

## Bangladesh Budget 2022-23: Modest cigarette price increases will not achieve significant revenue and health benefits

The National Budget for fiscal year 2022-2023 was approved in the Bangladesh Parliament on June 30<sup>th</sup> and took effect July 1, 2022. While there are some positive changes in the budget to improve social welfare and the overall health sector, the reform of the cigarette excise tax falls short. The approved tax structure will result in relatively lower government revenue and only a small improvement in positive health impacts due to reduced consumption.

Over the years, there has been strong demand from economists and public health experts to reform the tax structure and switch to a specific tax system. However, in the approved reform, Bangladesh has maintained its historical 4-tiered ad valorem system with a minor price increase. It is far from the best practice and may slow down the decline in tobacco consumption.

### KEY POINTS

- The recently approved increase in cigarette prices is not enough to achieve significant revenue and health benefits:
  - Cigarettes will become more affordable.
  - Total tax revenue will increase only by a small amount, and smoking prevalence will go down only by 0.27%.
  - In contrast, under the reform in Figure 1 below, the total revenue would have increased by 30% and prevalence would have decreased by 1.05% points.

**Table 1: Consumer prices of cigarettes, BDT per pack of cigarettes**

| Cigarette type | 2021 – 22   |           |                | 2022-23 (Budget) |           |                | % Change in Nominal Prices (Budget) | Experts' Proposed Prices | % Change in Nominal Prices (Experts' Proposal) |
|----------------|-------------|-----------|----------------|------------------|-----------|----------------|-------------------------------------|--------------------------|--|
|                | Final Price | Total Tax | Excise Tax (%) | Final Price      | Total Tax | Excise Tax (%) |                                     |                          |  |
| <b>PREMIUM</b> | 135         | 109.35    | 65             | 142              | 115.02    | 65             | 5.2%                                | 152                      | 12.6%  |
| <b>HIGH</b>    | 102         | 82.62     | 65             | 111              | 89.91     | 65             | 8.8%                                | 120                      | 17.6%  |
| <b>MEDIUM</b>  | 63          | 51.03     | 65             | 65               | 52.65     | 65             | 3.2%                                | 73                       | 15.9%  |
| <b>LOW</b>     | 39          | 28.47     | 57             | 40               | 29.20     | 57             | 2.6%                                | 50                       | 28.2%  |

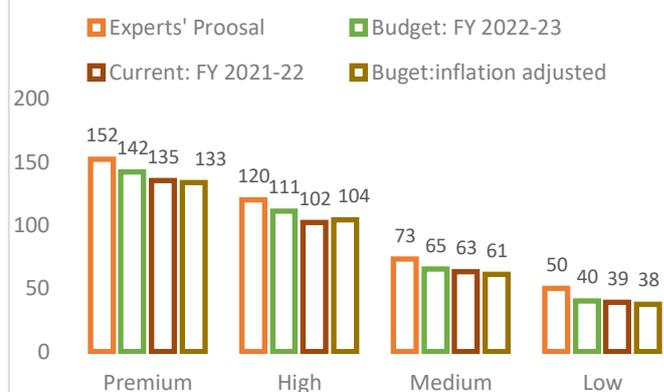
Sources: Budget Speech, 2022; National Board of Revenue, Ministry of Finance, Government of Bangladesh; and authors' calculations based on Bangladesh Tax Simulation Model.

Using a tax simulation model, this policy brief assesses the expected impact of tax and price increases on cigarette consumption, tax revenues, and health outcomes. In doing so, this policy brief discusses the potential opportunities lost by the government. This policy brief also compares the effects of the approved tax increase to the effects of [experts' alternative proposal](#) – a proposal developed by a large group of prominent organizations promoting improved public health and public finance.

### Tobacco tax in budget and experts' proposal

According to the budget, the tax rates have remained at 65% in the medium, high, and premium tiers and 57% in the low tier. The price increased by 2.6%, 3.2%, 8.8%, and 5.2% in the low, medium, high, and

Figure 1: Cigarette prices in Budget (FY 2022-23) compared to experts' proposal



premium tiers. (Figure 1). The experts' proposal recommends increasing prices by 28.21%, 15.87%, 17.65% and 12.59% for low, medium, high, and premium tiered cigarettes respectively; it also recommends higher tax rates.

## The decrease in real price will make cigarettes more affordable.

These changes do not keep pace with inflation<sup>1</sup> (5.99%) or account for the expected income growth<sup>2</sup> (7.25%) of 2021-2022. The real prices of cigarettes in the low, medium, and premium tiers (accounting for 91% of total cigarette sales) will be lower in 2022-23 than in 2021-22 (see Figure 1). In addition, high income growth will add to people's purchasing power, making cigarettes more affordable. Overall, reducing cigarette prices relative to inflation and income growth will encourage cigarette consumption and counteract the success of other non-price tobacco control measures in reducing smoking at the population level.

## There is no foreseeable health gain from the current budget.

The approved price increases are expected to raise the nominal price of cigarettes by 6.1% on average (slightly above the rate of inflation of 5.7%) and may induce some current smokers to quit cigarette smoking. The adult cigarette smoking prevalence is expected to drop minimally from 15.1% to 14.8% resulting in about 227,000 fewer premature deaths in current and future smokers over their lifetime. Had the experts' proposal been adopted, smoking prevalence would have decreased to 14.0% and 900 thousand deaths could have been avoided over the lifetime of current and future smokers. In addition, the experts' proposal would have resulted in a

**Table 2: Impact of current (Budget 2022-2023) and the proposal tax on total cigarette sales and government revenue**

| Cigarette price tier | 2021-2022                        |                                  | 2022-2023 (Experts' Proposal)   |                                 |                                    | 2022-2023 (Budget)              |                                 |                                    |
|----------------------|----------------------------------|----------------------------------|---------------------------------|---------------------------------|------------------------------------|---------------------------------|---------------------------------|------------------------------------|
|                      | Sales, million packs (estimated) | Revenue, billion BDT (estimated) | Sales, million packs (expected) | Revenue, billion BDT (expected) | % Change in revenue from 2021-2022 | Sales, million packs (expected) | Revenue, billion BDT (expected) | % Change in revenue from 2021-2022 |
| <b>LOW</b>           | 5,281.92                         | 152.44                           | 5,139.48                        | 210.72                          | 38.23%                             | 5,282.21                        | 156.35                          | 2.57%                              |
| <b>MEDIUM</b>        | 591.52                           | 30.56                            | 575.56                          | 34.45                           | 12.75%                             | 591.55                          | 31.53                           | 3.18%                              |
| <b>HIGH</b>          | 614.70                           | 51.41                            | 657.51                          | 64.70                           | 25.84%                             | 668.52                          | 60.85                           | 18.35%                             |
| <b>PREMIUM</b>       | 626.49                           | 69.35                            | 670.12                          | 83.52                           | 20.43%                             | 681.34                          | 79.34                           | 14.40%                             |
| <b>TOTAL</b>         | 7,114.62                         | 303.76                           | 7,042.68                        | 393.40                          | 29.51%                             | 7,223.62                        | 328.07                          | 8.00%                              |

Sources: Budget Speech, 2022; National Board of Revenue, Ministry of Finance, Government of Bangladesh; and authors' calculations based on Bangladesh Tax Simulation Model

## Cigarette sales are expected to increase, with minimal revenue gain.

Cigarette sales volume is expected to increase by 109 million packs. In contrast, had the experts' proposal been adopted, cigarettes would have become less affordable, discouraging cigarette consumption and reducing cigarette sales by 71.9 million packs.

The total tax revenue (inclusive of supplementary duty, VAT, and the health development surcharge) is expected to increase from nearly 304 billion BDT to approximately 328 billion BDT. Had the experts' proposal been adopted, the revenue gain would raise the total revenue collection to as high as 393 billion BDT. Thus, the government is missing an opportunity for substantial revenue gain, which could have been useful in reducing the strain on the deficit budget.

reduction in the number of adult smokers four times higher than expected under the approved budget (2.2 million vs. 550 thousand), which would have saved a significantly larger amount of health costs in future.

## Conclusion

The increases in cigarette prices approved under the new budget fall short of the minimum increase required to reduce cigarette affordability. While the price increase is a welcome move, it is unlikely to contribute to any progress towards achieving a Tobacco-Free Bangladesh by 2040, an expressed goal of the government.

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<sup>1</sup> Bangladesh Bank (<https://bb.org.bd/en/index.php/econdata/inflation>)

<sup>2</sup> BBS (as mentioned in <https://bdnews24.com/economy/2022/05/10/bangladeshs-gdp-growth-estimated-at-7.25-in-fy22-bbs>)