



Key policy priorities for the next government

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Macroeconomic stability has returned to Bangladesh, but at a heavy social cost. Slower growth, weak investment, rising youth unemployment, and growing inequality now define the economic landscape the next government will inherit after the February 2026 election

The national election is scheduled for 12 February, 2026. The new government will face daunting socio, political and economic challenges. In this write-up, I provide a brief assessment of the current macroeconomic situation and highlight policy priorities for the new government.

Significant progress has been made in stabilising the macroeconomy. The current account deficit of the balance of payments has been contained, there has been a recovery of export growth, reserves are increasing, the exchange rate is stable, and the inflation rate has fallen modestly. Reforms are underway in the banking sector and tax collection, but results in improvement in the banking portfolio quality and tax-to-GDP ratio are not yet visible.

As against these positive developments, the private investment rate has fallen significantly, public ADP spending has been cut sharply, capital imports growth remains substantially negative, and GDP growth has fallen to a low of 4% in FY2025. The slowdown in GDP growth, continued high inflation, falling real wages and cutbacks in public spending on social protection have taken a toll on social wellbeing. Poverty rate has increased and the youth unemployment problem has worsened, especially for the educated youth. The underemployment problem has become more acute, and the incidence of income inequality remains pervasive.



Illustration: TBS

Against the backdrop of the current macroeconomic environment, what should be the key policy priorities for the next government?

Restore political stability and rule of law: The biggest challenge for the new government will be to reduce political uncertainties and restore the rule of law. A quick restoration of the rule of law irrespective of political connection or party affiliation and ensuring the full independence of the judiciary will be critical elements to restore business confidence.

Improve the investment climate: A critical factor for the recovery of the GDP growth momentum is the recovery of private investment. In addition to political stability and the rule of law, the recovery of domestic and foreign private investment will require strong progress with strengthening the investment climate based on reducing the cost of doing business. Further investment deregulation, improving the foreign currency regime with simplified inflow and outflow of foreign capital, tax deregulation and simplification, port efficiency enhancement, and improved availability of skilled labour are all important elements of a strategy to reduce the cost of doing business.

Reform fiscal policy: Bangladesh has one of the lowest tax/GDP ratios in the world, sliding to 6.8% in FY2025. An additional 1% of GDP is mobilised through non-tax revenues. Some 76% of this total revenue, amounting to 7.8% of GDP is eaten up by fixed expenditure items involving civil service salaries and pensions, material cost, interest payments and transfers to local authorities for their upkeep. As a result, there is little fiscal space to accommodate other critical spending, including public investment. In FY2025, expenditure cutbacks to manage fiscal deficit have caused ADP spending to fall to only 2.7% of GDP; spending on education declined to 1.5% of GDP; spending on health fell to 0.34% of GDP; spending on water to 0.8% of GDP; and spending on social protection to 0.7% of GDP. These levels of public spending are inconsistent with strategies for the recovery of GDP growth, the reduction of poverty, and the lowering of income inequality.

So, the focus on tax collections and public resource mobilisation will be of paramount importance to support the recovery of GDP growth and regain the momentum on poverty reduction. On the tax front, important reforms include implementation of the newly-created tax policy unit with professional staff and leadership, strengthening the NBR with professional

staffing and ICT capabilities, rapid digitisation of tax filing and payments, simplifying tax laws, tax forms and tax collection process, conducting selective and productive audits, and minimization of tax exemptions. The objective of tax reform should be to collect an additional 3% of GDP by FY2031.

A strong policy priority should be to strengthen the local government authorities with well-defined responsibilities and fiscal autonomy. Fiscal autonomy entails both the establishment of a well-defined resource transfer system from the national budget as well as the institution of a thoughtful property tax system. Given the surge in land-based property values, implementation of a proper property tax in major urban centres could yield an additional 1% of GDP in government revenues, which would be a major source for improving basic urban services.

Some quick revenue gains can be made by reforming the state-owned enterprises (SoEs). The SoEs continue to suffer from huge operating losses and absorb over 2% of GDP annually in terms of net fiscal transfers from the budget. This can be reversed with corporate governance and pricing reforms, which could eliminate the losses and yield additional non-tax revenues of 1.5-1.8% of GDP.

On the spending front, priority reforms include cutbacks in energy subsidies, elimination of subsidies on remittances and exports (because the market-based exchange rate provides adequate incentives, while the cutback in trade protection will also support exports), reduction in interest cost through reduction in domestic financing of fiscal deficits, and greater spending on health, education, water, and social protection.

Push export diversification: With the upcoming LDC graduation, the challenge of export diversification needs to be tackled upfront. A diversified export base is also critical for job creation in labour-intensive export-oriented activities. Along with a competitive exchange rate, this calls for a major overhaul of the trade policy. Long-standing heavy trade protection, imparted through high tariffs on consumer goods and a range of regulatory and supplementary duties, creates a large anti-export bias and provides incentives to invest in the protected domestic activities. Additionally, the cost of trade logistics needs to be lowered through increases in port efficiency and improvements in customs procedures,

Dynamise the MSE sector: The micro and small enterprise sector (MSEs) holds the key to employment growth. The reform agenda is well known but reform efforts are lacking. The MSE reform agenda includes strengthening access to institutional credit, participation in global value chain (GVC), promoting technology transfer, easing tax and regulatory constraints, and establishing a one-stop shop for MSE promotion in the spirit of the US Small Business Administration (SBA).

Strengthen education and training: The best way to reduce poverty and income inequality is to enable all citizens to participate effectively in the job market. Along with the need to address the disabling social norms and biases against female labor force participation, a critical need is to sharply upgrade the quality of education and enhance the access to training. This is a long-term agenda and will require years of sustained efforts.

In education, the most pressing needs are to enhance public spending from 1.5% of GDP presently to 3.0% of GDP by FY2031, decentralize primary and secondary education administration to local governments, strengthen school infrastructure with better physical and ICT-related facilities, strengthen the teaching of science, maths, English and ICT, enhance enrollment in science and technology departments, enhance the quantity and quality of teachers, and reform the University Grants Commission (UGC).

The supply of training to the labour force is dismal. According to LFS2024, less than 1% of the workforce had any access to training. This is a major policy failure and must be corrected speedily to create jobs for the large pool of unemployed youth. Creative solutions must be found, learning from the experiences of East Asia and OECD countries. Public-private partnerships, including a role for NGOs, will need to be a part of the training strategy.

Sharply improve social protection: In 2015, Bangladesh adopted a comprehensive national social security strategy (NSSS). Unfortunately, implementation has been weak. In addition to resource cutbacks, falling to less than 1% of GDP excluding civil service pension, most of the NSSS structural reforms have not been implemented. A strong social security system is a critical element of any strategy to reduce poverty and income inequality. Policy priorities include increasing social protection spending from 0.7% of GDP in FY2025 to 2% of GDP by FY2031, strengthening efforts to fully implement the structural reforms proposed in the NSSS, and establishing a results-oriented M&E system to monitor progress on a yearly cycle with

review and approval by the cabinet.

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