Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD's Recommendations for the National Budget FY2025-26

Dhaka: 16 March 2025

CENTRE FOR POLICY DIALOGUE

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CPD IRBD 2025 Team

Lead contributions were provided by *Dr Fahmida Khatun*, Executive Director; *Professor Mustafizur Rahman*, Distinguished Fellow; *Dr Khondaker Golam Moazzem*, Research Director; *Mr Muntaseer Kamal*, Research Fellow; and *Mr Syed Yusuf Saadat*, Research Fellow, CPD.

Other team members include:

Senior Research Associates	
Mr Tamim Ahmed	*Ms Helen Mashiyat Preoty*
Programme Associates	
Ms Afrin Mahbub	*Ms Preetilata Khondaker Huq*
Mr Faisal Quaiyyum	*Ms Anika Tasnim Arpita*
Ms Nuzaira Zareen	*Ms Ayesha Suhaima Rab*
Mr Atikuzzaman Shazeed	

Mr Muntaseer Kamal was the Coordinator of the CPD IRBD 2025 Team.

Acknowledgements

The CPD IRBD 2025 Team would like to register its profound gratitude to *Professor Rehman Sobhan*, Chairman, CPD for his advice and guidance in preparing this report.

The CPD IRBD Team also expresses its sincere thanks to *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD, for his guidance and support to the team.

The Team gratefully acknowledges the valuable support provided by the Dialogue and Communication Division, CPD, in preparing this report. The contribution of the CPD Administration and Finance Division is also highly appreciated. The assistance of *Mr A H M Ashrafuzzaman*, Joint Director, IT, is particularly appreciated.

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

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1. Introduction

Introduction

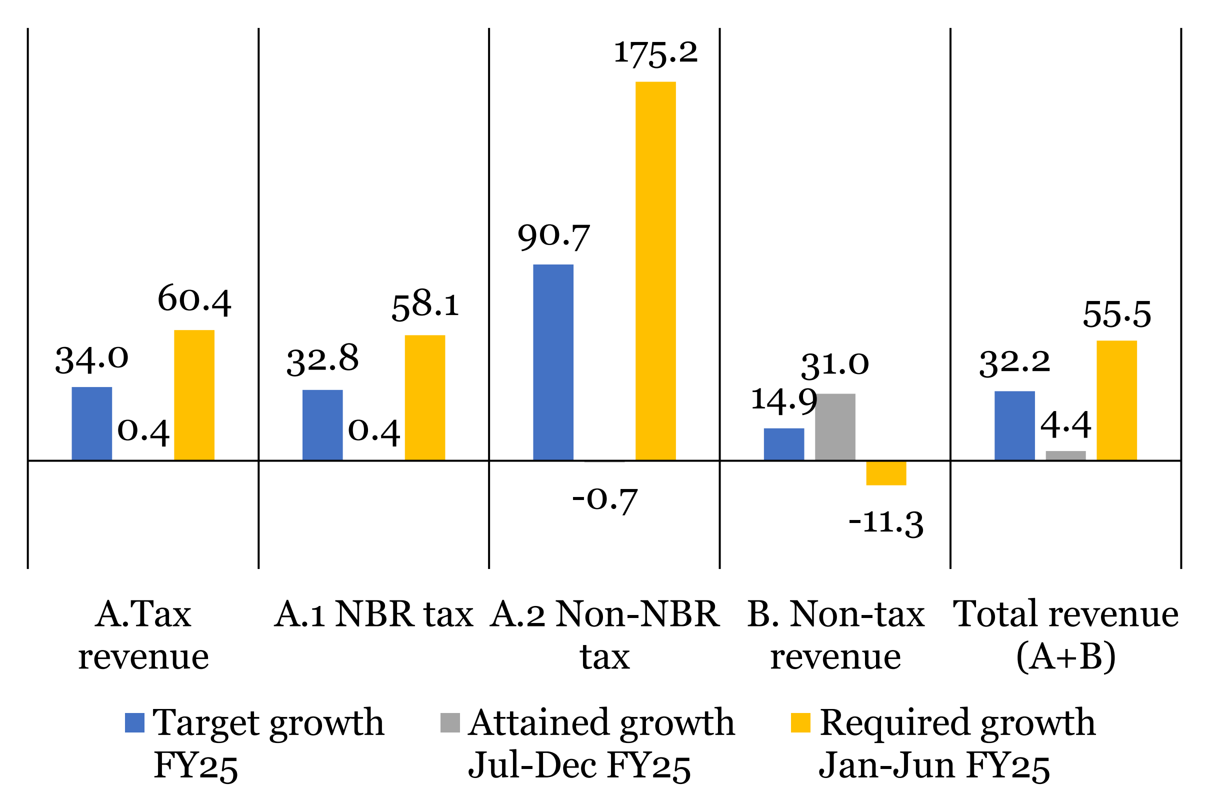
- The national **budget for FY26 holds significant importance** as it is being formulated by the interim government amid a challenging macroeconomic environment.
  - The interim government inherited an economy characterised by high inflation, subdued revenue collection, sluggish budget implementation, 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 **FY26 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 FY26.
  - 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 (SMEs).
  - 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.

2. Snapshot of Macroeconomic Correlates

Fiscal Space Shrunk During the First Half of FY25

- **Revenue mobilisation growth** was rather **subdued** during the Jul-Dec period of FY25.
  - Total revenue collection recorded a meagre growth of 4.4% during Jul-Dec FY25.
  - If the annual growth target of 32.2% is to be met, then total revenue collection will need to increase by a whopping 55.5% during the remainder of FY25 - 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 FY25**.

Revenue mobilisation growth by sources (%)



Source: Calculated from MoF (2025).

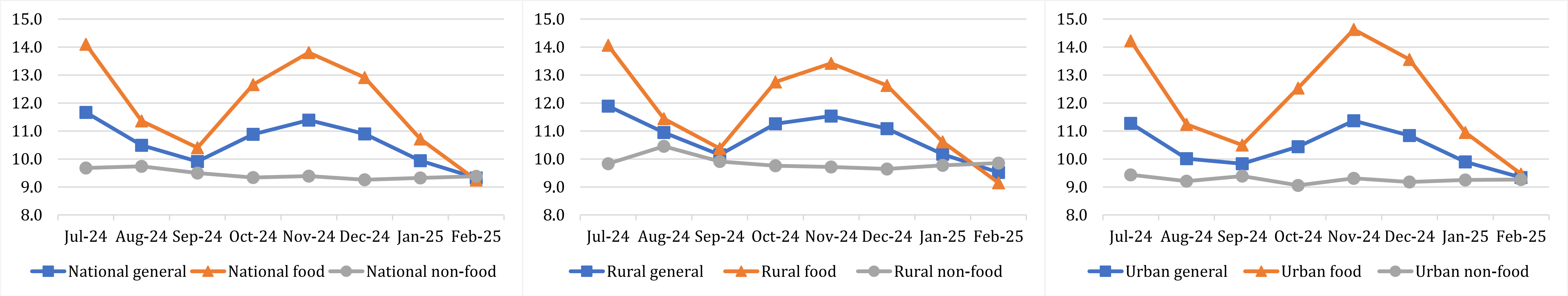
Fiscal Space Shrunk During the First Half of FY25 (contd.)

- During Jul-Dec of FY25, overall budget utilisation was 28.3% (25.5% during Jul-Dec FY24).
  - **Implementation rate of ADP slowed down** – reaching 14.8% during Jul-Dec FY25 (15.9% during Jul-Dec FY24).
    - Major factors behind this are the considerable reprioritisation and re-evaluation of development projects as well as reshuffling of the administration following the mass uprising in Jul-Aug 2024.
  - Conversely, **utilisation of non-ADP budget shot up** – reaching 35.1% during Jul-Dec FY25 (30.6% during Jul-Dec FY24).
    - Major drivers 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 Jul-Dec FY25, the budget deficit was BDT 29,527 crore (BDT 7,321 crore during Jul-Dec FY24).
  - **Borrowing from** scheduled **banks** was **catering the majority of deficit financing.**
    - **Affecting private sector credit growth** and **adding to the ballooning interest payment liabilities**.

Inflationary Pressures Continued Throughout the Fiscal Year

- During Jul-Feb of FY25, **general inflation remained over 9% at national, rural, and urban levels**.
  - 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.

Inflationary trend during Jul-Feb FY25 (%)



Source: Compiled from BBS (2024, 2025a, 2025b).

- 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% range by end-June 2025 is likely to be missed if the aforementioned dynamics unfold.

Monetary Aggregates are Unlikely to Meet the Monetary Policy Targets

- During the first seven months of FY25, **net foreign assets decreased** by (-) 2.6%.
  - 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.**
- Conversely, 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% during the last five months of FY25**.
  - **This is a highly unlikely prospect.**

Growth of monetary aggregates (%)

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 FY25	-2.6	9.8	9.1	16.6	7.2	8.0	9.0
June FY25 (MPS target)	7.7	8.5	12.0	19.8	9.8	8.4	1.0

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

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% growth during the first eight months of FY25.
- However, **overseas migration** recorded a **considerable decline** of (-) 22.0% during the aforementioned period.
- Overall **balance of payments** exhibited an **improvement** to the tune of **USD 3.5 billion**.
- **Both forex reserve** and **exchange rate of BDT against USD have stabilised** compared to the earlier situation.

Key indicators of the external sector

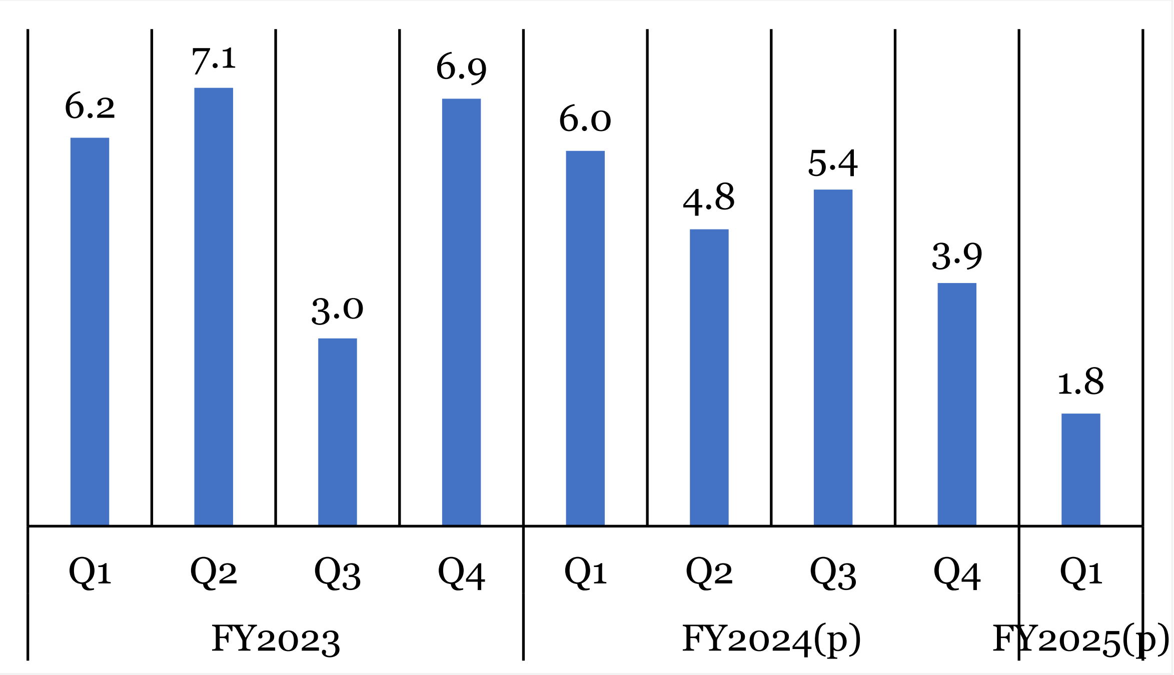
Indicator	Time frame	FY24	FY25
Export earnings growth (%)	Jul-Feb	-6.4	10.5
Import payments growth (%)	Jul-Jan	-18.3	4.3
Remittance growth (%)	Jul-Feb	7.6	22.6
Overseas migration growth (%)	Jul-Feb	15.8	-22.0
Current A/C balance (USD mln)	Jul-Jan	-4,280	-552
Financial A/C balance (USD mln)	Jul-Jan	81	850
Overall balance (USD mln)	Jul-Jan	-4,687	-1,170
Forex reserve (USD mln)	Feb	20,528	20,907
Exchange rate (BDT/USD)	Feb	110.0	122.0

Source: Compiled and calculated from Bangladesh Bank (2025b, n.d.b, n.d.c, n.d.d), BMET (n.d.), and EPB (n.d.).

GDP Growth Declined in the First Quarter of FY25

- During **Jul-Sep of FY25, estimated GDP growth was 1.81%** (corresponding figure for FY24 was 6.04%).
- The annual GDP growth target was set at 6.75% in the national budget for FY25.
  - As has been reported in the media, this target will be adjusted downward to 5.25% in the revised budget for FY25.
  - **Whether this curtailed target can be achieved remains a question**.

Quarterly GDP growth in Bangladesh (%)



Source: 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.**

3. Formulating the FY2026 Budget: Considerations and Alignment with LDC Graduation

Setting the Budgetary Targets for FY26 in a Realistic Manner

- 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'.
  - This led to the fiscal framework for FY25 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 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 FY25 draws to a close and more up-to-date data becomes available.
- The design and fiscal targets of the upcoming FY26 budget must be set in a realistic manner – drawing lessons from the experiences of the previous years and considering the emergent macroeconomic scenario.
- While discussing the issue of realistic target setting, the revenue mobilisation targets for FY25 can be a case in point.
  - While proposing the budget for FY25, the targeted growth of revenue mobilisation was set at 13.2% over the revised budgetary target of FY24.
  - However, if the actual revenue mobilisation of FY24 is considered, the growth target for FY25 actually turns out to be 32.2% - more than double the projected growth rate!

Streamlining Public Expenditure

- It must be ensured that the current austerity measures have minimal impact 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 Annual Development Programme (ADP).
- ADP's infrastructure-heavy formulation will need to be reassessed in order to give the sectors involved in human capital formation the due attention.
- In light of the current forex reserve scenario, the government should prioritise implementing all foreign-supported ADP projects. Projects that are almost complete (implementation rate of 85% or above in Jun 25) should be given higher priority.
- Projects with an implementation rate of 10% or less up till end of FY25 ought to be deprioritised.
- To support their continuation, 'carryover projects' with a maximum implementation rate of less than 30% till the end of FY25 should be re-examined.

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Maintaining Balance in Budget Deficit Financing

- Receiving financing from foreign sources will be a significant challenge in FY26.
  - 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.

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 BDT 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.

Aligning with the LDC Graduation Agenda

In view of the upcoming graduation from the LDC group in November 2026, Bangladesh's tax policies will need to undergo some changes in order to ensure compliance with the WTO rules and obligations as applicable for (non-LDC) developing country members.

- Tariff lines will need to be identified where customs duties and other charges exceed respective bound duties.
  - For instance, Bangladesh had bound duties on alcohol and cigarettes at 200%, milk powder at 45%, and biscuits at 30%. Currently, the total import taxes (which include CD, RD, SD, VAT, AIT, etc.) on these items 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. This exercise will have to be continued till November 2026.
- Bangladesh has a binding coverage of 17% of tariff lines which means 83% of tariff lines remain unbound. Bangladesh will continue to enjoy the flexibility related to tariffs on non-bound items even after graduation. The NBR should be aware of and take advantage of this.

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Aligning with the LDC Graduation Agenda (contd.)

- Bangladesh has minimum import prices for a number of imported goods. These will need to be withdrawn following the LDC graduation since such practices are not WTO-compatible.
- LDC graduation will mean that direct export incentives (e.g. the 3-4% cash incentive for export-oriented apparels sector, and the 20% cash incentive for agricultural exports) will no longer be permissible under the WTO. Such export incentives will need to be phased out.
  - 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 after Bangladesh's LDC graduation.
  - Notifications as regards domestic support will need to be submitted every year instead of a biennial basis.
- MC13 decision stipulates that graduating LDCs will not be taken to WTO Dispute Settlement Body for three years following graduation.
  - There is a need to build adequate national capacity to deal with possible disputes. The national budget for FY26 should make appropriate allocations in this regard.

4. Reforms of the NBR and the Taxation System

NBR Institutional Reforms

- **The discourse on NBR reforms has gained traction in recent times against the backdrop of:**
  - low domestic revenue mobilisation
  - a tax system and revenue structure that lag behind the demands of the time
  - lack of digitalisation and modernisation of the taxation system
  - conflicting interests of policy function mandate and tax mobilisation imperatives of the taxation system

- **The reforms are driven by the urgent need for Bangladesh's transformation into a modern revenue system that is equipped with:**
  - the institutional capacity to design, plan and execute appropriate taxation policies that are aligned with the country's tariff, and trade industrial policies and overall developmental strategy
  - the capability to ensure a significant rise in revenue earnings, and raise the revenue-GDP ratio
  - the ability to provide hassle-free and efficient services to the taxpayers

NBR Institutional Reforms (contd.)

- An *Advisory Committee* has been constituted by the NBR Chairman to recommend measures as regards NBR's institutional reforms, and policy, administrative and governance changes.
- Two separate Departments have been proposed which may be placed under the Ministry of Finance: *Revenue Policy Department* and *Revenue Administration Department*. This is a welcome move.
- To note, separation of policy and implementation tasks was also one of the IMF conditionalities for the USD 4.7 billion loan to Bangladesh.
- This bifurcation of responsibility is expected to enhance both policy-independence and policy-alignment and ensure efficiency and productivity of the taxation system where the current system focuses primarily on revenue collection.

NBR Institutional Reforms (contd.)

- **Separation of tax policy will be particularly important in view of formulating taxation policies by keeping in the perspective:**
  - alignment with revenue strategy and targets articulated in various documents such as the Five Year Plan
  - needs of the various trade agreements Bangladesh is currently negotiating
  - ensure compliance as a (non-LDC) developing country member of the WTO in anticipation of Bangladesh's upcoming LDC graduation in November 2026
- The Policy Department needs to be headed by professionals who are equipped with wide-ranging knowledge about tax policy, trade negotiations, WTO-compliance issues, development strategies and equipped with needed technical knowledge.
- A shift from trade taxes to income taxes and VAT, and within the broad categories, a shift from indirect taxes to direct taxes will be required.
- Under the Tax Administration Authority, two posts may be created - one for Direct Taxes and the other for Indirect Taxes. This is a good idea from the perspective of operational efficiency. The two wings will need to work in coordination with each other.

NBR Institutional Reforms (contd.)

- Evidently, mere carrying out reforms will not be enough.
- Digitalisation and modernisation of the taxation system must go hand in hand with reforms in order for the reforms to generate the expected results in terms of higher revenue earnings.

- Bangladesh will need to make the transition from Tax Administration 1.0 to Tax Administration 3.0 by skipping intermediate steps, at least for some elements.

Tax Administration 1.0 to Tax Administration 3.0

Tax Administration 1.0	Tax Administration 2.0	Tax Administration 3.0
• Tax agency centric • Manual business process • Paper-based documentation • Principal-Client nature • Disparate and siloed system	• Adoption and e-Admin • Business-Customer relationship • Use of digital tools • Tax technology • Data-driven process	• Business-centred system • Interoperability of systems • Digital identity-based tax management • Tax just happens

Source: Rahman and Rozario (2024).

Digitalisation of NBR

- A separate and dedicated *Digitalisation Wing* may be set up to coordinate all tax-digitalisation efforts.
- Investing in digitalisation and modernisation is *good value for money:* amongst its peers, Bangladesh would potentially reap the highest returns on investing in digitalisation.
- The Cell will need to work towards *interoperability of the various systems* which is crucial to ensure systemic interface between various initiatives at digitalisation, deter tax avoidance and facilitate revenue mobilisation.
- Although there are many Bangladeshi tech companies and IT professionals who have acquired the expertise needed to implement many of the digitalisation programmes being planned, they are not able to participate in the bidding process due to various eligibility requirements. The tender requirements need to be revisited and revised so that local IT professionals and companies are able to also participate in the bidding process.

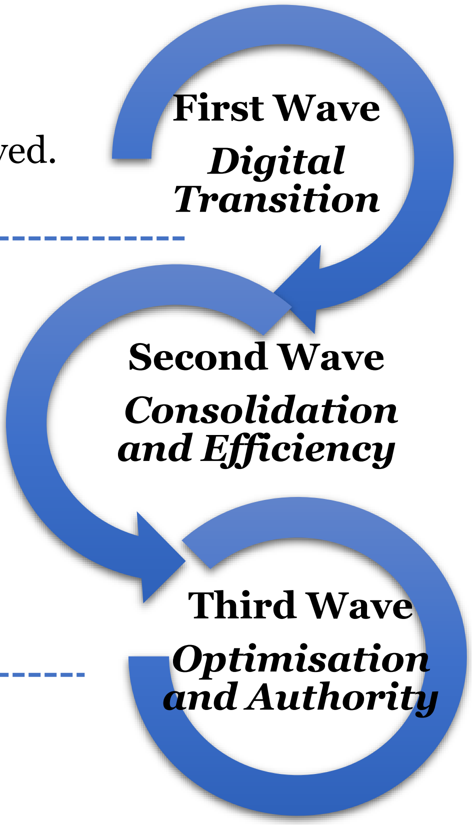
Digitalisation of NBR (contd.)

Three waves of Digitalisation: Bangladesh will need to move from First Wave to Third Wave of digitalisation through technological leapfrogging

This phase entails a shift from the prevailing mostly paper-based system to digital storage of tax information. At this stage, tax returns are e-filed, auditing is automated, and quality of data is improved. Bangladesh is still at the first stage.

This phase entails move to an integrated system of advanced technologies: tax administration begins using basic analytics and data warehousing e.g. prefilled tax returns and interface with personalised dashboards.

At this phase, the focus graduates to the stages of allowing systems to self-optimise using technologies such as machine learning and deep neural networks. Direct Control of tax authorities on specific processes and discretionary decision making is reduced progressively. Decisions are data-driven and automated.



Source: Rahman and Rozario (2024).

Reforms of the VAT

- All VAT-related functions need to be 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.
- According to the World Bank, the iVAS (Integrated VAT Administration System) currently offers only 43% of the benchmark features in spite of the substantial investment made over the past years. The gaps must be plugged expeditiously to generate higher earnings from VAT.
- At present, the number of entities with VAT registration stands at only about 5.0 lakh, while the actual number of VAT-eligible entities is way higher than this. Number of VAT points from where VAT is collected are much higher than VAT points from which VAT is actually deposited to the government. The revamped VAT Cell will need to take urgent measures to plug the loopholes.
- Tax Policy Department may consider reducing the VAT rate (from the current 15.0%) and move towards a general uniform lower VAT rate (perhaps 10.0%), by reducing exceptions but at the same time also taking into cognisance of CSME interests. NBR Administration Department will need to ensure that leakages are plugged, and accountability established.

Reforms of the Bonded Warehouse Facility (BWF)

- 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% of exporters who accounted for about a fifth of the country's total exports in FY24.
- The proposal to allow import of raw materials without duty if the concerned exporter has a *bank guarantee* equivalent to the applicable import duties needs careful consideration. If implemented, this will significantly reduce the hassle faced by non-bonded exporters at present. It will reduce the cost of doing export business and save time.
- The work on *bond automation* will need to be expeditiously completed to operationalise the expanded bond system.
- Exporters should be required to renew bond licences with less frequency than is currently the case.

Reforms of Income Tax Act 2023

- **Implementation of the new *Income Tax Act 2023* has revealed a number of problems and difficulties in operationalisation:**
  - The requirements of submission for proof of tax deduction at source, which is on a monthly basis, is proving to be onerous for the taxpayers. The requirements should be reset possibly at two times per year (which was in place previously; if not, then at most on a quarterly basis).
  - 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). Many entities are not being able to submit all the required documents which are creating problems both for the taxpaying entities and the NBR officials alike. The definition may be reviewed and changed accordingly by excluding such groups from the definition.
  - The new Act requires the engagement of several tax officials from various circles (up to seven) for purposes of audit of the randomly selected tax files. This is creating problems both for the concerned taxpayers and the human resource-constrained NBR.
- There is a need to review implementation of the Income Tax Act 2023 and address the identified problems.

5. Fiscal Policy for Controlling Inflation

Addressing Inflation in Bangladesh: Fiscal Policy Strategies

- **Inflation Challenges in Bangladesh**
  - Prolonged high inflation for about 3 years caused widespread suffering.
  - Eroded purchasing power, especially for low-income households.
- **Monetary Policy Response (2024): Bangladesh Bank raised the policy rate three times**
  - August 2024: 8.5% → 9%, September 2024: 9% → 9.5%, October 2024: 9.5% → 10%
    - Limited impact due to expansionary fiscal policy.
- **Fiscal Policy Measures**
  - Demand-side: Cut non-essential spending to reduce demand-pull inflation.
  - Supply-side: Invest in infrastructure, agriculture, and energy to lower costs.
  - Social Safety Nets: Strengthen food aid and cash transfers for low-income groups.
- **Major priorities for the upcoming budget of FY26:**
  - Strategic investments in employment-generating sectors.
  - Targeted social protection programmes.
  - Balanced fiscal approach to address both demand and supply-side inflation.

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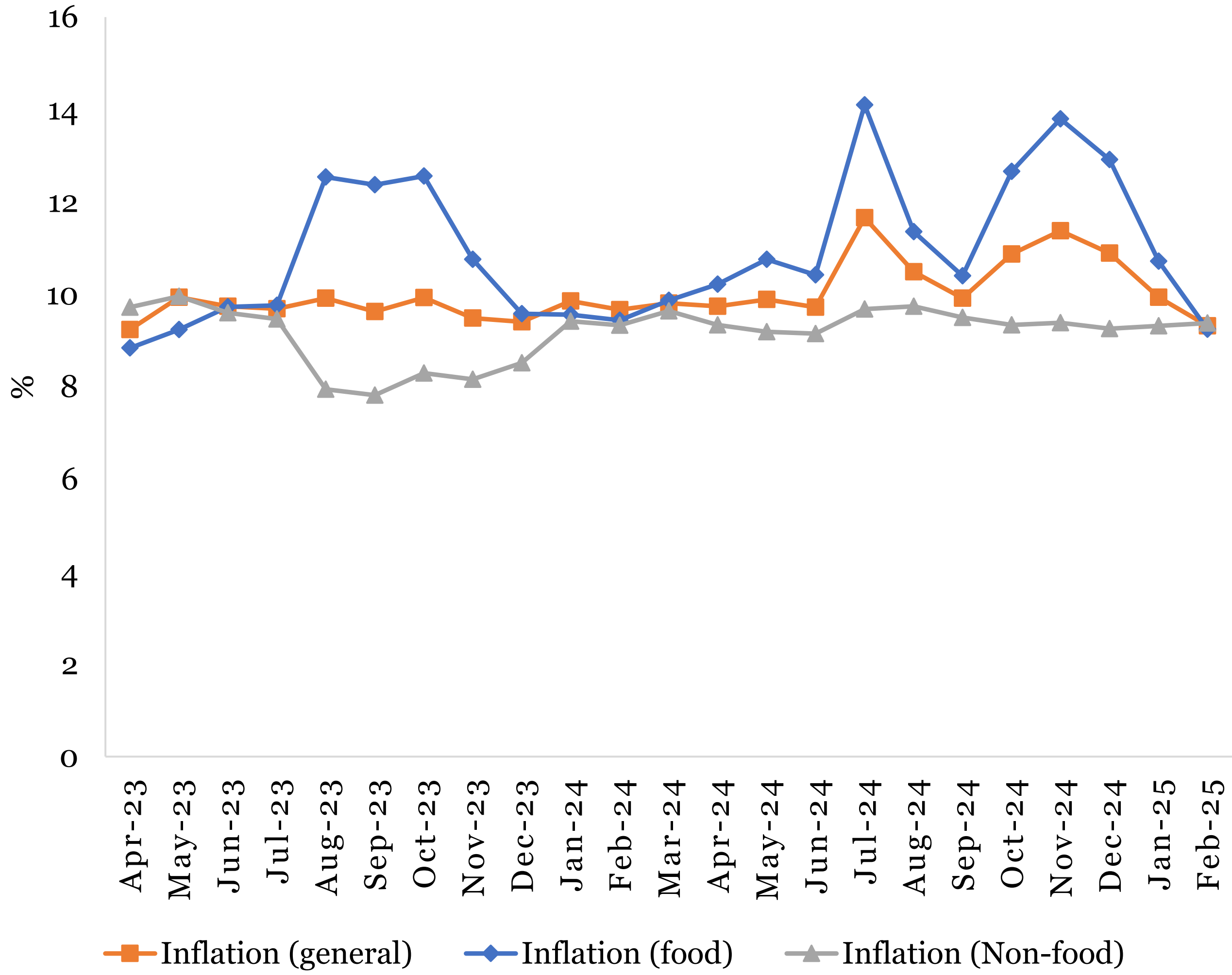
Point-to-point General, Food, and Non-food CPI Inflation in Bangladesh

- 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
- As of February 2025, the point-to-point general inflation rate was 9.32%, the point-to-point food inflation rate was 9.24%, and the point-to-point non-food inflation rate was 9.38%.
- However, the inflation trend has to be observed in the coming months to draw any definitive conclusions on the declining trend.

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

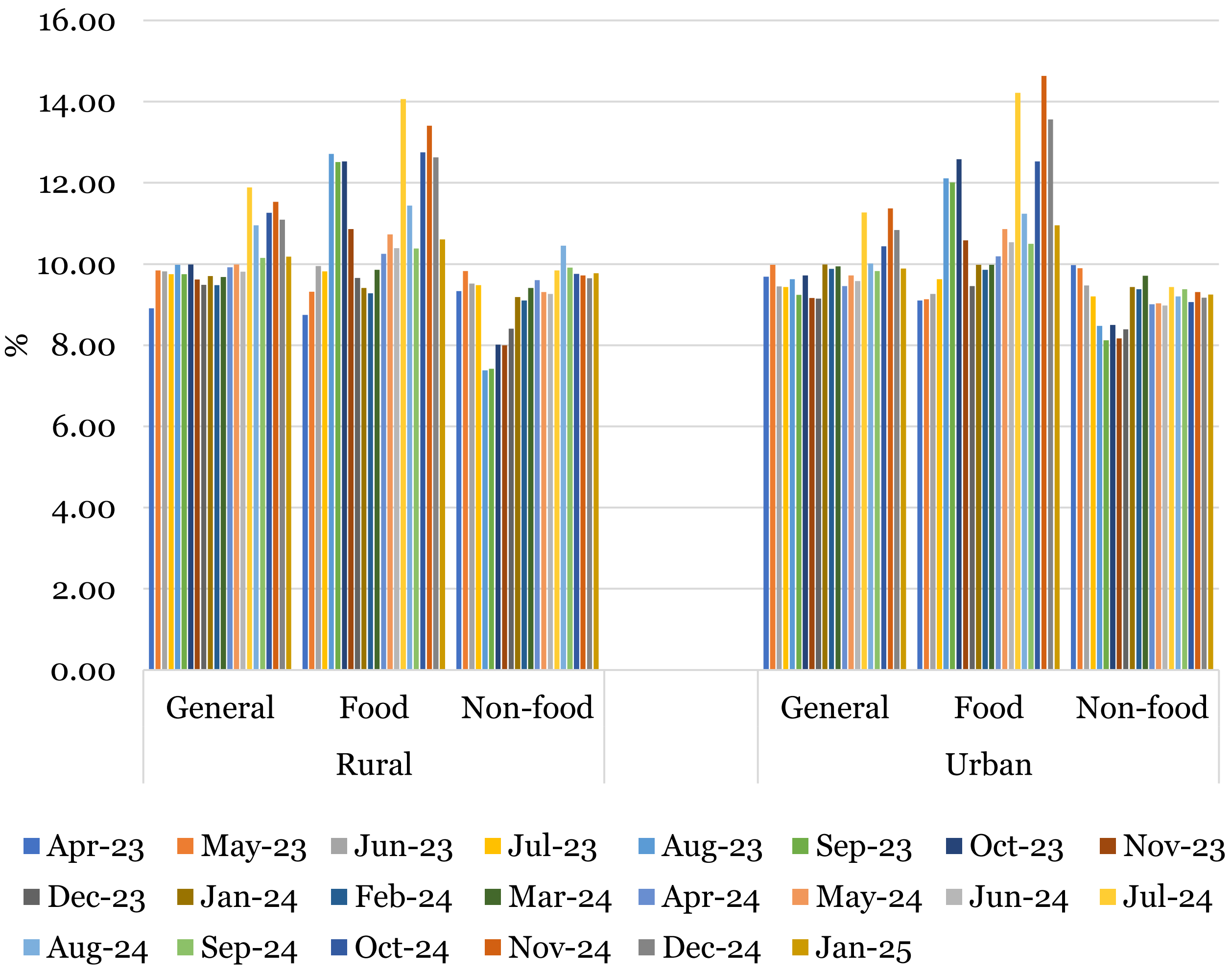


Source: CPD illustration based on data from the Bangladesh Bureau of Statistics (BBS)

Rural Inflation Higher than Urban

- ❑ Food inflation decreased from 10.61% in January 2025 to 9.15% in February 2025 in rural areas and from 10.95% in January 2025 to 9.47% in February 2025 in urban areas.
- ❑ 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.
- ❑ The increase in the price level in rural areas is worrisome since people in rural areas tend to have lower per capita income and are more vulnerable to shocks.

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



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

Interim Government's Inflation Control Measures

❑Key Initiatives (2024–2025)

➢ *Smart Family Cards:*

- 57 lakh cards distributed for subsidised essentials:
  - ✓ 2L edible oil: BDT 200
  - ✓ 2kg lentils: BDT 120
  - ✓ 1kg sugar: BDT 70

➢ *Food-Friendly Programme:*

- 50 lakh families to receive 30kg rice at BDT 15/kg (March–April).

➢ *Eid Gift:*

- 1 crore low-income families to receive 10kg rice free of cost.

❑Challenges & Weaknesses

➢ Over-reliance on indirect taxes exacerbates inequality.

➢ Inflation may force the withdrawal of indirect taxes on essentials.

➢ No significant steps to address supply chain irregularities (hoarding, cartels).

Strategic Recommendations to Combat Inflation

Fiscal Discipline & Spending Priorities

- Prioritise critical sectors: healthcare, education, agriculture.
- Cut non-essential spending to reduce aggregate demand.
- Limit borrowing from the central bank; focus on productive investments.

Support for Vulnerable Groups

- Design targeted subsidies for low-income households.
- Increase minimum wages and encourage private sector salary hikes.
- Expand direct cash/kind assistance programs.

Agriculture & Food Security

- Provide subsidised credit and stimulus packages for SMEs.
- Promote high-value, drought-resistant, and salt-tolerant crops.
- Establish crop insurance, cold storage, and solar-powered irrigation systems.
- Increase Open Market Sale volume and foodgrain procurement targets.

Market Regulation & Competition

- Strengthen the Competition Commission to monitor markets and enforce anti-trust laws.
- Investigate and penalize market manipulation and hoarding.

Social Safety Net Reforms

- Re-evaluate SSNPs to improve targeting, avoid overlaps, and introduce exit strategies.
- Create a unified database for monitoring and future planning.
- Enhance interministerial coordination to reduce costs and improve efficiency.

CPD (2025): CPD's Recommendations for the National Budget FY2025-26

6. Breaking the 'Vicious Cycle' of Financial Crunch of the Power and Energy Sector

Breaking the 'Vicious Cycle' of Financial Crunch of the Power and Energy Sector

- The power and energy sector has been witnessing 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 finds 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 FY26 to be approved in June 2025 by the interim government, is expected to **propose specific fiscal and budgetary measure**s to address those challenges.
- 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**, stressing 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

6.1 Addressing the Failure to Repay Overdue Loans, Import Bills and Charges of BPDB and PetroBangla

- 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 BDT 29000 crore.** Out of this amount, BDT 21000 crore is overdue with locally owned IPPs while BDT **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 (USD 800 million by June 2025)** and **Rooppur Nuclear Power Plant (USD 750 million by 2026).**
  - PetroBangla has been confronted with due bill against import of LNG and coal. As of January 2025, a total of USD 722 million (around BDT 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 ADP outlay by reallocating unspent funds in the sector.
- 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

❑ Recommendations:

❑ 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.
  - 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 to increase tariffs for electricity, gas and LNG at retail level.

Breaking the 'Vicious Cycle' of Financial Crunch of the Power and Energy Sector

- As a short-term solution, the **Ministry of Power, Energy and Mineral Resources (MoPEMR) should discuss with the Ministry of Finance (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.
- Similarly, MoPEMR should discuss with the MoF regarding a**llocating necessary foreign exchange for clearing overdue loans, bills and charges to foreign-owned companies/foreign funded projects**.
  - In this case, the MoF, especially ERD, could negotiate with the MDBs including IMF, World Bank and ADB for necessary budget support.
- The MoPEMR needs to discuss with the MoF 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.
- 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% 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.
- 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.
- 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 the progress is not promising.
- The drilling of only one well has begun, and the survey process for another well has started and 8 new projects are proposed for survey, exploration and extraction of hydrocarbons to enhance gas reserves.
- 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

- PetroBangla should start exploring **the wells immediately using its 'gas development fund**' instead of relying on the foreign bidders.
- BAPEX should even take loan **for allocating resources for gas exploration for the 10 wells** that are supposed to be explored using rented rigs.
- 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
- 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 gas exploration** in the off-shore fields.
- The review committee should immediately **submit their recommendations based on the discussions with the foreign companies** and thereby re-tender the off-shore gas blocks.

6.3 Level Addressing the Tariff related Challenges for Renewable Energy (RE)-based Investment

- 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 (table 6.1).
- 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).

Table 6.1: TTI on RE Equipment

Components	TTI
solar panels (HS Code: 854140)	26.2%
solar inverters (HS Code: 850440)	37%
mounting structures	58.6%
Lithium-ion batteries (850760)	58.60%
lead-acid batteries (850720),	89.32%

Source: Collected from secondary literatures and tax policy.

❑ Recommendations

- For parts, equipment and components related with renewable energy-related supply chains including generation, transmission and distribution where the **Customs Duty should be reduced to 5%.**
- Apart from high Customs Duty, AIT, RD, AT, and SD further discourage investment in solar panels, wind turbines, and battery storage.
  - The government should **eliminate these taxes on all renewable energy goods** to reduce costs and boost investment.
- 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% from 15%.**

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 in addition to higher VAT.
  - 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).

Recommendations

- 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.
- 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.
- The government should **introduce low-interest grants, or subsidy schemes** to support distributed renewable energy producers including households and businesses investing in solar power.
- 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.
- Financial incentives, such as **rebates on installation costs or direct subsidy payments for net-metered electricity,** could encourage more widespread adoption.

6.5 Withdrawing 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 enjoys much more fiscal incentives than RE (table 6.2)
- In the last budget speech, the Amendment of notification related to Rampal Power Plant and rental power companies was proposed to **impose 5% 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.

Table 6.2: Favorable tax incentive structure for fossil fuel
Corporate income tax for a period of 15 years
Exemption from income tax in Bangladesh for foreign lenders to power plant companies for 10 years
Maximum of 10% import duty on plant and equipment and spare parts within a period of 12 years of Commercial Operation
NO custom duties or VAT on plant and equipment and spare parts within a period of 12 years of Commercial Operation
5% VAT on the imported fuel

Source: Private Sector Power Generation Policy.

❑ Recommendations

- The Power Division should discuss with the NBR to withdraw the corporate tax exemption for all type of fossil fuel-based companies in case of upcoming power plants.
- A minimum of **5% 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.
- **MoPEMR and the Power Division, BERC and SREDA should take a joint measures 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.

7. Recommendations for SMEs

Context

- Small and Medium-sized Enterprises (SMEs) in Bangladesh, which employ around 24 million people, are facing a **disproportionately higher challenges** amid the ongoing economic pressures
  - Lately, the **costs of financing through credit have become even higher for SMEs** compared to other sectors, increasing operational cost of running the businesses.
  - In November 2024, the weighted average interest rate (WAIR) for SMEs **was 12.19%,** whereas it stood **at 11.78% for other sectors**; the same rate was **6.99%** for SMEs and **7.39% for the rest of the sectors in** FY23 (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% during the April-June quarter of FY24 compared to FY23** – suggesting slow or no new investments (Bangladesh Bank, 2025).
- Rising operational costs, driven by **higher inflation and depreciation of taka (BDT)**, along with **lower consumer confidence**, are reducing **SMEs' revenue streams.**
  - 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).

Context (contd.)

- Despite the introduction of SME financing schemes, including those by Bangladesh Bank, **many funds—especially for women-led SMEs and startups—remain undisbursed.**
  - Challenges such as **collateral issues, commercial banks' aversion to SME lending, and bureaucratic hurdles** continue to hinder access to credit.
  - The Disbursed SME funds are **often short-term** and **primarily benefit medium-sized enterprises**, which face fewer financing constraints than smaller businesses (World Bank, 2019).
- The interim government **has recently lowered the thresholds for VAT registration** to BDT 50 lakh and **for turnover tax** to BDT 30 lakh, down from the previous levels of BDT 3 crore and BDT 50 lakh, respectively.
  - Already SMEs are finding it challenging to remain competitive due to **the imposition of AIT at 5.0% and TDS at 7.0%.**
  - Adding **more tax and VAT liability** during the ongoing reality could potentially impose an **additional financial burden on SMEs.**

Recommendations for SMEs

- **Withdraw the recent decision to lower the VAT and tax eligibility thresholds**—reduced to BDT 50 lakh for VAT registration and BDT 30 lakh for turnover tax, from the previous BDT 3 crore and BDT 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.**

Recommendations for SMEs (contd.)

- 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 f**or 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**.

8. Fiscal Measures for Protecting Public Health

Budget Allocation in Health Sector

- In Bangladesh, the budget allocation for the health sector is **5.2% of the total budget and 0.74% of the GDP**, indicating that health is not a priority sector for the government.
- On the contrary, in 2020, at least 44 Least Developed Countries (LDCs) spent more than 1% of the GDP on healthcare.
- Bangladesh's **government expenditure on health** as a share of GDP was the **lowest among 45 LDCs** in 2021, with only Djibouti, Benin, and Gambia spending less on health than Bangladesh in 2020.
- The FY26 budget should increase the health budget allocation 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.
- During the July 2024 movement, **1,400 deaths and 14,025 injuries were reported** (OHCHR, 2025), requiring a portion of the national budget to be allocated for financial assistance.

A Single and Specific Tax on Cigarettes: BDT 10 per Stick

- ❑ The government should **eliminate the tiers of cigarette taxation and replace those with a single universal system.**
- ❑ We propose implementing a **uniform specific excise duty of BDT 10 per cigarette stick** on all cigarettes in FY26.

Proposed tax structure for cigarettes (per pack of 10 cigarettes)

<table>
<tr><th colspan="6">Current tax structure for cigarettes in FY25</th><th colspan="5">Proposed tax structure in FY26</th></tr>
<tr><td></td><td colspan="2">Retail price</td><td colspan="3">SD</td><td></td><td colspan="2">Retail price</td><td colspan="2">Specific excise duty</td></tr>
<tr><td>Tier</td><td>Pack of 10 (in BDT)</td><td>Per stick (in BDT)</td><td>Per pack of 10 (in per cent)</td><td>Per pack of 10 (in BDT)</td><td>Per stick (in BDT)</td><td>Tier</td><td>Per pack of 10 (in BDT)</td><td>Per stick (in BDT)</td><td>Per pack of 10 (in BDT)</td><td>Per stick (in BDT)</td></tr>
<tr><td>Low</td><td>50</td><td>5.0</td><td>60.0</td><td>30.00</td><td>3</td><td rowspan="4">Universal</td><td rowspan="4">Market based</td><td rowspan="4">Market based</td><td rowspan="4">100</td><td rowspan="4">10</td></tr>
<tr><td>Medium</td><td>70</td><td>7.0</td><td>65.5</td><td>45.85</td><td>4.58</td></tr>
<tr><td>High</td><td>120</td><td>12</td><td>65.5</td><td>78.60</td><td>7.86</td></tr>
<tr><td>Premium</td><td>160</td><td>16</td><td>65.5</td><td>104.80</td><td>10.48</td></tr>
</table>

CPD (2025): CPD's Recommendations for the National Budget FY2025-26

A Single and Specific Tax on Bidi: BDT 3 per Stick

CPD proposes a specific excise tax of **BDT 3 per stick** for all Bidi to be implemented in FY26

Proposed tax structure for Bidi

<table>
<tr><th colspan="6">Current tax structure in FY25</th><th colspan="5">Proposed tax structure in FY26</th></tr>
<tr><th></th><th colspan="2">Retail price</th><th colspan="3">SD</th><th></th><th colspan="2">Retail price</th><th colspan="2">Specific excise duty</th></tr>
<tr><th>Type of bidi</th><th>Per pack (in BDT)</th><th>Per stick (in BDT)</th><th>Per pack (in per cent)</th><th>Per pack (in BDT)</th><th>Per stick (in BDT)</th><th>Type of bidi</th><th>Per pack (in BDT)</th><th>Per stick</th><th>Per pack (in BDT)</th><th>Per stick (in BDT)</th></tr>
<tr><td>Non-filtered 25-stick handmade bidi</td><td>18</td><td>0.72</td><td>30</td><td>5.40</td><td>0.22</td><td rowspan="5">All</td><td rowspan="5">Market based</td><td rowspan="5">Market based</td><td>75</td><td rowspan="5">3</td></tr>
<tr><td>Non-filtered 12-stick handmade bidi</td><td>9</td><td>1.33</td><td>30</td><td>2.70</td><td>0.23</td><td>36</td></tr>
<tr><td>Non-filtered eight-stick handmade bidi</td><td>6</td><td>1.33</td><td>30</td><td>1.80</td><td>0.23</td><td>24</td></tr>
<tr><td>Filtered 20-stick handmade bidi</td><td>19</td><td>1.05</td><td>40</td><td>7.60</td><td>0.38</td><td>60</td></tr>
<tr><td>Filtered 10-stick handmade bidi</td><td>10</td><td>1.00</td><td>40</td><td>4.00</td><td>0.40</td><td>30</td></tr>
</table>

CPD (2025): CPD's Recommendations for the National Budget FY2025-26

A Single and Specific Tax on Jarda and Gul: BDT 6 per Gram

- CPD proposes a **specific excise duty of BDT 6 on per gram of Jarda and Gul** to be implemented in FY26.
- 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.

Proposed tax structure for Jarda and Gul

<table>
<tr><th colspan="6">Current tax structure in FY25</th><th colspan="5">Proposed tax structure in FY26</th></tr>
<tr><td></td><td colspan="2">Retail price</td><td colspan="3">SD</td><td></td><td colspan="2">Retail price</td><td colspan="2">Specific excise duty</td></tr>
<tr><td>Type of product</td><td>Per 10gm (in BDT)</td><td>Per gm (in BDT)</td><td>Per 10 gm (in per cent)</td><td>Per 10 gm (in BDT)</td><td>Per gm (in BDT)</td><td>Type of product</td><td>Per 10gm (in BDT)</td><td>Per gm (in BDT)</td><td>Per 10gm (in BDT)</td><td>Per gm (in BDT)</td></tr>
<tr><td>10gm jarda</td><td>48</td><td>4.8</td><td>55</td><td>26.40</td><td>2.64</td><td>10gm jarda</td><td rowspan="2">Market based</td><td rowspan="2">Market based</td><td rowspan="2">60</td><td rowspan="2">6</td></tr>
<tr><td>10gm gul</td><td>25</td><td>2.5</td><td>55</td><td>13.75</td><td>1.38</td><td>10gm gul</td></tr>
</table>

Health Development Surcharge and VAT on Cigarettes and Other Tobacco Products

- We propose that the **Health Development Surcharge** on cigarettes and other tobacco products to be **increased from 1% to 5%**, and the **VAT** on cigarettes and other tobacco products to be **increased from 15% to 20%** in FY26.

Proposed Health Development Surcharge and VAT on cigarettes and other tobacco products

	Current Tax Structure for FY25		Proposed Tax Structure for FY26	
Item	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
Biri	1	15	5	20
Jarda	1	15	5	20
Gul	1	15	5	20

Corporate Tax on Tobacco Product Manufacturing Companies

- The effective tax for a publicly listed tobacco company **decreased by 1 percentage point in 2022.**
- CPD proposes that the **corporate tax on all companies manufacturing tobacco products** to be **increased** from 45% in FY25 to **55% in FY26**, and the associated **surcharge** to be increased from 2.5% in FY25 to **7.5% in FY26.**
- The National Board of Revenue (NBR) should not give highest taxpayer award or any other social recognition to any individual or company involved in the tobacco business.

Proposed corporate tax on tobacco product manufacturing companies

	Current tax structure in FY25		Proposed tax structure for FY26	
Type of company	**Corporate tax (in %)**	**Surcharge (in %)**	**Corporate tax (in %)**	**Surcharge (in %)**
All companies manufacturing tobacco products	45	2.5	55	7.5

A Hard Tax on Soft Drinks and Energy Drinks

- Carbonated soft drinks and energy drinks contain a substantial amount of sugar which is a major cause for obesity, diabetes, and tooth decay.
- Typically, **a single can of a soft drink -** which is around 355 millilitres and contains **39 grams of sugar -** is equivalent to roughly about **10 teaspoons of sugar**, while the World Health Organization (WHO) recommends that adults **should not consume more than 6 teaspoons of sugar daily to lead a healthy lifestyle.**
  - Currently, the beverage and carbonated industry is subjected to a 30% SD for carbonated soft drinks, 40% SD for energy drinks, and 15% VAT applicable for both the types of beverages.

A Hard Tax on Soft Drinks and Energy Drinks

- For soft drinks and energy drinks, **CPD recommends that the government should put a specific excise duty of BDT 0.10 per ml or BDT 100 per litre in FY26.**
- Placing a specific excise duty on soft drinks and energy drinks **will provide the government with substantial revenue** and also minimise the risks of related diseases and health expenditures of the people in general.
- This will also allow the economy to achieve SDG target 3.4 which aims to **reduce non-communicable diseases** by one-third by 2030.

Proposed Tax Structure for Soft Drinks and Energy Drinks

Current Tax Structure for FY25			Proposed Tax Structure for FY26			
Beverage	**SD (%)**	**VAT (%)**	**Beverage**	**Specific excise duty (BDT per ml)**	**Specific excise duty (BDT per litre)**	**VAT (%)**
Soft drinks	30	15	Soft drinks	0.10	100	15
Energy drinks	40	15	Energy drinks	0.10	100	15

Independent Review of iRBD Bangladesh's Development

Tax on Sanitary Napkins: A Gender Tax Harming Women And Girls

- **Menstrual hygiene is a fundamental right for women and girls which is violated when menstrual hygiene products are subjected to all kinds of tax.**
- Locally produced **sanitary napkins and similar sanitary products** are subjected to **high prices** because of **high total tax incidence (TTI) on imports of raw materials** required for their manufacture.
- According to Bangladesh Customs, SD on imported raw materials required for manufacturing sanitary napkins, such as air laid paper was 20%, VAT and advance income tax (AIT) on other necessary raw materials were 15% and 5%, respectively in FY22.

Tax on Sanitary Napkins: A Gender Tax Harming Women and Girls

❑ CPD proposes that:

- **TTI on imported raw materials required to produce sanitary napkins should be zero by exempting all form of VAT, CD, SD AIT, RD, AT and AIT.**
- Raw materials used to produce sanitary napkins fall under 12 HS codes, including 48239094, 35052000, 35069110, 39069000, 39199020, 39201020 and 40021100.
- TTI of all these raw materials **should be made zero** to ensure affordable sanitary napkins for women and girls from all levels of income.
- The **TTI on imported sanitary napkins** in FY22 was **127.72%**, which is recommended to **be reduced to 31.93% in FY26** so that the product remains low-priced, but at the same time the domestic manufacturers of sanitary napkins receive some level of tariff protection.

Tax on Medicines in View of LDC Graduation

- Under the VAT and Supplementary Duty Act 2012, the government imposed 2.4% VAT on pharmaceuticals including medicines at local trading stage and 15% VAT on import of pharmaceutical ingredients and raw materials for production.
- As an LDC, Bangladesh's pharmaceutical industry is currently enjoying facilities under WTO's Trade Related Property Rights (TRIPS) pharmaceutical waiver.
- The TRIPS pharmaceuticals waiver will be withdrawn starting from 2026, so Bangladesh will lose the LDC-specific support measures under this agreement.
- CPD recommends that the **VAT on medicines should be exempted starting from FY26** to ensure that medicines continue to be affordable to all even after the loss of TRIPS waiver in 2026.

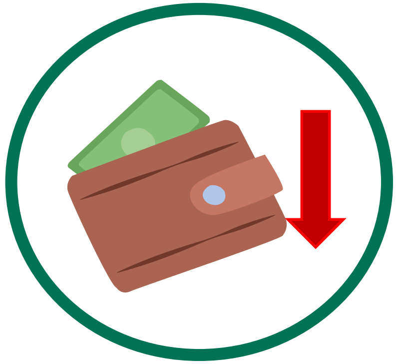
Financial Assistance and Medical Support for the July Movement Victims and Their Families

- 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.
- **The scale of the tragedy is immense, with hundreds of innocent people, including children, losing their lives and thousands more sustaining injuries, leading to long-term health consequences.**
- 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.

9. Fiscal Measures for Incentivising Education

Budget Allocation for the Education Sector

- Budget allocation for FY25 failed to meet the 3% target.
- In FY25, the government allocated BDT 94,711 crore (**1.69% of GDP**).



- Actual expenditure consistently falls short of the budget allocation.
- In FY23, the government spent BDT 62,079 crore (**1.40% of GDP**).

- Bangladesh's actual education expenditure is lower than many LDCs.
- At least 34 LDCs spent, on average, **2%** or more of their GDP on education from 2016 to 2023.

Rethinking Taxes on Education

- While the government has exempted Bengali medium schools, and later private universities from paying VAT on tuition fees, the **VAT on English medium schools continues to be at 5%.**
  - The existing VAT puts an additional burden on the parents of middle-income households.
  - **Therefore, the VAT on tuition fees for English medium schools should be exempted in FY26.**
- English medium schools follow international curriculum, and their students are assigned to read imported foreign books. At present the **total tax incidence on imported books is 73.96%.**
  - This puts further strain on families from middle-income households and impedes the efforts made in order to achieve SDG 4, which aims for inclusive and quality education for all.
  - **Therefore, all taxes on imported foreign books should be exempted.**
- Currently, a 15% corporate income tax rate applies to private universities, medical colleges, dental colleges, engineering colleges, and colleges imparting information technology education.
  - **This rate should be reduced to 10% in FY26.**

Proposal for Increased Budget Allocation for All Education Stipends

➢ **CPD proposes an increase in the allocation for all education stipends to be implemented in the budget for FY26**

Name of stipend	Current stipend structure in FY25			Proposed stipend structure in FY26	
	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	1.4	2569.24	1,835	16,800	12,000
Stipends for secondary, higher secondary and madrasah education level students	0.6003	1398.00	2,329	7,204	12,000
Stipends for undergraduate and postgraduate level students	0.013	3.36	258	234	18,000
Stipends for students of technical education institutions	0.0831	451.05	5,428	1,994	24,000
Stipends for physically challenged students	0.01	112.74	11,274	240	24,000
Stipend for improving the livelihood of transgender, Bede and disadvantaged community	0.0031	30.00	9,677	74	24,000
Total for stipend programmes	2.1095	4564.39		26,546	------

- Our proposed stipend reform will benefit more than 2 crore students at all levels and cost the government an additional BDT 26,546 crore.

School Feeding Programme Should Include All Government Primary School Students

- Since 2001, Bangladesh has been implementing the national school feeding programme in collaboration with the World Food Programme (WFP).
- By 2022, the school feeding programme benefited over 3 million primary students across 104 sub-districts, leading to an increase in enrollment and a decrease in dropout rates.

Current expenditure on school feeding programme

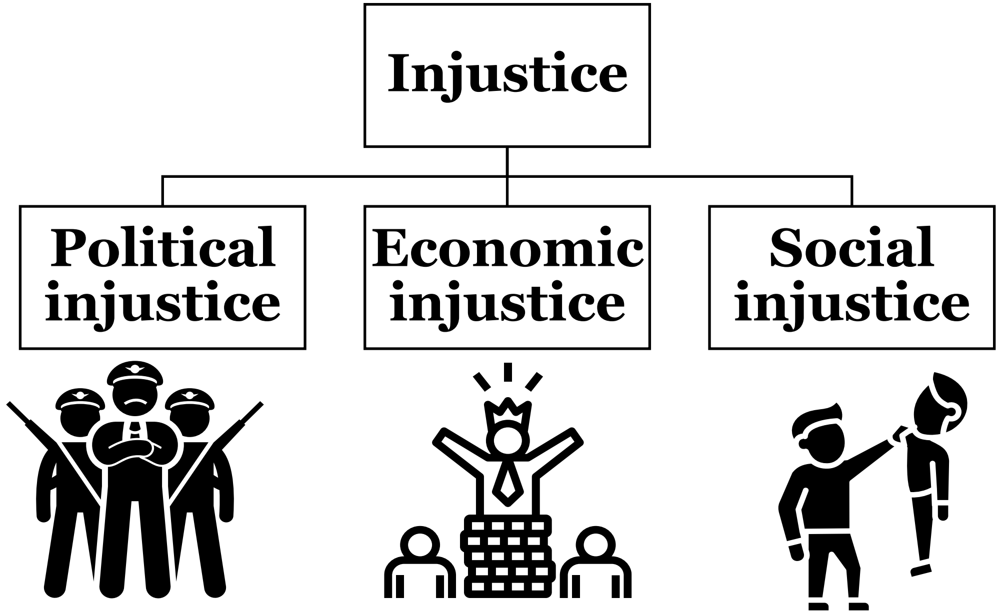
- The FY2025 budget allocates BDT 45.11 crore to support the school feeding programme, benefiting 3.6 million primary students at an annual cost of BDT 125 per student.

Proposed expenditure on school feeding programme

- CPD recommends expanding the school feeding programme to cover all primary students in FY26, requiring an increased budget allocation of BDT 116 crore.

Proposal for Scholarship Programme to Recover From The Impact of July Uprising on Education

- The July 2025 movement revealed deep-rooted social, economic, and political injustices present in Bangladesh.
- The movement escalated into violence, resulting in widespread human rights violations, with 12-13% of those killed being children.
- Many students were injured or killed, impacting their social, psychological, and academic well-being, with some forced to delay or abandon their education.
  - **Thus, the interim government should introduce a scholarship programme in FY26 to finance the education of those who were injured or disabled during the July uprising until they complete their undergraduate degree.**



Finance Programmes Or Schemes in Top Universities to Improve the Quality of Education and Research

- The quality of higher education in Bangladesh is below global standards, with issues like insufficient funding, lack of competent faculty, political interference affecting universities, suboptimal resources and curricula.
- The government should employ a combination of special financial programme and reforms to elevate a few top universities in Bangladesh to global standards.

In FY2026, the government should allocate funds for academic programme, STEM subjects, curriculum development, and incentives to attract distinguished international scholars and faculty.

- Housing discounts
- High salaries
- International school for children
- Residence permits
- Jobs for spouses
- Modern laboratories and equipment

10. Fiscal Measures for the Environment

Budget for a Breath of Fresh Air

- As of March 26, 2023, **Bangladesh's PM 2.5 concentration was 13.2 times higher than WHO's safe guideline.**
- A CPD survey in 2023 found that individuals in Dhaka spent an average of BDT 4,000 annually on treating air pollution-related health issues.
- Bangladesh's NDC commits to reducing GHG emissions by 6.73% across five sectors by 2030, requiring USD 14.6 billion (unconditional) and USD 89.9 billion (conditional) for the transport sub-sector.
- **Achieving these targets will require implementing various tax and regulatory measures.**

Fiscal Measures to Reduce Air Pollution

- An extensive policy that considers **VAT exemption on all types of equipment in a renewable power plant**, especially solar power plants, should be considered from FY26.
- An **incentive tariff can be considered for electricity generated from renewables** according to the Renewable Energy Policy 2008. This policy allows *electricity generated from renewable sources to be priced 10% higher than the highest purchase price of electricity generated from fossil fuel sources.*
- A **1% surcharge on the goods produced by industries polluting the environment** should be implemented in FY26.
- The government should **phase out fossil fuel subsidies from FY26.**
- A **formal feed-in tariff policy exclusively for renewable energy needs to be implemented in FY26** so a clear incentive package reaches all types of potential renewable energy producers, regardless of their generation capacity.

Fiscal Measures to Reduce Air Pollution

- In order 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 **5% to 50% higher than the AIT on hybrid and fully electric vehicles**, depending on the size the vehicle's engine and electric motor.

Table: Proposed advance income tax structure for the owners of private motor cars in FY26

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

Plastic Pollution Getting Out of Hand

- A survey of 500 households in Dhaka found that 73% of respondents thought that plastic pollution became significantly worse in the last 2 to 3 years.
- In the CPD's Green Cities Initiative survey, 57% of respondents reported that their local neighbourhood exhibited extremely high levels of plastic pollution.
- Alarmingly, **87% of the plastic waste generated in Bangladesh was inadequately managed**, which led to the country becoming the 10th largest contributor of mismanaged plastic waste in the world in 2010.
- 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.

Fiscal Measures to Reduce Plastic Pollution

- **Increasing 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 specific excise duty:** The FY26 budget 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
- The FY26 budget 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.

11. Concluding Remarks

Concluding Remarks

- The national **budget for FY26** 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 FY26 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.**

Concluding Remarks

- 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**.

Independent Review of Bangladesh's Development

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