

Macroeconomic Benchmark for the New Government

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Citizen's Platform for SDGs, Bangladesh

এসডিজি বাস্তবায়নে নাগরিক প্ল্যাটফর্ম, বাংলাদেশ

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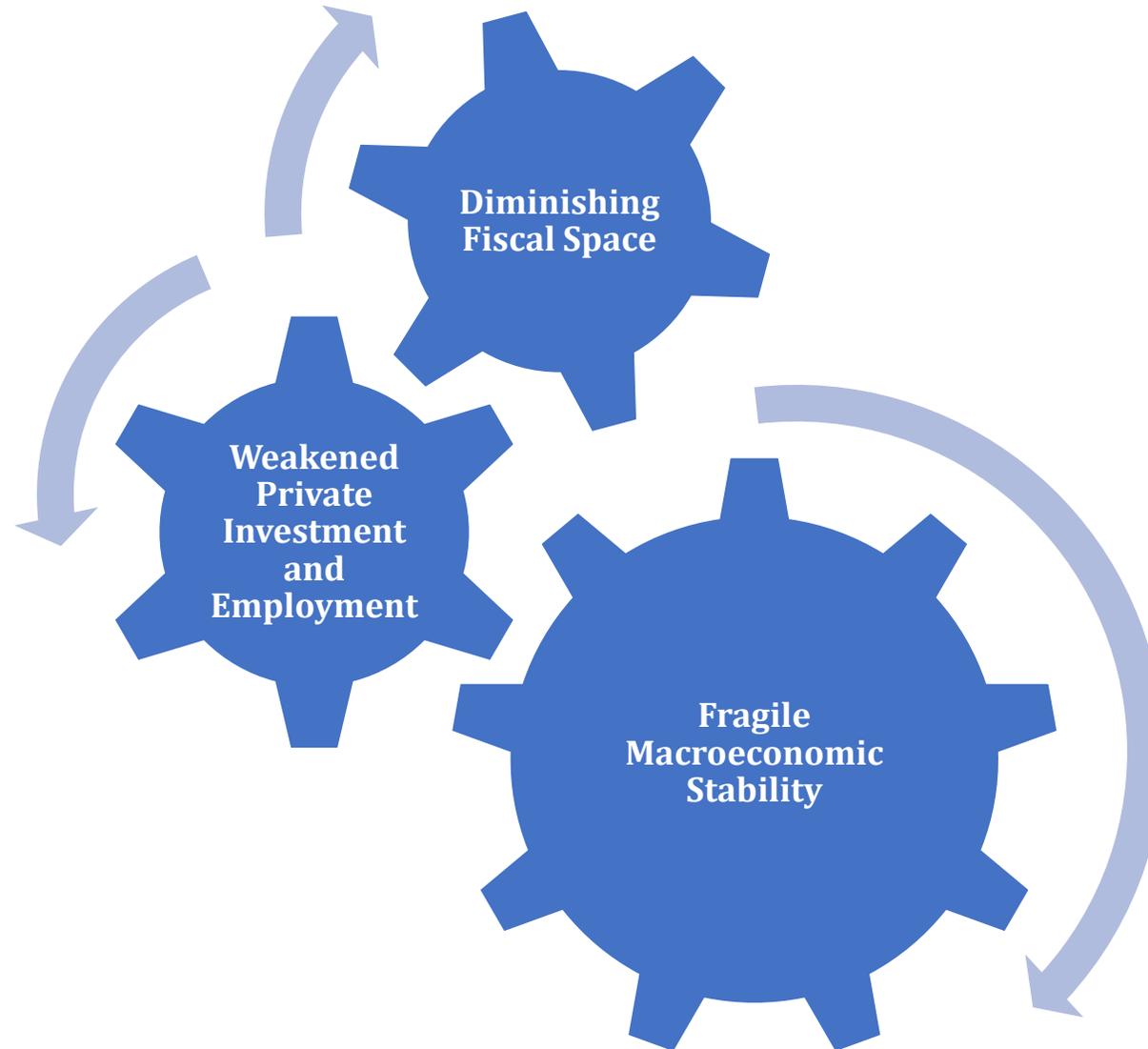
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Setting the Context

- **Only a few will doubt the fact that the new government has taken the responsibility of the country and hence, steering the economy at challenging time**
- **Economic management is a broader ecosystem that involves many sectoral and cross-cutting issues**
- **This presentation focuses on macroeconomic management only, with particular focus on three underwriting challenges**
- **In many ways, macroeconomic management will significantly affect the delivery of pledges of this government (as articulated in the election manifesto)**
- **It's essential for the government to establish a clear direction right from the start.**
- **Setting the course early on is crucial for success!**

Three Constraints to be Addressed

Three Constraints to Overcome



Fragile Macroeconomic Stability: Inflation is not declining enough!

Annual Moving Average Inflation (%)

Inflation	Jun-24	Jun-25	Jan-26
General	9.7	10.0	8.7
Food	10.7	10.7	8.0
Non-Food	8.9	9.5	9.2
Wage	7.8	8.1	8.1

- Curiously, global inflation declined by (-) 4.6% in FY2025 and further (-) 7.3% in Jul-Jan period of FY2026.
- Global oil price index decline by (-) 12.2% in FY2025 and further (-) 14.1% in Jul-Jan period of FY2026.

- **The global trend did not reflect in Bangladesh, imported inflation did not affect!**
- Almost the entire inflation decline is attributed to a decline in food inflation, while non-food inflation has not declined much.
- Wage inflation remained below, denting the real income of the labour class.
- Clothing and Footwear; Housing, Water, Electricity, Gas, and Other Fuels, Communication; Restaurants and Hotels; and Miscellaneous Goods and Services – inflation in these five sectors continued to remain at high levels.
- Bangladesh Bank seeks to keep the policy rate unchanged unless the inflation reaches the 7% benchmark – unlikely to happen within FY2026.
- No denying it will cost private investment, while stubborn non-food inflation may question the effectiveness.

Fragile Macroeconomic Stability: Foreign Exchange Improved

Exchange Rate and Forex Reserve (end period)

Indicator	Jun-24	Jun-25	Jan-26
BDT per USD	118.0	122.8	122.3
Forex Reserve (BPM6), billion USD	21.7	26.7	28.9

- Restoring some stability in the exchange rate is a relief!
- Forex reserve improved, surpassing the IMF conditional threshold.

- Improvement in forex reserve has been delivered by a positive overall balance of payments
- In FY2025, both trade balance and overseas workers' remittances helped
- Lower capital machinery and fuel import bills saved more than \$2 billion
- On the other hand, net trade credit was highly negative (\$3.1 billion)
- In H1 of FY2026, trade balance deteriorated with reduced export receipts and higher import payments– thanks to sustained remittances and net trade credit BoP remained positive
- In both time periods, net aid flow reduced due to both lower gross inflow and higher amortization payments – in FY2025 by (-) 1.4 billion and in H1 of FY2026 by (-) 1.3 billion
- As import demand is expected to rise and trade credit will be required to be paid, the pressure on BoP may be heightened unless inflows are strengthened

Fragile Macroeconomic Stability: Government is Driving Money Supply

Contribution to Money Supply Growth (as of November 2025)

Component	(Incremental Share, %)	Growth (%)
Net Foreign Assets	39	30.4
Net Domestic Assets	61	6.0
Net Government	82	26.3
Net Other Public	-3	-4.6
Private	52	6.6
Net Other Assets	-71	32.4
Money Supply (M2)	100	8.9

- **Reliance of the government on bank borrowing to service the budget deficit and augmentation of the foreign exchange reserve by the central bank from the open market are two drivers of money supply.**
- **The private sector's role is diminishing!**

Weakened Private Investment and Employment

- Private investment reached its lowest level in FY2025 – 22.5% of GDP
- *Capital machinery import is lowest since FY2013*
- *Private sector credit growth reduced to 6.1% as of December 2025 against a target*

Contribution to GDP Growth (%)

Sector	FY2022	FY2023	FY2024	FY2025
Agriculture	0.4	0.4	0.4	0.2
Industry	3.4	3.0	1.3	1.6
<i>Manufacturing</i>	<i>2.6</i>	<i>2.1</i>	<i>0.8</i>	<i>1.4</i>
Service	3.1	2.7	2.5	2.2
GDP	7.1	5.8	4.2	4.0

- GDP Growth is reduced – in Q1 of FY2026 it was also about 4%
- At the margin, the manufacturing sector’s performance determines overall growth performance
- Economic growth in the near future will determine the performance of many other macroeconomic correlates

- **Lack of private investment led to reduced employment opportunities**
- **In H1 of FY2025, nationally, about 21 lakh jobs were lost – after which labour force data generation was stopped**
- **A recent survey and projection-based analysis apprehended that poverty has also increased**

Diminishing Fiscal Space

A Snapshot of Fiscal Space (in Crore Tk.)

Particular	AFY22	AFY23	AFY24	AFY25
A. Total Revenue Receipt	334,641	366,658	409,812	436,054
B. Recurrent Operating Expenditure	307,725	357,098	397,961	459,796
C. Revenue Surplus (Deficit) (A-B)	26,916	9,560	11,851	(23,742)
D. Other public expenditures except ADP	19,369	17,653	11,086	29,459
E. Revenue Surplus (Deficit) after all expenditures other than ADP (C-D)	7,547	(8,093)	765	(29,459)
F. Foreign Debt Repayment	13,302	17,491	22,449	30,835
G. Revenue Surplus (Deficit) after all expenditures and foreign debt repayment other than ADP (E-F)	(5,755)	(25,584)	(21,684)	(60,294)
H. ADP	184,177	192,381	195,621	144,334
Budget Deficit as % of GDP	4.4%	4.6%	4.0%	3.6%

- Bangladesh is now in a position where it cannot meet the recurrent operating expenditure with domestic revenue mobilisation
- The borrowing for debt repayment increased significantly

Diminishing Fiscal Space

Deterioration of Fiscal Space

Particular	AFY23	AFY24	AFY25
A. Total Revenue Receipt (Growth, %)	9.6	11.8	6.4
B. Recurrent Operating Expenditure (Growth, %)	16.0	11.4	15.5
C. Revenue Surplus (A-B) (Change, in crore Taka)	(17,356)	2,291	(35,593)
D. Other public expenditures except ADP (Growth, %)	(8.9)	(37.2)	165.7
E. Revenue Surplus after all expenditures other than ADP (C-D) (Change, in crore Taka)	(15,640)	8,858	(30,224)
F. Foreign Debt Repayment (Growth, %)	31.5	28.3	37.4
G. Revenue Surplus after all expenditures and foreign debt repayment other than ADP (E-F) (Change, in crore Taka)	(19,829)	3,900	(38,610)
H. ADP (Growth, %)	4.5	1.7	(26.2)

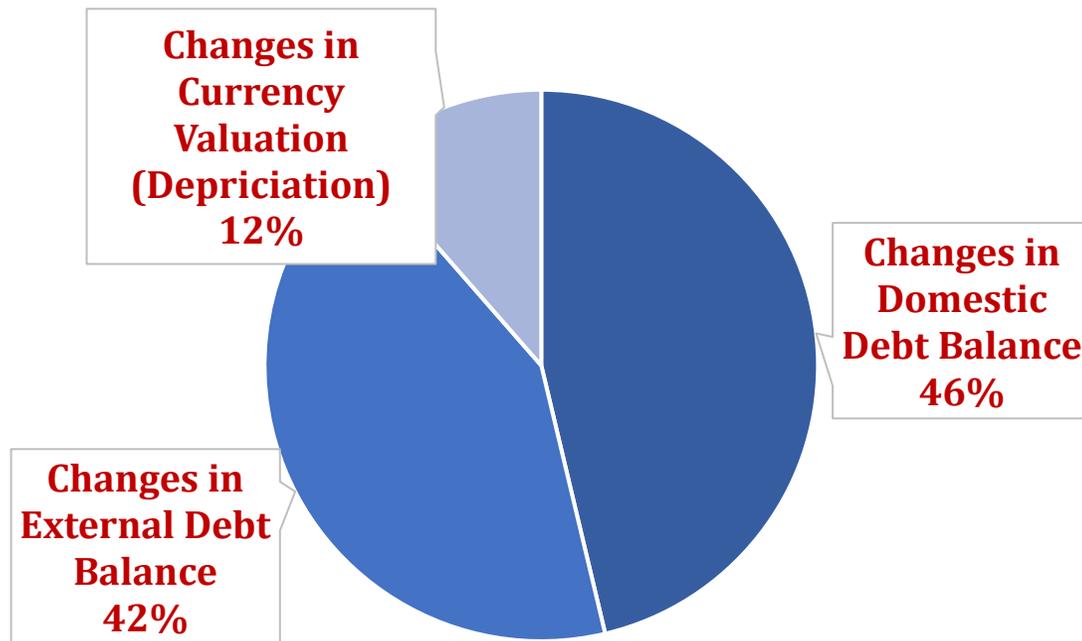
Note: Figures in the parenthesis denote negative value

- Lack of revenue generation, coupled with non-ADP expenditure pressure, is squeezing policy space
- No surprise that ADP expenditure is hitting all time low both in FY2025 and FY2026

Diminishing Fiscal Space

- Revenue shortfall in FY2025 was more than one lakh crore taka
- The budget for FY2026 has also made some lofty fiscal framework targets
- The projected revenue shortfall for the fiscal year 2026 is anticipated to exceed one lakh crore. Simultaneously, there is increasing pressure on expenditures due to costs associated with election-related activities and the necessity of injecting capital into distressed financial institutions.

Contribution to Increase in Debt level



- Debt is rising as well despite for years Bangladesh managed to keep budget deficit below 5% of GDP
- Total debt increased 260 thousand crore between the end of June 2024 and the end of September 2024
- Debt to GDP ratio (38.6%) is not a good parameter for Bangladesh, the repayment capacity in terms of both fiscal requirement and foreign currency should be considered

Ten Policy Choices

Ten Policy Choices, Ten Recommendations

Policy Choice	Implications	Recommendation
Reducing policy rate by the central bank	<ul style="list-style-type: none"> ▪ May constrain the possibility of a reduction in non-food inflation ▪ May give a positive signal to private investment ▪ May need to negotiate with IMF to relax conditionalities 	A small cut in policy rate may be considered.
Building forex reserve further	<ul style="list-style-type: none"> ▪ May help further consolidation of macroeconomic stability ▪ Will contribute to increase money supply 	Over the next four months, further building of forex reserve may not need to be enhanced proactively.
Depreciating BDT	<ul style="list-style-type: none"> ▪ May contribute to a marginal increase in imported commodity prices ▪ May support exporters and remittances inflow and hence, positively contribute to BoP and forex reserve ▪ Implications for budget balance would be marginal 	A small and gradual depreciation policy may be pursued.

Ten Policy Choices, Ten Recommendations

Policy Choice	Implications	Recommendation
Phasing out of cash incentives for remittances and exports	<ul style="list-style-type: none"> ▪ Will reduce fiscal burden ▪ Will discourage remittances and exports 	<p>Coupling with small and gradual depreciation, cash incentives for remittances and exports may be rationalised in two phases – immediately and from the beginning of the next fiscal year.</p>
Pursue conservative public expenditure	<ul style="list-style-type: none"> ▪ Will reduce fiscal burden. ▪ Will delay project implementation. ▪ May have some implications for economic growth, job creation, and revenue mobilisation. 	<p>Prioritisation of public expenditure will be required to reduce wastage as much as possible. Taking a miser approach for the rest of the FY2025 period is recommended. No more public money should be allocated for troubled banks in FY2025. Seek scope to reduce all unnecessary operating public expenditure. The new public investment projects should be deprioritised while completing projects, and foreign loan-financed projects should be prioritised.</p>

Ten Policy Choices, Ten Recommendations

Policy Choice	Implications	Recommendation
Improve tax collection without raising new tax rates.	<ul style="list-style-type: none"> ▪ Will require administrative efforts and promote good governance. ▪ Will reduce fiscal burden. ▪ Will boost positive competition among businesses. 	Enforcement of tax compliance should be pursued with an emphasis on tax compliance.
Expedite offloading shares of profit-making state-owned enterprises (SoEs).	<ul style="list-style-type: none"> ▪ Will give a one-time boost to fiscal resources. ▪ Will improve confidence in the capital market. ▪ May help better management of SoEs in future. 	Pursue on an urgent basis. Even for reasonable loss-making SoEs strategic partnership may be sought.
Prioritise stolen asset recovery and recovering bad assets.	<ul style="list-style-type: none"> ▪ Will reduce fiscal burden. ▪ Will also help boost confidence in the economy. ▪ Will promote a good competitive environment in the economy. 	Stolen asset recovery and recovering bad assets should be given attention to both at technical (including diplomatic) and legal levels.

Ten Policy Choices, Ten Recommendations

Policy Choice	Implications	Recommendation
<p>Prepare a realistic revised budget for FY2025.</p>	<ul style="list-style-type: none"> ▪ Will help understand the gravity of the public finance situation. ▪ Will help in making macroeconomic policies. ▪ Will contribute to starting with a realistic fiscal framework and setting a medium-term plan. 	<p>There should be no compromise in formulating a realistic revised budget for FY2025, including projections for the debt stress situation.</p>
<p>Deliver the election manifesto pledges.</p>	<ul style="list-style-type: none"> ▪ Will help in realising the development objectives of the newly elected government. ▪ Will require significant resources, which will bring fiscal stress. 	<p>A staggered approach should be pursued to this end. Priority pledges (that require significant resources) may be carefully initiated in FY2027. For other pledges, a phased approach should be pursued starting in FY2028 to ensure overall delivery quality. If required, in certain cases, downgrading the ambitious pledges may be considered.</p>

Assessing Ten Selected Election Pledges

One trillion-dollar national GDP by 2034

- In FY2025, GDP was \$462 billion. Over the period, a **9% average (CAGR) growth** (of nominal GDP in USD terms) will be required.
- The target is achievable if real GDP growth in FY2026 is 4% and rises to 5% in FY2027, with inflation easing. **From FY2028 onwards, a 6% real GDP growth** may be required with a stable inflation (around 6% in terms of GDP deflator). Throughout the period, a low (about 3% annual) depreciation has been assumed.
- **By FY2031, GDP may reach USD 773 billion** under this scenario.

Raising 15% tax to GDP ratio by 2035

- This projection is notably ambitious, particularly given the current subpar performance. Nevertheless, it aligns with the other commitments outlined in the manifesto and represents a more aggressive stance compared to the existing initiatives of the Ministry of Finance.
- In FY2025, the tax-GDP ratio stood at 6.8%. The target for FY2026 is set at 8.3%, a goal likely to be missed by a considerable margin.
- Assuming a linear progression, an improvement of approximately **0.9 percentage points annually** will be necessary. Consequently, by 2031, it is anticipated that the tax-GDP ratio could reach approximately 11.5%. The manifesto proposes a reform-driven approach that suggests a potential short-term boost of 2% of GDP. If successfully implemented, this could enable a tax-GDP ratio of **13.3% by 2031**. Overall, the objective over the next five years is to achieve an annual improvement of around 1.25 percentage points. It is important to note that, in order to fulfill other election commitments, even such a significant achievement may be insufficient if the budget deficit must be maintained within 4-5% of GDP.

Raising 15% tax to GDP ratio by 2035

- It is imperative to underscore that a **comprehensive and well-articulated action plan**, accompanied by effective implementation supported by robust political will, is critical in this context. While existing reform programs are present, they may not have proven adequate in delivering the desired outcomes in the past. The manifesto also proposes the introduction of new fiscal instruments, such as a **modern property and wealth tax**. Citizens' Platform has proposed a programme to adopt an **integrated tax system** to facilitate the equitable increase in tax revenue in its Citizen's Manifesto document.

Raising foreign investment to 2.5% of GDP

- No clear timeline has been proposed. In FY2025, net FDI was \$1.7 billion, i.e., 0.4% of GDP.
- Assuming it is to be achieved **by FY2031**, net FDI will need to be approximately **\$19.3 billion**. This means net FDI needs to grow by about **50% annually** over the period.
- Much will depend on any bulk investment can be attracted (such as gas exploration).

Raising power generation capacity to 35,000 MW by 2030, along with the least cost generation, and reducing imports dependency

- **Currently, the total derated power generation capacity, including contributions from the private sector, stands at approximately 27,904 MW. It is anticipated that an **additional capacity of approximately 7,100 MW** will be necessary by the year 2030. Assuming that this capacity will be developed primarily using low-cost fuel sources, while also rationalizing rental and short-term contracts and reducing import dependency, it is expected that gas will play a predominant role in this context.**
- **The highest recorded power generation reached 16,794 MW on 23 July 2025, with approximately 44% of this output, equating to about 7,389 MW, being generated from gas. Consequently, in order to meet the demand through gas, a substantial increase in gas supply for power generation will be imperative. It is noteworthy that around 60% of the total gas consumed is allocated to power generation. Achieving enhanced power generation in line with the newly installed capacity will pose challenges without resorting to imports in the short term. Therefore, it is essential to expedite the exploration of domestic gas resources in light of these considerations.**

Return of depositors' money from liquidated Islamic banks

- The five Islamic banks that have been merged to create 'Sommilito Islami Bank PLC' hold collectively approximately Tk. 142,000 crore in deposits (about 33% of total revenue in FY2025). Much of the deposits may need to be returned using taxpayers' money to fulfill this pledge. In the event that **Tk. 100,000 crore must be repaid utilising tax revenues** over five years, with an annual allocation of Tk. 20,000 crore would be necessary. This amount approximates the total health budget expenditure for the fiscal year 2025. If it does not apply for institutional depositors, then the fiscal burden will be less.
- Furthermore, it is important to note that additional banks are facing difficulties, with a considerable proportion of non-performing loans that will also be difficult to recover. Consequently, there may be increasing expectations for similar supportive measures to be extended to these institutions as well. An indication may be inferred from the rise in non-performing loan levels since June 2024 (an increase of **about 400,000 crore** that will include the amount of the said five Islamic banks), thanks to improved reporting (including the conducted forensic audits).

Family card to five million rural families with BDT 2000-2500 support per month

- It would cost about **Tk. 9,600-12,000 crore in a year** (0.15-0.2% of GDP) to cover five million families to start with.
- Will help expand social protection. This could be a pathway for implementing “**universal basic income**” (that was proposed by Citizen’s Platform in its Citizen’s Manifesto document based on Bhattacharya et.al., 2024).
- Fiscal constraint will be a challenge. However, more importantly, the selection of beneficiaries will be critical. Rather than following the usual administrative-political pathway, a scientific “proxy mean test” method may be pursued. Citizen’s Platform (based on Bhattacharya et.al., 2024) proposed a ‘poverty scorecard method’ with a required transparency and accountability framework.

Allocate 5% of GDP to health

- No clear timeline is proposed, but it is assumed the target is for 2031. Total health expenditure in FY2025 was 0.3% of GDP against an allocation equivalent to 0.7% of GDP. In FY2026, health budget allocation was again earmarked at 0.7% of GDP.
- If a linear pathway is obtained, an incremental allocation **of 0.86 percentage points per year** will be required. Alternatively, an 'accelerated pathway' may be targeted, planning for modest growth with improved governance in FY2027, with an allocation of 1% of GDP, followed by a gradual increase of an average of 1 percentage point over the next four years to reach 5% by 2031.
- Three key considerations for successfully achieving this objective are: (i) enhancing domestic resource mobilisation to finance the incremental cost, (ii) developing a comprehensive strategy for intra-sectoral allocation of resources to align with development objectives of the health sector, and (iii) improving expenditure performance with an emphasis on quality.

Allocate 5% of GDP to education

- No definitive timeline has been established; however, it is anticipated that the target year will be 2031. In FY2026, the education budget allocation was again designated as 2% of GDP. The education sector also struggles with limited capacity to effectively use its budget. In FY2025, actual expenditure was 1.5% of GDP, while the allocation was 2% of GDP.
- Should a linear growth trajectory be pursued, an incremental allocation of **0.6 percentage points per annum** will be necessary. Alternatively, an 'accelerated pathway' could start with modest allocation while improving procurement, workforce, and program management. Once operational, a faster increase may be possible, proposing the education budget for FY2027 at 2.3% of GDP, with an average annual increment of 0.7 percentage points to reach 5% by 2031.
- To successfully achieve this objective, three key considerations are: (i) enhancing domestic resource mobilisation for incremental costs, (ii) creating a strategy for resource allocation that aligns with health sector goals, and (iii) improving expenditure performance with a focus on quality.

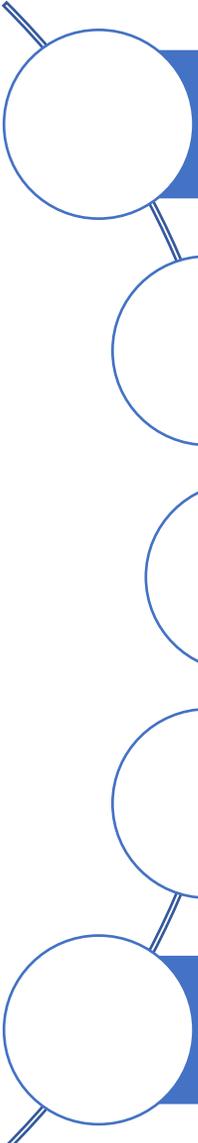
One teacher, one tab

- It would require about **Tk. 520-780 crore** at the primary education only (assuming Tk. 8,000-12,000 cost per tab and including all teachers in both public and private institutions). For the secondary level, it will require an additional Tk. 230-350 crore will be required.
- More importantly, effective use of the tabs in education is important. Additional demand may be put forward for accessories, including a projector.
- **Experience of past initiatives**, such as ‘**digital classroom**’, should be carefully reviewed for effective implementation.
- **Should not be an utmost priority.**

Assessing Selected Election Pledges

Election Pledge	Key highlight	Comments
One trillion-dollar national GDP by 2034	6% real GDP growth annually with stable inflation	Achievable
Raising 15% tax to GDP ratio by 2035	Annual improvement of around 1.25 percentage points	Highly ambitious; require strong commitment
Raising foreign investment to 2.5% of GDP	Needs to grow by about 50% annually	Highly ambitious; require strong commitment
Raising power generation capacity to 35,000 MW by 2030, along with the least cost generation, and reducing imports dependency	Approximately 7,100 MW additional by 2030, fuelled by domestic gas	Highly ambitious; require strong commitment
Return of depositors' money from liquidated Islamic banks	Annual allocation of Tk. 20,000 crore with more fiscal requirement expected	Highly ambitious; require strong commitment
Family card to five million rural families with BDT 2000-2500 support per month	Tk. 9,600-12,000 crore in a year to start with	Achievable
Allocate 5% of GDP to health	Incremental allocation of 0.86 percentage points per year	Highly ambitious; require strong commitment
Allocate 5% of GDP to education	Incremental allocation of 0.6 percentage points per annum	Highly ambitious; require strong commitment
One teacher, one tab	Tk. 520-780 crore for primary schools and additional Tk. 230-350 crore for secondary level	May not be rushed with

A Realistic Pathway



Implement an economic stabilisation plan with a hard budget constraint for the rest of the month of this fiscal year, including realistically revising the current budget

Prepare a credible framework for the national budget for the next fiscal year (FY2027)

Convene a development forum involving multi-stakeholders

Roll out an economic reform pathway with specific timelines including operationalising a robust LDC transition strategy

Pursue a coherent mid-term plan with realistic attainment targets in view of the election manifesto

Thank You



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