Bangladesh needs to choose human development over fiscal convenience

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The downturn in the economy, combined with persistently high inflation, is worrisome for all citizens, but especially bad news for the poor and vulnerable segments of the Bangladeshi population.

This group is least equipped to cope with the underlying economic challenges. Owing to the downturn, employment prospects have dwindled. The latest available Labour Force Survey (2024) shows a reduction in employment across all three major sectors — agriculture, manufacturing and services. World Bank projections suggest a rising incidence of moderate and extreme poverty since 2022.

In this grim social environment, it is heartening to see a renewed focus on social protection and human development in the FY2027 national budget.

The allocations for health, education and social protection have all received a meaningful boost after several years of neglect and low spending. If these allocations can be protected in practice and the allocated amounts spent well, this would be welcome news for the poor and the vulnerable.

In all previous budgets, allocations for these sectors were substantially larger than what was actually spent. The gap between allocations and actual expenditure has widened in recent years owing to substantial shortfalls in targeted tax revenue collections.

Additionally, the quality of spending has been a concern. The shortfall in actual tax collections relative to budget targets, the inability to protect spending on human development, and lingering concerns about the quality of spending are all serious challenges for budget management and implementation. These challenges will require strong efforts during the implementation of the FY2027 budget.

It is important to note that even if the full budget allocations for human development were spent, they would amount to only 3.43% of GDP.

While this represents a sharp increase over the 2.49% of GDP spent in FY2026, it pales in comparison with human development spending in Vietnam (11.4% of GDP), Thailand (9.1% of GDP), Malaysia (8.6% of GDP), and Indonesia (5.5% of GDP).

Yet, this proposed increase is a welcome development, and every effort must be made to protect the budgeted allocations against cutbacks.

The first challenge is to implement an adequate programme of tax reforms to enable a reasonable increase in tax collections. The FY2027 budget sets a highly ambitious target of increasing tax revenue from Tk4.1 trillion (6.7% of GDP) collected in FY2026 to Tk6.3 trillion (7.8% of GDP).

This amounts to a whopping 54% increase at a time when the economy is facing a serious downturn, with GDP projected to grow by only 3.7% and imports expected to grow only moderately. The government has announced several tax measures to expand the tax base, including reducing tax expenditures.

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This must be complemented by efforts to enhance tax compliance by simplifying tax filing and avoiding all forms of taxpayer harassment and rent-seeking behaviour.

Voluntary tax compliance is the only sustainable way to expand the revenue base. Therefore, providing incentives for voluntary tax compliance is essential.

Digitisation of tax filing is a smart policy move, but it has been made needlessly complicated through the OTP system.

This should be simplified by removing the OTP requirement. Any taxpayer or authorised representative with a valid tax ID should be able to file taxes online from anywhere without requiring a Bangladeshi mobile phone-based OTP.

Taxpayers should also have the option of filing online or submitting a hard copy at their convenience. The income-expenditure and wealth reconciliation requirement should be eliminated to remove a major source of tax harassment and rent-seeking behaviour.

Audits are another source of harassment and rent-seeking behaviour. As such, audits must be highly selective, productive and criteria-based.

A major instrument of non-tax revenue mobilisation is the reform of state-owned enterprises (SoEs). Through corporate governance and pricing reforms, the SoE sector can be turned around to generate a reasonable rate of return on assets instead of incurring losses.

Even with tax and SoE reforms, it is unlikely that the steep tax revenue target can be achieved in view of the serious economic downturn.

Therefore, it will be essential to prepare a contingency plan to protect priority spending from cutbacks in the event of a significant revenue shortfall, as is likely.

Protection of human development spending must be a core component of this contingency plan. Its objective should be to concentrate cutbacks on lower-priority spending areas rather than on human development.

The scope for such a contingency plan is limited by the fixed nature of most current expenditure items, such as salaries and pensions, operating costs, interest payments on public debt, and transfers to local government institutions.

Together, these account for about 50% of the total budget. The remaining 50% consists of ADP spending, subsidies and other expenditure. ADP spending is the largest component of this discretionary spending and has typically borne the brunt of revenue shortfalls.

Over the years, subsidies—especially energy subsidies—have grown significantly.

In FY2025, subsidy spending soared to 2.42% of GDP, while spending on human development was a mere 2.31% of GDP. This pattern of public expenditure is deeply unfortunate and must be reversed. A critical element of the contingency spending plan, therefore, must be to protect human development spending primarily by reducing subsidies.

There are several policy options.

First, energy subsidies should be reduced through appropriate pricing of energy products, a greater role for the private sector in energy supply, and corporate governance reforms in state-owned energy enterprises.

Second, subsidies on exports and remittances should be eliminated by allowing greater flexibility in the exchange rate, which is intended to be market-based.

Third, reforming SoEs can reduce subsidy spending on non-energy enterprises.

Some cutbacks in the ADP may also be necessary. The FY2027 budget announced more than a doubling of ADP spending from about Tk1.4 trillion actually spent in FY2026 to Tk3 trillion in FY2027.

Even if resources were not a constraint, implementation capacity would prevent such a massive increase in ADP spending.

Therefore, while the proposal to increase ADP spending from its dismal FY2026 level is sound, it must be aligned with both resource availability and implementation capacity. Higher ADP spending on priority infrastructure, water resources, agriculture and human development is necessary to boost GDP growth. To achieve this, alongside domestic resource mobilisation, policy efforts must also focus on strengthening implementation capacity.

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