outlook for exports.

In summary then, the forecast slowdown in growth in 2009-10 is, on balance, prudent.

There are, of course, risks around this forecast.[3] In addition to the global recession, the most significant economy-wide risk to the forecast is perhaps energy shortage. The budget explicitly assumes "increased private sector investment in response to measures to eliminate power and gas shortage..."

This assumption, plus in election pledges for the energy sector, provides benchmarks against which the government's performance should be assessed.



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Enter taxman

A budget deficit of 5 percent of GDP is forecast for 2009-10. To put this in context, the budget deficit is estimated to have been 4.1 percent of GDP in 2008-09, while in the previous year, the army-backed regime presided over a deficit of 5.1 percent of GDP. At 4.7 percent of GDP in 2011-12, the deficit is expected to continue to exceed the government's target of 4 percent of GDP over the forecasting horizon.

Higher development expenditure appears to be the major reason why budget deficit is rising. In 2008-09, development expenditure is estimated to have been 3.7 percent of GDP. This is projected to rise by a percentage point by 2011-12. Non-development expenditure, on the other hand, is expected to dip by 0.4 of a percentage point relative to GDP over the same period.

Much has been said about the failure to implement ambitious budget targets. Particularly, development programs seem to repeatedly miss the target. Two points need to be made here.

First, a major impediment to full implementation of development programs is the lack of local government authority over, and responsibility for, development work.[4] The government seems to betray a degree of bipolarity when it comes to local empowerment. On the one hand, lofty promises reiterate its commitment to strong local government. On the other hand, its actions -- power grabbing by the MPs in local affairs -- belie that commitment. Failure to resolve this internal contradiction will not only affect development expenditure, but in time could also engulf the government in a political crisis.

Second, it was not always the case that development expenditure missed targets. Indeed, under the stewardship of S.A.M.S. Kibria, development programmes were implemented in a better manner than has been the case since.

Moving from implementation to financing, how does the government propose to pay for the additional development expenditure?

Revenues have been marked down in the budget because of slower GDP, imports, and remittance growth. Nonetheless, at around 11.5 percent, revenue-to-