INTERNATIONAL MONETARY FUND

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BANGLADESH

February 2023

REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BANGLADESH

In the context of the Staff Report for the Request for an Arrangement Under the Extended Fund Facility, Request for Arrangement Under the Extended Credit Facility, and Request for an Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 30, 2023, following discussions that ended on November 9, 2022, with the officials of Bangladesh on economic developments and policies underpinning the IMF Extended Fund Facility and Extended Credit Facility arrangements as well as reform measures supporting the IMF Resilience and Sustainability Facility arrangement. Based on information available at the time of these discussions, the staff report was completed on January 13, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and International Development Association.
- A **Statement by the Executive Director** for Bangladesh.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR23/25

IMF Executive Board Approves US$3.3 Billion Under the Extended Credit Facility/Extended Fund Facility and US$1.4 Billion Under and the Resilience and Sustainability Facility for Bangladesh

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved today Bangladesh's request for SDR 2.5 billion (about US$3.3 billion) under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangements. This approval enables the immediate disbursement of SDR 352.35 million (about US$476 million). [1]
- The IMF Executive Board also approved SDR 1 billion (about US$1.4 billion) under the newly created Resilience and Sustainability Facility (RSF). Bangladesh is the first Asian country to access the RSF.
- The 42-month program will help preserve macroeconomic stability, protect the vulnerable, and foster inclusive and green growth. Reforms will focus on creating fiscal space to enable greater social and developmental spending; strengthening the financial sector; modernizing policy frameworks; and building climate resilience.

Washington, DC – January 30, 2023: The Executive Board of the International Monetary Fund (IMF) approved 42-month ECF/EFF arrangements of SDR 2.5 billion (equivalent to 231.4 percent of quota or about US$3.3 billion), and a concurrent RSF arrangement of SDR 1 billion (equivalent to 93.8 percent of quota or about US$1.4 billion) to support Bangladesh's economic policies. Bangladesh is the first country in Asia to receive financing under the RSF. Approval of the ECF/EFF arrangements enables immediate disbursement of SDR 352.35 million (about US$476 million). [1]

Bangladesh's robust economic recovery from the pandemic has been interrupted by Russia's war in Ukraine, leading to a sharp widening of Bangladesh's current account deficit, depreciation of the Taka and a decline in foreign exchange reserves. The authorities have taken on a comprehensive set of measures to deal with these latest economic disruptions. The authorities recognize that in addition to tackling these immediate challenges, long-standing structural issues and vulnerabilities related to climate change will also need to be addressed to accelerate growth, attract private investment, enhance productivity, and build climate resilience.

The IMF-supported program under the ECF/EFF arrangements will help preserve macroeconomic stability and prevent disruptive adjustments to protect the vulnerable, while laying the foundations for strong, inclusive, and environmentally sustainable growth. The concurrent RSF arrangement will supplement the resources made available under the ECF/EFF to expand the fiscal space to finance climate investment priorities identified in the authorities' plans, help catalyze additional financing, and build resilience against long-term climate risks.

At the conclusion of the Executive Board's discussion, Ms. Antoinette M. Sayeh, Deputy Managing Director, and Acting Chair, made the following statement:

"Since independence, Bangladesh has made steady progress in reducing poverty and significant improvements in living standards. However, the COVID-19 pandemic and subsequent Russia's war in Ukraine interrupted this

[1] SDR figures for the program are converted at the market rate of U.S. dollar per SDR on the day of program approval.

long period of robust economic performance. Multiple shocks have made macroeconomic management challenging in Bangladesh.

While confronting challenges resulting from the global headwinds, the authorities need to accelerate their ambitious reform agenda to achieve a more resilient, inclusive, and sustainable growth. In this regard, substantial investment in human capital and infrastructure will be needed to achieve Bangladesh's aspiration to reach upper-middle income status by 2031 and meet the Sustainable and Development Goals (SDGs). The authorities recognize these challenges and also the need to tackle climate change issues, which expose the economy to large risks that could threaten macroeconomic stability.

The ECF/EFF arrangement will protect macroeconomic stability and rebuild buffers, while helping to advance the authorities' reform agenda. The implementation of the domestic revenue mobilization strategy that relies on both tax policy and revenue administration reforms will allow increasing social, development and climate spending sustainably. Fiscal reforms to strengthen the management of public finance, investment, and debt will improve spending efficiency, governance, and transparency. Reducing financial sector vulnerabilities, strengthening oversight, enhancing governance and the regulatory framework, and developing capital markets will help mobilize financing to support growth objectives.

Structural reforms to create conducive environment to expand trade and foreign direct investment, deepening the financial sector, developing human capital, and improving governance to enhance the business climate are needed to lift growth potential.

Access to RSF will provide financing to support Bangladesh's climate change adaptation and mitigation efforts. The RSF reforms will complement reforms under the ECF/EFF by improving climate investment potential, strengthening institutions and enhancing climate-spending efficiency to build resilience and catalyze additional official and private finance."

Table 1. Bangladesh: Selected Economic Indicators, FY2019–27 1/

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
				Est.			Proj.		
Real GDP	7.9	3.4	6.9	7.2	5.5	6.5	7.1	7.3	7.4
Consumption									
Private	4.9	3.0	8.0	13.2	7.6	6.5	4.1	4.7	5.7
Public	13.4	2.0	6.9	5.8	-7.5	4.7	6.1	6.3	7.3
Gross Capital Formation	8.6	0.2	8.1	10.0	-6.2	10.5	12.4	11.8	10.9
Private	8.6	0.2	7.8	9.3	-11.7	9.1	10.9	9.3	12.5
Public	0.7	18.2	9.1	12.1	11.0	13.9	16.2	17.5	7.7
Trade									
Exports of goods and services	11.5	-17.5	9.2	23.2	-7.2	8.6	8.9	9.0	9.3
Imports of goods and services	0.5	-11.4	15.3	45.1	-22.6	14.2	5.1	6.0	8.6
Prices									
GDP deflator	3.7	3.8	4.1	5.0	5.2	4.8	4.5	4.5	5.4
CPI inflation (annual average)	5.5	5.6	5.6	6.1	8.9	6.5	5.6	5.5	5.5
CPI inflation (end of period)	5.5	6.0	5.6	7.6	8.1	5.9	5.5	5.5	5.5
			(In percent of GDP, unless otherwise indicated)						
Central Government Operations									
Total revenue and grants	8.1	8.5	9.4	8.7	8.8	9.3	9.7	10.3	10.2
Of which: Tax revenue	7.5	7.0	7.6	7.8	7.8	8.3	8.8	9.4	9.4
Total expenditure	13.6	13.3	13.0	12.6	14.5	14.4	14.8	15.3	15.2
Of which: Annual Development Program (ADP)	5.1	4.9	4.5	4.5	5.2	5.6	6.0	6.5	6.4
Overall balance (including grants)	-5.4	-4.8	-3.6	-3.8	-5.6	-5.1	-5.0	-5.0	-5.0
(excluding grants)	-5.5	-4.9	-3.7	-3.9	-5.7	-5.2	-5.1	-5.1	-5.0
Primary balance (including grants)	-3.7	-3.0	-1.6	-2.1	-3.8	-3.3	-3.3	-3.3	-3.3
Public sector total debt 2/	32.0	34.5	35.6	39.0	42.1	42.2	42.3	42.5	42.3
Of which: External debt	13.9	14.6	15.1	17.0	18.9	19.0	18.6	18.1	17.3
Balance of Payments									
Current account balance	-1.3	-1.5	-1.1	-4.1	-3.2	-4.2	-3.5	-3.0	-3.0
Trade balance	-5.4	-5.4	-6.4	-10.8	-7.6	-8.4	-7.5	-6.7	-6.4
Service balance	-0.9	-0.7	-0.7	-0.8	-0.8	-0.9	-0.8	-0.6	-0.6
Income balance	-0.7	-0.8	-0.8	-0.7	-0.9	-0.9	-0.9	-0.8	-0.8
Transfers	4.8	5.0	6.1	4.7	5.3	5.1	4.8	4.5	4.2
of which: Remittances	4.7	4.9	6.0	4.6	5.1	4.9	4.6	4.4	4.1
Capital account balance	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Financial account balance	1.5	2.3	3.1	3.0	2.5	5.5	5.2	5.0	4.6
Foreign direct investment, net	0.7	0.3	0.3	0.5	0.7	1.0	1.2	1.3	1.3
Gross international reserves (billions of U.S.dollars)	32.7	36.0	46.4	33.4	30.0	34.2	40.0	46.4	53.1
in months of next year's imports	6.5	6.1	5.8	4.6	3.5	3.8	4.2	4.4	4.5
Monetary and Credit									
Reserve money	8.3	8.9	9.8	8.7	9.0	9.0	9.0	9.1	9.1
Broad money (M2)	52.0	53.8	54.6	52.8	52.8	53.6	54.2	54.8	55.4
Credit to private sector	37.2	37.3	36.2	36.6	36.7	37.5	37.9	38.0	38.7
Savings and Investment									
Gross national savings	31.1	31.4	30.8	25.6	27.8	28.0	30.2	32.0	32.9
Public	0.6	1.0	1.9	1.3	0.7	1.6	2.1	2.8	2.7
Private	30.5	30.4	28.9	24.2	27.1	26.4	28.0	29.2	30.1
Gross investment	32.2	31.3	31.0	31.7	31.0	32.2	33.7	35.0	35.8
Public	7.0	7.3	7.3	7.6	8.8	9.5	10.2	11.2	11.1
Private	25.2	24.0	23.7	24.1	22.2	22.8	23.5	23.9	24.7
Memorandum item:									
Nominal GDP (in billions of taka)	29,514	31,705	35,302	39,765	44,133	49,258	55,129	61,816	69,993

Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Fiscal year begins on July 1 and ends on June 30.

2/ Includes central government's gross debt, including debt owed to the IMF, plus domestic bank borrowing by nonfinancial public sector and public enterprises' external borrowing supported by government guarantees, including short-term oil-related suppliers' credits.

3/ Program financing (+ purchases, - repurchases) is included under the Financial Account, with consistent sign conversion.

INTERNATIONAL MONETARY FUND

BANGLADESH

January 13, 2023

REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Background. Bangladesh's robust economic recovery from the COVID-19 pandemic was interrupted by Russia's war in Ukraine. Rising global commodity prices, supply disruptions, and slowdown in external demand have led to a sharp widening of the current account deficit, depreciation of the Taka, and the rapid decline of foreign exchange reserves. The resulting high inflation, slow growth, and stringent measures to compress demand are disproportionately impacting the poor. Heightened global uncertainties will keep the balance of payments (BoP) under pressure for some time.

Program Objectives and Modalities

ECF/EFF. The authorities, with strong support at the highest level of government, have requested an ECF/EFF arrangement to bolster the external position. Staff supports a 42-month ECF/EFF, with access at 77.1 percent of quota (SDR 822.82 million) under the ECF and 154.3 percent of quota (SDR 1,645.64 million) under the EFF. Bangladesh's risk of debt distress is low and its capacity to repay the Fund is adequate.

RSF. The authorities are concurrently requesting access to the RSF to meet large climate financing needs. Staff proposes access at SDR 1,000 million (the maximum nominal limit, 93.8 percent of quota) under the RSF, in which access at the maximum nominal limit is justified by the strength and breadth of the proposed reforms, the BoP need associated with the implementation of reform measures, and sound capacity to repay the Fund.

Program Policies. Near-term economic policies are aimed at restoring macroeconomic stability, relaxing financing constraints to prevent disruptive adjustment, and rebuilding FX reserves. The ECF/EFF program is expected to help accelerate overdue macroeconomic reforms including revenue mobilization, public sector management, and the modernization of monetary and financial systems to lay the foundations for the authorities' aspirations to reach upper middle-income status by 2031. The RSF's reform measures will complement reforms under the ECF/EFF by supporting the authorities' efforts in tackling climate change challenges and catalyzing additional finance.

Staff Views. The Letter of Intent and Memorandum of Economic and Financial Policies demonstrate program ownership and appropriate policies to reach the goals of the authorities' program. The main risk to the program is limited scope to relax fiscal or monetary policy in the event of additional adverse real shocks, given narrowing fiscal space, high inflation, and reserve losses.

Approved By
Anne-Marie Gulde-Wolf (APD) and Boileau Yeyinou Loko (SPR)

Discussions were held in Dhaka during October 26 – November 9, 2022. The team included R. Anand (head), P. Sodsriwiboon, E. Liu, E. Kitsios (all APD), G. Zinabou, S. Suphachalasai (both FAD), R. Varghese (SPR), Y. Hul (ICD, joined discussions virtually), J. De (resident representative), and S. Islam (local economist). Mr. Jain (OED) participated in the discussions. The team met with Finance Minister Mr. Kamal, Bangladesh Bank Governor Mr. Talukder, Finance Secretary Ms. Yasmin, and other senior government and Bangladesh Bank officials. Staff also had productive discussions with representatives of the private sector, bilateral donors, think tanks, and development partners. G. Gamwalla-Khadivi and P. Polec (both APD) contributed to the preparation of this report.

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CONTEXT

1. **Amid multiple external shocks, macroeconomic challenges have intensified in Bangladesh**. A robust economic recovery from the COVID-19 pandemic was interrupted by Russia's war in Ukraine. Rising global commodity prices, supply disruptions, and slowing external demand have led to a sharp widening of the current account (CA) deficit, depreciation of the Taka, and a large decline in foreign exchange (FX) reserves. While there is not a full-blown crisis, rising inflation, slowing economic activity, and strict austerity measures to deal with the shock are compressing demand, hurting the poor most.

2. **Even as Bangladesh tackles these immediate challenges, addressing long-standing structural issues remains critical, with climate change as an added concern.** While on track to graduate from the Least Developed Country (LDC) status by 2026, Bangladesh aspires to reach upper middle-income status by 2031. However, substantial gaps remain in social and development spending, tax revenue mobilization, the scale and diversification of exports, foreign direct investment (FDI) inflows, and vibrancy of the investment climate.[1] Multipronged structural reforms, as outlined in Bangladesh's 8th five-year plan (FYP), are needed to close these gaps, deal with the challenges of the gradual loss of preferential trade treatments and concessional financing and improve governance. The authorities recognize these challenges and the need to tackle climate change issues, which expose the economy to large risks that could threaten macroeconomic stability.

3. **The authorities have requested a 42-month Fund-supported program to restore macroeconomic stability.** Bangladesh would risk falling into a subpar equilibrium of low growth, low investment, and weak human development, if left to restore macroeconomic stability on its own. With strong ownership by the authorities, the arrangements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) are designed to advance reforms for inclusive, green and sustainable growth, while protecting macroeconomic stability, easing demand management measures and rebuilding buffers.

4. **To help address the large climate financing needs, the authorities have also requested a concurrent program under the Resilience and Sustainability Facility (RSF).** Bangladesh is highly vulnerable to climate change. Access under the RSF will underpin an ambitious reform plan to address the significant adaptation challenges facing Bangladesh, while helping catalyze additional official and private finance and enhancing climate mitigation efforts.

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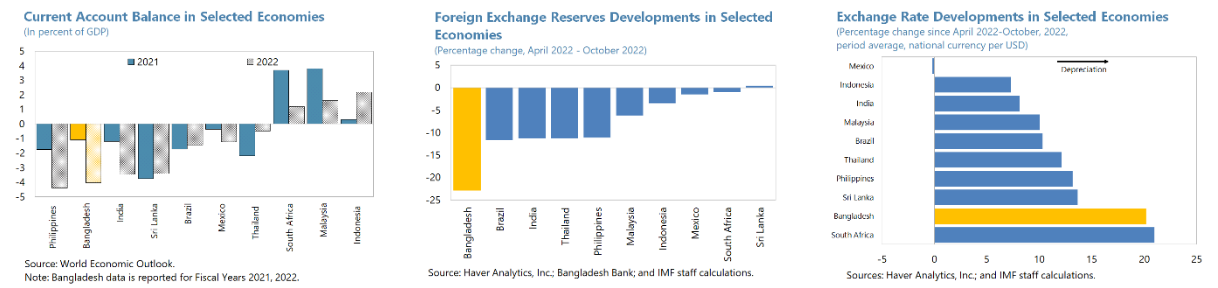
[1] See 2021 *Bangladesh: Selected Issues* paper "Bangladesh in Transition."

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments

5. The Bangladesh economy is facing several serious macroeconomic challenges.[2] Russia's war in Ukraine has led to (i) headline inflation rising to a decade high of 9.5 percent year-on-year in August 2022; (ii) the CA deficit sharply widening to 4.1 percent of GDP in FY22 from 1.1 percent of GDP in FY21; (iii) the Taka depreciating by 23 percent year-to-date; and (iv) gross FX reserves[3] (BPM6 definition) declining to US$25.7 billion, as of end-November 2022, from their peak of US$40.7 billion in August 2021 (Text chart). Despite these abrupt changes, the overall external position remained broadly in line with the level implied by fundamentals and desirable policies in FY22 (Annex I).

Bangladesh: External Sector Developments in 2022



6. The authorities have responded with stringent demand management measures. Bangladesh Bank (BB) increased the repo rate by 100 basis points cumulatively during May and December 2022 to 5.75 percent and has signaled further tightening bias for FY23. Unsterilized FX sales have reduced liquidity in the system, with short-term and long-term government yields rising sharply. While greater exchange rate flexibility was allowed to reduce FX pressures, disorderly market conditions have resulted in an arrangement characterized by multiple exchange rates for different market participants. The prices of fuel, fertilizer, gas and electricity were raised. In addition, the government has imposed transitory restrictions on some non-essential imports,[4] slowed the implementation of import-intensive development projects, closed diesel-fueled power plants, introduced rolling blackouts, reduced in-office hours, shortened the school week, and introduced other measures to curtail energy demand. While these measures have suppressed import demand, exchange rate pressures remain high and FX reserves continue to decline, albeit at a slower pace. These demand

[2] Fiscal year in Bangladesh starts in July and ends in June.

[3] Reports gross reserves in line with international statistical definitions excluding foreign currency assets which are claims on residents or not readily available.

[4] BB gradually tightened the minimum requirement of cash margin for payment by bank deposits on selected non-essential imports.

control measures could prolong the ongoing hardships and will likely hurt both near-term growth and medium-term economic potential.

B. Outlook and Risks

7. Global headwinds are expected to weigh on the near-term outlook and inflation is set to remain elevated (Table 2–5). In FY23, real GDP growth is projected to slow to 5.5 percent due to demand management measures. Average headline inflation in FY23 is expected to increase to 8.9 percent, driven by rising domestic food and fuel prices and the pass-through of large Taka depreciation. High inflation, while adding to economic uncertainty, will reduce consumer spending. Meanwhile, export growth is forecast to slow, albeit from a high base in FY22, in line with slowing demand from Europe and the United States which together account for nearly 80 percent of total external demand.

8. Fiscal and external imbalances are likely to persist with emerging financing gaps. The overall fiscal deficit is expected to widen to 5.6 percent of GDP in FY23 due to lower tax revenues and elevated expenditures, including subsidies. Given strict import controls, the CA deficit is expected to improve to 3.2 percent of GDP in FY23. Considering Bangladesh's large financing needs for pursuing development goals and concurrent necessity of maintaining adequate FX reserves, a financing gap of about US$9.1 billion is expected to emerge over FY23 and FY26 (Table 9).

9. Bangladesh remains at a low risk of external and overall debt distress. Despite increased external borrowing in the near term, favorable debt dynamics in the medium term keep the public and publicly guaranteed external debt-to-GDP ratio on a declining path, and the overall public debt-to-GDP ratio is expected to stabilize at around 42 percent of GDP.[5] All external debt and debt service indicators remain below relevant thresholds under the baseline, but the space to absorb shocks is limited as the present value of the debt-to-exports ratio would temporarily breach its respective threshold in an extreme scenario.

10. There are considerable uncertainties surrounding the outlook and risks are tilted to the downside. Main external risks include intensifying spillovers from Russia's war in Ukraine, further commodity price shocks, larger-than-expected slowdown in Bangladesh's major trading partners, and local COVID-19 outbreaks. Domestically, elevated non-performing loans (NPLs) could dampen growth prospects, while slow progress on the Rohingya crisis could lead to donor fatigue. The risk of natural disasters is a continuous threat. On the upside, swift implementation of priority reforms could improve growth potential and strengthen climate resilience (Annex II).

[5] Macro-fiscal assumptions under the program (baseline scenario for the debt sustainability analysis (DSA)) include the authorities' climate spending of around 0.6-0.7 percent of GDP in line with historical spending profile, as well as additional climate investment of 0.3-0.8 percent of GDP annually supported by RSF and other financing catalyzed through development partners. The RSF disbursements would help reduce the present value of debt and debt-servicing burdens by substituting for more expensive domestic debt (see Annex III for details). The authorities do not intend to undertake additional climate-related spending, beyond what is already included in the baseline DSA, that would jeopardize risks to public and publicly guaranteed debt sustainability.

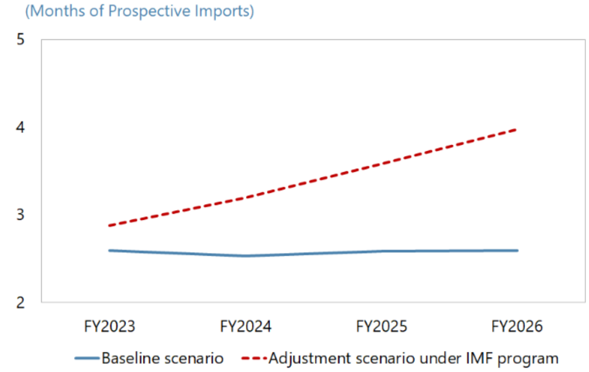
KEY ELEMENTS OF THE ECF/EFF ARRANGEMENT

In the near-term, the ECF/EFF program aims at restoring macroeconomic stability, relaxing financing constraints to prevent disruptive adjustment, and rebuilding FX reserves to further cushion the impact of external shocks. Over the medium term, the ECF/EFF will support a much needed scale-up in social and development spending and boost Bangladesh's growth potential. Reforms under the ECF/EFF will focus on (i) creating fiscal space for priority spending while stabilizing debt; (ii) strengthening the financial sector to mobilize productive investment; (iii) boosting productivity and exports to generate good quality jobs; (iv) enhancing the investment climate to meet large financing needs; and (v) modernizing monetary, fiscal and financial systems to prepare for LDC graduation.

A. Program Objectives

11. **Restoring macroeconomic stability and preventing disruptive adjustment are key objectives of the ECF/EFF arrangement** (Text Chart). High dependence on imports, elevated commodity prices, economic slowdown in major trading partners, tighter global financial conditions and heightened global uncertainties will keep the Balance of Payments (BoP) under pressure for some time. Recent measures to restore external balance are unsustainable, as they would severely suppress domestic demand to curtail imports, thus leading to disruptive macroeconomic adjustments. These measures are disproportionately affecting the poor and the vulnerable and, if they remain in place, would drag medium-term growth prospects—with a risk of inflicting lasting economic scars. Under the baseline scenario, net international reserves (NIR) would likely fall to an unsustainable level of around 2.5–2.6 months of import coverage. The ECF/EFF arrangement, along with its catalytic role in mobilizing other financing, will help rebuild reserves, while supporting a relaxation of strict demand and import management measures. Over the medium term, the program will enable a much needed fiscally sustainable scale-up in social and development spending. The ECF/EFF disbursements and associated reforms are expected to increase the NIR to around 4 months of prospective imports between FY23 and FY26, and debt would stabilize at 42 percent of GDP.

Bangladesh: Net International Reserves 1/
(Months of Prospective Imports)



Source: IMF Staff Estimates.
1/ Net international reserves are gross reserves minus the central bank FX liabilities.

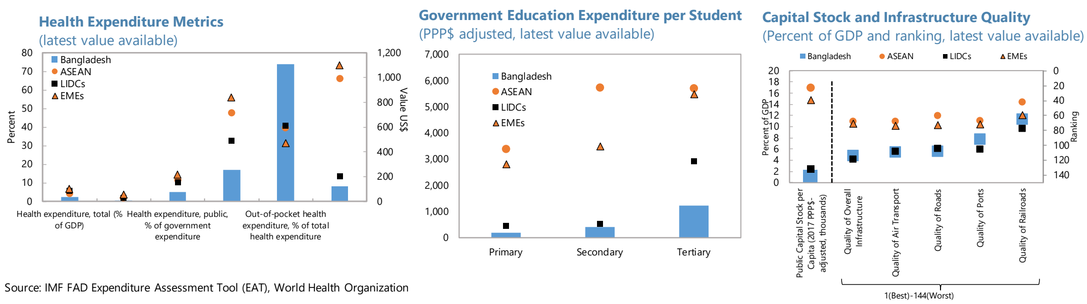
12. **The ECF/EFF program is also expected to help accelerate overdue macroeconomic reforms**. The program adjustments—including tax revenue measures, public sector management, and financial sector reforms—will increase the resource envelope to meet critical spending needs, while avoiding crowding out private investment. The proposed policy mix will be anchored by the NIR and primary deficit paths that are compatible with long-term debt sustainability. Over the

medium-term, reform efforts will help raise investment and sustain high growth, enabling a successful graduation from LDC status (Box 1).[6]

Box 1. Supporting Inclusive, Sustainable, and Green Growth in Bangladesh

Despite remarkable progress in reducing poverty, Bangladesh faces significant challenges to further enhance human development, living standards, and vulnerability reduction. Strong growth performance over the past decade has contributed to a remarkable reduction in poverty. However, a large part of the population still lives in extreme poverty and remains highly vulnerable to covariate shocks such as COVID-19. Government spending to address such covariate risks remain low and lagging that of peers. While the coverage of social assistance programs has increased over time, the level of total spending and the adequacy of benefits have been subdued and the bulk of the population is underserved. The low level of government revenue has further constrained public expenditure on important developmental objectives.

Bangladesh: Health, Education, and Infrastructure Spending



Source: IMF FAD Expenditure Assessment Tool (EAT), World Health Organization

Substantial investment in human capital and infrastructure will be needed to achieve Bangladesh's aspiration to reach upper-middle income status and meet the Sustainable and Development Goals (SDGs). Bangladesh needs an additional US$928.5 billion in financing to implement the SDGs between 2017 and 2030, of which the public sector is expected to contribute about a third. Alongside, Bangladesh will require additional financing of 3–4 percent of GDP annually for its climate-related investments.

A well-designed policy mix will enhance the budget envelope for social spending and public investment to support Bangladesh's development objectives. Given subdued private investment dynamism, closing the financing gaps for sustainable development and climate investment on government borrowing alone (about 14 percent of GDP per year) would set Bangladesh's public debt on a rapid rise and increase vulnerability to a wide range of shocks. In staff's view, a modest increase in the fiscal envelope for additional development spending, supported by concessional borrowing, domestic revenue mobilization, and other mutually reinforcing reform measures will yield a tangible improvement in economic and social outcomes toward the medium term, without exacerbating domestic and external imbalances. Reform efforts should prioritize measures to (i) strengthen domestic revenue mobilization and public administration and spending efficiency, (ii) rekindle financial sector reforms, (iii) jumpstart private investment, and (iv) attract FDI inflows. These public actions will, in addition, help support the private sector development, further mutually reinforcing the reform impacts. With strong and credible implementation of reforms, gross investment including private and public investments is expected to rise by about 4 percent of GDP during the program period without jeopardizing external stability.

[6] Bangladesh successfully met the United Nations' criteria including per capita income, human assets, and economic and environmental vulnerability to graduate from the least developed country (LDC). The UN Committee for Development Policy recommended on February 26, 2021 the graduation of Bangladesh from LDC status with an extended five-year preparatory period to ensure recovery from the COVID-19 pandemic. Bangladesh remains eligible to the IMF concessional resources through the Poverty Reduction and Growth Trust (PRGT) on a blended basis.

Table 1. Bangladesh: Sequencing of Reforms Under the ECF/EFF and RSF, FY23–FY26

IMF Program Objectives	Policy Objectives	FY23	FY24		FY25		FY26
Fiscal Year Review		1st Review	2nd Review	3rd Review	4th Review	5th Review	6th Review
I. Preserve macroeconomic stability	Floor on net international reserves (NIR) as quantitative performance criterion						
	Floor on primary balance (PB) as quantitative performance criterion						
	Ceiling on reserve money (RM) as indicative target						
II. Create fiscal space for growth-enhancing spending needs	Floor on tax revenue as indicative target						
	Floor on priority social spending of the Government of Bangladesh as indicative target						
	Floor on capital investment undertaken by the Government of Bangladesh as indicative target						
	Upgrade the tax system and make room for priority spending	Adopt tax revenue measures yielding an additional 0.5 percent of GDP in the FY2024 budget		Implement Fund TA recommendations to reduce tax expenditures across major taxes (e.g., PIT, CIT, VAT, Customs)			
			Establish Compliance Risk Management Units in the NBR customs and VAT wings	Develop and adopt a Tax Compliance Improvement Plan	Implementation of Tax Compliance Improvement Plan		
				Adoption of Medium-Term Revenue Strategy	Implementation of Medium-Term Revenue Strategy		
	Rationalize subsidies		Adoption of a periodic formula-based price Adjustment mechanism for petroleum products	Implementation of a periodic formula-based Price adjustment mechanism for petroleum products			
	Strengthen social safety nets			Expand coverage and benefit level of social safety net programs and enhance delivery efficiency			
				Adopt a national disaster risk financing strategy that integrates social assistance measures			
III. Strengthen the financial sector to mobilize productive investment	**Establish time bound NPL strategy to reduce bank balance sheet weakness**	Report banks' rescheduled loans alongside with the non-performing loans in the annual financial stability report.		Publish banks' distressed assets in line with Basel III standards			
			Implement the MoUs to reduce the system-wide NPL ratios, increase capital adequacy and provisioning coverages of SoCBs and PCBs.				
			Develop a plan for the banking sector to adopt the IFRS9 by 2027.	Implement the plan for adopting the IFRS 9			
	Strengthen the supervisory role of BB and adopt risk-based supervision.	Complete the pilot risk-based supervision action plan.		Finalize the implementation plan for risk-based supervision	Implement risk-based supervision		
	Upgrade the legal and regulatory framework	Submit to the Parliament the Bank Companies (Amendment) Act, the Finance Companies Act by September 2023		Submit to the Parliament the amended Bankruptcy (Amendment) Act and the Money Loan Court (Amendment) Act		Submit to the Parliament the Negotiable Instrument (Amendment) Act	

Note: Green highlights consider reform measures under the RSF.

Table 1. Bangladesh: Sequencing of Reforms Under the ECF/EFF and RSF, FY23–FY26 (Concluded)

IMF Program Objectives	Policy Objectives						
Fiscal Year		FY23	FY24		FY25		FY26
Review		1st Review	2nd Review	3rd Review	4th Review	5th Review	6th Review
IV. Strengthen and modernize policy framework and institutions to enhance macroeconomic stability	**Strengthen PFM/PIM to increase spending efficiency and to facilitate climate adaptation**				Roll out the Sector Strategy Papers and Multi-Year Public Investment Program tools to 5 sectors		Roll out the Sector Strategy Papers and Multi-Year Public Investment Program tools to another 5 sectors
		Adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions by September 2023		Adopt and implement a methodology for embedding climate change in the MTMF, through analyzing macro-fiscal risks from climate change and publishing it in the MTMPS	Issue a circular on an update to the Green Book to include methodologies that integrate climate in the appraisal of major infrastructure projects in two key sectors	Adopt an updated PPP policy and framework that integrates climate risks; issue a circular on the use of project selection criteria aligned with the NDC and NAP	Establish a public asset register module of the iBAS++ and incorporate information on climate-related risks and vulnerability of new public assets to the module
	Improve debt management		Update and publish Medium-Term Debt Management Strategy annually				
			Develop a plan to reduce NSC issuance	Implementation of a plan to reduce NSC issuance			
	Strengthen cash management		Develop a policy note to guide decisions on integrating bank accounts still remaining outside the TSA and on the sequencing of TSA enhancements		Expand use of electronic funds transfer (ETF) to cover 60 percent of central government transactions		
	Increase fiscal transparency			Publish fiscal risk statement, covering major risks from SOEs, guarantees and PPPs as part of FY2025 budget documentation		Publish SOE sector report covering 50 largest SOEs	
	Modernize monetary policy framework and operations	Adopt an interest rate corridor system by July 2023		Adopt policy interest rate as an operational target			
	Central bank independence	Adopt market-determined exchange rate for all official FX transactions		Implement the 2022 Safeguards Assessment recommendations			
	Data transparency/ policy making capacity	Compile and report official reserve assets as per BPM6 definition	Publish quarterly GDP				
V. Green the financial system to meet climate needs	**Foster green finance and integrate climate risk analysis to financial sector surveillance**		Adopt guidelines for banks and financial institutions (FIs) on reporting and disclosure of climate-related risks in line with TCFD recommendations		Conduct and publish climate stress testing and update guidelines for climate stress testing for banks and FIs		Update green bond financing policy particularly the green taxonomy to be in line with the NAP

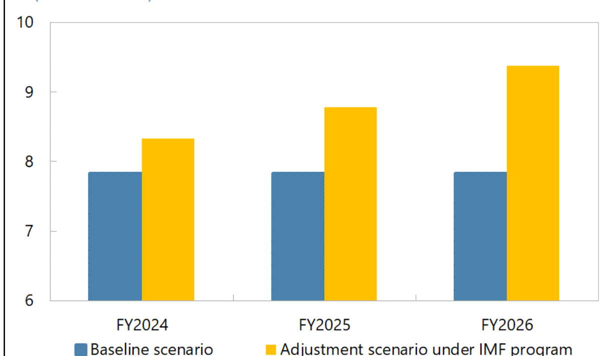
Note: Green highlights consider reform measures under the RSF.

13. Strong ownership, sustained support from development partners (DPs), and appropriate prioritization and sequencing of reforms are crucial. The authorities have demonstrated strong commitment by proactively taking several measures that would have been prior actions (¶6). The authorities' reform agenda under the program is laid out in the authorities' Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP), which are consistent with Bangladesh's 8th FYP. The program will prioritize the implementation of the most urgent and critical reforms, gradually increasing the pace of reforms during the program period (Table 1). Wherever possible, the program will also exploit synergies and seek complementarity with other DPs' priorities. During the first year, the ECF/EFF arrangement will be underpinned by the quantitative performance criteria (QPC), indicative targets (IT), and macro-critical structural benchmarks (SBs) (Table 11). The implementation of reforms will be supported by IMF capacity development (Table 13).

B. Fiscal Policy

14. Fiscal policy reforms will be geared toward creating fiscal space to increase social spending and investment sustainably. Bangladesh's tax-to-GDP ratio is one of the lowest in the world, constraining critical spending. Extensive exemptions, complicated tax codes, and weaknesses in revenue administration have resulted in low tax productivity across all major taxes. Meanwhile, reliance on national saving certificates (NSCs) has resulted in high government borrowing costs. Key objectives include enhancing revenue mobilization, reducing issuance of NSCs, containing subsidies, and increasing spending efficiency with fiscal institutional reforms. The program envisages tax revenue mobilization efforts of additional 0.5 percent of GDP annually in FY24 and FY25 and 0.7 percent of GDP in FY26, contributing to higher social spending and public investment (Text Chart).[7] As a result, the overall fiscal deficit is expected to improve from 5.6 percent of GDP in FY23 to 5 percent of GDP by program-end, underpinned by a primary deficit of around 3.3 percent, which is consistent with public debt remaining below 45 percent of GDP through FY43 (MEFP, ¶8).

Bangladesh: Tax Revenue
(Percent of GDP)



Source: IMF Staff Projections.

15. Raising revenues will require a multipronged approach. The program includes a series of carefully sequenced reforms, which comprise both tax policy and revenue administration measures and will be anchored in a medium-term revenue strategy (expected to be finalized by mid-2024).

[7] Should downside risks to revenue materialize, the authorities should stand ready to reprioritize their spending plans, including by containing non-essential current spending (e.g., travel expenses) and postponing low-priority capital spending, while safeguarding support to the most vulnerable.

- **Tax policy reforms**. Key areas for policy reform include rationalizing tax expenditures, simplifying the tax rate structure and broadening the tax base, as part of an overarching strategy of shifting the tax burden from trade-related taxes toward income and value-added taxes (MEFP ¶9). The authorities have committed to identify and adopt in the FY24 budget tax revenue measures amounting to 0.5 percent of GDP (SB for end-June 2023). Subsequent budgets for FY25 and FY26 would incorporate additional revenue measures of 0.5 and 0.7 percent of GDP respectively, which will be identified in part with the help of IMF technical assistance (TA) on estimating tax expenditures.

- **Tax administration reforms**. There is significant scope for increasing tax compliance and broadening the tax base to sustainably raise tax revenues. To this end, key reforms include (i) establishing compliance risk management units (CRMUs) within the National Board of Revenue (NBR) (SB for end-December 2023) and implementing a compliance improvement plan; (ii) strengthening information sharing between the income tax, VAT, and customs wings of NBR, including to support risk-based audits; (iii) progressively expanding and integrating automation in tax administration; (iv) increasing at-source tax collection; and (v) adopting a modernized Customs Act.

16. Rationalization of energy subsidies will free fiscal resources for social and development spending. While recent price hikes have brought petroleum prices broadly in line with international prices, gas and electricity subsidies are expected to rise to 0.9 percent of GDP in FY23 (Box 2). Over the program period, the introduction of a periodic formula-based fuel price adjustment mechanism will help ensure no structural subsidies for petroleum products (SB for end-December 2023). The authorities will further explore options to gradually reduce gas and electricity subsidies, while strengthening social safety nets (MEFP, ¶11 and ¶15). The recent increase in electricity prices is a welcome step. Reform priorities in social protection include improving targeting, broadening coverage both in rural and urban areas, adopting the government-to-person (G2P) systems, and expanding social insurance. The program will leverage the ongoing programs to strengthen and expand social protection by other DPs. The government's efforts to enhance social safety nets and increase development spending will be anchored by ITs on social and development capital spending under the program.

17. Reforms to the NSCs system are expected to lower interest payments over time. The authorities have taken steps to realign incentives by introducing tiered interest rates, capping issuances, and increasing the tax on earned interest. Moreover, the new Public Debt Act, passed into law in September 2022, criminalizes the provision of false information by NSC investments. Supported by IMF TA, the authorities will build on recent reforms to the NSC system (MEFP, ¶14) and develop a formal plan to reduce net NSC issuance to below ¼ of total net domestic financing by FY2026 (SB for end-December 2023), to be gradually implemented over the program period.

18. Improved debt and cash management will support optimal use of budget resources. The recently updated Medium-Term Debt Strategy (MTDS) envisages a shift away from expensive domestic financing toward concessional external financing and eventually long-term market financing. With the help of IMF TA, the MTDS will be updated annually and complemented with the timely publication of a quarterly debt bulletin and, once capacity has been sufficiently built, an annual debt portfolio report (MEFP, ¶13). Cash management will be strengthened with the continued expansion of coverage of the treasury single account (TSA), which will be supported by a policy note to guide decisions on integration of bank accounts currently outside the TSA and sequencing of TSA enhancements (SB for end-December 2023). Moreover, progressively greater use of electronic funds transfer (EFT) and development of Integrated Budget and Accounting System (iBAS++) functionalities will reduce leakages and improve commitment controls (MEFP, ¶16).

19. Efficient public investment management will help channel spending toward priority projects. With IMF TA support, the authorities plan to roll out Sector Strategy Papers and Multi-Year Public Investment Program tools to 10 priority spending sectors during the program.[8] These efforts will ensure more strategic project selection and aid the eventual production of a consolidated medium-term budget framework that incorporates capital spending under the Annual Development Program (MEFP, ¶12).

20. Enhanced fiscal transparency and fiscal risk management will enhance governance and contribute to raise investor confidence. Under the program, the authorities are committed to publishing fiscal reports and statements on a timelier basis, improving data compliance in line with international accounting and auditing standards, and implementing risk-based internal audits. Ongoing work to collect data of state-owned enterprises (SOEs) will inform a fiscal risk statement, to accompany the budget starting in FY25, and form the basis of an annual SOE sector report, to initially cover the 50 largest SOEs in 2025 (MEFP, ¶17).

C. Monetary and Exchange Rate Policies

21. Monetary and exchange rate policies should focus on containing inflation and stemming reserve losses. Pass through from recent Taka depreciation and increase in fuel prices have added to inflationary pressures. The monetary policy stance will be guided by the inflation outlook (MEFP, ¶18) and will be anchored by an IT (ceiling) on the level of reserve money under the program, as a main operating target of BB. BB stands ready to continue calibrated tightening to counter possible second-round effects from supply-side shocks, re-anchor inflation expectations,[9] and stabilize demand for FX liquidity, while carefully safeguarding economic growth amid already curtailed domestic demand. A modest buildup in NIR, as a QPC (floor), is targeted in the first year of the program, with further increases programmed over the medium term, to cover 4 months of

[8] The 10 sectors with the highest allocations under the authorities' 8th Five Year Plan include Transport and Communication, Education and Technology, Power and Energy, Local Government and Rural Development, Agriculture, Health, General Public Services, Social Security and Welfare, Housing and Public Works, and Public Order and Safety.

[9] Twelve-month ahead inflation expectations increased to 9.4 percent, according to the September 2022 survey, against the BB's implicit medium-term inflation objective ceiling of 5.6 percent for the FY2023. Inflation expectations increased by 1 p.p. compared to the June 2022 survey.

prospective imports (MEFP, ¶21). Greater exchange rate flexibility will help accumulate reserves, strengthen external buffers, and build resilience (MEFP, ¶20).

22. Continued progress toward modernizing monetary policy framework and operations is vital. The current eclectic monetary policy regime[10] may not be effective in meeting the challenges of a more diversified and open economy after the LDC graduation. BB will continue modernizing its monetary policy framework and operations (MEFP, ¶19) to help promote macroeconomic stability, support financial development, and enhance monetary policy transmission. With support from IMF TA, the authorities are building their capacity to modernize monetary policy formulation and move away from reserve money to interest rate as an operational target by the end of the program period. As first steps, BB will adopt an interest rate corridor system with automatic standing lending and deposit facilities (SB for end-July 2023) and improve liquidity forecasting and management. The authorities have started relaxing lending interest rate restrictions and are committed to removing all caps over the program period. BB will also strengthen its communication and transparency to better signal the monetary policy stance. The authorities are taking steps to implement the recommendations of the 2022 IMF's Safeguards Assessment, which will further strengthen BB's autonomy and governance (MEFP, ¶22).

23. Further strengthening the exchange rate and FX reserve management framework would help build external resilience. The authorities are committed to unifying the multiple exchange rates that resulted from disorderly FX market conditions and will continue to allow the interbank transactions at market-determined rates (MEFP, ¶20). BB will also use the market-determined exchange rate for all official FX transactions on behalf of the government (SB for end-June 2023) and will reverse the temporary increases in margins for opening letters of credit on non-essential imports. BB will strengthen reserves management and will start compiling and reporting the official Gross International Reserves (GIR) as per the Balance of Payments and International Investment Position Manual (BPM6) (SB for end-June 2023). Monetary and exchange rate policy reforms under the program will be properly sequenced to exploit synergies.

D. Financial Sector Policies

24. An orderly exit from the pandemic support measures is needed to reduce the buildup of financial sector vulnerabilities. While COVID-19 policy support helped in the near term, it has added to the existing financial sector vulnerabilities (Table 6). The COVID-19 financial support policies are set to expire in December 2022. As the unwinding of these policies may lead to a gradual realization in the losses in the banking system, asset classifications, in particular restructured loans, should accurately reflect current balance sheet risks and distressed assets be adequately

[10] The current monetary policy framework has opaque objectives, multitude of policy instruments and weak communication strategy. Interest rate caps, non-market NSC pricing mechanism, and the absence of a well-functioning government securities market further impede the efficiency of monetary transmission and limit the ability of BB to pursue its objectives.

provisioned. To avoid cliff effects, BB will continue to support individuals and businesses that are most at risks under its regular financial support scheme (MEFP, ¶23).

25. A holistic and time bound non-performing loan (NPL) resolution strategy would help address bank balance sheet weaknesses (MEFP, ¶24 and ¶25).

- *Identifying distressed assets*. The classification for NPLs should be aligned with international best practices. Restarting reporting banks' rescheduled loans in the annual financial stability report along with NPLs will be a good start (SB for end-June 2023). Some elements of Basel III have been adopted, but with extensive exceptions. Going forward, fully adopting the Basel III standards for measurement of banks' financial statement and provision framework and the adoption of the International Financial Reporting Standard 9 (IFRS 9) will help understand the actual extent of the problem.

- *Formulating the NPL resolution strategy*. BB has committed to develop bank-specific NPL resolution and capital restoration strategies and establish effective monitoring and enforcement framework, underpinned by memorandums of understanding (MOUs), to oversee concrete actions adopted by banks. These MOUs will target a reduction of the average NPL ratios to below 10 percent for state-owned commercial banks (SoCBs) and below 5 percent for private commercial banks (PCBs), while increasing capital adequacy ratios and provisioning coverages of SoCBs and PCBs to statutory minimum by 2026.

26. Further strengthening monitoring and supervision of the banking sector is needed to enhance financial sector resilience. Structural weaknesses in supervision, regulation, and governance, coupled with high NPLs and low capital in SoCBs, could be a drag on medium-term growth prospects.[11] BB will complete the pilot risk-based supervision action plan (SB for end-June 2023) and prioritize actions to provide adequate and timely supervisory data and a forward-looking analysis of bank balance sheet risks in line with the IMF TA recommendations. Extending the current pilot on risk-based supervision to the wider banking sector and implementing it in a timely manner is critical, just as incorporating specific procedures for Islamic banking operations in the assessment tool and the inspection manual. Developing a macroprudential strategy and conducting scenario-based macroprudential stress test would help manage systemic risk (MEFP ¶26).

27. Stronger governance and regulatory framework will strengthen the financial sector and support medium-term growth objectives. Existing policies for nomination and appointment of directors of SoCBs are being examined by an independent committee, which will suggest policy recommendations to strengthen the corporate governance of SoCBs (MEFP, ¶25). The authorities also plan to submit to the Parliament the Bank Company (Amendment) Act 2020 and the Finance Companies Act 2020, drafted in line with best practices (SB for end-September 2023). The Bankruptcy (Amendment) Act 2020 and the Money Loan Court (Amendment) Act 2003 will be

[11] The asset share of SOCBs in total banking sector assets has declined from about 55 percent in 1993 to around 20 percent in 2018. According to the World Bank (2019 FSAP DP) and the IMF (2019 FSSR), the combined capital shortfall of SOCBs was around 1 percent of GDP.

subsequently submitted to the Parliament by June 2024, and the Negotiable Instrument (Amendment) Act 2020 by June 2025 (MEFP, ¶27). These reforms will help modernize the financial sector, improve the legal environment of credit and business activities, enhance the insolvency regime, and facilitate recovery of loans.

28. Development of the domestic capital market will help mobilize long-term financing to support growth objectives. Expanding the mandate of the credit information bureau (CIB) and allowing it to share data with private borrowers will strengthen credit infrastructure and collateral valuation framework (MEFP, ¶26). Gradually reforming NSCs (¶17) and replacing them with marketable wholesale instruments, implementing the MTDS and developing secondary market for government securities will be important (MEFP, ¶28). A roadmap for bond market will be developed through a joint TA between the IMF and the World Bank on Local Currency Bond Market Diagnostic (LCBM).

E. Macro-Structural Policies

29. Creating an enabling environment will help further expand trade and attract FDI. Bangladesh's trade and FDI remain low by most measures. Reducing relatively high non-tariff barriers (NTBs) and domestic protection, improving trade-related energy and transportation infrastructure, addressing regulatory barriers, and ensuring financing to the private sector are key to increasing export competitiveness, expanding international trade, and attracting FDI (MEFP, ¶29). In coordination with DPs, the authorities are working on designing near-to-medium term trade development and FDI reform priorities.

30. Human capital development is crucial to boosting labor productivity and long-term growth potential. Reform efforts to improve education outcomes and address the gaps in educational and vocational training are key to building skills and reducing informality. Upskilling of female workers is also vital to improve productivity as well as to promote gender equity. The program will leverage the efforts of the United Nations and other DPs who are providing technical and financial support to make progress on gender equality, financial deepening, and human capital development as part of Bangladesh's Sustainable Development Goals (SDGs). Deepening financial inclusion, particularly among women, remains important (MEFP, ¶30).

31. Improving governance and reducing vulnerability to corruption would help enhance the business climate, thus boosting investment. Enhancing fiscal governance and transparency (¶20) as well as improving the efficiency of the financial sector (¶28) remain crucial for attracting investment. Further digitalization of public services and safeguarding the independence of the Anti-Corruption Commission and the Comptroller Auditor General would help promote transparency and reduce corruption.[12] This is especially critical, given the new risks of corruption from climate finance and infrastructure projects. Enhancing information collection would help with fully identifying the ultimate beneficial ownership in the financial sector. Moving toward international best practice for

[12] The COVID-audits were published as required by the RCF/RFI financing.

risk-based supervision would help further strengthen the AML/CFT framework and mitigate substantial money laundering (ML) risks, including from cross-border activity and trade-based ML (MEFP, ¶31). A detailed roadmap for this purpose will be developed under an IMF TA.

32. Enhancing data quality and availability will support policy making. With IMF TA, the historical rebased GDP data were published recently and the work on compiling the national account and government finance statistics on a quarterly basis are underway (Annex IV and Table 13). The authorities are committed to publish the new consumer price index using the updated index weights and Household Income and Expenditure (HIES) survey (MEFP, ¶37), and plan to publish the national accounts on a quarterly basis when ready (SB for end-December 2023). Similarly, with the IMF support, the financial soundness indicators using a standard approach and with expanded coverage will be published.

KEY ELEMENTS OF THE RSF ARRANGEMENT

The RSF will complement reforms under the ECF/EFF by supporting the authorities' efforts in tackling climate change challenges to build resilience and catalyze additional official and private finance.

A. Program Objectives

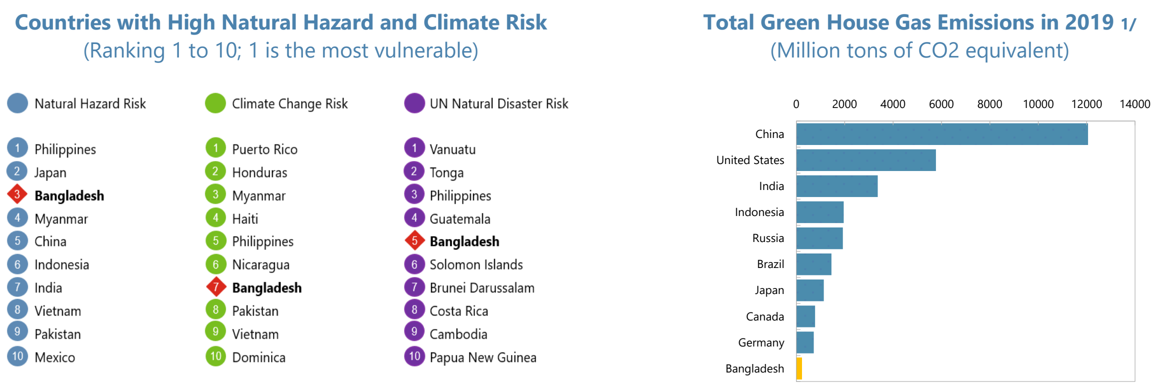
33. The RSF will improve the climate investment potential (Annex III). With current annual climate-related government spending under 1 percent of GDP against the needed 3 to 4 percent of GDP of financing over the next 15 years, Bangladesh has a significant financing need to meet climate change challenges[13] (see Table 2 in Annex III for details). Similar to SDGs financing gaps, any climate financing gap will be met by not executing spending in this area. RSF resource will expand the fiscal space to help finance priorities identified in the Bangladesh Delta Plan (BDP2100) and the National Adaptation Plan (NAP), by crowding in other financing, substituting for more expensive domestic financing, improving public debt dynamics, and reducing BoP pressures from import-intensive climate investment. The RSF arrangement is also expected to further strengthen financing prospects by catalyzing additional policy- and project-based lending through DPs. For instance, the WB and the ADB are considering new budget support programs to help with the implementation of various climate-related reforms. The authorities plan to mobilize an additional US$8 billion through public green bonds under BDP2100 and private green financing under the Mujib Climate Prosperity Plan (MCPP). The RSF reforms will not only help strengthen the institutional setup to enable large-scale climate investments, but also support the authorities' plan to mobilize additional private climate financing as well as enhance financial sector assessment of climate risks.

[13] Given very long-term nature of climate financing estimates, the projected financing of Bangladesh's nationally determined contributions (NDC) involves several assumptions and there are large uncertainties around the forecasts.

B. Climate Change Policies

34. Bangladesh is among the most vulnerable countries to climate change and natural disasters (Text Chart). The projected damage from tropical cyclones in Bangladesh is estimated at between 1.5 and 6 percent of GDP.[14] Slow on-set climate change is forecast to result in total economic costs of 2 percent of annual GDP by 2050 under a business-as-usual scenario and up to 9.4 percent in 2100.[15] These climate-related events could disrupt economic activity and cause substantial long-term damage to the economy, putting pressures on the currency, reserves, and public debt, with the effects disproportionately felt by the poor and vulnerable groups (Annex III).

Bangladesh: Climate Change



Sources: Global Climate Risks; INFORM Global Risks Index; and WRI Climate Data Explorer.

1/ Including land-use change and forestry.

35. Bangladesh has made significant progress toward its national climate mitigation and adaptation objectives and has put in place a range of policy tools.

- *Mitigation.* Despite its small contribution to global emissions, Bangladesh's updated Nationally Determined Contribution (NDC) makes a robust commitment to reduce greenhouse gas (GHG) emissions by 6.7 percent (with its own efforts), and up to 21.9 percent (with international support) below business-as-usual in 2030. The NDC is being implemented through green transition priorities such as scaling up renewable energy (RE)[16], promoting electric vehicles and clean public transport, enhancing energy efficiency in buildings and industrial facilities, and measures to reduce emissions from the agriculture,

[14] Based on the draft World Bank's CCDR, the range estimate of impact by 2050 under RCP 4.5 and 8.5 scenarios.

[15] Ahmed and Suphachalasai. 2014. Assessing the Costs of Climate Change and Adaptation in South Asia. Asian Development Bank. This estimate is used in the Climate Fiscal Framework, but various estimates of climate and disaster impacts exist (see Annex III for more information).

[16] There are several incentives, such as tax breaks to drive net-metered solar rooftop installation to increase the share of renewal energy.

land-use.[17] About 80 percent of Bangladesh's energy supply comes from fossil fuel, but over two-third of this is natural gas.[18] At COP26, the authorities announced the cancellation of 10 coal-fired power plant projects approximating US$12 billion in foreign investment and set the target of generating at least 40 percent of total electricity from RE sources by 2041. A new integrated energy and power sector master plan is being prepared to support this goal. Plans to import RE-based electricity from neighboring countries are being finalized and will further help shift electricity generation away from fossil fuel sources. The recent increases in natural gas and fuel prices are also welcome first steps toward market-based and transparent energy pricing (Box 2). The authorities are committed not to increase untargeted subsidies on natural gas-generated energy and electricity as a percentage of GDP during the program period and will consider different options of gradually reducing them.

- *Adaptation*. The cabinet, on 31st October 2022, approved the NAP that outlines the adaptation investment requirement and sets out a comprehensive action roadmap across relevant sectors, supported by the BDP 2100 and the MCPP. The implementation of the National Plan for Disaster Management contributes significantly to Bangladesh's climate adaptation agenda. Since 2014, the authorities have put in place a range of climate-related policy tools, notably the Climate Fiscal Framework (CFF), climate change budget tagging, sustainable finance policy for banks and financial institutions and green taxonomy (Annex III).

Box 2. Fossil Fuel Subsidies in Bangladesh

To further enhance climate mitigation, Bangladesh has ramped up its reform efforts toward transparent market-based pricing of fossil fuels. Reflecting elevated global commodity prices, subsidies for gas and electricity are expected to reach about 0.9 percent of GDP in FY2023 compared to 0.4 percent of GDP in FY2021 (see Box Table 1). To alleviate budget pressures, the authorities in August 2022 raised prices for petrol and octane by close to 50 percent, and prices for diesel and kerosene by 36 percent on top of a 23 percent increases in November 2021, helping keep domestic fuel prices broadly aligned with international prices. Natural gas tariffs were also hiked by 23 percent on average in June 2022 and bulk electricity tariffs were raised by 20 percent in November 2022. Going forward, the authorities plan to regularly adjust petroleum product prices via a formula-based pricing mechanism (SB for end-December 2023, ¶16 and RM2 for end-December 2023) and thereby lock in zero structural subsidies for petroleum products. These actions are expected to help ease budget pressures for energy subsidies and encourage more efficient fuel consumption going forward. In addition, barring further global price shocks, the authorities have committed to not increase these subsidies during the program and explore options to gradually reduce them further, while scaling up social protection schemes (MEFP, ¶33).

Box Table 1. Bangladesh: Energy-Related Budget Subsidies
(Percent of GDP)

	FY2021	FY2022	FY2023	
	Actual	Actual	Budget	Estimate
Electricity	0.3	0.3	0.4	0.6
Natural gas	0.1	0.2	0.2	0.3
Petroleum Products	0.0	0.0	0.0	0.0
Total	0.4	0.5	0.6	0.9

Sources: Bangladesh authorities; and IMF staff calculations.

[17] The Bangladesh National Building Code contains a dedicated chapter on sustainability and energy efficiency.

[18] The EU considers natural gas an environmentally sustainable transition fuel in the EU taxonomy.

36. Additional efforts to strengthen institutions and enhance climate-spending efficiency would help meet climate objectives and mobilize climate finance, particularly from private sources. Guided by the World Bank's Country Climate and Development Report (CCDR) and the IMF's Climate Public Investment Management Assessment (C-PIMA)[19], RSF reforms aim at (i) prioritizing and allocating financing for BDP2100, (ii) scaling up climate-smart investment across sectors, (iii) creating an enabling environment and strengthening the institutional framework through better public financial management (PFM) and public investment management (PIM) practices, and (iv) leveraging different financing instruments. Building on the authorities' reform priorities, the RSF reform measures focus on critical areas exploiting synergies and complementing the operations of the World Bank and other DPs (Text Chart). These reforms will help address Bangladesh-specific needs such as boosting the resilience of coastal economy and infrastructure and complementing with nature-based solutions, mitigating the risks and impacts of floods and tropical cyclones, reducing the infrastructure deficit and promoting resilient infrastructure, as well as supporting climate mitigation policy. IMF capacity development (CD), in conjunction with CD provided by other DPs, will support the implementation of these reforms.

37. Policies should prioritize climate-responsive PIM reforms to make infrastructure investment green and resilient. Efficient, green and resilient public investment has multiple benefits, as it creates jobs, spurs growth and stimulates private sector investment and other innovative financing. The authorities will integrate climate considerations in the appraisal and selection of capital projects to improve the prioritization and allocation of resources for the BDP 2100 and scaling up of climate-smart investment as envisaged in the NAP (RM6 for end-December 2024 and RM9 for end-June 2025). The authorities will establish a public asset register module of iBAS++ and will incorporate information on climate-related risks/damages and vulnerability of new public assets to the module (RM10 for end-December 2025). To help leverage private sector climate finance and ensure that public private partnership (PPP) vehicle supports national climate goals, they further plan to update the PPP policy and framework to reflect climate risks and opportunities and develop accompanying guidelines for PPP project proponents and developers (RM8 for end-June 2025 and MEFP, ¶34).

[19] Bangladesh C-PIMA is a desk assessment, and not a full capacity development mission. The latter is proposed as part of the CD needs during the RSF program period.

Bangladesh: Proposed RSF Reform Priorities and Measures

	Board Approval January 2023	End-Sep 2023	End-Dec 2023	End-Jun 2024	End-Dec 2024	End-Jun 2025	End-Dec 2025
Reform Priority 1: Making infrastructure investment green and resilient					**RM6:** Government to issue a circular on an update to the Green Book to include guidance on sector-specific methodologies that integrate climate in the appraisal of major infrastructure projects starting from two key sectors	**RM8:** Government to adopt an updated PPP policy and framework that integrates climate-related risks and develop relevant guidelines **RM9:** Government to issue a circular on the adoption of selection and prioritization criteria for major infrastructure projects that is aligned with NDC and NAP	**RM10:** Government to establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks and vulnerability of new public assets to the module
Reform Priority 2: Strengthening climate fiscal management		**RM1:** Government to adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions	**RM2:** Government to adopt a periodic formula-based price adjustment mechanism for petroleum products	**RM5:** MoF to adopt and implement a methodology for analyzing macro-fiscal risks from climate change and publishing it in the MTMPS			
Reform Priority 3: Mobilizing private climate finance and enhancing financial sector resilience			**RM3:** BB to adopt guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with TCFD recommendations		**RM7:** BB to conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change		**RM11:** BB to update the Policy on Green Bond Financing, particularly the annex on green taxonomy to be fully aligned with the NAP's strategic and investment priorities

Source: IMF Staff.

38. Further improving climate-related fiscal management is a key for an integrated government strategy to combat climate change. The implementation of the CFF is key to the success of Bangladesh's climate strategies and will lay the foundation for sound and transparent climate-sensitive PFM processes. In this context, the authorities will adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions into the public procurement process (RM1 for end-September 2023). The Ministry of Finance (MoF) will also develop and implement methodologies for the analysis of macro-fiscal risks from climate change and publish such information in the Medium-Term Macroeconomic Policy Statement (MTMPS) (RM5 for end-June 2024). To protect the most vulnerable, the authorities will develop a national disaster risk financing strategy that integrates social assistance measures (RM4 for end-June 2024 and MEFP, ¶35).

39. Better management of climate-related risks will enhance financial sector resilience and help scale up climate finance. Financial institutions play an important role in mobilizing private climate finance but face significant physical and transition risks.[20] To this end, BB will develop and adopt guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial

[20] Addressing current vulnerabilities and weaknesses in the financial sector data reporting and risk management is crucial as a precondition for a proper report, assessment, and management of climate-related risks.

Disclosures (TCFD) (RM3 for end-December 2023).[21] To strengthen financial sector resilience, BB will conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations (RM8 for end-December 2024).[22] To further promote the mobilization of climate finance and extend the framework to include climate adaptation, BB will update the green bond policy paper, particularly the annex on green taxonomy to be fully aligned with the NAP's strategic investment priorities (RM11 for end-December 2025 and MEFP, ¶36).

PROGRAM MODALITIES

40. Access. Bangladesh is eligible to access the RSF.[23] Staff recommends a 42-month blended ECF/EFF arrangement,[24] concurrent with an RSF arrangement.

- **ECF/EFF.** Given the current outlook and on the strength of envisaged reforms, the proposed total access is SDR 2,468.46 million (231.4 percent of quota) under the ECF/EFF (of which, SDR 822.82 million or 77.1 percent of quota under the ECF and SDR 1,645.64 million or 154.3 percent of quota under the EFF). Semi-annual program reviews and seven equal disbursements are envisaged for ECF/EFF, beginning with the program approval (Table 7A).

- **RSF.** Staff proposes access at SDR 1,000 million (93.8 percent of quota, the maximum nominal limit) under the RSF. The proposed high RSF access is based on the strength and ambition of proposed reforms, Bangladesh's large BoP needs associated with the implementation of reforms, its strong track record of climate-related policy reforms (¶35 and Annex III), and sound capacity to repay the Fund. RSF disbursements are envisaged as in Table 7B.

Staff supports the authorities' request for the use of Fund resources (the total of each RSF disbursement and part of ECF/EFF disbursement) for budget support to expand the government's resource envelop to help finance climate priorities and boost social and capital spending, while planned reforms take hold.

[21] Such guideline/regulations should set supervisory expectations for incorporation of physical and transition risks into business strategies, risk management, and governance framework, following international standards and good practices, including the principles for the effective management and supervision of climate-related financial risks.

[22] The data repository that includes exposures of financial institutions' credit and investment portfolios to carbon emitting industries/corporates and climate hazards could be established as part of the climate stress testing.

[23] Bangladesh belongs to the RST interest group B, as per IMF Policy Paper No. 2022/013 "Proposal To Establish A Resilience and Sustainability Trust," Appendix III.

[24] IMF finance is drawn from General Resources Account (GRA), which consists of the IMF's quota and borrowed resources and is available to all IMF members; and Poverty Reduction and Growth Trust (PRGT), which borrows from IMF members and on-lends these borrowed resources to low-income countries on concessional terms. Bangladesh is classified as presumed blender, eligible for accessing both concessional and non-concessional IMF resources.

41. Financing assurances. The ECF/EFF program is fully financed, without RSF disbursements, with firm commitments of financing for the first 12 months and with good prospects of financing for the remainder of its duration (see Table 9 for details).

42. Capacity to repay (Table 10). Bangladesh's capacity to repay the Fund is adequate and the authorities' track record of servicing IMF debt is strong. Total Fund Credit Outstanding is mostly below or at the bottom of the interquartile range for PRGT borrowing countries, peaking in 2026 at SDR 3.6 billion, equivalent to 0.8 percent of GDP (6.0 percent of exports of goods and services or about 10 percent of gross FX reserves). Total obligations to the Fund peak at 0.1 percent of GDP (0.5 percent of exports of goods and services or 1.0 percent of gross FX reserves) in 2024. The risk of debt distress is assessed to be low and the debt outlook is expected to remain sustainable.

43. Safeguards assessment. An updated safeguards assessment was completed in January 2022. The assessment found capacity challenges that impact internal audit and financial reporting. The BB also needs to strengthen currency operations and IT environment. BB is establishing sound procedures for the compilation and reporting of official reserve assets (SB for end-June 2023). In addition, BB is making progress on implementing the safeguards recommendations and will also engage an international audit firm to conduct external audits, as done under the previous Fund-supported program during 2012–2015.

44. Risks. The main risks to the program are limited scope to relax fiscal or monetary policy in the event of adverse real shocks, given narrow fiscal space, high inflation, and reserve losses. Weaknesses in implementation capacity, political opposition to some proposed reforms, and political risk due to national elections tentatively planned for December 2023 are other risks. These risks will be mitigated by continued engagement and conditionality under the program, as well as contingency fiscal measures such as reprioritization of non-critical spending.

45. Other issue. During the mission, staff learned of a multiple currency practice subject to Fund jurisdiction under Article VIII that arises as a result of an internal governmental exchange rate used for (i.e. transactions by BB on behalf of the government) that differs by more than 2 percent from the prevailing market exchange rate. The measure is not maintained primarily for BoP reasons. The authorities request—and staff support—that the Executive Board approves this measure, as (i) the Bangladesh authorities have committed to a credible strategy to unify the governmental FX rate with the prevailing market FX rate within a reasonable period and is thus temporary (ii) the measure does not materially impede Bangladesh's BoP adjustment, and (iii) does not harm the interests of other members or discriminate among members.

STAFF APPRAISAL

46. Multiple external shocks have weighed significantly on the Bangladesh economy. The spillovers from Russia's war in Ukraine has interrupted the pandemic recovery and intensified external pressures, making macroeconomic management more challenging. Global headwinds are likely to keep balance of payments under pressure in the coming years. Uncertainties surrounding the outlook remain large and risks are tilted to the downside. The authorities acknowledged that measures adopted to restore macroeconomic stability are temporary and need to be unwound to safeguard both near-term growth and medium-term economic potential.

47. While addressing immediate challenges, the authorities need to expedite their ambitious reform agenda to achieve a more resilient, inclusive, and sustainable growth. The economic reform priorities should focus on increasing fiscal space to scale up social and development spending, modernizing the fiscal and monetary policy frameworks, strengthening the financial sector, improving governance, and creating enabling environments for a sustainable and private sector-led growth. Tackling climate change challenges remains important for long-term macroeconomic stability.

48. The ECF/EFF and RSF arrangements support the authorities' priorities. The ECF/EFF arrangement will help restore macroeconomic stability and rebuild buffers, while advancing long overdue economic reforms. Access under the RSF would underpin reforms to address the significant adaptation challenges facing Bangladesh, while helping catalyze additional financing and enhancing climate mitigation efforts.

49. Fiscal discipline has kept Bangladesh at a low risk of debt distress, but higher revenues and enhanced fiscal management are needed to meet social and development objectives. The implementation of the domestic revenue mobilization strategy that relies on both tax policy and revenue administration reforms is expected to sustainably expand the budget envelope for Bangladesh's large development needs, without jeopardizing its prudent fiscal and debt strategy. Fiscal reforms to strengthen the management of public finance, investment, and debt is expected to yield better spending efficiency, governance, and transparency.

50. Monetary and exchange rate policies should focus on containing inflation and rebuilding reserves. The monetary policy stance should be guided by the inflation outlook. Greater exchange rate flexibility should be allowed to help strengthen external buffers. Efforts to modernize monetary policy framework and operations should continue, including to adopt an interest rate corridor, phase out interest rate caps, and improve monetary policy communication.

51. Strengthening the financial sector and developing capital markets are needed to support the authorities' long-term goals. Further reforms to strengthen corporate governance, improve supervision and regulation, and enhance the legal framework remain important to modernize the financial sector and improve credit and business activities. Capital market development is needed to meet long-term financing needs of the economy.

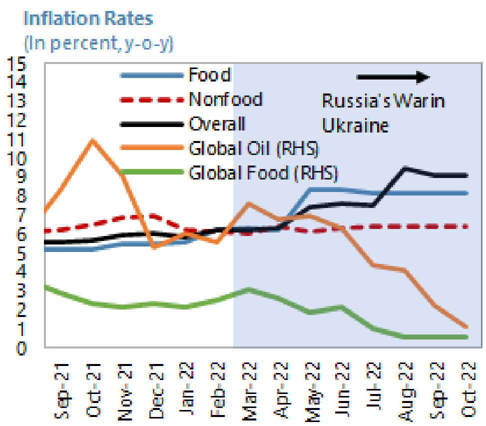
52. Expanding trade and FDI and boosting labor productivity are crucial to increase long-term growth potential. Reform priorities include improving the investment climate, reducing tariff and non-tariff barriers, improving trade-related infrastructure, as well as building skills and reducing informality.

53. Building resilience to climate change and natural disasters will help mitigate macroeconomic and fiscal risks. Additional efforts to strengthen institutions and enhance climate spending efficiency would help meet the authorities' climate objectives. Better management of climate-related risks will enhance financial sector resilience and help mobilize climate finance.

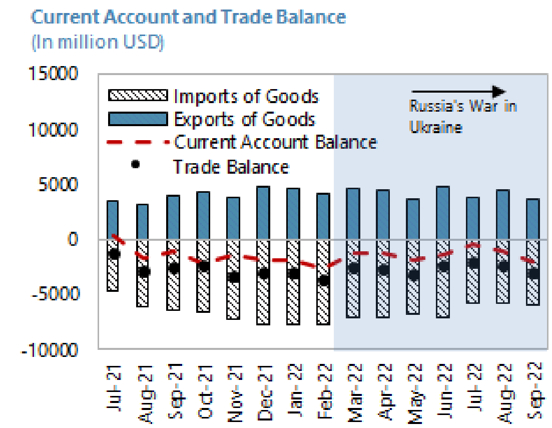
54. Based on the protracted balance of payment needs, substantial climate-related financing requirements, and strong policy commitments, staff supports the authorities' request for a 42-month arrangement under the ECF/EFF and RSF. IMF-supported program will help mitigate the adverse impact of the crisis on the people, support the authorities' aspirations to become an upper-middle income country, and build resilience to climate change shocks that could threaten macroeconomic stability.

Figure 1. Bangladesh: Recent Developments: Pressure from External Shock

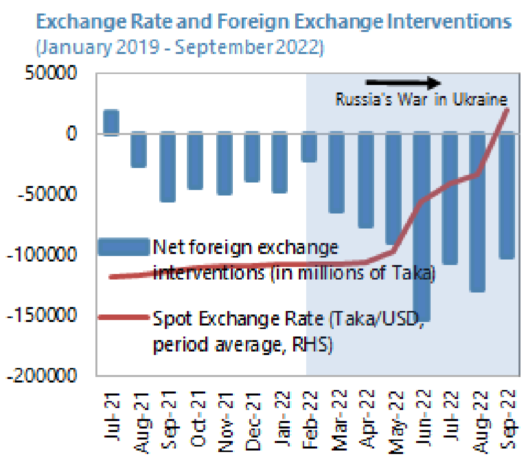
Rising global commodity prices has driven domestic inflation to a multi-year high…



…and widening the current account deficit.



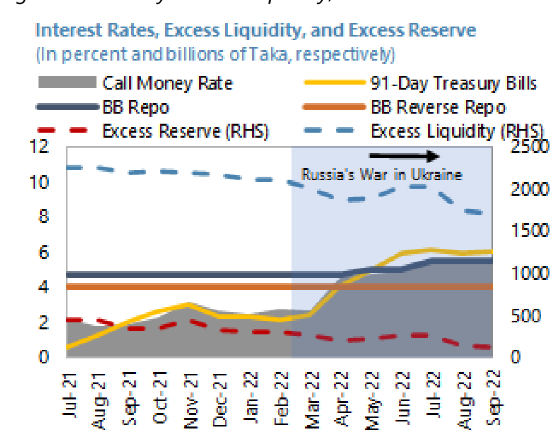
Despite active FX interventions, the Taka has been under significant pressure…



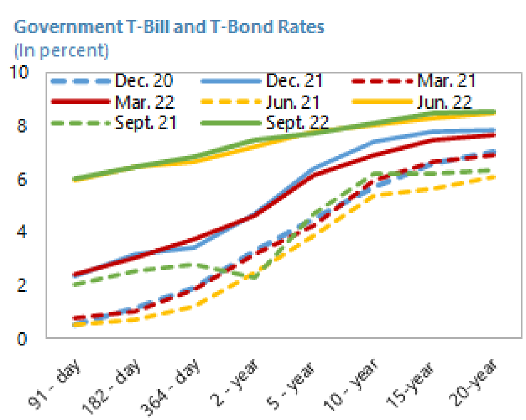
…and foreign reserves continue to decline.

1/ Net international serves are gross international reserves minus FX liabilities.

Policy rate hike and unsterilized FX interventions have tightened money market liquidity,…



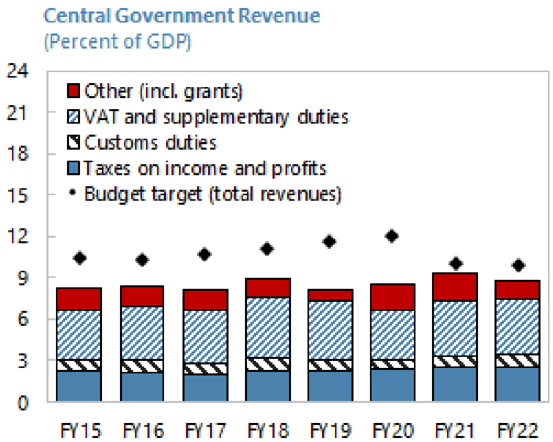
… increasing yields on government securities.



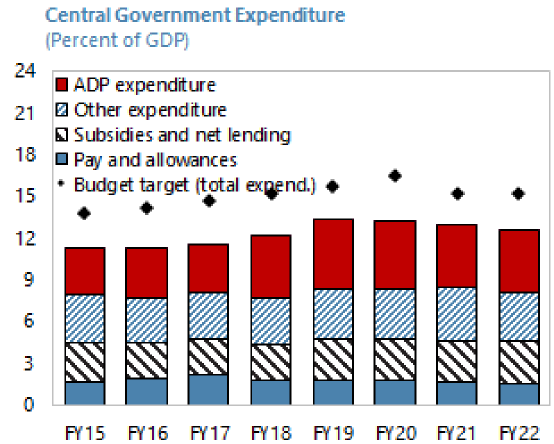
Sources: Bangladesh Bureau of Statistics; Bangladesh Bank; Haver Analytics, Inc.; CEIC Data Company Limitted; and IMF staff calculations.

Figure 2. Bangladesh: Fiscal Developments

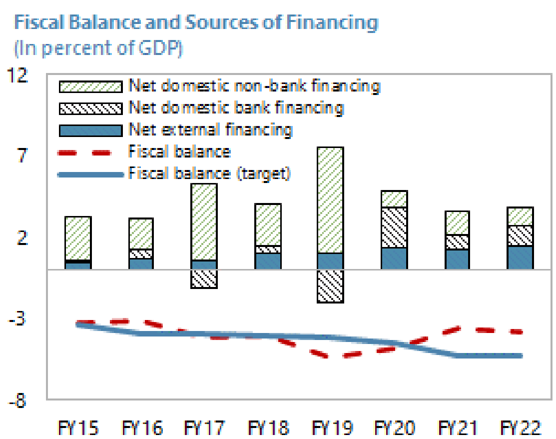
Revenue declined in FY2022 due to lower non-tax revenue.



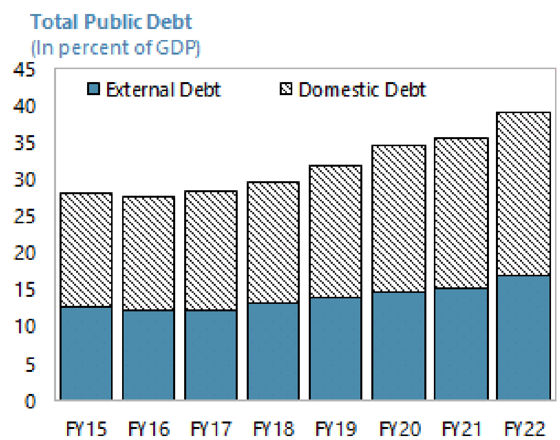
Spending has moderated after the pandemic.



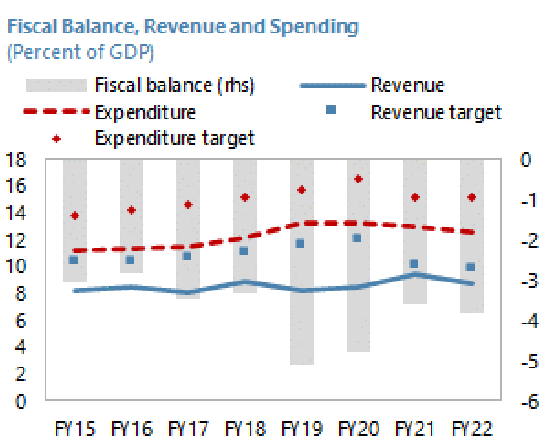
Lower-than-targeted fiscal deficit over the past two years…



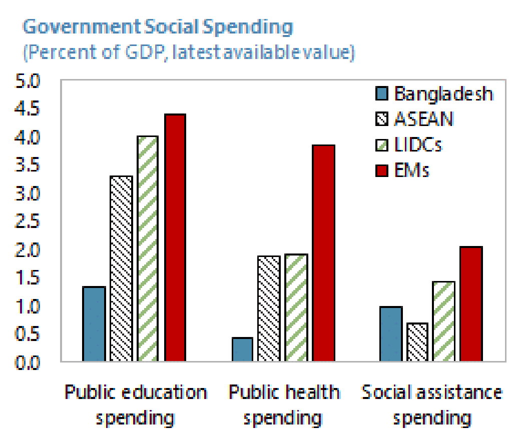
…has kept public debt levels manageable.



Persistently low revenues are constraining spending…



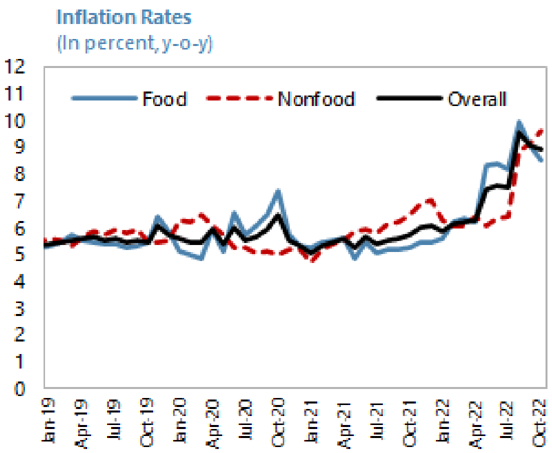
…including much-needed social and development spending.



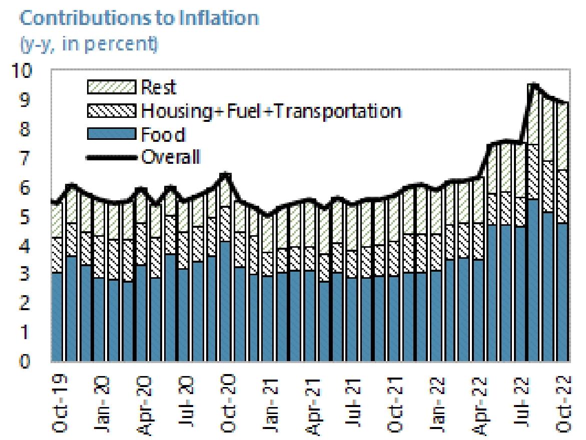
Sources: Bangladesh Ministry of Finance; World Economic Outlook; IMF FAD Expenditure Assessment Tool (EAT); and IMF staff estimates.

Figure 3. Bangladesh: Monetary and Financial Market Developments

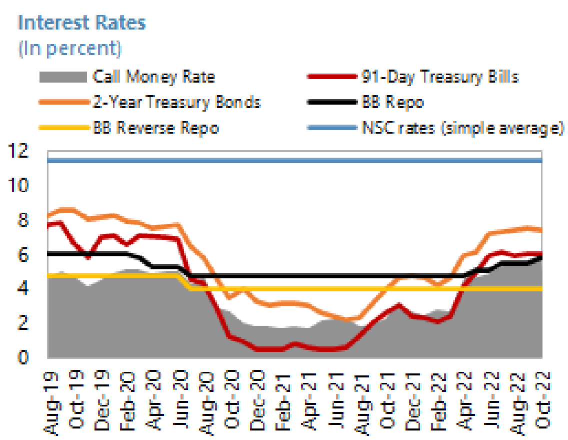
Rising inflation…



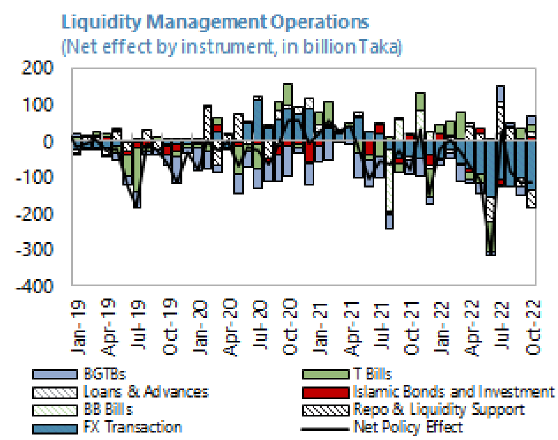
…has been driven by commodity prices.



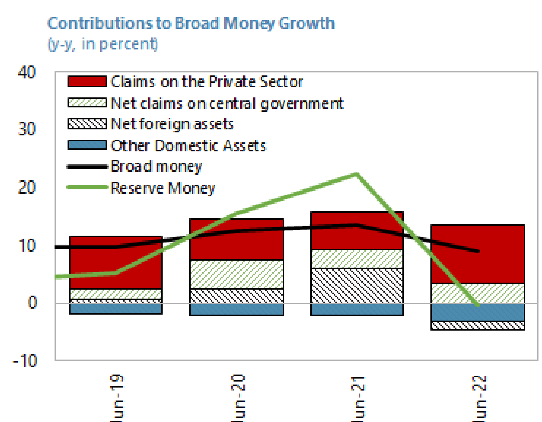
Policy rates were raised.



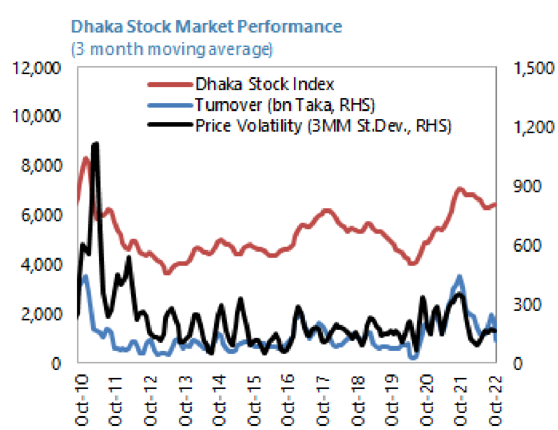
Unsterilized FX sales have reduced liquidity in the system.



Broad money growth has slowed.



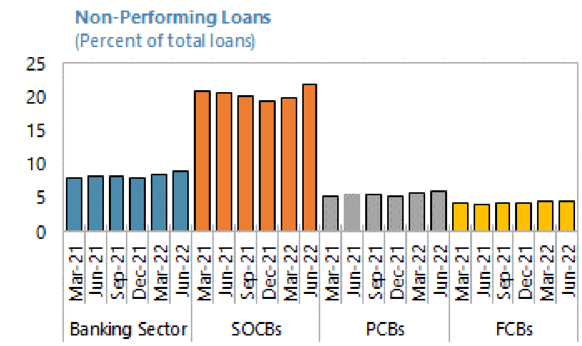
Stock prices have declined.



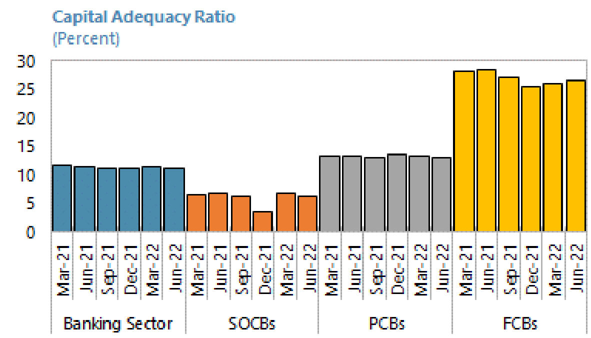
Sources: Bangladesh Bureau of Statistics; Bangladesh Bank; Haver Analytics, Inc.; CEIC Data Company Limitted; and IMF staff calculations.

Figure 4. Bangladesh: Banking Sector Developments

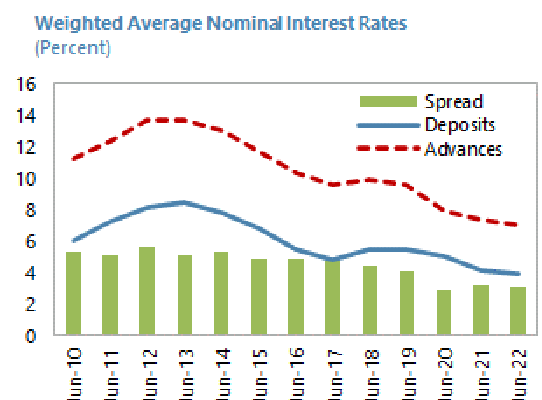
Non-performing loans remain elevated, especially in SOCBs.



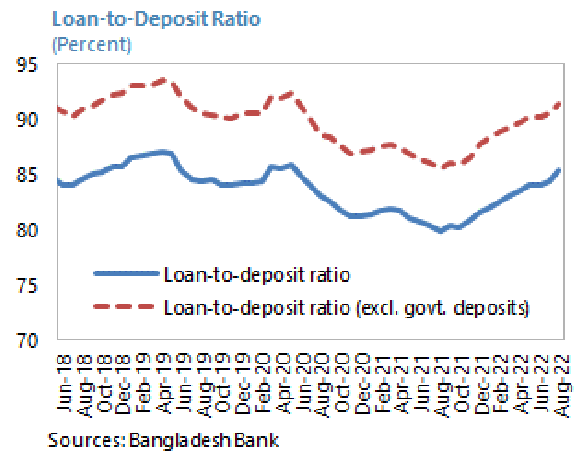
SOCBs' bank capital is also below the required capital adequacy ratio.



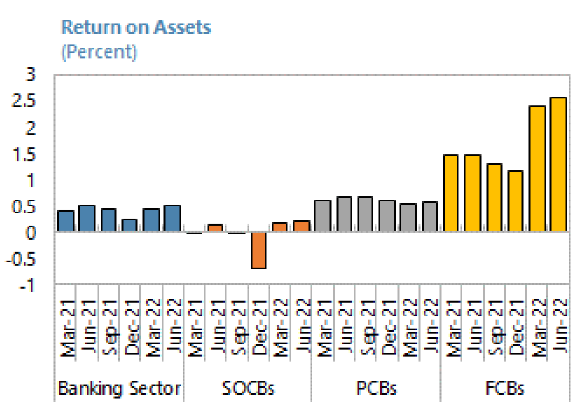
The cap on lending rates and excess liquidity have squeezed the lending margin for banks.



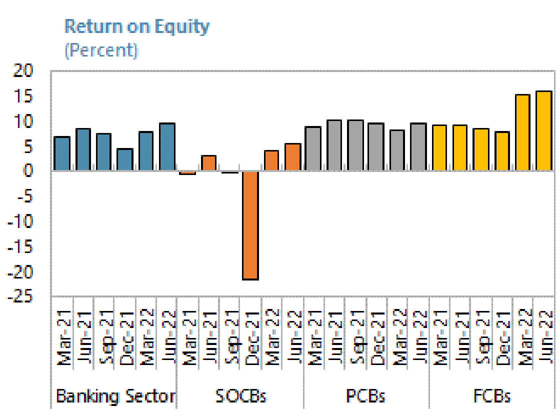
Private credit growth has picked up, outpacing deposit growth.



Poor asset quality has led to low bank profits...



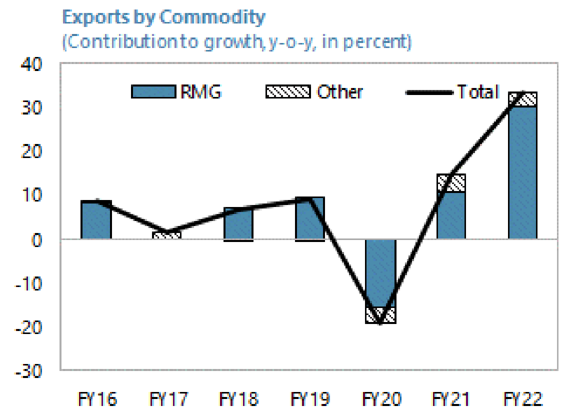
...particularly among SOCBs.



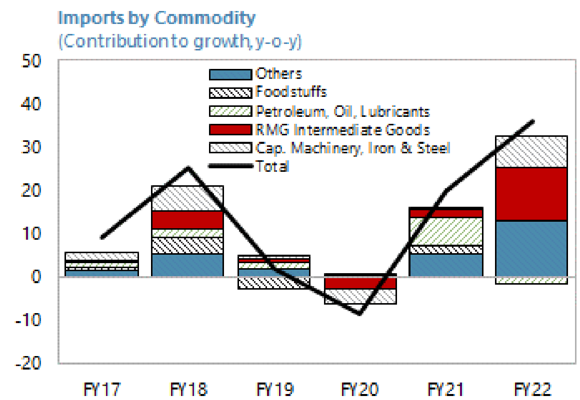
Source: Bangladesh Bank.

Figure 5. Bangladesh: External Sector Developments

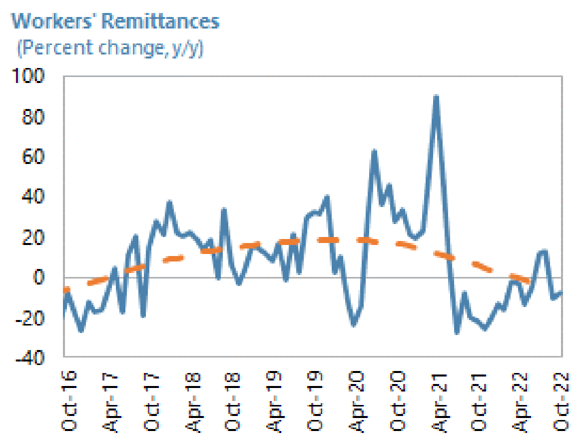
Strong rebound of export growth continued in FY2022…



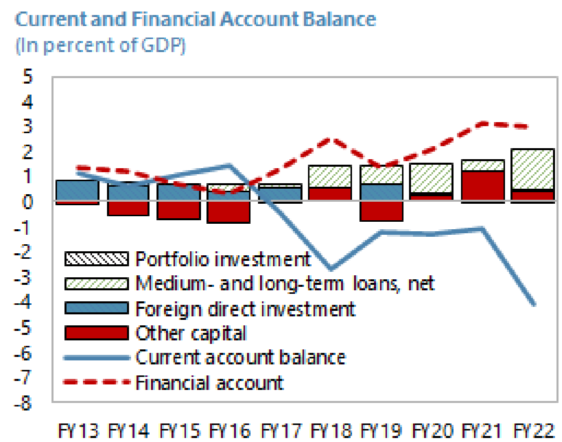
…but import growth spiked to a multi-year high.



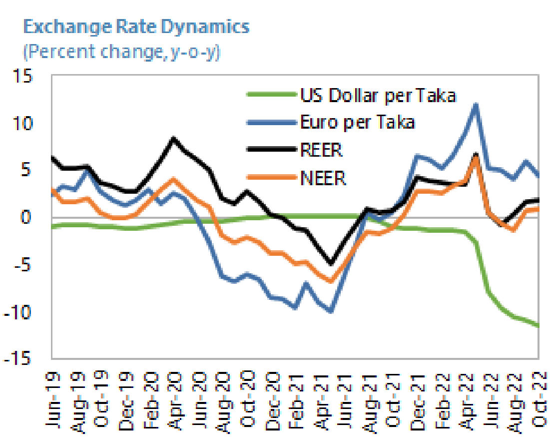
Worker remittances normalized and continued a secular decline.



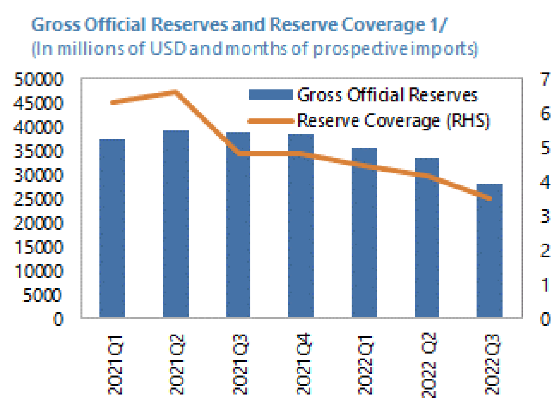
As a result, the current account deficit widened to a historic high.



Taka has been under pressure…



…leading to the declining reserve coverage.



1/ BPM6 definition.

Sources: Bangladesh Authorities; Bangladesh Bank; Haver Analytics, Inc.; FRED; Bloomberg LP; INS; and IMF staff estimates.

Table 2. Bangladesh: Selected Economic Indicators, FY2019–27 1/

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
				Est.			Proj.		
				(Annual percent change)					
Real GDP	7.9	3.4	6.9	7.2	5.5	6.5	7.1	7.3	7.4
Consumption									
Private	4.9	3.0	8.0	13.2	7.6	6.5	4.1	4.7	5.7
Public	13.4	2.0	6.9	5.8	-7.5	4.7	6.1	6.3	7.3
Gross Capital Formation	8.6	0.2	8.1	10.0	-6.2	10.5	12.4	11.8	10.9
Private	8.6	0.2	7.8	9.3	-11.7	9.1	10.9	9.3	12.5
Public	0.7	18.2	9.1	12.1	11.0	13.9	16.2	17.5	7.7
Trade									
Exports of goods and services	11.5	-17.5	9.2	23.2	-7.2	8.6	8.9	9.0	9.3
Imports of goods and services	0.5	-11.4	15.3	45.1	-22.6	14.2	5.1	6.0	8.6
Prices									
GDP deflator	3.7	3.8	4.1	5.0	5.2	4.8	4.5	4.5	5.4
CPI inflation (annual average)	5.5	5.6	5.6	6.1	8.9	6.5	5.6	5.5	5.5
CPI inflation (end of period)	5.5	6.0	5.6	7.6	8.1	5.9	5.5	5.5	5.5
				(In percent of GDP, unless otherwise indicated)					
Central government operations									
Total revenue and grants	8.1	8.5	9.4	8.7	8.8	9.3	9.7	10.3	10.2
Of which: Tax revenue	7.5	7.0	7.6	7.8	7.8	8.3	8.8	9.4	9.4
Total expenditure	13.6	13.3	13.0	12.6	14.5	14.4	14.8	15.3	15.2
Of which: Annual Development Program (ADP)	5.1	4.9	4.5	4.5	5.2	5.6	6.0	6.5	6.4
Overall balance (including grants)	-5.4	-4.8	-3.6	-3.8	-5.6	-5.1	-5.0	-5.0	-5.0
(excluding grants)	-5.5	-4.9	-3.7	-3.9	-5.7	-5.2	-5.1	-5.1	-5.0
Primary balance (including grants)	-3.7	-3.0	-1.6	-2.1	-3.8	-3.3	-3.3	-3.3	-3.3
Public sector total debt 2/	32.0	34.5	35.6	39.0	42.1	42.2	42.3	42.5	42.3
Of which: External debt	13.9	14.6	15.1	17.0	18.9	19.0	18.6	18.1	17.3
Balance of Payments									
Current account balance	-1.3	-1.5	-1.1	-4.1	-3.2	-4.2	-3.5	-3.0	-3.0
Trade balance	-5.4	-5.4	-6.4	-10.8	-7.6	-8.4	-7.5	-6.7	-6.4
Service balance	-0.9	-0.7	-0.7	-0.8	-0.8	-0.9	-0.8	-0.6	-0.6
Income balance	-0.7	-0.8	-0.8	-0.7	-0.9	-0.9	-0.9	-0.8	-0.8
Transfers	4.8	5.0	6.1	4.7	5.3	5.1	4.8	4.5	4.2
of which: Remittances	4.7	4.9	6.0	4.6	5.1	4.9	4.6	4.4	4.1
Capital account balance	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Financial account balance	1.5	2.3	3.1	3.0	2.5	5.5	5.2	5.0	4.6
Foreign direct investment, net	0.7	0.3	0.3	0.5	0.7	1.0	1.2	1.3	1.3
Gross international reserves (billions of U.S. dollars)	32.7	36.0	46.4	33.4	30.0	34.2	40.0	46.4	53.1
in months of next year's imports	6.5	6.1	5.8	4.6	3.5	3.8	4.2	4.4	4.5
Monetary and Credit									
Reserve money	8.3	8.9	9.8	8.7	9.0	9.0	9.0	9.1	9.1
Broad money (M2)	52.0	53.8	54.6	52.8	52.8	53.6	54.2	54.8	55.4
Credit to private sector	37.2	37.3	36.2	36.6	36.7	37.5	37.9	38.0	38.7
Savings and Investment									
Gross national savings	31.1	31.4	30.8	25.6	27.8	28.0	30.2	32.0	32.9
Public	0.6	1.0	1.9	1.3	0.7	1.6	2.1	2.8	2.7
Private	30.5	30.4	28.9	24.2	27.1	26.4	28.0	29.2	30.1
Gross investment	32.2	31.3	31.0	31.7	31.0	32.2	33.7	35.0	35.8
Public	7.0	7.3	7.3	7.6	8.8	9.5	10.2	11.2	11.1
Private	25.2	24.0	23.7	24.1	22.2	22.8	23.5	23.9	24.7
Memorandum item:									
Nominal GDP (in billions of taka)	29,514	31,705	35,302	39,765	44,133	49,258	55,129	61,816	69,993

Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Fiscal yearbegins on July 1 and ends on June 30.

2/ Includes central government's gross debt, including debt owed to the IMF, plus domestic bank borrowing by nonfinancial public sector and public enterprises' external borrowing supported by government guarantees, including short-term oil-related suppliers' credits.

3/ Program financing (+ purchases, - repurchases) is included under the Financial Account, with consistent sign conversion.

Table 3a. Bangladesh: Balance of Payments, FY2019–27 1/

(In millions of U.S. dollars, unless otherwise indicated)

	FY19	FY20	FY21	FY22	FY23	FY24	FY 25	FY26	FY27
				Est.			Proj.		
Current account balance 2/	-4,490	-5,435	-4,575	-18,688	-13,508	-19,924	-18,574	-17,665	-19,694
Trade balance	-19,011	-21,147	-26,780	-37,119	-31,807	-39,544	-39,264	-39,467	-42,382
Exports (f.o.b.)	39,604	32,121	36,903	49,246	46,542	51,861	57,178	63,297	70,581
Of which: Ready-made garment sector	34,133	27,949	31,457	42,613	39,909	44,299	48,331	52,680	57,416
Imports (f.o.b.) 2/	-55,439	-50,690	-60,681	-82,495	-75,163	-87,264	-92,500	-98,975	-108,971
Of which: Crude oil and petroleum products	-4,605	-4,957	-8,278	-18,761	-18,507	-18,782	-18,352	-18,066	-17,954
Services	-3,176	-2,578	-3,002	-3,870	-3,187	-4,141	-3,942	-3,789	-3,991
Income	-2,382	-3,070	-3,172	-3,299	-3,879	-4,119	-4,470	-4,865	-5,269
Transfers	16,903	18,782	25,377	21,730	22,179	23,739	25,160	26,667	27,957
Official current transfers 3/	41	19	33	25	40	50	50	50	50
Private transfers	16,862	18,763	25,344	21,705	22,139	23,689	25,110	26,617	27,907
Of which: Workers' remittances	16,420	18,205	24,778	21,032	21,453	22,954	24,332	25,791	27,042
Capital and financial account balance 4/	5,369	8,910	13,314	13,847	10,787	26,300	27,704	29,947	31,112
Capital account	239	256	221	181	140	297	332	372	419
Financial account	5,130	8,654	13,093	13,666	10,647	26,003	27,372	29,575	30,693
Foreign direct investment	2,628	1,271	1,355	2,179	2,944	4,693	6,041	7,834	8,627
Portfolio investment	171	44	-269	-158	132	1,173	1,007	1,306	2,157
Medium- and long-term loans, net	5,363	6,238	6,993	11,215	11,668	12,690	12,721	13,970	14,763
Government, net	5,061	5,739	5,309	9,811	9,984	10,922	11,037	11,270	12,063
Disbursements	6,263	6,996	6,726	11,338	11,939	13,222	13,596	13,544	14,541
IMF financing (ECF/EFF)	...	...	...	...	450	900	900	965	...
Amortization	-1,202	-1,257	-1,417	-1,527	-1,955	-2,300	-2,559	-2,275	-2,478
Others	-3,032	1,101	5,014	430	-4,096	7,446	7,604	6,466	5,146
of which: Short-term loans and trade credits, net	-3,221	1,378	5,562	430	-4,000	4,644	4,923	5,267	5,799
Errors and omissions	-700	-306	535	0	0	0	0	0	0
Overall balance	179	3,169	9,274	-4,841	-2,721	6,376	9,130	12,283	11,419
Financing items	-179	-3,169	-9,274	4,841	2,721	-6,376	-9,130	-12,283	-11,419
Reserve assets (+ decrease)	...	...	...	...	3,424	-4,271	-5,781	-6,359	-6,768
Memorandum items:									
Remittances (annual percent change)	9.6	10.9	36.1	-15.1	2.0	7.0	6.0	6.0	4.8
Medium- and long-term external public debt	48,427	54,504	62,882	72,288	79,521	88,965	97,684	106,759	114,788
(Percent of GDP)	13.9	14.6	15.1	17.0	18.9	19.0	18.6	18.1	17.3
Gross official reserves 5/	32,717	36,037	46,391	33,386	29,962	34,232	40,013	46,372	53,140
(In months of imports of goods and services)	6.5	6.1	5.8	4.6	3.5	3.8	4.2	4.4	4.5
Net international reserves 5/	...	...	...	28,232	24,462	28,732	34,513	42,172	48,940
(In months of imports of goods and services)	...	...	...	3.9	2.9	3.2	3.6	4.0	4.1
Nominal GDP	351,238	373,902	416,265	460,751	420,516	469,346	525,290	589,000	663,597

Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Fiscal year begins July 1 and ends on June 30.

2/ Imports are based on customs data.

3/ Excludes official capital grants reported in the capital account.

4/ Of identified amounts some are pending approval and some are to be disbursed in 2020 after June.

5/ Gross and net international reserves are per BPM6 definition and exclude valuation adjustments. Net international reserves are reported at market exchange rates, and is calculated as the gross reserves minus FX liabilities.

Table 3b. Bangladesh: Balance of Payments, FY2019–27 1/
(In percent of GDP)

	FY19	FY20	FY21	FY22	FY23	FY24	FY 25	FY26	FY27
				Est.			Proj.		
Current account balance 2/	-1.3	-1.5	-1.1	-4.1	-3.2	-4.2	-3.5	-3.0	-3.0
Trade balance	-5.4	-5.7	-6.4	-8.1	-7.6	-8.4	-7.5	-6.7	-6.4
Exports (f.o.b.)	11.3	8.6	8.9	10.7	11.1	11.0	10.9	10.7	10.6
Of which: Ready-made garment sector	9.7	7.5	7.6	9.2	9.5	9.4	9.2	8.9	8.7
Imports (f.o.b.) 2/	-15.8	-13.6	-14.6	-17.9	-17.9	-18.6	-17.6	-16.8	-16.4
Of which: Crude oil and petroleum products	-1.3	-1.3	-2.0	-4.1	-4.4	-4.0	-3.5	-3.1	-2.7
Services	-0.9	-0.7	-0.7	-0.8	-0.8	-0.9	-0.8	-0.6	-0.6
Income	-0.7	-0.8	-0.8	-0.7	-0.9	-0.9	-0.9	-0.8	-0.8
Transfers	4.8	5.0	6.1	4.7	5.3	5.1	4.8	4.5	4.2
Official current transfers 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private transfers	4.8	5.0	6.1	4.7	5.3	5.0	4.8	4.5	4.2
Of which: Workers' remittances	4.7	4.9	6.0	4.6	5.1	4.9	4.6	4.4	4.1
Capital account	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Financial account	1.5	2.3	3.1	3.0	2.5	5.5	5.2	5.0	4.6
Foreign direct investment	0.7	0.3	0.3	0.5	0.7	1.0	1.2	1.3	1.3
Portfolio investment	0.0	0.0	-0.1	0.0	0.0	0.2	0.2	0.2	0.3
Medium- and long-term loans, net	1.5	1.7	1.7	2.4	2.8	2.7	2.4	2.4	2.2
Government, net	1.4	1.5	1.3	2.1	2.4	2.3	2.1	1.9	1.8
Disbursements	1.8	1.9	1.6	2.5	2.8	2.8	2.6	2.3	2.2
Amortization	-0.3	-0.3	-0.3	-0.3	-0.5	-0.5	-0.5	-0.4	-0.4
Other	-0.9	0.3	1.2	0.1	-1.0	1.6	1.4	1.1	0.8
Errors and omissions	-0.2	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.1	0.8	2.2	-1.1	-0.6	1.4	1.7	2.1	1.7

Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Fiscal year begins July 1 and ends on June 30.

2/ Imports are based on customs data.

3/ Excludes official capital grants reported in the capital account.

Table 4a. Bangladesh: Central Government Operations, FY2019–27 1/

(In billions of taka, unless otherwise indicated)

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
				Est.			Proj.		
Total revenue and grants	2,404	2,685	3,305	3,470	3,904	4,596	5,365	6,341	7,139
Total revenue	2,387	2,659	3,286	3,449	3,876	4,549	5,313	6,300	7,134
Tax revenue	2,213	2,220	2,698	3,085	3,456	4,104	4,839	5,796	6,562
National Board of Revenue (NBR) taxes	2,180	2,160	2,639	3,016	3,368	4,005	4,729	5,672	6,422
Of which : VAT and supplementary duties	1,232	1,136	1,419	1,580	1,839	2,231	2,676	3,268	3,700
Taxes on income and profits	669	754	873	1,029	1,159	1,378	1,627	1,952	2,210
Customs and excise duties	266	260	341	384	370	396	426	453	513
Non-NBR taxes	32	59	59	69	88	99	110	124	140
Nontax revenue	174	439	588	363	420	445	473	504	571
Foreign grants	17	26	19	22	28	47	52	41	5
Total expenditure	4,000	4,219	4,578	4,920	6,391	7,101	8,149	9,446	10,638
Current expenditure	2,223	2,361	2,649	2,867	3,611	3,801	4,184	4,624	5,230
Pay and allowances	549	569	589	615	660	737	824	924	1,047
Goods and services	302	290	305	294	326	362	406	456	516
Interest payments	500	583	706	703	800	880	968	1,065	1,200
Subsidies and transfers 2/	871	919	1,032	1,256	1,826	1,823	1,985	2,179	2,467
Block allocations	0	0	18	0	0	0	0	0	0
Annual Development Program (ADP)	1,493	1,554	1,592	1,808	2,294	2,746	3,303	4,032	4,458
Non-ADP capital spending	242	269	289	234	330	394	496	618	770
Net lending 3/	-10	12	6	-51	44	49	55	62	70
Other expenditures 4/	52	23	42	62	111	111	111	111	111
Overall balance (including grants)	-1,596	-1,535	-1,273	-1,449	-2,486	-2,506	-2,784	-3,105	-3,500
(Excluding grants)	-1,613	-1,560	-1,292	-1,471	-2,514	-2,552	-2,836	-3,146	-3,505
Primary balance (including grants)	-1,096	-951	-567	-826	-1,686	-1,626	-1,816	-2,040	-2,300
(Excluding grants)	-1,113	-977	-586	-847	-1,714	-1,672	-1,868	-2,081	-2,305
Net financing	1,596	1,535	1,272	1,528	2,486	2,506	2,784	3,105	3,500
External	313	416	455	592	712	852	776	806	847
Disbursements	421	529	575	725	1,209	1,177	1,125	1,118	1,190
Amortization	-108	-113	-120	-133	-497	-325	-349	-311	-343
Domestic	1,283	1,119	818	936	1,775	1,653	2,008	2,298	2,653
Banks	-607	793	284	495	1,148	1,121	1,443	1,595	1,841
Of which: Bangladesh Bank-IMF Budget support	...	...	...	...	24	92	92	95	...
Nonbanks 5/	1,890	326	533	442	627	532	565	703	812
Of which: National Saving Certificate	504	151	430	221	350	275	252	345	398

Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Fiscal year begins July 1 and ends June 30. Cash basis, unless otherwise specified.

2/ Comprise budget allocations for safety net programs and other social-related spending, pensions and gratuities, and direct subsidies for food and to the agriculture and export sectors. Other subsidy-related costs (i.e., lending to large energy-related state-owned enterprises (SOEs)) are included in net lending.

3/ Excludes net financing of autonomous and semi-autonomous government bodies, and government lending funds. Includes special bonds issued to the commercial banks for the noncash issued to the state-owned securitization of past subsidy-related loans made to Bangladesh Petroleum Corporation, consistent with the earlier treatment in the fiscal accounts of similar operations.

4/ Includes food account surplus (+)/deficit (-) and extraordinary expenditures.

5/ Includes National Savings Certificates, net purchase of Treausry securities by nonbank entities, and financing through the General Provident Fund.

Table 4b. Bangladesh: Central Government Operations, FY2019–27 1/

(In percent of GDP, unless otherwise indicated)

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
				Est.			Proj.		
Total revenue and grants	8.1	8.5	9.4	8.7	8.8	9.3	9.7	10.3	10.2
Total revenue	8.1	8.4	9.3	8.7	8.8	9.2	9.6	10.2	10.2
Tax revenue	7.5	7.0	7.6	7.8	7.8	8.3	8.8	9.4	9.4
National Board of Revenue (NBR) taxes	7.4	6.8	7.5	7.6	7.6	8.1	8.6	9.2	9.2
Of which: VAT and supplementary duties	4.2	3.6	4.0	4.0	4.2	4.5	4.9	5.3	5.3
Taxes on income and profits	2.3	2.4	2.5	2.6	2.6	2.8	3.0	3.2	3.2
Customs and excise duties	0.9	0.8	1.0	1.0	0.8	0.8	0.8	0.7	0.7
Non-NBR taxes	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Nontax revenue	0.6	1.4	1.7	0.9	1.0	0.9	0.9	0.8	0.8
Foreign grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Total expenditure	13.6	13.3	13.0	12.4	14.5	14.4	14.8	15.3	15.2
Current expenditure	7.5	7.4	7.5	7.2	8.2	7.7	7.6	7.5	7.5
Pay and allowances	1.9	1.8	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Goods and services	1.0	0.9	0.9	0.7	0.7	0.7	0.7	0.7	0.7
Interest payments	1.7	1.8	2.0	1.8	1.8	1.8	1.8	1.7	1.7
Subsidies and transfers 2/	3.0	2.9	2.9	3.2	4.1	3.7	3.6	3.5	3.5
Annual Development Program (ADP)	5.1	4.9	4.5	4.5	5.2	5.6	6.0	6.5	6.4
Non-ADP capital spending	0.8	0.8	0.8	0.6	0.7	0.8	0.9	1.0	1.1
Net lending 3/	0.0	0.0	0.0	-0.1	0.1	0.1	0.1	0.1	0.1
Other expenditures 4/	0.2	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.2
Overall balance (including grants)	-5.4	-4.8	-3.6	-3.6	-5.6	-5.1	-5.0	-5.0	-5.0
(Excluding grants)	-5.5	-4.9	-3.7	-3.7	-5.7	-5.2	-5.1	-5.1	-5.0
Primary balance (including grants)	-3.7	-3.0	-1.6	-2.1	-3.8	-3.3	-3.3	-3.3	-3.3
(Excluding grants)	-3.8	-3.1	-1.7	-2.1	-3.9	-3.4	-3.4	-3.4	-3.3
Net financing	5.4	4.8	3.6	3.8	5.6	5.1	5.0	5.0	5.0
External	1.1	1.3	1.3	1.5	1.6	1.7	1.4	1.3	1.2
Disbursements	1.4	1.7	1.6	1.8	2.7	2.4	2.0	1.8	1.7
Amortization	-0.4	-0.4	-0.3	-0.3	-1.1	-0.7	-0.6	-0.5	-0.5
Domestic	4.3	3.5	2.3	2.4	4.0	3.4	3.6	3.7	3.8
Banks	-2.1	2.5	0.8	1.2	2.6	2.3	2.6	2.6	2.6
Of which: Bangladesh Bank-IMF Budget support	...	...	...	...	0.1	0.2	0.2	0.2	...
Nonbanks 5/	6.4	1.0	1.5	1.1	1.4	1.1	1.0	1.1	1.2
Of which: National Saving Certificate	1.7	0.5	1.2	0.6	0.8	0.6	0.5	0.6	0.6
Memorandum items:									
Total central government debt (percent of GDP)	32.0	34.5	35.6	39.0	42.1	42.2	42.3	42.5	42.3
Nominal GDP (in billions of taka)	29,514	31,705	35,302	39,765	44,133	49,258	55,129	61,816	69,993

Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Fiscal year begins July 1 and ends June 30. Cash basis, unless otherwise specified.

2/ Comprise budget allocations for safety net programs and other social-related spending, pensions and gratuities, and direct subsidies for food and to the agriculture and export sectors. Other subsidy-related costs (i.e., lending to large energy-related state-owned enterprises (SOEs)) are included in net lending.

3/ Excludes net financing of autonomous and semi-autonomous government bodies, and government lending funds. Includes special bonds issued to the commercial banks for the noncash issued to the state-owned securitization of past subsidy-related loans made to Bangladesh Petroleum Corporation, consistent with the earlier treatment in the fiscal accounts of similar operations.

4/ Includes food account surplus (+)/deficit (-) and extraordinary expenditures.

5/ Includes National Savings Certificates, net purchase of Treausry securities by nonbank entities, and financing through the General Provident Fund.

Table 5. Bangladesh: Monetary Accounts, FY2019–27 1/

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
				Est.			Proj.		
Bangladesh Bank (BB) balance sheet				(End of period; in billions of taka)					
Net foreign assets	2,572	2,839	3,648	3,456	3,462	3,818	4,333	5,041	5,780
Net domestic assets	-125	-9	-183	-1	490	638	654	581	623
Net credit to central government 2/	215	322	91	449	555	623	623	627	531
Credit to other nonfinancial public sector	12	12	12	12	12	12	12	12	12
Credit to deposit money banks	70	159	221	194	332	332	332	332	332
Other items, net	-422	-503	-506	-656	-410	-330	-313	-390	-253
Reserve money 3/	2,447	2,829	3,465	3,455	3,951	4,456	4,987	5,622	6,403
Currency	1,528	1,906	2,079	2,348	2,542	2,856	3,175	3,566	4,044
Reserves	919	924	1,386	1,107	1,409	1,600	1,812	2,056	2,359
				(Contributions to reserve money growth)					
Reserve money (year-on-year percentage change)	5.4	15.6	22.5	-0.3	14.4	12.8	11.9	12.7	13.9
Net foreign assets	1.5	10.9	28.6	-5.5	0.2	9.0	11.6	14.2	13.1
Net domestic assets	3.9	4.7	-6.1	5.3	14.2	3.8	0.4	-1.5	0.7
Of which: Net credit to central government	3.8	4.4	-8.2	10.4	3.1	1.7	0.0	0.1	-1.7
Monetary survey				(End of period; in billions of taka)					
Net foreign assets	2,205	2,481	3,325	3,023	3,612	3,968	4,483	5,192	5,932
Bangladesh Bank	2,572	2,839	3,648	3,456	3,462	3,818	4,333	5,041	5,780
Commercial banks	-367	-358	-322	-433	151	151	151	151	151
Net domestic assets	13,141	14,565	15,967	17,971	19,688	22,443	25,391	28,668	32,855
Domestic credit	15,270	16,992	18,788	21,452	24,216	27,622	31,517	35,740	41,206
Net credit to central government 2/	3,866	4,656	5,486	6,317	7,465	8,586	10,029	11,624	13,465
Credit to other nonfinancial public sector	130	194	194	264	279	295	313	332	354
Credit to nonbank financial institutions	306	326	318	323	268	283	292	302	302
Credit to private sector	10,969	11,817	12,790	14,548	16,204	18,458	20,884	23,482	27,085
Other items, net	-2,130	-2,427	-2,821	-3,482	-4,528	-5,180	-6,126	-7,071	-8,350
Broad money (M2)	15,345	17,047	19,292	20,994	23,300	26,411	29,874	33,860	38,787
				(Year-on-year percent change)					
Net foreign assets	0.2	12.5	34.0	-9.1	19.5	9.9	13.0	15.8	14.2
Net domestic assets	13.9	10.8	9.6	12.5	9.6	14.0	13.1	12.9	14.6
Domestic credit	14.1	11.3	10.6	14.2	12.9	14.1	14.1	13.4	15.3
Of which: Net credit to central government	21.8	20.5	17.8	15.1	18.2	15.0	16.8	15.9	15.8
Credit to private sector	11.0	7.7	8.2	13.7	11.4	13.9	13.1	12.4	15.3
Broad money (M2)	11.7	11.1	13.2	8.8	11.0	13.4	13.1	13.3	14.6
Memorandum items:				(In percent of GDP, unless otherwise indicated)					
Reserve money 3/	8.3	8.9	9.8	8.7	9.0	9.0	9.0	9.1	9.1
Broad money (M2)	52.0	53.8	54.6	52.8	52.8	53.6	54.2	54.8	55.4
Credit to private sector	37.2	37.3	36.2	36.6	36.7	37.5	37.9	38.0	38.7
Broad money multiplier (ratio)	6.3	6.0	5.6	6.1	5.9	5.9	6.0	6.0	6.1
Broad money velocity (ratio)	1.9	1.9	1.8	1.9	1.9	1.9	1.8	1.8	1.8

Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/Fiscal year in Bangladesh begins July 1 and ends June 30.
2/ Includes special bonds issued to the commercial banks for the noncash issued to the state-owned securitization of past subsidy-related loans made to Bangladesh Petroleum Corporation. Excludes government lending fund and net credit to autonomous and semi-autonomous government bodies. Excluded items are included in "Other items, net."
3/ Liabilities arising from banks' foreign currency clearing accounts at BB and nonbank deposits at BB are included in "Other items, net."

Table 6. Bangladesh: Financial Soundness Indicators, FY2015-21 1/

(In percent)

	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Capital adequacy							
Regulatory capital to risk-weighted assets	10.8	10.8	10.8	12.1	11.6	12.5	11.6
State-owned commercial banks	6.4	5.9	7.0	10.3	5.0	9.6	6.8
Private commercial banks	12.4	12.4	12.2	12.8	13.6	13.7	13.3
Foreign commercial banks	25.6	25.4	23.3	25.9	24.5	28.4	28.5
Asset quality							
Nonperforming loans to total loans	8.8	9.2	9.3	10.3	9.3	7.7	8.2
State-owned commercial banks	21.5	25.1	26.5	30.0	23.9	20.9	20.6
Private commercial banks	4.9	4.6	4.9	5.5	5.8	4.7	5.4
Foreign commercial banks	7.8	9.6	7.0	6.5	5.7	3.5	3.9
Loan provisions to total nonperforming loans	44.8	49.4	50.5	53.7	68.5	72.9	65.9
Loan provisions to total loans	3.9	4.5	4.7	5.5	6.4	5.6	5.4
Management							
Expenditure-Income Ratio	76.3	76.6	74.7	76.6	78.0	79.2	80.2
State-owned commercial banks	84.5	90.2	81.3	80.5	84.9	83.2	87.1
Private commercial banks	75.5	73.5	73.8	76.7	77.6	79.6	76.2
Foreign commercial banks	47.0	45.7	46.6	47.5	48.8	46.2	44.9
Earnings							
Return on equity (BB)	10.5	9.4	10.6	3.9	6.8	4.3	8.3
State-owned commercial banks	-1.5	-6.0	3.5	-29.6	-13.7	-29.6	2.9
Private commercial banks	10.8	11.1	12.0	11.0	11.2	10.2	10.1
Foreign commercial banks	14.6	13.1	11.3	12.4	13.4	13.1	9.3
Return on assets (BB)	0.8	0.7	0.7	0.3	0.4	0.3	0.5
State-owned commercial banks	0.0	-0.2	0.2	-1.3	-0.6	-1.1	0.1
Private commercial banks	1.0	1.0	0.9	0.8	0.8	0.7	0.7
Foreign commercial banks	2.9	2.6	2.2	2.2	2.3	2.1	1.5
Liquidity							
Liquidity Ratio	26.5	24.9	19.9	18.2	19.9	26.2	27.3
State-owned commercial banks	41.4	40.0	30.4	24.8	27.3	37.8	40.8
Private commercial banks	19.7	17.8	14.8	14.2	16.4	20.9	20.9
Foreign commercial banks	51.8	48.2	43.8	48.4	29.7	40.7	40.9

Source: Bangladesh Bank.

1/Fiscal year in Bangladesh begins July 1 and ends June 30.

Table 7a. Bangladesh: Proposed Schedule of Disbursement and Timing of ECF/EFF Arrangement Reviews

	Amount of Disbursements						Conditions
	(million SDRs)			(Percent of Quota)			
Available on or after	Total	ECF	EFF	Total	ECF	EFF	
January 30, 2023	352.35	117.45	234.90	33.0	11.0	22.0	Board approval of the arrangement
November 1, 2023	352.35	117.45	234.90	33.0	11.0	22.0	Board completion of first review based on observance of end-June 2023 performance criteria.
May 1, 2024	352.35	117.45	234.90	33.0	11.0	22.0	Board completion of second review based on observance of end-December 2023 performance criteria.
November 1, 2024	352.35	117.45	234.90	33.0	11.0	22.0	Board completion of third review based on observance of end-June 2024 performance criteria.
May 1, 2025	352.35	117.45	234.90	33.0	11.0	22.0	Board completion of fourth review based on observance of end-December 2024 performance criteria.
October 31, 2025	352.35	117.45	234.90	33.0	11.0	22.0	Board completion of fifth review based on observance of end-June 2025 performance criteria.
May 1, 2026	354.36	118.12	236.24	33.2	11.1	22.1	Board completion of sixth review based on observance of performance criteria for end-December 2025.
Total	2,468.46	822.82	1,645.64	231.4	77.1	154.3	

Source: IMF.

Table 7b. Bangladesh: Proposed Schedule of Disbursement and Timing of RSF Arrangement Reviews

Available on or after	Amount of Disbursements: million SDRs	Amount of Disbursements: Percent of Quota	Conditions
January 30, 2023	-	-	Board approval of the arrangement
November 1, 2023	166.67	15.8	Reform measure 1 implementation review
May 1, 2024	83.34	7.8	Reform measure 2 implementation review
May 1, 2024	83.34	7.8	Reform measure 3 implementation review
November 1, 2024	83.34	7.8	Reform measure 4 implementation review
November 1, 2024	83.33	7.8	Reform measure 5 implementation review
May 1, 2025	83.33	7.8	Reform measure 6 implementation review
May 1, 2025	83.33	7.8	Reform measure 7 implementation review
October 31, 2025	83.33	7.8	Reform measure 8 implementation review
October 31, 2025	83.33	7.8	Reform measure 9 implementation review
May 1, 2026	83.33	7.8	Reform measure 10 implementation review
May 1, 2026	83.33	7.8	Reform measure 11 implementation review
Total	1,000.00	93.8	

Source: IMF.

Table 8. Bangladesh: Quantitative Performance Criteria (PC) and Indicative Targets (IT), First Two Reviews 1/2/

(In billions of Taka, unless otherwise indicated)

	FY2022/23	FY2022/23	FY2023/24	FY2023/24
	Mar-2023	Jun-2023	Sep-2023	Dec-2023
	IT 3/	PC	IT	PC
Quantitative performance criteria:				
Floor on net international reserves (NIR, millions of US$) 4/	22,947	24,462	25,316	26,811
Floor on primary balance (PB) 5/ 9/	-1,483.4	-1,686.4	-822.0	-1,141.1
Ceiling on accumulation of external payments arrears 6/	0.0	0.0	0.0	0.0
Indicative targets:				
Ceiling on reserve money (RM)	3,575.0	3,951.0	3,892.0	4,004.0
Floor on tax revenue	2,073.8	3,456.3	615.6	1,436.4
Floor on priority social spending of the Government of Bangladesh 7/ 9/	605.0	1,033.0	155.0	309.9
Floor on capital investment undertaken by the Government of Bangladesh 8/ 9/	389.9	1,141.1	49.8	222.8

Sources: Bangladesh's authorities; and IMF staff estimates/projections.

1/ Fiscal year starts in July and ends in June.
2/ The quantitative targets, indicative targets and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).
3/ Program starting point assumes Board approval in January 2023.
4/ Net international reserves are gross reserves (based on BPM6 definition) minus the central bank FX liabilities and reserves earmarked for quasi-fiscal activities.
5/ Including grants
6/ This quantitative target is applied on a continuous basis.
7/ Social spending that is domestically financed.
8/ Capital investment from annual development program that is domestically financed.
9/ Quarterly target is projected in line with historical quarterly outturns and seasonality patterns reflecting backloaded disbursements.

Table 9. Bangladesh: External Financing Requirements and Sources, FY2023–26 1/

(In millions of U.S. dollars, unless otherwise indicated)

	FY2023	FY2024	FY2025	FY2026
Gross Financing Requirements	**15,462.5**	**22,224.1**	**21,132.8**	**19,939.4**
Current account deficit excluding grants	13,507.5	19,924.1	18,573.9	17,664.8
Public sector loan amortization	1,955.0	2,300.0	2,558.9	2,274.6
Of which: IMF	253.1	329.3	247.9	131.5
Identified Financing Sources	**13,244.7**	**19,624.0**	**19,032.8**	**17,774.8**
Capital account balance	139.6	296.6	332.0	372.3
Net foreign direct investment	2,943.6	4,693.5	6,040.8	7,833.7
Porfolio inflows	131.5	1,173.4	1,006.8	1,305.6
Public sector loan disbursements	9,721.1	10,622.0	11,495.6	11,379.6
Of which: RSF	0.0	425.7	425.7	425.7
Other capital flows (net)	-3,115.1	7,109.1	5,938.1	3,242.8
Change in reserves (+ decrease)	3,423.9	-4,270.6	-5,780.6	-6,359.2
Financing Gap	**2,217.8**	**2,600.0**	**2,100.0**	**2,164.6**
Prospective Financing 2/	**2,217.8**	**2,600.0**	**2,100.0**	**2,164.6**
Financing from IMF (ECF/EFF disbursement)	450.0	900.0	900.0	964.6
World Bank	250.0	500.0	500.0	500.0
Asian Development Bank	500.0	500.0	500.0	500.0
Other multilateral and bilateral 3/	1,017.8	700.0	200.0	200.0

Sources: Bangladesh's authorities; and IMF staff projections.

1/Fiscal year in Bangladesh begins July 1 and ends June 30.

2/Of the prospective financing amounts some are pending approval.

3/Includes Japan International Cooperation Agency and Asian Infrastructure Investment Bank.

Table 10. Bangladesh: Indicators of Fund Credit, 2022–46 1/

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
Net Use of IMF credit																									
Disbursements (millions of SDRs)	0.0	352.4	1,038.1	1,038.0	1,040.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disbursements (percent of quota)	0.0	33.0	97.3	97.3	97.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment and repurchases (millions of SDRs)	0.0	180.3	223.5	143.2	35.6	55.1	145.2	270.5	378.1	427.0	438.8	407.5	307.2	215.3	123.2	100.0	100.0	100.0	100.0	100.0	100.0	100.0	75.0	41.7	8.3
Repayment and repurchases (percent of quota)	0.0	16.9	21.0	13.4	3.3	5.2	13.6	25.4	35.4	40.0	41.1	38.2	28.8	20.2	11.5	9.4	9.4	9.4	9.4	9.4	9.4	9.4	7.0	3.9	0.8
Total obligations																									
Millions of SDRs	0.0	203.9	268.2	212.4	132.7	158.3	246.6	367.1	466.9	505.2	506.1	464.0	354.4	254.9	157.2	130.0	126.3	122.5	118.8	115.0	111.3	107.5	78.9	43.1	8.5
of which: Principal	0.0	180.3	223.5	143.2	35.6	55.1	145.2	270.5	378.1	427.0	438.8	407.5	307.2	215.3	123.2	100.0	100.0	100.0	100.0	100.0	100.0	100.0	75.0	41.7	8.3
of which: Charges/Interest	0.0	23.6	44.7	69.2	97.1	103.1	101.4	96.6	88.8	78.2	67.3	56.4	47.1	39.6	34.0	30.0	26.3	22.5	18.8	15.0	11.3	7.5	3.9	1.4	0.2
Percent of quota	0.0	19.1	25.1	19.9	12.4	14.8	23.1	34.4	43.8	47.4	47.5	43.5	33.2	23.9	14.7	12.2	11.8	11.5	11.1	10.8	10.4	10.1	7.4	4.0	0.8
Percent of GDP	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.0	0.5	0.5	0.4	0.2	0.2	0.3	0.4	0.5	0.4	0.4	0.3	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	0.0	0.9	1.0	0.7	0.4	0.4	0.5	0.7	0.8	0.7	0.7	0.5	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Outstanding IMF credit																									
Millions of SDRs	707.0	1,398.1	2,212.6	3,107.4	3,592.9	3,537.8	3,392.6	3,122.1	2,744.1	2,317.1	1,878.2	1,470.7	1,163.5	948.2	825.0	725.0	625.0	525.0	425.0	325.0	225.0	125.0	50.0	8.3	0.0
Percent of quota	66.3	131.1	207.5	291.3	336.9	331.7	318.1	292.7	257.3	217.2	176.1	137.9	109.1	88.9	77.4	68.0	58.6	49.2	39.9	30.5	21.1	11.7	4.7	0.8	0.0
Percent of GDP	0.2	0.4	0.6	0.8	0.8	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	1.7	3.2	4.5	5.8	6.0	5.3	4.5	3.6	2.8	2.0	1.5	1.0	0.7	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	2.9	6.0	8.3	9.9	9.9	8.5	7.2	5.8	4.5	3.4	2.5	1.7	1.2	0.9	0.7	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Memorandum items:																									
Nominal GDP (billions of U.S. dollars)	460.8	420.5	469.3	525.3	589.0	663.6	744.1	834.3	935.5	1,048.9	1,176.1	1,319.9	1,481.4	1,662.6	1,867.7	2,098.1	2,356.9	2,647.6	2,974.3	3,344.3	3,760.3	4,228.1	4,754.1	5,345.6	6,010.6
Exports of goods and services (billions of U.S. dollars)	59.2	56.0	62.4	68.8	76.1	84.9	97.2	111.4	126.8	144.4	164.6	187.9	214.6	244.1	277.9	316.5	359.4	405.9	458.9	519.4	588.4	665.4	758.2	868.1	999.6
Gross international reserves (billions of U.S. dollars)	33.4	30.0	34.2	40.0	46.4	53.1	59.8	68.4	77.1	86.3	97.1	108.8	122.8	138.4	156.6	180.0	204.3	230.1	258.1	289.4	325.3	366.1	374.0	393.8	436.2
IMF quota (millions of SDRs)	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6

Source: IMF staff projections.

1/Fiscal year in Bangladesh begins July 1 and ends June 30.

Table 11. Bangladesh: Proposed Structural Benchmarks: 12-Months After Board Approval

Measure	Target Date	Macro-criticality/objectives
Revenue mobilization		
MoF adopts tax revenue measures yielding an additional 0.5 percent of GDP in the FY24 budget	End-June 2023	Increase fiscal space for priority spending
NBR staffs Compliance Risk Management Units in the customs and VAT wings	End-December 2023	Increase fiscal space for priority spending
Public spending efficiency		
MoF develops a plan to reduce net NSC issuance to below ¼ of total net domestic financing by FY26	End-December 2023	Increase fiscal space for priority spending
Government to adopt a periodic formula-based price adjustment mechanism for petroleum products	End-December 2023	Increase fiscal space for priority spending
Public financial management		
MoF develops a policy note to guide decisions on integrating bank accounts still remaining outside the TSA and on the sequencing of TSA enhancements	End-December 2023	Improve cash management and strengthen fiscal risk management
Monetary and exchange rate policy		
BB adopts an interest rate corridor system	End-July 2023	Enhance monetary operations
BB compiles and reports official reserve assets as per BPM6 definition	End-June 2023	Enhance BB transparency and reporting standards
BB uses market determined exchange rate for official FX transactions on behalf of the government	End-June 2023	Increase exchange rate flexibility
Bangladesh Bureau of Statistics publishes quarterly GDP	End-December 2023	Enhance BB's monitoring and policy making capacity
Financial sector policy		
BB completes the pilot risk-based supervision action plan	End-June 2023	Establish risk-based banking supervision.
MOF submits to Parliament the Bank Companies (Amendment) Act 2020 and the Finance Companies Act 2020, drafted in line with best practices	End-September 2023	Upgrade legal and regulatory framework
BB publishes banks' distressed assets in the annual financial stability report	End-June2023	Support NPL resolution and enhance transparency.

Table 12. Bangladesh: Proposed Reform Measures Under RSF

Reform Measures	Target Date	Analytical Underpinning
RM1: Government to adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions	End-September 2023	RM1 is a top reform priority identified in CCDR.
RM2: Government to adopt a periodic formula-based price adjustment mechanism for petroleum products **RM3:** BB to adopt guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)	End-December 2023	RM2 is a high urgency, medium feasibility in CCDR. RM3 is a high urgency, medium feasibility in CCDR.
RM4: Government to adopt a national disaster risk financing strategy while integrating social assistance measures **RM5:** MoF to adopt and implement a methodology for embedding climate change in the MTMF, through analyzing macro-fiscal risks from climate change and publishing it in the Medium-Term Macroeconomic Policy Statement (MTMPS)	End-June 2024	RM4 is a high feasibility, medium urgency in CCDR and has been discussed with the World Bank (WB) as an important reform area. RM5 is highlighted as a key need in the updated Climate Fiscal Framework and has been discussed with the WB and the ADB as an important reform area that the Fund could contribute.
RM6: Government to issue a circular on an update to the Green Book[1/] to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors **RM7:** BB to conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations	End-December 2024	RM6 is a critical area identified in C-PIMA study and has been discussed with the WB and the ADB for synergies in the PIM reform agenda. RM7 is a high urgency, medium feasibility in CCDR.
RM8: Government to adopt an updated PPP policy and framework that integrates climate-related risks and develop relevant guidelines **RM9:** Government to issue a circular on the adoption of an annex to the Green Book that specifies selection and prioritization criteria for major infrastructure projects that is aligned with the NDC and the NAP	End-June 2025	RM8 and RM9 are critical areas identified in C-PIMA study and have been discussed with the WB and the ADB for synergies in the PIM reform agenda.
RM10: Government to establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks and vulnerability of new public assets to the module **RM11:** BB to update the Policy on Green Bond Financing, particularly the annex on green taxonomy to be fully aligned with the NAP's strategic and investment priorities	End-December 2025	RM10 targets critical areas identified in C-PIMA study and have been discussed with the WB and the ADB for synergies in the PIM reform agenda. RM11 is high feasibility, medium urgency in CCDR.

[1/] Green Book refers to the Ministry of Planning, 2022, "Guidelines for formulation, processing, approval and revision of development projects in the public sector."

Table 13. Bangladesh: Capacity Development Activities to Support Program Priorities

Program Priorities	Recent CD Activities	Planned/Proposed CD priorities
Fiscal Reforms		
• Mobilizing revenues and rationalizing subsidies to create fiscal space for growth-enhancing spending needs, strengthen social safety nets, and build climate resilience • Improving public spending efficiency • Strengthen fiscal transparency and fiscal risk management	Fiscal: Strengthening the Treasury Single Account; assessing CD needs in specific areas of revenue administration.	• PFM/PIM: Improve budget execution and control, including better cash and debt management, and increased fiscal transparency. Strengthen medium-term public investment planning. o Public investment management o Cash management and forecasting o Debt management • Revenue: Strengthen domestic revenue mobilization. o Tax policy: Tax diagnostic, rationalizing tax expenditures and streamlining tax exemptions. o Tax administration: Increasing tax compliance, broaden the tax base, formulate MTRS. • Macro-fiscal planning and forecasting • Medium-term macroeconomic framework tool • Fiscal risk management
Monetary and Exchange Rate Reforms		
• Modernizing monetary policy framework and safeguarding exchange rate flexibility to enhance macroeconomic stability and buffer against external shocks		• Modernizing monetary policy framework and operations: by developing a forecasting and policy analysis system (FPAS) and adopting an interest rate corridor and improving liquidity forecasting and management; strengthening transparency and communications. • Central Bank Collateral Framework • FX reserve management
Financial Sector Reforms		
• Addressing financial sector vulnerabilities and strengthening oversight to support efficient and sustainable capital allocation	Financial sector: Supporting implementation of a risk-based supervision (RBS) system.	• Strengthening risk-based supervision • Financial supervision and regulation
• Developing capital market to support higher investment and growth and improve monetary transmission mechanism		• LCBM: Developing of a local currency for government securities • Reforming the National Saving Certificates (NSCs) system
Climate Reforms		
• Making infrastructure investment green and resilient, enhancing climate fiscal management, and mobilizing private climate finance		• Integrating climate risks in macro/fiscal analysis and forecasting • Climate stress testing • Climate PIMA particularly on integrating climate in project appraisal/selection and PPP framework • Sustainable finance and green bond
Macro-Structural Reforms		
• Macro-structural issues related to strengthening governance and diversifying exports	• Statistics: Compiling quarterly national accounts; rebasing CPI. • Legal: Assessment of the AML/CFT supervisory arrangements at BB.	• Statistics: Compiling quarterly national accounts; balance of payments; FSI • Legal: Further development of risk-based supervision in AML/CFT.

Annex I. External Sector Assessment[1,2]

Overall Assessment: *Bangladesh's external position in FY22 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies*. Running current account (CA) deficits is in line with Bangladesh's level of per capita income, growth prospects, and development needs. Nevertheless, amid the fallout from the Russia's war in Ukraine and the resulting increase in commodity prices, the CA deficit sharply widened and FX reserves rapidly declined. The exchange rate was allowed to adjust, and a large depreciation of the Taka reflected fundamental changes. These and other transitory effects from the war are expected to decline going forward, which will help realign the CA with its norm.

Potential Policy Responses: Stemming reserve losses is a key near-term priority. Greater exchange rate flexibility will help strengthen external buffers and build resilience. Structural reforms to expand trade and foreign investment will further boost Bangladesh's growth potential and mitigate external vulnerabilities.

Foreign Assets and Liabilities: Position and Trajectory

Background. Bangladesh's NIIP at the end of FY22 declined further to –15.4 percent of GDP, from -12.4 percent of GDP at end-FY21 and -10.8 percent of GDP at end-FY18. This reflected an increase in CA deficit in FY22 and the decline of reserve assets. Gross foreign assets and liabilities were 11.5 percent of GDP and 26.9 percent of GDP, respectively. The bulk of assets were in the form of official reserves, whereas liabilities included general government liabilities.

Assessment. With the CA deficit projected to stabilize at a lower level in the medium term, the NIIP-to-GDP ratio is expected to strengthen marginally over the medium term. Bangladesh's liabilities are mostly related to the public sector, reflecting closed capital account.

FY2022 (% GDP)	NIIP: -15.4	Gross Assets: 11.5	Debt Assets: 0.2	Gross Liab.: 26.9	Debt Liab.: 0.9

Current Account

Background. In Bangladesh, CA balance is driven primarily by trade balance and worker remittances dynamics. Nevertheless, CA has experienced large fluctuation in recent years, driven by the COVID-19 pandemic and post-pandemic recovery. The CA deficit widened sharply to 4.1 percent of GDP in FY22, due to a sharp increase in commodity import bills as well as the normalization of import demand amid the post-pandemic economic recovery. Amid selective import compression measures introduced in April 2022 and further tightened in July 2022, CA deficit has narrowed sharply in recent months and the CA deficit is projected to register at 3.2 percent of GDP in FY23. Over the medium term, the CA deficit is projected to narrow to around 3 percent of GDP.

[1] Bangladesh's external sector assessment was based on the EBA-lite methodology until the 2021 Article IV consultation with a staff report published in March 2022. As its external sector developments have become more systemic and dynamic, Bangladesh was recently added to the EBA country group. Hence, this assessment is based on the External Balance Assessment (EBA) methodology for assessing current accounts and exchange rates.

[2] Fiscal year starts in July and ends in June.

Assessment. The cyclically-adjusted CA balance stood at –3.2 percent of GDP in FY22 (ending June 2022). IMF staff adjustments were made to account for the transitory impacts of the COVID-19 crisis (0.4 percent of GDP), which includes the impacts on travel (-0.1 percent of GDP), transportation (0.3 percent of GDP), and shifts in household consumption (0.2 percent of GDP). The EBA CA regression estimates a norm of –1.6 percent of GDP,[3] with a standard error of 0.6 percent. An additional Bangladesh-specific adjustment of 0.2 percent of GDP was made for the migrant share contribution to the CA norm in line with the EBA-lite methodology, given Bangladesh's very high share of migrant worker and large remittance inflows. This would adjust EBA CA norm downward to -1.8 percent of GDP, from -1.6 percent of GDP. Including these adjustments, the FY22 EBA model's CA gap midpoint is assessed at -1 percent of GDP, with the CA gap range of -0.4 to -1.6 percent of GDP. The EBA-identified policy gaps primarily reflect the medium-term fiscal consolidation needs in relation to desired policies. The overall gap is accounted for by a relatively large residual, potentially reflecting structural impediments and country-specific factors not included in the model.

Bangladesh: Model Estimates for FY22
(In percent of GDP, unless otherwise indicated)

	CA model
CA-Actual	**-4.1**
Cyclical Contributions (from model) (-)	-0.9
COVID-19 adjustors (+) 1/	0.4
Additional temporary/statistical factor	0.0
Adjusted CA	**-2.8**
CA Norm (from model) 2/	**-1.6**
Adjustment to the norm	-0.2
Adjusted CA Norm	**-1.8**
CA Gap	**-1.0**
o/w Policy gap	1.3
Elasticity	-0.15
REER Gap (in percent)	**6.6**

Source: IMF staff estimates.
1/ Additional adjustment to account for the temporary impact of the COVID-19 pandemic on travel (-0.1), transportation (0.3), and shifts in household consumption (0.2).
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Over the past five fiscal years, on average, Bangladesh's REER appreciated by 1.7 percent. Amid relatively high inflation, Bangladesh's average REER appreciated by about 2.4 percent in FY22 from its FY21 average, and a further 3.4 percent during Jun-Oct 2022. Meanwhile, the Taka depreciated by

7.9 percent against U.S. dollar in FY22, and about further 11.8 percent Jun-Nov 2022, the main currency in which the country invoices its trade.

Assessment. The IMF staff CA gap implies a REER gap of 6.6 percent in FY22 (applying an estimated elasticity of 0.15). The EBA REER index and level models deliver an overvaluation of 29.3 and 28.7 percent, respectively, for the FY22 average REER. Considering all estimates, the uncertainties around them, and a sharp currency depreciation recently, the IMF staff assesses the REER gap to be in the range of 2.6 and 10.6 percent, with a midpoint of 6.6 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Capital and financial account balance registered 3 percent of GDP in FY22, following a gradual increasing trend over the past five years. FDI inflows increased to 0.5 percent of GDP, from 0.3 percent of GDP in FY21. Structural reforms including reduction of tariff barriers and improvement of the investment regime to promote FDI in export-oriented sectors are expected to contribute to an increase in FDI inflows over the medium term.

Assessment. FDI flows remain low compared to other low income and developing countries. While targeted efforts to attract FDI through Export Processing Zones are underway, improving overall investment climate, including continued liberalization of foreign exchange regulations as conditions allow, and reducing the regulatory burdens will help attract FDI. Continued access to concessional financing would also help to meet the large climate adaptation needs.

FX Intervention and Reserves Level

Background. The temporary improvement in CA deficits and a shift in remittances from informal to formal channels during the pandemic had allowed large FX reserve accumulation, with gross FX reserves (BPM6 definition) reaching a record high of about US$40.7 billion in August 2021. Rising global commodity prices, supply disruptions, slowdown in external demand, and shift in remittance back to informal channels, have led to a sharp widening of the current account deficit, depreciation of the Taka, and the rapid decline of foreign exchange reserves. Gross FX reserves declined to US$33.4 billion at end-FY22.

Assessment. Rebuilding FX reserves remain a critical priority in the short-term. Greater exchange rate flexibility, including to attract remittance inflows through formal channels, and scaling back non-monetary use of foreign exchange reserves, are expected to stabilize FX reserves in the context of the ECF/EFF program. Over the medium-term, policies to support exchange rate flexibility, expand and diversify export earnings, and attract FDI inflows, should help in maintaining adequate reserves coverage. FX interventions, which increased since the start of Russia's war in Ukraine, should be limited to addressing disorderly market conditions.

[3] The EBA-lite methodology estimated Bangladesh's current account norm of -3.4 percent of GDP.

Annex II. Risk Assessment Matrix[1/]

Source of Risk	Relative Likelihood	Expected Impact	Main Impacts → Recommended Policy Actions
Global			
Intensifying spillovers from Russia's war in Ukraine.	H	M – H	Disruption of wheat exports from Ukraine and fuel supply from Russia increases import prices and reduces food availability, with significant effects on domestic GDP growth and the current account balance. → Continue to assess the magnitude of the spillover, allow exchange rate flexibility, and provide targeted measures to support the vulnerable within the available policy space.
Commodity price shocks.	H	M – H	Increase in current account deficit, higher fiscal burden, substantial pressure on exchange rate and reserves. Current price controls, while recently decreased, will limit pass through to inflation. → Provide targeted support to the vulnerable; adopting an automatic fuel pricing mechanism; preserve reserve adequacy; increase exchange rate flexibility; and tighten monetary policy in case of second-round effects.
Abrupt global slowdown or recession.	M	M – H	Larger-than-expected economic slowdown in major trading partners and tightening of global financing conditions could put additional pressure on current account balance, growth and exchange rate. → Continue to assess the impact of the slowdown, allow exchange rate flexibility, and provide targeted measures to support the vulnerable within the available policy space.
Local Covid-19 outbreaks.	M	M – H	Recurring outbreaks or emergence of more contagious vaccine-resistant variants could slow the recovery. → Continue to monitor and track domestic transmissions of the virus to prevent local outbreak and increase vaccination including booster. Provide targeted support to vulnerable households and firms.
Natural disasters related to climate change.	M **MT**	M – H	More frequent natural disasters could cause severe damage to infrastructure and disrupt economic activity, thus reducing real GDP and increasing fiscal costs. → Strengthen climate adaptation and mitigation efforts and provide relief to affected households.
Domestic			
Failure to effectively address the problems in the banking system, including high non-performing loans (NPLs).	M **ST, MT**	M – H	High and increasing NPLs and low capital adequacy in SOCBs would hamper the banking sector's ability to finance business investment, add to the fiscal burden, and undermine growth. → Address main causes of weak bank performance, including structural weaknesses in governance, regulation, supervision, and legal systems. Improve the ability of banks to deal with NPLs, including by establishing framework that can help NPL resolution. Reassess the role of state-owned commercial banks.
Slow progress in resolving the Rohingya crisis and weakened donor support.	M– H **ST, MT**	M – H	As the repatriation of the refugees takes time and donor support weakens, social and environmental costs, security concerns and fiscal pressures could intensify. → Increase fiscal space to address the difficult situation of the refugees, while maintaining fiscal sustainability. Continuous support of the international community will be essential.
Higher frequency and severity of natural disasters related to climate change.	M– H **MT**	M – H	Frequent flooding and storms could hit key infrastructure, affect agriculture and allied activities, and the livelihood of those affected. → Expand budgetary support for adaptation by investing in climate-resilient infrastructure and mobilize private green financing. Continue with the mitigation efforts to meet NDC targets.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("L" (low) is meant to indicate a probability below 10 percent, "M" (medium) a probability between 10 percent and 30 percent, and "H" (high) a probability of 30 percent or more). The RAM reflects staff's views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex III. Building Climate Resilience

A. Climate Change Risks and Impacts

1. **Bangladesh is among the most vulnerable countries to climate change and natural disasters** (Figure 1). Average temperature levels in the country have risen steadily over the last several decades and are projected to increase further in the future. In a high global emission scenario (RCP 8.5)[1], Bangladesh is projected to face a 3.6°C increase of mean temperature by 2100 relative to the 1986–2005 baseline.[2] This would likely result in increased frequency of prolonged high heat spells and drought, while flooding would be exacerbated by intensified extreme rainfall and tropical cyclones. Sea level rise also poses a significant risk to infrastructure and population that are concentrated in the coastal areas. These climate-related events could result in substantial damage to the country's economy and loss of life and livelihoods, with disproportionate impact on the poor and vulnerable groups. Climate change and natural disasters are also expected to cause serious effects on Bangladesh's financial sector. For instance, an extreme flood event is estimated to result in financial losses of about US$3–5 billion (3–5 percent of total outstanding loans), with the losses projected to increase over time.[3]

Figure 1. Bangladesh: Countries with High Natural Hazard and Climate Risk

(Ranking 1 to 10; 1 is the most vulnerable)

Rank	Natural Hazard Risk	Climate Change Risk	UN Natural Disaster Risk
1	Philippines	Puerto Rico	Vanuatu
2	Japan	Honduras	Tonga
3	**Bangladesh**	Myanmar	Philippines
4	Myanmar	Haiti	Guatemala
5	China	Philippines	**Bangladesh**
6	Indonesia	Nicaragua	Solomon Islands
7	India	**Bangladesh**	Brunei Darussalam
8	Vietnam	Pakistan	Costa Rica
9	Pakistan	Vietnam	Cambodia
10	Mexico	Dominica	Papua New Guinea

Source: Global Climate Risks, INFORM Global Risks Index

2. **Climate change risks imply serious adverse macroeconomic and social impacts in Bangladesh.** Bangladesh has suffered high and sustained damages from natural disasters over the past several decades. Tropical cyclones are estimated to cause economic losses of about US$1 billion per year in Bangladesh (equivalent to 0.7 percent of GDP), where Cyclone Sidr in 2007 (with upper estimate of US$3.8 billion in losses) and Cyclone Gorky in 1991 (upper estimate of

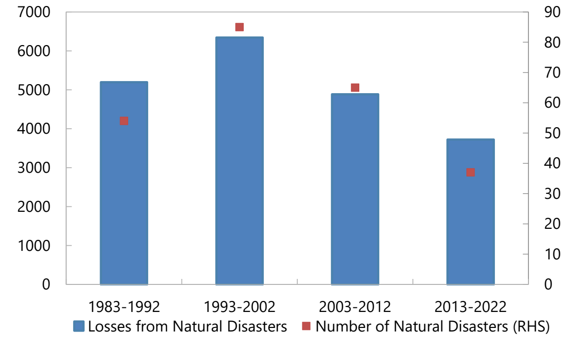
[1] Representative Concentration Pathway 8.5 (RCP8.5) is one of the GHG concentration trajectories adopted by the Intergovernmental Panel on Climate Change (IPCC) and represents a 'baseline' scenario that does not include any specific climate mitigation target and corresponds to a high GHG emission pathway.

[2] Climate Risk Country Profile: Bangladesh (2021): The World Bank Group.

[3] World Bank. Bangladesh Financial Sector Assessment Program, Aide Memoire April 2019.

US$3.0 billion in losses) have been the most devastating on record. In 2017, extreme flooding affected 8 million people and led to severe crop destruction, prompting a sharp rise in food prices and imports. This largely contributed to the deterioration of the current account deficit, with direct costs estimated at US$750 million (about 0.3 percent of GDP), turning the overall Balance of Payments (BoP) from a surplus to a deficit in that fiscal year.[4] Looking ahead, the expected damages from flooding are also significant, ranging between US$6 billion and US$25.3 billion by 2050 under RCP 4.5 and 8.5 scenarios (or 1.5 percent and 6 percent of annual GDP), respectively.[5] Slow on-set climate change, mainly through the effects of warming and sea level rise, is projected to result in total economic cost of 2 percent of GDP by 2050 under a business-as-usual scenario and up to 9.4 percent in 2100 consistent with RCP8.5.[6] Climate change is likely to slow down progress on poverty reduction, as the poor are exposed to overlapping shocks and have low adaptive capacity. Among South Asian countries, Bangladesh is the most vulnerable to climate migration, with 4.1 million people estimated to have been displaced in 2019. By mid-century, the number of internal climate migrants in Bangladesh could rise to 13.3 million with higher impacts on women. In addition, the value of asset at risk is projected to double due to future sea level rise.

Bangladesh: Frequency and Damages of Natural Disasters
(In US$ million)



Source: EMDAT 2022 Database.

B. National Climate Change Strategy

3. Bangladesh has made significant progress toward its national climate change objectives (Table 1)

- *Mitigation*. Despite its small contribution to global emissions (Text chart, paragraph 34), Bangladesh's updated Nationally Determined Contribution (NDC) makes a robust commitment to reduce greenhouse gas (GHG) emissions by 6.7 percent (with its own efforts), and up to 21.9 percent (with international support) below business-as-usual in 2030. The NDC is being implemented through green transition priorities such as scaling up renewable energy (RE), promoting electric vehicles and clean public transport, and enhancing energy efficiency in buildings and industrial facilities, and measures to reduce emissions from the agriculture, land-use, and forestry sectors. About 80 percent of Bangladesh's energy supply comes from fossil fuel, but over two-third of this is natural gas—a relatively clean transition fuel. At COP26, the authorities announced the cancellation of 10 coal-fired power plant projects approximating US$12 billion in foreign investment, and set the target of generating at least 40 percent of total

[4] IMF. 2019. Climate Change Mitigation and Adaptation in Bangladesh: Policy Options.

[5] World Bank. Bangladesh Country Climate and Development Report, draft June 2022.

[6] Ahmed and Suphachalasai. 2014. Assessing the Costs of Climate Change and Adaptation in South Asia. Asian Development Bank. These estimates factor in some adaptation which is dependent upon the levels of income.

electricity from RE sources by 2041. A new integrated energy and power sector master plan is being prepared to support this goal. Plans to import RE-based electricity from neighboring countries are being finalized and will further help shift electricity generation away from fossil fuel sources. The recent increases in natural gas and fuel prices are also welcome first steps toward market-based and transparent energy pricing. The annual costs of air pollution in Bangladesh are estimated at around 9 percent of GDP; the actions planned as part of the NDC will help avoid these significant costs.[7]

- *Adaptation*. The recently adopted National Adaptation Plan (NAP) sets out a comprehensive implementation roadmap and investment plan on the adaptation agenda. In addition, the Bangladesh Delta Plan (BDP) 2100 outlines adaptive investment needs for water resource management and flood control measures, while the Mujib Climate Prosperity Plan (MCPP) targets raising resources for climate risk reduction for the most vulnerable groups and for a just transition. The 8th Five Year Plan will also anchor the economic policies needed to deliver climate-related objectives over the medium term.

4. Bangladesh is in many ways at the forefront of preparing for climate change, but more is needed.

- The *Climate Fiscal Framework (CFF)*—a pioneering approach—was adopted in 2014. It sets out an institutional framework for embedding climate change aspects in Bangladesh's Public Financial Management (PFM) systems and the budget setting process under the Medium-Term Budget Framework (MTBF). Importantly, the CFF is a main tool to facilitate the mobilization of both domestic and international sources of climate finance and help catalyze new climate finance. The CFF has recently been updated to reflect the changing landscape of climate finance and policies, from domestic and international perspectives, as well as to incorporate the crucial role of the financial sector and private sector finance.

- *Climate Change Budget Tagging* has been implemented since 2018. The climate budget tagging exercise has been an instrumental tool for Bangladesh to plan and raise climate finance in the overall CFF framework in response to the national climate change goals and other climate relevant investment plans such as the BDP2100 and the MCPP.

- *Bangladesh Climate Change Trust Fund* (BCCTF) is the first national climate fund established by a Least Developed Country for institutionalizing national climate finance. The BCCTF has been operationalized since 2010 and is currently managed by the Bangladesh Climate Change Trust and the Government of Bangladesh. It prioritizes and funds projects consistent with the Bangladesh Climate Change Strategy and Action Plan.

- *Sustainable Finance*. Bangladesh Bank (BB) joined the Sustainable Banking and Finance Network (SBFN) in 2012 and set the minimum annual target of green finance at 5 percent of total loan disbursement for all financial institutions in 2016. BB also issued the Sustainable Finance Policy

[7] World Bank. 2022. Bangladesh Country Climate and Development Report.

for Banks and Financial Institutions in 2020, and the Policy on Green Bond Financing (including Green Taxonomy and Green Bond framework) in 2022. Capital market instruments for promoting green finance are being developed with the country's first two corporate green bonds issued in 2022. In practice, however, Bangladesh's green banking remains limited and green bond market development lags its peers (only 0.5 percent is green, compared to the 5 percent target).

Nevertheless, these policy tools need to be complemented by institutional reforms, funding strategies, enabling macro and financial policies, as well as close coordination among institutions and stakeholders across the various sectors.

Table 1. Bangladesh: Climate Change Strategies and Plans in Bangladesh

Key Strategies and Plans	Coverage
Nationally Determined Contribution	Pursuant to Article 4 of the Paris Agreement, Bangladesh submitted its updated NDC in 2021 and communicated the unconditional and conditional commitments toward 2030. The updated NDC covers all key sectors that contribute to the country's mitigation efforts, as well as on the adaptation agenda.
National Adaptation Plan	The NAP is a comprehensive national climate adaptation strategy that sets out overarching objectives and priorities and formulates a concrete adaptation implementation roadmap and investment plans with detailed costing and assigned roles and responsibilities of government stakeholders.
Bangladesh Climate Change Strategy and Action Plan (being updated)	The BCCSAP was released in 2009 and set out 44 programs to be taken over the short, medium and long term within six strategic areas: food security, social protection and health; comprehensive disaster management; infrastructure; research and knowledge management; mitigation and low carbon development; and capacity building and institutional strengthening
Mujib Climate Prosperity Plan	Bangladesh has assumed the presidency of the 48-nation Climate Vulnerable Forum (CVF) and the Vulnerable Twenty (V20) Group of Finance Ministers. In this context, the MCPP will be the first of CVF plans, with a strategic investment framework to mobilize financing, especially through international cooperation, for implementing renewable energy and climate resilience initiatives.
Bangladesh Delta Plan 2100	The BDP2100 is a comprehensive 100-year strategic plan aimed at gradual sustainable development through adaptive delta management process. The plan targets to achieve a climate-resilient and prosperous delta and ensure water and food security, economic growth and environmental sustainability, effectively reducing vulnerability to natural disasters and building resilience to climate change.
National Plan for Disaster Management	The NPDM focuses on emerging risks linked to urbanization and climate change, and the necessity of disaster risk reduction for sustainable development. It establishes the following goals: 1) to promote policy coherence among disaster management and development, 2) to make DRR a development practice to achieve resilient public investment; 3) to build capacity and leadership to implement the NPDM at national and local level; and 4) to promote knowledge and information.
Other climate-relevant plans	There are other plans that contribute to the national climate objectives. These include, for example, the 8th Five Year Plan, National Solar Energy Roadmap, Energy Efficiency and Conservation Master Plan, National Action Plan for Clean Cooking, National Action Plan for Reducing Short-Lived Climate Pollutants, Climate Change and Gender Action Plan, and National Sustainable Development Strategy.

Sources: Bangladesh's authorities and IMF staff.

C. Costs of Climate Change Mitigation and Adaptation Investment

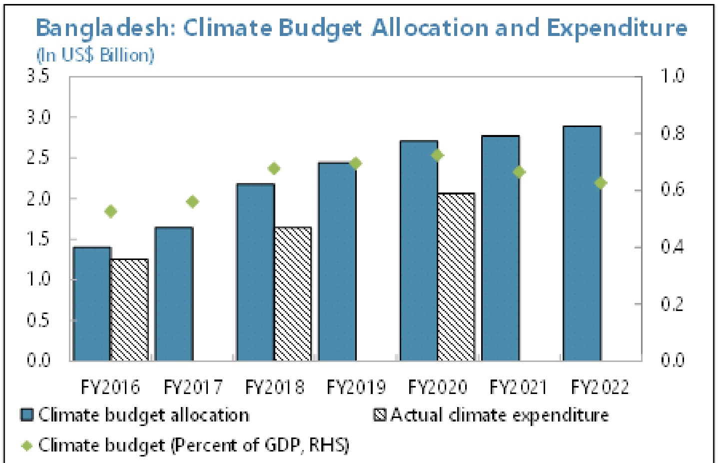
5. The government has gradually ramped up its climate change-related spending and financing. Bangladesh's climate-related budget allocation across ministries has more than doubled from US$1.4 billion in FY16 to US$2.9 billion in FY22. This constitutes about 7.3 percent of the total budget in FY22, with the largest amount dedicated to climate-related food security, social protection, and health objectives (39 percent of total), followed by climate resilient infrastructure (26 percent), and climate mitigation and low-carbon development measures (17 percent). In addition to the government budget, Bangladesh established the BCCTF and has accessed other international climate financing sources including the Green Climate Fund, the Climate Investment Fund, the Global Environmental Facility, and climate financing through multilateral development banks. However, private green finance (such as through corporate green bonds) is still at a nascent stage of development.

6. Nevertheless, climate investment requirements are large. Table 2 presents Bangladesh's climate related investment needs under different key plans. While there are overlaps between these plans, the overall picture suggests substantial needs for both climate adaptation and mitigation investments. The unconditional NDC mitigation target requires about US$3.2 billion per annum of domestic resources by 2030 (approximately 0.8 percent of FY21 GDP), while meeting the ambitious conditional target would require additional US$14.4 billion per year (3.5 percent of FY21 GDP) by 2030—highlighting the criticality of international financial support.[8] Climate adaptation finance needs are also significant. The delivery of climate resilient water resource management, flood prevention, and water supply and sanitation infrastructure planned under the BDP2100 is estimated to amount to US$3.8 billion per year by 2030. The MCPP also suggests large investment needs, with the adaptation component (including climate-smart agriculture, local adaptation, disaster risk financing, and BDP2100 resilience bonds) requiring US$6.4 billion per year and the mitigation component (with a focus on renewable energy, energy efficiency, and clean transportation) requiring US$3.6 billion per year by 2030.

7. Closing the financing gap is a major challenge for Bangladesh. The consolidated cost of climate related investment requirements under key plans would amount to an annual investment of about 3 to 7 percent of GDP by 2030 (Table 2). Accounting for potential overlapping of investment initiatives as well as differences in methodologies and forecast errors around the estimated costs,

[8] Given very long-term nature of climate financing estimates, the projected financing of Bangladesh's nationally determined contributions (NDC) involves several assumptions and there are large uncertainties around the forecasts.

the World Bank's Country Climate and Development Report (CCDR) on Bangladesh suggests the incremental costs of climate-related investment programs would likely reach 3 to 4 percent of GDP annually over the next 15 years. Given that the current climate-related government spending was just under 1 percent of GDP, Bangladesh has a significant financing gap between its ambitious climate change investment plans and the available funding realized in recent years.



Source: Ministry of Finance's Climate Financing for Sustainable Development: Budget Report.

Table 2. Bangladesh: Climate Related Investment Requirements Under Key Plans

Year	Plan	Proposed investment	US$ billions	Estimated annual expenditure (Percent of GDP)
2018	BDP2100	Adaptive water management and multisectoral infrastructure	38.0 by 2030	2.50
2021	NDC Unconditional Mitigation (2021–30)	Energy	30.8	0.74
		Agriculture, forestry, and other land use	0.8	0.02
		Waste	0.6	0.01
		Total	32.3	0.78
2021	NDC Conditional Mitigation (2021–30)	Energy	137.5	3.31
		Agriculture, forestry, and other land use	2.5	0.06
		Waste	3.8	0.09
		Total	143.7	3.46
2022	Mujib Climate Prosperity Plan (2022–30)	Accelerated adaptation	44.1	1.07
		Just transition of labor; technology transfer	11.6	0.28
		Increasing public revenue	3.9	0.10
		Climate and disaster risk financing and management	4.9	0.12
		21st century technologies for wellbeing	4.6	0.11
		Renewable energy, energy efficiency, and power and transportation resilience	20.6	0.50
		Total	89.7	2.18
Total estimated range		Lower range: BDP2100 + NDC unconditional Upper range: Combined investments across plans		3.3 to 7.0

Source: World Bank CCDR.

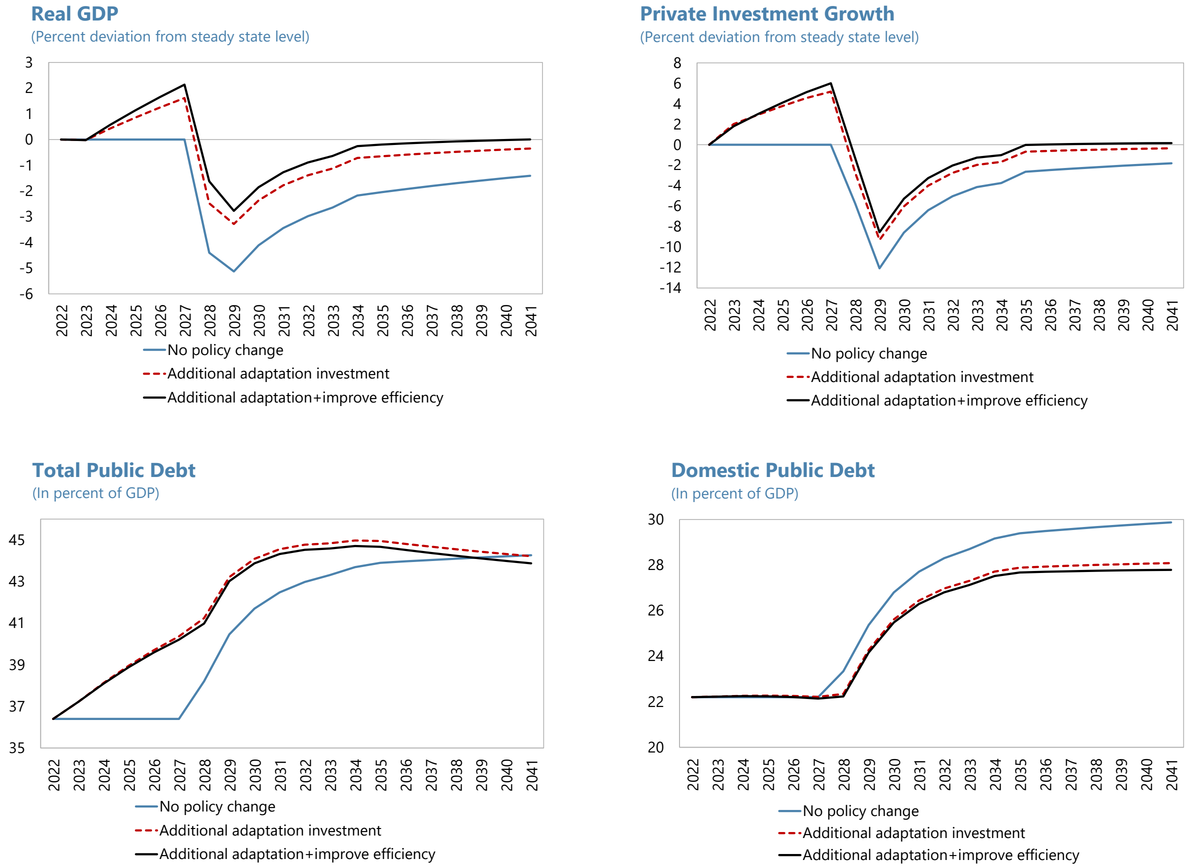
D. Macro-Fiscal Implications of Climate Change Policies[9]

8. Bangladesh's exposures to recurrent natural disasters and climate change incurs repeated economic losses with fiscal implications. Bangladesh experienced direct economic losses from natural disasters on average of around 5.6 percent of GDP annually over the past three decades. Natural disasters destroy capital and reduce output in the short run. Government spending needs will rise due to reconstruction costs and fiscal transfers to support those affected, while the disruptions of economic activities will lessen government revenues. As a result, the fiscal deficit could deteriorate, and public debt rise. Additionally, large reconstruction needs would worsen the BoP and put significant pressure on reserves and external sustainability. Overtime, the multifaceted impact of climate change is particularly challenging, where higher frequency and intensity of the disasters would likely aggravate the disaster-related macroeconomic and fiscal implications and result in a gradual permanent reduction in productivity. Bangladesh is assessed as being at a low risk of overall and external debt distress; however, such adverse impacts of natural disasters and climate change could pose significant fiscal risks to Bangladesh.

9. Accelerating investment in adaptation infrastructure could help buttress a green recovery from the pandemic, mitigate the negative impact of natural disasters, and reduce macroeconomic and fiscal risks for Bangladesh. The potential benefit of adaptation investment is illustrated through model simulations using the IMF DIGNAD model (Figure 2 and Box 1). Investing an additional 3 percent of GDP in physical infrastructure that is capable of withstanding natural disasters—so-called adaptation infrastructure—for the next five years would not only save Bangladesh about 3 percent of GDP in output losses when disaster hits, but scaling up adaptation investment in the near term would also help support the economic recovery from the pandemic. Public debt would be expected to stabilize below 45 percent of GDP, similar to a baseline without additional adaptation investment, though adaptation investment would contribute to a declining debt trajectory over the long run, due to smaller and less persistent output losses and lower post-disaster reconstruction costs.

[9] Cian Ruane and Azar Sultanov (both RES) contributed to the DIGNAD model simulations of macro-fiscal implications of climate change policies.

Figure 2. Bangladesh: Simulation of Impact of Ex-ante Adaptation Investment



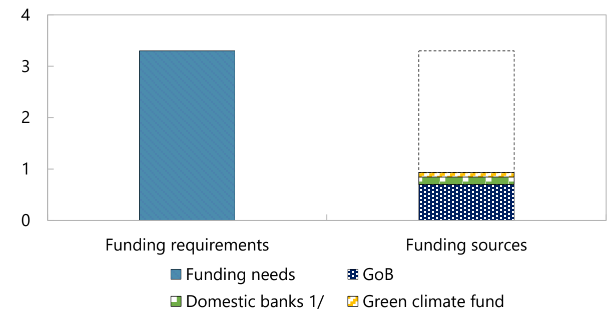
Source: IMF staff estimates.

10. Improved public investment management (PIM) and efficiency could further lessen the growth-debt tradeoff for adaptation investment. In practice, the execution of sizeable public investment in adaptation will likely face challenges similar to other public investments, which typically carrying large efficiency losses. Reaping the full benefits of public adaptation projects will thus require institutional reforms and capacity building to enhance the quality and efficiency of public investment and reduce leakages. To illustrate, if PIM efficiency for Bangladesh improves from the current level to the median level among Asian emerging economies, output resilience against natural disasters would be further strengthened and the public debt paths would be more favorable relative to the "just-investing" scenario. The results underscore the importance of PIM reforms that could help amplify the benefits of adaptation investment.

E. Financing Needs and RSF Arrangement

11. Current commitments for climate financing have fallen short of projected financing requirements. The Government of Bangladesh (GoB) calls for additional public and private financing of at least 3.3 percent of GDP by 2025 under its climate plans including the 2021 unconditional NDC and the BDP2100. Nevertheless, the current financing plans and commitments are not adequate to fulfill Bangladesh's large climate investment needs, entailing financing needs of over 2 percent of GDP annually (Text chart).

Bangladesh: Climate Financing Requirements and Sources
(Percent of GDP)



Sources: GoB, GCF, World Bank's CCDR.
1/ Assuming banks were to meet the green finance target at 5 percent of total loan disbursement for all financial institutions.

12. The arrangement under the Fund-supported RSF is expected to support Bangladesh's imminent climate financing needs, while strengthening reform efforts to attract additional climate finance. Macro-critical risks associated with climate change and natural disasters are significant for Bangladesh. The RSF arrangement will provide resources to address climate-related vulnerabilities in Bangladesh, that would in turn support a green economic recovery while maintaining sufficient foreign exchange reserve buffers amid multifaceted external shocks. The RSF would substitute for more expensive domestic financing (e.g., very high interest payments from national saving certificate issuance), thus improving the expenditure composition toward development and social spending. Reform measures under the RSF will aim at supporting institutional reforms to enable large-scale climate investments, lower barriers and risks, and improve the investment environment to help catalyze other financing sources beyond the government budget.

13. The proactive use of market-based climate finance could provide additional resources for climate financing. The authorities plan to mobilize about US$1 billion through public green bonds under BDP2100 and around US$7 billion in private green financing under MCPP. Expansion of green financial instruments including sovereign and corporate green bonds will help channel long-term market-based financing toward climate-related investment. In addition, strengthening assessment and management of climate risks in the financial sector will facilitate green lending by banks. This will require an ecosystem that includes investor and issuer expertise, and data, ratings, and assurance providers to ensure the integrity of green finance instruments. Therefore, improved climate disclosures, green taxonomies or equivalent approaches, and supervisory guidance on climate risk management and climate risk scenarios would help manage climate financial risks and develop green financial markets.

Box 1. DIGNAD Model Simulations for Bangladesh

The Model. The Debt, Investment, Growth, and Natural Disasters (DIGNAD) model demonstrates the benefits of investing ex-ante adaptation in countries exposed to frequent natural disasters. While investing in adaptation infrastructure results initially in higher public debt, it improves resilience of the economy by reducing (i) the adverse impact of natural disasters on output, (ii) damages to physical assets, and (iii) post-disaster fiscal costs for rebuilding and lifeline support.

Model Calibration. DIGNAD is based on a dynamic general equilibrium model as in Marto and others (2018). The model is calibrated in line with data capturing salient features of an economy under consideration. In the model, natural disasters are expected to affect the economy through five channels: (i) damages to public capital, (ii) damages to private capital, (iii) a temporary productivity loss, (iv) a decline in public investment efficiency, and (v) a loss in credit worthiness. The model simulations present the macro-fiscal outcomes associated with public adaptation investment, economic growth, and debt, relative to those at steady state or no policy change.

Scenario Analysis. To illustrate the macro-fiscal implications of climate change adaptation for Bangladesh, the following scenarios could be considered:

- *Scenario 1: No policy change* assumes the authorities invest in standard capital infrastructure and do not scale up investment for adaptation infrastructure during years 1–5, then a natural disaster occurs in year 6 and is calibrated to yield nearly 5 percentage decline in GDP, in line with Bangladesh's historical losses from natural disasters.
- *Scenario 2: Adaptation investment* assumes an additional investment in adaptation infrastructure of 3 percent of GDP relative to the no additional investment scenario in years 1–5. The adaptation investment is expected to be financed through concessional public borrowing of about a third of total financing and the remaining financing supported by public private partnerships or private financing.
- *Scenario 3: Adaptation investment along with PIM reforms* assumes additional public investment in adaptation infrastructure as in Scenario 2 and improved public investment management (PIM) efficiency associated with PIM reforms. The scenario assumes that the efficiency of public investment would improve by around 20 percent as a result of PIM reform implementation, reaching 65 percent in the Asian emerging economies efficiency scenario from Bangladesh's current level of 46 percent.

Annex IV. GDP Rebasing and its Implications

1. The Bangladesh Bureau of Statistics (BBS) published a rebased GDP series in November 2021. The rebased GDP is anchored on 2015/16 prices and uses the most recent and expanded coverage of various surveys, such as the Survey of Real Estate, the Survey of Travel Agents, and the Transportation Survey. The rebased nominal GDP features nearly 20 percent disproportionate revisions throughout FY2016-FY2021.

Table 1. Bangladesh: GDP at Different Base Years

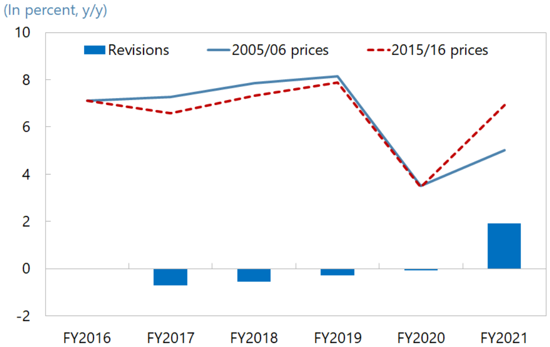
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
GDP at current price (In billion of taka)						
2005/06 base	17,329	19,561	22,173	25,096	28,428	32,026
2015/16 base	20,758	23,243	26,392	29,514	31,705	35,302
Difference (%)	19.8	18.8	19.0	17.6	11.5	10.2
Real GDP growth rate (In percent)						
2005/06 base	..	7.28	7.86	8.15	3.51	5.01
2015/16 base	..	6.59	7.32	7.88	3.45	6.94
Difference (percentage point)	..	-0.69	-0.54	-0.27	-0.06	1.93

Source: Bangladesh Bureau of Statistics

2. Based on the rebased GDP series, the real GDP grew by 6.9 percent in FY2021, 1.9 percentage points higher than its previous estimate of around 5 percent. This was due to an upward revision to consumption, while investment and net export were revised down. On the production side, stronger manufacturing sector growth which accounts for 23.4 percent of GDP largely contributed to higher GDP growth in FY2021. On the other hand, during FY2017-FY2020, real GDP growth was revised down by about 0.4 percentage points on average, amid downward revisions to consumption and productions of the secondary industry, including manufacturing, and construction.

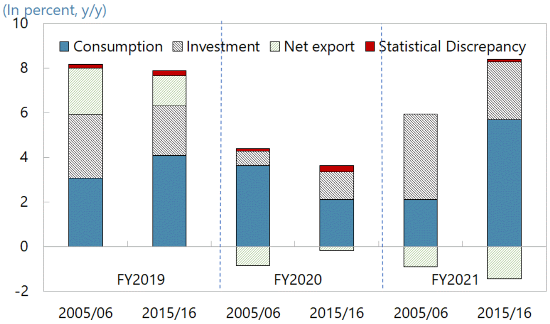
Bangladesh: Revisions of FY Real GDP Growth

(In percent, y/y)



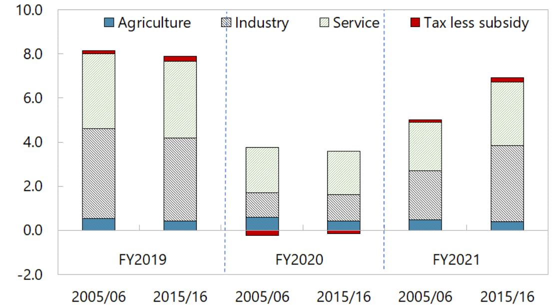
Sources: Bangladesh Bureau of Statistics and IMF Staff Calculations.

Bangladesh: Contribution to Real GDP Growth, by Expenditure
(In percent, y/y)



Sources: Bangladesh Bureau of Statistics and IMF Staff Calculations

Bangladesh: Contribution to Real GDP Growth, by Production
(In percent, y/y)



Sources: Bangladesh Bureau of Statistics and IMF Staff Calculations

3. Reflecting an upward revision to nominal GDP, both current account and fiscal deficit to GDP ratios were lower in most years.

Table 2. Bangladesh: GDP Rebased and its Implications on Key Indicators

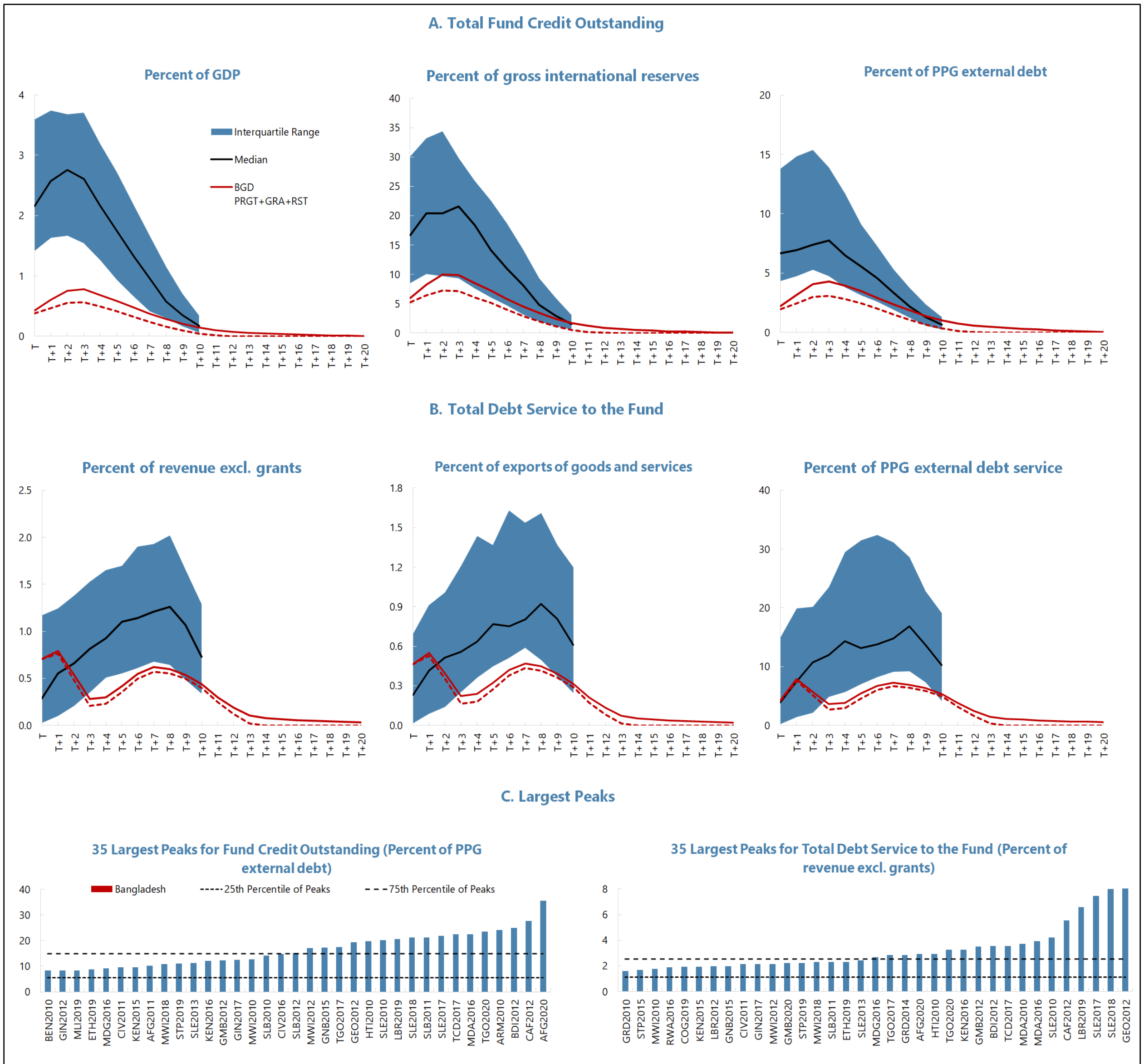
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Current account balance (Percent of GDP)						
2005/06 base	1.9	-0.5	-3.5	-1.5	-1.7	-1.3
2015/16 base	1.6	-0.5	-3.0	-1.3	-1.5	-1.1
Difference (percentage point)	-0.3	0.1	0.5	0.2	0.2	0.2
Fiscal balance (Percent of GDP)						
2005/06 base	-3.8	-4.9	-4.8	-6.3	-5.6	-4.2
2015/16 base	-3.2	-4.2	-4.1	-5.4	-4.8	-3.6
Difference (percentage point)	0.6	0.7	0.7	0.9	0.8	0.6

Source: Bangladesh Bureau of Statistics

4. The recent publication of the new GDP series is a welcome step for a better understanding of the macroeconomic development. The SARTTAC continues to assist the authorities with updating the consumer price index (CPI), as well as compilation and release of the quarterly GDP, producer price index (PPI), index of service production (ISP), quantum index of industrial production (QIIP), supply and use table (SUT) and input-output table (IOT).

Annex V. Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries[1]

(In percent of the indicated variable)



Notes:
1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2010 and 2020.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.
8) In section C charts, the red bar for the country being reviewed appears only if it is among the 35 largest peaks.

[1] UCT: Upper Credit Tranche, and PRGT: Poverty Reduction and Growth Trust.

Appendix I. Letter of Intent

December 23, 2022
Dhaka

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva:

By pursuing prudent macroeconomic policy during the last 13 years, Bangladesh has been able to maintain macroeconomic stability and achieve high economic growth. It registered consistently high GDP growth during 2009–2019 until the outbreak of the COVID-19 pandemic. During this period, Bangladesh has also made steady progress in social development, e.g., reducing poverty, enhancing life expectancy, improving literacy, and increasing per capita food production and calorie intake.

Bangladesh has successfully weathered the adverse impact of the COVID-19 pandemic and associated economic slowdown largely due to the implementation of a range of timely and effective fiscal and monetary stimulus programs. Low infections, very low mortality, and a high vaccination rate enabled a withdrawal of all restrictions on movement and contributed to a strong rebound of economic activities since the latter half of 2021. The government gratefully acknowledges the Balance of Payments (BoP) and budget support assistance of US$732 million received from the IMF to help the economy mitigate the adverse COVID-19 impact.

The ongoing Russia-Ukraine war has, nevertheless, brought new challenges and thwarted the full recovery from the pandemic. The unprecedented surge in prices of energy, food and other essential commodities and the widespread disruption in international supply chains have adversely affected the global economy, including Bangladesh. These challenges have given rise to a BoP financing need that is expected to be persistent in the medium term. First, higher costs of essential imports like oil, gas, and fertilizer and other key import items like consumer goods, industrial raw materials have led to the widening of trade imbalances and depletion in foreign reserves. Second, a rapid rise and continued firmness in commodity prices and associated increases in government subsidies have added to external and fiscal pressures. Third, monetary tightening and economic slowdown in major trading partners of Bangladesh have led to further pressure on our export-oriented economy, especially at a time when remittances have slowed down.

While dealing with these immediate challenges, we fully acknowledge the necessity of achieving further income growth and poverty reduction, while tackling climate-change challenges that could threaten macroeconomic stability. Our strategy of growth with equity has been embraced in many reform measures announced in our annual budget statements as well as in our Eighth Five-Year Plan. Being one of the world's most vulnerable nations to climate change, Bangladesh has set its course toward achieving climate-resilient development by envisioning various strategies and policies, including a Delta Plan and a series of five-year plans. These plans as well as our National Adaptation Plan, recently approved by Cabinet, have identified our country's adaptation and mitigation priorities in the transportation, power, industry, infrastructure, and agriculture sectors, estimating the additional annual climate financing needs at 2–3 percent of GDP.

Against this background, the Government of Bangladesh is requesting access to IMF resources under the Extended Credit Facility (ECF) in the amount of SDR 822.82 million (77.1 percent of quota) and under the Extended Fund Facility (EFF) in the amount of SDR 1,645.64 million (154.3 percent of quota) over a 42-month period. Upon an approval of this request by the IMF Executive Board, we are requesting an immediate disbursement of SDR 352.35 million (33 percent of quota), of which SDR 117.45 million (11 percent of quota) under the ECF and SDR 234.90 million (22 percent of quota) under the EFF. The ECF/EFF arrangement will help mitigate the near-term pressure on the BoP and on the budget and provide a buffer against shocks until our policy adjustments and reform measures take hold. The Fund's assistance is also expected to catalyze support from other development partners to meet our overall financing needs.

To support our climate change efforts and catalyze additional climate finance from other official and private partners, we are also requesting a supplementary arrangement under the Resilience and Sustainability Facility (RSF) in the amount of SDR 1,000 million (93.8 percent of quota). RSF financing will help us tackle significant climate change challenges by supporting our ambitious reform agenda and creating an enabling environment to attract additional climate financing.

The attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) set out the major objectives of the government's reform program for the period 2023–2026. The current 42-month program is centered on upfront policy actions aimed at preserving macroeconomic stability and gradually rebuilding our reserve buffer, while undertaking macro-critical structural reforms to lay the foundations for achieving upper-middle income status by 2031. In keeping with these objectives, efforts will be stepped up to (a) raise revenues to enable higher development and social spending and enhance fiscal governance; (b) modernize the monetary policy framework; (c) reduce financial sector vulnerabilities and develop capital markets; (d) improve the investment climate and boost productivity; and (e) establish an ecosystem to better adapt to climate change. This reform program is intended to raise saving and investment rates, strengthen our external position, and achieve broad-reaching, labor-intensive, and export-led growth.

We believe that our commitments, as outlined in the MEFP, are adequate to achieve program objectives, but we are prepared to take additional measures, as appropriate, for this purpose. This includes commitments not to impose or intensify restrictions on the making of payments and transfers for current international transactions, introduce or modify multiple currency practices, conclude bilateral agreements which are inconsistent with Article VIII, or impose or intensify import restrictions for balance of payments reasons. To ensure strong performance under the ECF/EFF and RSF arrangements, we will maintain a close policy dialogue with the IMF and pursue capacity development, as necessary, from the IMF and other development partners in support of our reform agenda. In keeping with this, we will consult with the IMF on the adoption of measures and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such matters. Moreover, we will provide the IMF with information in connection with our progress in implementing the policies and achieving the objectives of the program.

As part of the resources will be lent to the Treasury, the Ministry of Finance and Bangladesh Bank have also finalized a Memorandum of Understanding on their respective responsibilities for servicing financial obligations to the Fund.

In keeping with our policy of transparency, we authorize publication of this Letter of Intent and its attachments, as well as the accompanying staff report.

Sincerely yours,

/s/	/s/
Abdur Rouf Talukder Governor, Bangladesh Bank	A.H.M. Mustafa Kamal, FCA, MP Minister of Finance

Attachments

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Overview

1. **This memorandum lays out the reform program of the government of the People's Republic of Bangladesh under the 42-month Extended Credit Facility (ECF)/Extended Fund Facility (EFF) arrangement and a concurrent Resilience and Sustainability Facility (RSF) arrangement.** It lays out the objectives, policy adjustments and structural reforms needed to restore macroeconomic stability, prepare for least developed country (LDC) graduation, and tackle climate change challenges under the ECF/EFF and the RSF arrangements. Our aim is to lay a strong foundation to reach high-income status by 2041, in line with our Vision 2041. Our 8th Five Year Plan (FYP, FY21–25) sets out specific policies intended to narrow the infrastructure deficit, enhance the business environment, and build climate resilience, while mobilizing resources to create gainful employment opportunities, especially for women, key to promote inclusive and pro-poor growth.

Macroeconomic Conditions

2. **Macroeconomic pressures have intensified in Bangladesh.** Our economy was recovering strongly from the COVID-19 pandemic until the onset of the Russia-Ukraine war. The unprecedented rise in global food, energy, and other commodity prices and disruptions in international supply chains have adversely affected the global economy, including Bangladesh. Inflation rose to a decade high of 9.5 percent point-to-point in August 2022. Our current account (CA) deficit widened sharply to 4.1 percent of GDP in FY22 (July 2021–June 2022) from 1.1 percent of GDP in FY21. Although exports grew at a high rate, they were more than offset by record high imports. Remittance flows have declined to pre-pandemic levels after the temporary surge during the pandemic.

3. **We have taken bold measures to maintain macroeconomic stability.** Monetary conditions have been tightened. Increases in the repo rate and unsterilized foreign exchange (FX) interventions have reduced liquidity in the banking system. Greater exchange rate flexibility was allowed to reduce FX pressures and the prices of fuel, fertilizers, electricity and gas were raised. We also imposed a range of restrictions to curb non-essential imports and took measures to curtail energy demand, including imposing rolling power cuts and reducing school and office hours. We acknowledge that these measures, though temporary, are not sustainable and costing our economy and people tremendously.

4. **However, we forecast that the pressure on the balance of payments (BoP) is likely to continue in the coming months.** Despite FX interventions, the Taka has depreciated by 21.2 percent during April 30-December 5, 2022. Gross international reserves (GIR) have declined to US$27.5 billion in October 2022 from their peak of US$40.7 billion in August 2021. We expect a difficult year ahead given high uncertainties, elevated commodity prices, growth slowdown in trading partners, and tighter global financial conditions.

5. **In addition to short term challenges, the aspiration to reach high-income status by 2041 requires addressing long-standing structural issues**. To achieve this goal, we need to

sustain high pro-poor growth, which will require developing new growth engines, increasing productivity to harness demographic dividend, bridging infrastructure gaps, and investing in human capital. We are committed to boost social and development spending, tax revenues, export diversification, foreign direct investment (FDI) inflows, and the investment climate.

6. We also recognize the need to address long term threats to macroeconomic stability posed by climate change. In spite of being one of the lowest per capita carbon emitting countries, Bangladesh is one of the world's most at-risk nations to climate change. We are at risk of losing 2 to 9 percent of our annual GDP by the mid- and end of the century, respectively. In the Notre Dame Global Adaptation Index, Bangladesh ranks 164 amongst 182 countries for its vulnerabilities to climate disruptions and readiness to leverage private and public investment for adaptive actions. Steady rise of average temperature levels would likely result in increased frequency and intensity of droughts, floods, and tropical cyclones, while sea level rise poses significant risk to coastal infrastructure and populations. Bangladesh has set its course toward achieving climate-resilient development by putting in place various strategies and policies including the Bangladesh Delta Plan (BDP) and the National Adaption Plan (NAP). It is estimated that the annual climate financing needs are 2 to 3 percent of GDP.

Policy Framework

7. Our reform agenda under the IMF program aims at restoring macroeconomic stability and undertaking structural reforms to promote inclusive and green growth. During the program period (FY23–26), we will bring down inflation to within the range of 5–6 percent by taking appropriate policy measures. We also intend to increase net international reserves (NIR) to 4 months of prospective imports by FY26 through prudent aggregate demand management policies, increased exchange rate flexibility, and structural reforms to bolster competitiveness. These measures are also expected to catalyze additional external inflows, including FDI. Finally, we aim to boost growth potential by increasing investments, opening the economy, and enhancing employment opportunities, as outlined in our 8th FYP.

Fiscal Policy

8. Under our program, fiscal policy will be geared toward creating fiscal space to sustainably increase social spending and investment. We will continue to pursue a prudent fiscal policy stance, anchored by the target to keep the primary fiscal deficit (including grants) within around 3.3 percent of GDP to contain public debt below 45 percent of GDP over the medium term. Should downside risks materialize, we stand ready to adjust our fiscal strategy as needed to preserve macroeconomic stability. We will raise development and social spending under the program, while rationalizing subsidies and domestic debt financing costs. To sustainably finance our gradual expenditure expansion, we plan to mobilize additional tax revenue of about 1.7 percent of GDP over the course of the program.

9. We will pursue tax policy reforms to further mobilize revenues. We plan to partially shift the tax burden away from trade-related taxes and toward income and value-added taxes. Our strategy is to eliminate less effective tax exemptions and simplify the tax rate structure to broaden the tax base and enhance voluntary taxpayer compliance. With the help of IMF technical assistance (TA), we will identify measures to rationalize tax expenditures, which will be adopted in our FY25 and FY26 budgets. In the meantime, we will adopt tax revenue measures yielding an additional 0.5 percent of GDP in the FY24 budget **(end-June 2023 structural benchmark (SB))**. We plan to finalize a new Income Tax Code by end-2023 that will address issues such as base erosion and profit shifting by global internet-based entities and transfer pricing. These measures will ensure that our tax-to-GDP ratio improves even while we gradually eliminate para-tariffs and reduce average nominal protection rates on imports to be in line with our LDC graduation strategy.

10. We will pursue an ambitious tax administration reform agenda to broaden the tax base and boost revenue mobilization. Already, we have taken steps to increase taxpayer registration by making it mandatory to present a proof of tax return submission to receive 38 government services. We will continue our efforts to bring more taxpayers into the net by increasing the number of registered taxpayers to 10 million by 2026. We plan to install another 300,000 electronic fiscal devices over the next five years, expected to yield an additional revenue of Taka 105 billion, with an initial 60,000 planned for FY24. More generally, we will move toward a modern IT-based administration of the VAT and income tax systems, greater at-source taxation, and strengthened compliance risk management. Our near-term priorities include the establishment of compliance risk management units (CRMUs) within the customs and VAT wings of the National Board of Revenue **(end-December 2023 SB)**. The creation of a CRMU for income tax will happen as part of a broader reorganization process of this wing expected to take place in 2024. The three CRMUs will work together to develop and gradually implement a comprehensive compliance improvement plan. Moreover, we are working to develop a Medium-Term Revenue Strategy which will be approved in FY24 and provide a structured framework to improve revenue collection over a 3-5 year horizon. A new Customs Act, which aims to modernize customs administration in line with best international practice, has already been submitted to Parliament.

11. We plan to contain spending on subsidies to safeguard priority spending. Effective steps are being taken to contain the budget pressures stemming from exceptionally high global energy prices. In August 2022, we raised prices for petrol and octane by close to 50 percent, and prices for diesel and kerosene by 36 percent on top of 23 percent increases in November 2021. As a result, we do not expect to provide budget support to Bangladesh Petroleum Corporation (BPC). Natural gas tariffs were increased by 23 percent on average in June 2022 and bulk electricity tariffs were raised by 20 percent in November 2022. Although budget subsidies for natural gas and electricity are expected to rise significantly in FY23, they should remain relatively contained at 0.9 percent of GDP. However, increased subsidies to the order of 0.7 percent of GDP will be required for fertilizer and food this fiscal year, amid large increases in import prices. Going forward, we plan to eliminate all structural subsidies for petroleum products and, to this end, will move to a periodic formula-based price adjustment mechanism **(end-December 2023 SB).** Furthermore, we will aim at adjusting electricity prices further to reduce subsidies.

12. **We will take steps to enhance the effectiveness of public investment to support the achievement of our development goals**. In this regard, we will follow our Public Financial Management Action Plan for 2018-2023, which seeks to strengthen strategic linkages between the FYP, Annual Development Program (ADP) and Medium-Term Budgetary Framework (MTBF), and raise investment portfolio quality. We will work to integrate the medium-term budget and ADP processes and produce a consolidated MTBF that includes a medium-term investment program. We will further strengthen project selection by rolling out the Sector Strategy Papers and Multi-Year Public Investment Program tools to 5 sectors by end-2024 and another 5 sectors by end-2025, and identify, at most, the top five capital projects to be pursued in each sector. In parallel, we will reinforce staff capacity to prepare Development Project Proposals (DPPs) and carry out project appraisals.

13. **We intend to improve our debt management to reduce financing costs and support capital market development.** Our recently updated and published second Medium-Term Debt Management Strategy (MTDS) aims to minimize borrowing costs while ensuring long-term sustainability of fiscal policy. To this end, we will seek to reduce reliance on National Savings Certificates (NSCs) and shift toward more concessional sources of external financing in the medium term while Bangladesh remains eligible for these and, over the longer term, develop local bond markets to tap into long-term market financing. Going forward, with the help of IMF TA, we will update the MTDS on an annual basis and complement it with a quarterly debt bulletin and eventually an annual debt portfolio report.

14. **We will reform our NSC system to rationalize interest expenditure and increase fiscal space.** We have initiated the reform of our NSC system by introducing tiered interest rates, capping issuances, and increasing the tax on earned interest. In addition, our 2022 Public Debt Act criminalizes providing false information on NSC investments. We will continue monitoring the database of NSC subscribers and enforcing access limits to reduce the scope for misuse, including by fully automating issuances by 2024. To guide the reform process, we will develop a formal plan that will have as its aim a reduction in net NSC issuance to below ¼ of domestic financing by FY26 **(end-December 2023 SB).**

15. **We will maintain our efforts to enhance the effectiveness of social safety nets and will gradually increase priority social spending.** Our recently updated Action Plan to Implement the National Social Security Strategy of Bangladesh, which covers the period 2021–2026, spells out our plans to strengthen and broaden the scope and coverage of our social safety net programs with the goal of lowering income inequality and contributing to higher growth by strengthening human development. Our priorities include better aligning lifecycle transfer programs with Bangladesh's demographic composition, improving targeting, expanding coverage both in rural and urban areas, consolidating existing programs, adopting G2P systems and expanding social insurance. The Universal Pension Management Bill 2022, currently placed in the Parliament, aims to improve financial protection of our growing elderly population, by providing a pension scheme available to all Bangladeshis, and is expected to replace various existing social safety programs over time.

16. We will optimize cash management by expanding the coverage of the treasury single account (TSA) and the use of electronic funds transfer (EFT). Ministry of Finance will conduct a census of all bank accounts held by institutional units of the central government remaining outside the TSA and develop a policy note to guide decisions on their integration and sequencing of TSA enhancements **(end-December 2023 SB).** We will also begin production of regular cashflow forecasts by the treasury to be shared with the budget department and central bank by FY26. We will progressively expand the use of EFT to cover vendor payments and target a coverage of at least 60 percent of central government transactions by end-2024, which will enable efficient settlement of obligations and reduce leakages. Lastly, we will continue to build out the functionality of our Integrated Budget and Accounting System (iBAS++) to enable commitment controls, reconcile tax receipts and deductions, and support electronic payments.

17. We are committed to improve the quality and timeliness of our fiscal reporting. To this end, we will publish quarterly budget execution reports within 60 days of quarter-end for the first three quarters and 90 days for the last quarter. We will continue to train relevant staff on the International Public Sector Accounting Standards to ensure that government's annual financial statements are compliant with international standards and are submitted for audit within six months of year-end. Moreover, we will institute a modern internal audit function in the government, capable of implementing risk-based internal audits. We will also take concrete steps to improve transparency over state-owned enterprises (SOEs) by systematically collecting financial data on 100 SOEs and using this data to inform a fiscal risk statement, which will initially cover major risks from selected SOEs, guarantees and Public Private Partnerships (PPPs), starting with the FY25 budget and, in later years, also cover macro-fiscal risks related to climate change and natural disasters. Subsequent steps to improve SOE transparency include the production of an annual SOE sector report, to cover the 50 largest SOEs in 2025, and formulation of an SOE governance framework.

Monetary and Exchange Rate Policy and Central Bank Operations

18. The monetary policy stance will be guided by the inflation outlook, while remaining supportive of the economic growth. We have tightened monetary policy by increasing the benchmark repo rate by 100 bps since May 2022 and mopping up liquidity from the banking system through unsterilized FX interventions. However, near-term risks to inflation remain high at a time when growth is expected to slow. Bangladesh Bank (BB) will continue to be guided by inflation and inflation expectations developments and stands ready to continue calibrated tightening of monetary policy to contain second-round effects from food and fuel price shocks and restrain exchange rate pressures, while being mindful of the need to support growth. In the process, BB will also monitor the development of reserve money. Over the medium term, we plan to bring inflation down to the target range of 5-6 percent.

19. We will continue to modernize BB's monetary policy framework and operations. With the help of IMF TA and training, we intend to transition to a flexible monetary targeting in the medium term, with the policy interest rate serving as an operating target. In this process, we have embarked on improving analytical and forecasting capacities and streamlining the decision-making processes at BB through development of a model-based Forecasting and Policy Analysis System (FPAS). As a first step in conducting our monetary operations, we plan to transition to an interest rate corridor system with automatic standing lending and deposit facilities **(end-July 2023 SB)** and improve liquidity forecasting capacity. In line with the move to an interest rate based system, we have relaxed the lending interest rate cap on consumer loans (14 percent of total loans) and stand committed to remove other caps over the program period. We plan to strengthen BB's communication and enhance transparency of the monetary policy by streamlining our key monetary policy report, the Monetary Policy Statement (MPS), and increasing the frequency of publication (to twice-a-year starting from January 2023). A press release and Governor press conference will follow each policy decision meeting.

20. We remain committed to increasing resilience to external shocks by reforming the exchange rate and FX reserve management framework. Fallout from Russia's war in Ukraine resulted in disorderly FX market conditions, freezing the interbank market. Market responses have led to an exchange rate arrangement characterized by multiple exchange rates for different market participants, helping restart FX interbank transactions. We fully acknowledge the importance to have a single exchange rate and expect the current arrangement to be transitory. As FX availability increases, the market mechanism will ensure transition to a single exchange rate for all participants. BB will also use the market-determined exchange rate for all official FX transactions on behalf of the government **(end-June 2023 SB)**. To safeguard FX reserves from a sharp deterioration in trade balance, we increased LC margins for non-essential imports. We will gradually reverse this measure by December 2023, as FX reserve position improves.

21. We remain committed to rebuilding our reserves. BB commits to a modest Net International Reserves (NIR) buildup in FY23 followed by a further significant increase over the medium term to cover 4 months of prospective imports. We will start compiling and publishing Gross International Reserves (GIR) in line with international standards **(end-June 2023 SB)**.

22. We are making progress to implement the recommendations of the latest IMF's Safeguards Assessment Report. BB has started publishing its financial statements in compliance with International Financial Reporting Standard (IFRS) and is building relevant staff capacity. To enhance our Internal Audit Department (IAD), we have prepared a five-year plan and appointed a chief information security officer to implement the IT audits. We have also updated our terms of references to strengthen the function of IAD, including by applying a risk-based audit methodology. We commit to unwind non-monetary use of FX reserves gradually and not engage in any new non-monetary operations, including foreign currency lending. We have finalized the draft for the emergency liquidity assistance framework and plan to adopt it during the program period. We have started the process for the external cyber risk vulnerability assessment since December 2022. We will conduct an external audit as done during the previous IMF program.

Financial Sector Reforms

23. We are steering an orderly exit from the pandemic support measures. The support measures [have been fully] withdrawn by December 2022, with the expiration of the soft repayment facility to the "Large Industries", Cottage, Micro, Small, Medium Enterprises (CMSME) and agricultural sectors along with the borrowers of the flood-affected region. BB will ensure that the asset classification accurately reflects current balance sheet risks and classified assets, including rescheduled loans, are adequately provisioned. To avoid cliff effects, we will continue to support individuals and business sectors that are most at risk under our regular financial support schemes.

24. We will further improve the statistics of distressed assets to align with international best practices. We have been moving toward Basel III standard for loan classification, capital adequacy and provisioning requirement. We treat material exposures as non-performing when they are more than 90 days past due, or the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due. To better reflect the true state of distressed assets, we will restart reporting banks' rescheduled loans alongside with the non-performing loans (NPLs) in the annual financial stability report **(end-June 2023 SB)**. We plan to reduce the time needed before a bank could write off bad loans. We will develop a plan by 2023 for the banking sector to adopt the IFRS9 and fully adopt the IFRS9 by 2027. We will seek IMF TA for implementing the expected credit loss based provisioning.

25. We are committed to adopt a holistic and time-bound NPL resolution strategy. To reduce bank balance sheet weaknesses, particularly of the state-owned commercial banks (SoCBs), we will pursue bank specific resolutions. We are developing enforceable Memorandum of Understandings (MoUs) to reduce the average NPL ratio to below 10 percent for SoCBs and below 5 percent for private commercial banks (PCBs) by 2026. These MoUs will also aim to increase capital adequacy ratios and provisioning coverages of SoCBs to 10 percent and 100 percent and of PCBs to 10 percent and 100 percent by 2026. To strengthen the corporate governance of SoCBs, a committee is examining the existing policy for nomination and appointment of directors of SoCBs to suggest policy recommendations.

26. We will strengthen BB's monitoring and supervisory role for the banking sector. Further steps will be taken to improve the stability, soundness, and reach of our financial system**,** anchored by clear oversight responsibilities, strong risk-based supervision (RBS), and proper managerial and operational controls. We have incorporated RBS in BB's five-year strategic plan 2020-2024 to adopt the RBS by 2025. We will complete the current pilot on RBS by finalizing the assessment of the three pilot banks, including one Islamic bank (**end-June 2023 SB**). The RBS will incorporate specific procedures for Islamic banking operations in the assessment tool and inspection manual. We will also develop in-house expertise to conduct scenario-based macroprudential stress test and pursue climate stress test. We plan to develop a macroprudential strategy document. We will also strengthen credit infrastructure and collateral valuation framework.

We plan to expand the mandate of the credit information bureau (CIB), allowing it to share data with private borrowers. Some of these above reforms will be accomplished with the help of IMF TA.

27. We will enhance governance and the regulatory framework for the financial sector. We plan to submit to the Parliament the Bank Companies (Amendment) Act 2020 and the Finance Companies Act 2020, drafted in line with best practices (**end-September 2023 SB**). We also plan to submit to the Parliament the Bankruptcy (Amendment) Act 2020 and the Money Loan Court (Amendment) Act 2003 by June 2024, and the Negotiable Instrument (Amendment) Act 2020 by June 2025. These reforms will strengthen the financial sector, enhance the insolvency regime and facilitate recovery of loans. They will also help modernize the financial sector and improve the legal environment for credit and business activities.

28. Under the program, we will further develop the capital market. We will develop a roadmap for local currency bond market development, using IMF TA. NSC reforms, the implementation of the MTDS, the development of the secondary market for government securities, and the modernization of the monetary framework will facilitate capital market development.

Macro-Structure and Governance Reforms

29. We are working to create a conducive investment climate, accelerate trade liberalization and attract more FDI. During the program period, in line with our strategies for LDC graduation, we plan to reduce relatively high non-tariff barriers and domestic protection, improve trade-related energy and transportation infrastructure, and address regulatory barriers. We will work closely with the development partners, which is expected to inform our near to medium term trade development priorities.

30. We will develop human capital to boost labor productivity and long-term growth potential. We will pursue reforms to improve education outcomes and address gaps in vocational training to facilitate formal employment. We are working with the United Nations and other development partners to improve labor productivity, increase female labor force participation and deepen financial inclusion, as part of Bangladesh's Sustainable Development Goals.

31. We remain committed to strengthen governance and combat corruption. We will move toward international best practices on anti-money laundering (AML), by enhancing the RBS, following the roadmap developed with the help of IMF TA. This is critical to mitigate substantial ML risks, including from cross-border activity and trade-based ML. We aim to amend the Companies Act to facilitate the information collection for fully identifying the ultimate beneficial ownership in the financial sector. We will continue to strengthen central bank governance and fiscal transparency. We remain committed to combat corruption by safeguarding the independence of the Anti-Corruption Commission.

Climate Change Policies

32. Addressing the significant adaptation challenges, mobilizing climate finance and enhancing climate mitigation efforts remain our top priorities. With current annual climate-related government spending under 1 percent of GDP against the needed 3 to 4 percent of GDP of financing over the next 15 years, Bangladesh has a significant financing need to meet climate change challenges. On 31st October 2022, the cabinet approved the National Adaptation Plan (NAP) that outlines adaptation investment requirement of US$230 billion between now and 2050. To this end, we will implement reform measures that strengthen institutions to enable large-scale climate investments particularly the priorities identified in the NAP, the BDP, and the Nationally Determined Contributions (NDC). Further, we will undertake reforms to mobilize climate finance including through public and private sources and green bonds, as well as enhance financial sector resilience to climate-related risks. Over the years, we have made significant strides toward meeting our national climate mitigation and adaptation objectives and have put in place a range of policy tools, notably the Climate Fiscal Framework (CFF), climate budget tagging, and sustainable finance policy and green bond policy and taxonomy.

33. We are taking bold steps as we transition to a green and low-carbon economy. We updated the NDC in August 2021 with an increased climate mitigation ambition backed by a robust set of policies and measures. The NDC makes the commitment to reduce greenhouse gas (GHG) emissions by 6.7 percent below business-as-usual in 2030 and up to 21.9 percent if combined with international support. Policy priorities to support these targets include scaling up renewable energy, promoting electric vehicles and clean public transport, enhancing energy efficiency in buildings and industrial facilities, and measures to reduce emissions from the agriculture, land-use, and forestry sectors. We announced at COP26 the cancellation of 10 coal-fired power plant projects involving US$12 billion foreign investment. We also set the target of generating at least 40 percent of total electricity from renewable energy sources by 2041 and are preparing a new integrated energy and power sector master plan to support this goal. We are in the process of finalizing the imports of renewable-based electricity from neighboring countries which will further shift electricity generation away from fossil fuel sources. In addition, we raised natural gas and fuel prices recently and are moving toward a periodic formula-based price adjustment mechanism for all petroleum products **(end-December 2023 RM)**. Barring any further large global commodity price shock, we remain committed not to increase subsidies on fossil-fuel-based energy as percentage of GDP during the program period and will consider different options of gradually reducing them.

34. We are committed to build climate-resilient infrastructure. Making infrastructure investment green and resilient is key to achieving our climate and sustainable development objectives. We recognize that efficient, green and resilient public investment has multiple benefits, as it creates jobs, spurs economic growth and stimulates private sector investment and other innovative financing. We will enhance climate-informed public investment management (PIM) practices to support the prioritization and allocation of resources for the BDP and scaling up of climate-smart investment as envisaged in the NAP. Building on the PIM reform measures, we are committed to integrate a climate perspective in the appraisal and selection of capital projects. To help leverage private sector climate finance and ensure that PPP vehicle supports national climate goals, we will update the PPP policy and framework to reflect climate risks and opportunities and develop accompanying guidelines for PPP project proponents and developers. Furthermore, we will establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks/damages and vulnerability of new public assets to the module, with the help of IMF TA.

35. We plan to improve our climate fiscal management. The implementation of our CFF is key to the success of Bangladesh's climate strategies and will lay foundation for sound and transparent climate-sensitive public financial management (PFM) processes. In the CFF, we set out an institutional framework for embedding climate change aspects in Bangladesh's PFM systems and the budget setting process under Medium Term Budget Framework (MTBF). Importantly, the CFF is among our main tools to facilitate the mobilization of both domestic and international sources of climate finance and help catalyze new climate finance. To support the planning and budget process, we will develop and implement methodologies for the analysis of macro-fiscal risks from climate change and publishing such information in the Medium-Term Macroeconomic Policy Statement (MTMPS). In the context of the National Plan for Disaster Management, we will develop a National Disaster Risk Financing strategy that integrates social assistance measures **(end-December 2023 RM)**. In addition, we will adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions into the public procurement process **(end-September 2023 RM)**.

36. We will further enhance financial sector resilience to climate shocks and boost private climate finance. Financial institutions play an important role in mobilizing private climate finance but face significant physical and transition risks. The recent update of the CFF incorporates the essential role of the financial sector and private sector finance. To this end, we will develop and adopt guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) **(end-December 2023 RM)**, while drawing on experiences with the implementation of the Guidelines on Environmental & Social Risk Management (ESRM) and existing sustainable reporting practices in Bangladesh. To strengthen financial sector resilience to climate-related risks, we will conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations. We are operationalizing the Sustainable Finance Policy for Banks and Financial Institutions and the Policy on Green Bond Financing (including Green Taxonomy and Green Bond framework). To further promote the mobilization of climate finance and extend the framework to include climate adaptation, we will update the green bond policy paper, particularly the annex on green taxonomy to be fully aligned with the NAP's strategic and investment priorities.

Statistical Policy

37. We will strengthen macroeconomic statistics to better inform policy decisions and monitor targeted outcomes. We have published the rebased national account and plan to publish the new consumer price index. We will publish the national accounts on a quarterly basis (**end-December 2023, SB)**. The financial soundness indicators with expanded coverage will be published. We intend to publish historical monthly BoP data and continue the practice.

Program Monitoring

38. Progress under our program will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks, in order to complete semi-annual program reviews, as summarized in Tables 1, 2 and 3 and guided by the attached Technical Memorandum of Understanding.

Table 1. Bangladesh: Quantitative Performance Criteria (PC) and Indicative Targets (IT), First Two Reviews 1/2/

(In billions of Taka, unless otherwise indicated)

	FY2022/23	FY2022/23	FY2023/24	FY2023/24
	Mar-2023	Jun-2023	Sep-2023	Dec-2023
	IT 3/	PC	IT	PC
Quantitative performance criteria:				
Floor on net international reserves (NIR, millions of US$) 4/	22,947	24,462	25,316	26,811
Floor on primary balance (PB) 5/ 9/	-1,483.4	-1,686.4	-822.0	-1,141.1
Ceiling on accumulation of external payments arrears 6/	0.0	0.0	0.0	0.0
Indicative targets:				
Ceiling on reserve money (RM)	3,575.0	3,951.0	3,892.0	4,004.0
Floor on tax revenue	2,073.8	3,456.3	615.6	1,436.4
Floor on priority social spending of the Government of Bangladesh 7/ 9/	605.0	1,033.0	155.0	309.9
Floor on capital investment undertaken by the Government of Bangladesh 8/ 9/	389.9	1,141.1	49.8	222.8

Sources: Bangladesh's authorities; and IMF staff estimates/projections.

1/ Fiscal year starts in July and ends in June.
2/ The quantitative targets, indicative targets and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).
3/ Program starting point assumes Board approval in January 2023.
4/ Net international reserves are gross reserves (based on BPM6 definition) minus the central bank FX liabilities and reserves earmarked for quasi-fiscal activities.
5/ Including grants
6/ This quantitative target is applied on a continuous basis.
7/ Social spending that is domestically financed.
8/ Capital investment from annual development program that is domestically financed.
9/ Quarterly target is projected in line with historical quarterly outturns and seasonality patterns reflecting backloaded disbursements.

Table 2. Bangladesh: Proposed Structural Benchmarks: 12-Months After Board Approval

Measure	Target Date	Macro-criticality/objectives
Revenue mobilization		
MoF adopts tax revenue measures yielding an additional 0.5 percent of GDP in the FY2024 budget	End-June 2023	Increase fiscal space for priority spending
NBR staffs Compliance Risk Management Units in the customs and VAT wings	End-December 2023	Increase fiscal space for priority spending
Public spending efficiency		
MoF develops a plan to reduce net NSC issuance to below ¼ of total net domestic financing by FY2026	End-December 2023	Increase fiscal space for priority spending
Government to adopt a periodic formula-based price adjustment mechanism for petroleum products	End-December 2023	Increase fiscal space for priority spending
Public financial management		
MoF develops a policy note to guide decisions on integrating bank accounts still remaining outside the TSA and on the sequencing of TSA enhancements	End-December 2023	Improve cash management and strengthen fiscal risk management
Monetary and exchange rate policy		
BB adopts an interest rate corridor system	End-July 2023	Enhance monetary operations
BB compiles and reports official reserve assets as per BPM6 definition	End-June 2023	Enhance BB transparency and reporting standards
BB uses market determined exchange rate for official FX transactions on behalf of the government	End-June 2023	Increase exchange rate flexibility
Bangladesh Bureau of Statistics publishes quarterly GDP	End-December 2023	Enhance BB's monitoring and policy making capacity
Financial sector policy		
BB completes the pilot risk-based supervision action plan	End-June 2023	Establish risk-based banking supervision.
MOF submits to Parliament the Bank Companies (Amendment) Act 2020 and the Finance Companies Act 2020, drafted in line with best practices	End-September 2023	Upgrade legal and regulatory framework
BB publishes banks' distressed assets in the annual financial stability report	End-June2023	Support NPL resolution and enhance transparency.

Table 3. Bangladesh: Proposed Reform Measures Under RSF

Reform Measures	Target Date	Analytical Underpinning
RM1: Government to adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions	End-September 2023	RM1 is a top reform priority identified in CCDR.
RM2: Government to adopt a periodic formula-based price adjustment mechanism for petroleum products **RM3:** BB to adopt guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)	End-December 2023	RM2 is a high urgency, medium feasibility in CCDR. RM3 is a high urgency, medium feasibility in CCDR.
RM4: Government to adopt a national disaster risk financing strategy while integrating social assistance measures **RM5:** MoF to adopt and implement a methodology for embedding climate change in the MTMF, through analyzing macro-fiscal risks from climate change and publishing it in the Medium-Term Macroeconomic Policy Statement (MTMPS)	End-June 2024	RM4 is a high feasibility, medium urgency in CCDR and has been discussed with the World Bank (WB) as an important reform area. RM5 is highlighted as a key need in the updated Climate Fiscal Framework and has been discussed with the WB and the ADB as an important reform area that the Fund could contribute.
RM6: Government to issue a circular on an update to the Green Book to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors **RM7:** BB to conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations	End-December 2024	RM6 is a critical area identified in C-PIMA study and has been discussed with the WB and the ADB for synergies in the PIM reform agenda. RM7 is a high urgency, medium feasibility in CCDR.
RM8: Government to adopt an updated PPP policy and framework that integrates climate-related risks and develop relevant guidelines **RM9:** Government to issue a circular on the adoption of an annex to the Green Book that specifies selection and prioritization criteria for major infrastructure projects that is aligned with the NDC and the NAP	End-June 2025	RM8 and RM9 are critical areas identified in C-PIMA study and have been discussed with the WB and the ADB for synergies in the PIM reform agenda.
RM10: Government to establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks and vulnerability of new public assets to the module **RM11:** BB to update the Policy on Green Bond Financing, particularly the annex on green taxonomy to be fully aligned with the NAP's strategic and investment priorities	End-December 2025	RM10 targets critical areas identified in C-PIMA study and have been discussed with the WB and the ADB for synergies in the PIM reform agenda. RM11 is high feasibility, medium urgency in CCDR.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative performance criteria (QPC) and indicative targets (ITs) under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements, as specified in the Memorandum of Economic and Financial Policies (MEFP). It also describes the methods to be used to assess program performance and information requirements to ensure adequate monitoring of the targets.

2. Under the arrangements, the program exchange rate is Bangladesh taka (Tk) 104.95 per U.S. dollar, as agreed at the time of approval of the ECF/EFF arrangements in January 2023. Foreign currency accounts denominated in currencies other than the U.S. dollar and monetary gold will first be valued in U.S. dollars as at the exchange rates and gold prices prevailing on October 24, 2022 (Text Table 1), and then be converted to Bangladesh taka.

Text Table 1. Program Exchange Rates for ECF-EFF Arrangements

(as of October 24, 2022)

Exchange Rate	Program Rate
U.S. dollar/Taka 1/	0.00953
U.S. dollar / Swiss franc	0.99930
U.S. dollar / Pounds sterling	1.13135
U.S. dollar / Japanese yen	0.00685
U.S. dollar / Australian dollar	0.63460
U.S. dollar / Canadian dollar	0.72876
U.S. dollar / Chinese renminbi	0.14039
U.S. dollar / Russian ruble	0.01634
U.S. dollar / SDR	1.27719

Sources: Haver Analytics.; and https://www.imf.org/external/np/fin/data/rms_sdrv.aspx.
1/ The U.S. dollar/Taka exchange rate is based on weighted average of exchange rate offered by the banking sector.

3. The data listed in Table 1 will be provided for monitoring performance under the program based on data templates agreed with IMF staff. Under each section, reporting responsibilities are indicated. The best available data will be submitted, so that any subsequent data revisions will not lead to a breach of QPC or benchmarks. All revisions to data will be promptly reported to IMF staff.

Quantitative Performance Criteria and Indicative Targets

4. QPC for end-June 2023 and end-December 2023 and quarterly indicative targets for end-March 2023, end-September 2023 are set out in Table 1 of the Memorandum of Economic and Financial Policies. The continuous performance criteria for each specific period are also set out in this table and will be monitored continuously during these periods.

5. Performance criteria under the ECF/EFF arrangement have been established with respect to a:

- Floor on the level of net international reserves of Bangladesh Bank (BB), calculated as an end-of-period stock;
- Floor on primary balance, calculated cumulatively from the beginning of the fiscal year;

6. Performance criteria applicable on a continuous basis have been established with respect to a:

- Ceiling on the accumulation of new external payment arrears by the central government and BB, calculated in cumulative terms from December 31, 2022.

7. Indicative targets (ITs) have been established with respect to a:

- Ceiling on the level of reserve money of the BB, calculated as an end-of-period stock;
- Floor on tax revenue of the central government, calculated cumulatively from the beginning of the fiscal year;
- Floor on priority social spending by the central government, calculated cumulatively from the beginning of the fiscal year; and
- Floor on capital development spending undertaken by the central government, calculated cumulatively from the beginning of the fiscal year.

Institutional Definitions

8. The central government is defined as all budgetary units of the government of Bangladesh. It captures balances in the Treasury accounts and for special projects outside the Treasury accounts (as will be measured by government lending funds reported in the monetary accounts).

9. The public sector is defined as the central government, BB, nonfinancial public enterprises, departments, and autonomous and semi-autonomous bodies of all ministries and divisions.

10. Deposit money banks (DMBs) include commercial banks (state-owned, Islamic, private, and foreign-owned) and specialized banks, on which BB compiles data for the monthly monetary survey.

11. The definitions of "debt" and borrowing for the purposes of this TMU are set out in paragraph 8(a) of the Guidelines on Public Debt Limits in Fund-Supported Programs attached to the IMF Executive Board Decision No. 15688-(14/107) adopted on December 5, 2014. For purposes of these Guidelines, "debt" is understood to mean a direct, i.e., noncontingent, liability

created under a contractual arrangement under which a value must be provided, in the form of assets (including monetary assets) or services, and under which the debtor also undertakes to make one or more payments in the form of assets (including monetary assets) or services, according to an established schedule. These payments will discharge the debtor from the principal and/or interest liabilities undertaken under the contract. In accordance with the foregoing definition of debt, any penalties or damages awarded by a court as a result of the nonpayment of a contractual obligation that constitutes debt are debt.

12. External debt, in the assessment of the relevant criteria, is defined as any borrowing or debt service in a currency other than the Bangladesh taka. The relevant performance criteria apply to external debt of the central government, BB, public enterprises that receive transfers from the central government, and other public entities in which the central government holds more than 50 percent of the capital stakes, or any other private debt for which the central government has provided a guarantee that should be considered to constitute a contingent liability. Guaranteed debt refers to any explicit legal obligation incumbent on the central government to reimburse a debt in the event of payment default by the debtor (whether the payments must be made in cash or in kind).

13. Nonbank claims on the central government represent the sum of cash receipts from sales of National Savings Certificates (reported by the National Savings Directorate), Treasury bills and bond holdings outside BB and the DMBs (reported by BB's Debt Management Department), and net flows to the General Provident Fund (reported by the Controller General of Accounts).

Monetary Aggregates

Reserve Money of the Bangladesh Bank—Indicative Target

14. A ceiling applies on the level of reserve money of the BB, which comprises currency in circulation issued by BB (excluding BB holdings of currency) plus deposits of DMBs held at BB. Reserve money excludes DMBs' foreign currency clearing accounts at BB and nonbank deposits at BB.

Adjustment mechanism:

15. If any DMB fails to meet its legal reserve requirement, the ceiling on reserve money will be adjusted downward to the extent of any shortfall in compliance with the requirement.

16. Changes in required reserve regulations will modify the reserve money ceiling according to the formula:

$$\Delta RM = \Delta r \cdot B_0 + r_0 \cdot \Delta B + \Delta r \Delta B$$

where ΔRM denotes the change in reserve money; r_0 denotes the reserve requirement ratio prior to any change; B_0 denotes the reservable base in the period prior to any change; Δr denotes the change in the reserve requirement ratio; and ΔB denotes the immediate change in the reservable base resulting from changes to its definition.

Net International Reserves of Bangladesh Bank—Quantitative Performance Criterion

17. For program monitoring purposes, the Net International Reserves (NIR) of BB is defined as Gross International Reserves (GIR, as defined in paragraph 18) minus the reserve-related liabilities (as defined in paragraph 19). For program monitoring purposes, the stock of foreign assets and foreign liabilities of BB shall be valued at the program exchange rate in U.S. dollars, as described in paragraph 2.

18. GIR of BB are defined as the sum of:

- Foreign currency assets in convertible currencies held abroad and as vault cash that are under the direct and effective control of BB, readily available for intervention in the foreign exchange market or the direct financing of balance of payments imbalances, and which have received investment grade rating by at least two of the following three rating agencies: Moody's, (a rating of at least Baa), Standard & Poor's (a rating of at least BBB-) and Fitch (a rating of at least BBB-), or held with an investment-grade institution;
- The reserve position of Bangladesh in the IMF;
- Holding of SDRs; and
- Monetary gold.

Excluded from the definition of GIR are:

- Foreign currency loans to local banks;
- Deposit with state-owned local banks;
- Deposits with the International Islamic Trade Finance Corporation (Islamic Development Bank Group);
- Fixed income securities below investment-grade;
- Reciprocal deposits acquired by the BB under the 2021 swap arrangement with the Central Bank of Sri Lanka
- Any other foreign currency assets in nonconvertible currencies and precious metals other than gold; and

- Any other foreign currency claims, which are not high-quality claims on non-residents readily available for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes.

19. Reserve-related liabilities of the BB are defined as the sum of the liabilities from SDR allocation; and all other outstanding liabilities of Bangladesh to the IMF with a maturity of less than one year; and foreign currency liabilities, with a maturity of less than one year, in convertible currencies to nonresidents, including liabilities to the Asian Clearing Union; the Japan Debt Relief Grant[1] (JDRG); the Foreign Currency Clearing Account (i.e., the total amount of Deposit Money Banks' foreign currency deposits held at BB);[2] and forward contracts, foreign currency swaps, and other futures market contracts.

20. A floor applies to the level of NIR of the BB. Should the actual disbursement of budget support from development partners be below the projections under the program, the NIR floor will be adjusted downward by the difference between the actual level and the projected level of disbursements under the program. This adjustment is calculated cumulatively from the beginning of the fiscal year.

Fiscal Aggregates

Primary Balance

21. A floor applies on the primary balance of the central government (including grants) measured cumulatively from the beginning of the fiscal year.

22. For program monitoring purposes, the primary balance is defined as the overall balance of the central government excluding interest payments and including foreign grants.

23. Should the actual disbursement of grants from development partners be below the projections under the program, the floor on the primary balance will be adjusted downward by the difference between the actual level and the projected level of disbursements under the program. This adjustment is calculated cumulatively from the beginning of the fiscal year.

Tax Revenue

24. A floor applies on tax revenue of the central government measured cumulatively from the beginning of the fiscal year.

25. For program monitoring purposes, tax revenue is defined as the sum of (i) tax revenue collected by the National Board of Revenue, (ii) tax revenue from narcotics and liquor duty, (iii) tax

[1] BB acts as agent on behalf of the Government of Bangladesh for managing the Japan Debt Relief Grant.

[2] Deposit money banks (DMBs) include commercial banks (state-owned, Islamic, private, and foreign-owned) and specialized banks, on which BB compiles data for the monthly monetary survey.

revenue from motor vehicles, (iv) land development tax, (v) tax revenue from sale of stamps, and (vi) tax revenue from surcharges.

Priority Social Spending

26. A floor applies on priority social spending financed by the Government of Bangladesh calculated cumulatively from the beginning of the fiscal year.

27. For program monitoring purposes, priority social spending comprises all expenditures on education, health, and social safety nets as listed in Text Table 2.

Text Table 2: Composition of Priority Social Spending of the Government of Bangladesh

Component	Spending Ministry/Divisions	Data Source and Calculation
Education	Ministry of Primary and Mass Education	iBAS++, Total Spending
	Secondary and Higher Education Division	iBAS++, Total Spending
	Technical and Madrasa Education Division	iBAS++, Total Spending
Health	Health Services Division	iBAS++, Total Spending
	Medical Education and Family Welfare Division	iBAS++, Total Spending
Social Protection (Excluding Education and Health)	Concerned Ministries as documented by the Finance Division (FD)	IBAS++ and FSMU Program data of the social protection activities/programs as published in the budget document, excluding the program "Pension for Retired Government Employees and their Families."

Development Capital Investment

28. A floor applies on development capital investment financed by the Government of Bangladesh, calculated cumulatively from the beginning of the fiscal year.

29. For program monitoring purposes, development capital investment comprises all Annual Development Program (ADP) expenditure in the budget.

External Payment Arrears

30. A continuous ceiling applies on the accumulation of new external payments arrears by the central government and BB.

31. For program monitoring purposes, external payments arrears comprise external debt and debt-service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements. However, nonpayment of external debt service will not give rise to arrears when the Central Government and Bangladesh Bank cannot pay or settle based on the contractual terms solely because of the transfer of funds being rejected owing to intermediary financial institutions' compliance policies, as long as the debt service payments have been paid into an escrow account by the contractual due date, taking into account any contractual grace period. Funds in such escrow accounts may be used only to satisfy the related external debt obligations, and their use or withdrawal for other purposes would constitute a breach of the QPC.

Table 1. Bangladesh: Data Reporting Requirements

Item	Reporting agency	Periodicity
I. Monetary, exchange rate, and interest rate data	**Bangladesh Bank (BB)**	
Daily exchange rates (taka per U.S. dollar)—weighted-average, open market (buy and sell rates), interbank (high and low rates), and BAFEDA member rates.	BB	Daily, next working day
Daily foreign exchange interbank market trading spot, forward, and swap volume	BB	Daily, next working day
Net open position of deposit money banks	BB	Daily, next working day
Stock of gross international reserves (GIR), Asian Currency Unit liabilities, Foreign Exchange Clearing Account balances, Foreign exchange overdraft balance (FXOD), Export Development Fund, Green Transformation Fund, Long Term Financing Facility, Sonali bank Financing Facility, Deposits with ITFC, reciprocal deposits acquired by the BB under the 2021 swap arrangement with the Central Bank of Sri Lanka, and exchange rate valuation changes to GIR.	BB	Daily, next working day
Detailed data on the composition of GIR, including currency composition	BB	Daily, next working day
Stock of GIR, net international reserves (NIR), NFA including subcomponents, both at program and market exchange rates.	BB	Daily, next working day
Stock of noninvestment grade bonds by name of issuer, investment rating, and currency composition	BB	Monthly, within two weeks of the end of each month
Sales and purchases of foreign exchange by BB	BB	Daily, next working day
Daily bank and call money market rates	BB	Daily, next working day
Daily BB repo and reverse repo rates and interbank repo and reverse repo rates (weighted average yields)	BB	Daily, next working day
Daily BB repo and reverse repo and interbank repo and reverse repo trading volumes (billions of taka)	BB	Daily, next working day
Daily volume of open market operations (sales and purchases) by BB (billions of taka)	BB	Daily, next working day
Stock of reserve money and its components	BB	Daily, next working day
Excesses/shortfalls of DMBs' reserves	BB	Daily, next working day
Bangladesh Bank's balance sheet and off-balance items by currency representation	BB	Monthly, within two weeks of the end of each month
Treasury bill and bond auction reports, including range of bids submitted by primary dealers	BB	Weekly, within one week of the end of each week
Weekly retirement of government securities and outstanding balances of Treasury bills and bonds	BB	Weekly, within one week of the end of each week
Bangladesh Bank bills and auction reports	BB	Weekly, within one week of the end of each week
Balance sheet of BB (form 10 G)	BB	Monthly, within six weeks of the end of each month
Balance sheet (aggregate) of commercial banks (form 20 G)	BB	Monthly, within six weeks of the end of each month
Monetary survey (form 30 G)	BB	Monthly, within six weeks of the end of each month
Bank deposits of Bangladesh Petroleum Corporation, Meghna Petroleum Limited, Padma Oil Company Limited, and Jamuna Oil Company Limited	BB	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (continued)		
Foreign assets and liabilities of BB	BB	Monthly, within six weeks of the end of each month
Foreign exchange cash flow of BB	BB (Foreign Reserve and Treasury Management Department (FRTMD))	Monthly, within five working days of the end of each month
II. Fiscal data	**Ministry of Finance (MOF)**	
Fiscal outturn, including financing of the overall fiscal balance	MOF (Finance Division (FD))/ Controller General of Accounts (CGA)	Monthly, within six weeks of the end of each month
Revenue, by type of tax and nontax revenues (with main subheadings)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Privatization receipts	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
National Bureau of Revenue collections (by type of tax and subheadings)	NBR	Monthly, within six weeks of the end of each month
Recurrent expenditure, including spending on pay and allowances, goods and services, interest payments (domestic and foreign), subsidies, transfers, and block allocations (with main subheadings)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Breakdown of subsidies by main categories (agriculture, fertilizer, food, fuel, electricity, exports, and others)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Fiscal outturn, excluding railways and Controller General, and defense finance	MOF(FD)/CGA	Monthly, within six weeks of the end of each month
Social spending	MOF (FD)/CGA	Quarterly, within six weeks of the end of each quarter
Annual Development Program (ADP) expenditure funded by (i) the central government and (ii) foreign grants and loans, included in the budget	MOF (FD)/CGA	Monthly, within six weeks of the end of each month (quarterly for detailed data)
Non-ADP capital spending (including main subheadings) and net lending (including by receipts and payments, including a breakdown by state-owned enterprises (SOEs))	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Extraordinary expenditures (by type)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Foreign financing, comprising (i) disbursements and amortization of program and project loans; and (ii) changes in external debt arrears, classified into principal and interest arrears	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Disbursements of program and project grants	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Foreign financing, comprising (i) disbursements and amortization of program and project loans; and (ii) changes in external debt arrears, classified into principal and interest arrears	MOF (Economic Relations Division (ERD))	Monthly, within six weeks of the end of each month
Disbursements of program and project grants by donor	MOF (ERD)	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (continued)		
Domestic financing, comprising (i) borrowing from and repayment to BB, DMBs, and nonbanks; (ii) changes in deposits held in BB, DMBs, and other deposit-taking institutions (see Table 2)	MOF(FD)/CGA/BB	Monthly, within six weeks of the end of each month
Balancing items reported by the CGA	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
III. Debt data	**MOF/BB/National Savings Directorate (NSD)**	
New external debt obligations contracted and/or guaranteed (concessional and non-concessional) by the government of Bangladesh, BB, nonfinancial public enterprises, departments and autonomous and semi-autonomous bodies of all ministries and divisions (i.e. the central government and BB), including details on the amounts, terms, and conditions of each new obligation	MOF (ERD)/BB	Monthly, within six weeks of the end of each month
Total amount disbursed for each loan and guarantee included under the ceiling on non-concessional external debt	MOF (FD)	Quarterly, within six weeks of the end of each quarter
Stock of outstanding external debt (short-term and medium- and long-term obligations) of the central government and BB, by creditor (in original currency and U.S. dollars)	MOF (ERD)/BB	Quarterly, within eight weeks of the end of the quarter
Stock of arrears on external debt contracted or guaranteed by the central government and BB by creditor (in original currency and U.S. dollars)	MOF (ERD)/BB	Monthly, within six weeks of the end of each month
Stock of domestic debt, including the outstanding balance of Treasury bills, Treasury bonds, as well as breakdown of National Savings Certificates	MOF (FD)/BB/NSD	Monthly, within six weeks of the end of each month
Stock of domestic expenditure arrears	MOF (FD)	Monthly, within six weeks of the end of each month
Projections of daily individual oil-related payments by commercial banks.	BB	Monthly, two weeks in advance of the beginning of each month
Actual and six-month projections on short-term external financing and repayment	BPC	Monthly, two weeks in advance of the beginning of each month
Actual and six-month projections on deferred payments for oil imports	BPC/BB (FRTMD)	Monthly, two weeks in advance of the beginning of each month
Syndicated loans by BPC from commercial banks	BPC/BB (FRTMD)	Monthly, two weeks in advance of the beginning of each month
IV. Financial data	**BB**	
Financial soundness indicators of the aggregate state-owned commercial banks (SOCBs) and private commercial banks (PCBs)	BB (Department of Off-Site Supervision (DOS))	Quarterly, within eight weeks of the end of the quarter
Compliance of SOCBs and PCBs with memoranda of understanding (MOU).	BB (DOS)	Quarterly, within six weeks of the end of the quarter
Net loans and advances and components for each of the SOCBs and PCBs under the MOU	BB	Monthly, within six weeks of the end of each month
Common equity tier 1 ratio, tier 1 capital ratio and total capital ratio of each of the SOCBs and PCBs under the MOU.	BB	Monthly, within six weeks of the end of each month
Net loans and advances and components for each of the SOCBs and PCBs under the MOUs.	BB	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (concluded)		
Special mention loans, loans which are 90 days and more in arrears, rescheduled loans of each of the SOCBs and PCBs under the MOU.	BB	Monthly, within six weeks of the end of each month
Letter of credit (LC) opening and settlement for each of the SOCBs and PCBs under the MOU.	BB	Monthly, within six weeks of the end of each month
External borrowing in foreign currency by each SOCBs and PCBs under the MOU from nonresident institutions.	BB	Within a week from the date of approval by BB
Total capital market exposure and total share holding (as per section 26A(1) of the amended Bank Companies Act) SOCBs and PCBs under the MOU, and their exposures via subsidiaries	BB (DOS)	Monthly, within six weeks of the end of each month
Risk-weighted capital asset ratios and asset quality indicators of SOCBs and PCBs under the MOU	BB (DOS)	Quarterly, within six weeks of the end of each month
Stock of loans extended to SOEs (BPC, BPDB, BCIC) by each SOCBs, both funded and unfunded loans	BB (DOS)	Monthly, within four weeks of the end of each month
V. External data	**BB/Other agencies**	
Detailed balance of payments	BB	Monthly, within six weeks of the end of each month
Export data by goods	Export Promotion Bureau	Monthly, within four weeks of the end of each month
Import letters of credit (settlement, opening, and outstanding)	BB	Monthly, within four weeks of the end of each month
Remittances	BB	Monthly, within two weeks of the end of each month
Manpower exports	Bureau Manpower, Employment, and Training	Monthly, within six weeks of the end of each month
VI. Other data	**Bangladesh Bureau of Statistics (BBS)**	
National accounts, by expenditure and by production, in nominal and real terms	BBS	Annual, within three months of the end of each year; quarterly within 100 days of the end of each quarter from January 2024.
Overall consumer price index	BBS	Monthly, within six weeks of the end of each month
Industrial production statistics	BBS	Monthly, within eight weeks of the end of each month

Table 2. Bangladesh: Components of Domestic Bank Financing of the Central Government

Item (in Tk millions)	**Reporting agency**	**Periodicity**
Bank financing	Bangladesh Bank	All quarterly
Bangladesh Bank		
Change in claims on government (excluding change in claims on autonomous and semi-autonomous bodies)		
Of which: Change in ways and means balance		
Change in overdraft		
Change in overdraft block		
Change in holdings of Treasury bills and bonds		
Change in government currency liabilities		
Change in accrued interest		
Change in government deposits and lending funds (excluding change in deposits of autonomous and semi-autonomous bodies)		
Change in government deposits		
Change in government lending funds		
Memorandum items:		
Change in credit to autonomous and semi-autonomous bodies		
Change in deposits of autonomous and semi-autonomous bodies		
Commercial banks		
Change in claims on government (excluding change in claims on autonomous and semi-autonomous bodies)		
Of which: change in holdings of Treasury bills and bonds		
Change in advances and bills to ministries (of food and others)		
Change in accrued interest		
Change in government deposits and lending funds (excl. change in deposits of autonomous and semi-autonomous bodies)		
Change in government deposits		
Change in government lending funds		
Memorandum items:		
Change in credit to autonomous and semi-autonomous bodies		
Change in deposits of autonomous and semi-autonomous bodies		

BANGLADESH

January 13, 2023

REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

RESILIENCE AND SUSTAINABILITY TRUST ASSESSMENT LETTER FOR THE IMF

This note provides the World Bank's current assessment of Bangladesh's vulnerability to climate change as well as government policies and commitments for adaptation and mitigation. The assessment has been requested in relation to a proposed Resilience and Sustainability Facility arrangement for Bangladesh.

A. Country Vulnerability to Climate Change, Including Human, Social and Economic Costs

1. **Climate change poses a severe risk to the substantial development progress achieved in Bangladesh.** Bangladesh has been among the fastest growing economies in the world, with annual per capita income growth of 4.0 percent over the past three decades and a decline in poverty from 48.9 percent in 2000 to 24.3 percent in 2016. However, climate change puts this rapid development progress at risk, even under optimistic global climate scenarios. Bangladesh is the world's seventh most climate risk-affected country, with 185 extreme events recorded and 0.38 fatalities per 100,000 inhabitants over the past two decades.[1] Average annual losses from tropical cyclones alone are already US$1 billion per annum (0.7 percent of GDP). These impacts are likely to increase, including due to more frequent cyclone events that could result in significantly larger losses. Under severe flooding, GDP falls by as much as 9 percent relative to baseline projections through 2050. Climate vulnerability is particularly acute on Bangladesh's coast. Under a 1.5°C increase in temperature and 4 percent increase in precipitation, sea levels in the Bay of Bengal could rise by

[1] Germanwatch. "2021. Global Climate Risk Index 2021." Bonn: Germanwatch.

27 centimeters or more by 2050. Such sea level rise would nearly double asset risk, currently at approximately US$300 million per annum, and threaten agricultural production, water supply, and the diversity of coastal ecosystems. Without action, by 2040 cropland could shrink by more than 6.5 percent nationally and 18 percent in Southern Bangladesh. One-third of total agricultural GDP may be lost due to climate variability and extreme events by 2050. By this time, Bangladesh could see over 13 million internal climate migrants.

2. Environmental degradation is expected to compound the impacts of climate change, with a disproportionate impact on the poor. The annual cost of air pollution has been estimated at 9 percent of GDP while 32 percent of all deaths in Bangladesh are linked to environmental degradation, particularly outdoor and household air pollution; inadequate water, sanitation, and hygiene standards; and lead exposure. Vulnerable populations are most impacted by climate change due to reliance on agriculture and other climate-sensitive natural resources for income and livelihoods. With a higher frequency of climate related shocks and natural disasters, vulnerable populations and the chronically poor will face long lasting and multigenerational effects, resulting in costly coping strategies such as divesting productive assets and curtailing investments in human capital (e.g., nutrition and education). Communities exposed to multiple natural hazards show a substantially lower decrease in poverty or even poverty increases over time. Climate-related hazards could pose a barrier to the lowering of poverty rates, undoing development progress and lowering the resilience of communities.

3. Bangladesh is a modest contributor to global greenhouse gas (GHG) emissions, but a high reliance on fossil fuels for energy production underscores the urgency of transition measures. Bangladesh accounted for an estimated 0.4 percent of global emissions in 2018. Rapid economic growth has resulted in higher GHG emissions, which rose from 115 million metric tons of carbon dioxide equivalent (MtCO2e) in 1990 to an estimated 247 MtCO2e in 2022, including changes from land use. The growth of GHG over the past three decades was led by the energy sector, consistent with the expansion of the industrial sector and increased electricity access. Approximately 70 percent of primary energy consumption is currently derived from natural gas. Energy accounted for an estimated 42.5 percent of GHG emissions in 2022, followed by agriculture (36.5 percent), waste (8.8 percent), land use change and forestry (8.8 percent), industrial processes (2.7 percent) and fugitive energy (0.7 percent).

B. Government Policies and Commitments – Adaptation and Priority Areas to Strengthen Resilience

4. Bangladesh has a robust domestic climate policy framework that focuses on resilience, but implementation challenges persist. In 2005, the GoB launched its National Adaptation Programme of Action and tasked a new Climate Change Unit under the Ministry of Environment and Forests with mainstreaming climate change into national development planning, along with Climate Change Focal Points in various ministries. The Bangladesh Climate Change Strategy and Action Plan (BCCSAP), formulated in 2009, presents a vision of pro-poor climate management that centers on reducing disaster risk. The BCCSAP addresses mainstreaming climate change into national development planning through six thematic areas: (i) food security, social protection, and health; (ii) comprehensive disaster management; (iii) infrastructure; (iv) research and knowledge management; (v) mitigation and low-carbon development; and (vi) capacity building and institutional strengthening. A series of national plans have set out climate priority areas that cut across all key sectors, including agriculture, water, and coastal protection. The 2018 Bangladesh Delta Plan 2100 (BDP2100) is a long-term investment plan for climate resilience and economic growth that focuses on multidimensional water investments and water management, linking these issues to other sectors such as agriculture and transport in the context of comprehensive delta management. This is a critical issue as Bangladesh is home to the largest river delta in the world. Implementation of the BDP2100 has been challenging, in project identification and prioritization, budget allocation, and timely execution. The Mujib Climate Prosperity Plan (MCPP), currently being finalized, seeks to integrate these plans into an overarching framework for climate resilience and green energy transition. In the near term, all climate policies need to be embedded within the government's 8th Five-Year Plan, followed by significant financing mobilization and budget allocations for priority investments. Translating these large-scale investment programs into action will require increased capacity in public investment management, domestic revenue mobilization, and financial sector intermediation.

5. **Bangladesh has a strong track record in disaster risk management.** Bangladesh's relatively successful experience with coastal resilience and disaster risk management demonstrates the potential for high returns on public adaptation expenditure, by saving lives, reducing economic losses, and protecting development gains. Proactive policies and sound investments over the last five decades resulted in a drastic decline in cyclone casualties. Bangladesh has taken an integrated approach based on a strategic policy framework, from strengthening grassroots community-level adaptation and early warning systems, to investing in protective infrastructure accompanied by afforestation initiatives and innovations. Despite this progress, resilience will remain a priority as the coastal population and economy grow and the intensity and magnitude of extreme events increases due to climate change. Bangladesh has also emerged as a global leader of the Vulnerable Twenty Group and has demonstrated global best practices on disaster risk management, such as cyclone preparedness.

C. Government Policies and Commitments – Mitigation and Priority Areas to Reduce GHG Emissions

6. **Bangladesh has made mitigation commitments under the Paris Agreement.** Bangladesh's 2021 Nationally Determined Contributions (NDC) update outlined actions to address rising GHG emissions, and to remain below average per capita emissions for developing countries. The original NDC covered the power, industry, and transport sectors. The 2021 update expanded coverage to energy, industrial processes and product use, agriculture, forestry and other land use, and waste, in line with guidance from the Intergovernmental Panel on Climate Change (IPCC). The updated NDC commits to reducing emissions across these sectors by 89.5 MtCO2e, or 21.9 percent by 2030, relative to business as usual (27.6 MTCO2e unconditional, 61.9 MTCO2e conditional). The energy sector accounts for 96.1 percent of the planned reductions, the water sector accounts for

2.7 percent and agriculture, forestry, and other land use for 1.2 percent. Bangladesh has been confronting a short term power crisis driven by the sharp increase in gas and fuel prices, which highlights the need to diversify the sources of energy, including renewable energy, and to leverage regional energy trade. These reforms will require improved pricing mechanisms and investments in energy efficiency. Decarbonization of the energy sector will require increased efficiency in the near term, and adoption of renewable energy, improved distribution and transmission networks, and greater regional transmission capacity over the longer term.

D. Other Challenges

7. Implementation of these ambitious commitments depends on concurrent reforms in public investment management, financial sector reforms, and domestic revenue mobilization. Translating ambitious national climate investment plans into action will require advancing reforms to enhance public investment management. Efficient public investment management and an appropriate regulatory environment are necessary to develop a pipeline of projects and attract private investments. Cost-benefit analysis will be critical to prioritize limited financing capacity. Scaling up investments in adaptation and mitigation plans will require significant additional sources of public and private investments, including foreign financing, given that the country faces challenges of low levels of tax collection and FDI inflows, an underdeveloped domestic capital market, and constrained institutional capacity for public-private partnerships. National plans point to a range of financing requirements. At a minimum, public and private financing options will need to support an estimated US$12.5 billion in annual climate investment expenditure over the medium term (approximately 3 percent of FY21 GDP) for unconditional NDC commitments and BDP2100 investments. Operationalizing financing at this scale will require change in tax policy and administration to mobilize public revenues. Scaling up private sector financing is also a priority under national plans. Reaching these objectives will require addressing longstanding financial sector vulnerabilities, including weak corporate and regulatory governance, related party lending, and weak credit underwriting capacity. Close collaboration between the World Bank and IMF will be required to support Bangladesh in addressing these issues.

E. World Bank Engagement in the Area of Climate Change

8. World Bank Group lending, technical assistance, and knowledge instruments support the implementation of the government's climate change objectives. The Bangladesh Climate Change and Development Report (CCDR) identifies potential synergies between decarbonization and development and highlights priority interventions in sectors to build climate resilience and meet development goals. The report underscores the urgency of investments in climate adaptation to build resilience and safeguard livelihoods. Key recommendations include scaling up investments in people-centric, climate smart spatial development guided by the BDP2100; decarbonization and adaptation initiatives in the agriculture, transportation, and energy sectors that also deliver development co-benefits such as reduced air pollution; and strengthening the enabling environment and institutional arrangements needed for climate and environmental reform management. The CCDR will inform the

World Bank's next Bangladesh Country Partnership Framework currently being prepared, which is expected to have a strong focus on climate resilience.

9. Climate objectives are integrated across World Bank operations. All IDA projects approved since FY17 have been screened for climate and disaster risk to inform design. Since then, cumulatively US$3.9 billion (or 30 percent) of total IDA commitments in Bangladesh (FY17–22) had climate co-benefits, 60 percent of which was for adaptation. Adaptation investments include coastal protections against cyclones and storm surges, flood risk reduction, livelihood adaptation, urban resilience, and social protection, and projects in agriculture, energy, and transport, amongst others, are supporting mitigation objectives. Building on CCDR policy recommendations, the proposed Green and Climate Resilient Development Policy Credit series (FY23–25) will support structural reforms to (i) enhance public planning, financing, and delivery of green and climate resilient interventions at national and local levels; and (ii) promote key sector reforms for climate-smart production and services. The reforms include incorporating green and climate resilience in public investment management; strengthening the system of fiscal transfers to local governments for green and climate resilience activities at the local level; strengthening air quality management policies; disclosure of highly polluting industries and activities and introducing a measurement, reporting, and verification (MRV) system; reducing fiscal costs of fuel subsidies; and rationalizing capacity charges in rental power plants, which are primarily based on fossil fuels. The ongoing Bangladesh Recovery and Resilience DPC series (FY22–24) supports the cancellation of planned investments in coal-fired powerplants, the introduction of a new building code to increase energy efficiency, and adoption of the Mujib Climate Prosperity Plan, which includes retrofitting the built environment to adapt to the impacts of climate change and climate migration. The series will also support a public-private partnership policy for the electricity transmission sector, to help scale up financing that supports efficient use of energy.

BANGLADESH

January 17, 2023

REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staffs of International Monetary Fund and the International Development Association

Bangladesh: Joint Bank Fund Debt Sustainability Analysis	
Risk of external debt distress	Low
Overall risk of debt distress	Low
Granularity in the risk rating	Tool not applicable
Application of judgement	Yes

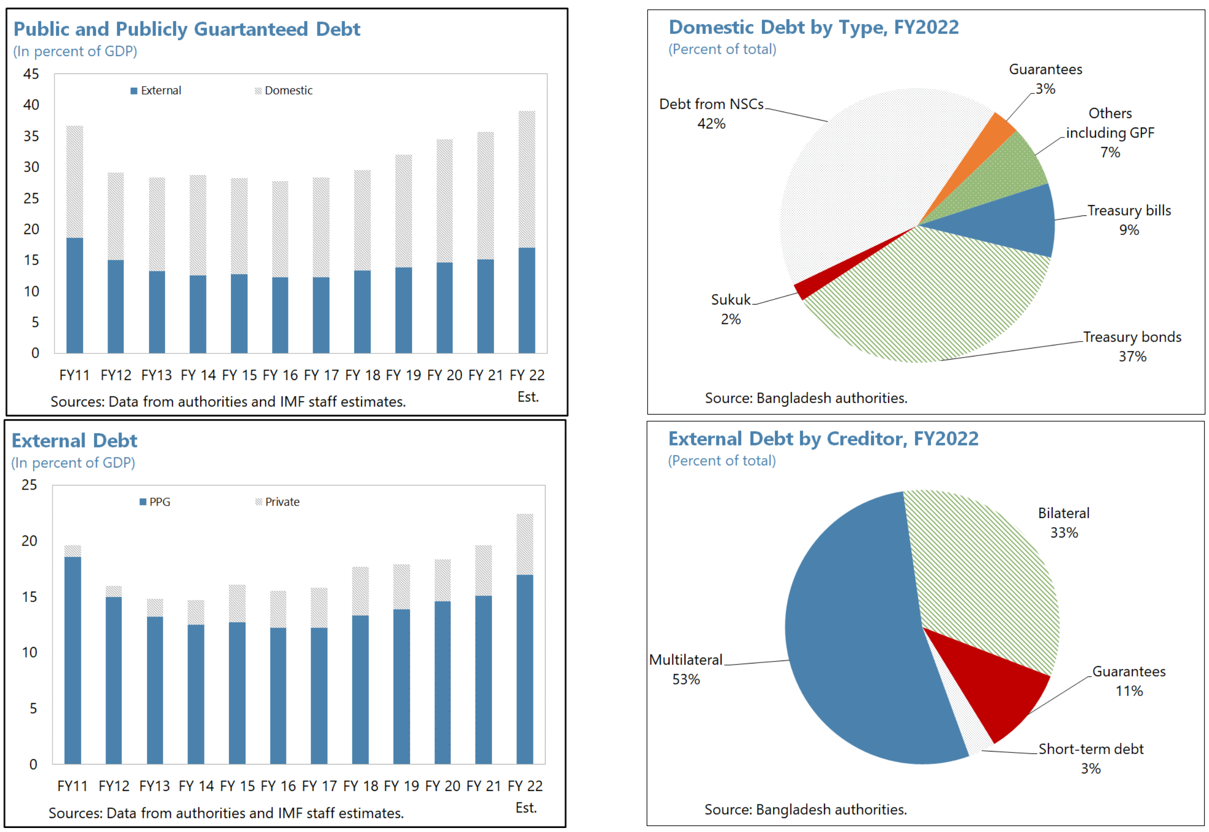
Bangladesh remains at a low risk of external and overall debt distress. Bangladesh's debt-carrying capacity is unchanged from the previous debt sustainability analysis (DSA).[1] External and overall debt indicators are below their respective thresholds under the baseline. Under a standard stress test, one threshold of external debt sustainability indicator is breached. This short duration breach of low magnitude is discounted via judgement. Growth is projected to be slower in FY23, compared to the previous DSA projection, but is expected to exceed the previous growth path in the medium to long term, supported by additional external financing and accelerated reform agenda under the IMF program and programs by development partners, including the World Bank. Despite higher external borrowing in the near-term, favorable debt dynamics in the medium term keep the public and publicly guaranteed (PPG) external debt-to-GDP ratio on a declining path, and the overall public debt-to-GDP ratio stabilizes at a similar level, compared to the previous DSA. Risks are tilted to the downside and include intensifying spillovers from the Russian invasion of Ukraine, rising commodity prices, slowdown in major export destinations, elevated NPLs, and prospective losses from natural disasters.

[1] Bangladesh's Composite Index is estimated at 2.88 and is based on October 2022 WEO update and 2021 WB CPIA. The debt carrying capacity remains medium.

A. Background and Developments on Debt

1. Total public and publicly guaranteed debt in Bangladesh stood at about US$166.1 billion in FY22, around 39 percent of GDP (Table 1 and Text Figure 1).[2] The majority of public debt over the last decade is domestic and denominated in local currency. In FY22, domestic debt was about 56.5 percent of PPG debt stock.[3] Domestic debt service payments amounted to US$31.9 billion in FY22 (7.5 percent of GDP). External debt service payments in FY22 comprised the payments to multilateral creditor of US$ 1.5 billion (0.4 percent of GDP) and bilateral creditor of US$ 0.6 billion (around 0.1 percent of GDP). Of which, debt service payments to Paris Club and non-Paris Club creditors amounted to US$0.26 billion and US$0.28 billion, respectively.

Text Figure 1. Bangladesh: External and Domestic Debt By Type



[2] Fiscal year in Bangladesh starts in July and ends in June.

[3] These statistics reflect the rebased national accounts (base year 2015/16). In November 2021, the Bangladesh Bureau of Statistics (BBS) released a rebased series of national accounts (base year 2015/16). The rebasing has led to an increase in GDP levels and a slight decline in GDP growth rates, partly reflecting wider coverage of economic activities and methodological changes. See Annex IV of the staff report for a request for the extended credit facility (ECF), extended fund facility (EFF), and resilience and sustainability facility (RSF) arrangements.

Table 1. Bangladesh: Decomposition of Public Debt, FY22 1/

	Debt Stock (end of period)		
	(In million of US$)	(Percent total debt)	(Percent GDP)
Total	166,127	100.0	39.0
External	72,288	43.5	17.0
Public external	65,482	39.4	15.4
Medium-to-long term	63,386	38.2	14.9
Multilateral creditors[2]	34,904	21.0	8.2
IMF	984	0.6	0.2
World Bank	18,164	10.9	4.3
ADB	13,277	8.0	3.1
Other Multilaterals	2,479	1.5	0.6
o/w: AIIB	808	0.5	0.2
o/w: IFAD	503	0.3	0.1
Bilateral creditors	21,675	13.0	5.1
Paris Club	15,514	9.3	3.6
o/w: Japan	9,213	5.5	2.2
o/w: Russia	5,092	3.1	1.2
Non-Paris Club	6,161	3.7	1.4
o/w: China	4,761	2.9	1.1
o/w: India	1,025	0.6	0.2
Short-term	2,096	1.3	0.5
Publically guaranteed	6,807	4.1	1.6
Domestic	93,839	56.5	22.1
Treasury bills	8,242	5.0	1.9
Treasury bonds	34,736	20.9	8.2
Sukuk	1,926	1.2	0.5
Debt from NSCs	39,119	23.5	9.2
Guarantees	3,103	1.9	0.7
Others including GPF	6,714	4.0	1.6
Memo items:			
Collateralized debt[3]	0	0	0
Contingent liabilities	9,909	6.0	2.3
o/w: Public guarantees	9,909	6.0	2.3
o/w: Other explicit contingent liabilities[4]	0	0	0
Nominal GDP[5]	425,518	…	…

1/As reported by Bangladesh authorities according to their classification of creditors.

2/ Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

5/ Nominal GDP reported in this table is based on end of the period exchange rate, 93.45 Taka per dollar.

2. About half of the outstanding domestic debt is composed of National Saving Certificates (NSCs). NSCs stifle the development of a domestic bond market as they provide a yield of around 10 percent for the majority of the NSC instruments, whereas government bonds of similar maturities provide a yield around 7 percent.[4] Continued reforms to align NSC interest rates to market-determined rates, together with phasing out the interest rate caps, would help debt dynamics by lowering the cost of domestic borrowing, improving monetary policy transmission and deepening domestic debt markets.[5]

Text Table 1: Bangladesh: Selected NSCs Interest Rates

(in percent)	5 - year	3- month	Family	Pensioners'
Old Rate	11.28	11.04	11.52	11.76
Less than or equal to Tk 1.5 million	11.28	11.04	11.52	11.76
More than Tk 1.5 and up to or equal Tk 3 million	10.30	10.00	10.50	10.75
More than Tk 3 million	9.30	9.00	9.50	9.75

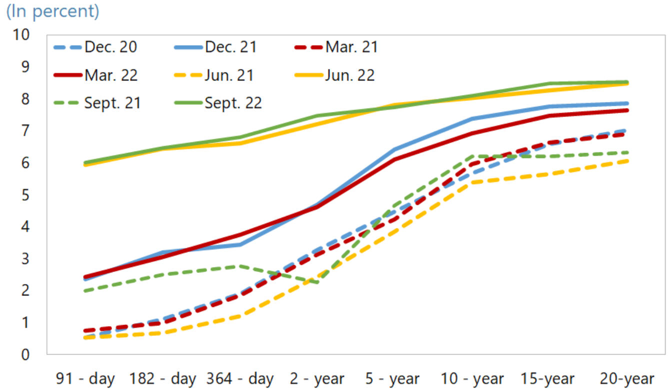
Source: Ministry of Finance

3. A shariah-compliant domestic investment instrument, 'Ijarah Sukuk', was launched for the first time in December 2020. In April 2022, the government launched 'Istisna Sukuk' bonds to finance a rural infrastructure development project. With this latest tranche of Tk. 50 billion, the total Sukuk bond issuance has reached at Tk. 180 billion. The authorities are planning to continue issuing these Sukuk bonds.

4. The yields on government securities have risen since March 2022. Tight financial conditions, including from policy rate hikes and unsterilized FX sales that followed a sharp depreciation of the Taka, led to a sharp increase in yields on government securities. Reflecting the interest rate caps, an increase in interest rates at the short end of the yield curve outpaced the long end (Text Figure 2). Net domestic borrowing of the central government increased by 41.8 percent in Q1 of FY23, compared to the same period in FY22, primarily stemming from higher net borrowing from banks. Meanwhile, net borrowing from non-bank declined by 62 percent, with the sales of NSCs declining by 19 percent.

Text Figure 2. Bangladesh: Government T-Bill and T-Bond Rates

(In percent)



Source: Bangladesh Bank.

[4] NSCs were introduced in the subcontinent in 1944 by the National Savings Institute of the Ministry of Finance of India. The intent was to promote savings among the population and finance the government's budget deficit. Currently, the Department of National Savings under the Bangladesh Ministry of Finance issues NSCs.

[5] Effective FY20, the authorities digitized the issuance of NSCs and linked it to the purchasers' tax identification number to enforce the existing cap on their issuance and increased the tax on interest income from 5 to 10 percent. This resulted in a decline in NSC issuance in FY20 by around 70 percent compared to FY19. NSC issuance in FY21 rebounded driven by the exceptional remittance inflows and the increase in the spread between the deposit rate and the NSC rate.

5. External PPG debt stood at US$72.3 billion in FY22, around 17 percent of GDP. External PPG debt is predominantly owed by the central government to multilateral and bilateral creditors, at about 48 percent and 30 percent of outstanding external PPG debt respectively, with the rest being short-term and guaranteed SOE debt. External medium- and long-term (MLT) PPG debt, mostly concessional, has helped finance infrastructure projects and is expected to jump in FY23 due to large Taka depreciation, before gradually declining to around 14.1 percent of GDP by FY33 and 8.6 percent of GDP by FY43.[6] This decline is mainly driven by a gradual reduction in concessional financing beyond FY26, while financing from bilateral donors is expected to continue to increase, partially offsetting the lower concessional financing. Private sector debt has increased to around 5.4 percent of GDP in FY22, primarily driven by an increase in short term trade credit and cross-border interbank lending to cope with rising FX demand for rising import bills.[7] Overall public debt-to-GDP (39 percent in FY22) is expected to increase moderately to around 42.1 percent by FY33.

B. Debt Coverage

6. Debt coverage used for the analysis appropriately captures Bangladesh's debt vulnerabilities.[8] The DSA covers the full stock of public debt issued by the central government, as well as debt issued by SOEs and guaranteed by the central government. IMF budget support is included in the public debt, which is provided to the Bangladesh Bank (BB) and then on lent to the central government. Local governments are not allowed to borrow and are excluded from the analysis. The authorities are working to standardize the reporting of SOE debt to cover non-guaranteed debt. This DSA is prepared on a currency basis as data are not available for the residency basis. The difference between the two definitions should not materially affect the assessment.

C. Macroeconomic and Financing Assumptions

7. The macroeconomic assumptions underlying this DSA are as follows (Text Table 3):

- **Growth and inflation.** The Russian invasion of Ukraine interrupted the robust recovery from the pandemic. High global commodity prices and associated elevated inflation, slowdown in external demand, and policies to compress domestic demand suggest a subdued near-term growth outlook, compared to the previous DSA. Real GDP growth is projected to pick up to 6.5 percent in FY24. Inflation has risen above 9 percent in the first half of FY23, driven by domestic fuel price hike, pass-through from large Taka depreciations and elevated global commodity prices, and is expected to gradually decline to 8.1 percent at the end of FY23 (with

[6] The large increase in this debt in FY23 is due to large Taka depreciations (around 21 percent by December 2022).

[7] Trade credits include the difference between the customs record and the actual transaction record, which are settled in the short term.

[8] Based on the authorities' data, non-guaranteed SOE debt (outside debt coverage) is assessed to be lower than 2 percent of GDP (informing the calibrations of the contingent liability shock) and does not represent a fiscal risk based on the information available.

Text Table 2. Bangladesh: Debt Coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

		Default		Used for the analysis
1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0
4	PPP	35	percent of PPP stock	0.0
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0
	Total (2+3+4+5) (in percent of GDP)			7.0

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

average FY23 inflation of 8.9 percent). Inflation is expected to further moderate over the medium and long term, staying anchored around 5.5 percent. External debt dynamics under the baseline are favorable under a projected medium to long-term growth rate of around 6.5–7 percent and an effective nominal interest rate of new external borrowing around 4.0 percent. An increase in interest payments in FY23 reflects the recent increase in benchmark interest rates (LIBOR and SOFR). In the long run, investment and productivity enhancements are assumed to play a critical role in driving growth. Exports as a share of GDP is assumed to moderate due to the impact of LDC graduation keeping growth in the long term lower than in the medium term. Downside risks to growth could arise from larger spillovers from The Russian invasion of Ukraine, including elevated global commodity prices, slowdown in major trading partners, slow implementation of macro critical structural reforms to boost productivity and exports, large currency depreciation with rising debt servicing costs without matching increases in domestic revenues, and elevated non-performing loans (NPLs).

- **Fiscal policy.** The primary fiscal balance is projected to be weaker over the medium term than in the previous DSA. The primary fiscal deficit is projected to peak at 3.8 percent of GDP in FY23—due to an increase in subsidy expenses owing to higher commodity prices— before declining to 3.3 percent of GDP between FY24 and FY26. The authorities are committed to maintaining an overall fiscal deficit broadly within 5 percent of GDP. Under the IMF program, stepped up efforts to mobilize fiscal revenues are expected to raise the revenue-to-GDP ratio by 1.5 percentage points by FY26. The additional revenues could support increasing much-needed expenditure on social, development, and climate projects.[9]

- **Current account (CA) dynamics.** The CA deficit widened substantially in FY22, due to worsening terms of trade and a strong rebound in imports. Remittance inflows, as expected, declined by 15 percent (y/y) in FY22 and reverted to pre-pandemic levels. This decline partly reflects a shift back to the use of informal channel as COVID-related travel restrictions were relaxed. The 2 percent incentive scheme introduced by the authorities in July 2019, to attract remittances through formal channels, was further increased to 2.5 percent in January 2022. A surge in import demand—reflecting strong domestic demand and export-related imports and rising global commodity prices, accompanied by declining remittance inflows, has exerted significant pressures on the Taka and FX reserves. To ease such pressures, a wide range of measures have been taken to reduce imports and compress domestic demand. Specifically, BB gradually tightened the minimum requirement of cash margin for payment by bank deposits on selected non-essential imports.[10] As a result, the CA deficit is expected to contract to around 3.2 percent of GDP in FY23. From FY24 onwards, the CA deficit is expected to increase, as external financing under an IMF program ease the financing constraints, thus helping normalize imports. In the medium to long term, the CA deficit is expected to gradually decline to around 2.5 percent of GDP, as non-RMG exports gain market share, due to structural reforms, trade facilitation, infrastructure development, and skill enhancement, as well as continued contributions from remittances.

- **Financing assumptions.** Gross public financing need is projected to stabilize around 10 percent of GDP by FY33. Reserves will be boosted by additional disbursements under an IMF program, as well as from the World Bank and other development partners.[11] Reserve coverage is expected to stabilize around 4 months of prospective import coverage by FY26. Compared to the previous DSA, the concessionality of debt is expected to increase in the short run reflecting additional disbursements. However, they are projected to decline over the medium term, as Bangladesh graduates from the LDC status and income levels rise. Despite higher external borrowing in the near-term, the current DSA projects shift to domestic financing in the long-term. Multilateral donor financing is projected to contribute to around 60 percent of total external financing in the near term, and gradually decline to 45 percent by FY43, at an interest rate of around 2 percent. The remainder of the external financing is assumed to come from bilateral donors, with an interest rate of around 2 percent. Cost of domestic debt is assumed to

[9] Macro-fiscal assumptions under the baseline scenario for the DSA include the authorities' climate spending of around 0.6-0.7 percent of GDP in line with historical spending profile, as well as additional climate investment of 0.3-0.8 percent of GDP annually supported by RSF and other financing catalyzed through development partners. The RSF disbursements would help reduce the present value of debt and debt servicing burdens by substituting for more expensive domestic debt. The authorities do not intend to undertake additional climate-related spending, beyond what is already included in the baseline DSA, that would jeopardize risks to public and publicly guaranteed debt sustainability.

[10] The authorities' preliminary estimates suggest these restrictions apply to about 10 percent of total imports.

[11] As noted in the previous DSA, the recent SDR allocation of US$1.457 billion (0.4 percent of GDP) was used to bolster the reserves.

vary from 3½ percent for T-bills, 7 percent for domestic debt with maturity of 1–3 year, 9 percent for domestic debt with maturity above 3 years and up to 7 years, and 10.5 percent for domestic debt with maturity above 7 years. The cost of domestic debt for 1 year and above is higher than the corresponding T-bond rates, reflecting the reliance on NSC financing with above-market interest rates. The debt is assumed to be skewed toward T-bonds, with the share of T-bonds issuance with 4-year and above maturity increasing from 50 percent in the medium-term to 75 percent by FY43. The assumptions on the share are slightly more skewed towards long-term debt than the previous DSA, and interest rates are expected to be lower as the reliance on NSC issuance decreases, domestic bond market develops and monetary policy reforms take hold.[12]

8. **Unexpected changes to debt have been small (Figures 3 and 4).** Historically, PPG external debt has been driven by favorable growth and a positive CA balance. The historical residual is high due to infrastructure related increases in external debt occurring at the same time that growth was strong and the CA was in surplus. Looking forward, the residual declines due to a slowdown in short-term flows.

Text Table 3. Bangladesh: Macroeconomic Assumptions 1/

	FY21	FY22	FY23	FY24	FY25	FY26	FY27
		Est.			Proj.		
Real GDP growth							
Current DSA	6.9	7.2	5.5	6.5	7.1	7.3	7.4
Previous DSA	5.0	6.6	7.1	7.2	7.2	7.1	6.9
Inflation							
Current	5.6	6.1	8.9	6.5	5.6	5.5	5.5
Previous DSA	5.6	5.9	5.8	5.6	5.5	5.5	5.5
Primary fiscal balance (in percent of GDP) 2/							
Current	-1.6	-2.1	-3.8	-3.3	-3.3	-3.3	-3.3
Previous DSA	-3.5	-1.9	-3.6	-3.0	-2.7	-2.3	-2.2
Current account deficit (in percent of GDP)							
Current	-1.1	-4.1	-3.2	-4.2	-3.5	-3.0	-3.0
Previous DSA	-1.7	-1.3	-2.4	-2.6	-2.5	-2.5	-2.5

1/ Previous DSA refers to the 2022 Joint DSA published in March 2022.
2/ Primary fiscal balance includes the grants. The difference in historical data are caused by GDP rebasing.

9. **Realism tools suggest that the macroeconomic projections are consistent with the experience of LICs (Figure 4).** The 3-year adjustment in the primary balance is below the median of the sample of 3-year fiscal adjustments for LICs since 1990 that were under an IMF supported program. The growth projections are explained only partially by the fiscal multiplier applied to the fiscal deficit, especially in FY23. This suggests that growth is determined also by other factors such as temporary domestic demand management to reduce imports and domestic energy consumptions. There is high uncertainty of long-term growth projections and, consequently the real GDP growth could be in the range of 6.5 to 7 percent.[13] Public and private investment plans are

[12] For external debt, the credit terms for IDA borrowing has changed to IDA Blend, from IDA Regular in the previous DSA, reflecting the change in Bangladesh's status to Gap.

[13] Additional analysis suggests that long-term growth at the lower-end of 6.5 percent does not change external and overall debt risk ratings.

above historical projections in nominal values, but less in percent of GDP due to higher GDP following the rebasing exercise.

D. Country Classification and Determination of Scenario Stress Tests

10. The debt carrying capacity measure by the Composite Index (CI) for Bangladesh remains medium, based on the October 2022 IMF's World Economic Outlook (WEO) and the 2021 World Bank's Country Policy and Institutional Assessment (CPIA). The CI is based on a weighted average of several factors such as the country's real GDP growth, remittances, international reserves, world growth, and the World Bank CPIA score. The CI is calculated for the last two WEO vintages, in this case the April 2022 and October 2021 WEO, and uses 10-year averages of the variables, with 5 years of historical data and 5 years of projections. The threshold for a medium classification is a CI score above 2.69 and below 3.05. The threshold for the overall debt carrying is 55 percent of GDP. The threshold for the PV of external debt-to-GDP ratio is 40 percent (Text Table 4).

Text Table 4. Bangladesh: Country Classification

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.88	Medium 2.93	Medium 2.94

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

11. The calibration of stress tests is broadly similar to the previous DSA. The calibrations of the contingent liability shock is based on the default values for the SOE debt (2 percent of GDP) and financial market component (5 percent of GDP) since they are sufficient to represent potential fiscal risks. A natural disaster stress test was also applied, calibrated at the default setting of a one-time 10 percent of GDP shock to the external debt-to-GDP ratio.[14] The default setting to calibrate for the

[14] A World Bank (2016) study, Bangladesh: Building Resilience to Climate Change, estimated that that with a per capita GDP of about US$1,220, the economic losses in Bangladesh over the past 40 years were an about $12 billion, depressing GDP annually by 0.5 to 1 percent.

export shock could exaggerate the adverse impact, as the standard deviation (SD) of export growth over the past 10 years is much higher at 12½ due to the large fluctuation of exports under a series of external shocks since the pandemic, in contrast to the SD of 4½ over 2012–2019.

E. External Debt Sustainability

12. **All external debt indicators remain below their respective thresholds under the baseline (Figure 1).** External PPG debt-to-GDP ratio are expected to settle at around 8.6 percent by FY43. The most extreme shock to the PV of external PPG debt-to-GDP ratio is a one-time depreciation shock. Due to large Taka depreciation in FY23 (around 21 percent year to date), the PVs of debt-to-exports and debt service-to-exports ratios are at a higher level in FY23 compared to the previous DSA. The PV of debt-to-exports breaches the threshold under the most extreme shock, an export shock. However, this temporary two-year breach (starting in 2025) of low magnitude is discounted via judgement, in which the breach is driven by large export fluctuations during the pandemic and the post-pandemic recovery periods.[15] Both debt service-to-exports and debt service-to-revenue ratios are on a declining trend and remain under the threshold under the most extreme shock of an export shock and a one-time depreciation shock respectively. Nevertheless, given the low share of external debt in financing mix, the projected increase in total debt service-to-revenue ratio could raise external debt rollover risks.

F. Public Debt Sustainability

13. **Overall public debt indicators suggest a low overall risk of debt distress (Figure 2).** The PV of total public debt-to-GDP (higher compared to the previous DSA) is below its indicative threshold. The largest shock to this indicator is the natural disaster shock. The shock is kept at default calibrations and is equivalent to a one-time 10 percent of GDP shock. Indicators in percent of revenues are on a rising trend, with debt service-to-revenue ratio increasing from 48.2 percent in FY23 to 65.8 percent in FY33, thus further highlighting the importance of raising the revenue-to-GDP ratio. Increasing the revenue-to-GDP ratio beyond the program period will be critical in providing non-debt financing to growth-enhancing and climate-resilient infrastructure projects. Reforms to improve investment climate remain crucial for attracting FDI.

G. Assessment

14. **Bangladesh has a low risk of external and overall debt distress.** All but one external debt indicators are below their corresponding thresholds under the most extreme shock, despite an initial increase due to large Taka depreciation in FY22 and FY23. The PV of debt-to-exports breaches the threshold under the most extreme shock to exports. However, a short-lived and small breach, as well as favorable debt dynamics with declining external debt-to-GDP ratio path, supports the use of judgment and deviation from mechanical rating. The PV of overall public debt-to-GDP is also below

[15] Specifically, the breach is driven by how the sharp rebound in exports in FY22 affect standard deviation of export growth. Sensitivity analyses, with different standard deviations of export growth (i.e. standard deviation excluding just FY22 or the post-pandemic period or both pandemic and post-pandemic periods), confirm that the PV of debt-to-exports remain below the threshold under an export shock.

its indicative threshold and is projected to gradually increase to around 42.1 percent of GDP in the long term (FY33), reflecting increasing reliance on less concessional local financing. The increasing debt service to revenue ratio highlights the urgency of mobilizing tax revenue to support much-needed spending to achieve pro-poor, green growth recovery. Development of domestic debt and capital markets is an important component of the IMF program. Reforms to attract FDI, increase domestic revenue mobilization, enhance public investment management, build institutional capacity for public private partnerships, strengthen the financial sector including addressing banking sector vulnerabilities, and develop local capital market, and improve debt management remain essential to support much needed capital investments to support long-term growth. Improving investment climate to attract FDIs and promote investment remains high priority for boosting potential growth. Currently, multiple IDA projects are supporting adaptive delta management and climate resilience building.[16] RSF financing under the IMF program would also help finance priorities identified in the Bangladesh Delta Plan (BDP2100) and the National Adaptation Plan (NAP), crowd in other financing, substitute for more expensive domestic financing, improve public debt dynamics, and reduce BoP pressures from import-intensive climate investment.

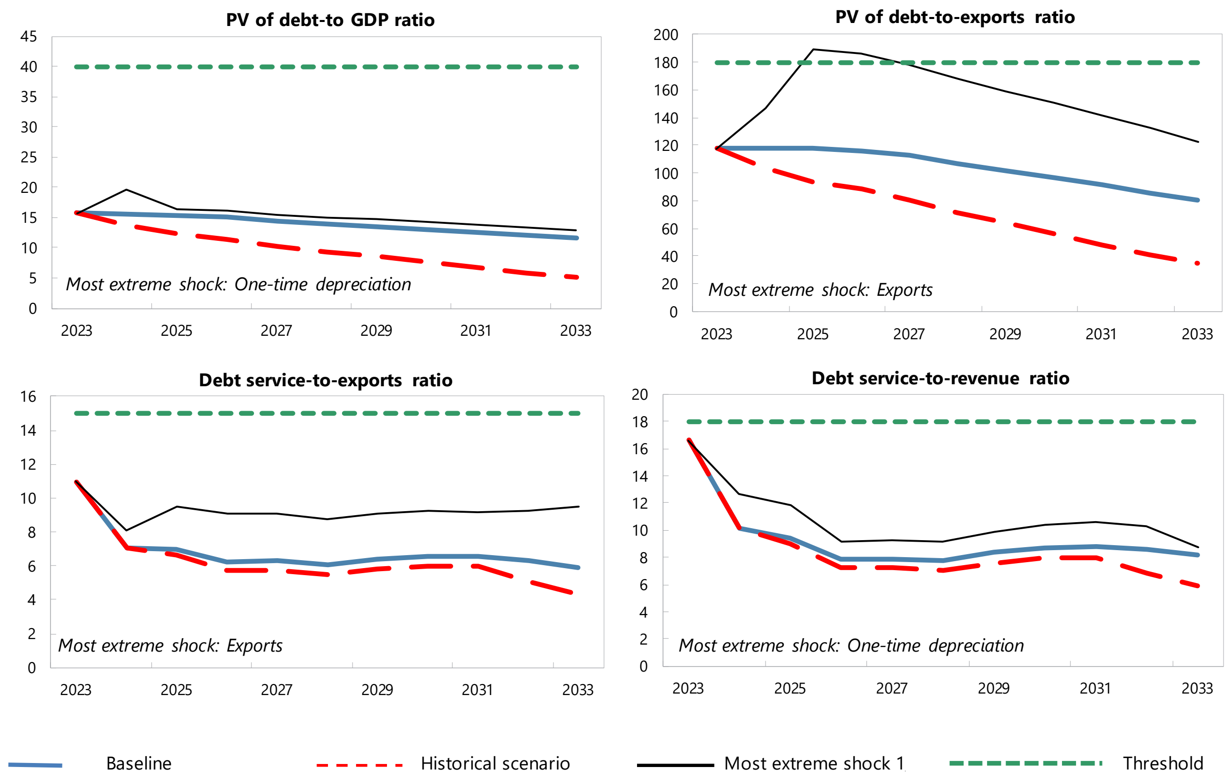
H. Authorities' Views

15. The authorities agreed that the risk of external debt distress and overall risk of debt distress remain low. They remained cautious about contracting external debt, especially commercial debt, and reiterated that there are no plans to issue Eurobonds. They acknowledged that access to concessional financing will gradually decline, as they proceed toward upper middle-income status. The authorities reiterated their concern about lowering of the debt carrying capacity in the previous DSA mostly due to the change in CPIA score. They noted that, while the public debt includes guaranteed debt held by the SOEs, the analysis does not consider the revenues generated by those entities. The authorities noted that they have published the updated Medium-Term Debt Strategy in FY22. They underscored that several reforms underway, including domestic revenue mobilization, public financial management, and public debt management, will help improve the debt dynamic and ensure fiscal and debt sustainability.

[16] See, Bangladesh Country Climate and Development Report, for details. World Bank Group. 2022. Bangladesh Country Climate and Development Report. CCDR Series;. World Bank Group, Washington, DC. © World Bank Group. https://openknowledge.worldbank.org/handle/10986/38181 License: CC BY-NC-ND.

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt, FY23–FY33[1/]

(In percent, unless otherwise mentioned)



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	7	7

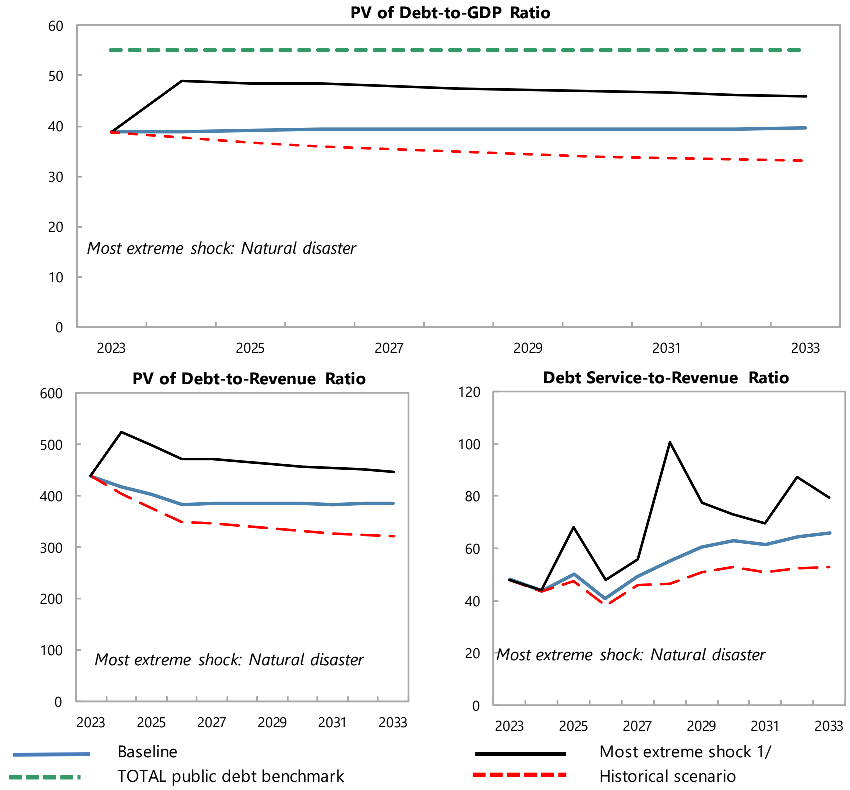
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
department.

Figure 2. Bangladesh: Indicators of Public Debt, FY23–FY33[1/]

(In percent)



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	23%	23%
Domestic medium and long-term	63%	63%
Domestic short-term	13%	13%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.2%	2.2%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	-1.6%	-1.6%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

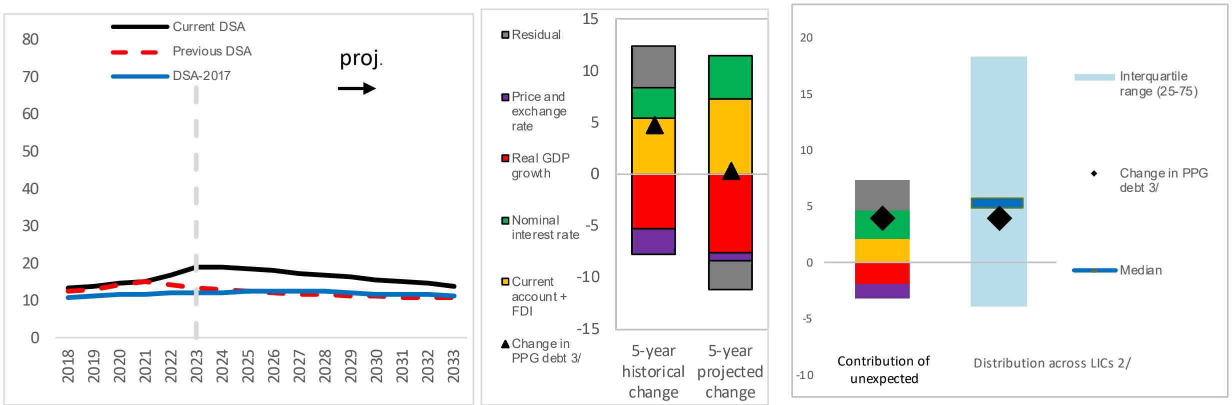
Figure 3. Bangladesh: Drivers of Debt Dynamics – Baseline Scenario

External Debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages)

Debt-creating flows (percent of GDP)

Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)

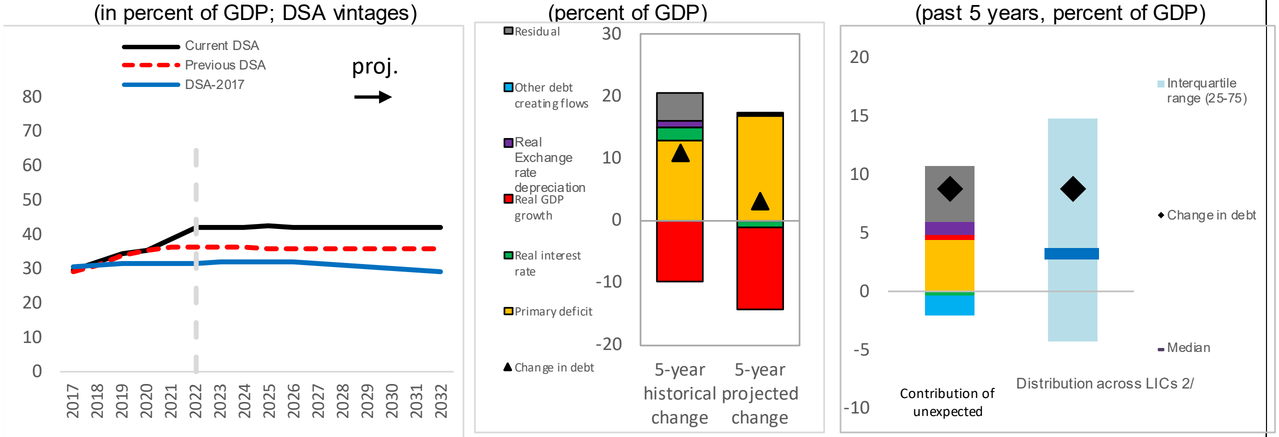


Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages)

Debt-creating flows (percent of GDP)

Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



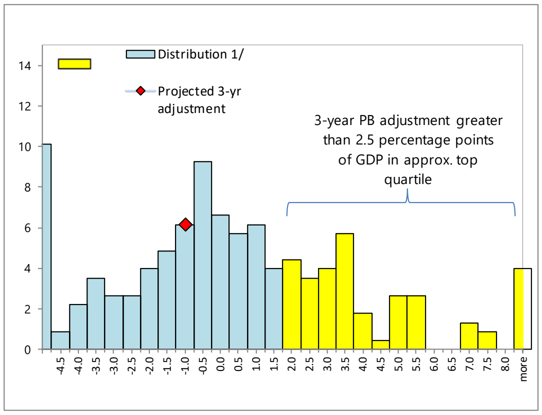
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

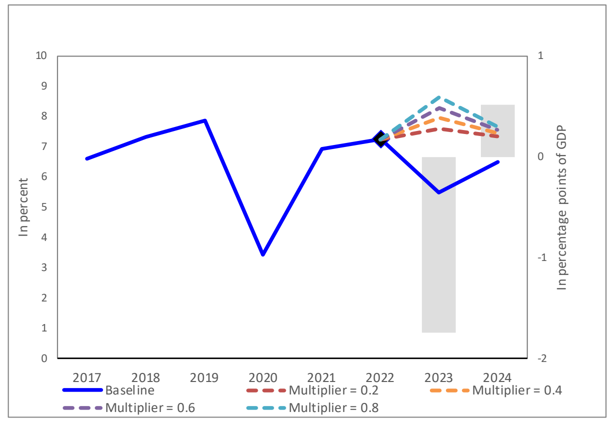
Figure 4. Bangladesh: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



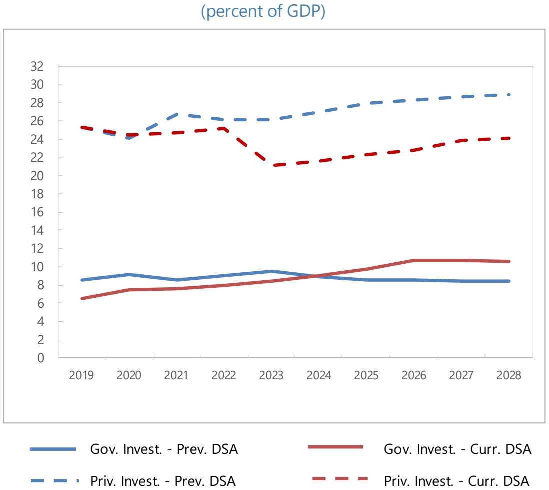
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

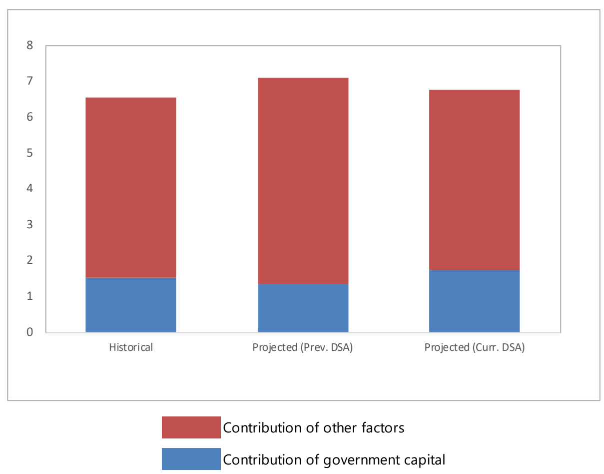
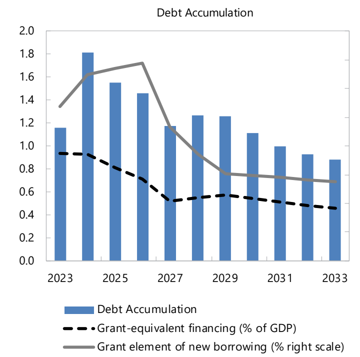


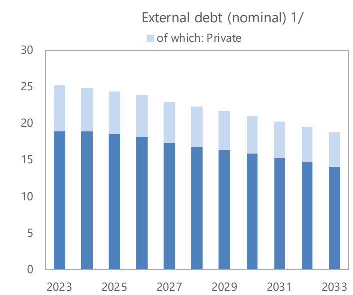
Table 2. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, FY20–FY43 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	18.4	19.6	22.4	25.2	24.8	24.3	23.8	22.9	22.3	18.8	11.5	17.2	22.2
of which: public and publicly guaranteed (PPG)	14.6	15.1	17.0	18.9	19.0	18.6	18.1	17.3	16.8	14.1	8.6	13.7	16.8
Change in external debt	0.5	1.2	2.8	2.8	-0.4	-0.5	-0.5	-0.9	-0.6	-0.8	-0.6		
Identified net debt-creating flows	0.0	-1.1	1.7	1.2	1.8	0.8	0.1	0.1	0.2	0.4	0.5	-1.6	0.5
Non-interest current account deficit	0.9	0.6	3.5	2.3	3.4	2.7	2.2	2.1	2.0	2.0	2.0	0.2	2.3
Deficit in balance of goods and services	5.7	6.4	8.1	7.6	8.4	7.5	6.7	6.4	6.1	5.1	3.7	5.6	6.4
Exports	10.4	10.7	12.9	13.3	13.3	13.1	12.9	12.8	13.1	14.2	15.7		
Imports	16.0	17.1	20.9	20.9	21.7	20.6	19.6	19.2	19.1	19.3	19.4		
Net current transfers (negative = inflow)	-5.0	-6.1	-4.7	-5.3	-5.1	-4.8	-4.5	-4.2	-3.9	-2.8	-1.5	-5.8	-4.0
of which: official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	0.2	0.2	0.1	0.0	0.0	0.1	0.0	0.0	-0.1	-0.2	-0.2	0.4	-0.1
Net FDI (negative = inflow)	-0.3	-0.3	-0.5	-0.7	-1.0	-1.2	-1.3	-1.3	-1.2	-1.2	-1.2	-0.6	-1.2
Endogenous debt dynamics 2/	-0.5	-1.3	-1.3	-0.4	-0.6	-0.8	-0.8	-0.7	-0.6	-0.5	-0.3		
Contribution from nominal interest rate	0.6	0.5	0.6	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.5		
Contribution from real GDP growth	-0.6	-1.1	-1.3	-1.4	-1.5	-1.6	-1.6	-1.6	-1.4	-1.2	-0.8		
Contribution from price and exchange rate changes	-0.5	-0.7	-0.6	...	...	...	...	...	...	...	...		
Residual 3/	0.4	2.3	1.1	1.6	-2.2	-1.3	-0.6	-1.0	-0.8	-1.2	-1.2	2.2	-0.9
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	13.1	15.7	15.7	15.4	15.0	14.4	13.9	11.5	6.7		
PV of PPG external debt-to-exports ratio	...	...	102.2	117.6	117.8	117.4	116.1	112.3	106.7	80.8	42.6		
PPG debt service-to-exports ratio	6.8	6.3	5.1	10.9	7.0	6.9	6.2	6.3	6.1	5.9	4.0		
PPG debt service-to-revenue ratio	8.5	7.2	7.6	16.6	10.1	9.4	7.9	7.9	7.8	8.2	6.0		
Gross external financing need (Million of U.S. dollars)	18964.2	16951.5	34980.2	37102.8	38335.4	35786.5	34065.6	37304.1	40508.1	63667.8	148890.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.4	6.9	7.2	5.5	6.5	7.1	7.3	7.4	7.0	7.0	7.0	6.5	6.9
GDP deflator in US dollar terms (change in percent)	2.9	4.1	3.2	-13.5	4.8	4.5	4.5	4.9	4.8	4.9	5.1	4.4	3.1
Effective interest rate (percent) 4/	3.5	3.3	3.4	3.8	3.7	3.6	3.7	3.9	4.0	4.3	4.3	3.0	4.0
Growth of exports of G&S (US dollar terms, in percent)	-16.9	14.2	33.6	-5.5	11.4	10.3	10.7	11.5	14.6	14.1	13.1	9.0	11.2
Growth of imports of G&S (US dollar terms, in percent)	-8.8	18.6	35.5	-8.9	16.1	6.0	7.0	10.1	11.8	12.4	12.4	10.1	9.5
Grant element of new public sector borrowing (in percent)	...	...	...	30.7	31.2	31.3	31.4	30.3	29.9	29.4	29.0	...	30.2
Government revenues (excluding grants, in percent of GDP)	8.4	9.3	8.7	8.8	9.2	9.6	10.2	10.2	10.2	10.3	10.3	8.5	10.0
Aid flows (in Million of US dollars) 5/	7298	6949	11591	2417	3071	3126	2883	1750	1750	1750	1754		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.9	0.9	0.8	0.7	0.5	0.6	0.5	0.3	...	0.6
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	32.2	33.6	34.1	33.6	30.6	30.1	29.6	29.1	...	31.1
Nominal GDP (Million of US dollars)	373,902	416,265	460,751	420,516	469,346	525,290	589,000	663,597	744,067	1,319,948	4,228,134		
Nominal dollar GDP growth	6.5	11.3	10.7	-8.7	11.6	11.9	12.1	12.7	12.1	12.2	12.4	11.2	10.2
Memorandum items:													
PV of external debt 7/	...	...	18.6	21.9	21.5	21.1	20.7	20.0	19.4	16.2	9.7		
In percent of exports	...	...	144.3	164.8	161.9	161.0	160.1	156.0	148.6	113.7	61.4		
Total external debt service-to-exports ratio	38.3	33.2	32.1	50.6	43.3	39.9	38.1	37.3	35.4	28.0	17.1		
PV of PPG external debt (in Million of US dollars)			60504	65850	73481	80746	88411	95349	103740	151759	283271		
(PVt-PVt-1)/GDPt-1 (in percent)				1.2	1.8	1.5	1.5	1.2	1.3	0.9	0.4		
Non-interest current account deficit that stabilizes debt ratio	0.4	-0.7	0.6	-0.5	3.8	3.3	2.7	3.1	2.7	2.8	2.6		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

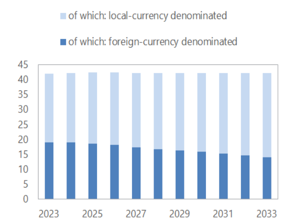
Table 3. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, FY20–FY43

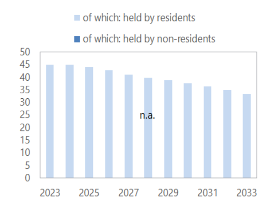
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	34.5	35.6	39.0	42.1	42.2	42.3	42.5	42.3	42.2	42.1	42.1	31.2	42.2
of which: external debt	14.6	15.1	17.0	18.9	19.0	18.6	18.1	17.3	16.8	14.1	8.6	13.7	16.8
Change in public sector debt	2.6	1.1	3.4	3.0	0.2	0.1	0.1	-0.2	-0.1	0.0	0.0		
Identified debt-creating flows	1.9	0.1	0.8	1.0	0.6	0.5	0.5	0.3	0.3	0.4	0.3	0.6	0.5
Primary deficit	3.0	1.6	2.1	3.8	3.3	3.3	3.3	3.3	3.1	2.9	2.6	2.1	3.2
Revenue and grants	8.5	9.4	8.7	8.8	9.3	9.7	10.3	10.2	10.2	10.3	10.3	8.7	10.0
of which: grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	11.5	11.0	10.8	12.7	12.6	13.0	13.6	13.5	13.3	13.2	12.9	10.7	13.2
Automatic debt dynamics	-1.1	-1.5	-1.2	-2.8	-2.7	-2.8	-2.8	-3.0	-2.8	-2.6	-2.3		
Contribution from interest rate/growth differential	-0.9	-1.3	-2.8	-2.8	-2.7	-2.8	-2.8	-3.0	-2.8	-2.6	-2.3		
of which: contribution from average real interest rate	0.2	1.0	-0.4	-0.8	-0.1	0.0	0.0	-0.1	0.0	0.2	0.4		
of which: contribution from real GDP growth	-1.1	-2.2	-2.4	-2.0	-2.6	-2.8	-2.9	-2.9	-2.8	-2.8	-2.8		
Contribution from real exchange rate depreciation	-0.3	-0.3	1.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.7	1.0	2.6	2.1	-0.4	-0.4	-0.3	-0.5	-0.4	-0.4	-0.2	0.4	-0.2
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	36.3	38.8	38.9	39.1	39.3	39.3	39.3	39.5	40.3		
PV of public debt-to-revenue and grants ratio	...	...	415.6	438.7	417.3	401.9	383.4	385.7	385.9	384.9	390.7		
Debt service-to-revenue and grants ratio 3/	61.1	82.0	52.0	48.2	43.7	50.0	40.9	49.2	55.0	65.8	75.9		
Gross financing need 4/	8.7	9.6	7.1	8.1	7.4	8.2	7.5	8.3	8.7	9.7	10.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.4	6.9	7.2	5.5	6.5	7.1	7.3	7.4	7.0	7.0	7.0	6.5	6.9
Average nominal interest rate on external debt (in percent)	1.6	1.5	1.4	1.9	1.6	1.6	1.8	2.0	2.1	2.4	2.3	1.5	2.0
Average real interest rate on domestic debt (in percent)	0.9	5.7	1.4	-1.1	-0.6	0.1	0.3	-0.3	0.0	0.6	1.3	4.6	0.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.9	-2.0	11.5	...	...	...	...	...	...	...	...	-1.6	...
Inflation rate (GDP deflator, in percent)	3.8	4.1	5.0	5.2	4.8	4.5	4.5	5.4	5.3	5.4	5.6	5.3	5.1
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	2.3	5.6	23.7	6.2	10.5	11.7	6.8	5.5	6.7	7.1	7.3	9.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.4	0.5	-1.4	0.8	3.1	3.2	3.2	3.5	3.2	3.0	2.6	-0.1	2.9
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, central bank, government-guaranteed debt . Definition of external debt is Currency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 4. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, FY23–FY33

(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	16	16	15	15	14	14	14	13	13	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	16	14	12	11	10	9	9	8	7	6	5
B. Bound Tests											
B1. Real GDP growth	16	16	16	16	15	14	14	14	13	12	12
B2. Primary balance	16	16	16	15	15	14	14	13	13	12	12
B3. Exports	16	17	19	18	17	17	16	16	15	14	13
B4. Other flows 3/	16	17	18	17	17	16	16	15	14	14	13
B5. Depreciation	16	20	16	16	15	15	15	14	14	13	13
B6. Combination of B1-B5	16	18	18	18	17	16	16	15	14	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	16	17	17	16	16	15	15	15	14	14	13
C2. Natural disaster	16	18	17	17	16	16	16	16	15	15	14
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	118	118	117	116	112	107	102	97	91	86	81
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	118	104	94	88	80	72	64	56	48	41	35
B. Bound Tests											
B1. Real GDP growth	118	118	117	116	112	107	102	97	91	86	81
B2. Primary balance	118	119	120	118	115	109	105	99	94	89	83
B3. Exports	118	147	**189**	**186**	179	168	159	150	141	132	123
B4. Other flows 3/	118	128	137	135	130	123	116	110	103	97	90
B5. Depreciation	118	118	99	99	96	92	88	84	80	76	72
B6. Combination of B1-B5	118	142	130	149	144	136	129	122	115	108	101
C. Tailored Tests											
C1. Combined contingent liabilities	118	126	127	125	121	119	113	108	102	97	92
C2. Natural disaster	118	134	135	134	130	128	123	118	111	107	102
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	11	7	7	6	6	6	6	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	11	7	7	6	6	5	6	6	6	5	4
B. Bound Tests											
B1. Real GDP growth	11	7	7	6	6	6	6	7	7	6	6
B2. Primary balance	11	7	7	6	6	6	6	7	7	6	6
B3. Exports	11	8	9	9	9	9	9	9	9	9	9
B4. Other flows 3/	11	7	7	7	7	6	7	7	7	7	7
B5. Depreciation	11	7	7	6	6	6	6	6	6	6	5
B6. Combination of B1-B5	11	8	8	8	8	7	8	8	8	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	11	7	7	6	7	6	7	7	7	7	6
C2. Natural disaster	11	7	7	7	7	7	7	7	7	7	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	17	10	9	8	8	8	8	9	9	9	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	17	10	9	7	7	7	8	8	8	7	6
B. Bound Tests											
B1. Real GDP growth	17	10	10	8	8	8	9	9	9	9	9
B2. Primary balance	17	10	9	8	8	8	8	9	9	9	8
B3. Exports	17	10	10	9	9	9	9	9	9	10	10
B4. Other flows 3/	17	10	10	9	8	8	9	9	9	9	10
B5. Depreciation	17	13	12	9	9	9	10	10	11	10	9
B6. Combination of B1-B5	17	11	10	9	9	9	9	10	10	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	17	10	10	8	8	8	9	9	9	9	9
C2. Natural disaster	17	10	10	8	8	8	9	9	9	9	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 5. Bangladesh: Sensitivity Analysis for Key Indicators for Public Debt, FY23–FY33
(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	39	39	39	39	39	39	39	39	39	40	40
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	39	38	37	36	35	35	34	34	34	33	33
B. Bound Tests											
B1. Real GDP growth	39	40	41	42	42	42	43	43	43	43	44
B2. Primary balance	39	40	41	41	41	41	41	40	40	40	40
B3. Exports	39	40	42	42	42	42	42	42	42	41	41
B4. Other flows 3/	39	40	42	42	42	41	41	41	41	41	41
B5. Depreciation	39	41	40	39	38	37	37	36	35	35	34
B6. Combination of B1-B5	39	38	38	38	38	38	38	38	38	38	38
C. Tailored Tests											
C1. Combined contingent liabilities	39	45	45	45	45	44	44	44	43	43	43
C2. Natural disaster	39	49	49	48	48	47	47	47	47	46	46
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	439	417	402	383	386	386	385	385	384	385	385
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	439	403	377	350	346	341	336	331	327	324	323
B. Bound Tests											
B1. Real GDP growth	439	427	422	406	411	414	416	418	419	422	424
B2. Primary balance	439	426	418	398	399	399	397	395	394	394	394
B3. Exports	439	431	437	414	414	412	409	407	405	404	401
B4. Other flows 3/	439	431	429	407	408	406	404	402	400	399	398
B5. Depreciation	439	439	409	381	374	366	359	352	345	340	335
B6. Combination of B1-B5	439	409	395	373	374	374	373	370	369	370	370
C. Tailored Tests											
C1. Combined contingent liabilities	439	487	464	439	438	434	429	426	423	421	418
C2. Natural disaster	439	524	499	472	471	465	461	457	453	451	448
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	48	44	50	41	49	55	60	63	62	64	66
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	48	43	48	38	46	47	51	53	51	52	53
B. Bound Tests											
B1. Real GDP growth	48	44	52	43	52	59	66	69	68	71	73
B2. Primary balance	48	44	51	43	50	59	66	65	63	67	69
B3. Exports	48	44	50	42	50	56	61	64	62	65	68
B4. Other flows 3/	48	44	50	42	50	56	61	64	62	65	67
B5. Depreciation	48	42	50	40	48	53	57	61	60	62	63
B6. Combination of B1-B5	48	42	48	41	48	54	61	61	60	63	64
C. Tailored Tests											
C1. Combined contingent liabilities	48	44	62	45	53	86	71	68	66	79	73
C2. Natural disaster	48	44	68	48	56	100	77	73	70	88	79
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Statement by Krishnamurthy Subramanian, Executive Director for Bangladesh and Rajeev Jain, Advisor to Executive Director
January 30, 2023

On behalf of the Bangladeshi authorities, we thank the staff for their comprehensive report. Our authorities also appreciate their productive policy dialogue with the staff. They welcome their assessment and recommendations made in the context of their request for the Extended Arrangement Under the Extended Fund Facility, an Arrangement Under the Extended Credit Facility, and an Arrangement Under the Resilience and Sustainability Facility. We will focus our remarks on the macroeconomic outlook and major on-going policy reforms in the economy.

Post-pandemic macro-economic situation

The Bangladesh economy showed strong resilience and recorded positive, though modest, growth during the pandemic period. By prioritizing the infrastructure improvements to provide a clean and hygienic environment and ensuring the availability of appropriate materials and equipment for infection prevention and control, Bangladesh successfully mitigated the impact of COVID-19 on the economy. By end-December 2022, over 77 per cent of domestic population was fully vaccinated and 91 per cent vaccinated with at least one dose. The growth impact of the pandemic was, therefore, limited. In FY 2021-22 (July-June), domestic growth accelerated to 7.2 per cent from 6.9 per cent in FY 2020-21. Authorities recognize that the economy may grow at slower pace than the target set for FY2022-23 largely due to unfavorable external demand conditions on account of slower growth in advanced economies and weaker domestic demand. In its Monetary Policy Statement (January-June 2023), the Bangladesh Bank has projected domestic growth of 6.5 per cent in FY2022-23. Nevertheless, growth projections of various multilateral agencies including the IMF suggest that Bangladesh continues to be a bright spot among peer economies. Under Vision 2021, the authorities target to become an upper-middle-income country by 2031. Given Bangladesh's strong track record of reducing poverty and its commitment towards structural reforms, the objective is attainable.

Like other import dependent economies, Bangladesh faced higher inflation in 2022. The depreciation of the Bangladeshi Taka (BDT) and rising global prices impacted prices of imported items including food, fuel, fertilizer, and other commodities. Moreover, flash floods led to losses in domestic agriculture production and supplies, adding to inflationary pressures. However, inflation has come off its peak of 9.5 per cent in August 2022 to 8.7 per cent in December 2022. Authorities expect inflation to ease further due to declining international commodity prices and a better harvest expected in the next two seasons. The Bangladesh Bank places the ceiling for headline inflation at 7.5 per cent for FY 2022-23. As inflationary pressures warranted domestic monetary conditions to be tightened, the Bangladesh Bank hiked the repo rate by 125 basis points since May 2022. It also undertook unsterilized interventions in the foreign exchange market to reduce liquidity in the banking system. Going forward, the Bangladesh Bank has indicated that it will pursue a cautiously accommodative policy keeping in view the challenges relating to inflation, pressure on the exchange rate and the need to support growth by ensuring adequate flow of funds to productive sectors of the economy.

Global headwinds and other domestic factors have impacted fiscal and external imbalances. Fiscal deficit is projected to increase in FY 2022-23 largely on higher expenditure due to subsidies and reconstruction costs related to natural disasters. However, authorities intend to mobilize greater revenue through various measures going forward.

Exogenous shocks have heightened country's external vulnerabilities as well. Bangladesh's balance of payments came under stress in FY 2021-22 amid a sharp rise in imports relative to exports and a fall in remittances, which together led to more than four-fold increase in the current account deficit (CAD). Even though net inflows under the financial account were broadly resilient, they were inadequate to finance sharply higher CAD. Therefore, foreign exchange reserves depleted by US$7.4 billion in FY 2021-22 (in nominal terms). Despite global headwinds persisting, CAD has been modest in FY 2022-23 so far (July-November) when compared to its level a year ago. Trade credit related repayment pressures, however, led to net capital outflows from the economy. This warranted further withdrawal of reserves of the order of US$6.4 billion during the period. Despite narrowing of the trade deficit in recent months, authorities expect the CAD to remain elevated in FY 2022-23 but modest as compared with FY 2021-22 (as also projected by staff in its Report). Nevertheless, authorities expect that CAD financing may remain a challenge in the period ahead as risks relating to elevated commodity prices, growth slowdown in trading partners, lower remittances, and tighter global financial conditions persist.

Structural and institutional reforms

Our authorities are strongly committed to structural and institutional reforms in various segments of the economy. Taking cognizance of the concentration in the export basket, they have undertaken various measures to diversify the country's export base. Export Policy 2021-2024 aims to create a business-friendly environment for achieving the export target of US$80 billion by FY 2023-24. Authorities are focusing on bilateral agreements with some trading partners and various Committees have been set up to explore the scope in this regard. The Regional Trade Agreement (RTA) Policy 2022 has been approved, which provides guidelines to negotiate, sign and implement trade treaty and aims to expand and diversify the export basket. The Policy also intends to widen the domestic manufacturing base and reduce excessive dependence on limited products. In due course, the RTA Policy 2022 is likely to augment country's capacity to pursue outward-integration strategies in a wide spectrum of areas, including trade in services, investment, trade facilitation, intellectual property, e-commerce and digital trade, employment and movement of natural persons, etc. The authorities recognize the need for reduction in tariff levels and non-tariff barriers to improve external competitiveness in various sectors. A concept note on national tariff policy (proposing a phased reduction) is being prepared, which is expected to be finalized soon. The Budget 2022-23 proposed to reduce taxes on export-focused products to make the "Made in Bangladesh" brand globally competitive.

The authorities are focusing on creating adequate fiscal space by gradually rationalizing subsidies and focusing public spending on development and the social sector. To enhance the revenue situation, they intend to eliminate less effective tax exemptions, simplify the tax rate structure to broaden the tax base, and enhance voluntary taxpayer compliance. All subsidies on petroleum products are proposed to be phased-out and a periodic formula-based price adjustment mechanism is planned for adoption. Similarly, electricity tariffs are proposed to be gradually adjusted to reduce the subsidy component. In fact, the authorities have already started taking steps in this direction. On January 12, 2023, authorities increased the average retail electricity price by 5 per cent and the demand charge for electricity for almost all types of consumers by up to 42 per cent. The gas prices for industries, power generation, hotels and restaurants are also being increased with effect from February 2023.

Our authorities are focusing on governance and institutional reforms as well. Various initiatives, including anti-corruption and preventative actions, are being adopted and executed in order to promote balanced development, to establish good governance, and to improve the delivery of public services. To improve market access and the bidding environment for public procurement, an electronic Government Procurement Portal (e-GP) has already been established in partnership with the World Bank. The e-GP system has enhanced integrity in public procurement. The key features of e-GP that ensure greater transparency include (i) online submission and evaluation of bids, approval, and award of contracts; (ii) reducing external influences; (iii) preserving all procurement documents and transactions online for audit purposes; (iv) validating bidders' information; and (v) online submission and tracking of complaints. Due to limited capacity of the Central Procurement Technical Unit (Ministry of Planning), there is a proposal to set up the Bangladesh Public Procurement Authority (BPPA) with enhanced authority and autonomy. The draft BPPA Act is under review.

Our authorities recognize that a sound financial sector is a pre-requisite to meet the growing financing needs of the economy and to make rapid progress towards the SDGs. The Bangladesh Bank is working to strengthen its supervision and monitoring of the banking sector. With IMF support, the coverage of financial soundness indicators is being expanded. Bangladesh Bank intends to release this data by 2023Q1. The Bank has also undertaken a broad range of policy initiatives that strengthen the domestic banking system. These include *inter alia* (i) the issuance of guidelines on country risk management and interest rate risk management for banks, (ii) revised guidelines on internal credit risk rating system for banks, and (iii) raising the leverage ratio norms for banks consistent with Basel III norms with effect from 2023. The Bangladesh Bank also intends to train 400 to 500 supervisors in next two years in the area of risk-based supervision.

Infrastructure and Climate Financing

Bangladesh is ranked seventh among the most climate vulnerable countries in the world, but its contribution to global warming is negligible. Authorities are well aware that the country is prone to frequent and erratic rainfall, which causes devastating floods, thereby disrupting lives and livelihoods. The Country Climate and Development Report on Bangladesh, released in October 2022, estimates an average annual loss of about US$1 billion (0.7 per cent of GDP) from tropical cyclones. Rising sea levels also pose a formidable challenge for agricultural production, water supplies, and coastal ecosystems. Due to climate variability and extreme events by 2050, one-third of agricultural GDP may be lost. Moreover, cropland may shrink by 18 percent in Southern Bangladesh and 6.5 percent nationally by 2040.

Recognizing the severity of climate related challenges for the country, authorities have been making sincere efforts to develop adaptation infrastructure in the country. They are trying to integrate issues pertaining to environment with the country's mainstream development policies to ensure economic growth and environmental sustainability. Bangladesh was the first least developed country to set up a Climate Change Trust Fund in 2010 for institutionalizing national climate finance. Furthermore, the Climate Fiscal Framework has been adopted since 2014 and Climate Change Budget Tagging has been operationalized in 2018. Bangladesh has also demonstrated success in disaster preparedness through functioning of initiatives such as the Cyclone Preparedness Programme (CPP) to substantially reduce deaths and damages from such natural disasters. As highlighted by Staff, while Bangladesh is in many ways at the forefront of preparing for climate change, more needs to be done**.**

While the primary focus of the policy is geared to adapt to substantial climate risks, Bangladesh has also mitigation commitments under the Paris Agreement. The authorities have already outlined priority areas for climate change adaptation and mitigation in national plans with a range of estimated annual financing requirements. However, they acknowledge that funding gap in public spending will fall short of the projected needs for climate adaptation and mitigation. Therefore, their climate related policy efforts need to be supplemented with private investment and external financing. Authorities fully agree with staff's assessment that the existing policy tools need to be complemented by institutional reforms, funding strategies, enabling macro and financial policies, as well as close coordination among institutions.

Summing up

In view of the ongoing stress in balance of payments due to external headwinds and climate related financing needs, our authorities have requested for IMF resources under the Extended Credit Facility (ECF), the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) to be disbursed over a 42-month period. The availability of IMF resources will provide a buffer against external shocks until domestic policy adjustments and reform measures take hold. Authorities are of the view that the supplementary arrangement of SDR 1,000 million (93.8 percent of quota) under the Resilience and Sustainability Facility (RSF) will help them pursue their climate related policy agenda more vigorously. Financing under the RSF will also complement reforms under the ECF/EFF by supporting the authorities' efforts in tackling climate change challenges and catalyzing additional climate finance from other official and private partners. We are sure that the authorities will leave no stone unturned in meeting the objectives of the Program, which is intended to raise saving and investment rates, strengthen the external position, and achieve broad-reaching, labor-intensive, and export-led growth. With due focus on reforms and priorities-based programmes in health, nutrition and population sector, Bangladesh achieved Millennium Development Goal (MDG) related to the health sector prior to the stipulated time and has made remarkable progress in reducing child and maternal mortality and increasing average life expectancy. These achievements are testimony to the authorities' efforts and commitment in pursuing the domestic reform agenda going forward.

Finally, on behalf of the Bangladeshi authorities, we again thank staff for their assessment and policy recommendations to accelerate reforms in the economy. Authorities also thank for Fund's capacity development initiatives for Bangladesh. We also thank Directors for providing their candid assessment on the Bangladesh economy. Directors’ favorable consideration of the authorities’ request for IMF resources will be highly appreciated.