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The higher the fiscal deficit as a percent of GDP, the wider is the scope of destabilizing the macro-economic activity. The recent budget that is proposed has the highest fiscal deficit so far in its time. Of late in its budget, the government could not reveal its strong commitment of providing policy directions and incentives as well, towards the stabilization of the capital market. Rather capital market has been neglected as not being perceived as an alternative investment vehicle and fund raising channel to partially meet the fiscal deficit. As, we have seen in the budget proposal that out of total deficit of Tk 45,204 crore that constitutes 5.0% of GDP, deficit of around Tk. 18,957 crore will be met from the bank borrowing. This deficit financing from bank borrowing by the government will in turn crowd out private sector investment and eventually will squeeze the growth of national income. Instead of bank borrowing, this deficit can be financed from the capital market by issuing equity &/or debt instruments on which the fiscal incentives can be provided so as to allure the investors in the market. This deficit financing from the capital market can, not only help in injecting fund flows to private sector investment for addressing demand but also ensure achieving target growth rate. Moreover, it can be argued that the contraction of money supply in redressing target high inflation while compromising the growth rate a bit may not be successful, as the inflation is of cost-push rather than demand-pull in nature.

The first article of this issue focuses on the role of the central bank, Bangladesh Bank, as a more developmental and promotional one, apart from its mainstream regulatory function of controlling inflation and stabilizing financial architecture. The author of the paper puts together the developmental and strategic role of the Bangladesh Bank in promoting financial inclusion towards enhancing sustainable growth process and encompassing small unbanked entrepreneurs through many innovative financial products, which may be believed to be keys for turnaround in its journey towards participatory development. The paper highlighted a number of major innovations in Bangladesh that assists in maintaining growth and smoothening the path of progress and prosperity, as it is believed that financial innovations are constraints induced.

The second article intends to test empirically whether the theory of PPP holds in determining the exchange rates, as testing PP theory has a special significance in identifying the presence or absence of distorting factors among the nations and making cross country comparisons of income and wages. Yearly panel data for 12 countries from two extreme groups, viz., 6 from developed and 6 developing nations including Bangladesh are used. The findings of the paper derived from SUR model show less supporting evidence in favor of PPP convergence with no sign of long-run size, while unit root tests provide increasing evidence in favor of

PPP theory. The findings of the paper, however, do not provide any evidence of structural difference between developed and developing countries implying non-existence of heterogeneity between industrial and non-industrial countries as a distinct group in respect of performing PPP.

The last and final article of this issue empirically investigates the dynamic relationship among money multiplier and reserve money (RM) components in the money supply process in Bangladesh using structural vector autoregression (SVAR). The success of monetary policy in achieving its objectives critically depends on the degree of controllability of Bangladesh Bank on RM, an operative instrument, and broad money supply (M2), an intermediate instrument. The findings of the paper indicate that the currency-deposit ratio component in the money multiplier and net government borrowing, and movement of net foreign asset components in RM are the major contributors to changes in money supply. As these components limit the controllability of Bangladesh Bank over money supply, the conduct of prudent monetary policy would critically depend on taking the implications of meaningful changes in these key components into consideration.

Mahmood Osman Imam **30 June, 2011**
Editor