

National Budget, 2023-24: Expectations and Realities

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Outline

1. Introduction
2. Nature of the budget
3. Analysis of the expenditure budget
4. Analysis of the revenue budget
5. Concluding remarks

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1. Introduction

- Budget¹ – Planned expenditure and revenue collection of the state over the next fiscal year.
(Required by Article 87 of the constitution)
- Two budgets are simultaneously placed each year in the Parliament
 - Proposed Budget
(which is discussed in the parliament for about a month and usually passed with minor changes.)
 - Supplementary Budget (Previous year's revised budget¹)

In 2022-23

22 ministry – overspent by 17,299 cr taka

40 ministry – underspent by 42,324 cr. Taka

Proposed Budget → Revised Budget

6,78,064 cr. Taka → 6,60,507 cr. Taka

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1. Introduction

- Price & income structure changes after budget.
- Other forces are also at play – war / pandemic / crop failure, festive seasons, and other demand & supply shocks.
- National Level Retail market price in July 2022 of main commodities²

Items	Rice	Wheat	Palm Oil	Red Lentils
Change over 1-year	1.2%	42.1%	34.3%	34.9%

- Govt. may go beyond budget measures, if needed
 - E.g. All types of tax withdrawn on Dengu testing kits till 30 Oct. 2019
(Finance Ministry Circular on Aug 5, 2019)
 - On March 16, 2022, NBR reduced VAT from 15 per cent to 5 per cent at the import level on soybean oil and palm oil to rein in the high price trend
 - Govt allows onion imports from Monday (5 June, 2023) as price hits Tk100/kg

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Expectations from the Budget

- Long-term development plans (Perspective and FYP) are implemented through yearly national budgets.
- Budget also address current economic situations.
- Two major recent events
 - Corona Pandemic
 - Russia-Ukraine War
- Fallouts
 - Inflation
 - Reserve loss of developing countries
 - Increase Income inequality
- To what extent these issues are addressed in FY24 budget?

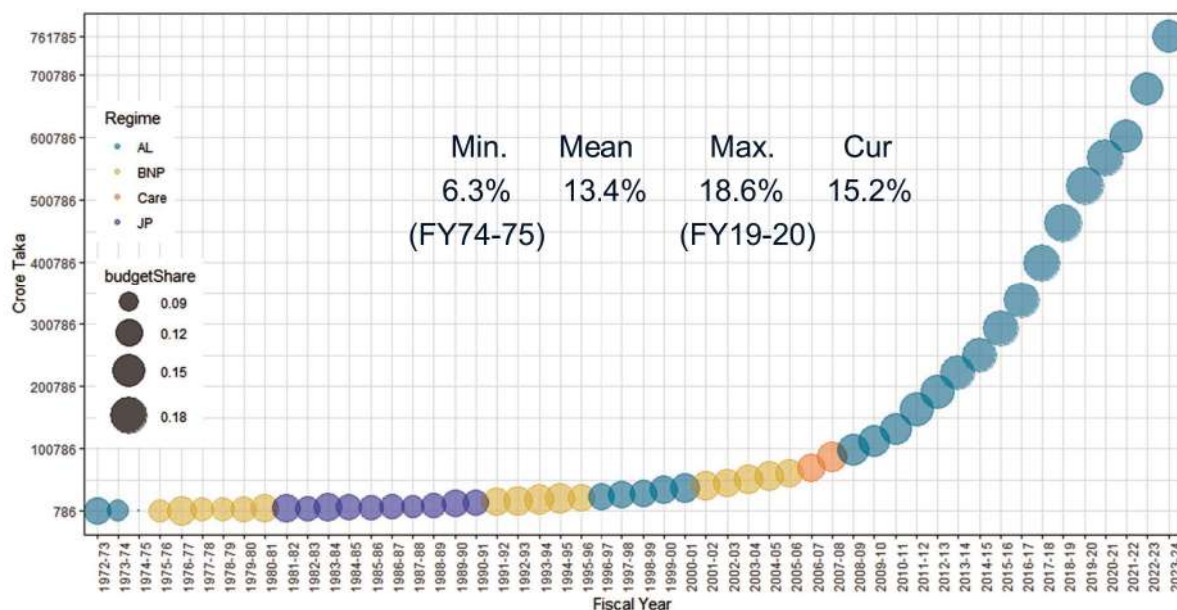
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2. Nature of Budgets

- Since independence 52 budgets have been passed, each one larger in size than its previous one.
- Budget size should be considered against a reference value
 - GDP is a good reference value
- There are very high correlation between GDP and major budget components
 - ➔ Total expenditure & total revenue in various sectors grow in tandem with budget
- In absolute term budgets have exponentially increased
- In relative term (% of GDP) budgets have increased in the past decade.

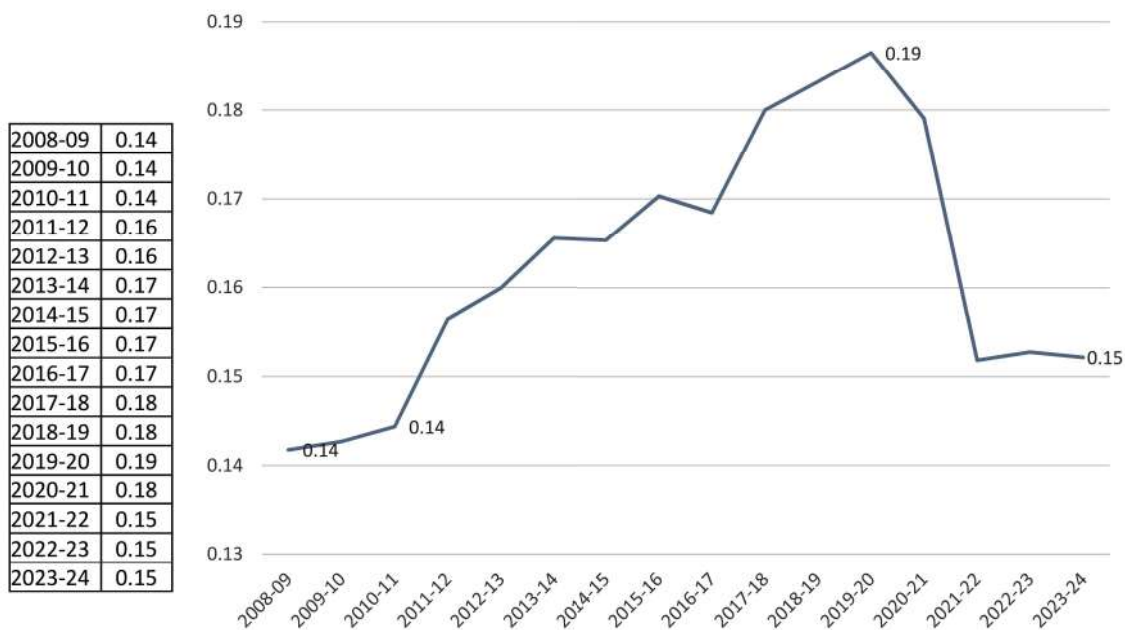
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Figure 1: Budget Size since 1973
(Note: Bubble sizes represent budget size relative to GDP)



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Budget Share in GDP



Govt. share in the economy falling, or pvt share rising => income inequality may deteriorate

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2. Common Features (contd.)

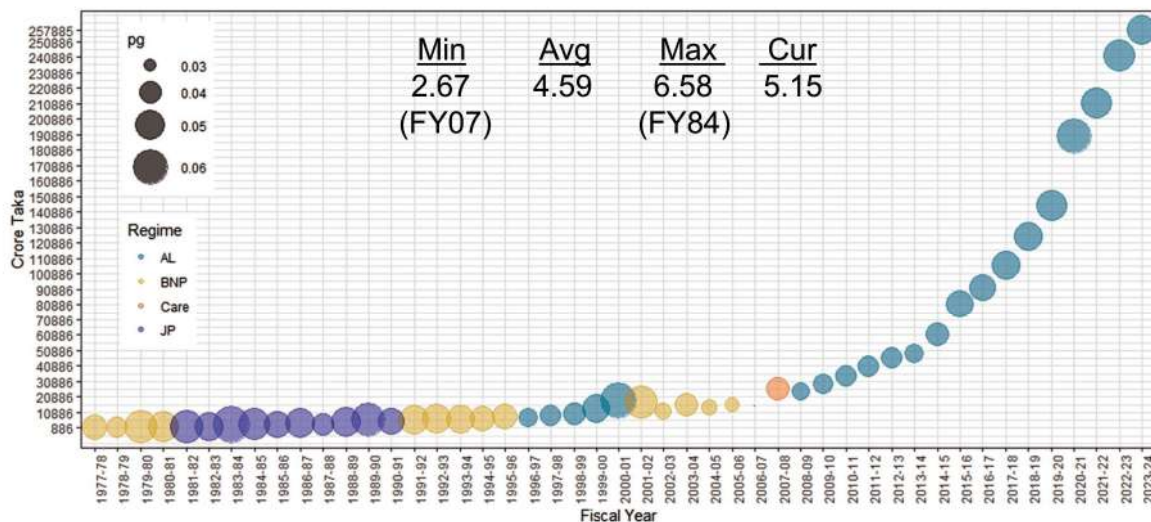
- All are deficit budgets
- Deficits are rising in absolute term
- However, as % of budget, deficits were higher during the beginning of the century and in recent years
- Deficit Summary (2000 – 2024)

Min.	Mean	Max.	Cur	
21.1%	34.3%	52.7%	33.9%	of Budget
(FY06-07)		(FY83-84)	(FY 24)	
2.67%	4.59%	6.58%	5.15%	of GDP
(FY06-07)		(FY83-84)	(FY24)	

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Figure 2: Budget Deficit in BD since 1978

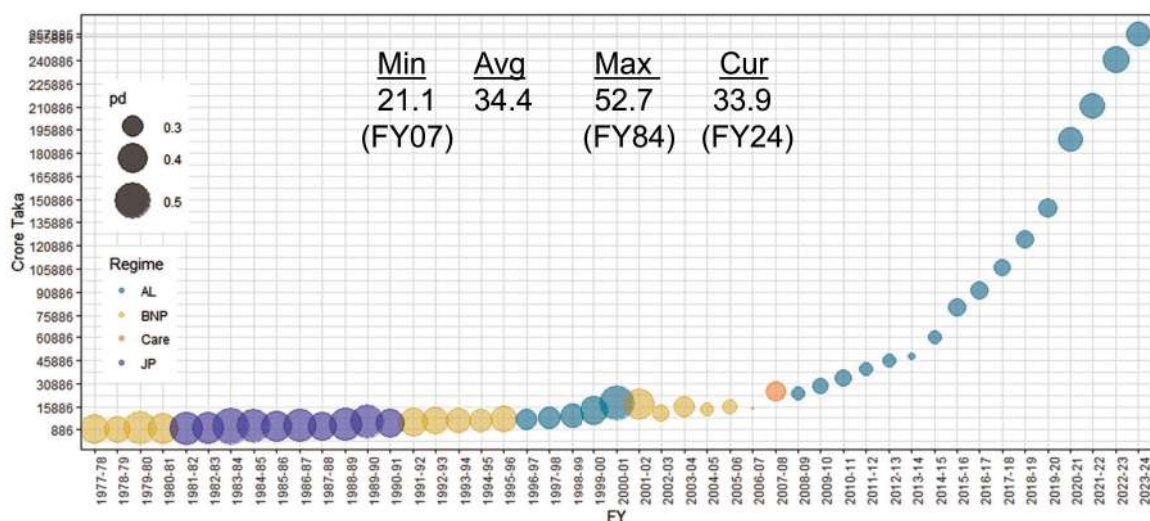
(Note: Bubble sizes reflect deficit as % of GDP)



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Figure 2: Budget Deficit in BD since 1978

(Note: Bubble sizes reflect deficit as % of Budget)



Given govt expenditure, deficit vs tax financing is not important if Ricardian Equivalence is true, however

Over long period benefit and burden sharing may fall on different on households.

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Implications of Budget Deficit

- Continuous deficit → Mounting public debt
- If Deficit → C/A Deficit → High External Debt

$$Y = C + I + (G-T) + (X-M)$$

$$\rightarrow (X-M) = (Y - C) - I - (G-T)$$

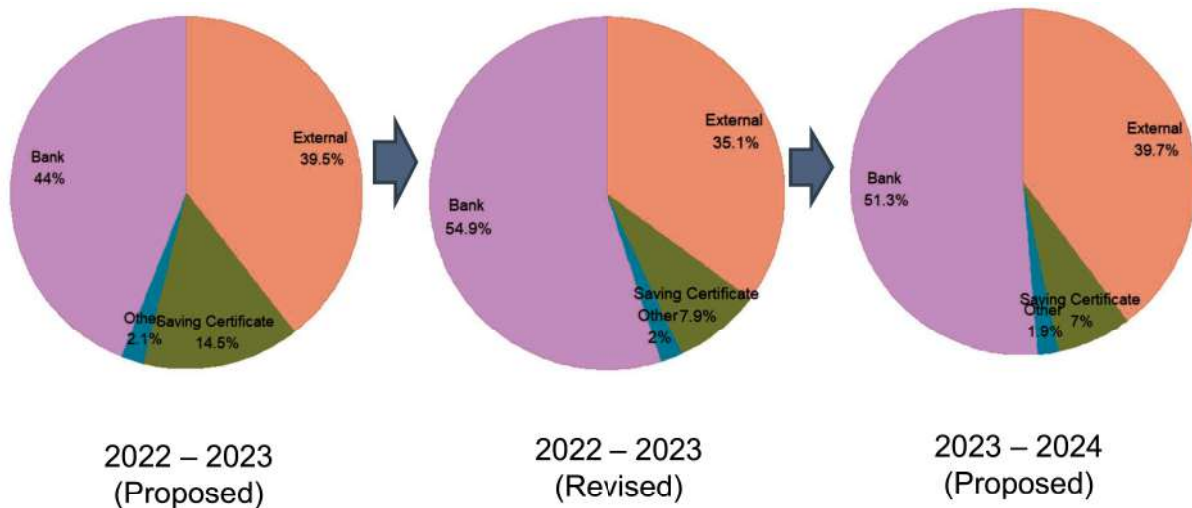
$$\rightarrow \text{Trade Deficit} = (S - I) - \text{Budget Deficit} \text{ ----- (1)}$$

- TB or TD must be financed by some ways
- Bangladesh finances a major portion of it by remittance
- If remittance or other income transfer cannot cover, then CA becomes negative → Govt must borrow externally / Deplete reserve / Allow taka to freely fall against dollar

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Figure 3: Sources of Deficit Financing

Total Deficit (FY23-24): - 2,57,885 cr.



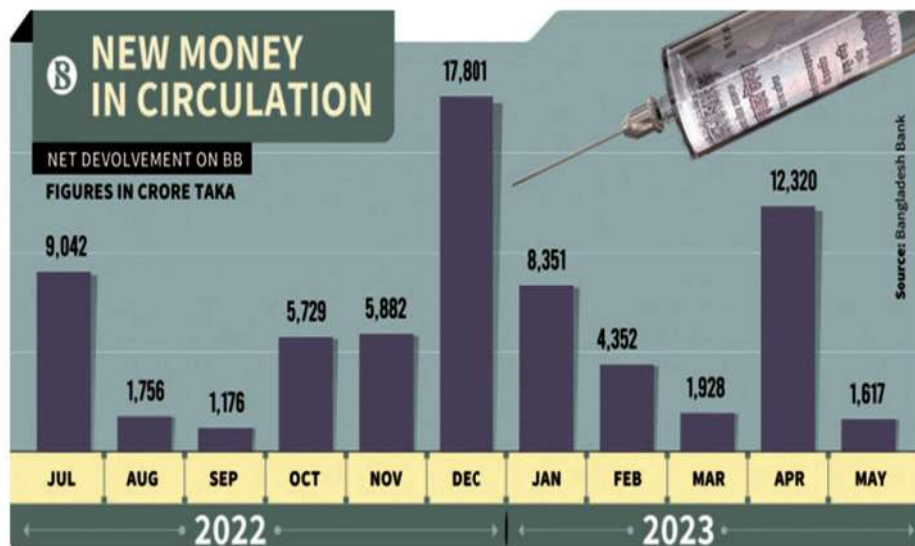
Bank financing ↑ by 10.9 Percentage points in revised FY 22-23. →
Estimated bank finance higher than previous year's proposed bank finance

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Bank Borrowing

- Commercial Banks (Crowding Out)
- Central Banks ("Printing" money)

Central bank prints Tk70,000cr new money in 11 months to support national budget



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Table 2: Balance of Payments Highlights

(In million USD)

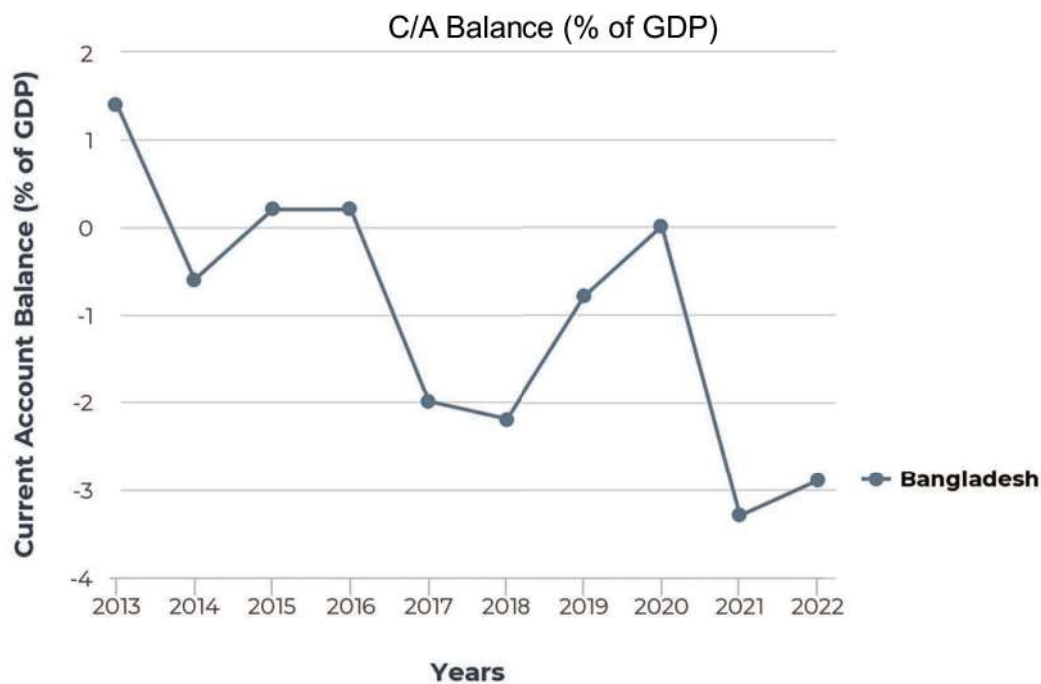
Major Items	Actual Outcome			Outlook
	FY20	FY21	FY22 ^e	FY23
Trade balance	-18569	-23778	-33207	-36705
Services	-2578	-3002	-3455	-2142
Primary income	-3070	-3172	-2894	-2796
Secondary income	18782	25377	21824	25098
of which: workers' remittances	18205	24778	21309	24505
Current account balance	-5435	-4575	-17732	-16546
Capital accounts	256	221	275	380
Financial accounts	8654	13093	13131	16016
Errors and omissions	-306	535	-474	0
Overall balance	3169	9274	-4800	-150
Memorandum items:				
Export growth (adjusted as per BPM6, percent)	-18.9	14.9	32.0	13.0
Import growth (percent)	-8.6	19.7	35.0	12.0
Remittance growth (percent)	10.9	36.1	-14.0	15.0
Gross international reserves (GIR)	36037	46391	42000	42500
Months of import coverage by GIR	6.1	5.9	4.7	4.6

Source: Bangladesh Bank. e = estimate.

Reference Item: Padma Bridge: Construction costs US\$3.6 billion (₳30,193 crore)

- Continuous deficit → Mounting public debt

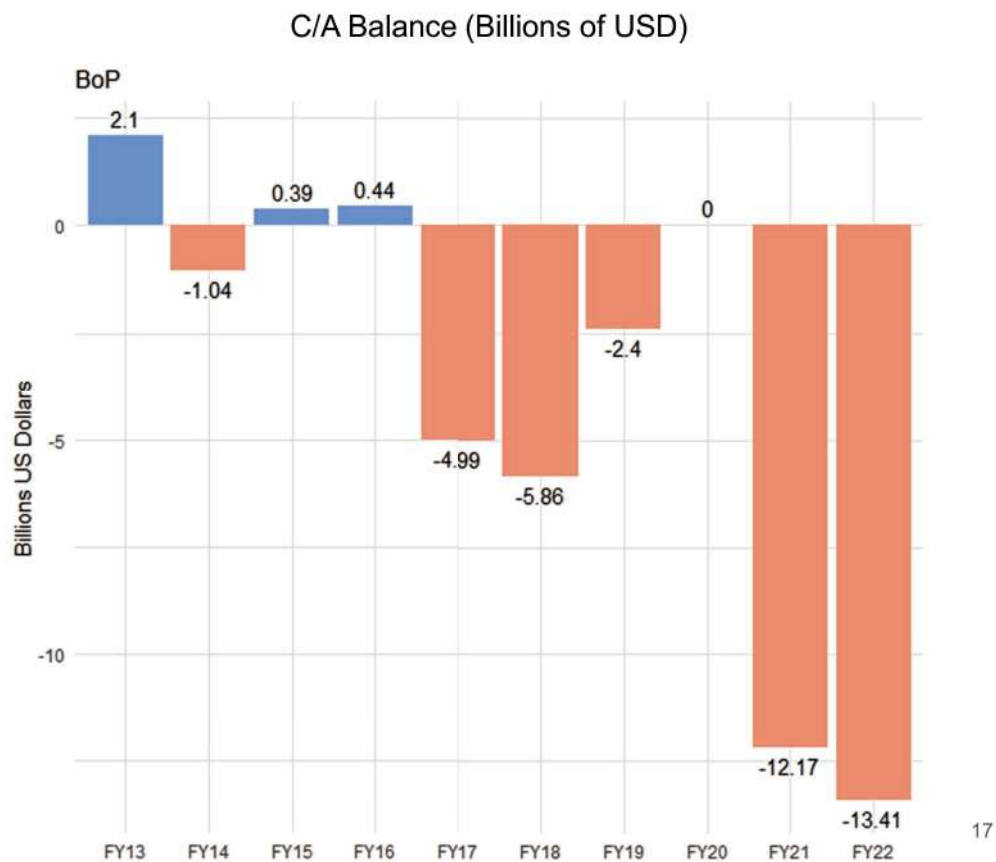
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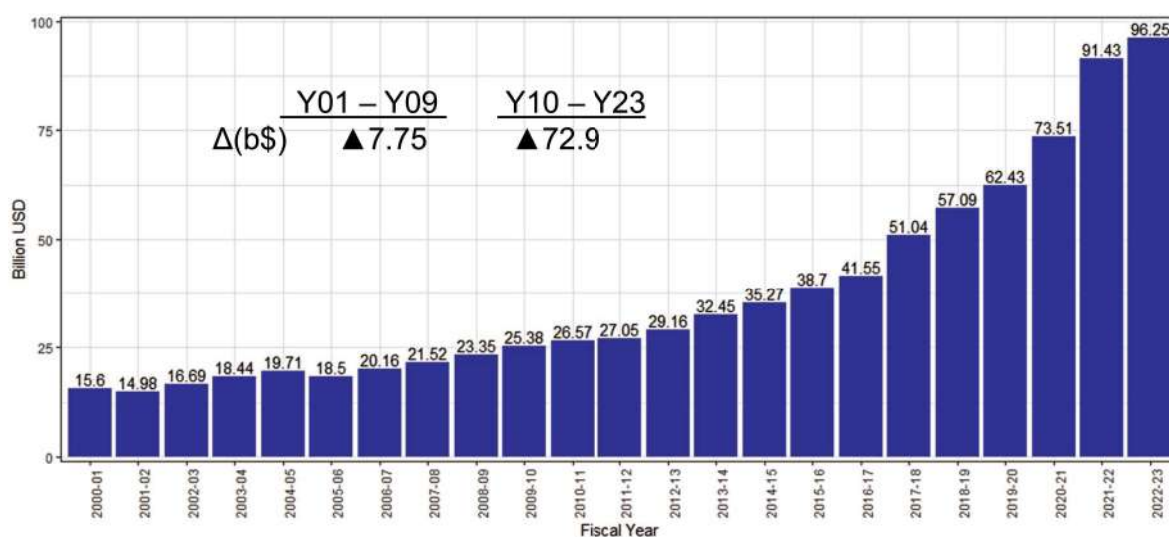
<https://www.focus-economics.com/country-indicator/bangladesh/current-account/>

Source: Bangladesh Bank

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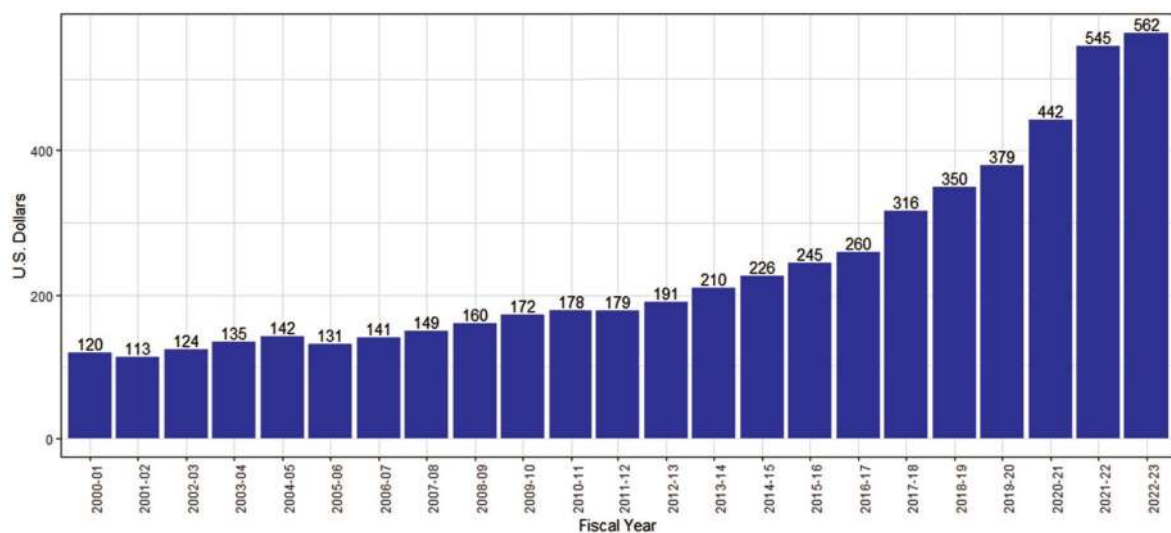


**Figure 4: Bangladesh Outstanding External Debt
(Billion USD)**

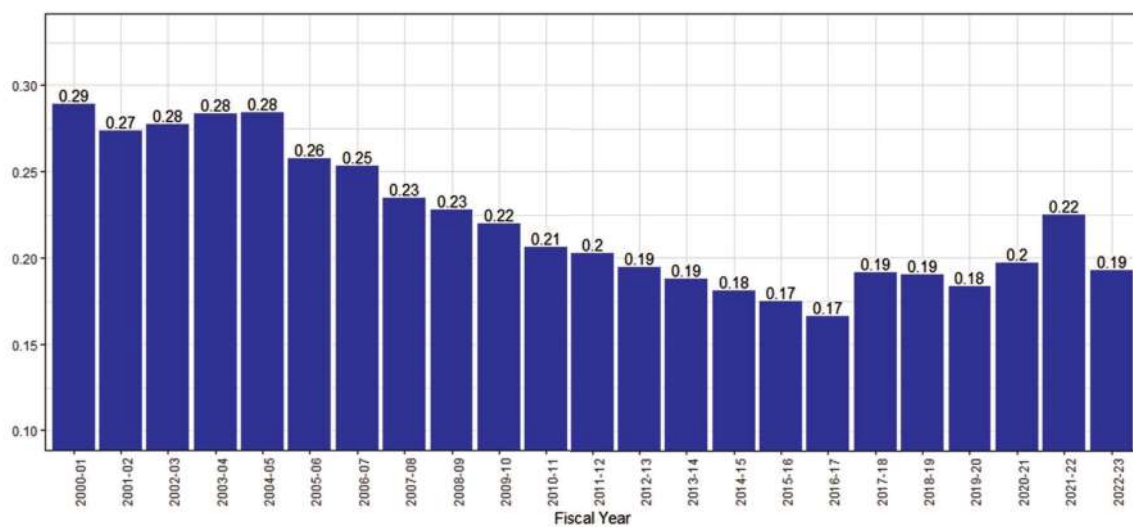


Source: <https://tradingeconomics.com/bangladesh/external-debt>

**Figure 4: Bangladesh Outstanding External Debt
(Per-capita)**



**Figure 4: Bangladesh Outstanding External Debt
(% of GDP)**



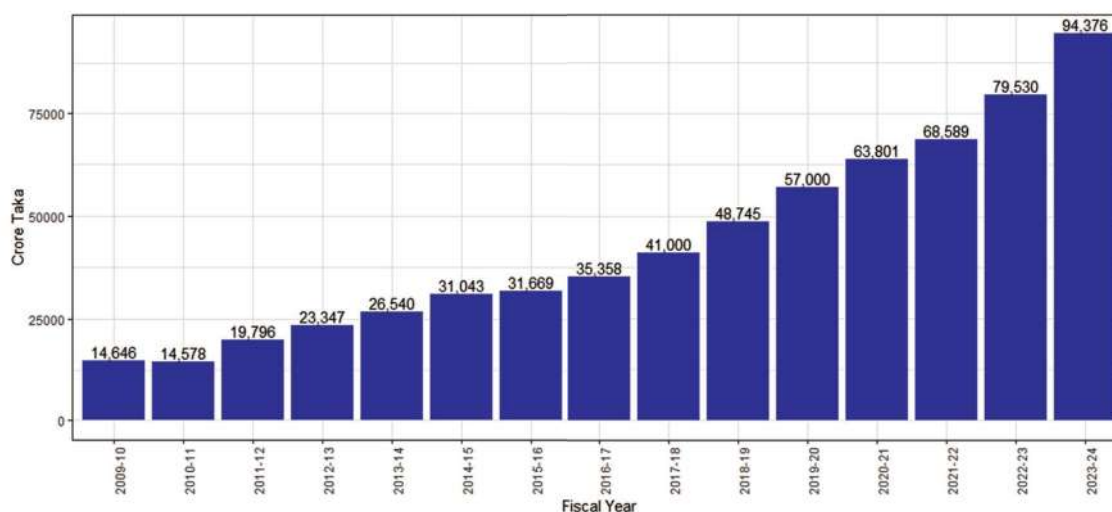
External Debt – Comparison with Other Countries

Country	Year →	2022	2021	2020	2019	2018	2017
BD	ED/GDP	19.24	22.46	19.67	18.37	19.02	19.16
	Ratings	Ba (M)					
IN	ED/GDP	19.91	21.17	20.81	19.87	20.14	19.86
	Ratings	BBB- (SP)					
PK	ED/GDP	34.51	35.07	37.57	33.05	26.62	24.58
	Ratings	CCC+ (S&P)					
SL	ED/GDP	114.11	122.08	117.19	99.45	99.53	97.26
	Ratings	CC (S&P)					
UK	ED/GDP	292.39	320.67	334.38	289.62	299.57	299.50
	Ratings	AA (S&P)					
USA	ED/GDP	96.39	100.24	101.41	95.47	96.26	97.65
	Ratings	AAA (F)					

- External debt threat depends on the willingness of the lenders to continue lending, which depends on the credit ratings of a country.
- Political instability adversely affects a country' credit rating

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Figure 4: Interest Payment on Total Debt (Cr. Taka)



Source: <https://tradingeconomics.com/bangladesh/external-debt>

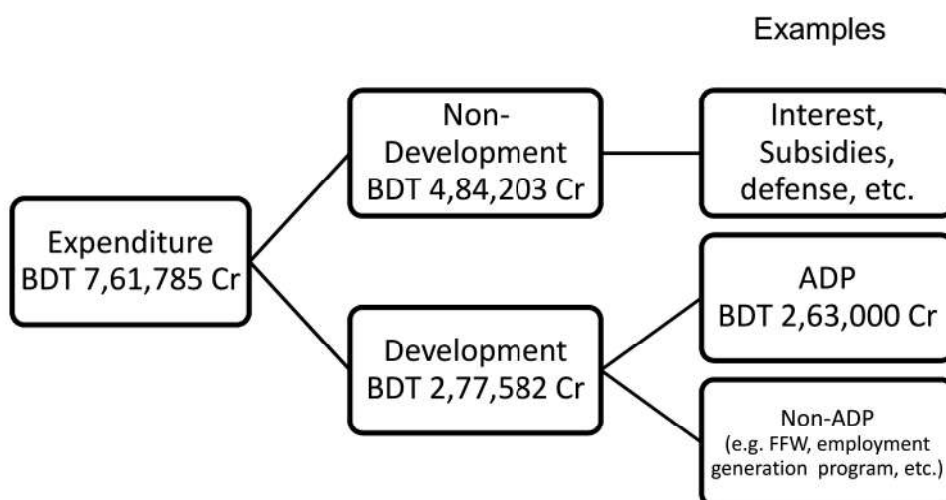
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Problems with high debt

- ➔ High interest payments
- ➔ High tax burden on future generation
- ➔ Inflation risk if financed by money creation
- ➔ Replacement of pvt. Investment risk in case of bank finance
- ➔ May become unsustainable in case of foreign debt

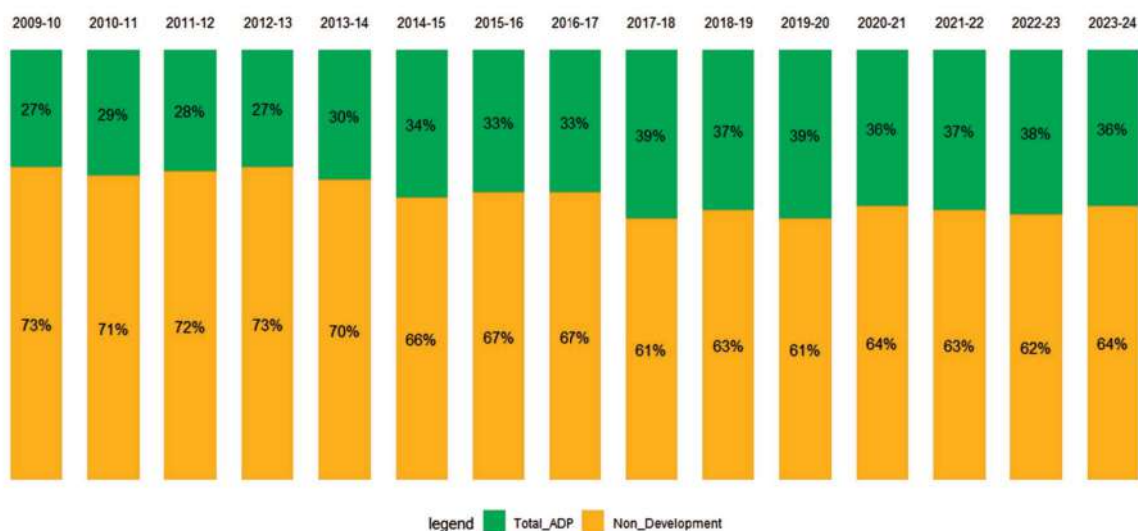
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3. Analysis of the Expenditure Budget



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Figure 6: Relative importance of Non-development and Development Expenditure



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Table: Sector Wise Comparison of Development and Non-Development Budget in FY 2023-24 (Crore taka) [%][Rank]

Sl'	Sector	Total Allocation (17 Sectors) ^{a, b}	Development Expenditure (9 Sectors) ^{c, d}
1	Education & Technology	104,365 (13.7%) [1]	46,634 (16.8%) [2]
2	Interest	94,461 (12.4%) [2]	---
3	Transport	86,082 (11.3%) [3]	75,780 (27.3%) [1]
4	Sub_Incentive	84,558 (11.1%) [4]	---
5	Public_Admin	55,610 (7.3%) [5]	19,986 (7.2%) [5]
6	Local_Govt	49,516 (6.5%) [6]	42,192 (15.2%) [3]
7	Health	38,089 (5%) [7]	15,545 (5.6%) [8]
8	Soc_Security	35,042 (4.6%) [8]	8,883 (3.2%) [9]
9	Defence	35,042 (4.6%) [9]	---
10	Energy	35,042 (4.6%) [10]	34,698 (12.5%) [4]
11	Misc	35,042 (4.6%) [11]	17,488 (6.3%) [6]
12	Pension	32,757 (4.3%) [12]	---
13	Public_Order	31,233 (4.1%) [13]	---
14	Agriculture	26,662 (3.5%) [14]	16,377 (5.9%) [7]
15	Housing	7,618 (1%) [15]	---
16	Ind_Eco_Service	5,332 (0.7%) [16]	--
17	Recreation	5,332 (0.7%) [17]	--

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3. Expenditure Analysis (cont.)

- Share of Non-Development expenditure is shrinking
(2009-10) (2022-24)
73% → 62%
- Share of Development expenditure is rising
(2009-10) (2022-24)
27% → 38%
- Problems remain with implementing development expenditure
 - Inappropriate Project Choice
 - Project delay (Incompletion)
 - Rise in expenditure
 - Low quality of work



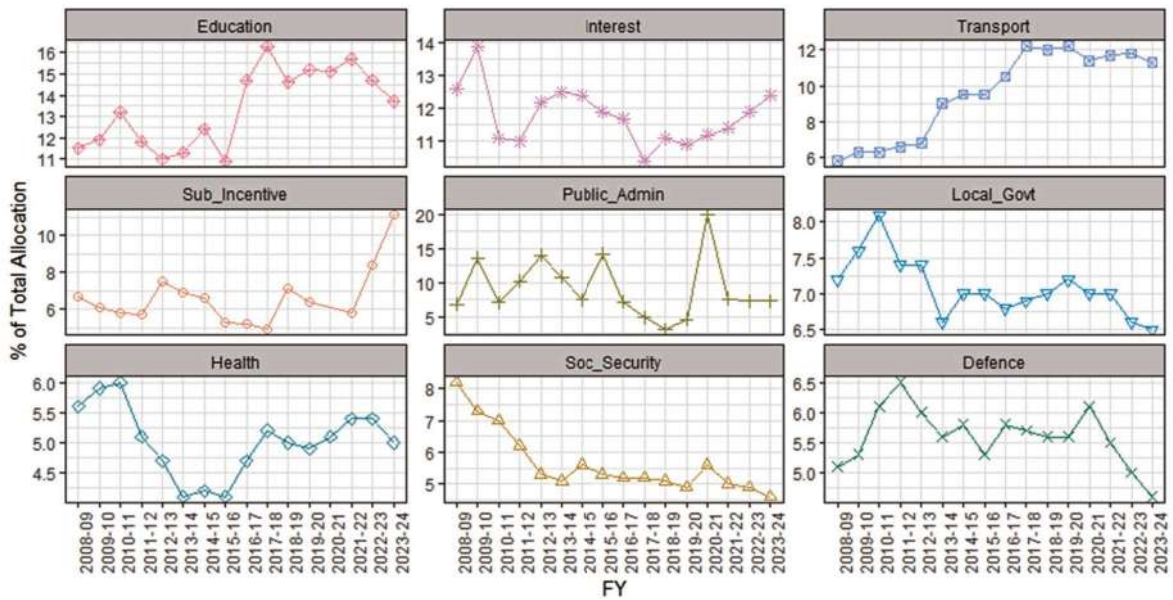
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3. Some Examples of Project Implementation Problem

1. Example: Khulna Dual Fuel Power plant (2.5 + 3 yrs)
(↑ Project term 3 years / ↑ Cost 665 cr tk)
2. 37,000 crore taka Dhaka-Ctg four lane highway needed 737 crore taka project for repairing cost within two years of construction.
3. Ruppur Nuclear Power Plant (Highly expensive and risky)
4. BRT Project (Not suitable for populated countries)

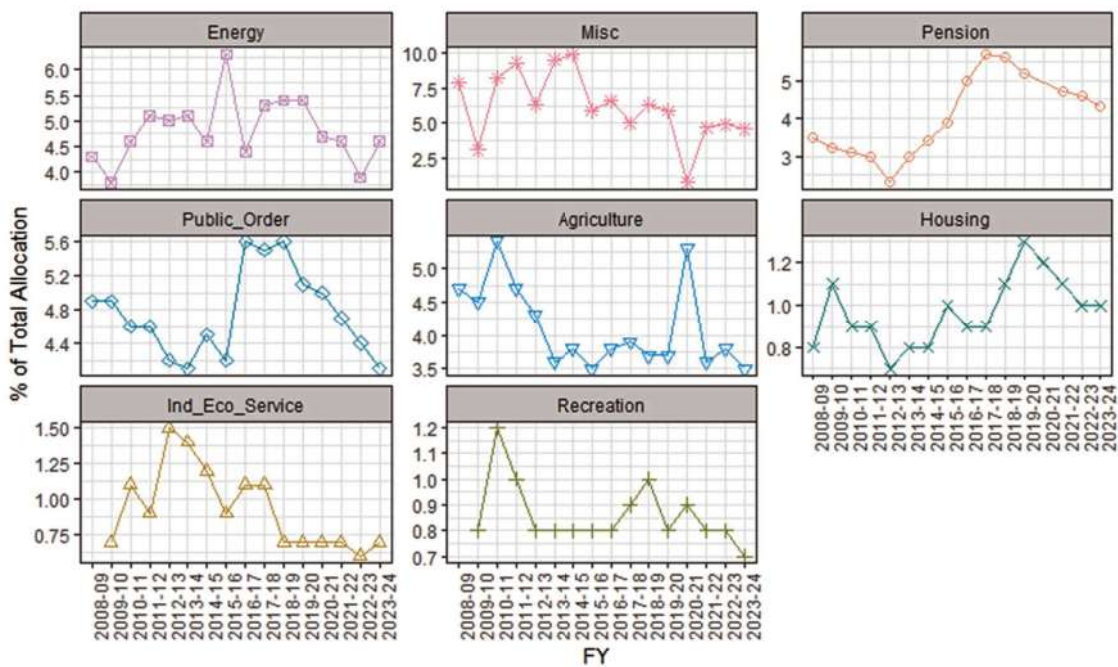
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3. Total Expenditure Analysis (Top 1-9 Sectors)



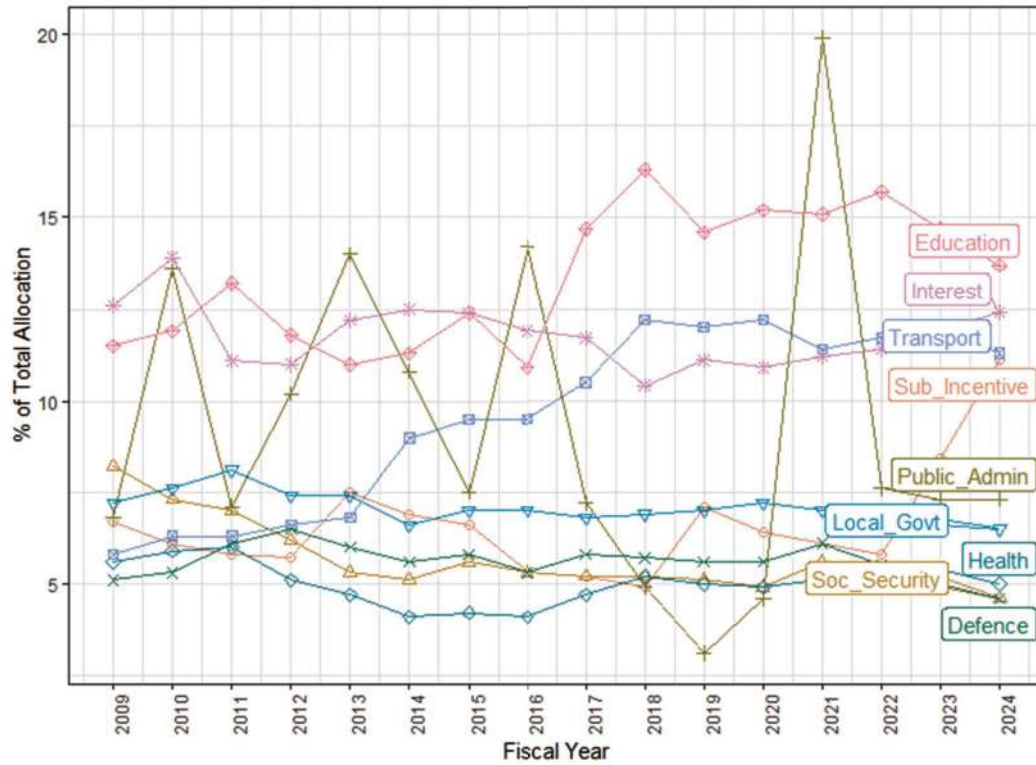
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3. Total Expenditure Analysis (Top 10-17 Sectors)

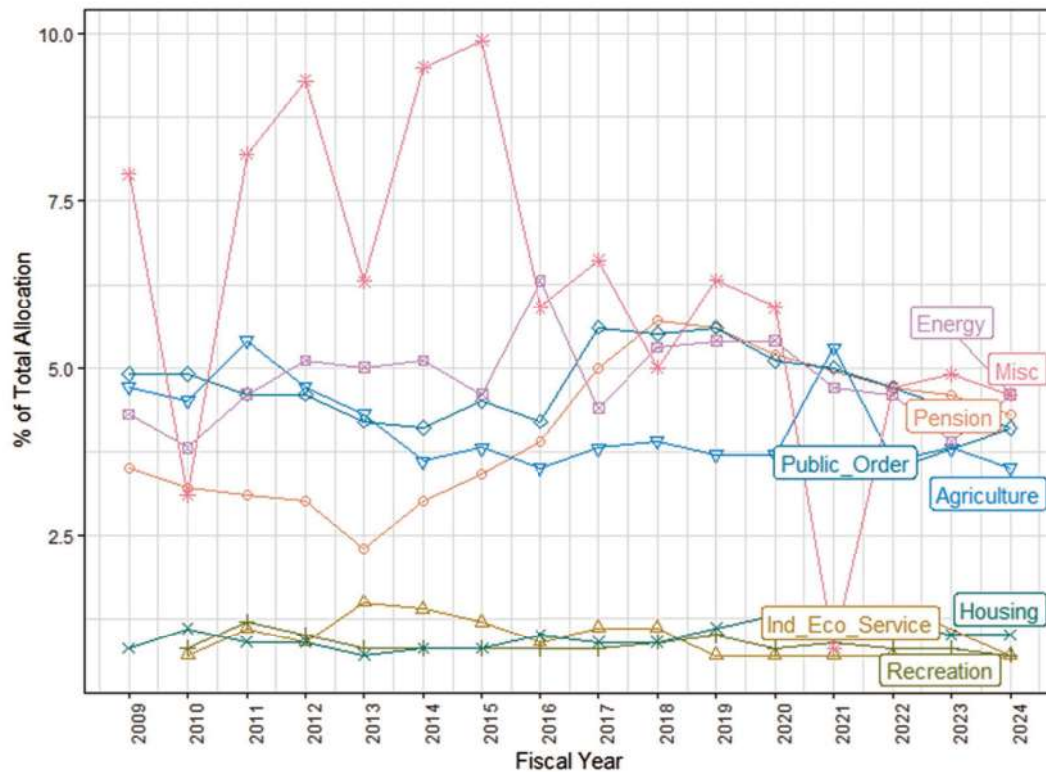


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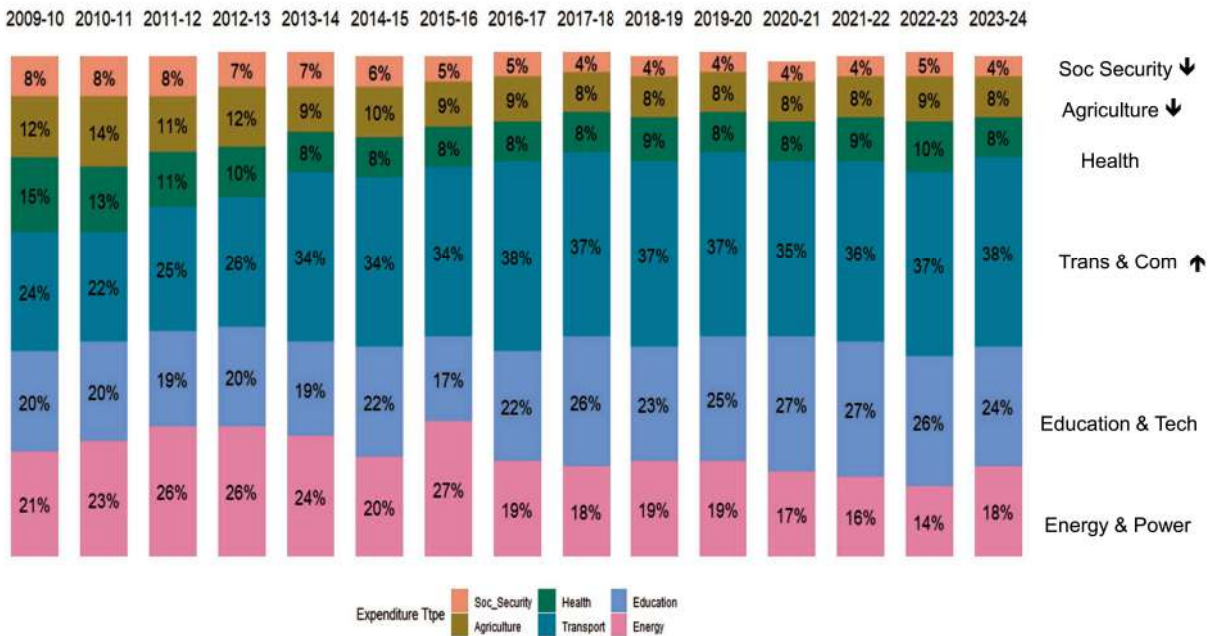
3. Total Expenditure Analysis (Top 1-9 Sectors)



3. Total Expenditure Analysis (Top 10-17 Sectors)

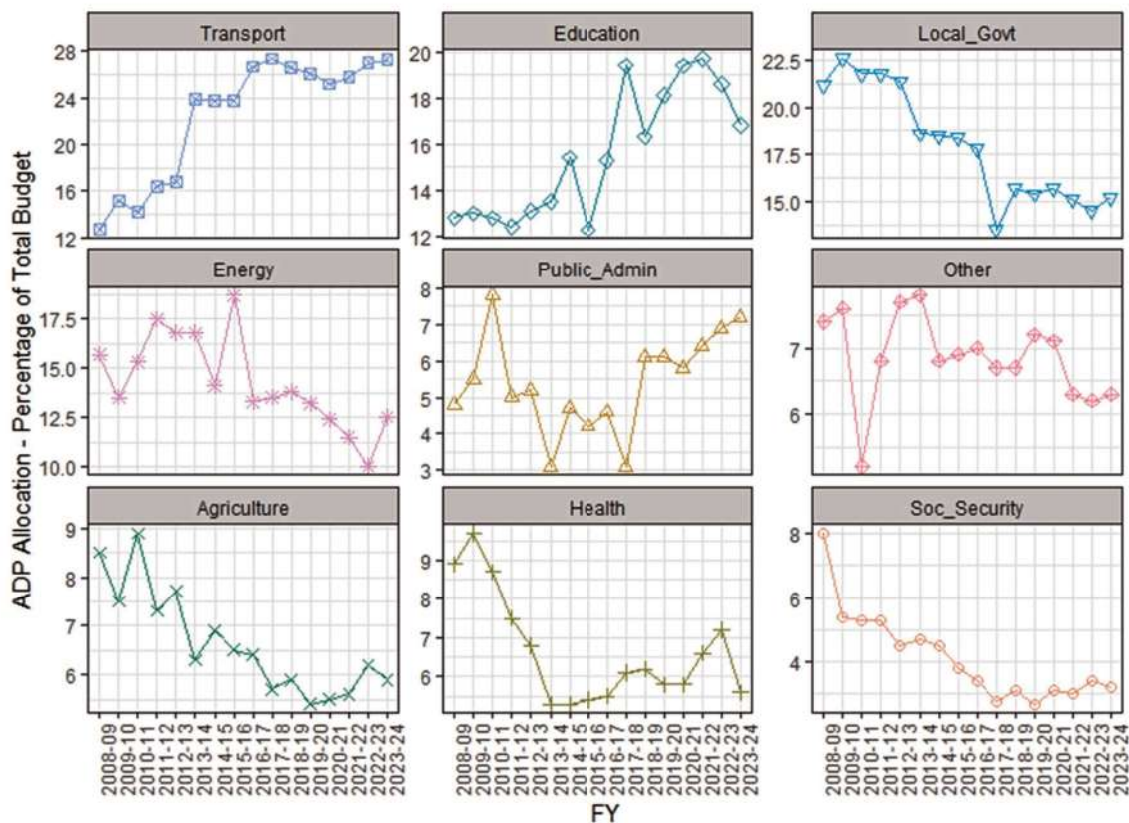


3. Development Expenditure – Changing Pattern



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3. ADP Expenditure – Changing Pattern

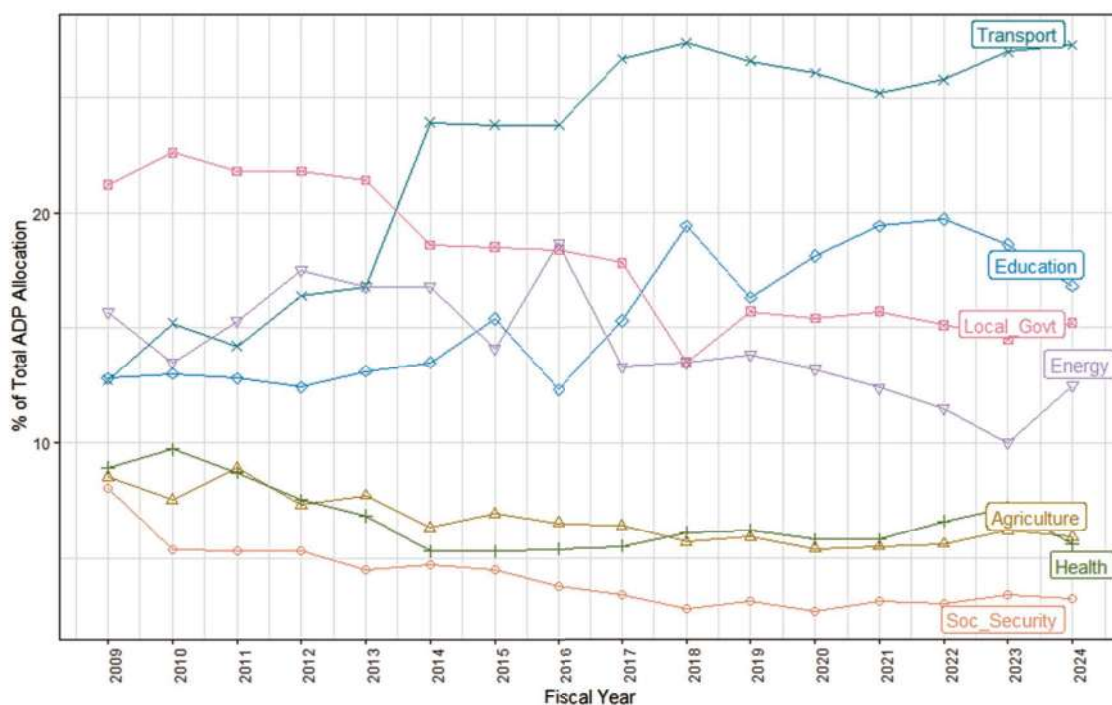


3. Development Expenditure Analysis (Allocation Priority)

- During the last 5 years transport and communication has received higher allocation (from around 15-16% during first half of the last decade to around 26-27% during the second half of the last decade)
- Local government and rural development is getting poor attention (from around 22% during first half of the last decade to around 16% during the second half of the last decade)¹
- Education is getting priority (from around 13% during first half of the last decade to around 18% during the second half of the last decade)
- Energy & power now getting somewhat less attention than before (from around 20% during first half of the last decade to around 16% during the second half of the last decade)

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3. ADP Allocation Priority (Selected Sectors)



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3. Expenditure Analysis (cont.)

(Transport and Communications)

- The physical infrastructure of the country depends on the progress of this sector. Roads and highway, bridges, railway, port and inland water transport, civil aviation, and post and telecommunications are included in this sector.
- Various important projects like Padma Bridge, Metro-rail, Dhaka Elevated Expressway, and some other mega-projects are being implemented in this sector.
- During the last five years the average allocation was 27 % of ADP. Previous five-year's average was 19% of ADP reflecting the policy priority for transportation and communication sector.
- The total length of road in the country has increased to 21,569 km as of February 2019 from 20,948 km in 2010.
- Since 2009 Bangladesh Railway has constructed 330.15 km railway line and the total length of railway in 2019 stands at 2,955.53 km.
- In 2013 20% of roads were in good condition, now 90% are in good condition (Daily Samakal, 16/6/22, first page

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3. Expenditure Analysis (cont.)

(Education and Technology, 1/3)

- Investment in education in terms of building new infrastructure and expanding public provision of education needs higher priority over time .
- With regard to basic primary education the coverage is good. Out of the total 18.602 million primary school students in 2016 government primary school alone covered 13.389 million (72%) students.
- Recent nationalizing drive has increased the student coverage by the public sector and increased revenue expenditure of the government in this sector.
- However, the infrastructures through which primary educations are provided are not of good quality and in many cases need urgent repair.
- A report published in Dhaka Tribune on July 28, 2019 shows that students of around 126 government primary schools in the Gopalganj district has been attending their classes in risky school buildings.
- In some cases, classes were taken in the school veranda, or in front of the building in school premises, to avoid a catastrophe.

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3. Expenditure Analysis (cont.) (Education and Technology, 2/3)

- Overall Allocation
 - Tk 88,162 crore (11.57 % of total budget)
 - Cf. FY22-23 allocation of Tk 81,449 crore (12 % of total budget.)
- ADP Allocation for education reduced
 - 0.47 percentage points less than previous the ADP allocation
- Of the total ADP Tk 28,927 crore,
 - Tk 12,018 crore or 4.57 percent is for the Ministry of Primary and Mass Education,
 - Tk 14,085 crore or 5.36 percent for the Secondary and Higher Education Division, and
 - Tk 2,823 crore or 1.07 percent for the Technical and Madrasa Education Division.

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3. Expenditure Analysis (cont.) (Education and Technology, 3/3)

- The provision of secondary education by govt. – dismal state.
- Out of the total 18,818 secondary level school
 - Public represents only 322 (Banbeis, 2015)
 - representing less than 1% of the total.
- In case of college
 - public 319
 - Private 3919

(1 public against exist more than 12 pvt colleges).
- The first private university, North South University, was established in 1992 under Private University Act (PUA) 1992.
- According to UGC, in March, 2023 the number of private universities stands at 109 against 53 public universities.
- Redefine priority within education sector. Instead of trying to establish one university in each district, try to ensure at least one primary school in each village.¹

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Priority in Development Expenditure



File photo: Students attend their class at one of the risky schools in Gopiganj [Dhaka Tribune]

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3. Expenditure Analysis (cont.) (Health Sector, 1/2)

- Substantial reform in the health sector is required to make health service delivery pro-poor.
- A recently published WHO report shows that in Bangladesh 67% of all health care cost is out of pocket cost which is the highest among ten south and southeast Asian countries.
- Bangladesh has framed a Health Care Financing Strategy 2012-2031 under which a program called Shastha Surakha Karmosuchi (SSK) is being implemented at the pilot level in few unions in northern part of the country.
- Without scaling up of the project and budgetary allocation the impact of the project will not be felt.

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Healthcare Coverage and Out of Pocket Expenditure



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Out-of-pocket expenditure (% of current health expenditure) - South Asia

Country	Most Recent Year	Most Recent Value	
Afghanistan	2019	79.30	
Bangladesh	2019	72.68	
Bhutan	2019	17.79	
India	2019	54.78	
Maldives	2019	16.45	
Nepal	2019	57.91	
Pakistan	2019	53.81	
Sri Lanka	2019	45.64	
South Asia	2019	56.04	

Source: <https://data.worldbank.org/indicator/SH.XPD.OOPC.CH.ZS?locations=8S>

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3. Expenditure Analysis (cont.)

(Health Sector, 2/2)

- Currently the government allocates some lump-sum amount of money for treating illness related to cancer, kidney and liver.
- What is more urgent for Bangladesh is to introduce some kind of health insurance policy targeting the lower income end of the population.
- Bangladesh can learn from Indian experience of the health care insurance scheme Rashtriya Swasthya Bima Yojana (RSBY) that insures families who are below the poverty line a hospitalization bill that cover up to Rs. 30,000.
- In a new plan, 100 million poor and vulnerable families, will be provided with up to Rs500,000 or about \$7,692 a year to cover hospitalization costs in case of severe illness (Financial Times, 2018).

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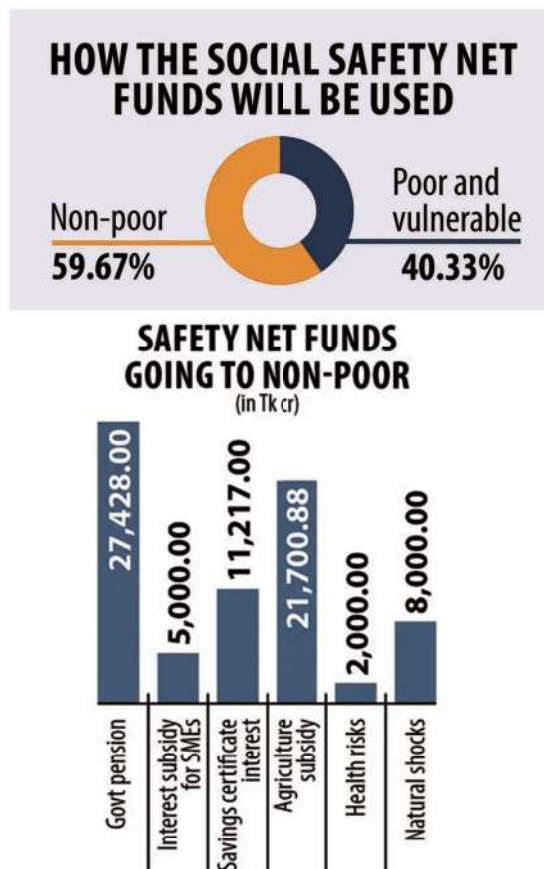
3. Expenditure Analysis (cont.)

(Social Safety Net Programs 1/2)

- Required budget to declare BD extreme poverty free
0.952 Cr extreme poor (5.6% of pop)
× Tk.2,000 / month
× 12 = Tk. 22,848 cr / year
- SSNP Budget: Tk 126,272 cr. FY23-24
- Directly targets extreme poor --
Elderly / tea worker / transgender / widow / gipsy
Value – Tk. 600 / month (Tk. 500 since 2015)
Beneficiaries: about 1.20 cr
Total Value: about Tk.8,640 cr / year
- Large amounts are spent on --
Pension holders, allowances for FFs, climate change, skill development, food subsidy, and employment generation program, etc.

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Safety Net Budget FY 2023-24: Spending just
1.01pc of GDP, not 2.52pc
Tuesday, June 20, 2023 (Daily Star)



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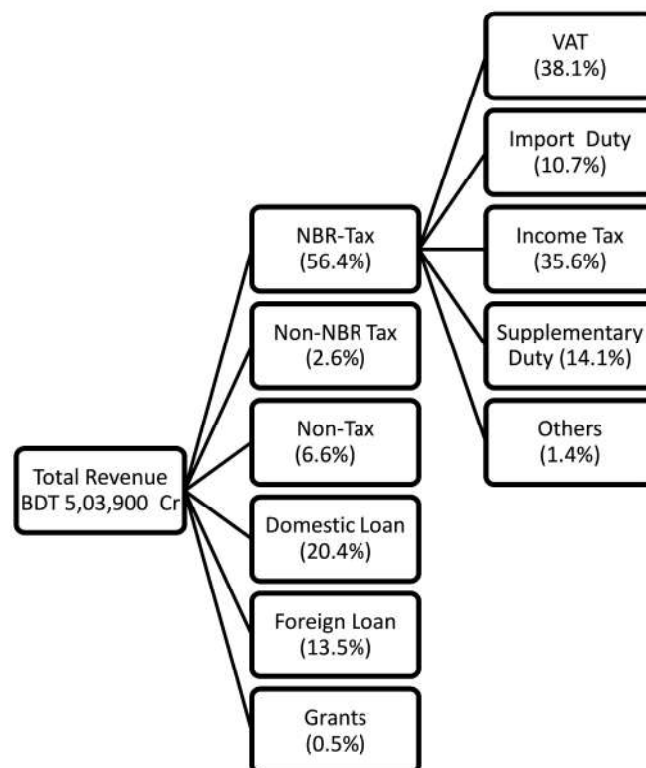
3. Expenditure Analysis (cont.)

(Social Safety Net Programs, 2/2)

- The finance minister claims that $\frac{1}{4}$ of the HHs are now covered under the SSNPs.
- The per capita allocation of resources under the program is very uneven and needs rationalization.
- A primary school student gets a stipend of Tk 750 per month while a senior citizen gets a monthly old age pension of Tk 600
- Beneficiary selection process is also faulty. 60% of the selected beneficiary do not fulfill selection criteria (Haider and Mahmood, 2017).

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4. Structure of Revenue for FY 2023-24



4. Analysis of Revenue Budget (Contd.) (Changes in Total Revenue Structure)

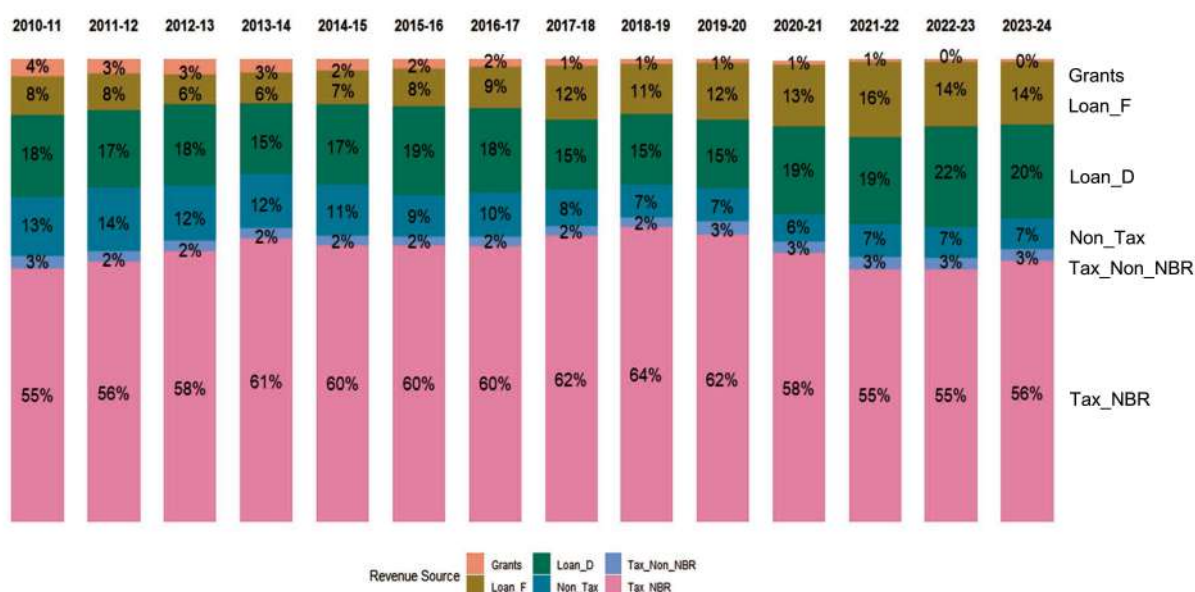
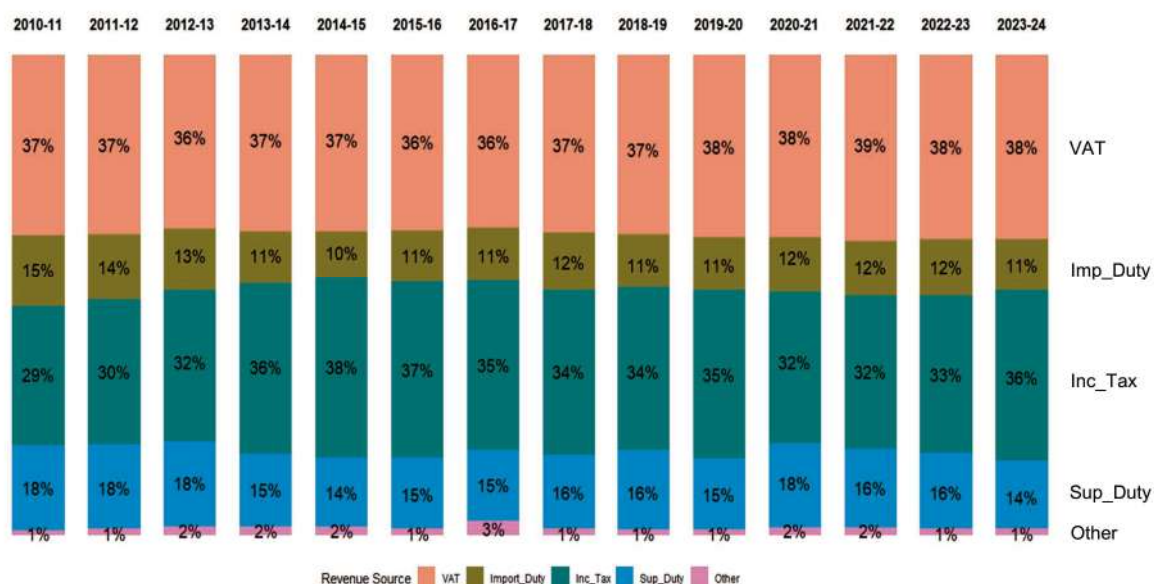


Figure : Changes in NBR Collection Structure



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4. Direct Taxes – Notable Changes

3A. Income tax (As in FY 23-24)

Slabs	Rate
Up to Tk. 3.5 Lac.	0%
On next Tk. 1 Lac.	5%
On next Tk. 3 Lac	10%
The next Tk. 4 lac	15%
The next Tk. 5 lac	20%
The rest of the money	25%

- Income tax share (in NBR)
- 2011-15 2016-20 2021-24
- 32.7% 35.1% 32.9%
- It is not conceivable why share of income tax not increasing
- Increasing inequality (more income to rich) should → higher income tax (as rich people are on higher tax bracket)¹

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4. Direct Taxes – Notable Changes (contd.)

- Tax return – Min. 2000/-
- Inconsistence with tax-free Tk.3.5 lac
- Return Required
 - Savings Certificate more than Tk.5 lac
 - Access 28 govt. services
- Surcharge on min. wealth
- Tk 3 cr → Tk 4 cr
- 2X tax on additional private cars (Environmental Surcharge)



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4. Direct Taxes – Notable Changes (contd.)

Concession made in the previous FY22-23

- Corporate tax rate:
Non-listed company¹
30 % → 27.5 %
- One Person Company (OPC),
25 % → 22.5 %.
- Listed companies²
22.5 % → 20 %

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Indirect Taxes- Revised Upward (FY23-24)

Tax	Item	Comments
↑	Mobile Phones VAT 3% → 5% (two local components) VAT 5% → 7.5% (no local component)	Hurts poor proportionately more
	Pen (VAT 0% → 10%)	Middle and poor (-ve)
	Gold Bar ¹ Tk2000/ vori → Tk4000 / vori	Rich (-ve),Remittance (+ve)
	Some Plastic Items VAT 2,5% → 7.5%	Poor (-ve)
	Travel Tax Tk 200 (domestic, New) Tk. 2000 (SAARC, ↑ 67%) Tk. 4000 (ME, ↑ 33%) Tk. 6000 (Other, ↑50%)	Middle and rich (-ve)
	Property Registration Tax (per katha) Max(0.04*Deed value, Tk10 lac) → Max(0.08*Deed value, Tk20 lac) Property Transfer Tax (3% → 6%)	Upper middle and rich (-ve)

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Tax Mobile Phone in the Previous Fiscal (FY22-23)

Tax	Item	Comments	
↑	Talk (suppl duty ↑ by 5% to 27%) Pay Get 100/- 82/- (before) 100/- 78/- (now)	Reserved, tight lipped persons	Chatty, gabby or talkative Persons
	Data use (suppl duty ↑ by 5% to 27%) Pay Get 111/- 100/- (before) 116/- 100/- (now)	Traditional persons	Internet users
	New SIM (100/- → 200/-)	Rev rise	Poor
	Turnover tax for mobile operators (0.75% → 2%)	Rev rise	mobile operators
	Tax on mobile import (10% → 25%)	Rev rise	Mobile importers/ buyers
	Tax on smart phone (↑ by 15% to 57%)		

Not digital economy friendly policy changes, only serves revenue collection

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Indirect Taxes- Revised Upward (FY23-24)

Tax	Item	Comments
↓	Agri. Machineries Import (Exemption of Advanced Tax)	Reduce agri costs
	Animal Fodder Production (VAT Exemption)	Cheaper fodder
	Malaria & Tuberculosis Medicine Production (VAT Exemption)	Cheaper drug
	Aero plane engine & machineries (Advanced Tax Exemption)	Airline companies (+ve)
	Handmade biscuits & cakes Tax exemption limits increased Tk 150 → Tk. 200 (per kg) (biscuits) Tk 250 → Tk. 300 (per kg) (cake)	Producers of these items
	Sweet VAT 15% → 7.5%	Good for producers but bad for national health

Comments: Could revise existing rates on –
downward Tk.1600/MT on newsprint and 10%VAT on printing press
upward VAT 7.5% on Amusement Park / Theme Park, and 5% VAT on Eng
Medium Schools

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5. Concluding Remarks

- Deficit budget is major feature of all the 52 budgets passed so far in the parliament.
- Domestic and external borrowings and the associated interest payments are the unavoidable consequences of this type of budget.
- Recently debt has exponentially soared and interest payment is now the second highest expenditure element in the total budget allocation.
- Since budgets are shrinking relative to GDP, i.e., private share in the economy is increasing, income inequality is likely to be aggravated in the future.
- Efforts are needed from both the expenditure side and the revenue side to make the budget efficient.

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5. Concluding Remarks (contd.)

- Improved monitoring can substantially improve tax collection. Ambulances are being imported by paying 30% import duty and being registered as micros for which import duty is 115%. Similar is the case for importing mixture trucks and using them as regular trucks.
- False declaration and paying bribes to custom officials also deprives government of a large amount of revenue each year.
- Efficiency is more important than deepening and expanding tax net.
- Supporting administrative measures are required to achieve efficiency in both revenue generation and expenditure implementation.
- Finally, budget allocation should reflect long term development objective. For example, by making budget digital economy friendly and depend more on income tax and wealth tax than on indirect tax like VAT.

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Thank You

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