POLICY BRIEFS SERIES

Budget Compression in Bangladesh

Malcolm F. McPherson
Bangladesh Public Administration Project

DECEMBER 2024

HARVARD Kennedy School
RAJAWALI FOUNDATION INSTITUTE FOR ASIA

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About the Author

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About the Rajawali Foundation Institute for Asia

The Rajawali Foundation Institute for Asia is housed at the Ash Center for Democratic Governance and Innovation, one of twelve research centers at Harvard Kennedy School. In 2008, under the leadership of Anthony Saich, the Asia Programs at HKS (now the Rajawali Foundation Institute for Asia) joined the Ash Institute for Democratic Governance and Innovation. Two years later, the permanently endowed Rajawali Foundation Institute for Asia was established as part of the Ash Center to bring together academics and practitioners from around the world to enhance research, teaching, and training on public policy and governance issues of critical importance in Asia.

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The Bangladesh Public Administration Project is a multiyear initiative housed at Harvard Kennedy School's Rajawali Foundation Institute for Asia. The purpose of the project is to strengthen the institutional capacity of the Bangladesh civil service and the individual capacity of its civil servants. The project mainly focuses on three interrelated activities: curriculum review at the nation's civil service training institutes, training on interactive pedagogy and core competencies essential for the civil service, and policy research on Bangladesh's most pressing issues.

About the Ash Center for Democratic Governance and Innovation

The Roy and Lila Ash Center for Democratic Governance and Innovation advances excellence and innovation in governance and public policy through research, education, and public discussion. By training the very best leaders, developing powerful new ideas, and disseminating innovative solutions and institutional reforms, the Center's goal is to meet the profound challenges facing the world's citizens. The Ford Foundation is a founding donor of the Center. Additional information about the Ash Center is available at ash.harvard.edu.

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Key Takeaways

Budget compression has persisted in Bangladesh for decades, progressively eroding the country's ability to sustain rapid growth and inclusive development.

It has been and remains the authorities' "go-to" strategy to compensate for its continuing inability to mobilize domestic revenue and prudently manage the nation's debt.

The strategy involves an annual cycle of unsystematic cutting of budgeted expenditure to accommodate the enduringly low revenue yield within an informal, though rigid, budget deficit limit of 5% of GDP.

The principal outcomes have been to undermine the credibility of the annual budget process and its outcomes while sustaining the country's inflationary bias, its weak record of Annual Development Program implementation, and its worsening income inequality.

Remedies involve transforming the budget process and its purposes. This will require action on the long-postponed reforms to increase domestic revenue and monetary and fiscal policies to rationally manage the national debt.

Specific constructive measures would be to put the public sector on a cash budget, fully float the exchange rate, and restructure the National Board of Revenue (NBR) so that it serves—without fear, favor, or leakage—the national interest.

Further measures will be to ensure that all economic managers—especially in the Ministry of Finance, the Bangladesh Bank, and the NBR—upgrade their skills and competences and are subject to strict oversight and accountability.

Continued budget compression (i.e., business as usual) is not a viable path to economic recovery or rapid economic growth and inclusive, environmentally sustainable development.

Introduction

Budget compression (i.e., the unsystematic annual cutting of budgeted expenditure) is an established procedure in Bangladesh. This feature of the budget process has been evident for at least three decades. It has been and remains the authorities's principal strategy for reconciling its continuing inability to mobilize the revenue to cover planned expenditure and/or formulate a budget in which planned expenditures match the revenues that can be mobilized. The principal driver of compression has been to control the budget deficit in ways that reduce the risk of "debt distress."

Viewed in broad terms, budget compression has been one of the many workarounds that military, caretaker, democratic multi-party, and single-party governments have used to handle Bangladesh's multiple institutional weaknesses. Some of the most prominent of these were examined by local and foreign scholars in a recent study titled "Is the Bangladesh Paradox Sustainable?"[1] The study aimed to determine if Bangladesh's decades-long high-level performance contradicted the widely accepted "stylized fact" among development specialists that "institutions matter."

The turmoil in July and August 2024 that dispatched Sheikh Hasina's government showed that the paradox was unsustainable. That outcome has shifted the attention of local officials, scholars, and the country's development partners to the challenges of promoting the long-delayed institutional and other reforms that will allow the economy to recover and the country to grow rapidly and develop inclusively. One of those reforms will be to move Bangladesh beyond its annual cycle of budget compression and the disruption and inefficiency that it generates.[2]

This policy note describes what budget compression involves, examines its consequences, and suggests potential remedies.

Background

On its own and at irregular intervals, budget compression is not a problem. As needed, all governments cut expenditure when revenues fall below expectations and/or shocks derail expenditure plans.[3] The practice in Bangladesh goes well beyond these reactions in two ways. First, budget compression is a regular feature of budget implementation with multiple adverse effects that directly undermine the budget's credibility. Second, the practice represents an ongoing failure of macroeconomic management. Specifically, the authorities have made few of the changes needed to reform how revenue is mobilized, expenditure plans are implemented, and the national debt is managed.

Budget compression follows a simple pattern. In both its long-term planning and its annual budgets, the authorities regularly propose optimistic targets for both revenues and expenditures. Each year, the revenue mobilized is significantly less than anticipated,[4] requiring adjustments to planned levels of spending and projected levels of borrowing. Thus far, the authorities' primary response has been to control the budget deficit (i.e., the difference between expenditure and revenue).[5] Such control has been designed to keep public debt at or below sustainable levels. Opinions have differed whether there is a formal limit, though in practice the budget deficit has averaged between 4% and 5% of GDP.[6] This has kept the debt-to-GDP ratio relatively stable over time[7] and consistent with internationally recognized "debt sustainability" criteria. Because revenue continuously falls below expectations, the deficit target is "met" by cutting/compressing expenditures below the amounts budgeted.

Evidence of budget compression and descriptions of its main features are widespread in official statements and in commentary and analysis by scholars and Annex 1 provides a review.

Consequences

The Bangladesh paradox study (cited earlier) highlighted multiple institutional weaknesses that the country's policymakers had not addressed or with which they had made limited headway. Budget compression adds an interesting twist. It represents an "institutionalized" response to an enduring unresolved policy issue—the continuing incapacity of the authorities to mobilize higher levels of revenue without producing budget deficits that would generate unsustainable levels of debt. What has never been obvious is why the reforms, especially to raise revenue, were avoided. Compressing the budget each year has produced far more disadvantages for the country than benefits. One can only speculate that early in the process, policymakers found it more expedient to postpone raising revenue adequately to fully fund public sector activities without incurring a deficit (or debt). Since the *initial* adverse effects of not raising taxes appeared to be benign, the incapacity to raise revenue became habitual.

However, four decades later, the cumulative cycles of budget compression have produced serious consequences. The most obvious is that there is no coherent program in place to resolve the matter. Three other consequences stand out: the systematic undermining of budget credibility; the losses, reflected in the high social opportunity costs of uncollected revenues, public activities that were not supported due to budget cuts, and reforms that were not made; and the macroeconomic issues generated by the budget deficit limit.

Budget credibility: As described in Annex 1, official and other commentary have addressed the issue of budget credibility. Indications of concern were the International Monetary Fund (IMF) reference to the importance of "aligning" spending with revenue, a statement in the 8th Five-Year Plan (FYP) describing cuts in expenditure as a "serious setback" in fiscal performance, and the World Bank's description "as in previous years" with respect to the habitual shortfall in revenue and squeeze on expenditure. The World Bank explicitly raised the notion of credibility in its 2023 *Development Update*:

> Budget credibility remains a challenge. The gap between the original and the executed budgets has grown substantially in recent years. In FY20 only 70.3 percent of revenue and 80.3 percent of expenditure in the original budget was executed. . . . Accurate revenue and expenditure forecasts are a key input to the preparation of a credible budget. In Bangladesh, overly optimistic expenditure allocations are presented with aspirational revenue targets. The large gap between budget and execution limits the ability to enforce accountability in public finances and weakens the credibility of the budget. It also reduces effective implementation of public investment and service delivery, affecting the overall development outcomes of government programs.[8]

Budget compression in Bangladesh raises credibility issues on two fronts – the overall budget process and budget outcomes. With respect to the former, it prompts the question of why literally hundreds of officials from all levels of the government undertake, on an annual basis, the time- and skill-intensive tasks of formulating a program for mobilizing revenue from scores of sources and designating funds for thousands of activities across ministries, departments, and agencies to formulate a budget that is financially and physically impossible to implement? More important, what purpose is served (especially for those involved) by a budget that is preprogrammed to fail?

Both in principle and in practice, framing the annual budget provides any government with its most convenient mechanism for laying before the nation's citizens its preferred policies, how they will be paid for, how they will be implemented, and by whom. Furthermore, the annual budget is the principal and usually the only means by which the government's longer-term programs for the country's economic and social development can be funded.

Yet, in Bangladesh, the revenue mobilized has never met the expectations used to frame the budget, forcing the authorities to cut/compress actual expenditures well below what was anticipated. By any criterion, this is not a "credible" approach to budgeting.[9]

The second front relates to budget outcomes. The failure to use the budget to boost revenue reflects the unwillingness of *any* Bangladesh government (military, caretaker, democratic multi-party, or single party) over the last five decades to require the rich and better-off groups to pay their "fair share" to support public sector activities. As the data in Annex 1 show, the annual expenditure squeeze invariably has fallen on the social sectors and public services, especially health and education.[10] The outcomes directly reduce the budget's role in advancing the welfare and well-being of all Bangladeshi citizens. They imply that as currently formulated and implemented, the annual budgets and the FYPs that they finance are not constructive means of promoting inclusive development and social transformation. This contradicts what these documents typically proclaim.[11]

An alternative (mitigating) view to the lack of credibility could be that by overstating revenue and expenditure targets, the authorities are motivating and/or stimulating performance. The counterargument is that the regular failure to achieve the targets directly undermines accountability (a point noted above by the World Bank) and generates cynicism among participating officials. While these perspectives can be debated, one point that budget and fiscal policy specialists would broadly agree upon is that the annual cycle of budget compression, as practiced in Bangladesh, is an arbitrary and counterproductive way for the government to organize and fulfill its core administrative function.

Losses associated with budget compression: Several losses can be identified. They include the opportunity costs[12] of what was *not* done—the uncollected revenues, the unspent budgeted expenditures, and the adverse knock-on effects from compressing the budget.

On the revenue side, international comparative data from the subregion and Bangladesh's low-income peers suggest that the amount of revenue not collected has been several percentage points of GDP.[13] The opportunity cost of these additional funds are the net benefits they would have produced. Among these are improvements in the distribution of income from having the rich and better-off in society contribute significantly larger amounts to support the public sector activities, the budget being funded in a regular manner rather than cut, and the economic advantages of a permanently lower (or even no) budget deficit.

On the expenditure side, some of the opportunity costs incurred have been noticed by local scholars and development partners in reference to the expenditures that would been supported by higher revenues.[14] A direct measure of those costs is the estimated benefits of planned projects and programs that are cut annually to squeeze expenditures between the available revenue and the budget deficit limit.

Other opportunity costs are incurred as well, the most notable of which are the efficiency losses when budgeted expenditures are reduced. In any regular budgeting exercise, it is presumed that the chosen activities reflect the best collective assessments of their social and economic value by the officials involved.[15] Inefficiencies result when those expenditures are cut in ways that do not reflect those assessments. To date, the principal means by which Bangladesh authorities compress expenditure is to "squeeze the squeezable."[16] Both local and international experience have shown that this approach tends to reduce support for social sectors, a point made earlier, especially public sector programs for the very poor.

The implementation of the Ashrayan Project is an example. Introduced in 1997, it was described in the 8th FYP[17] as being designed to reduce "incidences of poverty and extreme poverty" by providing "housing facilities to the landless and homeless families." The Plan gave details of the finance already allocated to house 67,726 families and plans to support a further 120,000. It concluded that "houses will be constructed for 885,622 families listed from all districts in the country in phases." With fewer than half the potential recipients having received assistance,[18] a strong case can be made that with additional revenue and/or less drastic cuts in budgeted expenditures, the "phases" could have been accelerated, obviating the need for those in extreme poverty to remain homeless.

A useful way to understand the scope and derive estimates of these opportunity (or alternative) costs would be to have an official entity, such as the General Economics Division, "rework" one of the recent FYPs. The exercise would assume that all the planned revenues were collected and the anticipated expenditures were made. The results could then be checked against the economy's actual performance.[19] This exercise would also reveal the broader macroeconomic changes that would have been possible if the authorities had implemented, rather than resisted, the reforms needed to eliminate budget compression.

At a general level, raising more revenue would recast the balance between the public and private sectors in ways that enable the public sector to more expeditiously support the country's economic development and social transformation.[20] As already mentioned, it would have provided a start, even if only a modest one, in moderating the country's inequitable distribution of income.[21] The higher revenue would also take pressure off the budget deficit while providing resources to fund all public sector activities. Additional recurrent spending would improve the quality of education, health, and other social services in both rural and urban areas. More capital spending would also expand and upgrade the social overhead capital (SOC) that reduces business and commercial costs, thereby inducing, complementing, and helping to "lock-in" private investment.[22]

A further advantage of higher revenue mobilization is that it would provide funds to raise the quality of public sector training. This would boost the skills and competences of public officials so that they could more effectively administer and manage the nation's social and economic activities. Finally, with additional revenue, more resources could be directed to improving social welfare and public "amenity" through programs that mitigate pollution, relieve congestion, improve water and sanitation, and strengthen the electricity grid.

These "what-if" scenarios are neither fanciful nor naive. Over the last several decades, the Bangladesh authorities have passed up multiple opportunities to create the conditions that would have raised additional resources and allocated them more efficiently. Meanwhile, many of Bangladesh's developing country peers took the opportunities.[23] Based on their experiences, Bangladesh remains poorer and less developed than it could have been.

Limiting the budget deficit: One positive outcome for Bangladesh of keeping the budget deficit below the "target" of 5% of GDP is that it avoided debt distress.[24] This is not the "success" it might seem.[25] It was largely meaningless in macroeconomic terms for two reasons. First, international experience affirms that no country that aspires to grow sustainably and develop inclusively should (or can) run an uninterrupted budget deficit for five decades as Bangladesh has done.[26] Persistent deficits reflect weak (or failed) macroeconomic governance.[27] Second, the level at which the budget deficit was controlled was far too high. Given Bangladesh's fragile and shallow financial system, the regular injections of bank credit to cover the deficit resulted in monetary growth at rates that stimulated and sustained high rates of inflation. This had two adverse effects. High inflation undermined confidence among asset holders and citizens more generally in the currency's stability. The lack of confidence, in turn, encouraged them to shift into real assets—land, commodities, gold, and foreign exchange.[28] The search for "safety" also involved capital flight.[29] High inflation led to real exchange rate overvaluation when, from the mid-2000s, the authorities began preventing the taka from depreciating. That outcome sharply reduced the diversification and growth rate of exports, undercutting the economy's potential for further growth and development.[30]

Rigidly controlling the budget deficit produced another problem. It deprived economic managers of the means to systematically influence the core factors that drive long-term economic growth and structural transformation such as improvements in labor force skills, the accumulation of capital, technology adoption, and rate of innovation. By controlling the budget deficit, the authorities lost the ability to influence the Structural Budget Balance (SBB). Described in Annex 2, the SBB differs from the headline or actual budget balance. Estimates of the SBB help economic managers focus on the economy's potential growth, that is, what would be produced given the current policies if all available productive resources were employed. Based on the estimated difference between the economy's actual and potential output (the "output gap"), economic managers adjust both revenue and expenditure (and thus the actual budget balance) in ways that close the output gap.

Given the cyclical and other elements that influence potential output—labor, capital, technology, and innovation—keeping an economy at or near its potential output requires varying degrees of stimulation. This is done by varying the actual budget balance. By controlling the budget deficit at a fixed level (~5% of GDP), the Bangladesh authorities have reversed the direction of transmission. Being fixed, the budget balance generates fluctuations in potential output unrelated to the stimulus that the longer-term factors require to systematically help close the output gap.

Remedies

To address budget compression and the issues it has raised, the Bangladesh authorities will have to take measures that, over decades and across multiple governments, have proven to be untouchable. Although difficult, there is no feasible path forward for any government without a credible budget through which its core policies can be implemented. There is also no feasible path to recovery and the promotion of sustained growth and inclusive development without measures that eliminate Bangladesh's inflationary bias.[31] In this regard, the decades-long effort to control the budget deficit has been counterproductive.

For Bangladesh to make progress toward any of its major national objectives—eliminating or sharply reducing poverty, attaining upper-middle-income and high-income status, and becoming environmentally sustainable—long-postponed reforms are now needed.[32]

If implemented, the following changes will transform the budget process and upgrade the quality of macroeconomic management. Over the short term, the authorities should:

- Adopt a cash budget, implying that government expenditure in any month (initially, then once the system begins to work, a quarter) is kept below the revenue collected in the previous month (or quarter).
- Fully float the exchange rate by abandoning the idea, supported under the current IMF program, of allowing Bangladesh Bank (BB) to manage a "crawling peg."
- Rationalize and restructure the operations and functions of the National Board of Revenue (NBR).
- Remove all import duty relief, significantly raise tax rates on all luxury goods imports, and impose a single uniform rate on all nonluxury imports.[33]

Over the longer term, the authorities should:

- Reform the budgetary process to fully fund both recurrent and capital expenditures by domestic revenues and sustainable long-term international borrowing.[34]
- Provide training for all tax officials—from the most senior to the lowest ranks—to enhance transparency, improve accountability, and increase penalties for fraud and evasion.
- Ensure that all officers in BB and the Ministry of Finance are retrained so that they can competently supervise the financial system and manage fiscal and monetary policies to ensure that inflation is consistent with international norms and the exchange rate continues to float freely.[35]

These suggestions are designed to stabilize the economy,[36] reduce inflation, rationalize exchange rate management, raise additional revenue, promote financial reform, and improve the efficiency and effectiveness of the budget process.

A cash budget will enable Bangladesh to sharply reduce inflation by eliminating regular increments to domestic credit that have been driven by public sector borrowing from the banking system.[37] A full (i.e., undistorted) float of the exchange rate will serve several purposes. First, it will end BB's counterproductive and socially wasteful pattern of exchange rate intervention.[38] An appropriately valued taka (significantly more depreciated than at present) will also provide relief to the ready-made garment (RMG) industry and all other tradable sectors, among them agriculture, that have been systematically disadvantaged during the last two decades by the overvalued real exchange rate. Additionally, it will provide an incentive for migrant workers to remit more funds from abroad.[39] Last, it will begin to improve equity in Bangladesh by cutting off the "easy money" that "insiders" with favored access to foreign exchange have enjoyed over recent years.

With its three noncooperating pillars and two distinct cadres, the NBR has been, and remains, an administrative and operational mess. There is no broad-based sharing of information, the system operates with three unrelatable taxpayer identification protocols, enforcement is minimal, graft and malfeasance have been widely documented and continue unremedied, and the Board's incapacity to generate more than 7% of GDP in tax revenue amply shows that it does not serve the national interest. The recent World Bank *Development Update* has a detailed program for reform.[40]

With a floating and internationally competitive exchange rate, the RMG sector does not need the ad hoc support that the government of Bangladesh has provided through extraordinary tariff relief, subsidies, and other means including favored access to credit.

Capacity building for *all* tax and BB officials will have a major impact. To date, trillions of takas of Bangladesh's income and wealth have been wasted by inappropriate policies and improper official behavior. With properly trained officers who are closely supervised and held accountable for their conduct, the widespread ineffectiveness in policy formulation and inefficiency in policy implementation can be substantially reduced.

Concluding Comments

The habitual need for Bangladesh authorities to compress budgeted expenditures represents a failure of governance. It reflects an incapacity to promote the reforms that would enable the budgetary process—from its formulation to its implementation—to serve its principal roles of promoting the welfare of Bangladesh's citizens and developing the nation.

None of the underlying features that underpin the authorities' behavior—the low revenue mobilization, expenditure cuts, and the budget deficit limit—is a surprise. They have been "baked into" the institutionalized budget compression strategy for decades. The surprise is that the problems that budget compression creates have been allowed to persist for so long.

This note has established that continued budget compression is a dead-end strategy that detracts from Bangladesh's development. The short- and longer-term remedies proposed eluded the recently displaced government. The interim government would be well served by implementing them.

Indeed, the point is much stronger. If the interim government wishes to promote the multiple reforms that its several commissions are now formulating, it will require a significantly larger revenue base. Moreover, it cannot continue to arbitrarily and inefficiently cut planned expenditures, and it will have to significantly reduce and, for a period, eliminate the budget deficit. Actions less than these will fail to create the "enabling environment" that will induce Bangladesh's business community and its citizens to regain confidence in local financial assets and rebuild trust in the capacity and integrity of local economic managers. With these shifts in trust and confidence, rising investment and increasing enterprise will stimulate the broad-based activity needed to foster recovery as a foundation for future rapid growth and sustainable, inclusive development.

Annex 1: Evidence and Commentary on Budget Compression

The habitual nature of the budget compression was spelled out in the World Bank's 2022 *Development Update.* Discussing "fiscal trends," the Bank stated, "As in previous years, both revenue and expenditure fell short of their targets."[41] An assessment by the Asian Development Bank of the budget outturn during the same period[42] referred to the "tamped down government expenditure" because revenue growth did not meet expectations.

As part of its continuing emphasis on tax reforms that would, if implemented, improve revenue mobilization and specifically raise the tax-to-GDP ratio, the IMF has mentioned how budgeted expenditure is compressed. In its June 2018 Article IV consultations, the Fund stated that "spending control and slower implementation more than compensated for revenue underperformance."[43] It also "argued" that "budgeted spending growth should continue to be aligned with realistic projections of revenue growth."[44]

The 2019 Article IV report provided a detailed explanation of how "fiscal policy" in Bangladesh was being managed:

> Preliminary data indicate that the FY19 fiscal deficit remained within the budget target of 5 percent of GDP. As in previous years, lower-than-budgeted revenues have been compensated for by lower-than-budgeted spending. However, the revenue under-performance in FY19 has been even more pronounced than in previous years: the projections suggest that revenues were about 3.5 percent less than the budget target. On the spending side, implementation of the Annual Development Plan has again been slow with about 55 percent release of the annual budgeted amount in the first 10 months of FY19. The ADP performance suggests that the main adjustment to lower revenues will again come from lower capital spending.[45]

In the section immediately following the above, the IMF repeated its call for budget alignment: "While the commitment to keep fiscal deficits within 5 percent of GDP is welcome, spending growth in budgets should be aligned with realistic projections of revenue growth."[46]

The IMF's assessment of "fiscal developments" in its first review (December 2023) of its ongoing program with Bangladesh noted that "tax revenue collections under-performed, and the tax-to-GDP ratio declined to 7.4 percent. At the same time, demand containment efforts [aka budget compression] led to an under-execution of both current and capital spending."[47]

As a final point, the most recent IMF review (June 2024) features charts showing the extent of the systematic underperformance of both revenue and expenditure relative to budget estimates for the period FY18–FY24.[48] That review, however, described an additional budgeting practice that had arisen, namely the accumulation of domestic arrears.[49] The arrears (unpaid bills by the government) "to independent power producers and fertilizer suppliers since FY22 have resulted in domestic arrears of about 1 percent of GDP." This is an additional means by which the authorities have compressed expenditure to meet the deficit target in response to the annual revenue shortfall.[50]

Direct official commentary on budget compression is rare, with most attention focused on revenue and Annual Development Program (ADP) spending shortfalls.[51] There is plenty of evidence in the national plans, some cited below, showing that projected revenues and expenditures have almost never been met. One of the rare comments, however, was the 8th FYP. Its summary of "fiscal management" during the 7th FYP (FY16–FY20) noted:

> Fiscal policy performance during the 7FYP has been mixed. The performance is on track regarding fiscal prudence. The budget deficit has been at 5.5% of GDP and total debt to GDP ratio is lower than the Plan target. This is a strong fiscal performance from the point of view of macroeconomic stability. . . . However, there are major concerns in other dimensions of fiscal policy management. First, there is a major shortfall in tax performance. Compared with the Seventh Plan target of increasing tax to GDP ratio by 5.4 percentage points to 14.1% of GDP by FY2020, the actual tax to GDP ratio reached only to 7.9% of GDP in FY 2020. This is a serious setback following on the heels of a lack-luster tax performance during the 6FYP. Second, fiscal discipline has often required either cutbacks or inability to meet the Seventh Plan commitments in certain high priority areas of spending (e.g. in education, health, social protection and environment).

It added, "The Government is cognizant that these major weaknesses in fiscal policy management on both the revenue and expenditure sides have continued for a long period."[52]

The recognition of the long-term nature of budget compression is useful, but it provides no idea of how long the practice has persisted. Evidence from the 5th to the 8th FYPs confirms that budget compression (or expenditure "containment") has stretched over decades.

Chapter 4 of the 5th FYP summarized economic performance in the 4th FYP (FY91–FY95) and the Plan Holiday (FY96–FY97). The data reported that during the 4th FYP, mobilized revenue was close to the targeted amount in both plans but both recurrent and capital expenditure were underspent. Only 93% of budgeted recurrent expenditure and 90% of domestic ADP expenditure were allocated.[53] Referring to "key fiscal indicators," the 5th Plan noted that "the table [4.3] shows that the Tax/GDP ratio increased from 7.9 per cent in 1990/91 to 9.7 per cent in the terminal year. . . . Revenue expenditure/GDP ratio increased from 8.7 per cent in 1990/91 to 9.1 per cent in 1992/93 and then came down to 8.8 per cent in 1994/95 as a result of containing expenditures."[54] During the Plan Holiday, revenue was around the budgeted totals in both years, but recurrent spending was significantly more than budgeted, and ADP allocations were less.[55]

Data in Tables 1 and 2 are from periods closer to the present.

Table 1. Bangladesh: Actual (*) and Planned Budget Totals (% GDP)—Selected Years and Periods

Aggregate	FY10*	FY11–15	FY15*	FY16–20	FY20*	FY21–25	FY23*
Tot. Rev.	11.5	14.0	11.2	14.6	9.5	12.1	8.3
Tax Rev.	9.0	11.2	9.3	12.3	7.9	10.6	7.4
Tot. Exp.	14.6	18.3	15.8	19.2	14.9	17.7	12.9
Curr. Exp.	9.6	10.3	10.5	13.7	9.0	11.1	8.0
ADP	3.7	5.3	5.0	5.3	5.5	6.3	4.3
Deficit	–3.7	–4.9	–4.7	–4.7	–5.4	–5.6	–4.9

Sources: General Economics Division (2011, ch. 3, Annex Table 3.3, p. 94), General Economics Division (2015, p. 83), General Economics Division (2020, p. 83), and Ali (2024, Table 4, p. 175).

The data show actual performance (revenue, expenditure, budget deficit) for fiscal years 10, 15, 20, and 23 and the annual average 6th, 7th, and 8th FYP estimates for these aggregates. Over the 15-year period, several features of budget compression stand out: 1) planned revenue and expenditure were overstated by significant margins, 2) tax revenue as a share of GDP remained well below projections and declined over time, 3) the budget deficit was "close to" the level projected, and 4) since the mid-2010s, current expenditures have been compressed more than development expenditures.

Table 2 provides a closer look at the pattern of expenditure in the last two budgets. The data reveal that both budgets were underspent, the result of lower-than-projected revenue generation. Social infrastructure and general services fell short by large amounts, while physical infrastructure spending gained. Actual spending on interest payments (which are mandatory obligations) was significantly higher than the amounts budgeted in both years. What these data do not show, but should not be missed, is that real (inflation-adjusted) expenditure declined sharply, accentuating the compression.[56]

Table 2. Bangladesh: Sectoral Allocation (%), Actual and Revised FY23 and FY24

	Budget FY23	Actual FY23	Budget FY24	Actual FY24
Social Infrastructure	27.1	25.1	25.2	23.7
Physical Infrastructure	29.6	31.9	29.4	30.6
General Services	22.6	19.4	21.3	21
Interest Payments	11.9	13.6	12.4	14.7
PPP Subsidy & Liabilities	7.8	9.2	10.5	9.9
Net Lending & Other	1.0	0.7	1.2	0.2
Total Budget (bn taka)	6780.1	6605.1	7618.9	7144.2

Sources: Kamal (2023, Table 7, pp. 213–14) and Ali (2024, Table 6, pp. 178–79).

A further observation is that these data reproduce the pattern of compression that was regularly repeated in Bangladesh in earlier years and decades.[57] The reallocation of expenditure across categories highlights the budget categories that are "squeezable" and those that are not. Social services and general services are in the former category, while physical infrastructure and public private partnership (PPP) subsidies are in the latter.

As a final point, the above descriptions show that the authorities have persistently overstated revenues and expenditures in both their plans and the annual budget. The justification for this behavior, if any, is weak. At the start of each exercise, the data confirm that both revenue and expenditure have underperformed relative to earlier projections. This practice of ignoring the most recent data has a long history. For example, it was evident in the 5th FYP, which was formulated in the mid-1990s. To illustrate, it was predicted that by the plan's end (FY02), the tax-to-GDP would be 12% and real ADP spending would increase by 90%. The actual tax-to-GDP ratio in FY02 was 7.7%, and because ADP had risen less than the 26% growth recorded by GDP over the plan period, the ADP/GDP ratio had fallen from 7.9% in FY98 to 5.6% in FY02.[58]

Annex 2: Structural Budget Balance (SBB)

Discussions of the SBB are rare even for policymakers. Their attention most often focuses on the "headline" or actual budget balance, which is the difference, positive or negative, between total revenue and total expenditure. The balance is typically measured relative to some metric, such as GDP. The headline budget balance is determined by the economy's performance—its growth rate, the structure and administration of the revenue system, the dynamism of trade, and government spending. By contrast, the "structural [balance] is that part of the [measured budget balance] that is not related to the state of the economy."[59] The SBB represents an estimate of the balance (deficit or surplus) that would emerge if the economy were operating at its "potential output." Several methods have been devised for its estimation.[60] The IMF's approach involves three steps: 1) estimate the difference between actual output and potential output, that is, the "output gap"; 2) measure the cyclical components of expenditures and revenues;[61] and 3) adjust the observed revenues and expenditures by their cyclical components. The difference is the SBB.

Economic managers view the SBB as a more complete guide for policy because it indicates the degree of stimulus that the actual budget provides to the economy's longer-term trajectory. In their assessments, they identify and make allowance for the year-to-year cyclical factors that will lower or raise the headline budget balance as the economy expands and contracts. By estimating the SBB, economic managers can determine the degree of stimulus required from the headline budget balance to boost longer-term factors—improvements in the skills and competences of the labor force, the accumulation of capital, the rate of technology adoption, and the rate of innovation—so that economy can approach its potential output.

By fixing (or controlling) the headline budget balance, as Bangladesh has done, the authorities delink its impact from the economy's performance. In the process, they eliminate any systematic connection of the SBB to the output gap. The SBB still influences the factors that underpin potential output—skills, competences, capital, technology, and innovation. But the fixed budget balance prevents the SBB from having any systematic influence on closing the output gap.

The implication is that in Bangladesh, the headline budget balance as currently managed does not contribute efficiently and effectively to the promotion of longer-term growth and development.

Notes

1. As Raihan, Bourguignon, and Salam (2023, p. 13) explained, “From independence in 1972 until now, Bangladesh has been able to increase its per capita gross domestic product (GDP) almost fourfold, cut its poverty rate from as much as 70% to the 20% figure today, and become the second largest exporter of ready-made garments (RMG) in the world. However, while the country ranks among the top 15 countries in the world in terms of growth of GDP per capita over the last 15 years, it ranks in the bottom 20% of governance and institutional quality indicators.”
2. Decisively dealing with budget compression will help Bangladesh improve its overall macroeconomic governance. This will involve actions by the authorities to manage the fiscal, monetary, and financial systems in ways that balance the budget over the business cycle, ensure that local inflation is consistent with international norms, keep the exchange rate internationally competitive, and maintain national debt remains within prudent bounds (Hill and McPherson 2004). This point is discussed further below.
3. This was the widespread initial response to the COVID-19 pandemic, including in Bangladesh (IMF 2022, p. 5, par. 3).
4. This issue is discussed in a companion policy note, “Bangladesh’s Tax-to-GDP Ratio” (November 2024). Bangladesh’s chronically low tax-to-GDP ratio dates back decades, with the current ratio at ~7% of GDP only marginally higher than it was in the 1970s.
5. The available data show that all governments in Bangladesh have run budget deficits continuously from FY73 (9.3% of GDP) to FY24 (4.6% of GDP). During the 1970s, the estimated average exceeded 8% of GDP, and for the 43-year period FY81 to FY24, the average was 4.6% of GDP. The evidence is from Government of Bangladesh (1997, Table 1.12, p. 12), Mahmud (2004, , Table 1), the Ministry of Finance’s finance division’s data portal (www.mof.portal.gov.bd./files/), and Table 1 of the IMF’s Article IV Reports from November 2011 to June 2024.
6. Ahmed (2023, p. 196) noted that the “deficit has grown slightly over the last 10 years but is now capped at around 5% of GDP as a part of the Government’s self-imposed fiscal discipline.” A semi-formal assertion of the authorities’ intentions is reported in the 2018 Article IV consultations, where Fund staff confirmed that they were told by Bangladesh officials that the “deficit will stay within the 5.0 percent of GDP budget target” (IMF 2018, p. 10, par. 22). The IMF has also referred to a 5% deficit as a “budget target” (IMF 2019, p. 8, par. 15).
7. For the period 1992 to 2024, the budget deficit averaged 4.3% of GDP. With the corresponding annual growth of GDP of 5.7% per annum, the debt-to-GDP ratio fell.
8. World Bank (2023, pp. 14–5). The Bank had previously referred to the issue in its Country Development Strategy (World Bank 2023, p. 29, par. 97): “The draft 2021 PEFA [Public Expenditure and Financial Accountability] notes weaknesses at the level of budget credibility, budget execution including significant deviations from initial budget, delay in preparation of finance account, limited monitoring, and disclosure extra-budgetary operations, sub-national governments and state-owned enterprises (SOEs), contingent liability, and fiscal risk.”
9. Since the annual budget is framed within the context of the FYPs, and more broadly the 20-year Perspective Plan (General Economics Division 2020a), the credibility of the planning process is questionable as well.
10. Bangladesh’s expenditure shares in these areas rank well below comparator countries. For the period 2000 to 2021, the shares of GDP spent by Bangladesh government on health and education were 0.5% and 2%. Corresponding data for India were 0.9% and 3.9%, Vietnam

1.9% and 3.8%, and Indonesia 1% and 3.1% (World Bank WDI country data files, accessed September 2024).

11. The themes of recent plans have been "Accelerating Growth and Reducing Poverty" for the 6th FYP (General Economics Division 2011), "Accelerating Growth, Empowering Every Citizen" for the 7th FYP (General Economics Division 2015), and "Promoting Prosperity and Fostering Inclusiveness" for the 8th FYP (General Economics Division 2020b). The same applies to the last two budgets: "Towards Smart Bangladesh by Sustaining the Development Achievements in a Decade and a Half" (2023–2024) and "March Towards Smart Bangladesh Following a Path of Sustainable Development" (2024–2025). Since experience had shown that none of the aggregate revenue or expenditure projections could be met, the officials involved already recognized that these aspirations, at best, could only be partly met.
12. Opportunity cost is a fundamental principle in economics. It is the value of a foregone alternative, that is, the action that is given up when another action is chosen.
13. Although this estimate comes from comparative experience, it is consistent with local and foreign assessments. In the last two budget speeches, two different ministers of finance asserted that in reaching high-income status in 2041, a "Smart Bangladesh" would have a revenue/GDP ratio of 20% (Kamal 2023, par. 9; Ali 2024, par. 8). The implied tax-to-GDP ratio was at least 17.5%. which demonstrates that neither minister doubted the country's additional "tax capacity." The most recent World Bank *Development Update* had no doubts either, noting that "Bangladesh currently collects approximately half of its potential revenue, given its economic structure, level of development, and trade openness" (World Bank 2024, p. 23). An alternative interpretation is that, relative to comparator countries, the rich and well-to-do in Bangladesh annually gained a "free ride" in their tax burden of several percentage points of GDP.
14. As an example, in its Country Partnership Strategy, the Asian Development Bank stated that "efforts to enhance domestic resource mobilization will be a key priority in the CPS period to meet the growing needs for public expenditure on physical and social infrastructure" (Asian Development Bank 2021, p. 2, par. 6).
15. Budgeting makes no sense without and explicit commitment to efficiency, value for money, or another principle that guides the allocations being made.
16. Evident in the second table in Annex 1. The detailed allocations can be found in the referenced budget speeches (Kamal 2023, Table 7, pp. 213–14; Ali 2024, Table 6, pp. 178–79).
17. General Economics Division (2020, p. xl).
18. Press Xpress (2023) describes the project's history and its achievements.
19. Such an exercise in not as far-fetched or as difficult as it might appear. The GED already knows what each plan was supposed to achieve. The opportunity costs (or losses) would be the difference between the growth and development outcomes of each plan's activities if they were fully implemented and what was achieved.
20. As currently structured and funded, the Bangladesh State, irrespective of how it is governed or by whom, is too large to effectively handle the small tasks needed to successfully promote rapid growth and inclusive development, yet too small to address the larger challenges. The explicit objective in improving revenue mobilization is not necessarily to enlarge or reduce the State. Rather, it is to ensure that the public sector, through its programs and activities, complements the activities of the private sector so that the country can grow as rapidly as environmentally feasible while developing inclusively and sustainably. This requires public-private balance, a notion that has been central to economic policy discussions from (at least) the

time of Adam Smith's *The Wealth of Nations*, when he described the key duties of the "sovereign or commonwealth." For Smith, these were seen as defense, justice, and public works (Smith 1776, book V, ch. 1, pp. 653, 669, 681).

21. Linking low taxation to increasing income inequality might be a stretch, but taxation's "ability to pay" principle clearly connects the two. From 1991 to 2023, during which time the tax-to-GDP ratio (as noted earlier) remained around 7%, the income growth of the top 10% of the population significantly exceeded the growth of the overall economy, while that of the lowest 10% fell short by a large margin. These different growth rates explain why the ratio of the income shares of the top to the bottom 10% of the population increased from 5.7 to 7.8 (World Bank WDI online, accessed September 2024). Scenarios could readily be constructed to identify how the increase in public resources could have helped moderate this adverse shift in income shares.
22. Although the concept of SOC presently attracts minimal attention, the underlying idea can also be traced back to Adam Smith when he discussed "erecting and maintaining those public institutions and those public works, which though they may be in the highest degree advantageous to a great society, are, however, of such a nature that the profit can never repay the expence [sic] to any individual or small number of individuals" (Smith 1776, p. 681). More specifically, SOC comprises "those resources which are not privately appropriated, either for technological reasons or for social and institutional reasons, and which may be used by the members of society free of charge or with nominal charges." They are "exemplified by roads, airports, harbors, dams . . . schools, hospitals, libraries, museums, parks, air-water deterrents, water-sewerage works, transportation-communications facilities, and other 'health-education-welfare' service installations." Furthermore, they are "traditionally recognized as a factor entailing 'external economies' and therefore inducing private investment" (Kurihara 1970, pp. 398–99; Uzawa 1975, pp. 9–10). In Bangladesh, the low rate of ADP implementation (referenced in Annex 1) and regular cuts in other government spending have reduced the capacity of the available stock of SOC to "induce" and/or "lock-in" private investment. The result is that the returns to private *and* public investment and the rate of economic growth have been lower than they might otherwise have been.
23. The World Bank's WDI make these comparisons easy and illuminating. Areas where Bangladesh has lagged its low- and lower-middle-income peers include financial development, revenue mobilization, agricultural transformation (i.e., share of income relative to share of labor force), access to basic sanitation, male and female literacy rates, and trade and international exchange.
24. A dubious positive outcome of budget compression is that it enabled Bangladesh to "game" the conditions of its current IMF program. By compressing recurrent and capital expenditure when revenue fell short, Bangladesh was able to meet the "quantitative performance criteria" (QPC) on the "floor on primary balance" (IMF 2023b, p. 6, par. 7, and Table 7, p. 38). Without this "adjustment," Bangladesh would have missed two of the three QPCs and not just one.
25. It is also not much of a success because many developing countries have avoided debt distress by adopting appropriate macroeconomic policies. They include one or more of raising levels of revenue adequate to cover planned expenditures, promoting financial deepening so that a growing share of the budget deficit can be funded by borrowing from the nonbank public rather than the banking system, and using borrowed funds prudently so that they generate returns high enough to service the national debt.
26. See note 5.

27. This point was raised earlier. Here, I emphasize the broad notion of macroeconomic governance. Others, however, have a different focus. The European Commission (2024) has highlighted "economic governance" and the IMF "fiscal governance." For the European Commission, it involves "stronger coordination and surveillance of both fiscal and macroeconomic policies and the establishment of a framework for the management of financial crises." In its December 2023 review of Bangladesh's program performance, the IMF asserted, "Continued progress on public financial and investment management, fiscal risk analysis, and fiscal transparency remains important to enhance fiscal governance" (IMF 2023b, p. 13, par. 20). The three ideas are connected. Improvements in all three areas will be needed to help Bangladesh repair and move beyond the damage generated by budget compression.
28. Over recent years, the lack of confidence has produced financial regression; that is, the financial sector has become progressively shallower. A key indicator, broad money to GDP, was 64.5% in 2015, and by 2024 it had fallen to 50.5% (World Bank WDI online; IMF 2024, Table 1, p. 29).
29. Although BB restricts capital transfers, it has been easy to transfer money out of Bangladesh through informal channels. The usual means—delaying the repatriation of export proceeds and over-invoicing imports—have been widely mentioned, but counter-transactions using remittance income have been common. These points are described in recent IMF and World Bank reports (Varghese and Hul 2023, pp. 12–3, pars. 3–4; World Bank 2024, p. 17, Box 1). Capital flight is difficult to measure although a general indicator is a large, negative "errors and omissions" component in the Balance of Payments. Since 2010, there has only been one year (FY14) when the errors and omissions were positive (IMF 2012, Table 3, p. 28; IMF 2013, Table 3, p. 26; IMF 2016, Table 4, p. 39; IMF 2019, Table 3, p. 28; IMF 2022, Table 3, p.27; IMF 2024, Table 2, p. 30).
30. These effects are discussed in a companion policy note, "Exchange Rate Management in Bangladesh" (November 2024).
31. A matter that is analyzed in a companion policy note, "Bangladesh's Inflationary Bias" (November 2024).
32. The former government's goals of Bangladesh becoming an upper middle-income country by 2031 and achieving high-income status by 2041 are well out of reach irrespective of how the interim government responds. To reach high-income status ($14,005 in 2023 dollars), the annual per capita GNI growth rate for Bangladesh from its level of $2,860 in 2023 to 2041 would have to be 8.7%. Bangladesh's best longer-term performance was an average of 6.5% per annum (p.a.) from 2006 to 2019. The recent turmoil has already significantly lowered projected growth rates for 2024 and 2025, making the task commensurately harder.
33. A useful start would be for fiscal managers to begin rationalizing and removing the (counter-productive) jumble of cascading taxes, relief, subsidies, and indulgences that were included in the 2024 budget speech (Ali 2024, ch. 8 and 9).
34. With Bangladesh on the verge of graduating from "low-income" status (presuming the country moves beyond the recent turmoil), international grants (already low) will not be a significant source of resources.
35. When the exchange rate is floating, all macroeconomic shocks are reflected in the exchange rate. This requires economic managers to pay special attention to macro stability.
36. It is worth recalling that one of the main objectives of the 2012 and most recent IMF programs has been macroeconomic stability. The aims of the 2012 program were to "restore macroeconomic stability, strengthen the external position, and engender higher, more inclusive

growth" (IMF 2012). For 2023, the aims were to "help preserve macroeconomic stability and prevent disruptive adjustments to protect the vulnerable, while laying the foundations for strong, inclusive, and environmentally sustainable growth" (IMF 2023a). The 2012 program became moot when the anticipated balance of payments pressures eased. The program did not produce macroeconomic stability with low inflation, a competitive exchange rate, a low budget deficit, and efficient public expenditure. Economic growth resumed, but it was not inclusive. The current IMF program remains incomplete, with key macroeconomic variables not expected to settle until FY29. By that date, the IMF projects that inflation rates (both CPI and GDP) will be above 5% p.a., the budget deficit will remain at 5% of GDP, export growth will barely exceed the projected growth of GDP, public debt will be significantly higher than at present, and, based on the elevated capital output ratio, there will be minimal improvement in economic productivity relative to current levels. That is, the macro economy will not have stabilized. The basic problem with the IMF's expectations is that no effective measures will be in place to restore investor trust and improve citizen confidence in the authorities' capabilities to manage the economy and society in the national interest. In effect, the IMF is assuming that a business-as-usual strategy with continued budget deficits of 5%, low revenue mobilization (a tax/GDP ratio of 9.2% in FY29), and broad money increasing by 15.3% (data from IMF 2024, Table 1, p. 29, Table 3b, p. 32, Table 4, p. 33), the economy can grow at 7% p.a. That is, the IMF program (at best) restores the economy to its basic configuration in 2021 without addressing its fundamental problems.

37. While officials typically resist cash budgets, they will work if its results are widely advertised (Bolivia, for example, published the monthly outcome in the local press) because they focus everyone's attention—officials and citizens—on the low amounts of revenue being raised. Pressure soon mounts for major changes in the tax rates and the tax relief that have been benefitting the rich and well-to-do. It also spurs action to reduce corruption in the revenue authority. Hill (2004) described how Zambia successfully implemented its cash budget: inflation dropped dramatically, revenue performance improved, the exchange rate stabilized, and both public and private investment increased.
38. The (re)training will help dispel any notion that BB and the relevant Bangladesh authorities more generally have the necessary capacities to directly manipulate the exchange rate in a constructive way. There is a lesson for Bangladesh in that none of the major economic entities (the US, the EU, the UK, Australia, New Zealand, South Korea, Chile, Singapore, and others) can (or attempt) to directly manipulate their exchange rates.
39. BB would not have needed to pay a subsidy on remittances if the exchange rate had been competitively valued.
40. World Bank (2024). The current IMF program (IMF 2023a, 2024) has several benchmarks for improving the NBR. From the limited progress so far, most are being implemented in the breach. Other development partners such as the Asian Development Bank have a clear interest in revenue reform and would assist, through technical assistance, for that to happen (Asian Development Bank 2021).
41. World Bank (2022, p. 13).
42. "Revenue grew by 9.5% and was equivalent to 8.2% of GDP, lower than 8.4% in FY22. . . . Significantly slower growth in capital expenditure, down 15.7% in FY22 to 4.6% in FY23, tamped down government expenditure to 12.6% of GDP from 13% in FY22" (Dey, Barun, and Rabbani 2023).
43. IMF (2018, p. 6, par. 7).

44. IMF (2018, p. 10, par. 22).
45. IMF (2019, p. 8, par. 15).
46. IMF (2019, p. 8, par. 16).
47. IMF (2023b, p. 6, par. 7).
48. IMF (2024, Fig. 4, p. 27). Although the FY24 data are estimates, they show the same pattern of underperformance.
49. IMF (2024, p. 13, par. 16). Similar data in earlier reports reveal that both government revenue and expenditure were below budget estimates from FY13 to FY24 (IMF 2018, Fig. 2, p. 10; IMF 2019, Fig. 2, p. 21, and Fig. 4, p. 27; IMF 2023a, Fig. 2, p. 28).
50. A common practice for governments in other developing countries has been to allow (or induce) state-owned agencies to cover what the government owes them through loans from state-owned commercial banks (SOCBs). It is also common for these loans not to be repaid. They eventually are counted by SOCBs as nonperforming loans (NPLs). In Bangladesh, NPLs have been a long-standing, and yet to be resolved, feature of SOCB operations (IMF 2012, pp. 11, 15, Box 1, p. 17, Table 6, p. 33; IMF 2013, p. 9, par. 4 and Box 3, p.12; IMF 2023a, p. 7, par. 10 and p. 7, Table 1, p. 10; IMF 2024, p. 16, par. 25 and Fig. 5, p. 28). It is not clear how much these loans have eased pressure on the government budget. Strict bank-ing oversight by BB and forensic audits would be needed to reveal that. For reference, both activities are public financial management “structural benchmarks” in the current IMF program (IMF 2024, Table 10, p. 40).
51. Referring to Ministry of Planning data, the Ministry of Finance’s “Monthly Report on the Fiscal-Macro Position” (vol. 56, no. 10, April 2023, Section 1.2) noted that for the 10 months of July to April FY22, “the execution rate of ADP is 60 percent.” The quote earlier from Dey, Barun, and Rabbani (2023) provided similar information.
52. General Economics Division (2020, Sec. 1.5.1, pp. 17–8).
53. 5th FYP (Government of Bangladesh 1997, Tables 4.1 and 4.2). For reference, the budget deficit averaged 6.4% during the plan. Without budget compression, the deficit would have been higher.
54. 5th FYP (Government of Bangladesh 1997, Sec. 4.4, p. 72 and Table 4.3).
55. 5th FYP (Government of Bangladesh 1997, Tables 4.6, 4.7, and 4.8). The budget deficit was not reported, but data assembled by Mahmud (2004, Table 1) suggest that it averaged around 4.4% of GDP.
56. For FY23 and FY24, the CPI (GDP) rates of inflation were 9% (6.9%) and 9.4% (5.8%) percent, respectively. Adjusting actual expenditure for both types of inflation reveal that they were 10.6% (8.9%) and 14.3% (11.4%), respectively, less in real terms than the budgeted amounts.
57. Discussing the period from 1990 to the early 2000s, Mahmud (2004, p. 4026) focused on the role that changes in ADP (what he deemed the “flexible part of budgetary expenditure”): “Actual development spending usually falls short of the budgeted amount—in some years by very large margins.”
58. Data are from 5th FYP (Government of Bangladesh 1997, Sec. 4.12 and 4.13, pp. 77–84, and especially Tables 4.12 and 4.15), Mahmud (2004, Table 1), Ministry of Finance data por-tal at www.mof/portal.gov.bd/files/, and World Bank WDI online (accessed September 2024).
59. Keep (2024), p. 8.
60. Hagemann (1999), Table 1.
61. For example, revenue rises in a boom, while expenditures tend to decline (as welfare and other payments fall), with the reverse occurring during a slump.

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