

# **NATIONAL BUDGET 2022-23**

Presented by

**South Asian Network on Economic Modeling  
(SANEM)**

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# Research Team

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# Background

# Background (1/2)

- National budget 2022-23 was announced amidst a challenging economic context.
- The economy of Bangladesh is in the process of **recovery from the dent made by COVID-19**: the pace of recovery is uneven and recovery itself has costs.
- The post COVID recovery has created supply-demand imbalances across the global-leading to **inflationary pressure**.
- The **Russia-Ukraine war** has fueled the global inflation and caused further disruption in global supply chain.

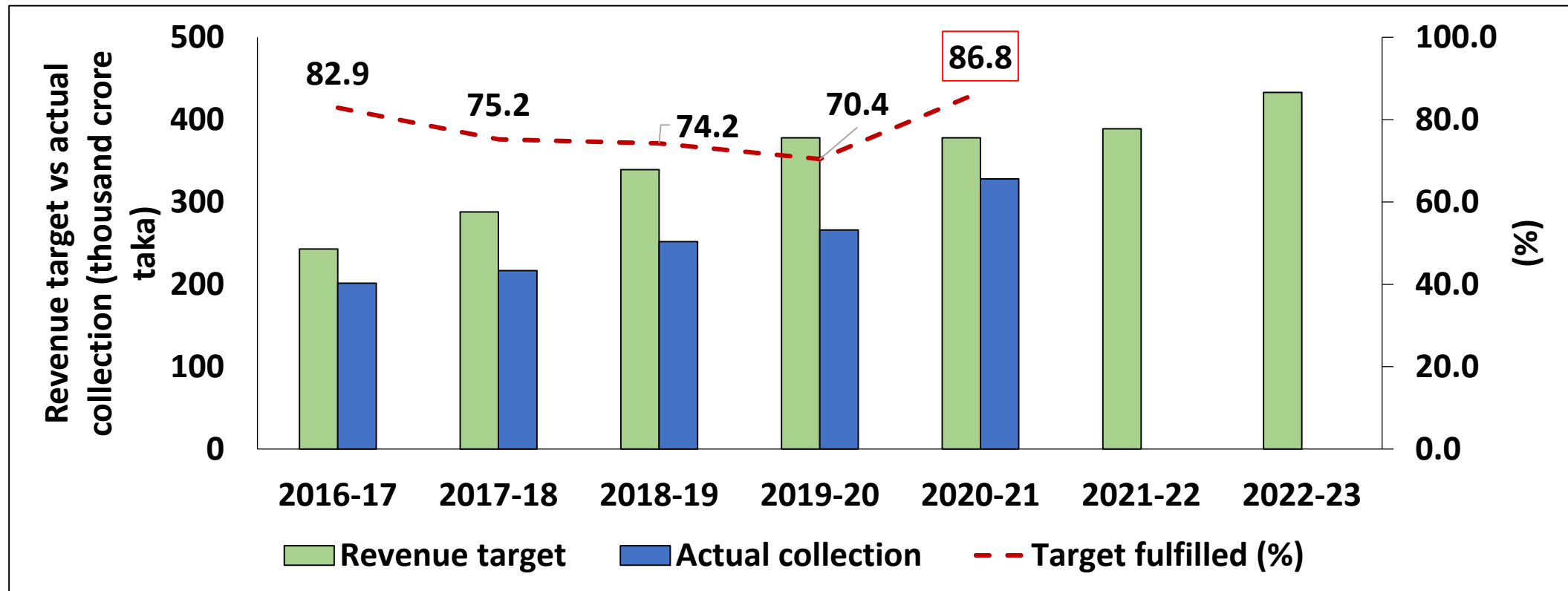
# Background (2/2)

- In domestic market, **balance of payment deficit** caused supply shortage of dollar, leading to **depletion of reserve** and **increased price of dollar** vis-a-vis taka.
- **Macro stability** of the country is no longer in a comfort zone!
- The existing challenges of **revenue mobilization** and low rate of **implementation** of budget are still there.
- Despite satisfactory and consistent GDP growth, in fronts of **poverty, inequality and human capital development** there remains concerns.
- It is expected that resource allocation and reforms as proposed in national budget will address these development priorities.

# KEY FEATURES OF RECENT BUDGETS

# Revenue Generation (1/4)

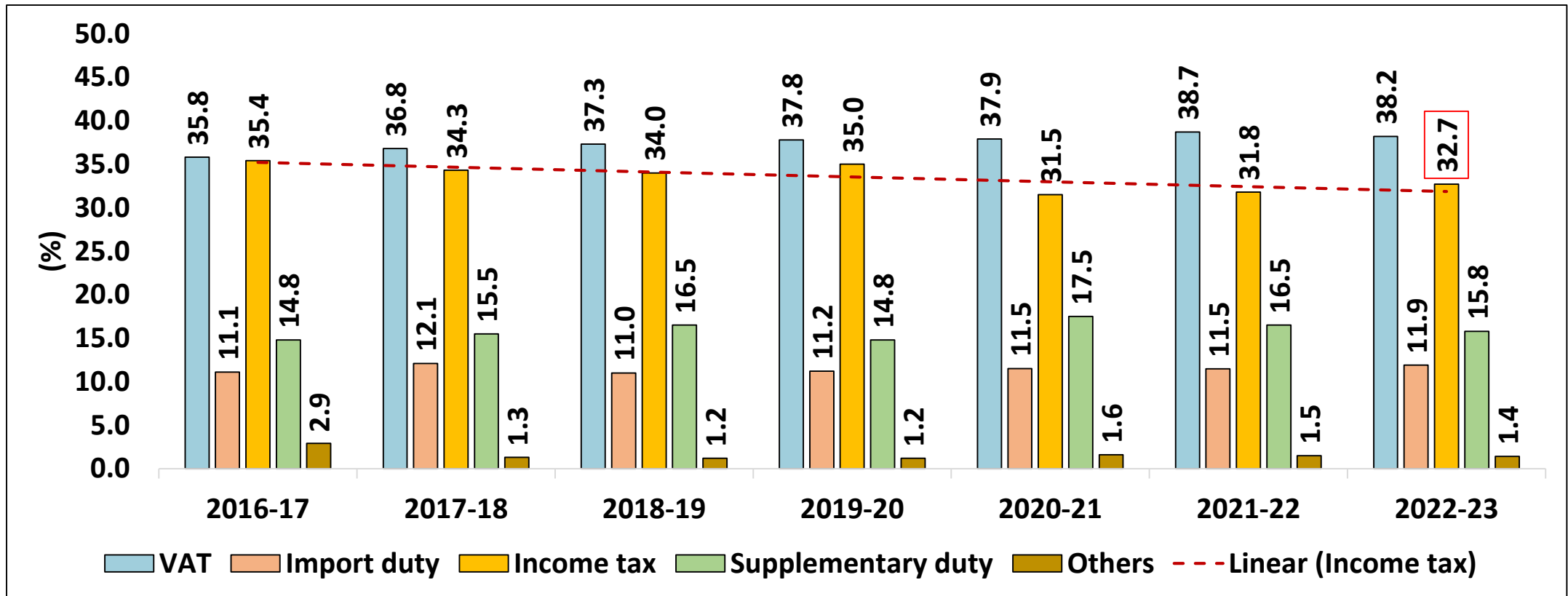
## Revenue Target vs Actual Collection



Source: Finance Division, Ministry of Finance

# Composition of Revenue (2/4)

## Trend in composition of tax revenue



Source: Finance Division, Ministry of Finance



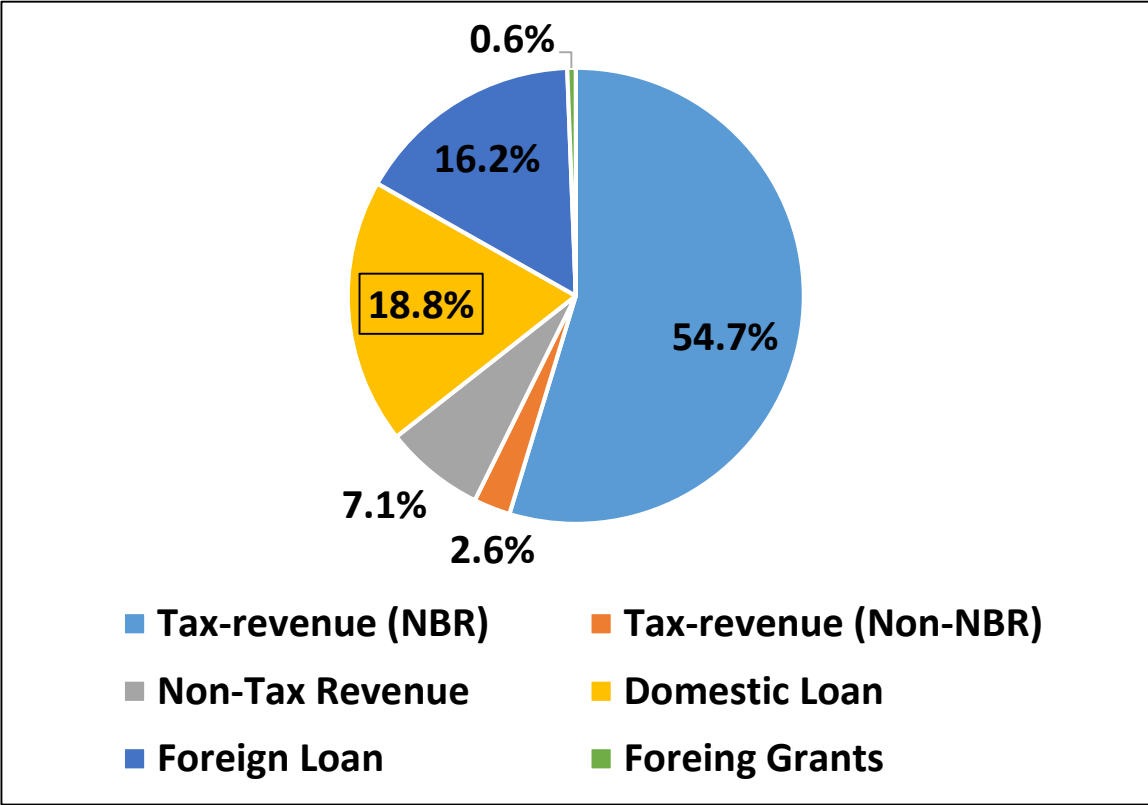
# ADP Implementation of Key Ministries/Divisions (Jul 21-Apr 22) (3/4)

Ministry/Division	ADP Allocation (crore Tk)	ADP Expenditure (Jul21-Apr22) (crore Tk)	ADP Implementation Progress (%)
Local Government Division	34419.29	20872.79	60.6
Health Services	9989.34	3970.42	39.8
Science & Technology	15894.15	9703.13	61.1
Primary and Mass Education	9207.34	4353.52	47.3
Secondary & Higher Education	8259.73	4401.05	53.3
Housing and Public Works	6260.1	3417.06	54.6
Industries	4251.08	3518.79	82.8
Agriculture	3124.73	1730.94	55.4
Medical Education And Family Welfare	2080.27	1082.41	52.0
Disaster Management and Relief	2231.47	1066.57	47.8
Technical and Madrasah Education	2373.16	1506.65	63.5
Women and Children Affairs	755.34	492.24	65.2
Social Welfare	449.49	205.95	45.8
Food	641.16	384.4	60.0
Expatriates' Welfare	404.18	212.7	52.6
Labour & Employment	221.08	92.66	41.9
Planning Division	53.64	29.12	54.3

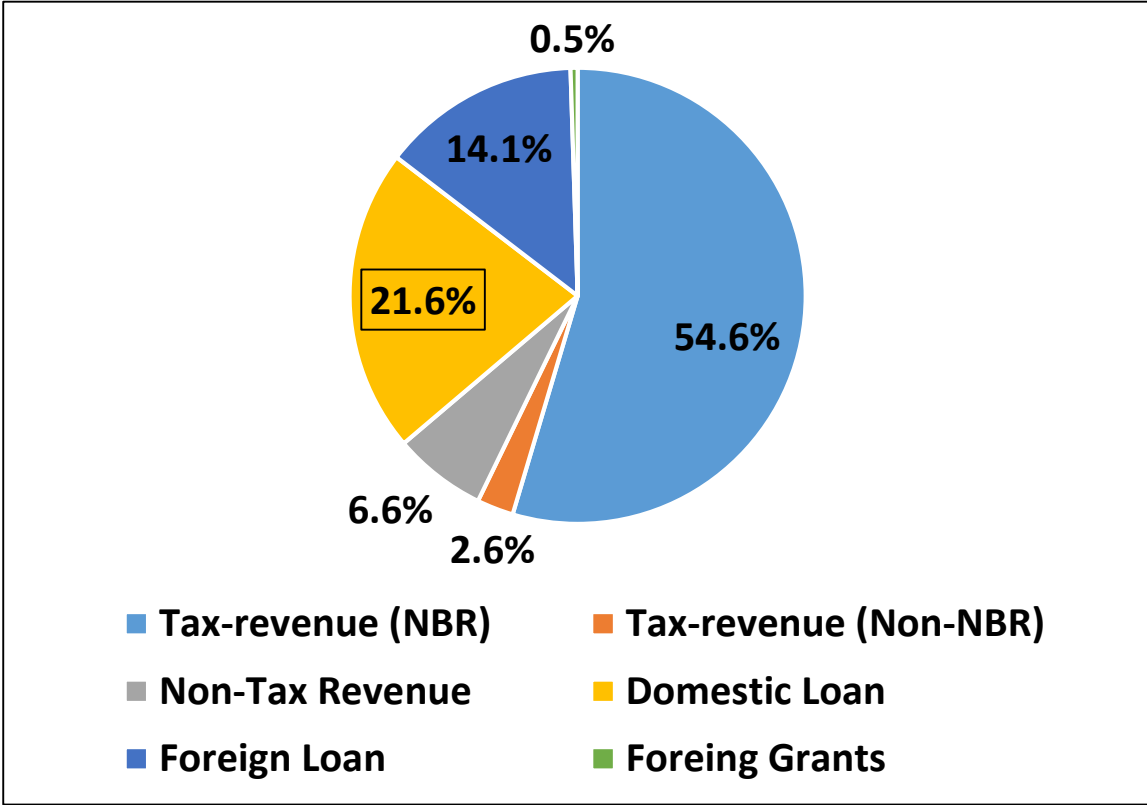
Source: IMED, GoB

# Composition of Financing (4/4)

Budget financing (2021-22)



Budget financing (2022-23)



Source: Finance Division, Ministry of Finance

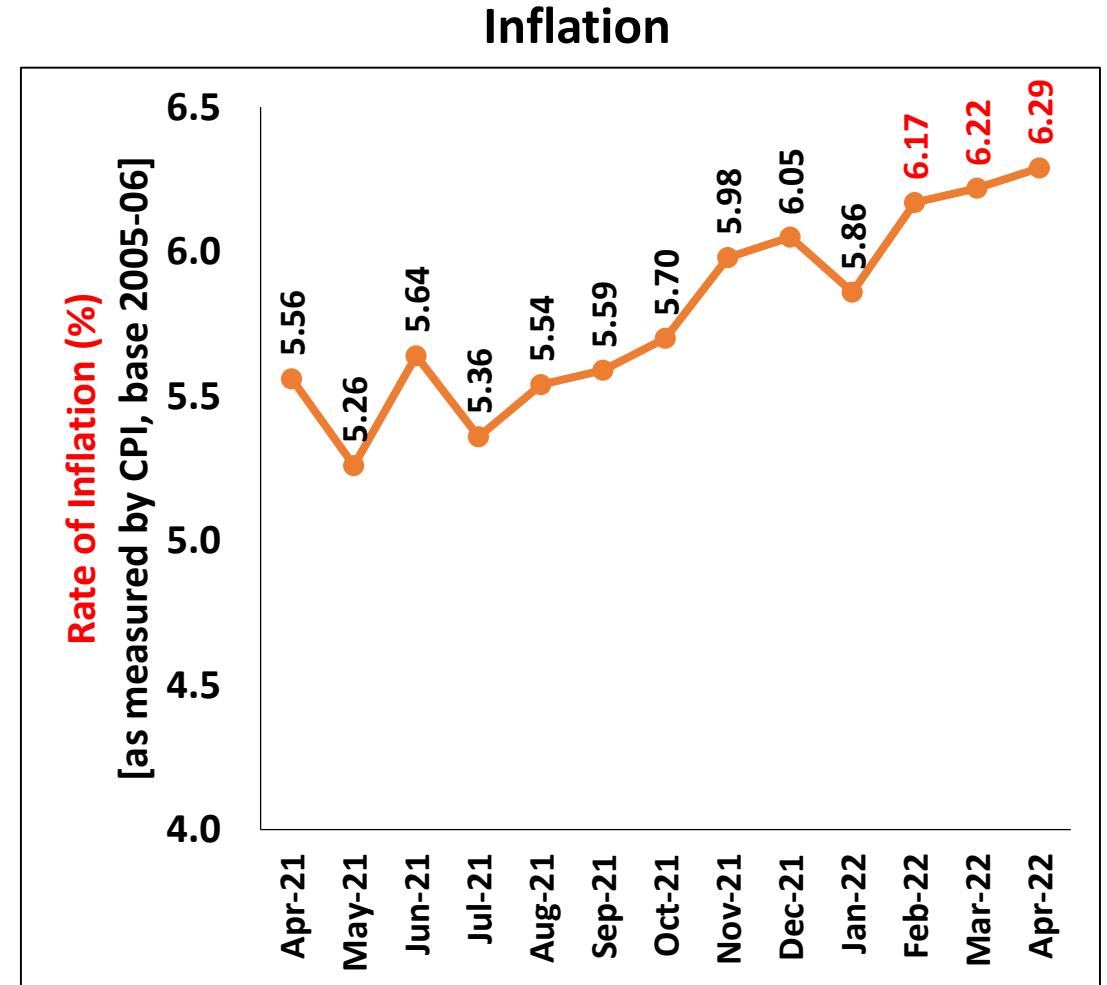
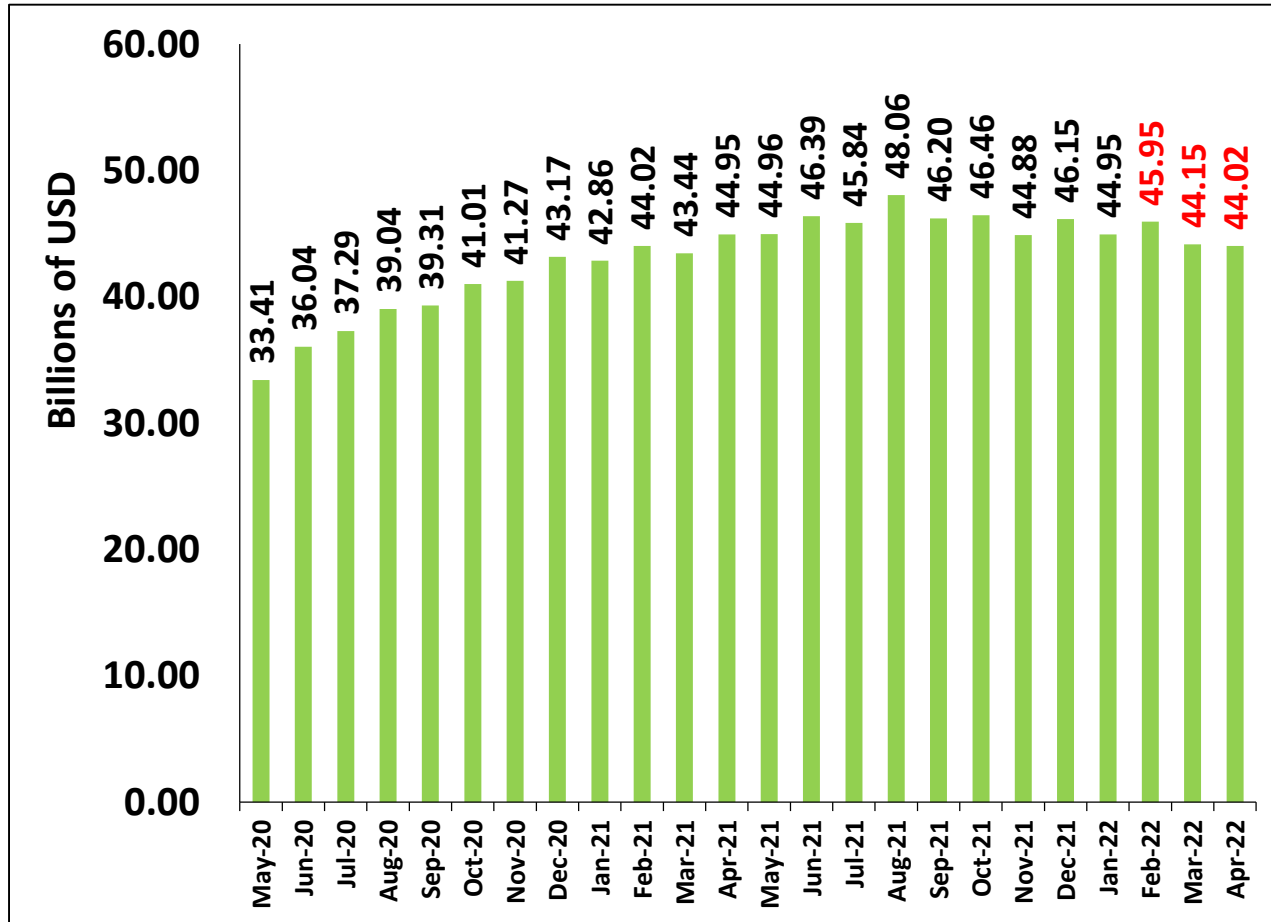
# KEY CONCERNS FOR BUDGET 2022-23

# Prime Objectives

- Stabilizing Macro Economy
- Containing Inflation
- Sustaining Growth Momentum
- Reducing Poverty and Inequality
- Generating Employment
- Human Resource Development

# Stability of Macro Economy

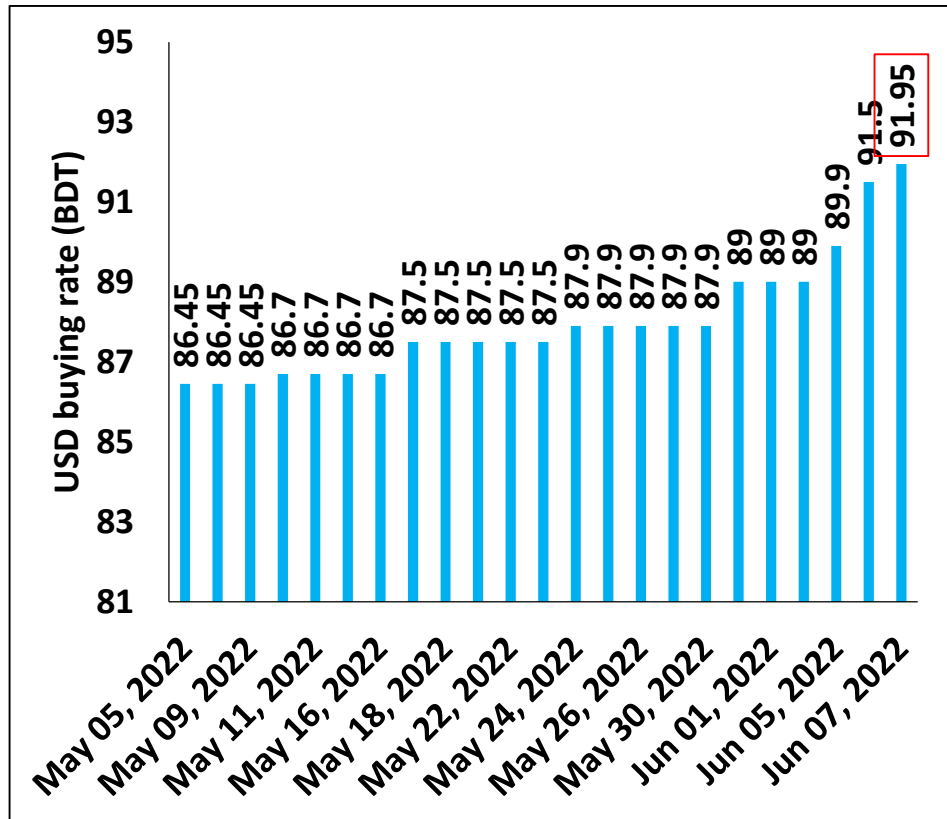
# Foreign Currency Reserve (1/6)



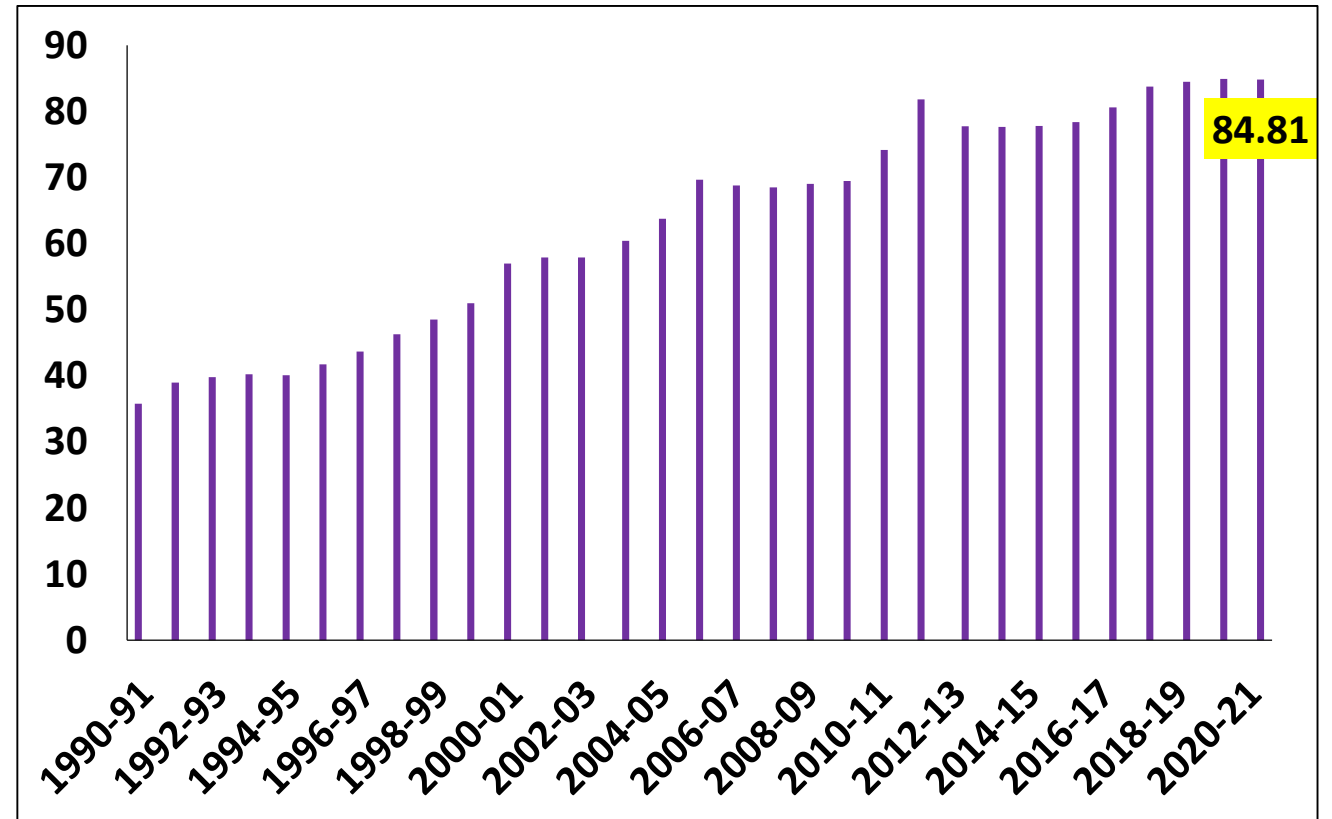
Source: Bangladesh Bank

# Exchange Rate of Tk (2/6)

## Recent scenario



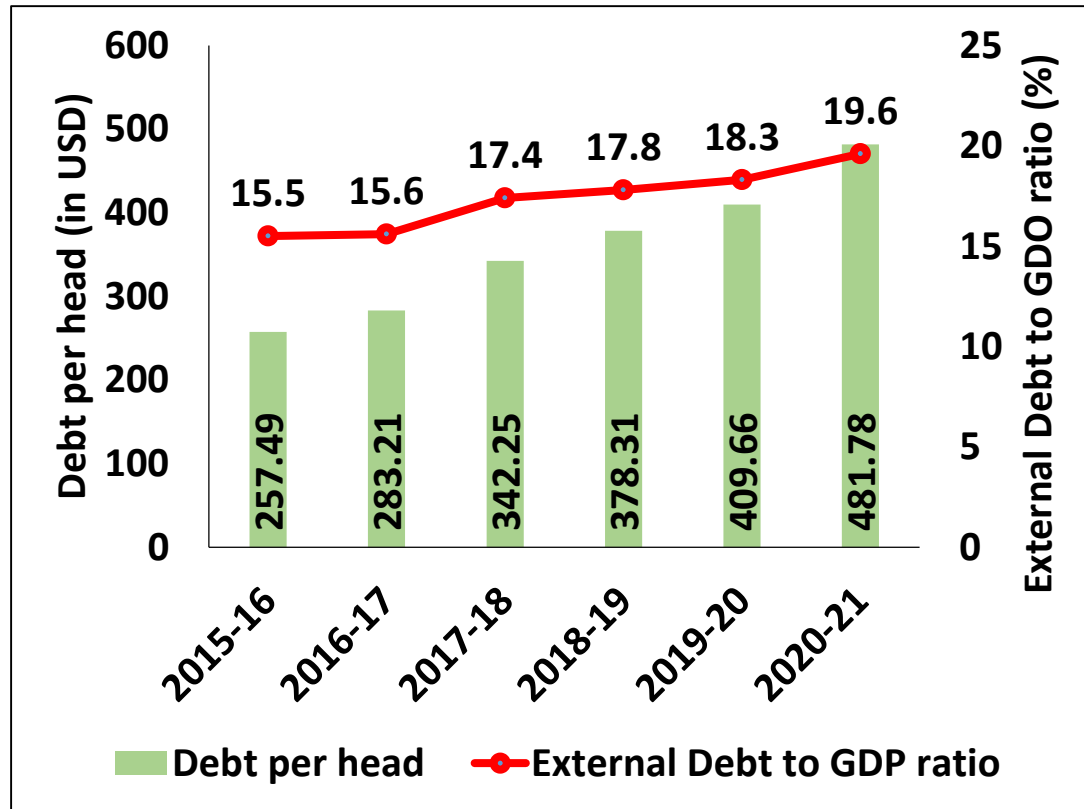
## History of Exchange rate



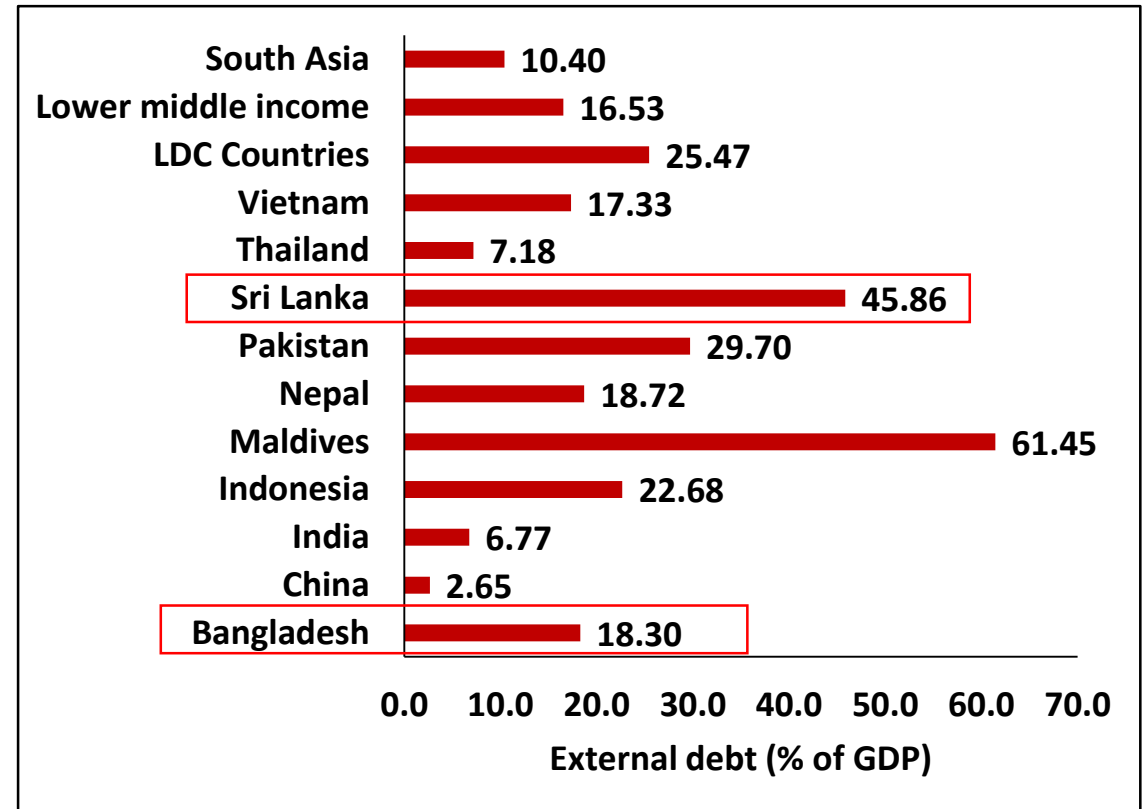
Source: Bangladesh Bank

# External Debt-GDP Ratio (3/6)

## Trend in Bangladesh



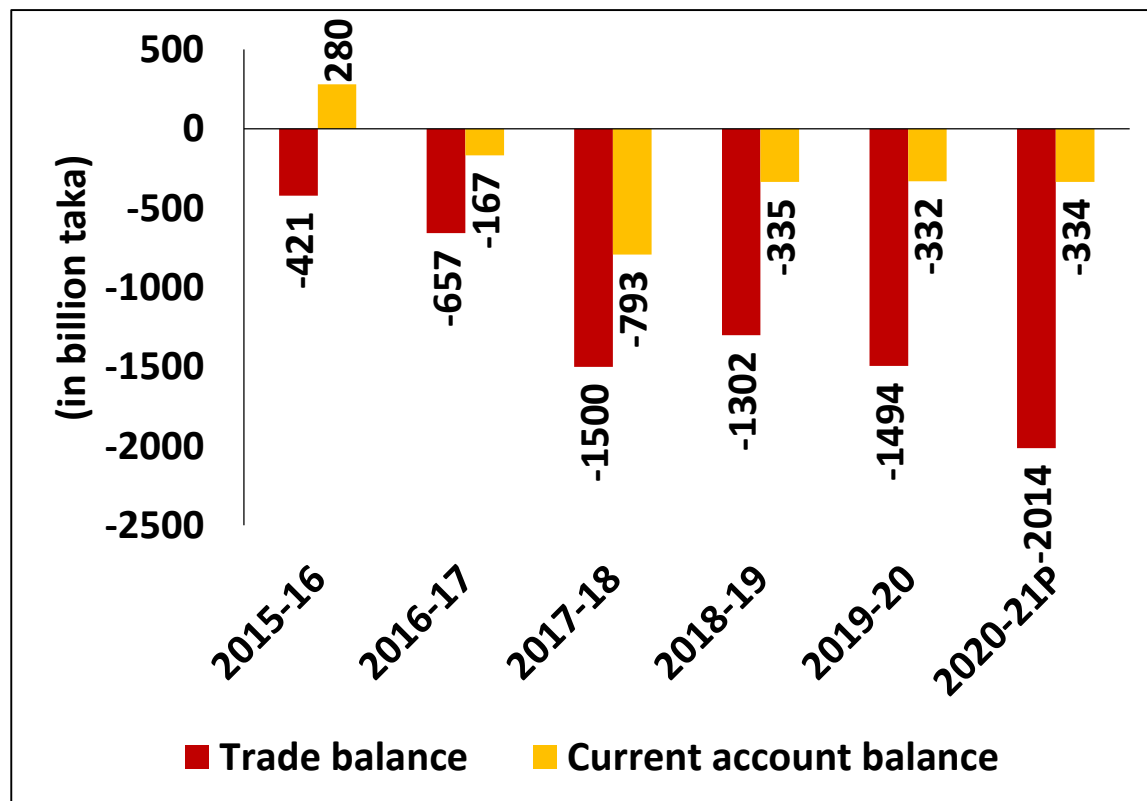
## Country comparison (2020)



Source: Bangladesh Bank and WDI (World bank)



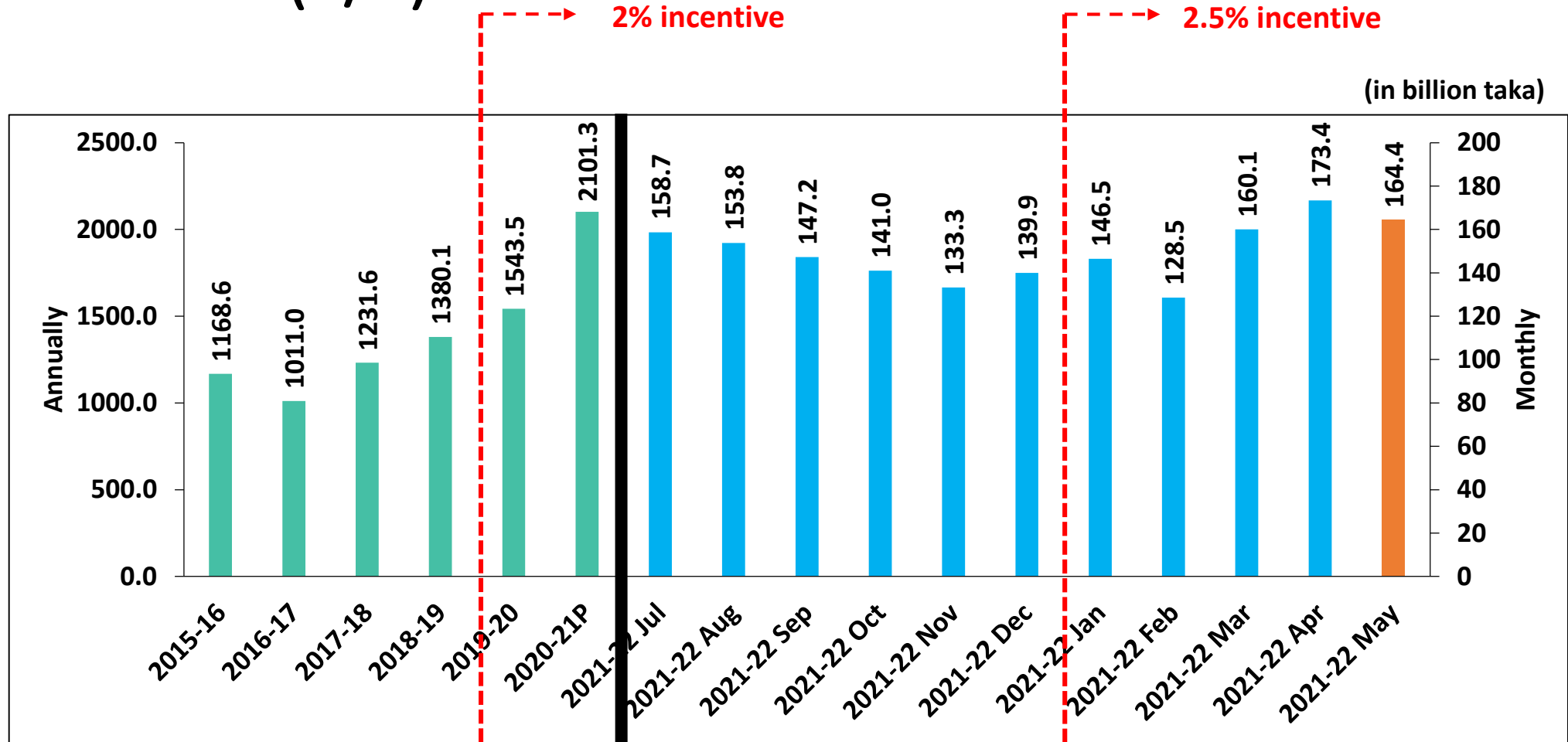
# Balance of Payment (4/6)



	2020-21 (Revised)	2021-22 (Provisional)
	July-April	July-April
(in million USD)		
Trade balance	-18013	-27569
Current Account Balance	-1653	-15317
Capital account	127	173
Financial account	9598	12029
Overall Balance	7499	-3710

Source: Bangladesh Bank

# Remittance (5/6)



Source: Bangladesh Bank

## Budgetary Initiatives for Stabilizing Macroeconomy

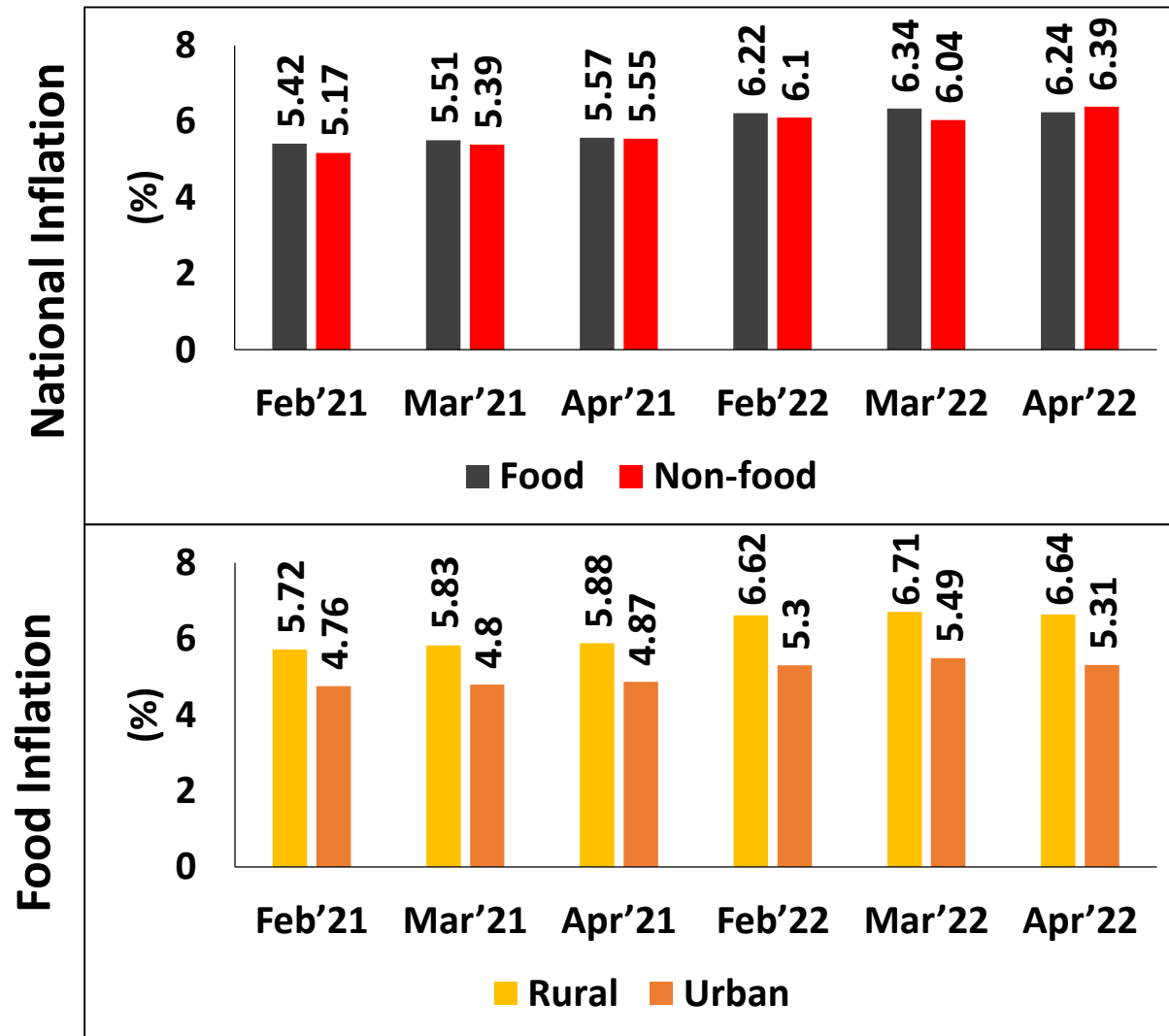
- The **exchange rate** of Tk against the US Dollar will be kept competitive.
- **Import** of luxury and dispensable goods will be restrained.
- Raising the incentive 0.5 percentage points (2.5%) for encouraging the **remittance** through legal channel.
- Maintaining imports at a reasonable amount to reduce trade deficit and keeping foreign reserve stable is a key concern of budget 2022-23.
- **Import-dependency** and less important government expenditure will be reduced.

## SANEM's Observations

- SANEM supports the move towards **market determined** exchange rate.
- The Government can reduce the incentive to **1%** given that the official and carb market rates are converging.
- It is important to check **over and under invoicing** in import.
- SANEM supports curtailing **unnecessary government expenditure**.

# Containing Inflation

# Rate of Inflation (1/2)



- Food inflation is higher in rural areas than in urban areas (**BBS**)
- Food inflation faced by poorer households is much higher than the official figures (**SANEM**)
- BBS compiles the CPI based on the Household Income and Expenditure Survey (**HIES**) of 2005-06

## Budgetary Initiatives for Containing Inflation

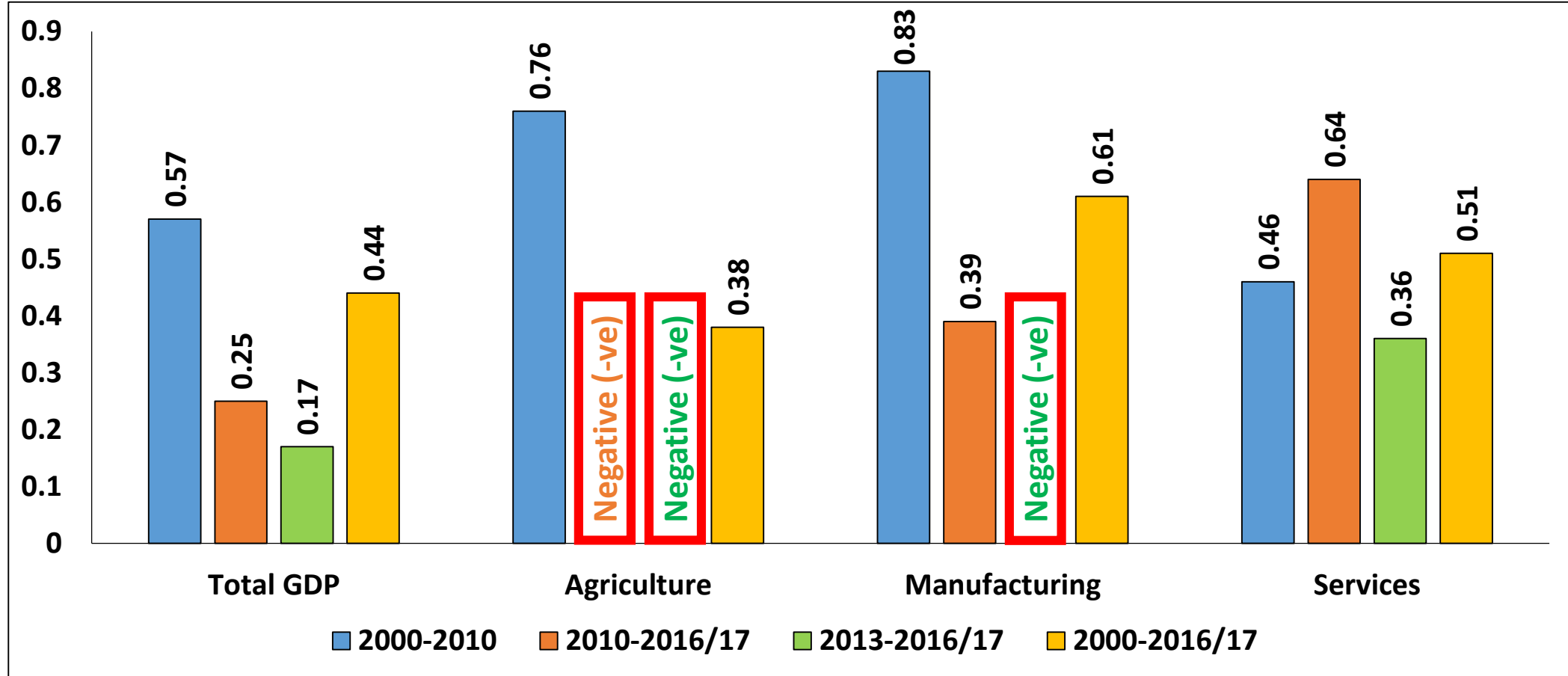
- The average **inflation** will be 5.6% in the next fiscal year.
- The main strategy would be to **increase the supply while reducing the growth in demand**.
- The **repo rate** has been raised from 4.75% to 5%.

## SANEM's Observations

- **No specific direction** is there for controlling inflation rate.
- Not clear how **demand** will be restrained.
- Both **fiscal and monetary policies** should work in tandem to contain inflation.
- **Import tax** from some essential items has not been reduced.
- Subsequent adjustment in **energy price** can create inflationary pressure.

# Growth and Employment Generation

# Employment Elasticity of GDP (1/2)



Source: 8FYP calculated from BBS National Accounts and LFS



## Budgetary Initiatives for Employment Generation

- To ensure **overseas employment** of 0.81 million Bangladeshi workers and provide **skill development training** to 0.52 million workers.
- The allocation for the '**Employment Generation Program for the Poor**' fell to Tk 18.30 billion in budget 2022-23 from Tk 19.25 billion in revised budget 2021-22.
- Plans to raise **ICT based employment** to 3 million by 2025.
- **2.5% reduction in corporate tax.**

## SANEM's Observations

- Detailed and specific **road map** for employment creation is required.
- With **low employment elasticity** of growth, it is not clear whether this tax cut will lead to required employment generation.

# Poverty & Inequality Reduction

# Poverty and Vulnerability (1/8)

Category	National (%)	Rural (%)	Urban (%)
Total Poor (TP-HH wise)	23.95	25.56	20.26
Vulnerable Non-Poor	15.08	15.77	13.62

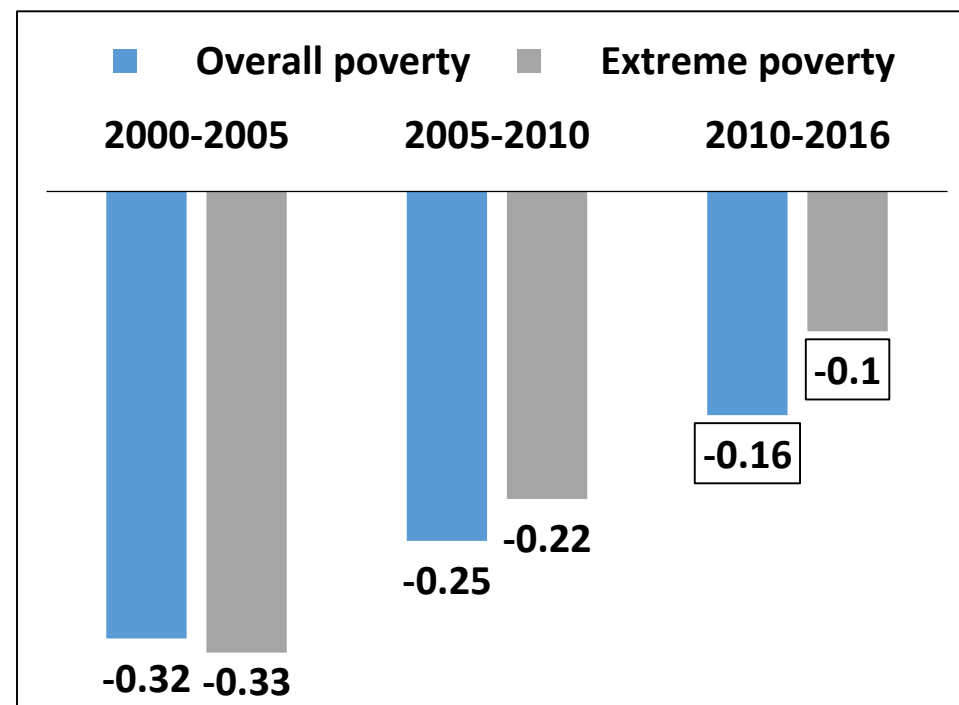
*Source: Authors' Calculations from HIES 2016. Vulnerability is calculated through a mathematical model.*

- Studies by **SANEM** and other Think Tanks have found that many people have become '**new poor**' during COVID-19.
- Vulnerability has increased during **Covid-19**.
- The vulnerability can be worsened by the recent **Russia-Ukraine war** and **global price hikes**.
- There is concern about '**inflation poor**'.

# Poverty Profile (2/8)

Source (Year)	National		Urban	Rural	Urban	Rural
	UPL	LPL	UPL		LPL	
HIES (2005)	40	25.1	28.4	43.8	14.6	28.8
HIES (2010)	31.5	17.6	21.3	35.2	7.7	21.1
HIES (2016)	<b>23.3</b>	<b>12.9</b>	18.9	26.4	7.6	14.9
8FYP (2025)	15.6	7.4				
PP (2031)	7	2.3				

## Growth Elasticity of Poverty



Source: Raihan & Bourguignon, 2020  
 Calculated from BBS and WDI data

## Budgetary Initiatives for SSN

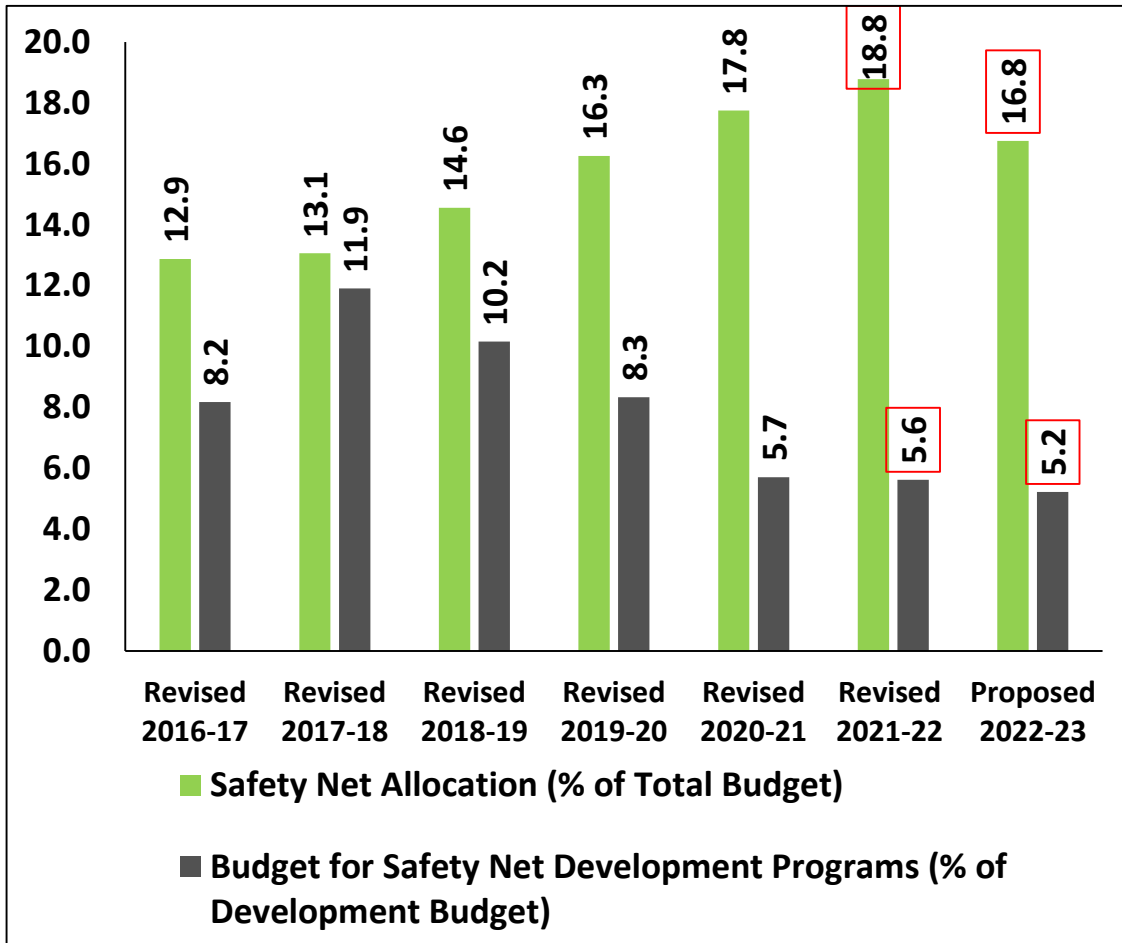
- 30 kg rice each month at the rate of **Tk. 15** (previously it was Tk. 10) to be provided to 5 million low-income households
- Allocation for social safety net is Tk. 1135.76 billion in total which is 16.75% of the total budget and 2.55% of GDP.
- The number of **disabled** beneficiaries is planned to be increased by 0.36 million. The rate of monthly allowance will be increased by Tk. 100, from Tk. 750 to Tk. 850. Increase in the number of beneficiaries in **mother and child** benefit program by 2.09 thousand.
- 10 million families will get **TCB family cards** including the family who received 2500 cash assistants during the pandemic to combat price hike due to supply chain disruption .

## SANEM's Observations

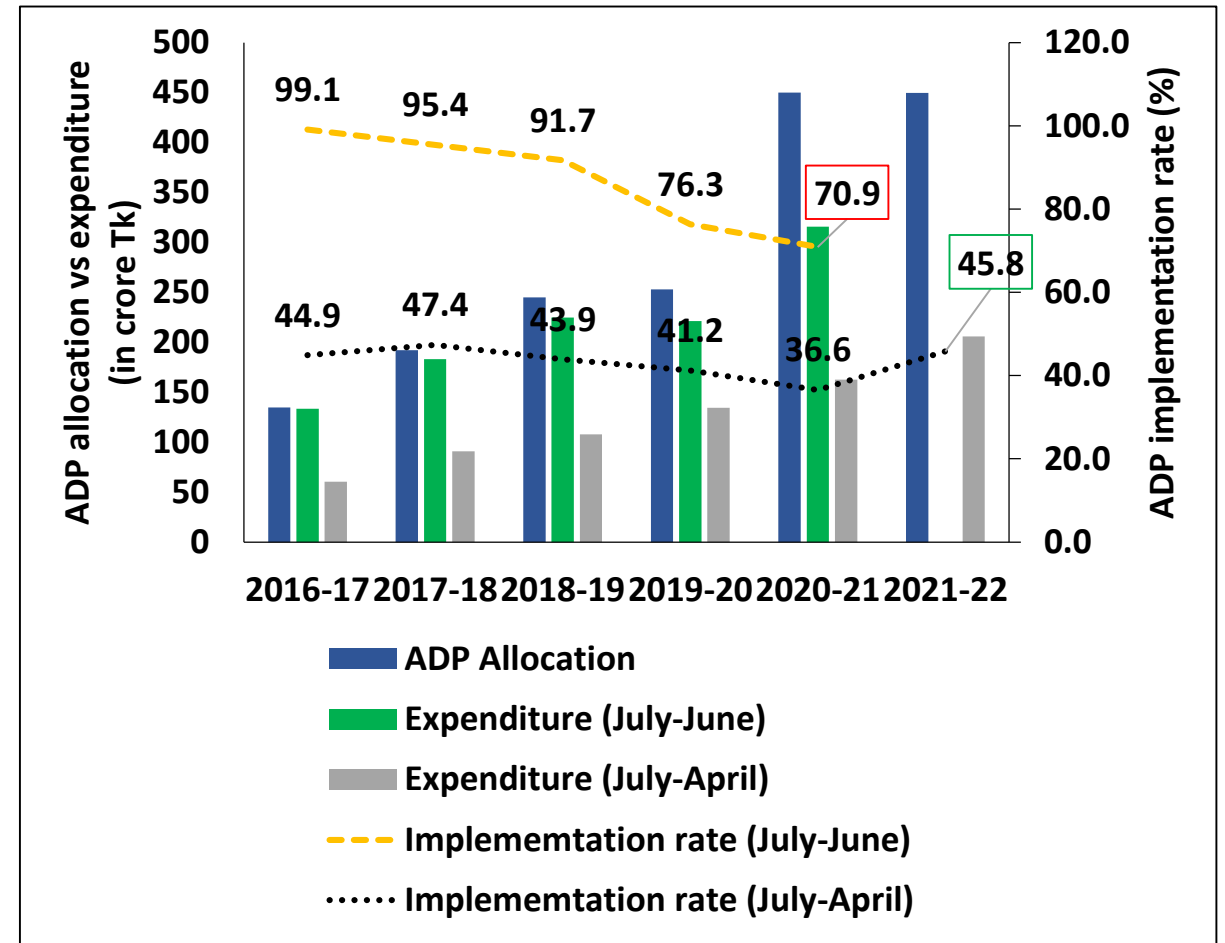
- Without **pension, interest, stipend**, allocation to SSN reduced to 11.2% of proposed budget from 13.7% in revised budget 2021-22.
- Given high inflation, it was needed to increase **per capita allocation** for core programs. Programs like old-age cash allowance is kept at Tk. 500.
- **Allocation to OMS has decreased** in 2022-23 proposed budget to Tk. 17.20 billion from Tk. 19.43 billion in 2021-22.
- NSSS should be implemented without any delay.
- **Digitalization** can make the process more transparent.

# Trend in Budget for Safety Net (4/8)

## Budget for Social Safety Net



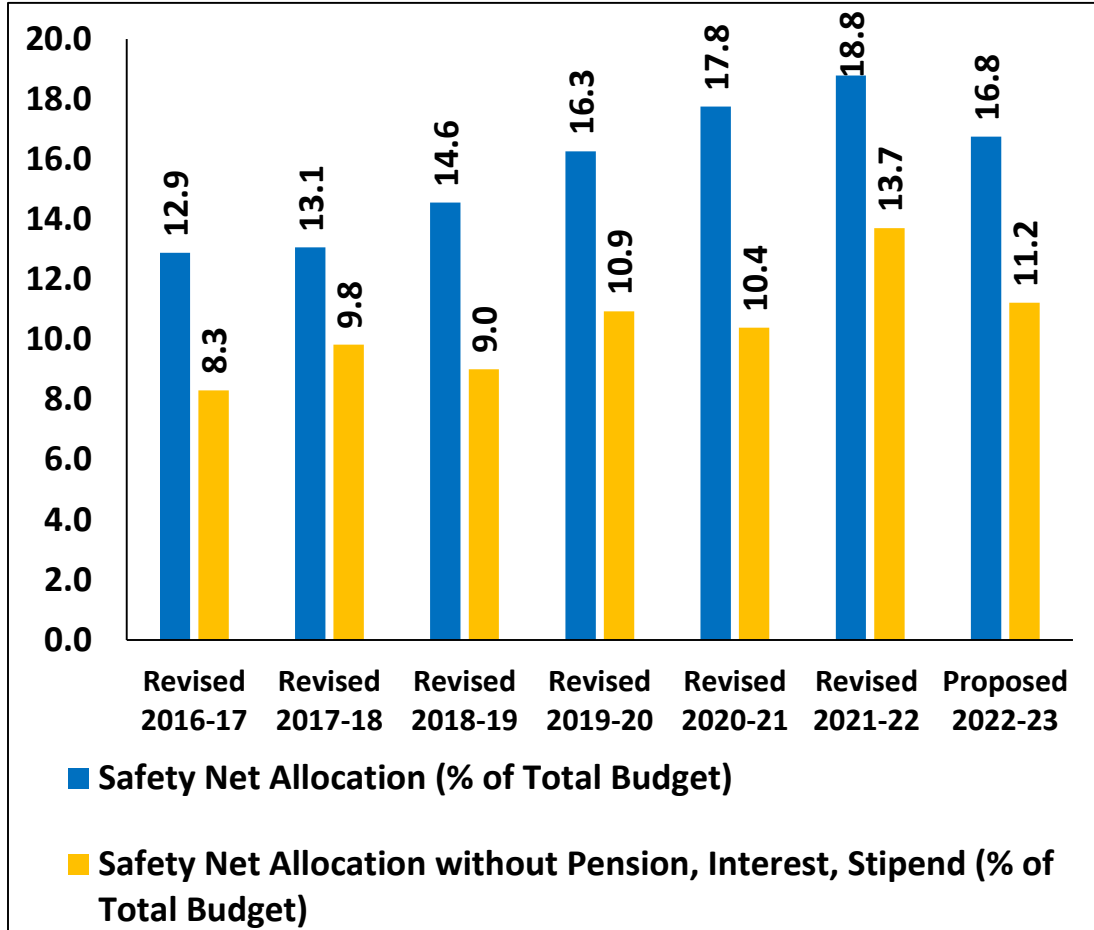
## ADP Implementation Rate of MoSW



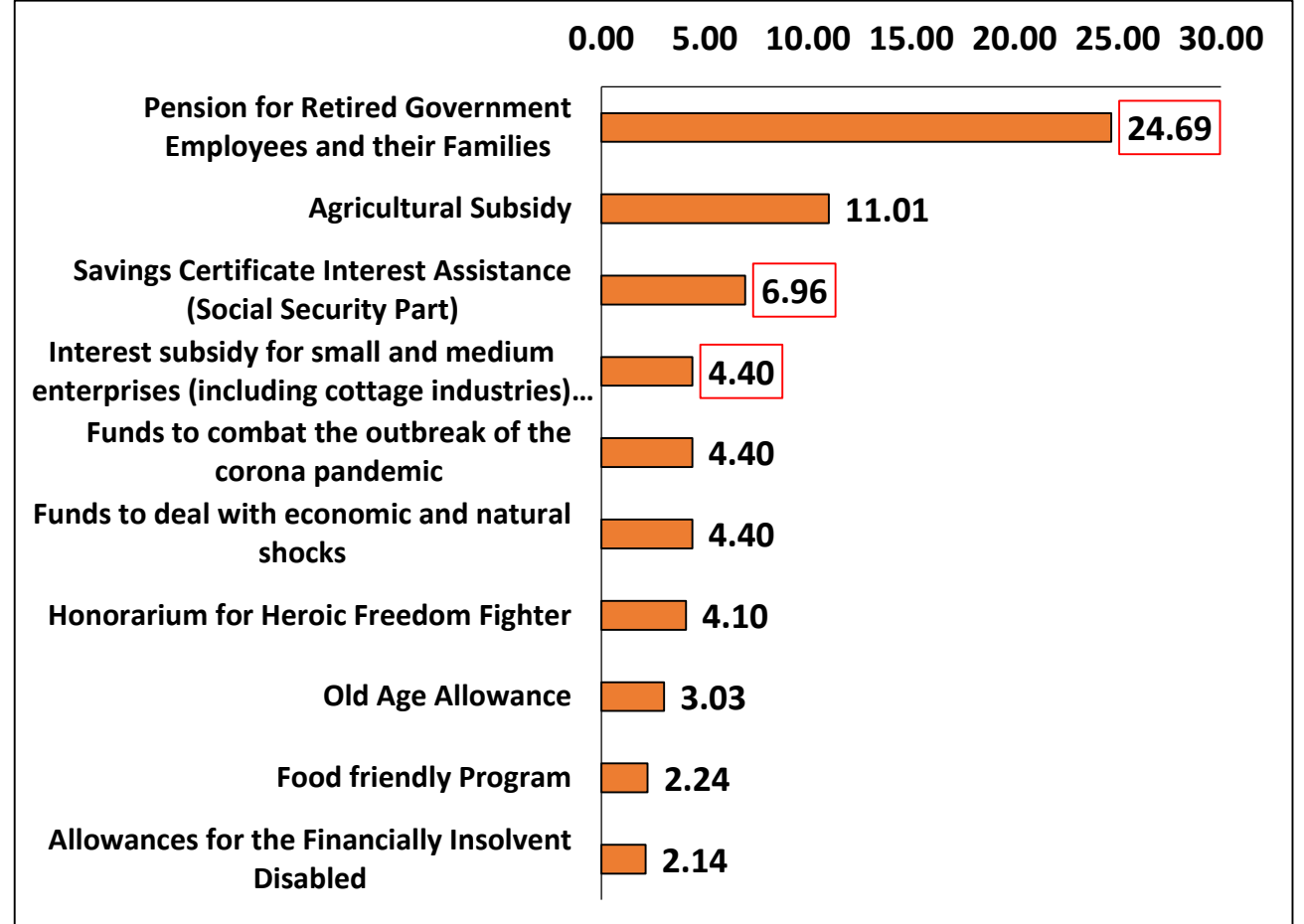
Source: Finance Division, Ministry of Finance and IMED, GoB

# Pension, Interest & Stipend as part of Safety Net (5/8)

Safety net budget and safety net development budget



Top 10 social security programs (as % of total social security allocation)



# Inequality Profile (6/8)

## Trend in Inequality

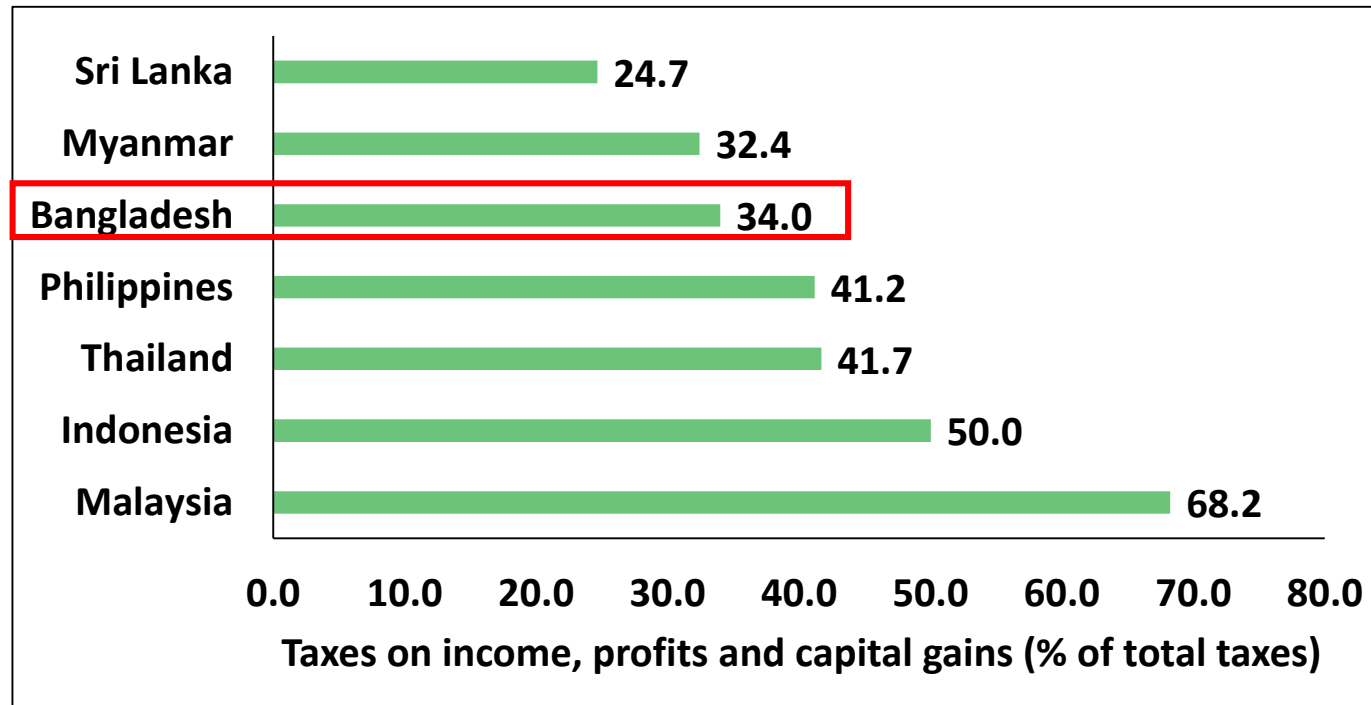
	1991-92	1995-96	2005	2016
Income Share of Bottom 40%	29.23	15.54	14.36	13.01
Income Share of Middle 50%	53.36	49.78	48	48.83
Income Share of Top 10%	17.41	34.68	37.64	38.16
<b>Palma ratio</b>	<b>1.68</b>	<b>2.23</b>	<b>2.62</b>	<b>2.93</b>

Source: 8FYP



# Income Taxation as a tool to Reduce Inequality (7/8)

## Income tax: Country Comparison



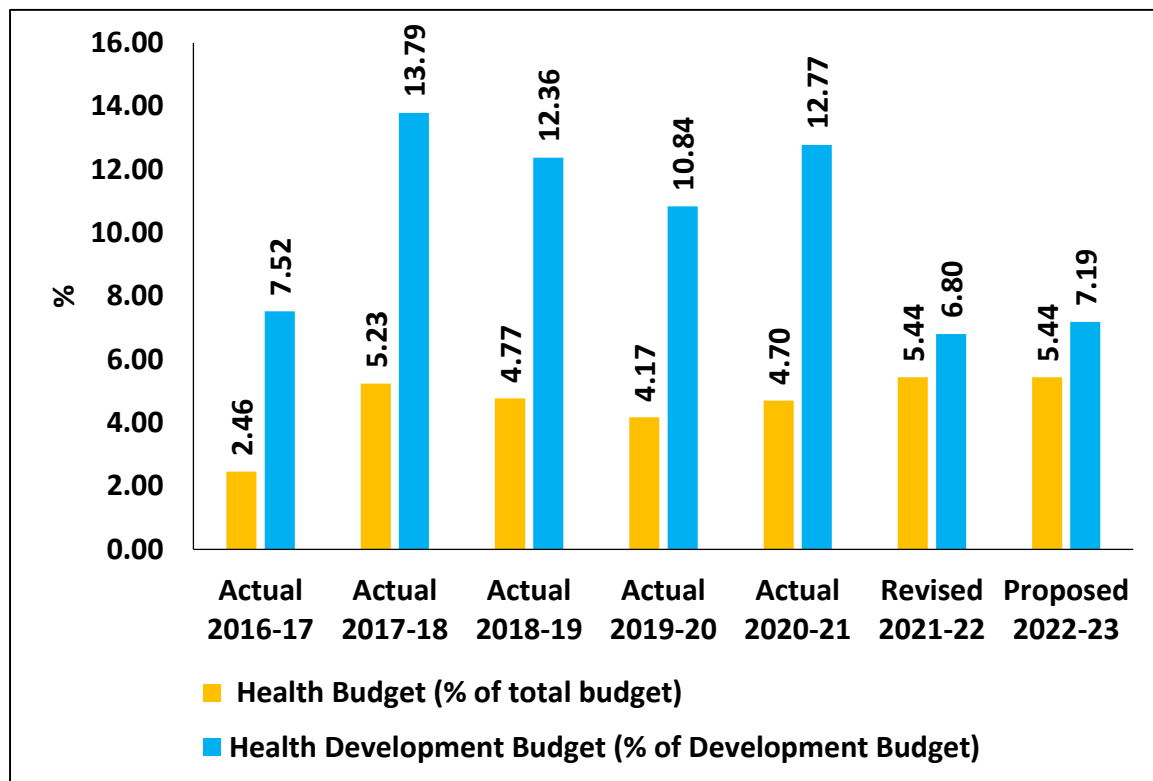
Source: WDI, World Bank (2019)

- SANEM suggests **reforming tax structure** as an instrument to reduce inequality.

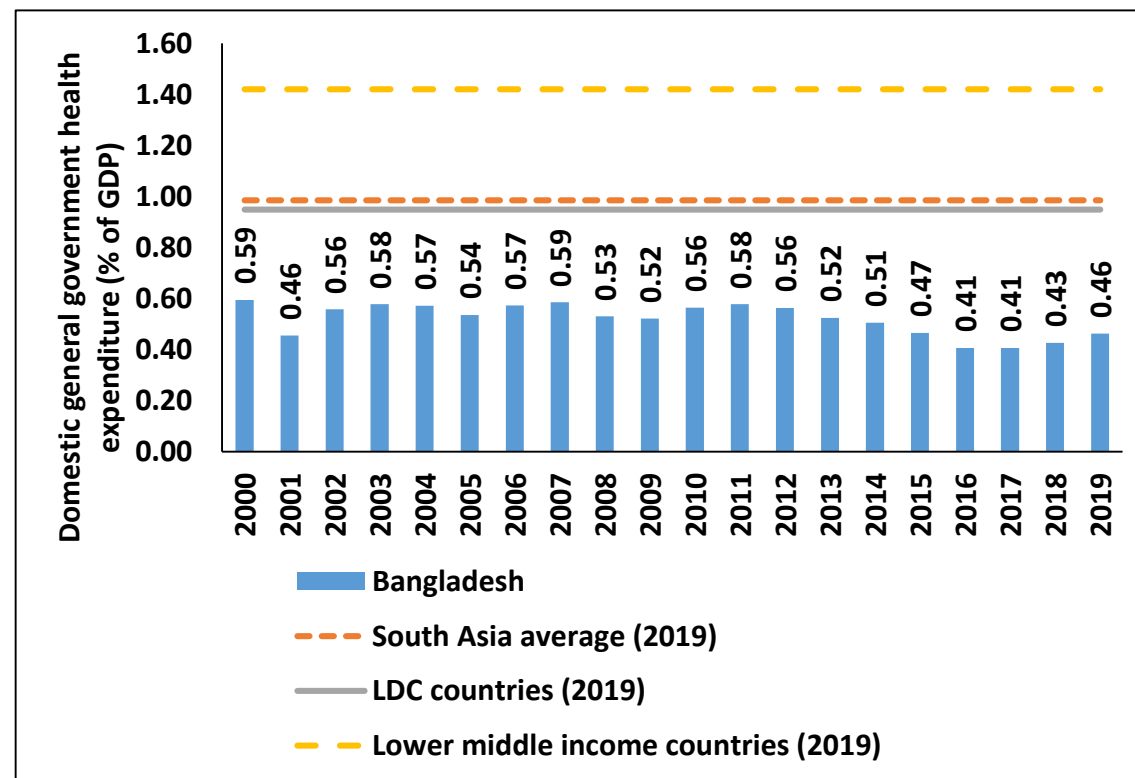
# Social Infrastructure

# Public Health Expenditure (1/8)

## Health Sector Budget as % of Budget



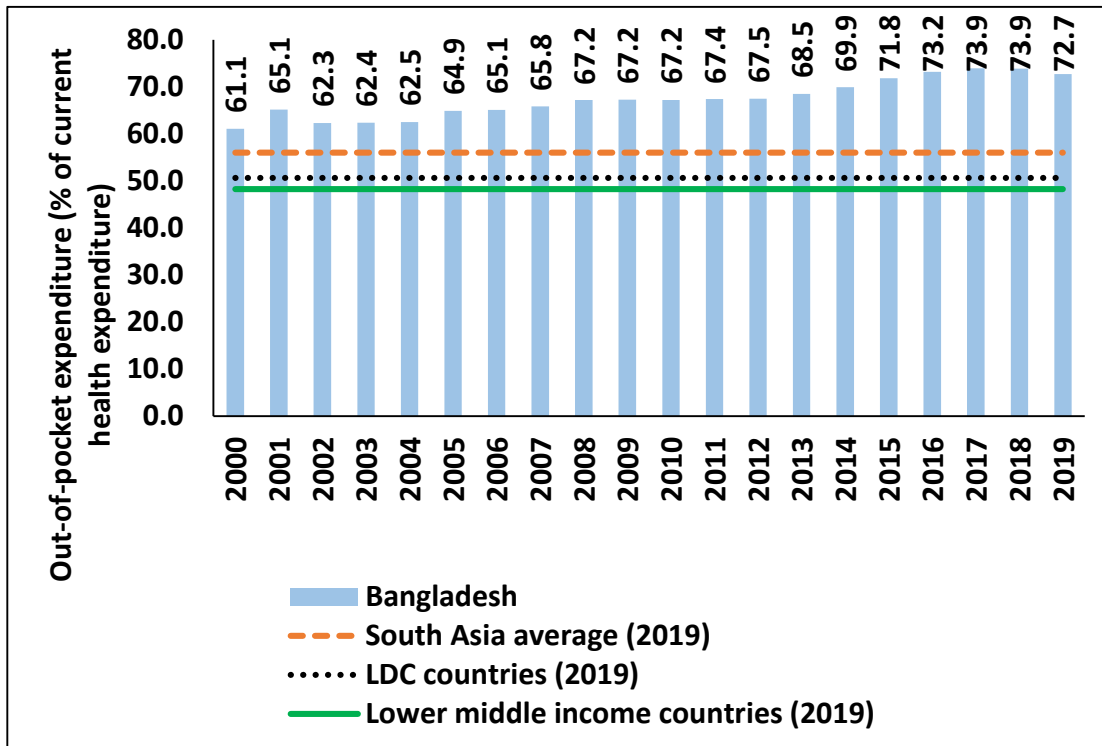
## Public Health Expenditure as % of GDP



Source: Finance Division, Ministry of Finance and WDI, World Bank

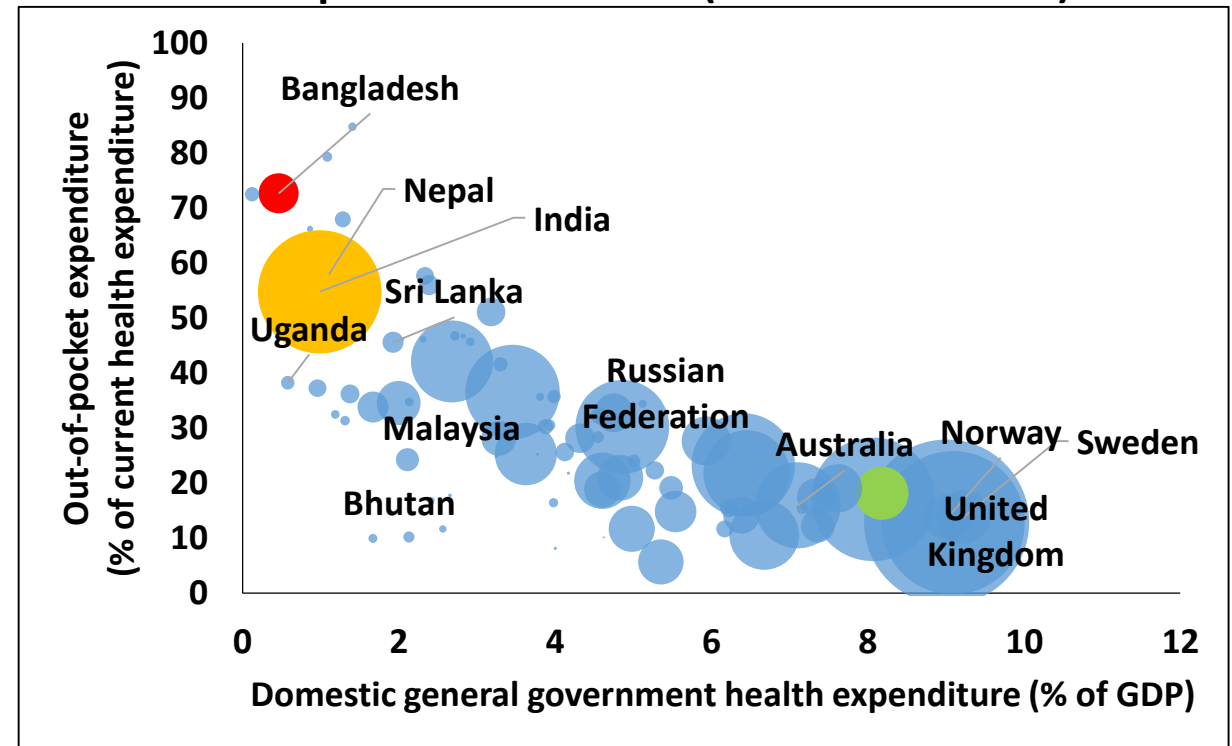
# Health Expenditure (2/8)

## Out-of-pocket Health Expenditure



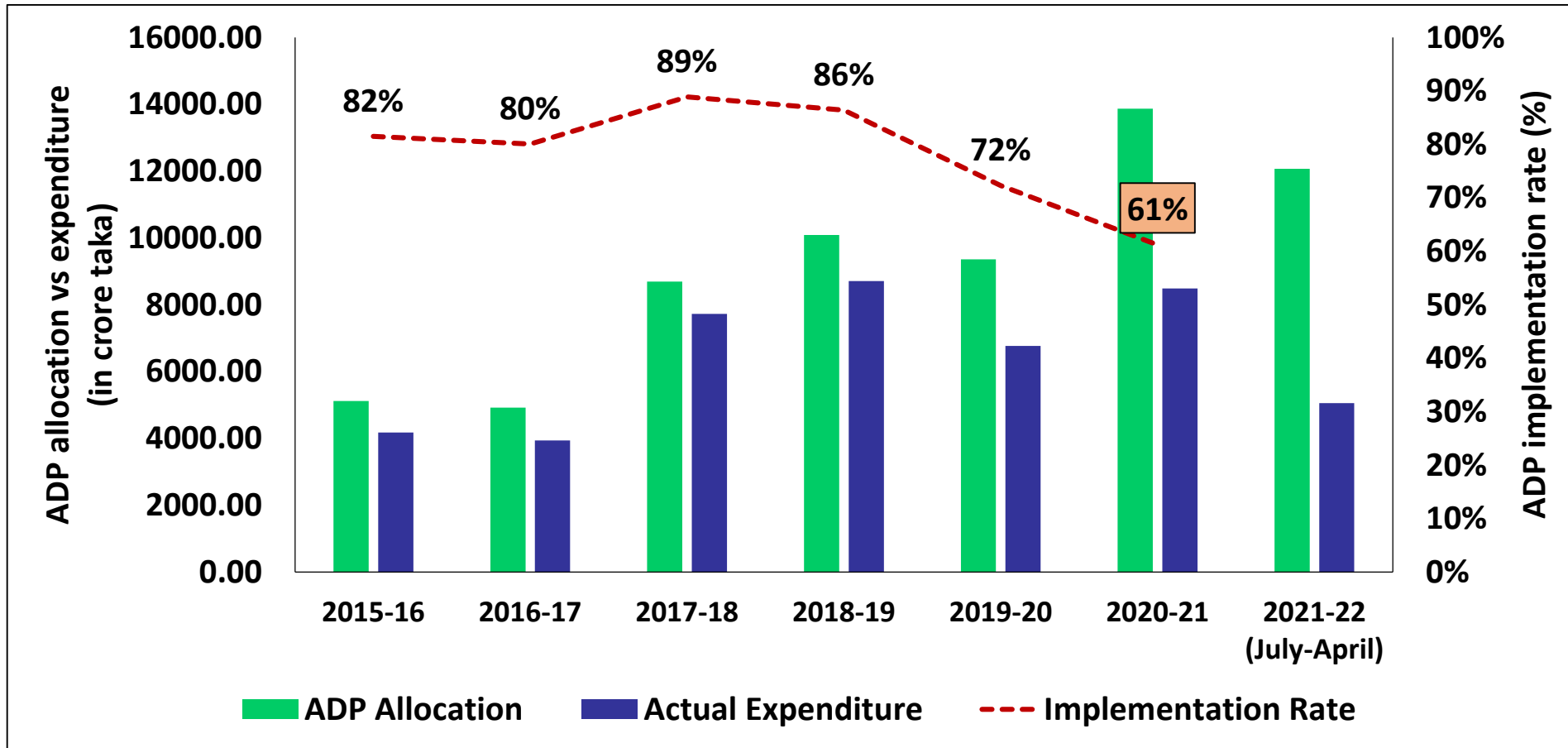
Source: WDI, World Bank

## Public Health Expenditure and Out of Pocket Expenditure of Comparator Countries\* (% of GDP in 2019)



\*Bubble size represents size of GDP

# Trend in Health ADP Allocation and Implementation (3/8)



Source: IMED, GoB

## Budgetary Initiatives for Health

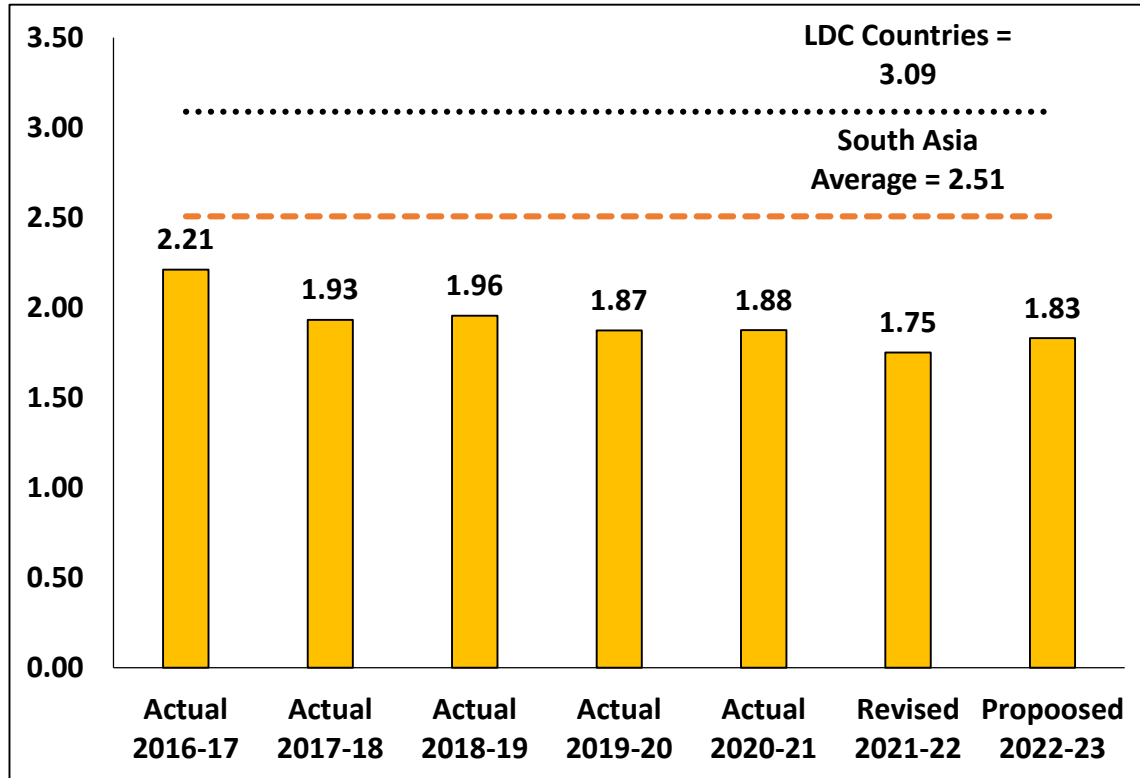
- Health allocation is around **5.4% of the total budget** in 2022-23.
- Allocation in the **Health Education and Family Welfare** increased to Tk. 75.8 billion in budget 2022-23 from Tk. 61.1 billion in revised budget 2021-22 .

## SANEM's Observations

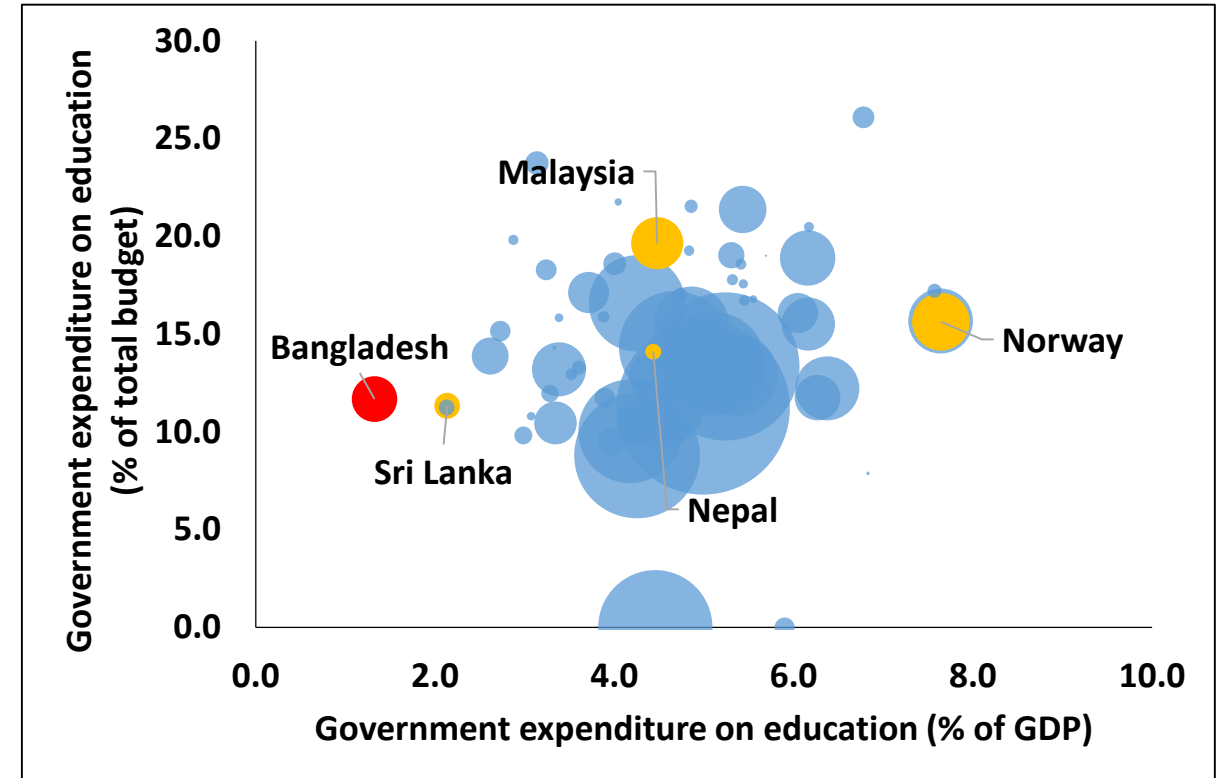
- **WHO** suggests health allocation to be **15%** of total budget.
- High burden on the “**Out-of-pocket health expenditure**” (**68%**) still remaining.

# Budget for Education Sector (5/8)

Education Budget (as % of GDP)



Education Expenditure in Bangladesh and comparator countries\* (2018)



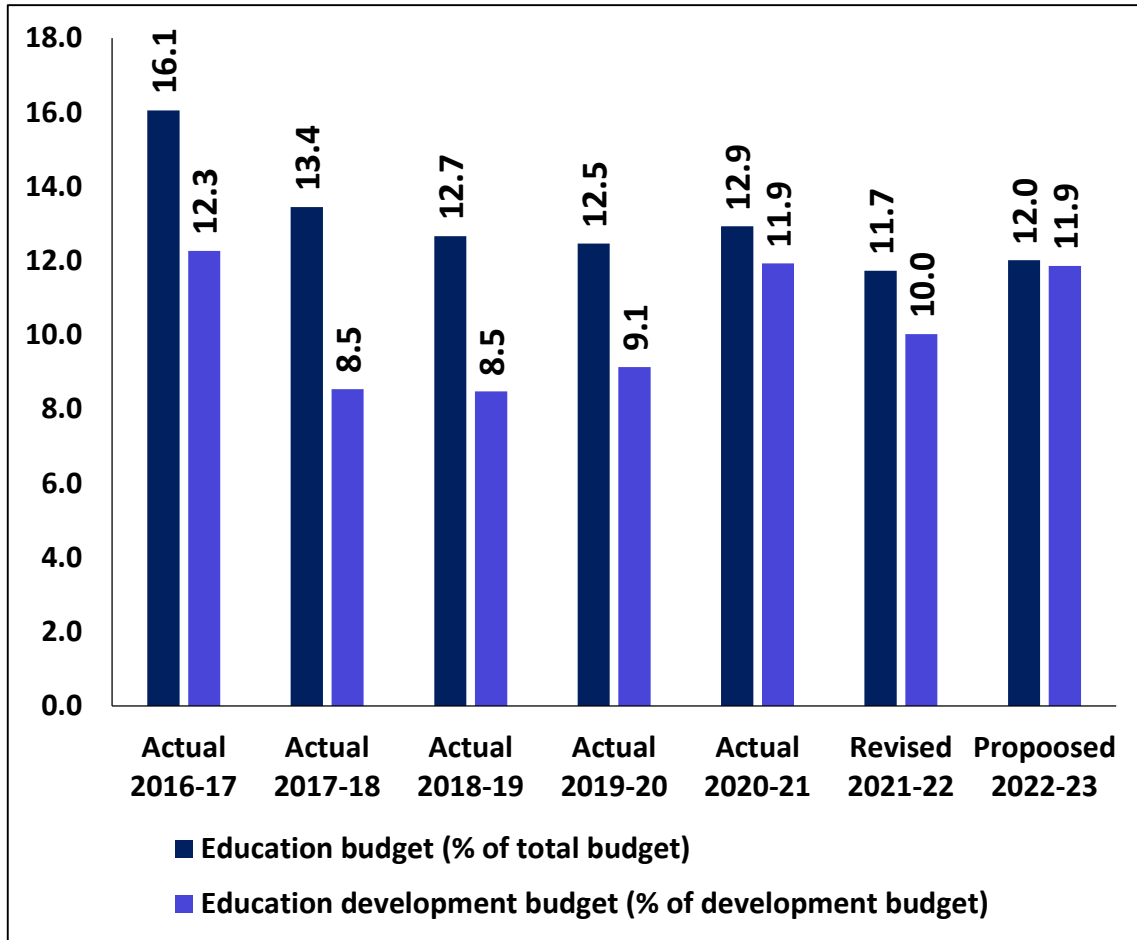
N.B. The data includes MoPME, SHED, and TMED allocation as part of education budget.

\*Bubble size represents size of GDP

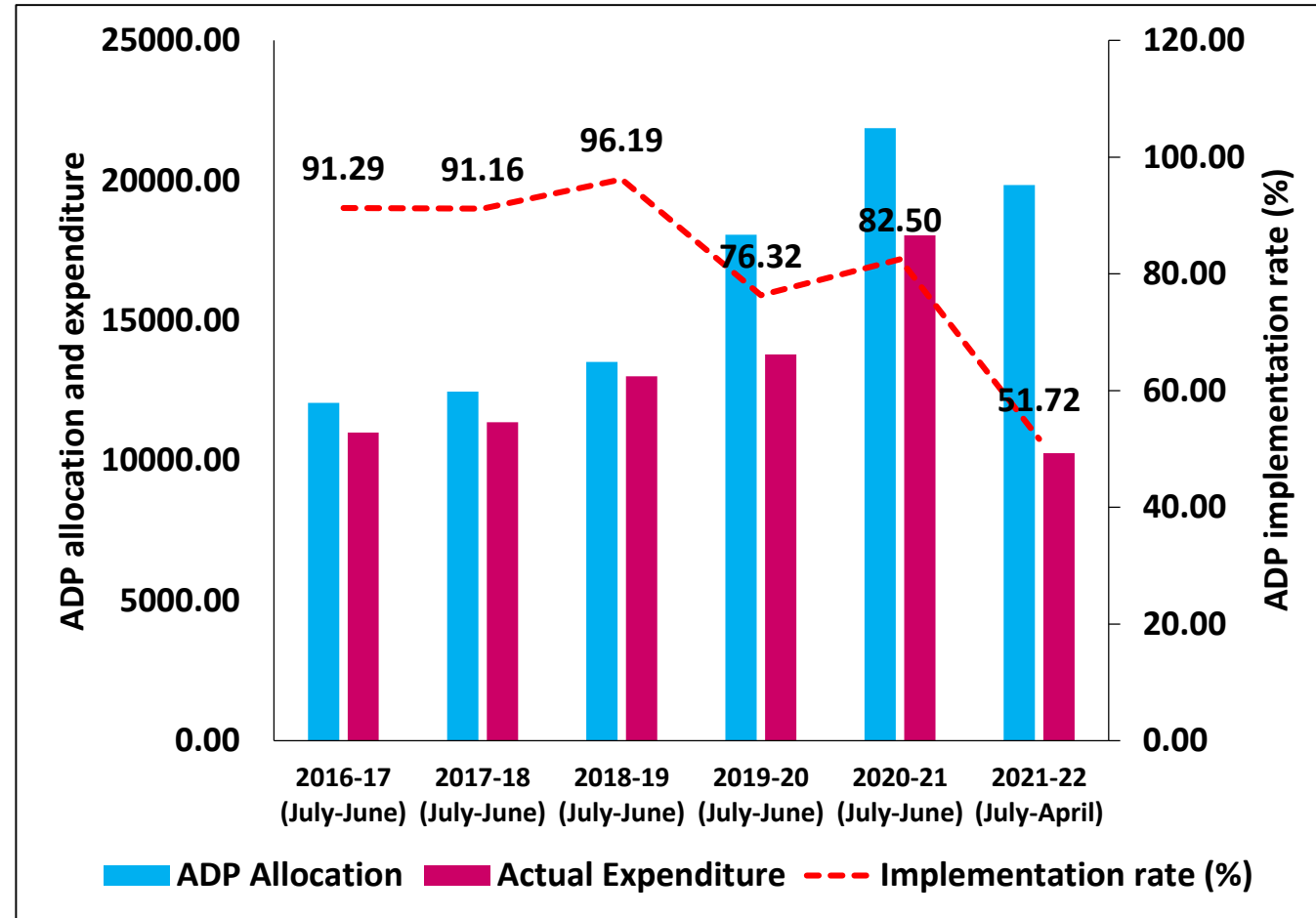
Source: Finance Division, Ministry of Finance & WDI, World Bank

# Budget for Education Sector (6/8)

Education budget and education development budget



ADP Implementation Rate in Education

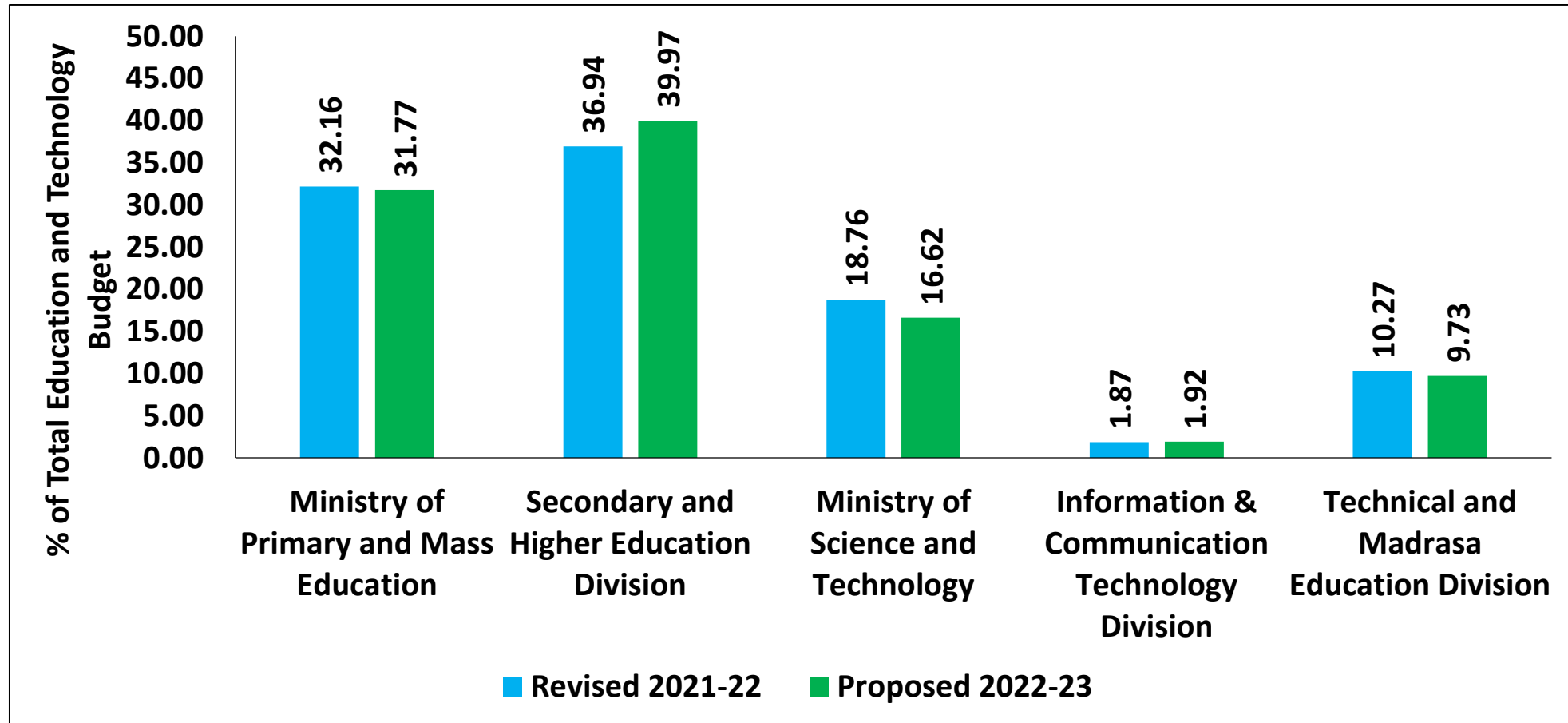


N.B. The data includes MoPME, SHED, and TMED allocation as part of education budget.

Source: Finance Division, Ministry of Finance and IMED, GoB



# Budget for Education and Technology (7/8)



Source: Finance Division, Ministry of Finance

## Budgetary Initiatives for Education

- Allocation for education is **12%** of total budget and less than **2%** of GDP).
- Allocated Tk. **814 billion** for the Ministry of Primary and Mass Education, Secondary and Higher Education Division, and Technical and Madrasa Education Division in budget 2022-23.

## SANEM's Observations

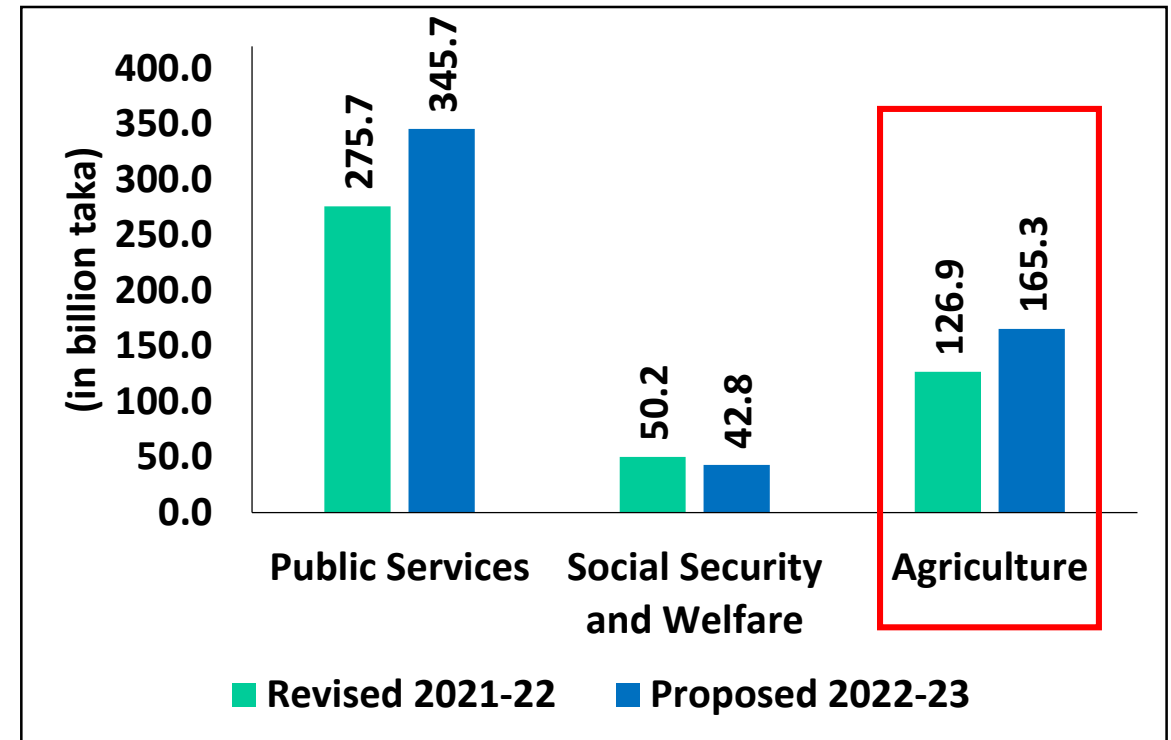
- It is far away from the **UNESCO recommendation** (20% of total budget or at least 4-6% of GDP should be allocated in education).
- Well planned guideline on **how to address the loss in learning in education due to COVID-19** is needed.

# Agriculture

# State of Agriculture Sector (1/3)

- The budget highlighted agriculture as one of its six **priority sectors**, and the second one in ranking.
- Tk. **336.98 billion** has been proposed in the budget for fiscal year 2022-2023 which was Tk. 243.45 billion in fiscal year 2021-2022.
- The government proposed to provide Tk. **160 billion as subsidy**, up from Tk. 120 billion, in the coming fiscal year.

Major Subsidies



Source: Finance Division, Ministry of Finance

## Budgetary Initiatives for Agriculture

- **Import duty was reduced from** some products (wheat gluten, sugarcane molasses) with expansion of the concession facility for some others (test kits for poultry, molasses feed grade and cane molasses feed grade, cold storage freezers).
- A **10-year tax break** has been provided to the entrepreneurs/start-ups engaged in fruits processing, vegetable processing, dairy and dairy products, baby food products and agricultural equipment manufacturing.
- The government will provide Tk. **160 billion as subsidy**, up from Tk. 120 billion in the coming fiscal year.

## SANEM's Observations

- Such initiatives are welcomed as it will help **contain inflation**.
- SANEM **appreciates** the initiatives

## Budgetary Initiatives for Agriculture

- A total of **16.5 million** farming families in the country benefited from the agricultural incentive package. So far, 3,14,000 agricultural farms benefited from the **Tk. 80 million** agricultural refinancing scheme set up to facilitate farmers to get loans.
- About **0.53 million** low-income professional farmers and small traders have so far been benefited from the Tk. 30 billion refinancing scheme for low-income professional farmers and small traders.

## SANEM's Observations

- **Utilization process** for agriculture related stimulus packages has not been satisfactory.
- Various sections regarding agriculture sector in Budget mentions cumulative data, or simply **old data**, including loans disbursement for small and marginalized farmers.

# RECOMMENDATIONS

# Recommendations (1/2)

- Detailed and **specific plan of action** should be sketched out for containing inflation.
- **Market monitoring** mechanism needs to be strengthened.
- **Both monetary and fiscal policies** need to be linked more specifically to inflation targets and macro stability.
- A **road map for employment generation** is required.
- Allocation in social infrastructure must be increased.
- **Per capita allocation** of key SSN programs should be raised and total allocation excluding pension and interest must be in line with our need.



## Recommendations (2/2)

- **Updated data base** is needed for tracking the status of key indicators, especially after COVID.
- The importance of ministry-wise **M&E exercise** cannot be over emphasized.
- Long term projects and projects with higher allocation should be opted carefully considering our development needs – detailed **feasibility study** must be conducted.
- Greater emphasis is needed in reforming the tax structure with emphasis on designing a **progressive tax structure**.

**Thank you!**