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WHITHER STABILISATION AND TRANSFORMATION FROM SLOWDOWN OF THE ECONOMY

A Rapid Assessment of National Budget 2021-22

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WHITHER STABILISATION AND TRANSFORMATION FROM SLOWDOWN OF THE ECONOMY

A RAPID ASSESSMENT OF NATIONAL BUDGET 2021-22

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Section I. Introduction

The national budget of 2021-22 titled 'Bangladesh Towards a Resilient Future: Protecting Lives and Livelihoods' arrives at a time when the country is at the crossroads of a subsiding second wave of the pandemic, and an imminent third one. The budget is the second among the ones announced during the pandemic, and the third in the tenure of the current finance minister. Ahead of its announcement, the finance minister has highlighted the key characteristics of the budget as focused on protecting lives and livelihoods of people from all walks of life, imbued with the goal of bringing qualitative change to the real sectors.

The strategies that the previous budget set out to follow were governed by four main goals which are namely increasing government expenditure, speeding up economic recovery through stimulus packages, expanding the provision of social safety nets and increasing the money supply. The national budget of 2021-22 is proclaimed to divert from having quantitative objectives into constructing more transformative policies. It remains to be seen whether the new budget withstands scrutiny into the outcomes of the perceived allocations and reforms as the performance of the previous strategies have not resulted in a fast paced recovery seen in the following paragraphs.

Low real allocation diminished the efficacy of recovery. Budget allocation to GDP ratio in 2020-21 fiscal year was 17.45 percent whereas in the proposed budget of 2021-22, the allocation grew only to 17.46 percent of the GDP, growing only slightly. Hence, budget allocation only increased in size, not in relative terms with previous fiscal years. Implementation of budget has also diminished the pace of recovery. Till April 2021, government utilised only 44% of the government expenditure. At this rate, government spending may fall short. Development expenditure has seen even a lower implementation rate of 29%. Government has to spend nearly 40% of the budget in the last two months to reach the average implementation rate of 85%.

Increasing money supply resulted in excess liquidity. Government prioritised increasing money supply in the economy as a recovery strategy for industries and real sectors. With high rates of remittance deposits, coupled with the injection of money, left banks with excess liquidity. The excess liquidity has now been an added burden on the banks and government. This again goes to show that credit disbursement has not matched the level of money supply.

Unequal stimulus disbursement failed to speed up the pace of recovery. Finance minister in the budget speech outlined stimulus package worth BDT 121,353 crores which is equal to 4.3% of GDP in Bangladesh (Ministry of Finance, 2020). Of the total stimulus packages disclosed, almost 80.7% was liquidity support and 19.3% was fiscal stimulus, among which, 23 stimulus packages were announced for three major sectors of the country: large industries, small industries and agriculture. However, till March 2021, only 60.3% of the stimulus packages were disbursed. Large industries attained 85% of the allocation while agricultural sector saw disbursement of only 58% of their allocated stimulus package.

Targeted approach of social safety net schemes left new poor out of benefits. The targeting approach of the safety net programme has an exclusion rate of 71% and it also fails to account newly poor population from the pandemic. The inclusion error also accounts 45% of the inclusion error. The drawbacks of the current social safety net system in Bangladesh demand a more inclusive method.

The second wave of the pandemic has only aggravated and engraved the socio-economic fallouts from the first wave more deeply into the lives and livelihoods of people. The new poor population emerged in the last fiscal year, and the second prolonged economic shutdown has drained resources, savings and income for these low-income households, sapping on their resilience. In order to determine whether the national budget of 2021-22 truly reflects and is responsive to the woes of citizens from all classes, this report undertakes a rapid analysis of what strategies and implementation mechanisms have been adopted by the Ministry of Finance to fulfil the goals of relief, rehabilitation, recovery and reconstruction of lives and livelihoods in a pandemic-inflicted economy.

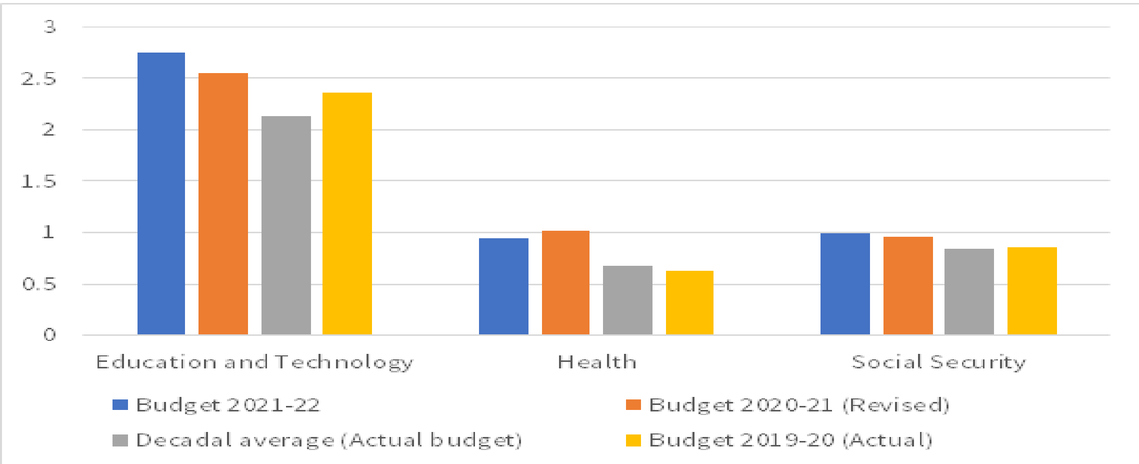
Section II. Conservatism in Public Spending

At a time when prolonged restrictions resulted in economy-wide income erosion, government required to expand budget in a strong manner to rehabilitate for the loss. The budget unfortunately failed to incorporate any such measures with social sectors like health, social safety nets and education seeing decreased real allocation. At the same time, allocation increased significantly in energy and transportation sectors, which has repeatedly shown inefficient implementation of projects. The conservative approach was only confined within the social sector and tax cuts, as operating expenditure including salaries and allowances for officials remained almost identical to the previous budget. Government has remained conservative in spending in social sectors at a time when governments all across the world have disbursed direct cash transfer in order to offset the income loss. The picture gets grimmer when ADP allocation is compared between the sectors. Energy and transport sector constituted 39.2% of the total ADP allocation in the budget increasing from 37.5%. On the other hand, social sectors were allocated 20.9% of the ADP, decreasing from 22.3% ADP allocation in previous fiscal year.

Low allocation in social security, health and education

During the pandemic, social sector has suffered innumerable losses. Health sector has crumbled from the COVID-19 second waves. Bangladesh is the only country in the region that has schools closed throughout the year. Informal sector that employs well over 85% of the population has seen income loss from the pandemic. Countries all over the world extensively allocated budgets in this sector. European countries because of their well-structured social security system could disburse benefits during the pandemic. Bangladesh on the other hand walked completely on the opposite direction. The proposed budget prioritised the health and education sector. However both the sectors have seen a decline of allocation in real terms.

Figure 1. Allocation in social sectors



Source: Ministry of Finance, 2021

Budget allocation in health sector declined when taken as a percentage of GDP. Education sector saw a slight increase only due to higher allocation in science and technology. When considered separately, allocation to education has gone down as a percentage of GDP. With an already declining allocation, the implementation will be lower during the crisis period. Actual spending in the sectors will be much lower than the proposed or revised budget.

Poverty and Social Safety Nets

The COVID-19 pandemic has severely impacted the lives and livelihoods of the marginalised section of the society— particularly the low-income people, women, children, the elderly, the unemployed, the informal sector workers, lower-middle-class and middle-class. Income erosion resulting from the losses in various sectors from the shutdown created a new poor population in the country. The second wave of the pandemic has further injured the new poor population, aggravated by the absence of universal basic income and social security. The existing social safety nets too are fraught with certain degrees of inclusion and exclusion errors that meddle with the cohort of intended beneficiaries. Exclusion error in the social protection is as high as 71% and inclusion error is more than 45% (Razzaque, 2020). Moreover, lack of transparency, legitimacy, and supervision further dampens the effectiveness of the social safety nets in Bangladesh. In addition, the rural-centered policies of poverty reduction overlook the rising urban poverty resulting from the pandemic-induced economic shutdown. The worsening urban poverty is owed to a large cohort of urban informal sector workers, comprising 21.4% of the population have suffered income erosion and loss of employment (Titumir, 2020), pushing them back into poverty with no mechanisms of shock absorption available.

The proposed budget allocated BDT 107614 crore in the social safety net sector, which is 17.83 percent of the budget and 3.11 percent of the GDP. The budget also outlined an expansion of beneficiaries in old age allowance programme and allowances for widows. However such expansion is a targeted one focusing mainly on areas with high poverty rate. Such targeted expansion left out newly poor in other areas as well as urban poor. Government provided BDT 2500 to 35 lakhs families in 2020 which has been extended again in 2021. However, the one-off payment was initially set out to reach 50 lakhs household. The payment process has been plagued with institutional inefficiencies and hurdles. The second wave of the pandemic has worsened conditions for both the poor and the new poor populations. During the first wave of Covid, in urban slums, 70% of the main income earners became inactive and in rural areas, it was estimated to be around 54% (BIGD and PPRC, 2020). In urban slums per capita, daily income declined by 75%, in February it was around 108 BDT which fell to 27 BDT. These economic downturns created a new poor group, who were previously vulnerable but non-poor.

The need for a more inclusive, universal social security skyrocketed during the time of this pandemic when the integration of the new poor population as eligible for social benefits has become more important than before. However, the increase in allocation is more in line with the existing targeted approach rather than a universal life cycle based social security proposed in the 8th Five Year Plan. Again, the allocation for social safety net includes pension for retired government employees. Hence, the allocation does not depict the true picture of social security.

As a result, poverty and inequality no longer remain under the auspices of a straightforward headcount ratio during such unprecedented times of peril, signifying the importance of inclusion of groups without entitlements – of the new poor, of small businesses, of female-headed enterprises – in formulating social security, and a possible basic income grant.

Healthcare

The complexities encircling the healthcare sector, the most crucial sector in battling the pandemic, are not rooted in the issues of costs, but largely in infrastructural fragilities. One of the most typical difficulties often encountered by the average citizen when seeking healthcare in Bangladesh is that doctor's consultations are felt to be short and inadequate. A leading cause behind is that the doctor-patient ratio in the country is meagre in comparison to the population. As a result, the healthcare seeking behaviour is moulded in a pattern where patients will often opt for other, non-traditional, informal sources of treatment of ailments, such as consulting pharmacists, dispensaries or compounder. Another significant statistic is that the percentage of seeing a kabiraj/hakim/ayurvedic is higher than seeking treatment from NGO health workers or doctors who are professionals. 40.21% of the total population choose to take medical treatment from the pharmacists or compounders, while only 9.28% seeks government institutions to avail health service (BBS, 2019). Amidst the pandemic, government recruited a total of 213 new doctors through Public Service Commission. The number is minuscule compared to the existing medical workforce. Doctor per 10,000 population in Bangladesh is 6.37 compared to 9.28 in India, 19.8 in China and United Kingdom 58.23. The ratio is lowest in South Asian countries.

With the second wave of the pandemic raging the healthcare sector of the country, allocation of budget has increased slightly in nominal terms. The allocation as a percentage of GDP and budget declined in the proposed budget. The proposed budget allocated 0.94% of GDP in health sector compared to 1.01% in FY 2020-21. The number falls well short of WHO mandated 5% of GDP. As a result, in addition to infrastructural loopholes, the cost of healthcare still remains a significant deterrent in the healthcare sector. The out-of-pocket

(OOP) expenditure on healthcare is 73.87% in Bangladesh, which is the highest in the South Asian region, with India at 62.67% and Nepal at 50.8% (WHO, 2021). This implies that the government covers 26.13% of the total healthcare expenditure in the economy. The meagre coverage of healthcare expenditure in turn worsens the cost burden for the new poor population and contributes to further pauperisation. At the same time, healthcare structure has plunged in heavy disease burden, worsened by the second wave, and possible third wave. Doctors, nurses and technicians are dealing with the new infection cases whereas, non-communicable diseases. This discrepancy has already taken a drastic shape due to unavailability of proper treatment for non-communicable diseases. Most of the hospitals are not treating patients suffering from non-infectious diseases. As a result, it increases rate of morbidity and mortality not only from Covid-cases, but also from non-communicable diseases.

Moreover, processes related to the diagnoses of ailments is marred with cumbersome and expensive practices, further diverting the healthcare seeking behaviour of citizens. These complexities arise due to collusion among healthcare providers that exploit the absence of public provisioned diagnostic services that covers the needs of the population as a whole. Adding to it, the public procurement of medical equipment is a process that is fraught with embezzlement, overvaluation of prices, and influence peddling by power-exercising networks. These practices have led to inadequate medical equipment, diminishing the capacity to manage clinical conditions, made more evident during the surge of the pandemic. Simultaneously, the incapacity of a healthcare provider at one level due to insufficient resources cannot be compensated by another provider at a higher level because the infrastructure does not entail a working referral system.

The proposed budget outlined the vaccination plan for the country. Government aims to vaccinate 80% of the population with 25 lakhs vaccination every month. The budget laid out financing plan for the mass vaccination with loans adding up to USD 1.45 billion from World Bank and ADB. However, at current pace, with diminished supply of vaccines, government target remains questionable with no specific timeline on the procurement of the vaccines. So far, the only credible source of vaccines is the COVAX arrangement where the country will be receiving vaccines for 3.4 crore people. At the vaccination rate mentioned in the budget, it will take no less than 4 years to vaccinate 80% of the population or 120 million people. One can safely estimate that the country is far away from reaching herd immunity and gives away the possibility of more waves of COVID-19.

Education

The closure of educational institutes for over a year has led to precarity of the youth who are set back at least one year in schooling years, and has caused a loss both in economic and human capital terms. Loss in schooling years due to the pandemic will have negative economic effect as skill formation has stalled for more than a year. The loss will be suffered for a longer period as the reopening of schools is still an uncertain amidst the second wave. As a coping mechanism, education institutions have adopted remote learning methods. However, the difficulty with the method is that it has created, and to some extent, strained the inequality in the country. Online classes have been introduced in 15,676 out of 20,499 secondary schools and 700 out of 4,238 colleges. Only 12.9% of the population was reported to be using the internet (World Bank, 2021). Limited access to the internet along with other poorly established infrastructure has led to exclusion of a large number of students from classroom activities. It was estimated that around 36.8 million students have missed almost all classroom instructions (UNICEF, 2020). This translates to a loss in almost 5.5 months or 0.5 years of schooling nationally, which may have significant ramifications for the labour force. It is expected that the loss in schooling year will reduce output-per-worker by 13% as labour productivity will take a significant dent. At the same time, the economic loss may amount to 33% of the GDP in the long run. World Bank estimates that in a worst case scenario, the country may face a loss of USD 114 billion. Even in the most optimistic scenario, the loss will still add up to USD 67 billion in the long run (Rahman & Sharma, 2021).

Budget allocation in education has gone down as a percentage of both budget and GDP. Budget allocation in education sector as a percentage of GDP declined to 2.08% in the budget from 2.14% in fiscal year 2020-21. Allocation as a percentage of budget has also gone down from 12.28% to 11.91%. This comes at a time when educational institutions have been closed for more than year and is expected to open soon. The budget speech missed out on delineating any recovery plan for the sector after remaining closed for 15 months. It is expected that the dropout rate will rise significantly due to school closure. The budget required a strong policy framework and allocation on bringing left-out students back to school. Inequality in education has also widened as a major portion of the students did not take part in online education. There should have been an allocation there as well.

The most important question for the national budget 2021-22 is what is being allocated in order to correct the loss in skill formation. Education, being a prime determinant for human capital formation, has the capacity to influence labour productivity. With fewer students being blessed with the privilege to access the remote learning system, a large portion of our young population will remain unskilled. This loss in education vis-a-vis lower labour productivity will translate into a reduction in the country's GDP. The nature of remote learning discriminates between students in terms of access to internet and technological services, despite promises of a Digital Bangladesh. Primarily, the government should work to provide access to uninterrupted network facilities to all students to as a short-term policy to mitigate the loss, as the country currently has one of the highest charges on mobile data compared to other South Asian countries. The precarity of the youth does not end here. Students who fund their expenses through part-time, informal jobs such as tutoring, photography or freelancing have also incurred income erosion due to the two-time economic shutdown and movement restrictions. As a result, students are at risk of falling in debts, which can disincentivise them from continuing their education and opt for full time employment instead. Combining higher drop-out rates with lower skill formation in an economy with roadblocks in employment generation will likely lead to less productive, low-skilled labour force in the long run.

Real sectors

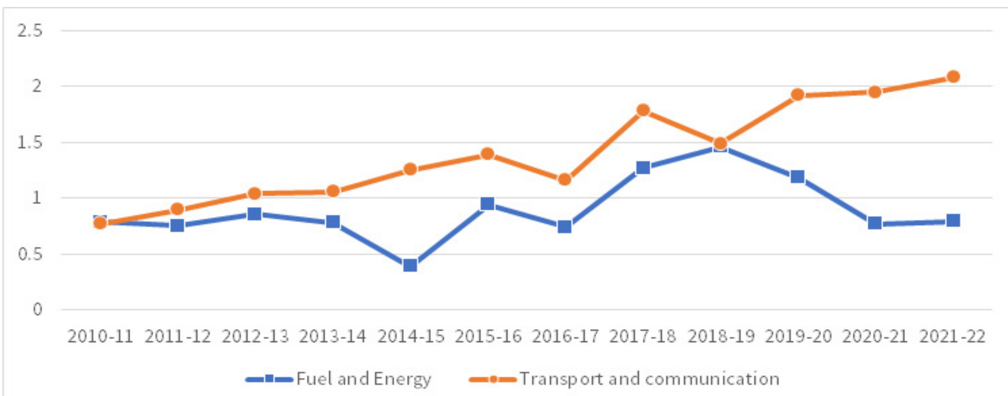
Real change in budget allocation in agricultural sector was minuscule in the previous fiscal year. The sector has faced multiple hurdles over the year due to COVID-19 restrictions as well as natural disasters. Government allocated special stimulus packages for mitigating the loss. However, the sector has seen little disbursement of the allocation. Disbursement rate for stimulus for agricultural mechanisation has been extremely low with spending of BDT 243 crore out of total allocation of BDT 3220 crore. Disbursement of agricultural subsidy has been slow as well with BDT 3776 crore spent till March, 2021 out of total allocation of BDT 9500 crore. With renewed restrictions on movement during the peak season for fruits, agricultural loss will amount to higher loss.

Service sector is one of the worst hit sector due to the pandemic with the whole of tourism and catering industry suffering from lockdowns. The budget, as well as stimulus packages, had spared little allocation for such sectors. CSMSE sector employs the highest number of the population. There is little directive on SMEs overall with the sector only getting a special mention in the government priority list. Disbursement of stimulus was slower in the first half and only gained pace later due to financial regulations and rigidities. Prime Minister's initiative on allocating a special fund worth BDT 10,000 crore has been moving around ministries without any progress.

Unchanged allocation in infrastructure

The allocation in infrastructure has followed its trend and has seen significant rise compared to previous fiscal year. Slow implementation and repeated delay of megaprojects have only increased the cost and hence requiring increased budget allocation. Transportation sector, and energy and fuel sector have seen higher allocation both in nominal and real terms.

Figure 2. Allocation in transport, and fuel and energy sectors



Source: Ministry of Finance, 2020

The conservatism shown in social sector barely reflects in the infrastructure where majority of the ADP is allocated. The sectors combined have seen 39.2% of the total ADP allocation in the budget, increasing from 37.5% in the previous budget. The megaprojects of the government will account for 21% of the total ADP allocation.

Transport and communication

The sector has seen an increasing rate of allocation due to megaprojects like Padma multipurpose bridge, Mass Rapid Transit (MRT), Karnaphuli Tunnel and Bangabandhu Rail Bridge on Jamuna River. All the mentioned projects have seen their cost doubled and in some cases tripled due to inefficient project implementation. Padma Bridge has seen the cost increased by 197% whereas Dohazari-Cox's Bazar-Gundam railway project and Karnaphuli tunnel saw the cost rise by 54% than the initial cost (The Business Standard, 2021). The implementation of the projects may get delayed again due to the COVID-19 and hence the cost may rise more. Padma Bridge has the deadline extended to June, 2023 and the deadline for MRT extended to December, 2024. This scenario has been repeating even before the pandemic hit. The budget speech concurred without any roadmap only stating that

Another important goal of the government will be to strive for timely implementation of all nationally important projects including mega projects in the infrastructure sector, such as the Padma Bridge, Padma Rail Link Bridge, Dohajari-Cox's Bazar Railway construction, the Rampal power plant, Rooppur Nuclear Power Plant, Payra Sea Port, the Matarbari Power Plant in Moheshkhali, and Dhaka Metrorail, etc. to sustain the higher growth rate.

Energy and Power

Budget share of energy and power sector has remained constant. Similar to the transport sector, energy and power sector has multiple megaprojects waiting to be finished. This sector constitutes the largest megaproject in Ruppur Nuclear Power Plant. The project is again getting the highest allocation like last fiscal year.

However, coal-based power plants like Rampal is still far away from completion. The project was previously considered as risky and heavily subsidised and runs risk of increasing cost (Sharda & Buckley, 2016). With coal technology getting obsolete in western world, persistent reliance on coal may prove to be a dangerous considering that cost of renewable energy has gone down significantly over the years. The budget speech again left a vague roadmap for renewable energy with government aim of achieving 10% of total electricity.

Upgrading and installing transmission lines have shown results as government suggests that the system loss has gone down from 14.33% to 8.73%. This no doubt is a positive news for a sector that has been paying companies 'capacity charges' for sitting idle.

Section III. Lopsided taxation policies

The national budget of 2021-22 sets out to expand the tax base adopting an approach of fiscal conservatism by lowering the tax rates for several types of taxation, whilst also dampening expenditure on social safety nets, education and healthcare. In addition, the budget also announces tax exemptions for several projects such as Made in Bangladesh, where taxation for the production of three and four-wheelers in Bangladesh has been exempted for ten years. The same is true for light engineering products such as home and kitchen appliances, and selected IT-hardware manufactured in Bangladesh. In order to encourage women entrepreneurs, taxes are exempted for up to 70% of the turnover from women-headed businesses. However, the conservatism is then coupled with a contradictory expansion in government expenditure, which is nevertheless owed to the persistent increment in allocation on expensive infrastructural projects and an increase in payments of government salaries. The contradiction gives rise to a more tainted approach of conservatism – a clientelist fiscal conservatism. While on one hand large industries gain more from tax cuts, the policy remains almost unchanged for small businesses. The burden feels heavier for citizens who saw little tax cuts on top of the diminished public spending in social sectors.

Table 1. Revenue composition of Budget 2021-22

Revenue fields	Budget 2021-22	Budget 2020-21	Budget 2019-20	2021-22 (% of total revenue)	2020-21(% of total revenue)	2019-20 (% of total revenue)
Income Tax	104952	95950	75421	30.33	30.36	33.98
VAT	127745	115217	81049	36.92	36.46	36.51
Supplementary Duty	54465	48298	32529	15.74	15.28	14.65
Import Duty	37907	37154	23721	10.96	11.76	10.69
NBR	330000	301000	216037	95.38	95.25	97.32
Non NBR	16000	15000	5944	4.62	4.75	2.68
Total	346000	316000	221981	100	100	100
Source: Ministry of Finance, 2021						

Over the years, the value-added tax has contributed the largest share of tax revenue to the government's budget financing plans. This budget is no exception. Tax revenue from all types of sources are expected to increase in absolute terms, but the relative share of each type of tax duty remains almost unchanged (Table 1). Ahead of the announcement of the national budget 2021-22, the finance minister explained the low ratio with substantial tax exemptions and spoke of reforms in taxation. Maneuvering tax rates often does not serve as a solution for a low tax-GDP ratio. The key to unlocking higher tax-GDP ratio is through structural transformation in the economy. Structural transformation is defined as the transition of an economy from low productivity and labour-intensive economic activities such as agriculture to higher productivity and skill-intensive activities in the manufacturing and service sectors. The composition of the GDP in Bangladesh has changed gradually, but there have been limited changes in sectoral productivity and the movement of labour across sectors, which suggests that structural transformation in Bangladesh has been almost stagnant as agricultural employment still hovers around 40% (World Bank, 2021). An industrial shift towards more complex and skill-intensive industries will be likely to generate higher payments in corporate tax, and eventually higher income tax due to new employment creation in higher productive sectors. A targeted industrial policy implemented through the fiscal policy can help overcome structural rigidities in the economy. A strong industrial policy entails a strategic effort focusing on particular industries, providing fiscal support to adopt technology acquisition that enables catching-up required for structural transformation.

Slow rate of structural transformation in the economy increases vulnerability to the risk of external shocks.

While the economy grew over 7% in the last decade, contribution of manufacturing to GDP has not improved fast enough. Transformation has assumed a trend of migration from agriculture to service sector. At the same time, agriculture still employs over 40% of the population with contribution to GDP just over 10% (World Bank, 2021). Much of the slower transformation is attributed to low employment generation capacity of the manufacturing sector. The manufacturing sector is largely concentrated in RMG and there exists little diversity in the composition. Currently, higher rates of economic growth in the past decade have been contributed by RMG exports, which is 80% of total export earnings and the largest manufacturing sector of the country. As a result of over-reliance on a single sector, export contraction caused by global lockdown had a major impact on export earnings and the economy as a whole. 98% of the total decrease of export to Germany was in RMG goods, while other goods such as leather, jute, and handicrafts) faced a 2% reduction (Unnayan Onneshan, 2021). This necessitates the need for diversification. The diversification may be brought about through product diversification and zonal diversification. Product diversification requires incentives for technology acquisition and research and development that will assist industries to disperse into new markets and consumer base. Zonal diversification will require a differential tax system that incentivises production in different regional locations, instead of concentrating in the financial capital. Diversification requires a strong policy from the government like the case of Thailand and Viet Nam, where aggressive technology acquisition by the government resulted in technology-heavy industries shifting there from developed countries.

At the same time, the question of accountability in using the money from the average hardworking citizen remains in the rate and quality of implementation of the national budget. The grey area regarding proper utilisation of the taxed amount has weakened the social contract between the state and the citizens over the years, leading to low trust and thereby, lower tax compliance. It becomes imperative to strengthen the social contract that the government remain transparent and accountable to citizens regarding the use of taxes in implementing an ambitious national budget. Improvement in tax compliance and a shift in the norms and values will likely result in a higher tax-GDP ratio.

Budget financing

Budget deficit has remained constant in the country prior to the COVID-19 pandemic. The economic slowdown resulted in low revenue collection resulting in an increased deficit. However, the deficit still remains within the safe threshold. The proposed budget indicated that the deficit will be 6.1% of the GDP. Government has opted for foreign financing this fiscal year instead of domestic borrowing mainly through banks and national savings certificates (Table 2). This is to ease the pressure on banks who have been used as the primary tool for stimulus disbursement in the country. This is no doubt a business-friendly decision that would allow private investment. Bangladesh still remains in a much safer place due to low debt to GDP ratio as well as low external debt to GDP ratio. However, a fragile financial market and low tax-GDP ratio act as risk factors. The budget while giving a clear picture on tax cuts, provided little directives on how the tax base will be raised. Without showing any path on tax base, the proposed cuts will decrease the tax-GDP ratio even more. Deficit financing may also get riskier as budget allocation in sectors with higher returns has been comparatively low. While physical infrastructure does have higher return, slow implementation rate will prolong the return on investment. At the same time, it is to be seen how much of the foreign borrowings will be used in budget spending as the country has already taken assistance of USD 1.5 billion for tackling COVID-19 health crisis and vaccine procurement (Ministry of Finance, 2021). Hence, foreign loans may rise over time as government will require funds to finance budget.

Table 2. Sources of deficit financing

Sources	Budget 2021-22	Budget 2020-21	Budget 2021-22(% of GDP)	Budget 2020-21 (% of GDP)
Foreign Borrowing	97738	68414	2.83	2.22
Domestic Borrowing	113453	115052	3.28	3.73
Borrowing from Banks	76452	79749	2.21	2.58
National Savings	32000	30302	0.93	0.98
Total financing	211191	183466	6.11	5.94
Source: Ministry of Finance, 2021				

Section IV. Pathway for stabilisation and transformation

The composition of government expenditure has changed only negligibly over the years, with marginal increases in public investment, implying little to no technology acquisition and expansion in productive capacity. Investment in social sectors such as education, healthcare and social security have remained meagre and insufficient, with significant shortfalls from the international standard. Lack of public investment in these sectors have also borne greater distress for poverty and inequality in the country, the decline of which was plateauing until the onset of the pandemic and economic shutdown, that resulted in a new poor population and mounting inequality for the fragmentation of the intermediate classes. In terms of taxation and revenue, the nature of regressive taxation, as opposed to progressive income taxes, over time has meant that lower income percentiles have borne the greatest tax burden, thus marginalising low-income groups even further. Simultaneously, the low tax-GDP ratio implies relatively low degree of tax compliance among the citizens that represents the weak social contract and low-trust relationship between the state and the citizen. The alienation of the state and citizen is further aggravated by the prevalence of power exertion by resource-dependent clientelist networks. In addition, a prevalent lack of participatory budgeting across the state has emboldened the power exertion of clientelist networks through political settlement, in the absence of countervailing institutions that has rendered the national budget less reflective of the average citizen's aspirations, which has been made more visible during the COVID-19 crisis.

A definite framework for the process of revising the budget is practically non-existent. The proposed budget devoid of the medium term plans like 8th FYP. In addition, increase in the expenses for various sectors or the under-utilisation of budgetary allocations are often left unexplained owing to the absence of a stringent oversight mechanism, with required power vested in the standing committees to ensure accountability. These fail to erect a countervailing power to the ubiquitous existence of clientelist preferences that wind up distorting the social welfare motive of the budget. Despite the fact that 'no tax shall be levied or collected except by, or under, the authority of an act of parliament and no money can be appropriated from the Consolidated Fund except by an act of parliament' (Article 83), tax exemptions are levied through the Statutory Regulatory Orders to placate clientelist networks. There is little room for discussion on the importance of various international agreements that may have ramifications for economic performance. Several international organisations have been granted indemnity, releasing their actions from the auspices of accountability (Khan, 2008).

There is little scope for oversight on and scrutiny into the budget formulation process itself. The evaluation carried out by the auditor and comptroller general at the end of the year is unequipped to pursue enforcement of accountability outside the premises of recommendations from the parliament. This further necessitates the need for an independent budget office to provide checks and balances to the budgetary management process. The budgeting process relies on obsolete statistics. There has been no government survey to calculate the economic condition of households and businesses. Rather government estimates still use five years old household survey statistics. Policies are based more on inference and less data driven. There is no provision for quarterly GDP estimation that is now used widely and provides a more authentic condition of the economy. Labour statistics, an important economic indicator, was last provided in 2017-18.

An alternative to the framework of the national budget can be envisioned upon four pillars of respite from the COVID-19 crisis – relief, rehabilitation, recovery and reconstruction. Based on the framework an alternative allocation is given below keeping the proposed budget size. While formulating the alternative allocation,previous allocations and implementations were considered. Strategies for relief entail addressing and incorporating the needs of the new poor population in the budgetary allocations for poverty reduction. This comprises of the provision of a fully-fledged universal social security for all, as opposed to the existing social safety nets with narrow coverage in size and scope. Addressing the new poor becomes more crucial as the economy draws near a K-shaped recovery path where existing inequalities are worsened and widened through fragmentation and polarisation between the intermediate classes. Rehabilitation mainly comprises the need to address existing inequalities that are aggravated by the second wave of the pandemic, largely by averting the K-shaped recovery process for households and firms. This will require special attention to cottage, micro, small and medium enterprises (CMSMEs) that have received stimulus at slower rates of disbursement than larger export-oriented industries, despite being a major employer of the labour force as a whole. Simultaneously, rehabilitation will also entail incorporating healthcare needs of the new poor. The new poor will be at a disadvantage as the disease burden worsens on the population, because in the absence of any shock absorption mechanism or fall back option, new poor households will be at a loss in terms of affording healthcare and education.

Table 3. Alternative budget allocation

Sectors	Alternative allocation	Proposed budget allocation
Public Services	12.15	18.67
LGRD	7.2	6.99
Defence	6.25	6.18
Public order	5.3	4.82
Education	18.25	15.72
Health	6.75	5.42
Social Security	11.75	5.68
Housing	0.8	1.05
Recreation	0.75	0.82
Energy and power	4.5	4.55
Agriculture	5	5.29
Industrial and Economic Services	0.75	0.67
Transport	9.8	11.93
Interest	10.75	11.36
Total	100	99.15
Source: Prepared by authors		

The finance minister in his previous budget announced a speedy recovery in the shape of V. But the budget did not take into account the possibility of second or third waves. Unfortunately, the proposed budget again seemed to forget that the COVID-19 uncertainties will stay for an indefinite time as vaccination drive is yet to pick pace. Emergence of new variants and possible third or fourth wave is not impossible. Government seems to be in a hurry to go to recovery phases and normalcy, ignoring the fact that continuous lockdowns still causing economic loss to the population and require rehabilitation. Nevertheless, the recovery of the economy will depend on the rate at which fiscal and monetary support reaches firms, and direct cash payments reach the citizen at the last mile. The bottlenecks in monetary mechanism and complex conditions of availing eased credit has restricted firms, especially small, unlisted businesses to access the credit support. At the same time, the absence of a single, integrated national household database hinders the process of reaching cash-relief to every intended recipient. Finally, reconstruction will require a medium term framework for households and firms that focuses on a phase-by-phase approach of rebuilding the economy from the slowdown. For firms, stagnant industrial growth can be addressed through reforms focusing on diversification and employment creation. For households, the medium-term framework should address the fundamental issues of equipping low-income households with shock absorption capacity, increasing the median wage, and creating opportunities for women. A fully-fledged life-cycle-based social security system, reforms for universal health system and universal education are needed, and earlier allocations in the budget have not been ample enough to secure a decent living for the population that has drowned in poverty and unemployment due to the pandemic.

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