Independent Review of
iRBD
Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD Budget Dialogue 2023

An Analysis of the National Budget for FY2023-24

Dhaka: 18 June 2023

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The CPD IRBD 2023 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

Introduction

- The national budget for FY2023-24 has been placed at a time when
  - The *macroeconomic stability* of Bangladesh has *weakened* significantly
    - Negative developments in both domestic and external fronts contributed to this
- The **macroeconomic stress** is visible through:
  - ***Lower growth in revenue mobilisation*** and consequent ***shrinking of fiscal space***
  - ***Over-dependence on bank borrowing*** to finance budget deficits
  - ***High prices*** of essentials
  - ***Depreciating external sector balance*** and ***foreign exchange reserve***
- **Milestones are ahead**, e.g., LDC graduation in 2026 and SDG attainment by 2030
  - The timeline of the ***IMF programme*** (2023-2026) overlaps with these milestones
  - Hence, the **FY24 budget called for tough choices amid a difficult time**

Key CPD observations on the budget for FY2024

1. *Projections of the macroeconomic framework do not take cognisance of current realities*
2. *Proposed fiscal framework for FY2024 is unlikely to hold*
3. *Some budgetary allocations are questionable*
4. *Shift in allocative priorities within subsidies*
5. *Despite attempts, ADP for FY2024 could not break free from the mould*
6. *The issue of containing inflation is inadequately addressed*
7. *Continuation of fiscal measures to protect domestic industries is a positive step*
8. *Desperation for revenue mobilisation undermines equity concerns*
9. *Allocations for priority social sectors remain business as usual*
10. *IMF conditionalities will largely dictate reform agenda*

Observation 1:

Projections of the macroeconomic framework do not take cognisance of current realities

Macroeconomic framework

Distress in macroeconomic scenario…

- Reduced revenue collection
- Stagnant public expenditure
- Low ADP implementation
- High borrowing from central bank
- Skyrocketing prices of daily necessities
- Escalating non-performing loans
- Liquidity crunch in banking sector
- Lower growth of export earnings
- Low growth of remittance inflow
- Scarcity of foreign exchange
- Bleeding foreign exchange reserve
- Inability to import
- Sliding exchange rate
- Disruption in domestic production
- Severe shortage of energy and power

Macroeconomic framework

Indicator	AFY22	BFY23	RBFY23	Projection		
				FY24	FY25	FY26
GDP growth (%)	7.1	7.5	6.0	7.5	7.8	8.0
Gross investment (as % of GDP)	32.0	31.5	27.8	33.8	35.1	36.0
Private investment (as % of GDP)	24.5	24.8	21.8	27.4	28.8	29.4
Public investment (as % of GDP)	7.5	6.7	6.0	6.3	6.3	6.6
ICOR	4.5	4.2	4.6	4.5	4.5	4.5

- **GDP growth** target for FY24: **7.5%**
  - A recovery from 6% (provisional estimates) in FY23
- **Public investment-GDP ratio:**
  - 6.3% in FY24
  - 6% in FY23
- **Private investment-GDP ratio:**
  - **27.4% in FY24**
  - **21.8% in FY23**
  - **In FY24, Tk. 4,04,097 crore will be additionally required for private investment**
    - **This is 41.8% increase in nominal terms**
    - **A hope for remarkable recovery!**
- *Is the private investment figure estimated **residually** that is required for a higher economic growth?*

Macroeconomic framework

Indicator	AFY22	BFY23	RBFY23	Projection		
				FY24	FY25	FY26
Private sector credit growth (%)	13.7	15.0	14.1	15.0	16.0	16.0
CPI inflation (%)	6.2	5.6	7.5	6.0	5.5	5.4

- **Growth of credit to private sector:**
  - ✓ 15% in FY24
  - ✓ 14.1% in RBFY23
  - As of April 2023, private sector credit growth was 11.3%
  - *The projection for FY24* ***does not commensurate with the earlier estimation*** *for private sector investment projection*
- **Inflation** is **expected to fall drastically** to **6% in FY24**
  - **7.5% in RBFY23**
  - As of May 2023, annual average inflation (base year: 2021-22) was 8.8%
- Projections for FY24 for these **two indicators** appear to be **overambitious** compared to the latest available figures as per official data

Macroeconomic framework

Indicator	AFY22	BFY23	RBFY23	Projection		
				FY24	FY25	FY26
Export (growth in %)	33.4	20.0	10.0	12.0	14.0	14.0
Import (growth in %)	35.9	12.0	-9.0	8.0	12.0	12.0
Remittance (growth in %)	-15.1	16.0	4.0	10.0	13.0	13.0
Forex Reserve (bn. USD)	42.7	45.3	34.6	35.8	41.1	48.9
Exchange rate (BDT/USD)	86.3	95.0	97.8	104.0	104.5	105.0

- **Export growth: 12% in FY24 (10% in RBFY23)**
  - July-May FY23 was 7.1%
- **Import growth: 8% in FY24 [(-)9% in RBFY23]**
  - July-April FY23 was (-) 14.4%
- **Remittance growth: 10% in FY24 (4% in RBFY23)**
  - July-May FY23 was 1.1%
- **Forex reserve: USD 35.8 bln as of FY24 (USD 34.6 bln as of RBFY23)**
  - As of 7 June 2023, USD 29.8 bln
  - No reporting of net forex reserve or accumulation of external payments arrears found
- **Exchange rate for FY24: Tk. 104/USD**
- ***Interbank Tk.-USD Exchange Rate (Average) on 7 June 2023 was Tk. 108.5/USD***
  - ***BDT against USD to appreciate in FY24!***

Overall, targets of the macroeconomic framework for FY2024 did not take cognisance of the current realities

Observation 2:

Proposed fiscal framework for FY2024 is unlikely to hold

Fiscal framework

Broad fiscal framework for FY24

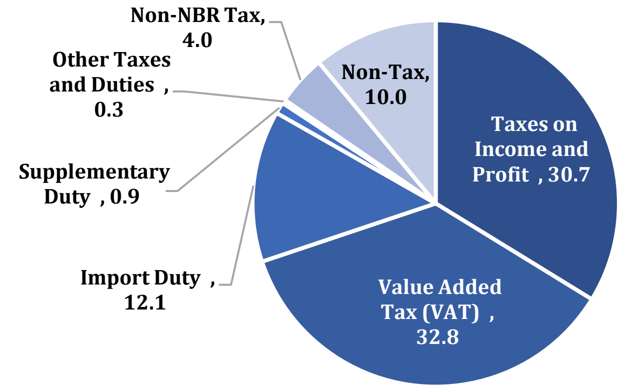
- ❑ **Revenue mobilisation** (**15.5%**) is projected to grow **faster** than **public expenditure** (**15.3%**)
  - ➢ Total expenditure is set at **15.2%** of GDP
    - ✓ marginally higher than RBFY23 → **14.9%**
  - ➢ Revenue is expected to be **10.0%** of GDP
    - ✓ marginally higher than RBFY23 → **9.8%**

Revenue mobilisation

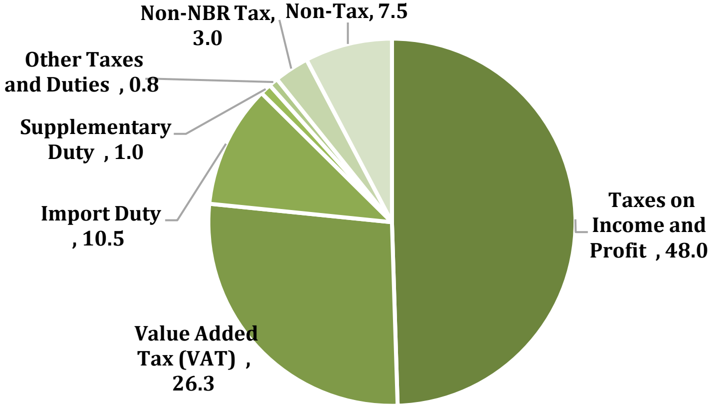
FY24 (Crore Tk.)	500,000
FY23 (RB) (Crore Tk.)	433,000
FY23 (CPD Projection) (Crore Tk.)	358,000
Target Growth (%) FY24 (Budget)	15.5
Target Growth (%) FY24 (CPD Projection)	39.7

- ❑ Budget FY24 targets 15.5% growth over RBFY23
  - ➢ **CPD projection: 39.7% on actual FY23 - approx. an additional Tk. 142,000 crore may need to be mobilised**
- ❑ NBR tax is projected to grow by 16.2% and deliver the lion's share of the incremental revenue (89.6%)
- ❑ To be primarily delivered by Taxes on Income, Profits and Capital Gains (48.0% of total incremental revenue) followed by VAT (26.3%)

Share of revenue FY24



Incremental share of revenue FY24

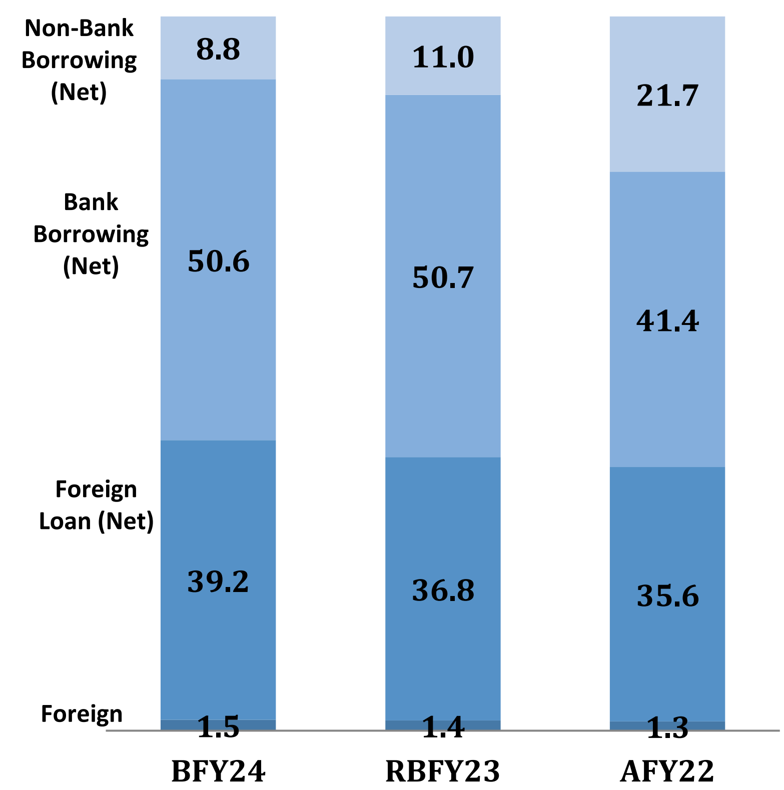


- ❑ **Tk. 4,774 crore revenue is expected as "Withdrawals from income of quasi-corporations" – is it from the windfall profit of BPC?!**

Fiscal framework

- **Development expenditure** (14.9%) is programmed to grow marginally **faster** than **Operating expenditure** (14.7%)
- **ADP**: 34.5% of total public expenditure (same as RBFY23)
- **Budget deficit** has been projected at 5.2% of GDP (5.1% in RBFY23)
- Share of **domestic financing 59.4% in BFY24** (61.7% in RBFY23)
  - Tk 132,395 crore (50.6% 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, the government will have no other option but to borrow from the central bank, and this will create inflationary pressure
- Share of foreign loans and grants in financing the incremental budget deficit is expected to rise
- **Overall, fiscal framework continued to remain surreal as RBFY23 targets did not consider budget implementation progress into consideration!**

Share of budget deficit financing (%)



Observation 3:

Some budgetary allocations are questionable

Public expenditure

Total Public Expenditure

Sector	Share in BFY24	Share in RBFY23	Change in BFY24 over RBFY23		Incremental Share
	%		Crore Tk	%	%
Public Services	**22.0**	**18.8**	**43410.0**	**34.9**	**42.9**
Education and Technology	13.7	12.9	18967.0	22.3	18.7
Interest	12.4	13.6	4363.0	4.8	4.3
Transport and Communication	11.5	11.0	14683.0	20.1	14.5
LGRD	6.5	7.3	1271.0	2.6	1.3
Agriculture	5.7	8.2	-10599.0	-19.5	-10.5
Defence Services	5.5	5.5	5455.0	15.0	5.4
Social Security and Welfare	5.3	5.9	1268.0	3.2	1.3
Health	5.0	4.5	8303.0	27.9	8.2
Energy and Power	4.6	4.1	7629.0	28.1	7.5
Public Order and Safety	4.2	4.2	4364.0	15.6	4.3
Housing	1.0	1.3	-1269.0	-14.6	-1.3
Industrial and Economic Services	0.7	0.7	1291.0	30.1	1.3
Recreation, Culture and Religious Affairs	0.7	1.2	-2164.0	-28.0	-2.1
Others (Memorandum Item)	1.2	0.7	4305.0	93.2	4.3
Total Expenditure	**100.0**	**100.0**	**101277.0**	**15.3**	**100.0**

- **Public services sector accounts for 42.9% of total incremental allocation; budget for Agriculture sector declined**

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Public expenditure

Sectors with higher share in BFY24	Change (percentage points)
Public Services	3.2
Education and Technology	0.8
Health	0.5
Transport & Communication	0.5
Energy & Power	0.5
Industrial & Economic Services	0.1
Sectors with lower share in BFY24	**Change (percentage points)**
Agriculture	-2.5
Interest	-1.2
LGRD	-0.8
Social Security & Welfare	-0.6
Recreation, Culture & Religious Affairs	-0.4
Housing	-0.3

- **Within Public Services Sector, Finance Division receives** an additional amount of **Tk. 40,024** crore (**39.5% of total incremental public expenditure**)
- **Some of the high spending areas include:**
  - **Equity: Tk. 26,874 crore**
  - **Loan to autonomous bodies: Tk. 54,343 crore**
  - **Reserve: Tk. 35,208 crore**
  - ***Together, these three areas received 42.1% of total incremental public expenditure***

Observation 4:
Shift in allocative priorities within subsidies

Subsidies

- The government declared a **subsidy** package of Tk. 17,533 crore for the **agriculture** sector in FY24
  - **Reduced by 34.3**% from RBFY23
  - Owing to sharp depreciation of Tk. and fuel and commodity price hikes in the global market, Bangladesh increased the allocation for agriculture by 61.5% in FY23
- The part of **food subsidy** that is **reported as SSNP decreased by 10.8%**
- **Fiscal incentive** (also regarded as subsidies) **required for export and remittances** is **likely to go up** thanks to depreciation of Tk.
- According to Medium Term Macroeconomic Policy Statement (MTMPS), **subsidy against energy and fuel** will **remain consistent** in the next few years due to energy subsidy arrears of previous years
  - Notwithstanding formula-based fuel prices for regular price adjustment
  - However, "in FY24 a Tk. devaluation against one USD is likely to escalate the subsidy payment in power sector by Tk. 473.6 crore" (MTMPS)
- According to the budget speech, 'Direct Tax Expenditure' will be included in the total subsidy along with other subsidies of government- which is not logical
- Regrettably, **full scenario of the subsidy budget cannot be observed**
  - The comprehensive list containing the relevant data has not been updated for FY24

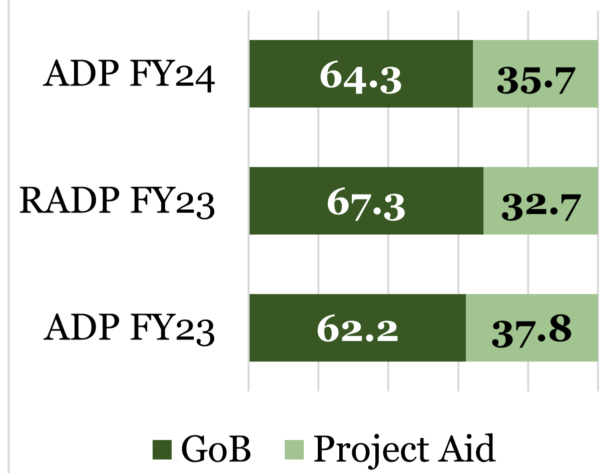
Observation 5:

Despite attempts, ADP for FY2024 could not break free from the mould

Annual Development Programme

- ADP of Tk. **263,000 crore** has been proposed for FY24
  - **5.3% of GDP in FY24** (5.5% in BFY23 and 5.1% in RBFY23)
  - Project Aid (PA) to finance 35.7% of total ADP in FY24 (37.8% in ADP of FY23)
  - **Two power sector projects** accounts for 18.2% of total project aid in ADP for FY24
    - Rooppur Nuclear Power Plant: 9.6% of total PA
    - Matarbari 2x600MW ultra super critical coal fired power project: 8.6% of total PA

ADP Financing Structure (% of total)



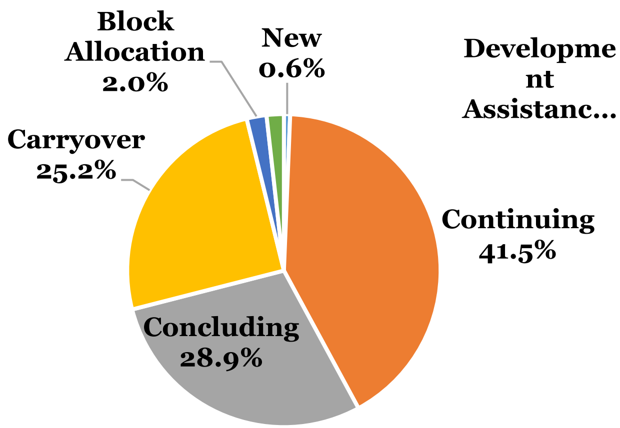
Annual Development Programme

Sector	No of projects in ADP FY24	Allocation share (%) ADP FY24
Top five sectors	**681**	**74.6**
Transportation and Communications	232	28.9
Power and Energy	63	16.9
Education	101	11.4
Housing and Community Amenities	190	10.3
Local Government and Rural Development	95	7.2
Other 10 Sectors	**569**	**25.4**
Development Assistance	NA	3.1
Total	**1,250**	**100.0**

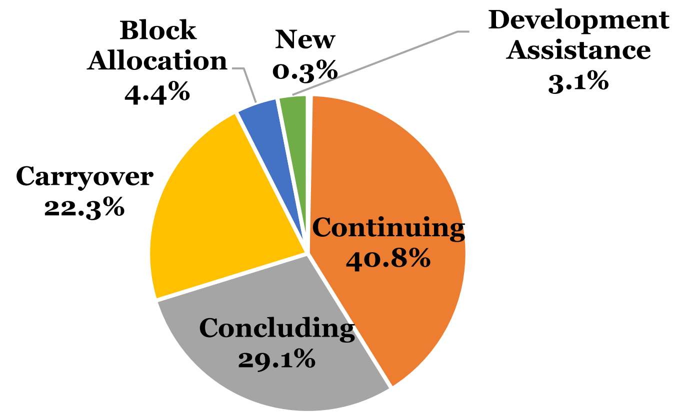
- The **top 5 sectors** have received **74.6%** of total ADP allocation – concentration ratio to increase marginally from FY23.
- **Two sectors** (Transportation and Communications; and Power and Energy) **account for about 45.8%** of total ADP allocation
  - The decline in Education and Health sectors' share in ADP is perhaps a reflection of their poor implementation during FY23

Annual Development Programme

- The ADP for FY24 contains **1,250 projects** (1,356 for ADP of FY23)



Share of allocation in FY23



Share of allocation in FY24

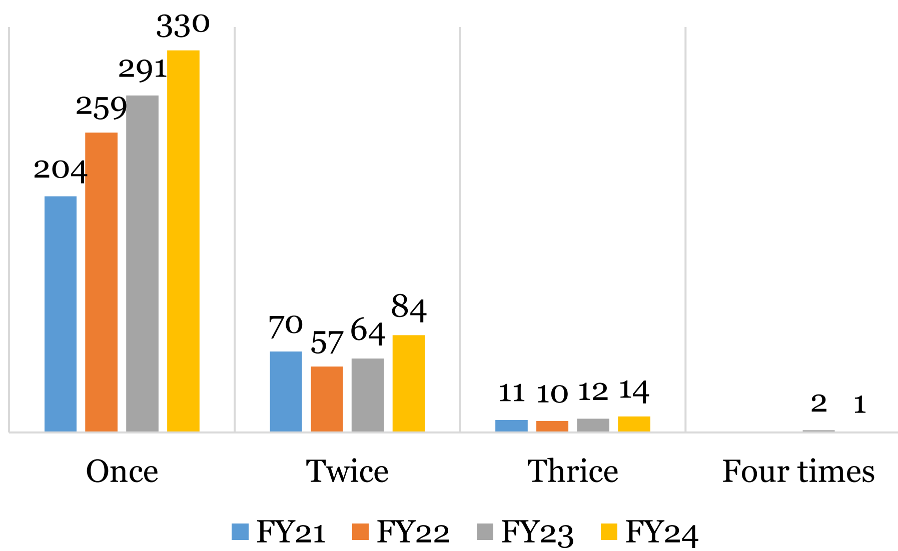
- **Share of allocation for continuing projects has further declined while that of concluding projects has <u>increased</u>**
  - Share of allocation for continuing projects declined to 40.8% in FY24 from 41.5% in FY23
  - 40.8% of allocation is provided to <u>313 continuing projects in FY23 (similar to 326 in FY23)</u>
- **The share of projects with symbolic allocation (token allocation to keep these projects in the ADP list) <u>has declined substantially – a praiseworthy development and a move to the right direction</u>**
  - ✓ **40 projects (3.2% of total number of projects) under ADP FY24 have received only Tk. 1 lakh or below**; (59 projects (4.4%) received such allocation in FY23)

Annual Development Programme

❑ Time-overrun projects continue!

- **Average age** of 1,167 investment projects is **4.9 years**
- **288** (24.7%) of these 1,167 projects are 6-10 years old (due to repeated extensions of projects)
- 34 of these 1,167 projects are more than 10 years old
- **36.8%** of investment projects in ADP for FY24 have already been revised 1-4 times
- Number of **projects with time extension** increased **from 369 in FY23 to 429 in FY24**

ADP Projects with number of revisions



Annual Development Programme

- **Mega Projects: Allocations for these have increased, but not the pace of implementation**
- Tk. 79,391 crore is allocated for 20 mega projects (mostly infrastructure including fast-track and based on project size) which is 30.2% of total ADP of FY24
- **Five out of 20 mega projects are scheduled to be completed in FY24**
  - Padma Bridge Rail Link (1st revised)
  - Expansion and Strengthening of Power System Network under DPDC Area (1st revised)
  - Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border (1st revised)
  - Ghorasal Polash Urea Fertiliser Project (1st revised)
  - Power Grid Network Strengthening project under PGCB (revised)
- **However, even if maximum utilisation of resources is ensured, none of these will be completed by FY24**

Observation 6:
The issue of containing inflation is inadequately addressed

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Containing inflation

- Budget FY24 **did not propose any discernible fiscal measures** to **bring down inflation**
  - No clear-cut initiative was observed to reduce the prices of essentials via fiscal measures
  - Rather, incidences of some of the fiscal measures will be **passed on to consumers** by the producers in the form of higher prices
  - Allocation for **direct support** (social safety net) is inadequate (section on SSNP)
- **Annual tax-free threshold for personal income has been raised to Tk. 3.50 lakh from Tk. 3.0 lakh**. This is roughly aligned with the consumer price index hike between FY21 and FY23
  - For female, elderly, physically challenged, war-wounded gazetted freedom fighters, and third-gender taxpayers, respective thresholds were raised as well
  - **CPD welcomes this change** in view of erosion of purchasing power in the backdrop of the impact of high inflation on low-income people
  - Following this, the **lowest** segment of **income earners** will **gain** the **most**
  - Regrettably, highest tax rate (reduced from 30% to 25% in FY21) was kept **unchanged**

Observation 7:

Continuation of fiscal measures to protect domestic industries is a positive step

Protection to domestic industries

- **Some** of the proposed **fiscal measures** will support domestic import-substituting industries, **which is a positive step**
  - Will be **achieved via two major channels**: (a) duties and taxes at the import stage, and (b) VAT exemption for domestic producers. For instance:

Duties and taxes at the import stage	VAT exemption for domestic producers
▪ CD on imports of elevators and escalators raised ▪ CD on low - capacity electric panels was increased ▪ Concessional facility for local opal glassware manufacturers and switch/socket industry ▪ Reduction of VAT for ethylene glycol, terephthalic acid, and hot rolled stainless steel in coils ▪ Raw materials for medicines, medical products and some health care products will be imported at a concessionary rate	▪ VAT exemption for some locally manufactured home appliances extended till June 30, 2025 ▪ VAT exemption for Computer and ICT extended till June 30, 2026 ▪ VAT exemption in excess to 5% at the production stage of optical fibre cable till June 30, 2024 ▪ Exemption of VAT at the production stage on anti-malarial and anti-tuberculosis drugs ▪ VAT free threshold increased for handmade biscuits and cake

Observation 8:

Desperation for revenue mobilisation undermines equity concerns

Desperate attempts to increase tax

Some desperate attempts to increase tax were observed in the FY24 budget

❑ End of "Zero Tax" Returns

- Individuals below taxable income who are required to submit income tax returns to avail 38 services from government will be required to pay a minimum tax of Tk. 2000 - Such a move will burden low-income TIN holders and contradict the concept of tax-free income thresholds

❑ Tax Return Preparer

- Appointment of Tax Return Preparer has been proposed by the NBR as part of a new rule under section 185 of Income Tax Ordinance 1984 to help taxpayers in preparing and submitting their tax returns; the NBR would pay the agent a certain percentage of the tax a person would pay
  - This move may create a "broker class" with potentially negative consequences. Agents reliant on tax collection commissions may exert pressure on taxpayers to pay higher amounts or accept bribes to reduce tax liabilities
  - Any such move should first be piloted, and the outcomes thoroughly analysed before any final decision

Desperate attempts to increase tax

- **Some other measures of concern**
  - Imposition of 7.5% VAT compared to the prior 5% VAT at local manufacturing stage on iron or steel for LPG cylinder
  - Increased VAT on mobile phone manufacturers/assemblers at the local stage
  - 7.5% VAT instead of 5% on several home (napkins & tissue paper) items
  - **Specific Duty on cement clinker raised for both manufacturers and importers from the already higher levels**
  - **15% VAT is imposed on ballpoint pen**
  - The new Income Tax Act has brought significant changes in the definition of "company".
  - The new definition includes educational institutions, NGOs, private foundations, cooperative societies, chambers and associations, societies, micro-credit institutions, government institutions, local authorities, and autonomous bodies. [Section 2(31), Page 6881]
  - **Inclusion of some orgnisations under the definition of "Company" including educational institutions and NGOs are not justified and should be revised.**

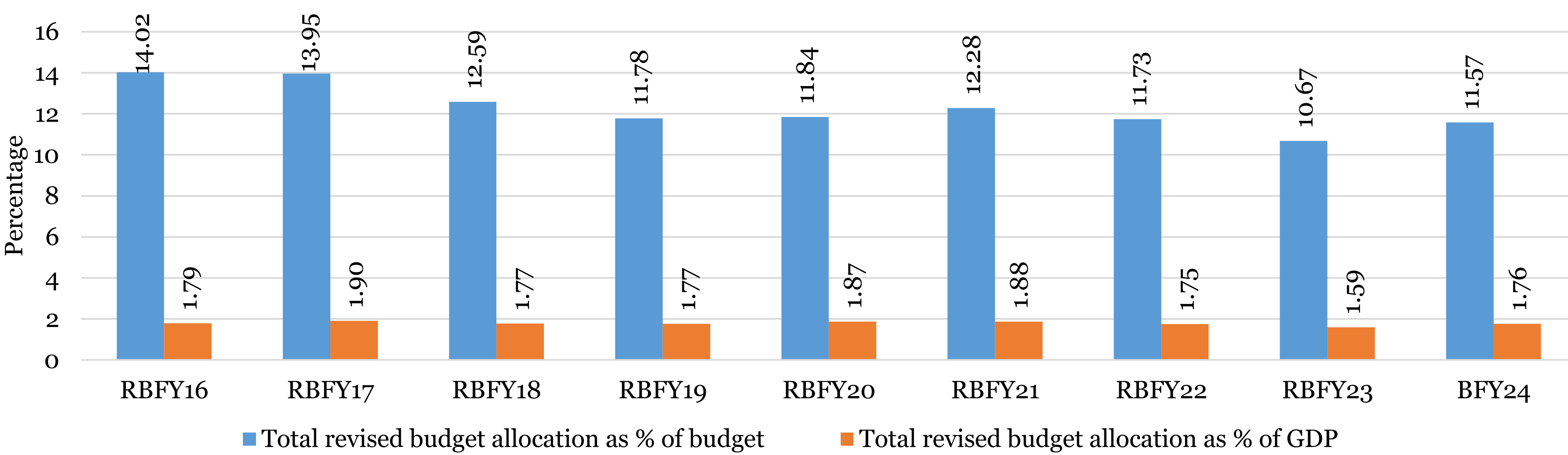
Observation 9:

Allocations for priority social sectors remain business as usual

Priority social sectors: Education

- Education budget as a share of total budget increased slightly from **10.67% in RBFY23 to 11.57% in BFY24**
- Additionally, the education budget as a share of GDP increased slightly from **1.59% in RBFY23 to 1.76% in BFY24**
- The 8th Five Year Plan states that the education budget should grow from 2.0% of GDP in FY19 to 3.0% of GDP by FY25. However, the education budget is not even 2% of GDP in FY24
- Bangladesh's average education expenditure as a percentage of GDP from 2016 to 2022 was the fifth lowest among 41 LDCs
- On average, at least 35 LDCs spent 2% or more of their GDP on education from 2016 to 2022

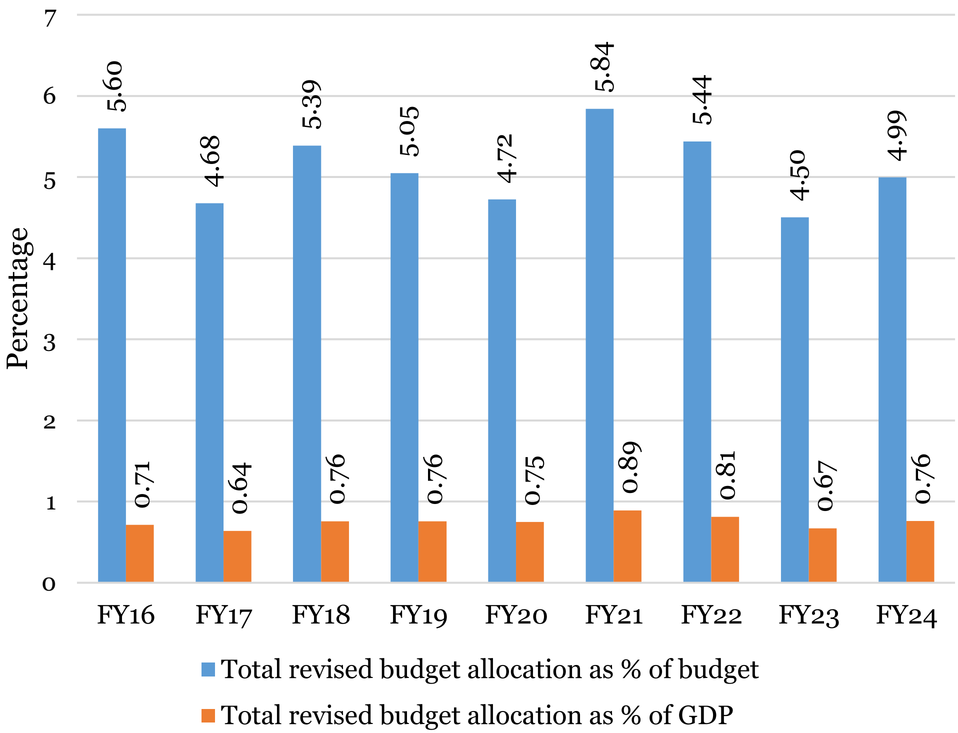
Allocation for education as share of total budget and GDP



Priority social sectors: Health

- ❑ Allocation for health as a *share of the total budget* has slightly increased from **4.5% in FY23 to 4.99% in FY24**
- ❑ Allocation for health as a *share of GDP* has increased **from 0.67% in FY23 to 0.76% in FY24**
- ➢ Such allocation is only marginally higher than the average allocation of 0.71% of GDP during FY16 to FY24.
- ❑ Bangladesh ranks **184th out of 186** countries in terms of government expenditure on health-GDP ratio
- ❑ Bangladesh's per capita out-of-pocket expenditure on health at purchasing power parity was the **7th highest among 44 LDCs** in 2020

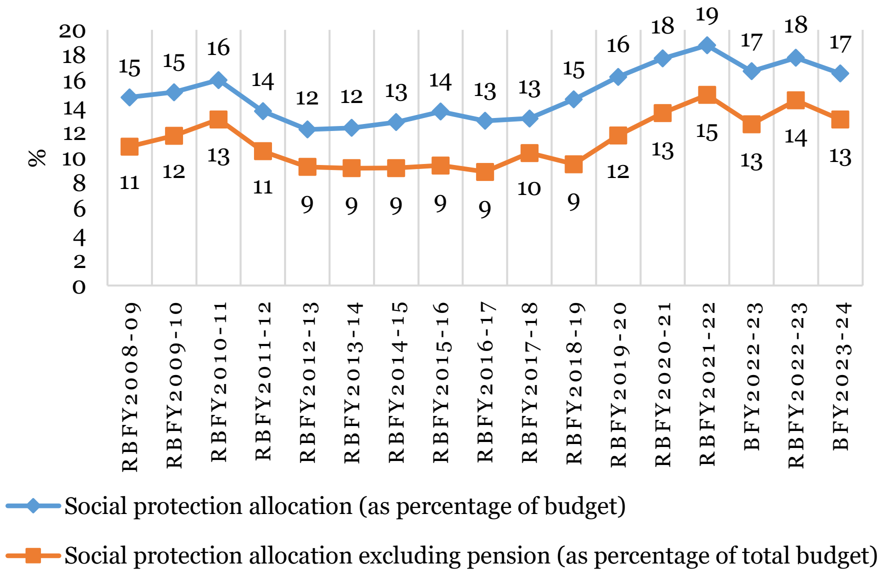
Health allocation as share of total budget and GDP



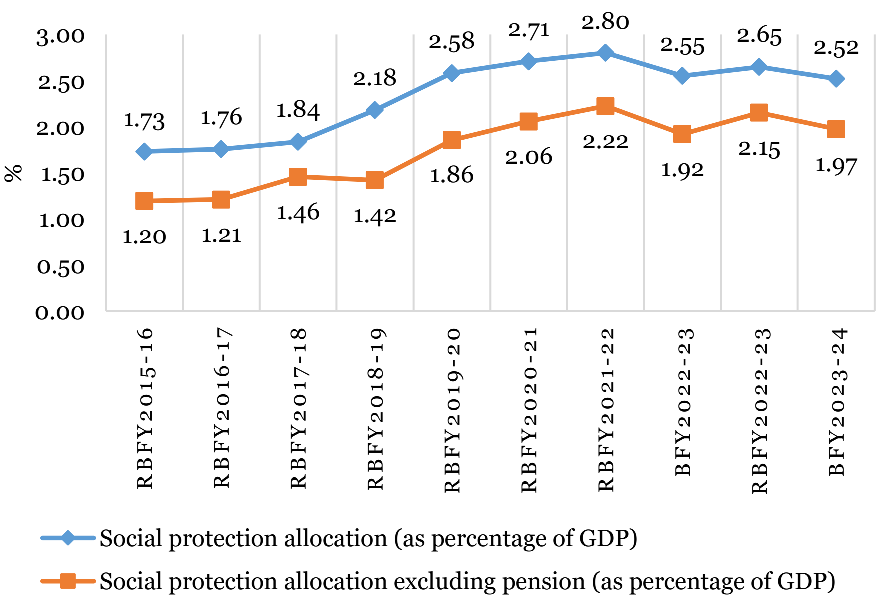
Priority social sectors: SSNP

- Overall, social safety net budget as a percentage of total budget and GDP **decreased** slightly from RBFY23 to BFY24
- **Social safety net budget excluding pension as a percentage of budget decreased** from 14.47% in RBFY23 to 12.98% in BFY24
- **Social safety net budget excluding pension as a percentage of GDP decreased** from 2.15% in RBFY23 to 1.97% in BFY24

Social protection allocation as a % of budget



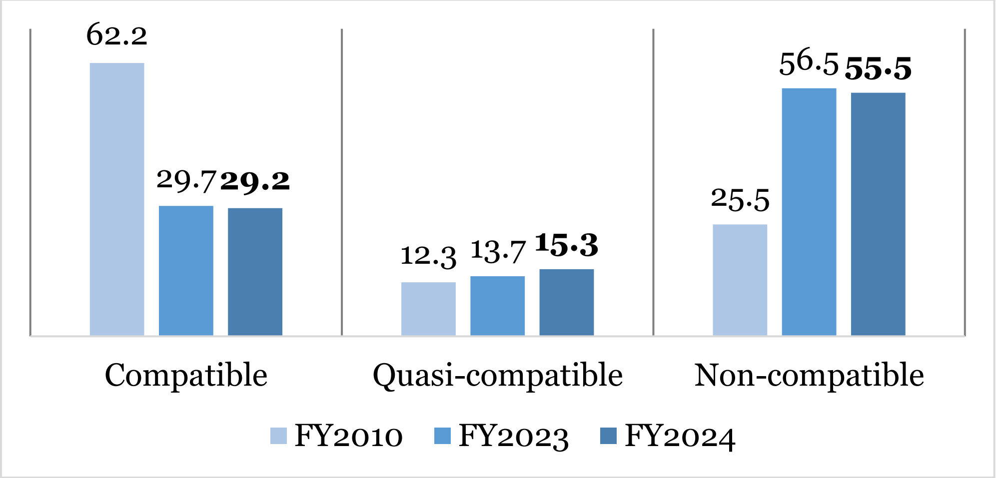
Social protection allocation as a % of GDP



Priority social sectors: SSNP

- Total **budget for SSNP increased in monetary terms**. However, **declined both as a share of national budget and GDP**
- SSNP budget continues to be **artificially inflated**
  - Seemingly unrelated elements are reported in the list of SSNPs
- CPD has classified SSNPs into **three categories** viz. **compatible** (i.e., those that should naturally be included in the SSNP list), **quasi-compatible** (i.e., those that fall somewhere in the 'grey' area), and **non-compatible** (i.e., those that should be excluded from the list)
- **Share of compatible SSNPs** in total SSNP budget **declined** from 62.2% in FY10 29.7% in FY23 to 29.2% in FY24
  - As a share of GDP, it also decreased from 1.6% in FY10 to 0.8% in FY23 to 0.7% in FY24

SSNP budget composition (share in %)



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Priority social sectors: SSNP

- **Allocation for food-related 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 related SSNPs also improved**

Change in SSNP Budget in FY24 over RBFY23 (%)

Food SSNPs	Change (%)
Vulnerable group feeding (VGF)	-29.3
Food assistance in CHT	1.2
Open market sales (OMS)	-9.8
Food friendly programme	18.4
Food subsidy (others)	3.7
Total food SSNPs	**-1.8**

Education and health SSNPs	Change (%)
Mother and child benefit programme	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 programmes in poverty-stricken areas	-3.9
Total education and health SSNPs	**3.3**

Observation 10:
IMF conditionalities will largely dictate reform agenda

IMF conditionalities and reform agenda

- The **shadow of IMF conditionalities**, although not explicitly mentioned in the budget speech (or other documents) for FY24, **is visible**
- **Almost all IMF reform conditionalities** under the Extended Credit Facility (ECF), Extended Fund Facility (EFF) and Resilience and Sustainability Facility (RSF) have been **listed as part of intended reform** measures
- **Most updates do not report concrete progress or mention specific timelines**
- *Curiously, **no mention** of accumulation of external payments arrears or net forex reserve was found*
- Details about critical reforms, including shifting towards **market-based exchange rate** and **interest rate**, and **adoption of periodic formula-based petroleum product prices**, have **not** been **elaborated**
- **No acknowledgement of structural weaknesses** in the domestic economy and its management could be found
- The macroeconomic targets and strategy outlook **remained ambiguous**

IMF conditionalities and reform agenda

Reflection of IMF Conditionalities in Budget FY24

Reforms	Comments
Floor on net international reserves (NIR) as a quantitative performance criterion *As of June 2023: $24.5 billion* *As of December 2023: $26.8 billion*	Hard to achieve. MTMPS does not make any mention
Floor on primary balance (PB) as a quantitative performance criterion *As of June 2023: (-) Tk. 1,686.4 billion* *As of December 2023: (-) Tk. 1,141.1 billion*	No explicit mention.
Ceiling on reserve money (RM) as indicative target *As of June 2023: Tk. 3,951 billion* *As of December 2023: Tk. 4,004 billion*	Tk. 3576.12 crore as of April 2023
Floor on tax revenue as indicative target *As of June 2023: Tk. 3,456.3 billion* *As of December 2023: Tk. 1,436.4 billion*	Not to be achieved in FY23
Floor on priority social spending of the Government of Bangladesh as indicative target *As of June 2023: Tk. 1033 billion* *As of December 2023: Tk. 309.9 billion*	No clear mention for next year
Floor on capital investment undertaken by the GoB as indicative target *As of June 2023: Tk. 1141.1 billion* *As of December 2023: Tk. 222.8 billion*	No clear mention for next year
Ceiling on accumulation of external payments arrears to be zero	No mention of the current status
Adopt tax revenue measures yielding an additional 0.5% of GDP in the FY2024 budget	Urgency felt through fiscal measures

IMF conditionalities and reform agenda

Reflection of IMF Conditionalities in Budget FY24

Reforms	Comments
Establish Compliance Risk Management Units in the NBR customs and VAT wings (End – December'23)	Initiated
Implement Fund TA recommendations to reduce tax expenditures across major taxes (e.g., PIT, CIT, VAT, Customs)	An estimation of Direct Tax Expenditure reported but no mention of a concrete plan
Develop and adopt a Tax Compliance Improvement Plan	Some indications given, not detailed
Adoption of Medium-Term Revenue Strategy	To be initiated
Adoption of a periodic formula-based price adjustment mechanism for petroleum products (End- December'23)	A road map is being formulated
Implementation of a periodic formula-based petroleum product prices	A road map is being formulated
Price adjustment mechanism for petroleum products	Under consideration
Expand coverage and benefit level of social safety net programs and enhance delivery efficiency	Structure
Adopt a national disaster risk financing strategy that integrates social assistance measures	Ongoing
Update and publish Medium-Term Debt Management Strategy annually	No mention
Develop a plan to reduce NSC issuance (End -December 2023)	No mention
Develop a policy note to guide decisions on integrating bank accounts still remaining outside the TSA and on the sequencing of TSA enhancements (End-December 2023)	Will do
Publish fiscal risk statement, covering major risks from SOEs, guarantees and PPPs as part of FY2025 budget documentation	Ongoing. Bangladesh Systemic Risk Dashboard (BSRD) is being developed

Concluding remarks

Concluding remarks

- In the **FY24 budget**, the **underlying assumptions** pertaining to the key macroeconomic correlates appear to be **far from reality**
- As a consequence, the **budgetary targets** set for FY24 are **likely to be missed by a substantial margin**
- The budget **failed to address** the **most difficult challenge in the current reality**: **containing inflation**
- **A mid-term review of the implementation status** must be done to assess the outcome of the budgetary measures in addressing the ongoing challenges

Overall, the budget for FY24 failed to fully acknowledge the ongoing macroeconomic challenges and, therefore, offered inadequate remedial measures.

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