



## 39<sup>th</sup> ACU Board Meeting, June 11-12, 2010, Thimpu, Bhutan

Bangladesh country overview presented by Dr Atiur Rahman, Governor,  
Bangladesh Bank

Honorable Chairman, Directors, Alternate Directors of ACU; other distinguished delegates, observers and participants; my warmest greetings and a very good morning to you all. Particularly for lowlanders like us Bangladeshis, attending this meeting in the rarefied unpolluted atmosphere of the high Himalayas is a special pleasure; and my gratitude to our gracious hosts the royal monetary authority of Bhutan for the privilege.

A detailed country report on Bangladesh in FY10 (July 09-June 10) is in the dossiers, let me present you here a brief overview of how Bangladesh economy has been faring in FY10 following the modest growth slowdown in the global crisis (5.9 percent real growth in FY09, against 6.2 percent of FY08). To maintain growth momentum by upholding domestic demand in the face of weakening export demand in the traditional Western markets, the stimulus package in the FY10 national budget enlarged the social safety net for the poor and vulnerable, increased the input subsidies and other support for agriculture, introduced/enhanced export subsidies for affected sectors aiming particularly at diversification into new products and markets. BB's monetary and credit policies maintained easy credit conditions for productive pursuits including easier loan rescheduling terms for affected exporters; implemented a strong agricultural credit program with a new lending scheme for sharecroppers; and ample refinance lines against loans for agriculture, SMEs, renewable energy and effluent treatment projects, low cost housing. The supportive fiscal and monetary measures effectively upheld domestic demand and the related economic activities, supported further by continuing growth in workers' remittance inflows (16.7 percent y-o-y growth in ten months of FY10 up to April). Exports weakened in FY10 however, with slower than expected demand recovery in traditional markets in the West. Exports grew by 10 percent in FY09 but the weakening trend ensued in the later quarters and bottomed out in early FY10, recovering slowly thereafter but remaining in the negative in first three quarters of FY10, back in positive growth in April 2010. Due to the continuing demand weakness abroad, export growth in FY10 is likely to be in single digits. Consequent to the slower export growth, real GDP growth in FY10 is projected to fall somewhat short of the initial expectation of around six percent, despite good agricultural output and buoyancy in domestic demand.

Like exports, imports also remained slower in FY10 with growth in the negative in first three quarters; mainly because of lower input imports for export manufacture, but also because good domestic harvests meant low need of food grain imports. Low outflows for import from export receipts and growing inflows of workers' remittances has strengthened external sector viability with widening current account surplus and reserves exceeding USD ten billion, but this is also keeping liquidity high in the money and credit markets, creating pressure on consumer prices and asset prices. 12 month point-to point CPI inflation crept up to 9.06 percent in February 2010 from 2.25 percent of end-June

09, with food price inflation in double digits. Real estate prices are for some time now under bubble like pressure, and overvaluation of stocks with weak fundamentals evidence irrational capital market behavior. To keep inflationary trends in check, BB has adopted a number of measures including prohibiting banks from own account land acquisition without prior BB authorization and from customer lending for land purchase, close monitoring of capital market activities of banks, and enhancement of CRR and SLR for scheduled banks by 0.5 percentage point with effect from 15<sup>th</sup> May, 2010. Steps taken by BB have started showing results, credit growth slowed down in March, with p-to-p inflation easing down to 8.78 percent. A strong 51.6 percent increase in LC opening for capital machinery imports evidence robust pickup in new investment momentum, boding well for output growth in FY10 and beyond. Much will depend however on quickly addressing the shortages in power and gas supplies, for which public and private investments are being mobilized by the government with the highest priority.

The financial sector in Bangladesh went through a number of notable milestone events in FY10. Foreign exchange reserves reached and exceeded USD 10 billion for the first time in November 2009; a July 09 FSAP update and stress testing IMF mission assessed the Bangladesh banking sector as being in healthy shape, reporting major progress in strengthening soundness, stability and resilience; .Basel II capital regime was introduced for banks from January 2010; BB commissioned a solar power system at its head office main building in March 2010; automated settlement of paper-based and electronic fund transfers in the Bangladesh Automated Clearing House (BACH) commenced operation from April 2010; and from the beginning of FY10 BB has been pressing on with a major initiative for fuller, deeper financial inclusion of all population segments and all economic sectors thus far underserved or not served by the financial markets. To this end, BB has been encouraging bank led partnerships between banks, MFIs and mobile phone/smartcard based IT platforms in introducing innovative cost saving financial service delivery packages tailored to the needs of specific customer segments. Also, around nine million new accounts in the names of farmers have been opened by state owned banks for direct delivery of government cash subsidies for agricultural inputs, with nominal opening deposit of only Taka ten per account. BB sees financial inclusion as an important tool in promoting inclusive growth with rapid poverty reduction. The first ever sovereign credit rating of Bangladesh by S&P and by Moody's in April 2010 was a milestone for the Bangladesh economy. S&P assigned BB-/B ratings with stable outlook, Moody's assigned Ba3 rating with stable outlook; placing Bangladesh only behind India in South Asia. The Government of Bangladesh does not however intend to access non-concessional commercial borrowing from international markets; it is to facilitate borrowings by private sector investment projects including those under public private partnership that Bangladesh has opted to obtain sovereign credit rating.

As of all other ACU members, trade settlements of BB under the ACU arrangement declined substantially in 2009, understandably as a consequence of slowdown in global output growth and global trade. I notice a heartening incipient trend of increase in the last two settlements in March and

May 2010. Hopefully, with pickup in economic activities in our region, the episode of decline will soon be behind us.

It will be pertinent to ask ourselves whether the ACU is likely to encounter any crisis of confidence, given the current fiscal stresses (and consequent pressure on Euro) in some members of EU, thus far the most successful monetary union. We may recall that the recent global financial crisis was precipitated mainly by private sector profligacy in the US; while the EU is now afflicted because of profligacy of the public sector in some EU member countries, far overspending the deficit limit (three percent of GDP) set by EU discipline. Hearteningly, people in our Asian region are culturally much less addicted to debt. We need to preserve and foster this cultural attitude with appropriate policy steps, discouraging unbridled expansion of wasteful borrowing and spending both in the public and private sector. At the same time, we need to be proactive in investing our savings into growth generating real investments including much needed physical infrastructure in our region, instead of piling up huge low yielding reserve balances in currencies of other regions. To this end, I look forward to working collectively in this august forum of key drivers of economic policies in our region, a recognized global growth hub.

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