Macro Context of the Budget

AHSAN MANSUR and **BAZLUL H. KHONDKER** evaluate how various sectors will be affected by this year's budget

THE budget for the next fiscal year (FY10) has been announced. This is the first budget of the new government reflecting their election promises. This is also the first budget prepared against the backdrop of the global financial and economic crisis. These two issues make this budget a special one, and any assessment of the budget therefore must take these factors into account.

Our focus here will be on the macro-economic setting; and the appropriateness of the policy stance of the budget. This article argues that while the expansionary stance is appropriate under the current sluggish macro-economic environment, major challenges lie in implementing the large investment programs envisaged under the Annual Development Plan (ADP) and the new initiative under public private partnership (PPP) arrangement. The possibility of crowding out of the private sector may also undermine the government's intended fiscal stance.

Macro-economic setting

The two most important macro-economic parameters anchoring the budget are real economic growth and the general price level. The target rates for economic growth and inflation are 5.5% and 6.5% respectively. Considering the state and pace of recovery of the world economy, domestic investment climate, domestic demand situation, and developments in commodity prices, these two targets appear reasonable.

Projections suggest that overall economic growth during first half and second half of FY10 will be around 5% and 6%, respectively, leading to an average annual growth of 5.5 percent. During the last fiscal year agriculture grew at 4.6% -- which is almost 1 percentage point higher than its historical average of 3.6%. Following three consecutive bumper rice crops, agricultural growth is also likely to return to its historical average in the next fiscal



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