



Dr. Atiur Rahman
Governor
Bangladesh Bank

Present Economic Outlook and Challenges Facing Bangladesh Economy¹

As we all know, financial markets and institutions in Bangladesh remained free of the toxic assets and contagion afflicting the global financial markets over the past couple of years, because of the limited, regulated external exposure of our economy. Unlike most other economies in the region and elsewhere, economic growth in Bangladesh has thus far been only mildly impacted by the ongoing global slowdown, attaining 5.9 percent real GDP growth in FY 09 following the 6.2 percent growth of FY 08. Foreign exchange reserve is more than USD 7.04 billion even after ACU adjustment. Inward remittances is recorded at USD 9.7 billion (end June 2009) and exports continue to post double digit growth. The government's somewhat conservative 5.5-6.00 percent growth projection for FY 10 takes into account the risk of the current global downturn being prolonged. We have indicated some of these risks and as well as policy responses to such risks in our latest Monetary Policy Statement (July-December 2009) which is proactive as well as accommodative.

Incipient signs of global recovery appear however to be taking hold; global stock prices have recouped much of the losses incurred at the height of the crisis, and some of the troubled large US financial institutions are already able and willing to pay back the bailout money they drew earlier. If the clouds in the external sector continue to clear up at the current pace, and if domestic conditions continue to remain benign, I would expect Bangladesh economy to outperform the official FY 10 projection to attain growth close to FY 09 level. In this more upbeat growth expectation I see challenges to policy makers and entrepreneurs in Bangladesh in two main dimensions.

The first of these is our by now familiar Achilles heel of ***infrastructure growth trailing way behind the growth aspirations of the rest of the real economy***, dampening investment initiatives and slowing down output activities. For rapid substantive progress in this area, I would expect and urge the American Chamber and other investors' forums like yours to join hands with the government enthusiastically in the public private partnership (PPP) program announced in the FY 10 budget. We will certainly facilitate this process of PPP implementation with all the needed support.

¹ The speech was delivered by the Governor of Bangladesh Bank to the American Chamber of Commerce in Bangladesh at 12.30 p.m. on 21 July 2009 at the Dhaka Sheraton Hotel.

Now the challenge is how to devise rules and norms for desired institutional mechanism to initiate the implementation process. As infrastructure projects typically involve longer gestation periods we indeed have no time to waste, and we must leverage the capabilities and strengths of the private and public sectors as fast as possible to attain the best synergies in expanding our physical infrastructure on which the SMEs and others can install the superstructures of their diverse output activities.

The second dimension of challenge is about the **quality** rather than the **quantity** of growth, in particular about **inclusiveness** and **environmental sustainability**. To be on a just and stable base, our growth efforts must spread benefits across all social groups and regions, and not worsen inequality further by neglecting the indigent. Although social justice and equality are issues primarily for public policy, CSR programs of businesses can go a long way in reducing deprivation and widening the access of rural and urban poor to basic social and financial services necessary for healthy, enlightened and productive life.

The current rudimentary CSR practices of financial and non-financial businesses in Bangladesh are limited essentially to passive charitable giveaways; proactive engagement in design and implementation of the action programs could have substantially strengthened and expanded the impact of their CSR budgets. In particular, CSR programs of businesses can bridge the market failures and market gaps that limit the access of the poor to the services necessary for their well being. For example, despite rapid steady expansion of bank credit, the large majority of the rural and urban poor in Bangladesh still remain largely excluded from access to basic financial services. A migrant rural laborer working in a city is hard put to find a quick and affordable way of sending money regularly from his/her meager income for subsistence of dependents in a rural outreach; and private sector banks are still to be spontaneous in extending loans to rural households for on-farm/off-farm productive activities. They, however, are now changing gears in the light of the added emphasis being given by Bangladesh Bank on this aspect.

Financial inclusion, i.e., bridging these market gaps and failures in financial services to the rural and urban poor **should be a high priority in CSR programs of banks**; *they can engage in creative collaboration with IT based telecommunication service providers to design arrangements for remote delivery and recovery of credit in rural locations using text/voice messages, to avoid the high costs involved in branch based service delivery.* There are outside examples of such initiatives worth emulating, some of these supported by philanthropic organizations of American businesses and individuals.

Our growth efforts must also be ***environmentally responsible***; where possible improving, and at least not further worsening the ecosystem for our current and future generations. CSR programs of businesses in Bangladesh should initiate steps for measuring and tracking the ecological footprints of their activities, ***aiming over the medium term at what has come to be known as carbon neutrality***.

Here again, many very good examples are available in CSR practices of businesses in America and Europe. I wish to take this opportunity to urge foreign investors' chambers like yours to set up your own local examples of such initiatives, and also to support and mentor similar initiatives of businesses owned by Bangladeshis. Bangladesh Bank has, of course, started guiding the banking sector to become more inclusive (e.g. via enhanced agricultural and SME lending) and environmentally responsive (e.g. via refinancing new loan products on solar energy, bio-gas, effluent treatment plant etc). We have just declared the agricultural credit policy. We are now working hard to devise an effective action and monitoring plan to ensure that farmers, including share croppers, fishermen, livestock and poultry entrepreneurs get the loans in time without any hassle.

The central bank has also been encouraging more inclusive remittance payment system and women-entrepreneur-friendly investment. It has already implemented a number of smaller PPP projects on electricity production. Interesting lessons have been learnt from these experimentations, some of which are worth replicating. The recently published monetary policy of BB has also been designed as pro-poor growth augmenting, besides being focused on core areas of price and financial system stabilities.

Before concluding with thanks to all of you for your patient attention, I would like to mention that while actively engaging with the government and the private sector in full support of our growth aspirations, Bangladesh Bank will continue its vigilance about maintaining macro-financial stability as the needed policy infrastructure underpinning sustained stable economic growth.