

# CPD-IRBD Policy Brief

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Centre for Policy Dialogue (CPD)



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## Health Budget of Bangladesh *Enhancing Efficiency for Better Health Delivery*

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### Key findings

1. Allocation for health in the FY2026 budget is 5.30 per cent of the total budget and 0.67 per cent of the GDP.
2. In Bangladesh, expenditure on health as a share of GDP was the lowest among 45 LDCs in 2021.
3. In 2021, out-of-pocket expenditures were 73 per cent of total health expenditures in Bangladesh.
4. An excise duty of BDT 10 per cigarette stick and BDT 100 per litre on soft drinks may generate BDT 733 billion and BDT 95 billion in tax revenue per year, respectively.

### Key Policy Recommendations

1. The budget for FY2026 should increase the health budget allocation to prevent people from being pushed into poverty due to out-of-pocket health expenditures.
2. Simple, specific, and universal excise duties are needed to reduce the consumption of cigarettes, other tobacco products, soft drinks, and energy drinks.
3. Improved governance is required to increase the efficiency of utilisation of the health budget.

## 1. Introduction

Health spending is a vital area of public investment regardless of a nation's economic standing. The United Nations' 2030 Sustainable Development Agenda recognises the paramount significance of healthcare. Specifically, Sustainable Development Goal (SDG) 3 emphasises the need to ensure healthy lifestyles and promote well-being for all individuals, regardless of age, on a worldwide scale (UN, 2015). The health system of Bangladesh is in a critical state due to a lack of government prioritisation and a lack of good governance. The health sector's infrastructure is weak, and its governance is in disarray. In 2017, the nation had one hospital bed for every 1,196 individuals (BBS, 2019). As of 2017, only 5.1 per cent of health facilities in Bangladesh had emergency transportation, 21.5 per cent had alcohol-based disinfectant, 27.5 per cent had medical masks, 34.5 per cent had lab facilities, 43.1 per cent had regular electricity, 55.1 per cent had soap and water, 83.7 per cent had paracetamol oral suspension, 86.3 per cent had thermometers, and 90.1 per cent had improved water sources (NIPORT, ACPR, and ICF, 2018). In addition to insufficient funding and tools, healthcare institutions in Bangladesh lacked sufficient medical personnel to provide proper treatment to the patients. In 2018, the nation had only one registered physician for every 1,581 individuals (BBS, 2019). As of 2017, 28 per cent of health facilities in Bangladesh had specialists, 59.1 per cent had general practitioners, and 79.7 per cent had nurses (NIPORT, ACPR, and ICF, 2018). Therefore,

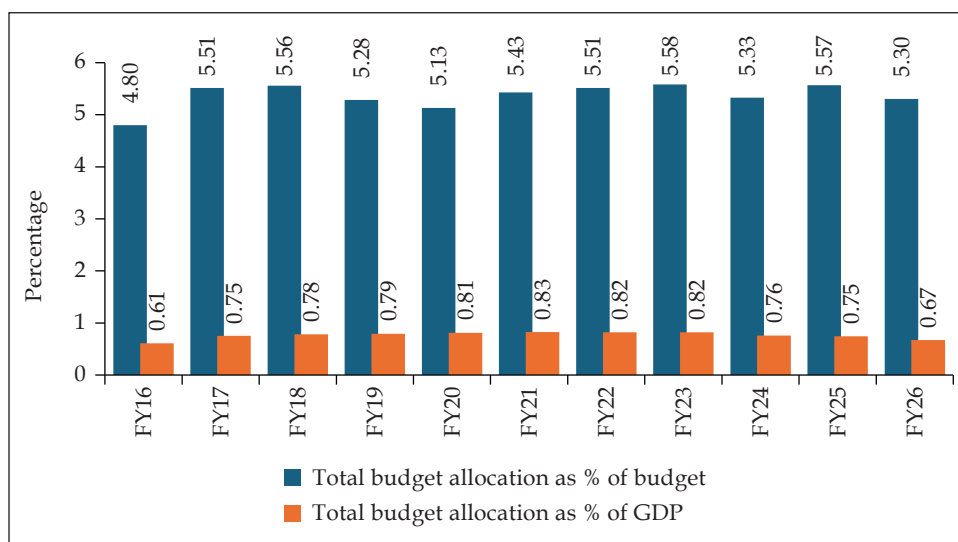
substantial investment from the government, private sector and international development partners is required to transform the health sector and build a healthy future for Bangladesh. Without such investments, the ambitious goals outlined in SDG 3 will remain unfulfilled. Along with higher allocation for the health sector, effective utilisation of resources is also crucial. In this context, this policy brief examines the proposed health sector budget for FY2026 and makes a set of recommendations.

## 2. Budget Allocation, Actual Expenditure, and Utilisation

Figure 1 shows Bangladesh's health budget allocation from FY2016 to FY2026 as a percentage of the total revised budget and as a percentage of the Gross Domestic Product (GDP). The allocation for health as a share of the total budget decreased from 5.57 per cent in FY2025 to 5.30 per cent in FY2026 (MOF, 2025a). The allocation for health as a share of GDP has declined slightly from 0.75 per cent in FY2025 to 0.67 per cent in FY2026 (MOF, 2025a). Such allocation is marginally lower than the average allocation of 0.67 per cent of GDP during FY2016 to FY2026 (MOF, 2025a).

For the past 20 years, the health sector is receiving budget allocation less than 1 per cent of the GDP (MOF, 2025a), indicating that health has been one of the least prioritised sectors for the government. The budget allocation on health per person has increased by only BDT 22, from BDT 2,413 in 2024 to BDT 2,435 in 2025 (MOF, 2025a). The Urban Primary Health Care Services Delivery Project, a government social safety net programme (SSNP) initiative aimed at ensuring the delivery of quality primary health care (PHC) services to urban populations, had its budget allocation drastically reduced from BDT 180.13 crore in FY2025 to BDT 54.25 crore in FY2026 (MOF, 2025b).

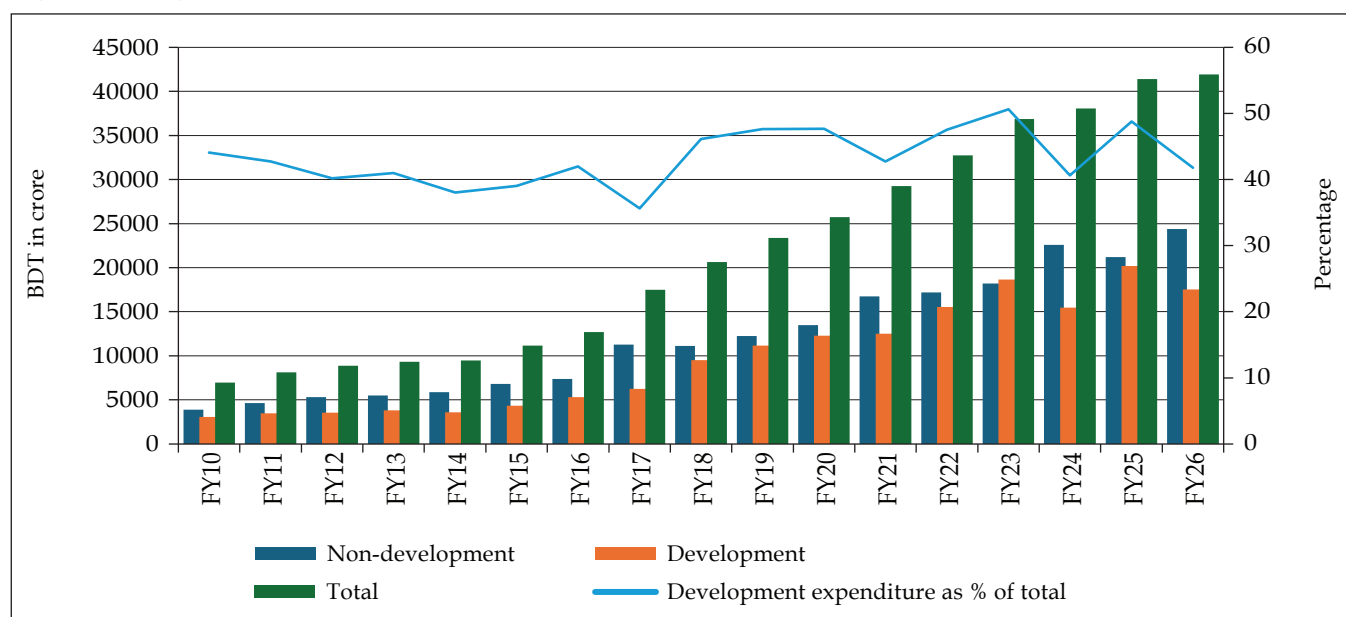
**Figure 1: Health Allocation as a Share of the Total Budget and GDP**



Source: Authors' illustration based on data from the Ministry of Finance (MOF, 2025a).

Figure 1 visually represents Bangladesh's health budget allocation between non-development and development expenditures from the fiscal year 2016 (FY2016) to the fiscal

**Figure 2: Budget Allocation for Health**



**Source:** Authors' illustration based on data from the Ministry of Finance (MOF, 2025a).

year 2026 (FY2026). Non-development expenditures, which are the amount of money not spent on development projects, have been increasing over the years. This could include items such as salaries for health workers, medication, and building maintenance. On the other hand, development expenditures have also increased, but not at the same rate as non-development expenditures. This figure is significant as it shows the shift in budget allocation over time, with a larger proportion going towards non-development expenditures.

Figure 2 shows that non-development expenditures have increased steadily over the period, from BDT 3,905 crore in FY2010 to BDT 24,389 crore in FY2026 (MOF, 2025a). Development expenditures have also increased, from BDT 3,075 crore in FY2010 to BDT 17,519 crore in FY2026 (MOF, 2025a). However, the rate of increase in development expenditures has not kept pace with the rate of increase in non-development expenditures. As a result, the portion of the total budget allocated to non-development expenditures has increased over time. In FY2010, 44 per cent of the total budget was allocated to non-development expenditures. By FY2026, this figure had risen to 58 per cent (MOF, 2025a).

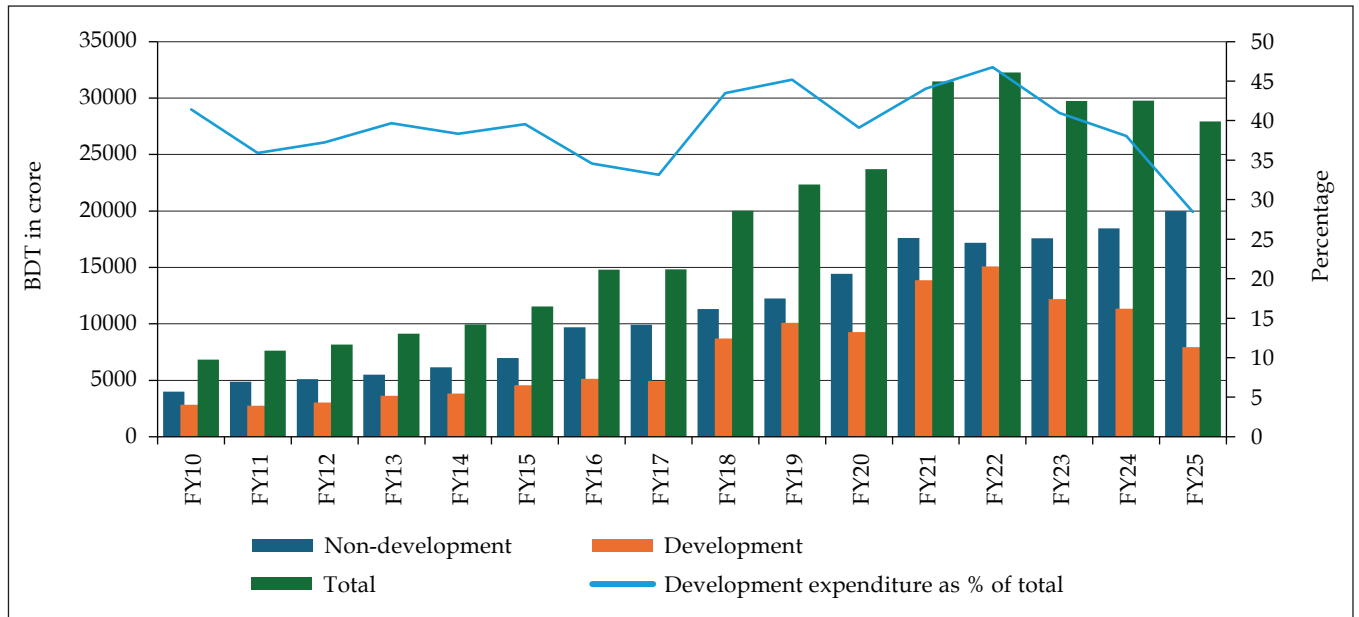
Total budget allocation for health has been increased by 1 per cent, from BDT 41,408 crore in FY2025 to BDT 41,908 crore in FY2026 (MOF, 2025a). Development budget allocation

has decreased by 13 per cent, whereas non-development budget allocation has increased by 15 per cent (MOF, 2025a). The share of development budget allocation in total health budget allocation has decreased from 49 per cent in FY2025 to 42 per cent in FY2026 (MOF, 2025a). The share of revised development budget allocation in total health budget allocation has decreased from 38 per cent in FY2024 to 28 per cent in FY2025 (MOF, 2025a).

It is crucial to note that the portion of the budget allocated to non-development expenditures has consistently been higher than that allocated to development expenditures. This trend suggests a larger share of the health budget is directed towards operational costs than improvements to the health system itself. This could potentially impact the health system's capacity to invest in infrastructure, technology, and other areas that directly contribute to improved health outcomes, highlighting the need for a more balanced approach to budget allocation.

Figure 3 shows Bangladesh's revised health budget allocation from FY2010 to FY2025. It details the allocation of funds between non-development and development expenditures, along with the total budget and the annual change in total expenditure. The data reveals a steady rise in both non-development and development expenditures

**Figure 3: Revised Budget Allocation for Health**

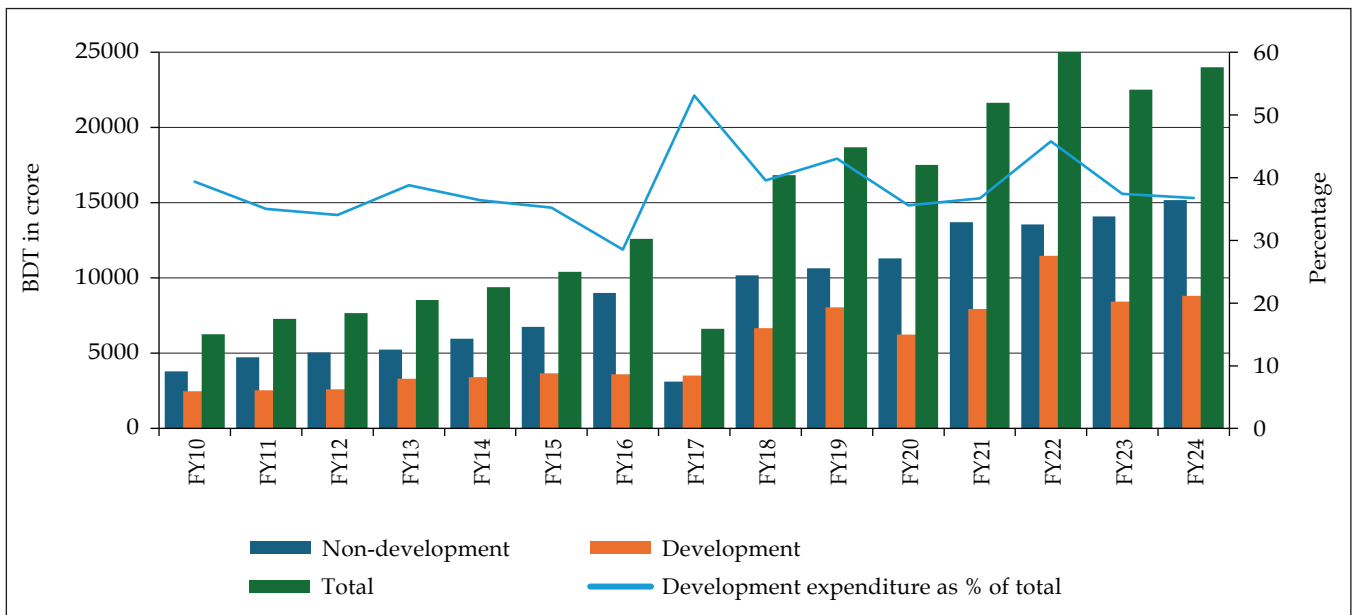


Source: Authors' illustration based on data from the Ministry of Finance (MOF, 2025a)

over the 15 years. Non-development expenditures have grown from BDT 4,004 crore in FY2010 to BDT 19,973 crore in FY2025 (MOF, 2025a). Development expenditures have also risen significantly, from BDT 2,829 crore in FY2010 to BDT 27,923 crore in FY2025 (MOF, 2025a).

However, it is important to note that the non-development expenditure increase rate has outpaced the development expenditures. Consequently, the portion of the total budget allocated to non-development expenditures has grown over time. In FY2010, 41 per cent of the budget was directed

**Figure 4: Actual Expenditure on Health**



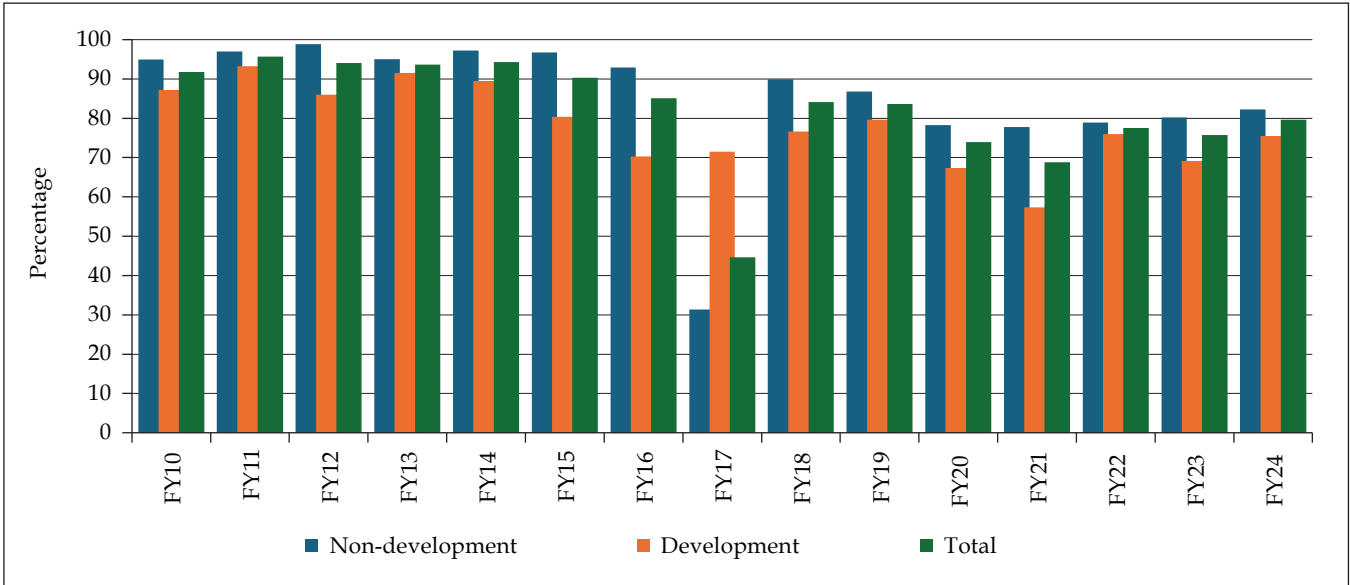
Source: Authors' illustration based on data from the Ministry of Finance (MOF, 2025a).

towards non-development expenditures (MOF, 2025a). This figure has risen to 72 per cent by FY2024 (MOF, 2025a).

Figure 4 shows the actual expenditure on health in Bangladesh, classified between non-development and development expenditures from FY2010 to FY2024. Figure 4 shows that non-development expenditures have increased steadily over the period, from BDT 3,803 crore in FY2010 to BDT 15,172 crore in FY2024 (MOF, 2025a). Development

Budget utilisation has worsened over the past decade, as seen in Figure 5. Non-development budget utilisation decreased from 97 per cent in FY2014 to 82 per cent in FY2024 (MOF, 2025a). Development budget utilisation also decreased from 90 per cent in FY2014 to 75 per cent in FY2024 (MOF, 2025a). Total budget utilisation decreased from 94 per cent in FY2014 to 80 per cent in FY2024 (MOF, 2025a). Over the past several years, non-development budget utilisation has been consistently higher than development budget utilisation.

**Figure 5: Health Budget Utilisation**



**Source:** Authors' illustration based on data from the Ministry of Finance (MOF, 2025a).

expenditures have also increased, from BDT 2,468 crore in FY2010 to BDT 8,824 crore in FY2024 (MOF, 2025a). However, the increase in development expenditures has not kept pace with the increase in non-development expenditures. As a result, the portion of the total budget allocated to non-development expenditures has increased over time. In FY2010, 59 per cent of the total budget was allocated to non-development expenditures (MOF, 2025a). By FY2024, this figure had risen to 63 per cent (MOF, 2025a). Actual expenditure decreased by 10 per cent from BDT 25,028 crore in FY2022 to BDT 22,521 crore in FY2023 (MOF, 2025a).

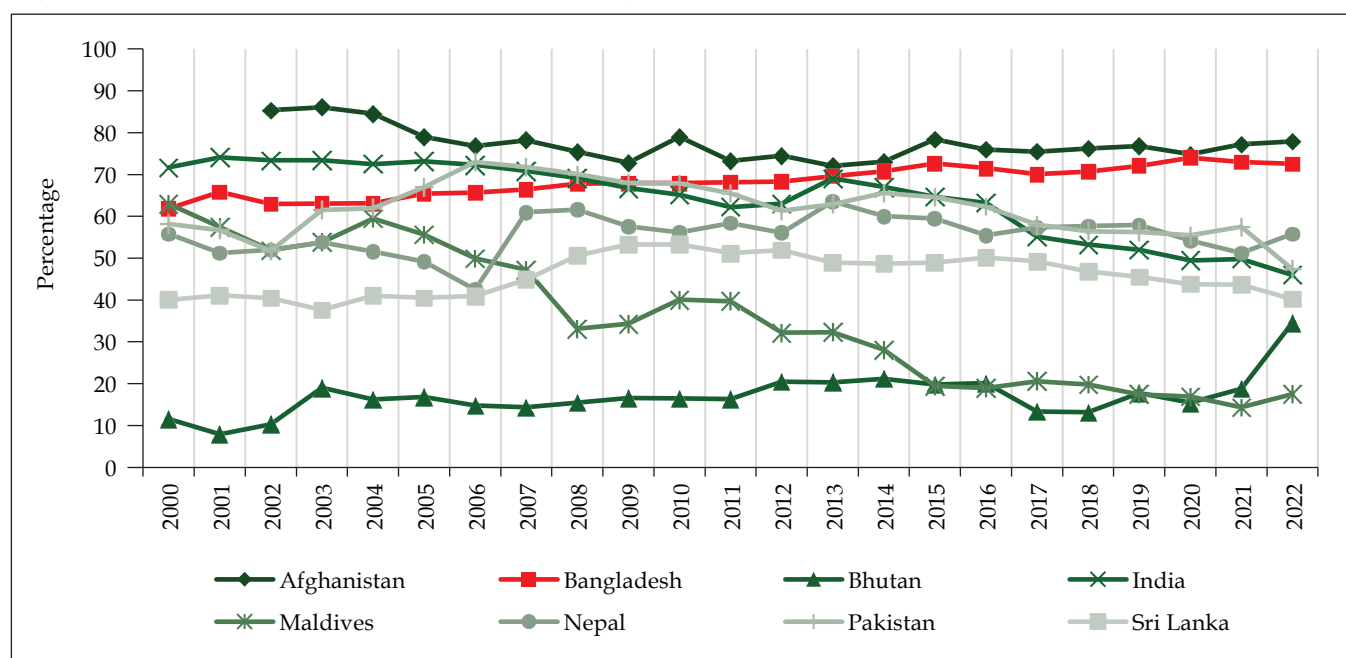
Figure 5 shows the health budget utilisation in Bangladesh as a percentage of the revised budget allocation for 14 fiscal years, ranging from FY2010 to FY2024. Health budget utilisation is a measure of how much of the allocated budget is spent on health.

### 3. International Comparison of Government Expenditure on Health

A comparison of the expenditure on health of the government of Bangladesh with that of its regional neighbours or other least developed countries (LDCs) reveals a rather gloomy picture. Figure 6 depicts out-of-pocket healthcare expenditures as a percentage of current healthcare expenditures for eight South Asian countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, from 2000 to 2022. It reveals significant variations in out-of-pocket expenditure across the countries. Notably, Bangladesh consistently has one of the highest out-of-pocket spending throughout the period. In 2000, Bangladesh had an out-of-pocket expenditure equal to 61.82 per cent of current health expenditure, which rose to 74.00 per cent



**Figure 6: Out-of-pocket Expenditure (as a percentage of current health expenditure)**



Source: Authors' illustration based on data from the World Bank (World Bank, 2025).

of current health expenditure in 2020 (World Bank, 2025). This indicates that a substantial portion of healthcare costs in Bangladesh is borne directly by individuals, bypassing public or private health insurance mechanisms.

Whilst all countries have fluctuations in out-of-pocket expenditure over time; a downward trend is generally observed over the past two decades. This suggests a potential increase in health insurance coverage or government-funded healthcare initiatives in some countries. However, the data for Bangladesh shows a slight upward trend in recent years, which warrants further investigation. In 2021, Bangladesh's out-of-pocket expenditure on health per capita at purchasing power parity was the 8th highest among 44 LDCs (World Bank, 2025). Bangladesh's out-of-pocket expenditure as a percentage of current health expenditure in 2022 and showed an increasing trend for the past two decades, whereas the trend is decreasing for countries such as India, Pakistan, Bhutan, Nepal and Sri Lanka (World Bank, 2025). Bangladesh's expenditure on health as a share of GDP was the second lowest among 44 LDCs in 2022 (World Bank, 2025). Moreover, in Bangladesh, the proportion of the population pushed below the USD 2.15 per day poverty line due to out-of-pocket expenditure on health increased from 3.11 per cent in 2010 to 3.74 per cent in 2016 (World Bank, 2025).

#### 4. Fiscal Measures Related to Health: Tax on Tobacco and Related Products

In Bangladesh, the price strategy of the tobacco industry promotes the use of cigarettes that are comparatively more affordable. The complex multi-tier tobacco tax system facilitates the implementation of varying prices. Differential pricing of various types of tobacco products undermines the original objective of taxes, which is to get favourable public health results. Therefore, it is necessary to simplify Bangladesh's tobacco tax system. The affordability of cigarettes should be decreased due to price rises caused by taxes. The government should replace the current tiered taxing structure for tobacco and tobacco-related items with a unified scheme. In addition, it is recommended that the ad valorem tax, which is calculated based on a percentage of the retail price, be replaced with a specific tax set per stick. Implementing a standardised and targeted excise tax system on tobacco would significantly streamline the government's administrative process. Additionally, it would allow the government to transfer control of the management of cigarette recommended retail prices (RRPs), which is causing a burden on the tax authorities. Unfortunately, the government lacks the necessary resources to oversee and implement the RRP's nationwide, whilst the tobacco companies exploits this absence of oversight to optimise

**Table 1: Proposed Tax Structure for Cigarettes (per pack of 10 cigarettes)**

Tier	Proposed tax structure for cigarettes in FY2026					CPD's recommendation				
	Retail price		SD			Tier	Retail price		Specific excise duty	
	Pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in per cent)	Per pack of 10 (in BDT)	Per stick (in BDT)		Per pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in BDT)	Per stick (in BDT)
Low	50	5.0	67	60	3	Universal	Market based	Market based	100	10
Medium	70	7.0	67	80	4.58					
High	120	12	67	140	7.86					
Premium	160	16	67	185	10.48					

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2025c).

**Table 2: Estimated Potential Revenue from Specific Excise Duty of BDT 10 per Cigarette Stick**

(in BDT)

Year	Population	Share of smokers (in per cent)	Average daily intensity of smoking	Estimated potential revenue from a specific excise duty of BDT 10 per cigarette stick (in BDT)
2017	161,750,000	0.1518	8.21	733,771,098,060

Source: Authors' compilation based on data on cigarette consumption from Ark Foundation (Ark Foundation, 2021) and population from BBS (BBS, 2024).

their financial gains. Therefore, it is recommended that the government let the market determine the appropriate pricing and generate tax income by implementing a uniform specific tax that is not influenced by the price of the tobacco product but is based only on the number of sales. CPD proposes implementing a uniform specific excise duty of BDT 10 per cigarette stick on all cigarettes in FY2026 (Table 1). This tax should be increased by at least BDT 10 per stick each year to account for annual inflation and income growth, and to bring cigarette prices in Bangladesh closer to that of developed countries like Australia and New Zealand.

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

In the comparative analysis of 95 countries, Bangladesh emerges with the 22nd lowest price for cigarettes, with a pack priced at approximately BDT 360 as of 28 July 2025 (Numbeo, 2025). On the other hand, in our neighbouring country, India, the price is much higher at BDT 492 (Numbeo, 2025). Developed countries like Australia, New Zealand and the United Kingdom have much higher cigarette prices (Numbeo, 2025). Countries with higher cigarette prices often have strong public health and taxation policies aimed

at reducing smoking rates compared to countries with lower cigarette prices, where public health concerns may not be dealt with as seriously.

Table 2 illustrates the estimated potential revenue from a specific excise duty of BDT 10 per cigarette stick if this tax were implemented in 2017. Tax revenue of BDT 733.7 billion would have been raised if a specific excise duty of BDT 10 per cigarette stick had been implemented in 2017 as per our recommendation, assuming that there was no change in cigarette consumption due to the imposition of such a tax.

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

Finally, the existing tax structure on Jarda and Gul should also be reformulated in cognisance of the severe health risks

**Table 3: Proposed Tax Structure for Bidi**

Type of bidi	Proposed tax structure in FY2026					CPD's recommendation				
	Retail price		SD			Type of bidi	Retail price		Specific excise duty	
	Per pack (in BDT)	Per stick (in BDT)	Per pack (in per cent)	Per pack (in BDT)	Per stick (in BDT)		Per pack (in BDT)	Per stick	Per pack (in BDT)	Per stick (in BDT)
Non-filtered 25-stick	18	0.72	30	5.40	0.22	All	Market based	Market based	75	3
Non-filtered 12-stick	9	1.33	30	2.70	0.23				36	
Non-filtered eight-stick	6	1.33	30	1.80	0.23				24	
Filtered 20-stick	19	1.05	40	7.60	0.38				60	
Filtered 10-stick	10	1.00	40	4.00	0.40				30	

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2025c).

posed by the long-term consumption of such items. CPD proposes a BDT 6 specific excise duty per gram (gm) of Jarda and Gul to be implemented in FY2026 and to allow the price of Jarda and Gul to be determined by the market (Table 4). 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.

The Health Development Surcharge Management Policy 2017 states that a 1 per cent surcharge must be charged to tobacco companies in Bangladesh, which is also in accordance with the WHO Framework Convention on Tobacco Control (FCTC), to which Bangladesh is a ratified member (NTCC, 2017). A Statutory Regulatory Order (SRO) issued by the Bangladesh government provides more

**Table 4: Proposed Tax Structure for Jarda and Gul**

Type of product	Proposed tax structure in FY2026					CPD's recommendation			
	Retail price		SD			Retail price		Specific excise duty	
	Per 10gm (in BDT)	Per gm (in BDT)	Per 10 gm (in per cent)	Per 10 gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)
10gm jarda	48	4.8	55	26.40	2.64	Market based	Market based	60	6
10gm gul	25	2.5	55	13.75	1.37				

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2025c).

**Table 5: Proposed Health Development Surcharge and VAT on Cigarettes and Other Tobacco Products**

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

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



**Table 6: Corporate Tax on Tobacco Product Manufacturing Companies**

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

Source: Authors' compilation based on data from the Ministry of Finance (MOF, 2025c).

information on how the funds collected via the Health Development Surcharge should be used. CPD advocates for a further increase in the Health Development Surcharge to strengthen the National Tobacco Control Cell (NTCC) in achieving the goals and reaching the goal of a tobacco-free Bangladesh by 2040. In this connection, CPD proposes that the Health Development Surcharge on cigarettes and other tobacco products be increased from 1 per cent to 5 per cent and the VAT on cigarettes and other tobacco products be increased from 15 per cent to 20 per cent in FY2026 (Table 5).

CPD believes that corporate taxes should be raised incrementally to achieve a tobacco-free Bangladesh by 2040. In the budget for FY2026, companies manufacturing tobacco products were subject to 45 per cent corporate tax, which was the same corporate tax rate as non-publicly traded mobile operator companies. Since companies manufacturing tobacco products are directly causing severe public health hazards, it is necessary to ensure that such companies pay corporate tax at a rate which is above the corporate tax rate for all other types of companies. Therefore, in addition to the aforementioned tax reforms and to achieve the government's long-term goal of a tobacco-free Bangladesh, CPD proposes the corporate tax on all companies manufacturing tobacco products, such as cigarettes, bidis, chewing tobacco, and jarda, be increased to 55 per cent in FY2026. The associated surcharge is to be increased to 7.5 per cent in 2026 from 2.5 per cent, when Bangladesh graduates from the LDC group.

## 5. Fiscal Measures Related to Health: A Hard Tax on Soft Drinks

Carbonated soft drinks and energy drinks are a significant health concern in Bangladesh. Such beverages have a substantial amount of sugar, which is a significant cause of obesity, diabetes, and tooth decay. Typically, a single can of a soft drink, which is around 355 millilitres, contains 39 grams of sugar (Coca-Cola Company, n.d.). This is equivalent to roughly 10 teaspoons of sugar, whilst the World Health Organization (WHO) recommends that adults should not consume more than six teaspoons of sugar daily to lead a healthy lifestyle (WHO, 2017). In the budget for FY2025, the beverage and carbonated industry is subjected to a 30 per cent SD for carbonated soft drinks, 40 per cent SD for energy drinks, and 15 per cent VAT applicable for both (NBR, 2024a). However, a minimum tax on sales revenue of carbonated beverage producers has been reduced from 5 per cent in FY2025 to 3 per cent in FY2026. In Bangladesh, carbonated soft drinks and energy drinks are widely available. Hence, it is necessary to decrease the consumption of such beverages to reduce the associated health risks.

Therefore, CPD recommends that the government should remove the supplementary duty on both soft drinks and energy drinks and replace it with a specific excise duty of BDT 0.10 per millilitre (ml) or BDT 100 per litre (l) on soft drinks and energy drinks produced in Bangladesh

**Table 7: Proposed Tax Structure for Soft Drinks and Energy Drinks**

Beverage	Proposed Tax Structure for FY2026		CPD's recommendation		
	SD (%)	VAT (%)	Specific excise duty (BDT per ml)	Specific excise duty (BDT per litre)	VAT (%)
Soft drinks	30	15	0.10	100	15
Energy drinks	40	15	0.10	100	15

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

**Table 8: Estimated Potential Revenue if BDT 100 Excise Duty was Implemented on Soft Drinks and Energy Drinks over the Years**

Year	Soft drink consumption (in litres)	Energy drink consumption	Estimated potential revenue from BDT 100 excise duty on soft drinks (in BDT) (in litres)	Estimated potential revenue from BDT 100 excise duty on energy drinks (in BDT)
2011	413,300,000	11,800,000	41,330,000,000	1,180,000,000
2012	432,100,000	11,800,000	43,210,000,000	1,180,000,000
2013	482,200,000	12,300,000	48,220,000,000	1,230,000,000
2014	520,700,000	13,200,000	52,070,000,000	1,320,000,000
2015	564,400,000	14,200,000	56,440,000,000	1,420,000,000
2016	607,500,000	15,400,000	60,750,000,000	1,540,000,000
2017	652,500,000	16,400,000	65,250,000,000	1,640,000,000
2018	700,000,000	17,400,000	70,000,000,000	1,740,000,000
2019	749,600,000	18,400,000	74,960,000,000	1,840,000,000
2020	800,600,000	19,300,000	80,060,000,000	1,930,000,000
2021	853,100,000	20,300,000	85,310,000,000	2,030,000,000
2022	903,700,000	21,400,000	90,370,000,000	2,140,000,000
2023	951,100,000	22,400,000	95,110,000,000	2,240,000,000

**Source:** Authors' calculation based on data from the World Health Organisation (WHO) (WHO, 2021)

**Note:** Actual consumption data for 2011 to 2018 and forecasted consumption data for 2019 to 2023.

in the FY2026 (Table 7). Since sweetened beverages are demerit goods, placing a specific excise duty will reduce consumption and provide the government with substantial revenue. CPD also recommends that the government stop giving high tariff protection to local sugar-sweetened beverages (SSB) manufacturers through VAT exemptions for imported raw materials (NBR, 2024b). This will give respite to our shrinking fiscal space.

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

Table 8 illustrates the estimated potential revenue if a BDT 100 excise duty were implemented on soft drinks and energy drinks over the years. If an excise duty of BDT 100 were implemented on soft drinks in 2023 as per our recommendation, BDT 95.1 billion would be generated from it, assuming there was no change in soft drink consumption due to the imposition of such a tax. In addition, if an excise duty of BDT 100 were implemented on energy drinks in 2023, it would generate an additional revenue of BDT 2.2

billion, assuming that there was no change in energy drink consumption due to the imposition of such a tax.

## 6. Fiscal Measures: Bangladesh's LDC Graduation and Tax on Medicine

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

Therefore, CPD proposes that the VAT on medicines should be exempted starting from FY2026 to ensure that medicines

continue to be affordable to all, even after the loss of the TRIPS waiver in 2026. Beyond 2026, the government must implement a plan to protect the local pharmaceutical industry and help retain its competitiveness in the global market. This will also benefit people from low-income groups by allowing them to access medicines and other pharmaceutical products at an affordable price.

## 7. Policy Recommendations

In light of the analysis of the proposed health budget for FY2026, this policy brief makes the following recommendations:

- Adopting a more balanced approach to budget allocation between developmental initiatives and operational needs of the health sector.
- Establishing an extensive monitoring and evaluation framework to track the progress and impact of development initiatives, ensuring that funds are used effectively and efficiently.
- Simplifying Bangladesh's tobacco tax system to decrease the affordability of cigarettes through price rises caused by taxes.
- Replacing the ad valorem tax, calculated based on a percentage of the retail price, with a specific tax set per pack to streamline the government's administrative process significantly.
- Allowing the market to determine appropriate pricing and generate tax income by implementing a uniform specific tax that is not influenced by the price of the tobacco product but based only on the number of sales and implementing a uniform specific excise duty of BDT 10 per cigarette stick on all cigarettes in FY2026.
- Implementing a specific excise tax of BDT 3 per stick for all Bidi instead of the current tier classification based on filtering and pack size, allowing the price of Bidi to be determined by the market.
- Imposing a BDT 6 specific excise duty per gram (gm) of Jarda and Gul in FY2026, allowing the market to determine the price of Jarda and Gul.
- Increasing the Health Development Surcharge on cigarettes and other tobacco products from 1 per cent to 5 per cent and the VAT on cigarettes and other tobacco products from 15 per cent to 20 per cent in FY2026.
- Increasing the corporate tax on all companies manufacturing tobacco products from 45 per cent in FY2025 to 55 per cent in FY2026, with the associated surcharge increasing from 2.5 per cent in FY2025 to 7.5 per cent in FY2026, when Bangladesh graduates from the LDC group.
- Removing the supplementary duty on soft drinks and energy drinks and replacing it with a specific excise duty of BDT 0.10 per millilitre (ml) or BDT 100 per litre (l) on soft drinks and energy drinks produced in Bangladesh in FY2026.
- Increasing the VAT on soft drinks and energy drinks from 15 per cent in FY2025 to 20 per cent in FY2026.
- Stopping high tariff protection to local sugar-sweetened beverages (SSB) manufacturers through VAT exemptions for imported raw materials.
- Exempting the VAT on medicines starting from FY2026 to ensure that medicines remain affordable to all, even after the loss of the TRIPS waiver in 2026.
- Implementing a plan to protect the local pharmaceutical industry and help retain its competitiveness in the global market after the LDC graduation in 2026, allowing low-income groups to access medicines and other pharmaceutical products at an affordable price.

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