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Budget implementation in a quagmire: Message for FY 17

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Media reports indicate that the Finance Minister is once again going to propose an ambitious budget for the Fiscal Year 2016-17 (FY 17). I have genuine sympathy for the Finance Minister's desire. The reason is that central government expenditure as proportion of gross domestic product (GDP) in Bangladesh is the lowest among all the East/Southeast/South Asian countries (Table 1).

Yet, the country fails to implement the budget every year. This is not merely because of poor revenue collection which is also the lowest in Bangladesh. Perhaps even a more important explanation lies in the failure of the various agencies of the government to spend the resources allocated to them.

This is reflected in the persistently lengthening pipeline of unutilised foreign aid as well as the realised budget deficit as proportion of GDP falling short of the budgeted figure every year. Even the most ardent proponents of market-oriented economic systems would admit that the Government has an important role to play in any economy.

The Government has to be a provider of public goods (e.g. defence, maintenance of law and order, judicial service, etc.) as well as merit goods (such as health and education).

It has to be a regulator to prevent/ameliorate abuse of market power by the private sector (e.g. exploitation of consumers through collusive pricing or of workers by offering low wages), to ensure quality standards of products and to minimise damage to environment.

In addition, issues such as ensuring macroeconomic stability, poverty alleviation, reasonably equitable income distribution and provision of social safety net require government intervention.

Finally, the government has to play the role of a facilitator to assist the private sector in accelerating investment and economic growth, specially through provision of adequate and affordable infrastructural services, energy and business-friendly environment. The performance of these functions warrants increase in government expenditure in Bangladesh.

However, the past experience clearly shows that the policy makers do not take into account the serious limitations of administrative capacity both on the revenue and expenditure side. In this

context, I may mention that I wrote a paper published in The Daily Star on April 28, 2014 in which I suggested that the reasonable budget size for FY 15 should be TK. 2349 billion (2,34,900 crores).

The Government proposed a budget of TK 2505.506 billion (2,50,506 crores) which was revised downward to TK (2,39,668 crores) while presenting FY 16 budget. Typically, the actual outcomes turn out to be lower than the revised estimates. I am, therefore, sanguine that the final number relating to total actual expenditure for FY 15 will be lower than even what I had suggested. Similar comments also apply with respect to FY 16 budget.

I wrote a paper published in The New Nation on May 07, 2015 in which I estimated that TK 2730 billion (2,73,000 crores) could be a reasonably pragmatic size.

The Government announced a budget of TK 2951 billion (2,95,100 crores) and has already revised it downward to TK. 2645.65 billion (2,64,565) considerably lower than my estimate. It is also worth noting that the gap between budget figures and actual realisation in respect of some critical indicators has been swelling (Table 2).

Table 2: Implementation of selected budget targets (Cron taka)

	FY 12		FY 13		FY 14		FY 15	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Expenditure	153,588	152,428	197,738	174,513	222,495	188,208	254,506	253,597
NBR Tax Revenue	31,870	31,395	119,258	107,452	136,389	111,423	149,759	136,796
Non-tax Revenue	22,800	18,485	22,848	20,676	26,240	24,343	27,862	17,579
ADP	46,000	37,308	85,000	49,474	65,870	55,333	80,215	68,532

Source: Ministry of Finance, Budget in Brief, various issues

In light of the above, the message that becomes loud and clear is that FY 17 budget should be prepared taking into account the ground realities. But, the information available so far indicates that this expectation will remain unfulfilled.

For example, total expenditure, tax revenue collection by the National Board of Revenue (NBR) and the Annual Development Programme (ADP) likely to be proposed will exceed revised FY 16 estimates by 28.7 per cent, 33.5 per cent and 24.1 per cent respectively. These are obviously unreachable heights.

Taking into account the recent experience of budget implementation and at the same time incorporating a reasonable degree of ambition I would venture to suggest that FY 17 budget size should be limited to TK 3090 billion (3,09,000 crores).