

BUDGET REFORM MUST START WITH WHAT IS FEASIBLE

by Selim Raihan

As happens every year, the national budget contains some good initiatives. There are proposals for investment incentives, support for new sectors, a larger development programme, higher allocations for education and health, and several measures aimed at easing pressure on people. Some of these are welcome. Some are overdue. The question, however, is not whether the budget has good intentions. The more relevant question is whether the budget has identified the right policy instruments to deal with the difficult economic situation Bangladesh is now facing.

There are at least five major challenges before the economy: high inflation, weak revenue mobilisation, pressure from debt servicing, a fragile banking sector, and stagnant private investment. These are not new problems. They have been accumulating for years. What is worrying is that the space for policy mistakes has narrowed considerably. A budget can no longer rely on ambitious targets and hope that economic growth will solve the rest. That approach has served us poorly. The budget now needs to be judged by a stricter test: does it provide a realistic route to restore macroeconomic stability while protecting ordinary people?

The first area that needs a serious rethink is revenue. Bangladesh's tax-GDP ratio has remained one of the lowest in the region for a long time. Each year, a high revenue target is set. Each year, the actual collection falls short. This has become almost routine. The current budget again depends on a large increase in revenue collection. But there is no convincing explanation of why this year will be fundamentally different. Digitalisation, risk-based audit, broadening the tax net, and reducing exemptions are necessary steps. Yet these reforms take time. They require institutional capacity, political backing, better taxpayer services, and a reduction in arbitrary behaviour by the tax administration.

Therefore, instead of setting an overly ambitious target, the government should prepare a more realistic revenue framework. It should separate what can be collected under the existing system from what may come through new reforms. It should also publish a transparent tax-expenditure statement. The budget gives several incentives to renewable energy, electric vehicles, semiconductors, electronics, logistics, startups, SMEs, and regional investment. Some of these incentives may be justified. But the government must show how much revenue is being forgone, who is benefiting, and what

outcomes are expected. Without such transparency, tax incentives may become another form of privilege.

The second reform should be in the way the tax net is expanded. There is a real need to bring more people and businesses under the formal tax system. But the easiest taxpayers are not necessarily the right taxpayers. Small traders, retailers, wholesalers, and middle-income professionals are often more visible than wealthy tax evaders. If the tax drive falls mainly on these groups, it will create resentment without improving tax justice. The government should concentrate more on large taxpayers, high-income professionals, property transactions, underreported business income, and sectors where evasion is widely suspected. VAT procedures for small businesses should be simplified, not made more intimidating.

The third area is debt and public expenditure. Debt servicing has already become a heavy burden on the budget. If interest payments continue to rise, less money will be available for education, health, social protection, and productive infrastructure. This is why the government must become much more selective about borrowing. Not all projects deserve debt financing. Projects should be screened on the basis of economic returns, employment potential, readiness, and foreign exchange implications. Large projects with weak feasibility,

“

BANGLADESH NEEDS FEWER PLEDGES AND MORE EXECUTION: REALISTIC REVENUES, FAIR TAXES, DISCIPLINED BORROWING, TARGETED ADP, ACCOUNTABLE BANKS, PREDICTABLE ENERGY, JOB-LINKED INVESTMENT-TURNING THE BUDGET FROM HOPEFUL ASPIRATIONS INTO ENFORCED, POLITICALLY BACKED CHOICES.

”

inflated costs, or uncertain benefits should be postponed. This is not austerity for its own sake. It is basic fiscal responsibility.

The Annual Development Programme also needs to be treated differently. A larger ADP may sound encouraging, but a large allocation alone means little if projects are not ready, land is not available, procurement is delayed, and implementation capacity remains weak. The government should create a shorter priority list of projects that can realistically be implemented within the year. Unapproved or poorly prepared projects should not receive large symbolic allocations. There should be quarterly reporting on physical progress, cost revisions, and reasons for delay. Without this discipline, ADP expansion will again become an accounting exercise rather than a development strategy.

The fourth reform is in education and health. These two sectors are usually praised in budget speeches, but the real test is very different. In education, the question is whether

students are learning. In health, the question is whether households are spending less out of their own pockets for basic services. Higher allocations are welcome, but they will not automatically improve outcomes. The government should publish school-level learning indicators, track teacher attendance, strengthen technical education, and link financing to learning recovery. In health, public money should be tied to medicine availability, doctor and nurse presence, primary care quality, and functioning referral systems. Otherwise, allocations will increase while people continue to pay privately for weak public services.

The fifth and perhaps hardest area is the banking sector. The budget acknowledges the stress in the sector and proposes reforms. But the real question is whether the government is willing to confront powerful interests. Recapitalisation may be needed for some banks, but public money should not be used without accountability. Before recapitalisation, there should be credible audits, changes in bank governance, recovery plans for bad assets, and visible action against wilful defaulters. If weak banks are rescued without changing the behaviour that created the weakness, the same problem will return. Meanwhile, government borrowing from the banking system must be contained so that private investment is not crowded out.

Energy policy also needs a more practical reform path. Bangladesh cannot reduce import dependence overnight. But it can reduce vulnerability. Strategic fuel stocks, diversified import sources, domestic gas exploration, energy efficiency in industry, and grid readiness for renewable energy should be given clear annual targets. Price adjustment may sometimes be unavoidable, but it should be gradual and predictable. Sudden increases in power, gas, or fuel prices will hurt both households and firms. If energy prices rise without efficiency gains and supply reliability, inflation will rise, and competitiveness will weaken.

Finally, employment must be brought to the centre of the budget. Startups, freelancing, creative industries, and ICT services are useful, but they cannot absorb the whole pressure of youth unemployment. Bangladesh needs labour-intensive manufacturing, agro-processing, logistics, local services, and apprenticeships linked to real firms. Employment exchanges will help only if they are connected to actual vacancies and training programmes. Otherwise, they will become another administrative platform with little impact.

The budget has many promises. What Bangladesh needs now is a smaller list of reforms that are actually implemented. Realistic revenue targets, transparent incentives, fair taxation, disciplined borrowing, selective ADP implementation, outcome-based social spending, accountable bank reform, predictable energy policy, and job-linked investment support. None of these is impossible. But all require political will. The biggest reform may therefore be simple: stop using the budget as a document of aspirations, and start using it as a document of hard choices.

Dr Selim Raihan, Professor of Economics, University of Dhaka and Executive Director, SANEM. Email: selim.raihan@gmail.com

BANGLADESH'S GREEN BUDGET: A STEP FORWARD, BUT NOT FAR ENOUGH

by Md. Tuhin Ahmed & Mohammad Iftekharul Islam

The government of Bangladesh presented the national budget for FY2026-27 before parliament on 11 June 2026. The budget sets total spending at BDT 9.38 lakh crore and records a deficit of BDT 2.43 lakh crore. It arrives at a time of hardship, when the country faces a deepening gas shortage, rising capacity-payment bills, and a power and energy subsidy expected to exceed BDT 40,000 crore. Energy security now shapes the entire economy. Nonetheless, the Ministry of Power, Energy and Mineral Resources received only BDT 17,345 crore, which is 1.85 percent of the total budget. That share has fallen from 2.15 percent in the revised budget for FY2025-26 and has continued declining year after year. Within this allocation, the Power Division received BDT 14,996 crore, and the Energy and Mineral Resources Division (EMRD) received BDT 2,349 crore. Although the EMRD's allocation rose by 71.96 percent from the previous year's revised budget, the gap between the two divisions remained wide at 84.34 percent. The increase in EMRD funding is largely directed at gas exploration and extraction, not a genuine shift toward renewable energy.

In his budget speech, the finance minister acknowledged that the country's power generation costs have risen sharply due to increased reliance on LNG imports. To reduce import dependence, the government reaffirmed its target of generating 20

“
**A GOVERNMENT SERIOUS ABOUT ENERGY TRANSITION
 CANNOT KEEP PROPPING UP THE SYSTEM IT SEEKS TO
 REPLACE.**
 ”

percent of electricity from renewable sources by 2030 and 30–50 percent by 2050. To support this transition, the FY2026-27 budget introduces, for the first time, a range of fiscal measures focused on solar energy and electric vehicles. On the solar front, the government has proposed a 0% tax rate on the solar sector until 2035, alongside a 5% tax rebate on consumers' solar electricity bills. Import duties, regulatory duties, supplementary duties, and advance taxes on essential solar components have been reduced to zero until June 2031. However, to promote domestic manufacturing, incentives on items such as mounting structures, lithium cells, battery packs, and battery energy storage systems will be withdrawn after June 2028.

The solar energy measures are a welcome step toward the energy transition goal. However, the central problem is that these benefits reach only a narrow group. The order issued by the National Board of Revenue immediately after the budget largely restricted the benefits to VAT-compliant self-consumption producers and projects operating under the Renewable

Energy Service Company (RESCO) model with Power Purchase Agreements. This leaves out thousands of importers, distributors, dealers, retailers, engineering and construction firms, and individuals who finance their own solar systems. The budget also offers no direct allocation for solar irrigation, even though the country operates roughly 17 lakh diesel irrigation pumps that burn imported fuel and drain scarce foreign currency every year. Nor does it offer anything for solar street lighting, both of which are vital for reducing diesel dependence. The duty exemption on raw materials for lithium-ion and sodium-ion batteries expires on 30 June 2028, a window far too short to build a globally competitive battery industry, which typically requires ten or more years of consistent policy support. The budget is also silent on wind energy, despite its potential contribution to Bangladesh's renewable energy mix.

On electric vehicles, the budget significantly lowers the tax burden on imported EVs, from 93 percent to 64 percent for vehicles priced up to USD 25,000, and from 93 percent to 80 percent for those priced between USD 25,000 and USD 50,000. Plug-in hybrid vehicles also benefit, with tax rates reduced from 93–132 percent down to 73–96 percent depending on engine size. All taxes on EV chargers and charging station equipment have been removed. Advance income tax on EVs has been substantially reduced from BDT 2 lakh to BDT 25,000–100,000, depending on the power capacity. By contrast, taxes on conventional internal combustion engine vehicles with engine capacities between 1,200cc and 1,600cc have been raised from 132 percent to 156 percent, a clear signal of policy intent away from fossil fuel-dependent transport.

On the fossil fuel side, the budget continues leaning on established practices. It retains the VAT exemption on LNG imports, extends customs reductions on coal for power plants, and sets extraction targets for local coal, while the EMRD's additional funding is largely directed toward gas exploration. This is significant because domestic gas output has dropped sharply, leaving Bangladesh increasingly dependent on costly and volatile LNG imports for both power generation and industry.

Bangladesh's budget gestures toward a greener future, but good intentions alone will not close the gap between policy and reality. Several urgent course corrections are needed. The zero percent tax and duty concessions on solar energy must cover the entire supply chain, not just VAT-compliant self-consumption producers and RESCOs. Importers, distributors, dealers, retailers, engineering firms, and ordinary households that finance their own solar systems are all currently excluded. A policy that bypasses most of the market cannot transform it.

The government must also address the country's roughly 17 lakh diesel irrigation pumps directly. A dedicated program for solar irrigation, alongside targeted investment in solar street lighting, would begin converting a chronic fiscal drain into lasting domestic capacity and foreign currency savings.

Wind energy cannot be overlooked any longer. Despite its real potential in Bangladesh's renewable energy mix, the budget allocates nothing for it; no fiscal incentives, no planning

support, no dedicated policy. That gap must be filled.

On battery manufacturing, the duty exemption window closing in June 2028 is simply not enough. Building a competitive battery industry takes a decade of stable policy. The government should extend the exemption to at least ten years, giving domestic producers the certainty they need to invest, develop skills, and reach a viable scale.

Finally, and most critically, the budget continues subsidizing the fossil fuels it claims to be phasing out. The LNG VAT exemption and ongoing capacity payments make fossil fuel power appear artificially cheap, discouraging cleaner alternatives. These distortions must be phased out, with the savings redirected into green subsidies, grid upgrades, and renewable energy grants. A government serious about energy transition cannot keep propping up the system it seeks to replace.

Md. Tuhin Ahmed, Lecturer of Economics, Mawlana Bhashani Science and Technology University, and Honorary Deputy Director, SANEM. Email: tuhin.ahmed@mbstu.ac.bd

Mohammad Iftekharul Islam, Research Associate, SANEM. Email: contact.iftekhar.tne@gmail.com

BEYOND BIGGER BUDGETS: CAN HIGHER SPENDING DELIVER BETTER EDUCATION AND HEALTHCARE?

by Nafis Mubarrat

The social sector usually gets close attention in any national budget, as investments in education and health shape a country's human capital, which in turn drives its long-term economic and social development. The FY2026-27 budget puts more money behind both. Education sector gets Tk. 136,606 crore, or 2 percent of GDP, up sharply from Tk. 87,206 crore (1.39 percent of GDP) last year. Health sector gets Tk. 69,409 crore, or 1.02 percent of GDP, compared to Tk. 35,477 crore (0.58 percent) in the revised FY2025–26 budget. Both increases are meant as a first step toward a five-year goal: pushing public spending on education and health to 5 percent of GDP each.

But more money doesn't automatically mean better results. Education spending is still far below international benchmarks. Health spending, meanwhile, has an implementation problem. Budget utilisation in the health sector dropped from 90 percent in FY2015 to just 81 percent in FY2025, and most of that drop came from development spending as it fell from 80 percent utilisation to only 30 percent over the same period. In contrast, non-development expenditure has consistently maintained much higher execution rates. Routine service delivery appears to be functioning relatively well, but the investments needed to build long-term infrastructure and institutional capacity continue to face implementation delays. This raises a fundamental question: will the additional allocations in the FY2026–27 budget translate into better education and health outcomes, or will persistent implementation bottlenecks continue to limit their impact?

The FY2026–27 budget signals a real shift in Bangladesh's healthcare strategy from a treatment-centred model towards one that prioritises prevention, primary healthcare, and system-wide integration. Instead of expanding hospital capacity, the plan is to strengthen community-level healthcare through modern primary care units in every union and urban ward, backed by community clinics and trained health workers. The focus is on the fundamentals of public health such as maternal and child health, nutrition, immunisation, and the early detection of non-communicable diseases. If implemented effectively, these interventions could improve population health while reducing pressure on secondary and tertiary healthcare facilities.

Digitalisation is another big piece of the health reform agenda. The proposed nationwide Health Card, tied to an Integrated Patient Management System and Integrated Patient Referral System, can improve continuity of care by giving healthcare providers seamless access to patients' medical records across facilities. The system could help reduce unnecessary diagnostic tests, minimise medical errors, and improve coordination throughout the referral chain. Alongside these digital reforms, the budget also proposes restructuring service delivery by introducing a National Ambulance Pool and Emergency Services Network, and expanding the purchasing of healthcare services from accredited private hospitals. Collectively, these reforms could mean that patients no longer have to travel to Dhaka for many specialised health services, improving access while reducing long-standing regional inequalities in healthcare.



THE REAL TEST OF THE FY2026–27 BUDGET IS NOT HOW MUCH IT SPENDS ON EDUCATION AND HEALTH, BUT WHETHER THOSE INVESTMENTS TRANSLATE INTO BETTER SERVICES AND STRONGER HUMAN CAPITAL.



None of this will work without a bigger and well-equipped health workforce. The budget plans to recruit 5,000 MBBS physicians, hire more nurses and health workers, reform medical education, and introduce student loans for medical studies to address the workforce shortage that has held the sector back for years. There is also a plan to update the National Essential Medicines List and build up the domestic medical equipment and pharmaceutical industries to create a more resilient and competitive health sector which will not heavily rely on imports anymore.

Despite these ambitious reforms, major challenges remain. Bangladesh continues to have one of the highest levels of out-of-pocket health expenditure among least developed countries, with household financing nearly 79 percent of total health expenditure. Primary healthcare, smarter purchasing, and affordable medicines should ease that burden somewhat. But real financial protection needs something bigger like proper risk-pooling, and steady movement toward univer-

sal health coverage. Without stronger implementation, institutional capacity, and better execution of development spending, higher health allocations alone are unlikely to deliver better healthcare outcomes.

Education is also moving in a similar direction. Rather than just building more schools, the FY2026–27 budget puts the weight on learning quality, skills development, and human capital. Teacher development, research and innovation, technology-enabled learning, competency-based curricula, and tighter links to the job market all sit at the centre of this approach. Combined with greater investment in co-curricular activities, these reforms signal a broader vision of education in which quality is measured not only by academic performance but also by the creativity, leadership, and critical thinking students develop.

Technical and vocational education stands out as one of the biggest bets of the budget. Technical education will now start from Class VI, with hands-on training in ICT, agriculture, healthcare, and tourism. This is to equip students with practical skills from an early stage. The proposal for a compulsory third language and a new loan facility for studying abroad are intended to prepare a workforce that is more productive, globally competitive, and better aligned with the demands of a rapidly changing labour market.

Beyond improving quality and employability, equity and digital access in education also receive considerable attention. Free education for girls now extends to the graduate level. Measures such as providing uniforms and learning materials to disadvantaged students and introducing a nationwide Mid-Day Meal Programme seek to reduce financial barriers to education and encourage better attendance and retention among children from low-income households. On the digital side, the 'One Teacher, One Tab' programme, multimedia classrooms, digital libraries, an Edu-ID system, and the integration of artificial intelligence, robotics, coding, and digital literacy are meant to modernise the classrooms and close the digital gap. There is also a push to bring Bangladeshi researchers abroad back into the fold, supporting innovation and giving higher education more of an international footing.

Despite these positive reforms, important policy gaps remain. While the reduction in corporate tax for private universities from 15 percent to 10 percent should help affordability, the continued VAT on English-medium schools and high import duties on textbooks pull in the opposite direction as they make access more expensive. Likewise, a new stipend for technical and madrasa students is a good step, but education-related social protection overall has not changed much. Ultimately, higher education spending will strengthen human capital only if reforms are effectively implemented, inequalities are reduced, and investments translate into better learning outcomes and market-relevant skills.

Nafis Mubarrat, Research Associate, SANEM
Email: nafis.sanem@gmail.com