to produce sanitary napkins should be made zero, and the conditionalities to avail of these benefits should be removed to ensure affordability for women and adolescent girls of all income levels.
- Allocate a portion of the national budget to create a fund for providing financial assistance to the families of those killed and individuals injured during the July 2024 protests, covering medical expenses, rehabilitation, and psychosocial support for long-term recovery.

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SECTION IX. FISCAL POLICY FOR INCENTIVISING EDUCATION

Key recommendations

- The school feeding programme should be expanded to include all primary school students, which is 9.3 million (APSC, 2023).
- The government should launch a scholarship programme in FY2026 to fund the education of individuals injured or disabled during the July uprising, ensuring support until they complete their undergraduate degree at any public or private university.
- The government should also introduce special finance programmes or schemes in top public and private universities in Bangladesh to improve the quality of education and research outputs.

9.1 Introduction

High-quality education is presently an urgent need in Bangladesh. As of the fiscal year FY2023, the literacy rate for individuals above the age of 15 in Bangladesh was approximately 76 per cent (MoF, 2024a). The country is now showing signs of a youth bulge, which means it is poised to reap the benefits of a demographic dividend if it can capitalise on the potential of its vast young labour force. The Labour Force Survey 2022 of the Bangladesh Bureau of Statistics (BBS) reveals that while the national unemployment rate is 3.53 per cent, the youth unemployment rate is as high as 8 per cent (BBS, 2023). The share of unemployed youth in total unemployment is 83.2 per cent (BBS, 2023). Informal employment as a share of total employment was 84.9 per cent in 2022 (BBS, 2023). While the share of youth not in education, employment or training (NEET) was 22 per cent (BBS, 2023). Ironically, research has shown that each additional year of schooling increases the probability of entering NEET status by 1.16 per cent for male youth and 1.07 per cent for female youth (Khatun & Saadat, 2020).

A survey of 100 major non-government employers in Bangladesh showed that 40 per cent of employers believed that their workers need to obtain new skills within 12 months due to the advancement of technology (Khatun F. et al., 2022). The ability to use technology has also been linked to greater returns in the labour market. Research has shown that in Bangladesh, workers who have used computers earn 17 per cent more than workers who have not used computers (Khatun & Saadat, 2021). Regrettably, in a survey of 500 young graduates of public and private universities in Bangladesh, it was found that the average score in an introductory computer literacy test was only 44 out of 100 (Khatun F. et al., 2022). This suggests that education in Bangladesh fails to provide young people with the necessary skill sets to compete in the labour market.

9.2 Overview of the education budget

Unfortunately, Bangladesh has recently made modest progress in allocating the necessary educational budgetary resources. The current amount of public spending on education in Bangladesh is inadequate. This is because the budget allocated for the education sector in FY2025 did not reflect sufficient efforts. In FY2025, the government allocated BDT 94,711 crore for the education sector, accounting for only 1.69 per cent of GDP (Ministry of Finance , 2024). Moreover, the budget allocated for FY2025 was only a 7 per cent increase from the previous year's proposed budget of BDT 88,162 crore (Ministry of Finance , 2024). It is important to note that the proposed budget allocation for the education sector is consistently subject to downward revisions each fiscal year. Moreover, the actual expenditure incurred in the education sector is even lower than the revised allocations. Due to a two-year lag, actual expenditure data is only available up to FY2023. Hence, for instance, in FY2023, the budget allocation for the education sector was BDT 81,449 crore, which was revised to BDT 70,507 core, and the actual expenditure was BDT 62,079 crore, accounting for 1.40 per cent of GDP (Ministry of Finance , 2024). Moreover, the allocated budget for education is primarily used for operational expenses rather than development expenditures, which may compromise the quality of education, highlighting a lower priority in the development of this sector. The government is still behind in meeting its targets of spending at least 3.5 per cent of GDP in education by 2031 and 4 per cent by 2041, as suggested in the Perspective Plan of Bangladesh (2021-2041) (GED, 2020). In addition, the Eighth Five-Year Plan states that the education budget should grow from 2 per cent of GDP in FY2019 to 3 per cent of GDP by FY2025. However, the education budget failed to meet this target in FY2025.

In addition to the insufficiency of spending, there are worries over the effectiveness of allocated resources to attain desired results. Education in Bangladesh is plagued by persistent absenteeism at the primary level (Kumar & Saqib, 2017), a high secondary dropout rate (Hossain, 2021), concerns about the quality of education (Titumir, 2021), ineffective teaching methods (Farooqui, 2014), insufficient resources (Islam, 2021), and the negative impact of COVID-19 on learning (Hosen et al., 2022). The education budget for FY2026 must address these long-standing difficulties while also considering emerging and growing concerns. Therefore, this chapter analyses the status, achievements, impediments, and other numerous factors regarding the planned budgetary allocation in the education sector for FY2025 and makes a few recommendations for FY2026.

9.3 Global comparison of the education budget

Bangladesh's actual education expenditure is lower than many least-developed countries (LDCs). For example, in FY 2022, Bangladesh allocated BDT 71,954 crore for the education sector, which was revised down to BDT 69,641 crore (Ministry of Finance , 2024). Yet, Bangladesh's actual expenditure in FY2022 accounted for BDT 60,431 crore (Ministry of Finance , 2024), which is only 1.52 per cent of GDP, the third lowest among 31 LDCs and eighth lowest among 137 countries of the world. It should also be highlighted that Bangladesh was also the third lowest among 39 LDCs in terms of average education expenditure as a percentage of GDP from 2016 to 2023 (The World Bank, 2025). Haiti and South Sudan were the only countries that spent less than Bangladesh.

At least 34 LDCs, including countries such as Senegal and Djibouti, spent, on average, 2 per cent or more of their GDP on education from 2016 to 2023 (The World Bank, 2025). In 2022, the GDP per capita based on purchasing power parity (PPP) revealed an interesting contrast between Senegal and Bangladesh. Bangladesh displayed a higher GDP per capita at USD 7,805, compared to Senegal's USD 4,331, but on average, Senegal dedicated 5.3 per cent of its GDP to education, starkly contrasting with Bangladesh, which spent, on average, only about 1.7 per cent of its GDP on education between 2016 and 2023 (The World Bank, 2025) (Table 9.1).

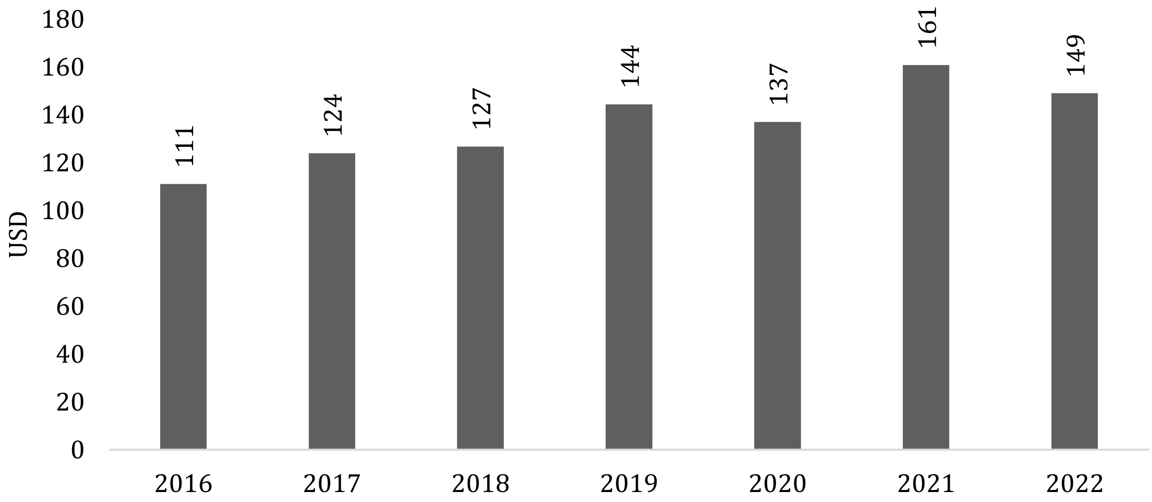
Table 9.1: International Comparison of Government Expenditure on Education

Country	Bangladesh	Djibouti	Senegal
GDP per capita based on purchasing power parity (PPP) for 2022 (in USD)	7,805	6,136	4,331
Government total average expenditure on education as a percentage of GDP from 2016 to 2023 (in per cent)	1.7	3.8	5.3
Government per capita average expenditure on primary education from 2016 to 2022 (in USD)	136	709	159

Source: Authors' compilation based on data from the Ministry of Finance (Ministry of Finance , 2024), World Bank (The World Bank, 2025), and UNESCO Institute for Statistics (UIS) (UIS, 2024).

This disparity highlights the different national priorities and strategies in resource allocation despite Bangladesh's higher economic output per person. Furthermore, from 2016 to 2022, the government per capita actual expenditure on primary education in Bangladesh averaged around USD 136. This level of spending positioned Bangladesh as the 15th lowest among 112 countries. In comparison, during the same period, Senegal and Djibouti spent an average of USD 159 and USD 709 per capita, respectively, on primary education (UIS, 2024). In addition, Bangladesh's per capita expenditure on primary education decreased from USD 161 in 2021 to USD 149 in 2022 (Figure 9.1).

Figure 9.1: Government per Capita Actual Expenditure on Primary Education in USD



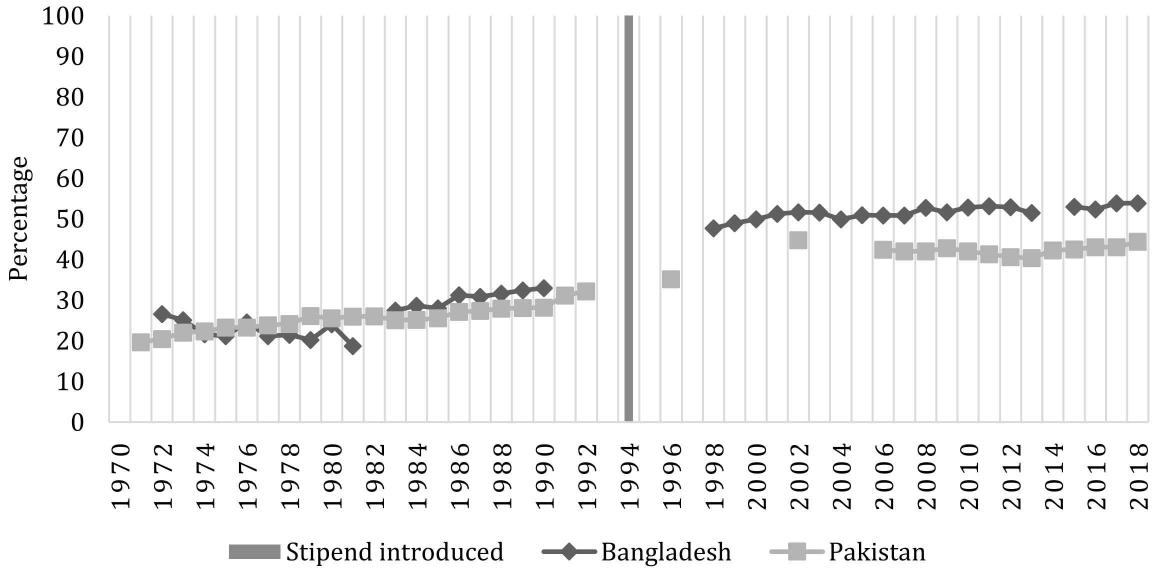
Source: Authors' illustration based on data from the Ministry of Finance (Ministry of Finance , 2024).

9.4 Female education stipend

Women's economic empowerment is critical to the long-term success of any society. The government, private sector and non-government organisations have all played their part in women's economic empowerment in Bangladesh. In 1982, the government of Bangladesh initiated some social safety net programmes that were especially targeted towards women and girls, such as the female secondary education stipend. Results from a pilot project showed that girls' secondary enrolments increased from an average of 7.9 per cent to 14 per cent in some project areas, and dropout rates fell from 14.7 per cent to 3.5 per cent (Raynor et al., 2006). In 1994, the highly successful programme was launched nationwide. Female students received a monthly sum of money ranging from BDT 25 in Class 6 to BDT 60 in Class 10, as well as payments for new books and exam fees, on condition of a minimum of 75 per cent attendance rate, at least a 45 per cent score in annual school exams and staying unmarried until sitting for the Secondary School Certificate (SSC) or turning 18 years old.

The female secondary education stipend programme in Bangladesh was not only effective in increasing girls' enrolment in schools but also succeeded in providing a host of benefits, such as increasing the ratio of female students in secondary schools, improving the female literacy rate, lowering fertility rate, controlling population growth rate and increasing female labour force participation. As a result of the catalytic benefits of its successful female secondary education stipend programme, Bangladesh managed to advance ahead of Pakistan in terms of several key socio-economic indicators. In 2018, girls comprised 54 per cent of pupils in secondary schools in Bangladesh, whereas in Pakistan, only 44 per cent of secondary school pupils were girls (Figure 9.2). In 2017, the adult female literacy rate was 70 per cent in Bangladesh but only 46 per cent in Pakistan.

Figure 9.2: Percentage of Female Pupils in Secondary Education



Source: Authors' illustration based on data from UNESCO (UNESCO, 2020).

9.5 Budget recommendations

Overall, the education budget for FY2025 was meagre in terms of the total budget and GDP. However, in FY2025, education was among the top five priority sectors, receiving 11.9 per cent of the total Annual Development Programme (ADP) allocation. Yet, this growth was relatively marginal compared to FY2024, when the share of total ADP allocation accounted for 11.4 per cent. Thus, the proposed education budget for FY2026 should be more comprehensive to combat the pandemic's spillover effects, with funds allotted towards more concrete actions. Therefore, CPD suggests the following measures should be considered in the FY2026 budget for the education sector.

9.5.1 Increase in education stipends

Stipends for education have been crucial in increasing the proportion of Bangladesh's population receiving primary and secondary education. These financial incentives have facilitated in reducing the drop-out rates and increasing the overall enrolment rates in Bangladesh. In addition to improving school attendance, education stipends have also contributed to promoting gender equity.

Therefore, CPD proposes increasing the allocation of all education stipends to be implemented in the budget for FY2026 (Table 9.2). In addition, CPD also proposes bringing back the stipends that were removed in FY2025.

Table 9.2: Proposed Education Stipend Structure in FY2025

Name of stipend	**Current stipend structure in FY2025**			**Proposed stipend structure in FY2026**	
	Number of beneficiaries (in crore)	Total budget allocation (in crore BDT)	Allocation per beneficiary per year (in BDT)	Total budget allocation (in crore BDT)	Allocation per beneficiary per year (in BDT)
Student stipend for primary education level	1.16	1,785	1,539	16,800	12,000
Stipends for secondary, higher secondary and madrasah education level students	Removed			7,204	12,000
Stipends for undergraduate and postgraduate level students	Removed			234	18,000
Stipends for students of technical education institutions	0.12	489	4,072	1,994	24,000
Stipends for physically challenged students	0.01	114	11,371	240	24,000
Total for stipend programmes	**1.29**	**2,387.4**		**26,472**	

Source: CPD compilation based on data from the Ministry of Finance (MoF, 2024b) .

Our proposed stipend reform will benefit more than one crore students at all levels and cost the government BDT 26,472 crore.

9.5.2 Removal of existing taxes on education

While the government has exempted Bengali medium schools, and later private universities, from paying Value Added Tax (VAT) on tuition fees, the VAT on English medium schools remains at 5 per cent (NBR, 2019). It is often opined that English medium education is a luxury good and that students who study in English medium schools belong to affluent families and do not stay in the country long term. Education is a fundamental right and should not be misconstrued as a luxury good. English medium schools are privatised and not recognised as having a low tuition fee. Hence, the VAT on tuition fees of English medium schools puts an extended burden on the parents of middle-income families. Therefore, CPD recommends that the VAT on the tuition fees for all academic institutions, including English medium schools, be exempted in FY2026, and the exemption should remain in place indefinitely.

Additionally, since English medium schools follow the international curriculum, the books assigned as a part of their syllabus are all imported books written by international authors. Currently, the Total Tax Incidence (TTI) on foreign printed books is 73.96 per cent (NBR, 2022). The total tax incidence includes 25 per cent as Customs Duty (CD), 10 per cent as Supplementary Duty (SD), 5 per cent as Advance Income Tax (AIT), 15 per cent as VAT, and 3 per cent as Regulatory Duty (RD) (NBR, 2022). Such high duties on foreign books intended to provide children with quality education defeat the purpose of achieving SDG 4, which aspires to "ensure inclusive and equitable quality education and promote lifelong learning and opportunities for all" (UN, 2015).

Therefore, CPD recommends exempting all taxes and duties on foreign books imported in FY2026 to ensure that education remains affordable for all. Furthermore, a 15 per cent VAT was imposed on ballpoint pens in the budget for FY2024, and no change was made in FY2025 (MoF, 2023). The VAT of 15 per cent on ballpoint pens should be withdrawn in FY2026 as students mostly use it.

9.5.3 Reduction of corporate income tax on private universities and educational institutions

The government proposed to reduce the corporate income tax for publicly traded and non-publicly traded companies. However, the corporate tax for private universities and colleges remains at 15 per cent (MoF, 2022). This corporate income tax rate applies to private universities, medical colleges, dental colleges, engineering colleges, and colleges imparting information technology education. The corporate income tax contributes to high tuition fees and increases the costs borne by academic institutions. This may lead to a compromised quality of education, poor infrastructure management, and insufficient teachers being hired, which may further decrease the teacher-to-student ratio.

Therefore, CPD recommends that corporate income tax on private universities and colleges be reduced from 15 per cent to 10 per cent in the revised budget for FY2026.

9.5.4 Increase the scope of the school feeding programme to include all government primary school students

In March 2020, all academic institutions were forced to close to ensure safety and protect teachers and students from COVID-19. As such, Bangladesh experienced one of the longest school closures owing to COVID-19 (UNESCO, 2021). This led to learning losses and deprived 2.96 million children in Bangladesh who were dependent on the school feeding programme of essential nutrients (WFP, 2020). Since 2001, Bangladesh has been implementing the national school feeding programme in collaboration with the World Food Programme (WFP). By 2022, this programme will benefit over 3 million primary school students over 104 sub-districts, providing them with fortified biscuits and hot meals in certain areas. According to a study by WFP conducted in 2018, this initiative contributed to a 4.2 per cent increase in school enrolment and a 7.5 per cent decrease in dropout rates in Bangladesh (Arafin, 2024). School feeding programmes are integral in mitigating hunger and improving school attendance and retention (Arafin, 2024). In the proposed budget for FY2025, the Ministry of Primary and Mass Education has allocated approximately BDT 45.11 crore to support the school feeding programme targeting poverty-stricken areas (MoF, 2024). This initiative aims to benefit around 3.6 million primary school students (MoF, 2024), with an estimated expenditure of BDT 125 per student annually. *Considering the significant positive impact of this programme, CPD recommends that the interim government should expand its coverage to include all primary school students, accounting for about 9.3 million as reported by the Annual Primary School Census (APSC) 2023 in the proposed budget of FY2026 (MoPME, 2024).* **To achieve this broader inclusion while maintaining the same per capita expenditure, the budget allocation would need to be increased to approximately BDT 116 crore.**

9.5.5 Introduce a scholarship programme to recover from the impact of the July uprising on education

Although initially triggered by the reinstatement of the quota system in public sector employment, the movement in July last year ultimately brought forth broader, deep-rooted issues of social, economic, and political injustice occurring under the previous regime. What initially began as peaceful demonstrations led by the students contesting the High Court's decision to allocate 30 per cent of public sector employment to the descendants of Bangladesh's 1971 war veterans quickly escalated into violence and repression sanctioned by the state with widespread human rights violations. While the July movement led the country to make radical changes with a renewed sense of freedom and hope, it has also impacted young individuals socially, psychologically, and academically. Many children were injured and killed in the violence that ensued. According to the United Nations Office of the High Commissioner for Human Rights (OHCHR), as many as 1,400 individuals were killed, among which about 12 or 13 per cent were children (UN, 2025). But, according to a list published by the Ministry of Health and Family Welfare in Bangladesh, 843 individuals died, and 14,025 were injured during the July uprising (Ministry of Health and Family Welfare, 2025). Due to several undocumented cases, the actual number of casualties of the July uprising may be much higher. Nevertheless, what remains concrete is that several young individuals, including children, lost their lives, while many others sustained severe injuries, leaving some with permanent disabilities. Students who sustained injuries or were disabled during the movement may have been forced to either delay their schooling or discontinue their education altogether. This adversity is particularly severe for those who became disabled, hindering their ability to pursue their academics in the same capacity as before and requiring specialised support.

In this context, the interim government should introduce a scholarship programme in FY2026 to finance the education of those who were injured or disabled during the July movement. This support should remain available for all injured individuals during the July uprising until they receive their undergraduate degree from any public or private university.

9.5.6. Finance special programmes or schemes in top public and private universities to improve the quality of education and research

Substantial investments are required to improve the quality of education imparted at universities in Bangladesh. At present, the state of higher education in Bangladesh is not ideal and does not meet global standards. There are 171 universities across the country, including 55 public universities, 114 private universities, and two international universities (BANBEIS, 2024). Yet, the quality of education provided fails to be on par with the international benchmark due to insufficient funding, an absence of competent faculty members, and suboptimal curricula in conjunction with frequent political interferences, restricting academic liberty (Huque et al., 2025). Therefore, the government needs to play a more proactive role in improving the quality of higher education. For example, in China, the government initiated many financial programmes during the 1990s to aid a few reputed Chinese universities in becoming top-tier institutions. These include the 211 Project, 985 Project, 863 Project, and 973 Project (Li, 2010). Apart from financial programmes, the Chinese government implemented several other reform measures and strategic policies to renew the higher education system in China.

The Government of Bangladesh should allocate some budget for FY2026 to finance special academic programmes or schemes in a few of the top public and private universities in Bangladesh to facilitate research outputs, promote subjects pertaining to Science, Technology, Engineering, and Mathematics (STEM), and develop world-class leading curricula in the higher education system.

In addition, similar to China, the government also needs to allocate funds to implement a few reform agendas, including providing benefit packages to attract distinguished academics, professors, and scholars from around the world. This may encompass housing discounts, high salaries, jobs for spouses, international schools for children, residence permits, and modern laboratories and equipment (Huque et al., 2025).

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SECTION X. FISCAL MEASURES FOR THE ENVIRONMENT

Key recommendations

- All types of equipment for renewable power plants should qualify for VAT exemptions and incentive tariffs, and a 1 per cent surcharge should be imposed on goods produced through environmentally harmful means.
- A 5 per cent to 50 per cent higher Advance Income Tax (AIT) should be imposed on fossil fuel-driven motor vehicles depending on the size of the vehicle's engines and electric motor compared to the AIT on hybrid and fully electric vehicles, encouraging the consumption of green technology.
- The 5 per cent supplementary duty on plastic bags, initially withdrawn in FY2023, should be reinstated.

10.1 Introduction

Bangladesh must implement green fiscal policies to tackle global warming and successfully shift towards a sustainable economy that benefits all parties involved. By incorporating externalities into pricing, aligning government expenditure with environmental goals, and generating additional revenue, these policies may contribute to achieving the desired results outlined in the Paris Agreement (UN Environment Programme 2022). Massive investments are required to fulfil global climate commitments. To achieve net-zero emissions in the energy sector alone, an estimated yearly expenditure of around USD 3.1 trillion to USD 8.2 trillion would be required from now until 2050 (Lenaerts, Tagliapietra and Wolff 2022). According to the United Nations Environment Programme, removing subsidies for fossil fuels may yield around USD 2.9 trillion by 2022. This substantial amount of money could be directed towards attaining global climate objectives (UN Environment Programme 2022).

Bangladesh may gain valuable insights from ongoing worldwide initiatives and endeavours to mitigate climate change. The national budget should align with the government's efforts to promote an environmentally sustainable fiscal policy. The government has a compelling motive to encourage green growth as by 2026, it will cease to be classified as a least developed country (LDC), and it further aspires to attain upper middle-income status by 2031. Consequently, due to this transition, there will be an increase in the stringency of environmental restrictions.

Bangladesh's urbanisation is experiencing a significant upward trajectory even though most of the population still resides in rural regions. Bangladesh's economy is undergoing significant structural changes as it progresses towards prosperity. Although beneficial for growth, structural change may harm the environment, including air and plastic pollution. Individuals' carbon footprints are amplified when metropolitan regions see an influx of additional people. The cumulative addition of these larger footprints may significantly impact environmental quality. The process of urbanisation in Bangladesh is linked to increased levels of greenhouse gas emissions and a rise in the average yearly temperature (Murshed and Saadat 2018). Although urban areas occupy a relatively tiny fraction of the earth's surface, they contribute about 70 per cent of the global greenhouse gas emissions (United Nations Environment Programme 2024). It is estimated that urban areas worldwide have the potential to suffer a loss of 44 per cent of their gross domestic product (GDP), which is equal to USD 31 trillion, as a direct result of the destruction of biodiversity and the environment (World Economic Forum 2022).

10.2 Alarming state of air pollution in Dhaka and other cities

Greater industrialisation results in increased urbanisation and elevated energy consumption, contributing to the escalation of carbon dioxide emissions. Air pollution is a major environmental and climate-related concern that the rise in energy use has caused. As of 26 March 2023, the PM 2.5 concentration in the air of Bangladesh exceeded the World Health Organization's (WHO) acceptable air quality standard by a factor of 13.2 (IQAir 2022). A survey of 500 households in Dhaka conducted as part of CPD's Green Cities Initiative found that more than 76 per cent of respondents thought that air pollution in Dhaka city became much worse in the past 2 to 3 years (Khatun, et al. 2023). The CPD's Green Cities Initiative survey also revealed that, on average, individuals in Dhaka city are stuck in traffic for 46 minutes out of every 2 hours spent on the road (Khatun, et al. 2023). Being stuck in traffic for prolonged periods increased individuals' exposure to Dhaka's highly polluted air. On average, individuals in Dhaka city spent BDT 4,000 per year to diagnose and treat symptoms associated with air pollution, as revealed by the CPD Green Cities Initiative survey (Khatun, et al. 2023).

Bangladesh has committed, as stated in its Nationally Determined Contribution (NDC), to reduce its greenhouse gas (GHG) emissions by 6.73 per cent in five sectors- electricity generation, transportation, industry, waste management, and land use- by the year 2030 (MoEFCC 2021). Bangladesh intends to reduce greenhouse gas emissions by 15.12 per cent, contingent upon receiving international funding and technical assistance (MoEFCC 2021). The previous government of Bangladesh planned to cut transportation-related emissions by 12.30 per cent on its own by 2030 and by another 10.23 per cent with international assistance. The updated NDC specifies that Bangladesh requires a total of USD 14.6 billion to fulfil its unconditional commitment and USD 89.9 billion to fulfil its conditional obligation, respectively, in the transport sub-sector of the energy sector from 2021-2030 (MoEFCC 2021). Bangladesh must implement certain tax and regulatory policies to decrease greenhouse gas (GHG) emissions to achieve these objectives.

Bangladesh does not have certain fiscal measures that might support a green transition. Only a few tax incentives and green funds are available to promote environmentally friendly and sustainable production and consumption. The Renewable Energy Policy 2008 implemented a 15 per cent value-added tax (VAT) exemption for all renewable energy equipment and its related raw materials. Currently, SRO No. 141-Act/121/138-VAT exempts from VAT for importing and producing photovoltaic cells, solar modules, solar panels, and solar batteries with a maximum capacity of 60 Amperes. The renewable energy policy includes a provision for corporate income tax exemptions specifically for renewable energy producers. These exemptions are valid for five years and may be extended if necessary. The Finance Act of 2014 included a new surcharge to protect the environment. Nevertheless, the environment protection surcharge (EPS) has not been fully implemented (Finance Division 2020). Two Bangladesh Bank funds support the green energy transition in Bangladesh: The Refinance Scheme for banks and financial institutions and the Green Transformation Fund (GTF) for Export-oriented Industries (Bangladesh Bank 2020).

10.3 Plastic pollution getting out of hand

The global popularity of disposable plastic is increasing due to its flexibility and low cost despite its detrimental effects on the environment and human health. Every day, 646 tonnes of plastic waste are collected in Bangladesh, with 48 per cent sent to landfills, 37 per cent recycled, 12 per cent dumped into waterways, and 3 per cent littering urban areas (The World Bank 2021). There are 1,212 dump sites in Bangladesh that contribute between 24,032 and 36,047 tonnes of plastic waste annually to the country's rivers (The World Bank, 2021). Both plastic consumption and pollution have soared with rapid urbanisation. In the metropolitan regions of Bangladesh, yearly per capita plastic use is projected to reach 9.0 kg in 2020, up from 3.0 kg in 2005. Mismanaged plastic trash in Bangladesh mainly comprises single-use items like shopping bags, packages, and wrappers (The World Bank 2021). The plastic usage rate in Dhaka is three times greater than the national average for metropolitan areas. The use of disposable plastics intensifies urban floods since they obstruct drainage systems. The use of single-use plastics poses significant risks to both human health and the environment. A survey of 500 households in Dhaka conducted as part of CPD's Green Cities Initiative found that 73 per cent of respondents thought plastic pollution had worsened significantly in the last 2 to 3 years (Khatun, et al. 2023). In the CPD's Green Cities Initiative survey, 57 per cent of respondents reported that their local neighbourhood exhibited extremely high levels of plastic pollution (Khatun, et al. 2023).

Per capita plastic waste generated in Bangladesh was only 0.03 kg per day in 2010, compared to the global average of 0.19 kg per day (Jambeck, et al. 2015). However, 87 per cent of the plastic waste generated in Bangladesh was inadequately managed, leading to the country becoming the tenth-largest contributor of mismanaged plastic waste worldwide in 2010 (Jambeck, et al. 2015). The Ganges River, which runs through Bangladesh and into the Bay of Bengal, was estimated to be the second largest river source of plastic inputs into the ocean worldwide in 2015 (Lebreton, et al. 2017).

COVID-19 has led to a spike in the unsustainable manufacture of single-use plastics and synthetic materials, which have been employed to create personal protection equipment (PPE) such as body suits, masks, and face shields. There has been an alarming increase in the use of disposable plates, cups, and cutlery made of plastic due to concerns about the spread of disease. Between 26 March 2020 and 25 April 2020, roughly 14,165 tonnes of single-use plastic waste were produced in Bangladesh, which comprised 455 million surgical masks, 1,216 million polyethene hand gloves, 189 million surgical hand gloves and 49 million bottles of hand sanitiser (Environment and Social Development Organisation, 2020).

Bangladeshi governments have implemented numerous initiatives to address environmental challenges like pollution. The Bangladeshi authorities have already implemented measures to tackle the problem of plastic usage. In 2002, a regulatory order under the 1995 Environment Act prohibited using plastic shopping bags in Bangladesh. Nevertheless, the limitation proved futile primarily due to its lack of rigorous enforcement. The government enforced the Mandatory Jute Packaging Act in 2010, which had a moderate impact on reducing the nation's plastic use. The National 3R Strategy for Waste Management was established in 2010 to provide directives on reducing, reusing, and recycling plastic. The Eighth Five-Year Plan urged various local stakeholders, such as the Department of Environment, the Bangladesh Plastic Goods Manufacturers and Exporters Association, plastic manufacturers, research industries, and city corporations, to actively engage in implementing the Extended Producer Responsibility (EPR) Policy for plastic management. Bangladesh has pledged to achieve a 30 per cent decrease in plastic waste by 2030 as a component of its National Action Plan (The World Bank 2021). The country has set goals to lower virgin material consumption by 50 per cent by 2030. It also aims to recycle 50 per cent of all plastics by 2025, to reach a recycling rate of 80 per cent by 2030 and to phase out targeted single-use plastics by at least 90 per cent by 2026 (The World Bank 2021). The National Action Plan lays out in detail the measures and methods that will be used to achieve these objectives. In addition, on 28 August 2024, the Ministry of Environment, Forests and Climate Change issued a circular mentioning 17 plastic-made materials as single-use plastic, which will be phased out gradually (MoEFCC, 2024a). This includes straw, stirrer, one-time utensils or cutlery, plastic sticks, plastic banners, covers, and posters, sachets or pouches, lollipop and chocolate covers, Styrofoam food packaging, thin plastic films, plastic invitation card, thermal lamination on invitation card or advertising products, thin plastic cover of cigarette pack or tissue paper or toilet roll or soap, shopping bag or carry bag manufactured from polyethylene or polypropylene or mix, melamine foam sponges- used for household cleaning, single-use plastic packaging for any products, cigarette filter, and plastic bottles and caps (MoEFCC, 2024a). Furthermore, since 1 October 2024, the provision of polythene bags has been banned across all superstores in Bangladesh (MoEFCC, 2024b), followed by a similar ban on kitchen markets in November to discourage vendors and small shops from using polythene bags and instead switching to eco-friendly alternatives (MoEFCC, 2024c). Furthermore, the Ministry has also formed a committee to monitor and enforce the ban on polythene shopping bags to safeguard successful policy implementation (MoEFCC, 2024d).

10.4 Budget recommendations for reducing air and plastic pollution

In light of the above, the government may adopt the following budgetary measures to minimise air and plastic pollution and support the greening of the economy:

- *VAT exemption:* The government should fully implement the commitments of the Renewable Energy Policy 2008. VAT exemption exists for solar panels and batteries, but there are no exemptions for solar inverters, which are a crucial component of solar power plants. Moreover, the import duty on inverters (HS 85044090) was raised to 37 per cent in the budget of FY2022. An extensive policy considering VAT exemption on all types of equipment in a renewable power plant, especially solar power plants, should be considered from FY2026.
- *Incentive tariff:* According to the Renewable Energy Policy 2008, an incentive tariff can be considered for electricity generated from renewable sources. This tariff allows electricity generated from renewable sources to be priced 10 per cent higher than the highest purchase price of electricity generated from fossil fuel sources.
- *Environment surcharge:* The Finance Act of 2014 set a one per cent surcharge on goods produced by industries polluting the environment. This environment protection surcharge should be implemented completely in FY2026.
- *Phase-out fossil fuel subsidies:* The government should phase out fossil fuel subsidies starting from FY2026 in line with recommendations from the IMF. Initially, all fossil fuels may be sold at the international market price, which may be updated monthly. Instead, the government can redirect the funds allocated to fossil fuel subsidies to develop green energy.

- *Feed-in tariff:* To promote renewable energy in Bangladesh, a formal feed-in tariff policy exclusively for renewable energy must be implemented in FY2026. Currently, an informal version of the feed-in tariff policy exists in Bangladesh. However, such a mechanism does not exclusively promote renewable energy. A clear incentive package has to be present in the policy to reach all potential renewable energy producers regardless of their generation capacity.
- *Structure of advance income tax:* To reduce air pollution originating from the transport sector, the government should reform the advance income tax (AIT) structure on private motor vehicles so that the AIT on fossil fuel-driven motor vehicles is five per cent to 50 per cent higher than the AIT on hybrid and fully electric vehicles, depending on the size the vehicle's engine and electric motor (Table 10.1).

Table 10.1: Proposed advance income tax structure for the owners of private motor cars in FY2026

Type and engine capacity or electric motor power of motor car	AIT for hybrid and fully electric vehicles (in BDT)	AIT for conventional fossil fuel vehicles (in BDT)
A car or a jeep, not exceeding 1500cc or 75kw	25,000	26,250
A car or a jeep exceeding 1500cc or 75kw but not exceeding 2000cc or 100 kW	50,000	55,000
A car or a jeep exceeding 2000cc or 100 kw but not exceeding 2500cc or 125 kW	75,000	90,000
A car or a jeep exceeding 2500cc or 125 kw but not exceeding 3000cc or 150 kW	125,000	162,500
A car or a jeep exceeding 3000cc or 150 kw but not exceeding 3500cc or 175 kW	150,000	210,000
A car or a jeep exceeding 3500cc or 175 kW	200,000	300,000
A microbus	30,000	36,000

Source: CPD compilation.

- In addition to the AIT on private motor vehicles, the government should also consider imposing an AIT on motorcycles starting in FY2026 (Table 10.2).

Table 10.2: Proposed advance income tax structure for the owners of motorcycles in FY2026

Type and engine capacity of the motorcycle	Yearly AIT (in BDT)
A motorcycle with an engine of up to 100cc	1,500
A motorcycle with engine from 101cc to 150cc	3,000
A motorcycle with an engine above 150cc	5,000

Source: CPD compilation.

- *Increase customs duty on plastic waste:* The relatively low customs duty on plastic waste needs to be raised. This will raise the cost of importing plastic waste, causing plastic makers to find their raw materials domestically and boosting domestic plastic recycling.
- *Allocate fund for plastic waste reduction:* The budget for FY2026 should allocate additional funding for the Joint Rivers Commission to establish a bilateral plastic waste reduction initiative with India. The government of Bangladesh should call for funding and technical and logistical support from the Indian government to reduce plastic waste in the 54 transboundary rivers shared between Bangladesh and India.

- *Allocate specific excise duty:* The budget for FY2026 should also allocate a specific excise duty per unit on the 17 different single-use plastic items that have been identified by the Ministry of Environment, Forest, and Climate Change.

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SECTION XI. CONCLUDING REMARKS

The national budget for FY2026 is being formulated at a time when Bangladesh is facing formidable economic challenges, requiring decisive and well-calibrated policy measures. Restoring macroeconomic stability remains the foremost concern for policymakers. This requires targeted interventions to address inflationary pressures, stabilise the exchange rate, and ensure fiscal prudence. Given the current economic landscape, the budget must prioritise the protection of vulnerable and disadvantaged groups and economic recovery.

The FY2026 budget will probably be the only budget formulated by the current interim government under new leadership at the Ministry of Finance. In this context, the upcoming national budget presents a unique opportunity for the interim government to move beyond conventional approaches, implement short-term corrective measures, and establish the groundwork for medium-term reforms in resource mobilisation, public finance management and expenditure efficiency. A crucial first step in this process would be the development of a credible and well-structured fiscal framework.

By taking a pragmatic and forward-looking approach, the government can not only navigate the current economic turbulence but also set the stage for a stronger, more stable economic future for Bangladesh. It is expected that the elected political government will take these measures forward.