



VISUAL: STAR

Managing the politics of budget-making



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The presentation of the national budget is an important annual event. The government conducts numerous consultation sessions with a wide-ranging group of stakeholders. Many views, hopes, aspirations, and criticisms are exchanged through this consultation process. In the end, the budget that is approved by the parliament is a political document. In an election year, the politically-determined contents of the budget get added prominence. This is not unique to Bangladesh.

Yet, the forthcoming national budget for FY2023-24 cannot be a business-as-usual budget and needs some deft management in view of the ongoing macroeconomic instability, the requirements of the IMF loan, the uncertain global economic and financial environment, and the risk of derailing medium-term growth prospects.

Being political in nature, budget-making is an art and not a science. Even so, it must take into account the prevailing socioeconomic realities and the implementation experience of the recent budgets.

The budget means different things to different people. In the process, there is a risk that the focus and core messages of the budget might get diluted. The current macroeconomic situation is uncomfortable. Inflation is high, difficulties regarding balance of payments persist with a continued loss of foreign exchange reserves, volume of import is constrained, tax revenues as a share of GDP are low, and fiscal deficits have been increasing. These factors suggest that the main focus of the FY24 budget must be on economic stabilisation.

In this environment, doing an expansive budget financed by rising fiscal deficits using bank borrowings will be a hugely negative approach. While there are many unmet development needs owing to resource constraints, the prevailing macroeconomic instability requires an austere budget that is focused on reducing the demand pressure on inflation and balance of payments. Attempts to finance higher spending through bank-financed fiscal deficits will simply fuel further inflationary pressure and contribute to import pressure on the dwindling forex reserves.

Target for fiscal deficit: Research shows that fiscal deficit as a share of GDP has been rising steadily from a low of 1.1 percent of GDP in FY14 to an estimated 5.3 percent of GDP in FY23. While the fiscal deficit of 5.3 percent of GDP is not excessively high, in the present context of high inflation, a rising fiscal deficit is not consistent with the task of reducing demand. Given this situation, it will be prudent to limit the fiscal deficit within five percent of GDP in the forthcoming FY24 budget.

Financing of fiscal deficit: Data shows that over the past two fiscal years, there was a progressive increase in the recourse to bank financing of the fiscal deficit. Indeed, the average growth of credit to the government has been in the 30 percent range since June 2021. This has added to

the growth of total credit at a time when the rate of credit expansion should be curbed to fight inflation. For the FY24 budget, all efforts should be made to use low-cost domestic and foreign borrowing to finance the deficit. Establishing a well-functioning T-bill market with access to the general public will help reduce the demand pressure of the budget deficit.

Resource mobilisation: The inability to introduce meaningful tax reforms over the past several years has constrained tax revenue mobilisation. Tax revenue as a share of GDP has been virtually stagnant at around 7-7.5 percent of GDP. Ad-hoc tax measures announced during the budget seasons have failed to make a dent in the resource mobilisation effort.

Meaningful reforms require an overhaul of the tax system that involves major institutional changes in tax planning and tax administration. These reforms include separation of tax planning

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from tax collection; modernisation of the National Board of Revenue (NBR) through simplification and digitisation of tax administration; eliminating expenditure accounting requirement in tax filing; removing the interface between taxpayer and tax collector; adopting a true self-assessment system with enforcement through selective and productive computer-based audits; converting the NBR from a tax policing department to a tax service agency; introducing a proper property tax system; and full implementation of the 2012 VAT law. These are far-reaching reforms and can be best introduced through a detailed workout of a modern tax system designed by an Expert Tax Reform Commission (TRC). Similar TRC-based reforms have helped to modernise the Indian tax system and raise the tax-GDP ratio.

In the meantime, for FY2023-24 budget, some of the easy reforms can be introduced by doing away with the expenditure accounting requirement of the tax form, introducing online tax submission and payments, and conducting selective but productive audits

focused mainly on the large taxpayer units. All efforts to eliminate rent-seeking venues for tax collectors and avoid harassment of taxpayers will substantially boost tax revenues by providing incentives for voluntary tax compliance and reducing revenue leakages.

Some minimal state-owned enterprise (SOE) reforms can also be introduced to improve their financial performance by implementing a hard budget constraint, improving the pricing policies for SOEs, and strengthening corporate governance.

With these reforms, it should be possible to increase the tax effort from 7.1 percent of GDP estimated for FY23 to 7.6 percent of GDP in FY24. Non-tax revenues can be increased from one percent to 1.2 percent of GDP.

Size of the budget: It may be politically appealing to announce a large budget in an election year. However, it would be imprudent from the standpoint of macroeconomic management and would undermine the political value of a large budget by increasing inflationary pressure. The size of the budget should depend upon a realistic assessment of the likely magnitude of tax and non-tax resources and the size of the fiscal deficit. As noted, with some minimal reforms, the total revenue can be increased from 8.1 percent of GDP in FY23 to 8.8 percent of GDP in FY24.

Applying a budget deficit target of five percent of GDP, total size of the FY24 budget would amount to about 13.8 percent of GDP. Converting this in terms of taka by using the projected GDP for FY24, this amounts to about Tk 7 trillion. This will be about 19 percent higher than the estimated budget implementation for FY23.

It is important to note that this size of the budget is contingent upon implementing the suggested reforms for strengthening revenue mobilisation. If, for example, the proposed reforms are not implemented and total revenues in FY24 remain unchanged at 8.1 percent of GDP as in FY23, the size of a prudent budget would fall to Tk 6.7 trillion, which is about 13 percent higher than the estimated budget outcome for FY23.

Expenditure priorities: Since some 50 percent of the budget is already committed to fixed spending items (wages and salaries, civil service pensions, materials and supplies, security spending, and interest cost), the flexibility for strengthening expenditure priorities is rather limited. Even so, the government must make an effort to curb subsidies and phase the implementation of capital-intensive large infrastructure projects, while increasing allocations for health, education, irrigation and flood control, water supply, and social protection. Along with efforts to lower inflation, these spending can also help the government politically by improving the income levels of the poor and vulnerable.

The tendency to accelerate spending on large, visible and long gestational infrastructure projects may appear politically appealing in an election year, but in reality, they do not create immediate benefits for the common citizens. Income transfers from social protection programmes, and spending on irrigation, flood control and water supply are where benefits are more direct and immediate.

My memories of Prof Abdur Razzaq

Md Syeduzzaman
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finance minister of Bangladesh.

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About 72 years ago, Prof Abdur Razzaq completed his thesis paper titled "Political Parties in India," which is now in the public domain, thanks to the University Press Limited (UPL). Submitted to the London School of Economics in 1950, the paper delves into contemporary political realities and ideas that were tested in their own time. The writer posited that a sovereign state was essential for the political parties to function. He believed that India needed Westminster-style liberal politics where political parties would be equally invested, whether in government or in opposition. At that time, however, the environment in South Asian countries was not conducive to any Westminster-style politics. Power was concentrated in the hands of a few leaders, while dynasty politics was a dominant influence. Issues like this and much more were explored through the paper.

The belated publication in the form of a book of this now historic paper offers an opportunity to take a look at the man that Razzaq Sir would go on to become, and the long shadow that he would cast over not just his students, peers, the academia and intelligentsia, but also anyone who would come into contact with him, like me.

Prof Abdur Razzaq was known as "Gyantapas" because, in the words of historian Prof Salahuddin, "he spent his entire life learning and pursuing knowledge." Salahuddin further said, "It will not be an exaggeration to call him one of the best symbols of Bangalee intellectualism. He could be called a living encyclopaedia because of his extensive reading of history, social science, economics and so on."

He was a humanist and a progressive thinker. Although he didn't like politics, he was drawn to the separatist movement in his early life because he believed that a separatist agenda supporting the establishment of Pakistan was the only way out for the backward Muslim community. But those who subscribed to this view would be in for a rude awakening after the 1947 Partition. Events of those days would profoundly shape the worldview of Abdur Razzaq, who tried to make politicians see the error of their thoughts. During the 1971 war, he didn't leave the country. He was hiding in his village home, and was tried in absentia by the Pakistan military court that sentenced him to 14 years of rigorous imprisonment. After independence, Bangabandhu Sheikh Mujibur Rahman designated him as a national professor.

I met Prof Razzaq for the first time at the Dhaka University teachers' lounge, courtesy of my late friend ZM Obaidullah. He was playing chess then. In 1961, I was appointed as a section officer at the finance ministry in East Pakistan. I remember that I went to visit him one day. He wanted to know about my work, so I told him, "Sir, it's quite interesting, although, frankly, I don't understand it much." He said, "Why don't you study economics then?"

He encouraged me to pursue higher studies abroad by taking a study leave. This completely changed my career path in later life.

In 1969, between March and October, I was in London on a fellowship. There, I had the chance to meet him again and we grew close. During our conversations, he would often share his thoughts about politics, especially the future of Pakistan. He would say that we needed independence, but he was against having an active military force in an independent Bangladesh. In later life, I went to visit him every time I got the opportunity, sometimes with my friends, including Anisuzzaman, Nurul Huq and Justice Habibur Rahman. Meeting him was a chance to learn. He encouraged us to read. He talked about many things, but was also curious to know our thoughts.

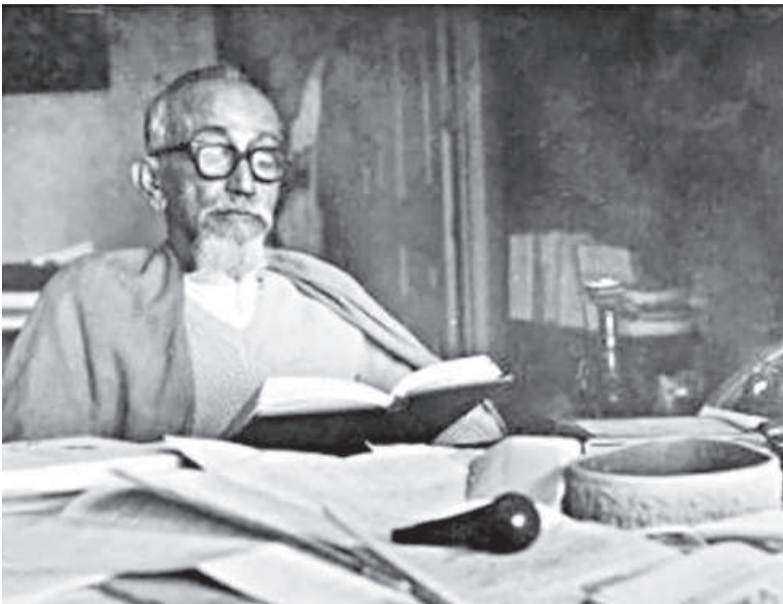
Once, after Sir Fazle Hasan Abed decided to establish Brac University, he thought it would be better to get first-hand knowledge of the university system. So, the three of us visited different American universities to learn about their

decided that India's capital would be shifted to New Delhi, although that decision couldn't be implemented immediately.

Infrastructure development and other changes befitting a capital were halted because of World War I. The capital remained in Calcutta, and was finally shifted to Delhi in 1931, he said.

I also remember that Razzaq Sir once presented a written speech titled "State of the Nation" in 1980. It was his only written speech, later published in 1981. I had the good fortune of listening to his speech live. It was divided into two parts, the first involving a discussion on economics and politics. In it, Razzaq Sir said Bangladesh's assets were its land, people, unique geographical location, rivers as well as their effects in agricultural production. The present government's Delta Plan 2100 is, in a way, a reflection of Prof Razzaq's thoughts shared in his 1980 speech.

In the speech, he also talked about the divisions brewing in politics ever since independence, saying, "What holds us together, makes us



Gyantapas Prof Abdur Razzaq

systems. Upon returning to Bangladesh, I learnt that Prof Razzaq was looking for me. So I visited his house, and told him about Fazle Hasan Abed's initiative. I still remember him saying, with a smile on his face, "Ask Abed to establish 100 good schools instead of one university. The country will be better served in this way." Many may not know that Razzaq Sir himself wanted to establish a school in Dhaka. He even selected three scholars who would join the school: Badruddin Umar, Sardar Fazlul Karim, and Anisuzzaman. But it didn't pass the planning stage for some reason.

I have so many memories like this of Prof Razzaq. He was truly a gold mine of knowledge and resources. He would often share his insights about the history of the subcontinent, especially major political events and trends that shaped its future. He was keenly aware of the socio-political history of Muslims in India. Once he was talking about the 1905 Partition of Bengal, a territorial reorganisation of the Bengal Presidency that was revoked a mere six years later. The short-lived break, according to Prof Razzaq, was part of the "divide and rule" policy of the British, which they sought to pursue in many other areas as well. In 1911, the British, in the face of protests, assented to reversing the decision. It was also

a nation, is the exclusive passion to identify ourselves with this nation – and nothing else." He also said, "The prosperity of Bengal was never dependent on its agriculture but its trade and commerce, and the products of handicrafts and small-sized industries." To further explain this idea, he asked, "Why did traders from the Middle East come to Bangladesh?" and then proceeded to answer: it was because of its trade and the economic benefits it offered to them.

Thus, in public interactions or private, Prof Razzaq spread his love of knowledge and passion for intellectual exercises, never hesitating to encourage us to read and think. It seemed only befitting that Badruddin Umar once proposed that we call him Bengal's Socrates. I asked him why, to which he replied, "Even though he didn't write, he spread knowledge by encouraging others to learn and think. Like Socrates, his teaching method was also verbal."

He truly was our Socrates.

This is based on a speech on Prof Abdur Razzaq presented on the occasion of the publication of his book "Political Parties in India."

Translated from Bangla by Badiuzzaman Bay.

CROSSWORD BY THOMAS JOSEPH

ACROSS

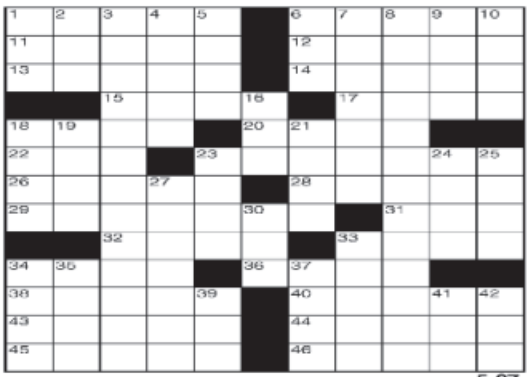
- 1 Untamed
- 6 Dark marten
- 11 Tuscan setting
- 12 Look forward to
- 13 Bring home, as a runner
- 14 Paris subway
- 15 Fare carrier
- 17 Sax great Getz
- 18 Salon supplies
- 20 Revered one
- 22 Broad st.
- 23 Elegant cat
- 26 Horse's cousin
- 28 Outdoes
- 29 Chores
- 31 Recipe amount
- 32 Staff member
- 33 Madcap
- 34 Goatee setting

- 36 Put on
- 38 Arrested
- 40 Like some online videos
- 43 Sports spot
- 44 Singer Cara
- 45 Shaped like a pie slice
- 46 Inspired

DOWN

- 1 Tell tales
- 2 Greek vowel
- 3 Flighty
- 4 Rap sheet name
- 5 Bobcat's kin
- 6 Texas's Houston
- 7 Impressive
- 8 Showing the effects of hard wear
- 9 Old Italian

- currency
- 10 School on the Thames
- 16 Clock numeral
- 18 Intent look
- 19 At any time
- 21 Bits of makeup
- 23 Beach cover
- 24 Catch off guard
- 25 Spot
- 27 Drizzly
- 30 Grog coating
- 33 Congo's former name
- 34 Bird's gullet
- 35 Rabbit's cousin
- 37 Malevolent
- 39 Veto vote
- 41 Busy worker
- 42 Summer sign



SUNDAY'S ANSWERS

P	A	L	S		W	A	L	L	O	W
A	H	A	T		I	G	U	A	N	A
P	E	T	A		R	A	S	P	E	D
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