A Stylised Critique of the National Budget
Will Anything Change?

Keynote presentation

by

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1. Context

Selected Developments and Measures

Since assuming office in August 2024, the Interim Government (IG) has undertaken several critical steps and navigated measures across policy management, and institutional transactions:

- **White Paper** – a major step forward in transparency efforts (including diagnostics on malgovernance and maleficence), and establishing the economic benchmark
- **Initiated inflation control efforts**, largely through food price stabilisation and administrative measures
- Achieved a degree of macroeconomic stability – **foreign exchange reserves improved, and major external payments were made without drawing on reserves**; exports rebounded
- Successfully **repaid debts**, including regular payments to the Asian Clearing Union (ACU)
- **Announced a shift to a market-based exchange rate** regime (May 2025), aligned with IMF conditionality
- **Secured $1.3 billion from the IMF** as part of a broader $4.7 billion reform-linked programme
- Appointed a **new central bank governor** and restructured the boards of state-owned banks
- **Banking sector stability** improved to some extent due to governance reforms and tighter oversight

Selected Developments and Measures

- **Reorganised the National Board of Revenue (NBR)** into two units to strengthen transparency and administrative efficiency
- **Significant funds** were reportedly recovered from **politically exposed accounts**
- Measures were taken to shield the **power sector from unfavourable contracts**, ensuring steady electricity supply during Ramadan
- Responded to **natural disasters** (Cyclone Remal, 2024 flooding) during the elapsing fiscal year, although resilience measures remained largely reactive
- Engaged in the **VNR 2025 preparation process**, but this **exposed the absence of a medium-term economic framework**
- **LDC graduation reconfirmed**, though an operational clear transition strategy is yet to be stabilised
- **Taskforces, reform commissions, and over a dozen committees** have contributed by identifying systemic challenges and helping **frame potential reform pathways**

These actions, while notable, reflect a **selective and reactive reform posture** in the absence of a unified/integrated policy framework

A Budget Amid Policy Vacuum and Political Transition

- **FY25 is being implemented** under a budget prepared by the ousted regime and later adapted by the IG
- The IG is preparing the FY26 budget **without a medium-term economic framework** – the 8th Five-Year Plan was suspended in September 2024, and a Two-Year framework was not prepared
- As the country heads toward the **Voluntary National Review (VNR) 2025**, this vacuum has exposed critical gaps in **allocative priorities**, **policy coherence**, **ownership**, and **transparency**
- The FY26 budget will be implemented in part by the **next elected government**, raising concerns about the **credibility of the fiscal framework**, **policy continuity**, and **participatory governance**
- **Implementation of key recommendations** by the **White Paper** and **Taskforce/Committees** has stalled, as political attention has shifted toward "Consensus-Building" exercises
- **Sub-regional cooperation is in a state of confusion**, with tensions surrounding **India, Myanmar (Rohingya crisis)**, and **uncertain prospects for connectivity (transport, energy etc.) with Nepal and Bhutan**
- The global context is in flux: **geopolitical realignment** (e.g. Trump's re-election), **weakening multilateralism**, and **tightening private capital flows** are exacerbating supply chain vulnerabilities

Framing the FY26 Budget: What Might Change?

This review critically examines how the Interim Government (IG) has responded to long-standing and well-documented gaps across:

- The **growth approach**
- The **fiscal framework**
- The **stabilisation structure**
- **Social protection priorities**

But what is expected to change this time?

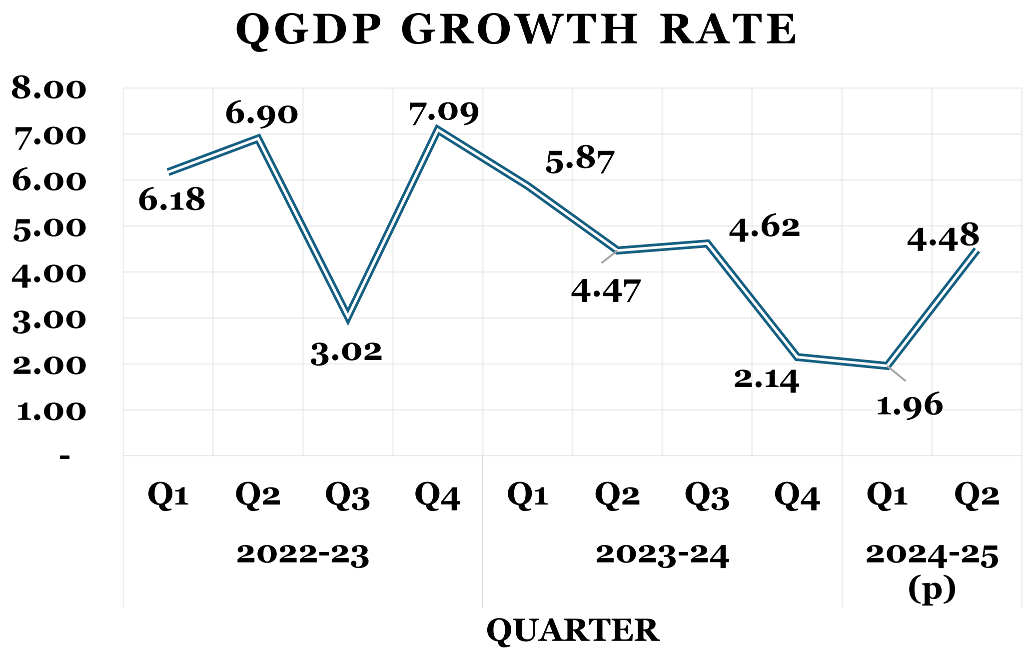
- **Budget Day shift**: For the first time, the national budget will be placed on a **Monday** (instead of the usual Thursday)
- **Compressed timeline**: Comes just before a **10-day Eid holiday**, with **less voluminous documents** expected
- **Fewer policy debates** and **limited stakeholder consultations** have preceded this budget

Key Questions Going Forward:

- Will the FY26 budget demonstrate **clarity in priorities and coherence in policy direction**?
- How will an **accountability mechanism** be ensured for an **IG with a limited mandate**?

2. The Growth Dynamics

Slowdown of GDP Growth



Growth recovered in Q2'FY25

Drivers of Growth	Details
Industrial production	In January 2025, manufacturing output growth, according to industrial production statistics, was 7.1%, down from 8.5% of Q2
Export	In Jan-April 2025 over Jan-April 2024 grew by 5.44%
Inward remittances	26% remittance growth during Jan-Apr'25 will contribute to strengthen consumer demand

Dynamics of Growth	Q1 FY25 (Jul-Sep'24)	Q2 FY25 (Oct-Dec'24)
Agriculture	Severe floods caused significant losses to the sector.	Production data for Aman is still unavailable on the public domain!
Industry	Significant decline in manufacturing growth pulled down sectoral and overall manufacturing growth.	Manufacturing growth recovered but remained within single-digit.
Service	Output losses due to domestic supply chain disruptions from floods and weakened demand from fiscal austerity and uncertainty.	Slight recovery observed and remain at par.

Growth projections revised downward

The growth outlook being revised downward

Fiscal Year	World Bank	International Monetary Fund	Asian Development Bank
2024-25 *Published in Apr'24*	5.7	6.6	6.6
2024-25 *Published in Oct'24*	4.0	4.5	…..
2024-25 *Published in Apr'25*	3.3	3.8	3.9
2025-26 Published in Apr'25	4.9	6.5	5.1

Fiscal Year	Growth Outlook (%)
2024-25 *Monetary Policy Statements (Jul-Dec'24) Published in Jul'24*	6.75
2024-25 *Monetary Policy Statements (Jan-Jun'25) Published in Feb'25*	4.0- 5.0
2024-25 *Coordination Council Meeting (held in April 2025)*	*5.0*
2025-26 *Monetary Policy Statements (Jan-Jun'25) Published in Feb'25*	6.0
2025-26 *Coordination Council Meeting (held in April 2025)*	*5.5*

- **In the first two quarters of FY25, the average GDP growth rate stood at 3.3%– improving in the second quarter.**
- **All IFIs projected GDP growth to be below 4% for FY25**
  - **To achieve the 5% target, the *GDP would need to grow by 6.7% during the H2 of FY25* – too ambitious!**
- **So growth will most possibly remain below 5% in the elapsing year, while it may improve to 5% in FY26 (as per IFIs)**
- **It will be interesting to see how it gets reflected in the midterm budgetary framework (along with projections in investment and export)**

Is there a turnaround on the horizon?

Investment is Still Stagnant

Investment related data indicate a crawling recovery

Credit Flow

- **After steady decline since the start of FY25, private sector credit growth recovered slightly to 7.6% (y-o-y) in March 2025,** against the 9.8% target for H2 FY25
- **Bank advances have increased by 10.03% in the second quarter of FY25 compared to the same period of FY24**
  - This **entire growth is attributable to advances in the industry sector (15.81% y-o-y growth between Q2 FY25 and Q2 FY24)**
  - In contrast, **bank advances to the agricultural sector decelerated by 7.74% in Q2 of FY25 compared to the same period of FY24**
- Disbursement of **agricultural and non-farm rural credit in the first three quarters of FY25 was (-) 6.77% lower** than in the same period of FY24
- **SME loan disbursement decreased by (-) 9.1% in the first two quarters of FY25** compared to the same period of FY24
- % **of Classified Loan to Total Outstanding stood at 20.20% in December of FY25** – restraining commercial banks' ability to extend loan facility
- Weighted average interest rates for advances increased to over 12% while interest rate spread remained as high as 5.87

Is there a turnaround on the horizon?

Investment is Still Stagnant

Investment related data indicate a crawling recovery

Capital machinery imports

- Capital machinery imports **declined by 23.7% in the first three quarters of FY25 compared to the same period of FY24 – even in Q3 capital machinery import was (-) 7.3% lower**
- **LC opening and settlement for capital machinery also declined by 26.02% and 23.86% in the first three quarters of FY25** compared to the same period of FY24

Access to gas

- **Gas and coal consumption declined by 1.97% in the July to December FY25 period compared to the July to December FY24.**
- **In January FY25, the use of gas and coal by the industries increased by approximately 5.27% compared to January FY24.**

Is there a turnaround on the horizon?

Investment is Still Stagnant

Investment related data indicate a crawling recovery

FDI

- FDI net inflow stood at **861 million USD in the first three quarters of FY25, declined by (-) 26% from the comparative period in the previous year**
- **A recovery is seen in Q3, USD 228 million worth of additional net FDI inflow was registered compared to the same period of the last fiscal year**

Capital Market

- The capital market shows **low investment confidence**, alongside declining foreign portfolio investments and a shift towards purchasing bonds rather than stocks.
  - **Market capitalisation declined by 20.33% y-o-y comparison between Q2 of FY25 and FY24**
  - **Turnover declined by 16.03% y-o-y comparison between Q2 FY25 and FY24**
  - **DSE broad index declined by 16.49% y-o-y comparison between Q2 FY25 and FY24**

Is there a turnaround on the horizon?
Employment Situation is Bleak

Wage growth remains below inflation

Employment

- Number of employment **in Jul- Dec of FY25 was 2.1 million (21 lakh) less compared to the same period of FY24**
- **Number of unemployment increased by 13.8% in Oct-Dec** of FY25 when number of jobs declined by (-) 3.7%

Wage Rate Index

- The yearly % change of **wage rate index (general) was 8.2% in April 2025, still below the inflation rate of 9.2%**

Is there a turnaround on the horizon?

- Early signs of growth in Q3 FY25 (January-March) indicate some positive developments
- One is not sure whether the progressing Q4 (April-June) will provide a stronger closure
- Growth may improve in the next fiscal year, but what will primarily drive this growth?
- Will it be the investment component, propelled by exports, or the consumption component, fueled by inward remittances?
- If inflation can be effectively controlled, there is a strong possibility that growth will be driven by increased consumption, supported by growth in remittance inflows
- On the other hand, given the decline in credit inputs (i.e. credit access for small businesses, import of capital machineries), it is difficult to tell at the moment whether investment will be the growth catalyst
- Or if any rise in investment will translate into higher employment
- **A move from stability to growth would necessitate a strong investment performance, whilst it appears incremental growth will be driven by consumption**

3. Fiscal Framework

Has revenue mobilisation stagnated due to a structural or composition error in the tax system?

- ***Sluggish Tax Revenue Growth:*** Total revenue collection rose under the Interim Government by 4.87%, driven by a 30.97% surge in non-tax revenue, while tax revenue grew marginally by only 0.88 per cent

	In Crore BDT		As Share of GDP		
	FY2023-24 (July-Dec.)	FY2024-25 (July-Dec.)	FY2023-24 (July-Dec.)	FY2024-25 (July-Dec.)	Change during the period (%)
Total Revenue	187,172	196,285	11.43	11.61	**4.87**
Tax Revenue	162,360	163,788	**9.91**	**9.68**	**0.88**
Non-Tax Revenue	24,812	32,497	1.51	1.92	**30.97**

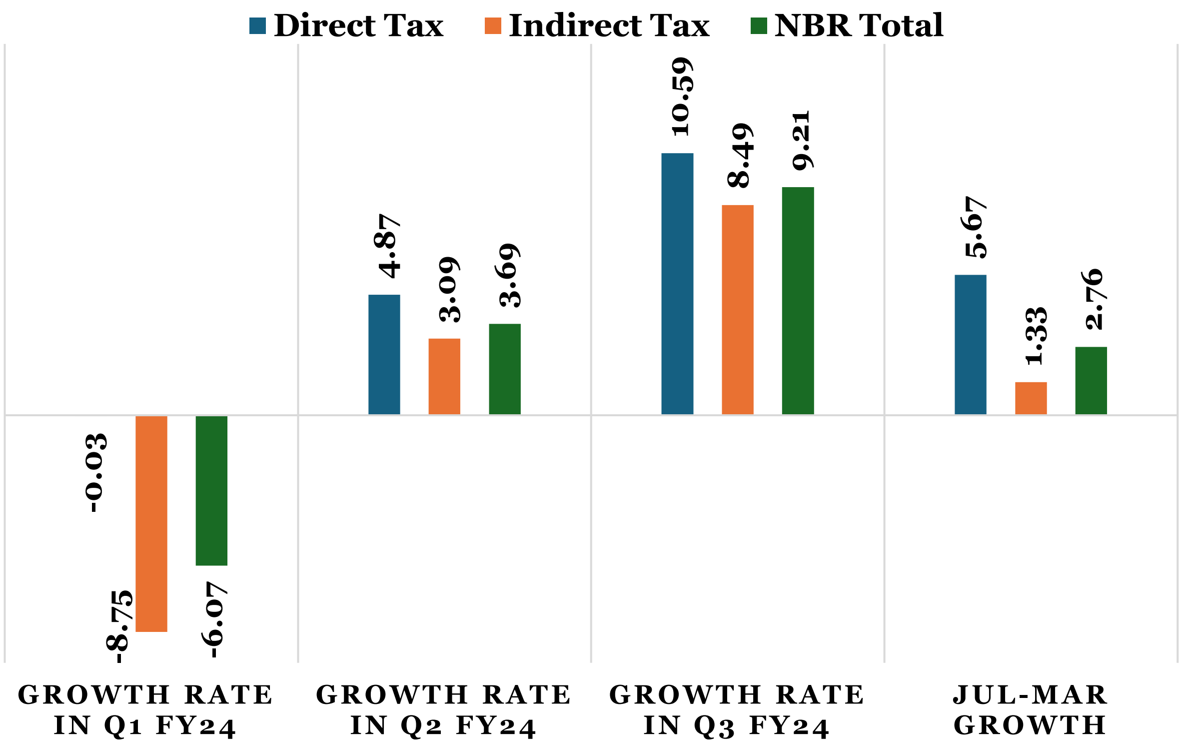
Regressive tax structure heavily relies on indirect taxes: The tax structure is already VAT-heavy, with direct taxes underutilised, reinforcing regressivity and limiting equitable resource mobilisation

- VAT expansion further **reinforces reliance on indirect taxation** without a parallel and robust expansion of direct taxes, especially wealth and property taxes, **raising equity concerns**

	As Share of Total Revenue		As Share of GDP		
Indicator	FY2023-24 (July-Dec.)	FY2024-25 (July-Dec.)	FY2023-24 (July-Dec.)	FY2024-25 (July-Dec.)	Change during the period (%)
Direct Tax	27.01	26.62	3.09	**3.07**	2.93
Indirect Tax	57.71	54.83	6.59	**6.33**	-0.76
Non-tax and Non-NBR Revenue	15.28	18.55	1.75	**2.14**	26.81

Will the revised revenue mobilisation target be achieved?

- **Growth in NBR tax collection remained dilatory overall (2.76%) during July–March of FY24–25**, largely due to a sharp contraction in Q1, when total NBR revenue collection declined by (-) **6.07%**
- Revenue collection began to **recover in Q2 and further improved in Q3**
- **NBR revenue mobilization target was slashed by Tk. 16,500 crore to Tk. 463,500 crore**
- **Only 55.34% of the revised revenue target was achieved up to March FY25**
- **A 55.5% growth will be required in Q4 – definitely not possible.**
- **The ongoing 'pendown' strike of NBR may affect the revenue collection further**



- **The positive growth indicates that the online income tax return filing** to enhance revenue efficiency, improve compliance, and build a modern and transparent fiscal system is playing a pivotal role
- **Tax-to-GDP Ratio to fall?**

How can the NBR's internal restructuring avoid creating new coordination bottlenecks, rather than simply shifting existing inefficiencies?

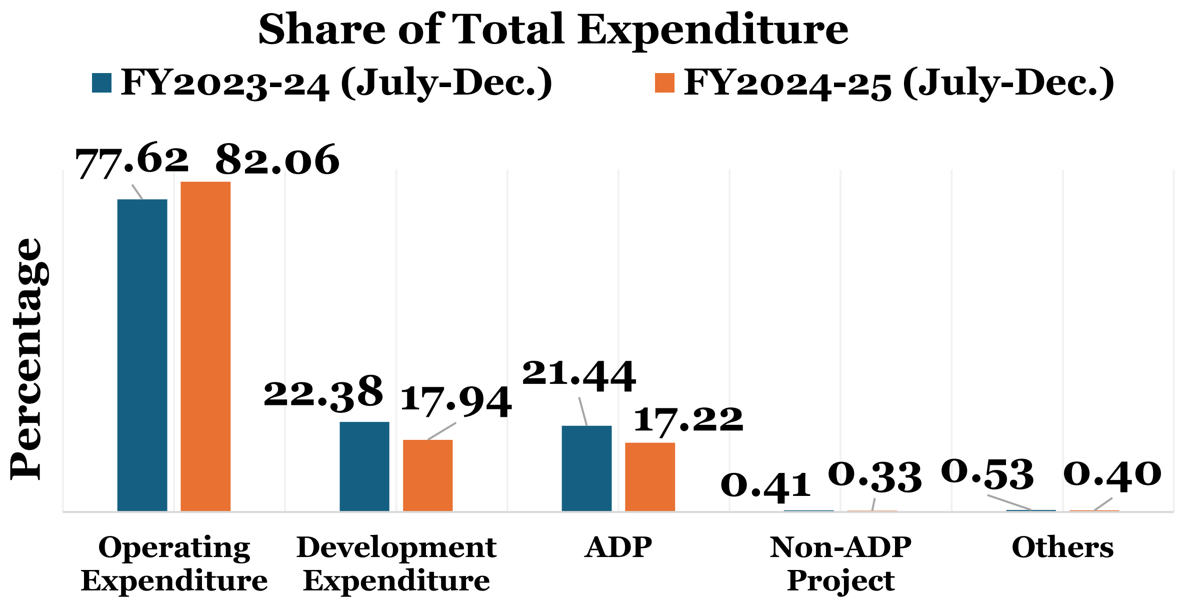
- ***Institutional fragmentation, weak administrative capacity of NBR, and excessive exemptions and evasions*** *result in poor enforcement, low tax compliance, inefficient service delivery, and an over-reliance on indirect taxes*

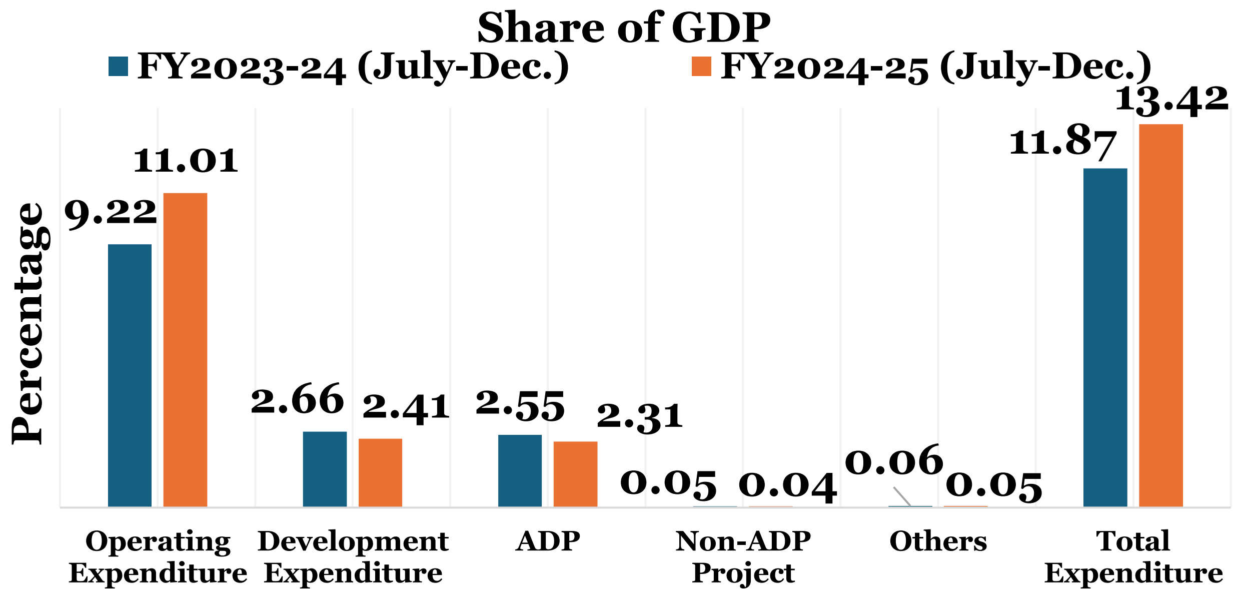
Ordinance to dissolve the NBR and the Internal Resources Division into two new bodies, the Revenue Policy Division and the Revenue Management Division, has raised controversies

- Separating policy formulation from the revenue collection has been advocated for long by analysist including the White Paper on Economy
- The interim report of the NBR Advisory Committee has not been made public
- Public discussion involving key stakeholders was also not adequate
- Apparently, the release of IMF tranche was prioritised
- The influence of admin cadre is likely to increase
- This may be symptomatic for the (larger) future reform
- The reform initiatives should be more widely consulted involving multi-stakeholders and carried out in a transparent manner

Have historical inefficiencies and political bias in ADP allocations been addressed regarding rationalising public investment?

➢ Public expenditure has shifted towards higher **operating costs**, with a notable cut in ADP allocation by 6.26% during July–December of FY2024-25 compared to FY2023-24





	Share of GDP (%)			
	RFY25	FY26	FY27 (P)	FY28 (P)
Total Revenue	9.18	9.03	9.05	9.09
Tax Revenue	8.47	8.30	8.38	8.42
Total Public Expenditure	13.18	12.65	12.76	12.82
ADP	3.83	3.68	3.72	3.83

Have historical inefficiencies and political bias in ADP allocations been addressed regarding rationalising public investment?

- Growing emphasis on consumption and obligations (like interest payment and subsidy, incentives and transfers) over productive or efficiency-enhancing spending, raising concerns about the long-term fiscal health and developmental impact in the expenditure pattern

	In Crore BDT		As share of GDP		
Indicator	**FY2023-24 (July-Dec.)**	**FY2024-25 (July-Dec.)**	**FY2023-24 (July-Dec.)**	**FY2024-25 (July-Dec.)**	**Change during the period (%)**
Pay and Allowances	30,714	31,752	1.88	1.88	3.38
Goods and Services	13,594	12,249	0.83	0.72	-9.89
Interest Payments	**49,418**	**62,560**	**3.02**	**3.70**	**26.59**
Subsidies and Incentives and Current Transfers	**51,364**	**75,990**	**3.14**	**4.49**	**47.94**
Pensions and Gratuities	10,551	11,525	0.64	0.68	9.23
Acquisition of Assets and Works	**2,639**	**3,638**	**0.16**	**0.22**	**37.86**
Investments in Shares and Equities	**44**	**97**	**0.00**	**0.01**	**120.45**
Foreign Financial Assests	674	0	0.04	0.00	-100.00
Total Operating Expenditure	**148,447**	**186,286**	**9.06**	**11.01**	**25.49**

Have historical inefficiencies and political bias in ADP allocations been addressed regarding rationalising public investment?

➢ ***Crowding out social sector spending***

Broad Sector of Operating Expenditure	Share of Total Operating Expenditure FY2023-24 (July-Dec.)	Share of Total Operating Expenditure FY2024-25 (July-Dec.)	Share of Total Revenue Earning FY2023-24 (July-Dec.)	Share of Total Revenue Earning FY2024-25 (July-Dec.)
Administration	31.42	33.55	**25.34**	**31.84**
Social Infrastructure	26.49	21.89	**21.36**	**20.78**
Physical Infrastructure	2.43	1.99	1.96	1.89
Agriculture	5.95	8.29	4.80	7.87
Interest Payment	32.74	33.58	**26.40**	**31.87**
Others	0.97	0.70	0.78	0.67

➢ **More than 95% of the revenue mobilisation has been spent for operating expenditure**

➢ The rest is not enough to make amortisation payments for foreign loans

➢ **Hence, there is no contribution from revenue mobilisation for ADP financing**

Have historical inefficiencies and political bias in ADP allocations been addressed regarding rationalising public investment?

➢ ***Sector wise ADP Allocation***

Sectors	Share of ADP in FY25 (%)	Share of RADP in FY25 (%)	Share of ADP in FY26 (%)	Change from ADP FY25 to ADP FY26 (%)	Change from RADP FY25 to ADP FY26 (%)
Transport and Communications, Power and Energy, Housing and Community Amenities, Industrial and Economic Services, Environment, Climate Change(CC) and Water Resources(WR)	**60.34**	62.53	**60.24**	-15.64	12.12
Education, Health, Agriculture, Local Government and Rural Development, Science and IT, Social Protection	**35.88**	33.42	**35.68**	-15.98	**24.25**
General Public Services, Defence, Public Order and Safety, Religion, Culture and Recreation	**3.78**	4.06	**4.09**	-8.68	17.17

➢ No real change in the ADP structure!

Have historical inefficiencies and political bias in ADP allocations been addressed regarding rationalising public investment?

- **ADP projects were the primary source of plundering national resources**
- Historically, there has been a **lack of technical capacity evaluation, surveys, or the surveys were weak.** Uncertainty still remains whether the newly adopted projects have undergone proper preliminary evaluation or not
- **There is no clear indication that the newly adopted projects by the Interim Government will be free from waste of public money or overpricing.** Furthermore, these projects may not be implemented within the tenure of this government, why they are taking up these projects
- **There is no transparency regarding the adoption and management of the new projects,** as well as no policy guideline regarding the existing projects (which will remain and which will not)
- **Has there been any steps taken to exclude the previously overvalued and unnecessary projects?**
- Enhance monitoring of existing ADP projects by **reviewing their pricing structures and assessing expenditure allocations has unfortunately not prioritised**

Is deficit financing in Bangladesh being managed in a sustainable and growth-friendly manner?

- Fiscal deficit management strained by heavy domestic borrowing and volatile external financing
- Domestic banking sector borrowing surged and is likely to increase further as revenue mobilisation is apprehended to see a larger shortfall
- Crowding out Private Investment!

Indicator	In Crore BDT FY2023-24 (July-Dec.)	In Crore BDT FY2024-25 (July-Dec.)	As Share of GDP FY2023-24 (July-Dec.)	As Share of GDP FY2024-25 (July-Dec.)	Change during the period (%)
Foreign Borrowing-Net	14,699	13,808	0.90	0.82	-6.06
Foreign Borrowing	25,155	28,878	1.54	1.71	14.80
Amortisation	-10,456	-15,070	-0.64	-0.89	-44.13
Domestic Borrowing	-7,878	17,753	-0.48	1.05	**325.35**
Borrowing from Banking System (Net)	8,079	33,852	0.49	2.00	**319.01**
Long-Term Debt (Net)	10,688	62,975	0.65	3.72	489.21
Short-Term Debt (Net)	-2,609	-29,123	-0.16	-1.72	-1016.25
Non-Bank Borrowing (Net)	-15,956	-16,098	-0.97	-0.95	-0.89
National Savings Schemes (Net)	-5,920	-1,224	-0.36	-0.07	79.32
Others	-10,036	-14,875	-0.61	-0.88	-48.22
Total Financing	6,821	31,562	0.42	1.87	362.72

Is deficit financing in Bangladesh being managed in a sustainable and growth-friendly manner?

	Share of GDP (%)			
	RFY25	FY26	FY27 (P)	FY28 (P)
Budget Deficit	-4.00	-3.62	-3.71	-3.73
Domestic Borrowing	2.07	2.00	2.30	2.49
Foreign Borrowing	1.93	1.62	1.41	1.24

- **Structural challenges remain- no early signal concerning efforts to address them!**

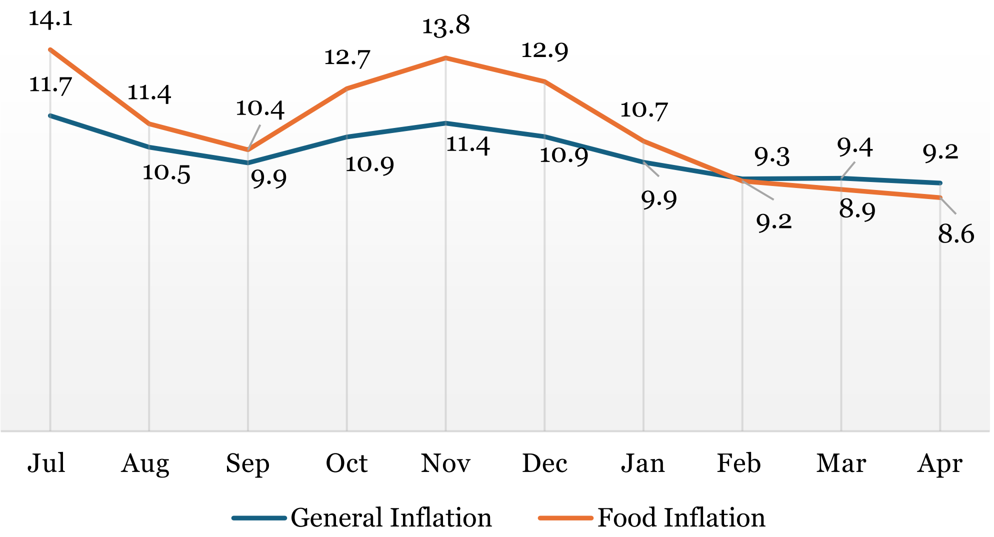
4. Stability Structure

Inflation & Food Security: Was the Relief Real, and Will It Last?

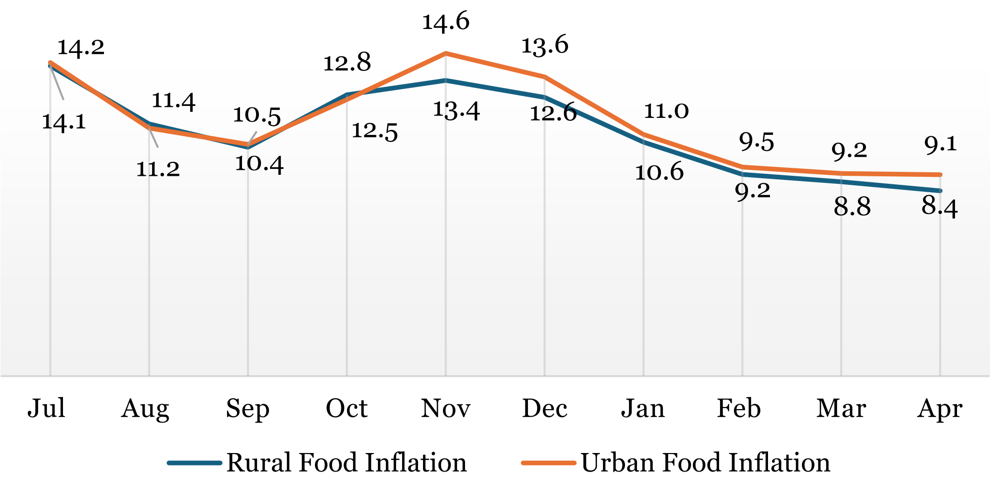
Inflation moderated, driven by reduction in food prices

- Headline inflation declined during FY25, but this was largely the result of **seasonal food price corrections**, particularly following the Boro harvest
- **Non-food inflation remains sticky**, indicating that underlying pressures still persist - impact of monetary tightening may need more time
- The **policy rate hike** that started gradually from July 2023 needs time to materially influence inflation, especially without a supporting **inflation-targeting framework** or published forecast path
- It takes about 16-18 months for monetary tightening to be effective
- **Rural food inflation consistently exceeded urban rates**, underscoring geographic disparities in price relief and the limited reach of policy measures

Point-to-point General vs Food Inflation (Jul24-Apr25)



Point-to-point Rural vs Urban Food Inflation (Jul24-Mar25)



Inflation & Food Security: Was the Relief Real, and Will It Last?

Food Security Temporarily Stabilised, Structurally Unresolved

- BBS has not published the Aman production data that faced significant loss due to subsequent natural disasters – production and supply situation is unclear!
- **Cyclone Remal and subsequent flooding** in late 2024 damaged over 339,000 hectares of cropland in Sylhet, Rangpur, and Khulna - disrupting both production and distribution networks
- **Aman procurement shortfall** limited government's ability to intervene, as most farmers refrained from selling due to fixed prices set below market levels
- Rice prices continued to rise until April 2025, with the easing driven mainly by the **arrival of Boro harvest**
- **TCB and OMS operations were suspended** for most of 2025 due to stock shortages, resuming only in May with limited rural coverage
- Bangladesh remains highly exposed, with food insecurity deepening in 2024 – the country now ranks **second globally** (according to WFP) in absolute numbers facing crisis-level food insecurity
- The prices of some essential commodity have stabilised but **overall price level is at a high level!**

Inflation & Exchange Rate: Is the Stability Being Consolidated?

Initial signals were visible, but public borrowing diluted their effect, and policy credibility remains weak

Tightening impact was offset by public borrowing

- The policy rate was gradually raised to 10% in October 2024
- However, effectiveness of monetary tightening proved less effective, as net government borrowing remained very **high - 16.3% growth as of March 2025 vis-à-vis 7.6% growth of private sector credit growth**
- The resulting fiscal-monetary disconnect injected liquidity and crowded out private credit, **dampening disinflation prospects**. Liquidity conditions remained loose, **with limited evidence that the policy rate increase tightened short-term money markets**

Exchange rate reform progressed, but caution persists

- On 14 May 2025, Bangladesh Bank adopted a market-based exchange rate regime - a key structural step aligned with IMF conditionality
- However, a cautious approach was evident through the simultaneous creation of a $500 million intervention fund

BoP Recovery or Respite? A Question of Durability

BoP strengthened, but its durability remains uncertain amid structural and external vulnerabilities.

Trade deficit narrowed, but due to import restraint, not structural strength

- During Jul–Mar FY25 **trade deficit narrowed slightly year-on-year**, mainly due to subdued import growth, reflecting weak domestic demand, administrative LC controls, and delays in public procurement
- In contrast, **exports rose by 9.8% during Jul–Apr FY25**, led by RMG, which grew by 10% year-on-year
- While headline export growth appears strong, it is not underpinned by structural competitiveness or diversification and subject to availability of infrastructure support, raising concerns about its durability in FY26 and beyond
- For next year, international commodity prices will play a key role in determining this improvement

Total remittance inflow grew by 27.6% YoY during Jul–Mar FY25

- However, the number of Bangladeshi workers going abroad for jobs declined
- A part of remittances may be **redirected from informal to formal channels** with declined demand for hundi
- The big policy question for next fiscal year is – **will remittance inflow growth continue next year?**

BoP Recovery or Respite? A Question of Durability

- One of the key achievements of the interim government was the **timely servicing of external debt and other due external payments**
- Foreign aid repayments increased by 37.6% in Jul-Feb FY25
- FY25 has seen a **steep decline in net foreign aid inflow, to the tune of (-) 37%**
- The **growing mismatch between rising repayment obligations and falling inflows** poses a **liquidity risk heading into FY26**, especially if reserve buffers remain under strain and capital account inflows do not recover
- Overall, one of the most critical achievements of FY25 is the **consolidation of foreign exchange reserve** – with the release of IMF tranches and budgetary support from other IFIs, foreign exchange reserve is expected to see a stronger position by the end of FY25
- However, the improvement in foreign exchange reserve has also come with a price – for example, Bangladesh has seen a declined import payments demand as **import of capital machinery was about USD 700 million less** than last year during the first nine months of this fiscal year
- A **credible assessment of the external debt** situation, along with clear **repayment projections and their FY26 budgetary implications**, is urgently needed

5. Social Protection Priorities

What is the real scenario of poverty and inequality in Bangladesh?

- The Interim Government came into existence through a student people's uprising motivated by the spirit of Anti-discrimination
  - ➢ A close look at the issues related to social protection reveals a paradoxical situation
- **Human development progress offers only a superficial view**, as it fails to address the deeper realities
  - ➢ The White Paper Committee 2024 reveals Bangladesh's 'fragile' poverty reduction, with **over 20 million people at risk of falling back into poverty after just two days of missed work**
  - ➢ The Household Income and Expenditure Survey (HIES) indicates **growing income inequality**, with the **top 10% of households' income share rising by 7.43%, while the bottom 50% saw a decrease of 5.83% between 2016 and 2022**
  - ➢ Wealth inequality is significantly worse than income inequality, with the asset Gini increasing from 0.82 in the HIES 2016 to 0.84 in the HIES 2022.
  - ➢ Similarly, the consumption Gini also rose from 0.32 in 2016 to 0.33 in 2022
- As of April 2025, the **World Bank projects that in 2025, an additional three million people will fall into extreme poverty, with a 20.80% increase in the extreme poverty rate,** and the **national poverty rate is expected to rise by 11.70%.** It also projected that the Gini coefficient would increase by a point

Definition of Social Protection: Does it really serve the purpose?

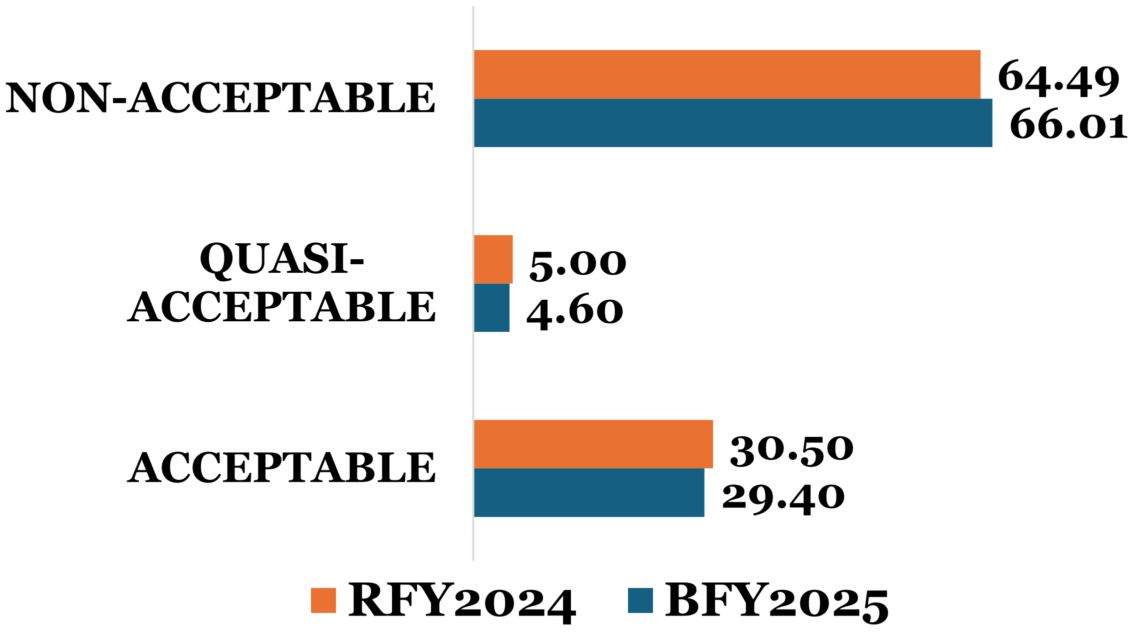
- According to the United Nations, "***Social protection refers to the set of policies and programmes aimed at preventing or protecting*** *all people* ***against poverty, vulnerability, and social exclusion*** *throughout their life cycles,* ***with a particular emphasis towards vulnerable groups***"

- Based on the existing 140 programmes in the Social Safety Net Programme (SSNP), we have classified SSNPs into three categories, viz.
  - **Acceptable** (i.e., those that should naturally be included in the social protection list),
  - **Quasi-acceptable** (i.e., those that fall somewhere in the 'grey' area – mainly includes loan and training programmes), and
  - **Non-acceptable** (i.e., those that should be excluded from the list of social protection)

Could social protection be effectively implemented by focusing on LNOBs?

➢ Regrettably, the **social protection budget has been unrealistically boosted by increasing the share of the 'non-acceptable' programmes** over the years, which have no relevance to the LNOBs

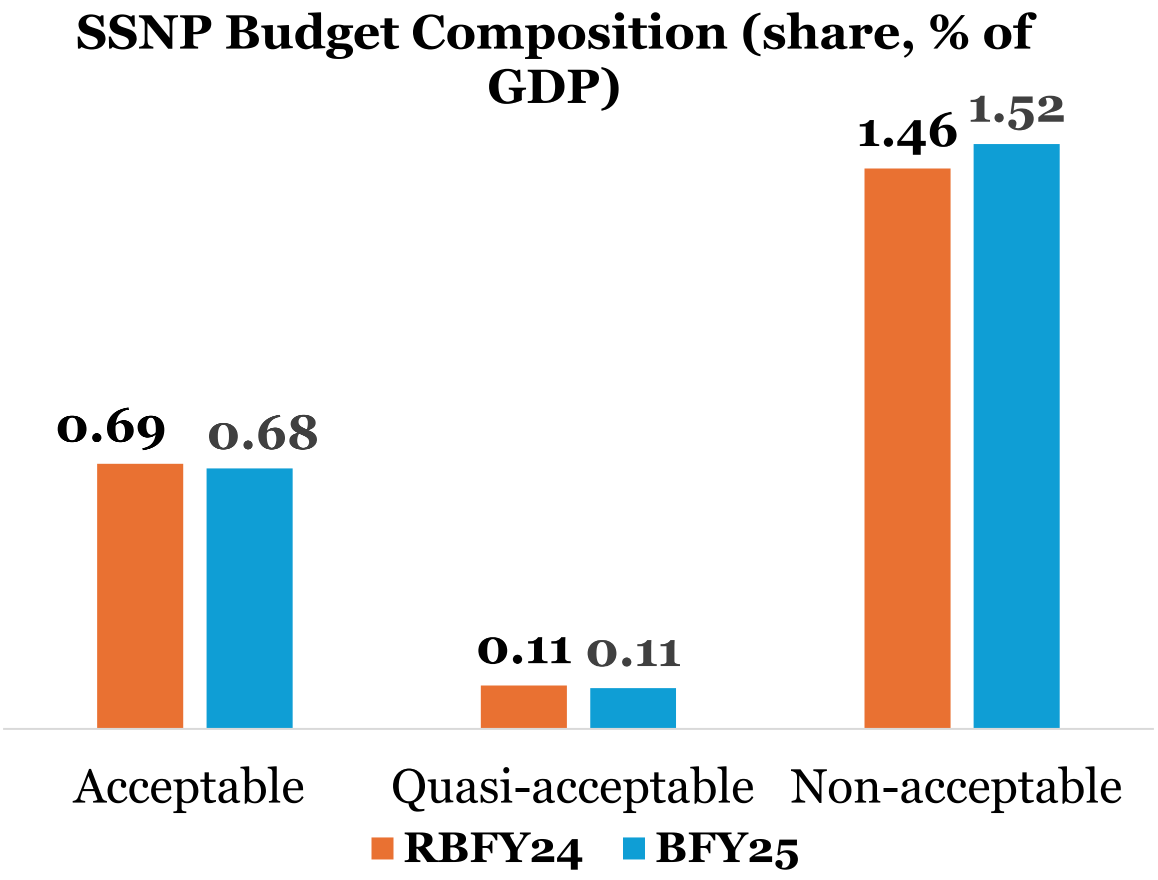
Social Security Budget Composition (share, %)



Inadequate focus on the LNOBs within the social protection system

- From RFY24 to BFY25, the **share of acceptable and quasi-acceptable programmes declined by 3.61% and 8%** respectively, while the **share of non-acceptable programmes increased by 2.36%**
- In FY25, the **allocation for pension management accounted for 96.40% of the total acceptable social protection budget**
- ***Will this be the same in FY26?***

Could social protection be effectively implemented by focusing on LNOBs?



Inadequate focus on the LNOBs within the social protection system

- Together, allocations for acceptable and quasi-acceptable programmes (as a share of GDP) remain below one per cent of GDP
- While the share of non-acceptable programmes remains above one per cent of GDP
- The share of **acceptable programmes (% of GDP) declined by 1.45%, while the share of non-acceptable programmes increased by 4.11%**

- **Restructuring the social protection programmes requires urgent attention**

Could social protection be effectively implemented by focusing on LNOBs?

- ***Targeting error.*** According to the *HIES 2022*, **over half of the poor and vulnerable families** are not receiving the social protection benefits (**Exclusion Error**), while **62%** of non-poor and non-vulnerable households are receiving them (**Inclusion Error**). This is mainly due to
    - **Relying on traditional means of targeting,** due to the **lack of an integrated database**
    - **Corruption** associated with the implementation of such programmes
    - **Absence of a functional** Grievance Redressal System **(GRS)**
- As reported in November 2024, **the Trading Corporation of Bangladesh (TCB)** issued 57 lakh smart family cards after validating beneficiary data to prevent targeting error. However, the **exclusion of 43% of the TCB family cardholders highlights significant flaws** in the verification process

Could social protection be effectively implemented by focusing on LNOBs?

- As reported on October’24, the Interim Government declared to reassess the targeting error in the beneficiary list of social protections
  - As a result, **first quarter's allowance (July’2024 – Sep’2024) was not disbursed on time**
  - **Despite the lapse of seven months, the beneficiary list has not yet been updated**. The benefits of July’24 to March’25, were provided based on the existing list. It **underscores the persistent existence of a complex bureaucratic process**
- As of May 2025, the **Interim Government plans to implement a revised SSNP beneficiary list before the first quarter of upcoming FY26**
- While the use of **Proxy Means Testing (PMT) in addition to the digital verification process, e.g., National ID, is a strategically sound decision** for reducing targeting errors, **yet timely execution is a major concern**

Could social protection be effectively implemented by focusing on LNOBs?

- Moreover, field-level verification by the Department of Social Services is anticipated; however,
  - Effectiveness may be hindered by the **limited grassroots outreach of union/upazila level committee chairpersons, who are bureaucrats**
  - **Risks of political influence persist due to the hierarchical approval process for the new beneficiaries** at the union and upazila levels
  - Local field officers may face **challenges in conducting swift and thorough verification ahead of the upcoming election**

Could social protection be effectively implemented by focusing on LNOBs?

- ***Existing entitlements have not been adjusted for inflation.*** The **'acceptable' and 'quasi-acceptable' programmes (60 in total) increased by only 8.20% in BFY25 from RBY24**, which fell below the inflation rate of that time

- According to the *Taskforce Force Report 2025*, the Old-Age Allowance (OAA) and Widow Allowance (WA) cover only a small fraction—14%—of the income required to reach the national poverty line, while the allowance for Persons with Disabilities (PWDs) is slightly higher at 22%

- Moreover, in BFY25, the **total allocation for food support-related programmes experienced a decrease of 0.68% from RFY24**,

- Public Food Distribution System **(PFDS) registered a 4.66% decline in FY25** (July 2024–April 2025) compared to the corresponding period in FY24

- It requires a **critical need to adjust the allowances at the current inflation rate- will it be done in the upcoming budget FY26?**

Could social protection be effectively implemented by focusing on LNOBs?

- ***Lack of clarity on how anti-discrimination is understood and operationalised***

Category	Previous FY24 (01 July 2023 – 30 April 2024) mt	Current FY25 (01 July 2024 – 30 April 2025) mt	Growth in distribution from FY24 to FY25 (July–April) (%)	Growth in budget allocation from FY24 to FY25 (%)
OMS and Food Friendly Programme	1620326	1732616	**6.93**	-4.18
Food for Work (FFW)	146419	55901	**-61.82**	7.79
Vulnerable Group Feeding (VGF)	170255	153917	**-9.60**	7.45
Vulnerable Group Development/Vulnerable Women Benefit (VGD/VWB)	312693	187025	**-40.19**	8.13

- The Interim Government's 7% increase in OMS and FFP distribution (July–April, FY25 vs. FY24) is commendable- Urban preferred
- But, a **sharp decline in FFW (–61.82%), VGD/VWB (–40.19%), and VGF (–9.60%) raise concerns despite the increase in budget allocation of these programmes – 'Anti-LNOB'**

Could social protection be effectively implemented by focusing on LNOBs?

- According to the **OMS policy 2024,**
  - The **number of eligible beneficiary families has been increased by 5 lakh**
  - The **subsidy period has been increased from five to six months per year**
- While the food distribution under OMS and FFP is expanding, **concern remains as the other food support programmes for the LNOBs are being left behind**

Could social protection be effectively implemented by focusing on LNOBs?

- ***Expansion of the social protection net.*** As of March'25, the Interim Government plans to reduce social protection budget allocation from Tk 1,36,026 crore in FY25 to Tk 1,20,000 crore in FY26 (a 12% decrease)
  - ➢ **Monthly benefit to certain programmes** for the elderly, widows, hijras/transgender, bede, **will be increased from Tk. 50 to Tk. 150**
  - ➢ Reportedly, **the number of beneficiaries will be increased** by 10 lakh
  - ➢ The **allowances will be paid via mobile financial services (MFS)** alongside Nagad and bKash

- Moreover, the **World Bank has committed to a US$ 75 million loan**, set to launch in June, which will **support widows, persons with disabilities—particularly women, and start-up small businesses, and the elderly**
  - ➢ However, **other marginalised groups**, viz., bede, hijra/transgender/sextually diversified, indigenous, dalits, climate-vulnerable, etc., still remain vulnerable, as **no new initiatives** have been pronounced for them

The **decision to shift the allowance payment method and expand the beneficiary list is praiseworthy**; however, **without closing the holes, it might lead to the continued exclusion of the actual beneficiaries** and perpetuate the same issues as before

Future Outlook: Towards a LNOB-Centric Social Protection

- **Exclude non-acceptable programmes** (pensions, loans, etc.) from the SSNP programmes
- Increase the **allowances, adjusting for current inflation**
- **Review targeting beneficiary errors in the context of new realities** of poverty, vulnerability, and inequality.
- **Restructure upazila/union level- local communities for service delivery** and **establish unified union social protection committees** involving all the stakeholders, especially the LNOBs
- **Establish a digital-based process mapping delivery chain** for delivering social protection benefits and ensuring transparency
- **Conduct open meetings for the beneficiary announcement and follow-up sessions** to foster social accountability

Future Outlook: Towards a LNOB-Centric Social Protection

- **In the near future, the govt. might think of integrating social protections with a centralised database** to ensure equitable distribution through a transparent system

Consolidation of SSNPs and more towards a social security system

- **Establish a '*Social Protection Fund*'** to provide support for specific and targeted LNOB groups. This might help reduce inequalities in service delivery while increasing human capital and reducing poverty in the long run
- Ensure that the responsible officials from Local Government Institutions **(LGIs) are sensitised to the LNOB issues**
- **Initiate the Union Skilled Development Centre (USDC)** for the social protection beneficiaries belonging to the LNOB groups

6. Closing Remarks

Closing Remarks

- The economic performance during FY25 (post-August) does provide a certain level of positive signals, although in the absence of a revised policy framework and policy targets.
- The observed economic stabilisation and progress are yet to start addressing the **structural problems,** and the current measures **fall short of addressing the anti-equity bias** inherent in the system.
- Relationship between the **reform initiatives and policy outcomes** remains blurred
- **The White Paper has brought to light the entrenched kleptocratic structure of governance** in Bangladesh with a dominating *Triad*
  - One observes the resurgence of the **bureaucrats, while** the **political actors** and **Chambers leaders** remain shy and subdued

Closing Remarks

A Reform Process Without a Policy Core?

It seems that the delivery of the budget for FY26 would be underpinned by the following features of ongoing economic management

- **Lack of cooperation and inclusivity**
- **Weak coordination and harmonisation**
- **Limited transparency and accountability**

We hope that the scenario does not get aggravated by the following processes defining the evolving national scenario

- **Rounding up the consensus-building process**
- **Declaration of the election timeline**
- **Judicial process concerning the ousted regime**
- **Maintenance of law and order, public discipline and security**

Thank You