

Thoughts on the First Budget of the New Government

Brief for the Media

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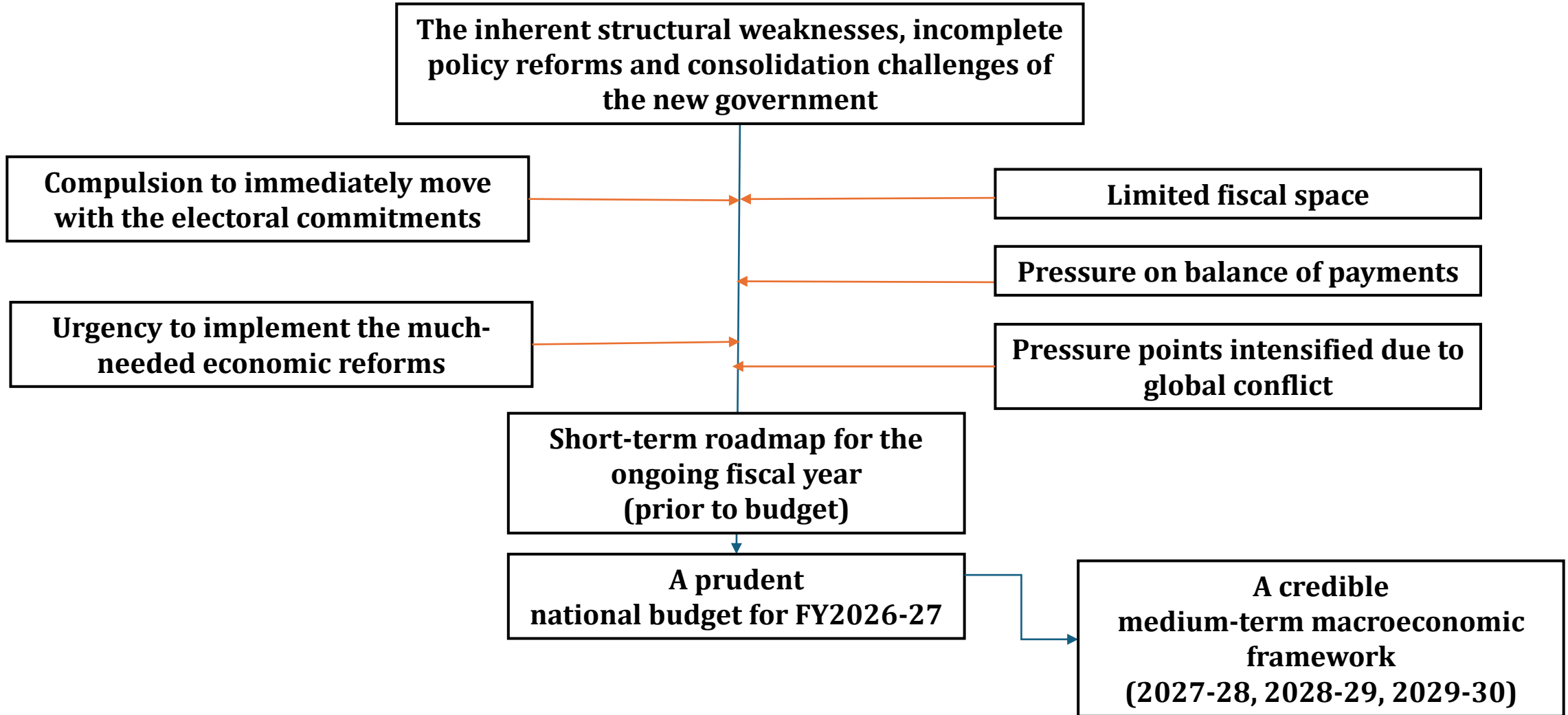
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1. Imperatives of the Context

Benchmarking the Process



1. Imperatives of the Context

Macroeconomic Impact of the Ongoing Fuel Crisis

Strategic Policy Constraint Reduced Procurement Flexibility

The US–Bangladesh Trade Agreement severely **limits energy options through "sanctions-alignment" and "non-market country" clauses.**

These legal ambiguities make **a formal US waiver a prerequisite for cheaper Russian oil, directly constraining multilateral trade flexibility** during the crisis.

Triple-Threat Macro Impacts

The **Tk 37,000 Cr** power sector subsidy is in direct conflict with **IMF conditionality, which mandates subsidy rationalisation by 2028.**

Surging prices are **projected to cause a \$4.8B rise in annual energy costs (1.1% of GDP)**, widening the Current Account deficit.

Increased dollar demand for fuel will further devalue the Taka, while regional instability puts the the primary stabiliser of the Balance of Payments i.e. **Gulf remittance cushion, which is about half of our total remittances —at risk.**

Government Response & Critical Trade-offs

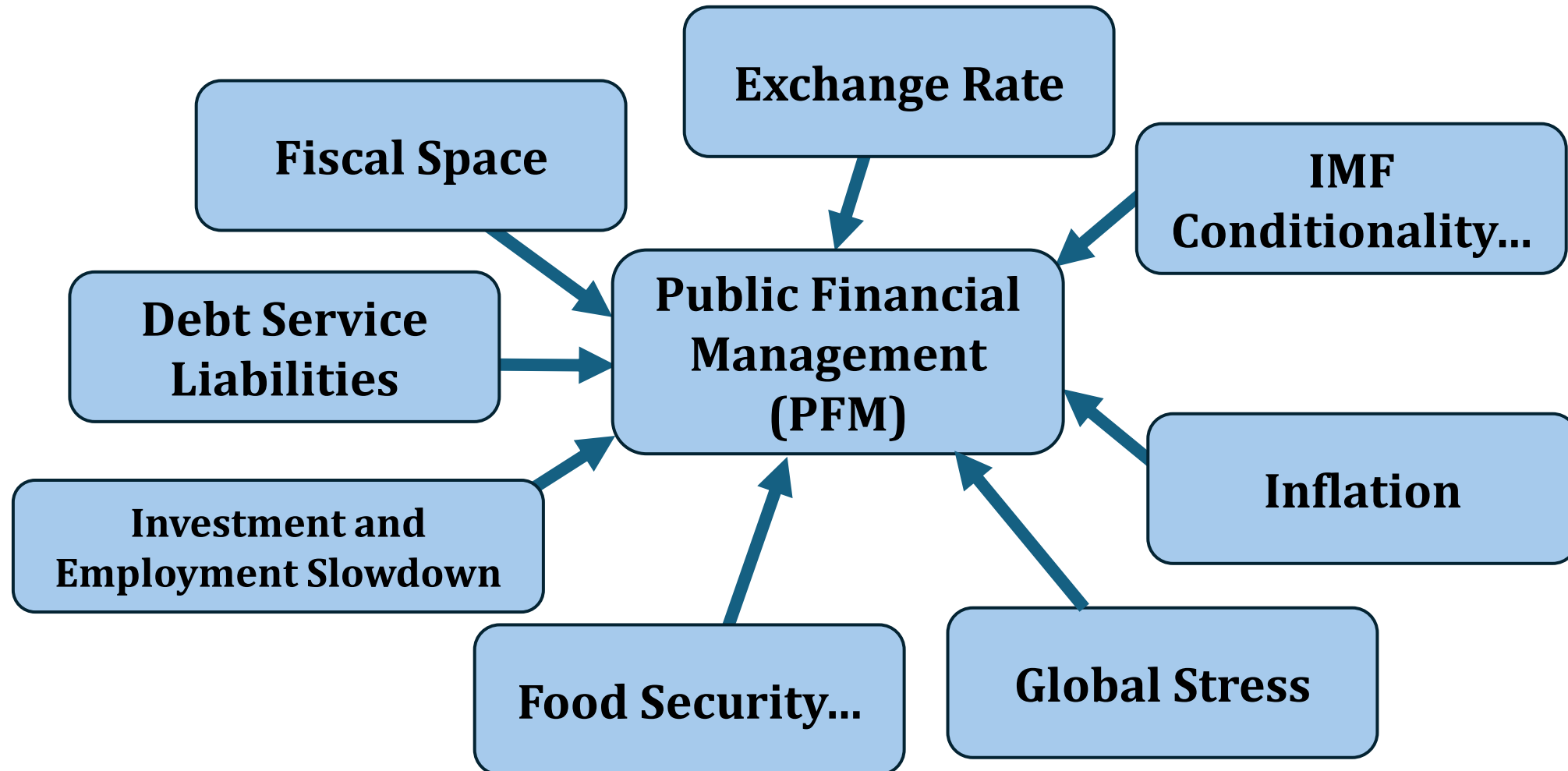
The government faces **a choice between maintaining the ~32% fuel tax wedge to protect fiscal revenue or cutting it to cushion consumers** from food and transport price shocks.

While selective **price pass-throughs** (e.g., the 80% jet fuel hike) help manage BPDB's Tk 55,600 Cr shortfall, full pass-through **risks fueling record-high inflation.**

Persistent energy uncertainty and rising costs have already pushed **private investment to a five-year low (22.5% of GDP)**, threatening long-term growth.

2. Focus of the Next Budget

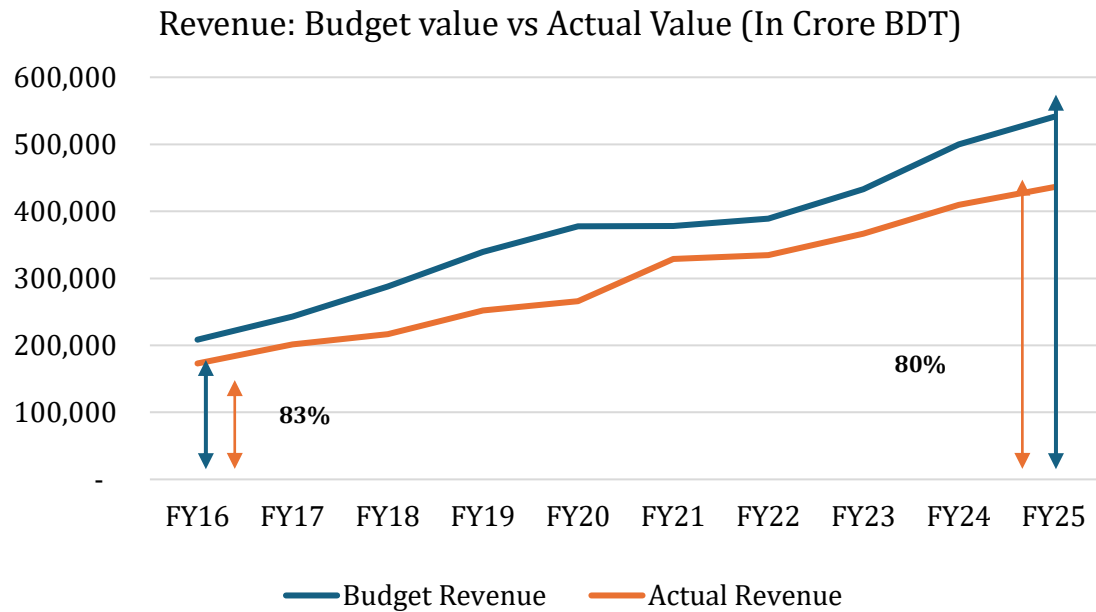
(a) Public Financial Management (PFM) Under Siege



3. Embedded Macroeconomic Framework: Fiscal Social Contract

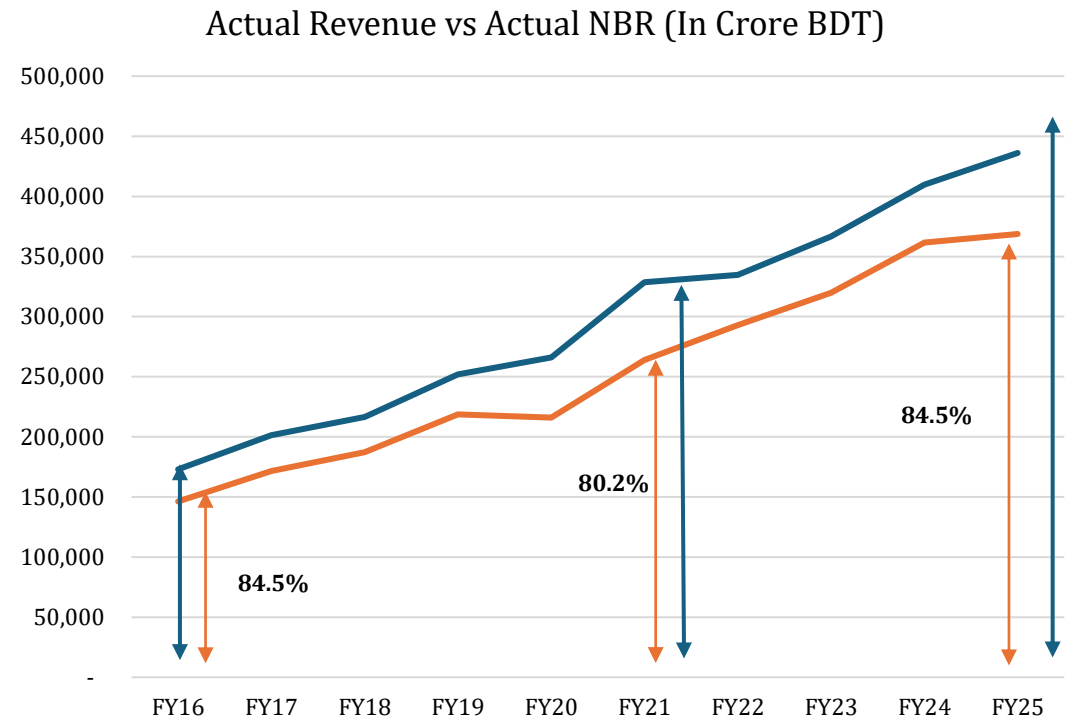
(b) Surreal Budgeting

Figure 1: Revenue: Budget vs Actual (In Crore BDT)



- In FY16, actual revenue made up 83 per cent of the Budget target for that year. In FY25 this has decreased to 80 per cent

Figure 2: Actual Revenue vs Actual NBR (In Crore BDT)



- In FY16, actual NBR revenue made up 84.5 per cent of the total revenue collected for that year.
- In FY21 this decreased to 80.2 per cent.
- In FY25 is roughly 84.5 per cent

3. Embedded Macroeconomic Framework: Fiscal Social Contract

(b) Surreal Budgeting

Figure 3: Composition of Total Expenditure (In Crore BDT)

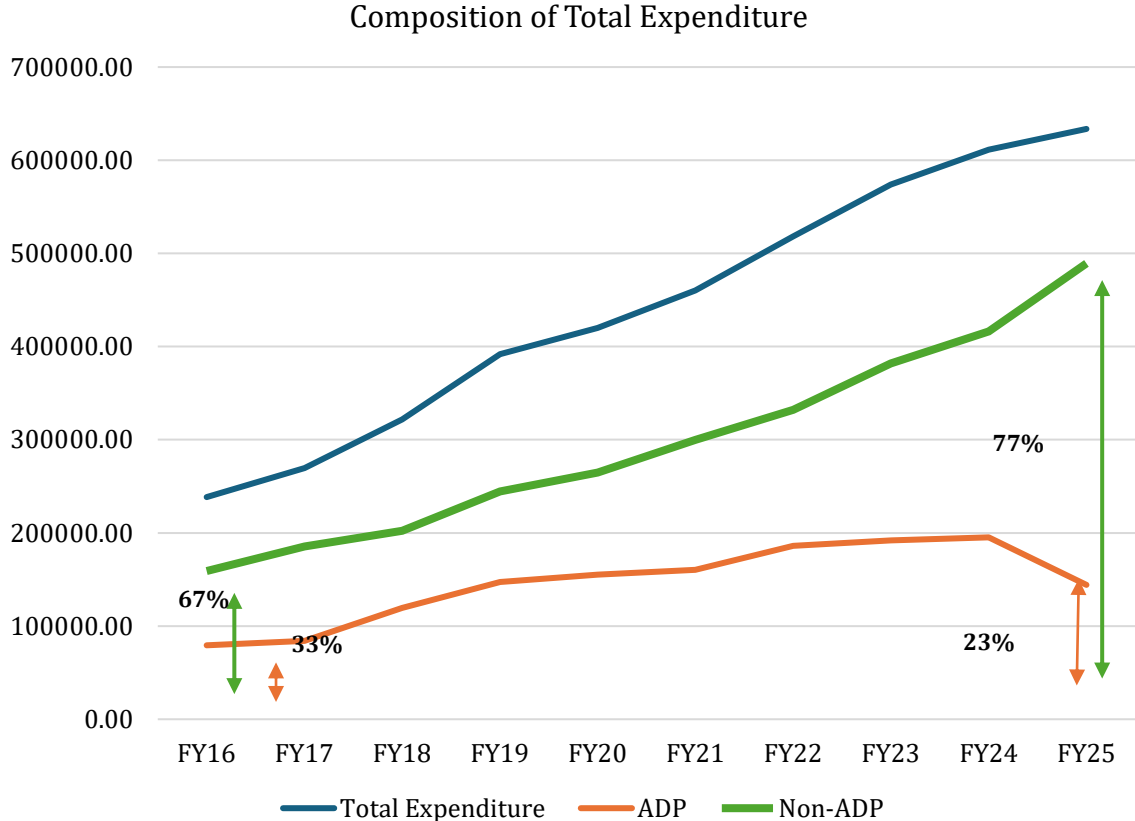
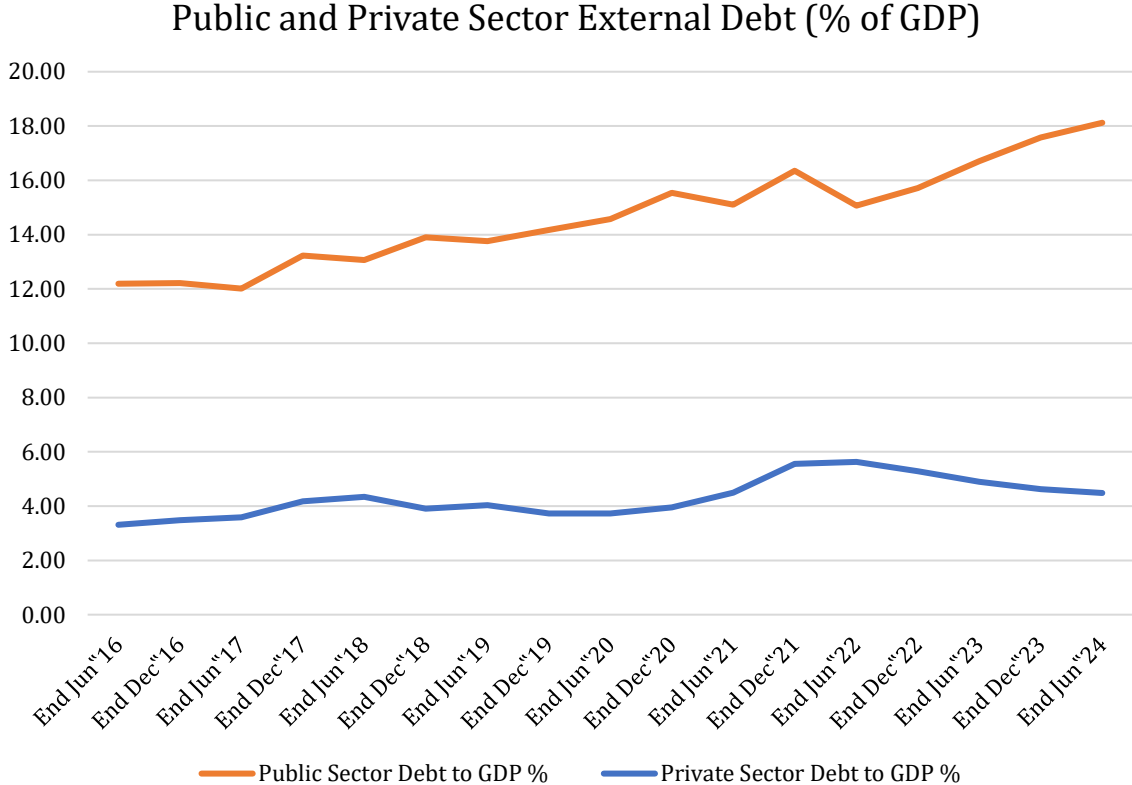


Figure 4: Debt Situation

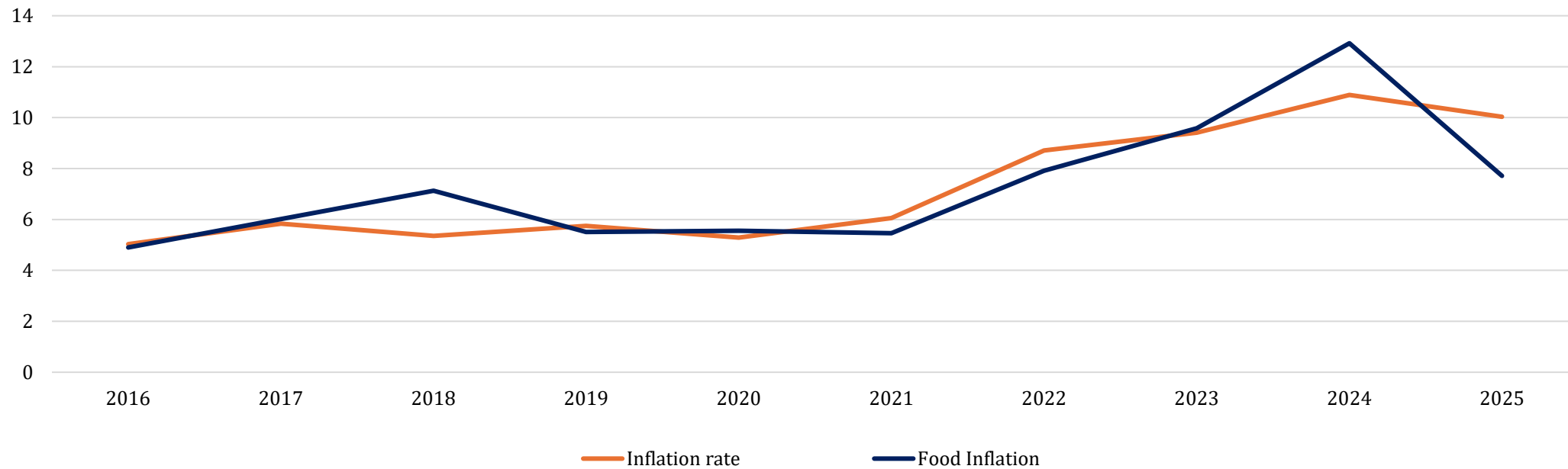


3. Embedded Macroeconomic Framework: Fiscal Social Contract

(b) Surreal Budgeting

Figure 4: Inflation

General and Food Inflation (%)



2. Focus of the Next Budget

(c) Opportunities to increase fiscal space

a. Revenue side

1. Phase out exemptions
2. Concrete measures to expand the tax net
 - Improve tax collection without raising new tax rates: Enforcement of tax compliance should be pursued with an emphasis on tax compliance.
3. New areas (economic) for taxation
 - Property tax
4. Profits from State-owned banks and enterprises
5. Offloading shares of:
 - Profitable SOEs
 - Banks
 - Multinational Companies (MNCs)
6. Stolen asset recovery and recovering bad assets should be given attention to both at technical (including diplomatic) and legal levels, both domestically and internationally.

2. Focus of the Next Budget

(c) Opportunities to increase fiscal space

b. Expenditure side

1. Rationalisation of Subsidies
2. Phase out incentives
 - Cash incentives for remittance and export may be rationalised in two phases: immediately and from the beginning of the next fiscal year
3. Public Sector Wage and Pension Reform
4. Sustainable deficit financing strategy
5. Reform of State-Owned Enterprises (SOEs)
 - Reducing the need for government bailouts
6. Reveal and Contain Contingent Liabilities

2. Focus of the Next Budget

(d) Litmus Tests for the new Government: How will it use the playbook of the previous governments

Tax Expenditure

| | 2020-21 | % Share of GDP | 2021-22 | % Share of GDP |
|--------------------------------|---------|----------------|---------|----------------|
| Income Tax Expenditure | 125813 | 3.56 | 115056 | 2.90 |
| VAT Exemption | 156387 | 4.43 | 129570 | 3.26 |
| Customs Tax Expenditure | 23003 | 0.65 | 28224 | 0.71 |
| Total | 305203 | 8.65 | 272850 | 6.87 |

Source: Medium-Term Macroeconomic Policy Statement (MTMPS)

Cash loan and Subsidy (in Billion BDT)

| Cash Loan and Subsidy | | 2024-25 | % share of GDP |
|--------------------------------------|-----------------|---------------|----------------|
| Cash Loan | Total Cash Loan | 63.57 | |
| | Food | 80.59 | |
| Subsidy | PDB | 620.00 | |
| | Gas & Others | 217.50 | |
| | Total Subsidy | 918.09 | |
| Total Cash Loan & Subsidy | | 981.66 | 1.80 |

Source: Medium-Term Macroeconomic Policy Statement (MTMPS)

2. Focus of the Next Budget

(d) Litmus Tests for the new Government: How will it use the playbook of the previous governments

Fiscal Incentive (Billion BDT)

| Fiscal Incentive | 2024-25 | % share of GDP |
|------------------|---------------|----------------|
| Agriculture | 170.00 | |
| Export | 78.30 | |
| Jute Goods | 12.00 | |
| Remittances | 62.00 | |
| Total | 322.30 | |

Source: Medium-Term Macroeconomic Policy Statement (MTMPS)

2. Focus of the Next Budget

(d) Litmus Tests for the new Government: How will it use the playbook of the previous governments

- NBR is given a **realistic target**
- **ADP pruning of 'zombie' projects**
 - Average age of 969 investment projects is 5.5 years
 - 338 (34.9%) of these 969 projects are 6-10 years old (due to repeated extensions of projects)
 - 43 of these 969 projects are more than 10 years old
 - 47.8% of investment projects in ADP for FY26 have already been revised between 1-4 times
 - Identify "Sweetheart deals".
 - **ADP Review Task Force** short term (1-2 months) for pruning zombie projects and providing guidance for the future
- **Revenue surplus** for ADP financing
- Negotiate to reschedule (deferment) of foreign debt repayment where possible
- Utilise new foreign borrowing windows (where available) created in view of the global conflict
- **Sticking to balance between sources of financing** budget deficit

2. Focus of the Next Budget

(d) Litmus Tests for the new Government: How will it use the playbook of the previous governments

Guideline:

- Guidance provided in the Public Finance and Budget Management Law 2009
- Maintain Macro-economic stability
- Gradually reduce loans taken from domestic sources and keep it at a tolerable level
- Keep contingent liability at a manageable level
- Every year reduce domestic and external loans, and publish the relevant figures as share of GDP

3. Embedded Macroeconomic Framework: Fiscal Social Contract

(a) Realising PFM Pledges of BNP's Election Manifesto

Overarching vision – **A Fiscal Social Contract** (Citizens pay taxes → Government provides service)

Equity and security for generations: BNP proposes a new social contract, in which taxes will be fair, the benefits of expenditure will be visible, and policies will be forward-looking.

Elements of the Vision

- Achieving a 15% tax-GDP ratio
 - **Short-term (??)** enhancement to 2% (consolidating VAT rates and rationally limiting VAT exemptions)
 - **Medium-term (??)** enhancement to 10%
- Investment, employment, income, expansion for revenue growth
- Production and consumption growth for increasing VAT and indirect tax yield
- Stopping revenue erosion (rationalising tax exemption and linking it to actual investment)
- Property and wealth tax
- Expenditure discipline, not austerity, but ending waste
- Tax administration reform

We would need to see these principles in practice.

3. Embedded Macroeconomic Framework: Fiscal Social Contract

(b) Fiscal Implications and Targets for the National Budget FY 2027

| Pledges | Implications | FY27 Target |
|--|--|---|
| One trillion-dollar national GDP by 2034 | Reaching \$1 trillion GDP by 2034 from \$462 billion requires about 9% nominal growth , with 4% (FY26), 5% (FY27), and 6% (FY28 onwards) real growth, around 6% GDP deflator , and 3% annual BDT depreciation , which could lead to \$773B by FY2031 and is achievable under these assumptions. | Real GDP growth 5% in FY2027 [It was assumed based on inflation easing. But it may be ambitious in the current situation] |
| Raise foreign investment (FDI) to 2.5% of GDP | Net FDI was about \$1.7 billion (0.4% of GDP) in FY2025. Assuming it is to be achieved by FY2031 , net FDI will need to be approximately \$19.3 billion , meaning it needs to grow by about 50% annually . Much will depend on whether bulk investment can be attracted (such as gas exploration). | 0.9% of GDP (\$2.55 billion) |
| Raise the tax-to-GDP ratio to 15% by 2035 | From 6.8% in FY2025 , tax-to-GDP needs roughly a 0.9 percentage point annual increase to reach near 11.5% by 2031 , or around 13.3% with reform-driven gains (1.25 percentage points annually), requiring stronger enforcement and compliance, an integrated tax system, and new taxes (property/wealth tax) with the budget deficit maintained within 4-5% of GDP. | 8.6% tax to GDP ratio |

3. Embedded Macroeconomic Framework: Fiscal Social Contract

(b) Fiscal Implications and Targets for the National Budget FY 2027

| Pledges | Implications | FY27 Target |
|---------------------------------|---|-------------|
| Allocate 5% of GDP to health | Actual health spending was 0.3% of GDP in FY2025 against 0.7% allocation , with FY2026 allocation again 0.7% . Reaching 5% by 2031 requires either a linear increase of an average of 0.86 percentage points annually , or an accelerated path of 1% in FY2027 , followed by +1 percentage point per year, contingent on stronger domestic resource mobilisation , a clear intra-sector allocation strategy , and improved expenditure quality . | 1% of GDP |
| Allocate 5% of GDP to education | The FY2026 allocation is 2% of GDP , while actual spending was 1.5% due to execution limits. A linear path to 5% by 2031 requires 0.6 percentage points per year . An accelerated pathway targets 2.3% of GDP in FY2027 , followed by +0.7 percentage points annually to reach 5% by 2031, with emphasis on fixing procurement, workforce, and programme management to raise absorptive capacity. | 2.3% of GDP |

3. Embedded Macroeconomic Framework: Fiscal Social Contract

(b) Fiscal Implications and Targets for the National Budget FY 2027

| Pledges | Implications | FY27 Target |
|---|---|------------------------|
| Power generation capacity to 35,000 MW by 2030 (least-cost, lower import dependence) | With a derated capacity of 27,904 MW , an additional 7,100 MW is needed by 2030 . A least-cost mix prioritises gas , rationalisation of rental/short-term contracts , and reduced import dependence . At the 23 July 2025 peak, generation was 16,794 MW , of which 44% (7,389 MW) came from gas; around 60% of total gas is consumed by power, implying a substantial scale-up in gas supply . Accelerated domestic gas exploration is required; without near-term imports, achieving higher dispatch in line with new capacity will be challenging. | 29,679 MW |
| Return of depositors' money from liquidated Islamic banks | The five merged Islamic banks hold roughly Tk 142,000 crore in deposits. Repaying Tk 100,000 crore over five years implies Tk 20,000 crore per year . | Tk 20,000 crore |

3. Embedded Macroeconomic Framework: Fiscal Social Contract

(c) Kick-off programmes by the Government

Family card

- According to the BNP's Manifesto 2026, the **initial target no of beneficiaries was five million**
- Target: **Tk. 2500 per month** or an equivalent amount of food provisions, e.g., rice, lentils, oil, and salt
- Required amount (estimated): **Tk. 15000 crore for a year (i.e., 0.3 per cent of GDP)**

| Launched | Total cost allocated | Financial Assistance | Targeted beneficiaries |
|---------------|---|---|---|
| 10 March 2026 | Until June'26, Total allocation Tk 38.07 crore (66% direct financial support + 34% for programme implementation activities) | Tk. 2,500 per month. Received through Mobile Financial Services (e.g. Bkash, Nagad, Rocket) or bank account | <i>Marginalised and low-income families</i> 37,567 families from 14 locations have received family cards (pilot basis) Target no. of beneficiaries till June'26: 40,000 |

Source: Ministry of Social Welfare

- The present **rollout covers only 0.8 per cent** of the original target (**Symbolic implementation?**)
- The programme bears a **high administrative cost (34%)** relative to direct support
- At the current pilot scale **by the end of June'26 requires an additional amount of Tk. 14.24 cr**
- A **phased expansion to 10 lakh beneficiaries (one-fifth of the total target)** within one year may require **adding approximately 80,000 beneficiaries and Tk 20 crore in monthly allocation**

3. Embedded Macroeconomic Framework: Fiscal Social Contract

(c) Kick-off programmes by the Government

Farmers Card

- **Launch: 14 April 2026**
- Target no of beneficiaries: **1.65 crore farmers over the four years**
- Total estimated cost of allocation: Tk. 681 crore
- The card will provide 10 types of benefits, including subsidies, loans, irrigation support, insurance, training, weather information, and pest-control advice.

Initial phase

- Beneficiaries: 19305 farmers
(0.9% of the total beneficiaries' target)
- Estimated budget: 6.79 crore
(1.0% of the total estimated budget)
- Financial assistance: Tk. 2500 per person for the production during Kharip 1 (March-June) and Kharip 2 (July – October)

- **Significant gap between ambition and current fiscal possibility**
- Building an **integrated farmer registry with 45 data points per farmer** is a positive step. However, **without linking this database to real-time service delivery and demand mapping, its functional value may remain limited**
- Farmers Card is at **risk of evolving into another financial assistance mechanism, deviating from its original policy focus**

3. Embedded Macroeconomic Framework: Fiscal Social Contract

(c) Kick-off programmes by the Government

E-health card

- Launch: by the end of June'26
- An electronic referral system
- Recruitment of 100,000 health workers—with a gender distribution of 80% women and 20% men
- Financial assistance: Asian Development Bank
- Target: Universal (all citizens)

- ❑ **Ambitious target without operational clarity.** The **absence of a clearly defined rollout strategy or service delivery mechanism** raises concerns about scalability and feasibility
- ❑ The planned recruitment of 100,000 health workers (80% women) is significant. However, it is unclear-
 - How will they be deployed?
 - How will they integrate with the e-Health system? and
 - How do their roles align with the electronic referral system?

3. Embedded Macroeconomic Framework: Fiscal Social Contract

(c) Kick-off programmes by the Government

Sports card

- Provided- 129 athletes
- Financial assistance- 1 lakh taka each

However, the **total no. of beneficiaries and the target year are yet to be specified**

Focused on **top-tier or national-level athletes**, potentially excluding-

- grassroots players
- district-level athletes

4. Sketching a Roadmap

1. Explore revised Budget (FY2026) to professional scrutiny
2. Impose a hard budget constraint for rest of FY2026
3. Set up ADP pruning Task Force (1-2 month)
4. Expediate budget-related reforms (e.g. NBR bifurcation)
5. Keep responses to electoral commitments under advisement
6. Frame a fiscally prudent budget for FY2027
7. Provide a near term outlook through the 3-year Medium Term Budgetary Framework

4. Sketching a Roadmap

7. Address information and coordination deficit through the regular and efficient use of the three following committees

a. Cabinet Committee on Economic Affairs

- Headed by: Finance and Planning Minister
- Constituted: Cabinet committee under the Rules of Business, 1996. Reconstituted with the new BNP cabinet in February 2026.

b. Eight-Member Cabinet Committee on Global Conflict / Crisis Management

- Headed by: Finance and Planning Minister
- Constituted: March 2026

c. Coordination Council and Budget Monitoring and Resource Committee

- Headed by: Finance and Planning Minister
- Constituted: Statutory body established under Section 9A of the Bangladesh Bank (Amendment) Act, 2003 (Act No. IX of 2003)

4. Sketching a Roadmap

8. Be guided by the “**Public Money and Budget Management Act 2009**”

Need to provide a quarterly state of the economy report to the parliament. So, the next one is due by **early April 2026**. The report needs to be complemented by a substantive policy statement by the Finance Minister highlighting the following:

- a. The benchmark economic conditions inherited by the present government and the needs to impose short-term hard budget constraints.
- b. **Formation of an Economic Reform Commission (beyond banking)** and perspectives on continuity of reforms.
- c. Impact of the war and other global stresses on domestic economy and time bound scenarios
- d. Easing of the situation projected through the **Medium-Term Budget Framework (MTBF)**.

Thank You



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