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International Monetary Fund
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Statement of an IMF Mission at the Conclusion of the Staff Visit to Bangladesh

The following statement was issued today in Dhaka after the conclusion of an International Monetary Fund (IMF) staff visit to Bangladesh:

“A team led by Mr. Masato Miyazaki, Advisor in the Asia and Pacific Department of the IMF, visited Dhaka March 30 – April 2, 2009 to discuss recent economic developments with the government and other stakeholders. The team was privileged to meet with Finance Minister AMA Muhith, Planning Minister AK Khandker, Advisor for Finance and Planning Dr. Mashiur Rahman, Bangladesh Bank Governor Dr. Salehuddin Ahmed, Finance Secretary Dr. Mohammad Tareque, NBR Chairman Md. Abdul Mazid, other senior government officials, and members of the private sector and civil society. The team expresses its deep appreciation to the authorities and others for sharing their valuable time for discussions.

“Overall, Bangladesh’s economy has so far remained relatively robust. The domestic economy has retained momentum from a favorable agricultural performance. Bangladesh continues to benefit from the fall in food, fuel and other commodity prices and this has helped bring inflation down to 6 percent, a two-year low. Limited capital account dependence has largely protected the country’s banks and stock market from the first round impact of the global crisis.

“However, pressures from the global slowdown continue to build and it now seems likely that growth will moderate. Garment and other exports are slowing and garment export orders are now declining. Any significant slowdown in the export sector is likely to weigh heavily on the domestic economy through a reduction in demand for services, transport and construction. Remittances remain robust but in recent months the number of workers leaving Bangladesh for employment abroad has declined and the number of workers returning from abroad has risen. These factors may put downward pressure on the current account of the balance of payments and increase the need for policies to maintain the momentum of domestic demand.

“The revised budget for FY2009 (July-June) and the budget for FY2010 should be formulated with a view to create the fiscal space necessary for contingent actions that may become necessary to help ease economic challenges to the population. This will be difficult in light of likely shortfalls in revenue in FY2009 and the fact that revenue prospects are likely to be very weak in FY2010 and future years without appropriate changes in tax policy

and revenue administration. The upcoming budget provides the opportunity for the government to signal its major economic policy intentions. In this context, the new government should consider carefully revenue reforms to support government spending for infrastructure and social investment that, in turn, will boost the economy's medium-term growth potential and accelerate poverty reduction. Further support for increased public investment should come through steps to develop a robust and transparent framework for public-private partnerships and strong efforts to streamline the project approval process and project implementation.

“Improving efficiency of financial markets is vital to bringing down the cost of financing growth. Recent expansion in the secondary market for government paper is an encouraging sign and should help with the emergence of a yield curve that can be used to help develop corporate bonds and other debt instruments. Dealing with distressed assets and enhancing the capital base of the state-owned commercial banks is needed to build and maintain confidence in the overall financial system. The government should assist these banks to clean up and strengthen their balance sheets while ensuring strengthened oversight of these banks.

“The mission looks forward to returning to Dhaka for the annual Article IV Consultation later in 2009.”