

# Towards People-Centric Public Finance Management in Bangladesh

## *Presentation on* **National Budgets in Bangladesh** *Myths and Realities*

Presentation by  
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Citizen's Platform for SDGs, Bangladesh  
এসডিজি বাস্তবায়নে নাগরিক প্ল্যাটফর্ম, বাংলাদেশ

## Team and Acknowledgements

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# How is Bangladesh's budget process rated?

Cross-country comparison of OBS score and ranking over time

Country	Indicator	2006	2008	2010	2012	2015	2017	2019	2021
Bangladesh	Score	39	42	48	58	56	41	36	30
	Rank (out of 100 countries)	38 (64)	44 (57)	46 (49)	28 (28)	31 (30)	66 (57)	79 (68)	95 (79)
India	Score	53	60	67	68	46	48	49	37
	Rank	17	20	14	14	53	53	53	78
Sri Lanka	Score	47	64	67	46	39	44	47	30
	Rank	26	13	13	53	70	60	54	93
Nigeria	Score	20	19	18	16	24	17	21	45
	Rank	52	61	73	80	85	90	97	65
Uganda	Score	32	51	55	65	62	60	58	58
	Rank	43	32	32	18	24	29	36	43
<b>No of surveyed countries</b>		<b>59</b>	<b>77</b>	<b>93</b>	<b>100</b>	<b>102</b>	<b>115</b>	<b>117</b>	<b>120</b>

0-20	21-40	41-60	61-80	81-100
Scant or none	Minimal	Limited	Substantial	Extensive
Insufficient			Sufficient	

- In OBS 2021, Bangladesh's score was lower than that of the global average (45) and the South-Asian average (38)

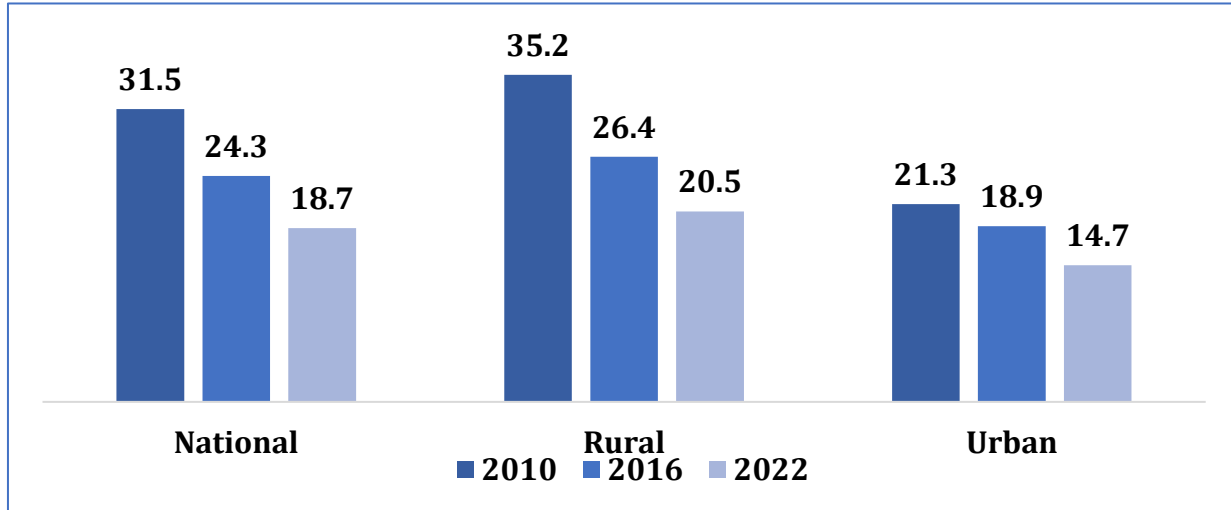
## The ten questions

- 1. Why is inequality increasing as poverty is coming down?**
- 2. Is the national budget “big” in Bangladesh?**
- 3. How far are the budgetary targets implemented in Bangladesh?**
- 4. Is Bangladesh becoming an economy with high growth and low tax?**
- 5. How dependent is tax revenue on indirect taxes?**
- 6. How dependent is ADP on foreign financing?**
- 7. Do the macroeconomic targets in the budget FY2023-24 make sense?**
- 8. How proper are the allocations for SSNPs, health and education?**
- 9. What are the welcome fiscal measures in budget FY2023-24?**
- 10. What are the fiscal measures of concern in budget FY2023-24?**

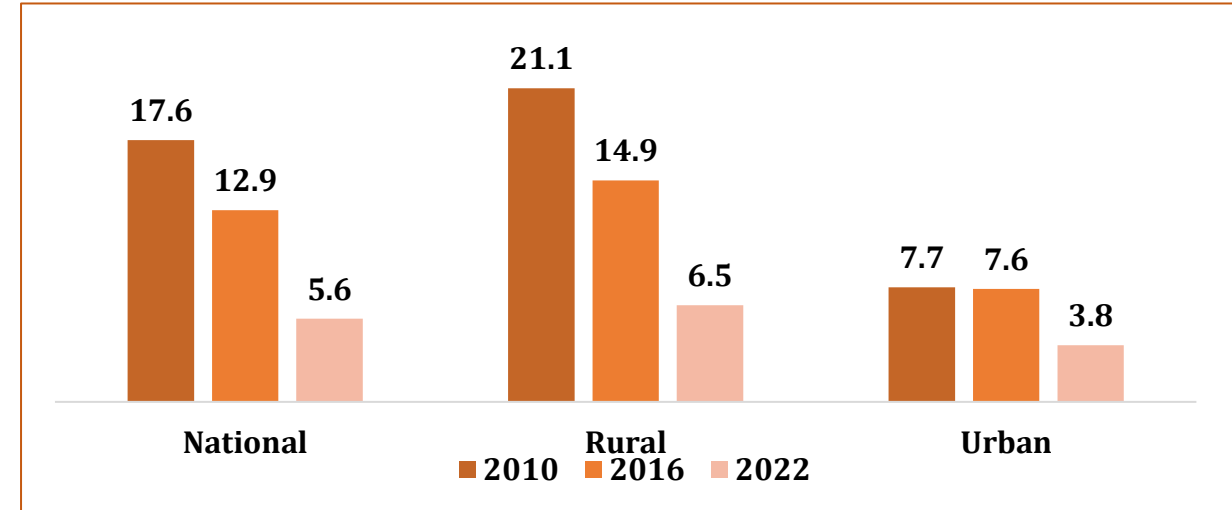
# 1. Why is inequality increasing as poverty is coming down?

- Poverty rate has declined sequentially – rural poverty going down faster!

Poverty Rate (Upper poverty line, %)



Poverty Rate (Lower poverty line, %)



Income Gini Coefficient

Year	2010	2016	2022
Rural	0.431	0.454	0.446
Urban	0.452	0.498	0.539
National	0.458	0.482	0.499

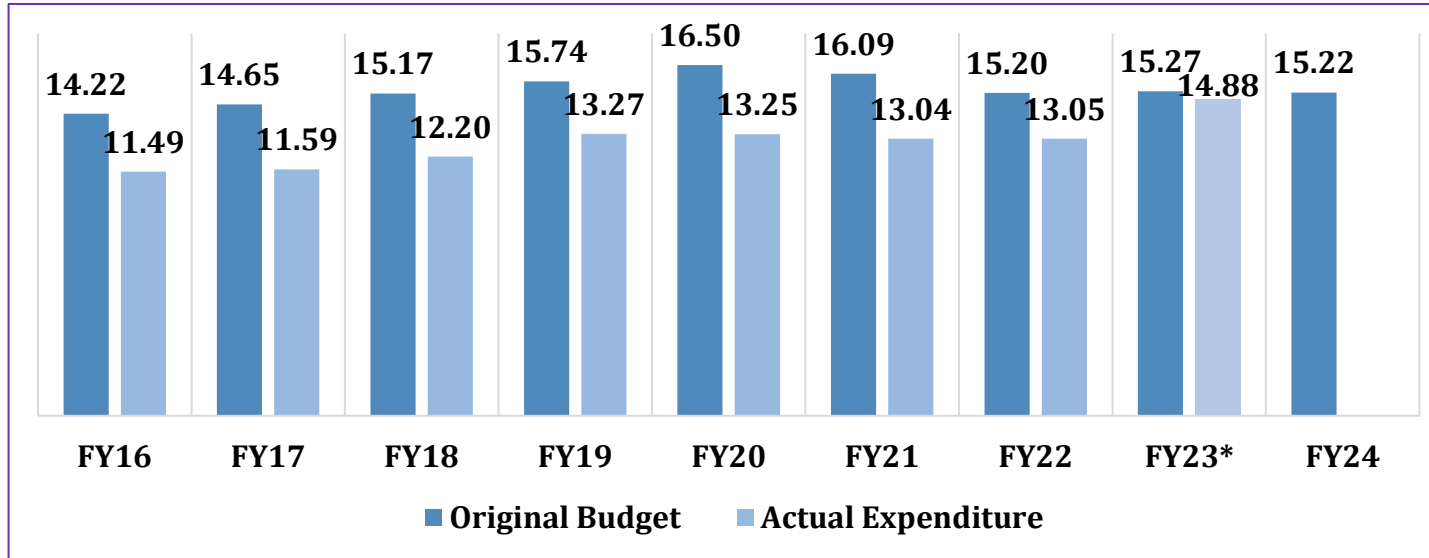
Consumption Gini Coefficient

Year	2010	2016	2022
Rural	0.275	0.300	0.291
Urban	0.338	0.330	0.356
National	0.321	0.324	0.334

- Inequality has worsened with urban inequality increasing faster – both in terms of income and consumption, while wealth inequality is even higher

## 2. Is the national budget “big” in Bangladesh?

Public Expenditure-GDP Ratio (%)



- Bangladesh ranks 137th out of 143 countries in terms of public expenditure-GDP ratio
- The global median value for public expenditure (as % of GDP) is 32.2%

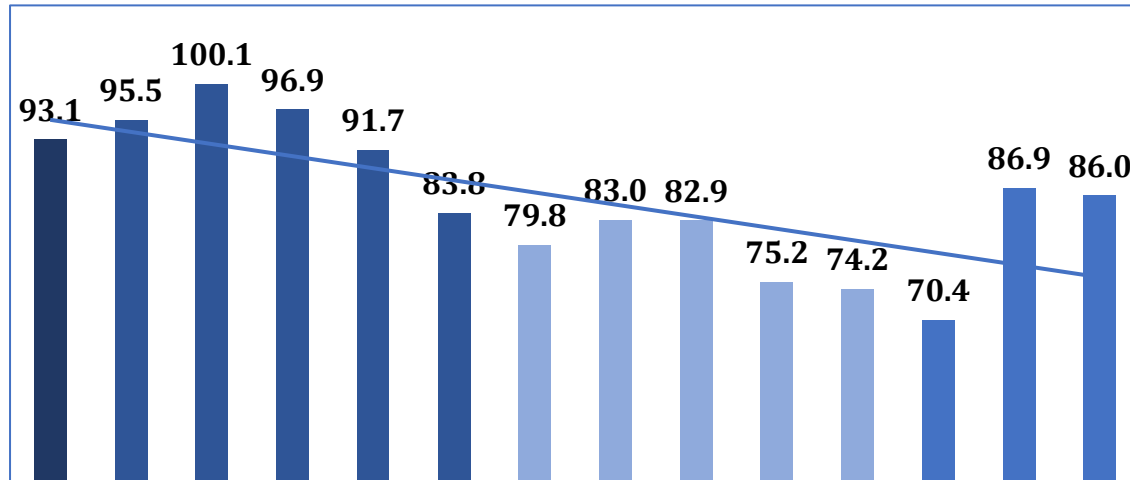
Note: \* indicates that for FY23, the revised budget figure has been considered as actual expenditure

- Public expenditure in FY2023 has been very low compared to the annual target – to some extent by intension
- Attaining the public expenditure target in FY2024 may require approx. 40% growth over the actual achieved public expenditure by the end of the year

# 3. How far are the budgetary targets implemented in Bangladesh?

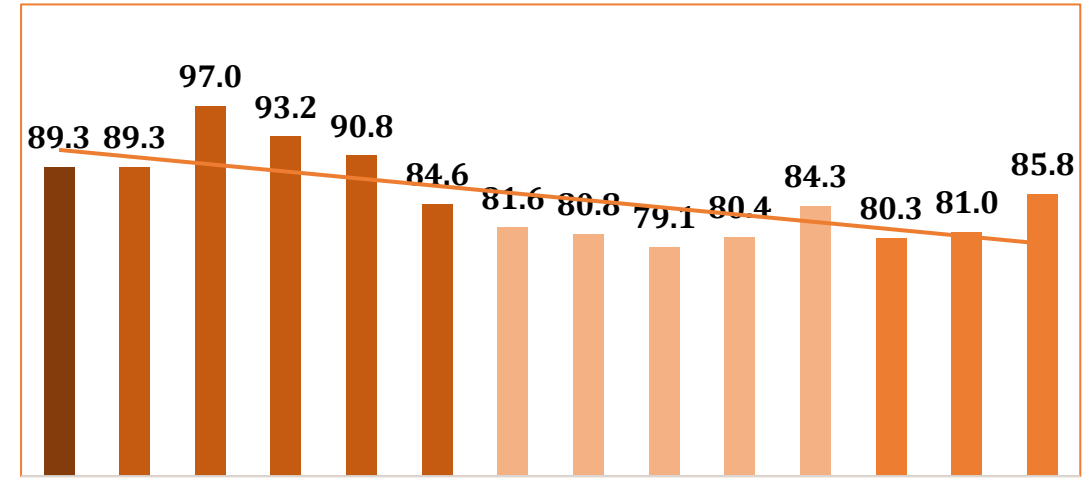
Budget Implementation Rate (Actual as % of Original Budget)

Revenue Mobilisation



FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21 FY22

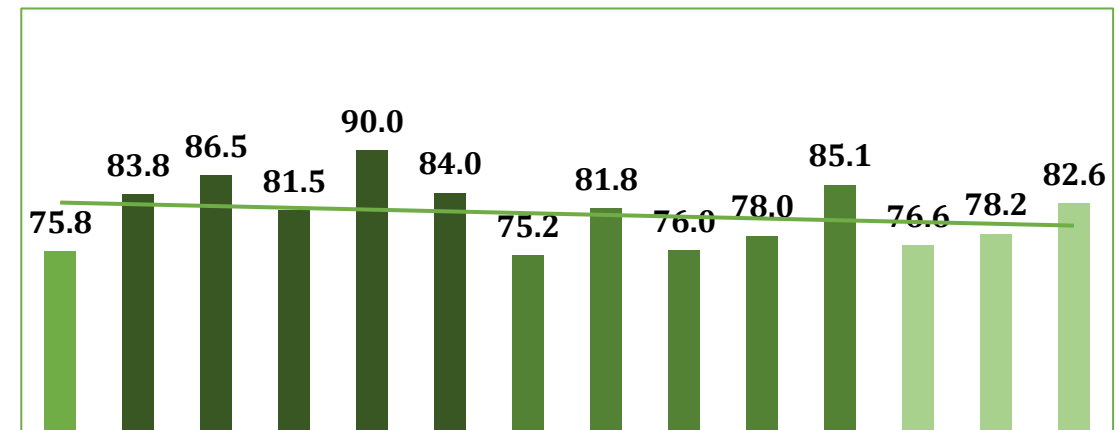
Public Expenditure



FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21 FY22

- Budget implementation performance in terms of revenue mobilisation, public expenditure, and ADP has deteriorated over the years.

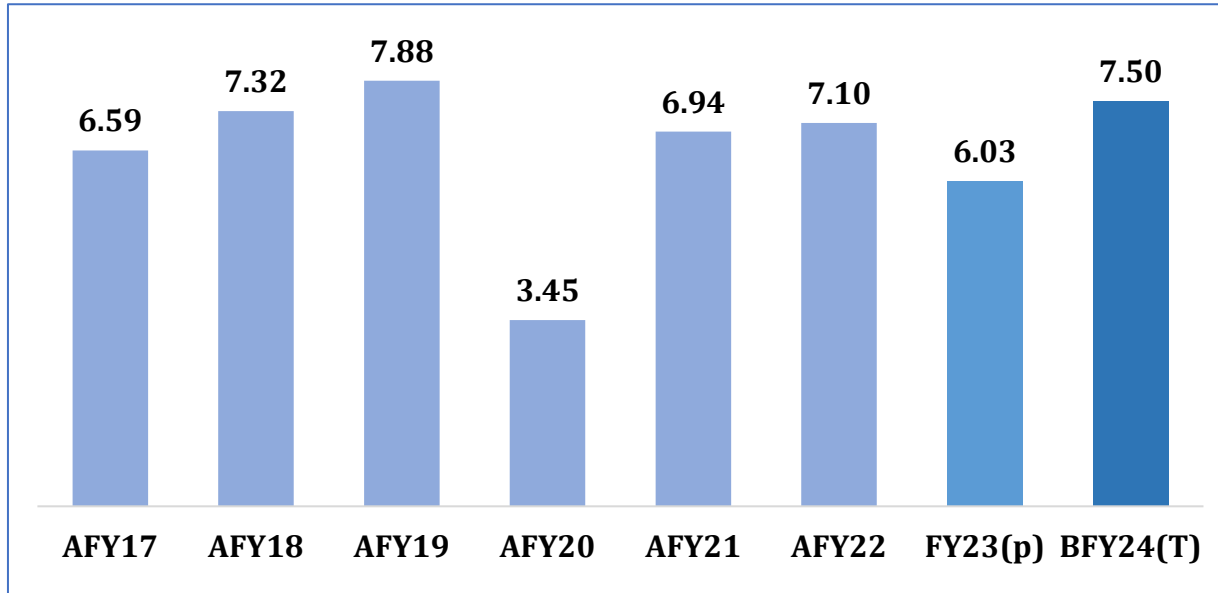
ADP



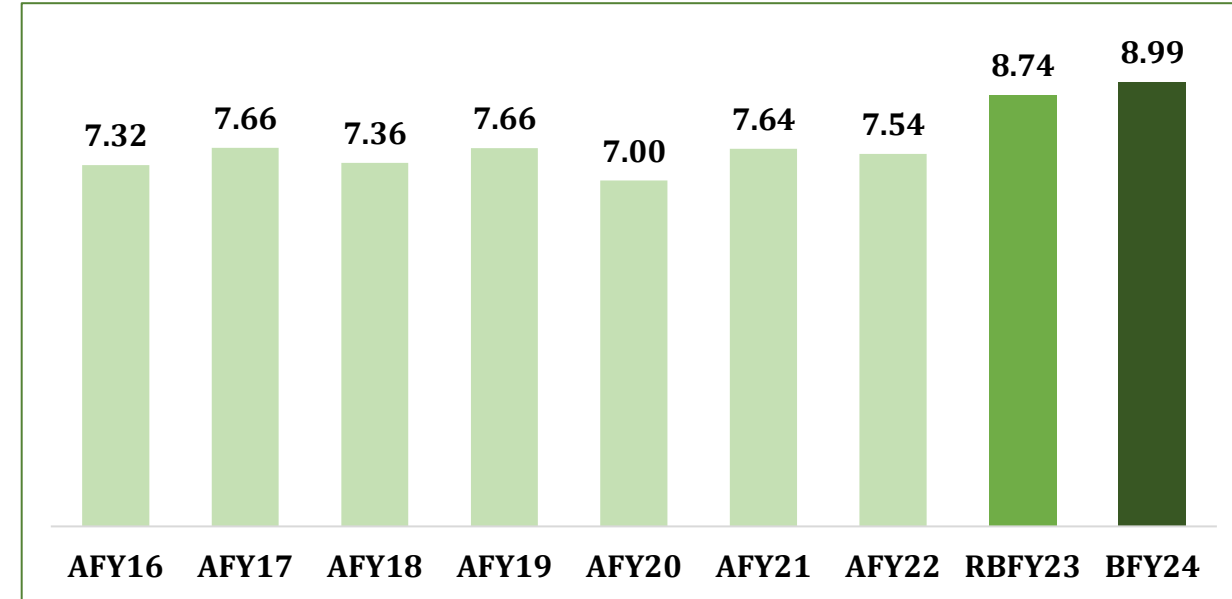
FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21 FY22

## 4. Is Bangladesh becoming an economy with high growth and low tax?

GDP Growth Rate (%)



Tax-GDP Ratio (%)

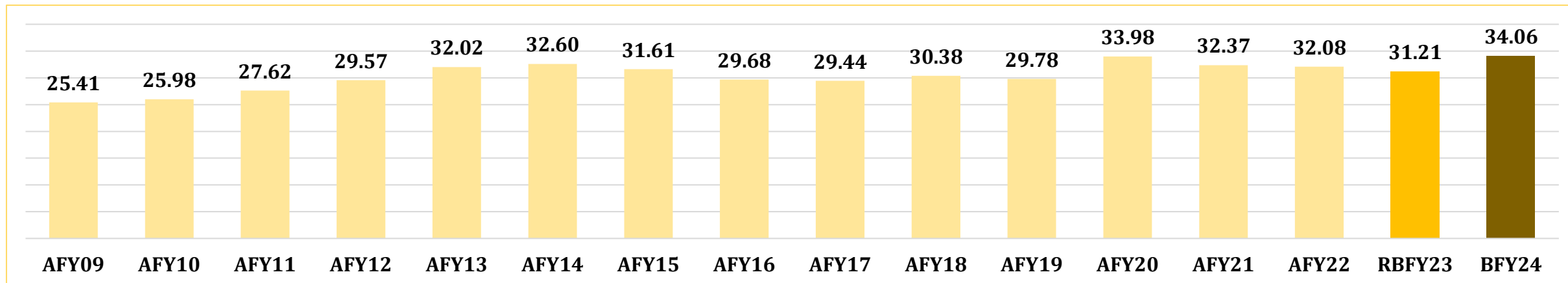


- Bangladesh ranks 119th out of 123 countries in terms of Tax-GDP ratio (% of GDP)
- The global median value for public expenditure (as % of GDP) is 32.2%

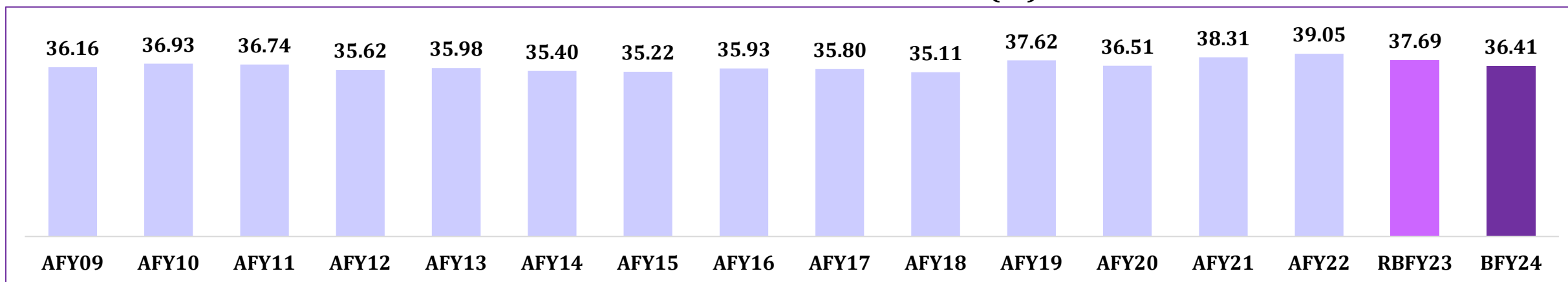


## 5. How dependent is tax revenue on indirect taxes?

Share of Income Tax in Total Tax Collection (%)



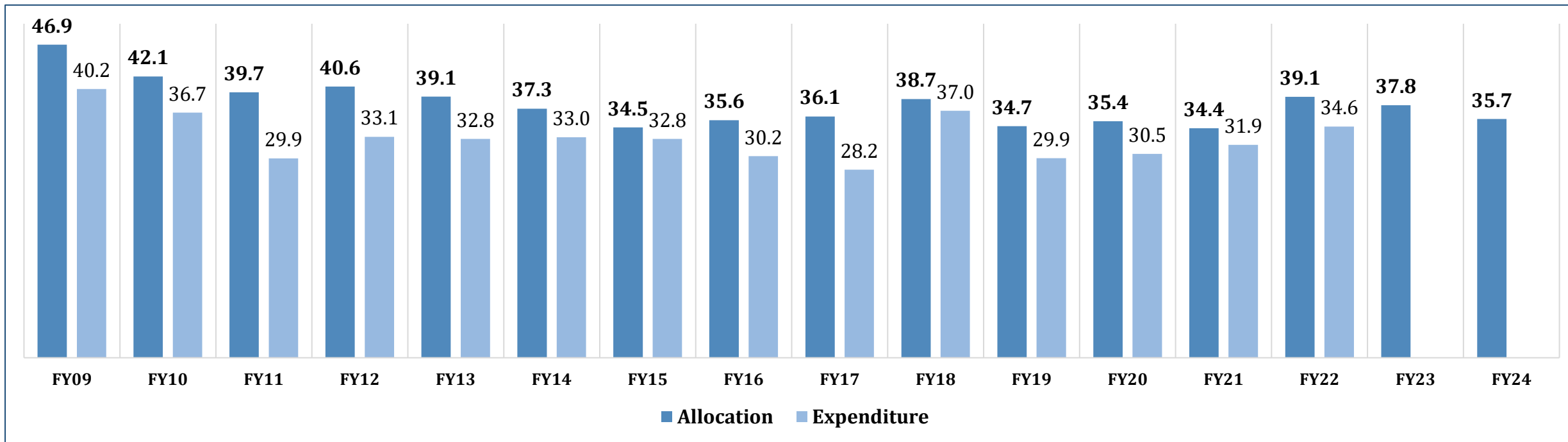
Share of VAT in Total Tax Collection (%)



- Overreliance on indirect tax often undermines equity concerns.

## 6. How dependent is ADP on foreign financing?

Share of Project Aid in ADP (Original Allocation and Actual Expenditure, %)



- Still an important part of ADP is financed by foreign sources
- Contribution of revenue surplus (after meeting all other expenses) in ADP financing has been volatile

## 7. Do the macroeconomic targets in the budget FY2023-24 make sense?

Indicators	FY22 Actual	FY23 Projection (MTMF 2022)	FY23 Latest Outcome (MTMF 2023)	FY24 Projection (MTMF 2023)
GDP growth (%)	7.1	7.5	6.0	7.5
Gross Investment (as % of GDP)	32.0	31.5	27.8	33.8
Private Investment (as % of GDP)	24.5	24.8	21.8	27.4
Public Investment (as % of GDP)	7.5	6.7	6.0	6.3

*Note: Investment figures presented in the budget are different from the BBS provisional estimates for FY2023.*

- Is the private investment figure estimated residually that is required for higher economic growth?
- No impact of the macroeconomic reforms and adjustments considered

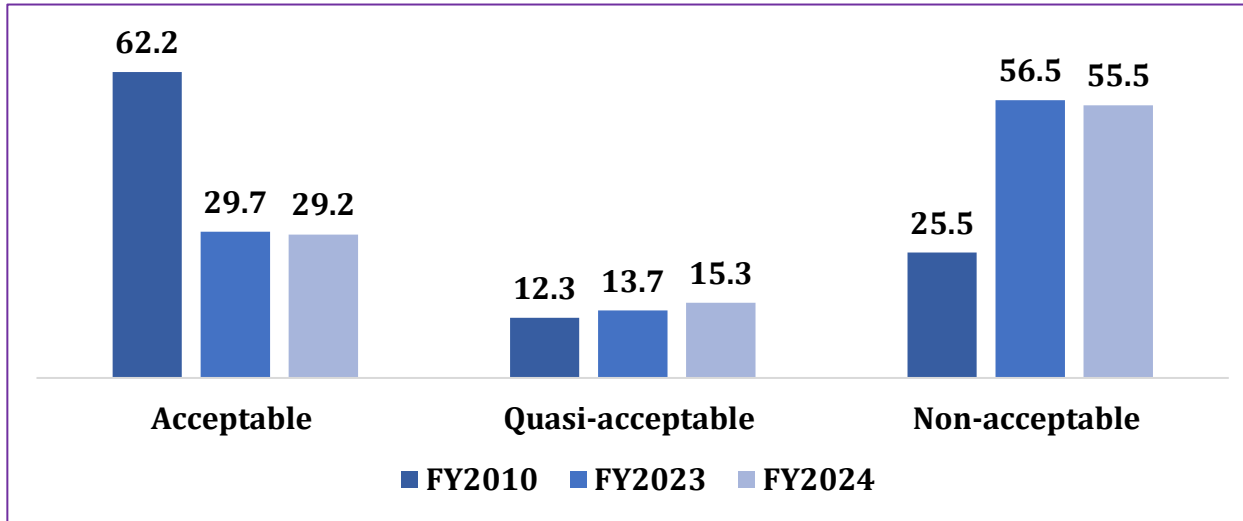
## 7. Do the macroeconomic targets in the budget FY2023-24 make sense?

Indicators	FY22 Actual	FY23 Projection by MTMF 2022	FY23 Latest Outcome	FY24 Projection by MTMF 2023
CPI inflation (%)	6.2	5.6	8.8 (May 2023)	6.0
Private Sector Credit (growth in %)	13.7	15.0	11.3 (As of end April 2023)	15.0
Export (growth in %)	33.4	20.0	7.1 (July-May 2023)	12.0
Import (growth in %)	35.9	12.0	-12.4 (July-Mar 2024)	8.0
Remittances (growth in %)	-15.1	16.0	1.1 (July-Mar 2024)	10.0
Foreign Exchange Reserve (bln. US\$)	42.7	46.5	29.9 (As of end May 2023)	35.8
Exchange Rate (BDT per USD)	86.3	86.2	98.3 (July-April 2024) 108 (as of 31 May 2023)	104.0

- No clear indication about the total accumulated external payment arrears
- Not sure how in FY24 import will grow, forex reserve will improve, and exchange rate (Tk. 108 per USD as of 31 May 2023) will appreciate at the same time in FY2024

## 8. How proper are the allocations for SSNPs, health and education?

SSNP Budget Composition (share, %)



- Total SSNP budget increased marginally – declined both as a share of the national budget and GDP
- SSNP budget continued to remain artificially inflated
- Seemingly unrelated allocations are reported in SSNP list

- ❑ CPD has classified SSNPs into **three categories** viz. **acceptable** (i.e., those that should naturally be included in the SSNP list), **quasi-acceptable** (i.e., those that fall somewhere in the ‘grey’ area), and **non-acceptable** (i.e., those that should be excluded from the list)
- ❑ Share of SSNP budget of compatible SSNPs declined from 62.2% in FY10 to 29.7% in FY23 to 29.2% in FY24 – as a share of GDP, it also declined from 1.6% in FY10 to 0.8% in FY23 to 0.7% in FY24

## 8. How proper are the allocations for SSNPs, health and education?

### Change in SSNP Budget in FY24 vis-à-vis RBFY23 (%)

Food SSNPs	Change (%)
VGF	-29.3
Food Assistance in CHT	1.2
OMS	-9.8
Food friendly Program	18.4
Food Subsidy (Others)	3.7
<b>Total Food SSNPs</b>	<b>-1.8</b>

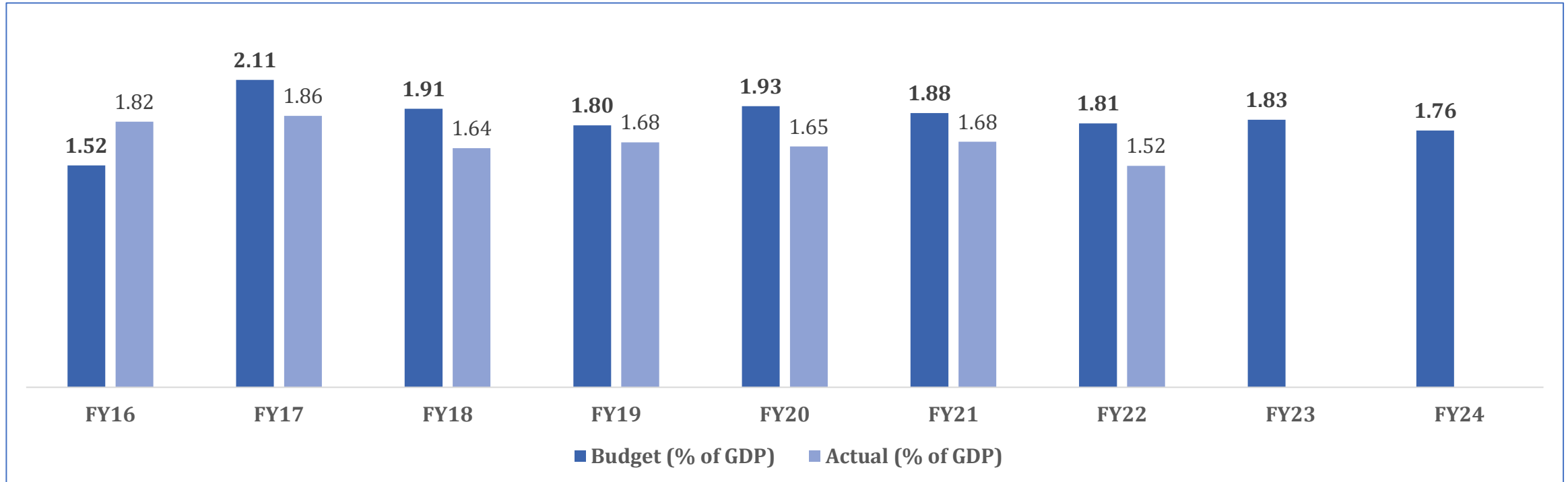
Education and Health Programmes	Change (%)
Mother and Child Benefit Program	4.2
Student stipend for Primary education level	35.2
Stipends for secondary, higher secondary and madrasah education level students	-30.3
Stipends for undergraduate and postgraduate level students	6.0
Stipends for students of technical education institution	17.3
Stipends for Physically Challenged Students	17.9
Financial support for Cancer, Kidney and Liver Cirrhosis and other patients	0.0
School Feeding Programs in poverty stricken areas	-3.9
<b>Total Education and Health SSNPs</b>	<b>3.3</b>

- Allocation for Food SSNPs has declined at a time of abnormal commodity price hike
- On a positive note, allowance rate for some SSNPs have increased at last –
  - ✓ *Old Age Allowance – from Tk 500 to Tk 600*
  - ✓ *Allowances for the Widow, Deserted and Destitute Women – from Tk 500 to Tk 550*
  - ✓ *Stipends for Physically Challenged Students*

- Overall allocation for education and health SSNPs also improved

## 8. How proper are the allocations for SSNPs, health and education?

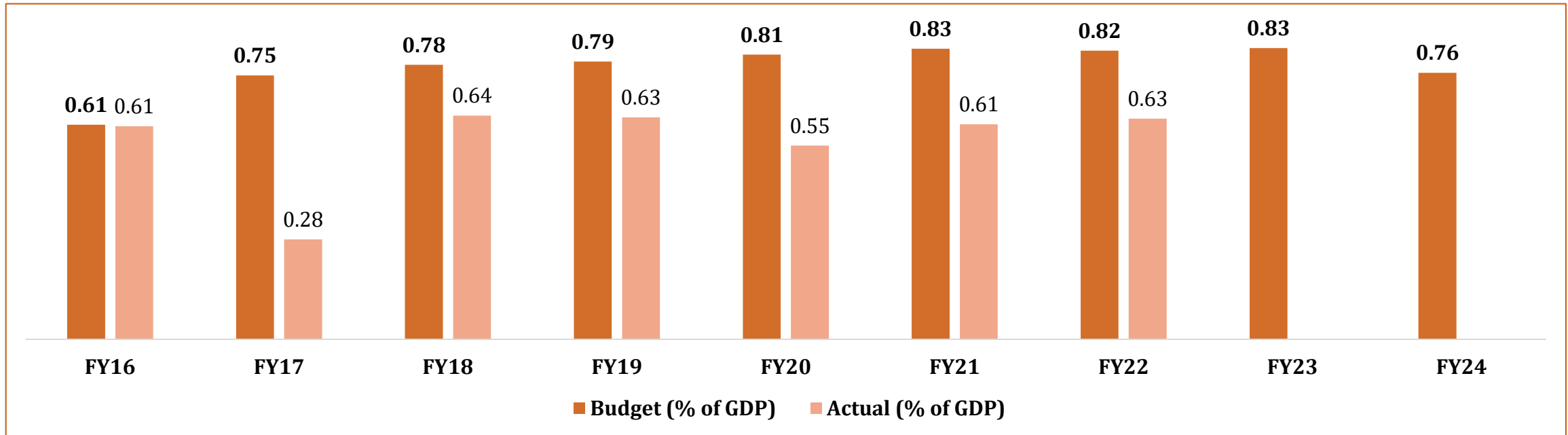
**Budget Allocation for Education (as % of GDP, )**



- Bangladesh ranks 153rd out of 159 countries in terms of government expenditure on education-GDP ratio
- The global median value for government expenditure on education (as % of GDP) is 4.45%

## 8. How proper are the allocations for SSNPs, health and education?

Budget Allocation for Health (as % of GDP, )



- Bangladesh ranks 184th out of 186 countries in terms of general government health expenditure-GDP ratio
- The global median value for general government health expenditure (as % of GDP) is 3.44%
- Bangladesh ranks 144th out of 145 countries in terms of out-of-pocket expenditure on health per capita as (%) of GNI per capita



## 9. What are the welcome fiscal measures in budget FY2023-24?

### Welcome Measures

1. Annual tax-free income threshold increases for general people, female, physically challenged, war-wounded gazette freedom fighters, third-gender taxpayers
2. Environmental surcharge on multiple vehicles
3. Increase in travel tax – *oversee migrant workers may be kept out of it*
4. Gain tax doubled for flat and land registration
5. SD and applied prices of various cigarette items have been raised
6. VAT exemption for some locally manufactured home appliances extended till June 30, 2025
7. VAT exemption for computer and ICT extended till June 30, 2026
8. VAT exemption in excess to 5% at the production stage of optical fibre cable till June 30, 2024

## 9. What are the welcome fiscal measures in budget FY2023-24?

### Welcome Measures

9. Increased TTI (43% from 15.25%) on cashew nut imports

10. CD on imports for elevators raised from 5% to 15%, while for escalators, it has been increased from 1% to 15%

11. CD on low - capacity electric panels was increased to 10% from its previous rate of 1%

12. Reduction of VAT from 15% to 5% ethylene glycol, terephthalic acid, and hot rolled stainless steel in coils

13. Withdrawal of 7.5% VAT on textile waste's sale, exemption of AT on Solar Powered Water Desalination Plant imports

14. 15% VAT levied on cashew nuts, fresh dates, dried dates and non-fortified basmati rice

15. Duty tax exemptions on imported materials for hotel industries withdrawn

## 9. What are the welcome fiscal measures in budget FY2023-24?

### Welcome Measures

16. VAT free threshold increased for handmade biscuits and cake

17. Concessional facility for local opal glassware manufacturers and switch/socket industry

18. Exemption of VAT at the production stage on anti-malarial and anti-tuberculosis drugs

19. Raw materials for medicines, medical products and some health care products will be imported at a concessionary rate

20. The beverage and carbonated industry is subjected to a 25% SD for carbonated soft drinks, 35% SD for energy drinks, and 15% VAT applicable for both

## 10. What are the fiscal measures of concern in budget FY2023-24?

### Measures of Concern

1. Minimum Tk. 2,000 tax on every TIN holder who is below the taxable income
2. Wealth surcharge threshold raised
3. Appointment of tax return preparers (TRPs) which will generate a 'broker class'
4. Imposition of 7.5% VAT compared to the prior 5% VAT at local manufacturing stage on iron or steel for LPG cylinder
5. Increased VAT on mobile phone manufacturers/assemblers at the local state
6. 7.5% VAT instead of 5% on several home items
7. Specific Duty on cement clinker raised for both manufacturers and importers from the already higher levels
8. CD on imported bicycle parts increased to 15% from the existing 10% rate

## 10. What are the fiscal measures of concern in budget FY2023-24?

### Measures of Concern

9. Specific duty on import of petroleum products replacing existing ad valorem tariff
10. Price level and tax on Bidi unchanged
11. 15% VAT is imposed on ballpoint pen
12. 20% SD on paper cups, plates, and bowls
13. VAT (excluding AT) and SD on import of certain raw materials used in the production of sanitary napkins and diapers

## Parting thoughts

- The claims are not confirmed by evidence
- Serious delivery shortfall and uneven implementation
- Whatever progress in terms of budgetary variables did not improve global rankings

# Thank You



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