Independent Review of iRBD Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD Budget Dialogue 2025

An Analysis of the National Budget for FY2025-26

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CENTRE FOR POLICY DIALOGUE

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

Introduction

- The budget for the fiscal year 2025-26 (FY26) has been presented by the Finance Advisor of the interim government formed on 8 August 2024 following the July uprising
- The **budget has been prepared amidst significant economic challenges** that weakened macroeconomic stability during the last three years
- In view of the current economic challenges, the interim government has to **address these through appropriate policy measures and necessary budgetary measures**
- While the major task of the Finance Advisor is to control inflation, **restoration of economic stability is also a priority** to regain the momentum of the economy
- CPD presents an assessment of various proposals made in the budget for FY26 in the above context
- Notable, CPD had prepared a more elaborate assessment of the budget proposals for FY26 following the budget announcement and shared with the media on 3 June 2025
- This presentation is a slightly revised version where a few selected issues are presented

Independent Review of iRBD Bangladesh's Development

Key CPD observations on the budget for FY2026

1) Macroeconomic projections appear optimistic
2) Proposed fiscal framework is unlikely to hold
3) Public expenditure priorities remain poorly aligned with strategic needs
4) Annual Development Programme (ADP) largely follows previous patterns
5) Inflation control measures are inadequate
6) Domestic market-oriented and import-substituting industries will face fiscal disadvantages
7) Key social sectors continue to be underfunded
8) Allocations for youth and employment generation mark a positive development
9) Limited emphasis on climate change and gender equality
10) Revenue mobilisation efforts reflect growing fiscal pressure

Observation 1

Macroeconomic projections for FY26 appear optimistic

Macroeconomic framework

Disquieting developments amid partial recovery…

- Large shortfall in revenue collection
- Restrained public expenditure
- Historical low ADP implementation
- High reliance on bank borrowing
- Persistent inflationary pressure
- High level of non-performing loans
- Liquidity crunch in several banks
- Resiliency in export earnings
- Robust remittance inflow
- Low private investment
- Gradual build-up of forex reserve
- Gradual increase in import payments
- Stabilisation of exchange rate
- Slowdown in economic growth
- Unmet demand for energy and power

Macroeconomic framework

GDP and Investment

Indicator	AFY24	BFY25	RBFY25	Estimate	Projection	
				FY26	FY27	FY28
GDP growth (%)	4.2	6.8	5.0	5.5	6.0	6.5
Gross investment (as % of GDP)	30.7	33.4	30.0	30.3	31.5	32.5
Private investment (as % of GDP)	24.0	27.3	24.0	24.3	25.4	25.7
Public investment (as % of GDP)	6.7	6.1	6.0	5.9	6.1	6.8
ICOR	7.3	4.9	6.0	5.5	5.3	5.0

- For FY26, **GDP growth** target has been set at **5.5%** - a recovery from 5.0% (provisional MoF estimates for RBFY25)
  - However, according to BBS, the provisional GDP growth for FY25 has been estimated to be **4.0%!**
- **Public investment-GDP ratio to decline marginally**: 5.9% in FY26 (6.0% in FY25) – Tk. 36,763 more in nominal terms
- **Private investment-GDP ratio to improve**: 24.3% in FY26 (24.0% in FY25)
  - In FY26, Tk. 162,085 crore will be additionally required for private investment (12.0% increase in nominal terms) – whether it is possible in the current political climate remains a question
- **ICOR** is expected to be 5.5 in FY26 – implying an **improvement in productivity** (6.0 in FY25)

Macroeconomic framework

Monetary Sector and Inflation

Indicator	AFY24	BFY25	RBFY25	Estimate	Projection	
				FY26	FY27	FY28
Private Sector Credit (growth in %)	9.8	9.0	9.8	11.0	12.0	13.0
CPI inflation (%)	9.7	6.5	9.0	6.5	6.0	5.5

- **Growth of credit to private sector**: 11.0% in FY26 (9.8% in FY25)
  - As of **April 2025**, private sector credit growth was **7.5%**
  - Amid government's high reliance on bank borrowing and political uncertainty, such uptick in credit to private sector may be optimistic
- **Inflation** is expected to fall drastically to **6.5% in FY26** – (9% projected FY25)
  - As of May 2025, average inflation (12-month moving average basis) was 10.1% (9.05% on point-to-point basis)
  - The ongoing middle-eastern conflicts may have inflationary implications for Bangladesh
- **The inflation projection for FY26 seems ambitious**

Macroeconomic framework

External Sector

Indicator	AFY24	BFY25	RBFY25	Estimate	Projection	
				FY26	FY27	FY28
Export (growth in %)	-5.9	8.0	9.0	10.0	10.0	11.0
Import (growth in %)	-10.6	10.0	5.0	8.0	9.0	9.0
Remittance (growth in %)	10.7	7.0	20.0	8.0	8.0	8.0
Forex Reserve (USD bln)	26.9	31.8	26.7	34.0	34.1	35.0
Exchange rate (BDT/USD)	111.2	114.0	121.9	128.2	134.6	136.0

- **Export growth: 10.0% in FY26 (9.0% in FY25)**
  - July-May FY25 was 10.0%
- **Import growth: 8.0% in FY26 (5% in FY25)**
  - July-April FY25 was 5.4%
- **Remittance growth: 8.0% in FY26 (20.0% in FY25)**
  - July-May FY25 was 28.7%
- **Forex reserve: USD 34.0 bln as of FY26 (USD 26.7 bln as of FY25)**
  - As of 4 June 2025, USD 26.1 bln
- **Exchange rate for FY26: Tk. 128.2/USD**
  - Interbank BDT-USD Exchange Rate on 4 June 2025 was BDT 123/USD
  - **Is this depreciation expected because of the new exchange rate regime and the anticipated build up of forex reserve?**

Macroeconomic framework

Public Debt

Indicator	AFY24	BFY25	RBFY25	Estimate	Projection	
				FY26	FY27	FY28
Debt Stock (as %of GDP)	37.6	39.4	37.4	37.5	37.6	37.7
External Debt Stock (as %of GDP)	16.1	16.2	16.2	16.3	16.1	15.7
External Debt Redemption (USD bln)	2.0	2.6	2.6	2.9	3.1	3.3

- **Public debt stock** as % of GDP is to increase marginally in FY26 (37.5% in FY26, 37.4% in RBFY25)
  - The similar can be said about **external debt**
- External debt redemption to grow by USD 0.3 bln in FY26
  - The projections for the latter years appear to be conservative

Overall, the targets for the macroeconomic framework for FY26 appear to be optimistic

Observation 2

Proposed fiscal framework for FY26 is unlikely to hold

Fiscal framework

Broad fiscal framework for FY26

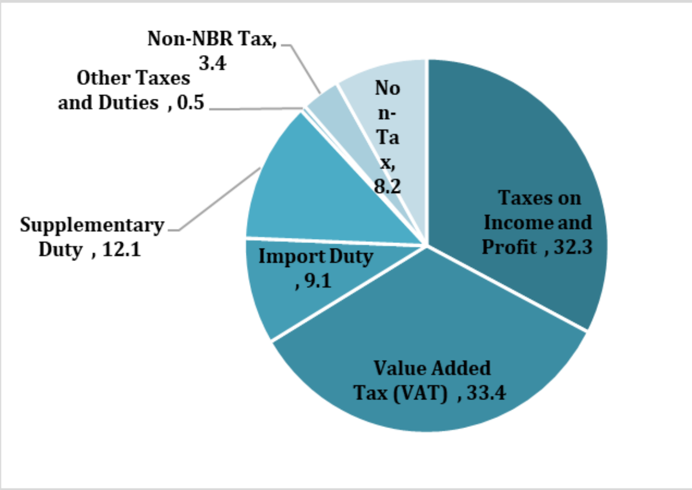
- **Revenue mobilisation** (**8.9%**) is projected to grow **faster** than **public expenditure** (**6.2%**)
  - **Total expenditure is set at** 12.7% of GDP (lower than RBFY25 → 13.4%)
  - Revenue is expected to be **9.0% of GDP** (lower than RBFY25 → 9.3%)

Revenue mobilisation

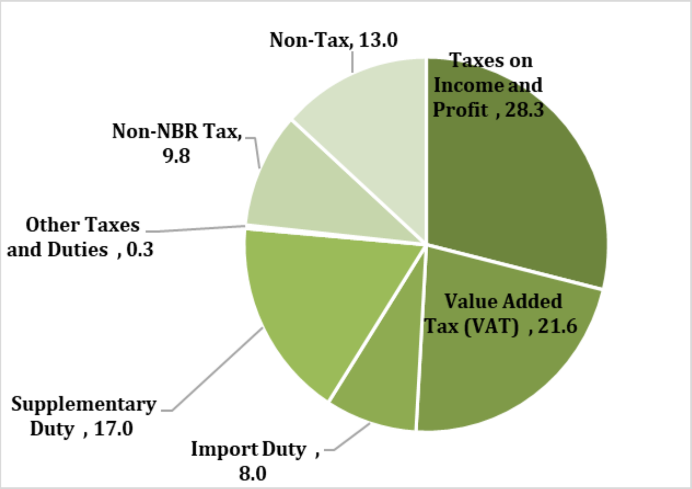
FY26 (Crore Tk.)	**564,000**
FY25 (RB) (Crore Tk.)	**518,000**
FY25 (CPD Projection) (Crore Tk.)	**436,000**
Target Growth (%) FY26 (Budget)	**8.9**
Target Growth (%) FY26 (CPD Projection based on data up to Mar 25)	**29.4**

- Budget FY26 targets **8.9% growth** over RBFY25
  - **CPD projection: 29.4% on actual FY25 - approx. an additional Tk. 128,000 crore may need to be mobilised**
- NBR tax is **projected to grow by 7.7%** (77.2% of incremental revenue). Non-NBR tax and non-tax revenue to increase; by 31% and 15% respectively
- VAT and Taxes on Income, Profits and Capital Gains to post strong growth (33.4% and 32.3% of total incremental revenue, respectively) followed by SD (12.1%) and Import Duty (9.1%)

Share of revenue FY26



Incremental share of revenue FY26

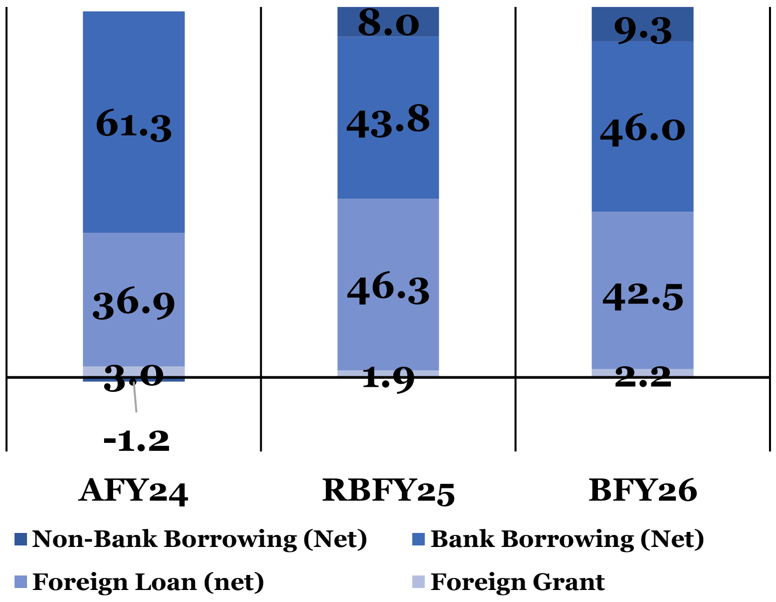


CPD (2025): An Analysis of the National Budget for FY2025-26

Fiscal framework

- ❑**Development expenditure** (6%) is programmed to grow **marginally slower** than **operating expenditure** (5.8%)
- ❑**ADP**: **29.1%** of total public expenditure (almost the same as RBFY25 → 29%)
- ❑**Budget deficit** has been projected at 3.6% of GDP (much lower than RBFY25 → 4.1%)
- ❑Share of foreign loans and grants (44.7%) in financing the budget deficit is expected to be lower (from 48.2% in RBFY25)
- ❑**Share of domestic financing 55.3%** in BFY26 (51.8% in RBFY25)
  - ➢ **Tk 104,000 crore** (**46%** of the total) will come from the **net bank borrowing**
  - ➢ Liquidity situation in the banking system needs to improve to service the budget deficit financing
  - ➢ Only Tk. 12,500 crore from net sale of NSD certificates
- ❑**Gross foreign aid flow (loan+grant)** is expected to **decline to USD 10.9 bln** (from USD 11.9 bln in RBFY25)

Share of deficit financing (%)



Observation 3

Public expenditure priorities remain poorly aligned with strategic needs

Public expenditure

- Public services sector and Interest payments **attained the top two spots**

- Budget for Public Services, Energy & Power and Housing sectors **declined**

Total Public Expenditure

Sector	Share in BFY26	Share in RBFY25	Change in BFY26 over RBFY25		Incremental Share
	%		Crore Tk	%	%
Public Services	23.6	25.3	-2362	-1.3	-5.1
Interest	15.4	16.3	500	0.4	1.1
Education and Technology	14.0	13.3	11543	11.6	25.1
Transport and Communication	9.0	8.1	10844	17.9	23.6
Agriculture	5.9	6.0	1700	3.8	3.7
Social Security and Welfare	5.7	5.7	2771	6.5	6.0
Local Government and Rural Development	5.7	6.0	125	0.3	0.3
Health	5.3	3.8	13985	50.1	30.4
Defence Services	5.2	5.3	1459	3.7	3.2
Public Order and Safety	4.2	4.3	1821	5.7	4.0
Energy and Power	2.9	3.1	-185	-0.8	-0.4
Recreation, Culture and Religious Affairs	0.8	0.7	1076	19.7	2.3
Housing	0.6	0.7	-271	-5.0	-0.6
Industrial and Economic Services	0.5	0.5	319	8.1	0.7
Others (Memorandum Item)	1.1	0.9	2675	41.8	5.8
Total Expenditure	**100.0**	**100.0**	**46000**	**6.2**	**100.0**

Public expenditure

Top 3 Sectors with higher share in BFY26	Change (percentage points)
Health	1.6
Transport	0.9
Education and Technology	0.7

Top 3 Sectors with lower share in BFY26	Change (percentage points)
Public Services	-1.8
Interest	-0.9
Local Government	0.3

- **Within the Public Services Sector, the Finance Division receives** an additional amount of **Tk. 10,404** crore (**22.6% of total incremental public expenditure**)

- **Some of the high spending areas include:**
  - **Equity: Tk. 24,196 crore**
  - **Loan to autonomous bodies: Tk. 55,407 crore**
  - **Reserve: Tk. 37,645 crore**
  - ***Together, these three areas received 68.1% of total incremental public expenditure***

Public expenditure

Augmented Operating Recurrent Expenditure

Indicators	Growth BFY26/RBFY25 (%)	Share BFY26	Share RBFY25	Incremental Share BFY26	Change in Crore BDT BFY26/RBFY25
Pay and Allowances	6.1	16.2	15.8	25.1	4867
Goods and Services	11.6	9.8	9.2	27.5	5335
Interest Payments	0.4	23.4	24.2	2.6	500
Domestic	*0.5*	*19.2*	*19.9*	*2.6*	*500*
Foreign	*0.0*	*4.2*	*4.4*	*0.0*	*0*
Subsidies and Current Transfers	0.3	45.2	46.8	3.8	744
Block Allocation	245.3	1.2	0.4	23.0	4462
Acquisition of Assets and Works	19.2	4.2	3.6	18.0	3498
Augmented Operating Recurrent Expenditure	3.9	100.0	100.0	100.0	19406

- Augmented Operating Recurrent Expenditure is projected to increase only marginally (3.9%)
  - **Almost no increase (only Tk. 500 crore) in interest payments**
  - Pay & Allowances, and Goods & Services **to receive more than half** of the incremental Augmented Operating Recurrent Expenditure

Observation 4

Annual Development Programme (ADP) for FY26 largely follows previous patterns

Annual Development Programme

- ❑ **ADP of Tk. 230,000 crore has been proposed for FY26**
  - ➢ **3.7% of GDP in FY26** (4.7% in BFY25 and **3.9% in RBFY25**)
  - ➢ Project Aid (PA) to finance **37.4% of total ADP** in FY26 (37.7% in ADP of FY25)
  - ➢ **Two projects** account for 19.7% of total project aid in ADP for FY26
    - ▪ **Rooppur Nuclear Power Plant**: 11.2% and
    - ▪ **Dhaka Mass Rapid Transit Development Project** (Line 1): 8.5%
- ❑ FY26 ADP is **13.2% lower than the original ADP for FY25 –** indicating a reduction of Tk. 35,000 crore
  - ➢ **14 out of the 15** sectors of ADP have received **some extent of budget cut**
    - ▪ Except for *Religion, Culture and Recreation*
  - ➢ **Regrettably, Education, Health, and Agriculture have seen declines of Tk. 2,971 crore, Tk. 2,535 crore and Tk. 2,424 crore, respectively**

Sector	Share in the Tk. 35,000 crore reduction (%)
Transportation and Communication	33.5
Power and Energy	23.9
Local Government and Rural Development	12.9
Education	8.5
Health	7.2
Agriculture	6.9
Housing and Community Amenities	6.0
Industrial and Economic Services	4.2
Social Protection	3.7
Science and ICT	2.6
Public Order and Safety	1.5
Environment, Climate Change and Water Resources	1.3
General Public Services	0.7
Defence	0.7

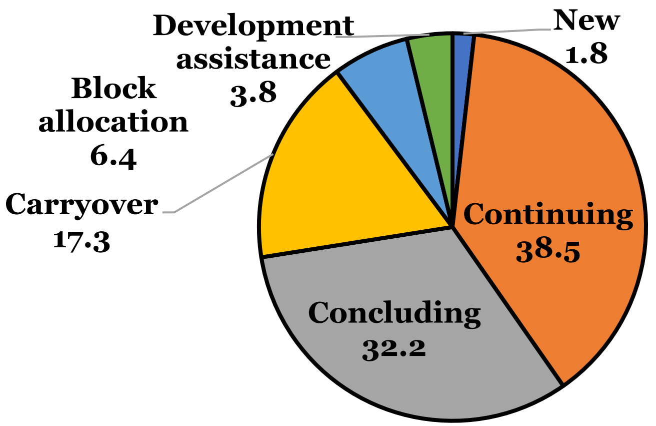
Annual Development Programme

- **No major change in the combined share of top 5 sectors** – perhaps a missed opportunity to break free from the mould
- The **top 5 sectors** have received **69.9%** of total ADP allocation
  - **Transportation and Communications Sector** once again has received the highest allocation (25.6% of total) for the highest number of projects (191). **Power and Energy** sector has received the second highest share (14.1%) in ADP allocation, as before
  - Rooppur Nuclear Power Plant project accounts for 30.9% of total allocation for Power and Energy sector!
  - **Encouraging to see that both health and education have remained in the top 5 sectors**

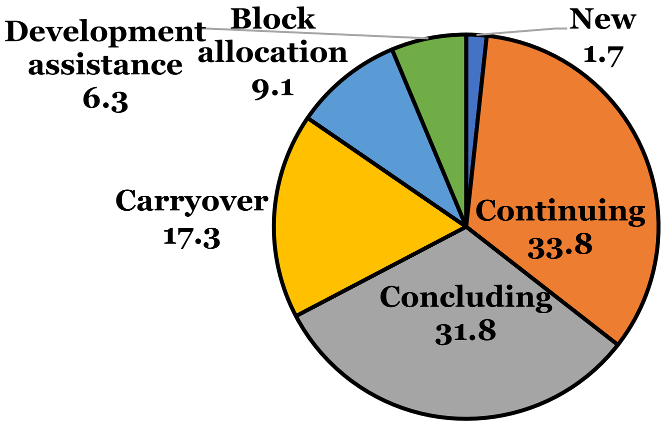
Sector	ADP FY25		ADP FY26	
	No of projects	Allocation share (%)	No of projects	Allocation share (%)
Top five sectors	**628**	**71.1**	**545**	**69.9**
Transportation and Communication	220	26.7	191	25.6
Power and Energy	61	15.4	56	14.1
Education	104	11.9	92	12.4
Housing and Community Amenities	196	9.4	171	9.9
Health	47	7.8	35	7.9
Other 10 Sectors	**618**	**25.1**	**540**	**23.8**
Development Assistance	NA	3.8	NA	6.3
Total	**1246**	**100.0**	**1085**	**100.0**

Annual Development Programme

- ❑ The ADP for FY26 contains **1,085 projects** (1,246 for ADP of FY25)



Share of allocation in FY25 (%)

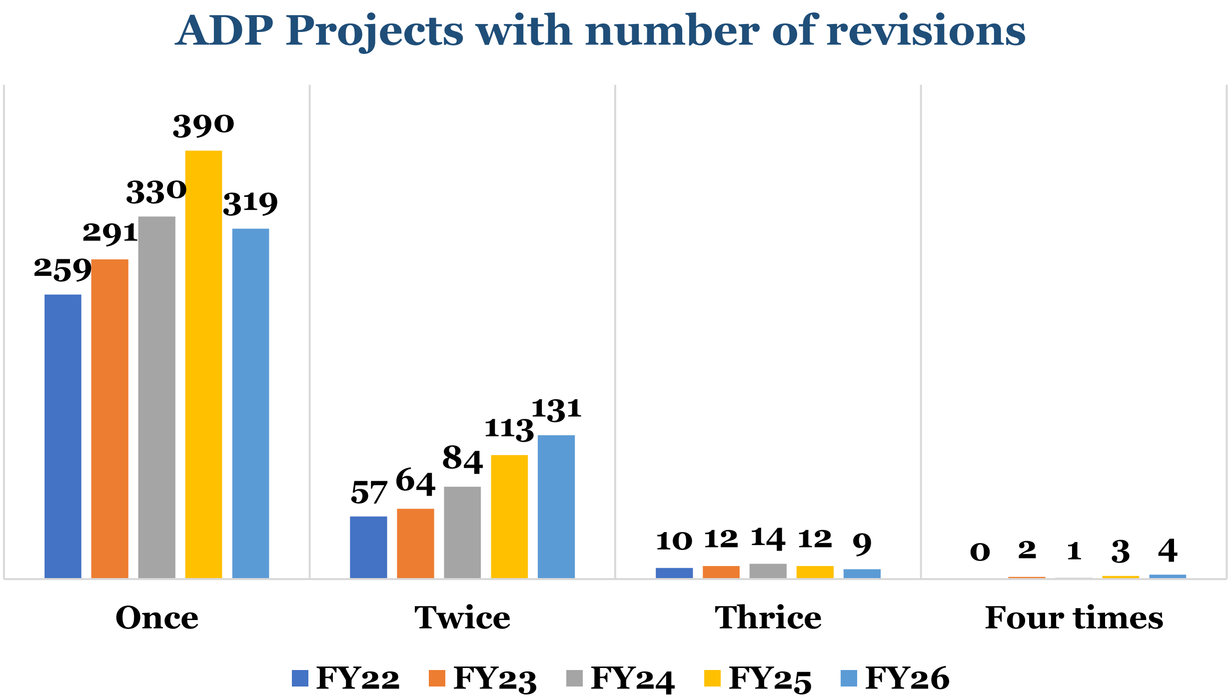


Share of allocation in FY26 (%)

- ❑ **Share of allocation for continuing projects has declined** to 33.8% in FY26 from 38.5% in FY25
  - ➢ This 33.8% allocation is provided to 302 continuing projects in FY26 (370 in FY25)
  - ➢ Indeed, 5 out of 10 highest allocated projects are continuing projects
- ❑ **The share of projects with symbolic allocation (token allocation to keep these in the ADP list) has increased substantially – an objectionable development and a move to the wrong direction**
  - ➢ **45 projects (4.1% of total number of projects) under ADP FY26 have received only Tk. 1 lakh or below**; (24 projects (1.9%) received such allocation in FY25)

❑Time-overrun projects continue!

- **Average age** of 969 investment projects is **5.5 years**
- **338** (34.9%) of these 969 projects are 6-10 years old (due to repeated extensions of projects)
- **43** of these 969 projects are more than 10 years old
- **47.8%** of investment projects in ADP for FY26 have already been revised between 1-4 times
- Number of **projects with time extension** decreased **from 518 in FY25 to 463 in FY26**
- Number of projects with **2nd time extension increased by 16% in FY26** compared to FY25



Annual Development Programme

- **Mega Projects: Pace of implementation remains a concern**
- Tk. 43,261 crore is allocated for top 20 mega projects (mostly infrastructure including fast-track and based on project size) which is nearly 19% of total ADP of FY26
- **Eight out of 20 mega projects are scheduled to be completed in FY26**
  - Construction of Rooppur Nuclear Power Plant
  - Padma Bridge Rail Link (2nd revised)
  - Dhaka Mass Rapid Transit Development Project (Line 6) (2nd revised)
  - Construction of Dhaka-Ashulia Elevated Expressway (1st revised)
  - Construction of Jamuna Railway Bridge (1st revised)
  - Ghorasal Polash Urea Fertiliser Project (1st revised)
  - Construction of dual gauge double line on Joydevpur-Ishwardi section
  - Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border (2nd revised)
- **However, even if maximum utilisation of resources is ensured, none of these will be completed by FY26**

Observation 5

Inflation control measures are inadequate

Containing inflation

The budget speech acknowledged inflation as one of the biggest challenges after the interim government assumed office

Some measures were proposed in this regard

❑Major Changes in Personal Income Tax (PIT) structure

- Annual tax-free income threshold for general taxpayers has been raised to Tk. 3.75 lakh. **This will be applicable from assessment year (AY) 2026-27**
- **For AY2025-26, PIT structure has remained unchanged**, excepting that the highest tax slab has been reinstated to pre-covid level of 30%

- **In view of the prices rising** by more than 20% over the last two years, (when the tax-free income of BDT 3.50 lakh was put in place in FY23), **the increase in tax free income should have been put into effect from AY2025-26**
- **On a welcome note, tax-free income of July Warriors has been set to BDT 5.25 lakh**
- **Fixing of minimum tax of one thousand taka for new taxpayers is a welcome initiative to broaden the tax base**

AY2025-26		Proposed AY2026-27 and 2027-28	
Tax slabs	**Tax rate**	**Tax slabs**	**Tax rate**
Up to Tk. 3,50,000	Nil	Up to Tk. 3,75,000	Nil
Next Tk. 1,00,000	5%	Next Tk. 3,00,000	10%
Next Tk. 4,00,000	10%	Next Tk. 4,00,000	15%
Next Tk. 5,00,000	15%	Next Tk. 5,00,000	20%
Next Tk. 5,00,000	20%	Next Tk. 20,00,000	25%
Next Tk. 20,00,000	25%	On Balance	30%
On Balance	30%	-	-

Containing inflation

❑ New PIT Structure for Assessment Year 2026-27 and 2027-28

❑ The tax-free threshold has been raised from BDT 3,50,000 to BDT 3,75,000 only

- The prices will have risen by **at least 27-28% by that time** (AY2026-27) from the base level (AY2023-24).
  - **The increase of 7% only in the tax-free income threshold would mean that tax burden on low-income taxpayers will be high even if there is some increase in personal income**
- **CPD estimates show that tax burden on relatively low-income groups will be higher**: for those earning income of BDT 6.0 lakh, BDT 10.0 lakh and BDT 15.0 lakh total tax liability will:
  - **rise by 12.5%, 16.7% and 16.7%** respectively
- In contrast, **for those earning BDT 30.0 lakh the rise will be comparatively lower (7.6%)**
- **This goes against the principle of equitable tax burden and equity**

Taxable Income in BDT	% of Assessment increase in FY2026-27 and FY2027-28 to FY2025-26
600,000	12.5%
10,00,000	16.7%
15,00,000	16.7%
30,00,000	7.6%

❑ The proposed **uniform minimum tax of BDT 5,000**, instead of the **previous differentiated rates**, ranging from BDT 3000- 5000, will remove the difference between tax rate applicable for the taxpayers in relatively more developed Dhaka and other less developed regions

Containing inflation

❑ Indirect tax measures

- **Refined Sugar**: Specific tax on import reduced from BDT 4500/MT to BDT 4,000/MT → *will be positive for consumers. However, domestic sugar mills to face more competition from imported sugar*
- **Liquified Natural Gas (LNG)**: VAT exemption has been proposed → *will reduce the difference between LNG import by public and private enterprises. Should have positive implications for consumers and producers*
- **Raw materials for sanitary napkins and diapers**: the existing VAT exemption facility for import has been extended to June 30, 2030 → will reduce price of essential items used for the health protection of women and children
- **Plastic products**: SDs on many plastic products have been reduced from 45% to 40% → *will be helpful for consumers, but increase competitive pressure for domestic producers*
- **Excise Duties on Bank deposits**: Threshold for excise-free bank balance has been raised from BDT 1.0 lakh to BDT 3.0 lakh → *will be helpful for small size depositors*

Containing inflation

Social Safety Net Programmes (SSNP)

Some programmes where allocation is less than BDT 500 per beneficiary per month

Existing Programs	Per capita budget allocation for 2025-2026 (monthly)	Percentage change in budget from FY25 to FY26	Increase or decrease in budget
Printing and distribution of free textbooks	26.88	40.23	Increase
Service and Support Centre for Persons with disabilities	49.67	3.88	Increase
Relief operation-rehabilitation	56.52	-0.14	Decrease
VGF Program	57.99	4.16	Increase
Free textbook distribution among students	58.25	-8.24	Decrease
Agriculture Rehabilitation Assistance	75.09	0.89	Increase
Trust for the Protection of the Persons with Neuro-Development Disabilities	104.52	-0.23	Decrease
Stipend for Primary School Students	120.38	-6.12	Decrease
National legal aid services organisation	132.17	12.80	Increase
Relief Activities	141.67	6.09	Increase
Bangla new year allowance for Heroic Freedom Fighter	177.21	0.00	No change
Open Market Sales (OMS)	233.50	5.94	Increase
Distressed Women and Children Welfare Fund	245.10	0.00	No change
Rehabilitation and Alternative Livelihood Program for the persons engaged in begging	250.00	0.00	No change
Stipend under technical and Madrasa education division	256.85	102.61	Increase
VGF program for Fishermen	315.17	4.16	Increase
Improving access and retention through harmonised stipend program	331.21	7.59	Increase
Relief operation-rehabilitation (House grant)	496.45	0.00	No change

Observation 6

Domestic market-oriented and import-substituting industries will face fiscal disadvantages

Tariff rationalisation in view of LDC graduation (Annex C)

- A number of measures have been proposed to rationalise tariff values in view of Bangladesh's upcoming LDC graduation. This has been done in three (3) ways
  - **12 HS Codes for which Tariff Values have been withdrawn**
  - **12 HS Headings for which Minimum Tariff Values have been withdrawn**
    - 84 Products: Broad category of items proposed for minimum value withdrawal
  - **6 HS Headings for which Minimum Values have been Increased**
    - 23 Products: However, this goes against the aforementioned rationalisation of tariff values through minimum value reduction
- **Structural Reforms:**
  - New 3% Customs Duty Tier introduced (within existing six-tier structure)
  - New 40% Supplementary Duty Rate added (expanding the 12-tier framework)
  - Zero Tariff Maintained for: Essentials, food items, Fertilisers, seeds, Life-saving medicines, Cotton & select raw materials
- Proposed measures set the stage to **move away from protectionist para-tariff measures** and **minimum tariff value system** which will be required in view of Bangladesh's upcoming **LDC graduation**.
- It will make the **tariff structure more transparent** for businesses and will help **reduce customs disputes**.
- This will **improve** Bangladesh's **compliance with WTO tariff regime**

Trump Tariffs and Response

- Phased reduction of tariffs on imported goods and complete withdrawal of import tariffs on 110 products, reduction of import tariffs on 65 products, complete withdrawal of supplementary tariffs on 09 products and reduce supplementary duty on 442 products as part of preparation for trade dialogue with the United States
- Since all duties are MFN-based, **consideration of a specific country for tariff reduction and rationalisation should demand consideration of other factors as well**
  - While a **strategic view is appreciated**, it needs to be kept in mind that any measure in view of Trump tariffs will have to be provided on an MFN basis
  - The proposed tariff measures will have revenue implications
  - If an FTA is to be negotiated with the USA, the upfront Trump-Tariff focused tax proposals may weaken Bangladesh's bargaining power

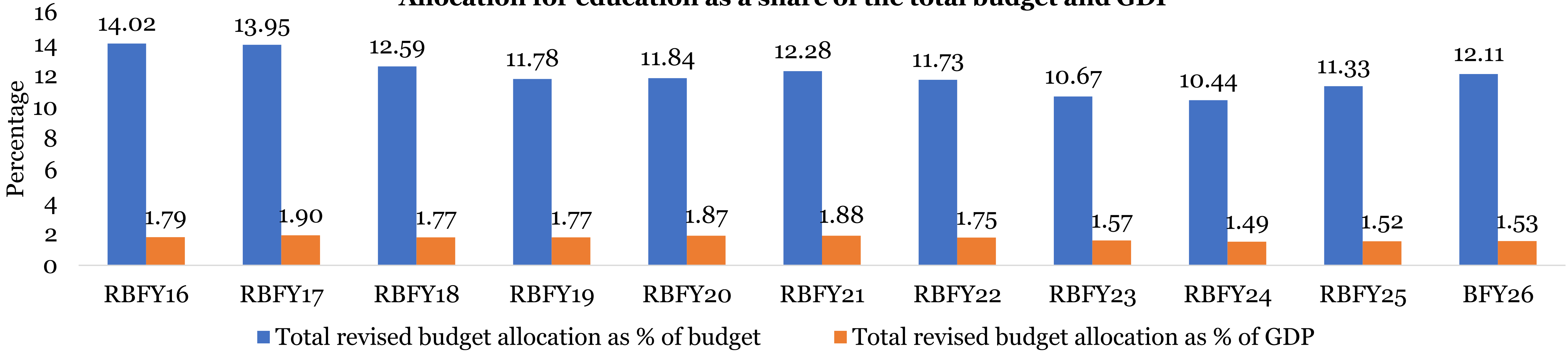
Observation 7

Key social sectors continue to be underfunded

Key social sectors: Education

- **Allocation for education as a share of the total budget**
  - ↑ from 10.44% (RBFY24) → 11.33% (RBFY25)
  - ↑ from 11.88% (BFY25) → 12.11% (BFY26)
- **Allocation for education as a share of GDP**
  - **↓ from 1.69% (BFY25) → 1.53% (BFY26)**
  - Still below Eighth Five-Year Plan target: 3.5% by FY25
- **Global Comparison**
  - **3rd lowest education spending (2016–2023) among 39 LDCs**
  - 35+ LDCs spent ≥2% of GDP on education

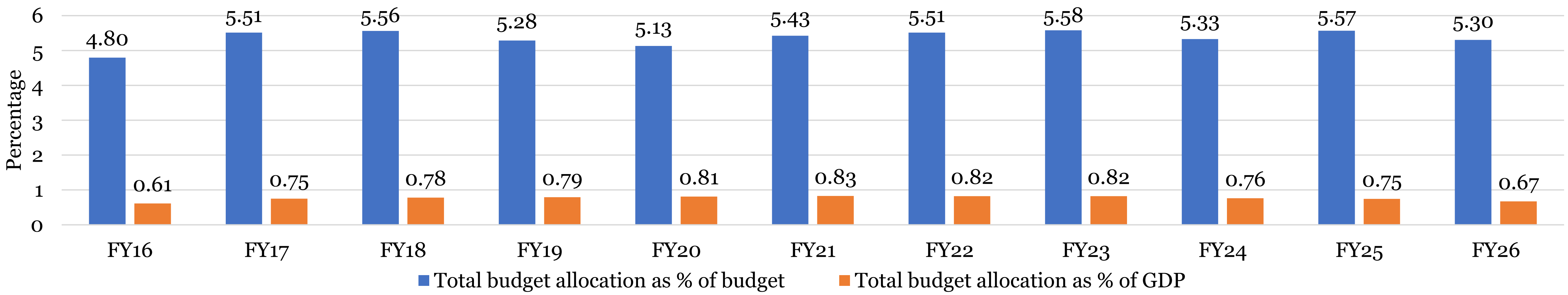
Allocation for education as a share of the total budget and GDP



Key social sectors: Health

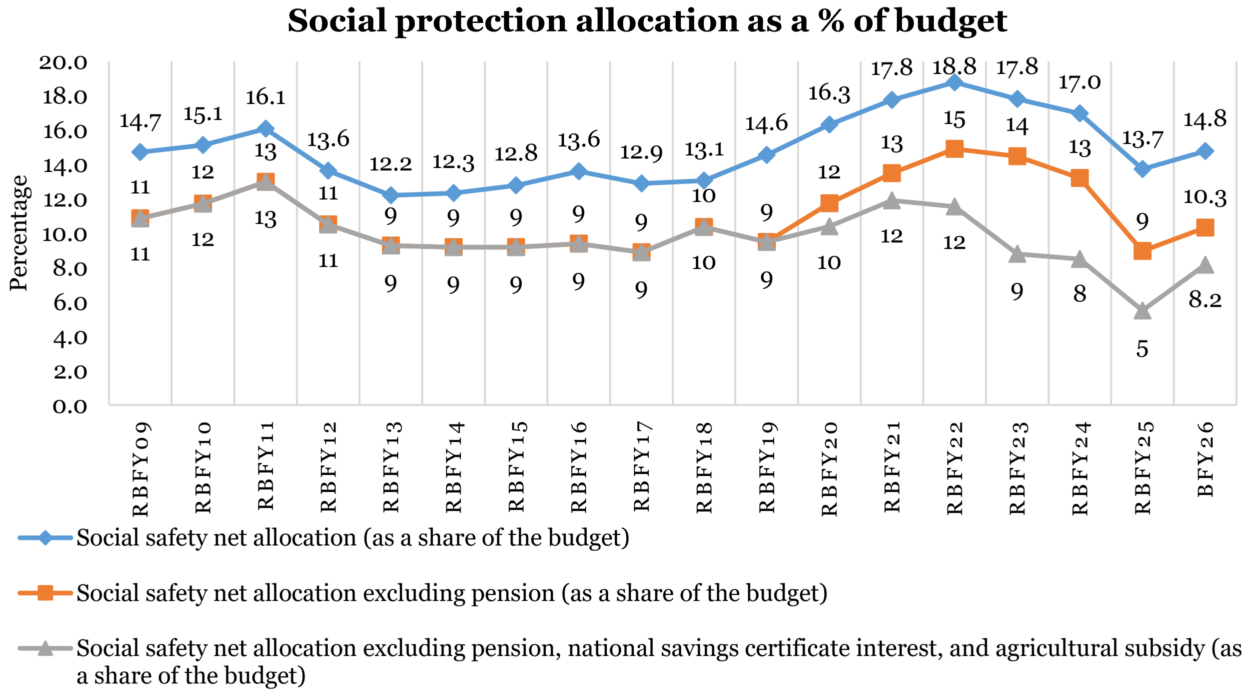
- ❑ Allocation for health as a *share of the total budget* **decreased** from **5.57% in BFY25 to 5.30% in BFY26**
- ❑ Allocation for health as a *share of GDP* has **decreased** from **0.75% in BFY25 to 0.67% in BFY26**
- ❑ **Low Priority in National Budget**
  - ➢ **Health allocation has remained <1% of GDP for 20 years**
  - ➢ Bangladesh ranked 2nd lowest among 44 LDCs (2022) in health spending
- ❑ **Per Capita Spending**
  - ➢ **Only BDT 22 increase**: BDT 2,413 (2024) → BDT 2,435 (2025)
  - ➢ 9th lowest globally (out of 191 countries in 2022)

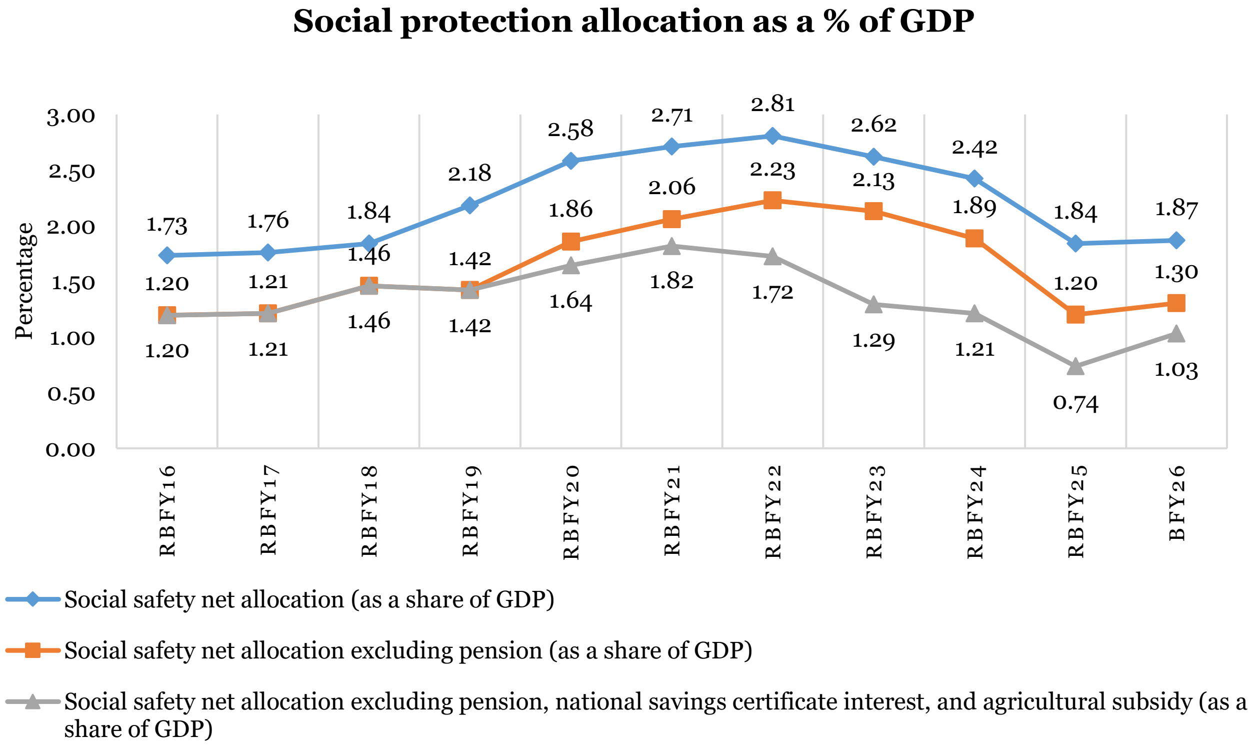
Health allocation as share of total budget and GDP



Key social sectors: SSNP

- Overall, the SSNP budget as a percentage of the total budget and GDP **increased** slightly from RBFY25 to BFY26
- **SSNP budget excluding pension as a percentage of budget increased** from **9% in RBFY25 to 10.3% in BFY26**
- **SSNP budget excluding pension as a percentage of GDP increased** from **1.20% in RBFY25 to 1.30% in BFY26**

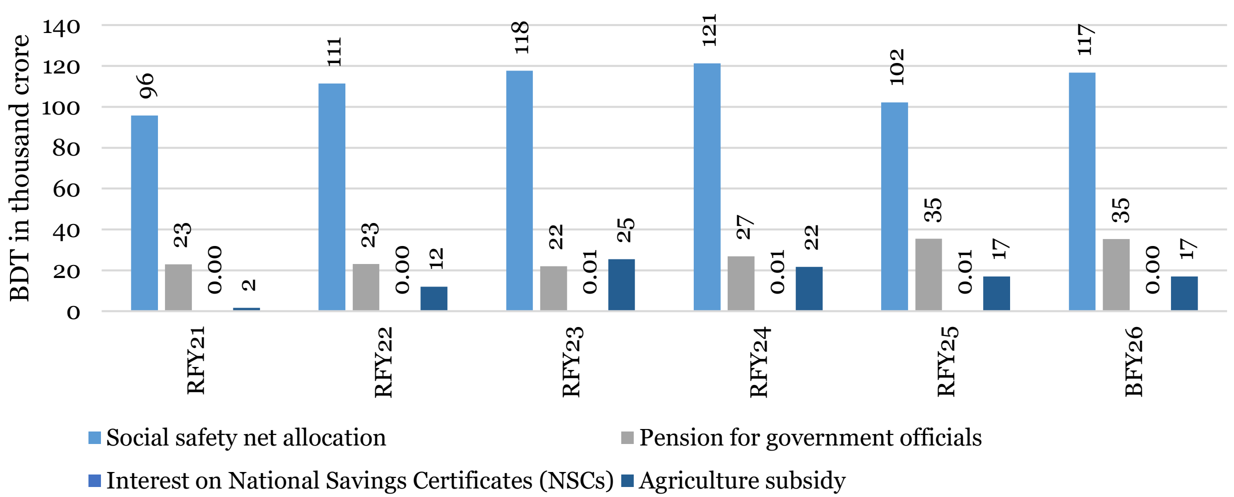




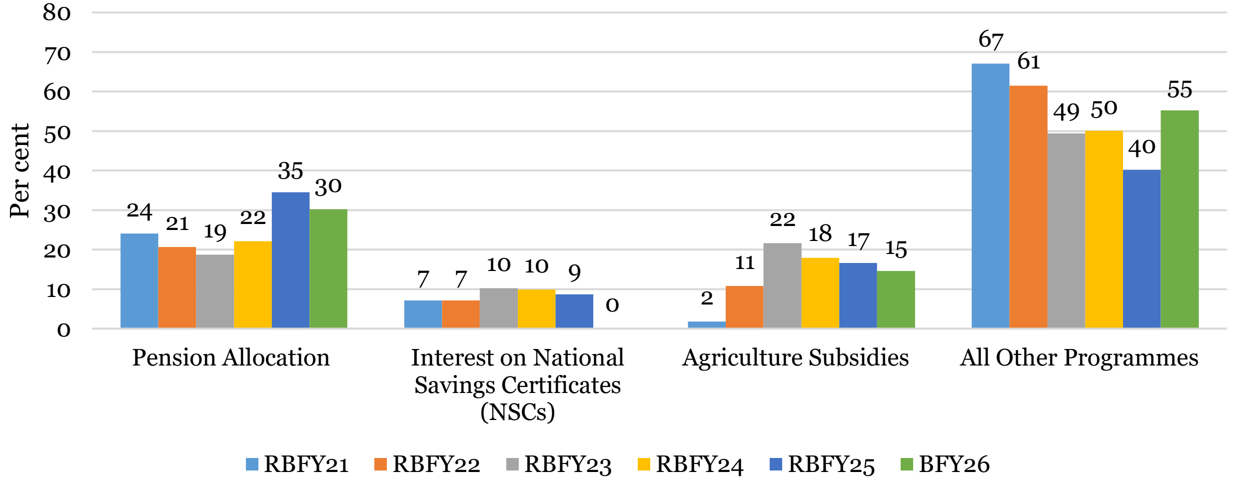
Key social sectors: SSNP

- Allocation **increased by 14% in FY26** from that of RBFY25
- Number of programmes reduced from 140 to 99
- Interest on National Savings Certificates **discontinued** in FY26 SSNP budget
- **Pensions & agricultural subsidies still ~45% of social protection budget in FY26**
- Allocation for other programmes increased from 40% (RBFY25) to 55% (FY26)

Social Protection allocation (in thousand crore BDT)



Distribution of social protection allocation (as a share of total social protection allocation)



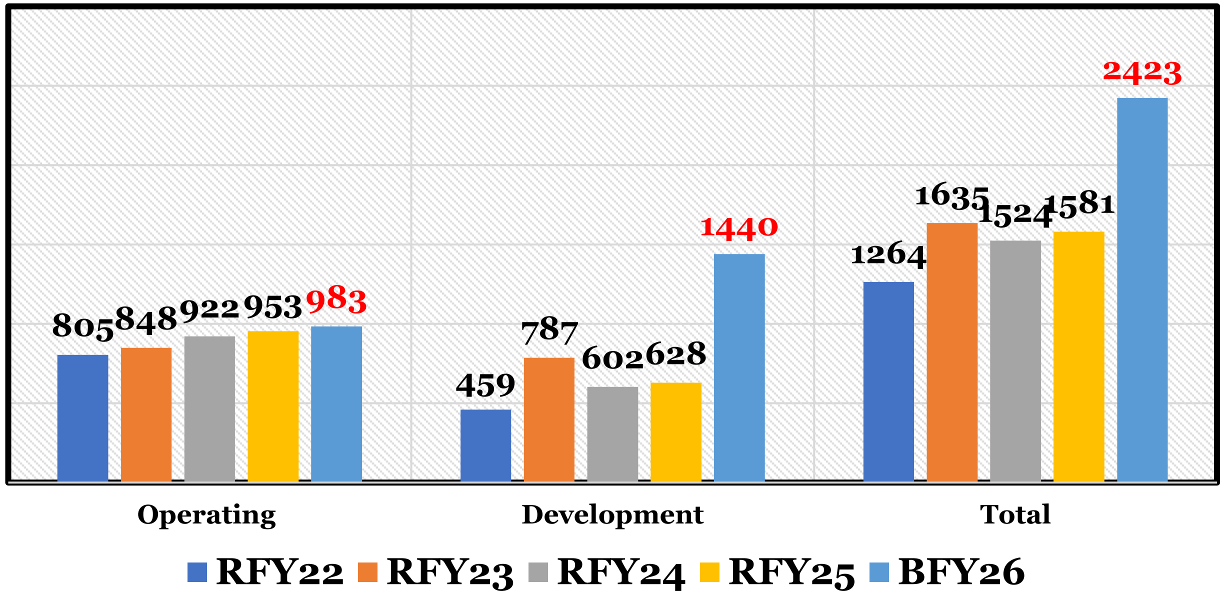
Observation 8

Allocations for youth and employment generation mark a positive development

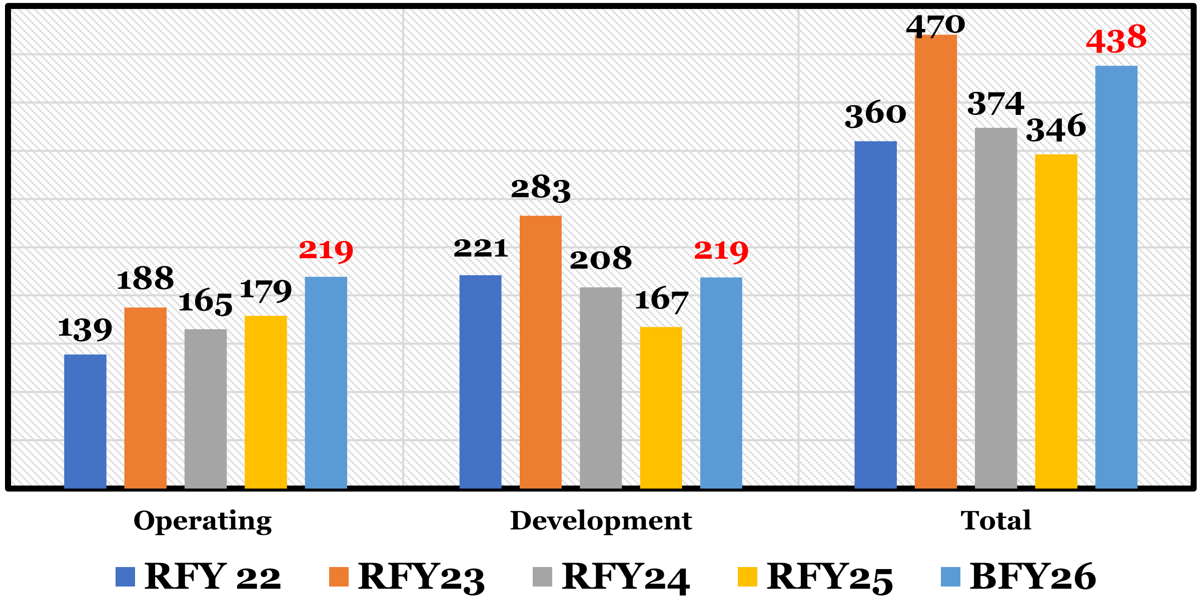
Youth and employment generation

- In a positive move, the interim government has **increased the total allocation both ministries that focus on youth and employment generation**
  - Ministry of Youth and Sports (MoYS) received BDT 2,423 crore (**53.2% higher than the RBFY25**)
  - Ministry of Labour and Employment (MoLE) received BDT 438 crore (**26.6% higher than RBFY25**)
  - MoYS will receive its **highest ever allocation** in BFY26, both in terms of amount and budget share (0.307%)

Allocation for MoYS (in BDT Crore)



Allocation for MoLE (in BDT Crore)

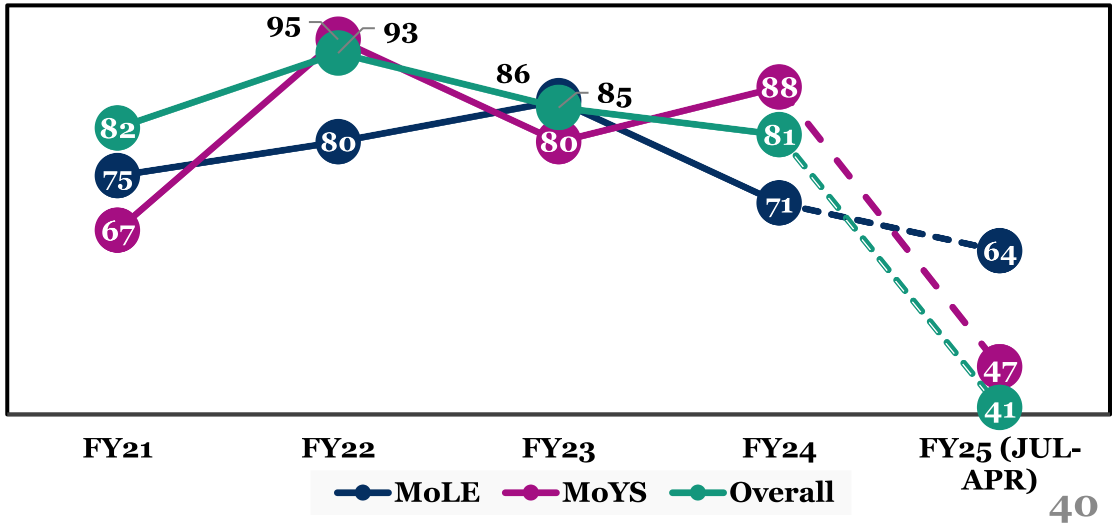


Youth and employment generation

- Project-wise allocation of the ADP for two employment-related ministries suggests a **disproportionately high share of the budget** allocated for **physical infrastructure projects**
- Several projects focused directly on **training and skill development received relatively lower funding**
- **Some unapproved projects** had the potential to **create employment opportunities**
  - For example, project titled 'Working Environment and Social Protection for Workers in RMG and Leather Industries' **remained unapproved**
- Despite being mentioned in the budget speech, **no fund has been allocated**
  - **for a three-year training and self-employment project for affected families of the July uprising**

- Data also reflects overall **sluggish project implementation**, in both MoLE and MoYS,
  - **Especially, the MoYS is likely to see further ADP rate declines by the end of FY25**
- Allocation of **BDT 100 crore** for young entrepreneurs is **commendable**
- **However, allocation of another 100 crore for a youth festival**
  - **lacks clear objectives and a strong rationale**
  - **risks misuse of resources**

ADP implementation rate (%)



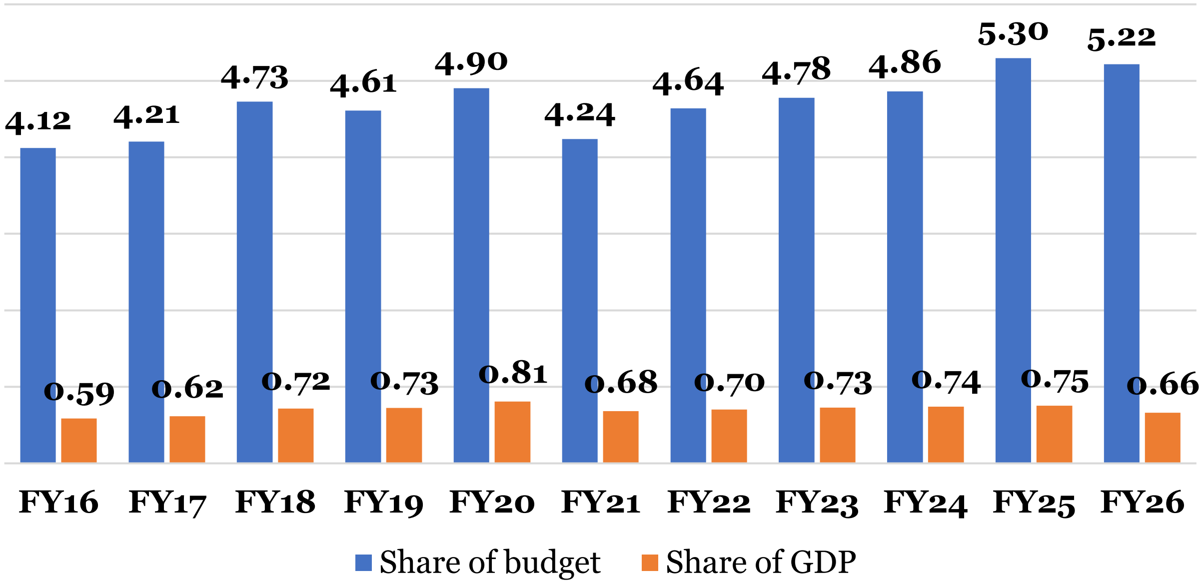
Observation 9

Limited emphasis on climate change and gender equality

Climate budget

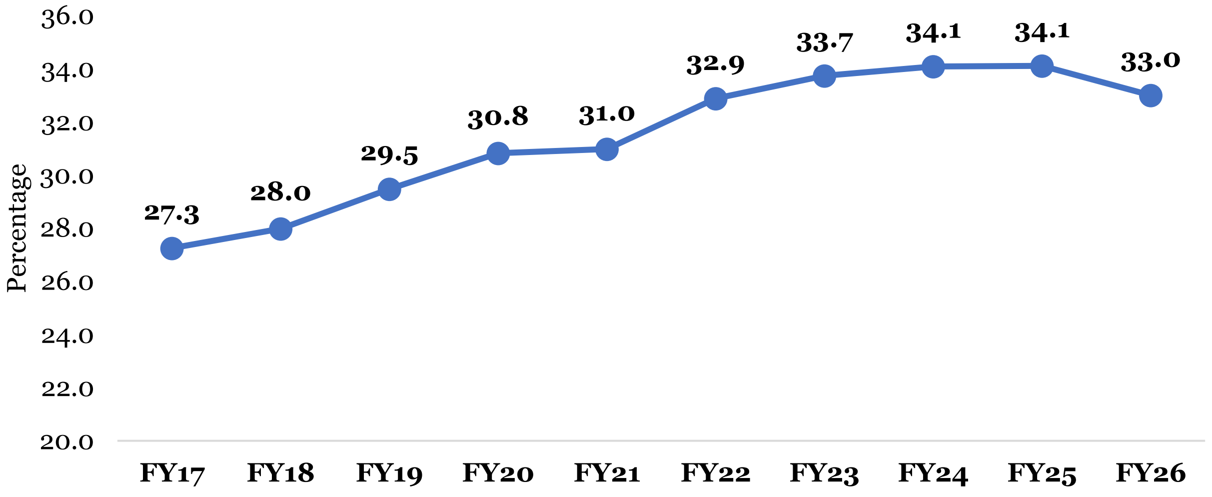
- The climate budget is **presented for 25 Ministries/Divisions** with an aggregate FY26 budget allocation of **BDT 409,300 crore**
- Of the total amount, **10.07%** (**BDT 41,209 crore) is climate-relevant**
  - This climate-relevant allocation is **2.4% lower** than that of FY25
- Climate-relevant allocation **as a share of total budget and GDP has stagnated** over time
  - As share of budget
    - From 5.30% in FY25 to 5.22% in FY26
  - As share of GDP
    - From 0.75% in FY25 to 0.66% in FY26
- The number of **climate-focused SSNPs** and their allocation **decreased significantly** in FY26
  - In BFY26, the climate-relevant allocation was 6.23% of the total SSNP allocation compared to 17.02% in RBFY25

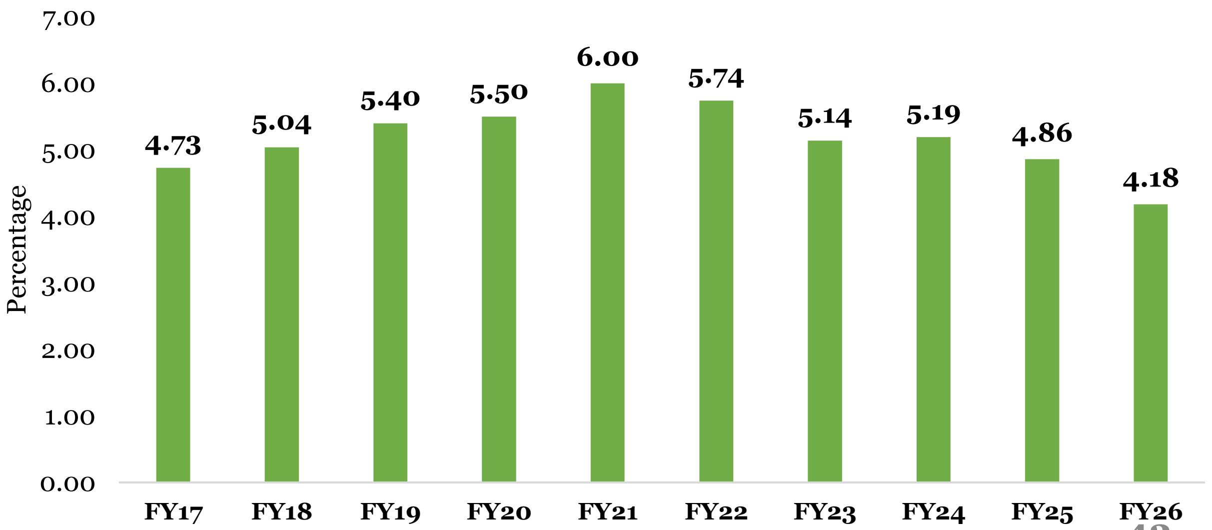
Climate-relevant allocation as share of total budget and GDP (%)



Gender budget

- Gender relevant allocation has **decreased by 4%** in FY26 compared to that of FY25 (BDT 260,766.6 crore in FY26; BDT 271,864.9 crore in FY25)
  - The FY26 allocation is **8.78% lower** than the revised gender budget allocation in RBFY25
- Gender relevant allocation as a share of the total budget
  - **has slightly decreased** from **34.11% in FY25 to 33.01% in FY26**
- Gender relevant allocation as a percentage of GDP,
  - **has decreased** from **4.86% in FY25 to 4.18% in FY26**





Gender budget

Significant Cuts

- ❑ **46.8%↓**: Enhancing Adaptive Capacity for Coastal Communities, Especially Women
- ❑ **41.85%↓**: Gender-Responsive Enterprise & TVET (ProGRESS)
- ❑ **28.55%↓**: Maternal & Neonatal Child Health (MNCH)
- ❑ **25.15%↓**: Promotion of Women Entrepreneurship at Grassroots level

Increased Allocations

- ❑ **59.33%↑**: Implementing Support for Mother & Child Benefit Programme
- ❑ **23.51%↑**: Allowance for Widow and Deserted Women
- ❑ **13.96%↑**: Mother & Child Benefit Programme (MCBP)

Discontinued Programmes include:

- ❑ Tottho Apa (Women's ICT Empowerment)
- ❑ Her Power Project (Women in ICT)

Recommendation:

- ❑ *ICT-related programmes with updated beneficiary lists and a nationwide ICT skills needs assessment should be reinstated*

Allocations of Gender Focused Social Safety Net Programmes (SSNP) (BDT crore)

Name of Progamme	FY25	FY26	% Change
Allowance for Widow and Deserted Women	1844.32	2277.83	23.51
Rural Mother Centre (RMC) Programme: Revolving small loan	25	25	0.00
Mother and Child Benefit Programme (MCBP)	1622.75	1849.24	13.96
Vulnerable Women Benefit Programme (VWB)	2195.46	2334.13	6.32
Distressed Women and Children Welfare Fund	5*	5	0.00
Promotion of Women Entrepreneurs for Economic Empowerment in Grass root Level	96	71.86	-25.15
Enhancing Adaptive Capacities of Coastal Communities, especially Women, to Cope with Climate Change Induced Salinity	61.2	32.56	-46.80
Supporting Implementation of Mother and Child Benefit Programme	25.23	40.2	59.33
Promoting Gender Responsive Enterprise Development and TVET Systems (ProGRESS)	55	31.98	-41.85
Special Assistance Fund for Women Development	25	25	0.00
Maternal and Neonatal Child Health (MNCH) and Health System Improvement Project	612.88	437.9	-28.55
Leaving No One Behind: Improving Skills and Economic Opportunities for the Women & Youth in Cox's Bazar, Bangladesh	45.87	48.22	5.12
Integrated Rural Employment Support Project for the Poor Women (IRESPPW)	100	105.9	5.90

**Note: this is the allocation in RBFY25, proposed allocation was not available in the Social Security budget report*

Observation 10

Revenue mobilisation efforts reflect growing fiscal pressure

Efforts to increase revenue

Measures to generate more revenue

- Reduced VAT exemption on local manufacturing of mobile phones → ***cost of locally manufactured mobile phones will go up somewhat***
- Reduced VAT exemption on LPG cylinders, elevators, and kitchen/home appliances → ***will add to consumer price*** *but* ***expand VAT base gradually***
- Reduced VAT exemption on four-stroke three-wheelers and raw materials (LABSA, SLES) → ***some price increase***; ***signals shift toward broader tax coverage***
- Withdrawn VAT exemption on refrigerators, freezers, air conditioners, and compressors → ***will increase product prices*** *but* ***improve revenue mobilisation***
- Withdrawn VAT exemption on imports of surgical catgut, sutures, lifts, set-top boxes, and ballpoint pens → ***will increase prices*** *but* **will** ***raise revenue from previously exempted items***

Extending power of NBR officials

- **Amendment of section 83 (Power to enter and search office):** The Assistant Revenue Officer (**Previously minimum Assistant Commissioner or Assistant Director**) may, by written order of the Divisional Officer, **inspect** the geographical area of the concerned Local Value Added Tax Office, **collect information**, **verify sales** and **perform any other function** specified by the Divisional Officer
  - *This kind of power delegated to more junior officers* ***may create greater scope for discretion, misuse of power and encourage corrupt practices***

Concluding remarks

Concluding remarks

- **Budget for FY26 is exceptional in terms of its size** – which is **smaller** than the FY25 budget
- The FY26 budget **mentioned** about its focus on **overall development instead of growth**, and **priority on people instead of physical infrastructure**
- **Unfortunately**, these objectives are **not backed by budgetary measures**
- **Several positive initiatives were proposed** in the budget for FY26 including *tax reliefs*, *allocations* and *incentives for various sectors,* and *higher taxation for harmful activities*
- However, the proposed budget **fails to address the ongoing economic challenges holistically** which can provide relief to the people and businesses
- Rather, **some fiscal measures contradict with the theme of the budget for FY26** – 'Building an Equitable and Sustainable Economic System'
- As the FY26 budget is about to be approved by the interim government, CPD underscores **the implementation of the budget in an efficient manner**
- In this regard, a **mid-term review of the implementation status and necessary corrections** should be performed by the interim government to enhance **transparency and accountability**

Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

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