Bangladesh Budget Signals Shifting Mix Toward LNG, Coal, And Renewables

Sajibur Rahman

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Bangladesh is entering the new financial year under intense fiscal strain. With government spending consistently outstripping domestic revenue, the country has become heavily reliant on domestic and foreign debt. In the fiscal year 2026-27 (FY27) alone, the government is projected to spend nearly Tk 4.35 trillion on servicing existing debt (principal and interest) without taking on any fresh loans.

This mounting debt burden coincides with a critical juncture for the nation's energy sector. Navigating geopolitical instability and domestic supply chain inefficiencies, Bangladesh is attempting to guarantee energy security while transitioning to renewable energy. While tightening fiscal space threatens to limit investments in green infrastructure, the proposed FY27 budget signals a notable policy shift, placing a stronger emphasis on cleaner energy alternatives and domestic gas over imported fossil fuels.

LNG and Coal Expansion Shape Energy Sector Allocation Shift

The proposed budget allocates Tk 173.45 billion to the Ministry of Power, Energy and Mineral Resources, which is 2.3% higher than the revised budget for FY26. However, the sector's share in the total national budget has decreased from 2.15% to 1.85%.

The Power Division has been allocated Tk 149.96 billion in FY27, down 3.9% from the revised FY26 budget, while development expenditure has declined to Tk 149.39 billion, a 3.8% decrease. However, the Annual Development Program (ADP) allocation has increased to 18.7% from the revised FY26 allocation, despite the number of projects falling from 45 to 35. This suggests the government is prioritizing a smaller number of strategic projects and concentrating resources on them, reflecting both fiscal constraints and an effort to improve project implementation efficiency in the power sector.

Conversely, the Energy Division's FY27 allocation shows a strong expansionary push, rising 72% to Tk 23.49 billion. This is driven mainly by a 76% increase in development spending, alongside a 52.8% rise in ADP allocation, while the number of projects increases from 17 to 19. Operational expenditure rises modestly by 9.2% to Tk 950 million.

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The energy sector's ADP allocation was increased because domestic gas exploration was in major focus, receiving a 39.7% extended allocation in FY27 compared to the revised allocation for FY26.

In addition, the government plans to increase domestic coal production to reduce reliance on imported energy, targeting 600,000 tonnes of coal and 1.4 million tonnes of stone next fiscal year. Projects at Barapukuria and Dighipara are advancing. An additional LNG terminal is also planned at Moheshkhali and Matarbari. This fossil-heavy strategy risks delaying energy transition and increasing long-term import vulnerability significantly.

Despite these adjustments, no major structural shift is seen in the power and energy sector in the FY27 ADP. The sector remains highly concentrated, with the Rooppur Nuclear Power Plant alone absorbing 47.4 percent of its total allocation. This shows persistent reliance on a single mega-project, limiting diversification and crowding out broader energy transition investments like renewables and grid upgrades. Dr. Khondaker Golam Moazzem, Research Director at the Centre for Policy Dialogue (CPD), noted that the power and energy sector is currently going through a multi-dimensional crisis due to over-reliance on imported energy, global geopolitical uncertainties, and weak domestic supply systems.

Fiscal and Financial Measures: Green Incentives vs. Fossil Fuel Continuity

The FY27 budget provides strong fiscal incentives to support clean energy and electric mobility, alongside several measures that continue to favor conventional energy sources. For clean energy, a zero percent tax rate will apply to the solar power sector until 2035, and import duty, regulatory duty, supplementary duty, and advance tax (AT) on essential solar-power components are proposed to be zero, effective up to June 30, 2031. Furthermore, consumers will get a 5 % tax rebate on payments made against their solar electricity bills. For electric mobility and storage, electric vehicles (EVs) and EV parts manufacturing enjoy full duty exemptions, while local EV assemblers benefit from tiered exemptions based on value addition. Battery manufacturing, including lithium-ion, sodium-ion, and battery packs, is also exempted until 2030, aiming to build a domestic supply chain.

However, the budget also accommodates substantial fossil fuel protections and subsidies. The FY27 budget proposes Tk 370 billion for electricity, compared to the revised allocation of Tk 360 billion in FY26, mainly to make up for the Bangladesh Power Development Board's (BPDB) losses from electricity purchases from Independent Power Producers (IPPs), rental, and quick rentals. Due to the war, an additional Tk 111.70 billion may be required in the LNG sector on top of the initial Tk 60 billion allocation, and about Tk 102.58 billion may be required for petroleum oil, even after domestic oil prices were increased twice. Tax rates are also being lowered for conventional players; the withholding tax rate on payments for electricity purchased from power generation companies will be reduced from 4% to 3%, directly benefiting generation companies but causing a national revenue loss, while the withholding tax rate on the supply of fuel oil by refineries drops from 1.5% to 1%. Crucially, concessionary duty benefits on coal imports by power plants will be extended until June 30, 2030, which is strictly contradictory to the country's energy transition goals.

The Critique: Structural Biases and the CAPEX Gap

Despite these policy announcements, analysts and sector representatives highlight a significant mismatch between long-term transition goals and fiscal execution. The FY27 ADP allocation shows a continued structural bias toward fossil fuels, with fossil-fuel-based generation projects accounting for nearly 98% of generation-sector ADP allocations, compared with only 2.0% for renewable energy. Allocations for transmission projects have also declined, despite the stated objective of modernizing the national grid.

Amid exacerbating energy security and mounting import bills, Bangladesh unveiled the budget, announcing conditional incentives, i.e., reduced duties, for particularly rooftop solar projects under the OPEX model. The VAT-compliant companies, like industries, can also enjoy the benefits. The government further added conditions precedent, i.e., submission of PPA and a certified copy of technical aspects from the Sustainable and Renewable Energy Development Authority (SREDA), to avail the reduced duties. Under the newly announced duties, industries or other entities will be able to buy solar energy at a reduced rate under the OPEX model compared to the high import duties scenario. They can further procure solar energy for evening application supported by Battery Energy Storage System (BESS) under the OPEX model at a cheaper rate now. As EPC companies will likely receive a tax waiver for selling solar energy, and industries/relevant entities will enjoy 5% reduction in bills for using solar energy under the OPEX model, there is a potential for an accelerated deployment of rooftop solar within the selected group of entities. However, Bangladesh needs to create a level playing field for its energy transition, which posits the need for providing incentives to other entities under the CAPEX model, too.

Shafiqul Alam, IEEFA's Lead Analyst, Energy, for Bangladesh, said the government's support for developing a local manufacturing ecosystem for battery storage has the potential to significantly contribute to the power and EV sectors. Given that a significant quantity of diesel is used in heavy-duty vehicles, a waiver for charging stations and a reduced duty for electric buses and trucks will likely help transform the transport sector gradually and reduce the country's dependence on diesel".

The Bangladesh Sustainable and Renewable Energy Association (BSREA) also warned that the current Statutory Regulatory Order (SRO) framework and budget measures for renewable energy are too narrowly designed, largely benefiting a limited set of RESCO-based and project-linked models rather than the broader distributed solar market. The association warned that this risks excluding key stakeholders such as importers, EPC companies, distributors, and especially residential, agricultural, and small commercial users. BSREA president Mostafa Al Mahmud emphasized that if the current SRO framework remains in place, it will not be possible to achieve the target of 10,000 MWp of solar power capacity by 2030, as development may be limited to a maximum of 2,000 to 3,000 MWp. He stated that renewable energy is not a special benefit for a particular business group, but rather an important strategy for national energy security, foreign

exchange savings, increasing industrial competitiveness, and implementing climate commitments, underscoring that the policy framework should be structured on the principle of "Renewable Energy for All, Not for a Few."

Rising Contingent Liabilities: Hidden Fiscal Risks

Government guarantees in Bangladesh, which represent contingent liabilities, are estimated at and account for 42.8 percent of the FY27 budget deficit. This indicates a significant concentration of fiscal risk outside the formal budget framework, with the energy and power sectors remaining the dominant recipients of these sovereign guarantees.

In the energy sector, government guarantees rose from Tk 49.28 billion in FY24 to Tk 76.61 billion in FY25 and further to Tk 76.94 billion in FY26, before easing slightly to Tk 67.86 billion in FY27. In contrast, the power sector shows a different trajectory, with guarantees increasing from Tk 51.49 billion in FY24 to Tk 53.59 billion in FY25, remaining relatively stable at Tk 53.07 billion in FY26, and then declining sharply to Tk 34.70 billion in FY27.

This divergence suggests a shifting pattern of hidden fiscal exposure. While energy-related guarantees remain structurally elevated, power sector liabilities are contracting sharply, possibly due to repayments, reclassification, or a shift away from guarantee-based financing. Nevertheless, the overall scale of these guarantees highlights a continued reliance on sovereign backing, keeping substantial fiscal risks embedded in contingent liabilities rather than headline deficit figures.

Policy Recommendations for a Pragmatic Transition

To rectify the current imbalances and meet climate targets, targeted modifications should be adopted in Bangladesh's financial framework. The government has indicated plans to reduce the total subsidy burden in the upcoming years by rationalizing electricity subsidies. However, subsidy reforms must not transfer additional costs to consumers via upward tariff revisions; instead, the government should address internal sectoral inefficiencies and gradually phase out costly capacity-payment arrangements associated with fossil-fuel-based power generation.

Furthermore, Bangladesh should shift to a flexible, component-based zero-tariff system to ease access for end-users, as current solar incentive rules remain overly complex despite ISO alignment. Finally, targeted subsidies are essential for solar irrigation farmers, and the FY2026–27 budget should introduce dedicated green grants for renewables, smart grids, EVs, and wider energy transition support to ensure a decisive shift in national development priorities.

"While the govt's measures are appreciable, the impact would be broader if it could consider an all-inclusive approach, i.e., benefits to projects under both OPEX and CAPEX models. Otherwise, for instance, rural people may not receive the benefits of reduced duties on solar accessories, Alam added.

The government has shown interest in moving beyond conventional fossil fuel-based solutions and giving more importance to renewable energy, which can be considered a positive development, Dr. Moazzem added. EP