Fiscal Frameworks in Asia and the Pacific – Bangladesh Context

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Outline

- Macro Economic Challenges of Bangladesh

- Policy Measures for Addressing Macro Economic Challenges

- Revenue Mobilization Challenges in Bangladesh

- Recent Initiatives for Augmenting Revenue Collection

- Tax Expenditure Policy

- Medium and Long Term Revenue Strategy (MLTRS)

Macro Economic Challenges of Bangladesh

- High Inflation
- Stabilizing Exchange Rate – Sharp depreciation of local currency by around 42% between 2022 to 2024 period
- Exponential Increase of Government Debt-19.44 Trillion BDT as on Dec 2024 (5 times of annual Revenue Collection)
- High Interest Expense -1.22 Trillion BDT budgeted for FY 2025
- Low Tax GDP Ratio-7.4%
- Low Non-tax GDP Ratio-0.64%

Addressing Macro Economic Challenges

- Contractionary Monitory Policy maintaining high policy rate of 10%;
- Inflation rate has been reduced from 12.92% in December 2024 to 9% in May 2025
- Stabilizing Exchange Rate – Now value of BDT is more or less stable;
- Bangladesh adopted market based exchange rate since 14th May 2025
    -Initially stable but long-term stability remain uncertain
- Smaller Budget in FY 2025, first time in Bangladesh History (7.9 Trillion BDT against 7.97 Trillion BDT in 2024;
- All out efforts for augmenting domestic revenue collection

Revenue Mobilization Challenges in Bangladesh

- Narrow Tax-base;

- Long culture of incurring huge tax expenditure;

- Lack of awareness among the citizens;

- Citizen's dissatisfaction and mistrust regarding proper use of taxpayers money;

- Overall Governance issue;

- Competence and Integrity of tax officials;

- Transparency of Systems and Processes within Revenue Administration;

Recent Initiatives for Augmenting Revenue Collection

- A tax expenditure policy has been approved that only parliament can allow tax expenditure considering public interest;

- A mid and long term revenue strategy (MLTRS) has been approved for streamlining revenue administration;

- An Ordinance has been enacted on 12th May 2025 to separate the ''Tax Policy'' from ''Tax Administration'' which was a longstanding demand from the civil society, development partners and trade bodies of the country;

Recent Initiatives for Augmenting Revenue Collection

- Enactment of legal provision in Income Tax Act and VAT Act for expansion of tax-base;
- VAT registration threshold has been decreased to 5 Million BDT from 30 Million BDT;
- Taxpayers registration and compulsory submission of tax returns are made mandatory for getting 45 kinds of different services by individual taxpayers;
- Massive awareness campaign has been initiated through electronic and social media to encourage the taxpayers to pay tax;
- Reward and punishment measures has been strengthened to address competency and integrity issue;
- A comprehensive project for end to end digitization of NBR shall start working from next month;

Tax Expenditure Policy

- Bangladesh allowed huge tax expenditure for attracting domestic and foreign investment for creation of employment for its huge work force;

- In many cases these incentives were misused;

- Study suggest that Bangladesh is foregoing similar amount of tax that it is collecting for allowing rampant tax exemptions;

- In order to increase the Tax-GDP ratio to desired level through a recently tax policy and Finance Ordinance 2025, authority of the NBR to allow any tax exemptions has been ceased;

- Proper implementation of "Tax Expenditure Policy" shall hopefully bring back discipline in tax administration in Bangladesh;

Medium and Long Term Revenue Strategy (MLTRS)

- Bangladesh finalized and published its 10 years term medium and long term revenue strategy in April 2025;

- Medium term is defined as the period from FY2025-26 to FY2029-30 and the long term from FY2030-31 to FY2034-35;

- The MLTRS, with a major emphasis on digitalization, pursues the following six goals:

  - ✓ **Goal 1: End-To-End Automation of NBR'S Business Processes**
  - ✓ **Goal 2: Increase tax-to-GDP ratio to 10.5% by FY2034-35**
  - ✓ **Goal 3: Improve Voluntary Compliance**
  - ✓ **Goal4:Close the Gap Between Actual and Potential Tax Revenues**
  - ✓ **Goal 5: Ensure Uniformity of Practice and Enforcement of Law**
  - ✓ **Goal 6: Improve Integrity and Transparency**

All six MLTRS goals shall be implemented taking the following four pillars into consideration:

- ✓ **Pillar 1: Develop an Effective Policy and Legal Environment**
- ✓ **Pillar 2: Modernize NBR Administration**
- ✓ **Pillar 3: Build and Develop Human Capacity**
- ✓ **Pillar 4:Enhance Taxpayer Services and Voluntary Compliance**

A time-bound action plan has been prepared to implement 60 agendas identified across the four pillars by the implementing agencies.