the imported inflation.

There are some internal developments partly linked to the international changes. In particular the inflation is causing both the current account and government deficits to rise; there are growing labour problems linked to the inflation. The natural disasters of the past year have increased the government deficit as every effort is made to repair the losses. The events of January 11, 2007 have caused a major decline in private sector investment. This is not to suggest that the January 11 revolution was not appropriate, but one must face up to the consequences of these necessary actions and one of these was a sharp reduction of private sector investment.

Is the economy in serious difficulty? Yes. Slowing growth and continuing inflation are a terrible combination. The lower 75% of the income distribution will find their standard of living even worse. Slower economic growth is having a negative impact on employment growth. Within the informal private sector there is much activity to increase income and to find things to do; the Bangladeshi worker does not remain idle in the face of adversity.

Will we see a continued slow down of the economic growth rate? The slow down in growth arises from a decline in private sector investment and slower growth in net exports (i.e. exports net of the imported components). This drop in aggregate demand will not be offset by the increases in expenditures arising from the inflow of the remittance flows or government expenditures. Fiscal policy to increase the deficit is probably not possible with the present economic configuration. Indeed the strongest calls will be for a reduction in the government deficit. (This of course is exactly the wrong response to the situation Bangladesh is facing but that does not mean it will not be called for by many.) Monetary policy will not be able to influence the private sector investment demand which is low due to the high level of uncertainty that the entrepreneurs perceive, both about their own future and the future demands for their products.

Everyone knows the, facts but I will restate them: Import of capital equipment is down in dollar terms and is even less in real terms since much of these goods comes from Europe or Japan whose currencies have appreciated with respect to the dollar. Thus, if the machine costs 100 euros in 2006, in 2008 there is a 15% increase in the price in dollars due to the appreciation of the euro and underlying inflation of say 3% per year; together this means that the machine costs 22% more in dollar terms. The imports of raw materials for the construction industry face the same type of price increase.

Will the inflation continue in double digits or will it be restrained? The inflation rate is now above 10% and the economy is likely to face continuing increases in food and raw material prices.

Registrations of investors at BoI have declined sharply. The construction sector reports it is suffering from reduced demand. Domestic producers see slow down in domestic demands reducing the amount of investment needed to meet the market needs. Uniformly the economy faces declining weak aggregate demand for investment.[1]

The export impact on aggregate demand comes from the domestic content of the exports. In apparel sector there is a two way squeeze from lower price (C&M margins) and higher costs of imported materials. The export performance is only fair and the weakening world economy may adversely effect demand or alternatively drive down prices even further. Shrimp exports are slumping; other exports are doing moderately well.

The export processing zone exports continue to increase exports rapidly, but this remains a small fraction of the total. A rough estimate suggests exports will expand the economy about 7% offsetting the decline from private investment. Other expansionary factors will contribute 1-2% to GDP. I forecast GDP growth of 2-4% in the current financial year. Those who are more optimistic about the near term growth rate claim private sector investment will recover strongly. We shall see.

Will the inflation continue in double digits or will it be restrained? The inflation rate is now above 10% and the economy is likely to face continuing increases in food and raw material prices in taka terms. This is due to the continuing appreciation of the Indian rupee, the weakening balance of payments leading to a probable slight depreciation of the taka, and the world wide increase of prices in dollar terms. In addition, labour will be putting much pressure on the private sector to increase wages, transport costs are rising, and other input prices will face sharper price increases.

Indian food prices are inflating at 3-5% and the rupee is appreciating with respect to the dollar at 7-10% per annum. The taka will depreciate with respect to the dollar by 4-6%. Thus food prices in Bangladesh will rise about 15-22% as most of these prices are linked to the Indian market. To the extent that smuggling is