

By Faran Mahmood

Budget overruns – an indicator of poor fiscal management

ISLAMABAD: This year, for the first time in history, the annual budget statement has been presented under a new piece of legislation called the Public Finance Management Act (PFMA) 2019.

The PFMA, along with the comprehensive Budget Manual 2020, has provided much-needed legal cover to the budget process and has elaborated the mechanism of public finance management envisaged in the constitution (Articles 78-88, 118-127 and 160-171).

With new oversight tools such as a mid-year review of the budget utilisation status, the public finance management process will be more transparent and less ad hoc.

However, the new Act has failed to regulate the problem of supplementary budgets and Pakistan is one of the few democracies where the executive has powers to authorise additional expenditures from the Federal Consolidated Fund.

As per the constitution and the PFMA, there is no timeframe for government departments to request for supplementary grants, so the cabinet naturally delays such approvals as late as possible.

This year, just two days before the presentation of annual budget for 2020-21, the Economic Coordination Committee (ECC) of the cabinet approved a supplementary budget of around Rs29 billion.

Similarly, the government approved a supplementary budget of Rs11 billion in December 2019 and secured ex-post facto approval of parliament for Rs393 billion worth of additional spending in financial year 2018-19. Such supplementary budgets are an indicator of poor fiscal management and, unlike simple financial re-appropriations, have a real economic impact.

Article 84 was originally meant by the framers of the constitution to provide fiscal flexibility and a cushion to the government in case any unforeseen expenditures arise – as evident from the speeches of Dr Mobashar Hassan, the then finance minister in 1973.

However, such budgetary shocks are now a norm and not an exception, and the National Assembly essentially rubber-stamps these budget overruns every year in an ex-post facto fashion.

The Supreme Court, while hearing constitutional petition No 20/2013, said public financial management was still being governed by the pre-partition General Financial Rules (GFR) and as per Rule 104 of the GFR, prior assent of the National Assembly was required before any supplementary funds were made available.

Moreover, the supplementary budget statement is subject to the same scrutiny and procedure as is applicable to the annual budget statement. This is, however, a custom more honoured in the breach than in the observance.

As the new PFMA has copied Article 84 of the constitution in its para 10 of Chapter 2, it fails to close this significant loophole that has led to fiscal irresponsibility on the part of the government for decades.

However, at the same time a tougher fiscal discipline reduces the ability of government machinery to absorb economic shocks. Had the new Act been more stringent while dealing with supplementary budgets, it would have made it difficult for the government to cope with Covid-19 and opt for the policy of economic stimulus in the middle of a financial year.

Standing committees

A lot of judgement errors in fiscal planning that lead to supplementary budgets could be avoided if standing committees are made more functional.

As per Rule 201 of the National Assembly Rules of Business, standing committees may examine expenditures of the ministry concerned at will. They are also required to endorse proposals for the Public Sector Development Programme (PSDP), prepared by the ministry concerned, and forward their recommendations to the Ministry of Finance by March 1.

However, in practice, no ministry reports its mid-year expenditures or gets its development budget evaluated by the standing committees. This small practice, if implemented in true letter and spirit, could lead to significantly improved planning and accountability of the civil machinery.

Better fiscal management is the call of time as after 18th Amendment, the fiscal space of the federal government has shrunk drastically. The privilege of changing the budget by the executive in any manner it deems fit is a mockery of parliamentary oversight and fundamental democratic principles.

Article 84 of the constitution and the PFMA should be amended to account for prior approval of parliament in respect of supplementary budgets and the budget manual should be revised to reflect new rules of business accordingly.

The writer is a Cambridge graduate and is working as a strategy consultant