cial sector -- with financial assets to GDP ratio being one of the lowest -- the government is extremely constrained in its reliance on domestic financing of the budget. Traditionally, this problem has been addressed through reliance on external financing. This year will be no exception, although owing to the larger size of the deficit, the reliance on both domestic and foreign financing will be correspondingly higher.

Ambitious spending plans combined with an optimistic revenue target have accentuated the risk for the budget deficit to exceed the 5% of GDP target leading to a correspondingly higher borrowing requirement. A significant part of the budget deficit is expected to be financed from external sources, requiring the government to borrow $2.6 billion.

In the historical context this external borrowing target is very high and any shortfall in realising this would also lead to a further higher borrowing requirement from the domestic banking system.

Scenarios based on projections for monetary aggregates (Table 2) demonstrate that the large deficit financing from the banking system as envisaged in the budget would seriously limit the availability of credit for the private sector. Estimates based on 17% expansion in money supply (i.e. broad money M2), and allowing for government borrowing of Tk. 167.5 billion bank borrowing, would limit private sector credit growth to only 12.3 percent in FY10. This scenario essentially rules out Bangladesh Bank's ability to contain monetary expansion below this level in the event inflationary pressures accentuate.

It does not require much imagination for one to conclude that, in the event of a significant shortfall in external financing, the government would be forced to cut its spending plan. The key problems in mobilising the targeted external financing may be the government's plan to modify the current procurement rules/process, the increased degree of effective protection in the budget through regulatory and supplementary duties imposed on imports, and the privatisation policy.

Possible policy reversals in the area of privatisation of public entities and the increased incidence of protection in the budget certainly run against the long-term interest of the country. The procurement policy, however, would need to be looked at with an open mind from all sides so that implementation of ADP improves while not compromising on the quality of spending. We hope that the government will be able to reach reasonable understanding with the donors on these important economic policy issues so that its external resource mobilisation target is not undermined.

WE certainly would like to see the government successfully and effectively implementing the large spending plan envisaged in the budget. A repeat unfolding of the typical budget scenario/outturn should be avoided at all cost. A typical Bangladesh budget outcome is characterised as: setting a high revenue target, a high ADP target, and a fiscal deficit in the range of 3.5-5 percent of GDP. In the event, a large revenue shortfall is generally offset by lower ADP implementation, thereby achieving the target for overall budget deficit. Citizens of the country surely want to see Bangladesh shift from this vicious cycle of "unsatisfactory performance in ADP utilisation and tax revenue collection" to its emergence as a star performer in both domains in order to embark on a double digit growth path over the medium- and long-run. The government must do everything in its capacity to execute effectively the ADP and PPP plans and realise its revenue and external borrowing targets.

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Table 2: Growth of Monetary Survey Components (2009 over 2010)

Components	% change** June 2010 Over June 2009	% change** June 2010 Over June 2009
NET FOREIGN ASSETS	21.81	21.81
NET DOMESTIC ASSETS	12.60	16.13
DOMESTIC CREDIT	12.44	15.53
Public Sector Credit	25.21	25.21
Credit to Govt.(net)	29.18	29.18
Credit to Other Public	8.70	8.70
Private Sector Credit	8.18	12.30
BROAD MONEY	14.00	17.00

***If Broad money is 14% or 17% and Public borrowing 167.5 billion taka*

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