

IMF-WB Intervention, Debt Trap and Revenue Mobilization: Bangladesh perspective

1. National Budget and its implementation challenge:

Under the slogan of "**Journey Towards a Democratic, Humane and Inclusive Economy**," the present newly elected government has passed a budget of approx. \$76.3 bn (BDT 9.38 lakh crore) for the Fiscal Year [FY] 2026-27, which is 19% larger than the previous fiscal year's budget. The revenue collection target has been set at \$56.5 bn (BDT 6.95 lakh crore) where NBR is tasked to collect \$49.11bn (BDT 6.04 lakh crore), which is 20% larger than the previous fiscal year. **The budget deficit is around \$19.76 bn (Tk 2.43 lakh crore), which is around 3.6% of the GDP. To address the gap, the government will need to borrow from both domestic (\$10.33 billion or BDT 1.27 lakh crore) and external (\$9.43 billion or BDT 1.16 lakh crore) sources.** The main challenge will be meeting the revenue collection target, since the government consistently missed its targets in previous years and achieved only 80% of its target in FY2025-26. For the new FY2026-27, there is a big challenge for the government to achieve the revenue target, because the set target is 20% larger than the previous year's target (\$40.89bn or BDT 5.03 lakh crore).

Economic challenges by the new Government:

Due to massive corruption by the previous government, economic activities have slowed down, and revenue collection is falling short of expectations.

The major economic challenges are:

- Challenge of achieving revenue collection targets.
- Highest loan defaults in the world (**\$49.35bn in June 2026 and 35% of total credit**)
- Spending is rising due to higher fuel/energy import costs,
- Cutting subsidies, which will hit directly the livelihood of poor and marginalized people,
- Money management for increasing Govt. employees' salaries (**\$8.62bn or BDT 1.06 lakh crore annually**), and new aircraft purchase from Boeing (**25 nos, worth \$6.4bn**) and Airbus (3nos, worth \$2.05bn, 3 new metro rail and mono rail.

- Increasing inequality, poverty and Inflation [8 million people slipped into poverty from 2022-2026, 4yrs].
- Stable foreign reserves (\$32.44 bn in August '26). In 2021, it was \$48.06 bn and at the time of the fall of the previous govt. on 5 August'24, it was \$20.39 bn.
- Declining foreign investment.
- Increasing debt servicing, especially loan repayment and interest payment increasing. Also increased debt dependency, **[Public debt \$182 bn, and 35.8% of GDP]**
- Increased IFF, money laundering, and corruption,
- Rebuilt financial sector mostly disrupted during previous government

2. IMF-WB Intervention:

In the current year's budget, the government has given importance to the IMF's conditionality since it has approved a loan of \$5.5 bn (after extension in 2025) under the Extended Credit Facility (ECF) to the government under 33 conditions. Govt. already received \$3.6bn from the IMF and the rest will be given after reviewing the following conditions.

Theoretical framework conflicts: Bangladesh vs IMF's		
Policy Domain	Policy Objective	Criticisms & Impact
Subsidy Cuts	Reduce fiscal deficit; improve budget sustainability.	Drives up energy/fuel costs, accelerating headline inflation and burdening low-income households.
Tax Base Expansion	Increase domestic resource mobilization.	Heavy reliance on indirect taxes (VAT) acts regressively compared to progressive taxes.
Exchange Rate Adjustments	Rebuild international reserves; encourage exports, remittance.	Currency devaluations significantly inflate domestic import cost for food, fuel, and fertilizer.
Monetary Tightening	Curb persistent domestic inflation.	Higher credit rates suppress local private sector investment and Small-and-Medium

Some crucial conditions by the IMF:

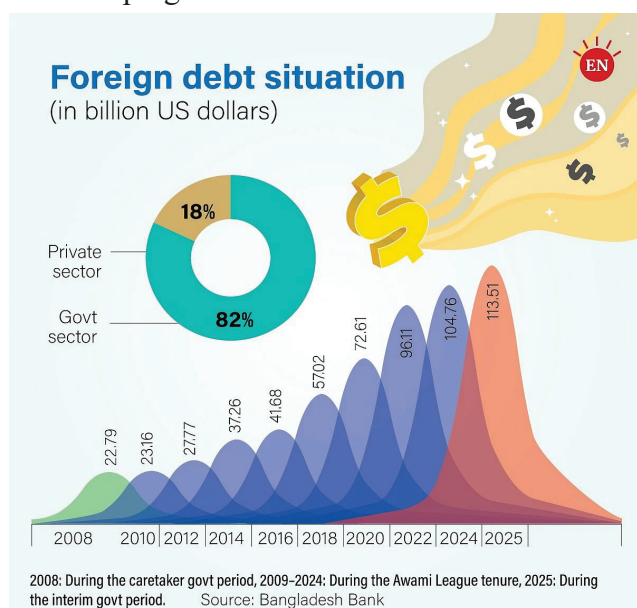
- (1) Reducing subsidies on fertilizer, electricity, hydroelectricity, oil and gas,

- (2) Increasing the rate and scope of taxes, especially VAT as an indirect tax.
- (3) Increase personal tax from 25% to 30% and to reduce corporate tax 22% to 20%,
- (4) Implement a fully market-driven exchange rate policy for the US dollar and foreign currencies,
- (5) Reduce import duty,
- (6) Lifting bank interest ceiling (as a result, banks are giving loans at double digit interest rates which was earlier one digit interest), etc.

Consequences: As a result, import costs are increasing, credit flows to small and medium industries are decreasing, and **inflation is increasing (in Sep'26: 8.34%, Aug'26: 8.26%, July: 8.32%)**. The living costs of the middle class, lower middle class, and poor are increasing and becoming unbearable due to placing the tax burden on them and reducing subsidies on essential services. It is **unfortunate that the IMF is not talking about curbing Illicit Financial Flow/ money laundering, capital flight, reducing corruption and cutting unnecessary govt. expenditure.**

Theoretical framework conflicts: Bangladesh vs IMF:

Globally, the IMF follows the same model: "Balance of accounts first, human relief later". WB-IMF policies are responsible for systematic structural economic violence, ecological destruction, and inequalities globally, especially in developing countries.



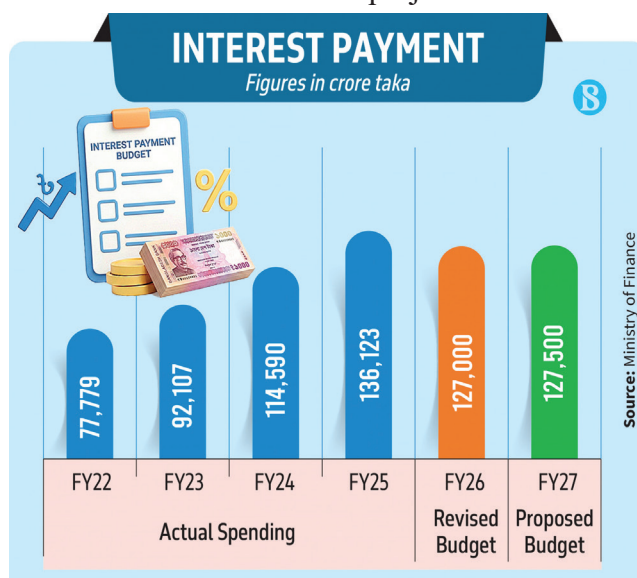
IMF's main goal isn't really to rescue a country from a crisis; instead, its policies favor the rich and corporations to accumulate wealth and power, which increases inequality and makes wealthy people richer.

But, Bangladesh's economy is primarily labor-intensive, import-dependent, and reliant on small and medium enterprises. Here, livelihoods depend on small businesses, agriculture, and remittances. When the government cuts energy subsidies to meet IMF conditions, gas and electricity prices go up. As a result, industrial production costs rise, small entrepreneurs suffer, and farming expenses increase. Ultimately, prices of everything go up, employment drops, and purchasing power declines.

Our country's reserves declined mainly due to **(i) over-invoicing of imports and under-invoicing of exports, (ii) not bringing back export earnings from abroad, and (iii) laundering large amounts of bank loans out of the country.** If we observe closely, we will see that none of these issues are included in the IMF's conditions.

3. BD Debt Situation:

By June'26, Bangladesh's total **public debt reached around \$182 bn, equivalent to 35.8% of GDP (\$501bn).** Of this amount, **domestic debt is around \$102 billion, or 57% and external debt is around \$78 bn, or 43%.** The rate was 39% in FY24. It is projected to reach



debt \$276.5bn (BDT 30 lakh cr.), i.e., a 52% increase, by the end of June 2029. **IMF projected that Bangladesh will spend \$30.59 bn on public debt servicing during FY 2026-27**, covering both principal and interest on domestic and foreign loans. In FY25, the figure was \$26.63 bn, and in the upcoming FY27, it is expected to reach \$33.84 bn. **External debt has increased 5 times in the last 10 years** and it is now in a debt trap. **Per Capita Debt stood at \$1,051 (BDT 1.29 lakh) as of March 2026**. According to Finance Division's projection, **the government's total debt will stand at \$214.07 bn (BDT 26.33 lakh crore) by the end of FY26-27, which is 19.4% excess than FY25-26**. [Ref: The Business Standard, 12-July, 2026]

The Government has allocated **\$10.41 bn (BDT 1.28 lakh crore) for interest payments on public debt in FY26-27, which is 13.59% of the national budget and 21.10% of NBR revenue** [Domestic, interest is \$8.54 bn (BDT 1.05 lakh crore), and External, interest is \$1.87bn (BDT22.5 thousand crore). In FY2025-26, the interest payment budget was \$10.33bn (BDT 1.27 lakh crore), which increased by \$40.65 million (BDT 500 cr) in the FY2026-27 budget. Centre for Policy Dialogue (CPD) said, **out of every BDT100 collected in revenue by the NBR, Tk21.10 would go towards interest payments**. [Ref: The Business Standard, 11 June, 2026].

According to ERD data, the amount of **principal and interest repaid against foreign loans in FY25-26 increased by 13% from the previous year to US\$4.65 bn**. The amount was US\$4.09 bn in FY 2024-25.

4. Debt Money Goes Where?

Debt money mostly goes to mega projects like the Padma Bridge, metro rail, river tunnel, constructing highways, different coal-based projects, electricity & power, nuclear power plant project, and for non-development expenses like salaries and other benefits for the govt. staff and defense forces. Investing in mega projects is a highly secure and appropriate place for corruption.

Default Loan in different governments' regime:	
End of 5-August, 2024	\$17.24 bn or BDT 211,391 cr. End of Awami-league regime.
End of December 2025	\$45.28 bn or BDT 557,213 cr. End of interim government.
End of June 2026	\$49.35 bn or BDT 606,555 cr. Present BNP government.
- \$3.95bn or 184% increased from Aug'24 to June'26. Max. increased in during Interim Govt. - Default loan is 35%, which is abnormally high than average rate of South-Asia (around 5%). - Default loan of Pakistan 5.6%, India 2%, Nepal 5.7%, Srilanka 6.5% by June'26.	

Some examples:

a) Padma Multi-purpose Bridge cost was estimated first in 2007 at BDT 101.62 bn, which reached BDT 310 bn. The total increased by 210% from 2007 to 2022.

b) For highway road construction, the per-km road construction cost is the highest in the world, which is \$3.5million to \$12million per km. In India, it is \$1.1 to \$1.3 million, including land acquisition. In China, \$1.3 to \$1.6 million. For Europe, \$2.5 to \$3.5 million.

c) Building the Karnafuly tunnel under the river costs \$1.2 billion, and in fact, it has no return. Its daily expense is BDT 3.70 million (\$30.35k), and income is BDT 1.75 million (\$14.34k); the daily loss is BDT 1.95 million (\$16k), and yearly BDT 23.40 million (\$191.8k).

d) Why are these projects not finished in due time, or so high? Because of earning black money. These expenses are spent from borrowings and public hard-earned tax money and it seems

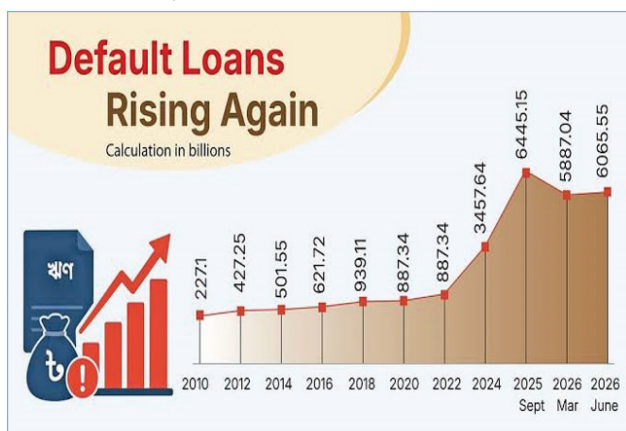
5. Default Bank Loans are increasing alarmingly:

Default loans are increasing due to businesses and individuals not repaying the loan money, who are mostly patronized by the government. By the end of FY26, the default loan balance was \$49.35bn, which is 19 times that of 2011 (\$2.6bn) and is around 35% of total credit. A central bank report said that, among this amount, the 06 state-run banks have overdue amounts of \$12.44 bn (BDT 152,744 cr) or 44.6% of their total credit, of which around \$7 billion

(BDT 85.4 thousand) or 56% is in the hands of 120 top defaulters who are mostly patronized by the previous govt. The money recovery is at a very slow pace and may take 333 years to recover [Prothom Alo, 3-October'25].

Experts say that being with the highest default loan rate in the world, it may damage the country's reputation and make it difficult to secure foreign loans, hamper investment at both micro-macro level, reduce employment, achieving revenue collection as per target, etc.

The cause of loan defaults mostly happened due to (i) investing in luxury and unproductive sectors instead of productive ones, (ii) disbursing loans under fictitious or anonymous names, (iii) encouraging loan defaulters by providing policy support instead of imposing punishment, (iv) involvement of businessmen and retired govt. officer/bureaucrats in politics, (v) Appointing individuals in the bank based on political considerations rather than qualifications at the position of Managing Director and Board of Directors, etc.



6. Money Laundering/Illicit Financial Flow:

a) US-based GFI report (released on 26 March'26) said that Bangladesh has lost an estimated \$68.3 bn (BDT 8.37 lakh crore), through trade-related illicit financial flows (IFF) from 2013 to 2022, and an average of \$6.83 bn. This IFF has happened mostly through misreporting trade data, lack of weak governance, lack of coordination among monitoring agencies, institutional corruption, and lack of political will. If the government could recover 29% of the

laundered money, it would cover the budget deficit of \$19.76 bn, which in turn will reduce debt dependency. As a result, national production will be increased and more employment will be created. Apart from this, the direct tax collection rate will be increased and dependency on indirect tax (VAT) will be decreased.

b) The previous Interim Government published the white paper on IFF in Dec'24, which reflect, about \$234 billion (BDT 28.08 lakh crore) was siphoned abroad illegally between 2009-2023, the then government period.

c) According to annual data released by Switzerland's central bank (18 June'26), Bangladeshi nationals' deposits in Swiss banks soared 41% last year to 834.2 million Swiss francs (CHF) (about BDT 12,763 crore), reaching the second-highest level on record. The country ranked second in South Asia after India (CHF 3.2 bn in 2025) [Business Standard: 19-June'26; New Age, 30-March'26]

7. Increasing Inflation and Income Inequality:

a) According to the World Bank (WB), Bangladesh's national poverty rate rose from 18.7% in 2022 to 22.5% in 2026. WB estimates that the number of people living in poverty is now around 55 million and around 8 million people slipped into poverty from 2022 to 2026 (4yr) and inflation is approx. 8.5% in FY2026. During the same period, wage growth for low-income people failed to keep pace with rising prices. If someone's monthly income is BDT 20,000 and their wage increases by 5%, but their cost of living rises by 10% over the same period, then their real purchasing power decreases despite the nominal pay raise due to economic shock/inflation, including natural disasters or rising prices. [Prothom-Alo Eng., 8-October'26]

b) Wealth-X, a US-based research firm, said that Ultra-wealthy people in Bangladesh have been ranked first among the top 10 fastest-growing wealth countries in the world from 2010 to 2019. Wealthy people with \$5 million plus worth increased by an average of 14.3% annually in the country. In this list,

China (13.4%) is next to Bangladesh and then Vietnam (12.7%), Kenya (11.7%) and India (10.7%). **The overall income inequality has been widening, as it was at a Gini coefficient of 0.482 in 2016 and 0.458 in 2010.** A smaller Gini coefficient signifies a less unequal distribution of national wealth.

In Bangladesh, the top 10% of the population holds the country's 58.5% of the total wealth, while the bottom 50% holds only 4.8% of wealth. In 2022, 35% of the richest families received social protection benefits, while half of the poorest families did not. [New Age: 9-Oct'26; 20-May'20]

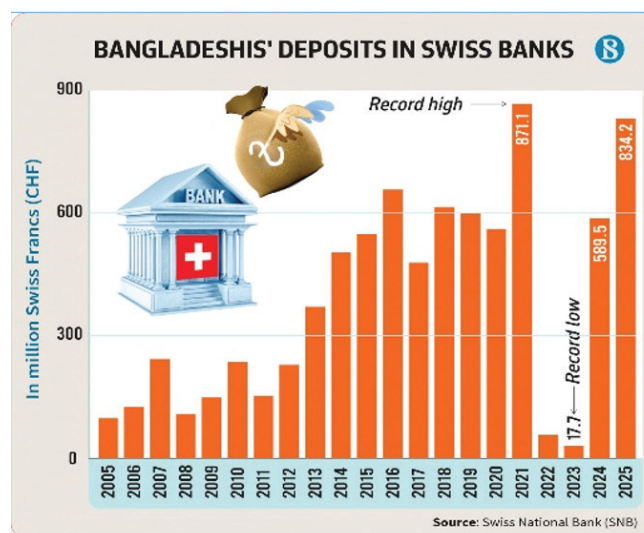
8. Tax-VAT burden is rising:

IMF is putting pressure on the government to make the VAT rate 15% and it is 38% of total revenue in the current FY26. It may go up to 50% in the new FY27. VAT always hit badly the lower income group and it will become more burdensome in the era of high inflation. **Research and Policy Integration for Development (RAPID) found that if 1% of indirect tax is increased, then it increases poverty by 0.42%.** The government is not catching those individuals and business entities evade a large amount of direct taxes.

9. Has tax evasion been stopped?

Out of 170 million people, there are only 10 million people who are E-TIN holders, and of those, 40% submit tax returns annually, which is very low. Due to a lack of tax policies, administrative weaknesses, and corruption, approx. 45%–65% of taxpayers remain outside the tax net. **World Bank study found that the size of the undisclosed or underground economy is around 43% (\$215.43bn), which is almost 4 times higher than the revenue target set for FY2026-27.**

Without tackling this, the government imposes a tax burden on those who pay tax regularly. On the other hand, the **Tax-GDP ratio in FY26 is 6.78%, which is the lowest in South Asia and 6% less than FY24. In India, the average ratio is 21%, Pakistan 22%, Nepal 23%, Srilanka 17%, and Bhutan 26%.** As per IMF conditions, the **Bangladesh government has taken initiatives to bring the tax-to-GDP ratio to 15% by 2035.** Since direct tax collection is a bit hard,



so **government has given emphasis on VAT as an indirect tax as an easy tool of revenue mobilization.**

According to the Tax Justice Network (TJN) report-2025, **Bangladesh lost \$692 million in tax revenue from 2016 to 2021 due to profit shifting by multinational companies.**

Bangladesh is the fourth-largest country in South Asia after India, Sri Lanka, and Pakistan in terms of profit shifting and tax losses. **The lost revenue equals nearly one third of Bangladesh's health budget and over 6% of its education budget** [Ref: The Daily Star, 04-Nov'25].

10. Recommendation:

1. Less dependency on external debt, especially on the WB-IMF and others. Projects should be selected based on productivity, from which revenue will be generated and investment in the non-productive sector should be stopped.
2. The central bank should be independent and strengthened to control the financial sector. It should set up a robust committee to scrutinize LCs for verifying the overseas cost in order to reduce misinvoicing for increasing foreign currency reserves as well as tackling IFF.
3. Zero-tolerance policy to prevent bank robbery, money laundering, corruption, and tax evasion.
4. Inter-country agreements for information sharing and transparency of bank transactions and legal measures should be taken to bring back the laundered money.
5. NBR should be neutral, transparent and free from influence to prevent tax evasion by individuals and corporates
6. Make it mandatory to submit wealth statements by the govt. officials every year and provision of dismissal or separation from service if corruption is proved.
7. To promote the renewable energy sector and to reduce reliance on fossil fuels.



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