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**Statement by Mr. Kiekens and Mr. Veziroglu on Bangladesh
(Preliminary)
Executive Board Meeting 07/53
June 22, 2007**

We thank staff for a well-written set of papers and Mr. Kishore and Mr. Bannerji for their helpful Buff statement.

Bangladesh faces major political and economic challenges. The choices that the transitional government (TG) makes will have a great impact on the country's future. In this regard, the TG has to undertake multiple measures in order to ensure political and macroeconomic stability. The absence of a working parliament in the country is of concern. Problems of political instability continue to plague Bangladesh and hamper progress on many fronts, including the fight against poverty. Bangladesh needs another comprehensive reform agenda to boost growth, contain inflation and reduce widespread poverty.

We welcome the TG's efforts to fight corruption which is clearly a major problem and consumes 1 to 2 percent of GDP as is strikingly mentioned in the Buff statement of Mr. Kishore and Mr. Bannerji.

While commending the authorities for the fast implementation of most structural reforms and meeting one of the two performance criteria and structural benchmarks, we regret that the sixth and final review could not be completed before the PRGF expired, due to the nonobservance of several performance criteria and most importantly the underperformance of revenues. We note that the process of assigning a unique identification number for taxpayers in the Large Taxpayers Units was completed at the end of May.

The authorities should continue to adhere to the main elements of the PRGF and press forward with the remaining structural reforms. The increasing pace of reform implementation in other areas, including price adjustments and more comprehensive reforms in the energy sector, are steps in the right direction. They give assurance about the sincerity of the TG to keep up the reform efforts.

As for fiscal policy, revenue increasing efforts were never successful throughout the entire PRGF arrangement as evidenced by the revenue-to-GDP ratio of 10.6 percent. This clearly needs to be increased significantly because no expenditure measures can bring the fiscal situation on a sustainable basis in the absence of any improvement in revenues. The authorities need to make determined efforts to improve revenue collections which are necessary for funding development expenditures and social spending without jeopardizing fiscal sustainability. For the period ahead, in particular, if the authorities are to request a new PRGF, they should design a comprehensive revenue reform including accelerating reforms in revenue administration and reducing tax exemptions and incentives.

With these remarks, we wish the authorities every success in their future endeavors.