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Press Release

SANEM's Observation for the National Budget 2024-25 on the Power and Energy Sector

Finance Minister AH Mahmood Ali has recently proposed the 53rd national budget of Tk. 7,97,000 crore in the cabinet, where the energy and power sector secured only 3.8 percent of the total budget. In the FY 2023-24, the budget share for the same sector was 4.6 percent, representing a significant 12.9% reduction for the upcoming FY2024-25. The South Asian Network on Economic Modeling (SANEM), as a concerned stakeholder of power and energy, has analyzed the recent trends in budget allocations for the sector and has expressed concerns and insights regarding the implications for Bangladesh's economy through this press release.

Over the years, budget allocations for the power and energy sector have seen significant fluctuations, reaching a peak in the fiscal year 2018-19. After the peak, the sector saw a 10.91 and 31.06 percent decrease in allocation, respectively, for the following two fiscal years (2019-20 and 2020-21). Starting from the fiscal year 2020-21, the allocation is gradually increasing in absolute value but not to a notable extent. More importantly, within the power and energy sector, budget allocation for the energy sector is continuously falling since FY 2018-19, having only 4% percent share of the total budget in FY2023-24, and even lesser in FY2024-25, only 3.6 percent of the total energy and power sector budget, implying a consistent negligence to the country's energy sector.

On the other hand, the Bangladesh Power Development Board (BPDB) has increased electricity tariff rate four times within last one year, starting from January, 2023, to February 2024, consecutively 5%,5%,5% and 8.9% increase. Although the initiation of adjustments in electricity, fuel, and gas price, has commenced to diminish subsidies within the power and energy sector, the devaluation of the BDT against the US Dollar has significantly impacted subsidy payments in the power sector. An assessment by the BPDB indicates that a devaluation by one BDT against the USD in FY24 could escalate subsidy payments by Tk 473.6 crore. The one-year (FY2023-24) devaluation from BDT 107.7 per USD to BDT 117 per USD is projected to increase the subsidy burden of this year by 4,404.48 crore BDT. While the percentage of direct tax expenditure (tax exemption) for this sector is positive, the actual amount decreased to 7,611 crore BDT from last year's 11,942.147 crore BDT, indicating the lesser tax benefit for the sector.

Given the renewable energy targets in several government plans, the proposed budget securing a special allocation of only Tk. 100 crore to boost the development and utilization of renewable energy, is nowhere near to be sufficient. Furthermore, the Sustainable Renewable Development Authority (SREDA) got lower allocation (11.19 Crore) than previous year (14.65 Crore), though in previous year revised budget it fell down to only 7 crore BDT which arises question of the function and significance of SREDA.

Additionally, the focus on boosting power generation capacity despite of having overcapacity is ongoing, with 27 power plants having a combined capacity of 9144 MW currently under construction. Building new LNG infrastructure is also questionable as the LNG price in the international market is volatile which have already affected our economy. Insufficient fuel reserve, specifically natural gas, since significant number of power plants are gas-fired, has created a crying need of having stable and alternative energy sources. BAPEX plans to drill and work over 48 wells from January 2023 to December 2025 for onshore gas exploration and extraction. However, it contrasts with their completion of 49 wells since February 2014. The Bangladesh Offshore Model Production Sharing Contract (PSC) - 2023 has been established, initiating the 'Bangladesh Offshore Bidding Round-2024' to engage international companies for oil and gas exploration in 9 shallow and 15 deep-sea blocks. These are welcoming initiatives with substantial uncertainty, time lags, and cost overruns. In this situation, we need to diversify our energy sources and explore renewable potentials as well, as it is the most certain and sustainable approach.

SANEM calls for a strategic approach to managing the budget allocation in the energy sector, focusing on increasing the share of renewable energy projects, exploring domestic natural gas, managing the impact of currency devaluation, and addressing the subsidy burden through efficient policy measures. Additionally, since the budget share for the energy sector within the total power and energy sector budget has been decreasing, SANEM recommends increasing this allocation substantially. Furthermore, revised ADP data reveals a continuous decline in the budget allocation for the Power and Energy Sector and the Energy and Mineral Resources Division (EMRD) since FY 2021-22 which necessitates a reassessment. To sum up, changing the proportion of ADP and subsidy for Power Division and EMRD having specific focus on renewable energy could contribute to the energy security of the whole power and energy sector of the country.

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