Consultation Event Report

Budget FY25-26 in the Context of LDC Graduation

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Consultation Overview

On 21 June 2025, Research and Policy Integration for Development (RAPID) organised a consultation event, titled "Budget for FY 2025–26 in the context of LDC graduation". The event was graced by the presence of Dr Wahiduddin Mahmud, Hon'ble Advisor to the Planning Ministry, as the Chief Guest. Special guests included Mr Mahbubur Rahman, Hon'ble Secretary, Ministry of Commerce, and Dr Monzur Hossain, Hon'ble Member (Secretary), General Economic Division (GED), Planning Commission.

Dr Rubana Huq, Hon'ble Vice-Chancellor, Asian University for Women, and former President of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), attended the event as the Guest of Honour.

The esteemed panellists included Mr Fazlee Shamim Ehsan, Executive President, BKMEA; Ms Doulot Akter Mala, President, Economic Reporters Forum; Mr Shawkat Hossain Masum, Head of Online, *Prothom Alo*; and Ms Vidiya Amrit Khan, Vice President, BGMEA.

RAPID Chairman, Dr M A Razzaque, delivered the keynote presentation, setting the context for the discourse. The consultation was moderated by Dr Abu Eusuf, Executive Director, RAPID, and Professor of Development Studies at the University of Dhaka.

Keynote Presentation by Dr M A Razzaque, Chairman, RAPID

- Dr Razzaque began by noting that structural challenges in the economy cannot be addressed within a single fiscal year or budget cycle.
- He acknowledged that the FY2025–26 budget was prepared during a time of significant macroeconomic stress and political transition.
- Stabilisation, particularly managing inflation and reserve shortfalls, remains the foremost priority.

- The adoption of a contractionary fiscal policy aligns appropriately with the tight monetary stance, indicating coordinated policy action.

Macroeconomic Context and Fiscal Outlook

- Several positive developments were noted, including improved remittance inflows, relative exchange rate stability, gradual improvement in foreign exchange reserves, and clearance of overdue external payments.

- The government's effort to ensure coherence between fiscal and monetary policies has reinforced policy credibility.

- However, Bangladesh's fiscal space has become extremely limited, posing risks to both stability and growth.

- Public spending stands at only 12.7 per cent of GDP, among the lowest globally. Bangladesh significantly underinvests in education, health, and social protection compared to international benchmarks. This is largely due to its persistently low tax-to-GDP ratio, which has averaged around 7.6 per cent over the past decade.

- While the IMF considers a tax-to-GDP ratio of at least 15 per cent essential for sustained growth and achieving development goals, the NBR's Medium to Long-Term Revenue Strategy sets a modest target of reaching just 10.5 per cent by FY2034–35—reflecting a lack of ambition in addressing the country's chronic revenue shortfall.
- The FY26 NBR revenue target assumes a 7.7% increase over the revised FY25 target. However, if actual collections in FY25 fall short—as projected by RAPID—revenue would need to grow by about 33.4% to meet the FY26 goal, marking a historically unprecedented jump.

Debt and Interest Payments

- Interest payment obligations are rising rapidly, reducing space for productive spending. In FY2025–26, nearly one-third of projected tax revenue may be required just for interest payments.

- The government is increasingly borrowing to service debt, with interest payments in FY26 budget almost equal to planned foreign borrowing.

Private and Public Investment

- While the investment rate, at around 30–31 per cent of GDP, appears adequate, the quality and sectoral allocation remain suboptimal.

- Private investment outside of garments remains sluggish, limiting economic diversification and employment generation.

- Technological upgrading and capital intensity in the garments sector have limited employment growth despite rising exports.

- Public investment is essential for employment creation and should be better aligned with diversification goals.

Social Protection and Reform

- Nearly 49 per cent of the total social protection budget is still allocated to government pensions and general subsidies. When these are excluded, core social protection spending amounts to only 1.03 per cent of GDP. According to ILO estimates, actual spending on social protection is as low as 0.9 per cent of GDP.
- The number of schemes has been reduced from 140 to 95, which is a welcome step towards rationalisation. However, the Taskforce recommendation to reduce schemes to 15 to 20 will require some time. .
- Urban poor and vulnerable populations have not received adequate policy focus.
- No clear strategy has been laid out for the transition of lifecycle-based programmes to the Ministry of Social Welfare (MoSW), as outlined in the National Social Security Strategy (NSSS).

LDC Graduation and Strategic Preparedness

- The interim government has adopted the Smooth Transition Strategy (STS) to address risks associated with LDC graduation.
- Key threats include loss of duty-free market access in most countries, loss of export subsidies, increased trade compliance requirements, and reduced access to concessional finance and development assistance
- The STS envisions a transition to a higher value-added, productivity-driven growth model. However, resource allocation in the FY2025–26 budget falls short of what is needed for effective STS implementation. It does not provide a costing framework for STS implementation
- Some steps for tariff rationalisation, trade policy modernisation, and institutional capacity building were reflected in the budget; however, they are not adequate.
- No significant progress is evident in managing dependence on trade taxes, which is vital for future tariff reforms and revenue sustainability.

Concluding Reflections

- The proposed budget makes noteworthy efforts to address stabilisation and macroeconomic risks.
- However, meaningful progress will depend on:

    Stronger domestic revenue mobilisation

    Enhanced public spending efficiency

    More decisive structural reforms

- Fiscal space must be expanded to enable transformative investment in social sectors, infrastructure, and economic diversification.
- Moreover, implementation remains a persistent challenge. Effective execution of reforms and allocations will determine long-term success.

Remarks by Mr Shawkat Hossain Masum, Head of Online, Prothom Alo

- Mr Masum noted that while the FY2025–26 budget prioritises macroeconomic stability, structural issues continue to hinder implementation and investment.
- The budget deficit challenge lies more in financing than in size, with reliance on external sources such as ADB, World Bank, and upcoming IMF support.
- He pointed out a lack of concrete measures to boost private investment, stressing that even lower interest rates would not be effective without addressing deeper structural constraints.
- The RMG sector still remains a bright spot for employment, but overall investment sentiment remains weak and needs urgent reform.
- Mr Masum questioned whether Bangladesh is actually prepared for LDC graduation. He highlighted that the STS is comprehensive but risks becoming aspirational without clear reform action.
- Bangladesh's slow progress on Free Trade Agreements, with only Bhutan as a partner so far, weakens its post-graduation positioning.
- Compliance with human and labour rights will be central to future EU agreements.
- Drawing a parallel with 2005 RMG quota removal concerns, he acknowledged past resilience but warned that current challenges demand more deliberate and timely reforms.

Remarks by Mr Fazlee Shamim Ehsan, Executive President, BKMEA

- Mr Ehsan emphasised the significant challenges Bangladesh will face following graduation from LDC status, particularly in securing Generalised Scheme of Preferences Plus (GSP+) benefits.
- He highlighted that compliance with GSP+ conditionalities will necessitate substantial reforms in labour laws and greater provision of benefits to workers.
- The FY2025–26 budget does not adequately reflect the priorities outlined in the government's own White Paper on the Bangladesh Economy.
- Of the total budget of nearly BDT 8,00,000 crore, only BDT 438 crore has been allocated to the Ministry of Labour and Employment, a proportion he described as negligible.
- He expressed concern that low-income labourers, particularly those working full weeks from Saturday to Thursday, are not benefiting from food-based support programmes such as the Open Market Sale (OMS) scheme.
- Less than 1 per cent of total social protection expenditure benefits this segment of the workforce, while the majority of spending continues to be absorbed by government pensions.
- Mr Ehsan called for targeted measures in the budget to address the needs of workers in both the formal and informal sectors.
- In light of LDC graduation, he urged policy attention to strengthen domestic textile production and reduce import dependence, particularly on India and China.
- Investor confidence must be restored through concrete policy assurances, especially regarding energy availability.

- He pointed out that gas shortages remain a major obstacle to industrial expansion, noting that reliable gas access often determines whether banks will approve industrial loans.
- Mr Ehsan concluded by asserting that there is no alternative to expanding the industrial base if Bangladesh is to navigate the post-LDC landscape successfully.

Remarks by Ms Doulot Akter Mala, President, Economic Reporters Forum (ERF)

- Ms Mala noted that the current fiscal constraints left little room for ambition in the budget or LDC graduation preparedness.
- Infrastructure and logistics in key industrial zones like Ashulia and Gazipur remain inadequate, undermining investor confidence.
- She stressed the need to move from planning to implementation, urging full execution of the STS.
- The budget lacked a roadmap for domestic revenue mobilisation, including specific strategies from tax authorities.
- She emphasised the importance of increased social spending, particularly on health and education.
- Tax reforms are overdue but challenging, and must be grounded in evidence. A comprehensive, updated taxpayer database is essential.
- She highlighted the SME sector's employment potential and called for more support to labour-intensive industries beyond RMG.
- Investment figures (24–25 % of GDP) appear overstated, as they are not translating into equivalent job creation.

- The current tax structure is regressive. The VAT system disproportionately burdens consumers and low-income earners, while benefiting businesses and tax officials.
- Widespread vested interests obstruct automation and discourage tax compliance.
- Inequality is worsening, with limited tax collection from high-income groups and growing pressure on the middle and lower classes.
- The tax expenditure framework is flawed, misclassifying tax-free income thresholds as exemptions and distorting data for development partners.
- She advocated for a national tax database and stronger analytical capacity to enable evidence-based fiscal policy.

Remarks by Ms Vidiya Amrit Khan, Vice President, BGMEA

- Ms Khan appreciated the decision to keep electricity prices unchanged but expressed concern over inadequate electricity and gas supply, which severely disrupts factory operations and hampers debt repayment.
- She welcomed the allocations of BDT 125 crore for women entrepreneurs and BDT 100 crore for youth entrepreneurship, but noted that broader structural challenges remain unaddressed.
- Key LDC graduation concerns, including the EU’s due diligence directive, climate regulations, and circular fashion obligations, were not adequately reflected in the budget.
- Labour welfare, especially in the context of international labour regulations, must be prioritised through policies that enhance workers' wellbeing, income, and purchasing power.
- The US tariff issue and widening trade deficit are major concerns. She stressed the need to boost imports from the US and advocated for establishing a bonded warehouse for US premium cotton to improve the trade balance and competitiveness.

- On LDC graduation, she argued that readiness—not the graduation itself—is the real issue. Bangladesh must prioritise Free Trade Agreements (FTAs), highlighting India's extensive FTA network as a reference.
- The recycling industry, particularly in garments, was highlighted as a key sector for employment and green growth. However, its informality and high VAT rates deter investment.
- She called for the formalisation of the **Jhut** (garment waste) sector, which is large, clustered, and holds potential for job creation and tax revenue.
- Foreign investment is hindered by informal and miscellaneous costs. Addressing these hidden barriers requires open dialogue among industrialists, the government, and the media.
- She emphasised the urgent need for the budget to reflect stronger commitments to green and climate initiatives, especially in anticipation of EU and global sustainability mandates.

Remarks by Dr Rubana Huq, Hon'ble Vice-Chancellor, Asian University for Women, and former President, BGMEA

- Dr Rubana Huq expressed concerns about Bangladesh's readiness for LDC graduation, particularly the challenge of double transformation.
- She raised concerns about Article 29, which could invoke safeguards and negatively impact Bangladesh's exports unless active economic diplomacy is pursued. The US reciprocal tariff and the unpredictability of the Trump administration add to the uncertainty.
- Despite ratifying many international conventions, she pointed out that implementation is lagging behind.

- The most pressing issue, she stated, is stabilisation—ensuring economic stability is crucial in the current phase.
- She critiqued the low education budget, emphasising that significant resources should be allocated to educating the population and focusing on manpower development.
- Dr Huq stressed the need for sector diversification as the first priority. This will be vital to sustain economic growth post-graduation.
- With 74% of exports dependent on duty-free, quota-free access, she cautioned that graduation should not be pursued hastily without preparing for the challenges ahead.
- She highlighted the importance of improving logistics efficiency to support economic growth and diversification.
- A national initiative is needed to push for sector diversification. She also advocated for a proper policy ecosystem to track FTAs and RTAs.

Remarks by Dr Monzur Hossain, Hon'ble Member (Secretary), GED

- Dr Monzur clarified that the budget was developed with a clear plan, referencing the Task Force report by GED, which he co-authored with Dr Razzaque and other experts, as the guiding principle for the proposed budget. Additionally, the macroeconomic framework of the Finance Ministry, with projections for the next three years, was used as a key document.
- The 9th Five-Year Plan, previously a political document, was cancelled. In its place, the government is working on an interim strategy document.
- Three Key Aspects of the Budget:

1. Macroeconomic Stability: Dr Monzur highlighted that economic stability is the main priority. The economy is recovering, inflation is decreasing, and this trend will continue due to the contractionary policies in place. There is no longer a mismatch between fiscal and monetary policy, unlike in previous years.

2. Public Expenditure Efficiency: He mentioned that politically motivated projects have been scrapped, while others nearing completion are being continued but with efforts to improve efficiency. The absorption capacity of projects was also considered in the approval process.
3. Revenue Mobilisation and Expenditure Balance: The fiscal space is constrained, and there is a significant need to increase fiscal spending while balancing it with revenue mobilisation.

- Dr Monzur, a proponent of LDC graduation, emphasised that the reforms necessary for graduation should begin immediately. He argued that there is no benefit in delaying the process.

Remarks by Mr Mahbubur Rahman, Hon'ble Secretary, Ministry of Commerce

- He highlighted that while the budget is contractionary overall, it is expansionary in terms of social safety nets, aiming to be more pro-poor. The government is reviewing safety net beneficiary lists to better target those most in need.

- Bangladesh can no longer delay LDC graduation, having met all three eligibility criteria back in 2021, with a grace period already granted due to COVID-19.

- Graduation will bring a significant erosion of trade preferences and eliminate the scope for export subsidies, except in markets like the UK.

- An action plan must be implemented to navigate post-graduation challenges.

- Bangladesh risks losing up to BDT 50,000 crore if an FTA is signed with China.

- Bangladesh enjoys trade surpluses with key partners including the UK, EU, USA, Canada, Japan, and Korea. FTA negotiations are underway, with talks expected to conclude with Japan by August and with Korea by year-end. Proposals have also been sent to Canada and African countries.

- The USA currently exports around USD 8 billion to Bangladesh, while Bangladesh exports only around USD 2 billion to the USA. Therefore, efforts have begun to divert trade, which will help in negotiating reciprocal trade terms or advance towards an FTA.

- Bangladesh is also pursuing export diversification through sectoral development and institution building. If agreements with African countries succeed, the pharmaceutical sector could benefit substantially.

Remarks by Dr Wahiduddin Mahmud, Hon'ble Adviser, Ministry of Planning

- Efforts have been made to increase the social protection budget, with an initiative to remove undeserving beneficiaries. NGO collaboration at the field level as a pilot could be more effective.

- He critiqued the high maintenance expenses in the budget, suggesting they could be significantly reduced.

- The ADP has been reduced by cutting poorly performing projects.

- He pointed out the multiple constraints in project implementation, from the DPP stage to ECNEC approval, and the overlapping of projects taken separately by different ministries, leading to extra costs.

- IMED under the Planning Ministry will be strengthened to ensure rule-based and transparent project implementation. The Public Procurement Act has been passed but is not yet fully implemented due to missing guidelines, resulting in corruption in the tender process.

- The reduction in the ADP is aimed at cutting the deficit and ensuring fiscal stability. Only 20–30 new projects were approved for FY2026, with the rest being ongoing projects.

- There is a challenge in finding capable personnel for development projects.

- The interim government will leave a list of initiatives for transparency.

- Dr Wahiduddin emphasised that postponing LDC graduation is unlikely. Post-graduation challenges include patent issues and software piracy.

- He stressed the importance of FDI and highlighted that many projects lack provisions for technology transfer, which increases dependency on foreign expertise. Local engineers need skills development for sustainability.

- The World Bank is assisting with online project recording, but technology transfer is essential for long-term success.

- CMSEs generate significant employment, and he proposed creating a flexible bank under Bangladesh Bank, in collaboration with NGOs and MFIs, to support small entrepreneurs, especially women.

- Natural gas extraction has been systemically prioritised, including discovery, extraction, distribution, and transmission of gases, especially in the gas fields where surveys say there is a 99% chance of finding natural gas. This is in lieu of dependence on rental gas and LPG.
- Another big problem is a lack of coordination in projects, evidenced by the insufficient channel at the Payra Port despite there being four channels. This leaves large sums of profits unrealised.
- Payra port, power plants, and special economic zone can be made more efficient. A consolidated fund can be made from the profits of these three ventures, which could finance dredging of the port, which would aid development over the medium and long term, and could allow ships from Singapore to directly approach the port.
- The only roads megaproject that was sanctioned was the link road with Bhanga expressway, which, despite leading to the only international standard expressway in Bangladesh, is in disrepair. The Bhanga to Payra, which is part of the Kuakata road project, has been launched.
- Some megaprojects have been undertaken that were previously planned but never launched. These are trade-related megaprojects. One of these is the Matarbari project. This project has been undertaken in coordination with Japan. A blueprint for Matarbari's suburb has been developed, which will serve as a tourist destination and hub for sea-based fisheries.
- The Chittagong Bay Terminal expansion has also been approved. Even though the Planning Commission didn't want to undertake any megaprojects, there are a couple that they felt compelled to ensure are efficiently implemented.
- There was confusion regarding implementation of Khulna's Banglabandha Port, which will now be implemented by a Chinese company. The interim government is quietly working on numerous projects like this. This is a BDT 4000/5000 crore project, whose costs have been rationalised by BDT 500 crore.

Summary

The consultation on Budget FY2025–26 in the Context of LDC Graduation convened a diverse group of stakeholders, including policymakers, academics, journalists, researchers, and industry leaders. The stakeholders emphasised the need for urgent structural reforms, efficient public expenditure, enhanced domestic revenue mobilisation, and tariff rationalisation, among other measures, to strengthen Bangladesh's inclusive and sustainable development. While the budget focuses on macroeconomic stabilisation, panelists stressed that sustained reform momentum and effective implementation will be essential to navigate the post-LDC transition successfully.