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May 28, 2020

**Statement by Mr. von Kleist and Mr. Buetzer on Bangladesh  
(Preliminary)  
Executive Board Meeting 20/64  
May 29, 2020**

**We thank staff for the report and Mr. Bhalla and Mr. Singh for their helpful Buff statement.**

**We support the request for Fund support under the RCF and RFI.** Against the backdrop of the emergence of a temporary financing need, we welcome that Fund support is expected to catalyze other financing, while neither exhausting access limits nor putting a significant strain on the country's capacity to repay. The support of other IFIs, as well as the European Union, will likewise contribute to stabilizing the Bangladeshi economy and protecting the most vulnerable.

**We take overall positive note of the authorities' economic policy response to the crisis that aims at mitigating the impact on those affected by income losses and preserving the economic potential.** The ongoing global health crisis has interrupted Bangladesh's steady growth path that had underpinned noteworthy progress on poverty reduction and improving conditions of human development. *Since the ready-made garment industry, which dominates overall exports, is particularly affected by cancelled international orders, could staff provide its assessment of the prospects for this industry against the background of an only cautious re-opening of economies and retail trade in key foreign markets?*

**Given the banking sector's central role in channelling financial assistance to the economy, we urge the authorities to exercise diligence and caution in ensuring the smooth functioning of the financial system as well as the proper and efficient use of funds.** Support measures to the economy provided through the banking sector should meet high prudential standards, including on AML/CFT aspects, in line with the relevant economic policy and financial stability objectives. We welcome the assurances by the authorities in this regard as well as the intended safeguard measures as outlined in the Buff statement.

Moreover, particular attention should be paid to the situation of state-owned commercial banks with regard to weaknesses in terms of capitalisation, asset quality, and governance, while assuring a level-playing field with private commercial banks. *In view of the high significance of the microfinance sector, which traditionally serves micro entrepreneurs and those working in the informal sector, who are most affected by the lockdown, we would be interested in staff's views on the latest developments in this segment of Bangladesh's financial sector.*

**The proper use of the Fund's resources is of paramount importance and must be ensured by appropriate financial governance measures.** *Regarding the planned ex-post audit of COVID19-related spending (para 24), we would appreciate further details by staff on the modalities and the scope of this exercise, including on whether this provides for audits of the assistance channelled through the banking sector?*

**With a view to the medium term, we encourage the authorities to undertake strong efforts to rebuild sound public finances and to address deep-rooted structural weaknesses in PFM frameworks, tax collection, and governance.** Public debt is likely to remain at a manageable level in the near-term. However, already in the pre-crisis years a deterioration of the fiscal position could be observed, with the primary deficit doubling between FY2017 and FY2019, not least due to persistently weak tax revenue performance, which led to increases of the public debt ratio despite high GDP growth rates. In view of the continued high vulnerability to shocks, such as those related to climate change, it will be imperative to mobilize sufficient tax revenues to meet arising expenditure needs, including for support to the poorest, and maintain appropriate fiscal buffers for future shocks after the current crisis abates.