National Budget Analysis

Fiscal Year 2023-24
Date: 11-June-2023

The new budget for the FY 2023-24 has been titled "Building a Smart Bangladesh and continuing the Development Spree". The Finance Minister of Bangladesh, A H M Mustafa Kamal MP had presented the budget on 1st June 2023. The country is expected to experience increased per capita income to USD 2,962 in the upcoming fiscal year. The GDP growth rate is expected to be 7.5% and the GDP size is estimated to be USD 4,635 billion.

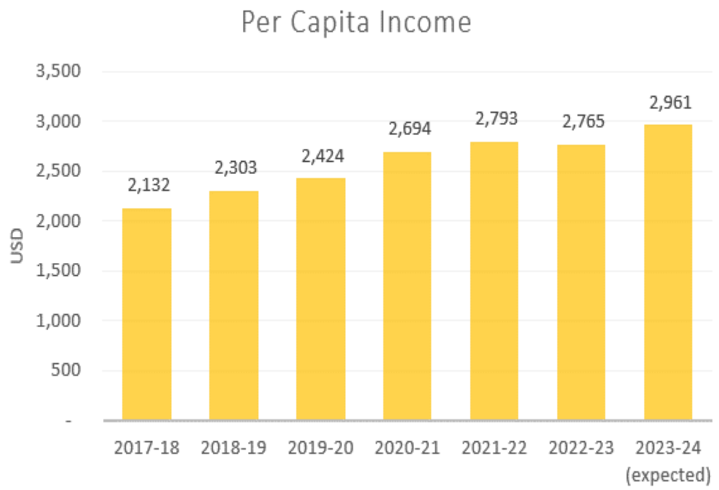
Overview of the FY 2023-24 Budget

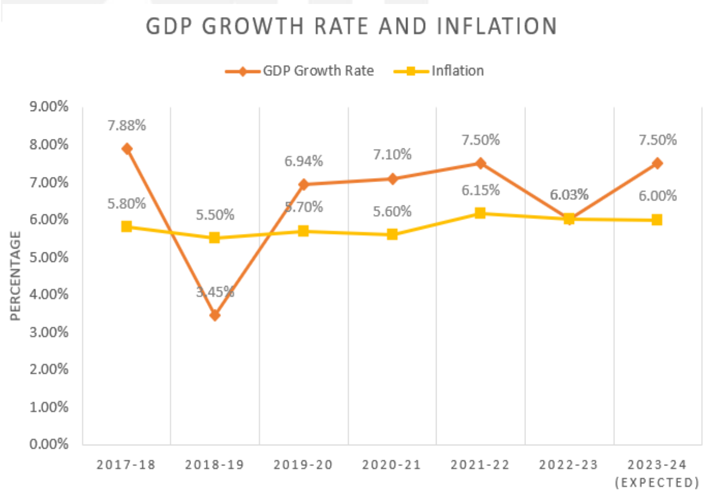
The budget size of the fiscal year 2023-24 has been given at USD 70.50 billion, with a revenue target of USD 46.30 billion and deficit of USD 23.90 billion. The budget is 5.2% of the GDP which is slightly higher than the budget of prior fiscal year 2022-23. The Annual Development Programs (ADP) is 34.50% of the budget at USD 24.40 billion, which is 15.60% higher than the previous revised budget.

- The budget deficit (USD 23.90 billion) would be sourced from – 60% from the domestic sources, and the reminder from the banking sector.
- GDP growth rate for FY 2023-24 has been expected to be 7.5% from 6.03% of the revised FY 2022-23 budget.
- Inflation has been given the top priority and is targeted to be reduced from 7.5% to 6% in the FY 2023-24.

Key Highlights of FY 2023-23 Budget

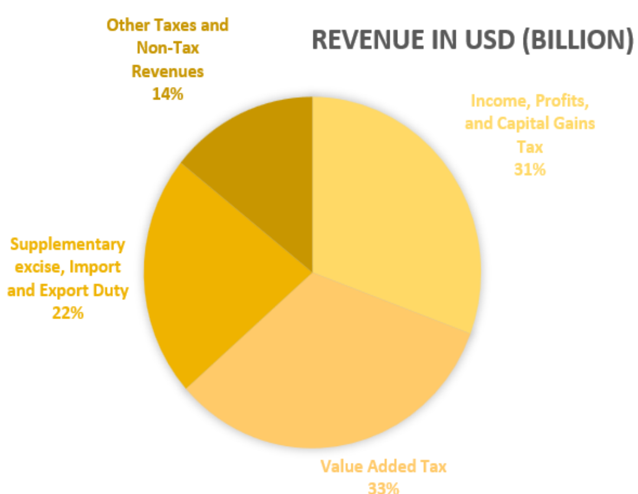
- The combination of the economic challenges and the IMF engagements has brought the attention of the Government of Bangladesh towards the broadening of the revenue base through inclusive approach. The budget focuses more on internal sourcing of revenues like VAT and other indirect internal revenue sources.
- It is a pre-election budget, so expenditure for social safety and project completion have been emphasized. Revenue have been sourced from revised taxation rates across different industries.
- Domestic manufacturing and export are given higher priority. Remittance is encouraged and non-essential imports are discouraged, which may lead to greater BoP pressures. GoB puts economic necessity first despite the FX concerns.
- Digital inclusion within the people and businesses is prioritized in the budget that is aligned with the SMART Bangladesh plan.
- Changes in the revenue collection methods involve the new Income Tax Act 2023 and others.

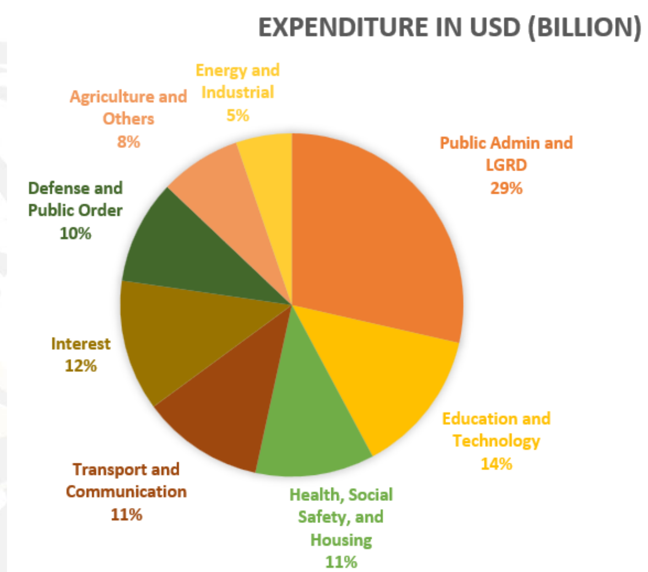


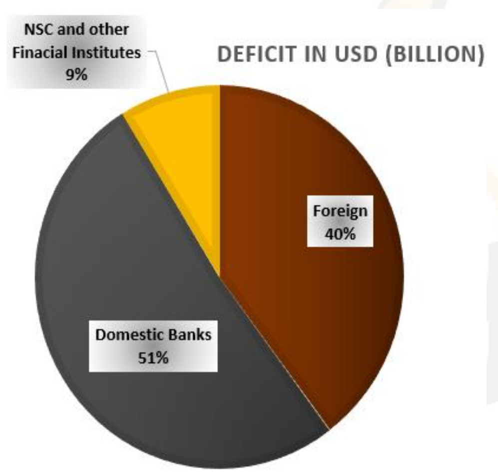


It can be observed that the per capita income has an inclining trend over the years, indicating economic growth and increasing purchasing power of the general population of Bangladesh. It is further expected that the per capital income shall rise further to USD 2,61 in the new fiscal year 2023-24. On the other hand, the GDP has been moderately stable during the pandemic period (2019 till 2022) but due to economic constraints, the growth rate had fallen slightly in the previous fiscal year 2022-23. But the changes in the fiscal and monetary policies aim to yield in 7.5% growth rate of the GDP. The inflation rate has been moderately stable over the years at a high rate of above 6%. The budget aims to reduce and control the inflation rate down to 6.00% in FY 2023-24, although the GoB aims to increase the FX reserves and long-term benefits. It is rather a challenging endeavor to accomplish.

Budget Allocation and Financing Sources







	USD (Billion)
Total Budget	70.50
Revenue	46.30
Deficit	23.90
Annual Development Program (ADP)	24.40

The total budget for the FY 2023-24 has been increased to USD 70.50 billion, which is 11.80% higher than the previous fiscal year's budget. The funds for financing the expenditures shall be acquired through revenues and borrowing.

Revenue	**USD (billion)**	**Growth Rate**
Income, Profits, and Capital Gains Tax	14.20	22%
Value Added Tax	15.20	12%
Supplementary excise, Import and Export Duty	10.30	10%
Other Taxes and Non-Tax Revenues	6.60	12%
Deficit	USD (billion)	Growth Rate
Foreign	9.50	22%
Domestic Banks	12.30	15%
NSC and other Financial Institutes	2.10	8%
Expenditure	USD (billion)	Growth Rate
Public Admin and LGRD	20.10	26%
Education and Technology	9.60	22%
Health, Social Safety, and Housing	7.90	11%
Transport and Communication	8.10	20%
Interest	8.70	5%
Defense and Public Order	6.90	15%
Agriculture and Others	5.40	13%
Energy and Industrial	3.70	28%

The revenues are expected to be collected through income, profit, and capital gains taxes, value added taxes, supplementary excise and export duty, as well as other tax and non-tax revenues of the government. The deficit in the budget shall be funded through borrowings from foreign sources, NSC and non-bank institutes, and mainly from the domestic banks.

The expenditure of the government involves sectoral investments for non-development, development, and other expenses.

Sector-Wise Expenditure

Start-up Business

- A special allocation of BDT 1 billion for startups.
- Refinancing schemes and relaxed collateral for CMSMEs and women-owned businesses.
- Benefits of prior budget to be same.

Tabacco

- GoB has revised the pricing of the 10-stick cigarettes.
- Supplementary duties increased for low segment to 58% and kept same for others.
- Price has increased for all segments.
- Customs duty on electrical cigarettes increased to 25%.
- SD on imported cigarette paper increased to 150%.

Other Industries

- GoB has proposed to reduce the import duty of Turbo Jet Engine down to 0%.
- VAT has been increased from 5% to 7.5% for kitchen towels, tissues, etc.
- Containers are exempted from taxes.
- Benefits offered to the International Residential Hotels have been revoked.

Telecommunication

- No change in tax rate on turnover of 2% and corporate tax 40%.
- VAT exemption on computers, laptops, desktops, etc.
- VAT exemption of further 5% on the production stage of optical fiber cable.
- 5% VAT on software production and customization and 25% CD and 15% VAT on imported software.
- 2% to 2.5% VAT on Mobile phone manufacturer.

Banks, Financial Institutions, and MFs

- GoB aims to launch digital bank.
- VAT exemption on production stage of anti-malarial and anti-tuberculosis medicines.
- VAT exemption for LABSA extended.
- MoF proposed to introduce 100 new anti-cancer and 3 anti-diabetic medicines' raw materials.
- MoF has added silicon tube that shall reduce cost of production for medical supplies.

Consumer Durables

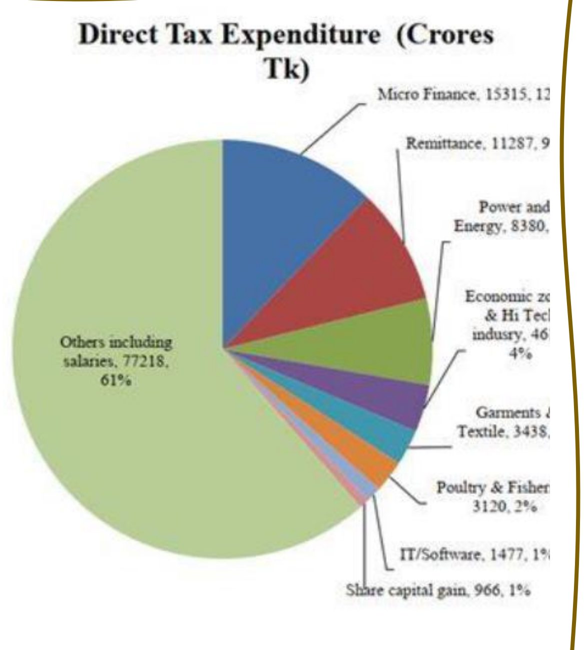
- New customs duty of 15% on lift and skills hoists.
- VAT exemption on production of refrigerators and freezers.
- VAT exemptions on the production of other appliances.

Power and Fuel

- Power generation capacity increased to 26,700 MW.
- GoB plans to set up 34 new power plants to increase power capacity.
- Signing agreement to import 500 MW electricity from hydroelectric power plant construction with Nepal.
- GoB proposed 7.5% VAT on LPG cylinders.

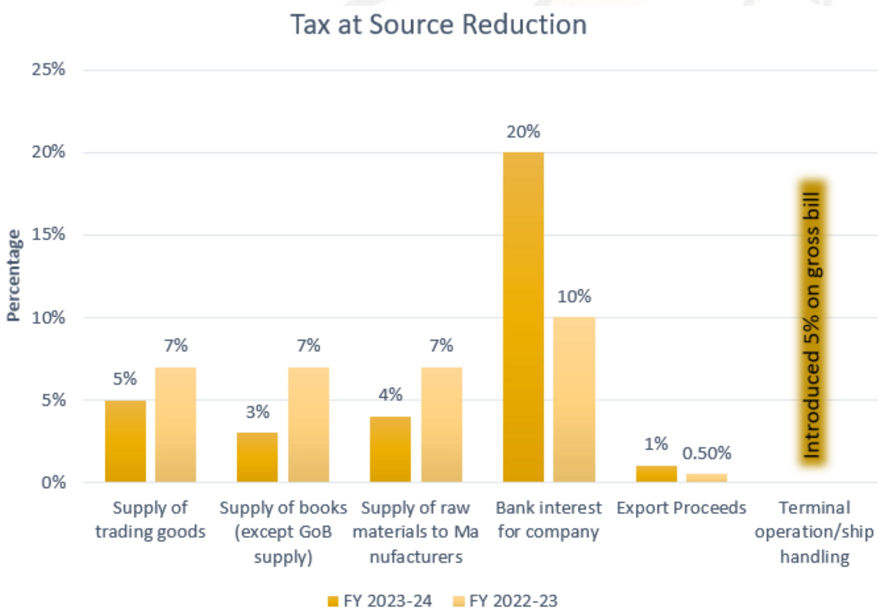
Construction Material and RMG

- GoB proposed 3% source tax on locally produced 33 to 500 KV cables to 7%.
- Increase in rate of duty of cement clinker by BDT 200 per metric ton and BDT 200 for commercial importers.
- Tax rate reduced to 5% for raw material import.
- Withdrawal of full exemption and impose 5% VAT on local manufacturing stage.



GoB Introduces Direct Tax Expenditure

- GoB has proposed the concept of 'direct tax expenditure' that would be added to the total subsidies in the future. This involves rebates, discounts, and exemptions.
- The estimated budget for the Direct Tax Expenditure has been USD 17.82 billion, based on the NRB figures.



The tax at source has been reduced for supply of trading goods, books, raw materials to boost the manufacturing sector of Bangladesh. But the bank interest rate has been doubled to refrain lending. The tax on export proceedings have been doubled to limit exports. This has been done in attempt to control the inflationary rates.

Income Tax Act 2023

- Reduces official discretionary power
- Accounting methods, concepts, auditing practices, provision related to capital gains, etc.
- Simplifies the tax filing, return processing, and auditing practices.

Changes in Tax Rates

Tax Rate for Companies	Existing FY 2022-23	Failure to Comply with Condition	Proposed Tax Rate 2023-24
Publicly traded company that transfer more than 10% of its paid	20.00%	23%	Same
up capital through IPO	22.50%	25%	Same
Publicly traded company that transfer 10% or less than 10% of its paid-up capital through IPO	2.00%	30%	Same
Non publicly traded company	27.50%	25%	Same
One person company	22.50%	N/A	Same
Publicly traded bank, insurance, and financial institution (except merchant bank)	37.50%	N/A	Same
Non publicly traded bank, insurance, and financial institution	40.00%	N/A	Same
Merchant Bank	37.50%	N/A	Same
Company producing all sorts of tobacco items including bidi, cigarette, chewing tobacco and gul	45% + 2.5%	N/A	Same
Publicly traded mobile operator company	40.00%	N/A	Same
Non-Publicly traded mobile operator company	45.00%	N/A	Same
Association of persons	27.50%	30%	Same
Artificial juridical person and other taxable entities	27.50%	30%	Same
Private university, private medical, private dental and engineering college of private college solely dedicated to imparting education on ICT	15.00%	N/A	Same

The taxation and the conditions of the rates have been kept the same for Budget FY 2023-24, which means that no additional financial obligations shall be imposed on the companies and enterprises. This indicates that the government wishes to boost economic growth and GDP.

The Tax rules on capital gain and dividend gained from investing in listed companies remain unchanged. To additional communication of the capital market has been made in the budget.

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