Make much difference over the next two years? I argue that the main instruments of economic policy are not really available in the present configuration of forces. Monetary policy is ineffective as the problem with investment demand is neither the interest rates nor the availability of funds but fear of exposure to the ACC. Even though statements have been made that no one else will be investigated most businessmen will believe this only after a substantial time has passed and it is seen to be true.

Elsewhere, I will discuss the recent Monetary Policy Statement and the macro-economic analysis that underlies its approach. The management of the exchange rate is particularly challenging since the weakening balance of payment can be supported by a foreign exchange reserve run down for sometime, but it is not clear if that is the right approach. Maintaining the exchange rate with respect to the dollar, waiting for the balance of payments position to correct, is a dangerous policy. For the next two years I believe that there will be little linkage between aggregate demand and monetary policy.

Fiscal policy is even more difficult. The government deficit is already substantial. Reducing this deficit is an urgent task. But it is irresponsible to do so when the economy is growing slowly. These issues are long term ones -- improving the tax system, reducing subsidies, introducing user fees, reducing payments or subsidies to SOEs, privatisation, etc. None of these actions will do much good in the next two years but will have important consequence within 5 years.

There are important policy actions needed in the financial sector, in agriculture, in the RMG sector and in energy, but none of these will have much impact over the next two years. The government could give the go ahead to a number of projects proposed by foreign investors; these projects would have little impact over the next two years but in the longer term they will add to production. Better to get started than to wait but do not expect much impact for the next 24 months.

Is there enough food? This question troubles everyone. In my view the answer is yes. All of the data on supply of rice and wheat is based on some very dubious estimating procedures that have not been subject to recent implementation audit.[2] Demand estimates are better.[3] The size of the food gap is a mystery.[4]

But the solution to this policy dilemma is straightforward: the private sector be allowed to import as much rice or wheat as it wants; the private sector will react promptly to signals of rising prices and a shortage of rice or wheat within the economy. The government's responsibility is to ensure that the imported rice and wheat is of acceptable quality and to acquire grain through its procurement program by buying within the domestic market. The government's task is to operate a distribution system to poor households and to maintain a significant grain reserve.

Selling low cost food to the poor particularly in rural areas and maintaining a competitive exchange rate are the two actions that government can achieve that will ease the pain through these two years.

In conclusion, the Bangladesh economy faces two years of slow GDP growth and high inflation. There is little that macro-economic policy can do about this, as the causative factors are either external or are actions that have been already taken place and cannot be reversed. Selling low cost food to the poor particularly in rural areas and maintaining a competitive exchange rate are the two actions that government can achieve that will ease the pain through these two years. The real challenge to government is to continue the structural changes needed to allow rapid growth to emerge again.

Forrest Cookson *is an economist.*

Notes:

1. Investment by the private sector is about $9 billion, of which $3b is in factories, equipment; the rest is construction. Declines in capital goods imports suggest a 30% decline in new factories; decline in construction materials indicate a 20% decline in construction (all in constant prices). This suggests a 23% decline in investment; or 3.5% in GDP including the multiplier effect we have a 7% decline in GDP from this type of expenditure.
2. The yield estimated through a crop cutting survey is based on a well designed sampling procedure. There is room for considerable improvement in the sample design. The area planted estimate is much less accurate; more detailed use of remote imaging has been used from time to time but should be routine. The errors here are ± 15% largely in the area planted or harvested.
3. Demand is based on the Household Income and Expenditure Survey. These are very good samples so household use is probably will estimated; institutional population [military, prisons] are easy to estimate. Seed is also reasonably easy. Rice lost is another major issue. Errors all together are ± 5% with the error really over the extent of rice lost.
4. All the estimates give a surplus!
