

SUR/08/101

September 22, 2008

**The Acting Chair's Summing Up  
Bangladesh—2008 Article IV Consultation  
Executive Board Meeting 08/82  
September 19, 2008**

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their efforts to maintain macroeconomic stability in a year of multiple natural disasters and elevated food and fuel prices, which have put severe pressure on incomes, particularly of the urban and landless rural poor. Despite the long-term challenge of climate change, the medium-term outlook is favorable. Economic growth is expected to increase as key structural reforms take root and the country capitalizes on accelerating growth across the region.

Directors considered that preventing an increase in inflation is the immediate priority, as the poor and vulnerable are hit hardest by inflation. With fiscal policy focusing on addressing the social impact of higher commodity prices, most Directors saw the need to tighten monetary policy to keep inflation expectations in check, and welcomed the recent action by the central bank in this regard.

Directors agreed that macroeconomic policies are consistent with external stability. The external current account is expected to stay broadly in balance as continued growth in exports and remittances offsets growth in imports. The current exchange rate policy has allowed the real exchange rate of the taka to remain in line with medium-term fundamentals. Directors broadly agreed, however, that more flexibility in the rate would support monetary policy objectives and encourage deepening of the foreign exchange market. They urged the authorities to adopt a timetable to remove the remaining exchange restriction.

Directors congratulated the authorities on the recent progress in fiscal stability. A significant improvement in revenue collections has helped offset increasing energy and fertilizer subsidies and larger outlays on social safety nets. The July increase in administered prices was a bold step, which has prevented a deterioration in state-owned enterprise finances. However, more remains to be done to place state-owned enterprises on a secure footing and to increase poverty-reducing spending.

Directors stressed that keeping to the macroeconomic targets of the FY09 budget will be important in controlling inflation. Directors supported the budget's mildly expansionary

stance, particularly in the light of recent fiscal prudence and the need to address the social impact of higher food prices. Given current inflationary pressures, Directors encouraged the authorities to use any excess revenue collections to reduce domestic financing.

Directors stressed that increasing revenue will be crucial to allow fiscal policy to return to a lower deficit path in the medium term, while at the same time increasing essential public expenditures. They encouraged the authorities to move forward to revise income tax and value-added tax legislation, and to maintain recent progress in strengthening revenue administration and enforcement. Replacing open-ended price subsidies with more affordable and better-targeted social safety nets will help provide fiscal space for increases in public investment and the provision of social services. Directors urged the authorities to address constraints in implementing the Annual Development Program so that priority spending increases in line with development needs.

Directors noted that further deepening of the financial sector will help Bangladesh to achieve its growth potential. They encouraged the authorities to give priority to strengthening the financial positions of the state-owned commercial banks and to developing a secondary market for government securities.

Directors called on the authorities to accelerate the implementation of structural reforms and to strengthen institutions, in order to attract investment and prevent a slowdown in growth that could jeopardize debt sustainability. In the same vein, it will also be important to improve infrastructure, particularly in the electric power sector.

It is expected that the next Article IV consultation with Bangladesh will be held on the standard 12-month cycle.