



Governor's Statement No. 13

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Statement by the Hon. **ABUL MAAL A. MUHITH**,
Governor of the Fund and the Bank for **BANGLADESH**

**Statement by Honorable ABUL MAAL A. MUHITH,
Finance Minister and Governor of the Bank and the Fund for BANGLADESH
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Introduction

It is an honor and privilege for me to be able to participate in the Bank-Fund annual meetings 2014. First of all, I would like to express my sincere appreciation to the president of the World Bank and the managing director of IMF for their able leadership in steering the two Bretton Woods institutions at a time when the global economy is still struggling to come out of the uncertain effects of the financial meltdown that began in 2008.

The World Bank or more specifically its IDA window has been the most important development partner of Bangladesh since our independence in 1971. Out of a total IDA support to the country of US \$18.9 billion, in FY2014 the commitment was US \$2.7 billion covering various sectors such as, power, safety net system, coastal embankment, municipal governance and rural electrification..

I would like to reiterate that we are fully in agreement with the new WBG strategy aiming at achieving twin goals of ending extreme poverty and promoting shared prosperity. Needless to mention that some major shifts in mind-set and then in policies and institutions will be required for attaining sustainable growth with shared prosperity in many of our developing countries. As far as we are concerned we believe that these twin goals can be achieved even earlier than the targets set by President Jim Young King. Actually poverty altogether (and not simply abject poverty) can be banished in most countries by 2030. Poverty elimination and not reduction, therefore, must be the specific development agenda for the next decade and a half. We have to move away from the focus on the bottom 40 percent that began in the early seventies of the last century to elimination of abject poverty by 2021 and poverty in its totality by 2030. This requires simultaneous attention in a balanced manner to progressive taxation; social protection of vulnerable groups of citizens; careful spending on health, education and housing; control of inflation; governance reforms and environmental sustainability. We have to be cautious in order

to ensure that arithmetic average does not conceal the depth and severity of extreme poverty in the society.

IDA 17 Replenishment and Maximizing Development Impact: *

We welcome the 17th replenishment of the IDA at US \$ 52.1 billion and its main focus on maximizing the development impact for ensuring results, efficiency and effectiveness of WBG's development interventions. The increased contributions to IDA 17 reflect strong commitment of the well to do countries towards achieving the WBG's twin goals and it is greatly appreciated by us. Let me mention that the proposed four-tier Results Measurement System (RMS) is very crucial for tracking the progress in maximizing the development impact. It is a matter of great satisfaction to this chair that the accepted special themes of inclusive growth, gender equality and climate change have now happily added the new but very important timely theme of attention to fragile and conflict-affected states (FCSs). Though our national targets are a little more ambitious, we sincerely appreciate WBG's strong commitment to work as a 'One WBG' to achieve its ambitious twin goals. of reducing extreme poverty to 3 percent by 2030 and promoting shared prosperity on sustained basis by ensuring synergies among the organizations of the group. Functioning as one World Bank is already happening in many countries; in Bangladesh, for example, IFC and MIGA have already turned into active players while IDA still remains the main source of support. What is important is that both public and private resources need to be mobilized in a coherent manner for the recipient countries and especially for the low income countries. I also appreciate the decision for continuation of crisis response window and keeping aside 2 percent of IDA 17 resources for helping increased capacity to respond to severe economic crises and natural disasters along with building resilience of the affected countries. The World Bank is a huge storehouse of experiences of diverse nature in so many areas of economic growth strategies and the new thrust for use of beneficiary evaluation and feedback in projects and programmes is, therefore, most welcome.

I cannot miss the opportunity of extending my thanks to the WBG for choosing three innovative themes for the World Development Report of this year and the next two years. I have had the privilege of welcoming the first WDR in 1978 and I must confess that I eagerly await its publication each year. Thanks to the high class work by the Bank staff and its leaders, the WDR 2014 has rightly identified risk management as a strong tool for development; it reduces the

detrimental effects of risks, and concurrently builds resilience as well as creates opportunities for future. The next WDR would focus on a new area of mind and society and possibly will touch upon a new dimension of development thinking from the behavioral and social science perspective. I hope that it will give us some guidance on how to manage mind-set. I am rather excited by the focus of WDR 2016 on the internet and development. The report is expected to show the potential impact of internet on economic growth, equity and efficiency of public service provisions. What I would like to emphasize, however, is the interesting aspect of ICT impact on elimination of corrupt practices in many areas of regulating or providing services in both the private and public sectors.

One of the main focuses of our development strategy, 'Vision 2021', is 'Digital Bangladesh'. The successive coalition Governments led by Prime Minister Sheikh Hasina have been working towards that goal. Now with the prospect of exercising power for two successive tenures it appears reasonable to expect a move into the world of knowledge economy in the near future. The National ICT Policy articulated in 2009 is presently being followed with necessary modification in keeping with time and we feel confident that the 'Digital Bangladesh' will be a reality by 2021.

Recent Developments in Bangladesh Economy and the Future:

In terms of the progress in achieving Millennium Development Goals (MDGs), my country has a laudable record. Poverty reduction has been more than halved to 26.4 percent in 2013. Remarkable progress has been in achieving gender parity both at primary and secondary education levels. Bangladesh is also on track in meeting the target of reducing under-five child mortality rate by two-thirds by 2015. The maternal mortality rate lessened from 322 in 2001 to 194 in 2010, a forty percent reduction in nine years time. However, concerted efforts are needed from both the government and the development partners to attain the other three goals – eradication of HIV AIDS, malaria & other diseases; environmental sustainability and global partnership for development. At the global level the progress of MDGs is mixed. We want to see more coordination and engagement among the international community including the Bank and Fund in formulating the post-2015 International Development Agenda along with the Sustainable Development Goals (SDGs) so that WBG's development goals can be internalized in the SDGs.

Now, let me give you a brief statement on our economy and its overall performance in recent times. This year is the first year for the newly reelected Government for a consecutive tenure and it is the first experience of this type in the history of Bangladesh. The advantage of the situation is that it will ensure policy continuity as well as completion of the on-going initiatives. The disadvantage is that you have to be always very alert and prompt because you cannot afford to fail on your delivery. Despite the continuation of global recession in many parts of the world, we managed to achieve a sustained growth rate of 6.2 percent over the last five years, containing inflation at a moderate level, maintaining robust export growth, record build-up of foreign exchange reserve, favorable current account balance, sustaining sovereign credit ratings and maintaining overall macroeconomic stability.

The emphasis were on increasing budget size and increase domestic resource mobilisation to a decent level and these targets have been successfully executed. This is also the course adopted for the new five year term. As Bangladesh GDP has been updated this has become all the more difficult an objective. But in order to obtain higher growth and higher level of investment there is no other alternative. The core policies of domestic demand acceleration, private sector mobilisation and export promotion will continue to redress poverty and deprivation conditions. For the next five years including the current year the targets are public revenue of 15 percent of GDP, budget of 20 percent of GDP with escalation in development expenditure, an export level of 50 percent of GDP and manpower export of half a million trained and semi-trained people a year. This will keep remittance flow dynamic. All textile products including garment export will continue to grow, while new items of agri-products, manufactures like leather products, engineering goods and sophisticated goods such as pharmaceuticals and medicines will increase. At the moment the weakest point is stagnant investment partly due to political turmoil, which seems to be under control now. The strategy is to divert attention to growth and welfare as an alternative to political movements. Poverty elimination is key to the growth strategy of Bangladesh because unless you lift people out of poverty you do not have the domestic market growth. Similarly Bangladesh performance is reasonably good primarily because half the population, i.e. the women folk, are being assiduously involved in economic activities. Thus our growth strategy is at the same time inclusive, poverty eliminating and gender sensitive.

To give some measure of progress some figures may be quoted.

- The per capita income has increased to US\$ 1190 in 2014 from US\$ 843 in 2009.
- The rates of poverty and extreme poverty declined to 26.4 percent and 11.9 percent respectively in 2013 from 33.4 percent and 19.3 percent in 2009.
- The revenue collection as percentage of GDP has increased from 10.7 to 13.3 over the last five years.
- We expect that both export earnings and import expenditure to experience 15 percent growth this year.
- The foreign exchange reserve has been increasing consistently and is now \$ 22 billion which is equivalent to 6+ months import costs.
- The public investment programme (ADP) has been increased almost three times since 2009.
- Women's participation in the parliament increased from 12.7 percent in 1991 to 20.0 percent in 2014 in labour force it has gone up to 36 percent. In Bangladesh, about a quarter of families are now under coverage of social safety net program In Bangladesh, about a quarter of families are now under coverage of social safety net program.

There has been a huge expansion in ICT sector in recent times. Bangladesh has already reached the threshold of becoming a technology driven modern state. We have established a total number of 4,526 union information centers aiming at reaching e-services at the grass-root levels. A program for transforming 8,500 rural post offices to e-centers is underway. Over the last five years tele-density and inter-net coverage have increased to 77.8 percent and 23.7 percent respectively. Bangladesh is in the top position in south Asia in terms of ICT use in banking, medical, business & commerce and mass media sectors. We are now exporting soft-wear and ICT services to about 30 countries including the USA, Canada, Japan and some European countries.

As we came to power in 2009 we found that the inhibiting factor for stunted growth is first energy crisis and next transport bottleneck. We targeted energy problem and began a crash programme. Thanks to our efforts we have virtually eliminated energy problem Power

generation capacity has been increased from 3200 MW to 11000 MW now although supply is still only 7000 MW. We are working hard to increase the power generation capacity to 24,000 MW by 2021 and improve supply to 80 percent of capacity. Coal is becoming now the mainstay of electric power. We could not do much about tackling transport bottlenecks; but this is now the area of special attention. We are taking care of long-neglected railway transport and upgrading roads rather than expanding the network. For waterways we have chosen limited routes and want to maintain them well. Dredging and strengthening the river banks is of high priority. As you may have noted the coastal protection roads are getting strengthened on a programmed basis. Bangladesh has finally nationally accepted its role as a transit country; all that is required now is strengthening the transit routes in all modes – rail, road and water. Regional cooperation and assistance from development partners are the crucial factors now to integrate the potentially huge market of South Asia. The contribution of industrial sector to the overall growth is targeted to increase from 25 percent to 40 percent, a target marking considerable ambition. . A number of institutional reforms are being carried out in order to bring down the cost of doing business. In the export sector, a number of steps including provision of stimulus packages along with product and market diversification are underway.

I have not talked much about human resource development. We intend to retain the leading position we hold in HDI. We are giving more emphasis in quality interventions in education and vocational and technical education is demanding greater attention.

Despite rapid urbanization, Bangladesh is still a rural-based economy and majority of poor people live in the rural areas. To make a real transformation of the rural economy we have given more emphasis in investing in rural areas. In order to make rural economy a real growth-hub and more vibrant part of the economy, steps for stimulating farm and non-farm sectors in the rural areas and promoting the small and medium enterprises (SMEs) have been taken. Synergies between rural farm and non-farm sectors can ensure rural transformation and hence help rapid growth and poverty reduction.

The National Commitment in International Context

Vision 2021, five year plans and perspective plan put strong importance on ensuring a legacy of good governance by focusing on three fundamental principles of governance: i) ensuring the rule

of law; ii) avoiding political partisanship; and iii) making a corruption free society. In this regard, Government has already implemented a significant number of reform programmes including reforms in core institutions, improving public administration capacity, public expenditure management, standardizing public procurement rules and regulations, improving budgetary process, streamlining project preparation and approval process, framing strong anti-corruption strategy etc. Several steps have also been undertaken to further improve the judicial system.

Our Government is firmly committed to eliminate all forms of militancy, terrorism, communalism and extremism. To this end, we have strengthened all branches of our law enforcing agencies including their intelligence units with modern training and equipment. In fighting against trans-national terrorism we have been closely working with our partner countries. Monitoring and supervision activities have been further tightened to check against any suspicious money transaction supposed to be financed such activities.

You are aware that Bangladesh is one of the most vulnerable countries for climate change. However, our disaster preparedness and management are widely acclaimed. We demand strong action by the global community to protect and save the environment.

With the IMF we have an ongoing ECF programme designed around our stated policies of increased revenue raising, increased development expenditure and careful public investment programme. This programme has been very helpful and is likely to be successfully completed soon. We are committed to expansion of the private sector. We are committed to mobilisation of higher level of domestic resources. We are committed to tax reforms especially VAT and Customs laws. We are also in the process of setting out our five year programme of budgetary and economic activities. We believe that a new programme with IMF may be negotiated as we move into the budget of 2016. We are pursuing our announced course of graduating from a Least Developed country by 2021 and the only draw-back that we notice now is the lukewarm response of investment in a growing economy. An investment spurt is the need of the hour both from domestic and foreign direct investors.

Thank you very much for providing me the opportunity again to share my thoughts with you. Thank you also for your kind attention and patient hearing.
