GDP ratio is projected to be higher throughout the forecast years than in the recent past -- in 2006-07 revenues were only 10.2 percent of GDP.

Again, there are implementation concerns -- it's easier to promise that revenue collection will rise than to implement it. Nonetheless, it is possible to increase revenue collection. Tax revenue relative to GDP has already risen by 1 percentage point since 2006-07. Potentially bigger risks to revenue growth are from slower GDP, import, and remittances growth.

Even if revenue were to grow as forecast, it will still not be enough to arrest the rise in budget deficit. Two-fifths of the deficit is expected to be financed from foreign borrowing in 2009-10, rising to over half by 2011-12. The concern over the foreign borrowing is not so much about the cost of debt-servicing, which appears to be modest by international standards. Rather, it is the strings and conditionalities that may come with the debt that should worry us.

To be sure, conditionalities suggested by donors and international agencies can anchor credibility of commitments to difficult but needed reforms. However, for this to happen, such conditionalities have to be carefully negotiated. And therein lies the test of leadership for the finance minister and his officials.

Should foreign borrowing prove too dear -- whether in financial terms or in terms of political economic costs -- the deficit will have to be financed from domestic sources. As it is, the budget forecasts that nearly half of the deficit will be financed by bank borrowing in 2009-10. Bangladesh Bank will have to be extremely careful in the coming period about not monetising the deficit, fuelling inflation in the process.

The appointment of someone closely linked to the political side of the ruling party's election campaign to the governorship of the central bank does not bode well for the autonomy of that institution. Governor Atiur Rahman will have an opportunity to prove the sceptics wrong if he can resist printing money to pay for the debt (as an aside, a more immediate risk of inflation may well be commodity prices, which could start rising rapidly as the Chinese economy recovers).

Continued budget deficit is, of course, not sustainable over the long term, and there is no alternative to raising revenue. The government seems well aware of this. The budget acknowledges that revenue-to-GDP ratio is much lower in Bangladesh than in neighbouring countries. Over the medium term, the government plans to raise revenue by a combination of: expanding tax coverage; rationalising the tax system; decentralising the collection operations; and institutional reforms separating tax policy from tax administration.

While there are serious concerns about implementation of various expenditure and revenue measures, these challenges are not insurmountable.

These ideas may not have political glamour but, if properly followed through, they could significantly boost public finances and our ability to invest for growth and development. As such, the government's performance on this front should be closely monitored. Of course, "political compromises" such as the "black money deal" raise concerns about the credibility of the government's commitment on tax reform.

Growing pains

To recap then, the economic growth forecasts underpinning the budget are rather prudent. While there are serious concerns about implementation of various expenditure and revenue measures, these challenges are not insurmountable. And finally, the government should be held to account for its promise to reform the tax system over the medium term so that ambitious development programs can become sustainable. It is the medium term growth prospects that this section focuses on.

Recall from above that an export boom is forecast for 2010-11 and 2011-12.

Is this sensible?

This forecast appears to be rather rosy if one considers that Bangladesh's major export markets -- the United States, the United Kingdom, the euro area -- are likely to remain mired in a sluggish recovery over these years. True, our ready-made garments and knitwear, servicing the budget end of the market, have proved resilient going into the recession. However, there is no reason to think that the so-called Wal-Mart effect will underpin an exports boom.

However, there is an interesting assumption that may explain the forecast export revival. The economic growth, and by extension fiscal, forecasts rest on a number of medium term assumptions. One of them is: "sustained high growth rates in exports through exploitation of new market opportunities and export market diversification."

It's not clear what exactly "new market opportunities" and "export market diversification" refer to.