

Bangladesh FY2026–27 Budget: Navigating Macroeconomic Rebalancing, Fiscal Consolidation, and Financial Sector Reforms — A Data-Driven Policy Perception.



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Bangladesh's FY2026–27 national budget is being formulated at a pivotal juncture marked by heightened macroeconomic imbalances, constrained fiscal space, external sector pressures, and structural weaknesses across revenue administration and financial intermediation. In this context, the upcoming budget is expected to function not merely as an expenditure framework but as a comprehensive macro-fiscal consolidation and structural reform instrument. The policy environment is characterized by persistent inflationary pressures, exchange rate volatility, elevated debt servicing obligations, weak domestic resource mobilization, and fragilities in the banking and capital market ecosystems. Consequently, the FY2026–27 budget must prioritize macroeconomic stabilization while simultaneously advancing medium-term structural transformation. Recent macroeconomic indicators reflect a constrained yet stabilizing economic environment. Real GDP growth is estimated within the range of 5.0%–5.5%, while headline inflation remains structurally elevated at approximately 8%–10%, indicating persistent demand-supply mismatches and cost-push dynamics. The tax-to-GDP ratio remains low at 7.5%–9%, underscoring weak fiscal capacity and narrow revenue elasticity. The fiscal deficit is estimated at 4.5%–5.5% of GDP, reflecting expansionary expenditure commitments amid constrained revenue buoyancy. Meanwhile, the non-performing loan (NPL) ratio in the banking sector remains elevated at 10%–15%, indicating persistent asset quality stress. Market capitalization remains comparatively shallow at 15%–25% of GDP, reflecting underdeveloped equity market depth. (Ref: IMF Country Report 2025–2026; Bangladesh Bank Monetary Policy Report 2025; BBS Inflation Statistics 2025). A fundamental structural constraint lies in Bangladesh's suboptimal revenue mobilization framework. The fiscal architecture remains heavily skewed toward indirect taxation, with approximately 70% of total revenue derived from VAT and customs duties, while direct tax contributions remain comparatively underdeveloped. This indicates a low degree of tax progressivity and limited revenue diversification.

In comparative terms, Bangladesh's tax-to-GDP ratio significantly lags peer emerging economies such as India (11%–13%) and Vietnam (17%–19%), while advanced economies maintain ratios exceeding 30%. This structural gap reflects inefficiencies in tax

administration, limited compliance enforcement, and a narrow formal sector tax base. (Ref: IMF Fiscal Monitor 2025; World Bank Revenue Statistics Database)

From a public debt sustainability perspective, Bangladesh remains within moderate thresholds in terms of debt-to-GDP ratio (approximately 35%–40%). However, debt servicing dynamics reveal increasing fiscal rigidity. Interest expenditure now accounts for approximately 20%–25% of total revenue expenditure, thereby crowding out fiscal space for capital expenditure and social investment. The divergence between revenue growth and debt servicing obligations is emerging as a key constraint on fiscal maneuverability, raising medium-term concerns regarding fiscal sustainability and expenditure composition efficiency. (Ref: Ministry of Finance Fiscal Report 2025; IMF Debt Sustainability Analysis 2026). The financial intermediation structure continues to exhibit systemic inefficiencies, particularly within the banking sector. Asset quality deterioration, reflected in elevated non-performing loan ratios, weak credit risk assessment frameworks, and governance deficiencies, continues to undermine financial sector resilience. Concentration risk in large borrower exposures further exacerbates systemic vulnerability. The persistence of these structural weaknesses indicates suboptimal credit allocation efficiency, which in turn constrains private sector investment and productivity growth. (Ref: Bangladesh Bank Financial Stability Report 2025). The capital market remains characterized by shallow depth, limited institutional participation, and elevated volatility. Market capitalization remains within 15%–25% of GDP, significantly below emerging market benchmarks. The market structure is predominantly retail-driven, with limited institutional intermediation, resulting in heightened susceptibility to speculative cycles and liquidity distortions. Weak corporate governance standards, asymmetric disclosure practices, and limited enforcement of regulatory compliance continue to constrain the development of an efficient price discovery mechanism. (Ref: Dhaka Stock Exchange Annual Review 2025). The domestic bond market remains underdeveloped, with long-term financing predominantly intermediated through the banking system. Bond market penetration is estimated at approximately 5%–10% of total financing flows, indicating a significant structural imbalance in the financial system. This bank-centric financing model increases maturity mismatch risks within the banking sector while limiting the availability of long-term capital for infrastructure and industrial development. The absence of a deep sovereign and corporate bond market remains a key structural bottleneck in financial sector development. Inflation dynamics remain a central macroeconomic challenge, with headline inflation persistently ranging between 8%–10%. Food inflation continues to exceed general inflation, indicating supply-side constraints and distribution inefficiencies. Real wage growth has remained subdued, resulting in erosion of household purchasing power and weakening aggregate demand stability. (Ref: Bangladesh Bureau of Statistics Inflation Report 2025).

A comparative policy assessment indicates that the FY2025–26 budget primarily emphasized macroeconomic stabilization, fiscal restraint, and inflation containment. In contrast, the FY2026–27 budget is expected to adopt a more structural reform-oriented stance, focusing on revenue modernization, financial sector restructuring, capital market deepening, bond market development, and labor market expansion. From a macro-fiscal policy standpoint, several

structural constraints remain evident. First, revenue inelasticity continues to limit fiscal space and increases dependence on borrowing. Second, the financial system remains excessively bank-centric, resulting in systemic concentration risk. Third, capital markets remain insufficiently developed to perform effective capital allocation functions. Fourth, rising debt servicing obligations are progressively crowding out development expenditure. Fifth, inflation persistence continues to erode real income growth despite nominal GDP expansion. To address these structural constraints, the FY2026–27 budget requires a coordinated policy framework anchored in institutional reform and financial deepening. On the revenue side, priority must be given to digital tax administration, broadening of the tax base, reduction of VAT dependency, and strengthening of compliance enforcement mechanisms to enhance revenue buoyancy and elasticity. Within the banking sector, policy interventions should include the establishment of independent asset quality review mechanisms, strengthening of supervisory autonomy of the central bank, implementation of risk-based lending frameworks, and resolution strategies for non-performing assets to restore financial stability and credit efficiency. In capital markets, regulatory strengthening, enhanced disclosure standards, institutional investor participation, and enforcement of corporate governance frameworks are essential to improve market efficiency and investor confidence. Parallely, bond market development should be accelerated through sovereign infrastructure bonds, corporate debt issuance incentives, and expansion of Islamic Sukuk instruments to diversify long-term financing sources. Inflation management requires a combination of supply-side interventions, improved logistics efficiency, targeted fiscal subsidies, and import facilitation for essential commodities to stabilize price levels. Employment generation strategies should prioritize SME development, export diversification, ICT sector expansion, and human capital investment aligned with labor market demand. Governance reforms remain a cross-cutting imperative, including digitalization of public financial management systems, performance-based project monitoring frameworks, and strengthened anti-corruption enforcement mechanisms to enhance fiscal efficiency and reduce implementation leakages.

In conclusion, the FY2026–27 budget represents a critical inflection point in Bangladesh’s macroeconomic policy trajectory. The economy is transitioning from a phase of stabilization to one requiring deep structural adjustment and institutional strengthening. Empirical indicators clearly demonstrate that the binding constraints are rooted in revenue inefficiency, financial sector fragility, and underdeveloped capital markets. The effectiveness of the FY2026–27 budget will ultimately depend not on its nominal size but on its capacity to deliver credible structural reforms, strengthen macro-financial stability, and enhance allocative efficiency across fiscal and financial systems. Without such reforms, macroeconomic vulnerabilities are likely to persist despite short-term stabilization gains.

References

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