Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD Budget Dialogue 2024

An Analysis of the National Budget for FY2024-25

Dhaka: 12 June 2024

Centre for Policy Dialogue

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The CPD IRBD 2024 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

Introduction

- The budget for FY2024-25 (FY25) has been presented by the new Finance Minister of the newly elected government
- This budget is also the last budget of the Eighth Five Year Plan of Bangladesh
- The budget has been **prepared amidst significant economic challenges** which the country has been experiencing for almost two years
  - Economic strains are evidenced by subdued revenue mobilisation, resulting in a shrinking fiscal space, a high reliance on government borrowing from commercial banks to finance the budget deficit, tightened liquidity in scheduled banks, elevated prices of essential goods, and a deteriorating external sector balance and foreign exchange reserves
- The **immediate challenge** of the economy is to **tame inflation** and **improve foreign exchange reserve**
- At the same time, the government also has to **restore macroeconomic stability** and **adjust to new reality** where **economic stability** will have to be given **priority over growth** for the time being
- CPD presents an assessment of various proposals made in the budget for FY25 in the context of ongoing economic challenges

Key CPD observations on the budget for FY2025

1) The current state of affairs is ignored while projecting the FY25 macroeconomic framework
2) Credibility of the proposed fiscal framework for FY25 remains debatable
3) Prioritisation in public expenditure is questionable
4) Annual Development Programme (ADP) for FY25 followed its usual pattern
5) The measures for curbing inflation and providing relief to the poor and fixed income people are inadequate
6) Attempts to safeguarding domestic industries through fiscal measures are commendable
7) Desperate moves for revenue mobilisation amid macroeconomic instability are worrying
8) Allocations for priority social sectors remain sources of concern
9) The issue of employment generation did not receive adequate attention

Observation 1:

The current state of affairs is ignored while projecting the FY25 macroeconomic framework

Macroeconomic framework

Distresses in macroeconomic scenario…

Large shortfall in revenue collection	Restrained public expenditure	Low ADP implementation
High borrowing from banks	Skyrocketing prices of daily necessities	Escalating non-performing loans
Liquidity crunch in banking sector	Low growth of export earnings	Recovery in remittance inflow
Stagnant private investment	Sharp depletion of forex reserve	Continued decline in import
Sliding exchange rate	Slowdown in economic growth	Shortage of energy and power

Macroeconomic framework

GDP and Investment

Indicator	AFY23	BFY24	RBFY24	Projection		
				FY25	FY26	FY27
GDP growth (%)	5.8	7.5	5.8	6.8	7.0	7.3
Gross investment (as % of GDP)	31.0	33.8	31.0	33.4	33.6	34.4
Private investment (as % of GDP)	24.2	27.4	23.5	27.3	27.7	28.6
Public investment (as % of GDP)	6.8	6.4	7.5	6.1	6.0	5.9

- **GDP growth** target for FY25: **6.8%** - a recovery from 5.8% (provisional estimates for FY24)
- Public investment-GDP ratio: 6.1% in FY25
  - **Declining** from 7.5% in FY24: Is the 7.5% provisional figure an overestimation?
- **Private investment-GDP ratio**: 27.3% in FY25
  - **Drastically improving** from 23.5% in FY24
  - **In FY25, Tk. 343,544 crore will be additionally required for private investment**
    - 28.9% increase in nominal terms
    - **A hope for remarkable recovery!**
- **No impact of the ongoing macroeconomic policy adjustments (e.g., contractionary monetary policy, restrained fiscal stance) considered**

Macroeconomic framework

Monetary Sector and Inflation

Indicator	AFY23	BFY24	RBFY24	Projection		
				FY25	FY26	FY27
Private sector credit growth (%)	10.6	15.0	10.0	9.0	13.0	14.0
CPI inflation (%)	9.0	6.0	8.0	6.5	6.0	5.5

- **Growth of credit to private sector:** 9% in FY25 – (10.0% in FY24)
  - As of April 2024, private sector credit growth was 9.9%
  - Projection for private sector credit growth may be a reflection of continuation of contractionary policy and rising demand of bank borrowing from the government
  - **The projection for FY25 does not commensurate with the earlier estimation for private sector investment projection**
- **Inflation** is expected to fall drastically to 6.5% in FY25 – (8% projected FY24)
  - The entire FY24 experienced higher inflation (over 9%)!
- **The inflation projection for FY25 certainly appears to be overambitious**

Macroeconomic framework

External Sector

Indicator	AFY23	BFY24	RBFY24	Projection		
				FY25	FY26	FY27
Export (growth in %)	6.3	12.0	8.0	8.0	10.0	10.0
Import (growth in %)	-15.8	8.0	-10.0	10.0	9.0	8.0
Remittance (growth in %)	2.7	10.0	10.0	7.0	7.0	7.0
Forex Reserve (bn. USD)	31.2	42.0	29.1	32.0	35.1	38.4
Exchange rate (BDT/USD)	99.5	104.0	110.0	114.0	117.0	120.0

- **Export growth: 8% in FY25 (8% in FY24)**
  - July-May FY24 was 2.0%
- **Import growth: 10% in FY25 (-10% in FY24)**
  - July-March FY24 was (-) 15.4%
- **Remittance growth: 7% in FY25 (10% in FY24)**
  - July-May FY24 was 10.1%
- **Forex reserve: USD 32.0 bln as of FY25 (USD 29.1 bln as of FY24)**
  - As of 5 June 2024, USD 24.2 bln
  - No projection of net forex reserve according to (BPM6) or reporting on accumulated external payments arrears
- **Exchange rate for FY25: Tk. 114/USD**
  - *Interbank Tk.-USD Exchange Rate on 5 June 2024 was Tk. 117.9/USD*
- ***Tk. (against USD) to appreciate in FY25 while Forex reserve to grow!***

Macroeconomic framework

Public Debt

Indicator	AFY23	BFY24	RBFY24	Projection		
				FY25	FY26	FY27
Debt Stock (as %of GDP)	37.0	36.6	37.7	38.6	39.1	39.4
External Debt Stock (as %of GDP)	15.0	13.6	15.3	15.5	15.4	14.9
External Debt Redemption (USD bln)	1.7	2.4	2.5	2.6	2.7	3.2

- **Public debt stock** as % of GDP is to increase by 0.9 percentage points in FY25 (38.6% in FY25, 37.7% in RBFY24)
  - External debt rose in a significant manner in FY24
- **Foreign debt principal repayment projections (USD 2.6 bln) are made in a conservative manner as it does not match with the programmed budget allocation to this end (Tk. 36,500 crore i.e., USD 3.2 bln)**

- **Overall, the targets to be set for the macroeconomic framework for FY25 did not take cognisance of the current realities and are too optimistic!**
  - **Similar approach was taken in the budget for FY24**

Observation 2:

Credibility of the proposed fiscal framework for FY25 remains debatable

Fiscal framework

Broad fiscal framework for FY25

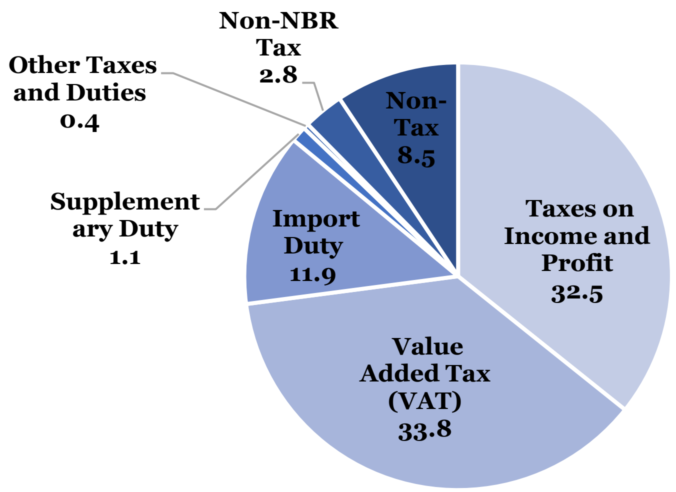
- **Revenue mobilisation** (13.2%) is projected to grow **faster** than **public expenditure** (11.6%)
  - Total expenditure is set at 14.2% of GDP (same as RBFY24)
  - Revenue is expected to be 9.7% of GDP (marginally higher than RBFY24 → 9.5%)

Revenue mobilisation

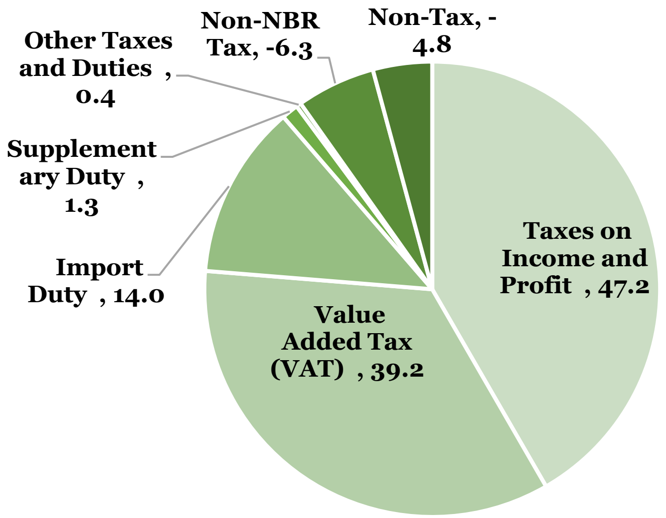
FY25 (Crore Tk.)	541,000
FY24 (RB) (Crore Tk.)	478,000
FY24 (CPD Projection) (Crore Tk.)	425,000
Target Growth (%) FY25 (Budget)	13.2
Target Growth (%) FY25 (CPD Projection)	27.3

- Budget FY25 targets 13.2% growth over RBFY24
  - **CPD projection: 27.3% on actual FY24 - approx. an additional Tk. 116,000 crore may need to be mobilised**
- NBR tax is projected to grow by 17.1%. Both non-NBR tax and non-tax revenue to decline; by 21.1% and 6.1% respectively
- Taxes on Income, Profits and Capital Gains to post strong growth (48.0% of total incremental revenue) followed by SD (17.%), Import Duty (15.9%) and VAT (15.6%)

Share of revenue FY25



Incremental share of revenue FY25

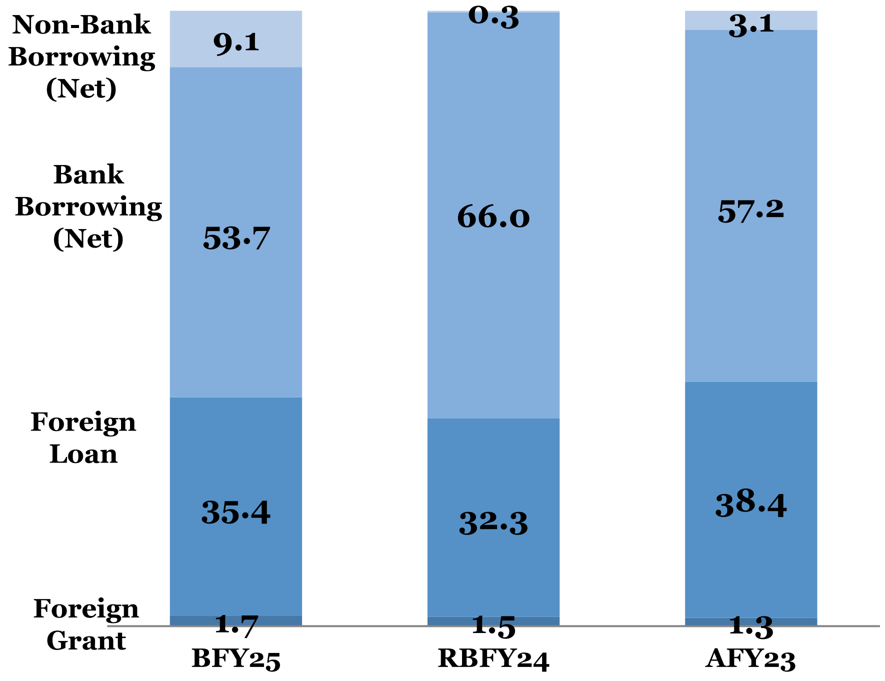


CPD (2024): An Analysis of the National Budget for FY2024-25

Fiscal framework

- **Development expenditure** (8.2%) is programmed to **grow slower** than **operating expenditure** (11.9%)
- **ADP**: 33.2% of total public expenditure (lower than 34.3% in RBFY24)
- **Budget deficit** projected at 4.6% of GDP (4.7% in RBFY24)
- Share of **domestic financing 62.9%** in BFY25 (66.2% in RBFY24)
- Tk 137,500 crore (53.7% of the total) will come from the bank borrowing
- The critical question will be how much will be borrowed from the central bank – if the liquidity situation in the banking system does not improve

Share of budget deficit financing (%)



- Only Tk. 15,400 crore from net sale of NSD certificates (RBFY24 predicts net paid back to be about Tk. 7,310 crore)
- Gross foreign aid requirement will be **USD 11.5 bln** (USD 9.7 bln in RBFY24)
- Much will depend on the implementation of foreign funded ADP projects
- Foreign debt repayment to increase to USD 3.2 bln in BFY25 from USD 2.4 bln in RBFY24

Observation 3:

Prioritisation in public expenditure is questionable

Public expenditure

- Public services sector and Interest payments attained the top two spots
- Budget for LGRD and Agriculture sectors declined
- In the budget speech, it was explicitly mentioned that "we have given the highest priority to the education, health, agriculture, local government and rural development, power, communication, and Science and Technology sector in our budget"

Total Public Expenditure

Sector	Share in BFY25	Share in RBFY24	Change in FY25B over FY24R		Incremental Share
	%		Crore Tk	%	%
Public Services	22.1	21.2	24,357.0	16.1	29.5
Interest	14.2	14.7	8,200.0	7.8	9.9
Education and Technology	13.9	12.5	22,143.0	24.9	26.8
Transport and Communication	10.4	10.5	7,678.0	10.2	9.3
LGRD	6.0	7.2	-3,301.0	-6.4	-4.0
Agriculture	5.9	7.8	-8,670.0	-15.5	-10.5
Social Security and Welfare	5.4	5.7	2,653.0	6.5	3.2
Defence Services	5.3	5.3	4,212.0	11.1	5.1
Health	5.2	4.2	11,626.0	39.0	14.1
Public Order and Safety	4.2	4.3	2,561.0	8.3	3.1
Energy and Power	3.8	4.0	1,999.0	7.1	2.4
Housing	0.9	1.0	-97.0	-1.4	-0.1
Recreation, Culture and Religious Affairs	0.8	0.8	773.0	13.0	0.9
Industrial and Economic Services	0.7	0.6	1,055.0	22.7	1.3
Others (Memorandum Item)	1.1	0.2	7,393.0	624.9	9.0
Total Expenditure	**100.0**	**100.0**	**82,582.0**	**11.6**	**100.0**

Public expenditure

Top 4 Sectors with higher share in BFY25	Change (percentage points)
Education and Technology	1.5
Health	1.0
Public Services	0.9
Industrial and Economic Services	0.1
Top 5 Sectors with lower share in BFY25	**Change (percentage points)**
Agriculture	-1.9
LGRD	-1.2
Interest	-0.5
Social Security and Welfare	-0.3
Energy and Power	-0.2

- **Within Public Services Sector, Finance Division receives** an additional amount of **Tk. 37,798** crore (**45.8% of total incremental public expenditure**)
- **Some of the high spending areas include:**
  - **Equity: Tk. 32,382 crore**
  - **Loan to autonomous bodies: Tk. 50,875 crore**
  - **Reserve: Tk. 32,384 crore**
  - ***Together, these three areas received 42.5% of total incremental public expenditure***

Observation 4:

Annual Development Programme (ADP) for FY25 followed its usual pattern

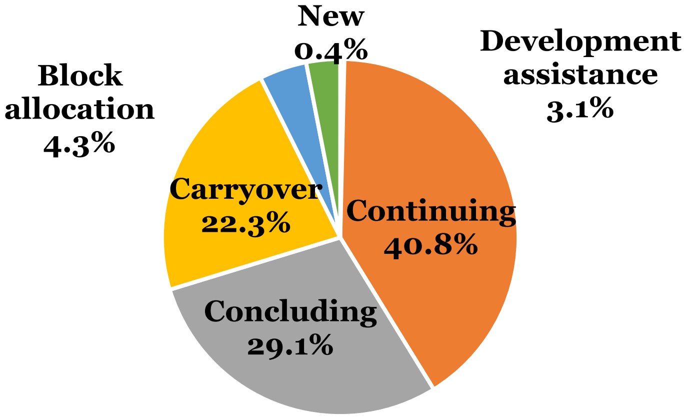
Annual Development Programme

- ADP of Tk. **265,000 crore** has been proposed for FY25
- **4.7% of GDP** in FY25 (5.3% in BFY24 and 4.9% in RBFY24)
- **0.8% higher than** the **ADP for FY24** and 8.2% higher than RADP for FY24
  - Project Aid (PA) to finance 37.7% of total ADP in FY25 (35.7% in ADP of FY24)
  - **Two power sector projects** account for 15.2% of total project aid in ADP for FY25
    - Rooppur Nuclear Power Plant: 10.0% of total PA
    - Matarbari 2x600MW ultra super critical coal fired power project: 5.2% of total PA
- The **top 5 sectors** have received **71.1%** of total ADP allocation – concentration decreasing slightly from FY24
  - **Two sectors** (Transportation and Communications, and Power and Energy) account for about 42% of total ADP allocation
    - Rooppur Nuclear Power Plant project accounts for 25.8% of total allocation for Power and Energy sector!
  - **Encouraging to see that both health and education have entered the top 5 sectors**

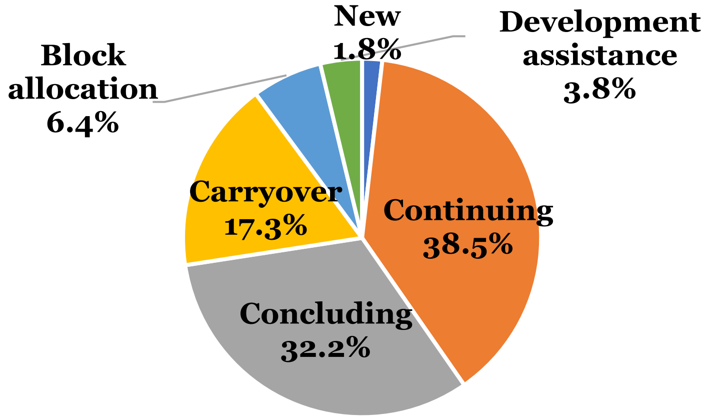
Sector	No of projects	Share (%)
Top five sectors	**628**	**71.1**
Transportation and Communication	220	26.7
Power and Energy	61	15.4
Education	104	11.9
Housing and Community Amenities	196	9.4
Health	47	7.8
Other 10 Sectors	**618**	**25.1**
Development Assistance	NA	3.8
Total	**1246**	**100.0**

Annual Development Programme

- The ADP for FY25 contains **1,246 projects** (1,250 for ADP of FY24)



Share of allocation in FY24



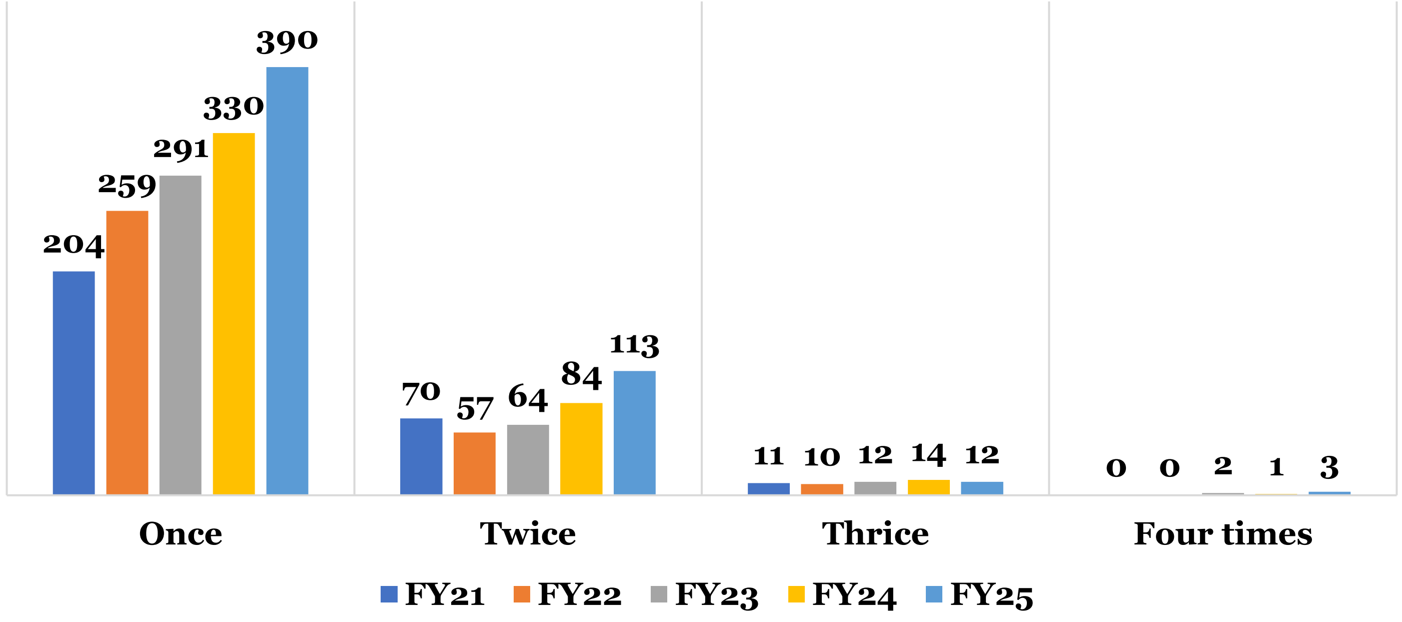
Share of allocation in FY25

- **Share of allocation for continuing projects has further declined while that of concluding projects has <u>increased</u>**
  - Share of allocation for continuing projects has declined to 38.5% in FY25 from 40.8% in FY24
  - 38.5% of allocation is provided to 370 <u>continuing projects in FY25 (313 in FY24)</u>
- **The share of projects with symbolic allocation (token allocation to keep these in the ADP list) <u>has declined substantially – a praiseworthy development and a move to the right direction</u>**
  - **24 projects (1.9% of total number of projects) under ADP FY25 have received only Tk. 1 lakh or below**; (40 projects (3.2%) received such allocation in FY24)

Annual Development Programme

❑Time-overrun projects continue!

- **Average age** of 1,138 investment projects is **5.2 years**
- **357** (31.4%) of these 1,138 projects are 6-10 years old (due to repeated extensions of projects)
- 36 of these 1,138 projects are more than 10 years old
- **45.5%** of investment projects in ADP for FY25 have already been revised between 1-4 times
- Number of **projects with time extension** increased **from 429 in FY24 to 518 in FY25**



❑Mega Projects: Pace of implementation remains a concern

- ❑ Tk. 63,530 crore is allocated for top 20 mega projects (mostly infrastructure including fast-track and based on project size) which is 24% of total ADP of FY25
- ❑ Six out of 20 mega projects are scheduled to be completed in FY25
  - ➢ Padma Bridge Rail Link (1st revised)
  - ➢ 4th Primary Education Development Programme (PEDP4) (1st revised)
  - ➢ Expansion of Hazrat Shahjalal International Airport (1st phase) (1st revised)
  - ➢ Construction of 329 technical schools and colleges at the upazilla level
  - ➢ SASEC Road Connectivity: Improvement of Elenga-Hatikumrul-Rangpur-Highway into 4-Lane Highway (1st revised)
  - ➢ Construction of dual gauge double line on Joydevpur-Ishwardi section
  - ➢ Development of transmission infrastructure for power evacuation of Ruppur Nuclear Power Plant
- ❑ However, even if maximum utilisation of resources is ensured, none of these will be completed by FY25

Observation 5:

The measures for curbing inflation and providing relief to the poor and fixed income people are inadequate

The budget speech acknowledged inflation to be the main challenge at present

Some measures were proposed in this regard

❑ Personal Income Tax (PIT) structure

- **Tax-exempt income threshold was kept unchanged**
- **Highest rate of PIT was increased to 30% from the earlier 25%**
- From the proposed changes, highest benefit will be received by individuals whose monthly taxable income is Tk. 112,500
- No change in taxes on monthly taxable income between Tk. 29,167 and Tk. 37,500
  - It becomes apparent that limited income groups will not get any relief from these changes

Annual taxable income (Tk.)	Monthly taxable income (Tk.)	Total tax FY24 (Tk.)	Total tax FY25 (Tk.)	Tax reduction/ increase (%)
3.5 Lakh	29,167	0	0	0.0
4.5 Lakh	37,500	5,000	5,000	0.0
8.5 Lakh	70,833	50,000	45,000	-10.0
13.5 Lakh	112,500	135,000	120,000	-11.1
18.5 Lakh	154,167	245,000	220,000	-10.2
38.5 Lakh	320,833	745,000	720,000	-3.4
50 Lakh	416,667	1,032,500	1,065,000	3.1
1 Crore	833,333	2,282,500	2,565,000	12.4

Curbing inflation

❑Import of essential commodities

- A **decrease in the income tax at source for importing essential items** (i.e., rice, wheat, rice, fish, meat, onion, garlic, peas, chickpeas, lentils, ginger, turmeric, dry chilies, pulses, maize, flour, flour, salt, sugar, edible oil, etc) **from 2% to 1%** → **a positive move** but **doubts remain whether the benefits will be passed on to the consumers!**

❑Agriculture sector and subsidy

- **Agriculture and allied sector (AAS)** has an allocation of Tk. 47,332 crore in BFY25 **indicating a decrease of 15.5%** over RBFY24
- The government declared a **subsidy package** of Tk. 17,261 crore for the **agriculture** sector – **reduction of 32.7% from** RBFY24

❑SSNP

❑Total allocation for food support related SSNPs has decreased!

- This is unwarranted given the persistent high prices of essentials, particularly that of food

Name	Allocation (Crore Tk.)			Growth (%)
	RBFY24	BFY25	Increment in BFY25	
Foods support to residents in Government orphanages and other institutions	96.60	102.40	5.80	6.00%
Mother and child benefit programme (MCBP)	1313.44	1622.75	309.31	23.55%
Vulnerable women benefit (VWB) programme	2030.48	2195.46	164.98	8.13%
School feeding programme in poverty-stricken areas	44.65	45.11	0.46	1.03%
VGF Programme	1101.93	1184.02	82.09	7.45%
Relief Operation-General	2250.96	2390.62	139.66	6.20%
Food for Work (FFW)	950.01	1024.01	74.00	7.79%
Relief Activities	66.29	80.12	**13.83**	**20.86%**
Open Market Sale (OMS) and Food Friendly Programme (FFP)	5491.74	5262.2	**-229.54**	**-4.18%**
Food Subsidy	3609.46	2893.25	**-716.21**	**-19.84%**
VGF programme for fisherman	527.54	563.82	36.28	6.88%
Total Allocation for Food Support related Programmes	**17483.1**	**17363.76**	**-119.34**	**-0.68%**

Note: OMS and FFP are combinedly represented as per the Social Security Budget Report 2024-25

Observation 6:

Attempts to safeguarding domestic industries through fiscal measures are commendable

Safeguarding domestic industries

- Some of the proposed fiscal measures will support domestic import-substituting industries, **which is a positive step**. For instance:
  - Extending the tax exemption for IT-enabled services (ITES) sector by an additional three years, contingent upon the implementation of cashless transactions
    - **Welcome in view of the sector's potentials**. However, this sunset clause should be complied with since some of the ITESs has been enjoying exemptions from direct taxation since 2008
  - Withdrawing the concessionary rate for refrigerator compressors
  - Increasing SD on carbonated beverages
  - Imposing a 5% import duty and a 10% regulatory duty on imported Shelled Cashew Nuts
  - Eliminating the current 20% supplementary duty on packed powdered milk up to 2.5 kg
  - Decreasing the import duty on Polypropylene yarn from 10% to 5% to foster the growth of the emerging local carpet manufacturing industry
  - Increasing the import duty on LRPC Wire from 10% to 15% to encourage the utilisation of domestically produced high-quality iron and non-alloy steel wire
  - Withdrawing VAT on aircraft engines and spare parts of propellers at the import stage to address the challenges faced by domestic airlines in competing with foreign counterparts

Observation 7:

Desperate moves for revenue mobilisation amid macroeconomic instability are worrying

Desperate attempts to increase revenue

Some desperate attempts to increase tax were observed in the FY25 budget. For instance:

VAT and SD

- A conscious effort is seen to align VAT rates with VAT and SD Act, 2012. IMF recommendations to this effect appears to be at play here. An effort to move towards 15% flat VAT rate (for some items at one go, for others gradually) is discernible in the budget proposals
  - Increased SD on all kinds of ice-cream from 5% to 10% → *will be passed on to the consumers*
  - Increased SD on the mobile telecom services (e.g., SIM/RUIM cards) from 15% to 20%. In addition to that, the amount of VAT is increased for each SIM/e-SIM card from Tk. 200 to Tk. 300 → *will be passed on to the consumers*
  - VAT on locally manufactured mango bar, mango juice, pineapple juice, guava juice and tamarind juice increased from 5% to 15% → *will be passed on to the consumers*
  - Increased VAT on locally manufactured energy saving bulbs with capacity 1 to 50 watt and tube light of 18 watt & 36 watt, from 5% to 15% → *will be passed on to the consumers*
  - Increased VAT on the service of 'Purchaser of Auctioned Goods', 'Amusement Park and Theme Park' increased from 7.5% to 15% → *will be passed on to the consumers*

Desperate attempts to increase revenue

Import duty

- A proposal to rationalise tariffs through imposition a 1% import duty on raw materials imported by generator manufacturing and assembling industries, which currently benefit from a 0% import duty under existing notifications → *revenue purpose; higher cost could be passed on to the consumers*

Excise duty

- New measures proposed as regards excise duty on bank accounts
- For banks, excise duty across the existing 3 slabs up to Tk. Ten lakh remains unchanged. However, a few measures have been taken to generate more revenue:

Current situation	Proposed measures
Slab ranging from Tk. ten lakh one to Tk. one crore, excise duty is Tk. 3000	From Tk. ten lakh one to Tk. fifty lakh, excise duty - Tk. 3,000 From Tk. fifty lakh one to Tk. one crore, excise duty- Tk. 5,000
Slab ranging from Tk. one crore one to Tk. five crore, excise duty of Tk. 15,000	From Tk. one crore one to Tk. two crore, excise duty - Tk. 10,000 From Tk. two crore one to Tk. five crore, excise duty - Tk. 20,000
Excise duty remain unchanged for the slab exceeding Tk. five (5) crore	

→ Will raise government revenue, but will create burden from account holders

Desperate attempts to increase revenue

Major changes in the undisclosed money provision

- **In FY25 Budget, a new provision has been proposed to legalise the undisclosed money and asset**. A new clause has been proposed to be added **in the Income Tax Act, 2023 (in schedule 1, part 3)** to provide an opportunity to correct and earlier error:
- *"According to the newly proposed provisions, no authority can raise any question if a taxpayer pays fixed tax rates for immovable properties like flats, apartments and land and 15% tax on other resources including cash, irrespective of the existing laws of the country"*
  - **CPD has strongly argued against this type of provision** on the ground that it is **morally unacceptable**. This would **discourage honest taxpayers from paying taxes on time, creating moral hazard**
  - **CPD thinks this type of provision undermines rule of law and goes against the spirit of good governance. Rather, tax-dodgers must face accountability and made to pay for their misdeeds**

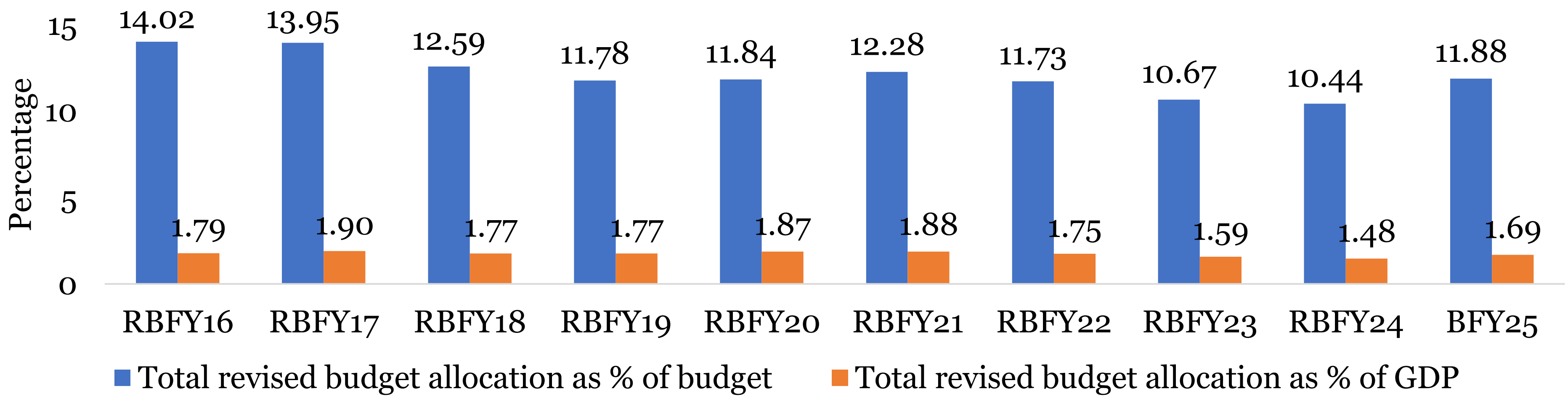
Observation 8:

Allocations for priority social sectors remain sources of concern

Priority social sectors: Education

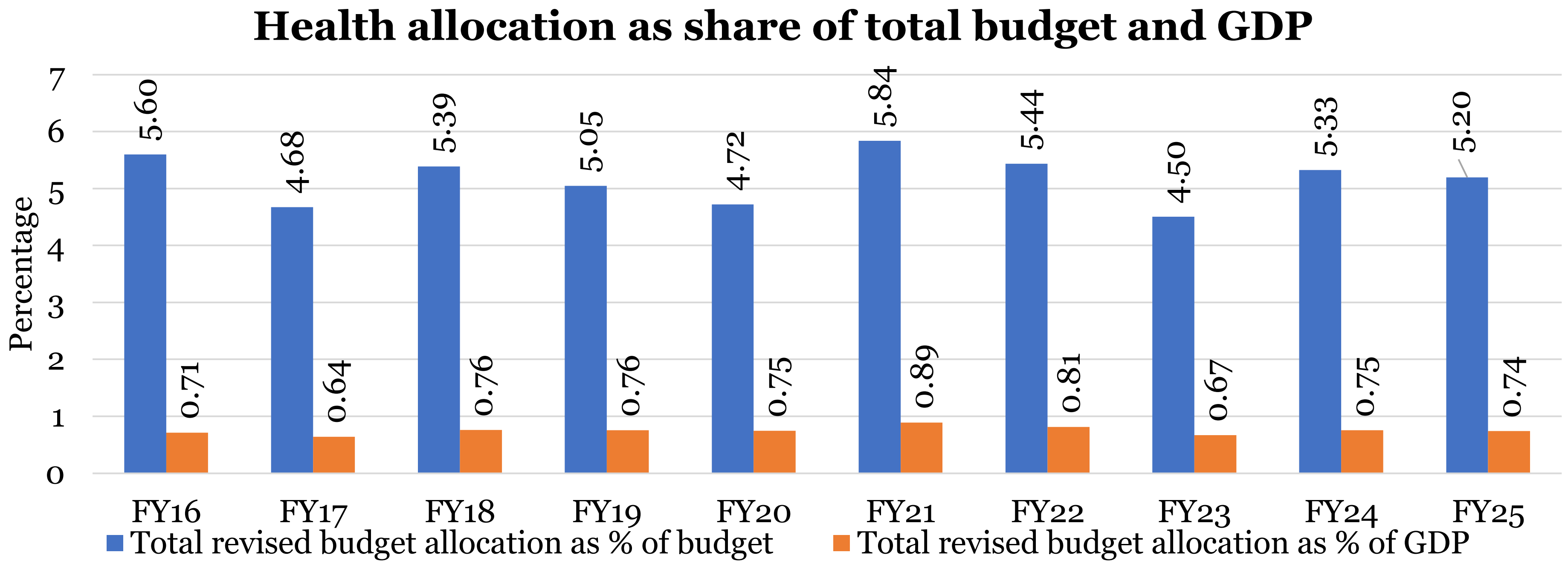
- Education budget as a share of the total budget decreased from **14% in RBFY16 to about 10% in RBFY24**
- Additionally, the education budget as a share of GDP **decreased from 1.79% in RBFY16 to 1.48% in RBFY24**
- Bangladesh's average education expenditure as a percentage of GDP from **2016 to 2023** was the **third lowest among 38 LDCs**
- On average, at least 33 LDCs spent **2% or more** of their GDP on education from 2016 to 2023
- The Eighth Five-Year Plan states that the education budget should grow from 2% of GDP in FY19 to 3.5% of GDP by FY25
- However, the education budget is only 1.69% of GDP in FY25

Allocation for education as a share of the total budget and GDP



Priority social sectors: Health

- Allocation for health as a *share of the total budget* **decreased** from **5.33% in FY24 to 5.20% in FY25**
- Allocation for health as a *share of GDP* has **decreased** slightly **from 0.75% in FY24 to 0.74% in FY25**
  - Such allocation is marginally lower than the average allocation of 0.75% of GDP during FY16 to FY24
- Bangladesh's expenditure on health as a share of GDP was the **lowest among 45 LDCs in 2021** – no other LDC has spent less on health than Bangladesh in 2021
- In 2021, Bangladesh's **out-of-pocket expenditure** on health per capita at purchasing power parity was the **8th highest among 45 LDCs**

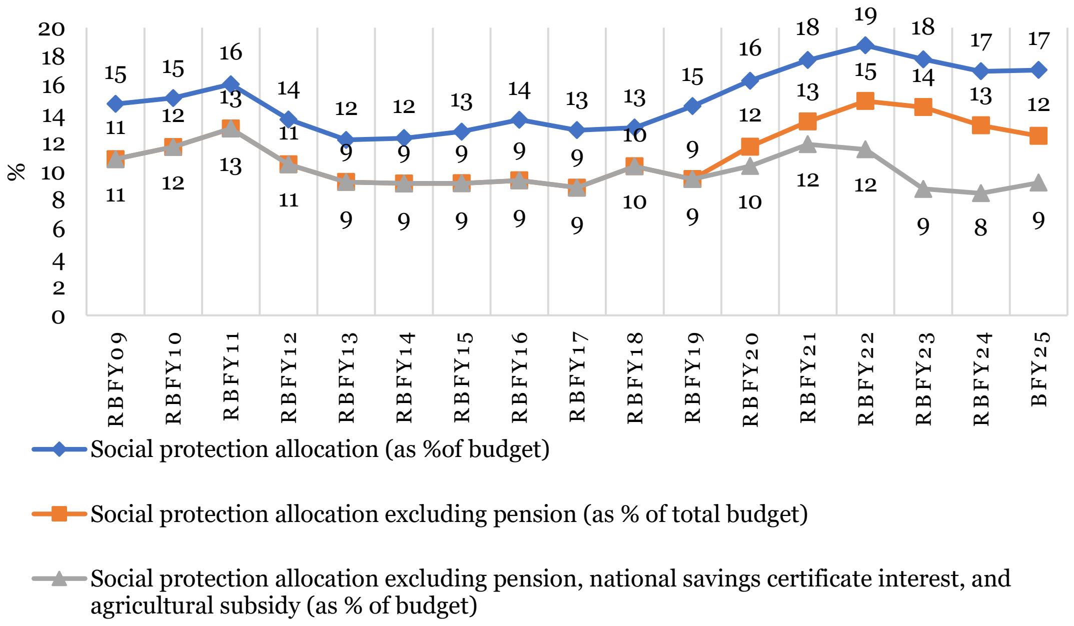


CPD (2024): An Analysis of the National Budget for FY2024-25

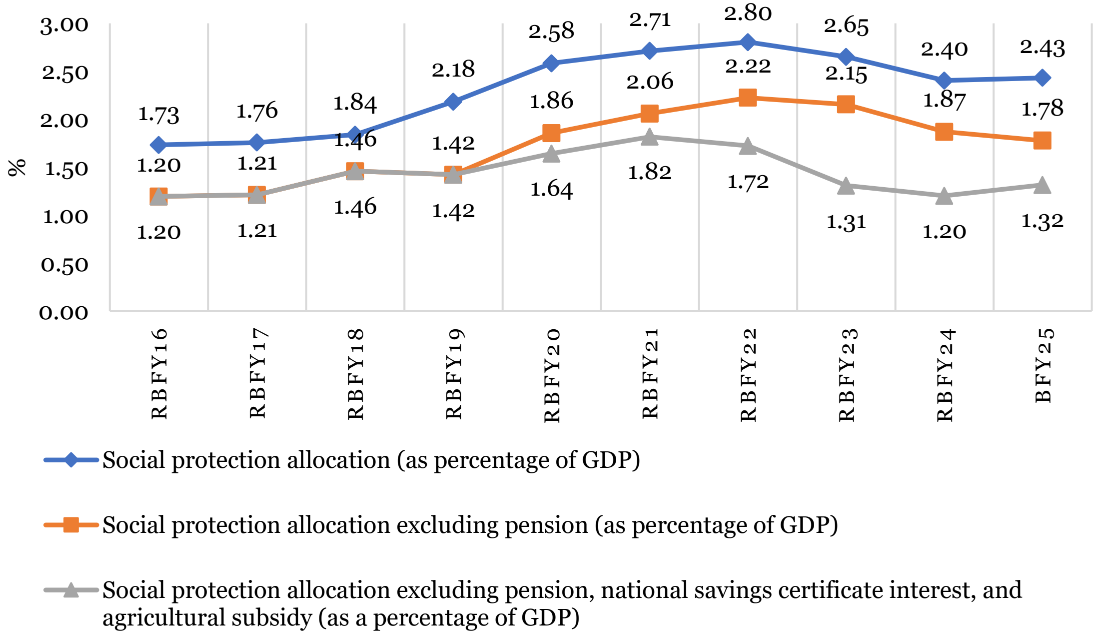
Priority social sectors: SSNP

- Overall, social safety net budget as a percentage of total budget and GDP **decreased** slightly from FY24 to FY25
- **Social safety net budget excluding pension as a percentage of budget decreased** from 13% in FY24 to 12% in FY25
- **Social safety net budget excluding pension as a percentage of GDP decreased** from 1.87% in FY24 to 1.78% in FY25

Social protection allocation as a % of budget



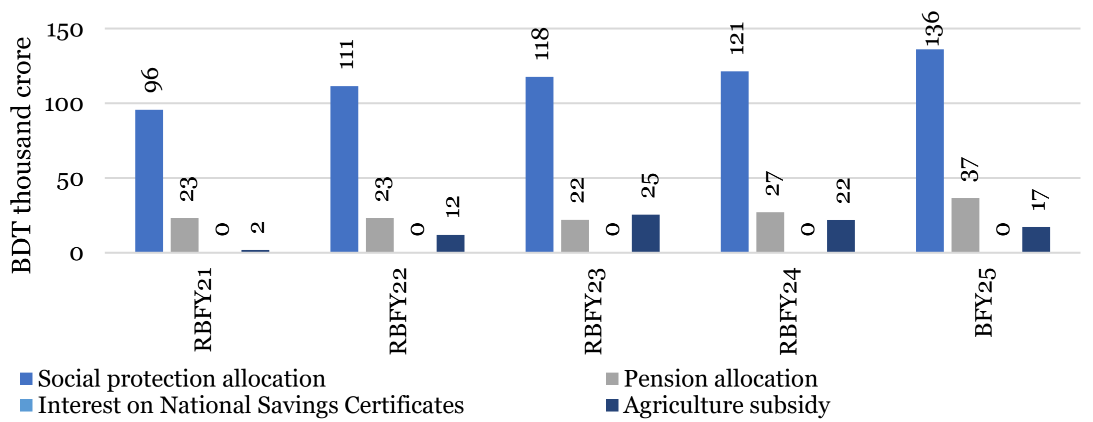
Social protection allocation as a % of GDP



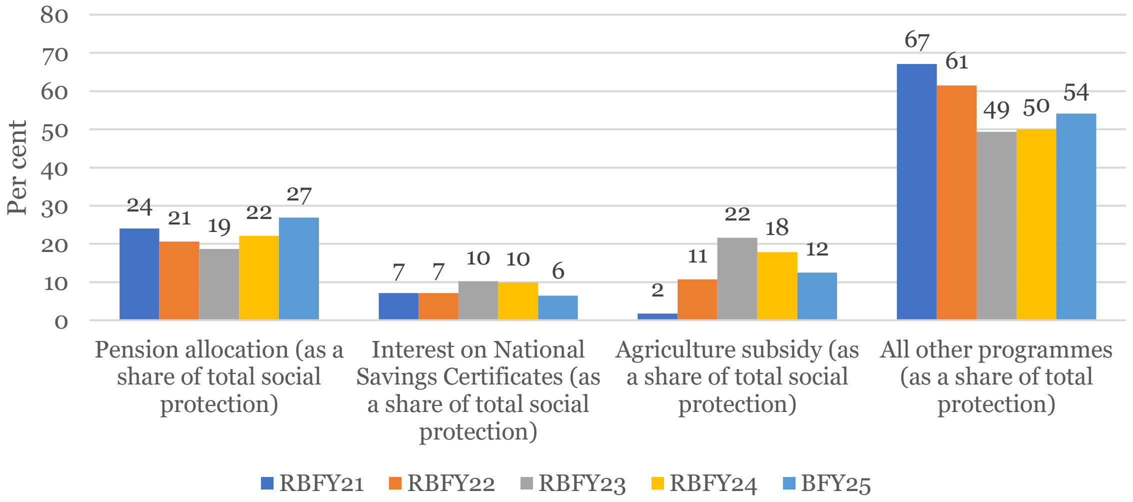
Priority social sectors: SSNP

- Allocation for social safety nets has increased by only 12%, whereas **allocation for pension has increased by 36%**
- Pensions for government officials, interest on National Savings Certificates, and agricultural subsidies account for 46% of the total budget allocation for social protection in FY25
  - **Should not be included in the budget for Social Safety Net Programmes**
- The **allocation for all other programmes has decreased** from 67% of total social protection allocation in FY21 to **54%** of total social protection allocation in **FY25**

Social protection allocation (in crore BDT)



Distribution of social protection allocation (as a share of total social protection allocation)



Observation 9:

The issue of employment generation did not receive adequate attention

Employment generation

- **Employment elasticity of GDP** showed a **downward trend** in recent times (H2 FY23, H1 FY24)
  - This implies that the economy's ability to generate employment is slowing down
- In the FY25 budget, **the respective shares** of the **two ministries relevant to employment generation** i.e., Ministry of Industries, and Ministry of Labour and Employment, have remained virtually same
- Overall, the FY25 budget **failed to address the risk of employment deterioration** amid the ongoing economic crisis for several reasons
  - First, although the FY25 budget mentions an **employment injury scheme** at a pilot level, it does **not commit to expanding this programme**
  - Second, there is **no mention of any commitment to initiate unemployment insurance**
  - Third, while the budget mentions establishing a **minimum wage for 43 industrial sectors**, it **does not show a strong commitment to increasing this number** in FY25
  - Fourth, **despite the higher risk of unemployment**, the relevant allocation for **safety net programs** in the FY25 budget remains **inadequate**

Concluding remarks

Concluding remarks

- The FY25 budget fails to provide concrete measures to overcome the ongoing economic concerns. The measures for curbing inflation and providing relief to the poor and fixed income people are inadequate
- Projected economic indicators for FY25 including inflation rate, GDP growth and investment are overambitious, and do not take into account the current realities. Hence, many budgetary targets for FY25 will be missed
- More importantly, due to the inability to acknowledge the nature of the ongoing economic challenges, the proposed budgetary measures are also inadequate and weak
- On the whole, FY25 budget is an ordinary budget during an extraordinary time

Independent Review of iRBD Bangladesh's Development

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