



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

# CPD's Recommendations for the National Budget FY2026-27

**(Draft)**

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The CPD IRBD 2026 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

# **CPD's Recommendations for the National Budget FY2026-27**

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## **SECTION I. INTRODUCTION**

The FY2026-27 (FY2027) national budget will be the first for the newly elected government of the Bangladesh Nationalist Party (BNP). It is particularly significant as it is being prepared during a challenging macroeconomic situation. The economy faces multiple pressures, including high inflation, low revenue collection, slow budget execution, a heavy debt burden, low investment, declining employment, a weak financial sector, declining export growth, and the imminent graduation from Least Developed Country (LDC) status.

Therefore, the FY2027 budget must tackle these issues with targeted short-term actions while laying the groundwork for medium-term reforms to stabilise the economy and boost structural resilience. Simultaneously, the new government needs to begin implementing the various electoral promises outlined in its manifesto.

Continuing its longstanding tradition, the Centre for Policy Dialogue (CPD) has developed a set of budgetary recommendations and fiscal measures to inform the upcoming FY2027 budget. These suggestions consider current economic conditions and offer practical strategies to manage existing uncertainties while supporting medium- and long-term economic sustainability.

## SECTION II. SNAPSHOT OF MACROECONOMIC CORRELATES

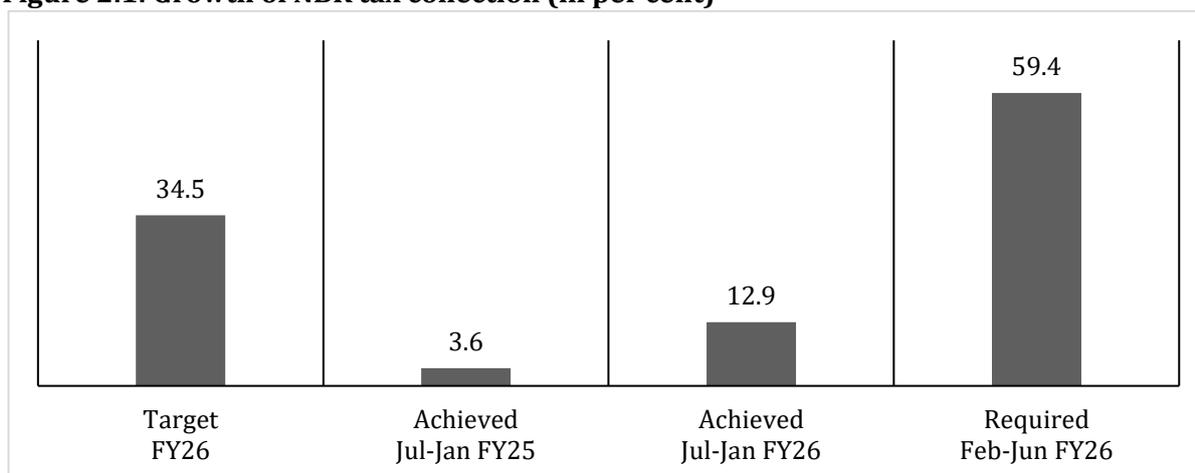
### Key recommendations

- Monetary and fiscal policy coordination should prioritise curbing high inflationary pressure while supporting economic recovery.
- Development expenditure should be accelerated through improved project management and monitoring, while prioritising not only visible infrastructure projects but also investments in human capital development.
- Deficit financing should rely on a balanced mix of both domestic and external sources to avoid excessive pressure on the banking system and private sector credit.

### 2.1 Fiscal Performance Shows Significant Implementation Gaps

In the case of tax collected by the National Board of Revenue (NBR), the revenue mobilisation growth remained modest at only 12.9 per cent during the July–January period of FY2026 (Figure 2.1). However, the annual growth target for FY2026 was set at 34.5 per cent. If the annual growth target is to be met, tax collection will need to increase by 59.4 per cent during the February–July period of FY2026. This appears highly unlikely given the current pace of revenue collection. Indeed, a significant revenue shortfall of around BDT 60,000 crore was observed during the July–January FY2026 period.

**Figure 2.1: Growth of NBR tax collection (in per cent)**



Source: Authors' calculation from NBR (2025, 2026).

A restrained approach is observed in the implementation of the Annual Development Programme (ADP). During the July–January FY2026 period, ADP implementation rate reached 20.3 per cent (Implementation Monitoring and Evaluation Division [IMED], 2026) – the lowest in last fifteen years. The corresponding figure for FY2025 was 20.8 per cent. The slow pace of ADP implementation is likely associated with poor project management, institutional inefficiency and the government's deliberate attempt to curtail overcapitalised development projects. However, whether the slow pace of revenue mobilisation contributed to this remains a question.

As Bangladesh Bank data shows, deficit financing during the July–December period of FY2026 relied heavily on bank borrowing – to the tune of BDT 59,655 crore (Bangladesh Bank, 2026a). In fact, the government paid back nearly BDT 10,000 crore to the banks during the corresponding period of FY2025. Both non-bank borrowing and foreign borrowing declined substantially during

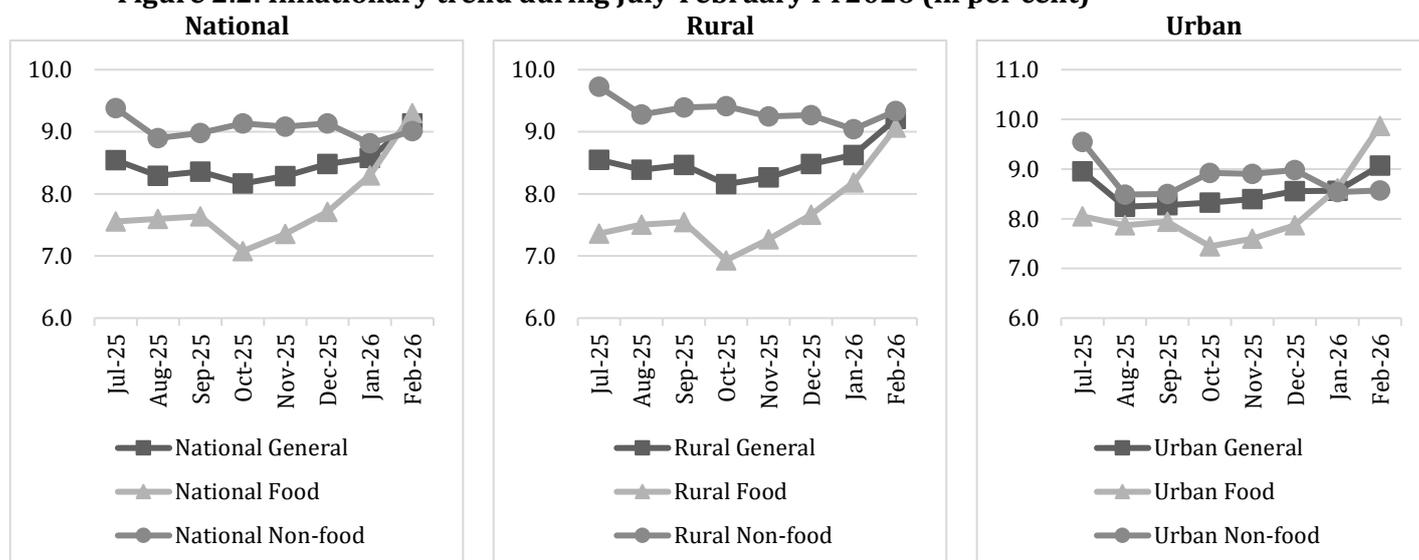
the July-December FY2026 period. Such heavy reliance on borrowing from scheduled banks to finance fiscal deficit could result in crowding out of private sector investment.

Timely availability of data continues to be a major concern when it comes to the assessment of fiscal situation in Bangladesh. Data from the Ministry of Finance (MoF), which is the most comprehensive source of fiscal information, is available only up to September 2025 at the time of preparing this report. This availability issue led to the use of data from multiple sources that often lack consistency and congruency.

## 2.2 Inflationary Pressures Continue

During the first eight months of FY2026, general inflation remained mostly over 8 per cent but under 9 per cent at national, rural and urban levels (Figure 2.2). Non-food inflation was usually higher than food inflation in both rural and urban areas. Urban food prices generally rose faster than rural food prices, while non-food inflation was relatively higher in rural areas. On average, overall inflation in rural areas and urban areas remained comparable during this period. Looking forward, any disruption in fuel supply due to the ongoing conflict in the middle east will adversely affect the inflation scenario. If this situation persists, the inflation target of 7.0 per cent set in the Monetary Policy Statement (Bangladesh Bank, 2026c) is unlikely to be achieved by June FY2026.

**Figure 2.2: Inflationary trend during July-February FY2026 (in per cent)**



Source: Author's compilation from Bangladesh Bureau of Statistics (BBS, 2025a, 2025b, 2026).

## 2.3 Monetary Aggregates Broadly Reflect the Prevailing Policy Stance

During the first seven months of FY2026, net foreign assets increased by 31.7 per cent, well above the June FY2026 target of 22.0 per cent (Table 2.1). This higher growth reflected robust remittance inflows and effective foreign reserve management. Conversely, net domestic assets increased by 6.2 per cent, below the targeted 9.7 per cent, might be indicative of cautious monetary stance focusing on curbing inflationary pressures. The slower-than-expected growth in domestic credit, at 10.5 per cent, can be mainly attributed by the historically low private sector credit growth of 6.0 per cent. On the other hand, public sector credit growth surged by 26.2 per cent, way higher than the 21.6 per cent target, indicating heavy reliance on bank borrowing for financing fiscal deficits. Broad money increased by 9.5 per cent, short of the 11.5 per cent goal, while reserve money increased by 10.4 per cent, above the 8.0 per cent target

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

As of	Net foreign assets	Net domestic assets	Domestic credit	Credit to the public sector	Credit to the private sector	Broad money	Reserve money
January FY2026	31.7	6.2	10.5	26.2	6.0	9.5	10.4
June FY2026 (MPS target)	22.0	9.7	11.5	21.6	8.5	11.5	8.0

Source: Author's compilation from Bangladesh Bank (2026b, 2026c, n.d.a).

## 2.4 External Sector Performance Shows Mixed Trends

Export earnings experienced a contraction during the July–February period of FY2026 with a negative growth rate of (-) 3.2 per cent, mainly due to a slowdown in the readymade garment (RMG) exports (Table 2.2). Import payments growth also moderated at 3.9 per cent during the July-January period of FY2026.

Overseas migration recorded a substantial positive growth of 17.2 per cent during the July-January period of FY2026. In accordance with this, remittance growth was also observed to be steadily positive. In terms of current account and financial account balance, significant improvements were observed during the July-December period of FY2026. This led to an improved overall balance of approximately USD 1.9 billion. Forex reserves surged to USD 30.4 billion in February 2026 from USD 20.9 billion in the same period of last year. The exchange rate of BDT against USD was in a stable position as well.

**Table 2.2: Key indicators of the external sector**

Indicator	Unit	Timeframe	FY2025	FY2026
Export earnings growth	Per cent	July–February	10.5	-3.2
Import payments growth	Per cent	July–January	4.3	3.9
Remittance growth	Per cent	July–February	22.6	21.5
Overseas migration growth	Per cent	July–January	-22.6	17.2
Current A/C balance	Million USD	July–December	-518	-343
Financial A/C balance	Million USD	July–December	525	2047
Overall balance	Million USD	July–December	-467	1,941
Forex reserve	Million USD	As of February	20,946	30,360
Exchange rate	BDT/USD	As of February	122.0	122.3

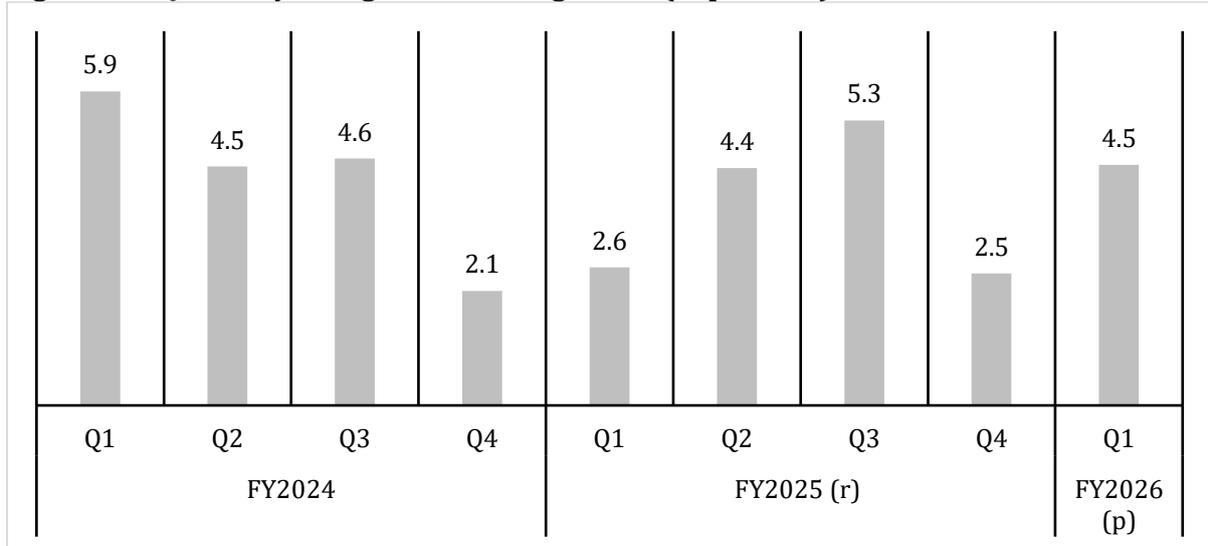
Source: Author's compilation and calculation from Export Promotion Bureau (EPB, n.d.) and Bangladesh Bank (2026b, n.d.b, n.d.c, n.d.d).

## 2.5 GDP Growth Rebounded in the First Quarter of FY2026

GDP growth was estimated at 4.5 per cent during the July–September period of FY2026 (Figure 2.3). This figure was higher compared to 2.6 per cent during the corresponding period of FY2025. After observing the slowdown during FY2025, the economy showed some recovery during the first quarter of FY2026.

In the national budget for FY2026, the annual GDP growth was targeted to be 5.5 per cent. Later, the target was revised to 5.0 per cent in the revised budget for FY2026 ('Revised budget sets inflation target at 7pc, GDP growth at 5pc', 2025). World Bank (2026) also cut Bangladesh's FY2026 GDP growth forecast to 4.6 per cent. These estimates raise concern about meeting the government's 5.0 per cent revised growth target.

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



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

To maintain higher economic growth, continued macroeconomic stabilisation should be a key priority. Hence, investment climate should be enhanced, exports performance should be improved, and inflation should be controlled to maintain growth momentum.

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## SECTION III. THE SUPPLY SIDE DYNAMICS OF INFLATION

### Key recommendations

- The design and fiscal targets of the upcoming FY2027 needs to be set in a realistic manner – while taking cognisance of the current macroeconomic scenario.
- Starting in FY2027, all ad hoc provisions of tax incentive should be discontinued.
- A cautious approach will be required while securing domestic or external financing to meet budget deficit.

### 3.1 Context

The budget for the upcoming FY2027 is going to be the first budget prepared by the newly elected government. It is going to be prepared under new leadership at the Ministry of Finance (MoF) as well. In this context, the FY2027 national budget offers the new administration a rare chance to break free from the formulaic mould, initiate short-term reforms, and set the stage for medium-term improvements in public financial management. Preparing a credible fiscal framework can be considered a starting point in this regard.

### 3.2 Setting the Budgetary Targets for FY2027 in a Realistic Manner

During its ‘Analysis of the National Budget for FY2025-26’ in June 2025, CPD made the observation that ‘the targets to be set for the macroeconomic framework for FY2026 appear to be optimistic’ (CPD, 2025). This resulted in the fiscal framework for FY2026 become rather formulaic in nature. It was also envisaged that a business-as-usual scenario would prevail. As a consequence, lofty and highly optimistic targets were set which are likely to miss their marks by a considerable margin at the end of the fiscal year. As the FY2026 gets closer to the finishing line and more up-to-date data becomes available, many of the apprehensions are proving to be true.

Drawing lessons from this experience, the design and fiscal targets of the upcoming FY2027 needs to be set in a realistic manner – while taking cognisance of the current macroeconomic scenario – both at the domestic and external fronts. While highlighting the issue of realistic target setting, the revenue collection targets for the ongoing FY2026 can be a case in point. When the national budget for FY2026 was proposed, the revenue mobilisation growth target was set at 8.9 per cent over the revised budgetary target for FY2025. However, when the actual revenue mobilisation in FY2025 is taken into account, the growth target for FY2026 becomes 29.3 per cent – more than triple the targeted growth rate. The crucial need for setting realistic budgetary targets is underscored through this example.

### 3.3 Enhancing Domestic Resource Mobilisation while Limiting People’s Burden

The current ruling party has set an ambitious goal of raising the tax-GDP ratio to 15 per cent by 2035 (BNP, 2026). In FY2025, this ratio stood at a meagre 6.8 per cent. This implies that tax-GDP ratio would need to increase by 0.8 percentage points annually during this timeframe. This is quite an aggressive stance when prevailing targets set by the MoF are considered. It is crucial to emphasise that in this situation, a thorough and well-written action plan is essential, as is efficient execution backed by strong political will. While a number of reform initiatives are currently in place, they might not have been sufficient in the past to produce the intended outcomes.

In order to find newer avenues of resource mobilisation, initiatives such as meaningful taxation of wealth and property and taxes on the expanding digital economy should be taken into consideration. At the moment, local government entities collect property taxes at rates that are out of line with property values. A more effective system might be created by updating these tax

rates and combining them with the wealth tax that the NBR collects. The manifesto also proposes the introduction of a modern property and wealth tax (BNP, 2026).

Starting in FY2027, all ad hoc provisions of tax incentive should be discontinued. Given the current state of the economy and political scenario, there will be a greater demand for incentives in the upcoming fiscal year, thus NBR must exercise caution and selectivity. Before developing additional provisions, a thorough cost-benefit analysis must be carried out. In the case of current provisions, "sunset clauses" ought to be added. A medium-term strategy and schedule for gradually eliminating the different tax exemptions should also be in place. Consultations with stakeholders ought to be a crucial component in developing this strategy. The upcoming budget should include an analysis of the revenue forgone as a result of the different tax exemptions. This will bring this pressing subject much-needed political attention.

Additionally, accelerating the realisation of disputed tax claims through the Alternative Dispute Resolution (ADR) mechanism must receive due attention in the next national budget. Tax tribunals and courts should take action to expedite the resolution of ongoing tax-related matters.

### **3.4 Setting Allocative Priorities for Public Expenditure Clearly**

While designing the fiscal framework for FY2027, the policymakers should take note of the continued rising prices of essentials. Adequate attention should be provided to food production, social protection (including employment generating programmes), subsidies for agriculture, energy and power sectors, and the health and education sectors. Supporting the vulnerable, limited and low-income groups needs to be the focal point of subsidy management.

The newly elected government has mentioned a number of pledges in their election manifesto. These include, inter alia, providing family card to five million disadvantaged households, allocating five per cent of GDP each to health and education, issuing farmer's card, one teacher-one tab etc. (BNP, 2026). Pursuing a staggered approach should be the best course of action in this regard. Priority pledges, requiring considerable resources, may be initiated in FY2027 after careful consideration. For other pledges, a phased approach could be followed from FY2028 to ensure overall delivery quality. If absolutely necessary, in certain cases, limiting the scope or depth the ambitious pledges may be considered.

The ongoing efforts to reduce wasteful and expensive public expenditure, such as purchasing of vehicles and travelling abroad, must be continued. The interim government initiated the practice of removing unproductive activities from the ADP. This needs to be continued and political considerations must be kept aside. Simultaneously, the infrastructure heavy formulation of the ADP needs to be reassessed in order to give the sectors associated with human capital formation due attention.

The government needs to prioritise implementing all foreign funded ADP projects while taking the current foreign exchange reserve into cognisance. Almost finished projects (implementation rate of 85 per cent or above in June 2026) should receive higher priority from the government. Projects that will end up with the implementation rate of 10 per cent or below in June 2026 needs to be deprioritised. Furthermore, 'carryover projects' with a maximum implementation rate of below 30 per cent at the end of FY2026 should be re-examined to support their continuation. The government needs to follow through on the electoral pledge of making cost-benefit analysis, parliamentary oversight, and transparent audits mandatory for all major projects (BNP, 2026).

### **3.5 Maintaining Balance in Budget Deficit Financing**

In the upcoming FY2027, considerable challenges will be faced in the area of receiving financing from foreign sources. In the case of borrowing from foreign sources, the majority is contingent

upon government agencies' ability to design and implement the projects under the ADP. On the other hand, receiving budget support is dependent on the implementation of policy reforms. As has been observed in the recent experience with the IMF, that avenue can prove to be arduous. Given the citizens are saving less in the backdrop of high inflationary pressure and prevailing interest rates for bank deposits and other instruments are quite high, the sale of NSD certificates may continue to be sub-par. As a result, the onus of deficit financing is likely to fall on bank borrowing. The fiscal space available to the government will be somewhat limited if private sector borrowing is not to be crowded out, given the commercial banks' liquidity scenario and the government's continuation of the decision to not borrow from the central bank.

In this connection, the issue of debt repayment must be taken into cognisance. Between June 2024 and September 2025, total debt stock of Bangladesh has increased by more than Tk. 260,000 crore (MoF, 2026). The majority of the additional debt came from external sources as the depreciation of the Bangladeshi Taka played a crucial role. Thus, it becomes apparent that a cautious approach will be required while securing domestic or external financing to meet budget deficit.

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## SECTION IV. FISCAL POLICY RECOMMENDATION FOR CONTROLLING INFLATION

### Key recommendations

- Strengthen market governance through better competition oversight and supply chain monitoring to stabilise prices and ensure fair market operations.
- Enhance support for low-income households through targeted subsidies, expanded cash or in-kind assistance, and improved social safety net efficiency.
- Invest in renewable energy to diversify energy sources and reduce Bangladesh's vulnerability to global oil price shocks.

### 4.1 Introduction

Inflation has emerged as a major macroeconomic challenge for Bangladesh in recent years. Persistently high prices have become increasingly common, imposing significant hardship on millions of households and eroding purchasing power, particularly among low-income groups. These domestic pressures are now compounded by growing global uncertainties. Escalating geopolitical tensions in the Middle East, particularly involving Iran, have heightened volatility in global energy markets. For an import-dependent economy like Bangladesh, rising global fuel and commodity prices can quickly translate into higher import costs, increased production expenses, and renewed inflationary pressures.

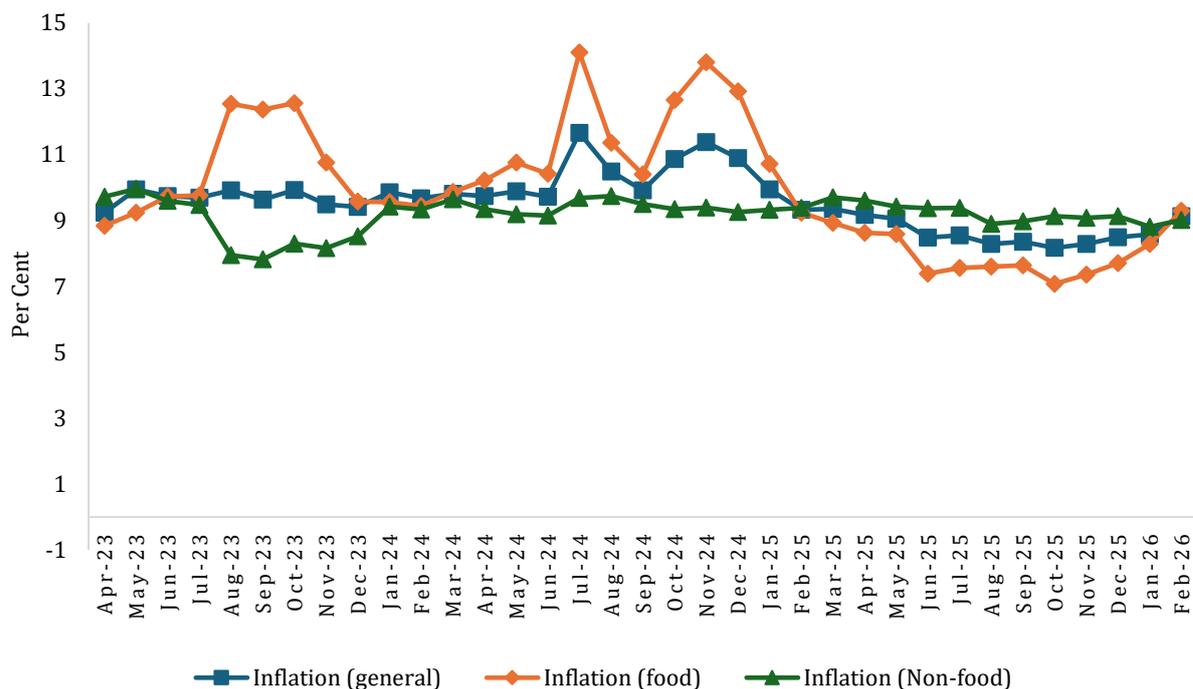
Fiscal policy can play an important role in addressing these challenges. As a demand-side policy tool, fiscal measures can influence inflation by moderating aggregate demand through adjustments in government expenditure and taxation. However, inflation in Bangladesh is driven by both demand-pull and cost-push factors, including rising prices of energy, agricultural inputs, and imported commodities. Addressing these pressures, therefore, requires a balanced fiscal strategy that combines prudent demand management with targeted supply-side interventions.

Against this backdrop, the upcoming national budget presents an important opportunity to align fiscal policy with the objective of stabilising prices while protecting vulnerable groups. This chapter examines how fiscal policy instruments can be strategically deployed to mitigate inflationary pressures in Bangladesh and outlines policy recommendations for the national budget for the fiscal year FY2027.

### 4.2 Recent Trends of Inflation

General point-to-point CPI and food inflation increased from December 2025 to February 2026. General inflation stood at 9.13 per cent, food inflation at 9.30 per cent, and non-food inflation at 9.01 per cent (Bangladesh Bank 2026b) (Figure 4.1). Therefore, food inflation rose by 1.01 percentage points between January and February 2026 (Figure 4.1). While non-food inflation showed a modest decline from 9.13 to 8.81 between December 2025 and January 2026, suggesting a decline in the prices of clothing, transport, and housing, it rose again in February 2026 to 9.01 per cent (Figure 4.1). The overall inflationary pressure remained elevated, driven by rising food inflation. This may partly reflect seasonal price increases during Ramadan, when demand for essential food items typically rises.

**Figure 4.1: Point-to-Point General, Food, and Non-Food CPI Inflation in Bangladesh (in per cent) (Base Index 2021-22=100)**

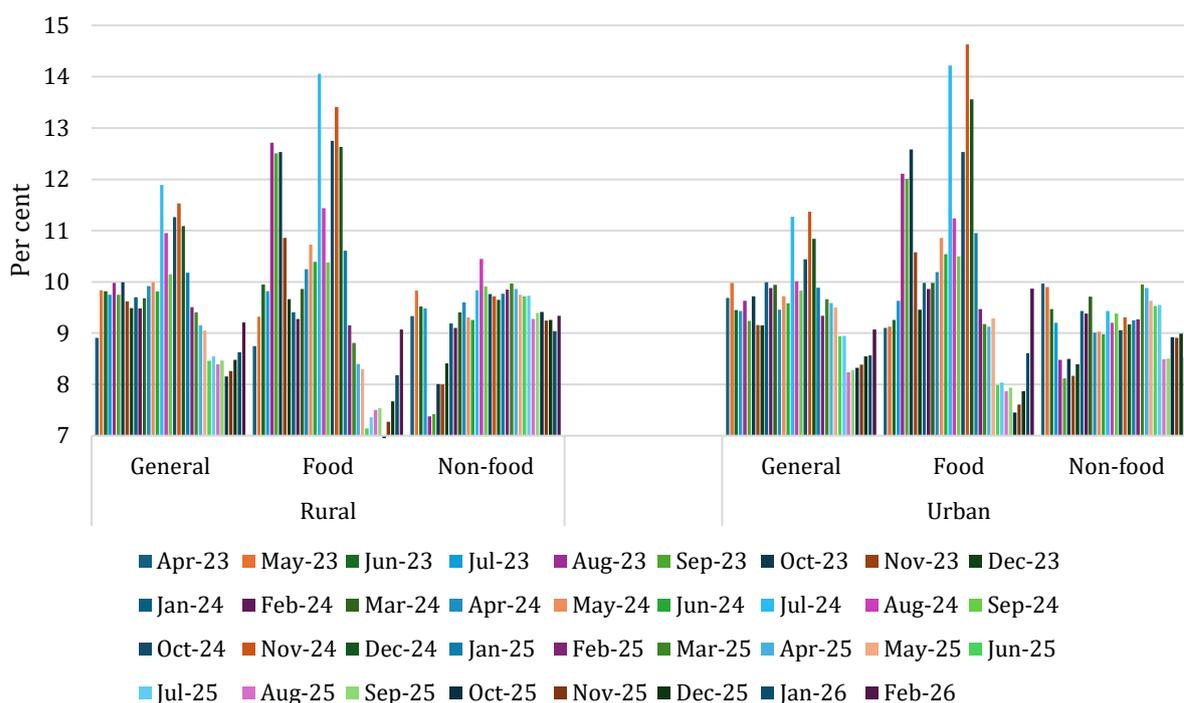


Source: CPD’s illustration based on data from the Bangladesh Bureau of Statistics (BBS) (BBS 2025), the Bangladesh Bank’s Monthly Economic Trends (Bangladesh Bank 2026b).

In terms of geographic differences, food inflation showed greater volatility in both rural and urban areas compared to non-food inflation. Rural point-to-point inflation increased from 8.63 per cent in January 2026 to 9.21 per cent in February 2026 (Bangladesh Bank 2026b) (Figure 4.2), indicating increased inflationary pressure in rural areas. Urban point-to-point inflation remained elevated at 9.07 per cent. Moreover, rural food inflation increased from 8.18 per cent to 9.07 per cent within a month (Figure 4.2).

This rise may indicate supply chain distortions and price increases driven by higher demand during Ramadan. Food inflation was higher in urban areas (9.87 per cent) than in rural areas (9.07 per cent), while non-food inflation was higher in rural areas (9.34 per cent) than in urban areas (8.57 per cent) in February 2026 (Figure 4.2). Overall, this illustrates inflationary pressures with pronounced spatial and category-based differences, underscoring the need for targeted policy responses to address both urban and rural inflation dynamics.

**Figure 4.2: Point-to-Point General, Food, and Non-food CPI Inflation in Rural and Urban Areas of Bangladesh (In Per Cent) (Base Index 2021-22=100)**



Source: CPD’s illustration based on data from the Bangladesh Bureau of Statistics (BBS) (BBS 2025), the Bangladesh Bank’s Monthly Economic Trends (Bangladesh Bank 2026b).

### 4.3 Measures Taken So Far to Control Inflation

In recent years, inflation has been a major economic challenge in Bangladesh. The government and the central bank adopted several measures to control rising prices. These developments occurred during a politically sensitive phase surrounding the government transition and the national election in Bangladesh. One of the most important steps was the Bangladesh Bank’s continued tight monetary policy. The central bank maintained the policy rate at 10 per cent to keep borrowing costs high and, as a result, discourage excessive credit growth.

This contractionary stance was intended to reduce demand-side pressures and gradually bring inflation down to the 7 per cent target level (Bangladesh Bank, 2026a). Supply-side measures also played a vital role in managing inflationary pressures. The government adjusted import duties and removed the Letter of Credit (LC) margin requirements for several essential imports, making these goods easier and cheaper to bring into the country (Bangladesh Bank, 2026a).

Authorities increased imports of essential foodgrains such as rice and wheat to ensure an adequate supply in domestic markets (Bangladesh Bank, 2026a). Therefore, stronger monitoring of commodity stocks helped ensure adequate supply in markets and helped reduce pressure on food prices.

On the other hand, relatively stable global prices of non-energy goods and food during the first half of FY2026 helped limit the extent of imported inflation (Bangladesh Bank, 2026a). Although the general point-to-point inflation increased from December 2025 (8.49 per cent) to January 2026 (8.58 per cent) (Bangladesh Bank 2026b), these proactive measures taken by the government helped prevent a sharper rise in domestic prices.

#### **4.4 Impact of the Iran–Israel Conflict on Energy Prices and Its Consequences for Inflation**

The ongoing conflict between Iran, the UNITED STATES, and Israel has created heightened uncertainty and disruptions in the global energy market, with major implications for oil prices and inflation worldwide. The Middle East is a key player in global energy supply; as a result, instability in the region directly affects oil and gas prices, which in turn influence inflation in energy-importing countries such as Bangladesh. One of the primary channels through which tensions involving Iran could affect energy prices is the disruption of supply routes and energy infrastructure. The Persian Gulf contains vital export facilities, and around 20 per cent of global oil supplies pass through the Strait of Hormuz (The Guardian, 2026). Military tensions and threats to shipping in this area have heightened fears of supply disruptions, driving up oil prices in global markets.

Moreover, Bangladesh heavily relies on crude petroleum imports from Middle Eastern countries such as Saudi Arabia, the United Arab Emirates (UAE), and petroleum gas from Qatar, the United Arab Emirates, and Oman to meet its energy demand (Bangladesh Bank, 2025c). Evidence shows that geopolitical conflicts often result in global oil price shocks, generating sustained price spikes that pass through to all countries (Zhang, Lean, Wang, & Lai, 2009) (Zhang, Yang, Hu, Jiao, & Wang, 2023). Historical evidence from conflicts, such as the Russia-Ukraine war, Bangladesh, as an energy-import-dependent economy within South Asia, is highly exposed to geopolitical energy price shocks.

Rising global fuel prices are likely to increase import bills, translating into higher domestic inflation, and reducing real household incomes, ultimately exerting downward pressure on economic growth (Sun, Cao, Liu, Cao, & Zhu, 2024). Ordinary households have already begun to bear the impact, as the prices of essential commodities, such as refined palm oil, soybean oil, wheat, sugar, and imported pulses and dry foods, have started to rise at Khatunganj, Chattogram's largest wholesale market (The Business Standard, 2026a).

#### **4.5 Demand-side Measures for Controlling Inflation**

Demand-side measures to control inflation play a critical role in macroeconomic policies designed to regulate aggregate demand when it outpaces the economy's productive capacity, thereby creating upward pressure on domestic prices of goods and services. Fiscal and monetary measures aim to control inflation to a moderate level without triggering an economic downturn. These measures are especially important in countries that are still growing economically and industrially. This is particularly relevant because developing economies tend to exhibit structural weaknesses that make inflation difficult to manage.

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

Boosting tax revenue is another important fiscal tool for containing inflation. Increased tax collections diminish the need for deficit financing, which often leads to inflationary expansion of the money supply. Moreover, augmenting tax revenues might counterbalance expenditures, alleviating inflationary pressures (Alam, 2018). Expanding the tax base by integrating informal sectors and enhancing tax collection efficiency may provide supplementary revenue without

unduly burdening low-income households. Furthermore, progressive taxation on high-income individuals might diminish disposable income and restrain excessive expenditure, alleviating demand-pull inflation (Raihan and Anjum 2020).

Regulating fiscal deficits is equally crucial for inflation management. Expansionary fiscal policies in emerging economies such as Bangladesh often lead to higher inflation due to increases in money supply and aggregate demand. Previous research underscores the need to maintain a manageable level of public debt to regulate inflation (Afrin, 2014). Reducing fiscal deficits and efficiently managing public debt can alleviate long-term inflationary pressures (Chakraborty, 2024) (Hossain, 2020). Restricting borrowing from the central bank and emphasising productive investments over discretionary spending helps sustain fiscal discipline and mitigate inflation.

Monetary policy complements fiscal policy in controlling inflation. Bangladesh Bank uses key tools such as policy interest rates, reserve requirements, and open market operations to manage money supply and lending conditions (Pertwi, 2025). However, the dominance of the informal sectors can significantly reduce the effectiveness of monetary policy tools in controlling inflation, as informal sectors operate outside the formal financial system (Chikonda & Chortareas, 2024). Factors such as tax incentives, improved labour market policies, and better social safety nets can strengthen the effectiveness of monetary policy by reducing the share of the population in the informal sector.

Furthermore, the independence of the central bank significantly enhances the effectiveness of monetary policy in reducing domestic inflation, since higher central bank independence is associated with lower inflation (Garriga & Rodriguez, 2020). The inflation dynamics in Bangladesh are complex, and the efficacy of monetary policy measures is constrained by global commodity price fluctuations, consumer uncertainty, climate risks, and political interference (Latif, 2025). However, studies have found a negative relationship between the policy interest rate and inflation (Alom, 2024), underscoring the need to maintain an optimal interest rate to curb inflation.

Additionally, exchange-rate movements play a significant role in shaping inflation conditions (Akter & Rahman, 2025). Depreciation of the Bangladeshi Taka raises the cost of imports, which can amplify inflationary pressures in an import-dependent economy like Bangladesh (Akter & Rahman, 2025). This may increase the domestic price level and reduce real household income, potentially distorting consumption patterns and exacerbating demand-side inflation. Although exchange-rate policy is managed by Bangladesh Bank, fiscal measures aimed at improving the trade balance and reducing excessive import demand can support exchange-rate stability and help moderate inflation.

Furthermore, tightening fiscal policy through measures such as progressive taxation on high-income individuals (Raihan & Anjum, 2020) and restricting infrastructure projects funded by domestic borrowing can lower overall demand in the economy and help reduce inflationary pressures (Latif, 2025). However, structural limitations, including a low tax-to-GDP ratio, emphasise the necessity for more comprehensive reforms (Latif, 2025). Therefore, coordination between monetary and fiscal policy is essential for macroeconomic stability and curbing inflation (Moye, 2024).

#### **4.6 Supply-side Measures for Controlling Inflation**

Subsidies and social expenditures are significant fiscal policy tools that could influence inflation. A common criticism of subsidies is that they distort market prices. However, targeted subsidies can help vulnerable populations without exacerbating inflation. For example, subsidies on vital commodities such as food, fuel, and healthcare may be targeted to assist low-income families, particularly by ensuring that anti-inflationary policies do not disproportionately impact the poor.

Studies indicate that targeted subsidies and social expenditures might effectively mitigate inflation while maintaining fiscal stability (Chakraborty, 2024) (Hossain, 2020).

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

Supply-side factors, such as agricultural productivity and supply chain efficiency, play a significant role in inflation dynamics. Fiscal measures that address these factors can help reduce inflation. Water-efficient, high-value crops such as maize, spices, oilseeds, and pulses should be promoted in drought-prone northern regions. This can be achieved by distributing high-quality seeds and saplings at subsidised prices, along with low-interest agricultural credit. In southern regions, Boro rice cultivation should be promoted through special projects, with provisions for improved salt-tolerant rice varieties, surface-water irrigation systems, and support for mechanical tillage.

The government should establish cold storage facilities for grains, potatoes, vegetables, and fruits to reduce post-harvest losses. Such facilities, deployed in conjunction with the increased scale and scope of government procurement of agricultural products, can serve as a strategic buffer stock of essential food items that can then be used to stabilise prices as and when required. The establishment of broodstock banks for fish species such as ruhi, katla, tilapia, and freshwater prawns is essential to ensure the availability of quality fingerlings. Solar-powered pumps should be encouraged through low-interest loans to minimise dependence on the national grid for irrigation electricity. Enhancing agricultural research and development can improve crop yields and reduce production costs. A subsidised insurance programme for the crops, livestock, and poultry sectors, particularly against natural disasters such as hailstorms, floods, and cyclones, should be introduced to protect farmers from income shocks.

Alongside the use of subsidies as a policy instrument, the government should also invest in strengthening market monitoring mechanisms to limit the influence of intermediaries, particularly millers. Effective regulation is needed to prevent hoarding and excessive stockpiling of agricultural products, which can distort market prices and reduce inflationary pressures. At the same time, farmers' bargaining power should be enhanced through targeted training, while improved access to credit and storage facilities can help reduce their dependence on middlemen.

#### **4.7 Government Commitment to Curb Inflation According to the Election Manifesto**

The election manifesto outlines key commitments to serve Bangladesh's citizens. Although the manifesto did not explicitly address inflation, several proposed initiatives aim to reduce price pressures and improve economic stability.

One major commitment focuses on social welfare and support for low-income households. The manifesto proposes introducing a "Family Card" programme that would provide around BDT 2,500 per month in cash or essential commodities to marginal and low-income families. This initiative is designed to protect vulnerable groups from the effects of rising prices. By ensuring access to basic goods or financial assistance, the programme would help maintain the purchasing power of poor households during periods of high inflation (BNP's Election Manifesto, 2026).

Another important measure is the introduction of a “Farmers’ Card” to ensure fair prices for farmer’s produce. Through this initiative, farmers would receive subsidies, easy loans, agricultural insurance, and access to state-managed markets. The programme would also extend benefits to fish farmers, livestock farmers, and small entrepreneurs in the agricultural sector (BNP's Election Manifesto, 2026). Supporting agricultural production can increase the supply of food products in the domestic market, which helps stabilise food prices and reduce inflationary pressures.

The manifesto also emphasises revenue and tax reforms to strengthen the government’s fiscal capacity. In the short term, the stated policies aim to increase government revenue by about 2 per cent of GDP. In the medium term, the manifesto proposes improving tax administration and increasing the tax-to-GDP ratio to around 10 per cent (BNP's Election Manifesto, 2026). Stronger revenue collection would allow the government to finance development programme and social protection without excessive foreign borrowing, thereby contributing to macroeconomic stability.

Finally, the manifesto highlights the importance of stimulating investment and expanding economic activity (BNP's Election Manifesto, 2026). By encouraging investment and increasing production, employment and income levels would rise, increasing overall economic activity. Higher production and income can help increase the standard of living and reduce supply constraints, supporting price stability over time.

In conclusion, the election manifesto outlines several commitments, including social protection programme, agricultural support, and fiscal reforms, that can indirectly help control inflation and maintain economic stability in Bangladesh.

#### **4.8 Policy Recommendations**

Inflation poses a significant threat to Bangladesh's economic stability and social welfare. To address this challenge, the government must adopt a comprehensive fiscal strategy that balances demand-side and supply-side measures. Based on the analysis, the following policy recommendations are proposed for the national budget for FY2027:

- Prioritise spending on critical sectors such as healthcare, education, and agricultural infrastructure while cutting non-essential expenditures to reduce aggregate demand and alleviate inflationary pressures.
- Limit borrowing from the central bank and prioritise productive investments over non-essential expenditures to maintain fiscal discipline and reduce inflation. It should be noted that CPD has previously put forward this recommendation, which is also reflected in the election manifesto.
- Design subsidies to benefit low-income households, ensuring that essential goods remain affordable without increasing overall spending.
- Increase minimum wages across all industries to ensure workers can afford basic food and encourage private sector corporations to offer higher salary increments to mitigate the impact of double-digit price hikes.
- Examine and adjust duty and tax structures on essential commodities at both import and domestic levels to provide relief to low- and limited-income consumers.
- Extend the scope of direct cash or kind assistance programme for the low-income population groups.
- Strengthen the role of the Competition Commission by hiring skilled professionals to monitor markets, investigate market manipulation, and enforce anti-trust laws with a zero-tolerance policy.
- Provide additional support for subsidised credit programme in the agriculture sector to incentivise production during the next fiscal year.

- Allocate funds to promote water-efficient, high-value crops in drought-prone regions and salt-tolerant rice varieties in southern regions.
- Establish a subsidised crop insurance programmes to protect farmers from natural disasters.
- Expand cold storage facilities for agricultural products to create a strategic buffer stock for stabilising prices.
- Encourage the use of solar-powered irrigation systems through low-interest loans.
- Allocate funds and resources to implement market monitoring mechanisms to reduce the involvement of middlemen and impede hoarding practices in the supply chain of essential commodities.
- Allocate funds for the establishment of broodstock banks to ensure the availability of quality fingerlings for the fisheries sector.
- Increase the volume of essential commodities sold through open market sales (OMS) and set higher targets for foodgrain procurement and distribution programmes.
- Review SSNPs to determine intervention priorities based on recipient families' changing economic and social profiles.
- Re-evaluate existing SSNPs to improve targeting, avoid overlaps, and introduce finite planning with exit strategies.
- Reallocate resources within social safety net initiatives to ensure equitable distribution and successful outcomes.
- Establish a unified database and framework to rigorously monitor and analyse social safety net initiatives for future planning and budget allocation.
- Improve interministerial coordination and explore programme mergers to reduce administrative costs and enhance efficiency.
- Safeguard and strengthen the independence of the central bank to ensure credible and effective monetary policy aimed at controlling inflation.
- Address seasonal spikes in food inflation by implementing targeted price stabilisation measures during festivals to mitigate consumption-driven demand surges.
- Enhance climate resilience in both rural and urban areas through improved agricultural infrastructure and early warning systems to reduce food price volatility caused by weather shocks.
- Formalise the informal sector by expanding tax incentives, strengthening labour market policies, and improving social safety nets to increase the reach and effectiveness of monetary policy tools to control inflation.
- Reduce the fiscal deficit by curbing non-development expenditures and improving public spending efficiency to lower inflationary pressures.
- Government should invest more in renewable energy, such as solar energy, to diversify energy channels in order to mitigate the risks that global oil price shocks may have on the economy.

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## SECTION V. BUDGET FY2027: FISCAL POLICY STANCE AND BUDGETARY PROPOSALS IN LIGHT OF EXTERNAL SECTOR DEVELOPMENTS

### Key Recommendations

- Prepare for post-LDC graduation by rationalising tariffs and para-tariffs, aligning applied tariff rates with bound commitments in the WTO, gradually phasing out direct subsidies, and by strengthening capacities to deal with anti-dumping and countervailing cases from the perspective of both offensive and defensive interests.
- Initiate an in-depth review of the Bangladesh–US Agreement on Reciprocal Trade (ART), with a fiscal-budgetary lens, to assess revenue, regulatory, and WTO-related implications.
- Introduce contingency fiscal provisions in the FY2027 Budget to manage external shocks arising from likely global commodity price volatility and geo-political uncertainties, particularly those affecting import expenditures on fuel and energy and other necessary items.

### 5.1 Introduction

The FY2027 Budget is being framed and prepared at a time when the external sector of Bangladesh is undergoing significant changes and facing formidable challenges. These will have implications for FY2027 Budget stance as also for the budgetary proposals. There is no denying that the upcoming Least Developed Country (LDC) graduation, the Economic Partnership Agreement (EPA) with Japan, Bangladesh-US Agreement on Reciprocal Trade (ART) and the ongoing war in the Middle East will have multi-dimensional impact on the Bangladesh economy, which in turn will have significant budgetary implications, both from the perspective of fiscal policies and tariff proposals, not to speak of on the expenditure side as well.

This section focuses on how Budget FY2027 will need to take cognisance of the above considerations through fiscal stance and budget proposals.

### 5.2 The Bangladesh-US ART and FY2027 Budget

The Bangladesh-US ART signed on February 9th, 2026, has several implications from the perspective of budgetary policies (USTR, 2026). Many of the provisions in the Agreement will have ramifications for Bangladesh's fiscal space, constrain domestic policy space, undermine geo-economic flexibilities and are in conflict with the special and differential treatment (SDT) enjoyed by Bangladesh as a member of the World Trade Organization (WTO). Many provisions in the ART go against the *Most Favoured Nation* (MFN) and the *single undertaking* principle that are at the core of the rules-based multilateral trading system of the World Trade Organization (WTO).

In view of the US Supreme Court verdict scrapping the Reciprocal Tariffs (RTs), an opportunity has now emerged to open discussion with the US as regards various provisions in the ART (Supreme Court of the United States, 2026). From the perspective of FY2027 Budget, some of the implications of the ART that ought to inform the policymakers are the followings: a) providing duty-free (DF) access to almost all items of import from the US – immediately (4,500 items) and over the next 5-10 years (2,210 items), excepting 326 items which remain outside the preference list (however imports of these from the US at present remain negligible). The market access offered by Bangladesh will have significant revenue implications. In FY2025 import duties collected from imports from the USA was equivalent to about USD 108.3 million or BDT 1,327 crore (after deducting the refundable advance taxes) (NBR, 2026); b) to note, the ART is not an FTA – one side (Bangladesh) is providing duty-free market access for almost all items of import to the other side, while the other side (the US) is not only charging *most favoured nation* (MFN)

customs duties, but also imposing additional tariffs (of 19.0 per cent) on imports from the other country. Since this is not an FTA, the Agreement will not be covered under GATT Article 24 (which allows participating countries of an FTA to reduce MFN duties and go for trade liberalisation in a *WTO Plus* way). Bangladesh may be dragged to the *WTO Dispute Settlement Body* (DSB) by other WTO members if they are not accorded similar treatment when the same goods are imported from their countries by Bangladesh. The fiscal implications for Bangladesh, if this be the case, will be enormous; i.e., almost all the customs duties collected by Bangladesh! c) the US–Bangladesh ART contains several provisions which would require changes in Bangladesh’s current trade rules and regulatory provisions. Some of these concern automatic recognition of approvals and certifications issued by the US authorities such as the US Food and Drug Administration and the US Department of Agriculture (these include acceptance of US pharmaceutical marketing authorisations, food safety and SPS certifications, dairy and meat inspection systems, and removal of mandatory reinsurance cession to Sadharan Bima Corporation, as also WTO-plus intellectual property rights commitments under treaties administered by the *World Intellectual Property Organization*); d) Bangladesh will be required to procure a number of specific items from the US which may require (i) change in Bangladesh’s procurement policies (deviation from competitive bidding), (ii) additional expenditure to be underwritten by taxpayers, (iii) provision of subsidies to the private sector to incentivise relevant players to import from US suppliers if the cost is higher and lead time longer.

As noted, all these have significant revenue and fiscal policy implications. Budgetary preparatory work will need to be cognisant of these and bring these to the attention of the policymakers.

### **5.3 LDC Graduation and FY2027 Budget**

On February 18th, 2026 Bangladesh submitted an application to the United Nations Committee for Development Policy (UN CDP) for deferment of its LDC graduation by three years on grounds of facing crisis situation. Whether Bangladesh succeeds in this or not, budgetary measures should be initiated to gradually prepare the economy for the upcoming post-LDC future. Some of these relate to the followings: (a) fixation of *bound tariffs* in the WTO (Bangladesh is yet to bind most of its tariff lines in the WTO i.e., highest import duties it commits to impose); (b) reducing import duties to the level of *bound tariffs* (operational tariffs that are currently higher than the bound tariffs); (c) do away with minimum import price (as is currently the case with some imported items); (d) gradually phase out non-Customs Duty (non-CD) type of import duties and charges (i.e., Supplementary Duty – SD, Regulatory Duty – RD, Advanced Income Tax – AIT, Advanced VAT – A-VAT and similar para-tariffs); (e) WTO non-compatible direct cash incentives will need to be phased out; (f) phase out non-allowable export credit subsidy; (g) take measures in line with implementing provisions of the Trade Facilitation Agreement (TFA) of the WTO (commitments made by Bangladesh as per Category B and C of the TFA); (h) put in place a system for notifying the WTO about changes in tariff regime and trade policies on a regular basis.

The National Board of Revenue (NBR) should take a thorough review of Bangladesh’s commitments and obligations as a non-LDC developing country in anticipation of the country’s graduation out of the group of LDCs. This should be ready irrespective of whether Bangladesh’s attempt to defer LDC graduation is successful or not. This exercise should cover obligations under various Agreements in the WTO, taking cognisance of the SDT that Bangladesh would lose, and also the flexibilities that Bangladesh would enjoy as a developing country as also a graduated LDC. Bangladesh should be ready to reflect these in the upcoming Budget FY2027 by taking into cognisance these considerations.

Changes that will need to be made in trade policies, tariffs and other trade-related areas (LDC-specific international support measures (ISMs) and LDC-specific SDT), as a consequence of LDC graduation, should be clearly identified and be reflected in budgetary proposals suitably. The NBR and Ministry of Commerce should strengthen their respective capacities to deal with *anti-*

*dumping and counter-vailing* cases concerning imports from other countries. Similarly, NBR capacity to deal with anti-dumping duties (ADD) and countervailing duties (CVD), imposed by other countries on exports from Bangladesh, will also need to be strengthened. Budgetary provisions should be made to enhance NBR capacities in these areas.

#### **5.4 Continue with Some of the Prevailing Exemptions**

FY2027 Budget should continue with some of the exemptions provided in case of essential items of imports through Statutory Regulatory Orders (SROs) and Special Orders (following the presentation of FY2026 Budget). These include withdrawal of 2.0 per cent Advance Tax (AT) at the import stage for Liquefied Petroleum Gas (LPG) to help ease pressure on consumers and curb inflation (these were to be effective till 30 June 2026) and import duty on mobile phones (import duty was reduced from 25.0 per cent to 10.0 per cent). The same goes for import duties on some of the other essential items.

#### **5.5 Gradually Phase Out the Practice of Issuing SROs**

There is a longstanding tradition in Bangladesh as regards issuing large number of SROs between two budgets, to deal with specific cases. These relate to trade procedures, imposition of import duties and exemptions from duties and taxes, etc. While the justification for undertaking fiscal measures between budgets, when necessity arises, may not be denied altogether, in order to infuse more predictability in trade and business, the number of such SROs should be kept to the minimum. To reduce dependence on SROs, FY2027 Budget proposals should try to anticipate the needs as best as possible to enhance predictability as regards fiscal policies.

#### **5.6 Firm Up Stance as Regards E-commerce**

The decision of the WTO-MC13 was that the *moratorium on e-commerce taxation* (in place since 1999) would come to an end by 31 March 2026 or MC14, whichever is earlier. China, India, Brazil, South Africa and some other developing countries are pursuing this agenda most proactively (since as importing countries they lose revenue because of the moratorium), while developed nations like the USA and European Union (EU) states are advocating for continuation of the moratorium (because of their export interests). Bangladesh has considerable defensive interest as regards this issue (protection of domestic IT-enabled services as also collection of revenue on imports of e-commerce-related services). To note, the Bangladesh-US ART includes a provision that says, 'Bangladesh shall not impose customs duties on electronic transmissions, including content transmitted electronically, and shall support multilateral adoption of a permanent moratorium on customs duties on electronic transmissions at the WTO' (Article 3.3 of ART). In view of this, Bangladesh will need to firm up its position on this issue, particularly because this is most likely to come up at WTO-MC14 to be held in Cameroon on March 26-29, 2026.

#### **5.7 Calibrate Import Duties in View of the Ongoing War in the Middle East**

The ongoing war in the Middle East has given rise to serious uncertainties in global trade. While the magnitude of possible ramifications will depend on the extent of the conflict (whether it is a prolonged one or not), and on the scale and coverage of the conflict. However, the early signals have already started to be felt by Bangladesh. The global prices of Brent and Crude Oil have spiked by USD 15.0/barrel (to reach about USD 85.0/barrel). There are apprehensions that this could exceed USD 130.0-150.0/barrel in foreseeable future. Spot price of Liquefied Natural Gas (LNG) has almost doubled since the start of the conflict. As oil price is considered to be a barometer of other commodity prices, global prices of various items could rise significantly as a consequence of the oil price rise. As a result, Bangladesh's import bill could go up. To provide relief to the already inflation-impacted population, and reduce the burden of imported inflation, the FY2027 Budget will need to factor in the possible implications of rising prices of fuel and other items and

their impact on purchasing capacity of low-income people. As was noted earlier, an exemption is in place as regards the 2.0 per cent AT on LPG (to be effective till 30 June 2026). This will need to be continued. In view of the likely rise in energy prices, it will be prudent to revisit the taxes on imported energy items and make provisions for a *contingency fund* in the budget to underwrite the additional fuel cost.

### **5.8 Take Stringent Measures Against Trade Mispricing**

The findings of various global reports and the *White Paper* prepared during the tenure of the Interim Government indicate that more than three-fourths of the illicit financial outflows from Bangladesh take place through *trade mispricing* (under and over-invoicing in export and import processes) (White Paper Committee, 2024). Concrete measures, including putting in place technological solution, forensic investigation capacity, comprehensive digitalisation of customs, and access to global real time data, must be put in place to address the attendant concerns. Real time import data must be made readily available and accessible to the customs officials. Also, the *Transfer Pricing Cell* (TPC) of the NBR must be strengthened with adequate human resources, forensic capacity and frontier analytical tools to deter mispricing and money laundering on the part of business and corporations.

Recently, the NBR has ordered income tax officials to use import data directly from the Business Intelligence Server of the ASYCUDA system for calculating tax liabilities (aimed at curbing evasion and easing the refund burden on businesses). This should be made the norm.

### **5.9 Take Budgetary Measures in View of Preferential Trading Arrangements**

Bangladesh, as a response to the upcoming LDC graduation and in order to make graduation sustainable, will need to aggressively pursue various negotiations to deepen bilateral and regional trade cooperation (through FTAs, EPAs, CEPAs, etc.). The Budget must make provisions to raise the NBR capacity in relevant areas e.g. undertaking negotiations, estimating revenue implications, articulating offensive and defensive interests of Bangladesh by taking cognisance of fiscal and revenue impacts originating from such trading arrangements. For example, Bangladesh has agreed to provide duty-free access to 1,039 items of imports from Japan. Budget FY2027 should cognisance of these, and their implications for fiscal policies and revenue mobilisation. Budget could also make provisions to set up a *Negotiating Cell* in the Ministry of Commerce which will need to be equipped with necessary human and technical capabilities to undertake the anticipated trade negotiations.

### **5.10 Concluding Remarks**

The economy of Bangladesh is becoming increasingly integrated into the global economy through multiple routes. Budget FY2027 will need to be sensitive to the demands originating from the evolving and changing global trade and economic scenario against this backdrop. Energetic measures will need to be taken to deal with leakages in trade-related taxation, plugging the loopholes in trade-related tax collection and deterring illicit financial outflows through trade mispricing and transfer pricing. In view of making LDC graduation sustainable, Bangladesh will need to aggressively pursue regional trade agreements of various types which will have important implications for fiscal policies and revenue mobilisation. Some of the concerns in this regard have been highlighted in the preceding sections. FY2027 Budget will need to take these into cognisance, and budgetary proposals will need to reflect these in areas of taxation, fiscal policies and public expenditure.

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## SECTION VI. INVESTMENT AND EMPLOYMENT GENERATION

### Key Recommendations

- The government should allocate dedicated budgetary resources to update and fully establish an entirely integrated digital one-stop service platform for business registration, licensing, taxation, and regulatory compliance to be implemented by concerned ministries and departments, including the RJSC, BIDA, NBR, FSCD, BSCIC, BEZA, BEPZA, Titas, BREB, and DESCO
- The government may consider introducing temporary tax credits for firms adopting digital compliance systems to promote digital taxation
- As part of the preparation for LDC graduation, gradually phase down cash incentives currently provided to large-scale enterprises and reallocate these resources towards SMEs

### 6.1 Context

The BNP-led government pledged to accelerate investment to generate employment and revitalise economic growth in its electoral manifesto. More importantly, FY2027 would be critical for initiating the investment-promoting and employment-generating measures suggested in the Smooth Transition Strategies (STS), given Bangladesh's graduation from the LDC group.

Under the STS, boosting investment is imperative to successfully prepare for LDC graduation. The Smooth Transition Strategy distinctly outlines that encouraging private investment, and foreign direct investment would require improving the business climate, capacity enhancement of the Bangladesh Investment Development Authority (BIDA) to effectively function as the primary contact point for investors, improving the financial accessibility (especially for SMEs), improving corporate governance by reducing regulatory complexities and investment laws, and efficient usage of public resources.

However, the newly elected government assumed office at a time when the investment climate had already deteriorated significantly, particularly during the interim government. In the last fiscal year, private investment fell to 22.03 per cent of the Gross Domestic Product (GDP), the lowest level in a decade, reflecting weak business confidence and subdued economic activity. Foreign Direct Investment (FDI) has also remained extremely low, stagnating at below 0.5 per cent of the GDP, far behind the levels observed in many comparable emerging economies. This persistent decline in investment signals insufficient job creation, particularly at a time when a large cohort of youth workforce enters the labour market each year, increasing pressure on the economy to generate productive employment opportunities.

While reversing this trend will require substantial structural and operational reforms, including improvements in governance, regulatory predictability, and financial stability, appropriate fiscal measures and budgetary allocation will be central to enabling such reforms. The government's fiscal space has narrowed considerably due to weak revenue performance in the recent fiscal years, limiting its capacity to provide strong investment support. In this context, it becomes critical to carefully determine the extent to which fiscal resources should be directed towards investment promotion and facilitation, and how scarce public funds should be prioritised across investment-related areas.

This chapter presents key recommendations for the 2027 fiscal budget, focusing on fulfilling the ruling party's electoral pledges on investment and job creation, as well as on preparations for LDC graduation.

## **6.2 Commitment to Regulatory Simplification and Digitalisation**

1. The government should allocate dedicated budgetary resources to update and fully establish an entirely integrated digital one-stop service platform for business registration, licensing, taxation, and regulatory compliance to be implemented by concerned ministries and departments, including the Registrar of Joint Stock Companies and Firms (RJSC), Bangladesh Investment Development Authority (BIDA), National Board of Revenue (NBR), Fire Service and Civil Defence (FSCD), Bangladesh Small and Cottage Industries Corporation (BSCIC), Bangladesh Economic Zones Authority (BEZA), Bangladesh Export Processing Zones Authority (BEPZA), Titas, Bangladesh Rural Electrification Board (BREB), and Dhaka Electric Supply Company Limited (DESCO);
2. The government may consider introducing temporary tax credits for firms adopting digital compliance systems to promote digital taxation;
3. The government should provide budget allocations in different ministries and departments for securing digital infrastructure, cloud storage, and cybersecurity systems to support integrated government platforms.

## **6.3 Commitment to Increase Support for Small and Medium Industries**

4. The government should consider abolishing the Advance Income Tax (AIT) and Advance VAT on the import of capital machinery and raw materials, specifically for the SMEs.
5. It is important to implement a temporary Refinancing Scheme where the government subsidises 3-4 per cent of the interest rate for SMEs engaged in export-oriented production or 'Green' manufacturing.
6. The government should establish a sovereign-backed credit guarantee scheme to improve SMEs' access to bank financing and reduce collateral constraints.
7. Mandate that at least 20–25 per cent of the government procurement be reserved for SMEs and new enterprises.
8. It is important to 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/microgrids are found to be viable options for SMEs) to mitigate the effects of unreliable electricity supply and reduce energy cost.

## **6.4 Commitment to Break Oligarchic Structures and Broadening Market Access**

9. The government should increase budget allocation to the competition authority to enforce anti-monopoly and anti-competitive regulations.
10. The government should phase out preferential tax exemptions for large conglomerates that do not generate proportional employment or investment, and this needs to be considered.

## **6.5 Commitment to Budget Priorities for Job Creation**

11. The government should offer temporary tax deductions for firms that create net new formal jobs, especially for youth and women.
12. The new government should prioritise public spending on transport, logistics, housing, and renewable energy, which generate high employment multipliers.
13. Allocate higher funding to the Ministry of Labour and Employment, the Ministry of Youth and Sports, Ministry of Expatriates' Welfare and Overseas Employment, and the Ministry of Social Welfare to expand the coverage of the social safety net and initiate unemployment insurance.

## **6.6 Preparation for Smooth LDC Graduation**

14. The government should establish a dedicated fiscal fund to implement the Smooth Transition Strategy (STS), supporting export diversification, industrial upgrading, and competitiveness improvements.
15. The government should introduce accelerated depreciation allowances for firms investing in modern machinery, automation, and digital production technologies.
16. The government should increase fiscal allocation for trade-related infrastructure, including ports, logistics corridors, and inland transport networks.
17. The government should introduce green tax incentives for firms investing in renewable energy and energy-efficient production technologies.
18. As part of the preparation for LDC graduation, gradually phase down cash incentives currently provided to large-scale enterprises and reallocate these resources towards the SMEs.
19. The government should reduce the high-weighted average import tariff (currently around 25 per cent) to align with the WTO-compliant levels required for post-LDC graduation trade agreements.
20. The government should automate 100 per cent of the customs clearance process at Chittagong and Mongla ports to reduce the 'cost of doing business'.
21. The government should allocate a dedicated fund for 'Unemployment Insurance' to provide a safety net for workers in industries that may face temporary shocks during the 2026 or later transition.

## **6.7 Other Recommendations**

22. The government should introduce fiscal incentives for firms entering new export markets or producing higher-value export products to promote new entries in the market.
23. The government should allocate funds for a fully integrated tax administration system based on a universal Taxpayer Identification Number (TIN) to improve compliance and coordination, which is highly important to reduce tax avoidance and tax evasion-related issues.
24. The government should continue to put emphasis on the expansion of public spending on gas exploration to ensure a reliable gas supply for industrial development.
25. The government should provide fiscal support to establish specialised commercial arbitration and mediation centres.

## SECTION VII. FISCAL AND BUDGETARY MEASURE FOR NATIONAL BUDGET FY2026-27: ENSURING ENERGY SECURITY WHILE REVIVING ENERGY TRANSITION PATHWAY

### Key recommendations

- The upcoming national budget for power and energy sector should avoid any large-scale electricity generation-based projects specially from fossil fuels and focus more on the transmission and distribution system.
- The Ministry of Power Energy and Mineral Resources (MoPEMR) should give at most priority to the Energy Division budget and the highest allocation from the energy budget should be provided for the domestic gas sector in the National Budget FY2027.
- For any renewable energy-related HS Code where the Customs Duty (CD) exceeds 5 per cent, it should be reduced to 5 per cent in the National Budget FY2027.

### Introduction

Financial independence and energy security in the power and energy sector of Bangladesh have been long overdue. The sector for the longest time has been going through the huge financial loss, public debt and spiralling burden of domestic and foreign import bills. The interim government successfully paid of the overdue payments in the sector but the import dependent energy system has been continuously recreating the never-ending act of import repayment and default. The new added dimension to it is the new Iran-Isreal war taking a toll on the global energy market, Bangladesh being also one of the sufferers of that. This year's budget will bring a particular significance not only because it will be the first budget by the new government but also because this budget should bring out a clear roadmap for how this sector can transition from the import dependency to domestically self- sufficient. Short to medium-term fiscal and budgetary solutions are needed in the upcoming budget to address these sectoral challenges. It is only expected that the first budget of this government will focus on the ways to come out of the import dependency through emphasising domestic gas exploration rather than importing LNG, take measures for renewable energy expansion, establishing smart grid, reduce the tariff barriers for renewable energy components, ensure a fair and equal tax, VAT structure.

***Preparing for Long Term Consequences on Energy Supply Due to Middle East Crisis:*** The ongoing tensions and war conflicts in the Middle East pose serious long-term risks to Bangladesh's energy supply and economic stability. Bangladesh is highly dependent on imported fossil fuels, especially LNG and crude oil —much of which originate from or pass through the Middle East (UAE, Qatar and Oman). Any geopolitical instability in this region, such as military conflict, disruptions in shipping routes like the Strait of Hormuz, or sanctions on major producers, can significantly affect global energy prices and supply chains. For Bangladesh, such disruptions translate into higher import bills, pressure on foreign currency reserves, and increased fiscal burden due to energy subsidies. However, CPD thinks that the phase of disruption will not be long enough to cause long term energy crisis in Bnagladesh. As the supply chain will start to ease up, the stability in global market will also start to be restored settling the domestic energy market as well. Such short to medium-term shocks should be addressed and absorbed with the short-term solutions rather than going full swing with long-term fossil fuel import contracts that might hinder the energy transition pathway in Bangladesh.

### ***Recommendations:***

1. The MoPEMR should look for scops to diversify the fuel import sources by exploring crude and refined oil import from Southeast Asian countries such as Malaysia.
2. In order to address the gas crisis, the Rupantarita Prakritik Gas Company Limited (RPGCL) can purchase LNG from the spot market with reasonable pricing. There is no way

that government should move forward with signing more long-term LNG import contracts to address such short-term crisis.

3. The immediate LNG and oil price shock caused by the price hike in the global market should be absorbed by the RPGCL and the Bangladesh Petroleum Corporation (BPC) as both the authorities are in profit for several years. The fiscal burden should not be passed on to the consumers given the inflationary pressure in the economy.
4. Solar irrigation system to be promoted to address the short to medium-term diesel crisis. As transport sector will also face the consequence of the oil price hike, a well-designed electric vehicle (EV) market structure needs to be established to combat such future crisis.

***Prioritising Electricity Transmission and Distribution Over Generation:*** Historically, the power and energy sector has received excessive focus on the electricity generation, given the faulty electricity demand projection, which has resulted in the creation of unutilised installed power generation capacity causing huge fiscal stress. All the previous governments have only focused on the expansion of power generation capacity while ignoring the need of a smart transmission and distribution system. However, the existing power generation capacity can meet the electricity demand by 2030 (Moazzem et al., 2025). Instead, a huge investment will be required to upgrade and strengthen the transmission and distribution system.

***Recommendations:***

1. The upcoming national budget for power and energy sector should avoid any large-scale electricity generation-based projects, especially from fossil fuels. The Power Division allocation should not be increased to create more electricity generation capacity.
2. Majority of the budget allocation should be provided for the development of Smart Grid, especially the development budget.
3. ADP should be allocated for the technical support of the establishment of smart grid to perform technical grid stress test and smart grid phase 1 by the Power Grid Bangladesh (PGB).

***Subsidy Allocation for Renewable Energy Expansion:*** Power sector is still the highest recipient of the national subsidy as it has received an allocation of BDT 37,000 crore in FY25-26.<sup>1</sup> Most of the subsidy spending is directed towards capacity payments to private fossil fuel-based power plants, rather than investments in solar, wind, or other renewable energy sources. However, renewable power plants are not subject to capacity payments, and the generation cost of renewable energy is nearly half that of fossil fuel-based power plants. Despite this cost advantage, renewable energy projects still require some level of financial support because their generation costs remain higher than the existing retail electricity tariff, leading to potential financial losses for the Bangladesh Power Development Board (BPDB). Hence, a dedicated subsidy fund for the technical enhancement of the renewable energy-based power generation should be constructed.

***Recommendations:***

1. The government should introduce low-interest grants, or subsidy schemes to support households and businesses investing in solar power.
2. A dedicated Renewable Energy Subsidy Fund should be established to provide financial support for facilitating establishment of private and commercial solar, wind, and biomass production units, ensuring that subsidies are not disproportionately directed towards fossil fuel-based power plants. The subsidy fund needs to have a proper roadmap to be reduced over time.
3. Financial incentives, such as rebates on installation costs or direct subsidy payments for net-metered electricity, could encourage more widespread adoption.
4. To improve access to clean energy in remote and underserved regions, subsidies should be allocated for mini-grid solar, battery storage technologies and wind projects.

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<sup>1</sup> <https://www.newagebd.net/post/country/288484/power-capacity-charges-keep-crippling-nation>

**Increasing the Energy Sector Allocation:** Now is the time more than ever to increase the emphasis and focus on the primary sector exploration and development in Bangladesh. The current Israel- Iran war situation has once again made things clear that depending on the imported fuel mix can anytime cause threats to the adequate supply of energy and primary fuel in Bangladesh. Hence, it is time that the MoPEMR draws its attention from the power division and focus on how to increase domestic sources of fuel (domestic gas and renewables) while maintaining the energy transition pathway in Bangladesh.

**Recommendations:**

1. The MoPEMR should give at most priority to the Energy Division budget in the National budget FY2027. The major chunk of the development budget as well as ADP should be allocated for the development and enhancement of the primary energy sources and utilisation.
2. Such extra budget allocation can be funded from the other ministries' budget which has an overall lower implementation rate. The Ministry of Finance (MoF) can further look into different sources to fund the domestic gas explorations and renewable energy projects.

**Domestic Gas Exploration for Tackling the On-Going Energy Crisis:** The shortage of gas supply has been long standing and increasing LNG import has failed to meet the national demand. Current gas demand stands at 3,800 million cubic feet per day. Total supply, including LNG imports, averages just over 2,600 million cubic feet per day. The elected party has emphasised the importance of domestic gas exploration and strengthening the Bangladesh Petroleum Exploration and Production Company Limited (BAPEX). By strengthening the BAPEX in geological surveys and well drilling, onshore and offshore gas exploration will be intensified, and a transparent, technology-based framework for resource management will be ensured. Gas Distribution structure and pricing policy will be reviewed to ensure fair, uninterrupted, and affordable gas supply to households and industries. In addition to the existing 5 surveys (including the main survey), 2 more surveys will be conducted for BAPEX according to the manifesto. A plan has been prepared to drill 150 wells to increase domestic gas production. A roadmap has been prepared for the short-, medium- and long-term development of these wells in view of the election results. Such pledges are promising but execution needs more detailed planning with strict timeline of resource allocation in the next 2 years.

**Recommendations:**

1. The highest allocation from the energy budget should be provided for the domestic gas sector in the National Budget FY2027. Such resources should be used in executing the 7 seismic surveys including the existing 5 and for conducting the exploration in the old and new gas wells.
2. To drill 150 gas wells, a significant amount of development budget will be required which the MoF can fund through foreign loans and grants in the upcoming budget. In addition to that money from gas development fund must also be utilised in the exploration work of the domestic gas wells.
3. Petrobangla should start exploring the wells immediately using its own fund instead of relying on the foreign bidders. The BAPEX should even take loan for allocating resources for gas exploration for the 10 wells that are supposed to be explored using rented rigs.

**Continuing Overemphasis on LNG import:** The continuous over dependence on the imported LNG has caused us major financial burden. With the Iran-Israel war unfolding on the world, such risky and volatile source of energy will further cause both stress on the national fiscal space as well as the energy security of Bangladesh. The interim government has strengthened the LNG base in our country, and following so LNG import and establishment of further LNG import infrastructure is also mentioned in the elected party's manifesto. Such initiatives will rather delay

the scope for domestic gas exploration and will continue to pile up the financial burden. Doing so will just signal that Bangladesh is moving backwards in terms of energy transition.

**Recommendations:**

1. The new government must put a stop in over interest and over emphasis on LNG imports. Continuing in the path of LNG will ultimately result in the repeating financial debt trap. In this year's budget, the zero VAT imposition on LNG imports must be withdrawn.
2. The MoPEMR should shift priority from LNG import to domestic gas exploration to successfully drill 150 gas wells. ADP allocation from the budget to be shifted from LNG import and to be utilised to drill gas wells.
3. Zero budget allocation to be provided for the further development of the LNG-based infrastructure such as LNG terminal plans (FSRU and in-land) in the national budget. Building new Floating Storage and Regasification Units (FSRUs), especially the in-land LNG terminal will cost a fortune for Bangladesh. Such expensive projects are unnecessary and conflicting to energy security and energy transition.

**Alarming Discussion of Coal Exploration:** The alarming growing interest in domestic coal exploration has been raised concerns regarding the MoPEMR's intention to achieve renewable energy transition. Previously, the new master plan, '*Energy and Power Sector Master Plan 2026* (MoPEMR, 2026)', has put the agenda of domestic coal exploration in the upfront. Following the interim government's pathway, the new government has expressed their interest in exploring domestic coal resources. BNP in their manifesto and the new government in their plan for 100 days have included domestic coal exploration as a priority project in the energy system. Such initiatives are highly contradictory for energy transition targets to be achieved by 2041.

**Recommendation:**

1. In no way the national budget for FY2027, should bring back the idea of domestic coal exploration in Bangladesh again. The new government must immediately put a hold on the discussion and initiative as it will only put the energy transition of Bangladesh backtrack. There should be no mention of any coal-based power plants in the development projects or in the ADP allocation.

**Higher Tariff of Renewable Energy (RE) Components:** Despite continuously emphasising on the importance of the unfair tariff barrier in case of the renewable energy generation, the tariff rates remain high in renewable energy-based power generation than that of fossil fuel. This is a major barrier to this transition is the high tariff structure imposed on the import of essential renewable energy components. The cost of establishing renewable energy power plants—whether large-scale independent power producers (IPPs) or smaller installations by businesses and households—is significantly affected by these import duties, making clean energy adoption more expensive. The Total Tax Incidence (TTI) on imported components comprises several 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 increasing the overall cost of renewable energy deployment. The import duty, custom duty and tax on the solar panels, solar inverters, mounting structure is as high as 58.6 per cent. Lithium-ion batteries and lead-acid batteries, which are crucial for renewable energy storage, are subject to a tariff rate of 58.60 per cent and 89.32 per cent respectively (Moazzem et al., 2025), making them highly costly for industrial and residential users. Such high rate of tariff increases the upfront cost for renewable energy projects and slow the adoption of clean energy technologies due to higher financial barriers.

**Recommendations:**

1. For any renewable energy-related HS Code where the Customs Duty (CD) exceeds 5 per cent, it should be reduced to 5 per cent.

2. Apart from high Customs Duty, AIT, RD, AT, and SD further discourage investment in solar panels (854140), wind turbines (850231), and battery storage (850760, 850720). The government should eliminate these taxes on all renewable energy goods to reduce costs and boost adoption.

3. It is also recommended to reduce VAT to 10 per cent from 15 per cent.

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## SECTION VIII. CLIMATE CHANGE AND THE ENVIRONMENT

### Key recommendations

- Increase the climate-relevant budget allocation to at least 1 per cent as a share of GDP and 10 per cent as a share of total budget allocation and expand climate-focused SSNPs by ensuring adequate and sustained budget allocations aligned with climate adaptation, locally led solutions, and resilience goals.
- Increase the allocation for renewable energy programmes to at least 10 per cent as a share of total allocation for the energy sector in the ADP by prioritising investment in clean energy infrastructure, research, and innovation.
- Increase the AIT on fossil fuel-driven motor vehicles from 5 per cent to 50 per cent higher than the AIT on hybrid and fully electric vehicles, depending on the size of the vehicle's engine and electric motor.

### 8.1 Introduction

Bangladesh is a climate-vulnerable country due to its geographic location. In recent years, natural disasters such as tropical cyclones, floods, and drought brought on by climate change have become a frequent. From 2017 to 2021, the country experienced a 46 per cent increase in extreme weather events (Letsch et al., 2023). These have an adverse effect on the country's socioeconomic condition and people's lives and livelihoods in many ways. For instance, tropical cyclones alone have caused an astounding 90 per cent of the nation's natural disaster-related deaths since the 1900s, with economic damages totalling up to USD 8.963 billion (ADB, 2015). According to a World Bank estimation, Bangladesh loses on average USD 1 billion every year due to cyclone impacts (World Bank, 2024).

Between 2000 and 2019, Bangladesh lost USD 3.72 billion as a result of extreme weather events (Eckstein et al., 2021). In 2020, the country faced economic losses equivalent to an astounding USD 11.30 billion due to cyclones, floods, and other natural disasters (World Meteorological Organisation, 2021). In 2024, floods in eastern Bangladesh have caused damage of approximately USD 1.2 billion, equivalent to 1.8 per cent of the National Budget of FY2025, 0.3 per cent of the provisional GDP of FY2024, and 0.3 per cent of the projected GDP of FY2025 (Khatun et al., 2025). These figures show the dire impact of climate change on Bangladesh's socioeconomic condition. In the coming years, the country is going to face frequent and more intense natural events caused by climate change which will have a heavy toll on lives and livelihoods of people (IPCC, 2021).

In addition to climate-induced hazards, the pressures of rapid urbanisation and industrialisation are further intensifying environmental degradation across the country. The urban population has been growing in Bangladesh. The percentage of the urban population in Bangladesh in 2024 is 33 per cent of the total population which was 28 per cent in 2010 and 30 per cent in 2015 respectively (World Bank, 2026). The growing urban population and rapid industrialisation have increased greenhouse gas (GHG) emissions causing environmental degradation in the country (Khatun, et al., 2023). Due to increased emissions, air pollution has emerged as one of the critical environmental problems in the country. Besides, due to a lack of efficiency in waste management in the country, plastic pollution has also become another serious environmental concern.

To address the adverse impact of climate change and environmental degradation, climate-relevant budget allocation under the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) thematic areas and budgetary fiscal measures become even more critical. For instance, building climate resilience will require a sevenfold increase in current spending, amounting to USD 8.5 billion annually, of which USD 6.0 billion will come from external sources, such as

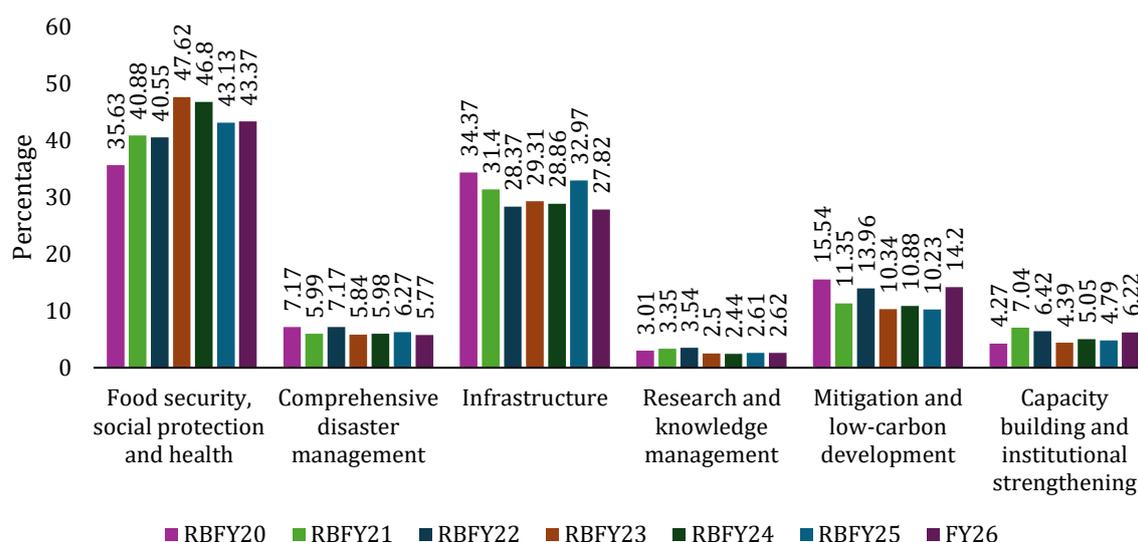
international climate funds and development partners (MoEFCC, 2022). Hence, the climate-relevant budgetary allocation plays a crucial role in meeting the financing demand for climate change adaptation and mitigation in the country.

Over time, the climate-relevant budget allocation increased. Yet, concerns have been raised on the ground of climate budget implementation for development purposes. In this case, budgetary fiscal measures such as environmental taxes, green subsidies, carbon pricing, green budgeting, and public spending on clean technologies are widely recognised as essential policy tools for combating environmental degradation. Against this background, this section outlines a set of recommendations based on current trends in climate-relevant budget allocations and the prevailing conditions of air and plastic pollution, which will help formulate appropriate and effective budgetary measures for the coming FY2027.

## 8.2 Budgetary Priorities under BCCSAP Thematic Areas and Stagnated Climate-Relevant Budgetary Allocation as a Share of Total Budget and GDP

While Bangladesh's climate budget represents a significant step towards addressing the impact of climate change, a closer look reveals a notable pattern in funding allocation across different thematic areas of BCCSAP. The figure 8.1 presents that Food Security, Social Protection, and Health have been receiving the highest allocation. In FY2026, 43.37 per cent of the budget was allocated to this area, reflecting the government's primary concern for safeguarding its citizens from the immediate impacts of climate change on food security and health. In stark contrast, research and knowledge management received the lowest allocation, only 2.62 per cent, in FY2026. This raises concerns about long-term planning and developing innovative solutions for climate adaptation. The allocation for mitigation and low-carbon development has shown an increasing trend. In FY2026, 14.20 per cent of the total climate-relevant budget was allocated for mitigation and low-carbon development. Besides, the decreasing allocation for comprehensive disaster management from 7.17 per cent in RBFY2020 to 5.77 per cent in FY2026 is a cause for concern.

**Figure 8.1: BCCSAP Thematic Areas in Budget for 25 Ministries/Divisions (As a Share of Revised Climate Change Budget)**

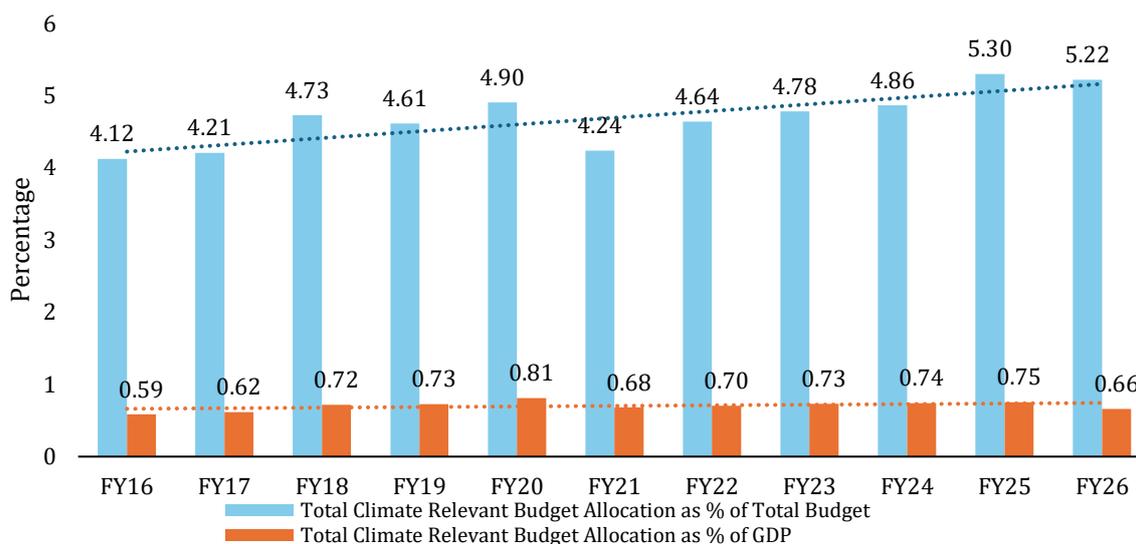


Source: Authors' illustration based on Ministry of Finance (2025a).

These findings suggest a need for a more balanced approach to climate budget allocation. While ensuring immediate food security and social well-being is essential, reducing allocation for research and disaster preparedness could hamper long-term resilience.

The climate-relevant budget allocation as a share of total budget and GDP has stagnated over time. In FY2026, climate budget allocation as a share of total budget and GDP decreased to 5.22 per cent and 0.66 per cent respectively. The corresponding figure was 5.30 per cent of total budget and GDP in FY2025 (Figure 8.2). A slow increasing trend is observed for climate-relevant budget allocation as a share of total budget from FY2016 to FY2026. However, for the same period, almost a steady trend line is observed for climate-relevant budget allocation as a share of GDP.

**Figure 8.2: Sectoral Allocation as a Share of Total Budget and GDP**



Source: Authors' illustration based on Ministry of Finance (2025a).

### 8.3 Bangladesh's Clean Energy Ambitions: A Budgetary Tightrope Walk

Bangladesh has set a visionary target of generating 40 per cent of its electricity from clean energy sources by 2041 (MoEFCC, 2021). The current government is targeting 20 per cent electricity generation from renewable energy sources as mentioned in their election manifesto. To achieve the target, Bangladesh's renewable energy efforts have focused on solar power, with initiatives like installing solar home systems and mini-grids in remote areas. Additionally, existing policies emphasise incentivising investments in wind, biomass, and hydropower projects, diversifying the nation's clean energy portfolio (Khatun et al., 2022).

However, achieving this ambitious goal hinges on crucial factors such as investment and financing. While the government has made strides in promoting renewable energy, particularly solar power, in rural areas, the allocation of funds in the Annual Development Plan (ADP) reveals some cause for concern. The allocation of renewable energy in the ADP remains a cause for concern. In FY2026, the sector received a mere 2.89 per cent of total ADP allocation, while 97.11 per cent went towards fossil fuel-based energy projects (Table 8.1). This stark imbalance poses a significant challenge to achieving the country's clean energy goals.

**Table 8.1: ADP Allocation in Renewable Energy and Fossil Fuel-Based Energy**

Fiscal Year	Allocation in Renewable Energy (%)	Allocation in Fossil Fuel (%)
FY2016	4.08	95.92
FY2017	5.22	94.78
FY2018	7.41	92.59
FY2019	3.34	96.66
FY2020	8.88	91.12
FY2021	1.42	98.58
FY2022	1.55	98.45
FY2023	2.91	97.09
FY2024	3.08	96.92
FY2025	4.26	95.74
FY 2026	2.89	97.11

Source: Author's calculation based on Ministry of Planning (2025).

#### 8.4 Climate Focused Social Safety Net Programmes (SSNPs)

In FY2026, the government allocated BDT 7,273.56 crore specifically for climate-focused Social Safety Net Programmes (SSNPs) (Table 8.2). This was 6.23 per cent of total SSNP allocation. In FY2025, the corresponding figure was BDT 17,391.93 crore which was 17.02 per cent of total SSNP. The allocation for climate-relevant SSNP decreased by BDT 10117.83 crore. Due to government budget cut this year, 10 SSNP did not receive any allocation in FY2026. The decrease in climate focused SSNP allocation might have an impact on marginal communities affected by climate change impact.

**Table 8.2: SSNP Allocations for the Direct Climate Vulnerable People**

Programme Name	Implementing Agency	Allocation in RBFY2024 (BDT Crore)	Allocation in FY2025 (BDT Crore)	Allocation in FY26 (BDT Crore)
Enhancing Adaptive Capacities of Coastal Communities, especially Women, to Cope with Climate Change-Induced Salinity	MoSW	47.9	61.2	32.56
Vulnerable Group Feeding Programme	MoDMR	1101.93	1184.02	1224.7
Relief Operation-General	MoDMR	2250.96	2390.62	2333.84
Food for Work (FFW)	MoDMR	950.01	1024.01	928.41
Char Development and Settlement Project (Social Security Part)	MoWR	191.82	33.01	
Employment Generation Programme for the Poorest (EGPP)	MoDMR	1500	1504.5	1650.63
Employment Generation Programme for the Poorest Plus (EGPP+)	MoDMR	280	264.47	100
Relief Activities	MoDMR	66.29	80.12	85
Relief Operation - Rehabilitation	MoDMR	65	70.1	70
Relief Operation - Rehabilitation (House Grant)	MoDMR	27.5	28	28
Construction of Flood Shelter in the Flood Affected and River Prone Area	MoDMR	180	400	200
The Disaster Risk Management Enhancement Project	MoDMR	130	111.53	

Programme Name	Implementing Agency	Allocation in RBFY2024 (BDT Crore)	Allocation in FY2025 (BDT Crore)	Allocation in FY26 (BDT Crore)
Bangladesh Environmental Sustainability and Transformation (BEST) Project	MoEFCC	539.6	793.11	
Special Grant for the Development of Char, Haor and Backward Areas	Finance Division	50	50	50
Fund for Disaster Affected Marginal Farmers and Poultry Farm Owners	Ministry of Food	50	50	
Fund for Mitigating Impacts of Economic and Natural Disaster	Ministry of Food	1000	8000	
Expansion of Irrigation in Greater Rangpur District	Ministry of Food	96.53	60.51	
Establishment of Multipurpose Disaster Shelter Centre	LGD	244.4	475.15	20.8
Water Supply Project in Coastal Area Through Rainwater Harvesting System	LGD	349	216.53	236.2
Climate Resilient Sustainable Water Supply, Sanitation and Hygiene Project in Bangladesh	LGD	3	38.33	79.21
Flood Reconstruction Emergency Assistance Project for Water Supply and Sanitation	LGD	17.6	70.91	134.21
Disaster Risk Management Enhancement Project (Social Security Part)	LGD	46.75	46.26	
Resilient Infrastructure for Adaptation and Vulnerability Reduction Project (RIVER)	LGD	98.62	393.78	
Coastal Towns Climate Resilience Project	LGD	77.88	450	
Risk Management Fund on Climate Change	MoEFCC	100	100	100
Sustainable Forest and Livelihoods (SUFAL) Project	MoEFCC	511.29	95.95	
Total		9976.08	17992.11	7273.56

Source: Authors' compilation based on Ministry of Finance (2025b).

## 8.5 Alarming State of Air Pollution and Plastic Pollution

Greater industrialisation results in increased urbanisation and elevated energy consumption, contributing to the escalation of carbon dioxide emissions. Air pollution is a major environmental and climate-related concern now. As of 04 March 2026, the PM 2.5 concentration in the air of Bangladesh exceeded the World Health Organization's (WHO) acceptable air quality standard by a factor of 15.6 (IQAir 2026).

A study conducted by CPD found that more than 76 per cent of respondents thought that air pollution in Dhaka city became much worse in the past 2 to 3 years and on an average, individuals in Dhaka city are stuck in traffic for 46 minutes out of every 2 hours spent on the road (Khatun, et al. 2023). Being stuck in traffic for prolonged periods increased individuals' exposure to Dhaka's highly polluted air. The situation of air pollution is taking heavy toll on human health as well. For instance, individuals in Dhaka city on an average spent BDT 4,000 per year to diagnose and treat symptoms associated with air pollution (Khatun, et al. 2023).

The plastic pollution condition is getting worse day by day in Bangladesh. Both plastic consumption and pollution have soared with rapid urbanisation. Study suggests that 646 tonnes of plastic waste are collected in Bangladesh per day, with 48 per cent sent to landfills, 37 per cent recycled, 12 per cent dumped into waterways, and 3 per cent littering urban areas (World Bank 2021).

There are 1,212 dump sites in Bangladesh that contribute between 24,032 and 36,047 tonnes of plastic waste annually to the country's rivers (World Bank, 2021). A study conducted by CPD found that 73 per cent of respondents thought plastic pollution had worsened significantly in the last 2 to 3 years and 57 per cent of respondents reported that their local neighbourhood exhibited extremely high levels of plastic pollution (Khatun, et al. 2023).

## **8.6 Conclusion and Recommendations**

Bangladesh's proactive approach to integrating climate considerations into its budget underscores its commitment to addressing the severe impacts of climate change. The Climate Fiscal Framework (CFF) and climate budget serve as pivotal mechanisms in this endeavour, facilitating the alignment of fiscal policies with environmental resilience and sustainable development goals.

Despite the progress in increased allocations and improved expenditure patterns, significant challenges persist in boosting budgetary allocations for disaster risk management and climate adaptation, raising climate-relevant spending as a share of GDP and the total budget, and expanding SSNPs to adequately support climate-vulnerable communities. The following budgetary and fiscal recommendations are made to improve Bangladesh's efforts towards strengthening climate adaptation and mitigation and environmentally sustainable growth:

### *Recommendations for Climate-relevant Budgetary Allocations:*

- Increase the climate-relevant budget allocation to at least 1 per cent as a share of GDP and 10 per cent as a share of total budget allocation.
- Expand climate-focused SSNPs by ensuring adequate and sustained budget allocations aligned with climate adaptation and resilience goals.
- Reverse the declining trend in climate-relevant budget allocations by ensuring sustained and increased budgetary allocation to align with national climate priorities and international commitments to build resilience and support low-carbon development.
- Increase the allocation to strengthen institutional and technical capacity within Ministries/Divisions to enhance overall development budget utilisation, while scaling up the best practices from high-performing climate-relevant projects to ensure efficient and timely implementation.
- Integrate provisions for loss and damage within the climate budget by establishing a specific fund to support climate-affected vulnerable people.

### *Recommendations for Addressing Environmental Pollution:*

- Increase the AIT on fossil fuel-driven motor vehicles 5 per cent to 50 per cent higher than AIT on hybrid and fully electric vehicles, depending on the size of the vehicle's engine and electric motor (Table 8.3).
- Increase the allocation for renewable energy programmes to at least 10 per cent as a share of total allocation in the energy sector in the ADP by prioritising investment in clean energy infrastructure, research, and innovation.
- To promote renewable energy in Bangladesh, a formal feed-in tariff policy exclusively for renewable energy must be implemented in FY2027. Currently, an informal version of the

feed-in tariff policy exists in Bangladesh. However, such a mechanism does not exclusively promote renewable energy. A clear incentive package has to be present in the policy to reach all potential renewable energy producers regardless of their generation capacity.

- The government should fully implement the commitments of the Renewable Energy Policy 2008. An extensive policy considering VAT exemption on all types of equipment in a renewable power plant, especially solar power plants, should be considered from FY2027.
- End capacity payments to fossil-fuel-based power producers as a step towards achieving the emission reduction commitments outlined in the NDC.

**Table 8.3: Proposed Advance Income Tax Structure for the Owners of Private Motor Cars in FY2027**

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

Source: Authors' compilation.

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## SECTION IX. NEW GOVERNMENT'S PRIORITIES FOR THE AGRICULTURE SECTOR: RECOMMENDATIONS ON FARMER CARDS, CANAL RE-EXCAVATION INITIATIVE, AND FERTILISER INITIATIVES

### Key recommendations

- Develop and operationalise a single, interoperable national farmer registry linked to the Farmer Smart Card, ensuring accurate targeting, reducing leakages, and integrating subsidies, credit access, insurance, and extension services into one platform.
- Prioritise the restoration of existing canal networks in high-impact agricultural areas, supported by a dedicated budget for excavation.
- Strengthen subsidy programmes and secure adequate supplies during the Boro seasons to avoid production losses.

### 9.1 Background

Despite significant progress in food grain production, multiple structural challenges persistently constrain the sustainability of Bangladesh's agriculture sector. Key challenges include the rising cost of inputs, post-harvest losses, declining agricultural land, climate-related adversities, and persistent inefficiencies in agricultural supply chains. These challenges are interconnected and collectively affect farmers' profitability, market stability, and the long-term resilience of agricultural production systems.

Against this backdrop, the newly elected government has initiated an ambitious package of agricultural initiatives aimed at addressing some of these structural constraints. Central to this vision are a few flagship programmes: (a) the introduction of a Farmer Smart Card, (b) a large-scale programme to excavate and re-excavate 20,000 kilometres of canals nationwide, (c) waive farmers' loans up to BDT 10,000 (already implemented), (d) the revival of the Barind project, particularly with a focus on organic crop cultivation and sustainable agriculture, (e) setting up special cold storage facilities for mango preservation, ensuring fair prices for crops, etc. A review of two key initiatives, along with recent gas supply disruptions affecting fertiliser production and a detailed description of CPD's budget recommendations, is given below.

### 9.2 Introduction of Farmer Cards

The government has announced plans to initiate the Farmer Card programme, through which farmers are expected to receive at least 10 types of services under a unified digital platform. The Farmer Card initiative seeks to create a comprehensive digital database of farmers and integrate multiple services, including subsidies, agricultural inputs, irrigation support, credit facilities, and market information within a unified system. The initiative aims to provide an integrated support package that includes agricultural extension and knowledge services, easier and priority access to farm machinery, timely supply of fertiliser, pesticides, quality seeds, modern crop insurance, easy-term agricultural loans and other essential inputs. The government would pilot the distribution of 0.5 million farmer smart cards among farmers in 15 upazilas in the next 180 days. The programme aims to register 2.27 crore farmers across the country by 2028. The initiative is expected to reduce intermediary involvement and improve the targeting of government support, particularly for marginal and small farmers.

**Challenges:** There is currently a lack of an accurate, integrated database of farmers in the country. Without reliable records of who the genuine farmers are, establishing eligibility for Farmer Cards will be difficult and could lead to both exclusion and inclusion of errors. Government personnel

recently assured that a reliable and updated database would be prepared to guarantee proper and transparent distribution of the aid-to-farmer card, so none is left out.

But more concerns have been raised about potential leakages and targeting errors in the proposed Farmer Card programme, particularly regarding whether actual farmers will receive the benefits. There is also a risk of duplication and overlap with existing social safety nets and agricultural rehabilitation schemes that provide compensation to farmers affected by floods, droughts, cyclones, and other natural disasters.

**Budget Implication for Farmer Cards:** The Farmer Card initiative is part of the Programme on Agricultural and Rural Transformation for Nutrition, Entrepreneurship and Resilience in Bangladesh (PARTNER). According to a World Bank document published in December 2022, the programme has a total estimated budget of USD 1.343 billion. The International Development Association (IDA) and the International Fund for Agricultural Development (IFAD) are expected to finance 37.23 per cent and 3.20 per cent of the programme cost, respectively, while the Government of Bangladesh will cover the remaining share.<sup>2</sup>

However, earlier initiatives indicate that similar programmes have faced structural and operational challenges. In 2013, the government introduced manual agricultural input assistance cards for approximately 1.82 crore farmers, enabling them to open bank accounts with BDT 10 as a deposit money to facilitate the disbursement of diesel subsidies and other agricultural incentives. Despite the programme's large scale, it did not generate substantial or sustainable benefits for farmers.

These past experiences suggest that card-based identification systems can be administratively complex and costly to manage and maintain, raising concerns regarding administrative efficiency, duplication, and long-term fiscal sustainability. In light of these precedents, the proposed nationwide expansion of the Farmer Card initiative may also entail significant financial commitments. Therefore, careful cost-benefit assessment, stronger institutional coordination, and robust mechanisms for long-term maintenance and data updating will be essential to ensure the programme's effectiveness and sustainability.

### **Recommendations**

- The new government should consolidate and integrate the national farmer database, Farmer Smart Card, and the proposed secure Farmer Card into an interoperable single digital agricultural registry, linked to subsidies, credit, insurance, procurement, and extension services. Country experiences from India, Turkey, and Rwanda highlight that a central digital farmer registry increasingly improves targeting and service delivery. India's linkage of farmer IDs to Aadhaar and land records has reduced leakages and improved subsidy efficiency.
- Consolidation would reduce duplication and fragmentation, which have been a key problem in past initiatives where multiple card systems operated in silos, leading to targeting errors, leakages, and administrative inefficiencies. A unified registry would also facilitate real-time monitoring, track distribution, and respond quickly to discrepancies or fraud.
- Update and consolidate existing farmer records into a verified national database. Include tenant farmers, sharecroppers, women farmers, and vulnerable cultivators, and use field-level verification to reduce errors.
- Set up grievance redressal mechanisms, including hotlines, digital portals, and union-level support offices. Publish beneficiary lists (with privacy safeguards) to enhance public oversight. Allocate funds for early audits to detect irregularities and improve accountability.
- The government should allocate specific and dedicated funds for the Farmer Card programme in the upcoming budget, covering pilot implementation, database consolidation, IT

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<sup>2</sup> Rahman, S. (2026, February 26). 5 lakh farmer cards in 180 days. *New Age*. <https://www.newagebd.net/post/country/292302/5-lakh-farmer-cards-in-180-days>

infrastructure, input delivery, extension services, and monitoring. Funding should be clearly earmarked under the ADP or relevant ministry heads to ensure transparency and efficiency. Long-term sustainability should be ensured by gradually shifting recurring subsidies to a performance- or productivity-linked model.

### 9.3 Excavation and Re-excavation of 20,000 km of Canals

The government has also undertaken an ambitious plan to excavate and re-excavate 20,000 kilometres of canals nationwide to restore natural drainage systems and expand irrigation coverage. The canal excavation programme aims to restore natural water flows, improve irrigation coverage, and expand agricultural productivity by bringing additional farmland under reliable irrigation systems. However, the scale of this initiative is highly ambitious and will require substantial financial resources, institutional coordination, and long-term maintenance mechanisms to ensure sustainable outcomes. To support this initiative, the Ministry of Water Resources has initiated a technical assistance project titled 'Identification and Classification of Canals of Bangladesh and Preparation of a Geoinformatics Database', valued at BDT 315.7 million, aimed at mapping canals and developing a national GIS-based database.

**Challenges:** Despite its potential benefits, the initiative faces significant challenges. In many areas, canals have been encroached upon or filled for housing, markets, and infrastructure development, while others are clogged with waste or obstructed by fish farming embankments, making restoration difficult. Urban canal recovery efforts have also faced resistance due to informal settlements and commercial structures along waterways. In addition, institutional fragmentation among multiple agencies involved in water management often delays planning and implementation.

**Budget Implication for Re-excavation of 20,000 km of Canals:** According to earlier and recent initiatives for canal re-excavation, financial considerations remain a major concern. Available project data suggests that excavation costs typically range between BDT 7 lakh and BDT 17 lakh per kilometre. Based on this range, restoring approximately 20,000 kilometres of canals would require an estimated total investment of BDT 14 billion to BD 34 billion.

This estimation is derived from recent project examples. Under a recent national initiative for canal revitalisation in Mongla, launched as a pilot programme under this initiative, the cost of re-excavating 8.34 km of canals was estimated at BDT 7.15 lakh per kilometre.<sup>3</sup> Another reference comes from the Climate-Smart Agriculture and Water Management Project in Patuakhali, where a contract was awarded for the re-excavation of a total of 13.1 km of canals, indicating comparatively higher unit costs.<sup>4</sup>

This estimation is indicative and may increase substantially depending on several technical and contextual factors, including canal width and depth, volume of earthwork required, the need for embankment construction or canal lining, and whether the canal is located in an urban or rural setting. Costs may also rise if hydraulic structures such as regulators, culverts, sluice gates, and water outlets are required. Land acquisition, resettlement, utility relocation, or encroachment removal are necessary, which may also increase the cost. Soil conditions, level of sedimentation,

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<sup>3</sup> *The Business Standard*. "20,000 km canals to be excavated, 2 crore trees to be planted in 5 years."

Re-excavation of four canals in Mongla upazila covering 8.34 km is underway at a cost of BDT 59.67 lakh under a project implemented by the Center for Natural Resource Studies with financial support from the UK Foreign, Commonwealth and Development Office.

<https://www.tbsnews.net/bangladesh/20000-km-canals-be-excavated-2cr-trees-be-planted-5yrs-faridul-1374276>

<sup>4</sup> *World Bank*. "Re-excavation of Canal Total 13.1 km – Climate-Smart Agriculture and Water Management Project (Patuakhali)." Contract awarded to Khan Enterprise for BDT 2,21,55,000.61 on 5 February 2025.

<https://projects.worldbank.org/en/projects-operations/procurement-detail/OP00361725>

fuel and labour prices, and inflation also influence excavation expenses. Additionally, environmental protection measures and long-term maintenance requirements are not fully reflected in the base per-kilometer cost estimate.

It is important to note that the pre-election pledge seems to mean the statement merely the cleaning of the existing canal ways; however, the pilot project indicates a vast and mega work initiative, which questions its viability and whether such extensive interventions may also create opportunities for the rehabilitation or accommodation of local political interests.

### **Recommendations**

- The canal restoration programme should be implemented in two phases: Phase 1 focuses on restoring existing waterways, especially in major agricultural hotspots and northern regions, using a three-tiered approach: full restoration for silted canals, bank stabilisation for partially functional canals, and maintenance for operational canals (Dewan & Hoque, 2026).
- Phase 2 involves larger water management projects, which should only proceed after ensuring that priority canals are effectively restored, maintained, and functioning. Advanced tools such as LiDAR-based digital elevation models can help identify lost waterways, understand natural drainage paths, and determine where excavation or protection is required.
- The pilot initiative on identifying and classifying 30 thousand canals across the country needs to revise the scope in order to fast-track the survey process. The current aim of the pilot survey includes flood control, water conservation, drainage, and irrigation, which is difficult to implement given the tenure of the current government. Besides, given the scale and long timeline, this initiative alone is unlikely to deliver immediate benefits to farmers and flood management.
- Government committed that 1,200 km of canals will be visible within 180 days; it is unclear if this includes existing restoration projects under different agencies (e.g., LGRD, BWDB, BMDA, WARPO, BMDC, WASA, MoEFCC, MoWR, etc.) These institutions already manage 200+ projects on canal excavation, irrigation, drainage, and water management. Consolidating or merging these projects under the mega canal excavation initiative could reduce duplication, improve coordination, and save costs.
- During the survey stage, the technical, operational, and effectiveness of canals need to be investigated, so that canals can ensure year-long benefits for the farmers and others. Without having proper feasibility, excavating the canals would turn out to be wastages of public funds.
- Given past project failures, future initiatives should follow a scientifically informed, basin-wide planning framework, incorporating deltaic hydrodynamics, sediment movement, and climate-induced flood risks. Restore canals upstream to downstream to prevent rapid re-siltation. Conduct comprehensive hydrological assessments and feasibility studies before implementation to ensure alignment with natural flow patterns and local conditions, avoiding inefficient or short-lived interventions.
- The government should conduct feasibility studies to explore the multi-benefit potential of canal restoration, including solar installations over canals for renewable energy and fish farming to boost protein supply, creating a 'Double P' dividend—power and protein.

### **9.4 Addressing the Challenges of Reduced Supply of Gas in Fertiliser Factories in view of Harmuz Strait Crisis**

Recent gas shortages have forced the suspension of production in major fertiliser plants, including Chittagong Urea Fertiliser Limited (CUFL) and Karnaphuli Fertiliser Company Limited (KAFCO). A number of print media reported that the CUFL typically produces around 1,100–1,200 tonnes of urea per day, while KAFCO has a capacity of about 1,725 tonnes of urea and roughly 1,500 tonnes of ammonia daily. Such disruptions pose several challenges for Bangladesh's

agriculture sector. First, the suspension of production directly reduces domestic fertiliser availability. Bangladesh requires approximately 2.6 million tonnes of urea annually for agricultural use, yet domestic production already falls short, requiring around 1.6 million tonnes to be imported each year. Any additional production disruption, therefore, increases dependence on imports. Additional imports required to compensate for lost domestic production may impose fiscal pressures. Increased procurement of fertiliser from international markets could require higher subsidy allocations and additional budgetary support, particularly if global fertiliser prices rise simultaneously with energy market volatility.

On the other hand, the disruption coincides with the peak fertiliser application stage of the Boro rice season, which is the largest rice-producing crop cycle in Bangladesh. From February to March, farmers apply critical top-dressing of urea to support crop growth. Reduced domestic production during this period can therefore challenge fertiliser distribution and increase pressure on government-managed stocks to ensure an uninterrupted supply at the field level. Supply disruptions at this stage may also create risks for achieving agricultural production targets. The Boro season typically contributes more than half of the country's total annual rice output. Any uncertainty in fertiliser availability could affect overall foodgrain production targets and may lead the government to import additional rice to meet the demand, which may further cause additional budgetary pressure.

### ***Recommendations***

- An additional budgetary allocation is required to strengthen the fertiliser subsidy programme. If domestic production remains disrupted, the government may need to increase fertiliser imports to maintain an adequate supply during the Boro season. The Government of Bangladesh (GoB) also needs to increase the subsidy support in the upcoming budget.
- Budget provisions may be required for increasing allocations for buffer stock procurement and storage, which would help the government manage short-term supply shocks and ensure uninterrupted fertiliser distribution during critical crop production stages.

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## SECTION X. SOCIAL SAFETY NET PROGRAMME

### Key recommendations

- The estimated budget of BDT 60,000 crore for the Family Card assistance, along with any additional associated costs, must be financed sustainably without undermining funding for other critical sectors.
- Adequate fiscal space in the SSNP budget is required to periodically adjust benefit levels under the Family Card in line with inflation to preserve households' purchasing power.
- Develop a comprehensive vulnerability mapping framework to identify and reach groups most at risk, aligning interventions with the SDG's commitment to leave no one behind.

### 10.1 Introduction

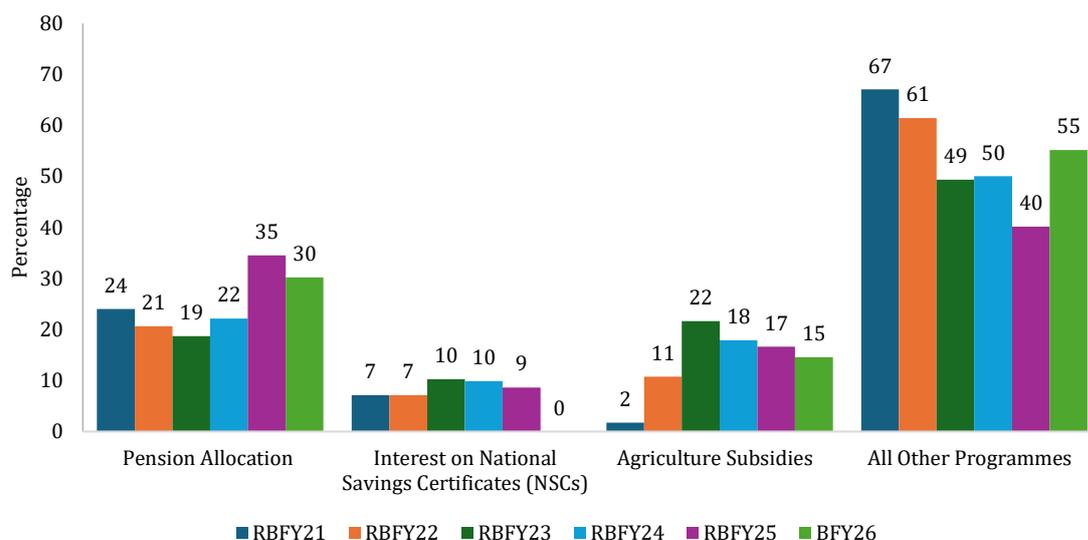
Bangladesh's social protection system covers a wide range of programme targeting specific groups and low-income households, yet it continues to fall short in ensuring basic security and enabling pathways out of poverty. The National Social Security Strategy (NSSS) was designed to streamline interventions and prioritise the most vulnerable, but overlapping programmes, targeting errors, and administrative weaknesses have limited their impact. Programme fragmentation persists, and regional disparities and inclusion–exclusion errors continue to undermine effectiveness (Razzaque, 2025).

Against this backdrop, the newly elected government's ambitious plans for social welfare design and delivery represent an important opportunity to transform the siloed and inefficient Social Safety Net Programme (SSNPs) system and move towards a more inclusive Bangladesh. This chapter, therefore, analyses the current structure of the SSNP budget, evaluates the newly proposed Family Card and Farmer's Card Initiatives, and offers policy recommendations for FY2026–27.

### 10.2 The Current Status Quo of the FY2026 Budget and its Shortcomings

The SSNP budget has been heavily dominated by pensions for retired government officials, interest payments on national savings certificates, and agricultural subsidies. These three programmes are not specifically targeted towards the poor and vulnerable groups. Therefore, the SSNP budget largely bypasses those who need the support most. Evidence shows that numerous small, overlapping programmes across multiple ministries and departments complicate the consolidation and monitoring of these programmes (Khatun and Saadat 2018). Moreover, these programmes receive very limited allocations, which render them ineffective while tying up fiscal resources (Ahmed, 2015). The current fiscal year's budget analysis reveals that around 80 per cent of the 99 SSNP programmes together account for only 11.75 per cent of the total SSNP budget (MOF, 2025). Moreover, the lack of a single overseeing authority results in multiple agencies implementing different programmes, leading to coordination challenges.

**Figure 10.1: Distribution of Social Safety Net allocation (as a share of total social safety net budget)**



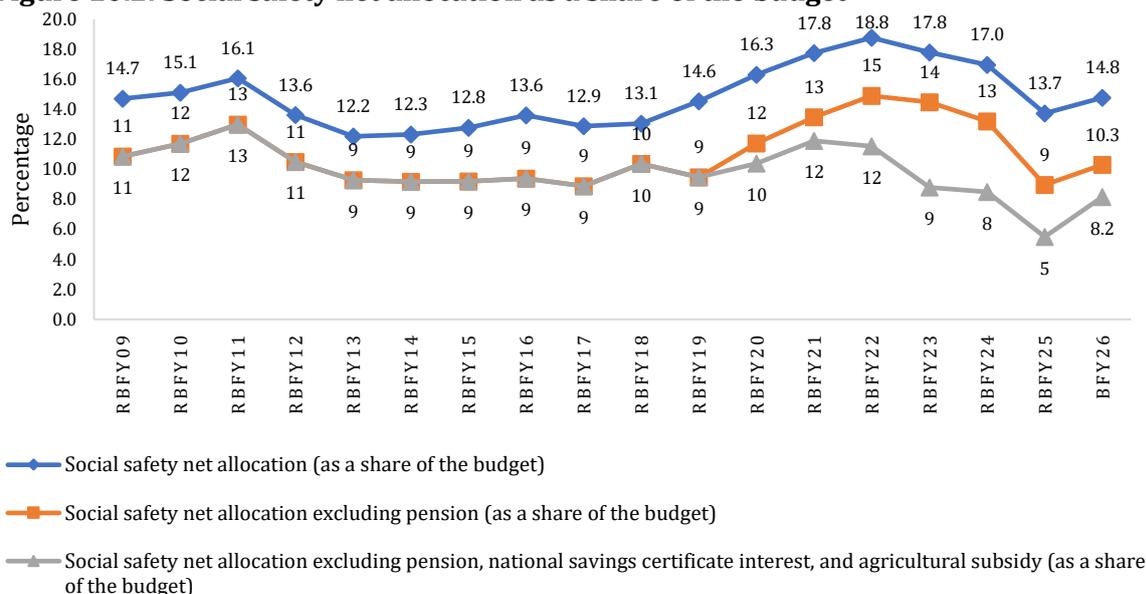
Source: Authors’ illustration based on data from the Ministry of Finance (MOF, 2025).

The addition of interest payments on national savings certificates, pensions for government officials, and agricultural subsidies to the social safety net budget largely explains the decline of budgetary allocation towards programmes for the poor and vulnerable. Notably, pensions for retired government officials surged from 22 per cent of the social safety net budget in the revised budget for fiscal year (RBFY) 2024 to 35 per cent in RBFY2025 (Figure 10.1), while interest on national savings certificates and agricultural subsidies declined slightly (MOF, 2025). Overall, allocation for all other programmes dropped from 50 per cent to 40 per cent in RBFY2025 (Figure 10.1) (MOF, 2025). It is important to note that pensions for government officials, interest on national savings certificates, and agricultural subsidies are not inherently intended for poor and vulnerable groups.

While it is crucial to provide pensions to government officials who have devoted their careers to serving the country and its citizens, not all retired government officials are vulnerable. Similarly, all farmers, whether poor and vulnerable or wealthy and secure, benefit from agricultural subsidies. Therefore, agricultural subsidies are not intended only for the vulnerable. Higher targeting accuracy and a sophisticated administrative system are required if this initiative is to be effective as a social protection scheme, providing adequate benefits to the country's disadvantaged farmers.

The interest rate on the National Savings Certificate has been removed from the SSNP budget for FY2026. The key takeaway from these statistics is that Bangladesh's SSNP budget is highly inflated. While it may appear that the government allocates substantial resources to programmes for the poor and vulnerable, in reality, the share reaching these groups has declined sharply over time. This statement’s cogency is best reflected in Figure 10.2.

**Figure 10.2: Social safety net allocation as a share of the budget**



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

As shown in Figure 2, the SSNP allocation accounts for 13.7 per cent of the budget in RBFY25. However, excluding pension allocations for government officials, which are tax-funded, reduces this share to 9 per cent. Reviewing SSNP budget documents from fiscal year (FY) 2009 to FY2025 shows that spending on programmes for the poor and vulnerable fell from 11 per cent in RBFY2009 to 5 per cent in RBFY2025 (Figure 2) (MOF, 2025).

### 10.3. Pledges Made in the Election Manifesto

#### 10.3.1 Family card

As per the election manifesto, the current government pledged to introduce the Family Card to help the poor and the vulnerable. The government intended to initially launch the Family Card for 50 lakh poor rural families among nearly 4 crore marginalised families. According to the manifesto, the beneficiaries will receive monthly financial assistance of BDT 2,000 to BDT 2,500 or food assistance such as rice, lentils, oil, and salt (BNP, 2026). The government is about to inaugurate the four-month pilot scheme for the Family Card on 10 March 2026, under which each family will receive BDT 2,500 in financial assistance per month (MSW, 2026).

According to the Family Card Piloting Implementation Guideline, 40,000 families in 14 upazilas across different divisions will be covered during the pilot phase, with the mother or female head of the household eligible to receive the QR code-enabled smart Family Card. They will receive assistance through mobile financial services (MFS) or a bank account registered or opened using the beneficiaries’ NID. Beneficiaries will be selected using Proxy Means Test (PMT) scoring, a scientific method for assessing poverty, after data is collected in the field. Families with a PMT score of 0 to 814 out of 1,000 will get the Family Card during the piloting phase (MSW, 2026). In March, 10,000 families are targeted, and the remaining 30,000 beneficiaries will be enrolled through June (10,000 per month). The government targets to gradually cover 20 million poor families after the piloting period.

The programme will also target the ultra-poor, poor, and lower-income families. Households residing in rural areas that own 0.50 acres or less of homestead and cultivable land will be considered eligible for inclusion. In addition to land ownership, household income and asset holdings will be assessed to identify individuals belonging to poor and ultra-poor categories. However, to avail assistance under the Family Card, the beneficiary will have to surrender the

benefits of the smart family card issued by the Trading Corporation of Bangladesh (TCB), the food-friendly programme (FFP), and the vulnerable women benefit (VWB).

The biggest concern in exchanging the TCB-issued smart card with the Family Card is whether the benefits stipulated for the family under the Family Card are sufficient to meet their daily essential needs. Inflation in Bangladesh is currently at an all-time high, especially with prices of essential items rising sharply and placing tremendous pressure on low-income households. If benefit amounts are not reviewed and adjusted in line with inflation and current market prices, the Family Card risks becoming yet another inefficient budget instrument that absorbs government funds without delivering meaningful results.

At the same time, households will be deemed ineligible during the piloting phase if any member is a regular government employee, allowance or pension recipient, holds a PMT score above 814, holds a commercial license or operates a large business, owns high-value assets such as a car or air conditioner, or owns a bond valued at BDT 5,00,000. Note that the other members of the family may continue having the other social protections or safety nets. Priority will be accorded to landless and homeless households, persons with disabilities, and socially marginalised communities, including Hijra, Bede, and small ethnic minority groups, to ensure greater inclusion of vulnerable populations (MSW, 2026).

In the future, the existing TCB family card and other government cash or food assistance programmes will be integrated into the Department of Social Services' Dynamic Social Registry (DSR) via a web API. Beneficiaries will then be able to access various government support, such as subsidised food aid, education stipends, and agricultural subsidies, using the Family Card with OTP verification. Although the budgets for these programmes will be managed by relevant ministries, such as the Ministries of Education, Agriculture, and Commerce, the Department of Social Services will verify the data. Overall coordination of the Family Card programmes and ensuring timely and appropriate support will remain the responsibility of the Ministry of Social Welfare (MSW, 2026).

For the pilot phase, the government will source the finance from the block allocation of the Ministry of Finance. The total budget for the four-month pilot period is set at around BDT 38 crore 7 lakh, of which approximately BDT 25 crore 15 lakh (66 per cent of the total allocation) is allocated for the financial assistance to the 40,000 beneficiaries (MSW, 2026). After the pilot period, the allocation for the Family Card will be introduced in the national budget. By 2028, the government plans to increase budget allocation for SSNPs to 3 per cent of GDP (MSW, 2026). This is an ambitious target, considering the allocation for the SSNPs in the current fiscal year (FY2026) is 1.87 per cent (approximately BDT 1,16,731 crore) of the GDP and 14.78 per cent of the total budget (MOF, 2025).

If the government proceeds with its election manifesto commitment to provide financial assistance of BDT 2,500 per month under the Family Card programmes to 4 crore families, the annual fiscal requirement for the financial assistance alone would amount to approximately BDT 1,20,000 crore. This estimate excludes additional operational and administrative costs such as printing family cards, logistics, training, payment mechanisms, and other implementation-related expenses. Alternatively, if the government adheres to the plan outlined in the Family Card Piloting Implementation Guideline, which proposes financial assistance for 2 crore families, the annual budget required solely for financial transfers would still amount to BDT 60,000 crore.

Therefore, the implementation of the Family Card programmes at the proposed scale would require a large amount of resources. According to the guideline, other members of a household, apart from the female head or mother who will receive the Family Card, will remain eligible to continue receiving other government allowances. So, the overall allocation for SSNPs in the national budget will have to increase substantially. Therefore, prudent prioritisation of fiscal

allocation and efficient implementation will be necessary for operationalising family cards. In addition, beneficiary selection will have to be done carefully, since a certain proportion of fraudulent beneficiaries is often observed in social safety net programmes.

### **10.3.2 Farmer's Card**

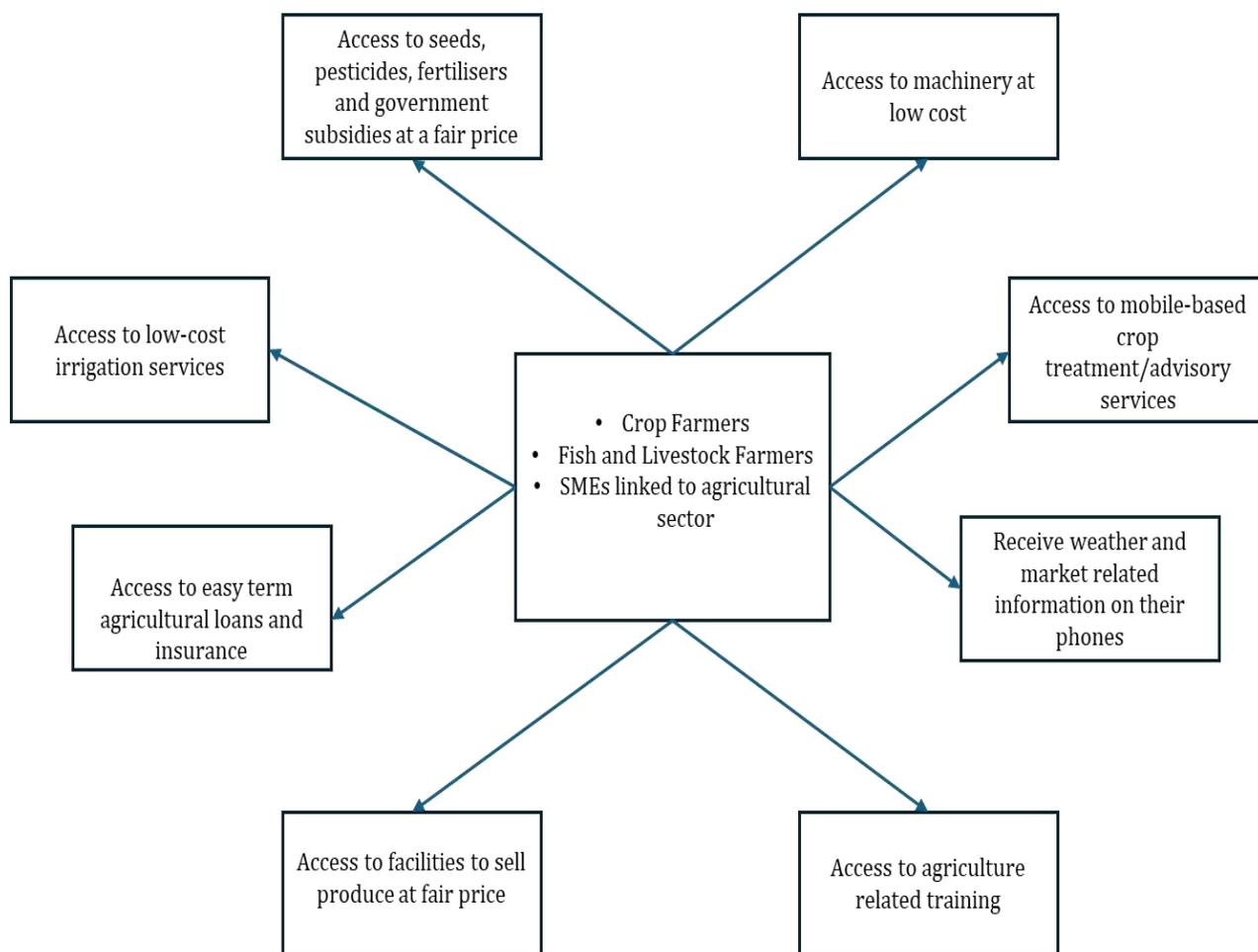
The elected government's proposal for a "Farmer's Card" appears both comprehensive and strategically significant on paper. The initiative is designed to strengthen the agricultural sector by enhancing support to farmers, who constitute a critical pillar of Bangladesh's economy. The proposed framework extends beyond the scope of existing social welfare programmes for farmers, namely, agricultural subsidy management and agricultural rehabilitation assistance.

In contrast to these earlier programmes, the Farmer's Card initiative encompasses a broader range of beneficiaries. It includes not only crop farmers but also fish and livestock farmers, as well as small and medium enterprises (SMEs) linked to the agricultural value chain (BNP, 2026). Moreover, while previous SSNPs for farmers provided general subsidies and limited social assistance, the manifesto's proposal outlines a more explicit and structured set of entitlements (BNP, 2026).

Under the proposed scheme, farmers would receive access to essential agricultural inputs, including seeds, pesticides, fertilisers, and government subsidies, at fair prices (BNP, 2026) (Figure 10.3). They would also be eligible to obtain machinery and irrigation services at reduced cost, thereby lowering overall production expenses (BNP, 2026). In addition, the programme proposes the provision of short-term agricultural loans and insurance coverage to further safeguard farmers against financial vulnerabilities (BNP, 2026).

The initiative also commits to ensuring fair prices for agricultural produce and expanding opportunities for agricultural training (BNP, 2026). Complementing these measures, farmers would gain access to weather and market-related information delivered directly to their mobile phones, along with mobile-based crop treatment and advisory services (BNP, 2026). Collectively, these interventions aim to enhance productivity, reduce risk, and strengthen farmers' resilience across the agricultural sector

**Figure 10.3. Design of the Farmer’s Card**



Source: Authors’ illustration based on information from the government’s election manifesto (BNP, 2026).

The selection of beneficiaries will be through an open consultation process in every Union Parishad. Through discussion, a transparent database and a list of genuine farmers eligible for state support will be selected. The plan is significant, given the issues that farmers in Bangladesh face, including limited access to infrastructure and inadequate compensation for their produce. However, no timeline is mentioned for the implementation of the Farmer’s Card.

Previous international experience shows similar initiatives face significant implementation hurdles. For example, Indonesia’s Independent Farmer Card Programme (Kartu Petani Mandiri, KPM) encountered major operational and structural constraints, including limited administrative capacity, delayed aid delivery, weak outreach, registration difficulties, insufficient complaint-handling resources, and inaccurate beneficiary data (Rupiarsieh, Wulandari, Wahyunita, & Septiana, 2025). India’s Kisan Credit Scheme (KCC) similarly encountered major implementation challenges, including cumbersome documentation requirements, excessive intermediaries, difficulties securing guarantors and no-dues certificates, borrower illiteracy, diversion of sanctioned funds, large credit-requirement gaps for medium and large farms, poor coordination among credit agencies, and low uptake due to fear of default (Singh & Sekhon, 2005). While Farmer Card is a positive initiative, the government will have to address certain challenges.

Bangladesh currently lacks a unified and verified farmer database, which is the backbone of the Farmer’s Card initiative to identify genuine, in-need beneficiaries. The Department of Agricultural Extension maintains a database called the Bangladesh Agro-Meteorological Information Service

(BAMIS), which includes a farmer registration form and compiles various meteorological information, but it lacks rigorous verification to ensure that all registered farmers are, in fact, genuine farmers. Therefore, to eliminate the inclusion and exclusion errors, a proper database is needed.

Bangladesh's agricultural finance landscape remains dominated by microfinance institutes with high interest rates and overlapping loans. Embedding farmers into formal credit systems requires expanding simplified Know-Your-Customer (KYC) processes that banks usually use to identify and verify clients into rural banking infrastructure mechanisms to transition away from dependence on microfinance. This integration is complex and will require systemic reform.

The proposal references access to "easy-term" loans and insurance. However, a clear definition of "term" is needed to assess how these measures will benefit farmers. A specific definition will help assess the potential implications or effectiveness of these measures for farmers.

The proposed removal of intermediaries could be a significant improvement, as state-managed facilities may reduce dependency on middlemen. However, past experience with SSNP implementation indicates that achieving this remains challenging. This will need removal of bureaucratic chains and improvement in coordination.

#### **10.4. Recommendations for FY2027**

##### ***10.4.1 Recommendations for the Family Card***

- The required allocation of BDT 60,000 crore, along with any additional associated costs, must be financed sustainably without undermining funding for other critical sectors.
- Government officials and relevant stakeholders should exercise caution and diligence when assigning the Proxy Means Test (PMT) scores used to identify beneficiaries, and the eligibility of selected households should be thoroughly verified.
- The government should closely monitor the implementation of the new programme to ensure that it does not contribute to further fragmentation within the SSNPs and that it effectively achieves its intended objectives.
- There needs to be sufficient fiscal space in the SSNP budget to ensure that the monthly benefit amount is periodically revised and adjusted in line with inflation and market prices to retain the households' purchasing power.

##### ***10.4.2 Recommendations for the Farmer's Card***

- Develop a centralised national farmer registry that integrates existing systems such as BAMIS with land records, crop-cycle data, NID information, and local government verification.
- Ensure regular data audits and digital updates to maintain accuracy, including seasonal re-validation during planting cycles.
- Develop a phased transition strategy that gradually shifts farmers from high-interest microfinance dependency to regulated, lower-cost formal credit systems, supported by financial literacy campaigns.
- Introduce real-time digital tracking of subsidy distribution and input delivery to reduce opportunities for middlemen and corruption.

##### ***10.4.3 Recommendations for the SSNP Budget***

- Regularly review SSNPs to reassess intervention priorities as households' economic and social conditions evolve over time.

- Re-evaluate existing programmes to improve targeting accuracy, prevent overlaps, and introduce time-bound planning mechanisms with clearly defined exit strategies.
- Prioritise consolidating critical processes that reinforce the goals of a national social protection floor, thereby guiding the NSSF towards more universal and equitable outcomes.
- Conduct in-depth assessments of SSNP beneficiaries at both programmes and sectoral levels to capture the full spectrum of vulnerabilities.
- Develop a comprehensive vulnerability mapping framework to identify and reach groups most at risk, aligning interventions with the Sustainable Development Goals (SDGs) commitment to leave no one behind.
- Reallocate SSNP resources to address current distribution imbalances, ensuring that interventions are impactful and aligned with national priorities.
- Improve interministerial coordination and assess potential programmes mergers to reduce administrative costs, minimise fragmentation, and enhance efficiency.
- Promote collaborative engagement across ministries, agencies, and stakeholders, recognising shifting trends in poverty, employment, and fiscal constraints to effectively advance NSSF goals.
- Identify and prioritise areas experiencing extreme poverty, hunger, and acute vulnerability to realign SSNP interventions with the objectives of the 2030 Agenda.
- Enhance social protection measures and develop robust institutional, legal, and administrative systems to support job creation and broader socio-economic policy objectives as the economy progresses.

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## SECTION XI. PUBLIC HEALTH

### Key recommendations

- Strengthen the health workforce by expanding recruitment, especially in rural areas, while introducing transparent posting systems, performance-based management, and governance reforms to improve accountability and service delivery.
- Reform tobacco taxation by simplifying the tiered tax structure, introducing uniform specific excise taxes on cigarettes, bidi, and smokeless tobacco, and increasing VAT, health surcharges, and corporate taxes on tobacco companies to improve public health outcomes.
- Ensure affordable medicines while supporting the pharmaceutical industry by exempting VAT on medicines, eliminating taxes on imported Active Pharmaceutical Ingredients (API), and developing long-term strategies to strengthen domestic pharmaceutical manufacturing.

### 11.1 Introduction

Health spending is a critical public investment, central to sustainable development. SDG 3 calls for ensuring healthy lives and well-being for all (UN, 2015). Despite progress in health indicators, Bangladesh's system faces persistent weaknesses from underinvestment, weak governance, and service delivery gaps.

Infrastructure is inadequate: in 2017, there was one hospital bed per 1,196 people, and basic service readiness was limited—only 5.1 per cent of facilities had emergency transport, 34.5 per cent had laboratories, and 43.1 per cent had regular electricity, though essential medicines and hygiene facilities were more common (NIPORT, ACPR, and ICF, 2018). Human resource shortages compound these issues, with one physician per 1,581 people and only 28 per cent of facilities staffed with specialists (BBS, 2019). Rural and underserved areas are particularly affected.

Addressing these gaps requires sustained investment, effective governance, and improved service delivery. The Bangladesh Nationalist Party's manifesto pledges an increase in the health budget allocation to 5 per cent of GDP, a corruption-free healthcare system, recruitment of 100,000 health workers, of which 80 per cent will be women, expanded preventive care, and strengthened maternal and child health services (Bangladesh Nationalist Party- BNP, 2026). As the governing party, its budgetary priorities will determine whether these commitments translate into tangible improvements.

This chapter examines health sector budgeting trends and offers policy recommendations for FY2026 to support a stronger, more equitable healthcare system in Bangladesh.

### 11.2 Overview of the Health Budget

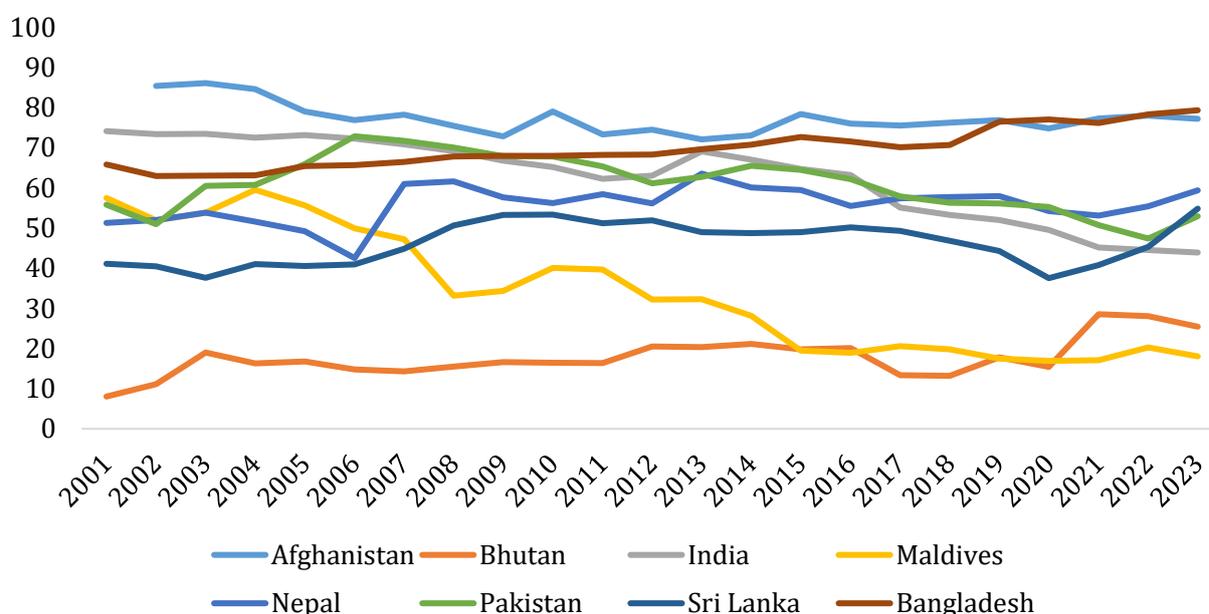
In FY2026, Bangladesh's health budget continued to reflect chronic under-prioritisation. The share of health in the total budget fell from 5.57 per cent in FY2025 to 5.30 per cent, while its share of GDP declined from 0.75 per cent to 0.67 per cent, remaining below 1 per cent for the past two decades (MOF 2025a). Per capita health spending increased marginally by only BDT 22, from BDT 2,413 in 2024 to BDT 2,435 in 2025 (MOF 2025a). Social safety net initiatives, such as the Urban Primary Health Care Services Delivery Project, faced severe cuts, with its allocation falling from BDT 180.13 crore in FY2025 to BDT 54.25 crore in FY2026 (MOF 2025b). Development expenditures have consistently been lower than non-development costs; in FY2026, the development budget decreased by 13 per cent, while non-development spending rose by 15 per cent (MOF 2025a). This pattern indicates that most resources are directed to operational

expenses rather than critical investments in infrastructure, technology, and service expansion, limiting improvements in health outcomes.

### 11.3 International Comparisons of Government Expenditure on Health

Out-of-pocket (OOP) expenditure in Bangladesh has consistently been among the highest in South Asia, reflecting the chronic underfunding and inefficiencies of its health system. As shown in Figure 11.1, in 2023, OOP spending accounted for 79.3 per cent of current health expenditure, slightly higher than Afghanistan at 77.1 per cent and substantially higher than India at 43.9 per cent, Pakistan at 52.9 per cent, and Nepal at 59.4 per cent. High OOP payments indicate that most health costs are borne directly by households, leaving them vulnerable to financial hardship and limiting access to essential care. Countries like Bhutan and the Maldives demonstrate a contrasting trajectory, with OOP spending generally below 30 per cent, reflecting stronger public financing and better risk protection. Even compared to Afghanistan, which faces severe health system challenges, Bangladesh’s reliance on household spending is extreme, highlighting the urgent need for increased public investment, risk pooling mechanisms, and universal health coverage to reduce financial barriers and improve health outcomes.

**Figure 11.1: Out-of-pocket Expenditure (As a Percentage of Current Health Expenditure)**



Source: (World Bank 2025).

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

Bangladesh’s tiered tobacco tax structure allows the tobacco industry to maintain wide price differentials across cigarette brands, making some products relatively affordable and undermining the public health objective of taxation. To address this, the government should simplify the tobacco tax system by replacing the current multi-tiered structure with a unified framework. In particular, the existing ad valorem tax, which is calculated as a percentage of the retail price, should be replaced with a specific excise tax set per pack. A uniform specific tax would streamline tax administration, reduce the burden of managing recommended retail prices (RRPs), and prevent the tobacco industry from exploiting price variations. CPD therefore proposes introducing a uniform specific excise duty of BDT 10 per cigarette stick on all cigarettes in FY2026–27, with the rate increased by at least BDT 10 per stick annually to account for inflation and income growth, as shown in Table 11.1.

**Table 11.1: Proposed Tax Structure for Cigarettes (Per Pack of 10 Cigarettes)**

		Tax structure for cigarettes in FY2026				CPD's recommendation					
		Retail Price		SD				Retail Price		Specific excise duty	
Tier	Pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in per cent)	Per pack of 10 (in BDT)	Per stick (in BDT)	Tier	Per pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in BDT)	Per stick (in BDT)	
Low	50	5.0	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).

Global cigarette prices provide a useful benchmark for assessing the effectiveness of tobacco taxation policies. In a comparison of 95 countries, Bangladesh ranks as having the 22nd lowest cigarette price, with a pack costing about BDT 360 as of July 2025, compared to BDT 492 in neighbouring India, while countries such as Australia, New Zealand, and the United Kingdom maintain much higher prices (Numbeo 2025). Higher prices generally reflect stronger taxation policies aimed at reducing smoking.

In line with proposed reforms to increase cigarette prices, the tax structure for other tobacco products should also be simplified. CPD recommends replacing the current tiered classification of Bidi with a uniform specific excise tax of BDT 3 per stick from FY2026–27, allowing market-based pricing (Table 11.2). The tax should increase by at least BDT 1 per stick annually to account for inflation and income growth.

**Table 11.2: Proposed Tax Structure for Bidi**

		Tax Structure in FY2026				CPD's Recommendation					
		Retail Price		SD				Retail Price		Specific excise duty	
Type of bidi	Per pack (in BDT)	Per stick (in BDT)	Per pack (in per cent)	Per pack (in BDT)	Per stick (in BDT)	Type of bidi	Per pack (in BDT)	Per stick	Per pack (in BDT)	Per stick (in BDT)	
Non-filtered 25-stick handmade bidi	18	0.72	30	5.40	0.22	All	Market-based	Market-based	75	3	
Non-filtered 12-stick handmade bidi	9	1.33	30	2.70	0.23				36		
Non-filtered 8-stick handmade bidi	6	1.33	30	1.80	0.23				24		
Filtered 20-stick handmade bidi	19	1.05	40	7.60	0.38				60		
Filtered 10-stick	10	1.00	40	4.00	0.40				30		

	Tax Structure in FY2026					CPD's Recommendation				
	Retail Price		SD			Retail Price		Specific excise duty		
handmade bidi										

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

Finally, the existing tax structure on Jarda and Gul should also be reformulated in cognisance of the severe health risks posed by the long-term consumption of such items. CPD proposes a BDT 6 specific excise duty per gram (gm) of Jarda and Gul to be implemented in FY2026 and to allow the price of Jarda and Gul to be determined by the market (Table 11.3). Such a specific tax on Jarda and Gul should be increased by at least BDT 1 each year, to account for annual inflation and income growth.

**Table 11.3: Proposed Tax Structure for Jarda and Gul**

	Tax Structure in FY2026					CPD's Recommendation			
	Retail Price		SD			Retail Price		Specific excise duty	
Type of product	Per 10gm (in BDT)	Per gm (in BDT)	Per 10 gm (in per cent)	Per 10 gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)
10gm jarda	48	4.8	55	26.40	2.64	Market-based	Market-based	60	6
10gm gul	25	2.5	55	13.75	1.37				

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

The Health Development Surcharge Management Policy 2017 states that a 1 per cent surcharge must be charged to tobacco companies in Bangladesh, which is also in accordance with the WHO Framework Convention on Tobacco Control (FCTC), to which Bangladesh is a ratified member (NTCC, 2017). A Statutory Regulatory Order (SRO) issued by the Bangladesh government provides more information on how the funds collected via the Health Development Surcharge should be used. CPD advocates for a further increase in the Health Development Surcharge to strengthen the National Tobacco Control Cell (NTCC) in achieving the goals and reaching the goal of a tobacco-free Bangladesh by 2040. Thus, 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 11.4).

**Table 11.4: Proposed Health Development Surcharge and VAT on Cigarettes and Other Tobacco Products**

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

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

CPD believes that corporate taxes should be raised incrementally to achieve a tobacco-free Bangladesh by 2040. In the budget for FY2025, 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, we also propose that the corporate tax on all companies manufacturing tobacco products, such as cigarettes, bidi, chewing tobacco, jarda, and gul, be increased from 45 per cent in FY2025 to 50 per cent in FY2026. The associated surcharge is to be increased from 2.5 per cent in FY2025 to 5 per cent in FY2026 (Table 11.5).

**Table 11.5: Corporate Tax on Tobacco Product Manufacturing Companies**

Type of company	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).

To achieve the government's long-term goal of a tobacco-free Bangladesh, we also propose that the corporate tax on all companies manufacturing tobacco products, such as cigarettes, bidi, chewing tobacco, and jarda, be increased to 55 per cent in FY2026, and the associated surcharge to be increased to 7.5 per cent in 2026 when Bangladesh graduates from the LDC group.

### 11.5 Fiscal Measures Related to Health: Tax on Soft Drinks

Regularly drinking sugary drinks greatly increases the risk of type 2 diabetes, obesity, high blood pressure, heart disease, and other health problems. Sugary drinks are also linked to tooth decay, fatty liver disease, and even certain cancers. For children and teenagers, the risks are even higher. Eating too much sugar early in life can cause health problems that last a lifetime (Sultana, 2025).

Typically, a single soft drink can, around 355 millilitres, contains 39 grams of sugar (Coca-Cola Company, n.d.). This is equivalent to roughly 10 teaspoons of sugar, while the World Health Organization (WHO) recommends that adults should not consume more than six teaspoons of sugar daily to lead a healthy lifestyle (WHO, 2017). Regular consumption of sugar-sweetened beverages SSBs, including soft drinks, flavoured milks, energy drinks, vitamin waters, fruit juices and sweetened iced teas, is associated with an increased risk of dental cavities, type 2 diabetes, weight gain and obesity in both children and adults, heart disease, stroke and cancer (WHO, 2022). Evidence shows that implementing taxes on SSBs increases product prices and reduces demand, resulting in fewer purchases. A one-time global SSB tax increase that raised prices 50% could generate additional revenues of US\$1.4 trillion over 50 years (Bloomberg et al., 2019).

In the budget for FY2026, the beverage and carbonated industry is subject to a 30 per cent SD for carbonated soft drinks, 40 per cent SD for energy drinks, and 15 per cent VAT applicable for both (NBR, 2024). However, a minimum tax on sales revenue of carbonated beverage producers has remained 3 per cent in FY 26 as it was in FY 25. In Bangladesh, carbonated soft drinks and energy drinks are widely available. Hence, it is necessary to decrease the consumption of such beverages to reduce the associated health risks.

Therefore, CPD recommends that the government should remove the supplementary duty on both soft drinks and energy drinks and replace it with a specific excise duty of BDT 0.10 per millilitre (ml) or BDT 100 per litre (l) on soft drinks and energy drinks produced in Bangladesh in the FY2026–27 (Table 11.6). Since sweetened beverages are demerit goods, placing a specific excise duty will reduce consumption and provide the government with substantial revenue. CPD also recommends that the government stop giving high tariff protection to local sugar-sweetened

beverages (SSB) manufacturers through VAT exemptions for imported raw materials (NBR, 2024). This will be a respite to our shrinking fiscal space.

**Table 11.6: Proposed Tax Structure for Soft Drinks and Energy Drinks**

	Tax Structure for FY2026		CPD's recommendation			
	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

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

Furthermore, limiting sugary beverage intake will help Bangladesh minimise the risks of related diseases and health expenditures of the general population. This will also allow the economy to achieve SDG target 3.4, which aims to reduce non-communicable diseases by one-third by 2030 (UN, 2015). We also propose that the VAT on soft drinks and energy drinks should be increased from 15 per cent in FY2025 to 20 per cent in FY2027.

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

Bangladesh is import dependent, importing more than 90 per cent of the raw materials necessary yearly for the pharmaceutical business from countries such as China and India, totalling BDT 47 billion (Mitsumori, 2018). Bangladeshi pharmaceutical businesses lack the technological and manufacturing capabilities to create Active Pharmaceutical Ingredients (APIs) (Mitsumori, 2018). As can be seen in Table 11.7, the total tax incidence on imported APIs is 33.63 per cent, which is considerably high. Total Tax Incidence TTI was 31 per cent in FY25. As Bangladesh prepares to transition from a Least Developed Country (LDC) to a developing country in 2026, it will no longer benefit from the trade advantages and exemptions currently available to LDCs.

**Table 11.7: Tax Breakdown of Imported Active Pharmaceutical Ingredients (API), FY2026**

HS CODE	Description	CD	SD	VAT	AIT	RD	AT	TTI
29420090	Other Organic Compounds not elsewhere specified	5	0	15	5	0	7.5	33.63

Source: Author's compilation based on Duty Calculator, Bangladesh Customs (National Board of Revenue Bangladesh 2025)

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

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

stands at 31 per cent as of FY2025, CPD recommends reducing it to zero to support the pharmaceutical industry and enhance competitiveness.

### 11.7 Taxation on Sanitary Napkins

Despite the importance of sanitary napkins in ensuring menstrual hygiene among women and girls, their use remains below desired levels throughout the country. One of the biggest reasons for this is that they are not affordable for most of the population. In FY2026, the government extended the exemption from Value Added Tax (VAT) (excluding AT) and Supplementary Duty (SD) on six imported raw materials out of 12 used in the production of sanitary napkins and diapers until June 2025 (Ministry of Finance 2025a) (Table 11.8). In addition, it introduced VAT exemption on locally sold sanitary napkins (Ministry of Finance 2025a).

However, many local companies do not qualify for this temporary tax cut due to certain conditions. Firms must set up machinery on the factory premises to benefit from the tax-free privilege. In addition, a company has to invest a minimum of BDT 76 crore, have its testing lab, have environmental clearance from the Department of Environment, ensure at least 30 per cent value addition and employ at least 250 Bangladeshis in the factory. In addition, interested companies will have to apply to the National Board of Revenue (NBR) to get the scope of importing the six raw materials without SD and VAT (Daily Star Online Report, 2019). In addition, other import tariffs include Customs Duty (CD), Advanced Income Tax (AIT), Regulatory Duty (RD), and Advance Trade VAT (AT). Overall, the Total Tax Incidence (TTI) on imported sanitary napkins and diapers is 132.36 per cent (National Board of Revenue Bangladesh 2025).

**Table 11.8: Tax Breakdown of Imported Sanitary Napkins and Raw Materials Required to Make Sanitary Napkins, FY2026**

HS CODE	Description	CD	SD	VAT	AIT	RD	AT	TTI
96190000	Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar products	25	45	15	5	3	5	132.36
48239094	Air laid paper imported by Ind.IRC.VAT-compliant hygiene product manufacturers	25	20	15	5	0	7.5	88.75
35052000	Glues Based on Starches, Dextrins or Other Modified Starches	5	0	15	5	15	7.5	52
35069110	Elastic/ construction glue	25	0	15	5	3	7.5	76.5
39069000	Acrylic Polymers, In Primary Forms, Nes	10	0	15	5	0	7.5	39.75
39199020	Performance Tape/Closure/Side Tape	25	0	15	5	0	7.5	58.13
40021100	Latex Of Styrene-Butadiene or Carboxylated Styrene-Butadiene Rubber	5	0	15	5	0	7.5	33.63
47032100	Semi-bleached or Bleached Coniferous Chemical Wood Pulp, Soda..., not elsewhere specified	0	0	15	2	0	7.5	24.5
48119090	Other Paper, Paperboard, Cellulose Wadding and Webs of Cellulose Fibres not elsewhere specified	25	0	15	5	3	7.5	61.8
54024400	Other yarn, single, untwisted or with a twist not exceeding 50 turns per metre	0	0	15	5	0	7.5	27.5
56031110	Nonwovens Of Man-Made Filaments Weighing <=25g/M2	25	0	15	5	3	7.5	61.8
63079000	Made Up Articles (Including Dress Patterns) not elsewhere specified	25	0	15	5	3	7.5	61.8

Source: Author's compilation based on Duty Calculator, Bangladesh Customs (National Board of Revenue Bangladesh 2025)

Note: TTI for HS 39201020 (Other plates, sheets, film, foil and ethylene are imported by VAT regi. Personal), which is another raw material required to make sanitary napkins, could not be obtained from the Operative Tariff Schedule at the time of writing.

## **11.8 Health Sector Reform Commitments of the Election Manifesto**

The health sector commitments proposed by the Bangladesh Nationalist Party (BNP) in their election manifesto outline a broad restructuring agenda centred on universal health coverage (UHC), expansion of primary healthcare, large-scale workforce recruitment, enhanced financial protection mechanisms, digital integration, and pharmaceutical sector reform.

The manifesto proposes recruitment of 100,000 health workers (80 per cent women), establishment of primary healthcare units in every rural union and city ward, introduction of universal e-health cards, creation of a Health Protection Fund to finance high-cost treatments through public-private partnerships (PPPs), restructuring of the state-owned pharmaceutical production system, and gradual increase of public health expenditure to 5 per cent of GDP.

While the direction of reform is consistent with global UHC objectives, implementation feasibility remains constrained by fiscal, administrative and governance realities.

### ***Fiscal Sustainability***

The commitment to raise public health expenditure to 5 per cent of GDP represents a structural expansion of the budget envelope. Given that current public health expenditure remains below 1 per cent of GDP, achieving this target would require a multi-fold increase in allocation. Bangladesh has faced persistent challenges in the effective utilisation of allocated health resources due to procurement delays, weak financial management systems, and administrative bottlenecks. Without prior strengthening of absorptive capacity, a rapid scale-up in allocations risks inefficiency rather than improved outcomes. A credible medium-term expenditure framework would be required to align revenue mobilisation, expenditure reprioritisation and institutional reform.

### ***Recurrent Expenditure Pressures***

The proposed recruitment of 100,000 health workers would significantly increase the recurrent expenditure burden through salaries, benefits and long-term pension liabilities. Although workforce shortages remain a structural constraint in rural areas, governance failures, such as absenteeism, weak supervision, and politicised human resource management, continue to undermine service delivery.

Unless recruitment is accompanied by performance-based management systems, rural retention incentives, and transparent posting mechanisms, quantitative expansion alone may not improve service quality proportionately.

### ***Primary Healthcare Model***

The proposed GP-style primary healthcare model prioritises preventive and community-based services. However, establishing fully functional units with laboratories, pharmacies and outreach services in every union and ward would entail substantial capital and operational expenditure. Moreover, coordination challenges between central health authorities and local government institutions may constrain effective gatekeeping and referral systems.

Phased implementation, prioritising upgrading of existing facilities rather than large-scale new construction, would be fiscally prudent.

## ***Digital Health and System Integration***

The introduction of universal e-health cards has potential efficiency gains in continuity of care and system oversight. However, nationwide digital integration requires significant investment in infrastructure, interoperability standards, cybersecurity frameworks and data governance capacity. Past digital initiatives in the health sector have encountered operational challenges. Without adequate institutional preparedness, digital investments may not yield intended returns.

## ***Governance Constraints***

Across the reform agenda, governance remains the binding constraint. Weak accountability mechanisms, supply chain inefficiencies, and limited performance monitoring have historically constrained the impact of health spending. While the manifesto acknowledges accountability reform, institutional transformation requires sustained political and administrative commitment beyond budgetary expansion.

## **11.9 Budget Recommendations**

### ***Strengthening Public Health Financing***

- Gradually increase public health expenditure to ensure greater fiscal priority for the health sector, with a long-term target of raising government health spending as a share of GDP.
- Adopt a phased approach to increasing health spending, supported by a credible medium-term fiscal framework to ensure that revenue mobilisation and institutional capacity are aligned with the expansion of public health investment.
- Adopt a more balanced approach between development and non-development expenditure, ensuring greater allocation towards infrastructure, equipment, and service expansion.
- Protect and expand funding for primary healthcare initiatives, including urban primary healthcare programme that serve vulnerable populations.

### ***Improving Governance and Budget Efficiency***

- Establish a comprehensive monitoring and evaluation framework to track the progress and effectiveness of development programme in the health sector.
- Strengthen procurement, financial management, and accountability systems to improve utilisation of allocated resources.
- Address governance challenges such as absenteeism, weak supervision, and inefficiencies that undermine service delivery.
- Prioritise strengthening existing primary healthcare facilities, including community clinics and upazila health complexes, by improving diagnostic capacity, essential medicine supply, and service quality.
- Ensure institutional readiness for digital health initiatives by gradually introducing e-health systems alongside investments in digital infrastructure, interoperability standards, and data protection frameworks.

### ***Strengthening the Health Workforce***

- Expand recruitment of health professionals to address shortages, particularly in rural and underserved areas.
- Introduce transparent posting systems, performance-based management, and rural retention incentives to improve the distribution and quality of healthcare services.
- Link health workforce expansion with governance reforms, including transparent recruitment procedures and performance monitoring systems to enhance accountability and service delivery.

### ***Reforming Tobacco Taxation***

- Simplify Bangladesh's complex tiered tobacco tax structure to reduce the affordability of cigarettes and improve public health outcomes.
- Replace the current ad valorem tax structure with a uniform specific tax based on the number of cigarette sticks sold.
- Introduce a uniform specific excise duty of BDT 10 per cigarette stick in FY2026 and gradually increase it annually to account for inflation and income growth.
- Implement a specific excise tax of BDT 3 per stick for all bidi, replacing the current tier classification based on filtering and pack size.
- Introduce a BDT 6 specific excise duty per gram of jarda and gul, allowing the market to determine retail prices.
- Increase the Health Development Surcharge on tobacco products from 1 per cent to 5 per cent and raise VAT on tobacco products from 15 per cent to 20 per cent.
- Increase the corporate tax on tobacco manufacturing companies from 45 per cent to 55 per cent, with the surcharge raised from 2.5 per cent to 7.5 per cent.

### ***Taxation of Sugar-sweetened Beverages***

- Replace the current supplementary duty on soft drinks and energy drinks with a specific excise duty of BDT 0.10 per millilitre or BDT 100 per litre.
- Increase VAT on soft drinks and energy drinks from 15 per cent to 20 per cent to discourage excessive consumption.
- Remove high tariff protection for local sugar-sweetened beverage producers by discontinuing VAT exemptions on imported raw materials.

### ***Ensuring Affordable Medicines and Supporting the Pharmaceutical Industry***

- Exempt VAT on medicines starting from FY2026–27 to ensure continued affordability following the loss of TRIPS-related LDC privileges.
- Reduce the total tax incidence on imported Active Pharmaceutical Ingredients to zero to strengthen the competitiveness of the local pharmaceutical industry after LDC graduation.
- Develop a long-term strategy to support domestic pharmaceutical manufacturing and technological capacity.

### ***Promoting Good Menstrual Health and Hygiene***

- Implement a zero-tax policy on imported raw materials need to produce sanitary napkins by fully exempting all applicable taxes, including Value Added Tax (VAT), Customs Duty (CD), Supplementary Duty (SD), Advance Income Tax (AIT), Additional Tax (AT), and Regulatory Duty (RD), to reduce production costs and promote affordability.
- Focus on providing targeted tax exemptions and incentives for 12 key Harmonized System (HS) codes, such as 48239094, 35052000, and 39069000, to support the import of essential raw materials critical for the production of sanitary products.
- Significantly reduce the total tariff and tax incidence (TTI) on imported sanitary napkins from the current rate of 127.72 per cent to 31.93 per cent to make these products more accessible and affordable for women and girls across the country.
- Ensure the provision of free sanitary napkins in all public educational institutions to guarantee menstrual hygiene management for female students and reduce barriers to school attendance.

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## SECTION XII. FISCAL MESURES FOR THE EDUCATION SECTOR

### Key recommendations

- The budget allocation of all education stipends should be increased in the budget for FY2026–27.
- The VAT on the tuition fees for all academic institutions, including English medium schools, should be exempted in the budget for FY2026–27, and the exemption should remain in place indefinitely.
- Corporate income tax on private universities and colleges should be reduced from 15 per cent to 10 per cent in the budget for FY2026–27.

### 12.1 Introduction

High-quality education is presently an urgent need in Bangladesh. As of the fiscal year FY2023, the literacy rate for individuals above the age of 15 in Bangladesh was approximately 76 per cent (MoF, 2024a). According to the Annual Primary School Census (APSC) 2024, the Gross Enrolment Rate (GER) in primary education has decreased significantly from 114 per cent in 2018 to about 104 per cent in 2023, before slightly increasing to 106 per cent in 2024 (MoPME, 2025). Concurrently, the Net Enrolment Rate (NER) remained stagnant at around 97 per cent between 2018 and 2023, which slightly decreased to about 95 per cent in 2024 (MoPME, 2025).

On the other hand, the GER for secondary-level education increased slightly from 75.32 per cent in 2018 to about 76.10 per cent in 2022 before dropping to about 74.81 per cent in 2023 (BANBEIS, 2024). In comparison, the NER for secondary level education increased from 69.38 per cent in 2018 to 72.20 per cent in 2023, highlighting an insignificant increase of just under three percentage points in five years (BANBEIS, 2024). Moreover, the dropout rate for secondary education only decreased from about 37.62 per cent in 2018 to around 33.85 per cent in 2023 (BANBEIS, 2024).

The country is now showing signs of a youth bulge, which means it is poised to reap the benefits of a demographic dividend if it can capitalise on the potential of its vast young labour force. However, the Labour Force Survey 2023 of the Bangladesh Bureau of Statistics (BBS) reveals that while the national unemployment rate is 3.35 per cent, the youth unemployment rate is as high as 7.25 per cent (BBS 2024).

The share of unemployed youth in total unemployment is 78.87 per cent (BBS 2024). Informal employment as a share of total employment was 84.07 per cent in 2023 (BBS 2024). While the share of youth not in education, employment or training (NEET) was 18.9 per cent (BBS 2024). Ironically, research has shown that each additional year of schooling increases the probability of entering NEET status by 1.16 per cent for male youth and 1.07 per cent for female youth (Khatun and Saadat 2020).

A survey of 100 major non-government employers in Bangladesh showed that 40 per cent of employers believed that their workers need to obtain new skills within 12 months due to the advancement of technology (Khatun F. et al., 2022). The ability to use technology has also been linked to greater returns in the labour market.

Research has shown that in Bangladesh, workers who have used computers earn 17 per cent more than workers who have not used computers (Khatun & Saadat, 2021). Regrettably, in a survey of 500 young graduates of public and private universities in Bangladesh, it was found that the average score in an introductory computer literacy test was only 44 out of 100 (Khatun F. et

al., 2022). This suggests that education in Bangladesh fails to provide young people with the necessary skill sets to compete in the labour market.

## **12.2 Overview of the Education Budget**

Unfortunately, Bangladesh has recently made modest progress in allocating the necessary educational budgetary resources. The current amount of public spending on education in Bangladesh is inadequate. This is because the budget allocated for the education sector in FY2026 did not reflect sufficient efforts. In FY2026, the government allocated BDT 95,644 crore for the education sector, which was only a 1 per cent increase from the previous year's proposed budget of BDT 94,711 crore (Ministry of Finance, 2025).

This is only 12.11 per cent of the total budget and 1.53 per cent of the GDP (Ministry of Finance, 2025). Therefore, much priority should be given to the revised budget allocation for the current fiscal year. Furthermore, the revised budget allocation for the education sector accounts for a negligible portion of the entire budget, which is shrinking with each fiscal year. This is further evidenced by the fact that the revised budget for education as a share of the total budget decreased from 14 per cent in FY2016 to 12.11 per cent in the proposed budget of FY2026 (Ministry of Finance, 2025).

It is important to note that the proposed budget allocation for the education sector is consistently subject to downward revisions each fiscal year. Moreover, the actual expenditure incurred in the education sector is even lower than the revised allocations. The total actual expenditure on education in FY2024 was BDT 66,790 crore, while BDT 74,597 crore was allocated in the revised budget of FY2024 (Ministry of Finance, 2025). Actual expenditure, especially for effective development, in education needs to be significantly higher. It should be highlighted that the growth in actual expenditure peaked in FY2016, accounting for about 35 per cent, followed by a rapid decline, suggesting that over the years, less priority was given to the education sector (Ministry of Finance, 2025). Moreover, the allocated budget for education is primarily used for operational expenses rather than development expenditures, which may compromise the quality of education, highlighting a lower priority in the development of this sector. Bangladesh is still behind in meeting its targets of spending at least 3.5 per cent of GDP in education by 2031 and 4 per cent by 2041, as suggested in the Perspective Plan of Bangladesh (2021-2041) (GED, 2020).

In addition to the insufficiency of spending, there are worries over the effectiveness of allocated resources to attain desired results. Education in Bangladesh is plagued by persistent absenteeism at the primary level (Kumar & Saqib, 2017), a high secondary dropout rate (Hossain, 2021), concerns about the quality of education (Titumir, 2021), ineffective teaching methods (Farooqui, 2014), insufficient resources (Islam, 2021), and the negative impact of COVID-19 on learning (Hosen et al., 2022). The education budget for FY2026–27 must address these long-standing difficulties while also considering emerging and growing concerns. Therefore, this chapter analyses the status, achievements, impediments, and other factors related to the planned budgetary allocation for the education sector for FY2025 and offers a few recommendations for FY2027.

## **12.3 Global comparison of the Education Budget**

It should also be highlighted that Bangladesh was the third lowest among 39 LDCs in terms of average education expenditure as a percentage of GDP from 2016 to 2023 (The World Bank 2025). Haiti and South Sudan were the only countries that spent less than Bangladesh. At least 35 LDCs, including countries such as Senegal and Djibouti, spent 2 per cent or more of their GDP on education from 2016 to 2023 (The World Bank 2025).

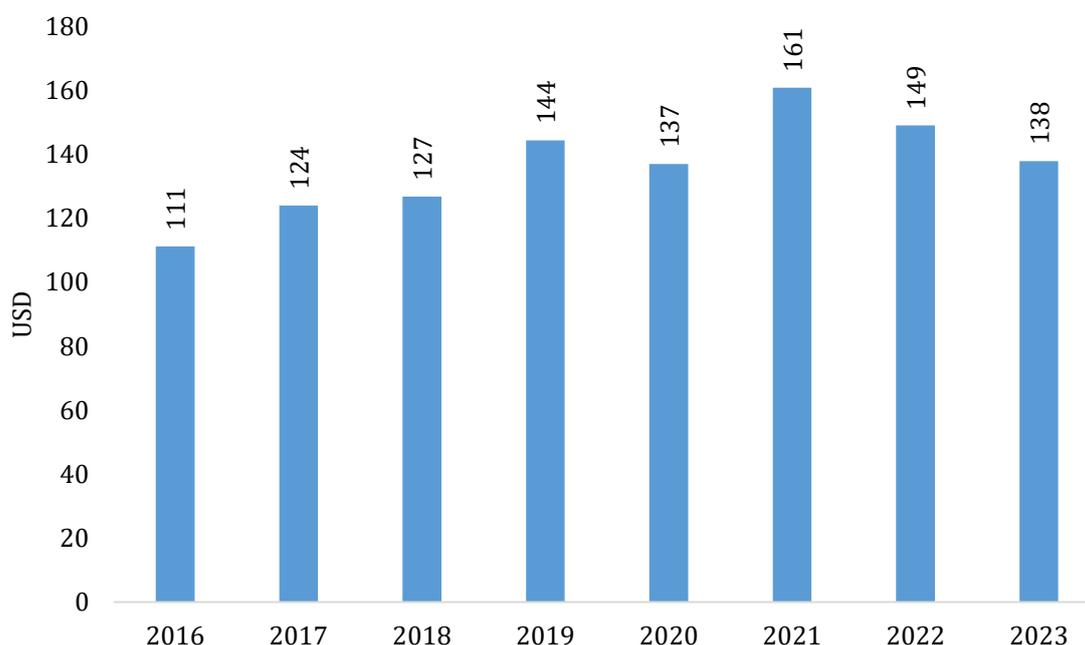
**Table 12.1: International Comparison of Government Expenditure on Education**

Country	Bangladesh	Rwanda	Tuvalu
GDP per capita based on purchasing power parity (PPP) for 2023 (in USD)	8,242	3,060	5,812
Government total average expenditure on education as a percentage of GDP from 2016 to 2023 (in per cent)	1.8	3.9	12.8

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

In 2023, the GDP per capita based on purchasing power parity (PPP) revealed an interesting contrast between Rwanda and Bangladesh. Bangladesh displayed a higher GDP per capita at USD 8,242, compared to Rwanda's USD 3,060, but on average, Rwanda dedicated 3.9 per cent of its GDP to education, starkly contrasting with Bangladesh, which spent, on average, only about 1.8 per cent of its GDP on education between 2016 and 2023 (The World Bank 2025) (Table 12.1). This disparity highlights the different national priorities and strategies in resource allocation despite Bangladesh's higher economic output per person. Furthermore, from 2016 to 2023, the government's per capita actual expenditure on primary education in Bangladesh averaged around USD 136.

This level of spending positioned Bangladesh as the 15th lowest among 112 countries (UIS 2025). In addition, Bangladesh's per capita expenditure on primary education decreased from USD 161 in 2021 to USD 138 in 2023 (Figure 12.1).

**Figure 12.1: Government per Capita Actual Expenditure on Primary Education in USD**

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

#### 12.4 Pledges Made in the Election Manifesto

The election manifesto of the new government outlines several significant commitments, including allocating 5 per cent of GDP to the education sector, integrating multimedia and ICT in classrooms to address digital inequality, promoting research and innovation, encouraging the learning of a third language, strengthening industry-academia linkages, and placing greater emphasis on technical and vocational education to enhance employment opportunities. Commitments articulated in an election manifesto should be viewed as important policy

intentions that guide reform priorities. The goals, actions, and initiatives outlined in such documents merit careful consideration and structured implementation to help ensure the effective realisation of the proposed reforms.

The new government has committed to gradually raising public expenditure on education to 5 per cent of GDP (Bangladesh Nationalist Party 2026). However, a clear and operational timeline for achieving this target is required. Although the pledge signals strong intent, its feasibility warrants scrutiny. In recent years, Bangladesh's education spending has remained below 2 per cent of GDP, with allocations to primary education reportedly declining during the interim government's tenure (Ministry of Finance, 2025). In this context, a commitment of this scale, if not accompanied by a well-defined implementation strategy and a time-bound roadmap, risks remain aspirational rather than actionable.

At the same time, multimedia classrooms (MMC) in Bangladesh, as an initiative, have been less than adequate. Factors such as technical issues, lack of institutional knowledge of the practical challenges concerning MMC, and constraints regarding the operating system deter teachers in Bangladesh from integrating multimedia in their classrooms (Deutscher, 2009) (Azad, 2024). Even though MMC has the potential to transform institutional approaches and learning processes, digital content is often poorly aligned with textbooks, and many teachers lack the confidence, skills, and pedagogical understanding required to effectively integrate such tools into classroom practice (Ropum et al., 2022).

Infrastructural deficiencies, such as limited internet access, unreliable electricity, high costs, and weak policy implementation, also hinder the effective use of multimedia in classrooms. In this context, implementing additional MMCs without first addressing the existing challenges associated with their use would be counterproductive, as the underlying issues are likely to persist. Before expanding the scope of multimedia implementation in classrooms, it is important to ensure reliable internet access to foster online learning. Furthermore, a robust system must be created to maintain and update digital infrastructure, alongside tailored professional development that helps educators adapt multimedia to their specific subjects (Thaqi & Atanasoska, 2025). These ongoing limitations could continue to hinder the effectiveness of the educational process in Bangladesh and obstruct broader national development, potentially leading to inefficient utilisation of public funds.

While technical education and integration of digital tools are essential for building practical skills and enhancing employability, the primary objective must remain universal accessibility. Propositions such as "One Teacher, One Tab" risk promoting superficial solutions rather than fostering meaningful and effective educational reforms. Moreover, the proposal to introduce compulsory vocational training into secondary schools must ensure that technical education does not come at an additional cost, and reduce affordability for low-income students. Instead, stipends for technical education could serve as a subsidised bridge, making education beyond the SSC financially viable and ensuring that economic constraints do not dictate a child's academic or professional ceiling.

It is important to note that the education system in Bangladesh comprises several parallel streams, including the National Curriculum, Madrasah education, and internationally oriented systems such as the British and International Baccalaureate (IB) curricula. These streams differ significantly in terms of curriculum design, pedagogical approaches, resources, and learning outcomes. As a result, the coexistence of these parallel systems inherently reinforces structural inequalities, which extends to higher education, creating unequal educational opportunities and outcomes for students across different socio-economic backgrounds. Therefore, it is important to standardise the education system first, improve resource allocation, and ensure equitable access to education across all socio-economic groups.

## 12.5 Budget Recommendations

Overall, the education budget for FY2026 was meagre, relative to the total budget and GDP. However, in FY2026, education was among the top five priority sectors, receiving 12.4 per cent of the total Annual Development Programme (ADP) allocation. Thus, the proposed education budget for FY2026–27 should be more comprehensive to combat the pandemic's spillover effects, with funds allotted towards more concrete actions. Therefore, CPD recommends the following measures be considered in the FY2026–27 education sector budget.

### 12.5.1 Female Education Stipend in Higher Education

The election manifesto also pledges to provide free education up to the postgraduate level for female students (Bangladesh Nationalist Party 2026). This is a significant initiative, as it would create greater opportunities for women to pursue higher education, which in turn could enhance their participation in the workforce. However, increased access to higher education for women depends on factors beyond affordability. Social and cultural barriers often limit women's ability to continue their education beyond the higher secondary level. To ensure the effectiveness of such an initiative, incentives must be carefully designed and targeted. In this context, stipends and financial support have been shown to be effective in increasing female enrolment and retention in higher education programme.

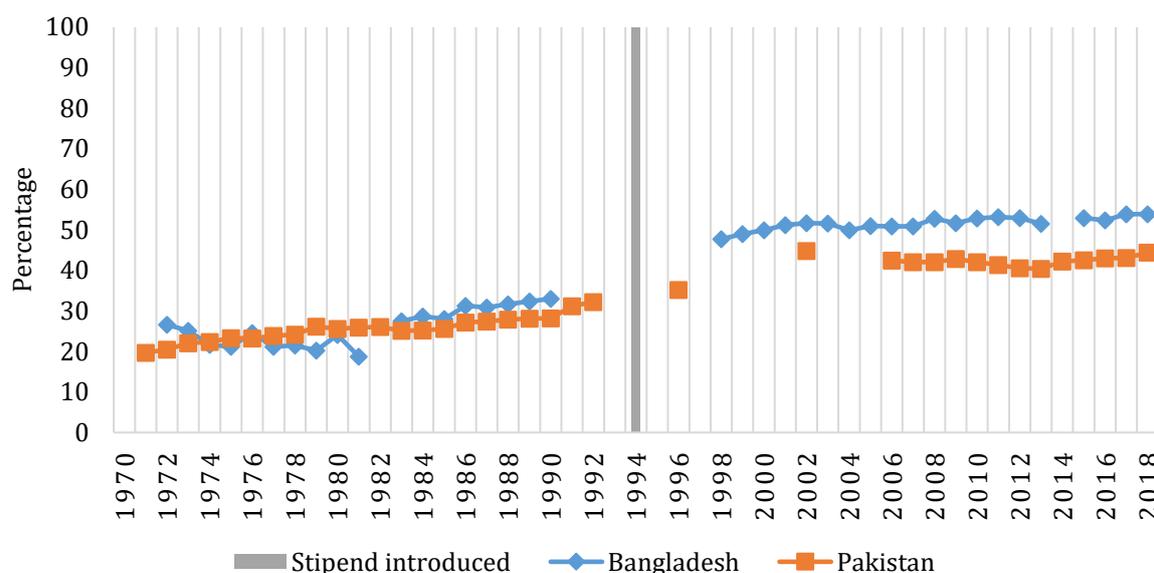
The government, private sector and non-government organisations have all played their part in women's economic empowerment in Bangladesh. In 1982, the government of Bangladesh initiated social safety net programme specifically targeted at women and girls, such as the female secondary education stipend.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

The female secondary education stipend programme in Bangladesh was not only effective in increasing girls' enrolment in schools but also succeeded in providing a host of benefits, such as increasing the ratio of female students in secondary schools, improving the female literacy rate, lowering fertility rate, controlling population growth rate and increasing female labour force participation.

As a result of the catalytic benefits of its successful female secondary education stipend programme, Bangladesh managed to advance of Pakistan in terms of several key socio-economic indicators. In 2018, girls comprised 54 per cent of pupils in secondary schools in Bangladesh, whereas in Pakistan, only 44 per cent of secondary school pupils were girls (Figure 12.2). In 2017, the adult female literacy rate was 70 per cent in Bangladesh but only 46 per cent in Pakistan.

*Therefore, a targeted stipend programme in FY2026–27 for female students should be introduced in higher education, which could help increase women's enrolment at the tertiary level.*

**Figure 12.2: Percentage of Female Pupils in Secondary Education**



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

### 12.5.2 Increase in Education Stipends

Stipends for education have been crucial in increasing the proportion of Bangladesh's population receiving primary and secondary education. CPD proposes increasing the allocation of all education stipends in the FY2026–27 budget (Table 12.2). In addition, CPD proposes reinstating the stipends removed in FY2026 and conducting a needs-assessment survey to update the beneficiary list.

**Table 12.2: Proposed Education Stipend Structure in FY2026–27**

Name of stipend	Current stipend structure in FY2026			Proposed stipend structure in FY2026–27	
	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 the primary education level	1.16	1675.73	1,445	13,920	12,000
Stipends for secondary, higher secondary and madrasah education level students	Removed			Reinstate	
Stipends for undergraduate and postgraduate level students	Removed			Reinstate	
Stipends for physically challenged students	Removed			Reinstate	
Printing and distribution of free textbooks at the primary education level	1.93	622.76	323	966	500
Stipends for students of technical education institutions	0.21	657.12	3,082	5,117	24,000

Name of stipend	Current stipend structure in FY2026			Proposed stipend structure in FY2026-27	
	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)
Free textbook distribution among students at the secondary education level	2.2459	1570	699	2,246	1,000
Improving access and retention through a harmonised stipend programme	0.6875	2732.45	3,974	4,125	6,000
<b>Total for stipend programme</b>		<b>9454.09</b>		<b>26,373</b>	

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

**Note:** Beneficiary numbers for the school feeding programme for Government primary school and Promoting gender responsive enterprise development and TVET systems (ProGRESS) were not reported, and therefore, the proposed allocated budget could not be calculated.

Our proposed stipend reform will benefit more than one crore students at all levels and cost the government BDT 26,373 crore.

### **12.5.3 Removal of Existing Taxes on Education**

Education is a fundamental human right, and education should be made accessible and affordable for everyone in a country. While the government has exempted Bengali medium schools and later private universities from paying Value Added Tax (VAT) on tuition fees, the VAT on English medium schools remains at 5 per cent (NBR, 2019). It is often opined that English medium education is a luxury good and that students who study in English medium schools belong to affluent families and do not stay in the country long term. Education is a fundamental right and should not be misconstrued as a luxury good. In their early days, English medium schools might have been suited for the privileged. However, in recent years, the dynamic has changed profusely.

The number of English medium schools in Bangladesh has increased over the years. Many middle-income families are admitting their children to English medium schools to allow them to study in the international curriculum and gain a competitive edge in the labour market. Parents presumably prefer English medium education to provide their children with benefits that would not otherwise be available to them (Mousymi & Kusakabe, 2017). English medium schools are privatised and not recognised as having a low tuition fee. Hence, the VAT on tuition fees of English medium schools puts an extended burden on the parents of middle-income families.

*Therefore, CPD recommends that the VAT on the tuition fees for all academic institutions, including English medium schools, be exempted in FY2026, and the exemption should remain in place indefinitely.*

Additionally, since English medium schools follow the international curriculum, the books assigned as a part of their syllabus are all imported books written by international authors. Currently, the Total Tax Incidence (TTI) on foreign printed books is 73.96 per cent (NBR, 2022). The total tax incidence includes 25 per cent as Customs Duty (CD), 10 per cent as Supplementary Duty (SD), 5 per cent as Advance Income Tax (AIT), 15 per cent as VAT, and 3 per cent as Regulatory Duty (RD) (NBR, 2022).

Such high duties on foreign books intended to provide children with quality education defeat the purpose of achieving SDG 4, which aspires to “ensure inclusive and equitable quality education and promote lifelong learning and opportunities for all” (UN, 2015). As the syllabus is revised, parents must buy new books for their children studying in English medium schools every academic year while bearing such a high tax incidence: these further strain families’ incomes, particularly those from middle-income households.

*Therefore, all taxes and duties on foreign imported books in FY2026–27 should be exempted to ensure that education remains affordable for all.*

#### **12.5.4 Reduction of Corporate Income Tax on Private Universities and Educational Institutions**

The government proposed to reduce the corporate income tax for publicly traded and non-publicly traded companies. However, the corporation tax for private universities and colleges remains at 15 per cent (NBR 2025). This corporate income tax rate applies to private universities, medical colleges, dental colleges, engineering colleges, and colleges imparting information technology education. Corporate income tax contributes to high tuition fees and increases the costs borne by academic institutions. This may lead to compromised educational quality, poor infrastructure management, and insufficiently hired teachers, further decreasing the teacher-to-student ratio.

*Therefore, CPD recommends reducing the corporate income tax on private universities and colleges from 15 per cent to 10 per cent in the revised FY2026–27 budget.*

#### **12.5.5 Introduce a Scholarship Programmes to Recover from the Impact of the July Uprising on Education**

Although initially triggered by the reinstatement of the quota system in public-sector employment, the movement in July last year ultimately brought to light broader, deep-rooted issues of social, economic, and political injustice under the previous regime. What initially began as peaceful demonstrations led by the students contesting the High Court’s decision to allocate 30 per cent of public sector employment to the descendants of Bangladesh’s 1971 war veterans quickly escalated into violence and repression sanctioned by the state with widespread human rights violations. While the July movement led the country to make radical changes with a renewed sense of freedom and hope, it has also impacted young individuals socially, psychologically, and academically. Many children were injured and killed in the violence that ensued.

According to the United Nations Office of the High Commissioner for Human Rights (OHCHR), as many as 1,400 individuals were killed, among which about 12 or 13 per cent were children (UN, 2025). But, according to a list published by the Ministry of Health and Family Welfare in Bangladesh, 843 individuals died, and 14,025 were injured during the July uprising (Ministry of Health and Family Welfare 2025). Due to several undocumented cases, the actual number of casualties of the July uprising may be much higher.

Nevertheless, what remains concrete is that several young individuals, including children, lost their lives, while many others sustained severe injuries, leaving some with permanent disabilities. Students who sustained injuries or were disabled during the movement may have been forced to either delay their schooling or discontinue their education altogether. This adversity is particularly severe for those who became disabled, hindering their ability to pursue their academics in the same capacity as before and requiring specialised support.

*In this context, the government should introduce a scholarship programme in FY2026–27 to fund the education of those injured or disabled during the July movement. This support should remain available for all injured individuals during the July uprising until they receive their undergraduate degree from any public or private university.*

#### ***12.5.6 Finance Special Programme or Schemes in Top Public and Private Universities to Improve the Quality of Education and Research***

Substantial investments are required to improve the quality of education imparted at universities in Bangladesh. At present, the state of higher education in Bangladesh is not ideal and does not meet global standards. There are 171 universities across the country, including 55 public universities, 114 private universities, and two international universities (BANBEIS, 2024).

Yet, the quality of education provided fails to be on par with the international benchmark due to insufficient funding, an absence of competent faculty members, and suboptimal curricula in conjunction with frequent political interferences, restricting academic liberty (Huque et al., 2025). Therefore, the government needs to play a more proactive role in improving the quality of higher education. For example, in China, the government initiated many financial programmes in the 1990s to help a few reputable Chinese universities become top-tier institutions. These include the 211 Project, 985 Project, 863 Project, and 973 Project (Li, 2010). Apart from financial programmes, the Chinese government implemented several other reform measures and strategic policies to revitalise China's higher education system.

*The Government of Bangladesh should allocate a portion of the FY2026–27 budget to fund special academic programmes or schemes at a few of the top public and private universities in Bangladesh to facilitate research outputs, promote STEM-related subjects, and develop world-class, leading curricula in the higher education system.*

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

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### **SECTION XIII. CONCLUDING REMARKS**

The FY2027 national budget is being developed amid Bangladesh's significant economic challenges, demanding precise and strategic policy actions. Restoring macroeconomic stability is the top priority for policymakers. This involves implementing targeted measures to curb inflation, maintain fiscal discipline, boost investment and generate employment. In the present economic situation, the budget should focus on safeguarding vulnerable and disadvantaged populations and promoting economic recovery.

The FY2027 budget is the first budget of the newly elected BNP government. The upcoming national budget presents a unique opportunity for the government to implement its electoral promises and demonstrate leadership in fiscal management and expenditure efficiency. In implementing various promises, the government will need to develop a credible and well-structured fiscal framework. While the government will have to work to overcome the ongoing economic turbulence and achieve macroeconomic stability, it will also have to continue with reform measures to lay a robust foundation for the economy and ensure its sustainability.