INTERNATIONAL MONETARY FUND

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BANGLADESH

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2023 ARTICLE IV CONSULTATION, FIRST REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BANGLADESH

In the context of the Staff Report for the 2023 Article IV Consultation, First Reviews Under the Extended Credit Facility Arrangement, Arrangement Under the Extended Fund Facility, and the Resilience and Sustainability Facility Arrangement, Requests for a Waiver of Nonobservance of a Performance Criterion, and Modifications of Performance Criteria, 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 and summarizing the views of the Executive Board as expressed during its December 12, 2023 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangements.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 12, 2023, following discussions that ended on October 19, 2023, with the officials of Bangladesh on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 21, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the International Monetary Fund and the International Development Association.
- A **Statement by the Executive Director** for Bangladesh.

The document listed below have been or will be separately released.

Selected Issues

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PRESS RELEASE

PR/23/440

IMF Executive Board Concludes 2023 Article IV Consultation with Bangladesh and Completes the First Review Under the Extended Credit Facility, Extended Fund Facility, and Resilience and Sustainability Facility

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the first review under the 42-month Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements for Bangladesh, providing the country with immediate access to about US$468.3 million.
- The IMF Executive Board also concluded the first review under Bangladesh's Resilience and Sustainability Facility (RSF) arrangement, making available about US$221.5 million in support of Bangladesh's ambitious climate change agenda.
- To restore near-term macroeconomic stability, monetary policy should be further tightened, supported by neutral fiscal policy and greater exchange rate flexibility. The IMF–supported program will lay the foundations to unlock Bangladesh's growth potential, harness its demographic dividend and support long-term inclusive and green growth.

Washington, DC – **December 12, 2023:** The Executive Board of the International Monetary Fund (IMF) completed the first review under the ECF/EFF and RSF arrangements for Bangladesh, allowing the authorities to withdraw the equivalent to SDR 352.35 million (about US$468.3 million) under the ECF/EFF, and SDR 166.67 million (about US$221.5 million) under the RSF. This brings total disbursements under the ECF/EFF thus far to SDR 704.70 million (about US$936.6 million) and under the RSF to SDR 166.67 million (about US$221.5 million). The Executive Board also concluded the 2023 Article IV consultation with Bangladesh.[1,2]

The ECF/EFF and RSF arrangements for Bangladesh were approved by the Executive Board on January 30, 2023 (see Press Release No. 23/25) in an amount equivalent to SDR 2.5 billion (231.4 percent of quota or about US$3.3 billion) under the ECF/EFF and SDR 1 billion (93.8 percent of quota or about US$1.4 billion) under the RSF. The ECF/EFF arrangement has helped 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 has supplemented 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.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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

Bangladesh economy has been buffeted by multiple shocks. Spillovers from Russia's war in Ukraine and global monetary tightening have interrupted a strong post-pandemic recovery, with real GDP growth slowing to 6 percent in FY23 and headline inflation reaching a decade high of 9.9 percent year-on-year in August 2023. Due to strict import compression, the current account (CA) deficit narrowed considerably (¾ percent of GDP in FY23 compared to 4.1 percent of GDP in FY22). However, an unprecedented reversal of financial account, driven by global uncertainties and inadequate policy response, has kept FX reserves and the Taka under pressure.

Real GDP growth is projected to remain at 6 percent in FY24 on the back of relatively resilient exports, despite subdued private demand. Helped by continued monetary policy tightening and neutral fiscal stance, inflation is projected to moderate to 7¼ percent y-o-y by end-FY24, albeit slowly, on account of elevated inflation expectations. The fiscal stance is projected to stay neutral, with fiscal deficit at 4.6 percent of GDP in FY24 remaining broadly unchanged from FY23. The CA deficit is likely to remain compressed at around ¾ percent of GDP in FY24, while the financial account is expected to improve, including through timely repatriation of export proceeds. FX reserves are expected to increase gradually in the near term and are projected to reach about four months of prospective imports in the medium term. However, uncertainties around the outlook remain high and risks are tilted to the downside.

Following the Executive Board's discussion, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

"Bangladesh's economy is navigating multi-faceted economic challenges. Despite a difficult external environment, program performance has been broadly on track, reflecting the authorities' strong commitment. The Fund-supported program is helping restore macroeconomic stability and protect the vulnerable, while accelerating macro-critical structural reforms to bolster growth potential and delivering on the climate agenda.

"Near-term policies should continue to focus on containing inflation and rebuilding external resilience. This requires a calibrated monetary policy tightening, supported by a neutral fiscal stance, and greater exchange rate flexibility to alleviate foreign exchange pressures and rebuild buffers. Ongoing reforms to modernize the monetary policy framework will improve policy transmission and foster macroeconomic stability. Gradually transitioning to a more flexible exchange rate regime and strengthening FX reserve management would enhance external resilience.

"Raising tax revenues and rationalizing expenditures will allow increasing social, developmental, and climate-related spending. Continued efforts to enhance public financial and investment management are needed to increase spending efficiency and mitigate fiscal risks.

"Financial reforms should focus on addressing vulnerabilities in the financial sector, by strengthening banking regulation, supervision, and governance. Deepening capital markets will help mobilize financing to support growth objectives.

"Further trade liberalization and enhancements to the investment climate will help bolster export diversification and foreign direct investment. Raising productivity, including through education and upskilling, along with increasing female labor participation, is pivotal to boost growth potential.

"Building resilience to climate change and natural disasters is a priority for achieving high, inclusive, and green growth. In this context, strengthening institutions, improving climate spending efficiency, and mobilizing climate financing remain crucial."

Executive Board Assessment[3]

Executive Directors noted that Bangladesh's economy has been buffeted by multiple external shocks. Directors noted however, that program performance is broadly on track despite the difficult environment and welcomed the recent implementation of corrective actions and the efforts to push key reforms forward, including with support from Fund capacity development. Directors stressed that near-term policies should focus on containing inflation and building external resilience, while mitigating the impact of these policies on the most vulnerable. They also underscored the importance of addressing structural challenges to support strong, inclusive, and green growth.

Directors called for a calibrated monetary policy tightening, supported by a neutral fiscal stance, and for greater exchange rate flexibility to restore near-term macroeconomic stability and bolster external resilience. They commended the authorities' efforts to further modernize the monetary policy framework, which will enhance policy transmission and help reduce inflation. Directors also welcomed the adoption of a unified exchange rate and stressed that a gradual transition to a more flexible regime is needed to enhance the economy's resilience to external shocks.

Directors emphasized that creating fiscal space for social spending and growth-enhancing investment is critical. They stressed the need to raise tax revenues by implementing concerted tax policy and administration measures. Directors also called for rationalizing subsidies, improving expenditure efficiency, and better managing fiscal risks.

Directors underscored that advancing financial sector reforms remains important to meet growing financing needs and support growth. They emphasized the need to reduce banking sector vulnerabilities by implementing NPL reduction and capital restoring strategies in state-owned commercial banks. Directors agreed that enhancing supervision and regulatory frameworks, strengthening governance, and developing domestic capital markets will help increase financial sector efficiency and mobilize financing to support growth objectives.

Directors encouraged the authorities to expedite long-standing reforms to help Bangladesh reach upper middle-income status. They emphasized that liberalizing trade, enhancing the investment climate and governance, upskilling the labor force, and increasing female labor force participation are crucial to attract more FDI, diversify exports, and boost growth potential. Given Bangladesh's high vulnerability to natural disasters and climate change, Directors underscored the need to improve climate-responsive public investment management and advance green public financial management reforms. They noted that better management of climate-related risks will help enhance financial sector resilience and mobilize private climate finance.

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[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Bangladesh: Selected Economic Indicators, FY2020-2028 1/

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
				Est.	Projections				
Real GDP (annual percent change)	3.4	6.9	7.1	6.0	6.0	6.6	7.1	7.2	7.0
Consumption									
Private	3.0	8.0	7.5	3.6	5.7	6.3	5.7	5.7	5.7
Public	2.0	6.9	6.2	10.5	6.4	5.7	6.8	7.2	6.8
Gross Capital Formation	0.2	8.1	11.7	2.9	8.2	8.9	9.2	9.6	9.3
Private	0.2	7.8	11.8	1.7	6.9	8.5	7.8	8.8	8.7
Public	18.2	9.1	11.1	6.7	12.1	9.9	13.1	11.8	10.9
Trade									
Exports of goods and services	-17.5	9.2	29.4	10.6	12.4	3.9	5.8	5.2	8.6
Imports of goods and services	-11.4	15.3	31.2	-2.6	4.0	7.2	5.0	5.0	8.2
Prices (annual percent change)									
GDP Deflator	3.8	4.1	5.0	5.4	6.4	5.5	5.2	5.5	5.3
CPI inflation (annual average)	5.6	5.6	6.1	9.0	7.9	6.8	5.5	5.5	5.5
CPI inflation (end of period)	6.0	5.6	7.6	9.7	7.2	5.8	5.5	5.5	5.5
Central government operations (in percent of GDP)									
Total revenue and grants	8.5	9.4	8.9	8.3	8.8	9.3	9.9	10.0	10.2
Of which: tax revenue	7.0	7.6	8.0	7.4	7.9	8.4	9.1	9.2	9.4
Total expenditure	13.3	13.0	13.0	12.9	13.4	13.9	14.9	15.0	15.1
Of which: Annual Development Program (ADP)	4.9	4.5	4.7	4.3	4.7	5.1	5.9	5.9	6.2
Overall balance (including grants)	-4.8	-3.6	-4.1	-4.6	-4.6	-4.6	-5.0	-5.0	-5.0
(excluding grants)	-4.9	-3.7	-4.2	-4.7	-4.7	-4.7	-5.1	-5.0	-5.0
Primary balance (including grants)	-3.0	-1.6	-2.1	-2.6	-2.8	-2.3	-2.5	-2.5	-2.5
Public sector total debt 2/	34.5	35.6	37.9	39.8	41.4	42.0	42.7	42.9	43.1
Of which: External debt	14.6	15.1	15.4	17.7	18.1	18.1	17.9	17.4	16.9
Balance of Payments (in percent of GDP)									
Current account balance	-1.5	-1.1	-4.1	-0.7	-0.8	-2.7	-3.0	-3.0	-3.0
Trade balance	-5.4	-6.4	-8.0	-5.8	-4.9	-6.7	-6.8	-6.6	-6.6
Service balance	-0.7	-0.7	-0.9	-1.0	-1.0	-1.3	-1.3	-1.2	-1.2
Income balance	-0.8	-0.8	-0.7	-0.9	-0.8	-0.9	-0.9	-0.9	-0.8
Transfers	5.0	6.1	4.7	5.0	4.9	4.8	4.6	4.4	4.4
Of which: Remittances	4.9	6.0	4.6	4.8	4.8	4.7	4.5	4.3	4.3
Capital account balance	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	2.3	3.4	3.4	-0.5	0.5	4.0	4.6	4.2	4.2
Foreign direct investment, net	0.3	0.3	0.4	0.4	0.4	0.9	1.1	1.3	1.3
Gross international reserves (billions of U.S. dollars)	36.0	46.4	33.4	24.8	24.3	30.6	39.2	46.1	54.3
In months of next year's imports	6.1	5.8	4.9	3.4	2.8	3.2	3.8	4.0	4.2
Money and credit (in percent of GDP)									
Reserve money	8.9	9.8	8.7	8.6	8.5	8.5	8.6	8.7	8.8
Broad money (M2)	53.8	54.6	52.9	51.3	50.7	51.3	51.8	53.0	54.2
Credit to private sector	37.3	36.2	36.6	35.7	35.2	35.8	36.4	36.9	37.6
Credit to private sector (percent change)	7.7	8.2	13.7	9.1	11.2	14.3	14.3	14.9	14.7
Savings and Investment (in percent of GDP)									
Gross national savings	31.4	30.8	29.3	30.2	30.4	29.5	29.9	30.7	31.3
Public	1.0	1.9	1.2	0.3	0.6	1.1	1.8	1.8	2.1
Private	30.4	28.9	28.2	30.0	29.8	28.4	28.2	28.8	29.3
Gross investment	31.3	31.0	32.0	31.3	31.2	32.3	33.0	33.7	34.3
Public	7.3	7.3	7.5	7.6	7.9	8.2	8.2	9.0	9.3
Private	24.0	23.7	24.5	23.6	23.3	24.0	24.4	24.8	25.1
Memorandum items:									
Nominal GDP (in billions of Taka)	31,705	35,302	39,717	44,393	50,068	56,297	63,414	71,694	80,816

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.

INTERNATIONAL MONETARY FUND

BANGLADESH

November 21, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FIRST REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. Bangladesh is navigating multi-faceted economic challenges. Russia's war in Ukraine disrupted the strong economic recovery from the COVID-19 pandemic and threatened macroeconomic stability. Continued global financial tightening, coupled with existing vulnerabilities, has challenged near-term macroeconomic management. On the back of import compression, the current account deficit narrowed considerably. Nevertheless, amid an unprecedented reversal of the financial account, the overall balance of payments has deteriorated, leading to a continuous decline in foreign exchange reserves. Recent developments have underscored the need to expedite long-standing structural reforms to put the economy on an inclusive and green growth path.

Program status. The 42-month ECF/EFF and RSF arrangements for Bangladesh were approved by the IMF Executive Board on January 30, 2023 in an amount equivalent to SDR 2.5 billion (231.4 percent of quota) under the ECF/EFF and SDR 1 billion (93.8 percent of quota) under the RSF. The completion of the first review will allow the authorities to withdraw the equivalent to SDR 352.35 million under the ECF/EFF, and SDR 166.67 million under the RSF.

Program performance. Despite the challenging environment, program performance has been broadly on track with few exceptions. Two out of three performance criteria and three out of four indicative targets were successfully completed. Of the seven structural benchmarks (SB) under the ECF/EFF, six were met. However, due to procedural reasons, the Finance Companies Act was submitted and passed by Parliament with delay. The climate policy reforms, supported by the RSF, are off to a good start, with the completion of a reform measure (RM) for the first review, and notable progress being made on the remaining RMs.

Article IV discussions. Article IV discussions focused on: (i) multi-pronged policy reforms to create additional fiscal space for social and developmental spending; (ii) modernization of monetary, fiscal, and financial frameworks to build macroeconomic and financial resilience; (iii) structural reform priorities to promote strong, inclusive and sustainable growth; and (iv) climate policy reforms to strengthen climate resilience.

Policy Recommendations.

- **Near-term policy mix.** Given persistent inflationary and external pressures, monetary tightening, supported by a neutral fiscal stance and greater exchange rate flexibility, is needed to reduce inflation and restore external sustainability.

- **Fiscal policy.** Raising tax revenues and rationalizing expenditure are necessary to increase social and investment spending. Continued efforts to enhance public financial and investment management will help increase spending efficiency and mitigate fiscal risks.

- **Monetary and exchange rate policies**. Reforms to modernize the monetary policy framework and improve policy transmission are crucial to foster macroeconomic stability. Greater exchange rate flexibility is important to build external resilience.

- **Financial sector policy**. Reform priorities should focus on addressing financial sector vulnerabilities, while strengthening banking regulation, supervision, and governance. Deepening capital markets is important to mobilize financing to support growth objectives.

- **Macro-structural policy**. Further trade liberalization and improving the investment climate will help bolster trade, export diversification, and foreign direct investment. Improving productivity, including through education and skill development, and increasing female economic participation are pivotal to boost growth potential.

- **Climate change policy**. Additional efforts to strengthen institutions, enhance climate spending efficiency, and mobilize climate financing remain crucial to build climate resilience.

Requests. Staff supports the authorities' request for (i) the completion of the first review under the ECF/EFF and RSF arrangements; (ii) a waiver of non-observance of a performance criterion; (iii) the resetting of one SB to a later date; and (iv) the modification of end-December 2023 performance criteria and indicative targets.

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

Discussions were held in Dhaka during October 4–19, 2023. The team included R. Anand (Head), P. Sodsriwiboon (Deputy Head), E. Liu, S. Yoon (all APD), S. Suphachalasai, G. Zinabou (both FAD), R. Varghese (SPR), Y. Hul (ICD), J. De (Resident Representative) and S. Islam (local economist). Messrs. Subramanian and Jain (OED) attended the concluding meetings. The team met with Finance Minister AHM Mustafa Kamal, Bangladesh Bank Governor A.R. Talukder, Finance Secretary K. Mozumder, other senior government and central bank officials, development partners, and representatives of the business community. G. Gamwalla-Khadivi and R. Yang (both APD) contributed to the preparation of this report.

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CONTEXT

1. Bangladesh's economy has been buffeted by multiple shocks. Russia's war in Ukraine disrupted the strong economic recovery from the COVID-19 pandemic. Rising global commodity prices, supply chain disruptions and global uncertainties have threatened macroeconomic stability. Continued global monetary tightening, coupled with existing vulnerabilities, has challenged near-term macroeconomic management.

2. In addition to tackling immediate challenges, Bangladesh needs to address long-standing structural issues, including vulnerabilities related to climate change. Bangladesh is on track to graduate from Least Developed Country (LDC) status by 2026, but to achieve its aspiration to reach upper middle-income status by 2031 would require rebuilding macroeconomic stability and addressing long-standing structural issues. While substantial progress has been made since independence, closing remaining gaps in socio-economic development, and tackling climate change challenges remain critical.

3. The IMF Executive Board approved a 42-month arrangement under the ECF/EFF and RSF in January 2023 to support the authorities' efforts to stabilize the economy and further their structural reforms agenda. The Fund-supported program aims at restoring macroeconomic stability and preventing disruptive adjustment in the near term, while accelerating the authorities' economic reforms and delivering on the climate agenda. Program performance is broadly on track; however, dealing with escalated external pressures would require additional efforts. The program will lay the foundation to unlock Bangladesh's growth potential, harness its demographic dividend and support long-term inclusive and green growth.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

A. Recent Developments

4. Growth has decelerated and inflationary pressures remain elevated. Real GDP growth slowed to 6 percent in FY23,[1] from a strong post-pandemic recovery at 7 percent. Rising costs of living have suppressed real wage and eroded purchasing power, constraining private demand. Investment remained subdued on the back of lower capital spending to safeguard foreign exchange (FX) reserves. Headline inflation reached a decade high of 9.9 percent year-on-year (y-o-y) in August 2023, reflecting both recurrent cost-push shocks from high and volatile food and fuel prices as well as the pass-through from the Taka depreciation. Even as non-food inflation started to moderate in recent months, underpinned by tightening monetary policy, food inflation has experienced an unexpectedly large uptick since August 2023, keeping headline inflation elevated (Figure 2).

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

5. The current account deficit has narrowed considerably, but the external position remains vulnerable (Figure 1-3).[2] Similar to other small open economies, the FX market in Bangladesh has experienced significant fluctuations, amid rising global inflation and continued monetary tightening in major economies. In response, Bangladesh Bank (BB) has allowed greater exchange rate flexibility, unified the prevailing exchange rates, and tightened monetary policy. In FY23, the Taka depreciated by 15.2 percent against the U.S. dollar. and 4.5 percent in real effective terms. Due to import compression and relatively resilient exports, the current account (CA) deficit has narrowed considerably (0.7 percent of GDP in FY23 compared to 4.1 percent of GDP in FY22). Nevertheless, the overall balance of payments (BOP) has deteriorated, given an unprecedented reversal of the financial account leading to FX shortages. Gross international reserves (GIR) and net international reserves[3] (NIR) declined to US$20.3 and US$15.9 billion respectively, as of October 31, 2023. Bangladesh's external position at end-FY22 is assessed to remain broadly in line with the level implied by fundamentals and desirable policies (Annex II).

6. Monetary policy tightening has accelerated, amidst persistently high inflation and FX pressures. BB raised the policy rate twice in FY24 to 7.25 percent (by 50 basis points (bps) in July and 75 bps in October), marking a cumulative increase of 250 bps since the start of the tightening cycle in May 2022. This together with unsterilized FX sales reduced liquidity in the financial system (Figure 2). Amid tight financial conditions and sluggish credit demand, credit to private sector grew moderately at 9.1 percent in FY23, compared to the average growth rate of 15.4 percent before COVID (FY14-FY19). Credit to government rose by 15.7 percent, partly substituting for a decline in net issuance of national savings certificate (NSC) in FY23.

7. Fiscal developments were shaped by external adjustments (Figure 4). Exacerbated by import compression and sluggish private consumption, tax revenue collections underperformed, and the tax-to-GDP ratio declined to 7.4 percent. At the same time, demand containment efforts led to an under-execution of both current and capital spending, offsetting the revenue shortfall. As a result, the overall fiscal deficit in FY23 was kept at 4.6 percent of GDP, compared to 5.6 percent of GDP at the program approval. The composition of domestic budget financing changed in FY23. With net issuance of high-cost NSCs turning negative on falling household savings and liquidity shortages in the banking system, unabsorbed government securities were devolved to BB at below market clearing interest rates. Public debt rose from 37.9 percent at end-FY22 to 39.8 percent of GDP at end-FY23.

B. Outlook and Risks

8. With appropriate policy responses, macroeconomic conditions are expected to gradually stabilize. The near-term outlook is weaker than envisaged at the time of program

[2] See 2023 Bangladesh: *Selected Issues* paper "Toward Greater Exchange Rate Flexibility."

[3] Using program exchange rates.

approval, reflecting larger and more persistent global headwinds and economic hardships (Table 1-4).

- *Growth and inflation*. Real GDP growth in FY24 is projected at 6 percent, down from 6.5 percent projected at program approval. Continued export growth momentum is expected to be a primary growth driver, while private demand is projected to remain subdued, due to inflation persistence and continued monetary policy tightening. While investment is anticipated to gather momentum as FX pressures ease, this uptick is likely to be offset by a simultaneous recovery in imports. Inflation is projected to gradually moderate to 7.2 percent y-o-y by end-FY24, compared to 5.9 percent projected at program approval, as inflation expectations are expected to remain elevated on the back of second-round effects from rising fuel and food prices and the pass-through from Taka depreciation.

- *Fiscal*. The fiscal stance is expected to stay neutral, with overall fiscal and primary deficit-to-GDP ratios in FY24 broadly unchanged from FY23, underpinning the authorities' coordinated policy efforts to tame inflation. This entails the primary deficit-to-GDP ratio of around 2.8 percent in FY24, compared with 3.3 percent projected at program approval. The joint IMF-World Bank Debt Sustainability Analysis (DSA) assesses that Bangladesh remains at low risk of external and overall debt distress. While the assessment is unchanged from the previous DSA, the current DSA revises up assumptions on domestic interest rates in line with recent developments and further expected monetary tightening leading to higher public debt indicators.

- *Balance of Payments (*BOP). The CA deficit is projected to remain compressed at around 0.8 percent of GDP in FY24, compared with 4.2 percent projected at program approval. As contractionary domestic policies take effect and global uncertainties subside, the financial account is projected to improve, including through timely repatriation of export proceeds. Reflecting the actual outturns, ongoing FX pressures and BOP adjustments, GIR and NIR are projected to continue to fall in terms of prospective import coverage in the near term, though projected to steadily rise to the level adequate to cover around 4 months of prospective imports in the medium term.

9. Uncertainty surrounding the outlook remains high and risks are tilted to the downside (Annex III). Higher global commodity price volatility amid intensification of climate and geopolitical shocks could add to inflationary pressures, CA deficit, and higher fiscal burdens. Weaker growth in Bangladesh's major trading partners could adversely affect exports and remittances. Domestically, delayed adjustments to monetary and exchange rate policies and insufficient efforts to address elevated non-performing loans (NPLs) in the banking sector could undermine financial stability and dampen growth prospects. General elections scheduled for January 2024 could further add to economic uncertainty. On the upside, prompt implementation of priority reforms could lift potential growth and strengthen climate resilience.

10. The authorities broadly shared staff's assessment of economic outlook and risks. They acknowledged that global macroeconomic uncertainties are creating significant headwinds for the Bangladesh economy. The authorities expect near-term economic outlook to improve, as they projected the economy to grow by 7.5 percent in FY24, driven primarily by strong exports, and inflation to moderate to 6 percent y-o-y by June 2024, on the back of tight monetary policy measures and prudent fiscal stance. The authorities expect the current and financial accounts to register a slight surplus in FY24.

PROGRAM PERFORMANCE

11. Even in a difficult environment, the overall program performance has been broadly on track with few exceptions. The ECF/EFF and RSF arrangements have helped accelerate key reforms to build the foundation for economic resilience and sustainable development. These include:

- *Performance Criteria (PC)*. Amid heightened FX pressures, driven by global uncertainty and inadequate domestic policy response, the end-June 2023 PC on NIR was missed. The end-June 2023 PC on the primary balance (PB) was comfortably met, as public spending was curtailed. The continuous PC on external payments arrears was also met.

- *Indicative Targets (ITs)*. The end-June 2023 IT on tax revenue collections was missed, primarily due to weaker-than-expected earnings reports and consumption activities, as well as import compression. ITs on reserve money, priority social spending, and capital spending for end-June 2023 were met.

- *Structural Benchmarks (SBs)*. The authorities have made good progress toward implementing structural conditionality for the first review with six SBs met (Text Table 1). The Bank Companies (Amendment) Act 2020 (BCA) has been approved by Parliament. Due to procedural delay, the Finance Companies Act (FCA) 2020 has been rescheduled to be submitted to new Parliament by March 2024 (end-March 2024 SB). On October 31, 2023, FCA was passed by Parliament.

- *RSF Reform Measure (RM)*. RM1 has been observed, as a sustainable public procurement (SPP) policy paper and an associated action plan have been adopted. The SPP policy is consistent with international best practices in green public procurement.[4]

- *Other Program Commitments*. The authorities have also made good progress on other key reforms committed under the Memorandum of Economic and Financial Policies (MEFP). These include transitioning to a single exchange rate for all market participants, adopting the policy rate as an operating target, developing climate stress test framework with IMF Capacity Development (CD) support, implementing the safeguards recommendations, and improving macroeconomic statistics.

[4] The SPP policy paper is well aligned with international guidance (e.g., those provided by the European Commission and the United Nations Environment Programme) and consistent with other guidance materials from international organizations such as the OECD and the World Bank. The SPP policy has been developed in the overall context of the Climate Fiscal Framework (CFF) to mainstream climate dimension into public procurement processes and consider public procurement as a tool to help lower carbon emissions and protect the environment. The SPP policy also includes an action plan for implementing the SPP going forward.

Bangladesh: Program Implementation

Program Targets Under the ECF/EFF Arrangement 1/

(In billions of Taka, unless otherwise indicated)

	Jun-2023		
	Targets	Actual	Status
Quantitative Performance Criteria:			
Floor on net international reserves (NIR, millions of US$) 2/	23,744	19,562	Not met
Floor on primary balance (PB)	-1,706.4	-1,056.3	Met
Ceiling on accumulation of external payments arrears	0.0	0.0	Met
Indicative Targets:			
Ceiling on reserve money (RM)	3,951.0	3,817.9	Met
Floor on tax revenue	3,456.3	3,276.5	Not met
Floor on priority social spending of the Government of Bangladesh	1,033.0	1250.3	Met
Floor on capital investment undertaken by the Government of Bangladesh	1,141.1	1236.4	Met

Structural Benchmarks Under the ECF/EFF Arrangements

Measure	Target Date	Status
MoF adopts tax revenue measures yielding an additional 0.5 percent of GDP in the FY24 budget	End-June 2023	Met
BB adopts an interest rate corridor system	End-July 2023	Met
BB compiles and reports official reserve assets as per BPM6 definition	End-June 2023	Met
BB uses market determined exchange rate for official FX transactions on behalf of the government	End-June 2023	Met
BB completes the pilot risk-based supervision action plan	End-June 2023	Met
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	Not met
BB publishes banks' distressed assets in the annual financial stability report	End-June 2023	Met

Reform Implementation Under the RSF Arrangement

Reform Measures	Target Date	Status
RM1: Government to adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions	End-September 2023	Met

Sources: Bangladesh's authorities; and IMF staff.

1/ The quantitative targets, indicative targets and program exchange rates are defined in the Technical Memorandum of Understanding.

2/ The original NIR floor was set at US$24,462 million at the time of program approval. Adjusted for lower-than-expected budget support in FY23, NIR floor was revised down by US$718 million, the difference between the actual level and the projected level of disbursements under the program.

12. Corrective policy actions are needed to restore external sustainability and to create more fiscal space for priority growth-enhancing expenditures. Considering ongoing external pressures, the end-September 2023 PC on NIR was missed. In this regard, the authorities are committed to urgently adopt corrective policy actions that entail further monetary tightening, supported by neutral fiscal policy stance, and greater exchange rate flexibility. The authorities have requested IMF CD to perform value-added tax (VAT) and income tax diagnostics including tax expenditure assessments that will support end-June 2024 revenue mobilization SB and provide the basis for revenue-raising measures for the remaining periods of the program. The authorities are making progress toward other program targets and reform commitments for future reviews (Table 10 and 11, and MEFP Table 2 and 3).

NEAR-TERM POLICY MIX TO REBUILD RESILIENCE

Sustained monetary tightening, supported by neutral fiscal policy stance and greater exchange rate flexibility, is needed to restore near-term macroeconomic stability, and bolster external resilience.

13. Monetary and exchange rate policies should focus on containing inflation and restoring external stability. Despite some moderation, inflation expectations remain above the authorities' inflation target range of 5-6 percent.[5] To counter high inflation and continued pressure on the Taka, BB has further tightened the monetary policy stance with the primary objective of closing the negative real interest rate gap by end-FY24 (MEFP, ¶20).[6] This includes the policy rate increase of 75 bps in October 2023 and an increase of the mark-up margin on the reference lending rate (by 50 bps) to facilitate the transmission of such policy rate hike. To support monetary tightening, the authorities have ceased devolving government securities on BB since early-August 2023 and plan to keep devolvement at zero for the remainder of FY24. They are committed to phasing out the practice completely in the medium term, in line with the recommendations of the IMF technical assistance (TA) (MEFP, ¶21). As a result of these tightening measures, the yield curve on government securities has shifted upwards by 200 bps on average across all maturities since end-June 2023, real interest rates have risen approaching zero, and private sector credit growth has continued to slow (Text Figure 1). Against this backdrop, the current pace of monetary tightening seems appropriate, and the authorities based on the incoming macroeconomic should continue the current tightening bias until the disinflation process is firmly established. Greater exchange rate

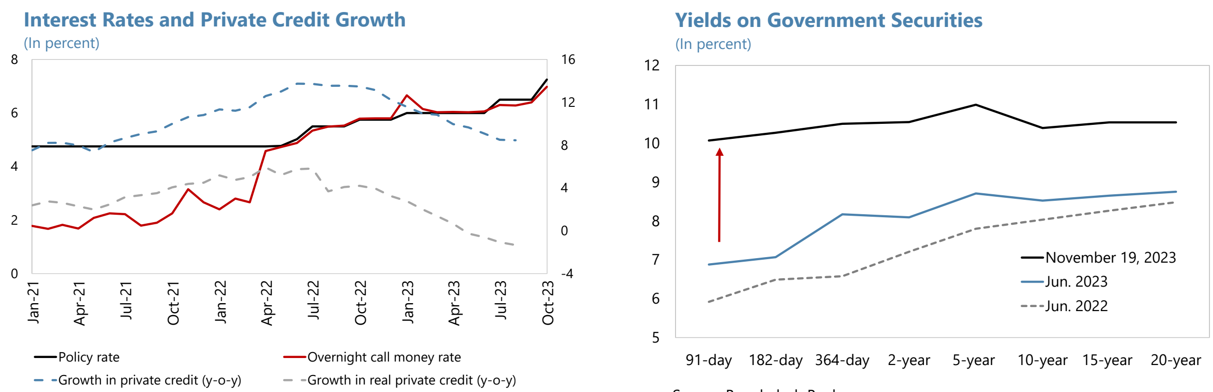
[5] Twelve-month ahead inflation expectations reached their historical maximum of 10.3 percent in December 2022, before moderating to 9.6 percent in March 2023 and 9.7 percent in June 2023, according to BB's inflation expectations survey. For details, see *2023 Bangladesh: Selected Issues* paper "Taming Inflation: Policy Options and Trade-offs."

[6] Staff analysis suggests that the monetary policy tightening should be resolute, but carefully calibrated and data-driven, given the high trade-offs involved and the monetary policy transmission lags. Too gradual a tightening would likely not be credible and thus ineffective in re-anchoring inflation expectations. On the other hand, too rapid a tightening has a disproportionately larger cost in terms of cumulative output loss. Therefore, the optimal policy response would have to carefully weigh the benefits of disinflation against the associate output costs. According to staff analysis, any such optimal policy would have to ensure that forward-looking real interest rate gap approaches zero by the end of FY24. For details, see *2023 Bangladesh: Selected Issues* paper "Taming Inflation: Policy Options and Trade-offs."

flexibility, while transitioning to a more flexible exchange rate regime by adopting a crawling arrangement with a band corridor as a transitional arrangement, would help build external resilience (MEFP, ¶23).

14. Near-term fiscal policy should support monetary tightening. The FY24 budget targets an overall deficit of 5.2 percent of GDP, but a lower deficit would help rein in inflation and BOP pressures and avoid crowding out private investment amid tighter financing conditions. Against this backdrop, the fiscal policy stance should remain neutral for FY24, with the primary deficit-to-GDP ratio unchanged from FY23. This will entail curtailing non-priority spending, while protecting priority social spending and capital investment in line with program objectives. Should external pressures further intensify, or inflation prove more persistent, the authorities should stand ready to tighten fiscal policy—while safeguarding support to the vulnerable—to complement the efforts of the monetary authorities.

Text Figure 1. Monetary Policy Tightening



Source: Bangladesh Bank.

Source: Bangladesh Bank.

15. The authorities underscored that reducing inflation and restoring external stability remain a top priority. They agreed with the proposed near-term policy mix and have started to tighten the monetary policy stance by raising the policy rate, further liberalizing the reference lending rate, and discontinuing monetary financing of the budget deficit. The authorities concurred with a neutral fiscal policy stance and intended to cut non-priority spending, while protecting social spending and growth-enhancing expenditure in line with the IMF-supported program objectives. The authorities stand ready to further tighten monetary and fiscal policies as necessary. They acknowledged the need for greater exchange rate flexibility and stressed that the transition of exchange rate regime should be gradual and non-disruptive, in which they have sought IMF TA to support the transitional arrangement.

TOWARD ROBUST, INCLUSIVE, AND SUSTAINABLE GROWTH

Multi-pronged policy reforms to create additional fiscal space for developmental spending; modernize monetary, fiscal and financial frameworks; enhance governance and reduce corruption vulnerability; attract private investment to lift productivity; and strengthen climate resilience, would be needed to buttress inclusive and green growth.

16. The Article IV policy discussion focused on reform priorities to support Bangladesh's development objectives. With LDC graduation, Bangladesh will gradually lose access to concessional financing and preferential trade treatments, which have played a key role in boosting export competitiveness. Bangladesh's aspiration to become upper-middle income status by 2031 requires sustaining high pro-poor growth (above 8 percent), which entails, among others, developing new growth engines, creating conducive environments to attract investment, investing in human capital, and addressing climate vulnerabilities. To achieve these development objectives, reform priorities need to focus on increasing the budget envelope for social spending and public investment through greater domestic revenue mobilization and spending efficiency, modernizing policy frameworks, strengthening financial sector, and expediting macro-structural reforms to jumpstart investment and support private sector development.

A. Fiscal Policy

17. Supported by the IMF program, raising revenue will create additional fiscal space for social spending and investment. Bangladesh's tax-to-GDP ratio is one of the lowest in the world and has fallen in recent years. The low tax revenue collection has constrained critical spending for longer-term economic development.[7] The FY24 budget and the newly amended Income Tax Law have added a number of revenue measures in line with program commitments, which include (1) increased applicable taxes on tobacco, land registration, foreign loans and travel; (2) an environmental surcharge on multiple car ownership; (3) removal of several VAT exemptions; and (4) increased import duties on select products. These measures are expected to contribute to additional revenue collection of 0.5 percent of GDP in FY24 (MEFP, ¶10). These measures will also be complemented by concerted efforts of the National Board of Revenue (NBR) to expand the tax net and reduce leakages in revenue collection via digitalization of tax collection, use of risk-based audits, and tax literacy campaigns (MEFP, ¶12).

18. Sustainable revenue mobilization will need multi-pronged and sequenced reform efforts. NBR, in consultation with international development partners, is formulating a Medium and Long-Term Revenue Strategy (MLTRS) that will provide a comprehensive framework to improve revenue collection over the next 4-6 years. The MLTRS is expected to be finalized and adopted by

[7] See, for instance, *Box 1. Supporting Inclusive, Sustainable, and Green Growth in Bangladesh* in IMF Country Report No. 2023/66.

the first half of 2024 (MEFP, ¶11). At the same time, IMF CD on VAT and income tax diagnostics will assist the authorities in assessing tax expenditures and identify revenue-raising measures for FY25 and FY26 budgets. An initial tax expenditure report covering personal and corporate income taxes and VAT will be published with the FY25 budget (end-June 2024 SB) and updated in following years (MEFP, ¶11). To strengthen tax administration, NBR is establishing compliance risk management units (CRMUs) within the customs and VAT wings by end-December 2023, and a CRMU for the income tax wing is expected by early 2024. As the next step, NBR's VAT and income tax wings should develop a tax compliance improvement plan (end-June 2024 SB).

19. Further rationalization of expenditure is vital to contain near-term spending pressures and ultimately channel resources toward social and development spending. Budget allocation on subsidies in FY24 remains high (around 2 percent of GDP) as domestic electricity and fertilizer prices remain below cost-recovery levels, despite having been raised several times in 2022 and 2023. It is important to reduce budget subsidies by adjusting domestic electricity, gas and fuel prices more regularly to reflect global price movements and to gradually clear domestic arrears to state-owned energy and fertilizer companies accumulated in FY23.[8] The authorities reaffirmed their commitment to adopt a formula-based pricing mechanism for petroleum products by end-December 2023 (SB and RM2 for end-December 2023) and to implement it no later than March 2024 (MEFP, ¶13). The government expanded its social protection programs in the FY24 budget and recently launched its new Universal Pension Scheme (UPS). The latter aims to widen public pension coverage to private sector employees, both formal and informal. Fiscal implications are estimated to be limited in the near term, while the scheme could support institutional investment over time MEFP, ¶17).[9]

20. Continued progress on public financial and investment management, fiscal risk analysis, and fiscal transparency remains important to enhance fiscal governance. Enhancing debt and cash management will help foster the optimal use of budget resources. To this end, the authorities are developing a policy note to guide decisions on expanding the Treasury Single Account (TSA) and a plan to sustainably reduce net NSC issuance to below ¼ of total net domestic financing by FY26 (both end-December 2023 SBs). As a next step, the Medium-Term Debt Management Strategy (MTDS) should be updated to cover FY25-FY27 (end-June 2024 SB). It remains important to continue expanding the fiscal risk statement to cover major risks from SOEs, guarantees and public private partnerships (PPPs) as well as from climate change (see RM5) in the FY25 budget (MEFP, ¶19). Better public investment management (PIM) is needed to enhance project prioritization and execution, while greater fiscal transparency and risk management will help bolster governance and investor confidence (MEFP, ¶14).

[8] Multiple increases in the domestic prices of fuel, natural gas, electricity and fertilizer have helped to narrow the gaps relative to cost of provision and reduce the need for subsidies. However, financial losses incurred in FY23 were met in part through domestic arrears, which now require clearing, contributing to continued elevated subsidy bills.

[9] The UPS is designed with four different packages: (i) formal private sector workers whose employers are expected to match employee contributions; (ii) self-employed and informal workers; (iii) expatriate workers; and (iv) the poor whose annual income is below 60,000 Taka. All packages require contributions by beneficiaries and only the last one, covering the poor, requires a top-up contribution by the government of 500 Taka per month per beneficiary. As of October 2023, about 15,000 people signed up under the UPS.

21. The authorities reconfirmed their commitment to sustainably raise revenues and rationalize expenditure to create space for priority social and development spending. They cited import compression and reduced activity as major challenges to near-term revenue mobilization. However, they are confident that revenue measures included in the FY24 budget and the new Income Tax Act, coupled with improved tax administration through digitalization and enhanced enforcement, should yield revenue gains of ½ percent of GDP in FY24. The authorities noted that strengthening tax compliance risk management, developing an MLTRS and maintaining ongoing efforts, such as increasing taxpayer registration, launching a new tax return preparer scheme, and rolling out electronic fiscal devices, will help raise tax revenues over the medium term. The authorities highlighted their efforts to contain budget subsidies by raising fuel, natural gas and electricity tariffs as well as fertilizer prices in 2022 and 2023. Going forward, they plan to lock in zero structural subsidies for petroleum products by implementing a periodic formula-based price adjustment mechanism and to adjust electricity prices to cost recovery. They reaffirmed their commitment to stop including capacity charges, in case of renewing the contract, to power producers.

22. The authorities continued to advance fiscal reforms that promote efficient fiscal management. The authorities are strengthening debt management to reduce financing costs, notably through enforcing reforms to the NSC system initiated since 2020 and are improving public financial management in the areas of fiscal risk analysis, cash management, and fiscal reporting. The UPS was launched in August 2023 to improve the financial protection of Bangladesh's growing elderly population.

B. Monetary and Exchange Rate Policies

23. Modernizing the monetary policy framework is crucial to improve monetary policy transmission. BB has adopted the interest rate based operational framework and introduced an interest rate corridor system (end-July 2023 SB). To further liberalize the market interest rates, BB has withdrawn the requirement for banks to maintain deposit rates above the 3-months moving average inflation and introduced a market-driven reference lending rate (i.e., the six-month moving average rate of T-bills, the SMART). To enhance monetary transmission, BB is committed to gradually widening the mark-up margin of the SMART (MEFP, ¶22). Additionally, on October 22, 2023, BB has reconstituted the Monetary Policy Committee (MPC) as a formal monetary policy decision-making body and is working toward improving the central bank communications and enhancing transparency with the help of IMF TA. Such reforms would help facilitate the transition to a more forward-looking monetary policy framework, improve monetary policy transmission, and build central bank credibility. Going forward, the authorities' reform priorities include:

- *Monetary policy framework and transmission.* BB should continue operationalizing the interest rate targeting framework and the interest rate corridor system, including by allowing automatic access for all commercial banks to standing deposit and lending facilities (end-March 2024 SB), and streamlining open market operations (OMOs) and the reserve maintenance period (end-June 2024 SB). Furthermore, as recommended by the joint IMF-World Bank TA on Local Currency

Bond Market Development (LCBM) Diagnostic, establishing a reliable money market reference yield curve, further liberalizing market lending rates, and phasing out devolvement of government securities on BB remain important to improve monetary transmission.

- *Enhancing central bank communication and governance* remain critical for the success of modernization efforts. Progress is being made in implementing recommendations of the 2022 IMF's Safeguards Assessment, which will bolster BB's autonomy and governance (¶44). Ongoing IMF TA on monetary policy modernization will inform further improvements in BB communication.

24. Building on recent progress, further reforms to the exchange rate framework would help restore external resilience. BB has abolished the official exchange rate for transactions on behalf of the government and is using the prevailing daily interbank exchange rate announced by the FX dealers' association (end-June 2023 SB). It has started to publish official reserve assets as per BPM6 definitions (end-June 2023 SB). BB remains committed to further reducing the non-monetary use of FX reserves and not initiating any new non-monetary operations, including FX lending. BB's adoption of a unified single exchange rate regime is a welcome step; however, FX pressures persist. A move toward a more flexible exchange rate regime would help accelerate repatriation of export proceeds and channel remittances through official channels. To this end, BB agreed that a move toward a crawling peg with a band corridor would be an important interim step to facilitate a non-disruptive transition, with a view of widening of the exchange rate bands in the medium-term (MEFP, ¶23). Moreover, gradually allowing market forces to determine the exchange rate would help build external resilience and support the operation of interest rate targeting framework[10].

25. The authorities are committed to further modernizing monetary and exchange rate policy frameworks. The authorities highlighted progress on several milestones in modernizing BB's monetary policy formulation, implementation, and communication, and plan to step up the modernization efforts, with the help of IMF TA. The authorities are committed to transitioning to a more flexible exchange rate regime, and plan to adopt a crawling peg arrangement in the interim. They acknowledged the importance of allowing market forces to determine the exchange rate. Nevertheless, they cautioned against adjustment costs associated with the move to a more flexible exchange rate regime, including from the exchange rate pass-through to inflation, impact on budget, and unhedged FX exposures. To facilitate a non-disruptive transition, the authorities have requested IMF TA to design and operationalize the transitional arrangement. They remain committed to further reducing the non-monetary use of FX reserves and phasing out LC margin requirements in FY24.

C. Financial Sector Policies

26. Banking sector vulnerabilities persist (Figure 5). System-wide bank capital was broadly stable at 11.2 percent of risk-weighted assets at end-June 2023, but state-owned commercial banks

[10] See 2023 Bangladesh: *Selected Issues* paper "Toward Greater Exchange Rate Flexibility."

(SoCBs) remain undercapitalized. Asset quality continues to be a concern in SoCBs. At end-June 2023, gross NPLs amounted to 10.1 percent of total loans for the system and 25 percent for SoCBs, with the provisioning maintenance ratio at approximately 79 percent for the system and less for SoCBs[11]. Careful monitoring of relatively high share of rescheduled loans, accounting for about 14.4 percent of total loans at end-2022, remains important for timely identification of vulnerabilities.

27. Addressing financial sector vulnerabilities remains crucial to support growth (MEFP, ¶26 and ¶27). 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. Efforts to implement the NPL reduction strategy should be expedited to support growing financing needs of the economy.

- *Strengthening loan classification and provisioning.* The publication of comprehensive data on rescheduled loans in the annual financial stability report has enhanced transparency in NPL statistics (end-June 2023 SB). Going forward, to increase the accuracy of asset quality disclosures, the authorities should strengthen loan classification and provisioning rules and eliminate forbearance[12]. Issuance of a new circular to replace the 2019 April circular, which relaxed the loan classification, will be important to move to internationally accepted definitions.[13]

- *Restructuring of SoCBs.* The government and SoCBs have jointly formulated a strategy to significantly reduce NPLs and restore capital by 2026. The authorities are committed to enforce the implementation of the strategy and strengthen it further, as needed. The newly adopted Bank Companies (Amendment) Act (2020) and the accompanying circulars[14] on Prompt Corrective Action should help enhance BB's capacity and operational toolkit to facilitate the process of returning weak banks to soundness.

- *Enhancing the legal framework.* Following Parliament's approval of the Bank Companies (Amendment) Act (2020) and the Finance Companies Act (2020), it is important to ensure that these legislations are in line with best practices. Closing remaining gaps in the legal framework, including provisions on the resolution of failing banks, remains important.

28. Effective implementation of risk-based supervision (RBS) is pivotal to safeguard financial stability (MEFP, ¶28). Following the successful completion of the pilot RBS (end-June 2023 SB), BB should further develop its supervisory risk assessment methodology for various risks

[11] The provisioning maintenance ratio represents the proportion of provisions maintained compared to the required provision per regulation.

[12] Banks should be required to recognize and immediately write-off economic losses that may arise from any reduction in interest rate and/or extension of term as part of the restructuring.

[13] BRPD Circular No. 03, 2019 "Loan Classification and Provisioning". For detailed discussions, see Box 1, 2019 Article IV Staff Report.

[14] BRPD Circular No 03, 2022 "Recovery of Banks" and the forthcoming Circular on Prompt Corrective Actions, developed with the assistance of WB.

covering a robust set of objective and qualitative indicators (end-March 2024 SB). The current RBS pilot could also be expanded to encompass the broader banking sector. The formulation of a macroprudential strategy and the execution of scenario-based macroprudential stress tests, facilitated by IMF TA, will help manage systemic risk.

29. Reform efforts to improve governance and regulatory frameworks should continue (MEFP, ¶29). The Bankruptcy (Amendment) Act 2020 and the Money Loan Court (Amendment) Act 2003 and the Negotiable Instrument (Amendment) Act 2020 should be submitted to Parliament as agreed under the program. The successful implementation of these reforms will not only modernize the financial sector but also enhance creditors' rights, fortify the insolvency framework, and facilitate loan recovery.

30. Capital market development would be key to help mobilize financing for productive investment (MEFP, ¶30). In line with IMF TA recommendations, phasing out central bank devolvement, reforming the primary dealer system, gradually aligning NSC interest rates with market rates, and reducing individual investment limits with the overall objective to replace them with marketable wholesale instruments are needed. The implementation of the MTDS, the development of a secondary market for government securities, the expansion of the non-bank investor base, and the enhancement of the financial market infrastructure will also be important.

31. The authorities remain committed to advance financial sector reforms, supported by the IMF program. While acknowledging high NPLs in SoCBs and certain private commercial banks, the authorities noted that their systemic impacts are expected to be limited as these vulnerable banks constitute a relatively small segment of the overall financial system. They underscored that banks are obligated to maintain full provisioning, even when a NPL is reclassified as performing immediately after rescheduling. At the same time, they highlighted the importance of specific regulatory relaxations, such as the provision for immediate curing of NPLs following rescheduling, as measures intended to provide essential support to viable businesses facing temporary disruptions. To enhance the risk management capabilities of banks and bolster transparency in financial reporting, the authorities plan to adopt International Financial Reporting Standards (IFRS9). The authorities recognized the importance of developing domestic capital market, in which recent reforms have effectively reduced NSC issuances. They agreed that phasing out devolvement and improving the primary dealer system are immediate priorities.

D. Macro-Structural Policies

32. Further trade liberalization and improving the investment climate will support trade expansion, export diversification, and FDI inflows (Figure 6). Bangladesh's trade profile has remained relatively static over the past decades, characterized by concentrated export and product portfolios[15]. FDI inflows have been comparably low at less than 1 percent of GDP over the past two decades. The recently adopted National Tariff Policy 2023 is a welcome step to enhance trade

[15] Salgado, R. and R. Anand, editors. 2023. *South Asia's Path to Resilient Growth*. Washington, DC: International Monetary Fund.

competitiveness and diversify exports. Trade facilitation reforms, including simplified customs procedures, one-stop-shop investor services, and efforts to reduce tariff and non-tariff barriers remain important. Investment in trade-related energy and transportation infrastructure, while gradually reducing regulatory barriers and domestic protections, will enhance business operating environments. Expanding trade and FDI will also ease the FX supply, strengthening external buffers in a sustainable manner (MEFP, ¶31).

33. Boosting productivity and increasing female economic participation are crucial to buttress longer-term growth (MEFP, ¶32). Relative to its peers, Bangladesh's labor productivity remains low, and skill mismatches are large. Augmenting human capital and technology, alongside targeted skill development, will boost productivity. Addressing educational gaps and refining vocational training will bridge skills disparities and reduce informality. Staff analysis suggests greater gender equality and economic participation of women can yield significant economic gains for Bangladesh. Prioritizing the upskilling of female workers and facilitating their participation into the labor force will not only help boost income and productivity, but also advance gender equity and increase their resilience to economic shocks, including climate change[16].

34. Strengthening economic governance and limiting vulnerability to corruption would help enhance the business climate (MEFP, ¶33). Further enhancing fiscal and financial governance (¶19, ¶28), improving transparency, and strengthening policy frameworks (¶22, ¶23) remain critical to enhance the business climate. Progressive digitalization of government administration and services will help promote transparency and reduce corruption. Implementation of the supervisory tools being developed by Bangladesh Financial Intelligence Unit, with the assistance of the IMF, will strengthen the AML/CFT framework and mitigate the risk of money laundering (ML) in the banking sector, including the risk of trade-based ML. Improving skills and staffing of the Anti-Corruption Committee (ACC) will enhance governance and anti-corruption efforts. It also remains important to strengthen the asset declaration process for public officials, including by publishing declarations for key officials, imposing sanctions for non-compliance, better verifying information, and using a standard method to utilize and update the declarations.

35. Enhancing data quality and availability will support policy making. Supported by IMF TA, the rebased consumer price index and the historical series of quarterly GDP between FY16 and FY22 have been published and the coverage of the financial soundness indicators has been expanded. The plan to publish the current quarterly GDP by end-2023 (end-December 2023 SB) remains on track. The authorities are conducting labor force surveys on a more frequent basis to enhance labor market analysis. Data provision is broadly adequate for surveillance and program monitoring but further progress is needed, particularly in fiscal and financial statistics.

36. The authorities are stepping up their efforts to expand trade and investment, develop human capital, and strengthen governance. The authorities highlighted progress in negotiating various bilateral and preferential trade agreements, including with South Asian and Southeast Asian

[16] See 2023 Bangladesh: *Selected Issues* paper, "Women's Empowerment, Gender Budgeting, and Intersection with Climate Change."

economies. In line with their strategies for LDC graduation, they plan to improve trade-related energy and transportation infrastructure and reduce regulatory barriers to bring in more FDI. To upskill the labor force, the authorities are pursuing various initiatives, including vocational training programs. The authorities noted that female labor force participation is rising and is on track to reach the government's target of 50 percent by 2030. Having introduced gender budget tagging in 2005, the gender budgeting system is being enhanced with the aim of conducting 'ex-ante' rather than 'ex-post' gender budgeting with support from development partners, and ensuring that adequate resources are channeled toward programs and policies that promote gender equality. The authorities made progress in improving AML/CFT practices, including the adoption of RBS for AML/CFT with ongoing efforts to enhance the RBS toolkit and increased resource allocations for ACC to carry out its mandate effectively.

E. Climate Change Policies

37. Bangladesh is among the most vulnerable countries to climate change and natural disasters and building resilience requires significant climate financing (MEFP, ¶34)[17]. The recently adopted National Adaptation Plan (NAP) estimates adaptation investment totaling US$230 billion between now and 2050.[18] In response, the authorities have put in place policy tools, such as the Climate Fiscal Framework (CFF), climate budget tagging, and sustainable finance policy and taxonomy, to support climate finance mobilization. Supported by the RSF arrangement, the authorities are implementing reform measures (Table 11) to improve climate-spending efficiency and enable large-scale climate investments particularly the priorities identified in the NAP, the Bangladesh Delta Plan (BDP), and the Nationally Determined Contributions (NDC).

38. Climate-responsive public financial management and infrastructure investment are key to Bangladesh's long-term sustainable growth. Following the adoption of a sustainable public procurement policy paper, the authorities are gearing toward integrating climate considerations in investment in major infrastructure projects and management of public assets (RM6 for end-December 2024, RM9 for end-June 2025 and RM10 for end-December 2025). These reforms will improve the prioritization of resources for the BDP, align infrastructure investments with the NDC, and promote adaptation actions as envisaged in the NAP. With the help of IMF TA, the authorities are conducting the analysis of macro-fiscal risks from climate change in the Medium-Term Macroeconomic Policy Statement (MTMPS) that would support climate-aware planning and budgeting (RM5 for end-June 2024). Developing a National Disaster Risk Financing strategy that integrates social assistance measures, would help to target building resilience for the most vulnerable groups (RM4 for end-June 2024).

[17] See further details in Annex III *Bangladesh: Building Climate Resilience* of IMF Country Report No. 2023/66.

[18] 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.

39. Better management of climate-related risks will enhance financial sector resilience and help scale up private climate finance. The authorities aim to issue guidance to banks and financial institutions on disclosing climate-related risks by year-end (RM3 for end-December 223) and are building their capacity, with IMF support, to conduct and publish climate stress testing for the overall financial system and updating the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations (RM7 for end-December 2024). Building on Bangladesh's green bond strategy and sustainable finance initiatives, the authorities will update the green taxonomy to reflect the newly adopted NAP and the BDP to further promote the mobilization of private finance for adaptation investment. So far, the RSF is being complemented by climate finance from development partners (¶43). Efforts to further catalyze private climate finance are ongoing.

40. The authorities recognized the importance of the effective implementation of climate policy, as well as increased efforts to mobilize climate finance. The authorities highlighted good progress in implementing the country's climate policy, particularly through the NAP, the BDP, and the Mujib Climate Prosperity Plan (RM11 for end-December 2025). The authorities agreed that more needs to be done to ensure that institutional mechanisms are in place to scale up investment in climate adaptation and mitigation. To this end, they plan to establish an inter-ministerial committee to spearhead the implementation of key plans and coordinate strategic climate investments. The RSF would substitute for more expensive domestic financing, thus improving the expenditure composition toward development and social spending. In addition, the authorities are exploring options to further mobilize climate finance in close partnership with development partners, including through the initiatives catalyzed by the RST.

PROGRAM MODALITIES AND OTHER PROGRAM ISSUES

41. The authorities request a waiver for the non-observance of the end-June 2023 PC on NIR which was breached as a result of greater-than-expected worsening in external conditions and policy response that proved inadequate. Staff supports this waiver, based on the proposed corrective actions that entail further monetary tightening, supported by neutral fiscal policy stance, and greater exchange rate flexibility (¶13, ¶14, and ¶15), and given that the underperformance of the NIR has been partly external-driven, amidst aggressive global monetary tightening and the larger-than-expected spillovers into Bangladesh (¶5, ¶12 and Figure 1). As the uncertainty around the general elections subsides, financial flows could again normalize. (¶8).

42. Modification of program targets and new structural benchmarks are proposed for 2023 and 2024.

- Modification of quantitative performance criteria on NIR and PB for the second review (end-December 2023—Table 7) to reflect the revised outlook, while ensuring that reserve coverage remains adequate and fiscal policy reflects an integrated policy approach in close coordination with monetary and exchange rate policies. Staff assesses the modified NIR path to be consistent with the proposed corrective actions in the near term and transition to greater flexibility around the exchange rate regime and expects the reserve coverage to increase in the medium term.

- Establishment of new structural benchmarks (Table 10) is proposed to supplement the authorities' ongoing progress on the reform implementation under the ECF/EFF, guided by the sequencing of reforms at the time of program approval.[19] These include additional reforms in the areas of revenue mobilization, public financial management, fiscal transparency, monetary policy framework, and financial sector reforms. Reform measures under the RSF were approved by the IMF Board (Table 11).

43. Financing assurances. FY23 budget financing mostly materialized as envisioned but fell short of the projected amount at the time of program approval by US$718 million, due to procedural delays. Climate financing from the World Bank (WB) and Asian Development Bank (ADB) operations, as expected, has been approved, with additional financing commitment from French Development Agency (AFD).[20] Bangladesh's financing needs remain broadly unchanged from program approval and the ECF/EFF/RSF program is fully financed without RSF disbursements, with good prospects of financing for the remainder of its duration (Table 8). There are firm commitments for the next 12-months of the program and good prospects for the remainder of the program.

44. Capacity to repay (Table 9). Bangladesh's capacity to repay the Fund is adequate and the authorities' track record of servicing IMF debt remains strong. Total Fund credit outstanding peaks in 2026 at SDR 3,610.7 million, equivalent to 0.8 percent of GDP (6.4 percent of exports of goods and services or about 12.5 percent of gross FX reserves). Total obligations to the Fund would peak in 2025 at 0.1 percent of GDP (0.5 percent of exports of goods and services or 1.3 percent of GIR). The risk of debt distress is assessed to be low, and the debt outlook is expected to remain sustainable over the medium term.

45. Safeguard assessment. BB is making progress toward implementing the recommendations of the 2022 safeguards assessment. It has improved transparency of its IFRS-based financial statements, established procedures for the reporting of official reserve assets in accordance with the sixth edition of the IMF's balance of payments and international investment position manual (BPM6), and has been gradually winding down non-monetary use of FX reserves. In addition, BB engaged an international audit firm to conduct the audit for FY23, and the external auditors' selection policy will be approved to sustain this practice going forward. Steps are also being taken to strengthen internal audit function and improve controls in currency operations and IT environment.

[19] See details in *Bangladesh: Sequencing of Reforms under the ECF/EFF and RSF, FY23-FY26* of IMF Country Report No. 2023/66

[20] Climate financing includes, US$500 million from the WB's First Green and Climate Resilient Development Credit (first in the series), US$500 million from the ADB's climate change policy-based lending with prospective financing of US$740 million planned for FY24 and US$600 million planned for each FY25 and FY26 respectively, and EUR 300 million planned under AFD's budget support program during FY24 and FY25.

46. Risks to the program implementation. The main risk to the program is the limited scope to relax fiscal or monetary policy in the event of adverse real shocks, given low tax revenues, high inflation, and reserve losses. Weaknesses in implementation capacity, political opposition to some proposed reforms, and political uncertainty due to national elections planned for January 2024 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.

47. Capacity Development. The capacity development strategy is well-aligned with program and surveillance objectives (Annex V). CD has supported the implementation of past IMF staff advice, which also gained good traction (Annex I). CD priorities continue to strengthen key reform implementation in the areas of revenue mobilization, public financial management, banking supervision, capital markets, and macro statistics.

STAFF APPRAISAL

48. Bangladesh continues to face challenges amidst persistent external pressures. Continued global monetary tightening and elevated global commodity prices, coupled with existing vulnerabilities, have kept the Taka and FX reserves under pressure and increased the cost of living.

49. Despite challenges, program performance is broadly on track. All quantitative targets were met, except for the PC on NIR and the IT on tax revenues, which were missed due to adverse spillovers from global economic developments and inadequate policy response. Six out of seven structural benchmarks were met; however, the Finance Companies Act (2020) was passed by Parliament with delay. The reform measure under the RSF has been met.

50. With an appropriate policy mix, the macroeconomic outlook and external position are expected to stabilize. Near-term policy priorities should aim to contain inflation and rebuild reserves. Helped by continued monetary policy tightening and neutral fiscal policy, inflation is expected to moderate. Greater exchange rate flexibility would help alleviate FX pressures and rebuild external buffers. Growth is expected to hold up on the back of relatively resilient exports despite subdued private demand. Nevertheless, risks to the outlook remain tilted to the downside.

51. Monetary and exchange rate policy reforms will help bolster macroeconomic resilience. The ongoing momentum to modernize the monetary policy framework should continue, which will promote greater macroeconomic stability and help better manage inflation. A gradual transition to a more flexible exchange rate regime will enhance the economy’s resilience to external shocks.

52. Broad-based fiscal revenue and expenditure reforms are needed to further expand social spending and investment. A multifaceted revenue strategy should include rationalization of tax expenditures, holistic compliance risk management, and modernization of revenue administration. Reforms to strengthen investment and debt management, improve fiscal risks assessment, and reduce untargeted subsidies would help channel revenues toward much-needed social, developmental, and climate-related spending.

53. Strengthening the financial sector and developing capital markets will support the authorities' long-term development goals. Policy priorities include implementing NPL reduction strategy and addressing weak bank balance sheets. Strengthening oversight, enhancing governance and the regulatory framework, and developing capital markets will help mobilize financing to support growth objectives.

54. Addressing long-standing structural challenges is crucial to help achieve Bangladesh's ambition to reach upper-middle income status. Improving the investment climate, reducing tariff and non-tariff barriers, and diversifying exports are important to boost competitiveness. Reducing gender gaps in economic participation and tertiary education, upskilling the labor force, and improving trade-related infrastructure would increase productivity and long-term growth potential. Strengthening governance to limit vulnerability to corruption will help attract investment.

55. Building resilience to climate change and natural disasters is a key priority for sustainable growth. Additional efforts to strengthen institutions, improve climate spending efficiency, and enhance financial sector resilience to climate-related risks would help meet the authorities' climate objectives and mobilize climate finance, particularly from private sources.

56. Based on Bangladesh's overall strong performance and commitments under the program, staff supports the authorities' request for the completion of the First Review. Staff supports the requests for (i) a waiver for nonobservance of the NIR, (ii) the resetting of one SB to a later date, and (iii) the modification of end-December 2023 performance criteria and indicative targets.

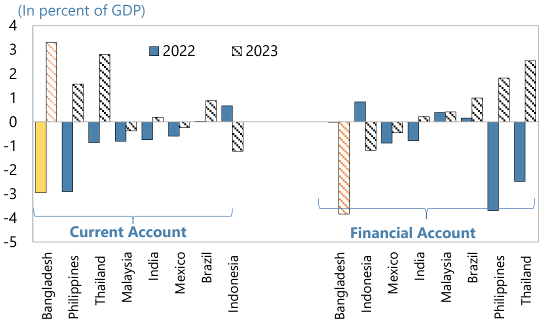
57. It is expected that the next Article IV consultation with Bangladesh will be held on the 24-month cycle in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 1. Bangladesh: Pressures from External Shocks

Bangladesh experienced a sharp deterioration in current account and subsequently a reversal in financial account…

Annual Changes of Current Account and Financial Account Balance in Selected Economies

(In percent of GDP)

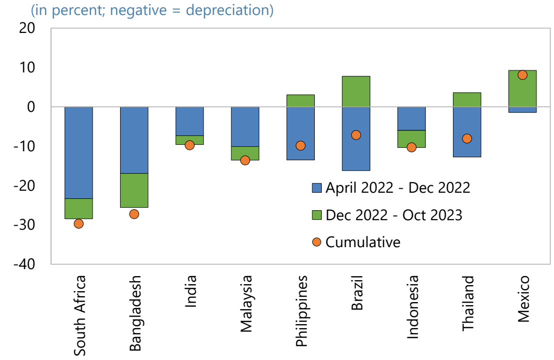


Source: World Economic Outlook; and IMF Staff Estimates.
Note: Bangladesh and India data is reported for Fiscal Years 2022 and 2023.

…leading to a sharp depreciation of the Taka….

Exchange Rate Movement Against USD in Selected Economies

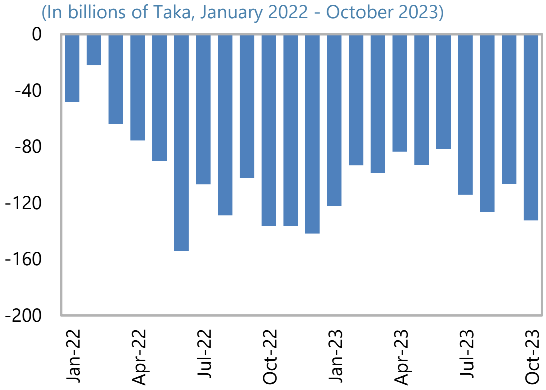
(in percent; negative = depreciation)



despite active FX interventions.

Net Foreign Exchange Interventions

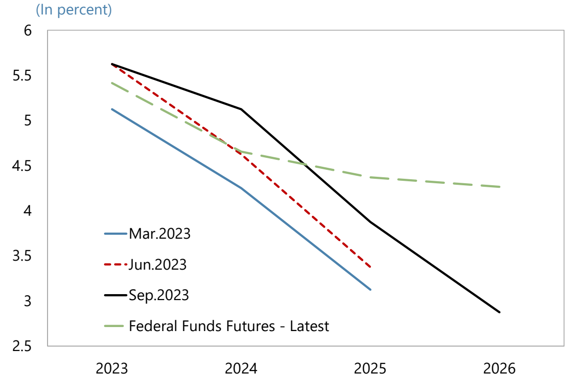
(In billions of Taka, January 2022 - October 2023)



Global monetary tightening…

Year-End Target of Fed Funds Rate

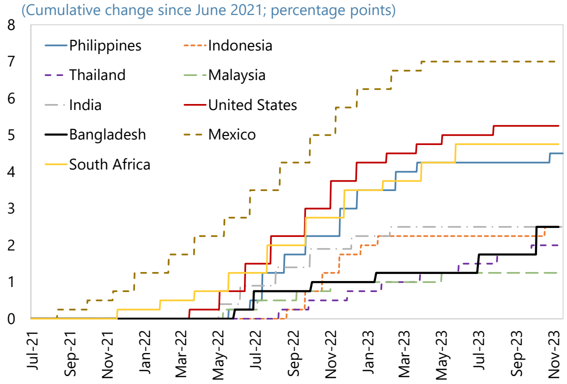
(In percent)



…and lag in policy rate response,…

Policy Rates

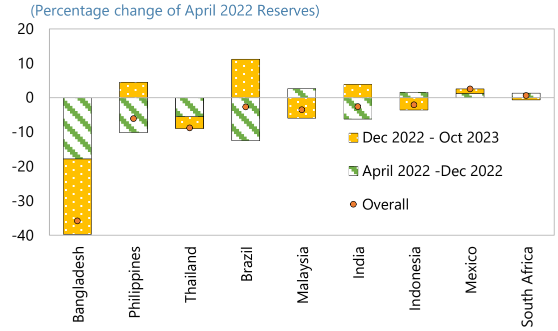
(Cumulative change since June 2021; percentage points)



…led to continued reserve losses.

Foreign Exchange Reserves Developments in Selected Economies

(Percentage change of April 2022 Reserves)

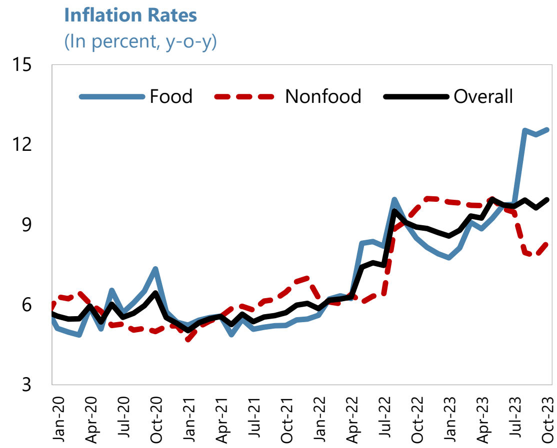


Note: Data for Mexico as of September 2023.

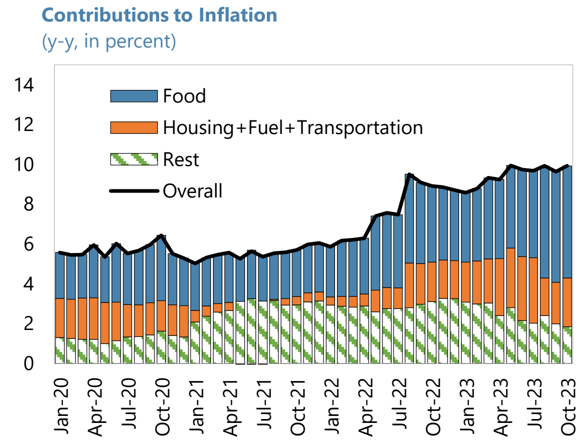
Sources: Bangladesh Bureau of Statistics; Bangladesh Bank; Bloomberg Finance L.P.; Haver Analytics, Inc.; CEIC Data Company Limitted; and IMF staff calculations.

Figure 2. Bangladesh: Monetary and Financial Market Developments

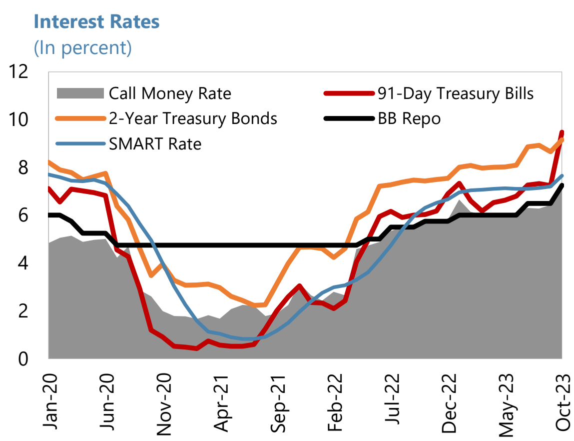
Inflation remained elevated…



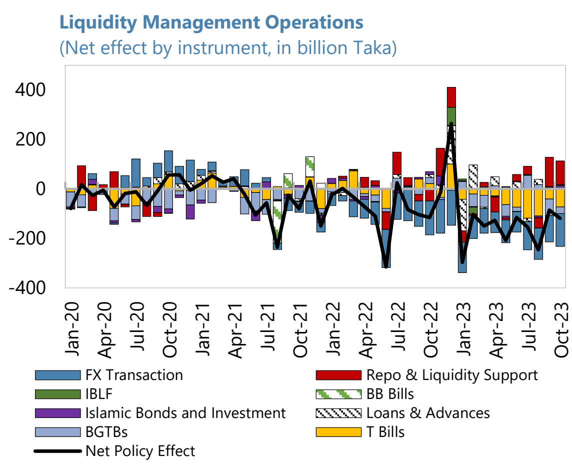
… driven by second-round effects from FY23 fuel price hike, volatile food prices, and increased inflation expectations.



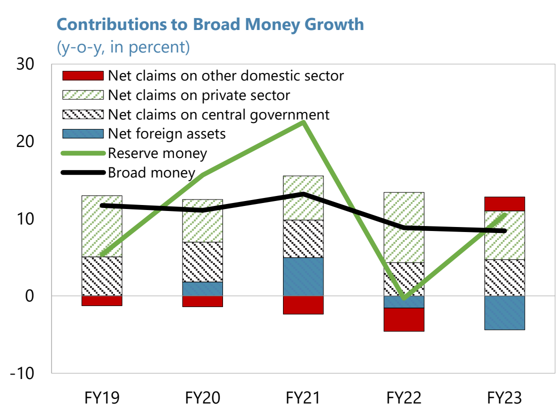
Policy rate was further increased…



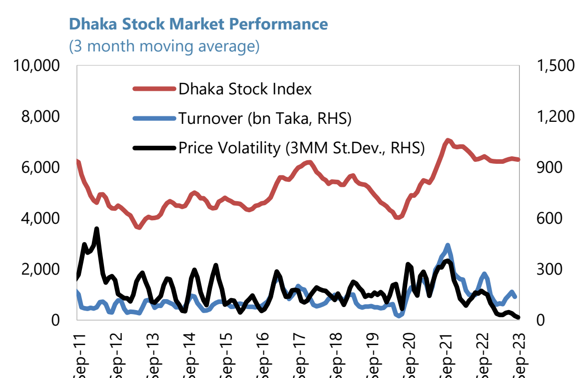
… and unsterilized FX sales kept liquidity in the system tight.



Broad money growth has continued to slow.



Stock prices have stabilized.

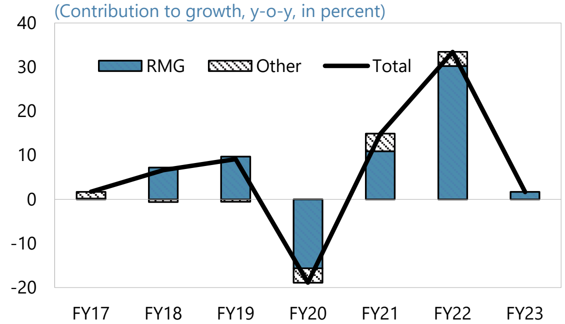


Sources: Bangladesh Bureau of Statistics; Bangladesh Bank, Haver Analytics, Inc.; CEIC Data Company Limitted; and IMF staff calculations.

Figure 3. Bangladesh: External Sector Developments

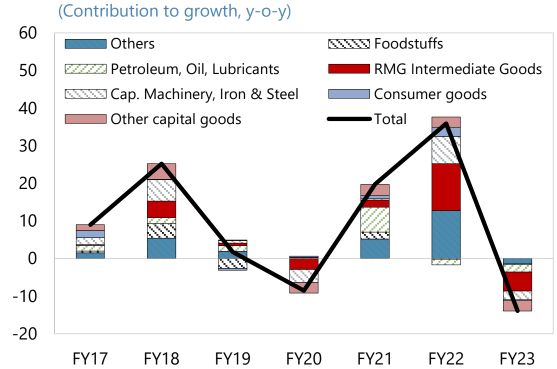
While export growth slowed in FY2023 relative to FY2022, it remained resilient in a challenging external environment.

Exports by Commodity
(Contribution to growth, y-o-y, in percent)



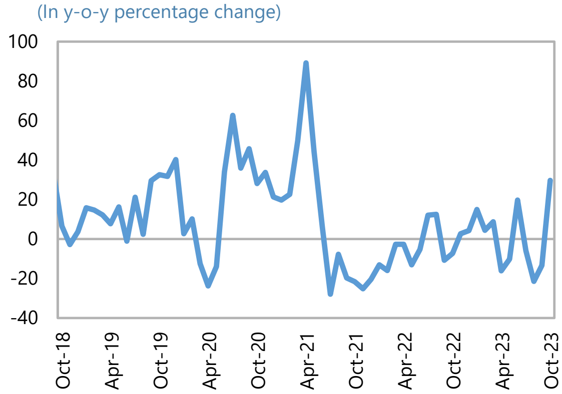
Slowdown in export growth was largely offset by a sharp contraction in imports.

Imports by Commodity
(Contribution to growth, y-o-y)



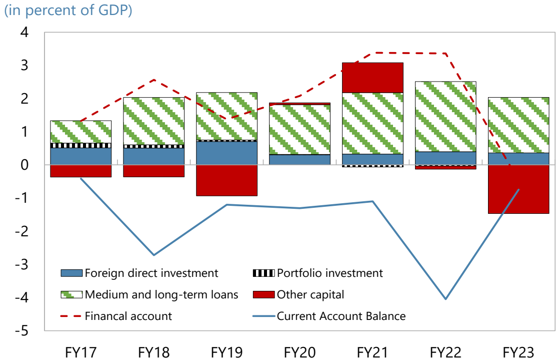
Growth in worker remittances have stabilized, although at a level lower than in the recent past.

Workers' Remittances
(In y-o-y percentage change)



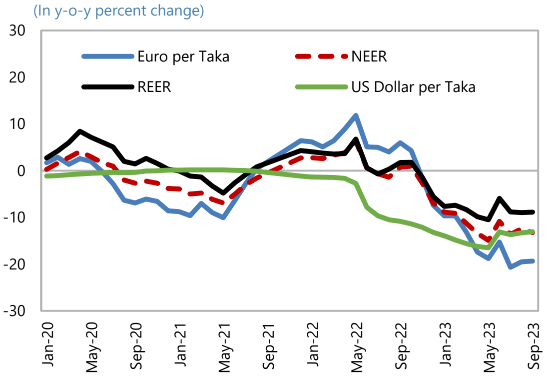
Consequently, the current account deficit shrank substantially to a historic low.

Current and Financial Account Balance
(in percent of GDP)



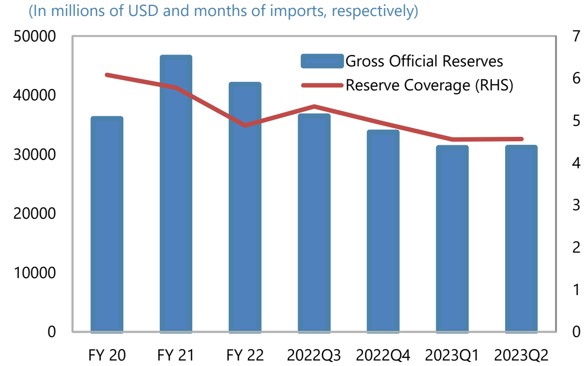
Taka has been under pressure...

Exchange Rate Dynamics
(In y-o-y percent change)



...leading to further declines in reserves and reserve coverage.

Gross Official Reserves and Reserve Coverage
(In millions of USD and months of imports, respectively)

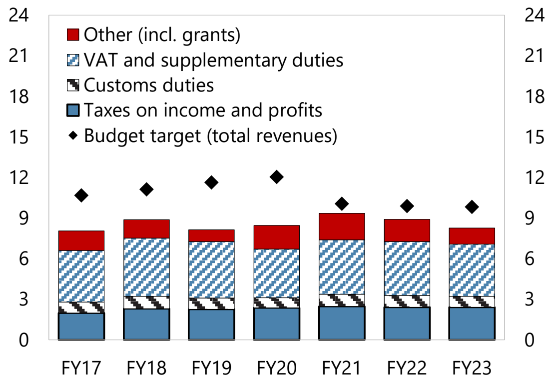


Sources: Bangladesh Authorities; Bangladesh Bank, Haver Analytics, Inc.; FRED; INS; and IMF staff estimates.

Figure 4. Bangladesh: Fiscal Developments

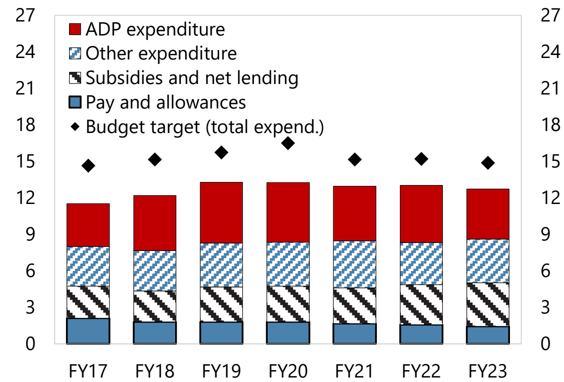
Revenue collection declined in FY23, owing to import compressions and weakened domestic demand.

Central Government Revenue
(Percent of GDP)



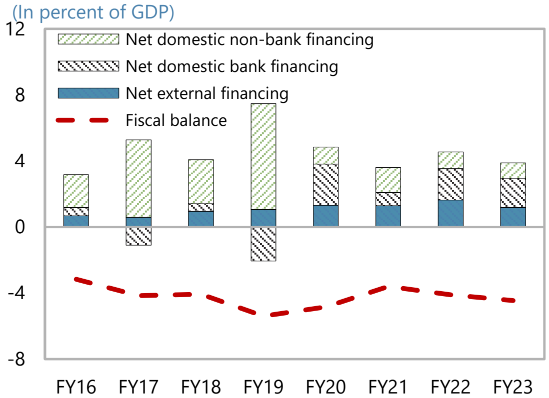
Spending also fell slightly in FY23 on account of under-execution of capital budget and wage bill constraint.

Central Government Expenditure
(Percent of GDP)



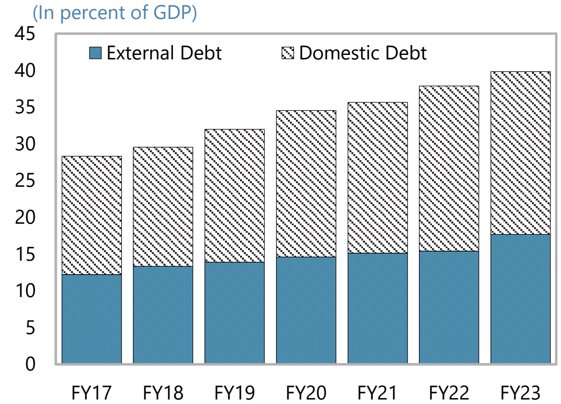
The fiscal deficit was kept below target…

Fiscal Balance and Sources of Financing
(In percent of GDP)



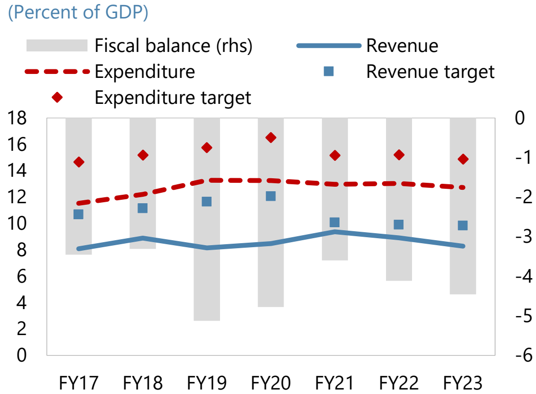
…keeping public debt low and sustainable.

Total Public Debt
(In percent of GDP)



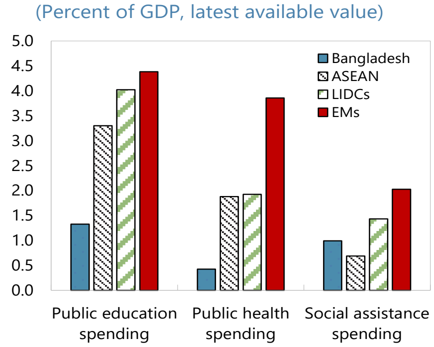
Despite authorities' efforts, revenue collection continues to undershoot targets…

Fiscal Balance, Revenue and Spending
(Percent of GDP)



…in turn constraining social and development spending.

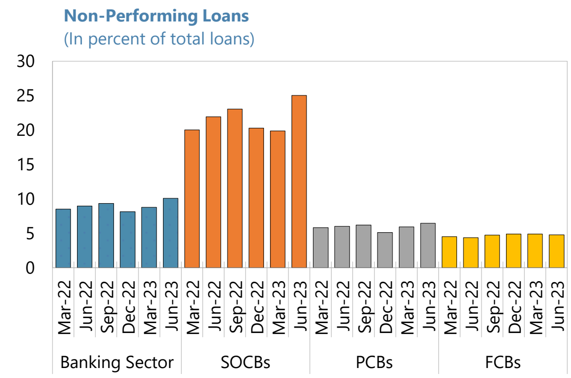
Government Social Spending
(Percent of GDP, latest available value)



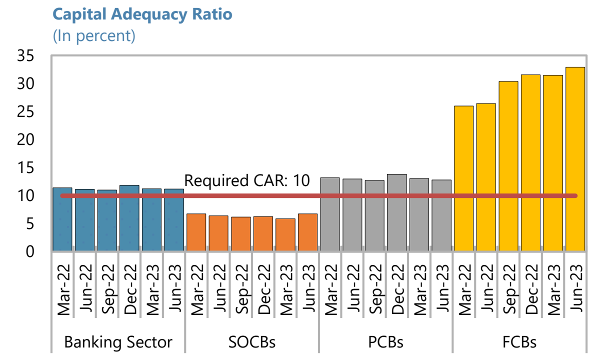
Sources: Bangladesh Ministry of Finance; World Economic Outlook; and IMF staff estimates.

Figure 5. Bangladesh: Banking Sector Developments

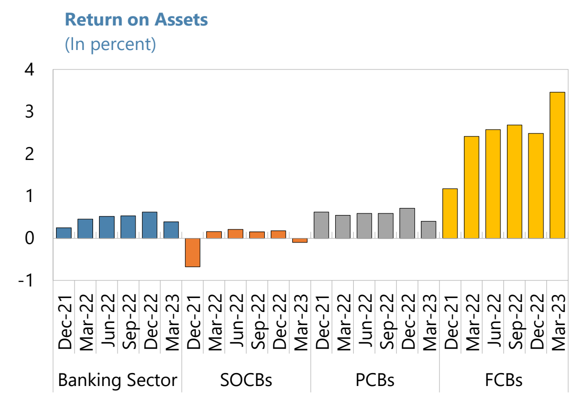
Non-performing loans remain elevated, especially in SOCBs.



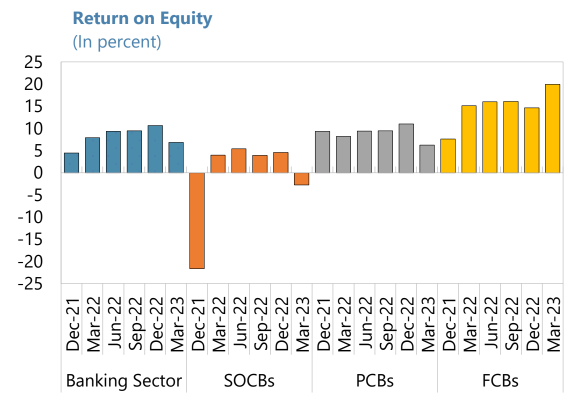
SOCBs' bank capital continues to stay below the required capital adequacy ratio.



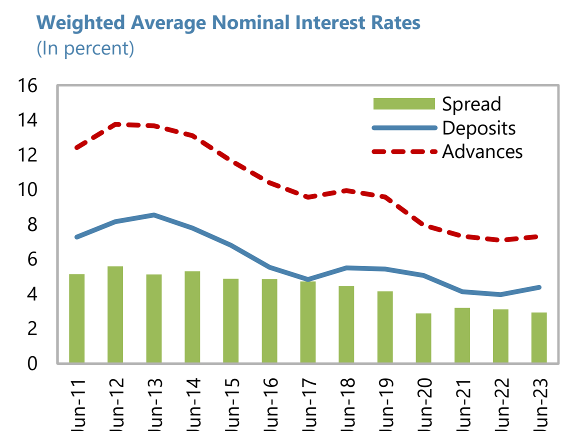
Poor asset quality has led to low bank profits…



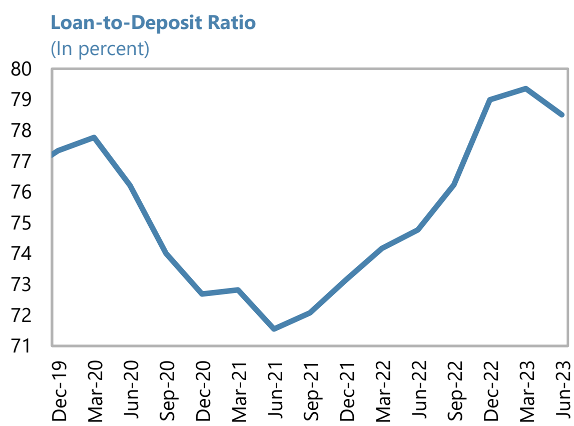
…particularly among SOCBs.



Interest margin continues to be suppressed.



Growth of credit to private sector moderated but deposit growth fell further.

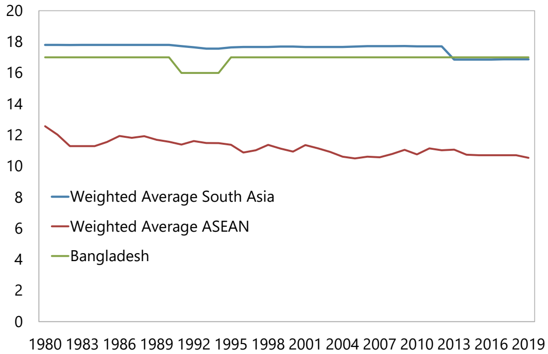


Source: Bangladesh Bank.

Figure 6. Bangladesh: Macro-Structural Developments

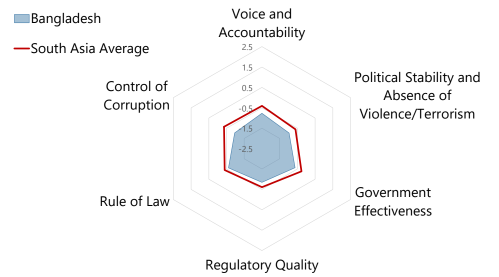
Further trade liberalization,...

Non-Tariff Barriers Index
(Index 0-20, weighted average, 2019 GDP)



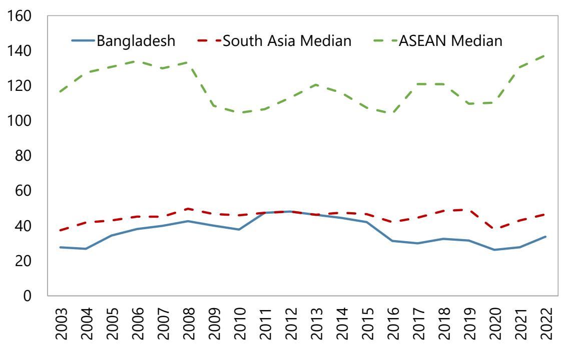
...and improving the business climate..

Governance Indicators, 2021
(Ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)



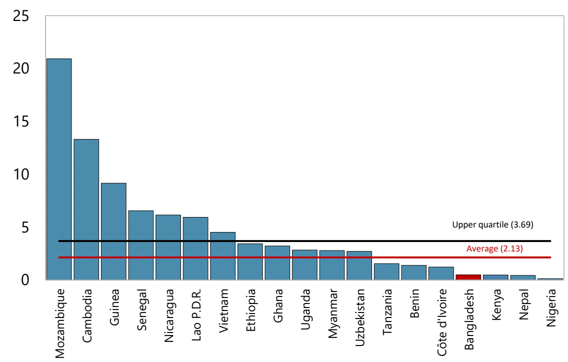
...will help expand trade and export diversification,...

Trade as Share of GDP
(In percent of GDP)



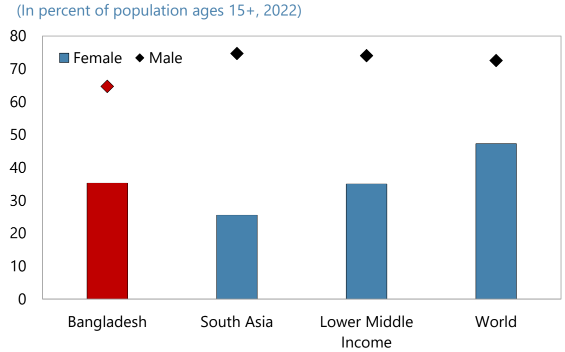
...and attract FDI inflows.

Foreign Direct Investment
(2018-2022 5-year average, percent of GDP)



Enhancing female economic participation...

Labor Force Participation Rate
(In percent of population ages 15+, 2022)



...and human capital development would be crucial to boost longer-term growth.

School Enrollment at Tertiary Education
(In percent, 2020 data)

Note: 2021 for Bangladesh Data.

Sources: IMF's World Economic Outlook Database, World Bank's World Development Indicators, Worldwide Governance Indicators, Bangladesh's National Labour Force Surveys; International Labour Organization; Flores and Others (2022) and IMF Staff Calculations.

Table 1. Bangladesh: Selected Economic Indicators, FY20–28 1/

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
				Est.			Proj.		
	(Annual percent change)								
Real GDP	3.4	6.9	7.1	6.0	6.0	6.6	7.1	7.2	7.0
Consumption									
Private	3.0	8.0	7.5	3.6	5.7	6.3	5.7	5.7	5.7
Public	2.0	6.9	6.2	10.5	6.4	5.7	6.8	7.2	6.8
Gross Capital Formation	0.2	8.1	11.7	2.9	8.2	8.9	9.2	9.6	9.3
Private	0.2	7.8	11.8	1.7	6.9	8.5	7.8	8.8	8.7
Public	18.2	9.1	11.1	6.7	12.1	9.9	13.1	11.8	10.9
Trade									
Exports of goods and services	-17.5	9.2	29.4	10.6	12.4	3.9	5.8	5.2	8.6
Imports of goods and services	-11.4	15.3	31.2	-2.6	4.0	7.2	5.0	5.0	8.2
Prices									
GDP deflator	3.8	4.1	5.0	5.4	6.4	5.5	5.2	5.5	5.3
CPI inflation (annual average)	5.6	5.6	6.1	9.0	7.9	6.8	5.5	5.5	5.5
CPI inflation (end of period)	6.0	5.6	7.6	9.7	7.2	5.8	5.5	5.5	5.5
	(In percent of GDP, unless otherwise indicated)								
Central government operations									
Total revenue and grants	8.5	9.4	8.9	8.3	8.8	9.3	9.9	10.0	10.2
Of which : Tax revenue	7.0	7.6	8.0	7.4	7.9	8.4	9.1	9.2	9.4
Total expenditure	13.3	13.0	13.0	12.9	13.4	13.9	14.9	15.0	15.1
Of which : Annual Development Program (ADP)	4.9	4.5	4.7	4.3	4.7	5.1	5.9	5.9	6.2
Overall balance (including grants)	-4.8	-3.6	-4.1	-4.6	-4.6	-4.6	-5.0	-5.0	-5.0
(excluding grants)	-4.9	-3.7	-4.2	-4.7	-4.7	-4.7	-5.1	-5.0	-5.0
Primary balance (including grants)	-3.0	-1.6	-2.1	-2.6	-2.8	-2.3	-2.5	-2.5	-2.5
Public sector total debt 2/	34.5	35.6	37.9	39.8	41.4	42.0	42.7	42.9	43.1
Of which : External debt	14.6	15.1	15.4	17.7	18.1	18.1	17.9	17.4	16.9
Balance of Payments									
Current account balance	-1.5	-1.1	-4.1	-0.7	-0.8	-2.7	-3.0	-3.0	-3.0
Trade balance	-5.4	-6.4	-8.0	-5.8	-4.9	-6.7	-6.8	-6.6	-6.6
Service balance	-0.7	-0.7	-0.9	-1.0	-1.0	-1.3	-1.3	-1.2	-1.2
Income balance	-0.8	-0.8	-0.7	-0.9	-0.8	-0.9	-0.9	-0.9	-0.8
Transfers	5.0	6.1	4.7	5.0	4.9	4.8	4.6	4.4	4.4
of which: Remittances	4.9	6.0	4.6	4.8	4.8	4.7	4.5	4.3	4.3
Capital account balance	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	2.3	3.4	3.4	-0.5	0.5	4.0	4.6	4.2	4.2
Foreign direct investment, net	0.3	0.3	0.4	0.4	0.4	0.9	1.1	1.3	1.3
Gross international reserves (billions of U.S. dollars)	36.0	46.4	33.4	24.8	24.3	30.6	39.2	46.1	54.3
in months of next year's imports	6.1	5.8	4.9	3.4	2.8	3.2	3.8	4.0	4.2
Monetary and Credit									
Reserve money	8.9	9.8	8.7	8.6	8.5	8.5	8.6	8.7	8.8
Broad money (M2)	53.8	54.6	52.9	51.3	50.7	51.3	51.8	53.0	54.2
Credit to private sector	37.3	36.2	36.6	35.7	35.2	35.8	36.4	36.9	37.6
Credit to private sector (percent change)	7.7	8.2	13.7	9.1	11.2	14.3	14.3	14.9	14.7
Savings and Investment									
Gross national savings	31.4	30.8	29.3	30.2	30.4	29.5	29.9	30.7	31.3
Public	1.0	1.9	1.2	0.3	0.6	1.1	1.8	1.8	2.1
Private	30.4	28.9	28.2	30.0	29.8	28.4	28.2	28.8	29.3
Gross investment	31.3	31.0	32.0	31.3	31.2	32.3	33.0	33.7	34.3
Public	7.3	7.3	7.5	7.6	7.9	8.2	8.6	9.0	9.3
Private	24.0	23.7	24.5	23.6	23.3	24.0	24.4	24.8	25.1
Memorandum item:									
Nominal GDP (in billions of taka)	31,705	35,302	39,717	44,393	50,068	56,297	63,414	71,694	80,816

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.

Table 2. Bangladesh: Balance of Payments, FY20–28 1/

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

	FY20	FY21	FY22	FY23	FY24	FY 25	FY26	FY27	FY28
				Est.			Proj.		
Current account balance 2/	-5,435	-4,575	-18,639	-3,334	-3,677	-13,437	-16,504	-18,477	-20,561
Trade balance	-21,147	-26,798	-37,205	-21,411	-22,344	-32,628	-36,596	-40,020	-44,964
Exports (f.o.b.)	32,121	36,903	49,245	52,340	55,076	60,480	66,361	73,201	81,864
Of which : Ready-made garment sector	27,949	31,457	42,613	46,992	49,567	54,035	58,628	63,611	69,972
Imports (f.o.b.) 2/	-50,690	-60,681	-82,495	-69,495	-72,970	-86,980	-96,113	-105,724	-118,411
Of which : Crude oil and petroleum products	-4,957	-8,278	-7,385	-5,334	-6,578	-8,872	-9,292	-9,607	-9,970
Services	-2,578	-3,020	-3,955	-4,256	-4,450	-6,127	-6,845	-7,497	-8,416
Income	-3,070	-3,172	-3,152	-4,233	-3,827	-4,426	-4,938	-5,235	-5,584
Transfers	18,782	25,395	21,718	22,310	22,494	23,616	25,030	26,779	29,987
Official current transfers 3/	19	51	16	88	50	50	50	50	50
Private transfers	18,763	25,344	21,702	22,222	22,444	23,566	24,980	26,729	29,937
Of which : Workers' remittances	18,205	24,778	21,032	21,611	21,827	22,918	24,294	25,994	29,113
Capital and financial account balance 4/	8,910	14,525	15,639	-1,669	2,433	20,019	25,534	25,741	29,000
Capital account	256	458	181	473	374	402	445	499	563
Financial account	8,654	14,067	15,458	-2,142	2,059	19,616	25,088	25,242	28,438
Foreign direct investment	1,271	1,355	1,827	1,611	1,821	4,406	5,962	7,899	8,903
Portfolio investment	44	-269	-158	-18	-332	441	596	790	890
Medium- and long-term loans, net	6,238	7,716	9,727	7,477	7,543	8,523	9,118	13,428	14,862
Government, net	5,739	6,032	8,284	6,944	7,286	7,523	7,618	10,728	12,162
Others	1,101	5,265	4,062	-11,212	-6,973	6,247	9,412	3,125	3,782
of which: Short-term loans and trade credits, net	1,378	5,813	2,877	-8,440	-5,379	6,202	9,313	3,109	3,753
Errors and omissions	-306	-676	-697	-3,220	0	0	0	0	0
Overall balance	3,169	9,274	-3,697	-8,223	-1,244	6,582	9,030	7,264	8,440
Financing items	-3,169	-9,274	3,697	8,223	1,244	-6,582	-9,030	-7,264	-8,440
Reserve assets (+ decrease; excl. RSF)	…	…	…	…	871	-5,821	-8,171	-6,931	-8,254
				(in percent of GDP)					
Current account balance	-1.5	-1.1	-4.1	-0.7	-0.8	-2.7	-3.0	-3.0	-3.0
Trade balance	-5.7	-6.4	-8.1	-4.8	-4.9	-6.7	-6.8	-6.6	-6.6
Exports (f.o.b.)	8.6	8.9	10.7	11.7	12.1	12.4	12.2	12.0	12.0
Imports (f.o.b.)	-13.6	-14.6	-17.9	-15.6	-16.0	-17.8	-17.7	-17.4	-17.3
Services	-0.7	-0.7	-0.9	-1.0	-1.0	-1.3	-1.3	-1.2	-1.2
Income	-0.8	-0.8	-0.7	-0.9	-0.8	-0.9	-0.9	-0.9	-0.8
Transfers	5.0	6.1	4.7	5.0	4.9	4.8	4.6	4.4	4.4
Of which : Workers' remittances	4.9	6.0	4.6	4.8	4.8	4.7	4.5	4.3	4.3
Capital account	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Financial account	2.3	3.4	3.4	-0.5	0.5	4.0	4.6	4.2	4.2
Foreign direct investment	0.3	0.3	0.4	0.4	0.4	0.9	1.1	1.3	1.3
Portfolio investment	0.0	-0.1	0.0	0.0	-0.1	0.1	0.1	0.1	0.1
Medium- and long-term loans, net	1.7	2.1	2.6	2.0	2.0	2.3	2.4	3.6	4.0
Other investment, net	0.3	1.3	0.9	-2.5	-1.5	1.3	1.7	0.5	0.6
Memorandum items:									
Remittances (annual percent change)	10.9	36.1	-15.1	2.8	1.0	5.0	6.0	7.0	12.0
Medium- and long-term external public debt	54,504	62,882	65,482	74,007	79,554	87,812	96,403	105,667	115,693
(Percent of GDP)	14.6	15.1	15.4	17.7	18.1	18.1	17.9	17.4	16.9
Gross official reserves (incl. RSF) 5/	36,037	46,391	33,386	24,754	24,309	30,556	39,152	46,083	54,336
(In months of imports of goods and services)	6.1	5.8	4.9	3.4	2.8	3.2	3.8	4.0	4.2
Net international reserves (incl. RSF) 5/	…	…	28,408	20,015	20,109	26,356	34,952	41,883	50,136
(In months of imports of goods and services)	…	…	4.2	2.8	2.3	2.8	3.4	3.6	3.9
Gross official reserves (excl. RSF)	…	…	…	…	23,883	30,130	38,726	…	…
Net international reserves (excl. RSF)	…	…	…	…	19,683	25,930	34,526	…	…
Nominal GDP	373,902	416,265	460,201	446,349	455,162	489,538	541,999	607,578	684,881

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 3a. Bangladesh: Central Government Operations, FY20–28 1/

(In billions of Taka, unless otherwise indicated)

	FY20	FY21	FY22	FY23		FY24		FY25	FY26	FY27	FY28
				Budget	Est.	Budget	Proj.	Proj.			
Total revenue and grants	2,685	3,305	3,542	4,363	3,686	4,596	4,403	5,212	6,273	7,160	8,214
Total revenue	2,659	3,286	3,519	4,330	3,658	4,549	4,354	5,155	6,226	7,154	8,208
Tax revenue	2,220	2,698	3,158	3,880	3,276	4,104	3,945	4,718	5,758	6,626	7,612
National Board of Revenue (NBR) taxes	2,160	2,639	3,077	3,700	3,186	4,005	3,844	4,603	5,629	6,480	7,448
Of which: VAT and supplementary duties	1,136	1,419	1,584	1,839	1,712	2,231	2,019	2,411	2,938	3,376	3,873
Taxes on income and profits	754	873	961	1,159	1,071	1,378	1,293	1,594	2,018	2,329	2,684
Customs and excise duties	260	341	358	370	388	396	510	573	646	744	857
Non-NBR taxes	59	59	81	180	90	99	102	114	129	145	164
Nontax revenue	439	588	360	450	382	445	409	437	468	529	596
Foreign grants	26	19	23	33	27	47	49	58	47	6	6
Total expenditure	4,219	4,560	5,177	6,605	5,742	7,157	6,731	7,824	9,444	10,737	12,239
Current expenditure	2,361	2,631	3,082	3,901	3,572	4,445	4,125	4,586	5,147	5,849	6,547
Pay and allowances	569	589	633	706	634	737	697	784	883	999	1,126
Goods and services	290	305	318	349	332	442	412	469	528	597	673
Interest payments	583	706	778	892	921	944	944	1,292	1,556	1,789	1,970
Subsidies and transfers 2/	919	1,032	1,353	1,954	1,685	2,322	2,071	2,041	2,180	2,465	2,778
Block allocations	0	0	0	0	0	0	0	0	0	0	0
Annual Development Program (ADP)	1,554	1,592	1,861	2,294	1,912	2,258	2,364	2,852	3,735	4,251	4,973
Non-ADP capital spending	269	289	271	140	287	394	200	338	507	574	647
Net lending 3/	12	6	-51	35	-21	49	50	56	63	72	81
Other expenditures 4/	23	42	15	235	-8	11	-8	-8	-8	-8	-8
Overall balance (including grants)	-1,535	-1,255	-1,635	-2,242	-2,056	-2,561	-2,327	-2,611	-3,171	-3,577	-4,025
(Excluding grants)	-1,560	-1,274	-1,659	-2,275	-2,083	-2,608	-2,376	-2,669	-3,218	-3,583	-4,031
Primary balance (including grants)	-951	-567	-848	-1,351	-1,135	-1,618	-1,384	-1,319	-1,615	-1,788	-2,055
(Excluding grants)	-977	-586	-871	-1,383	-1,162	-1,664	-1,433	-1,377	-1,663	-1,794	-2,061
Net financing	1,535	1,272	1,802	2,242	1,998	2,561	2,327	2,611	3,171	3,577	4,025
External	416	455	651	838	714	658	464	797	842	1,093	1,183
Disbursements	529	575	784	1,020	912	984	1,063	1,195	1,279	1,506	1,615
Of which: RSF financing	…	…	…	…	…	0	47	49	50	…	…
Amortization	-113	-120	-133	-182	-198	-326	-598	-398	-436	-412	-432
Domestic	1,119	818	1,152	1,404	1,284	1,904	1,863	1,814	2,329	2,484	2,842
Banks	793	284	755	1,154	868	1,415	1,357	1,220	1,628	1,652	1,905
Of which: Bangladesh Bank-IMF Budget support	…	…	…	24	22	92	96	101	106	…	…
Nonbanks 5/	326	533	396	250	416	489	506	594	701	832	937
Of which: National Saving Certificate	151	430	203	50	-33	286	279	314	354	400	451

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 3b. Bangladesh: Central Government Operations, FY20–28 1/

(In percent of GDP, unless otherwise indicated)

	FY20	FY21	FY22	FY23		FY24		FY25	FY26	FY27	FY28
				Budget	Est.	Budget	Proj.		Proj.		
Total revenue and grants	8.5	9.4	8.9	9.9	8.3	9.3	8.8	9.3	9.9	10.0	10.2
Total revenue	8.4	9.3	8.9	9.8	8.2	9.2	8.7	9.2	9.8	10.0	10.2
Tax revenue	7.0	7.6	8.0	8.8	7.4	8.3	7.9	8.4	9.1	9.2	9.4
National Board of Revenue (NBR) taxes	6.8	7.5	7.7	8.4	7.2	8.1	7.7	8.2	8.9	9.0	9.2
Of which: VAT and supplementary duties	3.6	4.0	4.0	4.2	3.9	4.5	4.0	4.3	4.6	4.7	4.8
Taxes on income and profits	2.4	2.5	2.4	2.6	2.4	2.8	2.6	2.8	3.2	3.2	3.3
Customs and excise duties	0.8	1.0	0.9	0.8	0.9	0.8	1.0	1.0	1.0	1.0	1.1
Non-NBR taxes	0.2	0.2	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Nontax revenue	1.4	1.7	0.9	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.7
Foreign grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Total expenditure	13.3	12.9	13.0	15.0	12.9	14.5	13.4	13.9	14.9	15.0	15.1
Current expenditure	7.4	7.5	7.8	8.8	8.0	9.0	8.2	8.1	8.1	8.2	8.1
Pay and allowances	1.8	1.7	1.6	1.6	1.4	1.5	1.4	1.4	1.4	1.4	1.4
Goods and services	0.9	0.9	0.8	0.8	0.7	0.9	0.8	0.8	0.8	0.8	0.8
Interest payments	1.8	2.0	2.0	2.0	2.1	1.9	1.9	2.3	2.5	2.5	2.4
Subsidies and transfers 2/	2.9	2.9	3.4	4.4	3.8	4.7	4.1	3.6	3.4	3.4	3.4
Annual Development Program (ADP)	4.9	4.5	4.7	5.2	4.3	4.6	4.7	5.1	5.9	5.9	6.2
Non-ADP capital spending	0.8	0.8	0.7	0.3	0.6	0.8	0.4	0.6	0.8	0.8	0.8
Net lending 3/	0.0	0.0	-0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other expenditures 4/	0.1	0.1	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (including grants)	-4.8	-3.6	-4.1	-5.1	-4.6	-5.2	-4.6	-4.6	-5.0	-5.0	-5.0
(Excluding grants)	-4.9	-3.6	-4.2	-5.2	-4.7	-5.3	-4.7	-4.7	-5.1	-5.0	-5.0
Primary balance (including grants)	-3.0	-1.6	-2.1	-3.1	-2.6	-3.3	-2.8	-2.3	-2.5	-2.5	-2.5
(Excluding grants)	-3.1	-1.7	-2.2	-3.1	-2.6	-3.4	-2.9	-2.4	-2.6	-2.5	-2.5
Net financing	4.8	3.6	4.5	5.1	4.5	5.2	4.6	4.6	5.0	5.0	5.0
External	1.3	1.3	1.6	1.9	1.6	1.3	0.9	1.4	1.3	1.5	1.5
Disbursements	1.7	1.6	2.0	2.3	2.1	2.0	2.1	2.1	2.0	2.1	2.0
Of which: RSF financing	...	...	...	...	...	0.0	0.1	0.1	0.1	...	...
Amortization	-0.4	-0.3	-0.3	-0.4	-0.4	-0.7	-1.2	-0.7	-0.7	-0.6	-0.5
Domestic	3.5	2.3	2.9	3.2	2.9	3.9	3.7	3.2	3.7	3.5	3.5
Banks	2.5	0.8	1.9	2.6	2.0	2.9	2.7	2.2	2.6	2.3	2.4
Nonbanks 5/	1.0	1.5	1.0	0.6	0.9	1.0	1.0	1.1	1.1	1.2	1.2
Of which: National Saving Certificate	0.5	1.2	0.5	0.1	-0.1	0.6	0.6	0.6	0.6	0.6	0.6
Memorandum items:											
Total central government debt (percent of GDP)	34.5	35.6	37.9	42.1	39.8	41.7	41.4	42.0	42.7	42.9	43.1
Nominal GDP (in billions of taka)	31,705	35,302	39,717	44,133	44,393	49,258	50,068	56,297	63,414	71,694	80,816

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 4. Bangladesh: Monetary Accounts, FY20–28 1/

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
				Est.	Proj.				
Bangladesh Bank (BB) balance sheet	(End of period; in billions of taka)								
Net foreign assets	2,839	3,648	3,456	2,259	2,341	3,005	3,964	4,782	5,755
Net domestic assets	-9	-183	-1	1,559	1,917	1,782	1,489	1,454	1,353
Net credit to central government 2/	322	91	449	1,440	1,441	1,443	1,449	1,342	1,342
Credit to other nonfinancial public sector	12	12	12	12	12	12	12	12	12
Credit to deposit money banks	159	221	194	1,259	1,268	1,268	1,268	1,268	1,268
Other items, net	-503	-506	-656	-1,152	-805	-941	-1,240	-1,167	-1,269
Reserve money 3/	2,829	3,465	3,455	3,818	4,257	4,787	5,452	6,236	7,108
Currency	1,906	2,079	2,348	2,901	2,731	3,049	3,471	3,936	4,451
Reserves	924	1,386	1,107	917	1,526	1,737	1,982	2,299	2,658
	(Contributions to reserve money growth)								
Reserve money (year-on-year percentage change)	15.6	22.5	-0.3	10.5	11.5	12.4	13.9	14.4	14.0
Net foreign assets	10.9	28.6	-5.5	-34.6	2.1	15.6	20.0	15.0	15.6
Net domestic assets	4.7	-6.1	5.3	45.1	9.4	-3.2	-6.1	-0.6	-1.6
Of which: Net credit to central government	4.4	-8.2	10.4	28.7	0.0	0.0	0.1	-2.0	0.0
Monetary survey	(End of period; in billions of taka)								
Net foreign assets	2,481	3,325	3,023	2,099	2,399	3,059	4,007	4,823	5,794
Bangladesh Bank	2,839	3,648	3,456	2,259	2,341	3,005	3,964	4,782	5,755
Commercial banks	-358	-322	-433	-161	58	54	44	42	38
Net domestic assets	14,565	15,967	17,971	20,663	22,981	25,795	28,859	33,193	38,027
Domestic credit	16,992	18,788	21,452	23,865	26,769	30,544	35,082	40,179	46,007
Net credit to central government 2/	4,656	5,486	6,317	7,306	8,543	9,763	11,391	13,043	14,948
Credit to other nonfinancial public sector	194	194	264	349	298	316	336	358	381
Credit to nonbank financial institutions	326	318	323	342	283	292	302	302	298
Credit to private sector	11,817	12,790	14,548	15,869	17,646	20,172	23,052	26,476	30,380
Other items, net	-2,427	-2,821	-3,482	-3,202	-3,788	-4,749	-6,223	-6,986	-7,981
Broad money (M2)	17,047	19,292	20,994	22,762	25,380	28,854	32,866	38,016	43,820
	(Year-on-year percent change)								
Net foreign assets	12.5	34.0	-9.1	-30.6	14.3	27.5	31.0	20.4	20.1
Net domestic assets	10.8	9.6	12.5	15.0	11.2	12.2	11.9	15.0	14.6
Domestic credit	11.3	10.6	14.2	11.2	12.2	14.1	14.9	14.5	14.5
Of which: Net credit to central government	20.5	17.8	15.1	15.7	16.9	14.3	16.7	14.5	14.6
Credit to private sector	7.7	8.2	13.7	9.1	11.2	14.3	14.3	14.9	14.7
Broad money (M2)	11.1	13.2	8.8	8.4	11.5	13.7	13.9	15.7	15.3
Memorandum items:	(In percent of GDP, unless otherwise indicated)								
Reserve money 3/	8.9	9.8	8.7	8.6	8.5	8.5	8.6	8.7	8.8
Broad money (M2)	53.8	54.6	52.9	51.3	50.7	51.3	51.8	53.0	54.2
Credit to private sector	37.3	36.2	36.6	35.7	35.2	35.8	36.4	36.9	37.6
Broad money multiplier (ratio)	6.0	5.6	6.1	6.0	6.0	6.0	6.0	6.1	6.2
Broad money velocity (ratio)	1.9	1.8	1.9	2.0	2.0	2.0	1.9	1.9	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 5. Bangladesh: Financial Soundness Indicators 1/

(In percent)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Capital adequacy							
Regulatory capital to risk-weighted assets	10.8	10.8	12.1	11.6	12.5	12.0	11.2
State-owned commercial banks	5.9	7.0	10.3	5.0	9.6	8.1	6.4
Private commercial banks	12.4	12.2	12.8	13.6	13.7	13.7	13.0
Foreign commercial banks	25.4	23.3	25.9	24.5	28.4	25.9	26.4
Asset quality							
Nonperforming loans to total loans	9.2	9.3	10.3	9.3	7.7	7.9	9.0
State-owned commercial banks	25.1	26.5	30.0	23.9	20.9	19.3	21.9
Private commercial banks	4.6	4.9	5.5	5.8	4.7	5.3	6.0
Foreign commercial banks	9.6	7.0	6.5	5.7	3.5	4.3	4.4
Management							
Expenditure-Income Ratio	76.6	74.7	76.6	78.0	79.2	77.0	78.3
State-owned commercial banks	90.2	81.3	80.5	84.9	83.2	86.1	82.3
Private commercial banks	73.5	73.8	76.7	77.6	79.6	75.3	76.3
Foreign commercial banks	45.7	46.6	47.5	48.8	46.2	43.9	35.2
Earnings							
Return on equity (BB)	9.4	10.6	3.9	6.8	4.3	4.4	9.4
State-owned commercial banks	-6.0	3.5	-29.6	-13.7	-29.6	-21.6	5.4
Private commercial banks	11.1	12.0	11.0	11.2	10.2	9.3	9.4
Foreign commercial banks	13.1	11.3	12.4	13.4	13.1	7.6	16.0
Return on assets (BB)	0.7	0.7	0.3	0.4	0.3	0.3	0.5
State-owned commercial banks	-0.2	0.2	-1.3	-0.6	-1.1	-0.7	0.2
Private commercial banks	1.0	0.9	0.8	0.8	0.7	0.6	0.6
Foreign commercial banks	2.6	2.2	2.2	2.3	2.1	1.2	2.6
Liquidity							
Liquidity Ratio	24.9	19.9	18.2	19.9	26.2	25.4	24.0
State-owned commercial banks	40.0	30.4	24.8	27.3	37.8	35.4	32.9
Private commercial banks	17.8	14.8	14.2	16.4	20.9	20.1	19.3
Foreign commercial banks	48.2	43.8	48.4	29.7	40.7	42.0	41.4

Source: Bangladesh Bank.

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

Table 6a. Bangladesh: Schedule of Purchases and Disbursements for ECF/EFF Arrangement

	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 6b. Bangladesh: Schedule of Disbursements for RSF

Available on or after	Amount of Disbursements		Conditions
	million SDRs	Percent of Quota	
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 7. Bangladesh: Quantitative Performance Criteria and Indicative Targets 1/2/

(In billions of Taka, unless otherwise indicated)

	FY2022/23								FY2023/24					
	End-Mar IT				End-Jun QPC				End-Sep IT		End-Dec QPC		End-Mar	End-Jun
	Targets 3/	Adjusted Targets	Actual	Status	Targets 3/	Adjusted Targets	Actual	Status	Targets 3/	Revised Targets	Targets 3/	Revised Targets	IT	PC
Quantitative performance criteria:														
Floor on net international reserves (NIR, millions of US$) 4/	22,947	...	19,564	Not Met	24,462	23,744	19,562	Not met	25,316	17, 989	26,811	17,784	19,267	20,109
Floor on primary balance (PB) 5/ 9/	-1,483.4	-1,503.4	212.2	Met	-1,686.4	-1,706.4	-1,135.0	Met	-822.0	-822.0	-1,141.1	-905.2	-908.7	-1,383.6
Ceiling on accumulation of external payments arrears 6/	0.0	..	0.0	Met	0.0	..	0.0	Met	0.0	..	0.0	..	0.0	0.0
Indicative targets:														
Ceiling on reserve money (RM)	3,575.0	..	3,438.5	Met	3,951.0	..	3,817.9	Met	3,892.0	3,892.0	4,004.0	4,004.0	4,176.0	4,257.2
Floor on tax revenue	2,073.8	..	2,288.8	Met	3,456.3	..	3,276.5	Not met	615.6	615.6	1,436.4	1,436.4	2,761.7	3,945.3
Floor on priority social spending of the Government of Bangladesh 7/ 9/	605.0	..	1,243.3	Met	1,033.0	..	1,250.3	Met	155.0	155.0	309.9	309.9	869.7	1,449.5
Floor on capital investment undertaken by the Government of Bangladesh 8/ 9/	389.9	..	512.0	Met	1,141.1	..	1,236.4	Met	49.8	49.8	222.8	222.8	505.9	1,445.4

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 8. Bangladesh: External Financing Requirements and Sources, FY24–26 1/

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

	FY24	FY25	FY26
Gross Financing Requirements	**6,052.1**	**16,306.6**	**19,814.0**
Current account deficit excluding grants	3,677.1	13,436.6	16,504.0
Public sector loan amortization	2,375.0	2,870.0	3,310.0
Of which: IMF	345.1	260.9	139.1
Identified Financing Sources	**3,772.0**	**14,106.6**	**17,509.4**
Capital account balance	374.0	402.3	445.4
Net foreign direct investment	1,820.6	4,405.8	5,962.0
Porfolio inflows	-332.0	440.6	596.2
Public sector loan disbursements	7,381.0	8,193.0	8,623.4
Other capital flows (net)	-6,342.5	6,485.9	10,053.1
Change in reserves (+ decrease; excl. RSF)	870.9	-5,821.0	-8,170.7
Financing Gap	**2,280.0**	**2,200.0**	**2,304.6**
Prospective Financing 2/	**2,280.0**	**2,200.0**	**2,304.6**
Financing from IMF (ECF/EFF disbursement)	900.0	900.0	964.6
World Bank	500.0	500.0	500.0
Asian Development Bank	740.0	600.0	600.0
Other multilateral and bilateral 3/	140.0	200.0	240.0
Exceptional Financing/Residual Gap	**0.0**	**0.0**	**0.0**
RSF disbursement	425.7	425.7	425.7
Change in reserves (+ decrease; incl. RSF)	445.1	-6,246.8	-8,596.5

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 Agence Française de Développement, Asian Infrastructure Investment Bank, and Japan International Cooperation Agency.

Table 9. Bangladesh: Indicators of Fund Credit, 2024–2046[1/]

	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)	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)	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)	197.3	214.3	53.8	35.6	94.3	207.8	333.1	403.5	438.8	438.8	353.2	261.3	169.3	100.0	100.0	100.0	100.0	100.0	100.0	100.0	91.7	58.3	25.0
Repayment and repurchases (percent of quota)	18.5	20.1	5.0	3.3	8.8	19.5	31.2	37.8	41.1	41.1	33.1	24.5	15.9	9.4	9.4	9.4	9.4	9.4	9.4	9.4	8.6	5.5	2.3
Total Obligations																							
Millions of SDRs	230.0	285.5	158.8	167.1	225.1	334.2	451.8	510.3	531.9	517.7	419.3	316.6	216.4	140.9	136.1	131.3	126.6	121.7	116.9	112.1	98.9	61.6	25.8
of which: Principal	197.3	214.3	53.8	35.6	94.3	207.8	333.1	403.5	438.8	438.8	353.2	261.3	169.3	100.0	100.0	100.0	100.0	100.0	100.0	100.0	91.7	58.3	25.0
of which: Charges/Interest	32.7	71.1	105.0	131.6	130.8	126.4	118.7	106.8	93.0	78.8	66.1	55.4	47.1	40.9	36.1	31.3	26.6	21.7	16.9	12.1	7.2	3.2	0.8
Percent of quota	21.6	26.8	14.9	15.7	21.1	31.3	42.4	47.8	49.9	48.5	39.3	29.7	20.3	13.2	12.8	12.3	11.9	11.4	11.0	10.5	9.3	5.8	2.4
Percent of GDP	0.068	0.078	0.040	0.037	0.045	0.059	0.070	0.071	0.065	0.056	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	0.5	0.5	0.3	0.3	0.3	0.4	0.5	0.5	0.5	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
Percent of gross international reserves	1.3	1.3	0.5	0.5	0.6	0.7	0.8	0.8	0.7	0.6	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Outstanding IMF Credit																							
Millions of SDRs	1,800.8	2,624.5	3,610.7	3,575.1	3,480.8	3,273.0	2,939.9	2,536.5	2,097.6	1,658.8	1,305.6	1,044.3	875.0	775.0	675.0	575.0	475.0	375.0	275.0	175.0	83.3	25.0	0.0
Percent of quota	168.8	246.1	338.5	335.2	326.4	306.9	275.6	237.8	196.7	155.5	122.4	97.9	82.0	72.7	63.3	53.9	44.5	35.2	25.8	16.4	7.8	2.3	0.0
Percent of GDP	0.5	0.7	0.9	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
Percent of exports of goods and services	3.8	5.0	6.3	5.7	5.0	4.1	3.3	2.5	1.8	1.3	0.9	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Percent of gross international reserves	9.9	11.5	12.5	10.5	8.7	7.0	5.3	3.9	2.8	2.0	1.4	1.0	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0
Memorandum items:																							
Nominal GDP (billions of U.S. dollars)	455.2	489.5	542.0	607.6	684.9	772.0	870.2	981.1	1,106.2	1,247.2	1,406.1	1,585.3	1,787.4	2,015.2	2,272.0	2,561.5	2,888.0	3,256.1	3,671.0	4,138.9	4,666.4	5,261.1	5,931.6
Exports of goods and services (billions of U.S. dollars)	63.8	70.1	76.9	84.8	94.9	108.0	122.4	138.9	157.6	179.0	203.5	230.6	261.5	296.6	336.6	382.2	433.9	492.9	554.8	625.0	706.7	802.2	914.7
Gross international reserves (billions of U.S. dollars)	24.3	30.6	39.2	46.1	54.3	63.2	75.5	87.9	101.1	113.4	129.5	146.1	163.6	182.2	202.0	220.5	237.6	253.5	263.4	266.5	258.8	445.2	459.5
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

Source: IMF staff projections.

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

Table 10. Bangladesh: Proposed Structural Benchmarks: 12 Months After Completion of First Review

Measure	Target Date	Macro-criticality/Objectives
Revenue Mobilization		
NBR staffs Compliance Risk Management Units in the customs and VAT wings	End-December 2023	Increase revenue collection to cover priority spending
MoF reports tax expenditures for PIT, CIT and VAT as part of the FY25 budget	End-June 2024	Increase revenue collection to cover priority spending
NBR adopts a tax compliance improvement plan covering VAT and IT	End-June 2024	Increase revenue collection to cover 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
MoF publishes an updated Medium Term Debt Management Strategy covering FY25-FY27	End-June 2024	Improve debt management and strengthen fiscal risk management
Monetary Policy Framework		
Bangladesh Bureau of Statistics publishes quarterly GDP	End-December 2023	Enhance BB's monitoring and policy making capacity
BB allows access to the Standing Lending Facility (SLF) for all banks subject to availability of accepted collateral, and allows unrestricted access for all banks to the Standing Deposit Facility (SDF).	End-March 2024	Operationalize BB's interest rate corridor
BB streamlines open market operations (OMOs), reserves averaging provisions, and reserve maintenance period in line with recommendations from IMF TA 1/	End-June 2024	Operationalize BB's interest rate targeting framework
Financial Sector		
MoF submits to Parliament the Finance Companies Act 2020, drafted in line with best practices.	End-March 2024	Upgrade legal and regulatory framework
BB prepares a guidance note detailing assessment criterion for various risks covering a robust set of objective and qualitative indicators.	End-March 2024	Establish risk-based banking supervision.

1/ including by conducting a one-week main OMO at the policy rate with full allotment, to replace the current multiplicity of daily OMOs, increasing averaging provisions to allow banks cope with short-term liquidity shocks, and aligning the main OMO with the 2-week reserve maintenance period.

Table 11. Bangladesh: Board Approved Reform Measures Under the Resilience and Sustainability Facility

Reform Measures	Target Date	Analytical Underpinning	Status
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.	Met
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 an 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.

Annex I. Implementation of IMF Policy Recommendations[1]

Policy Recommendations	Implementation
Modernize tax revenue administration, including modernization of the NBR's organizational structure; and digitalization of revenue administration	To increase taxpayer registration, the government made it mandatory to present a proof of tax return submission to receive certain government services. Digitalization of revenue collection continues with online tax registration, filing and payment systems made widely available. A compliance risk management unit (CRMU) has been staffed by NBR's customs wing and CRMUs for VAT and income tax are planned. Installation of 300,000 electronic fiscal devices and sales data controllers in retail shops has begun gradually with the support of a private sector company. The FY24 budget speech announced a new Tax Return Preparers (TRP) scheme under which private agents are incentivized to help new taxpayers file their tax return by receiving a commission from NBR. NBR's organizational structure remains broadly unchanged.
Advance tax policy reforms: (1) amend the tax and customs codes; (2) develop a medium-term revenue strategy (MTRS); (3) simplify the VAT structure; and (4) refrain from tax amnesty initiatives.	A new and modernized Income Tax Act 2023, which makes tax declaration mandatory, repeals exemptions and reduces tax authorities' arbitrary power, among other things, was passed in Parliament in June 2023. Also, the new Customs Act was approved by Parliament in October 2023. NBR has begun developing an MTRS, called a Medium- and Long-term Revenue Strategy. The FY24 budget did not grant new tax amnesties and removed several VAT exemptions. However, the VAT structure remains overly fragmented and the FY24 budget also included a small number of new tax exemptions and lowered VAT rates.
Improve fiscal policy framework: (1) integrate the medium-term budget framework (MTBF) and annual development program (ADP) process; (2) develop/publish an annual fiscal risk statement; (3) streamline investment management and increase efficiency of PPP projects; (4) improve the effectiveness of budget execution and timeliness of fiscal reporting; and (5) update the 2014 MTDS.	The Planning Commission is pursuing capacity development to improve medium-term investment planning and strengthen strategic linkages between the five-year plan, ADP, and MTBF. The FY24 Medium-Term Macroeconomic Policy Statement included for the first time a fiscal risk statement, which will be extended for FY25. Multiple reforms are underway to strengthen budget execution and improve fiscal reporting, however, monthly and quarterly fiscal reports continue to be published with significant delays. The MTDS was updated in FY21 and is planned to be updated again in FY24.
Reduce interest burden by limiting the use of NSCs as a financing vehicle and adopt a fuel pricing mechanism to accommodate additional social and development spending	The 2021 reforms to the NSC system (tiered interest rates, capped issuances, and higher tax on earned interest) combined with a cost-of-living squeeze resulted in net NSC issuance turning negative in FY23. A plan to sustainably keep net NSD issuance to below ¼ of total net domestic financing over the medium-term is being developed. A roadmap to implement a periodic formula-based price adjustment mechanisms for petroleum products by end-December 2023 has been developed, while prices of fuel, natural gas and electricity were increased several times in 2022 and 2023 to contain subsidies. Several social programs were expanded as part of the FY24 budget.
Monitor inflation developments and stand ready to normalize monetary policy.	To counter rising inflationary pressures, BB increased the policy rate to 7.25 percent, raised the maximum mark-up margin on the reference lending rate by 50 bps, and stopped monetary financing of the budget deficit. It signaled further tightening bias for FY24 with the aim of closing the negative real interest rate gap and re-anchoring inflation expectations at the target range of 5-6 percent. Also, BB conducted full allotment open market operations to align O/N Call money rate with the

[1] IMF-supported ECF/EFF program draws upon previous IMF policy recommendations. Many of these recommendations are part of the authorities LOI and MEFP.

Policy Recommendations	Implementation
	policy rate and made unsterilized FX sales which reduced liquidity in the system.
Increase ER flexibility and safeguard FX reserves.	BB has allowed the US dollar-taka exchange rate to fluctuate within a wider band and used the market-determined exchange rate for all official FX transactions on behalf of the Government. To rebuild FX reserves, the authorities have continued to unify multiple exchange rates (narrowing the ER dispersion to below 2 percent), depreciated the US dollar-taka exchange rate, and slowed the implementation of import-intensive development projects, while working on expediting the repatriation of export proceeds.
Modernize monetary policy framework and operations.	BB has introduced the interest rate corridor and announced the adoption of interest rate targeting framework.
Strengthen banking regulation and supervision, improve corporate governance, and reform legal systems in the banking sector.	BB has completed a pilot risk-based supervision action plan and started to publish banks' distressed assets in the annual financial stability report. The Amendment to Bank Company Act has been approved by Parliament.
Implement the recommendations of the 2021 safeguards assessment and further strengthen the AML/CFT framework.	BB has established sound procedures for the compilation and reporting of official reserve assets. Also, BB has started publishing its financial statements in compliance with IFRS; prepared a five-year plan and appointed a chief information security officer to implement the IT audits; and updated terms of references to strengthen the function of Internal Audit Department, including by applying a risk-based audit methodology. The authorities are working to mitigate substantial ML risks, including from cross-border activity and trade-based ML.
Develop capital markets and strengthen governance to attract private financing.	A joint TA mission on LCBM has taken place and a roadmap of capital market development has been developed.
Advance structural policies to diversify exports, increase FDI, enhance productivity, and address corruption.	Targeted efforts to attract FDI through Export Processing Zones are underway. In coordination with development partners, the authorities are working on designing near-to-medium term trade development and FDI reform priorities. A National Tariff Policy has been published in 2023. Progress has been made in negotiating bilateral and preferential trade agreements, including with South Asian and Southeast Asian economies.

Annex II. External Balance Assessment

Overall Assessment.[1] *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 in FY22, and led to a rapid decline in FX reserves. Import restrictions and FX shortages have led to sharp contraction of imports, narrowing of the CA deficit in FY23. However, FX reserves continued to decline as the financial account experienced outflows for the first time in over a decade. The exchange rate was allowed to adjust, and a large depreciation of the Taka reflected fundamental changes.

Potential Policy Responses: Stemming reserve losses is a key near-term priority. Monetary tightening, supported by a neutral fiscal stance and greater exchange rate flexibility, is urgently needed to 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 the 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, post-pandemic recovery, and Russia's war in Ukraine. 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. The CA deficit narrowed sharply to 0.7 percent of GDP in FY23, as imports contracted by 16 percent, while exports remained resilient growing by 6.3 percent in FY23.[2] Over the medium term, imports are projected to rebound, and the CA deficit to reach around 3 percent of GDP.

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

[2] See 2023 Bangladesh: *Selected Issues* paper "Toward Greater Exchange Rate Flexibility."

Assessment. The cyclically-adjusted CA balance stood at –2.7 percent of GDP in FY22. IMF staff adjustments made to account for the transitory impacts of the COVID-19 crisis, has been phased out as the impacts continued to recede during FY22. The EBA CA regression estimates a norm of –2.6 percent of GDP, 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 -2.8 percent of GDP. Including these adjustments, the FY22 EBA model's CA gap midpoint is assessed at 0.1 percent of GDP, with the CA gap range of -0.5 to 0.7 percent of GDP. The EBA-identified policy gap reflects the medium-term fiscal consolidation, public health expenditure, and FX accumulation needs in relation to desired policies. The residual potentially reflects 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) (-)	-1.4
COVID-19 adjustors (+) 1/	0.0
Additional temporary/statistical factor	0.0
Adjusted CA	**-2.7**
CA Norm (from model) 2/	**-2.6**
Adjustment to the norm	-0.2
Adjusted CA Norm	**-2.8**
CA Gap	**0.1**
o/w Policy gap	1.1
Elasticity	-0.16
REER Gap (in percent)	**6.0**

Source: IMF staff estimates.

1/ Additional adjustment to account for the temporary impact of the COVID-19 pandemic has been phased out.
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 REER appreciated by 0.6 percent in FY22. Nevertheless, in FY23 REER depreciated by 6.2 percent. The Taka depreciated by 10.1 percent against U.S. dollar in FY22, and further around 15.2 percent in FY23.

Assessment. The IMF staff CA gap implies a REER gap of 6.0 percent in FY22 (applying an estimated elasticity of -0.16). The EBA REER index and level models deliver an overvaluation of 25 and 21.1 percent, respectively, for the FY22 average REER. Considering all estimates, the uncertainties around them, and a sharp and ongoing currency depreciation in FY22, the IMF staff assesses the REER gap to be in the range of -3.1 and 4.4 percent, with a midpoint of 0.6 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. The financial account experienced a sharp reversal in FY23 (-0.5 percent of GDP) driven by faster than anticipated global monetary tightening, lower than estimate project finance disbursements, and significant delays in repatriation of export proceeds. Specifically, trade credit and private external credit inflows declined, with net short-term private inflows reversing in FY23, as repayments outpaced new loans due to higher global financing costs.[3]

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 burden will help attract FDI. Continued access to concessional financing and eliminating structural impediments to improve absorptive capacity would help to meet the large development and climate adaptation needs.

FX Intervention and Reserves Level

Background. Rising global commodity prices, supply disruptions, slowdown in external demand, and shift in remittance back from formal to informal channels post pandemic, led to a sharp widening of the CA 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. While the CA narrowed in FY23, the deterioration of financial account resulted in continued decline in FX reserves. Gross FX reserves was US$24.8 billion at end-FY23.

Assessment. Rebuilding FX reserves remains a critical priority in the short-term. Greater exchange rate flexibility, tighter monetary policy stance, and scaling back non-monetary use of foreign exchange reserves, are expected to stabilize FX reserves in the context of the ECF/EFF program, including by attracting remittances through formal channels and reducing export repatriation delays. 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 have increased since the start of Russia's war in Ukraine, are expected to moderate as FX positions of commercial banks improved towards the end of FY23. FX interventions should be limited to smoothen volatility and should not counter persistent trends.

[3] See 2023 Bangladesh: *Selected Issues* paper "Toward Greater Exchange Rate Flexibility.

Annex III. Risk Assessment Matrix[1/]

Source of Risk	Relative Likelihood	Expected Impact	Main Impacts → Recommended Policy Actions
Global			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade.	H ST	M – H	Disruption of wheat exports from Ukraine and fuel supply from Russia could increase import prices and reduce food availability, with adverse effects on GDP growth and the current account balance. → Provide targeted policy support to the vulnerable within the available fiscal space; allow exchange rate flexibility; and tighten monetary policy in case of second-round effects.
Commodity price volatility. A succession of supply disruptions and demand fluctuations causes recurrent commodity price volatility, and external and fiscal pressures.	H ST	M – H	Increase in current account deficit, higher fiscal burden, pressures on exchange rate and reserves. →Provide targeted support to the poor; adopt an automatic fuel pricing mechanism; allow exchange rate flexibility to preserve reserve adequacy; and tighten monetary policy in case of second-round effects.
Abrupt global growth slowdown in Bangladesh's major export markets. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn.	H ST	M – H	Lower growth abroad could adversely affect exports and remittances, with significant effects on GDP growth and external accounts. → Provide targeted policy support to the vulnerable within the available fiscal space; allow greater exchange rate flexibility; and accelerate structural reforms to expand trade and FDI.
Systemic financial instability. Sharp swings in real interest rates and risk premia, and asset repricing trigger market dislocations.	M ST	M	Tighter global financial conditions could intensify financial account reversal and put pressure on exchange rate and reserves. → Allow greater exchange rate flexibility; tighten monetary policy; and closely monitor financial stability risks.
Deepening geoeconomic fragmentation. Broader conflicts and weakened global cooperation result in trade, supply disruptions, protectionism, and rising input costs.	H ST, MT	M	Supply disruptions and weaker confidence adversely affect economic activity and external accounts. → Allow greater exchange rate flexibility to preserve reserve adequacy; and accelerate structural reforms to create conducive business environment for expanding trade and FDI.
Domestic			
Political uncertainty related to elections.	M ST	H	Potential delays of priority reform implementation could undermine macro-financial stability and longer-term growth. → Restore and preserve public confidence in policymaking and communicate clearly on the benefits of structural reforms, while protecting the most vulnerable from possible adverse impacts.
Failure to effectively address the problems in the banking system, including elevated NPLs.	M ST, MT	M – H	Elevated 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. → Expedite reforms to address structural weaknesses in governance, regulation, supervision, and legal systems. Implement time bound NPL strategy in line with the BB's' program commitments.
Fallout of international support in resolving the Rohingya crisis.	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 and mitigation to meet NDC targets, implement reform measures committed under RSF to address climate change risks; and mobilize private green financing.

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 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 IV. Capacity Development Strategy

Bangladesh is one of the intensive IMF capacity development (CD) recipients amongst the lower-middle-income countries in Asia. IMF CD, closely aligned with IMF-supported program priorities, focuses on supporting the authorities' efforts to accelerate 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.

1. **CD aims to assist the Bangladeshi authorities in implementing multipronged structural reforms.** While on track to graduate from the Least Developed Country status by 2026, Bangladesh aspires to reach upper middle-income status by 2031. Nevertheless, substantial gaps remain in social and development spending, tax revenue mobilization, the efficacy of monetary policy framework, structural reform areas to diversify export and attract foreign direct investment inflows, and climate change reforms. Against this backdrop, building institutional capacity would be key to support the authorities' reform implementation.

2. **The comprehensive CD program to Bangladesh aims to assist the authorities' efforts to address capacity gaps and to ensure timely delivery of reforms under the IMF-supported program**. CD is currently delivered by both regional advisors from IMF SARTTAC and headquarter-based missions.

Fiscal

3. **CD in the fiscal sector is geared toward creating fiscal space to increase social spending and investment sustainably.** Mobilizing revenues and rationalizing subsidies is critical to create fiscal space for growth-enhancing spending needs, strengthen social safety nets, and build climate resilience. Improving public spending efficiency, strengthening fiscal transparency, and managing fiscal risks are of paramount importance.

4. **Ongoing and planned activities.** Ongoing activities include tax expenditure assessment as part of indirect tax diagnostic, tax compliance risk management, fiscal risk management, and strengthening the Treasury Single Account. Going forward, CD will focus on rationalizing tax expenditures, increasing tax compliance, broadening the tax base, and implementing a medium-term revenue strategy on the revenue side. Strengthening cash and debt management and improving public investment management will be priorities on the expenditure side. Continued CD on fiscal risk analysis as well as on developing macro-fiscal forecasting and medium-term macroeconomic framework tools—the latter currently being provided by ICD—will also help build the authorities' capacity to strengthen fiscal policy making.

Monetary and Exchange Rate Framework

5. **CD in this area is supporting the authorities' progress toward modernizing monetary policy framework and operations.** For monetary and exchange rate policies, the focus remains on operationalizing the interest rate targeting framework, increasing exchange rate flexibility, and

safeguarding adequate FX reserves. This would help enhance macroeconomic stability and bolster buffers against external shocks.

6. **Ongoing and planned activities.** CD is currently supporting Bangladesh Bank (BB) to modernize the monetary policy framework, operationalize the recently adopted interest rate-based operating system, and strengthen policy communications. To this end, a Forecasting and Policy Analysis System (FPAS) is being developed, which would help BB carry out an informed decision-making regarding the appropriate level of the policy interest rate, and BB's open market operations are being streamlined to reduce volatility of money market interest rates, improve monetary transmission, and promote market development. Going forward, CD in this area will focus on improving BB's liquidity forecasting and management, and strengthening monetary policy transparency and communications. CD on the central bank collateral framework and FX reserve management would help the authorities' efforts for greater exchange rate flexibility.

Financial Sector

7. **CD will help the authorities reduce financial sector vulnerabilities and develop capital markets.** Strengthening banking supervision and regulation, improving corporate governance, revamping legal system, and reforming the role of state-owned commercial banks remains important to safeguard financial sector resilience. Capital market development will help not only mobilize long-term financing to achieve growth objectives but also improve monetary transmission mechanism.

8. **Ongoing and planned activities.** Several CD missions focused on building of a more risk-based approach of banking supervision and addressing implementation difficulties. Recent CD assisted the authorities' progress in improving and disseminating financial soundness indicator (FSI); assessing market infrastructure for local currency bond markets; and strengthening macroprudential stress testing. Going forward, risk-based supervision (RBS) and capital market development remains priorities. To this end, CD will be concentrated on strengthening supervision regulations, developing local currency bonds, and reforming the National Saving Certificates system.

Climate

9. **CD in this area focuses on strengthening institutions and energizing reforms to help authorities' commitment to climate objectives**. To this end, CD activities, closely aligned with the RSF program objectives, would help enhance climate fiscal management and mobilize private climate finance, which should make infrastructure investment green and resilient. IMF CD is closely coordinated with CD provided by other Development Partners.

10. **Ongoing and planned activities.** Recent CDs on climate risk analysis focused on designing a framework to assess the impact of physical climate risk on the banking sector, and on fiscal risk analysis including climate-related risks. IMF CDs are helping build capacity to conduct regular climate stress testing exercises and align climate change considerations with PIM framework, particularly on project appraisal and selection aspects. Going forward, CD will support the

authorities' progress on climate-responsive asset management, disaster risk financing, and sustainable finance, including catalyzing private climate financing.

Legal Framework and Statistics

11. **Improving the quality of statistics requires CD support**. High quality, better coverage, and timely dissemination of statistics is imperative as input for well-designed macro frameworks. Progress has been made in strengthening the AML/CFT, and this momentum should sustain.

12. **Ongoing and planned activities.** Several ongoing CD projects are aimed to help the authorities compile national account, government finance and price statistics and strengthen AML/CFT risk-based supervision. Going forward, CD in the statistics area will be expanded to improve BOP and FSI and CD on the AML/CFT front will help the authorities implement RBS.

Table 1. Bangladesh: Capacity Development Strategy

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	VAT diagnostic: tax expenditure analysis; Tax compliance risk management; Fiscal risk management; Strengthening the Treasury Single Account.	• 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. • 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 • Fiscal risk management • Macro-fiscal planning and forecasting • Medium-term macroeconomic framework tool
Monetary and Exchange Rate Reforms		
• Modernizing monetary policy framework (MPF) and safeguarding exchange rate flexibility to enhance macroeconomic stability and buffer against external shocks	Assisting BB's move towards a modernization of its MPF and designing a roadmap to support its transition	• Modernizing monetary policy framework and operations: by developing a 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 • Developing capital market to support higher investment and growth and improve monetary transmission mechanism	Supporting implementation of a risk-based supervision (RBS) system; Improving FSI compilation and its dissemination; developing market infrastructure for local currency bond markets; strengthening macroprudential stress testing	• Strengthening RBS • Financial supervision and regulation • Developing of local currency 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	Building capacity to conduct climate risk analysis. Fiscal risk analysis including climate-related risks.	• Climate stress testing • Integrating climate in project appraisal/selection and PPP framework. • Disaster risk financing strategy • Climate-smart asset management and asset registry.
Macro-Structural Reforms		
• Macro-structural issues related to strengthening governance and diversifying exports	• Statistics: Compiling quarterly national accounts; compiling government finance statistics (GFS) and public sector debt statistics (PSDS); rebasing CPI; improving PPI; compiling RPPI • Legal: Assessing the AML/CFT supervisory arrangements	• Statistics: Compiling quarterly national accounts; compiling GFS/PSDS; balance of payments; FSI • Legal: Further development of risk-based supervision in AML/CFT

Appendix I. Letter of Intent

November 21, 2023
Dhaka

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

Dear Ms. Georgieva:

This Letter of Intent (LOI), along with the attached update to the Memorandum of Economic and Financial Policies (MEFP), outlines our continued commitments to the policies and objectives of the economic program supported by the Extended Credit Facility (ECF)/Extended Fund Facility (EFF) arrangement and the Resilience and Sustainability Facility (RSF) arrangement. In the face of ongoing macroeconomic challenges, the IMF-supported economic program is pivotal in ensuring macroeconomic stability, facilitating a sustained economic recovery, and promoting stronger, greener, and more inclusive growth over the medium and long term.

Bangladesh continues to face challenges as external shocks persist, which has made it difficult to restore macroeconomic stability. On the back of substantial import compression and resilient exports, the current account deficit narrowed considerably in 2023. Nevertheless, the financing need for balance of payments (BOP) increased further due to an unprecedented reversal in the financial account, which has impeded our efforts to restore foreign exchange (FX) reserves. In addition, elevated global commodity prices and continued Taka depreciation have kept inflation persistently high, placing disproportionate burden on the poor.

Despite this difficult environment, our program implementation has been broadly on track. We have successfully met all quantitative targets, except for the performance criteria (PC) on net international reserves (NIR) and the indicative target (IT) on tax revenue collections. The underperformance in NIR and tax revenue collections reflects challenging external conditions, including aggressive global monetary tightening and larger-than-expected spillovers into Bangladesh. We have made good progress on structural reforms for the first review, with six out of seven structural benchmarks (SBs) under the ECF/EFF and a reform measure under the RSF met. Parliament also recently approved the Finance Company Act (2020), a structural benchmark for March 2024.

We are committed to take necessary policy actions to preserve macroeconomic stability. In recent months, we have swiftly adjusted our policy mix to restore external stability and contain inflation. We have accelerated our monetary policy tightening, stopped devolvement on Bangladesh Bank and primary dealers, adopted a unified exchange rate, started transitioning toward a flexible exchange rate regime, and kept the fiscal deficit in check. To reflect the revised outlook and policy adjustments, we request the modification of quantitative performance criteria on NIR and primary balance for the second review (end-December 2023).

In view of good progress under the program, prompt recalibration of policy measures, and our strong commitment to program objectives, we request the completion of the first review under the ECF/EFF and the RSF and a waiver for the non-observance of the end-June 2023 PC on NIR. Upon completion of this review, we request the disbursement of SDR 519.02 million (48.8 percent of quota), of which SDR 117.45 million (11 percent of quota) under the ECF, SDR 234.90 million (22 percent of quota) under the EFF, and SDR166.67 million (15.8 percent of quota) under the RSF. The proposed disbursements will help mitigate near-term pressures 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 financial assistance is also expected to catalyze support from other development partners to meet our overall financing needs.

The attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) update the versions dated December 23, 2022, and set out economic objectives of the government's reform program for the remaining program period 2024–2026. The updated program will continue to be centered on upfront policy actions aimed at restoring macroeconomic stability and rebuilding our reserve buffer, while undertaking macro-critical structural reforms to lay the foundations for achieving upper-middle income status by 2031. Considering persistently difficult external conditions, we commit to step up our efforts to (a) raise revenues to enable higher development and social spending and enhance fiscal governance; (b) modernize the monetary policy framework; (c) transition toward a more flexible exchange rate regime; (d) reduce financial sector vulnerabilities and develop capital markets; (e) improve the investment climate and boost productivity; and (f) establish an enabling environment to better adapt to climate change.

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 seek 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.

Since part of the resources will be lent to the Treasury, the Ministry of Finance and Bangladesh Bank have signed 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

I. Context

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. This memorandum 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.

II. Recent Macroeconomic Development and Outlook

2. Macroeconomic pressures have intensified in Bangladesh. Elevated global food, energy, and other commodity prices, disruptions in international supply chains, and tighter global financial conditions continue to pose macroeconomic challenges for Bangladesh. Our real GDP growth slowed to 6 percent in FY23 from the strong post-pandemic recovery of 7.1 percent. Inflation reached a decade high of 9.9 percent year-on-year in August 2023 and remains elevated. Due to import compression and resilient exports, the current account (CA) deficit narrowed substantially from 4.1 percent of GDP in FY22 (July 2021–June 2022) to 0.8 percent of GDP in FY23. Nevertheless, for the first time in 15 years, our financial account has turned negative, resulting in significant and continued decline in foreign exchange (FX) reserves. Gross international reserves (GIR) have declined further to US$ 21.1 billion at end-September 2023, from US$ 26 billion at end-December 2022. Meanwhile, the Taka has depreciated by about 5 percent over the same period.

3. We have taken a range of measures to maintain macroeconomic stability. We have accelerated the pace of monetary policy tightening and enhanced monetary transmission. Increases in the policy rate and unsterilized FX interventions have reduced liquidity in the banking system. We have allowed greater exchange rate flexibility to reduce FX pressures and raised the prices of fuel, electricity, and fertilizers. While we have maintained letter of credit (LC) margin requirements on the payments by bank deposits on some non-essential imports since July 2022, capital machinery, raw materials, and imports needed for key industries were not part of any such requirements. Moreover, since December 2022, we have started to relax these margin requirements, especially for supporting commercial imports for the SME sector.

4. We have kept the fiscal deficit in check. Tax revenue collections underperformed on account of sluggish private demand and a contraction in imports. However, the revenue shortfall was more than offset by reining in both current and capital spending, while protecting social priority and development spending. As a result, the overall fiscal deficit and public debt in FY23 were contained to 4.6 and 40 percent of GDP, respectively, compared to 5.6 and 42 percent of GDP projected at program approval.

5. We expect the near-term economic outlook to improve, but significant uncertainties remain. Our economy is projected to grow by 7.5 percent and inflation to moderate to 6 percent, as envisaged in our FY24 budget. Nevertheless, we expect challenges to continue in the coming months, given uncertainties including from the upcoming elections, elevated commodity prices, and tight global financial conditions. These will weigh down on our efforts to rebuild FX reserves and contain inflation.

6. To achieve sustainable and inclusive growth, addressing long-standing structural issues, including climate change, remains a top priority. This will require developing new growth engines, increasing productivity to harness demographic dividend, bridging infrastructure gaps, and investing in human capital. We are committed to boosting social and development spending, tax revenues, export diversification, foreign direct investment (FDI) inflows, and the investment climate. Despite 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. 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 amount to 2 to 3 percent of GDP.

III. Program Performance

7. Despite economic challenges and upcoming elections, program implementation has been broadly on track.

- Performance Criteria (PC) and Indicative Targets (ITs). We have met all PCs and ITs, with the exception of the PC on NIR and the IT on tax revenue collections. The former was missed due to an unprecedented reversal in the financial account, while the performance of tax revenues was impacted by import compression as well as sluggish private consumption.

- Structural benchmarks (SBs). We have met six out of seven SBs. The Bank Companies (Amendment) Act 2020 (BCA) has been approved by Parliament, and more recently Parliament also approved the Finance Companies Act (FCA) 2020, a structural benchmark for March 2024.

- RSF Reform Measures (RM). RM1 has been observed, as a sustainable public procurement (SPP) policy paper and an associated action plan was submitted to the cabinet on September 29 and approved on October 23. The SPP policy is consistent with international best practices in green public procurement.

IV. Policy Framework

8. Our reform agenda under the IMF program aims at restoring macroeconomic stability and undertaking structural reforms to promote inclusive and green growth. During the remaining program period (FY24–26), we will bring down inflation to within the range of 5–6 percent by taking appropriate policy measures. We also intend to increase GIR to about 4 months of prospective imports by FY26 through prudent aggregate demand management policies, increased exchange rate flexibility, and structural reforms to boost competitiveness. These measures are 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.

A. Fiscal Policy

9. In FY24, fiscal policy will support monetary tightening, while creating fiscal space to sustainably increase social spending and investment. Given the immediate need to curb inflation and preserve international reserves, we are targeting a neutral fiscal stance in FY24 by keeping the primary deficit broadly unchanged from FY23. This will require rationalizing the budget spending by about 1.8 percent of GDP relative to the approved FY24 budget. In the event that additional pressures on inflation and external accounts materialize, we stand ready to adjust our fiscal strategy as needed to preserve macroeconomic stability. At the same time, we plan to mobilize new revenues which will allow a gradual expansion of development and social spending in line with the IMF's program objectives. Over the medium term, further tax revenue mobilization as well as rationalizing subsidies and reducing domestic debt financing costs will contribute to creating new fiscal space for priority investment and social spending.

10. We have adopted measures to raise revenue for FY24. As part of our FY24 budget and our new Income Tax Act 2023, we have adopted tax revenue measures which are expected to yield revenue gains of 0.5 percent of GDP in FY24 in line with our program commitment **(end-June 2023 SB)**. These measures include (1) increased applicable taxes on tobacco, land registration, foreign loans, and travel; (2) an environmental surcharge on multiple car ownership; (3) removal of several VAT exemptions; (4) increased import duties on select products; and (5) improved revenue administration. The Income Tax Act 2023, which we adopted in June 2023, further modernizes income tax administration and addresses issues such as base erosion and profit shifting by global internet-based entities and transfer pricing.

11. We will continue to strengthen our revenue mobilization efforts through streamlining tax expenditures and adopting a Medium- and Long-Term Revenue Strategy (MLTRS). We intend to further 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 analyze existing tax expenditures in CIT, PIT and VAT and publish this analysis as part of the FY25 budget **(end-June 2024 SB)**. We will use the analysis to identify measures to rationalize tax expenditures, which will be adopted in our FY25 and FY26 budgets. 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. Moreover, we are formulating an MLTRS, which will provide a structured framework to improve revenue collection over the next 4-6 years. Stakeholder consultations are expected to be completed in early 2024, following which the strategy will be finalized and officially adopted with a target date of June 2024.

12. We are stepping up efforts to strengthen tax administration. Already, we have taken steps to increase taxpayer registration by making it mandatory to present proof of tax return submission to receive 38 government services, which has helped increase the number of registered taxpayers by 1 million in FY23. We also recently launched a new Tax Return Preparer scheme, under which individuals will be supported in preparing their tax returns by qualified agents who will receive a modest financial incentive by National Board of Revenue (NBR) for their services. We plan to reach 10 million registered taxpayers by 2026. We have installed 9,572 electronic fiscal devices (EFDs) as of July 2023. In FY24, we expect to install another 10,000 EFDs, which would yield additional revenue of 4 billion Taka. Looking ahead, we plan to install another 300,000 EFDs over the next five years. More generally, we are moving 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 NBR **(end-December 2023 SB)**. On the latter, a CRMU is being established in the Audit and Intelligence Directorate of the VAT wing. The CRMU for income tax will be created as part of a broader reorganization process of this wing in the first half of 2024. Income tax and VAT wings will work together to develop and gradually implement a comprehensive compliance improvement plan **(end-June 2024 SB).** A new Customs Act, which aims to modernize customs administration in line with international best practice, has been recently approved by Parliament.

13. We are committed to contain subsidies to safeguard priority spending. Decisive steps are being taken to contain the budget pressures stemming from continuously elevated global energy and fertilizer prices. Having raised fuel prices to reflect global price increases, we did not provide budget support to Bangladesh Petroleum Corporation (BPC) in FY23. Meanwhile, we contained budget subsidies for natural gas and electricity in FY23 to 0.8 percent of GDP and fertilizer subsidies to 0.6 percent of GDP by raising gas and electricity tariffs as well as fertilizer prices in 2022 and 2023. Nonetheless, arrears to the magnitude of 1.1 percent of GDP were accumulated with Bangladesh Power Development Board and fertilizer importers and are now being cleared gradually. 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. We will submit the selected mechanism for approval by our Honorable Prime Minister before the end of the year **(end-December 2023 SB)** and implement it by March 2024. Furthermore, we will aim at adjusting electricity prices and remain committed to not including capacity charges, in case of renewing the contract, to power producers to further reduce subsidies.

14. We are taking steps to enhance the effectiveness of public investment to support the achievement of our development goals. In this regard, we will follow our updated Public Financial

Management Action Plan for FY24–28, 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.

15. We intend to improve our debt management to reduce financing costs and support capital market development. Our Medium-Term Debt Management Strategy (MTDS), covering FY22 to FY24, aims to minimize borrowing costs while ensuring long-term sustainability of fiscal policy. To this end, our strategy is 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. Developing local bond markets will allow us to gradually tap into long-term market financing. Going forward, with the help of IMF TA, we will update the MTDS on an annual basis, starting with a third MTDS covering FY25 to FY27 **(end-June 2024 SB),** and complement it with a quarterly debt bulletin and eventually an annual borrowing plan.

16. 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. These reforms have helped reduce demand for NSCs, with net NSC issuance turning negative in FY23, affected also by reduced household savings amid the higher cost-of-living. We will continue monitoring the database of NSC subscribers and enforcing access limits to reduce the scope for misuse, including by automating issuances by June 2024. To guide the reform process, we have developed a formal plan on how to sustainably keep net NSC issuance below ¼ of net domestic financing by FY26 **(end-December 2023 SB).**

17. We will continue our efforts to enhance the effectiveness of social safety nets and gradually increase priority social spending. Our recently updated Action Plan to Implement the National Social Security Strategy of Bangladesh, which covers the period FY21-26, 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 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 Scheme (UPS) was officially launched on August 17, 2023. This is an important new initiative which aims to improve the 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. As of October 17, 2023, 14,731 signed up under the UPS. Among four schemes of the UPS, three schemes are defined contributions, which would not have any fiscal cost. The government contributes only 500 Taka per month per beneficiary under the ultra-poor scheme, which incurs very low fiscal cost as the number of enrollments is insignificant so far.

18. 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 is currently conducting a census of all bank accounts held by institutional units of the central government remaining outside the TSA, and will develop a policy note to guide decisions on their integration and sequencing of TSA enhancements **(end-December 2023 SB).** We also plan to undertake IMF training to improve cash forecasting and aim for the treasury to produce regular cashflow forecasts to be shared with the budget department and Bangladesh Bank (BB) 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 improve commitment controls, facilitate on-line bill submission, reconcile tax receipts and deductions, prepare budget at Drawing and Disbursing Officer (DDO), and support electronic payments.

19. 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, starting with the third quarter of FY24. 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. The FY22 financial statement was submitted to the Comptroller and Auditor General of Bangladesh on January 30, 2023. Moreover, we are taking steps to institute a modern internal audit function in the government, capable of implementing risk-based audits, by starting with five high-spending ministries/departments. We are also actively working to improve transparency over state-owned enterprises (SOEs). In this regard, we have collected recent financial data on over 120 SOEs through our online portal and are conducting a more thorough analysis of the financial health of a subset of these SOEs to inform a fiscal risk statement, an annual SOE sector report (initially covering the 50 largest SOEs), and an SOE governance framework. The Medium-Term Macroeconomics Policy Statement (MTMPS) for FY24 to FY26 for the first time included a chapter on fiscal risks, which will be extended in the next edition to cover major risks from selected SOEs, guarantees and Public Private Partnerships (PPP) as well as quantitative analysis of macro-fiscal risks related to climate change and natural disasters**.**

B. Monetary and Exchange Rate Policy

20. To contain inflation and rebuild reserves, we have tightened our monetary policy stance further and remain committed to closing the negative real interest rate gap by end-FY24. On October 4, 2023, BB raised the policy rate by 75 basis points (bps), the highest one-time increase in a decade, marking a cumulative increase of 250 bps since the start of the tightening cycle in May 2022. We have also kept the interbank overnight Call Money interest rate closely aligned with the policy rate by conducting full allotment open market operations (OMOs). BB will continue calibrated tightening of monetary policy to close the negative real interest rate gap to contain second-round effects from food and fuel price shocks, counter exchange rate pressures, and re-anchor inflation expectations back at the medium-term target range of 5-6 percent.

21. To support monetary tightening, we are committed to zero devolvement of government securities in FY24. A reversal in net NSCs issuance in FY23 increased the need to finance our budget by issuing government securities. Amid reduced liquidity in the banking system due to unsterilized FX interventions, this has led to an unprecedented increase in devolvement of unabsorbed government securities on BB in FY23. To strengthen monetary transmission and support monetary tightening, we have stopped devolvement on BB since August 2023, and are committed to keeping it at zero for the remainder of FY24. With the help of IMF TA, we will phase out the devolvement practice completely, as recommended by the joint IMF-World Bank technical assistance on the Local Currency Bond Market (LCBM) development.

22. We will continue to modernize BB's monetary policy framework and operations. With the help of IMF capacity development (CD), we intend to transition to a flexible inflation targeting framework over the medium term, with the policy interest rate serving as an operating target. We have reached several important milestones toward this objective since January 2023 and remain committed to continued progress. In particular,

- We have transitioned to an interest rate corridor (IRC) system with standing lending and deposit facilities and announced the adoption of the policy interest rate as an operating target. We will continue operationalizing the interest rate-based framework, in line with the recommendations of IMF TA, including by allowing unrestricted automatic access for all commercial banks to standing deposit and lending facilities (subject to meeting collateral requirements to access the latter facility) **(end-March 2024 SB)**, streamlining the OMOs and reserve maintenance period **(end-June 2024 SB)**, improving liquidity forecasting capacity, and eventually transitioning from fixed-rate-full-allotment system to fixed-quantity-variable-rate OMOs.

- We replaced the lending interest rate cap with a market-driven reference lending rate (the SMART, which is a six-months moving average rate of 182 days T-bills) supplemented by a maximum mark-up margin for banks of 300 bps in July 2023. To improve transmission of the latest policy rate increase, we have also increased the margin on the SMART rate by 50 bps. In addition, in January 2023, we have withdrawn the previous requirement for banks to maintain deposit rates above 3-months moving average inflation. We remain committed to further liberalizing lending and deposit interest rates over the program period.

- We continue working on upgrading BB's monetary policy formulation and communication functions. As part of this effort, we are reconstituting the Monetary Policy Committee (MPC)—a new decision-making body at BB—which will include the BB Governor, three internal and three external members. We have continued building analytical and forecasting capacities and improving the decision-making processes at BB by developing a model-based Forecasting and Policy Analysis System (FPAS). We have increased the frequency of publication of our Monetary

Policy Statement (MPS) to twice a year starting January 2023, with the goal to transition it to a quarterly publication. We plan to further strengthen BB's communication and enhance transparency of monetary policy in the medium term. We also aim to develop and publish a coherent communications strategy that outlines the objectives and operational modalities of BB's communications.

23. We remain committed to rebuilding our reserves and transitioning to a more flexible exchange rate regime. We will take policy measures necessary to rebuild GIR to cover about 4 months of prospective imports by the end of the IMF-supported program. We have eliminated the official exchange rate for transactions on behalf of the government and adopted a unified single exchange rate. We intend to gradually move toward a flexible exchange rate regime by adopting a crawling peg arrangement with a band corridor in the interim. The specific design and operational details of the interim arrangement will be determined with the help of IMF TA. We are committed to adopting a monetary and fiscal policy stance supportive of and consistent with the choice of the exchange rate regime. As FX availability increases and reserve position improves, we intend to accelerate the reduction of LC margin requirements. Since this measure is not sustainable and is costing our economy and people tremendously, we commit to gradually unwind them, as previously committed by end-March 2024.

24. 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 reiterate our commitment to unwind the non-monetary use of FX reserves and not engage in any new non-monetary operations, including FX 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 have appointed an audit firm affiliated with global firms to conduct an external audit of BB for FY23 and will approve the external auditors' selection and rotation policy to sustain this practice going forward.

C. Financial Sector Reforms

25. We have exited from the support measures introduced during the COVID-19 pandemic. These measures, which included a soft repayment facility and low-interest working capital loans to the large industry and service sector, expired at the end of June 2023. BB will ensure that the asset classification accurately reflects current balance sheet risks and that classified assets, including rescheduled loans, are adequately provisioned. We will continue to support individuals and business sectors that are most at risk under our regular financial support schemes.

26. 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 plan to issue a circular by March 2024, which will allow us to treat material exposures as non-performing when they are more than 90 days past due. To better reflect the true state of distressed assets, we have published comprehensive data on banks' rescheduled loans alongside with the non-performing loans (NPLs) in BB's annual financial stability report. We will continue to strengthen loan classification and provisioning rules and eliminate forbearance. We have reduced the time needed before a bank could write off bad loans from five to three years and plan to reduce further. We have developed a plan for the banking sector to adopt the IFRS9 by 2027 and will seek IMF TA for implementing this plan.

27. We are taking steps to reduce NPLs and restore capital in state-owned commercial banks (SoCBs). To reduce bank balance sheet weaknesses, particularly of the SoCBs, we will pursue bank specific resolutions. We have developed bank-specific roadmaps to reduce the average NPL ratio to below 10 percent for SoCBs and are developing roadmaps for private commercial banks (PCBs) to reduce NPLs to below 5 percent by 2026. These roadmaps will also aim to increase capital adequacy ratios and provisioning coverages of SoCBs to 10 percent and 100 percent of required provision and of PCBs to 10 percent and 100 percent of required provision by 2026. We will strengthen these roadmaps as needed and enforce their implementation with IMF help. To facilitate this process, the recently enacted Bank Companies (Amendment) Act 2023 (BCA), alongside the related Circular on Prompt Corrective Action (PCA)—anticipated to be adopted by December 2023—will enhance the capacity and operational toolkit of BB to strengthen the balance sheets of weak banks. The BCA will bolster the corporate governance of SoCBs. In addition, we have appointed observers to the SoCBs' Board to oversee governance and decision-making aspects.

28. We continue to 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 it by 2025. We have completed the current pilot on RBS by finalizing the assessment of the three pilot banks, including one Islamic bank. We will prepare guidance notes detailing the assessment criteria for various risks covering a robust set of objective and qualitative indicators to enhance the accuracy, credibility, comparability, and consistency of the risk assessments (**end-March 2024 SB).** The RBS will also incorporate specific procedures for Islamic banking operations in the assessment tool and inspection manual. We are developing in-house capacity to conduct scenario-based macroprudential stress test and pursue climate stress test. We have initiated the development of a macroprudential strategy and aim to further refine it by March 2024. We will also strengthen credit infrastructure and collateral valuation framework. We are working toward expanding 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.

29. We will continue to enhance governance and the regulatory framework for the financial sector. We plan to submit to 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 process and facilitate recovery of loans. They will also help modernize the financial sector and improve the legal environment for credit and business activities.

30. To develop capital markets, we will implement the roadmap for LCBM development, devised with the help of IMF TA. We will reform the primary dealer system, gradually align NSCs interest rates with market rates, and reduce individual investment limits with the overall objective to replace them with marketable wholesale instruments. The implementation of the MTDS, the development of the secondary market for government securities, the expansion of the non-bank investor base, and the enhancement of the financial market infrastructure will facilitate capital market development.

D. Macro-Structure and Governance Reforms

31. We are working to create a conducive investment climate, accelerate trade liberalization and attract more FDI. To enhance competitiveness and diversify exports, we have adopted a National Tariff Policy (2023). During the IMF-supported 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 development partners, which is expected to inform our near to medium-term trade development priorities.

32. 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. We are also enhancing our gender budgeting framework to more effectively channel resources toward reducing remaining gender gaps in higher education and economic empowerment.

33. 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. We will implement the supervisory tools being developed by Bangladesh Financial Intelligence Unit, which 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.

E. Climate Change Policies

34. 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. In 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.

35. 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 have prepared 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 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 adjust natural gas and electricity prices as needed to gradually reduce subsidies.

36. 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, focusing on major public infrastructure and government buildings, with the help of IMF TA.

37. 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 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) **(end-June 2024 RM)**. 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-June 2024 RM)**. In addition, we have adopted a sustainable public procurement policy and an associated action plan to integrate climate and green dimensions into the public procurement process.

38. 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) and the International Financial Reporting Standards on climate-related disclosures **(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, with the support of IMF TA. 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.

F. Statistics

39. We continue to strengthen macroeconomic statistics to better inform policy decisions and monitor targeted outcomes. We have published the rebased national accounts and consumer price index. We have published the historical national accounts on a quarterly basis and scheduled to publish the latest quarterly national accounts by November 2023 (**end-December 2023, SB)**. The financial soundness indicators with expanded coverage have been published. We intend to publish historical monthly BOP data and continue the practice.

G. Program Monitoring

40. 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. The second review will take place on or after May 1, 2024 based on end-December 2023 quantitative targets and the third review will take place on or after November 1, 2024 based on end-June 2024 quantitative targets.

Table 1. Bangladesh: Quantitative Performance Criteria and Indicative Targets 1/2/

(In billions of Taka, unless otherwise indicated)

	FY2022/23								FY2023/24					
	End-Mar IT				End-Jun QPC				End-Sep IT		End-Dec QPC		End-Mar	End-Jun
	Targets 3/	Adjusted Targets	Actual	Status	Targets 3/	Adjusted Targets	Actual	Status	Targets 3/	Revised Targets	Targets 3/	Revised Targets	IT	PC
Quantitative performance criteria:														
Floor on net international reserves (NIR, millions of US$) 4/	22,947	...	19,564	Not Met	24,462	23,744	19,562	Not met	25,316	17, 989	26,811	17,784	19,267	20,109
Floor on primary balance (PB) 5/ 9/	-1,483.4	-1,503.4	212.2	Met	-1,686.4	-1,706.4	-1,135.0	Met	-822.0	-822.0	-1,141.1	-905.2	-908.7	-1,383.6
Ceiling on accumulation of external payments arrears 6/	0.0	..	0.0	Met	0.0	..	0.0	Met	0.0	..	0.0	..	0.0	0.0
Indicative targets:														
Ceiling on reserve money (RM)	3,575.0	..	3,438.5	Met	3,951.0	..	3,817.9	Met	3,892.0	3,892.0	4,004.0	4,004.0	4,176.0	4,257.2
Floor on tax revenue	2,073.8	..	2,288.8	Met	3,456.3	..	3,276.5	Not met	615.6	615.6	1,436.4	1,436.4	2,761.7	3,945.3
Floor on priority social spending of the Government of Bangladesh 7/ 9/	605.0	..	1,243.3	Met	1,033.0	..	1,250.3	Met	155.0	155.0	309.9	309.9	869.7	1,449.5
Floor on capital investment undertaken by the Government of Bangladesh 8/ 9/	389.9	..	512.0	Met	1,141.1	..	1,236.4	Met	49.8	49.8	222.8	222.8	505.9	1,445.4

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	Original Target Date	Status	Proposal
Revenue mobilization			
MoF adopts tax revenue measures yielding an additional 0.5 percent of GDP in the FY2024 budget.	End-June 2023	Met	
NBR staffs Compliance Risk Management Units in the customs and VAT wings	End-December 2023	On track	
MoF reports tax expenditures for PIT, CIT and VAT as part of the FY25 budget		New	End-June 2024
NBR adopts a tax compliance improvement plan covering VAT and IT		New	End-June 2024
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	On track	
Government to adopt a periodic formula-based price adjustment mechanism for petroleum products	End-December 2023	On track	
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	On track	
MoF publishes an updated Medium Term Debt Management Strategy covering FY24-FY26		New	End-June 2024
Monetary and exchange rate policy			
BB adopts an interest rate corridor system	End-July 2023	Met	
BB compiles and reports official reserve assets as per BPM6 definition.	End-June 2023	Met	
BB uses market determined exchange rate for official FX transactions on behalf of the government	End-June 2023	Met	
Bangladesh Bureau of Statistics publishes quarterly GDP	End-December 2023	On track	
BB allows automatic access to the Standing Lending Facility (SLF) for all banks subject to availability of accepted collateral and allows unrestricted access for all banks to the Standing Deposit Facility (SDF).		New	End-March 2024
BB streamlines open market operations (OMOs), reserves averaging provisions, and reserve maintenance period in line with recommendations from IMF TA 1/		New	End-June 2024

1/ including by conducting a one-week main OMO at the policy rate with full allotment, to replace the current multiplicity of daily OMOs, increasing averaging provisions to allow banks cope with short-term liquidity shocks, and aligning the main OMO with the 2-week reserve maintenance period.

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

Measure	Original Target Date	Status	Proposal
Financial Sector			
BB completes the pilot risk-based supervision action plan.	End-June 2023	Met	
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	Not met	Modified and reset to end-March 2024
MoF submits to Parliament the Finance Companies Act 2020, drafted in line with best practices.		Reset	End-March 2024
BB prepares a guidance note detailing assessment criterion for various risks covering a robust set of objective and qualitative indicators.		New	End-March 2024

Table 3. Bangladesh: Proposed Reform Measures Under RSF

Reform Measures	Target Date	Status
RM1: Government to adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions	End-September 2023	Met
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	On Track
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	On Track
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	On Track
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	On Track
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	On Track

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.

Bangladesh: Program Exchange Rates for ECF-EFF Arrangements

(As of October 24, 2022)

Exchange Rate	Program Rate
U.S. dollar/Taka	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 / Singapore dollar	0.70348
U.S. dollar / Swedish krona	0.08942
U.S. dollar / Euro	0.98740
U.S. dollar / Gold	1,649.78
U.S. dollar / SDR	1.27719

Sources: Haver Analytics; Bloomberg; and https://www.imf.org/external/np/fin/data/param_rms_mth.aspx.

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-December 2023 and end-June 2024 and quarterly indicative targets for end-September 2023 and end-March 2024 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 revenue from motor vehicles, (iv) land development tax, (v) tax revenue from sale of stamps, and (vi) tax revenue from surcharges.

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[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.

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.

Bangladesh: Composition of Priority Social Spending of the Government

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" and "Agricultural Subsidy."

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
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
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		

INTERNATIONAL MONETARY FUND

BANGLADESH

November 21, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FIRST REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By: Asia and Pacific Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of October 31, 2023)

Membership Status

Joined August 17, 1972; accepted the obligations under Article VIII, Sections 2, 3, and 4 on April 11, 1994.

General Resources Account

	SDR Million	Percent Quota
Quota	1,066.60	100.00
Fund holdings of currency (exchange rate)	1,478.58	138.63
Reserve tranche position	134.08	12.57

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,532.69	100.00
Holdings	1,952.69	127.40

Outstanding Purchases and Loans

	SDR Million	Percent Quota
Emergency Assistance [1/]	311.09	29.17
Extended Arrangements	234.90	22.02
RCF Loans	177.77	16.67
ECF Arrangements	218.01	20.44

1/ Emergency assistant may include ENDA, EPCA, and RFI.

Latest Financial Commitments

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (In millions of SDRs)	Amount Drawn (In millions of SDRs)
RSF	Jan. 30, 2023	Jul. 29, 2026	1,000.00	0.00
ECF	Jan. 30, 2023	Jul. 29, 2026	822.82	117.45
EFF	Jan. 30, 2023	Jul. 29, 2026	1,645.64	234.90

Outright Loans[1]:

Type	Date of Commitment	Date Drawn	Amount Approved (In millions of SDRs)	Amount Drawn (In millions of SDRs)
RCF	May 29, 2020	Jun. 02, 2020	177.77	177.77
RFI	May 29, 2020	Jun. 02, 2020	355.53	355.53

[1] Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e., Board approval date.

Projected Payments to the Fund[2]

(In millions of SDRs; based on existing use of resources and present holding of SDRs)

	2023	2024	2025	2026	2027
Principal	62.73	223.48	143.23	35.55	55.13
Charges/Interest	7.21	23.38	14.51	12.23	11.97
Total	69.93	246.85	157.74	47.78	67.09

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Article IV Consultation

The previous Article IV consultation was concluded on March 2, 2022 (IMF Country Report No. 22/71).

Safeguards Assessment

- **An update safeguard assessment mission was completed in 2022 in connection with the 2020 RCF/RFI disbursements.** The 2021 update safeguards assessment found that the BB had made limited progress in addressing some of recommendations from the 2011 assessment. In particular, the BB needs to address capacity constraints in the internal audit and accounting functions and improve the quality of its financial statements and external audits. There have been no major changes to the central bank law since the 2011 assessment and legal reforms remain critical to strengthen the BB's autonomy and governance arrangements. In addition, the BB needs to address elevated risks in currency operations and IT environment, develop a strategy to phase out its involvement in non-core central banking activities, and establish sound procedures for the compilation and reporting of official reserve assets.

Exchange Rate Arrangement

- Bangladesh's currency is the Taka. The *de jure* exchange rate regime is floating. Since May 2022, the exchange rate increased its flexibility while still being managed. Accordingly, the de facto exchange rate arrangement was reclassified to other managed from crawl-like, effective May 17, 2022. Bangladesh is an Article VIII member and maintains one restriction subject to Fund approval under Article VIII, Section 2(a) on the convertibility and transferability of proceeds of current international transactions in nonresident taka accounts.

Resident Representative

The resident representative office was established in 1972. Mr. Jayendu De is the current Resident Representative since November 2020.

Bangladesh Capacity Development, December 2021– October 2023

Department	Topic	Timing
FAD	Expanding the Scope of the Treasury Single Account (TSA) System	May-22
	Revenue Administration Scoping Mission (SARTTAC)	July-22
	Workshop on Debt Sustainability Analysis	November-22
	Technical Assistance and Training on Tax Expenditure Assessment	February-23
	Treasury Single Account (TSA) Mission	April-23
	E-commerce in Customs Mission	April-23
	Treasury Single Account (TSA) Mission	August-23
	Fiscal Risk Mission	September-23
	Revenue Administration (SARTTAC)	September-23
STA	Consumer Price Index (SARTTAC) [Virtual]	January-22
	Constant Price Taxes and Subsides on Products (SARTTAC) [Webinar]	January-22
	Government Finance Statistics (SARTTAC) [Virtual]	February-22
	Consumer Price Index (SARTTAC)	May-22
	National Accounts Quarterly GDP (SARTTAC)	July-2022
	Consumer Price Index (SARTTAC)	August-22
	Government Finance Statistics (SARTTAC)	September-22
	Financial Soundness Indicators (FSI) Mission	September-22
	Workshop on New Financial Soundness Indicators (FSIs) Metadata Report Forms (FSM) [Virtual]	December-22
	National Accounts Quarterly GDP (SARTTAC)	December-22
	Residential Property Prices Index	February-23
	Government Finance Statistics (SARTTAC)	March-23
	Diagnostic Mission on Macro-relevant Environment & Climate Change Statistics	May-23
	National Accounts Quarterly GDP (SARTTAC)	June-23
	Government Finance Statistics (SARTTAC)	November-23
MCM	Financial Sector Supervision (SARTTAC)	May-22
	Monetary Policy Implementation Framework (SARTTAC)	August-22
	Climate Stress Testing Mission	March-23
	Macroprudential Stress Testing Mission	April-23
	Local Currency Bond Market Development	July-23
	Financial Sector Supervision (SARTTAC)	July-23
	Interest Rate Corridor Adoption (SARTTAC)	August-23
ICD	Model-Based Monetary Policy Analysis and Forecasting (SARTTAC) [Virtual]	December-21
	Forecasting and Policy Analysis System (FPAS) Mission – Training on econometric methods [Virtual]	March-22
	Forecasting and Policy Analysis System (FPAS) Mission	August-22
	Forecasting and Policy Analysis System (FPAS) Mission	March-23
	Forecasting and Policy Analysis System (FPAS) Mission [Virtual]	July-23
	Forecasting and Policy Analysis System (FPAS) Mission	September-23
LEGAL	Anti Money Laundering Capacity Development Mission	January-23
	Anti Money Laundering Capacity Development Mission	May-23

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Information on the activities of other International Financial Institutions in Bangladesh can be found at:

World Bank: https://www.worldbank.org/en/country/bangladesh

Asian Development Bank: https://www.adb.org/countries/bangladesh/main

Asian Infrastructure Investment Bank:
https://www.aiib.org/en/projects/list/year/All/member/Bangladesh/sector/All/financing_type/All/status/Approved

STATISTICAL ISSUES

(As of October 2023)

Assessment of Data Adequacy for Surveillance

1. General. Data provision has some shortcomings but is broadly adequate for surveillance and program monitoring. Further progress is needed, particularly in fiscal and financial statistics. The most affected areas are national accounts, fiscal, and external sector statistics.

2. National Accounts. Bangladesh's annual GDP time series has a base year of 2015/16 benchmark. Provisional annual GDP estimates are now published one months before the reference period. The BBS has been provided with technical assistance on GDP rebasing, customized training and technical assistance on development of QGDP series and construct a statistical business register. For the first time, it has published the historical QGDP series in 2023 for the period of 2015/16 to 2022/23. It is expected to publish the current QGDP series starting from December 2023.

3. Price Statistics. An updated CPI series with weights based on the 2015/16 Household Income and Expenditure Survey (HIES) was introduced in April 2023. The new CPI and its components have been normalized to the 2021/22 base. Significant methodological improvements have been implemented as part of the CPI update, and the new index calculation was endorsed by the United Nations Statistical Commission (UNSC) as meeting an international statistical standard. It is planned that going forward the HIES will be conducted every three years, supporting a routine and regular CPI weight updates, as recommended by the international statistical standards. A producer price index (PPI) is compiled for manufacturing only, and the updated weights (introduced in October 2022) are based on the 2019 Survey of Manufacturing Industries for the Large-scale and Small Medium and Micro-scale enterprises and based on the 2011 Survey for the Cottage-scale enterprises. PPI is normalized to the 2015/16 base year. The Bangladesh Bank compiles an experimental residential property price index for Dhaka, and also conducts a quarterly inflation expectations survey — both for internal analysis only. Recent IMF technical assistance was provided to expand data collection and improve compilation methods.

4. Government Finance Statistics. The Government of Bangladesh has made significant progress developing their integrated budgeting and accounting system++ (IBAS), which includes GFS classified in line with the latest international standard, the *Government Finance Statistics Manual* (*GFSM 2014*). They have submitted, to the IMF's Statistics Department, annual GFS budgetary central government (BCG) data up to financial year (FY) 2020/21, and are finalizing FY2021/22 data. Monthly BCG operations data are published but they follow a national presentation. Starting in FY 2023/24, the authorities intend to use the IBAS to deliver estimates of quarterly BCG GFS which are in line with GFSM 2014. Areas of improvement remain that no stock asset data is reported and that the coverage of extrabudgetary and local government units outside central government is inadequate. BB provides public sector debt data, covering all subsectors of the public sector, to the Joint World Bank-IMF Quarterly Public Sector Debt Statistics database.

5. Monetary and Financial Statistics. BB compiles monetary data using the standardized report forms (SRFs) framework. The SRFs are reported electronically to the IMF on a regular basis. As a result, a consistent time series based on SRF data is available from December 2001. A survey of Other Financial Corporations (OFCs) is not yet available. The monetary and financial statistics technical assistance mission in September 2019 made several recommendations for the compilation of OFCs data to expand the institutional coverage of MFS for Bangladesh. The BB, in coordination with STA, is working on the implementation of the mission's recommendations. BB reports data on several series and indicators of the Financial Access Survey (FAS), including mobile money, mobile and internet banking, gender-disaggregated information, and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

6. Financial Soundness Indicators (FSI). Bangladesh reports 16 core FSIs and 7 additional FSIs for deposit takers and two FSIs for real estate markets for posting on the FSI website. The frequency of FSIs that the BB reports has improved from semi-annual to quarterly frequency starting from the first quarter of 2019. The FSI technical assistance mission during September 25–October 4, 2022 made several recommendations for the compilation of FSIs, including expanding the coverage of FSIs to other deposit takers (DTs) beyond scheduled banks and compiling the new FSIs for other financial corporations (OFCs) introduced by the *2019 FSIs Guide*. The BB, in coordination with STA, is working on the implementation of the mission's recommendations. The authorities have published comprehensive data on banks' rescheduled loans alongside the non-performing loans (NPLs) in BB's annual financial stability report.

7. External Sector Statistics (ESS). Bangladesh compiles a comprehensive array of ESS in line with *BPM6*. The external statistical framework includes: (a) quarterly balance of payments (BOP) and International Investment Position (IIP) data; (b) the IMF's coordinated portfolio investment survey; (c) the IMF's coordinated direct investment survey; and (d); quarterly time series for external debt statistics (EDS) that have been published by BB and reflect improved coverage and periodicity. The most recent TA mission on ESS found that: (i) the reconciliation between the IIP, EDS and BOP should be enhanced. More attention should also be given to the reconciliation of specific data sets with bilateral data from counterpart countries, and (ii) Inconsistencies between international trade statistics disseminated by the BB in the compilation of the BOP and BBS in the calculation of the national accounts to be addressed by a high-level committee. Starting July 2023, BB has started compiling and publishing gross international reserves (GIR) in line with BPM6, based on the findings of the virtual safeguard assessment mission conducted in October 2021. These data have not been published in the IMF International Reserves and Foreign Currency Liquidity data template.

8. Data Standards and Quality. Bangladesh participated in the General Data Dissemination System (GDDS) in March 2001, which was superseded by the enhanced GDDS (e-GDDS) in 2015 with a focus on data dissemination to support transparency and surveillance. By implementing the e-GDDS in October 2017, Bangladesh began publishing a set of macroeconomic data in both human- and machine-readable (SDMX) formats. This marks a major milestone in Bangladesh's statistical development and facilitates the authorities' efforts to achieve their goal of subscribing to the Special Data Dissemination Standard, a higher tier of the IMF's data dissemination standards.

Bangladesh: Table of Common Indicators Required for Surveillance (As of October 26, 2023)					
	Date of latest Observation	**Date Received**	**Frequency of Data**[1]	**Frequency of Reporting**[1]	**Frequency of Publication**[1]
Exchange Rates	Oct 25 2023	Oct 25 2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Oct 19 2023	Oct 2023	D	D	D
Reserve/Base Money	Sep 2023	Oct 2023	M	M	M
Broad Money	Aug 2023	Sep 2023	M	M	M
Central Bank Balance Sheet	Sep 2023	Oct 2023	M	M	M
Consolidated Balance Sheet of the Banking System	Aug 2023	Sep 2023	M	M	M
Interest Rates[3]	Sep 2023	Oct 2023	M	M	M
Consumer Price Index	Sep 2023	Oct 2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	n/a	n/a	n/a	n/a	n/a
Revenue, Expenditure, Balance and Composition of Financing[4] —Central Government	Jun 2023	Aug 2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Jun 2023	Sep 2023	Q/M	Q/M	Q/M
External Current Account Balance	Aug 2023	Oct 2023	M	M	M
Exports and Imports of Goods and Services	Aug 2023	Oct 2023	M	M	M
GDP/GNP	FY2023	May 2023	A	A	A
Gross External Debt	Jun 2023	Oct 2023	A	A	A
International Investment Position[7]	Jun 2023	Oct 2023	Q	Q	Q

[1] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. Data for the general government are currently not being compiled due to capacity limitations.
[6] Currency and/or maturity composition may not be available for the most recent data.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

BANGLADESH

November 21, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FIRST REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

Approved By
Anne-Marie Gulde-Wolf and Boileau Yeyinou Loko (IMF) and Manuela Francisco and Mathew Verghis (IDA)

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

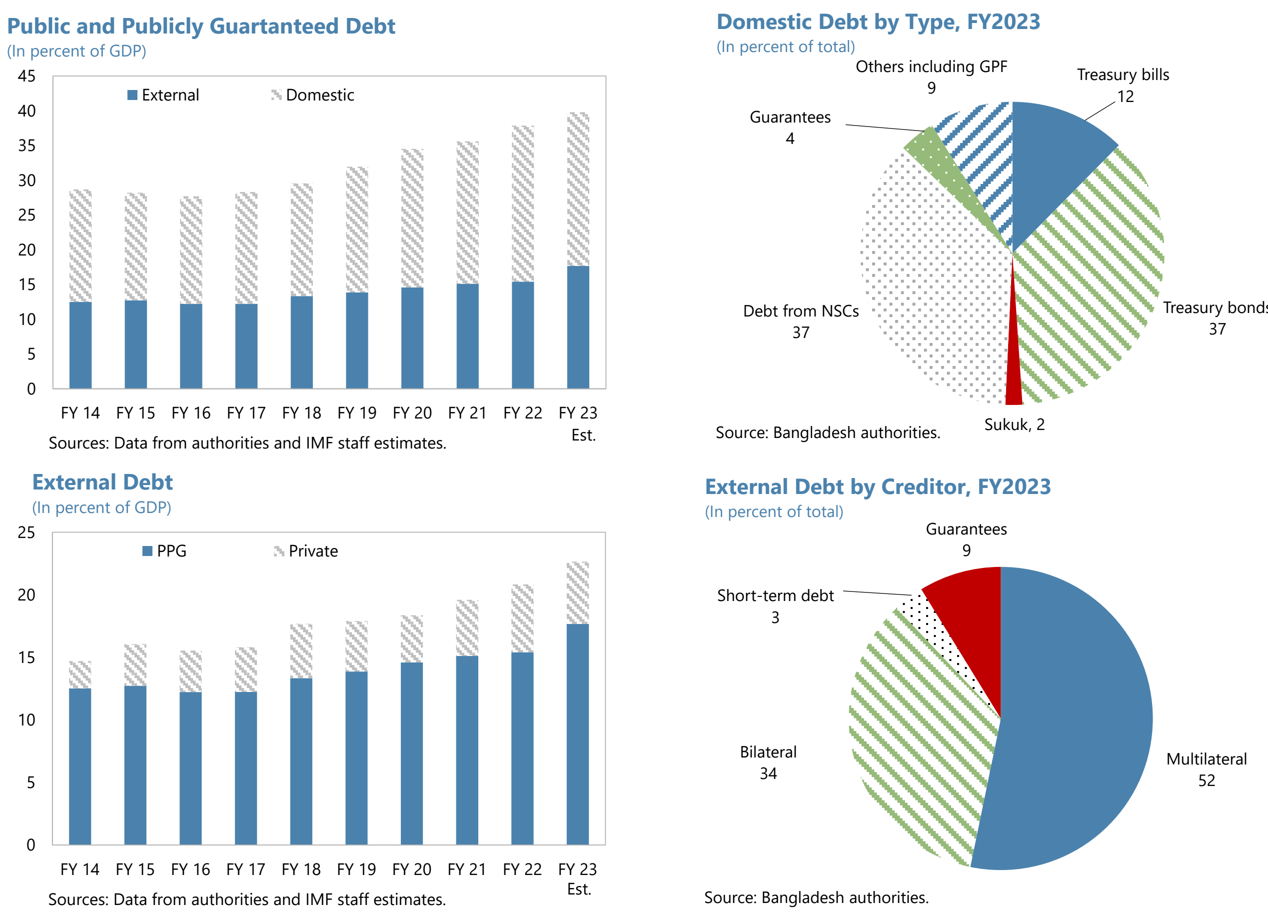
Bangladesh remains at a low risk of external and overall debt distress. Bangladesh's debt-carrying capacity is unchanged from the previous debt sustainability analysis (DSA).[1] External and overall debt indicators are below their respective thresholds under the baseline. Under a standard stress test, the present value of debt-to-export ratio temporarily breaches the threshold of external debt sustainability indicator. This short duration breach of low magnitude is discounted via judgement. Despite increased external borrowing projected 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. Risks are tilted to the downside and include persistent inflation, increasing interest burden, revenue mobilization constraints, slowdown in major trading partners, slow implementation of macro-critical structural reforms, amplified foreign exchange (FX) pressures, elevated non-performing loans (NPLs), and climate related events.

[1] Bangladesh's Composite Index is estimated at 2.86 and is based on IMF's October 2023 WEO and WB's 2022 CPIA. The debt carrying capacity remains medium.

A. Background and Developments on Debt

1. **Total public and publicly guaranteed debt in Bangladesh stood at US$166.7 billion in FY23, around 39.8 percent of GDP** (Text Table 1 and Text Figure 1).[2] The majority of public debt accumulated over the last decade is domestic and denominated in local currency. In FY23, domestic debt was at 55.6 percent of PPG debt stock. Domestic debt service payments amounted to US$7.8 billion in FY23 (1.9 percent of GDP). External debt was at 44.4 percent of PPG debt stock. External debt service payments in FY23 comprised of the payments to multilateral creditor of US$2.1 billion (0.5 percent of GDP) and bilateral creditor of US$0.9 billion (around 0.2 percent of GDP). Of which, debt service payments to Paris Club and non-Paris Club creditors amounted to US$0.5 billion and US$0.4 billion, respectively.

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



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

Text Table 1. Bangladesh: Decomposition of Public Debt, FY23

	Debt Stock			Debt Service		
	FY2023			FY2023		
	(In million of US$)	(Percent total debt)	(Percent GDP)	(In million of US$)	(Percent total debt)	(Percent GDP)
Total	166,655	100.0	39.8	23,325	14.0	5.6
External PPG	74,007	44.4	17.7	3,886	2.3	0.9
Medium-to-long term	71,632	43.0	17.1	3,676	2.2	0.9
Multilateral creditors[2]	38,812	23.3	9.3	2,058	1.2	0.5
IMF	1,849	1.1	0.4	270	0.2	0.1
World Bank	19,530	11.7	4.7	687	0.4	0.2
ADB	14,115	8.5	3.4	938	0.6	0.2
Other Multilaterals	3,318	2.0	0.8	162	0.1	0.0
o/w: AIIB	1,504	0.9	0.4	49	0.0	0.0
o/w: IDB	696	0.4	0.2	66	0.0	0.0
Bilateral creditors	25,350	15.2	6.1	882	0.5	0.2
Paris Club	18,327	11.0	4.4	518	0.3	0.1
o/w: Japan	11,000	6.6	2.6	145	0.1	0.0
o/w: Russia	5,900	3.5	1.4	330	0.2	0.1
Non-Paris Club	7,023	4.2	1.7	364	0.2	0.1
o/w: China	5,374	3.2	1.3	251	0.2	0.1
o/w: India	1,299	0.8	0.3	70	0.0	0.0
SOE borrowing	6,391	3.8	1.5	736	0.4	0.2
Others	1,079	0.6	0.3	NA	NA	NA
Short-term	2,375	1.4	0.6	210	0.1	0.1
Domestic	92,648	55.6	22.1	19,439	11.7	4.6
Treasury bills	11,452	6.9	2.7	413	0.2	0.1
Treasury bonds	33,897	20.3	8.1	5,957	3.6	1.4
Sukuk	1,667	1.0	0.4	85	0.1	0.0
Debt from NSCs	33,818	20.3	8.1	12,984	7.8	3.1
Guarantees	3,560	2.1	0.8	-	0.0	0.0
Others including GPF	8,254	5.0	2.0	NA	NA	NA
Memo items:						
Collateralized debt [3]	-	0.0	0.0			
Contingent liabilities	9,553	5.7	2.3			
o/w: Public guarantees	9,553	5.7	2.3			
o/w: Other explicit contingent liabilities[4]	-	0.0	0.0			
Nominal GDP[5]	418,799					

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
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
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,
5/ Nominal GDP reported in this table is based on end of the period exchange rate, 106 Taka per dollar.

2. **National Saving Certificates (NSCs) make up a large but declining share of domestic debt.** [3] Gross NSC issuance declined 25 percent year-on-year and net issuance turned negative in FY23, as a combination of reforms initiated since 2019[4] and increases in cost-of-living reduced demand. Nonetheless, NSCs continue to make up just under 40 percent of domestic debt. Rising domestic bond yields have led to a narrowing of the gap with interest rates offered on NSCs (Text Table 2). Nonetheless, continued reforms to fully align NSC interest rates with market-determined rates, together with further liberalization of a reference lending rate (the six-month moving average

Text Table 2. Bangladesh: Selected NSCs Interest Rates

(in percent)	Three-monthly profit basis	Bangladesh bond	Family	Pensioner
Maturity	3-yr	5-yr	5-yr	5-yr
Up to Tk 1.5 million	11.0	11.3	11.5	11.8
Between Tk1.5 and Tk3 million	10.0	10.3	10.5	10.8
More than Tk 3 million	9.0	9.3	9.5	9.8
Comparable bond market yield	9.0	10.0	10.0	10.0

Source: Ministry of Finance

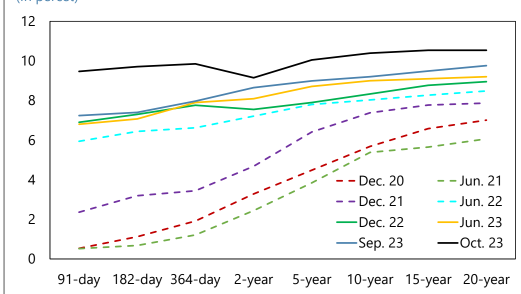
[3] NSCs were introduced in the subcontinent in 1944 by the National Savings Institute of the Ministry of Finance of India. The intent was to promote savings among the population and finance the government's budget deficit. Currently, the Department of National Savings under the Bangladesh Ministry of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

[4] In FY2020, the government digitized the issuance of NSCs and linked it to the purchasers' tax identification number, facilitating better enforcement of existing caps, as well as increased the tax on interest income from 5 to 10 percent. This was followed by the introduction of a tiered interest rate system in September 2021 under which interest rates decline with the size of NSC holdings.

rate of T-bills, SMART), would help to improve monetary policy transmission and deepen domestic debt markets, while ultimately lowering the cost of domestic borrowing. The last Sukuk bond was issued in April 2022. Bangladesh began issuing shariah-compliant domestic investment instruments, or Sukuk bonds, in December 2020. However, amid a liquidity squeeze among Islamic banks, no new Sukuk bonds were issued in FY23 and total Sukuk bond issuance remained unchanged at 180 billion Taka. The authorities are planning to issue more Sukuk bonds in the future.

3. **Yields on government securities continued to climb in FY23 and into FY24.** Monetary policy tightening, exchange rate depreciation, and unsterilized FX sales contributed to tight financial conditions. Reflecting implicit interest rate caps, upheld by substantial devolvement of government securities to Bangladesh Bank (BB) below market-clearing interest rates until August 2023, yields at the short end rose faster than at the long end (Text Figure 2). However, following a recent 75 basis point hike in the policy rate and an increase in the margin on SMART of 50 basis points, long-term yields also rose. Net domestic borrowing of the central government increased by 39.1 percent in FY23 compared to FY22, primarily filled by higher net borrowing from banks and non-bank institutions as external financing and net NSC issuance declined.

Text Figure 2. Bangladesh: Government T-Bill and T-Bond Rates
(In percet)



Source: Bangladesh Bank.

4. **External PPG debt stood at US$74 billion, accounting for about 17.7 percent of GDP, in FY23.** External PPG debt is predominantly owed by the central government to multilateral and bilateral creditors, at about 52 percent and 34 percent of outstanding external PPG debt respectively, with the rest being short-term, others (sovereign bonds held by non-resident Bangladeshis), and guaranteed SOE debt. External project financing disbursements in FY23 were lower than projected previously. Global inflationary environment and supply chain disruptions, and inability of banks to open letters of credits (LCs) due to FX shortages, contributed to increased import costs and delayed project execution, reducing disbursements from donor partners. Private sector debt was 5 percent of GDP in FY23, declining marginally from FY23.

B. Debt Coverage

5. **Debt coverage used for the analysis appropriately captures Bangladesh's debt vulnerabilities.**[5] 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 financial 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-

[5] 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.

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.

Text Table 3. 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	

1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt	
		Default	Used for the analysis
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%.

C. Macroeconomic and Financing Assumptions

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

- **Growth and inflation.** Bangladesh continues to deal with multi-faceted macroeconomic challenges. Amid the impacts of Russian invasion of Ukraine and global monetary tightening, inflation remained elevated and FX pressures continued, both amplified by expectations of further depreciation. Policies to compress domestic demand and monetary tightening suggest a subdued near-term growth outlook, compared to the previous DSA conducted in January 2023. Real GDP growth is projected to stabilize at 6 percent in FY24. Headline inflation averaged at 9 percent in FY23, driven by domestic food and energy price increase, pass-through from large Taka depreciations and elevated global commodity prices. Headline inflation is expected to decline to 7.9 percent in FY24 and further moderate over the medium and long term, staying anchored around 5.5 percent. Driven also by import compression, short-run projections assume muted domestic demand. Muted domestic demand, together with a tighter monetary policy stance, is expected to reduce inflationary pressures. Long-run projections, however, assume imports to rebound, and consequently, not to affect the long-term potential in the baseline. However, prolonged import compression could have negative impact on the potential. External debt dynamics under the baseline are favorable under a projected medium to long-term growth rate of around 6.5–7 percent. In the long run, growth will be mainly driven by investment and productivity improvement, both of which will benefit from holistic reforms supported by the IMF-supported program and the World Bank's Development Policy Credit. Increased female participation in the workforce will provide an upside to growth as population growth moderates. Downside risks to growth could arise from persistent inflation, slowdown in major trading partners, amplified FX pressures, elevated non-performing loans (NPLs), and slow implementation of macro critical structural reforms. Climate related events continue to be a downside risk to growth.

Text Table 4. Bangladesh: Macroeconomic Assumptions [1/]

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	Long Term Avg. 2/
		Est.				Proj.		
Real GDP growth								
Current	7.1	6.0	6.0	6.6	7.1	7.2	7.0	7.0
Previous	7.2	5.5	6.5	7.1	7.3	7.4	7.0	7.0
Inflation								
Current	6.1	9.0	7.9	6.8	5.5	5.5	5.5	5.5
Previous	6.1	8.9	6.5	5.6	5.5	5.5	5.7	5.7
Primary fiscal balance (in percent of GDP) 3/								
Current	-2.1	-2.6	-2.8	-2.3	-2.5	-2.5	-2.5	-2.5
Previous	-2.1	-3.8	-3.3	-3.3	-3.3	-3.3	-3.1	-2.9
Current account deficit (in percent of GDP)								
Current	-4.1	-0.7	-0.8	-2.7	-3.0	-3.0	-3.0	-2.5
Previous	-4.1	-3.2	-4.2	-3.5	-3.0	-3.0	-2.8	-2.7

1/ The previous DSA refers to the 2023 Joint DSA published in February 2023.
2/ Long tern average figures cover FY29-FY43 for the current DSA and FY28-FY42 for the previous DSA.
3/ Primary fiscal balance includes the grants. The difference in historical data are caused by GDP rebasing.

- **Fiscal policy.** The primary fiscal balance is projected to improve in FY24 and FY25 than in the previous DSA as the authorities maintain a tighter fiscal stance to help bring down inflation and ease the Balance of Payments (BoP) pressures. The primary deficit is projected to average 3.1 percent of GDP in the three subsequent fiscal years as inflation and BoP pressures subside and public investment picks up. Over the long term, the overall fiscal deficit is expected to be contained to 5 percent of GDP in line with the authorities' target. Under the IMF-supported program, stepped up efforts to mobilize fiscal revenues are expected to raise the revenue-to-GDP ratio by 1.7 percentage points during FY24 and FY26, with additional gradual increases totaling about 0.5 percent of GDP in revenues projected over the long term.

- **Climate policy.** Since the RSF arrangement, additional climate financing worth US$900 million from the World Bank (US$500 million) and ADB (US$400 million) has been approved in FY23. Additional financing is expected, including new budget support from Agence Française de Développement (AFD) amounting to US$580 million during FY24-FY26. The FY24 budget includes 0.7 percent of GDP in climate-related spending, similar to the FY23 allocation and historical spending.[6] Starting in FY25, the baseline scenario includes a gradual scaling up of

[6] Actual climate-related spending for FY23 is not yet available. Between FY18-22, climate spending averaged 0.6-0.7 percent of GDP. Data on climate-related spending covers twenty-five Ministries/Divisions, responsible for implementing major climate projects. Other Ministries/Divisions may have climate relevant expenditures not captured here.

climate investment of 0.3-0.8 percent of GDP annually supported by RSF and other financing catalyzed through development partners. RSF disbursements would help reduce the present value (PV) 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.

- **Current account (CA) dynamics.** After widening substantially in FY22, the CA deficit narrowed in FY23 due to FX shortages and LC margin requirements on the payments on imports, while exports remained resilient despite slowing external demand. Remittance inflows grew moderately by around 3 percent (y/y) in FY23, stabilizing below its historical average growth despite significant increase in migrant outflows in FY23. A reversal in the financial account—reflecting delays in repatriation and repayment of export proceeds, faster than anticipated global monetary tightening, uncertainty over FX setting, and expectation of future depreciation, continued to exert significant pressures on the Taka and FX reserves. Going forward, import compression is projected to continue into FY24. As a result, the CA deficit is expected to remain muted at 0.8 percent of GDP in FY24. From FY25 onward, the CA deficit is expected to increase, as FX pressures ease, thus helping normalize imports. In the medium to long term, the CA deficit is expected to gradually stabilize to around 3 percent of GDP, as non-ready-made garment (RMG) exports gain market share, due to structural reforms, trade facilitation, infrastructure development, and skill enhancement, as well as steady contributions from remittances. Reserves will be boosted by additional disbursements under an IMF-supported program, as well as from the World Bank and other development partners. Reserve coverage is expected to stabilize around 4 months of prospective import coverage in the medium term.

- **Financing assumptions.** Gross public financing need is projected to stabilize around 12 percent of GDP by FY34.[7] The concessionality of debt increases 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. Multilateral donor financing is projected to contribute to around 50 percent of total external financing in the near term, and gradually decline to 30 percent by FY44. The remainder of the external financing is assumed to come from bilateral donors. Average nominal interest rate on external debt is 2.7 percent in FY34. [8] Reflecting higher global interest rates, external interest payment projections have been revised up relative to the previous DSA. In line with expected monetary tightening to bring down inflation in the short term and further liberalization of market lending rates over the medium term, the interest rates on domestic debt have been revised up, averaging 2.2 percent in real terms over the projection period, compared to 0 percent in the previous DSA. In nominal terms, the interest rates on domestic debt are assumed to vary from 8.5 percent for T-bills, 10 percent

[7] Compared to the previous DSA, higher old domestic debt's interest payments and amortization increased GFNs by 2-3 percentage points of GDP

[8] 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.

for domestic debt with maturity of 1–3 year, 10.5 percent for domestic debt with maturity above 3 years and up to 7 years, and 11 percent for domestic debt with maturity above 7 years in the near term. Over the longer term, as monetary policy normalizes, reliance on NSCs declines and domestic bond markets deepen, the cost of domestic debt is expected to marginally decline with 6 percent for T-bills, 7.5 percent for domestic debt with maturity of 1–3 year, 8 percent for domestic debt with maturity above 3 years and up to 7 years, and 8.5 percent for domestic debt with maturity above 7 years in the near term. Average real interest rate on domestic debt is 2.9 percent in FY34. 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 FY44. As a result, debt service from domestic new debt will significantly increase over the projection period. Lack of household savings and capital market development could pose risk to a shortfall of additional domestic debt absorption, requiring higher for longer domestic interest rates or higher share of external debt.

7. Drivers of debt dynamic is expected to remain broadly unchanged (Figures 3). Historically, PPG external debt has been driven by favorable growth and a positive CA balance. The historical residual is high due to infrastructure-related spending 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. Unexpected changes in debt is close to median of the distribution across low-income countries (LICs).

8. Realism tools suggest that the macroeconomic projections are consistent with the experience of LICs (Figure 4). Bangladesh's 3-year projected adjustment in the primary balance is 1 percent of GDP. This is below the median of the sample of 3-year fiscal adjustments for LICs since 1990 that were under an IMF supported program. Real GDP growth projections under different fiscal multiplier is comparable to the baseline projections. 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.[9] Public and private investment rates are comparable to the previous DSA, although there was a deviation in FY23 resulting from an investment compression amid elevated costs.

D. Country Classification and Determination of Scenario Stress Tests

9. The debt carrying capacity measured by the Composite Index (CI) for Bangladesh remains at medium, based on IMF's October 2023 World Economic Outlook (WEO) and World Bank's 2022 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 October 2022 and April 2023 WEO vintages, 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. Under medium classification, the threshold for the overall

[9] Additional analysis suggests that long-term growth at 6.5 percent does not change external and overall debt risk ratings.

debt carrying is 55 percent of GDP. The threshold for the PV of external debt-to-GDP ratio is 40 percent (Text Table 5).

Text Table 5. Bangladesh: Country Classification

Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.86	Medium 2.87	Medium 2.88

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

10. The calibration of stress tests is 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.[10] The default setting to calibrate for the export shock could exaggerate the adverse impact, as the standard deviation (SD) of export growth over the past 10 years is much higher at 12.7 due to the large fluctuation of exports under a series of external shocks since the pandemic, in contrast to the SD of 4.5 over FY12–FY19.

E. External Debt Sustainability

11. All external debt indicators are on a declining trend and remain below their respective thresholds under the baseline (Figure 1). External PPG debt-to-GDP ratio are expected to settle at around 8 percent by FY44. Under the baseline, all but one (the PV of debt-to-export) sustainability

[10] 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 US$12 billion, depressing GDP annually by 0.5 to 1 percentage point.

indicators improve compared to the previous DSA. The PVs of debt-to-exports ratios path is at a higher level compared to the previous DSA. The most extreme shock to the PV of external PPG debt-to-GDP ratio is a one-time depreciation shock. 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 FY25) of a small magnitude (lower than previous DSA) is discounted via judgement, as in the previous DSA, in which the breach is driven by large export fluctuations during the pandemic and the post-pandemic recovery periods.[11] 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. Reflecting increases in projected interest payments, debt service-to-revenue ratio for FY24 is higher than the previous DSA, taking it close to the threshold including under baseline. 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 going forward.

F. Public Debt Sustainability

12. Overall public debt indicators suggest a low overall risk of debt distress (Figure 2). The PV of total public debt-to-GDP, while 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. All sustainability indicators are on a higher level than the previous DSA, with debt service-to-revenue ratio increasing to 87.7 percent in FY34 and over 100 percent for most years under the most extreme shock, reflecting increase in the cost of domestic debt. This reiterates the importance of raising the revenue-to-GDP ratio in Bangladesh. Increasing the revenue-to-GDP ratio beyond the IMF-supported 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

13. 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 and ongoing Taka depreciation since FY22. The PV of debt-to-exports breaches the threshold under the most extreme shock to exports. However, a short-lived and small breach (lower than previous DSA), as well as favorable debt dynamics with a declining external debt-to-GDP ratio path, supports the use of judgment and deviation from mechanical rating. The PV of public debt-to-GDP is also below its indicative threshold and is projected to gradually increase to 41.8 percent of GDP in the long term (FY34), reflecting increasing reliance on less concessional domestic financing. The increasing debt service to revenue ratio highlights the urgency of

[11] Specifically, the breach is driven by how a 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.

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-supported program. Reforms to attract FDI, increase domestic revenue mobilization, enhance public investment management, build capacity for public private partnerships, strengthen the financial sector including addressing banking sector vulnerabilities, 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.[12] RSF financing under the IMF-supported 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 the balance of payments pressures from import-intensive climate investment.

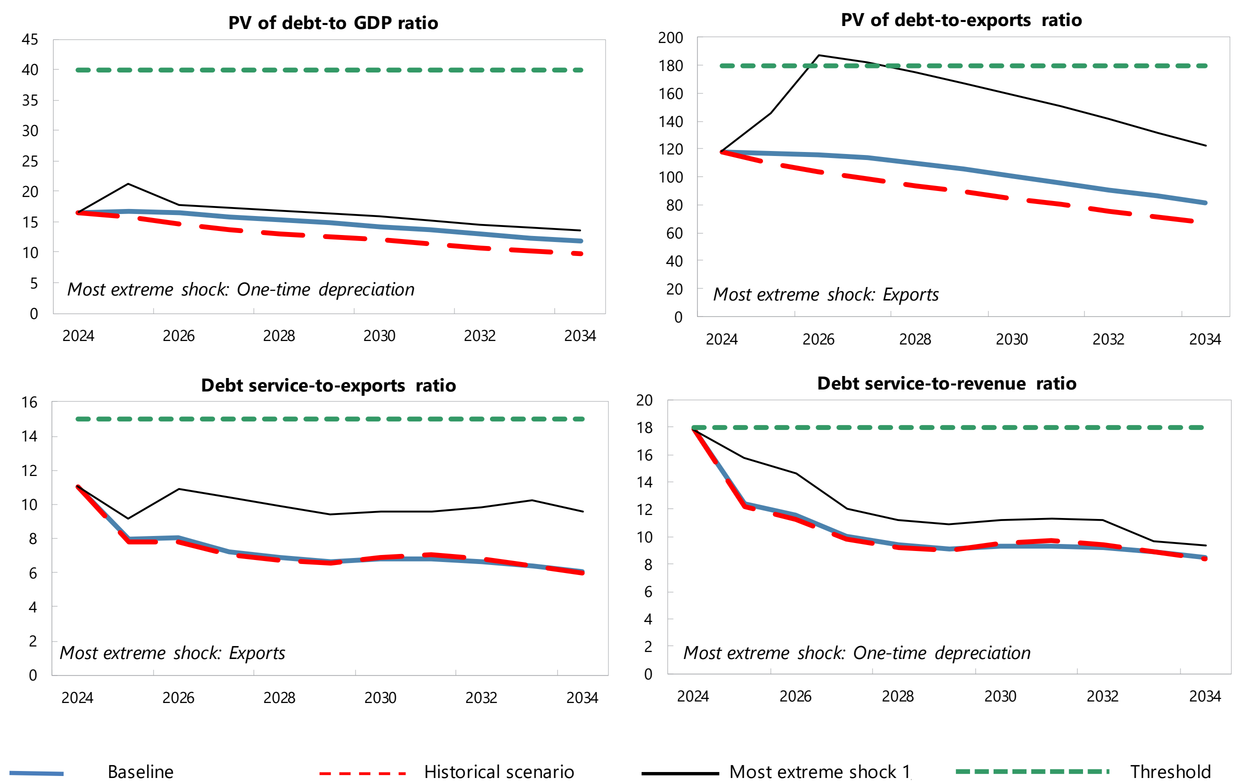
H. Authorities' Views

14. The authorities agreed that the risk of external debt distress and overall risk of debt distress remain low. The authorities also agreed that rising interest rates, both external and domestic, will remain a critical challenge in the coming years, and they have revised up their interest payment projections since the previous DSA. While they restated their commitment to public financial and debt management to improve the debt dynamics and ensure fiscal and debt sustainability, they acknowledged the urgent need to accelerate domestic revenue mobilization to meet financing needs. The authorities reiterated their concern about lowering of the debt carrying capacity, which occurred as part of the 2021 DSA, mostly due to the change in CPIA score. They also reconfirmed that there are no plans to issue Eurobonds.

[12] 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, FY24–FY34[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	2.0%	2.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	6	6

* 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 2034. 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, FY24–FY34[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	18%	18%
Domestic medium and long-term	68%	68%
Domestic short-term	15%	15%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.0%	2.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.1%	3.1%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	1.1%	1.1%

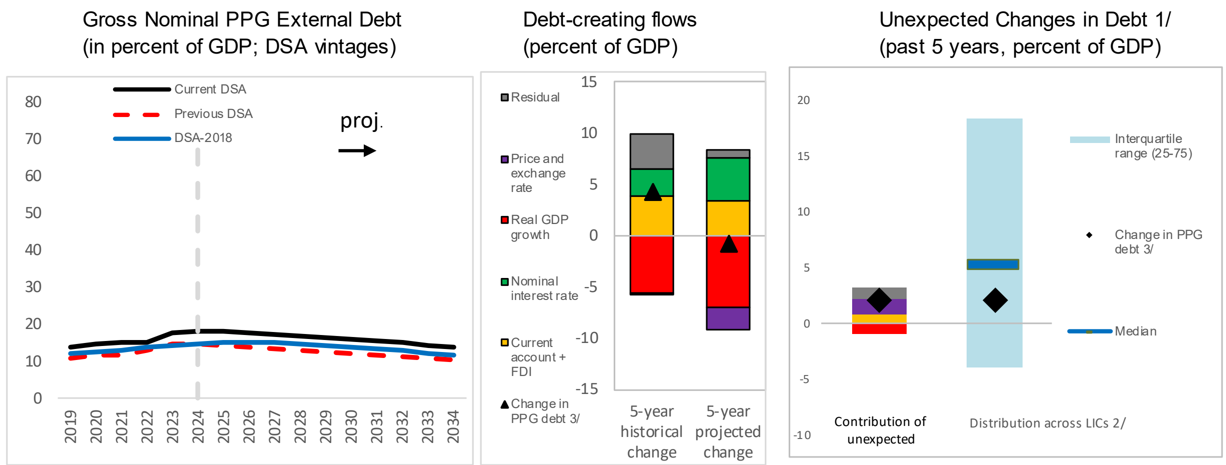
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

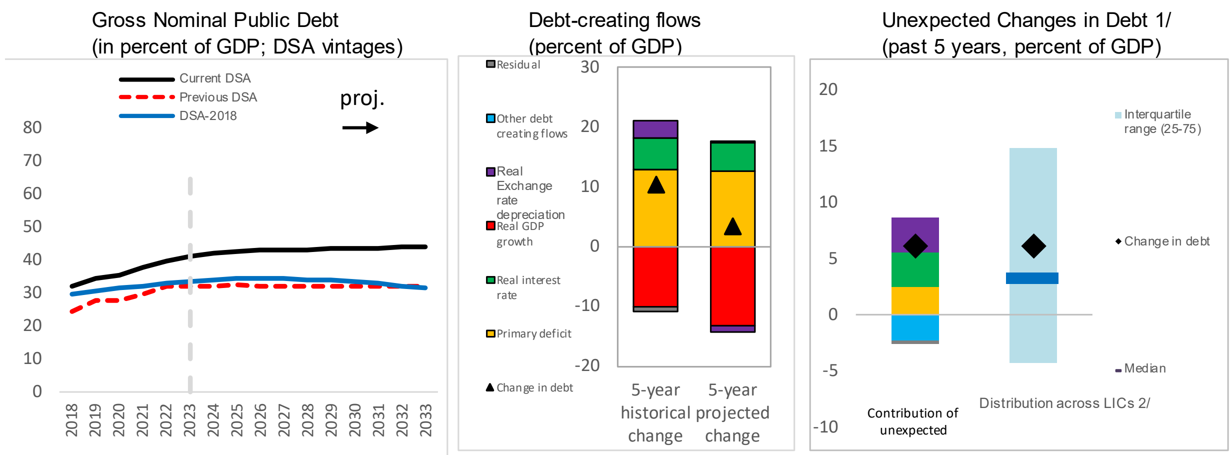
1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock 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



Public Debt



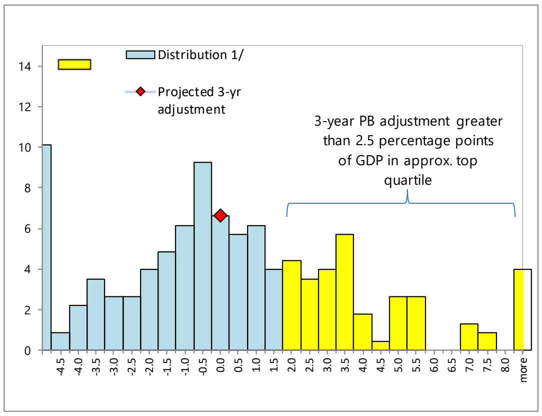
1/ Difference between anticipated and actual contributions on debt ratios.

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.

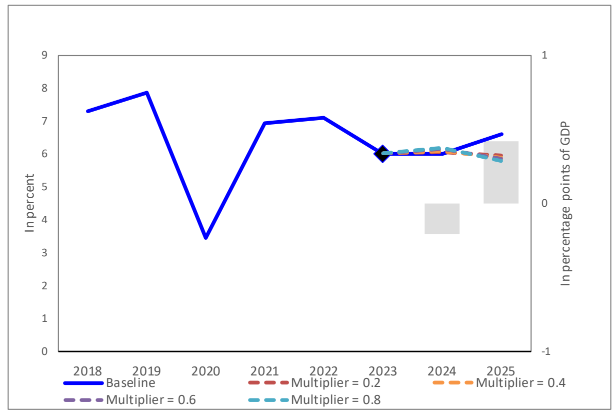
Figure 4. Bangladesh: Realism Tools

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



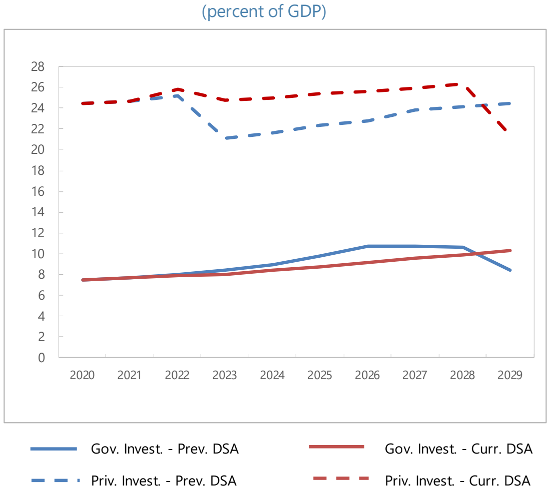
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

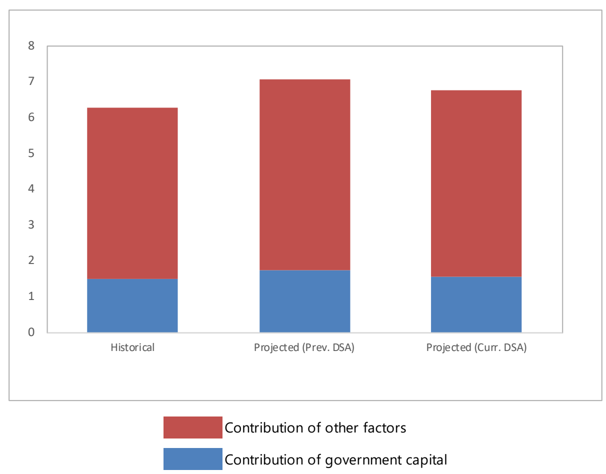


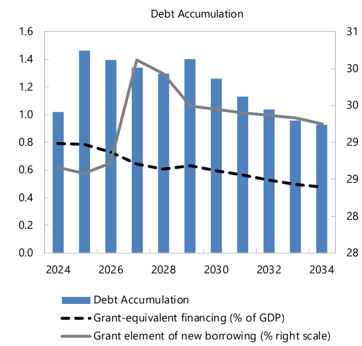
Table 1. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, FY21–FY44 1/

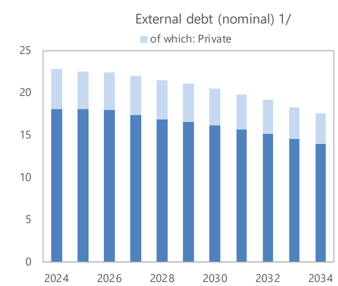
(In percent of GDP, unless otherwise indicated)

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	19.6	20.8	22.7	22.8	22.5	22.4	22.0	21.5	21.1	17.5	10.5	**17.9**	**20.7**
of which: public and publicly guaranteed (PPG)	15.1	15.4	17.7	18.1	18.1	17.9	17.4	16.9	16.6	14.0	8.6	**14.0**	**16.4**
Change in external debt	1.2	1.2	1.8	0.2	-0.3	-0.1	-0.4	-0.6	-0.4	-0.8	-0.6		
Identified net debt-creating flows	-1.1	1.8	1.0	-0.9	0.4	0.5	0.3	0.3	0.1	0.1	1.0	**-1.1**	**0.1**
Non-interest current account deficit	0.8	3.4	-0.1	0.0	1.9	2.2	2.2	2.2	1.8	1.7	2.6	**0.4**	**1.7**
Deficit in balance of goods and services	6.4	8.1	4.8	4.9	6.7	6.8	6.6	6.6	6.1	5.5	4.7	**5.5**	**6.0**
Exports	10.7	12.9	13.6	14.0	14.3	14.2	14.0	13.9	14.0	14.5	15.1		
Imports	17.1	20.9	18.4	18.9	21.0	20.9	20.6	20.4	20.1	19.9	19.9		
Net current transfers (negative = inflow)	-6.1	-4.7	-5.0	-4.9	-4.8	-4.6	-4.4	-4.4	-4.2	-3.6	-2.0	**-5.5**	**-4.2**
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)	0.4	0.1	0.1	0.0	0.0	0.1	0.0	0.0	-0.1	-0.2	-0.1	**0.4**	**-0.1**
Net FDI (negative = inflow)	-0.3	-0.4	-0.4	-0.4	-0.9	-1.1	-1.3	-1.3	-1.2	-1.2	-1.2	**-0.5**	**-1.1**
Endogenous debt dynamics 2/	-1.5	-1.3	1.5	-0.5	-0.5	-0.6	-0.6	-0.5	-0.5	-0.5	-0.3		
Contribution from nominal interest rate	0.3	0.6	0.9	0.8	0.9	0.9	0.8	0.8	0.8	0.7	0.4		
Contribution from real GDP growth	-1.1	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4	-1.3	-1.1	-0.7		
Contribution from price and exchange rate changes	-0.7	-0.6	1.9	...	...	...	...	...	...	...	...		
Residual 3/	2.3	-0.5	0.8	1.1	-0.7	-0.6	-0.7	-0.9	-0.5	-0.8	-1.7	**1.9**	**-0.6**
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	...	...	15.9	16.6	16.8	16.4	15.8	15.2	14.7	11.8	6.8		
PV of PPG external debt-to-exports ratio	...	...	116.9	118.2	117.2	115.7	113.4	109.7	105.3	81.4	45.1		
PPG debt service-to-exports ratio	4.4	5.1	6.1	11.1	8.0	8.0	7.2	6.9	6.6	6.0	4.1		
PPG debt service-to-revenue ratio	5.0	7.5	10.0	17.8	12.4	11.6	10.1	9.4	9.1	8.5	6.0		
Gross external financing need (Million of U.S. dollars)	16951.5	35283.2	25905.5	26195.2	28011.6	29451.2	30755.4	34235.7	35357.4	51384.2	147472.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.9	7.1	6.0	6.0	6.6	7.1	7.2	7.0	7.0	7.0	7.0	**6.5**	**6.9**
GDP deflator in US dollar terms (change in percent)	4.1	3.2	-8.5	-3.8	0.9	3.4	4.6	5.3	5.3	5.4	5.4	**2.9**	**3.9**
Effective interest rate (percent) 4/	2.1	3.4	4.0	3.8	4.1	4.2	4.1	4.2	4.3	4.2	3.7	**2.8**	**4.2**
Growth of exports of G&S (US dollar terms, in percent)	14.2	33.4	2.5	5.2	9.8	9.7	10.3	11.8	13.8	13.7	13.1	**8.2**	**11.7**
Growth of imports of G&S (US dollar terms, in percent)	18.6	35.5	-14.8	5.0	19.2	10.5	10.0	12.0	11.0	12.7	12.7	**8.5**	**11.9**
Grant element of new public sector borrowing (in percent)	...	...	...	28.7	28.6	28.7	30.1	29.9	29.5	29.3	29.0	**...**	**29.3**
Government revenues (excluding grants, in percent of GDP)	9.3	8.9	8.2	8.7	9.2	9.8	10.0	10.2	10.2	10.3	10.4	**8.5**	**9.9**
Aid flows (in Million of US dollars) 5/	7672	10080	8965	2545	2600	2568	1850	1850	1750	1750	1756		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.8	0.8	0.7	0.6	0.6	0.6	0.5	0.3	**...**	**0.6**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	31.4	31.5	31.0	30.4	30.2	29.7	29.4	29.1	**...**	**30.2**
Nominal GDP (Million of US dollars)	416,265	460,201	446,349	455,162	489,538	541,999	607,578	684,881	772,018	1,406,118	4,666,362		
Nominal dollar GDP growth	11.3	10.6	-3.0	2.0	7.6	10.7	12.1	12.7	12.7	12.7	12.7	**9.6**	**11.0**
Memorandum items:													
PV of external debt 7/	...	...	20.9	21.3	21.2	20.9	20.5	19.8	19.2	15.3	8.7		
In percent of exports	...	...	153.6	151.8	148.2	147.2	146.8	142.9	137.4	106.0	57.5		
Total external debt service-to-exports ratio	31.3	32.1	42.7	40.4	33.1	30.6	29.7	29.8	28.3	21.6	11.9		
PV of PPG external debt (in Million of US dollars)			70944	75488	82153	88976	96235	104119	113729	165627	318975		
(PVt-PVt-1)/GDPt-1 (in percent)				1.0	1.5	1.4	1.3	1.3	1.4	0.9	0.4		
Non-interest current account deficit that stabilizes debt ratio	-0.5	2.2	-1.9	-0.2	2.2	2.3	2.6	2.7	2.2	2.5	3.2		

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.

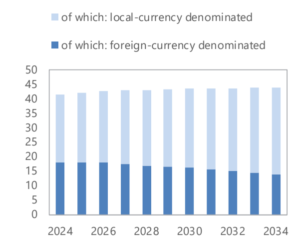
Table 2. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, FY21–FY44

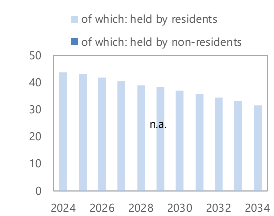
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	35.6	37.9	39.8	41.4	42.0	42.7	42.9	43.1	43.3	44.0	44.4	**32.2**	**43.1**
of which: external debt	15.1	15.4	17.7	18.1	18.1	17.9	17.4	16.9	16.6	14.0	8.6	**14.0**	**16.4**
Change in public sector debt	1.1	2.2	1.9	1.6	0.6	0.8	0.1	0.2	0.2	0.1	0.0		
Identified debt-creating flows	0.7	1.6	2.6	0.9	0.8	1.0	0.7	0.8	0.7	0.6	0.3	**1.4**	**0.7**
Primary deficit	1.6	2.1	2.6	2.8	2.3	2.5	2.5	2.5	2.6	2.5	2.2	**2.2**	**2.6**
Revenue and grants	9.4	8.9	8.3	8.8	9.3	9.9	10.0	10.2	10.2	10.3	10.4	**8.6**	**10.0**
of which: grants	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	11.0	11.1	10.9	11.6	11.6	12.4	12.5	12.7	12.8	12.8	12.6	**10.8**	**12.5**
Automatic debt dynamics	-0.9	-0.5	0.0	-1.9	-1.5	-1.6	-1.8	-1.8	-1.9	-2.0	-2.0		
Contribution from interest rate/growth differential	-0.6	-2.1	-1.9	-1.9	-1.5	-1.6	-1.8	-1.8	-1.9	-2.0	-2.0		
of which: contribution from average real interest rate	1.6	0.3	0.3	0.3	1.0	1.2	1.1	1.0	1.0	0.9	0.9		
of which: contribution from real GDP growth	-2.2	-2.4	-2.2	-2.3	-2.6	-2.8	-2.9	-2.8	-2.8	-2.9	-2.9		
Contribution from real exchange rate depreciation	-0.2	1.6	1.9	...	...	...	...	...	...	...	...		
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	0.4	0.6	-0.7	0.8	-0.2	-0.2	-0.6	-0.5	-0.5	-0.5	-0.3	**-0.2**	**-0.3**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**39.1**	**40.5**	**40.8**	**41.4**	**41.3**	**41.4**	**41.5**	**41.8**	**42.6**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**470.5**	**460.2**	**440.6**	**418.0**	**413.8**	**407.5**	**406.2**	**405.8**	**410.7**		
Debt service-to-revenue and grants ratio 3/	**58.7**	**72.0**	**71.8**	**101.1**	**80.4**	**93.4**	**85.6**	**92.5**	**89.9**	**87.7**	**87.5**		
Gross financing need 4/	7.4	9.0	9.0	11.7	9.8	11.8	11.0	11.9	11.7	11.6	11.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.9	7.1	6.0	6.0	6.6	7.1	7.2	7.0	7.0	7.0	7.0	**6.5**	**6.9**
Average nominal interest rate on external debt (in percent)	0.0	1.4	2.0	2.2	2.7	2.8	2.7	2.7	2.7	2.7	2.3	**1.0**	**2.7**
Average real interest rate on domestic debt (in percent)	6.1	4.8	3.6	2.0	3.9	4.5	4.2	3.8	3.5	2.9	2.7	**5.3**	**3.4**
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.8	11.6	13.6	...	...	...	...	...	...	...	...	**0.8**	**...**
Inflation rate (GDP deflator, in percent)	4.1	5.0	5.4	6.4	5.5	5.2	5.5	5.3	5.3	5.4	5.4	**5.1**	**5.5**
Growth of real primary spending (deflated by GDP deflator, in percent)	2.3	7.9	4.2	12.8	7.0	14.8	7.6	8.9	7.6	7.1	6.8	**7.0**	**8.6**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.5	-0.1	0.6	1.2	1.8	1.8	2.3	2.3	2.4	2.4	2.3	**0.3**	**2.2**
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 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, FY24–FY34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	17	17	16	16	15	15	14	14	13	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	17	16	15	14	13	12	12	11	11	10	10
B. Bound Tests											
B1. Real GDP growth	17	17	17	17	16	15	15	14	14	13	12
B2. Primary balance	17	17	17	16	15	15	14	14	13	13	12
B3. Exports	17	18	20	19	19	18	17	16	15	14	14
B4. Other flows 3/	17	18	19	18	17	16	16	15	14	13	13
B5. Depreciation	17	21	18	17	17	16	16	15	15	14	14
B6. Combination of B1-B5	17	19	19	18	18	17	16	16	15	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	17	18	17	17	16	16	15	15	14	14	13
C2. Natural disaster	17	18	18	17	17	17	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	117	116	113	110	105	101	96	91	86	81
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	118	110	103	99	94	89	85	80	75	71	67
B. Bound Tests											
B1. Real GDP growth	118	117	116	113	110	105	101	96	91	86	81
B2. Primary balance	118	118	117	115	111	107	103	98	93	88	83
B3. Exports	118	145	**187**	**182**	175	167	159	150	141	132	123
B4. Other flows 3/	118	125	131	128	123	118	112	106	100	94	88
B5. Depreciation	118	117	100	98	96	92	89	85	81	77	74
B6. Combination of B1-B5	118	138	126	143	138	132	126	120	113	106	100
C. Tailored Tests											
C1. Combined contingent liabilities	118	123	122	120	116	114	110	105	100	95	91
C2. Natural disaster	118	130	130	128	124	123	119	113	108	104	99
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	8	8	7	7	7	7	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	11	8	8	7	7	7	7	7	7	6	6
B. Bound Tests											
B1. Real GDP growth	11	8	8	7	7	7	7	7	7	6	6
B2. Primary balance	11	8	8	7	7	7	7	7	7	6	6
B3. Exports	11	9	11	10	10	9	10	10	10	10	10
B4. Other flows 3/	11	8	8	8	7	7	7	7	7	7	7
B5. Depreciation	11	8	8	7	7	6	6	7	6	6	5
B6. Combination of B1-B5	11	9	10	9	8	8	8	8	8	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	11	8	8	7	7	7	7	7	7	7	6
C2. Natural disaster	11	8	9	8	7	7	7	7	7	7	7
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	18	12	12	10	9	9	9	9	9	9	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	18	12	11	10	9	9	9	10	9	9	8
B. Bound Tests											
B1. Real GDP growth	18	13	12	11	10	10	10	10	10	9	9
B2. Primary balance	18	12	12	10	9	9	9	9	9	9	9
B3. Exports	18	12	12	11	10	10	10	10	10	11	10
B4. Other flows 3/	18	12	12	11	10	9	10	10	10	10	10
B5. Depreciation	18	16	15	12	11	11	11	11	11	10	9
B6. Combination of B1-B5	18	13	13	11	10	10	10	10	11	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	18	12	12	10	10	9	10	10	9	9	9
C2. Natural disaster	18	12	12	10	10	9	10	10	10	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 4. Bangladesh: Sensitivity Analysis for Key Indicators for Public Debt, FY24–FY34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	40	41	41	41	41	41	41	42	42	42	42
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	40	41	41	41	41	41	41	41	41	41	41
B. Bound Tests											
B1. Real GDP growth	40	42	44	44	45	45	46	46	47	47	47
B2. Primary balance	40	42	43	43	43	43	43	43	43	43	43
B3. Exports	40	42	45	45	45	44	44	44	44	44	43
B4. Other flows 3/	40	42	44	43	43	43	43	43	43	43	43
B5. Depreciation	40	43	42	41	40	39	39	38	37	37	37
B6. Combination of B1-B5	40	40	41	40	40	40	40	40	40	40	41
C. Tailored Tests											
C1. Combined contingent liabilities	40	47	48	47	47	47	46	46	46	46	46
C2. Natural disaster	40	51	51	51	51	50	50	50	49	49	49
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	460	441	418	414	408	406	405	404	405	405	406
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	460	441	418	415	408	406	404	402	403	403	403
B. Bound Tests											
B1. Real GDP growth	460	451	444	444	442	444	446	448	453	456	459
B2. Primary balance	460	449	434	428	421	419	417	415	416	415	415
B3. Exports	460	455	456	448	439	435	432	428	427	424	422
B4. Other flows 3/	460	452	440	434	426	423	421	418	418	416	415
B5. Depreciation	460	465	428	413	397	387	378	370	365	360	355
B6. Combination of B1-B5	460	431	413	405	398	397	395	392	393	393	394
C. Tailored Tests											
C1. Combined contingent liabilities	460	512	481	474	463	458	454	449	448	446	443
C2. Natural disaster	460	551	517	509	498	492	487	482	481	478	476
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	101	80	93	86	92	90	93	96	89	89	88
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	101	81	94	86	94	91	93	96	90	89	87
B. Bound Tests											
B1. Real GDP growth	101	82	98	91	98	97	101	105	99	99	99
B2. Primary balance	101	80	95	88	94	94	98	98	91	92	91
B3. Exports	101	80	94	86	93	91	93	96	90	91	89
B4. Other flows 3/	101	80	94	86	93	90	93	96	90	90	89
B5. Depreciation	101	76	90	82	88	86	87	91	85	84	83
B6. Combination of B1-B5	101	78	91	84	90	88	93	93	87	87	86
C. Tailored Tests											
C1. Combined contingent liabilities	101	80	107	92	97	123	106	103	95	106	98
C2. Natural disaster	101	82	114	96	101	139	114	108	100	116	105
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.

INTERNATIONAL MONETARY FUND

BANGLADESH

November 21, 2023

2023 ARTICLE IV CONSULTATION, FIRST REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF PERFORMANCE CRITERIA—UPDATED WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

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. An updated assessment has been requested in relation to the First Review under the 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 one of the world's most vulnerable and climate risk-affected countries, facing significant risks from tropical cyclones, riverine and coastal flooding, extreme heat and landslides, 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, with more frequent and

[1] Source: World Bank Climate Change Knowledge Portal. https://climateknowledgeportal.worldbank.org/country/bangladesh/vulnerability

intense cyclone events and extreme rainfall exacerbated by climate change. Under severe flooding scenarios, for example, GDP falls by as much as 9 percent relative to baseline projections through 2050. Climate vulnerability is particularly acute on Bangladesh's coast where many of the poorest communities reside and rely on natural resources for livelihoods. Under a 1.5°C increase in temperature and 4 percent increase in precipitation, sea levels in the Bay of Bengal could rise by 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.

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 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, continuing development progress and increasing the resilience of communities. This will be compounded by higher heat and humidity, which impacts on health, particularly on the urban poor. In addition, over 13 million people may become internal migrants due to climate impacts, with higher impacts on women.

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 2020. 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), published in 2023, 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. Ensuring coherence between plans, monitoring and evaluating implementation, and prioritizing key investments remains challenging. Climate change will need to be integrated throughout the recurrent and capital budgets and the next five-year plan to achieve national objectives, including investments in adaptation and mitigation. Translating 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 successful experience with enhancing 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. Since independence in 1971, Bangladesh has reduced cyclone-related fatalities by 100-fold. 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, as well as adoption of renewable energy and improved distribution and transmission networks. A transition away from high emission industries will have distributional and inclusion impacts, affecting poor and vulnerable groups, including informal labor. However, there is opportunity for cleaner and more equitable growth through spatial development that leverages agglomeration effects and reduces congestion, makes cities more resilient to heat and reduces environmental pollution. Enhanced regional cooperation can support trade in renewable energy over the longer term. This requires cross-border transmission connectivity; identification of opportunities to share generation reserves and backup capacity and development of clear transmission and trade tariff regimes with standardized contractual framework documents.

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 that incorporates physical and transition risks 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 2.8 percent of FY23 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. Reaching those most vulnerable to climate impacts at the scale will also require a devolved climate finance approach that strengthens the capacity of local governments to work in partnership with civil society and grassroots organizations. Localized investments have strengthened community resilience to climate change. However, there are opportunities to improve learning, innovation, and scaling for greater impact.

8. 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. The private sector can also play a key role through partnerships for technology transfer. Adaptation technologies can be pursued in areas such as flood safeguards, weather forecasting technologies, insurance tools, crop resilience, water recycling, water purification, efficient irrigation systems, and sensors in flood zones. Continued close collaboration between the World Bank, the IMF, and other public and private sector partners can support Bangladesh in these areas.

E. World Bank Engagement in the Area of Climate Change

9. 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; investing in devolved climate finance and locally led climate action, 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 informed the World Bank's Bangladesh Country Partnership Framework (2023-27), which includes enhanced climate resilience as one of three high-level outcomes. The World Bank continues to play a key role in enhancing regional cooperation on climate-related issues, such as air pollution and trade in electricity.

10. 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$ 5.1 billion (or 34 percent) of total IDA commitments in Bangladesh (FY17-23) 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 Green and

Climate Resilient Development Policy Credit series (FY23-25) has been supporting 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. A proposed Local Governance and Resilience Program will support capacity building and reliable and predictable funding flows to local governments for locally led, climate informed, and devolved decision-making.

Statement by Krishnamurthy Subramanian, Executive Director for Bangladesh and Rajeev Jain, Advisor to Executive Director
December 12, 2023

On behalf of the Bangladeshi authorities, we thank Mr. Anand and his team for their dedicated work and engaging discussions with them on various policy issues. Our authorities broadly concur with the appraisal and policy recommendations in the staff report on Article IV consultations and first review under the Extended Credit Facility, Extended Fund Facility, and the Resilience and Sustainability Facility Arrangements. We will focus our remarks on the domestic macroeconomic situation and recent structural/institutional reforms undertaken by the authorities.

I. Macroeconomic Situation

The Bangladesh economy continues to grapple with both external and domestic headwinds. Provisional estimates place the real GDP growth in FY2022-23 at 6.0 per cent as compared with 7.1 per cent in FY2021-22. While supply-side shortages mainly reflected disruptions in the imports of raw materials and higher energy prices, on demand-side, consumption and investment growth slowed due to high inflation, government's austerity measures and subdued external demand. With greater focus on boosting investments in productive sectors, our authorities expect the economy to grow by 6.5 per cent in FY2023-24. However, they acknowledge various downside risks, particularly challenging external demand conditions due to global slowdown, that may strain domestic growth.

Elevated inflation remains a major concern for our authorities. Despite easing of global supply-side pressures, domestic inflation has remained above 9 per cent since March 2023 reflecting upward adjustment in administered energy prices, high food prices and depreciation of the Bangladeshi Taka. Notwithstanding domestic inflation largely driven by cost-push factors, the authorities are determined to anchor inflation expectations by adopting a proactive monetary policy and addressing supply-side bottlenecks. The Monetary Policy Statement for H1 of FY2023-24 aims to contain inflation while fostering greater flexibility in interest and exchange rates. In FY2023-24 so far, the main policy rate (repo rate) has been raised by 175 basis points (bps) to 7.75 per cent. With the latest hike of 50 bps on 26th November, the repo rate has increased by 300 bps since May 2022. The devolvement of government securities on the central bank has been discontinued since early August 2023 to support monetary tightening. Our authorities are well aware of domestic and external risks to the near-term inflation expectations. Given the limited capacity to import, the government has accorded high priority to bolster domestic food security by enhancing production of staple crops including rice and wheat and other essential crops. The target for area under cultivation for paddy production has been expanded along with measures to ease supply of fertilizers and seeds to farmers.

External sector faced further stress due to persistent global headwinds and restoring external stability remains a major priority. While there was a sharp fall in the current account deficit in FY2022-23, the balance of payments (BoP) funding gap emerged due to weakening of net inflows, especially the trade credit, in the financial account. Consequently, the downward pressure in the foreign exchange market necessitated further depreciation in the Bangladeshi Taka and drawdown of foreign exchange reserves to meet BoP gap for the second successive year. The authorities have tightened fiscal and monetary measures, and reduced the Export Development Fund to lower the pressure on imports. Nonetheless, they have maintained public spending on social safety measures so that the poor and vulnerable are looked after. Reflecting this, the current account recorded a modest surplus for the third consecutive quarter in Q1 of FY2023-24 (July-September) *albeit* foreign exchange reserves dipped further due to net capital outflow.

As per the revised estimate for FY2022-23, the budget deficit was lower than the original budget estimate mainly on account of fall of 0.3 percentage points of GDP in public expenditure. Under a coordinated policy approach to curb inflation, the government aims to maintain the budget deficit at 5.2 percent of GDP in FY2023-24. Of which, around 60 per cent is proposed to be financed through domestic sources as compared with 63 per cent in FY2022-23. Staff's debt sustainability analysis suggests that Bangladesh remains at low risk of external and overall debt distress.

Domestic bank credit growth slowed reflecting tight monetary conditions despite greater demand from the public sector (mainly the government). As at end-September 2023, public sector accounted for 22 per cent of total outstanding bank credit. Increase in public sector credit by banking sector was partly due to lower demand for National Savings Certificates (NSCs) that met 11 per cent of government's net financing requirement in FY 2021-22. The overall credit growth remained in double-digits in FY2022-23 and Q1 of FY2023-24 despite moderate growth in private sector credit amid tighter monetary and liquidity conditions, reduced demand for trade finance, and rising uncertainty. Importantly, domestic microfinance institutions reported healthy growth of 26.4 per cent in their loan disbursements in FY2022-23. Bank deposit and lending rates have also increased in tandem with domestic monetary and liquidity conditions.

II. Major Policy Initiatives

In line with country's reform agenda, our authorities have pursued several institutional and structural reforms in recent months to ensure that economy is resilient enough to realize its growth potential in a balanced way. The focus has also been to create jobs and foster private investment by boosting competitive business environment, skilled human capital and efficient infrastructure.

In FY2023-24, Bangladesh Bank has adopted a more modern monetary policy framework by switching from monetary aggregates to an interest rate targeting framework. With introduction of a market-based competitive interest rate corridor with automatic standing lending and deposit facilities, the authorities expect better monetary policy transmission going forward. With effect from July 1, 2023, the central bank has removed lending rate ceiling and introduced a market-based reference rate (*i.e.*, six-month moving average rate of treasury bill) along with a margin specified for banks and non-bank financial institutions. These policy changes are expected to gradually enhance competitiveness and create a favorable lending environment in the banking sector. In October 2023, Bangladesh Bank took the decision to reform its Monetary Policy Committee by inducting three external members to benefit from their expertise in addition to that existing inside the Bank. Bangladesh Bank has also begun to use market determined exchange rate of Taka for official forex transactions.

Aware of the need to expand revenue collections, the authorities have undertaken several initiatives to expand tax base and rationalization of tax rates. The focus of recent policies has been on simplification of the return submission process, exchange of information among government agencies, modernization of tax laws and automation and digitization of the income-tax, customs and VAT wings of the National Board of Revenue (NBR). Incidentally, the number of submitted income tax returns increased by 25 per cent in FY 2022-23. In line with staff's recommendation, a central compliance risk management unit is to be set up by December 2023 which will help expand the tax net by further strengthening the monitoring capacity and information sharing within the NBR. The NBR is also preparing a "Medium Term Revenue Strategy" in tandem with revenue collection targets set for the medium term. Replacing the Income Tax Ordinance of 1984, a new Income Tax Act 2023 has been implemented which not only aims to increase revenue and simplify the tax submission process but also conforms to international best practices in taxation. As part of the Medium-Term Debt Management Strategy, the government intends to reduce dependence on high-cost NSC system for government borrowings.

Reforms to modernize domestic financial system are also underway. The Bank Company (Amendment) Act 2023 approved by Parliament in June 2023 aims to strengthen governance structure and financial viability of domestic banks. The Finance Company Act 2023 - introducing new measures to strengthen the governance of non-bank financial institutions - has been passed by Parliament in October 2023 and notified in November 2023. Bank and Financial Institution Deposit Protection (Amendment) Act-2023 submitted for parliamentary approval in June 2023 proposes to safeguard depositors' interest by doubling the coverage limit and bringing non-bank financial institutions under the ambit of Deposit Insurance Systems. Under a joint strategy to reduce non-performing loans and restore capital by 2026, MoUs have been signed between Bangladesh Bank and several commercial banks (both state-owned and private) with focus on a stronger monitoring mechanism to lower NPLs, boost performance, and increase governance. As noted in the staff report, recommendations of the 2022 safeguards assessment are also being implemented by Bangladesh Bank to improve transparency of its IFRS-based financial statements and reporting of official reserve assets based on prescribed international practices.

A new Universal Pension Scheme was launched in August 2023 to improve social safety net for private sector (both formal and informal) employees aged above 18 years. Several measures have been undertaken to upgrade domestic public health infrastructure. In August 2023, the World Bank has approved its financial support for the Urban Health, Nutrition and Population Project aiming to improve primary healthcare services in major urban areas. With the launch of various women and child welfare schemes, the female labor participation rate improved from 36 percent in 2010 to 42.7 percent in 2022.

Being one of the most climate vulnerable countries in the world, Bangladesh has made commendable efforts to streamline regulatory and institutional settings to make faster progress towards climate-resilient sustainable development. Our authorities' commitment is demonstrated in climate-relevant allocations which increased by two and a half times over last eight years to US$3.08 billion in FY2022-23. The recently adopted National Adaptation Plan (2023-50) outlines country's adaptation strategies for different sectors and identifies long-term investment needs of high and moderate priority interventions for developing climate resilience. Climate change adaptation has also been explicitly mainstreamed in the Perspective Plan (2021-41) that laid the foundation of a developed and smart Bangladesh by 2041. The Delta Plan-2100 - a comprehensive strategic plan for gradual, sustainable development through an adaptive delta management process - is also at the implementation stage now. The mission is to (i) ensure long-term water and food security, economic growth, and environmental sustainability and (ii) effectively reduce vulnerability to natural disasters.

Following staff's recommendations, a sustainable public procurement policy paper has been adopted which will guide the authorities in encouraging environmentally and socially sustainable business and investments. With implementation of the Environmental Conservation Rules, 2023, the process of environmental clearance has been reformed to ensure efficient and climate resilient investment. Revised Energy Efficiency and Conservation Rules, 2023 stipulated the timeline to initiate mandatory energy auditing by different sectors and introduced the provision for publication of annual energy consumption report.

The authorities are also fully committed to strengthen governance and combat corruption. Supervisory tools on the lines of international best practices are being developed to mitigate money laundering risks. As per the Basel Anti-Money Laundering Index-2023 - complied by the Basel Institute on Governance - Bangladesh's ranking has improved by five places implying lower risk of money laundering and terrorist financing.

III. Concluding Remarks

Our authorities appreciate the Fund's continued capacity development (CD) support which helped them identify capacity and policy gaps in diverse areas and make suitable improvements for timely delivery of reforms. In particular, Fund's CD support is notable in (i) developing climate stress test framework and forecasting and policy analysis system, (ii) reforming the exchange rate framework, (iii) improving tax expenditure assessment, (iv) strengthening the Treasury Single Account and (v) improving quality and availability of various data. The improvements in these areas will certainly enhance the authorities' decision- making capacity to undertake macroeconomic reforms and modernize monetary and financial systems. Other priorities for Fund's CD support (e.g., to address vulnerabilities in financial sector and rationalize tax expenditure) have also been identified. As staff report suggests, program implementation has been broadly on track with few exceptions. Quantitative performance criterion (QPC) on net international reserves (NIR) could not be met partly due to continued external headwinds. Nevertheless, the authorities remain fully committed to rebuilding country's reserves and are taking all necessary policy actions. Therefore, they have requested for a waiver for the non-observance of QPC on NIR. With normalization of the external environment going forward, country's forex reserve position is expected to improve with stronger export demand and capital flows. Most of the indicative targets and structural benchmarks have been also successfully achieved. Our authorities look forward to Fund's continued support to implement the remaining program commitments.