

**Statement by M Musharraf Hossain Bhuiyan
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Government of the People's Republic of Bangladesh
at the
7th UNCTAD Debt Management Conference**

Implications of the Current Financial Crisis for Developing Countries

**Mr. Chairman,
Esteemed Secretary General of the UNCTAD,
Excellencies,
Distinguished Guests and Resource Persons,
Ladies and Gentleman,**

I consider it is a privilege to participate in the 7th Debt Management Conference and DMFAS Advisory Group Meeting in this historic city of Geneva at a challenging time for the global economy. It is a great opportunity for me to provide developing countries' perspective on debt management during a crisis time as we are facing today.

2. We have heard the UNCTAD Secretary-General giving a comprehensive overview of the impact of the financial crisis on developing countries and their debt situation. As he has rightly mentioned, this crisis was born in the advanced market economies, but through real and financial contagion, it has important repercussions especially on the least-developed-countries, which are unable to respond with large anti-cyclical fiscal stimulus packages.

3. The LDCs remain particularly vulnerable to external shocks, due to weak export diversification and a heavy dependence on external financing. While solving this vulnerability is a long-term issue, we need to consider carefully the needs and policy options of LDCs to strengthen their basis for sustainable growth in the short-run. This is particularly important when the LDCs' economies are inextricably linked with domestic demands of the advanced countries. Only by managing their growth in a balanced way at times of crises, the LDCs will be in a position to improve the well-being of their citizens and achieve the internationally agreed development goals, while not jeopardizing debt sustainability at the same time.

Mr. Chairman,

4. The global financial crisis shows that the growth and the macro-policy of the rich world still matter for developing countries and for the poor within them, even though some of these economies are very large and have been growing very rapidly. The growing interconnectedness of globalization means that the poor countries are victims of rich world's mistakes and vice-versa. The current global economic crisis has led to heavily reduced capital and investment flow, which has in turn adversely affected the investment-decision by the domestic sectors in the developing countries. It has substantially reduced global trade, including a decline in manpower export that has turned the main export earner for many countries. The unemployment rate in the weaker economies is a matter of serious concern and the consequent need for safety net expansion is a Herculean task. The fall of revenues, due to both external and domestic contractions, is further limiting the fiscal space available to the weak economies to tackle the crisis. This slowdown will impede the fight against poverty and jeopardise achievement of MDG targets by 2015.

5. The LDCs are affected by the economic crisis through various transmission channels, namely by a generally weakening world trade which is about the largest drop in trade in 80 years, drastically reduced commodity prices, and a substantial reduction in net FDI flows by some 25-30 percent. This happens against the backdrop of unstable - and in some cases even unsustainable - financing conditions: LDCs' debt level average 42 per cent of GNI, compared to 26 per cent of other developing countries, ODA flows in 2009 are likely to be decreasing compared to their record high 2008 level, remittances are decreasing, and many LDCs also exhibited currency depreciation which revalue their external liabilities and debt service.

Ladies and Gentleman,

6. As it has been already observed mentioned earlier, one important debt indicator, namely the debt service in relation to government revenues will increase by 17 percent in 2009. This will have substantial effects notably on social and productive investments in LDCs with the resulting long-term impact on MDG achievement and pro-poor growth. As the recent HIPC implementation report highlighted, the risks for debt sustainability is high even for post-completion point HIPCs, which have benefited greatly also from the

Multilateral Debt Relief Initiative (MDRI). So, debt relief itself does not seem to be sufficient for long-term debt sustainability in the presence of large external shocks.

7. Since October last, we have witnessed a spate of proactive steps by leading economies, both developed and developing, and a number of high level consultations to chart a course of action to reduce the impact of the crisis. In an environment different from that of the 1930s, we noticed coordinated global action, activism of the public sector with stimulus packages in all countries and avoidance of competitive devaluations. It is important that this optimism prevails without giving quarters to a sense of complacency. It should be noted that the stimulus packages are not given up early because, it is not only employment that is adversely affected in the developed world, but it is more the dramatic thwarting of the growth and poverty reduction undertakings of the weak economies, and specially of the LDCs who are the worst victims of the crisis.

Distinguished Participants,

8. The Bangladesh economy may not be adversely affected by the global financial recession as the country's financial sector is well-managed and the major parts of the economy such as banking, remittances and ready-made garment exports have still maintained an upward trend. The banking sector is strictly monitored and the Government can take immediate steps in case of any fallout from the global financial crisis. Bangladesh is in a more favourable position than many other LDCs when it comes to the debt situation. The country has been successful in reducing its debt burden in the good years, and our total debt to GDP ratio is - even under the current circumstances - expected to further decline in 2009 to some 23 per cent, down from well over 40 per cent in the mid 1990s. This is a result of strong policies, as well as conducive world economic conditions. A recent IMF Article IV Consultation Mission commended our efforts and encouraged Bangladesh to continue structural reforms and prudent macroeconomic policies, which are at the heart of our success.

9. Bangladesh also saw big improvements in its debt management capacities over the years. A recent DMFAS project considerably helped improve our capacities in the areas of debt and aid management, and we are now up to a high level of international standards in maintaining databases and generating comprehensive reports. Bangladesh

obviously did its homework, but this does not imply that there are no risks ahead of us. The IMF report highlights that while the immediate debt outlook for Bangladesh is good, attention needs to be given to potentially elevated financing needs due to the financial crisis. This is particularly relevant, as the second-round effects of the financial crisis are starting to hit Bangladesh. The question relevant for all LDC is how can one maintain a prudent debt policy in the face of increased credit spreads and lower risk appetite by investors, insufficient grants and concessional borrowing, as well as potentially reduced ODA inflows? There are no easy answers to this question, and I am sure that we will see a vivid discussion on the issue during our conference.

Ladies and Gentleman,

10. Even though like other developing countries, Bangladesh may escape the immediate consequences of the turmoil in the West, there will obviously be long-term consequences. One of them is the possible impact on remittances, a good part of which originates from the professionals whose incomes will suffer if the USA goes into a long and deep recession. As an initial response to the crisis, a high level of unemployment and underemployment in the country, slowdown in the outflow of migrant workers and rise in inflow of returned migrants will possibly have adverse impacts on domestic job markets creating additional pressure. These would, thus, call for appropriate measures to be taken to boost domestic demand for labour.

11. Escaping from the financial crisis trap through a “High Push” would require a large increase in infrastructure and social sector investments. To meet the extra demand, the Governments of the developing countries could request the development partners for additional funding. The World Bank is developing a “Vulnerability Fund” to facilitate investment in infrastructure-related projects, safety net programmes, and financing of SME sector and micro-finance institutions. The Asian Development Bank (ADB) has set up a US\$ 3.4 billion fund to aid fiscal spending amid global crisis. Bangladesh has received US\$ 500 million from that facility.

Excellencies,

12. Let me briefly highlight some important areas, in which international policy action and coordination are crucial. As LDCs have little capacity for counter-cyclical

policies, international policies ensuring liquidity and providing access to fast disbursing grants and highly-concessional finance is key. In that respect, the recent advances in the IMF lending facilities and the increased flexibility in PRGFs are welcome, but more needs to be done. The UNCTAD proposal for a temporary debt moratorium, should be seriously considered as it provides an immediate breathing space for LDCs.

13. However, the response to the global system to the present crisis of recession appears to be extremely slow and very limited. The World Bank has yet to start operations directed at anti-cyclical measures in its member-countries. There is a very little of trade financing from any quarter although global liquidity is at very comfortable level. The Regional Development Banks (RDBs), however, are doing much better in holding the hands of the LDCs. The IMF has at least allocated the new issue of SDRs and the flexible credit facility is providing to be helpful to some countries. The debt reduction initiative is proceeding in its traditional slow motion as if the crisis is nothing new.

14. The economies such as Bangladesh, who are doing better by being cautious in their trade transactions and prudent in their debt management, are, indeed, being punished. They cannot qualify for debt reduction nor can they get any IMF support for trade financing as they have no balance of payment crisis. They are forced to borrow costly short-term money to finance essential imports such as fuel, fertilizer or food and undertake their development effort at a lower level of their potential. This is a problem that defies any expansion of justification and only alternative ways of budget support or sector lending for infrastructure investment or social protection can possibly find some solution. Such economies need firstly grants and concessional loans that are available now at much reduced levels, and secondly rapid commitment of external assistance without elaborate conditionalities. The IFIs have to consider a "Minimum Convergence Criteria" principle in place of the antiquated conditionalities to guide their programmes in the LDCs. This principle will entitle countries to receive IFI funding provided their macro-economic policies are sound and the funding must support effective policies in the real sectors.

15. In the area of debt management, LDCs need more capacity in applying recent and up-to-date risk management tools. These tools will become even more important in the

context of climate change, as LDCs' large agricultural base is particularly affected. My country has been severely hit by climate change symptoms already, and the issue needs to be included in the reform agenda for the international financial architecture. The international community should also revisit their discussions on debt relief and access to grants and highly-concessional financing for heavily indebted countries, which are not part of the HIPC and MDRI initiatives. Especially those countries that have shown commitment to strong policies should receive the financial assistance needed to maintain debt sustainability under the current, exogenously caused crisis.

16. Up to now, the majority of new resources agreed upon at the G20 meetings were chiefly targeted at middle-income countries, leaving little scope for counter-cyclical policies in LDCs. It is, therefore, of utmost importance to keep the momentum of the UN Conference in 2009 to secure that the needs of LDCs are properly reflected in the ongoing transformation of the international financial architecture.

Excellencies, Ladies and Gentleman,

17. I am pleased to know UNCTAD has initiated a major project on Promoting Responsible Sovereign Lending and Borrowing. One of the key objectives of the project is to establish a forum for broader dialogues among lender and borrower states with the aim of developing a set of guidelines to promote and foster mechanisms to enhance responsible sovereign lending and borrowing. It also has the ambition to explore a debt crisis resolution mechanism.

18. This 7th Debt Management Conference organized by UNCTAD comes at an important point in time. The international community achieved a lot in terms of debt relief for HIPCs, but we have not yet solved the question of how to bring about long-term debt sustainability. This conference's sessions, notably on advanced debt management practices, responsible borrowing and lending, and capacity-building in debt management will provide us with a better understanding of the challenges ahead of us.

Thank you, ladies and gentleman, for your kind attention.