



# BANGLADESH

November 2015

## FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—PRESS RELEASE AND STAFF REPORT

In the context of the Bangladesh Fifth and Sixth Reviews under the Extended Credit Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 21, 2015, following discussions that ended on March 10, 2015, with the officials of Bangladesh on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on October 5, 2015.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

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

Letter of Intent sent to the IMF by the authorities of Bangladesh\*

Memorandum of Economic and Financial Policies by the authorities of Bangladesh\*

Poverty Reduction Strategy Paper

\*Also included in Staff Report

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

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Press Release No. 15/476  
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October 21, 2015

International Monetary Fund  
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Washington, D. C. 20431 USA

## **IMF Executive Board Completes the Fifth and Sixth Reviews under the Extended Credit Facility Arrangement for Bangladesh and Approves US\$258.3 million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the fifth and sixth reviews of Bangladesh's economic program under a three-year arrangement supported by the Extended Credit Facility (ECF). The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 182.845 million (about US\$258.3 million) to Bangladesh, bringing total disbursements under the arrangement to SDR 639.96 million (about US\$904.2 million).

The three-year ECF arrangement for Bangladesh was approved by the Executive Board on April 11, 2012 (Press Release No. 12/129) for a total amount equivalent to SDR 639.96 million (about US\$904.2 million), or 120 percent of quota. The arrangement was extended first to July 31 and then to October 31, 2015.

Following the Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, issued the following statement:

“Prudent macroeconomic policies and structural reforms, with support from the Extended Credit Facility (ECF) arrangement, have helped steer the Bangladesh economy through domestic and global challenges in the last three and a half years. Growth has been robust, inflation has eased, foreign exchange reserves have risen to a comfortable position, and public debt has remained stable as a share of GDP. Against a challenging and uncertain global landscape and upside inflation risks, the authorities should maintain prudent fiscal and monetary policies to underpin sustained high growth, build resilience to shocks, and further reduce poverty.

“Structural reforms will also play an important role in unleashing the full potential of the economy. Many important reforms were adopted under the ECF arrangement. Key structural challenges remain, however. Bangladesh's already low tax-to-GDP ratio declined steadily since fiscal year 2012–13. Boosting revenue is necessary to maintain fiscal sustainability and build fiscal space for public investment in critical infrastructure and stronger social safety nets. To this end, the authorities should steadfastly implement the new value-added tax (VAT) for a launch by July 2016. The new VAT will simplify tax administration and lower taxpayers' compliance costs, and it is designed to protect the poor and small businesses.

“Further reducing inefficient and regressive energy subsidies, including by aligning domestic fuel prices with international prices, and strengthening financial management and reporting in state-owned enterprises, would also open up space to increase well-targeted social spending.

“Another important priority is to continue to strengthen the resilience of the banking sector. State-owned banks, in particular, should be reformed and guided by good corporate governance practices, supported by complete branch automation by 2016.

“To further boost inclusive growth, continued efforts are needed at removing infrastructure bottlenecks, particularly in power and transportation, improving the business climate, and ensuring better labor rights and safer working conditions.”



# BANGLADESH

## FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

October 5, 2015

### EXECUTIVE SUMMARY

**Context.** The current Extended Credit Facility (ECF) arrangement, approved in April 2012, is drawing to a close. Over its three years, macroeconomic stability has been buttressed: growth is strong, inflation has eased, the public debt-to-GDP ratio has remained stable, and foreign reserves remain adequate. Progress on revenue mobilization, however, has been weak. Political uncertainty remains a key risk to the outlook.

**Program.** Completion of the fifth ECF review was postponed in October 2014 as the authorities needed more time to finalize key actions for implementation of the new value added tax (VAT). With the ECF arrangement originally expiring in April 2015, the fifth and sixth (and final) reviews were combined and the arrangement was extended first to July 31 and then to October 31, 2015. All performance criteria for the combined reviews have been met, all prior actions have been completed, and macroeconomic stability has been maintained.

**Policies.** To consolidate the program's achievements, policies should remain focused on safeguarding macroeconomic stability while pressing ahead with reforms to support higher and more inclusive growth. In particular, the effort to boost under-performing revenue collections to reinforce fiscal and debt sustainability should continue through the launch of the new VAT in July 2016. Other key reforms include rationalizing energy subsidies; prioritizing expenditures for critical infrastructure and better-targeted social safety net programs; improving public financial and debt management; strengthening the balance sheets of state-owned banks and avoiding forbearance on prudential financial regulations.

**Staff recommendation.** Staff recommends completion of the combined reviews. The authorities have consented to publication of the staff report and the Letter of Intent and attachments.

Approved By  
**Markus Rodlauer**  
and **Peter Allum**

The review missions were held in Dhaka during September 17–30, 2014 and February 25–March 10, 2015. The missions met with the Minister of Finance, Minister of Commerce, Minister of Planning, Governor of Bangladesh Bank, other senior government officials, private sector representatives, development partners, think tanks, and academics. Discussions were also held in Washington in October 2014 and April 2015 on the margins of the IMF-World Bank Annual and Spring Meetings. The staff team comprised Rodrigo Cubero (mission chief), Souvik Gupta, Sohrab Rafiq, and Stella Kaendera (Resident Representative) (all APD); Andrew Hodge (FAD); and Lynge Nielsen (SPR). Indu Chaturvedi (OED) joined the final discussions in Dhaka for both missions. Qianqian Zhang, Shari Boyce, and May Inoue (APD) assisted in preparing this report.

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## Glossary

ADP	annual development program
BB	Bangladesh Bank
BOP	balance of payments
BPC	Bangladesh Petroleum Corporation
CPI	consumer price index
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EM	emerging markets
EU	European Union, the
FX	foreign exchange
FY	fiscal year
GDP	gross domestic product
GFSM	Government Finance Statistics Manual
IT	information technology
LOLR	lender of last resort
MEFP	Memorandum of Economic and Financial Policies
NBR	National Board of Revenue
NPL	nonperforming loan
NSC	national savings certificates
PC	performance criterion
P&A	pay and allowances
PMC	project management consultancy
RAM	risk assessment matrix
REER	real effective exchange rate
ROA	return on assets
SB	structural benchmark
SOCB	state-owned commercial bank
US	United States, the
VAT	value-added tax
y/y	year-on-year

## CONTEXT

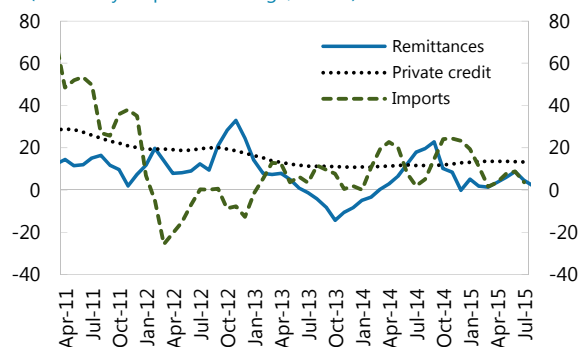
- 1. Macroeconomic performance has been strong under the ECF arrangement.** Real GDP growth has been resilient, inflation has eased, public debt has been broadly flat as a share of GDP, and the country's international reserves are at adequate levels. Bangladesh has also continued to make strides on poverty reduction, while income inequality has remained relatively constant since the mid-1990s, defying rising regional trends. Progress on revenue mobilization has been disappointing, however, with weak revenue outturns and significant delays in VAT implementation.
- 2. While violence and unrest have abated recently, political uncertainty remains.** Relative calm prevailed through most of 2014. Violence, transport blockades, and demonstrations (*hartals*) returned this year after the first anniversary of the January 2014 general elections and remained intense through March 2015. While unrest has eased more recently, the main opposition parties continue to question the legitimacy of the 2014 elections and call for fresh elections to take place under a non-partisan caretaker government.
- 3. Program performance has been generally good, except on revenue mobilization.** All performance criteria (PCs) for June and December 2014 were met, while most indicative targets were also met (Figure 1). Continuous PCs have also been met on available data through end-August 2015. However, tax revenue has systematically underperformed. Similarly, while structural benchmarks (SBs) for July and December 2014 were completed, those for June and September 2014 were not, although they were remedied by prior actions. In particular, significant delays and uncertainty in the implementation of the new VAT led to postponing the fifth ECF review. With the ECF arrangement originally expiring in April 2015, the last two reviews were combined and extensions of the arrangement, first to July 31 and then to October 31, 2015, were approved by the IMF Executive Board to allow for completion of the prior actions. The prior actions have now been completed. Macroeconomic outcomes for end-August 2015 were in line with staff projections provided to help assess performance during the second ECF extension period (Table 1).

## RECENT ECONOMIC DEVELOPMENTS, NEAR-TERM OUTLOOK, AND RISKS

*Macroeconomic performance in FY15 (July 2014–June 2015) was broadly in line with staff's expectation at the time of the fourth ECF review. Staff's baseline projections for FY16 see continued stability.*

- 4. Growth has remained resilient despite episodes of political unrest.** Domestic demand recovered in the first half of FY15 (H1FY15), supported by remittances and public investment. Imports went up strongly, but taxes, private sector

**Bangladesh: Selected Indicators, Apr. 2011–Jul. 2015**  
(Year-on-year percent change, 3mma)



Sources: Bangladesh authorities; and IMF staff calculations.

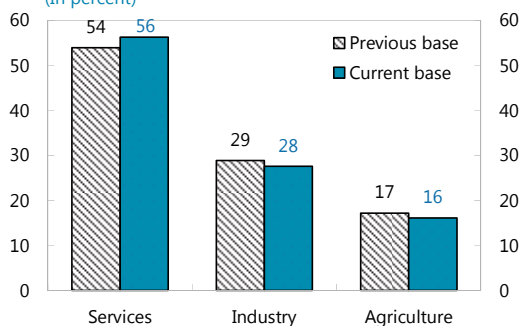


credit, and exports remained subdued. With political tensions resurfacing in January 2015, several of these activity indicators slowed down, but exports recovered slightly. The authorities' provisional estimate for FY15 real GDP growth was 6½ percent (FY14: 6.1 percent),<sup>1</sup> higher than suggested by economic activity indicators. Should calm prevail, staff expects growth to be at 6½ percent in FY16, buoyed by higher public sector wages, steady remittance inflows, and public investment (Table 2).

### Box 1. Bangladesh: The New FY06 Base GDP

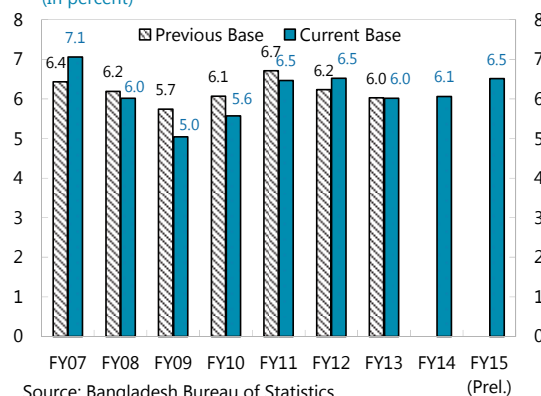
The Bangladesh Bureau of Statistics has introduced a national accounts series based on industry sector weights from FY06, to update the base period from FY96. Under the rebased series the weight attributed to the services sector grows from 54 percent to 56 percent of total GDP, while industry and agriculture lose share. Furthermore, the level of nominal GDP is about 15½ percent higher for FY13 than old-base GDP.

**Bangladesh: Sectoral Shares in GDP under the Current and Previous Base, 2013**  
(In percent)



Source: Bangladesh Bureau of Statistics.

**Bangladesh: Real GDP Growth Under the Current and Previous Base**  
(In percent)



Source: Bangladesh Bureau of Statistics.

### Macroeconomic Indicators for FY13 under the Old and New GDP Base

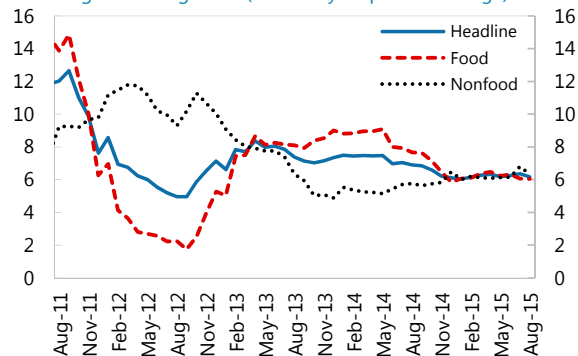
	FY 95/96 base	FY 05/06 base
Nominal GDP at market prices (Tk billions)	10,381	11,989
Nominal GDP at current exchange rate (US\$ billions)	129.9	150.0
Per capita GDP (US\$)	830	958
Fiscal balance (excl. grants; in percent of GDP)	-4.5	-3.9
Current account balance (in percent of GDP)	2.0	1.6
Public sector debt (in percent of GDP)	41.9	36.3

Sources: Bangladesh authorities; and IMF staff calculations.

<sup>1</sup> A new GDP series was adopted last year (Box 1). As a result, ratios to GDP are not directly comparable with those in earlier staff reports.

**5. Inflation eased in FY15.** Headline inflation fell from 7½ percent (y/y) in May 2014 to around 6 percent in November 2014, driven by a decline in food prices on the back of a good rice harvest and lower global prices, and has remained broadly stable since (Table 2). Nonfood inflation has also been stable, helped by prudent monetary policy and below-expectations monetary and credit growth outturns (Table 3). The decline in global oil prices has had no impact on inflation as domestic fuel prices have been kept unchanged (Box 2). Headline inflation is expected to hold steady in FY16 averaging 6½ percent, with nonfood inflation edging slightly up on account of higher wages and electricity and gas tariff increases. Temporarily higher inflation is expected in FY17 as the new VAT comes on stream.

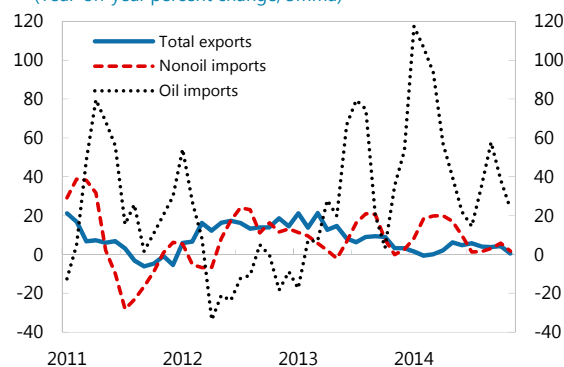
**Bangladesh: Consumer Price Index (CPI)**  
Aug. 2011–Aug. 2015 (Year-on-year percent change)



Source: Bangladesh authorities.

**6. The current account has swung into a small deficit.** In FY15 import growth was strong, as expected, while exports were weak reflecting slower external demand and adjustments in the garment industry to stricter safety standards (Figures 2–3). Remittance growth has bounced back, helped by a normalization in worker outflows to the Gulf countries. Bangladesh Bank (BB) has continued to accumulate reserves, which significantly outperformed program PCs on the back of aid-financed inflows and small, but growing, private capital flows, and remain adequate at over 5½ months of imports. The current account deficit is expected to widen in FY16 as import growth continues to outpace export growth (Table 4).

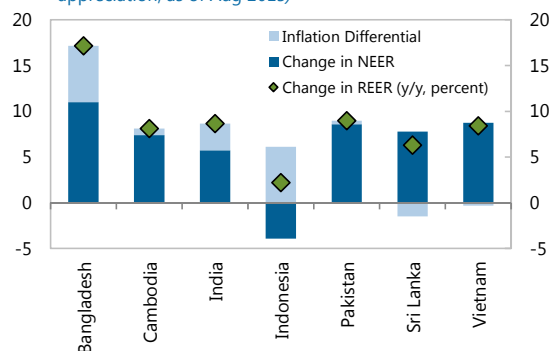
**Bangladesh: Imports and Exports, Sep. 2011– Jul. 2015**  
(Year-on-year percent change, 3mma)



Sources: Bangladesh authorities; and IMF staff calculations.

**7. Export weakness has been compounded by a steady appreciation of the real effective exchange rate (REER).** Sterilized FX purchases have kept the taka/US\$ rate stable (while also maintaining reserve money within target, see Figure 4). However, the REER has appreciated sharply as the US dollar gained strength globally, eroding export competitiveness (though Bangladesh retains a significant labor cost advantage over competitors).

**Contributions to Change in REER**  
(Year-on-year, in percentage points, positive change = appreciation; as of Aug 2015)



Sources: IMF, Information Notice System and staff calculations.

## Box 2. Bangladesh: Impact From Lower Global Oil Prices

Fuel prices are administered in Bangladesh, adjusted on a discretionary basis, and typically kept below import costs. The resulting subsidy cost is borne by the central government via transfers to cover the operating losses of Bangladesh Petroleum Corporation (BPC), which has a near-monopoly over oil imports.

With global fuel prices declining in 2014 and domestic prices kept unchanged, fuel subsidies have turned negative. The resulting oil windfall has accrued to the public sector, which has saved it. Therefore, there is no impact on growth or inflation. The impact on the fiscal and current account balances is as follows:

**Current account.** The oil windfall (that is, the decline in the oil import bill for a given volume of oil imports) is estimated at 0.8 percent of GDP in FY15 and 1.2 percent of GDP in FY16. Given forward oil import contracts, lower oil prices are only fully reflected in FY16. With the public sector saving the entire windfall, the current account should improve one-for-one, *ceteris paribus*. But many other things have changed to offset the windfall.

**Fiscal.** With prices of imported fuel falling below domestic retail prices, BPC has moved into an operating profit. The baseline assumes that the authorities do not adjust retail prices, and that BPC uses the windfall to pay down debt, build up bank deposits, and undertake capital expenditure. In addition, the government saves the subsidy transfer to BPC that had been projected under higher oil price assumptions.

### Bangladesh: Changes in the Current Account Balance

(In percent of GDP, relative to 4th ECF Review Staff Report, May 2014)

	FY15	FY16
Change in current account	-0.3	-0.6
Change in trade balance	-0.4	-0.9
Change in exports	-0.3	-1.2
Change in imports	0.1	-0.2
Change in oil imports 1/	-1.3	-1.8
<b>From price effect ("windfall")</b>	<b>-0.8</b>	<b>-1.2</b>
From volume changes	-0.5	-0.6
Change in nonoil imports	-0.5	-0.3
Change in non-trade balance	0.1	0.3
Change in workers' remittances	0.3	0.3

Source: IMF staff estimates.

1/ A positive number denotes a reduction in imports (i.e., it contributes positively to the change in the current account balance).

### Bangladesh: Allocation of Direct Gains from Global Oil Price Decline

(In percent of GDP, relative to 4th ECF Review Staff Report, May 2014)

	FY15	FY16
Change in oil imports from price effect ("windfall")	-0.8	-1.2
Total gains to the public sector 1/	0.8	1.2
<i>Of which:</i>		
a. Profit to be transferred to government	0.0	0.0
b. Reduction in fuel subsidies by government	0.3	0.2
c. Reduction in stock of oil-related trade credit	0.2	0.1
d. Increase in BPC's bank deposits	0.2	0.5
e. Capital expenditure by BPC	0.2	0.5

Source: IMF staff estimates.

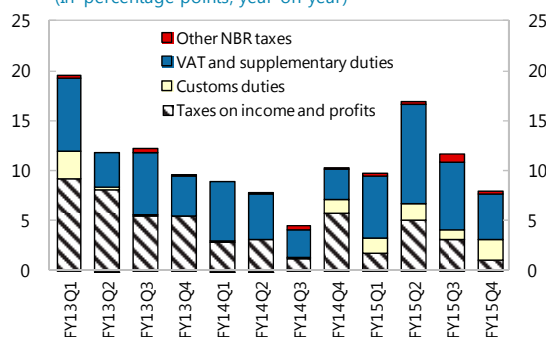
1/ Under the assumption of no change in administered domestic fuel prices.

**8. The fiscal deficit in FY15 is estimated to have been higher than expected, on account of weak revenue performance** (Table 5). Tax collections, particularly for income taxes, fell short of staff projections at the time of the February-March 2015 mission by about ½ percentage point of GDP, with the political violence in the January-March 2015 period likely a contributing factor. Nontax revenues were also weaker than expected in FY15 owing to lower profit transfers from state-owned enterprises. Expenditures, on the other hand, were also restrained, reflecting lower fuel subsidies (Box 2) and weaker-than-expected public investment, in part owing to political unrest (Figure 5). The program floor for social-related spending, however, was observed in FY15. On the whole, the fiscal deficit (excluding grants) is estimated by staff at 4.2 percent of GDP in FY15, higher than had been projected at the time of the February-March 2015 mission (3½ percent of GDP; FY14 outturn: 3½ percent of GDP).<sup>2</sup> On the financing side, a significant pick up in public demand for national savings certificates (NSCs) allowed net bank credit to the central government (a PC) to stay well below the originally programmed amount.<sup>3</sup> The pick-up in NSC uptake was triggered by a rising wedge vis-à-vis bank deposit rates, as surplus liquidity led to a drop in the average deposit rate of about 1½ percentage point since early 2014. In May 2015 the authorities cut the rates on several NSCs by 1½–2 percentage points, but the spread with deposit rates is still significant.

**9. Weaknesses remain in the banking sector.**

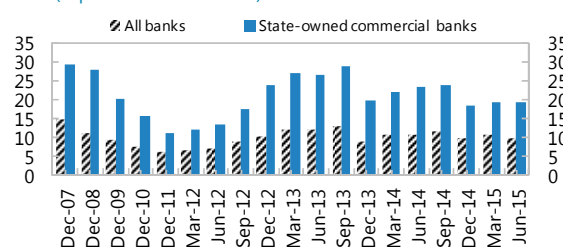
Profitability in the banking sector worsened in 2014 and so far in 2015, and capital adequacy deteriorated as nonperforming loans (NPLs) remained high, despite a temporary relaxation of guidelines on loan rescheduling (Table 6). As in the past, these trends were driven by state-owned banks, where asset quality problems have remained rife.

**Bangladesh: Contributions to Growth in NBR Tax Revenue, FY13:Q1– FY15:Q4**  
(In percentage points, year-on-year)



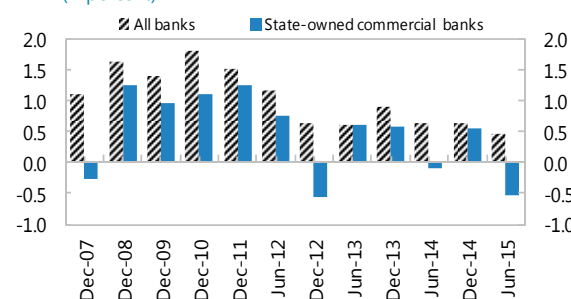
Sources: Bangladesh authorities; and IMF staff calculations.

**Bangladesh: Scheduled Banks' Nonperforming Loans (NPL)**  
Dec. 2007 – Jun. 2015 1/  
(In percent of total loans)



Source: Bangladesh authorities.  
1/ New and stricter NPL rules became effective December 2012. Not adjusted for impact of temporary relaxation in loan rescheduling rules announced in December 2013.

**Bangladesh: Scheduled Banks' Return on Assets (ROA)**  
Dec. 2007 – Jun. 2015 1/  
(In percent)



Source: Bangladesh authorities.  
1/ As reported by Bangladesh Bank on an annualized basis and defined as the ratio of net income after provision and taxes to total assets.

<sup>2</sup> The authorities' preliminary estimate of the FY15 deficit is 3.8 percent of GDP. However, in line with precedent, this is likely to be revised up. Staff's higher estimate is based on average historical revisions to preliminary data.

<sup>3</sup> At the end of FY15, there was also an unusually high (estimated at ¾ percent of GDP) "cash float"; that is, expenditure that took place in FY15 but whose payments were only cashed in early FY16.

**10. Risks to the near-term outlook are dominated by domestic factors** (Box 3). The main risk is a resumption of political violence, which could lower growth, affect confidence, and push inflation up. Successful VAT implementation will also be critical to address rising fiscal pressures and ensure long-term debt sustainability. On the external side, a protracted slowdown in key export markets (particularly the EU, Bangladesh's main export destination) could hurt exports. This could be exacerbated by a sustained REER appreciation. On the other hand, a slowdown in large emerging markets would have limited impact as Bangladesh's trade ties with these economies are small. Global financial volatility would also have little direct impact as Bangladesh's international financial linkages remain limited.

## POLICY DISCUSSIONS

*Discussions centered on preserving macroeconomic stability while pressing ahead with further reforms, with emphasis on VAT implementation. The authorities' policy framework and reform agenda is described in the accompanying Memorandum of Economic and Financial Policies (MEFP).*

### A. Macroeconomic Policies: Preserving Stability

**11. Fiscal policy stance in FY16** (MEFP, ¶15). Continuing with historical practice, the Budget for FY16 projects a steep increase in tax collections (despite the lack of significant tax policy measures) and a sharp increase in capital spending (despite weak implementation capacity).<sup>4</sup> The most notable measure in the FY16 Budget is a hike in public sector pay, the first since FY10, following the recommendations of a Pay Commission (total impact: about one percent of GDP) (Box 4). Projecting forward the weak revenue performance in FY15, staff expects the fiscal deficit (excluding grants) to rise to 4.7 percent of GDP in FY16. This increase in the deficit in the context of prospective robust economic growth underlines the importance of successful VAT implementation to help finance new spending pressures. Contingency plans will be important to avoid further fiscal slippages in the event of continued shortfalls in revenue performance or slower-than-expected growth.

**12. Debt sustainability.** Under the staff's baseline scenario, the central government's debt-to-GDP ratio would remain broadly stable at about 34 percent of GDP over the medium term. The attached Debt Sustainability Analysis (DSA) concludes that Bangladesh remains at low risk of debt distress, contingent on successful enhancement of revenue collections over the medium term.

**13. Monetary and exchange rate policies** (MEFP, ¶12). The hike in public sector pay poses upside risks to inflation. The authorities are vigilant (monetary targets in their Monetary Policy Statement for July-December 2015 are in line with staff's), and stand ready to adjust the reserve money target as needed, while ensuring sufficient credit flows to the economy. The authorities are also determined to use sterilized FX interventions to maintain reserve adequacy and prevent a

<sup>4</sup> See IMF Country Report No. 14/149. Relative to actual outturns, the Budget has overstated the overall fiscal deficit each year over FY09-14 by an average of 0.8 percent of GDP. The FY16 Budget projects a deficit of 5 percent of GDP.

further sharp appreciation of the REER, while allowing the taka/US\$ exchange rate to depreciate should market forces push it in that direction. Staff agrees with this position.

**Box 3. Bangladesh: Risk Assessment Matrix 1/**

	<b>Shocks</b>	<b>Likelihood</b>	<b>Vulnerabilities</b>	<b>Potential Impact</b>	<b>Policy Response</b>
<b>Domestic</b>	Resumption of intense political turmoil.	Low/Medium	Political turmoil disrupts production, with services and transportation particularly vulnerable. This affects inflation. Unrest also generates uncertainty, adversely affecting investment.	High: Growth prospects could be affected by a loss of confidence and a slump in investment and consumption. Balance of payments (BOP) pressures could emerge from lost export production. Fiscal consolidation efforts could slip and inflation could go up.	Automatic fiscal stabilizers should be allowed to operate. If necessary, reserve buffers could be used through sterilized intervention to cushion the shock and smooth exchange rate volatility.
	Further deterioration in the financial health of state-owned banks.	Medium	State-owned banks have high NPLs, low profitability, and sizeable capital shortfalls. However, they do not face liquidity pressures as their deposit base, by far their main source of funding, is stable.	Medium: Assuming failure to recover all nonperforming loans (worst case) and measuring capital on a tangible basis (most conservative), the <u>additional</u> recapitalization needs of state-owned banks are estimated to be about 2¼ percent of FY15 GDP (as of June 2015) above what is already in the baseline.	Undercapitalized banks should be held strictly accountable to numerical targets agreed with the authorities, aimed at improving their financial performance. Stricter controls over lending activities and more aggressive recovery of bad loans would be needed, backed by recapitalization tied to agreed reforms to improve longer-term viability.
<b>External</b>	Protracted period of slower growth in key advanced (Euro area and Japan) and emerging market (EMs) economies.	High for the key advanced economies and medium for EMs	Nearly three-fifths of total exports go to the European Union (EU). Exports to EMs are small, but growing.	Medium: Activity would be affected largely in the garment industry, with a negative impact on BOP. However, the relatively low-income elasticity of demand for garment exports and Bangladesh's significant cost competitiveness would act as mitigating factors.	Greater exchange rate flexibility would need to be coupled with moderate fiscal easing, as modest automatic stabilizers kick in, with possible budgetary provisions needed to top-up existing safety net schemes.
	Persistent dollar strength.	High	If the taka/US\$ exchange rate remains relatively stable against the backdrop of a continued dollar appreciation vis-à-vis the euro, this will lead to further appreciation in the real effective exchange rate.	Medium: Bangladesh's cost advantage in the European market would be eroded; pressures on BOP could emerge.	Greater downward flexibility in the US\$/taka exchange rate would need to be coupled with moderate fiscal easing as modest automatic stabilizers kick in. Further nominal exchange rate appreciation against the US\$ should be resisted.
	Increased volatility in global energy prices.	Medium	Continued reliance on liquid fuel-based power generation has led to a tangible increase in oil import volumes over the past few years.	Medium: The BOP could come under pressure if oil prices go up rapidly. The fiscal impact via fuel-related subsidies could be sizeable (on average about 0.2 percent of GDP for each \$10 change in the price per barrel of oil).	Aligning domestic fuel prices with international prices via an automatic adjustment formula or regular revisions would contain subsidy costs, enhance efficiency, and protect reserves should global prices go up.

Source: IMF staff.

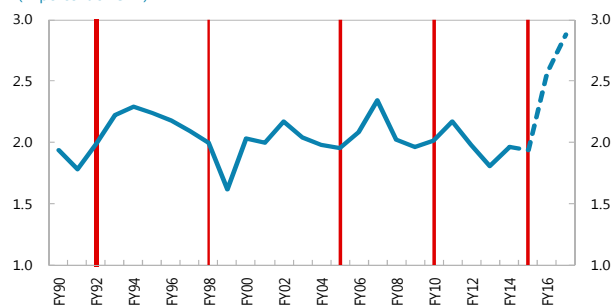
1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The RAM lists staff's assessment of the most likely scenarios to materialize and their relative likelihood. Potential impact of the shocks does not incorporate the combined impact of multiple shocks. The RAM reflects staff views on sources of risk and overall level of concerns at the time of discussions with the authorities.

### Box 4. Bangladesh: The 2015 Review of Public Sector Pay in Historical and International Perspective

**Background:** Base pay rates and allowances received by government employees are reviewed by commissions formed on an ad hoc basis, typically every five years. Pay and allowances (P&A) had last been reviewed in FY09. As an interim measure, the government paid a 'Dearness Allowance' in FY14 and FY15 worth on average 20 per cent of an employee's pay. In FY14, a National Pay and Service Commission was established to review P&A in the central government, state-owned enterprises, police forces, Bangladesh Bank, state-owned financial institutions, autonomous institutions, and judicial bodies. A separate commission was formed for the armed forces. Both Commissions submitted reports to the government in mid-FY15.

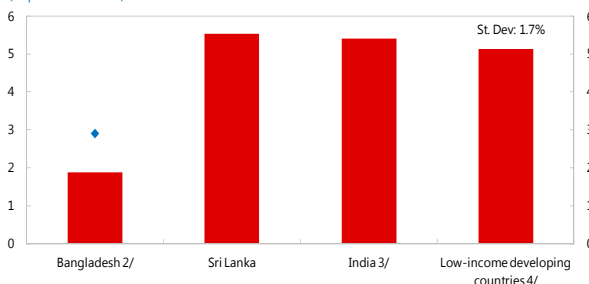
**The 2015 pay increase:** The commissions recommended approximately doubling base pay for all grades, as well as significant changes to allowances. The government is implementing the recommended increases to base pay (excl. allowances) in FY16. Total allowances are expected to be increased significantly from FY17. In total, P&A expenditures are forecast to rise from 1.9 per cent of GDP in FY15 to 2.9 per cent of GDP by FY17. While the size of the forecast increase (as a percentage of GDP) is larger than those following previous pay reviews, P&A in Bangladesh will remain relatively low compared to other low income countries (see charts).

**Bangladesh: Central Government Pay and Allowances, FY90–17 1/**  
(In percent of GDP)



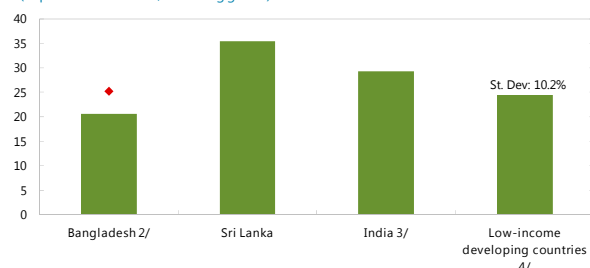
Sources: Bangladesh authorities; and IMF staff calculations and projections.  
1/ Vertical lines indicate year of pay review decisions and the dotted line indicates IMF staff projections.

**Compensation of Employees 1/**  
Budgetary central government, average FY06–11  
(In percent of GDP)



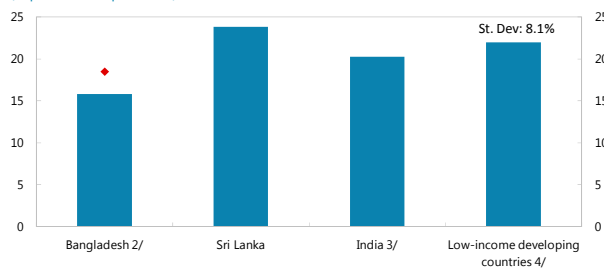
Sources: IMF, *World Economic Outlook*; and *Government Finance Statistics Yearbook*.  
1/ Compensation of employees is defined by GFSM2001.  
2/ For Bangladesh, IMF staff projection for FY17 is shown by a diamond marker.  
3/ For India, data cover general government.  
4/ Average of Ethiopia, Ghana, Kenya, Kyrgyz Republic, Lao, Moldova, Mongolia, Nicaragua, Nigeria, Sierra Leone, and Zambia.

**Compensation of Employees 1/**  
Budgetary central government, average FY06–11  
(In percent of revenue, including grants)



Sources: IMF, *World Economic Outlook*; and *Government Finance Statistics Yearbook*.  
1/ Compensation of employees is defined by GFSM2001.  
2/ For Bangladesh, IMF staff projection for FY17 is shown by a diamond marker.  
3/ For India, data cover general government.  
4/ Average of Ethiopia, Ghana, Kenya, Kyrgyz Republic, Lao, Moldova, Mongolia, Nicaragua, Nigeria, Sierra Leone, and Zambia.

**Compensation of Employees 1/**  
Budgetary central government, average FY06–11  
(In percent of expenditure)



Sources: IMF, *World Economic Outlook*; and *Government Finance Statistics Yearbook*.  
1/ Compensation of employees is defined by GFSM2001.  
2/ For Bangladesh, IMF staff projection for FY17 is shown by a diamond marker.  
3/ For India, data cover general government.  
4/ Average of Ethiopia, Ghana, Kenya, Kyrgyz Republic, Lao, Moldova, Mongolia, Nicaragua, Nigeria, Sierra Leone, and Zambia.



## B. Structural Fiscal Reforms: The Challenge of Creating Fiscal Space

**14. The need to boost revenue.** Bangladesh has one of the world's lowest tax-to-GDP ratios, while expenditures on infrastructure and social spending are also low compared with countries at similar levels of development. To support faster and more inclusive growth, Bangladesh needs to boost domestic revenues to create fiscal space for growth-critical expenditures. The authorities' main instrument to expand revenue is the new VAT, which will boost collections by broadening the base, strengthening tax administration, and reducing evasion on income and customs taxes. In addition, the VAT is designed to protect the poor and small businesses, and will reduce taxpayers' compliance costs through a simpler, single rate structure and electronic filing. Staff's baseline assumes that the new VAT will yield additional revenues of 2 percent of GDP (including indirect impact through other taxes) by FY20. The DSA's alternative scenario shows that, in the absence of these revenues, public debt becomes unsustainable.

**15. Status of VAT implementation** (MEFP, ¶ 6-7). Implementation of VAT suffered significant setbacks in 2014 after the procurement of software (a SB for June 2014) was rejected on technical grounds and that of a project management consultancy (PMC) had to be restarted. As a result, the VAT launch date was delayed by a year to July 2016, with the new date announced through a gazette notification in April 2015 (prior action). The procurements for the PMC and for an information technology (IT) provider were completed in June and July 2015, respectively (both prior actions). Timely deployment of the IT platform under the PMC is a key operational requirement for a VAT launch in July 2016, complemented by ongoing internal NBR restructuring and taxpayer education programs.

**16. Amendments to the VAT Act** (MEFP, ¶7). In late 2014 the government formed a joint committee with the main business federation to look into concerns they had raised on the new VAT. The committee submitted its report in January 2015. After extensive discussions, the authorities decided to adopt only one change: to increase the enlistment threshold from Tk 2.4 million of annual turnover to Tk 3 million, to help small businesses.<sup>5</sup> This amendment was passed by Parliament in September 2015 (prior action).

**17. Tax administration reforms** (MEFP, ¶8). The authorities have made further progress on the automation of tax registration, reporting, administration, and collections.

**18. Energy subsidies** (MEFP, ¶9). With domestic fuel prices kept unchanged against a significant fall in global oil prices, the state-owned Bangladesh Petroleum Corporation (BPC) is expected to make operating profits, allowing the authorities to reduce fuel subsidies (Box 2). While BPC's external debt has fallen, and met the program targets, BPC borrowings from domestic banks contributed to the nonobservance of the target on bank credit to the three main state-owned enterprises. On the other hand, subsidies for electricity generation rose in FY15 on account of increased reliance on costly liquid fuel-based power plants, keeping total energy subsidies broadly

<sup>5</sup> The single 15 percent VAT rate applies to businesses with annual turnovers of Tk 8 million or more. A 3 percent turnover tax is applicable to businesses with annual turnovers between the enlistment threshold and Tk 8 million.



unchanged as a share of GDP. The authorities raised electricity and gas prices from September 2015, which will help bring down subsidies and increase profits for energy-related state-owned enterprises for given energy consumption volumes. To rationalize energy subsidies further, the authorities should: (a) align domestic fuel prices with international prices; and (b) expedite cost-saving power projects. Contracts with rental power plants should be renegotiated as some of these plants are now allowed to import fuel directly at below domestic market prices.

**19. Strengthening financial reporting in BPC** (MEFP, ¶10). The authorities have stressed their commitment to improve BPC's financial management. A professional financial manager has been appointed and financial reporting software was adopted. However, weaknesses remain in producing monthly cash flow statements and financial accounts. The authorities could not appoint a globally-reputed firm to complete an external audit of BPC's FY13 accounts (a September 2014 SB). In addition to initial delays and lack of interest from prospective bidders, the authorities explained that there were legal obstacles that prevented international firms from auditing BPC's accounts. To remove these, in October 2015 the authorities submitted to Parliament amendments to the BPC charter (prior action). The process of appointing a globally-reputed firm to audit BPC's financial accounts should be reinitiated.

**20. Treasury cash flow and public debt management** (MEFP, ¶ 11). The authorities have prepared a treasury cash flow framework, and the Fund is providing technical assistance to support implementation. The contracting of nonconcessional external borrowing has remained below PC targets, and continues to be concentrated in critical power and transportation sectors. Improved inter-agency coordination has also helped in renegotiating the terms of some of these loans. A guideline on loan guarantees was issued in July 2014 (a SB) and is being strictly followed, and a medium-term debt management strategy was approved in late 2014. The authorities should consider a further reduction in the NSC rates, as the wedge between these and bank deposit rates creates financial disintermediation, pushes up bank lending rates, and increases government's borrowing costs.

## C. Further Strengthening the Financial Sector

**21. Banking supervision** (MEFP, ¶14). The authorities have taken strong actions against financial misconduct at a specialized bank where malfeasance was unearthed: they replaced its entire board of directors, fired its managing director, and partially recapitalized it. They also appointed observers in two private banks where deteriorating corporate governance was reported. However, there has also been regulatory forbearance: following a temporary relaxation of loan rescheduling guidelines between December 2013 and June 2014, about 4½ percent of outstanding loans as of end-2014 were rescheduled. In January 2015, BB again allowed banks to restructure loans above Tk 5 billion under relaxed rules until June 2015. These policies artificially boost bank balance sheets but do not correct the underlying weakness in lending practices. The authorities have agreed to revise the policy on large loan restructuring by end-2015 to better reflect risks. Also, BB has published a roadmap for implementation of Basel III by 2019, and is strengthening its risk-based supervisions with assistance from the Fund.

**22. Reforming the SOCBs** (MEFP, ¶16). Some progress has been made in reforming the SOCBs. However, balance sheets only reflect improvements with a lag: about one-third of SOCB loans are under stress once adjustments are made for rescheduled loans. The authorities have focused reforms on the following areas:

- *Governance.* New chairmen and directors were appointed in some SOCBs, vetted by BB. A review of these banks' internal control and compliance policies was completed by BB (a December 2014 SB) and found significant shortcomings in internal audit practices and in various aspects of risk management (loan origination and approval, internal control, management and board oversight). Systematic and firm oversight by BB (with steep penalties for noncompliance) is needed in all these areas to ensure sustained improvements.
- *Strengthening SOCB balance sheets.* While governance is being improved, efforts have been made to strengthen SOCB balance sheets through partial recapitalization and improved loan recovery, with credit growth limits as a stop-gap measure. In this regard, performance under the memoranda of understanding signed between SOCBs and BB has been mixed: while credit growth limits were complied with, loan recovery has been well below target. SOCBs have now signed performance contracts with the government to reinforce good practices. Further recapitalization should continue to be conditional on tangible improvements in governance. The authorities are also gradually adjusting SOCBs' regulatory capital for past NPLs (currently classified as "goodwill"), which will help reflect their capital position more accurately.
- *Automation.* Banks continue to move ahead with branch automation and are expected to complete the process by end-2016, though progress has been slow and uneven.

**23. Other issues** (MEFP, ¶15). Bangladesh Bank is monitoring progress in bringing banks' exposure to the capital market in line with the applicable limit by July 2016, as per the amended Bank Companies Act. To protect bank balance sheets and depositors' interests, the authorities should dismiss any demand for forbearance in implementing this provision. Progress regarding BB's contingency planning and lender of last resort policies (LOLR) has been slow on account of capacity constraints and the need for legislative amendments. Bangladesh Bank should continue to monitor external borrowing by the private non-financial sector, which is increasing, albeit from a low base, and might pose risks going forward.

## D. Boosting Inclusive Growth

**24. Poverty reduction and social safety nets** (MEFP, ¶17 and ¶19). A mid-term review of the Sixth Five Year Plan (FY11–15), submitted in parallel to the IMF Executive Board by way of an Annual Performance Review of their poverty reduction strategy, found that the poverty rate fell from 31.5 percent in FY10 to 27.6 percent in FY13, helped by worker outflows. The authorities' Seventh Five Year Plan is being finalized with measures aimed at further reducing poverty. With a multitude of social safety net programs under operation, the authorities need to streamline and better target these programs. A poverty database is under construction with support from the World Bank.

**25. Facilitating investment** (MEFP, ¶120). The authorities have further liberalized regulations on current account transactions and simplified several FX reporting routines (a December 2014 SB). Moreover, BB has eased procedures for valuation of foreign investments in unlisted companies for repatriation purposes, and allowed foreign companies to borrow from their parent without prior approval. Amendments to the Foreign Exchange Regulation Act, 1947 that further liberalize FX provisions were passed by Parliament in September 2015, and a new Customs Act has been drafted to simplify administrative procedures.

**26. Labor rights and safety standards** (MEFP, ¶118). Improvements are being made in factory and labor safety standards in the garment industry. The authorities are also enhancing official inspection capacity, including through recruitment of new inspectors. The number of trade unions in the garment industry has risen significantly since the passage of the amended Labor Act in July 2013, while a new law strengthening labor rights within export-processing zones is being drafted.

## OTHER PROGRAM ISSUES

**27. Safeguards recommendations** (MEFP, ¶113). For the second consecutive year BB undertook an external audit of its FY14 accounts by a reputed global accounting firm, and again obtained unqualified audit opinions. Remedial actions on the findings of the management letters for the FY13 and FY14 accounts are also being completed. However, contrary to staff's recommendation, the authorities decided to engage a globally-affiliated local firm (instead of a reputable global firm) for the external audit of BB's FY15 accounts. The authorities argued that they wanted to give a role to local firms and that the high standards set by the global firm in the past two years would be required for the FY15 audit. Several safeguards recommendations remain outstanding, including on strengthening internal audit functions, progress on which is hampered by capacity constraints.

**28. Financing assurances.** Bangladesh's external accounts remain fully financed, supporting its capacity to repay the Fund (Tables 6–7)

## STAFF APPRAISAL

**29. Overview.** The authorities' policy program supported by the ECF arrangement has been largely successful: over the past three years, prudent economic policies have helped lower nonfood inflation, keep the public debt-to-GDP ratio stable at a moderate level, and triple foreign exchange reserves. Growth has remained strong at over 6 percent, capital spending has increased as a share of GDP, social spending has been protected, energy subsidies have been cut, and poverty has come down. Progress has also been made on structural reforms, notably the passage of the new VAT Act (November 2012) and the Bank Companies Act (July 2013). However, performance on revenue collection has been poor. This, together with new spending pressures, has led to higher fiscal deficits. Other important challenges remain, including infrastructure bottlenecks and weak state-owned banks.

**30. Near-term outlook and risks.** Growth is expected to remain strong at 6½ percent in FY16, supported by higher public sector wages, public investment and remittances, as well as improved confidence. The current account balance will be in a moderate deficit, but international reserves are expected to grow broadly in line with imports. The main risk to the outlook is a resurgence of political unrest.

**31. Monetary and exchange rate policy.** The authorities' commitment to prudent monetary policy has been commendable. With risks to inflation now tilted to the upside, BB should remain vigilant and adjust its reserve money target as needed while ensuring sufficient room for credit expansion. Recent sterilized exchange rate intervention was warranted against the background of strong real effective appreciation.

**32. Fiscal policy stance.** The fiscal deficit is expected to widen further in FY16, mainly on account of the implementation of the first public sector pay hike in six years. This temporary fiscal expansion is still consistent with keeping debt stable over the medium term at the current moderate levels.

**33. Revenue reforms.** Boosting tax revenue is critical to provide fiscal space for development spending, and implementation of the new VAT by July 2016 is the authorities' main instrument to achieve it. The new VAT is designed to protect the poor and small businesses, will make tax administration more transparent, and will reduce taxpayers' compliance costs. Improved revenue performance over the medium term is also critical to sustain Bangladesh's low risk of external debt distress. The authorities should continue to press ahead with VAT implementation while expanding taxpayer education programs and engaging actively with relevant stakeholders to explain why the VAT is instrumental to boost inclusive growth and poverty reduction. Against weak revenue outturns over the past two years, the authorities should also step up efforts to strengthen collections and meet their revenue targets.

**34. Other structural fiscal reforms.** The authorities have made good progress in reducing the fiscal cost of inefficient and regressive energy subsidies. Going forward, they can further rationalize subsidies by systematically aligning domestic fuel prices with global prices. They should also improve financial reporting at BPC, including through an external audit by a globally-reputed firm. To protect the poor more effectively, the authorities should continue to focus on streamlining the many social safety net programs and improving their targeting.

**35. Financial sector reforms.** To safeguard financial stability, BB should continue to strengthen risk-based supervision and avoid regulatory forbearance. The authorities have taken welcome steps to improve the governance and capital position of SOCBs. Further progress is needed, and systematic regulatory breaches by SOCBs or other banks should be penalized. The authorities should continue to implement prudential limits on banks' exposure to the capital market by July 2016 and adopt necessary legislation to strengthen contingency planning and LOLR policies. The move to reduce interest rates on the NSCs is welcome, and a further reduction to close the wedge with deposit rates should be considered.

**36. Removing bottlenecks for inclusive growth.** The authorities have implemented a range of structural reforms over the past three years to boost inclusive growth, including easing foreign exchange regulations to improve the business climate; focusing public investment and nonconcessional external borrowing on growth-critical areas (particularly power and transportation); and improving labor and factory safety standards in the garment industry. These efforts are welcome and should be maintained, complemented by a strengthening of social safety nets.

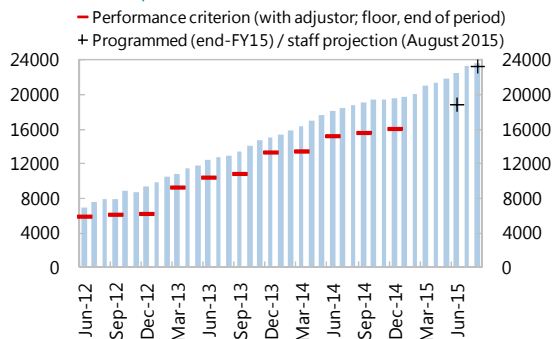
**37. Central bank safeguards.** The authorities should resume appointment of a reputed global audit firm from next year to conduct the audit of BB's financial accounts. This would ensure an international best practice audit, in compliance with the 2011 safeguards recommendations. The internal audit functions at BB should also be strengthened further.

**38. Staff recommendations.** The objectives of the program have been largely achieved, and policies broadly implemented as envisaged. The one significant policy deviation—implementation of the new VAT—is being remedied and the authorities are committed to implementation by July 2016. In addition, all performance criteria and prior actions were met, and macroeconomic stability has been maintained. On this basis, staff recommends completion of the combined fifth and sixth (and last) reviews under the ECF arrangement.

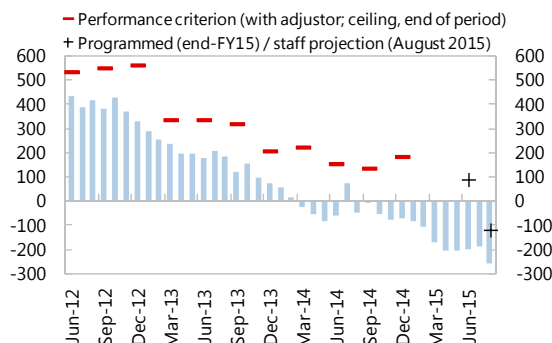
**Figure 1. Bangladesh: Selected Performance Criteria and Indicative Targets**

**Performance Criteria**

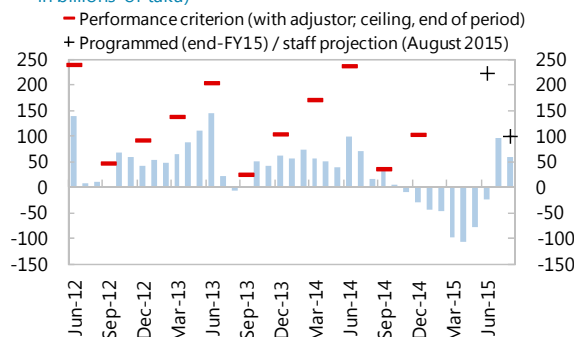
**Net International Reserves of Bangladesh Bank**, Jun. 2012–Aug. 2015  
(End of period, stock; in millions of U.S. dollars)



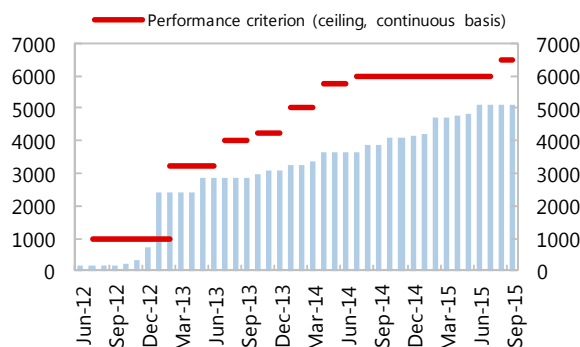
**Net Domestic Assets of Bangladesh Bank**  
Jun. 2012–Aug. 2015  
(End of period stock; in billions of taka)



**Net Credit to the Central Government by the Banking System**, Jun. 2012–Aug. 2015  
(Cumulative change from the beginning of the fiscal year; in billions of taka)

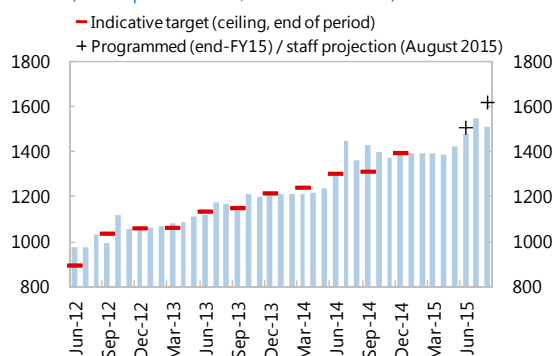


**New Nonconcessional External Debt 2/**  
Jun. 2012–Sep. 2015  
(Stock since December 31, 2011; in millions of U.S. dollars)

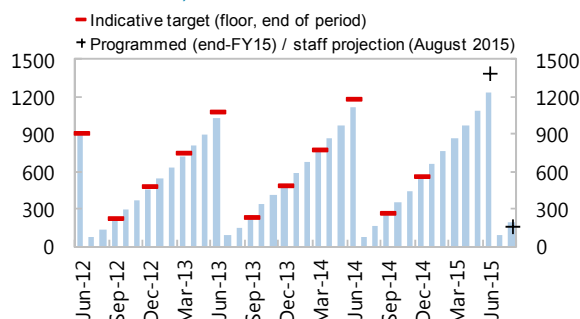


**Indicative Targets**

**Reserve Money**, Jun. 2012–Aug. 2015  
(End of period stock; in billions of taka)



**National Board of Revenue Tax Collections**  
Jun. 2012–Aug. 2015  
(Cumulative change from the beginning of fiscal year; in billions of Taka)



Sources: Bangladesh authorities; and IMF staff calculations.

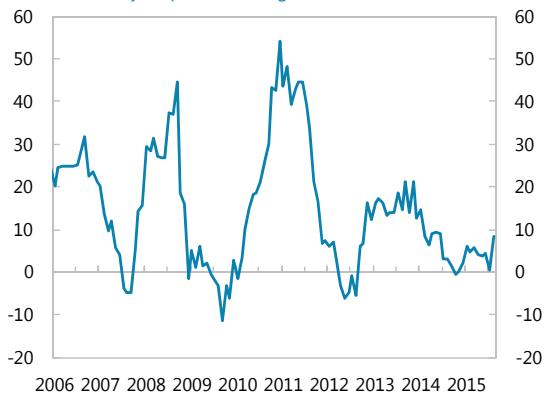
1/ Data for July and August 2015 are provisional. The “+” markers indicate the staff projections for end-FY15 set at the time of the fourth review and for August 2015 set at the time of the request for extension of the ECF arrangement through October 31, 2015.

2/ Maturing in more than one year and contracted by the public sector and/or guaranteed by the central government or Bangladesh Bank. Data as of September 30, 2015.

**Figure 2. Bangladesh: Exports and Remittances**

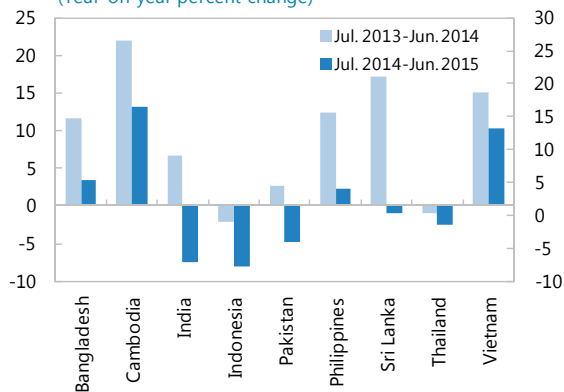
Export growth slowed down in FY15, despite some recovery in the second half of the year.

**Exports, Jan. 2006–Aug. 2015**  
(Year-on-year percent change, 3mma)



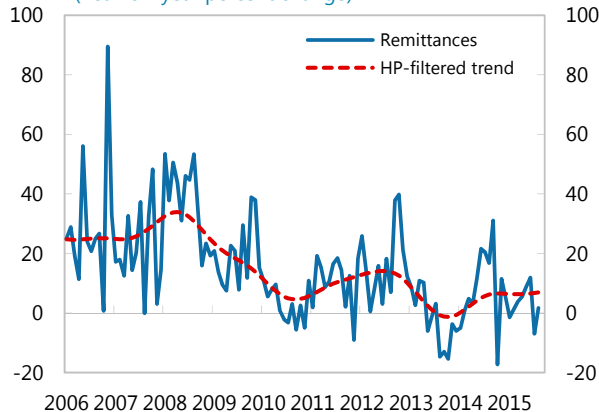
Export growth was also weaker in Bangladesh's regional competitors, suggesting external demand could have played a role.

**Selected Asia: Exports of Goods**  
(Year-on-year percent change)



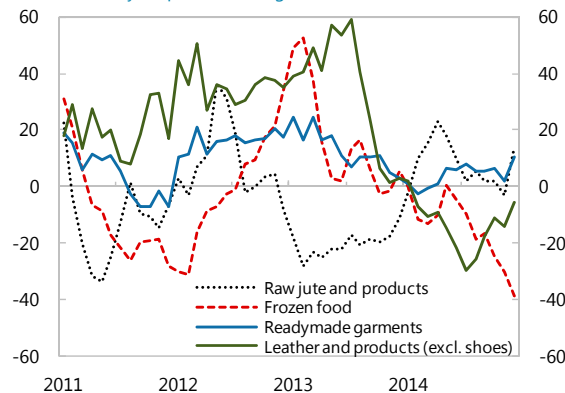
Remittance growth picked up after the January 2014 elections and then stabilized...

**Workers' Remittances, Jan. 2006–Sep. 2015**  
(Year-on-year percent change)



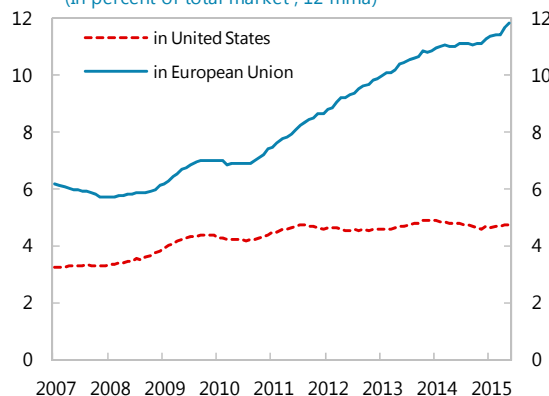
This reflects, in part, adjustments in the ready-made garment industry, but also slowdown in other exports.

**Exports by Main Commodities, Sep. 2011–Aug. 2015**  
(Year-on-year percent change, 3mma)



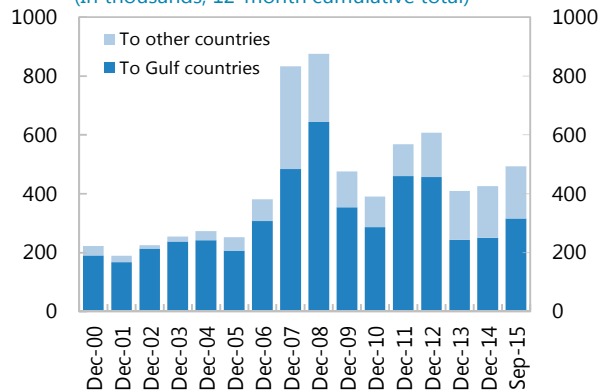
Bangladesh's share in garment imports by the European Union continued to trend up, while it remained stable in the case of the U.S.

**Shares in Garments Markets, Jan. 2007–May. 2015**  
(In percent of total market, 12 mma)



... reflecting, in part, the bottoming out of worker outflows to the Gulf countries, which are the source for two-thirds of remittances.

**Workers Moving Abroad, Dec. 2000–Sep. 2015**  
(In thousands, 12-month cumulative total)

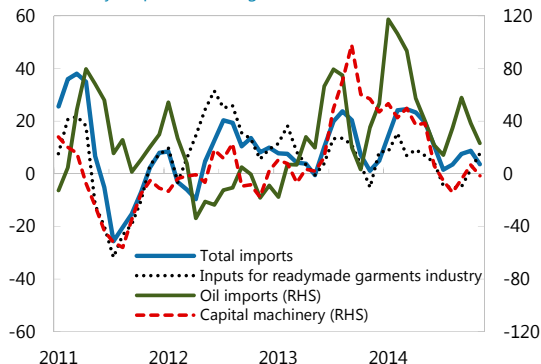


Sources: Bangladesh authorities; CEIC Data Company Ltd.; Eurostat; U.S. Department of Commerce; and IMF staff calculations.

**Figure 3. Bangladesh: Real and External Sector Developments**

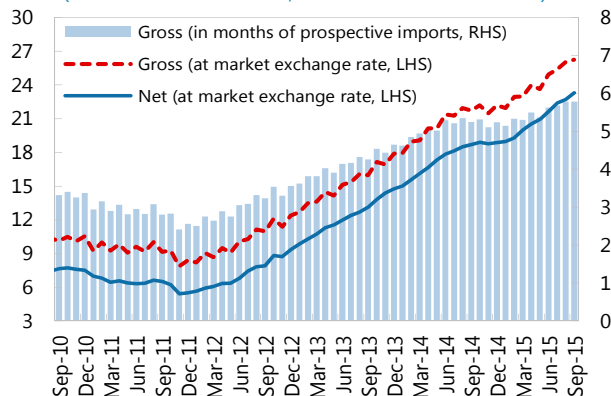
Imports rebounded in 2014 as relative political calm returned, but slowed down in early 2015 following a resumption of unrest.

**Imports by Selected Categories, Sep. 2011–Jul. 2015**  
(Year-on-year percent change, 3mma)



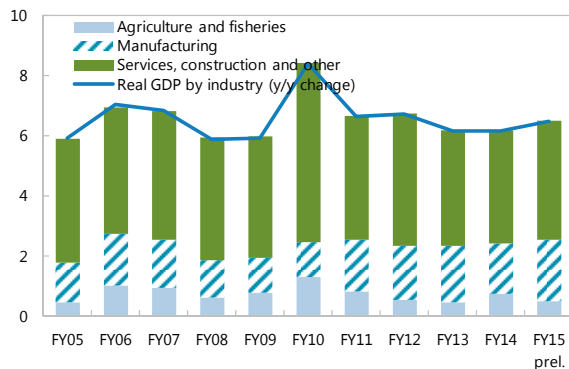
However, the overall balance of payments has remained in surplus and FX reserves remain adequate.

**International Reserves, Sep. 2010–Sep. 2015**  
(In billions of U.S. dollars, unless otherwise indicated)



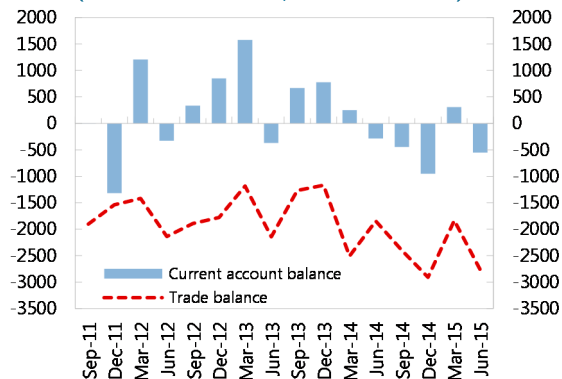
Despite unrest-related disruptions affecting activity in the second half of FY15, the official preliminary estimate suggests that GDP growth accelerated in FY15.

**Contributions to Real GDP Growth by Industry**  
(In percentage points)



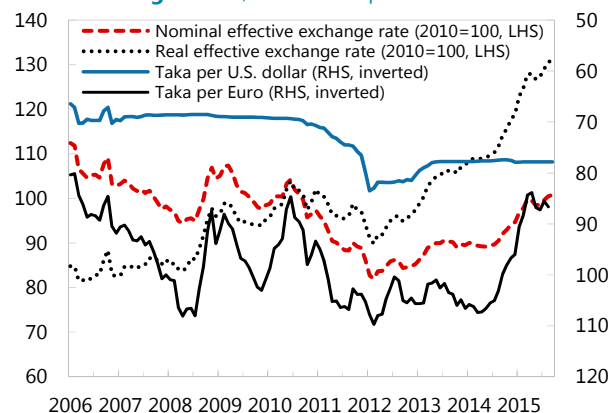
Exports were even weaker, however, leading to a worsening of the current account in FY15.

**Current Account Balance, Sep. 2011–Jun. 2015**  
(In millions of U.S. dollars, 3-month cumulative)



While the taka has been kept stable against the US\$, it has appreciated significantly against the euro and in real effective terms.

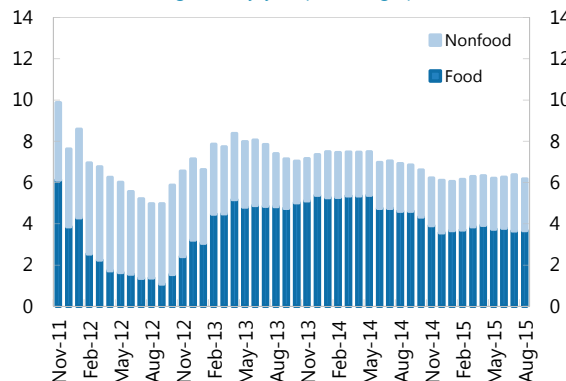
**Exchange Rates, Jan. 2006–Sep. 2015**



Headline inflation eased in FY15 helped by lower food prices following a good rice harvest and falling global prices, while nonfood price inflation has remained broadly stable.

**Contributions to Headline Inflation**

Nov. 2011–Aug. 2015 (y/y, in percentage points)



Sources: Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff calculations.

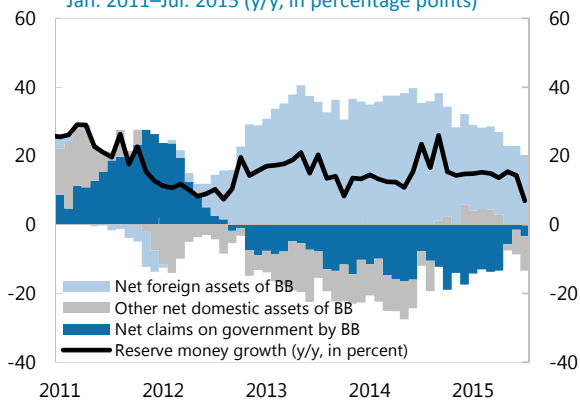


**Figure 4. Bangladesh: Monetary and Financial Market Developments**

Except for a temporary seasonal increase in demand for liquidity ahead of religious festivals in September 2014, reserve money growth has remained moderate.

**Contributions to Reserve Money Growth**

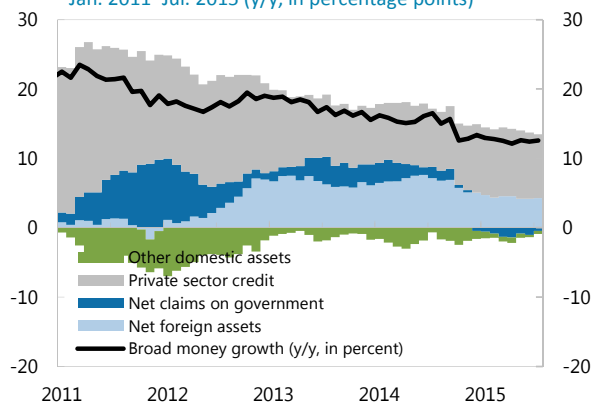
Jan. 2011–Jul. 2015 (y/y, in percentage points)



Broad money growth has slowed further, reflecting mainly tepid private sector credit and lower bank financing of the central government.

**Contributions to Broad Money (M2) Growth**

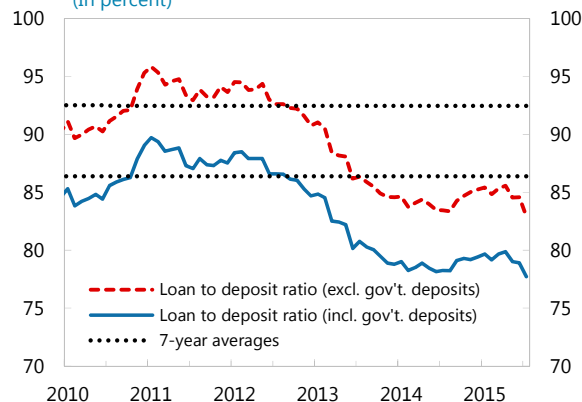
Jan. 2011–Jul. 2015 (y/y, in percentage points)



Despite a short uptick in early FY15, the loan-to-deposit ratio has gone down in recent months as deposit growth has improved.

**Loan-to-Deposit Ratio, Jan. 2010–Jul. 2015**

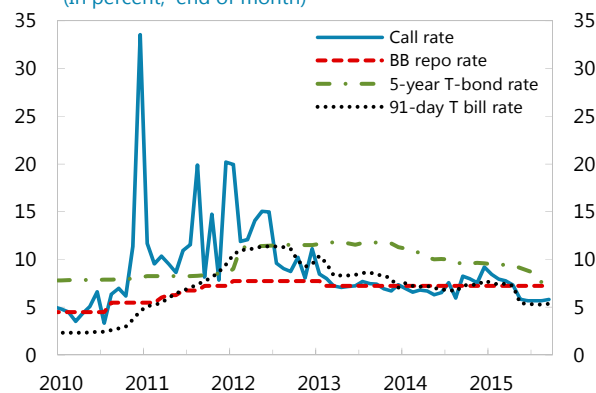
(In percent)



In line with this, money market and Treasury rates have declined over the last six months.

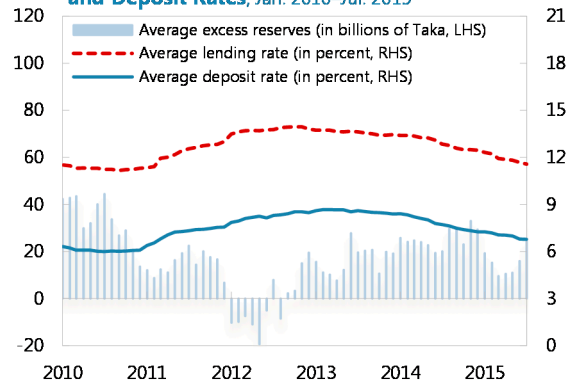
**Interest Rates, Jan. 2010–Sep. 2015**

(In percent, end of month)



Similarly, deposit and lending rates have seen a smooth declining trend over the past two years or so.

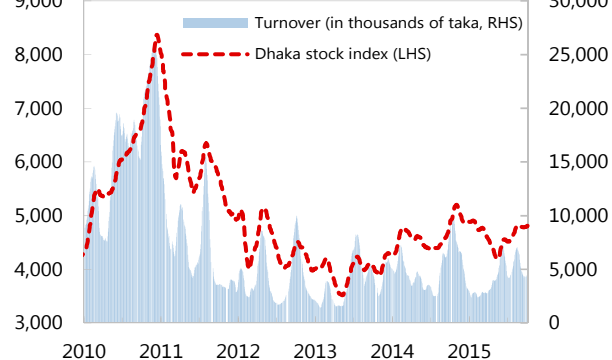
**Commercial Banks' Excess Reserves and Lending and Deposit Rates, Jan. 2010–Jul. 2015**



Stock prices remain below their FY11 crisis peak, but have fluctuated around a mild upward trend since mid-2013.

**Stock Market Performance Jan. 2010–Sep. 2015**

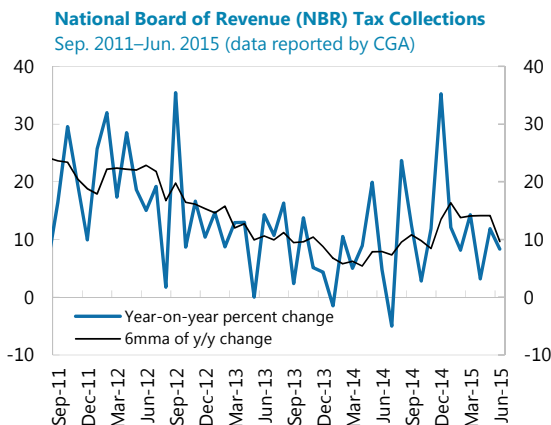
(1-month moving average)



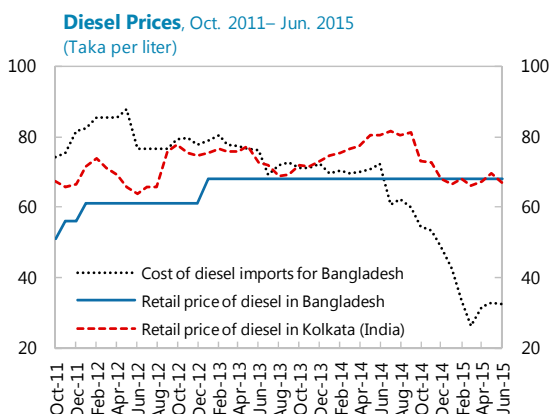
Sources: Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff calculations.

**Figure 5. Bangladesh: Fiscal Developments 1/**

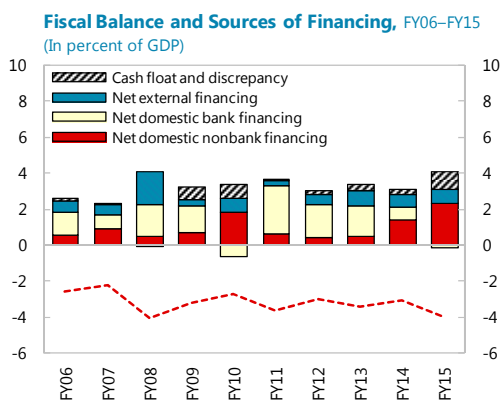
Tax collection slowed down in the second half of FY15, following the resumption of political unrest in January-March 2015, missing the official target.



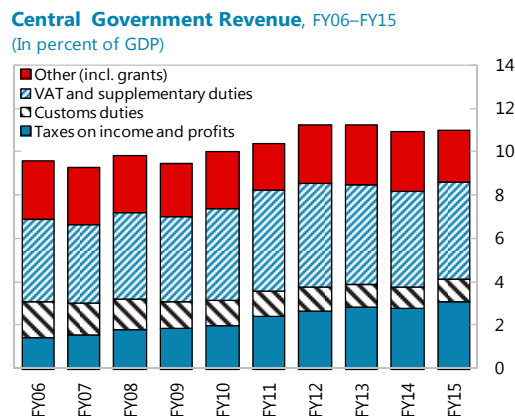
The sharp fall in global oil prices has led to a windfall gain for the fiscal accounts as domestic fuel prices have been kept unchanged (the subsidy has turned negative).



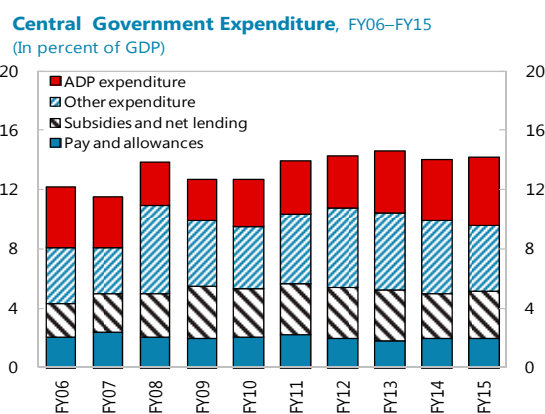
Overall, the fiscal deficit in FY15 went up slightly compared to FY14, and was financed largely by nonbank sources as subscriptions to National Savings Certificates surged.



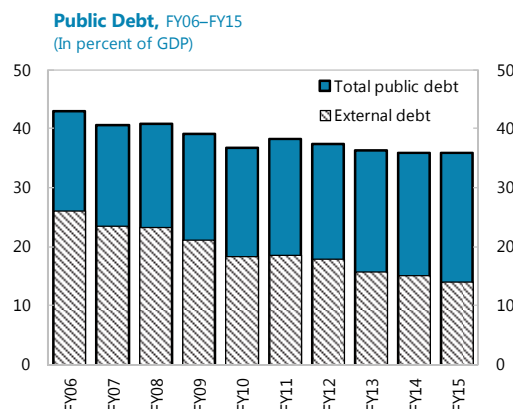
Nontax revenues have also declined, driven in part by smaller dividends from the central bank.



But total energy subsidies were unchanged as higher electricity demand led to a higher need for electricity subsidies. Lower execution of capital investment helped contain expenditure.



The public- debt-to-GDP ratio has remained broadly flat since FY13, with the share of external debt declining to less than half of the total.



Sources: Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff calculations.

1/ Tax collections data are as reported by the Office of the Controller General of Accounts. FY15 data reflects staff estimates.

**Table 1. Bangladesh: Selected Macroeconomic Indicators 1/**

	June 2014	August 2014	June 2015	August 2015	
			Prov.	Staff proj.	Prov. outturn
Net international reserves (NIR) of Bangladesh Bank (BB) (end of period (eop) stock, in millions of U.S. dollars) 2/	18,088	18,857	22,505	23,300	23,692
Net domestic assets (NDA) of BB (eop stock, in billions of taka)	-58	-46	-197	-115	-256
Net credit to the central government (NCCG) by the banking system (cumulative change from the beginning of the fiscal year, in billions of taka)	100	17	-23	100	58
Reserve money (eop stock, in billions of taka)	1,295	1,364	1,480	1,621	1,513
Tax collections by the National Board of Revenue (cumulative change from the beginning of the fiscal year, in billions of taka)	1,114	166	1,240	175	184

Sources: Data provided by Bangladesh authorities; and IMF staff calculations and projections.

1/ Staff projections for August 2015 were included in the request for extension of the ECF arrangement through October 31, 2015 (EBS/15/85, July 24, 2015).

For definition of these indicators, please see the Technical Memorandum of Understanding for the arrangement (IMF Country Report No. 14/149).

2/ Evaluated at the program exchange rate.

**Table 2. Bangladesh: Selected Economic Indicators, FY2013–17 1/**

<b>I. Social and Demographic Indicators</b>					
Population (2014, millions)	158	Infant mortality (2013, per thousand live births)	33		
GDP per capita (FY14, U.S. dollars)	1093	Life expectancy at birth (2012, years)	70		
Labor force participation rate (FY10, percent)	59	Adult literacy (2012, percent of people)	59		
Poverty headcount ratio (2010, national measure, percent)	32	Population dependency ratio (2013, percent)	53		
<b>II. Macroeconomic Indicators</b>					
	FY13	FY14	FY15	FY16	FY17
			Prel./Staff est.	Staff proj.	
<b>National income and prices (annual percent change)</b>					
Real GDP (2005-06 base)	6.0	6.1	6.5	6.5	7.0
GDP deflator	7.2	5.7	5.8	6.8	7.2
CPI inflation (annual average; 2005-06 base)	6.8	7.3	6.4	6.5	6.8
CPI inflation (end of period; 2005-06 base)	8.1	7.0	6.2	6.7	7.0
Nonfood CPI inflation (end of period; 2005-06 base)	7.7	5.4	6.2	6.6	7.6
<b>Central government operations (percent of GDP)</b>					
Total revenue and grants	11.2	10.9	9.9	10.6	11.6
Total revenue	10.7	10.4	9.6	10.3	11.3
Tax	9.0	8.6	8.5	8.7	9.6
Nontax	1.8	1.8	1.1	1.5	1.7
Grants	0.5	0.5	0.3	0.3	0.3
Total expenditure	14.6	14.0	13.9	15.0	15.9
Current expenditure	8.3	8.2	7.9	9.0	9.5
Annual Development Program (ADP)	4.2	4.1	4.3	4.8	5.2
Other expenditures 2/	2.1	1.7	1.7	1.2	1.1
Overall balance (including grants)	-3.4	-3.1	-3.9	-4.4	-4.3
(Excluding grants)	-3.9	-3.5	-4.2	-4.7	-4.6
Primary balance (excluding grants)	-1.9	-1.5	-2.2	-2.6	-2.3
Total central government debt (percent of GDP)	34.5	33.9	34.0	34.3	34.1
<b>Money and credit (end of fiscal year; percent change)</b>					
Credit to private sector by the banking system	10.8	12.3	13.2	15.5	15.6
Reserve money 3/	15.0	15.4	14.3	15.3	14.9
Broad money (M2)	16.7	16.1	12.4	15.5	15.3
<b>Balance of payments (billions of U.S. dollars)</b>					
Exports, f.o.b.	26.6	29.8	30.8	33.2	36.5
(Annual percent change)	10.7	12.1	3.3	8.0	10.0
Imports, f.o.b.	-33.6	-36.6	-40.7	-44.6	-48.7
(Annual percent change)	0.8	8.9	11.2	9.5	9.2
Current account balance 4/	2.4	1.4	-1.6	-2.7	-3.3
(Percent of GDP)	1.6	0.8	-0.8	-1.3	-1.4
Capital and financial account balance	3.5	3.4	5.6	4.7	5.3
Of which: Foreign direct investment	1.7	1.4	1.7	1.9	2.3
Overall balance	5.1	5.5	4.4	2.0	2.0
<b>Gross official reserves (billions of U.S. dollars) 5/</b>					
In months of prospective imports of goods and services	4.1	5.3	5.6	5.6	5.5
<b>Exchange rate (taka per U.S. dollar; period average)</b>					
	79.9	77.6	77.7	...	...
<b>Exchange rate (taka per U.S. dollar; end-period)</b>					
	77.8	77.6	77.8	...	...
<b>Nominal effective rate (2010=100; period average)</b>					
	86.9	89.7	95.4	...	...
<b>Real effective rate (2010=100; period average)</b>					
	99.3	107.8	120.5	...	...
<b>Memorandum item:</b>					
Nominal GDP (billions of taka)	11,989	13,509	15,136	17,212	19,748

Sources: Bangladesh authorities; World Bank, *World Development Indicators*; and IMF staff estimates and projections.

1/ Fiscal year begins July 1.

2/ Includes non-ADP capital spending, net lending, food account surplus (-)/deficit (+), and extraordinary expenditures.

3/ Reserve money excludes liabilities arising from banks' foreign currency clearing accounts at Bangladesh Bank (BB) and nonbank deposits at BB.

4/ Imports are based on customs data.

5/ Excludes deposits held in offshore accounts of resident financial institutions, noninvestment grade sovereign bonds, and foreign exchange overdrafts provided by BB to domestic banks.

Table 3. Bangladesh: Monetary Accounts, June 2012–June 2016 1/

	2012		2013		2014			2015		2016	
	Jun.	Dec.	Jun.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Jun. Staff proj.
Bangladesh Bank (BB) balance sheet											
	(End of period; in billions of taka)										
Net foreign assets	541	729	935	1,133	1,236	1,353	1,434	1,461	1,564	1,677	1,826
Net domestic assets	435	338	186	75	-23	-58	-2	-74	-171	-197	-120
Net credit to central government 3/	352	317	281	208	123	102	63	-3	-43	83	68
Credit to other nonfinancial public sector	1	1	1	1	1	1	1	12	12	12	12
Credit to deposit money banks	67	67	63	59	56	55	56	57	56	48	48
Other items, net 2/	15	-47	-158	-193	-203	-215	-122	-140	-196	-341	-248
Reserve money	976	1,067	1,122	1,208	1,213	1,295	1,432	1,387	1,394	1,480	1,706
Currency	649	725	754	827	808	855	971	905	919	982	1,156
Reserves	327	342	368	382	405	440	461	482	475	498	550
	(Contribution to reserve money growth)										
Net foreign assets	1.6	27.0	40.4	37.9	37.1	37.2	37.5	27.1	27.0	25.1	10.1
Net domestic assets	7.3	-11.3	-25.4	-24.6	-24.6	-21.8	-11.6	-12.3	-12.2	-10.8	5.2
Of which : Net credit to central government	5.0	-8.8	-7.3	-10.2	-14.6	-16.0	-12.3	-17.4	-13.7	-1.4	-1.0
Reserve money (year-on-year percentage change)	9.0	15.7	15.0	13.2	12.5	15.4	26.0	14.8	14.9	14.3	15.3
Monetary survey											
	(End of period; in billions of taka)										
Net foreign assets	724	927	1,113	1,302	1,428	1,544	1,622	1,641	1,762	1,865	2,037
Bangladesh Bank	541	729	935	1,133	1,236	1,353	1,434	1,461	1,564	1,677	1,826
Commercial banks	183	197	177	169	192	192	188	180	197	188	210
Net domestic assets	4,445	4,730	4,919	5,234	5,245	5,458	5,623	5,767	5,747	6,006	7,056
Domestic credit	5,299	5,622	5,856	6,214	6,293	6,544	6,747	6,927	6,948	7,230	8,462
Net credit to central government 3/	1,036	1,078	1,240	1,303	1,296	1,340	1,378	1,311	1,242	1,317	1,684
Credit to other nonfinancial public sector	126	139	58	75	81	72	90	122	124	111	85
Credit to nonbank financial institutions	58	77	37	48	51	55	56	60	55	56	56
Credit to private sector	4,079	4,329	4,522	4,788	4,864	5,076	5,224	5,434	5,527	5,746	6,637
Other items, net	-854	-893	-937	-981	-1,048	-1,086	-1,124	-1,160	-1,201	-1,224	-1,406
Broad money (M2)	5,169	5,656	6,032	6,536	6,673	7,002	7,246	7,408	7,509	7,871	9,093
	(Year-on-year percent change)										
Net foreign assets	4.0	50.9	53.7	40.5	37.9	38.8	37.0	26.0	23.3	20.8	9.2
Net domestic assets	19.9	14.3	10.7	10.7	10.4	10.9	10.7	10.2	9.6	10.0	17.5
Domestic credit	23.2	17.8	10.5	10.5	15.3	11.7	12.3	11.5	10.4	10.5	17.0
Of which : Net credit to central government	47.7	24.4	19.8	20.9	40.0	8.1	10.8	0.6	-4.2	-1.7	27.9
Credit to private sector	19.7	16.6	10.8	10.6	11.5	12.3	12.2	13.5	13.6	13.2	15.5
Broad money (M2)	17.4	19.0	16.7	15.6	15.3	16.1	15.7	13.3	12.5	12.4	15.5
Memorandum items:											
Required domestic cash reserves (in billions of taka)	295	316	338	366	379	429	437	447	462	471	526
Excess domestic cash reserves (in billions of taka)	31	26	30	15	26	11	24	35	13	28	24
Broad money multiplier	5.3	5.3	5.4	5.4	5.5	5.4	5.1	5.3	5.4	5.3	5.3
Broad money velocity	1.8	2.0	2.0	1.9	2.0	1.9	1.9	1.9	2.0	1.9	1.9

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

1/ At constant program exchange rates as of June 30, 2011.

2/ Liabilities arising from banks' foreign currency clearing accounts at BB and nonbank deposits at BB are included in "Other items, net."

3/ For program monitoring purposes net credit to the central government by the banking system is reported following the definition adopted under the program, as described in section III.D of the Technical Memorandum of Understanding (IMF Country Report No. 14/149).

**Table 4. Bangladesh: Balance of Payments, FY2013–20 1/**

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

	FY13	FY14	FY15 Prel.	FY16	FY17	FY18 Staff proj.	FY19	FY20
Current account balance 2/	2,388	1,406	-1,645	-2,716	-3,296	-3,939	-4,648	-5,424
Trade balance	-7,009	-6,794	-9,917	-11,336	-12,118	-12,943	-13,815	-14,732
Exports (f.o.b.)	26,567	29,777	30,768	33,230	36,548	40,200	44,217	48,640
Of which : Ready-made garment sector	21,516	24,492	25,491	27,359	29,926	32,704	35,708	38,957
Imports (f.o.b.) 2/	-33,576	-36,571	-40,685	-44,566	-48,666	-53,143	-58,033	-63,372
Of which : Crude oil and petroleum products	-4,270	-3,100	-4,553	-3,600	-4,167	-4,850	-5,253	-5,575
Services	-3,162	-4,099	-4,628	-5,160	-5,680	-6,252	-6,879	-7,569
Income	-2,369	-2,635	-2,995	-3,043	-3,327	-3,640	-3,980	-4,349
Transfers	14,928	14,934	15,895	16,823	17,829	18,896	20,027	21,226
Official current transfers 3/	97	83	75	50	50	50	50	50
Private transfers	14,831	14,851	15,820	16,773	17,779	18,846	19,977	21,176
Of which : Workers' remittances	14,338	14,116	15,170	16,080	17,045	18,067	19,152	20,301
Capital and financial account balance 4/	3,492	3,411	5,641	4,722	5,321	5,990	6,920	8,162
Capital account	629	598	491	625	684	750	819	894
Financial account	2,863	2,813	5,150	4,097	4,638	5,240	6,101	7,268
Foreign direct investment	1,726	1,432	1,700	1,908	2,285	2,497	2,999	3,273
Portfolio investment	368	937	618	578	326	357	428	468
Medium- and long-term loans, net	1,029	1,863	1,501	2,188	2,329	2,593	3,166	3,136
Government, net	1,179	1,386	1,534	2,080	2,201	2,355	2,930	2,899
Disbursements	2,085	2,404	2,444	3,058	3,212	3,555	4,000	4,000
Amortization	-906	-1,018	-910	-978	-1,011	-1,200	-1,070	-1,101
Other long-term loans, net	-150	477	-33	107	127	238	236	237
Other capital	-260	-1,419	1,331	-576	-302	-206	-493	391
Short-term loans and trade credits, net	-405	-507	77	-115	105	195	-308	217
Commercial banks, net	90	-241	39	-300	-300	-300	-300	-300
Other items, net	55	-671	1,215	-161	-107	-101	115	474
Errors and omissions	-752	666	377	0	0	0	0	0
Overall balance	5,128	5,483	4,373	2,006	2,026	2,052	2,272	2,738
Financing items	-5,128	-5,483	-4,373	-2,006	-2,026	-2,052	-2,272	-2,738
Change in gross international reserves (GIR) (+ = increase)								
Contribution from financing	5,128	5,483	4,373	2,006	2,026	2,052	2,272	2,738
Net use of IMF resources	80	199	-56	226	-5	-26	-93	-132
Change in GIR excluding valuation changes	5,208	5,682	4,317	2,232	2,021	2,025	2,180	2,606
Valuation changes	-193	318	-692	...	...	...	...	...
Total change in GIR (excluding Asian Clearing Union liabilities)	5,015	5,999	3,625	2,232	2,021	2,025	2,180	2,606
<i>Memorandum items:</i>								
Current account balance (percent of GDP)	1.6	0.8	-0.8	-1.3	-1.4	-1.6	-1.7	-1.8
Exports (annual percent change)	10.7	12.1	3.3	8.0	10.0	10.0	10.0	10.0
Imports (annual percent change)	0.8	8.9	11.2	9.5	9.2	9.2	9.2	9.2
Remittances (annual percent change)	12.6	-1.5	7.5	6.0	6.0	6.0	6.0	6.0
Foreign direct investment (percent of GDP)	1.2	0.8	0.9	0.9	1.0	1.0	1.1	1.1
Medium- and long-term external public debt (Percent of GDP)	15.3	14.4	13.8	13.9	13.8	13.7	13.6	13.5
Gross official reserves 4/	15,136	21,385	24,946	27,178	29,199	31,224	33,403	36,009
(In months of imports of goods and services)	4.1	5.3	5.6	5.6	5.5	5.4	5.2	5.2
Gross official reserves (excluding Asian Clearing Union liabilities) 4/	14,418	20,417	24,043	26,275	28,295	30,321	32,500	35,106
(In months of imports of goods and services)	4.0	5.1	5.4	5.4	5.3	5.2	5.1	5.1
Net international reserves 4/	11,966	17,846	21,618	23,624	25,650	27,702	29,974	32,712

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

1/ Fiscal year begins July 1.

2/ Imports are based on customs data.

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

4/ Gross and net international reserves for the projection period do not include valuation adjustments. Net international reserves are reported at market exchange rates. For definitions of gross and net international reserves under the program, please see section III.B of the Technical Memorandum of Understanding (IMF Country Report No. 14/149).

Table 5a. Bangladesh: Central Government Operations, FY2013–17 1/

	FY13	FY14	FY15			FY16		FY17
			Budget	Prov. est. 1/	Staff est.	Budget	Staff proj.	Staff proj.
(In billions of taka)								
Total revenue and grants	1,346	1,467	1,892	1,482	1,503	2,142	1,824	2,291
Total revenue	1,288	1,404	1,830	1,460	1,459	2,084	1,768	2,228
Tax revenue	1,075	1,160	1,553	1,288	1,288	1,822	1,505	1,887
National Board of Revenue (NBR) taxes	1,033	1,114	1,497	1,240	1,240	1,764	1,450	1,824
<i>Of which</i> : VAT and supplementary duties	550	590	763	664	664	901	768	1,009
Taxes on income and profits	344	378	561	407	407	650	477	580
Customs and excise duties	126	139	159	149	149	200	180	206
Non-NBR taxes	41	46	56	48	48	58	55	63
Nontax revenue	214	243	277	172	172	262	263	341
Foreign grants	58	64	62	22	44	58	55	63
Total expenditure	1,752	1,881	2,505	2,036	2,101	2,951	2,576	3,135
Current expenditure	997	1,106	1,282	1,190	1,199	1,646	1,544	1,884
Pay and allowances	217	263	287	288	288	452	442	578
Goods and services	131	151	164	165	165	178	175	198
Interest payments	240	282	310	310	310	351	358	451
Subsidies and transfers 2/	407	407	502	425	434	642	564	650
Block allocations	2	2	19	2	2	23	5	6
Annual Development Program (ADP)	500	552	803	596	651	970	820	1,030
Non-ADP capital spending	89	143	320	139	139	255	140	150
Net lending 3/	170	77	96	90	90	78	68	68
Other expenditures 4/	-4	3	3	21	21	2	4	4
Overall balance (including grants)	-405	-413	-613	-555	-597	-809	-752	-843
(Excluding grants)	-463	-477	-675	-577	-641	-867	-808	-907
Primary balance (including grants)	-165	-131	-303	-245	-288	-458	-394	-392
(Excluding grants)	-223	-195	-365	-267	-332	-516	-449	-455
Net financing	405	413	613	555	597	809	752	843
External	97	90	181	44	116	243	171	190
Disbursements	170	176	265	115	190	322	251	278
Amortization	-73	-87	-85	-71	-74	-79	-80	-87
Domestic	261	283	433	326	359	566	581	653
Banks 3/	205	99	312	4	-23	391	367	504
<i>Of which</i> : Bangladesh Bank	-71	-179	...	...	-18	...	-15	-15
Nonbanks	57	184	121	323	383	175	215	149
Cash float and discrepancy	47	41	0	184	122	0	0	0

(continued)

**Table 5a. Bangladesh: Central Government Operations, FY2013–17 1/ (concluded)**

	FY13	FY14	FY15			FY16		FY17
			Budget	Prov. est. 1/	Staff est.	Budget	Staff proj.	Staff proj.
(In percent of GDP)								
Total revenue and grants	11.2	10.9	12.5	9.8	9.9	12.4	10.6	11.6
Total revenue	10.7	10.4	12.1	9.6	9.6	12.1	10.3	11.3
Tax revenue	9.0	8.6	10.3	8.5	8.5	10.6	8.7	9.6
NBR taxes	8.6	8.3	9.9	8.2	8.2	10.2	8.4	9.2
<i>Of which</i> : VAT and supplementary duties	4.6	4.4	5.0	4.4	4.4	5.2	4.5	5.1
Taxes on income and profits	2.9	2.8	3.7	2.7	2.7	3.8	2.8	2.9
Customs and excise duties	1.1	1.0	1.0	1.0	1.0	1.2	1.0	1.0
Non-NBR taxes	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Nontax revenue	1.8	1.8	1.8	1.1	1.1	1.5	1.5	1.7
Foreign grants	0.5	0.5	0.4	0.1	0.3	0.3	0.3	0.3
Total expenditure	14.6	14.0	16.5	13.5	13.9	17.1	15.0	15.9
Current expenditure	8.3	8.2	8.5	7.9	7.9	9.6	9.0	9.5
Pay and allowances	1.8	2.0	1.9	1.9	1.9	2.6	2.6	2.9
Goods and services	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Interest payments	2.0	2.1	2.1	2.0	2.0	2.0	2.1	2.3
Subsidies and transfers 2/	3.4	3.0	3.3	2.8	2.9	3.7	3.3	3.3
Block allocations	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0
Annual Development Program (ADP)	4.2	4.1	5.3	3.9	4.3	5.6	4.8	5.2
Non-ADP capital spending	0.7	1.1	2.1	0.9	0.9	1.5	0.8	0.8
Net lending 3/	1.4	0.6	0.6	0.6	0.6	0.5	0.4	0.3
Other expenditures 4/	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Overall balance (including grants)	-3.4	-3.1	-4.1	-3.7	-3.9	-4.7	-4.4	-4.3
(Excluding grants)	-3.9	-3.5	-4.5	-3.8	-4.2	-5.0	-4.7	-4.6
Primary balance (including grants)	-1.4	-1.0	-2.0	-1.6	-1.9	-2.7	-2.3	-2.0
(Excluding grants)	-1.9	-1.5	-2.4	-1.8	-2.2	-3.0	-2.6	-2.3
Net financing	3.4	3.1	4.1	3.7	3.9	4.7	4.4	4.3
External	0.8	0.7	1.2	0.3	0.8	1.4	1.0	1.0
Disbursements	1.4	1.3	1.8	0.8	1.3	1.9	1.5	1.4
Amortization	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.4
Domestic	2.2	2.1	2.9	2.2	2.4	3.3	3.4	3.3
Banks 3/	1.7	0.7	2.1	0.0	-0.2	2.3	2.1	2.6
<i>Of which</i> : Bangladesh Bank	-0.6	-1.3	...	...	-0.1	...	-0.1	-0.1
Nonbanks	0.5	1.4	0.8	2.1	2.5	1.0	1.2	0.8
Cash float and discrepancy	0.4	0.3	0.0	1.2	0.8	0.0	0.0	0.0
<i>Memorandum items:</i>								
Subsidy costs (percent of GDP) 3/ 5/	2.7	1.6	1.8	1.5	1.4	1.2	1.1	1.1
<i>Of which</i> : Energy-related subsidies	1.5	0.6	0.6	0.6	0.6	0.5	0.4	0.4
Total central government debt (percent of GDP)	34.5	33.9	...	33.7	34.0	...	34.3	34.1

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

1/ Fiscal year begins July 1. Cash basis, unless otherwise specified. FY15 provisional estimates reflect data from the Controller General of Accounts as of October 4, 2015.

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

3/ Includes special bonds issued to the state-owned commercial banks for the noncash securitization of past subsidy-related loans made to Bangladesh Petroleum Corporation, consistent with the earlier treatment in the fiscal accounts of similar operations. For definitions of bank and nonbank financing under the program, please see sections II and III.D, respectively, of the Technical Memorandum of Understanding (IMF Country Report 14/149).

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

5/ Comprise food and agriculture and export sector subsidies, as well as subsidy-based lending to large energy-related SOEs.



**Table 5b. Bangladesh: Central Government Operations, GFSM 2001 Classification, FY2013–17 1/**  
(In billions of taka)

	FY13	FY14	FY15		FY16		FY17
			Budget	Staff est.	Budget	Staff Proj.	Staff Proj.
<b>1. Central government accounts</b>							
Revenue	1,346	1,467	1,892	1,503	2,142	1,824	2,291
Taxes	1,075	1,160	1,553	1,288	1,822	1,505	1,887
Grants	58	64	62	44	58	55	63
Other revenue	214	243	277	172	262	263	341
Expenditure	1,162	1,186	1,381	1,311	1,726	1,616	1,955
Compensation of employees	217	263	287	288	452	442	578
Purchases of goods and services	131	151	164	165	178	175	198
Interest	240	282	310	310	351	358	451
Subsidies 2/	322	211	263	215	235	196	214
Grants	193	219	250	238	368	313	360
Other payments	59	60	108	94	142	132	153
Gross operating balance	184	281	510	193	416	208	336
Net acquisition of nonfinancial assets	589	695	1,124	790	1,225	960	1,180
Fixed assets	500	552	803	651	970	820	1,030
Nonproduced assets	89	143	320	139	255	140	150
Net lending (+)/net borrowing (-) 3/	-405	-413	-613	-597	-809	-752	-843
Net financial transactions	-358	-372	-613	-475	-809	-752	-843
Net acquisition of financial assets (+ increase)	22	41	...	-13	...	...	...
Domestic	22	41	...	-13	...	...	...
Deposits	22	41	...	-13	...	...	...
Net incurrence of liabilities (+ increase)	380	372	613	475	809	752	843
Domestic	283	283	433	359	566	581	653
Debt securities and loans and advances	283	283	433	359	566	581	653
Other accounts payable	0	0	0	0	0	0	0
Foreign	97	90	181	116	243	171	190
Statistical discrepancy (net borrowing less net financial transaction)	-47	-41	0	-122	0	0	0
<b>2. Financial balance sheet</b>							
<b>Net financial worth</b>							
Stock of financial assets	150	190	...	178	...	...	...
Domestic	150	190	...	178	...	...	...
Deposits 4/	150	190	...	178	...	...	...
Foreign	0	0	...	0	...	0	0
Stock of liabilities	4,132	4,551	...	5,147	...	5,900	6,743
Domestic	2,395	2,725	...	3,205	...	3,787	4,440
Debt securities and loans and advances	2,395	2,725	...	3,205	...	3,787	4,440
Foreign	1,737	1,826	...	1,942	...	2,113	2,303

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

1/ Fiscal year begins July 1.

2/ Includes transfers to Bangladesh Petroleum Corporation and Bangladesh Power Development Board.

3/ Includes statistical discrepancy.

4/ Excludes deposits of autonomous and semi-autonomous bodies.

**Table 6. Bangladesh: Financial Soundness Indicators of Scheduled Banks, 2012–15 1/**

(In percent, end-of-period unless otherwise mentioned)

	2012		2013		2014		2015
	Jun.	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.
<i>Capital adequacy</i>							
Regulatory capital to risk-weighted assets (adjusted) 2/	10.2	9.6	8.3	8.9	7.9	8.5	7.5
State-owned commercial banks (adjusted) 2/	5.3	3.4	-4.0	0.3	-1.7	0.8	2.3
Regulatory capital to risk-weighted assets (unadjusted)	11.3	10.5	9.1	11.5	10.7	11.4	10.2
State-owned commercial banks	11.2	8.1	1.2	10.8	8.7	10.0	3.8
Specialized development banks	-4.3	-7.8	-8.7	-9.7	-13.7	-16.4	-17.2
Private commercial banks	11.4	11.4	11.5	12.5	12.1	12.5	11.8
Foreign commercial banks	21.5	20.6	20.3	20.3	20.6	22.7	24.1
Regulatory capital to assets (adjusted) 2/	7.7	7.1	6.0	6.3	5.4	5.9	5.1
Regulatory capital to assets (unadjusted)	8.6	7.7	6.6	8.1	7.4	7.8	7.0
Nonperforming loans to regulatory capital (adjusted) 2/ 3/ 4/	58.1	86.8	117.1	110.1	148.9	136.5	152.6
Nonperforming loans to regulatory capital (unadjusted) 3/	51.6	78.5	104.9	62.3	80.6	69.9	77.0
<i>Asset quality 3/</i>							
Nonperforming loans to total loans (adjusted) 4/	...	...	...	12.2	14.6	14.1	13.9
State-owned commercial banks (adjusted) 4/	...	...	...	29.2	32.7	28.0	29.0
Nonperforming loans to total loans (unadjusted)	7.2	10.0	11.9	8.9	10.8	9.7	9.7
State-owned commercial banks	13.5	23.9	26.4	19.8	23.2	18.2	19.4
Specialized development banks	23.8	26.8	26.2	26.8	33.1	40.0	31.7
Private commercial banks	3.8	4.6	6.6	4.5	5.7	5.0	5.7
Foreign commercial banks	3.2	3.5	4.7	5.5	6.2	7.3	8.3
Loan provisions to total nonperforming loans (unadjusted)	57.8	44.4	52.4	61.6	50.7	56.2	52.5
Loan provisions to total loans (unadjusted)	4.1	4.5	6.2	5.5	5.5	5.4	5.1
<i>Profitability (unadjusted)</i>							
Return on equity 5/	13.5	8.2	9.7	11.1	8.4	8.0	6.6
State-owned commercial banks	11.7	-11.9	94.8	10.9	-2.3	11.3	-16.9
Specialized development banks	1.4	-1.1	-8.6	-5.8	-9.5	57.1	12.5
Private commercial banks	12.4	10.2	5.0	9.8	8.4	10.1	9.7
Foreign commercial banks	19.4	17.3	18.5	16.9	20.1	17.7	15.7
Return on assets 6/	1.2	0.6	0.6	0.9	0.6	0.6	0.5
State-owned commercial banks	0.7	-0.6	0.6	0.6	-0.1	0.6	-0.5
Specialized development banks	0.0	0.1	-0.5	-0.4	-0.9	-5.8	-1.4
Private commercial banks	1.2	0.9	0.4	1.0	0.8	1.0	0.9
Foreign commercial banks	3.8	3.3	3.4	3.0	3.5	3.4	3.1
Interest margin to gross income 7/	67.1	67.8	67.2	67.9	67.0	68.9	70.4
Noninterest expense to gross income 7/	40.6	42.0	47.9	47.1	47.2	46.5	50.2
Personnel expense to noninterest expense	50.9	53.9	56.8	55.4	58.3	54.1	56.2
<i>Composition of credit (in percent of total, excluding working capital)</i>							
Agriculture, forestry, and fishing	6.2	5.6	6.2	6.7	6.8	6.2	...
Industry	23.7	23.6	24.4	20.6	20.7	19.4	...
Construction	9.5	10.5	10.5	10.7	10.6	10.7	...
Transportation	1.5	1.6	1.6	1.4	1.4	1.3	...
Trade	44.4	44.6	43.3	47.0	48.2	47.9	...
Other	14.7	14.2	13.9	13.7	12.3	14.4	...
<i>Memorandum items:</i>							
Share of assets (as a percent of total banking system assets)							
State-owned commercial banks	27.2	26.1	26.7	26.4	26.5	25.7	26.0
Specialized development banks	5.7	5.5	5.6	5.7	5.4	5.5	5.4
Private commercial banks	60.8	62.2	61.5	61.9	62.3	63.3	63.2
Foreign commercial banks	6.4	6.3	6.1	6.1	5.8	5.5	5.3

Sources: Bangladesh Bank; and IMF staff calculations.

1/ Official data are reported as "unadjusted", while staff adjustments (see footnotes below) are reported as "adjusted". "..." indicates data not available. State-owned commercial banks are Agrani Bank, Janata Bank, Rupali Bank, and Sonali Bank. BASIC Bank is included under specialized development banks.

2/ An adjustment is made to exclude special accounts set up in state-owned commercial banks' balance sheets, which contain the accumulated losses arising from the difference in market and book value of assets. These amounts are deducted from state-owned commercial banks' assets and regulatory capital. From June 2015, Bangladesh Bank started adjusting away these accumulated losses from banks' capital position, which staff was doing earlier. Additional adjustments to capital is made by staff (based on information from Bangladesh Bank) for banks that availed themselves to the temporary relaxation in loan rescheduling rules between December 2013 and June 2014.

3/ New loan classification and provisioning regulations became effective with the financial statement for end-December 2012.

4/ From December 2013 nonperforming loans are adjusted for the staff estimated impact (based on information from Bangladesh Bank) of temporary relaxation in loan rescheduling rules.

5/ Bangladesh Bank defines return on equity (ROE) as the ratio of net income after provision and taxes to regulatory capital. Discrete jumps in ROE of state-owned banks reflect a combination of movements in operating profits and capital positions.

6/ Bangladesh Bank defines return on assets (ROA) as the ratio of net income after provision and taxes to total assets.

7/ Gross income defined as operational income before provisions and taxes.

**Table 7. Bangladesh: External Financing Requirements and Sources, FY2013–20 1/**

(In millions of U.S. dollars)

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
			Prel.			Staff proj.		
Gross financing requirements	4,931	5,194	5,530	6,319	6,612	7,354	7,939	8,852
External current account deficit (+)	-2,388	-1,406	1,645	2,716	3,296	3,939	4,648	5,424
Amortization of medium- and long-term debt	906	1,018	910	978	1,011	1,200	1,070	1,101
Gross reserves accumulation (+ = increase)	5,015	5,999	3,625	2,232	2,021	2,025	2,180	2,606
IMF repayments	198	82	56	39	5	26	93	132
Other net capital outflows	1,200	-499	-706	354	280	163	-51	-411
Available financing	4,403	4,864	5,330	6,054	6,612	7,354	7,939	8,852
Capital grants	629	598	491	625	684	750	819	894
Loan disbursements to the central government	2,085	2,404	2,444	3,058	3,212	3,555	4,000	4,000
Portfolio investment, net	368	937	618	578	326	357	428	468
Foreign direct investment, net	1,726	1,432	1,700	1,908	2,285	2,497	2,999	3,273
Short-term loans and trade credits, net	-405	-507	77	-115	105	195	-308	217
Exceptional financing	528	331	200	265	...	...	...	...
IMF: ECF arrangement	278	281	0	265	...	...	...	...
Asian Development Bank	150	0	150	0	...	...	...	...
World Bank	0	0	0	0	...	...	...	...
India	100	50	50	0	...	...	...	...

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

1/ Fiscal year begins July 1.

Table 8. Bangladesh: Indicators of the Capacity to Repay the IMF, FY2014–26 1/ 2/

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
		Prel.						Staff proj.					
Net use of IMF credit (in millions of SDRs)													
Disbursements	182.8	0.0	182.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	53.4	38.6	26.9	3.4	18.3	64.0	91.4	109.7	128.0	109.7	64.0	36.6	18.3
Outstanding IMF credit													
In millions of SDRs	526.0	487.4	643.3	640.0	621.7	557.7	466.3	356.5	228.6	118.8	54.9	18.3	0.0
In millions of U.S. dollars	807.0	705.4	931.1	926.2	899.7	807.1	674.8	516.0	330.8	172.0	79.4	26.5	0.0
In percent of gross international reserves	3.8	2.8	3.4	3.2	2.9	2.4	1.9	1.3	0.8	0.4	0.2	0.0	0.0
In percent of exports of goods and services and remittances	1.7	1.4	1.8	1.6	1.4	1.2	0.9	0.6	0.4	0.2	0.1	0.0	0.0
In percent of debt service 3/	52.9	52.0	69.3	67.7	53.3	47.0	37.1	26.2	15.1	6.9	3.0	0.9	0.0
In percent of GDP	0.5	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0
In percent of quota	98.6	91.4	120.6	120.0	116.6	104.6	87.4	66.9	42.9	22.3	10.3	3.4	0.0
Obligations to IMF based on existing credit prior to the ECF arrangement (in millions of SDRs)													
Principal	53.4	38.6	26.9	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	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
Obligations to IMF based on existing and prospective credit (in millions of SDRs)													
Principal	53.4	38.6	26.9	3.4	18.3	64.0	91.4	109.7	128.0	109.7	64.0	36.6	18.3
Charges and interest	0.0	0.0	0.0	0.8	1.6	1.6	1.4	1.2	0.9	0.6	0.3	0.1	0.0
Total obligations to IMF based on existing and prospective credit													
In millions of SDRs	53.4	38.6	26.9	4.2	19.9	65.6	92.8	110.9	128.9	110.3	64.3	36.7	18.3
In millions of U.S. dollars	82.0	55.9	39.0	6.0	28.8	94.9	134.3	160.5	186.5	159.6	93.1	53.1	26.5
In percent of gross international reserves	0.4	0.2	0.1	0.0	0.1	0.3	0.4	0.4	0.4	0.4	0.2	0.1	0.0
In percent of exports of goods and services and remittances	0.2	0.1	0.1	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.0
In percent of debt service 3/	5.4	4.1	2.9	0.4	1.7	5.5	7.4	8.1	8.5	6.4	3.5	1.8	0.8
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
In percent of quota	10.0	7.2	5.0	0.8	3.7	12.3	17.4	20.8	24.2	20.7	12.1	6.9	3.4
Memorandum items:													
Nominal GDP (in billions of U.S. dollars)	172.9	194.8	209.6	228.5	249.7	272.7	297.5	323.2	351.1	381.4	414.3	450.1	488.9
Exports of goods and services and remittances (in billions of U.S. dollars)	47.0	49.0	52.7	57.4	62.6	68.2	74.4	80.7	87.6	95.1	103.3	112.3	122.0
Gross international reserves (in billions of U.S. dollars)	21.4	24.9	27.2	29.2	31.2	33.4	36.0	38.8	41.9	45.3	49.1	53.2	57.7
Debt service (in billions of U.S. dollars) 3/	1.5	1.4	1.3	1.4	1.7	1.7	1.8	2.0	2.2	2.5	2.6	2.9	3.2
Quota (in millions of SDRs)	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3

Source: IMF staff estimates and projections.

1/ Fiscal year begins July 1.

2/ Includes the ECF arrangement with an access level of 120 percent of quota.

3/ Total public debt service, including IMF repayments.

**Table 9. Bangladesh: Proposed Schedule of Disbursements and Timing of ECF Arrangement Reviews 1/**

Availability Date	Disbursement		Conditions for Disbursement	
	(In percent of Quota)	(In SDRs)		
April 11, 2012	17.1	91,423,000	Board approval of the arrangement	
February 20, 2013	17.1	91,423,000	Board completion of first review based on observance of performance criteria for end-June 2012	
May 29, 2013	17.1	91,423,000	Board completion of second review based on observance of performance criteria for end-December 2012	
November 27, 2013	17.1	91,423,000	Board completion of third review based on observance of performance criteria for end-June 2013	
May 29, 2014	17.1	91,423,000	Board completion of fourth review based on observance of performance criteria for end-December 2013	
November 1, 2014	2/	17.1	91,423,000	Board completion of fifth review based on observance of performance criteria for end-June 2014
April 1, 2015	17.1	91,422,000	Board completion of sixth review based on observance of performance criteria for end-December 2014	
Total	120.0	639,960,000		

Source: IMF.  
1/ For reviews that have already been completed, the date refers to the actual Board date when the review was completed.  
2/ The fifth review was combined with the sixth review.

## Appendix I. Letter of Intent

October 5, 2015

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Lagarde:

The Extended Credit Facility (ECF) arrangement between the Government of Bangladesh and the International Monetary Fund (IMF) is coming to an end. This is therefore a fitting moment to take stock of what has been achieved in the three and a half years since the start of the arrangement.

Our policy program under the ECF has played an important role in supporting strong economic performance and macroeconomic stability in Bangladesh. Growth averaged 6.2 percent over the program period, driven mainly by higher public investment and exports, and poverty has continued to fall. Non-food inflation has nearly halved during the lifetime of the program. Our external position is much stronger and foreign reserves are significantly higher at 6 months of prospective imports. We have also consistently maintained fiscal discipline and public debt remains sustainable.

In addition, we have made good progress on structural reforms. However, we have faced delays in the completion of some structural benchmarks, in particular with regards to the introduction of a new value added tax (VAT), a key tax reform to boost fiscal space. Nonetheless, the government has taken remedial measures. The VAT implementation is back on track and we are firmly committed to its launch in July 2016. Moreover, we have met all the performance criteria and completed all prior actions for the combined fifth and sixth reviews under the ECF arrangement. We sincerely appreciate the IMF Executive Board's approval of our request for an extension of the ECF arrangement through October 31, 2015, which provided more time for completion of the prior actions. Against this backdrop, we request completion of the fifth and sixth reviews, the two final reviews under the ECF arrangement, and access to the associated disbursements totaling SDR 182.845 million.

Going forward, our focus remains on preserving macroeconomic stability, supporting high growth and sustaining efforts in poverty reduction. Structural reforms will center on stepping up revenue collections anchored by the new VAT law to help finance higher spending in critical infrastructure and social safety nets; strengthening the state-owned commercial banks and the state-owned enterprises; further improving public financial management; and enhancing the business climate. The attached Memorandum of Economic and Financial Policies (MEFP) details the achievements under the government's economic program, and provides an update on our

economic policies in the post-program period ahead. We believe that the commitments in the MEFP are well aligned with our long-term development goals enshrined in our national development strategy, the Seventh Five Year Plan.

On behalf of the Government of Bangladesh, I would like to thank the IMF for the support provided under the ECF, and look forward to a continued close policy dialogue.

We authorize publication of this Letter of Intent and its attachments, as well as the accompanying staff report.

Sincerely yours,

/s/

Abul Maal Abdul Muhith  
Minister of Finance  
Government of the People's Republic of Bangladesh

Attachments: Memorandum of Economic and Financial Policies

## Attachment I. Memorandum of Economic and Financial Policies

OCTOBER 5, 2015

*This memorandum updates the May 11, 2014 Memorandum of Economic and Financial Policies (MEFP) under the Government of Bangladesh's Extended Credit Facility (ECF) arrangement. It reports on developments and policies at the time of the combined 5<sup>th</sup> and 6<sup>th</sup> reviews under the ECF arrangement (hereinafter referred to as the review). While this is the last review under the arrangement, the memorandum contains our policy framework and objectives going forward.*

### A. Political Transition

**1. Main achievements under the program.** As the ECF draws to an end, it is opportune to take stock of the many achievements since its wake: international reserves have been rebuilt to comfortable levels, inflation has steadily come down, growth has remained high and stable, and the public debt-to-GDP ratio has also remained stable. All of this has been underpinned by prudent monetary and fiscal policies. Moreover, capital spending under the Annual Development Program (ADP) has increased as a share of GDP; domestic tariff increases have helped contain fuel and electricity subsidies (further helped by lower global prices more recently); social spending has been protected as share of GDP; and poverty has continued to fall (from 31.5 percent in 2010 to 24.7 percent in 2014). Finally, major structural reforms have been introduced, notably the passage of a new VAT Act in November 2012 and of an amended Bank Companies Act (BCA) in July 2013, laying the foundation for significantly higher fiscal revenue and for stronger banking sector supervision and regulation, respectively.

**2. Macroeconomic conditions.** After the January 2014 general elections, calm and normalcy returned and economic activity recovered, although there was some unrest in the third quarter of FY15. Our provisional estimate of real GDP growth in FY15 puts it at 6.5 percent, with domestic demand supported by a rebound in worker remittances and higher wages in the garment industry. Export growth has moderated as the ready-made garment (RMG) industry adjusts to higher labor and factory safety standards and growth in key export markets (notably Europe) remains slow. Nevertheless, we have continued to shore up international reserves. Inflation has eased further, anchored by prudent monetary and fiscal policies, strong domestic harvests, and lower global commodity prices.

### B. Fiscal Policy and Public Financial Management

**3. Fiscal performance in FY14.** Tax collections by the National Board of Revenue (NBR) fell well short (by over half of a percentage point of GDP) of the program indicative target (IT) for end-June 2014, the fifth test date of the ECF arrangement. Revenue across all different tax categories was affected by weak investment and slower economic activity in the first half of the fiscal year. At the same time, we kept current expenditures under control, while the January 2014 elections led to delays in ADP execution. As a result, the overall fiscal deficit (excluding grants) for FY14 was 3.5 percent of GDP, below the program target, and we met our performance criterion



(PC) on net credit to the central government (NCCG) by the banking system at end-June 2014. Social-related spending was above the program IT floor for June 2014.

**4. Fiscal performance in FY15.** Tax revenues have been weaker than expected and fell just short of the program IT floor for December 2014 (the test date for the sixth ECF review), but significantly underperformed by end-FY15 relative to our targets, owing in part to unrest-related disruptions in the third quarter of FY15. At the same time, expenditure remained contained, helped by lower fuel subsidies as we have kept domestic fuel prices unchanged against a steep decline in their global prices. Together with a much higher-than-expected take-up of National Savings Certificates (NSCs), this has kept the NCCG below the PC targets. Our preliminary data suggest that the overall fiscal deficit (excluding grants) in FY15 was at the target of 3.8 percent of GDP agreed at the time of the fourth ECF review. However, in light of the expected reconciliation of expenditure items, we see risks that the final deficit numbers might exceed the target.

**5. Fiscal policy objectives for FY16.** We will continue to maintain a prudent fiscal policy stance, anchored by the target to keep the overall fiscal deficit (excluding grants) around 4½ percent of GDP in FY16. This will help safeguard macroeconomic stability and allow the government debt-to-GDP ratio to remain stable or decline gradually. Based on the report issued by the Pay Commission in December 2014, the Cabinet has approved an increase in pay and allowances for civil servants and, following historical practice, will do so over more than one fiscal year, starting in FY16. The impact of the pay increase will be partially offset by fiscal gains from the oil price decline (paragraph 9). We will also increase priority public investment and social-related spending. ADP spending will focus on critical transport and power infrastructure, and is projected to rise in FY16 and over the medium term. To finance this as well as a sizeable increase in well-targeted social spending, we will strengthen our efforts to boost tax revenues. Our main strategies and policies in this regard are outlined below.

**6. Protecting the integrity of the new VAT law.** Before submission to Parliament in 2012, the new VAT law underwent extensive consultations with stakeholders. Despite this, the new law has come under criticism by segments of the business community. To look into their concerns, we formed a joint committee with the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI). In its report, issued in January 2015, the committee recommended several amendments to the VAT Act, including a higher enlistment threshold for the turnover tax and introduction of multiple rates. The FBCCI also recommended weakening the administrative powers of the NBR and greater scope for the government to grant exemptions. After careful consideration, the Government of Bangladesh has decided as follows:

- To accept the recommendation to increase the enlistment threshold, and raise it from Tk 2.4 million of annual turnover to Tk 3 million (that is, the 3 percent turnover tax will apply to businesses with annual turnover between Tk 3 million and Tk 8 million, while the VAT, at a rate of 15 percent, will apply to businesses with annual turnover of Tk 8 million or more, as currently envisaged in the new VAT law). An amendment to the VAT Act to adopt this

increase in the enlistment threshold was passed by Parliament in September 2015 (a prior action for this review).

- To consider adding, in the rules and regulations for the new VAT Act, one or two highly socially sensitive goods or services to the list of exemptions from VAT.
- To reject all other recommendations from the committee.

The rationale for these decisions is to protect the basic principles of the new VAT law, including: a creditable VAT with a single rate of 15 percent; a tax base determined on the basis of actual transaction values; no preapproved values or truncated bases; and limited exemptions. Preserving these principles is essential to achieve the objectives and main benefits of the new VAT law, including: boosting fiscal space for social protection and much needed investment in power and transport infrastructure; facilitating business operations and reducing compliance costs; eliminating the scope for taxpayer harassment; and protecting small businesses through a minimum tax threshold and poor households through exemptions of basic consumption items.

**7. Pressing ahead with VAT implementation.** Implementation of the new VAT law is a key policy priority of this government. We have made progress in several areas of implementation. For instance, we have appointed a full-time director, full-time deputy directors, and 15 full-time staff for the project implementation unit (PIU). The PIU has been provided with new premises adequately equipped with all necessary facilities and supplies. To prepare NBR staff for the upcoming online VAT, we have also begun staff training programs at the national and local levels. However, VAT implementation has fallen behind schedule and will be delayed by one year from the original schedule following the rejection in July 2014 by the Cabinet Committee on Government Purchases (CCGP) of the procurement for the project's computer software. The CCGP concluded that the required procedures for international procurements had not been strictly followed, highlighted inefficiencies in procuring software and hardware separately, and ordered NBR to restart the process, combining the tenders for software and hardware. There have also been delays in other areas of VAT implementation, including the procurement of a project management consultancy (PMC) to manage the implementation process, which was also forced to restart following errors in the documents submitted by bidders. These delays required moving the launch date for the new VAT from July 2015 to July 2016. The government is firmly committed to implementing the new VAT law by the rescheduled date of July 2016. In order to minimize delays and the risk of further setbacks, we will:

- **Continue to press ahead expeditiously on the different processes required for VAT implementation.** NBR is working on this, in consultation with the Central Procurement Technical Unit (CPTU) regarding procurement procedures. To keep implementation moving forward, we have completed the following critical milestones:

- (i) Public announcement via Gazette notification of the revised VAT launch date of July 1, 2016 for the new VAT law (a prior action for this review; completed in April 2015).
  - (ii) Approval by the CCGP of the procurement for the PMC (a prior action; completed in June 2015).
  - (iii) Approval by the CCGP of the combined tender for procuring hardware, software, networking and support services (a prior action; completed in July 2015).
- **Strengthen reporting procedures.** Progress reports on VAT implementation against the current plan will continue to be provided by the PIU to the NBR Chairman on a monthly basis. In turn, the NBR Chairman will continue to provide the Honorable Finance Minister with monthly summary reports on progress in implementing the new VAT, along with full explanations for any delays against the revised VAT implementation timetable approved by the Minister.
  - **Engage in taxpayer education.** We have launched programs to explain to taxpayers and the general public, through workshops and information campaigns, the benefits that this modern VAT law will have for the business community and for the economy as a whole, as well as clarify the differences between VAT and supplementary duty reforms and their separate implementation timetables.
- 8. Other revenue-enhancing measures.** In addition to the measures listed above on VAT implementation, we will take other steps to boost government revenue:
- **Other tax reforms.** We are in the process of drafting a new Direct Tax Code, which will broaden the tax base by eliminating exemptions. This law should be revenue-neutral or enhancing.
  - **Stronger revenue administration.** We continue to make progress in improving revenue administration by automating tax reporting and collection. Some large corporate taxpayers are now able to make VAT payments electronically, and we are working to expand coverage. For income tax purposes, taxpayers will be identified by unique “e-TIN” identification numbers. Approximately 1.7 million “e-TINs” have been issued, around two-fifths of which to new taxpayers as of end-August 2015. An electronic payment facility for individual taxpayers has been operating for some time. Further, we have contracted an international firm for the provision of software required to establish an electronic filing system for income tax returns. We aim to have these electronic systems fully operational by the end of FY16. In addition, a new Customs Act has been drafted that simplifies administration procedures in line with international best practice and WTO principles. The procedures established under the new Act will be consistent with the ongoing automation of tax administration, including the use of ASYCUDA World software which is now in operation to collect information necessary for the

payment of import-related taxes. The draft is expected to be submitted to Parliament soon. We are also attempting to make our customs administration procedures consistent with those of other countries in the region.

**9. Subsidy policies.** We remain committed to containing the cost of subsidies and replacing them with targeted transfers to the poor, while making the fiscal cost of subsidies more transparent. Effective September 2015 we raised electricity and natural gas tariffs. And, against a backdrop of significantly lower global fuel prices, we have so far not adjusted domestic fuel prices. This has allowed Bangladesh Petroleum Corporation (BPC) to make operating profits, which will be used in the first instance to lower its debt (BPC's stock of short-term external financing for oil imports was reduced well below the corresponding IT ceilings for end-June and end-December 2014). The fiscal savings can be channeled to well-targeted social spending for the poor. Should global fuel prices increase again, we will adjust prices up as needed to keep domestic average fuel prices not more than Tk 10 per liter below international prices. We will continue to make regular budgetary transfers to cover the cost of energy-related and fertilizer subsidies incurred by state-owned enterprises (SOEs).

**10. SOE reforms.** We remain committed to strengthening BPC's financial management and reporting. In this regard, we have improved and regularized the production of monthly cash flow statements for BPC. Also, BPC has already adopted automated financial reporting software. However, there have been significant delays in other areas. The recruitment of a professional financial advisor, initially hampered by lack of qualified applicants, was only completed in March 2015. The procurement of a global firm to audit (in association with a local firm) BPC's financial statements for FY13 (a September 2014 structural benchmark), has been delayed by complaints by local audit firms that current legislation prevents foreign firms from conducting an audit of BPC. To remove this legal hurdle in the BPC Act 2015, the government submitted to Parliament legislation allowing international audit firms to conduct audits for BPC (a prior action for this review; completed in October 2015). We are also exploring technical assistance to strengthen BPC's financial reporting.

**11. Public debt and cash flow management.** Although with some delays, we have developed a pilot framework for cash flow forecasting. The framework is still being tested, and we will request further technical assistance in this area as needed. The medium-term debt strategy was approved by the Honorable Minister of Finance in late 2014. Based on one of the findings of the Debt Management Performance Assessment (DeMPA) conducted by the World Bank, we adopted in July 2014 guidelines for the approval and issuance of loan guarantees provided by the government (a structural benchmark). These will help contain and better monitor the government's contingent liabilities. To eliminate the distortions and potential financial disintermediation effects from the rising wedge between interest rates on bank deposit and NSCs, and to contain the increasing interest cost from the unexpectedly large flows into NSCs, we reduced the interest rate on NSCs in May 2015. Inter-agency coordination on external borrowing has continued to strengthen, and the requirement to have qualified staff from the Ministry of Finance in external debt negotiations is being observed. As part of the ramping up of public

investment, we expect external concessional and nonconcessional borrowing to increase, with funds continuing to center on projects in education as well as power, transportation, telecommunications, and other infrastructures to help meet our critical development needs.

### C. Monetary Policy and Central Bank Financial Reporting

**12. Monetary and exchange rate policy.** We will continue to anchor monetary policy on a reserve money target. Reserve money met our end-June and end-December 2014 targets, but exceeded the end-September 2014 target by a significant margin, as demand for liquidity increased sharply ahead of two important religious festivals in late September and early October. Monetary policy has remained prudent in calendar year 2015, and aims at bringing average inflation down to 6.2 percent by end-FY16 (as per BB's July 2015 Monetary Policy Statement) while allowing adequate private sector credit growth. There are upside risks to inflation arising from the rebound in domestic demand and recent increases in retail energy prices. We are monitoring non-food inflation closely and will adjust reserve money as necessary. International reserves have remained on an upward trend, comfortably exceeding the PC targets for June and December 2014. BB will continue to build up reserves in order to preserve reserve adequacy, sterilizing as required to meet our reserve money targets. In light of the strong real appreciation of the taka since early 2014, driven mainly by the appreciation of the US dollar against other currencies (notably the euro), we will allow the taka to depreciate if market forces move it in that direction.

**13. Central bank financial reporting.** We are taking several steps to improve BB's financial reporting. External audits of BB's FY13 and FY14 financial accounts were conducted by a global firm and received unqualified audit opinions. We have made progress in implementing the recommendations in the management letter for these external audits. To further strengthen BB's internal control environment, we are working toward improving risk management in key departments, developing risk rating reports, integrating different information technology platforms, and reviewing their operational risks. We intend to continue improving BB's financial reporting by conducting external audits by globally-affiliated local audit firms, including for BB's FY15 accounts.

### D. Financial Sector Reforms

**14. Banking system supervision: Loan rescheduling and restructuring.** BB brought the temporary relaxation of loan rescheduling guidelines, announced in December 2013, to an end in June 2014. To help struggling corporate groups, BB issued a circular in January 2015 allowing banks to restructure large loans (above Tk 5 billion) under relaxed rules up until end-June 2015. To mitigate the moral hazard that these policies may potentially create, BB will revise by December 2015 the guidelines and circulars on loan rescheduling and restructuring under the following principles:

- Upon rescheduling/restructuring a loan, the bank will have to write off an amount equal to the difference between the recorded amount of the original loan and the net present value of the contractual cash flows from the rescheduled/restructured loan.
- The provisioning requirement for the rescheduled/restructured loan will not be changed unless the borrower has serviced the rescheduled/restructured loan regularly for at least six months after rescheduling/restructuring or, if no contractual cash flows are expected from the borrower for a period longer than 6 months, until at least two of the contractual cash flows have been made by the borrower.

**15. Banking system supervision: Other areas.** We have continued to make progress in other areas to strengthen financial supervision:

- *Enforcement.* Using its enhanced powers under the amended (BCA), BB has taken disciplinary actions against banks where severe irregularities have been found (including, in one case, recommending the removal of the entire board of directors, which the government accepted). We will continue to impose very strong sanctions in case of noncompliance with prudential rules and regulations.
- *Stock market exposures.* BB has directed banks with stock market exposures above the permissible limit to present plans to bring them down to within the ceiling by July 2016, and in the meantime is strictly enforcing that banks do not increase their exposures further.
- *Contingency planning.* Progress is being made in setting up stronger bank resolution and lender of last resort (LOLR) facilities, under the roadmap approved in September 2013, within the existing legal framework. However, amendments may be required to the relevant legislation.
- *Private sector external borrowing.* Local corporations have continued to expand their external borrowing in foreign currency to take advantage of low international interest rates. We are closely monitoring this borrowing and weighing any possible risks it may pose to the domestic financial system.

**16. Strengthening the state-owned commercial banks (SOCBs).** We will continue to focus on improving the governance, balance sheets, and financial reporting of the SOCBs. To this end, we are taking measures in different fronts:

- **Governance.** We appointed new chairmen and directors for the boards of several SOCBs, vetted by BB as per the fit and proper criteria established in the amended BCA. We are committed to continue appointing competent directors, holding them strictly accountable, and cooperating with BB in ensuring strong punitive actions in the event of any irregularities. BB completed the assessment of SOCBs' compliance with their new internal control and compliance (ICC) policies (a structural benchmark for December 2014). This assessment found that SOCBs had weak internal audit processes that were, in turn, inadequately

supervised by their boards and management. To address these issues, BB has asked SOCBs to report on compliance with ICC policies as of March and June 2015, and will conduct further inspections to verify those reports.

- **Enforcement.** We will continue to impose strong and escalating regulatory sanctions in case of noncompliance with the MoUs, particularly regarding areas which are directly under the control of banks, such as credit growth and single borrower exposures and related lending.
- **Strengthening of SOCB balance sheets.** In FY15 we recapitalized one SOCB by Tk 7.1 billion, with another Tk 12 billion going to a specialized development bank. We reiterate our commitment to continue to strengthen the SOCBs' capital position in line with regulatory capital adequacy standards, conditional on progress on actions agreed under the MOUs and in the business plans approved by the SOCBs. In addition to BB's MoU with SOCBs, the government has signed performance contracts with their boards and management. BB is also monitoring SOCBs' loan recovery efforts together with the government.
- **Branch automation.** We have made progress under the branch automation plan approved in March 2014. In 2014, nearly 400 SOCB branches (about 11 percent of the total) were brought under the Core Banking System software. We will ensure that SOCBs follow their automation targets to be able to complete the entire process by end-2016.

## E. Reforms to Boost Growth and Inclusion

**17. Poverty reduction strategy.** Our poverty reduction strategy is anchored in our Sixth Five Year Plan (FY11-15), under which we have seen a reduction in the poverty rate from 31.5 percent in 2010 to 24.7 percent in 2014. A mid-term implementation review of the first three years of the plan found that, while domestic employment creation fell short of target, the poverty reduction target remains on track (based on preliminary estimates), supported by higher than expected overseas employment.

**18. Labor and safety standards.** We have achieved significant improvements in labor rights and factory safety standards in collaboration with all relevant stakeholders.

**19. Social safety nets.** We will continue to work on strengthening the efficiency and transparency of social safety net programs, including by developing a comprehensive poverty database. We met the IT on social-related expenditure for June, September and December 2014.

**20. Trade and investment reforms.** To help facilitate business transactions, deepen local capital markets, and attract foreign direct investment, we have continued to make progress towards a gradual liberalization of exchange regulations on current and capital account in accordance with the roadmap approved in September 2013. BB adopted the necessary amendments to foreign exchange regulations and reporting routines for current account transactions (a structural benchmark for December 2014). In addition, in September 2015

Parliament passed amendments to the Foreign Exchange Regulation Act. We are also pressing ahead with reforms to rationalize our trade policies by reducing the dispersion and average level of protection, as well as the incidence of waivers and exemptions. We have drafted a new Customs Act that will simplify the administration of customs duties (see paragraph 8, second bullet). We will also continue to reduce supply bottlenecks and the cost of doing business by focusing public investment on projects with high development impact.



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

	6/30/14			Met	9/30/14			Met	12/31/14			Met			
	Prog. PC	PC with adjustors	Est.		IT	IT with adjustors	Est.		Prog. PC	PC with adjustors	Est.				
<b>Performance criteria applicable on a periodic basis</b>															
Net international reserves (NIR) of Bangladesh Bank (BB) (floor, end of period (eop) stock, in millions of U.S. dollars) 3/	15,290	15,240	18,088	Met	15,760	15,610	19,186	Met	16,230	16,080	19,555	Met			
Net domestic assets (NDA) of BB (ceiling, eop stock, in billions of taka)	155	159	-58	Met	129	140	-2	Met	177	188	-74	Met			
Net credit to the central government (NCCG) by the banking system (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka)	242	237	100	Met	25	36	37	Not Met	100	103	-30	Met			
	4/1/14 – 6/30/14			Met	7/1/14 – 9/30/14			Met	10/1/14 – 7/31/15			8/1/15 onward			
	Prog. PC	PC with adjustors	Est.		Prog. PC	IT with adjustors	Est.		Prog. PC	PC with adjustors	Est.	Prog. PC	Est.		
<b>Performance criteria applicable on a continuous basis 4/</b>															
New nonconcessional external debt maturing in more than one year, contracted by the public sector and/or guaranteed by the central government or BB (ceiling, stock since December 31, 2011, in millions of U.S. dollars)	5,750		3,665	Met	6,000		3,880	Met	6,000	6,000	5,103	Met	6,500	5,103	Met 5/
New nonconcessional external debt maturing in one year or less, contracted by the public sector and/or guaranteed by the central government or BB (ceiling, stock since December 31, 2011, in millions of U.S. dollars)	0		0	Met	0		0	Met	0	0	0	Met	0	0	Met 5/
Accumulation of new external payment arrears by the public sector (ceiling, stock since December 31, 2011, in millions of U.S. dollars)	0		0	Met	0		0	Met	0	0	0	Met	0	0	Met 5/
	6/30/14			Met	9/30/14			Met	12/31/14			Met			
	IT	IT	Est.		IT	IT	Est.		IT	IT	Est.				
<b>Indicative targets</b>															
Reserve money (ceiling, eop stock, in billions of taka)	1,304		1,295	Met	1,313		1,432	Not Met	1,396		1,387	Met			
Tax revenue of central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka)	1,191		1,114	Not Met	274		272	Not Met	569		559	Not Met			
Social-related spending by central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka)	519		527	Met	95		105	Met	215		215	Met			
Net suppliers' credit and other short-term financing for oil imports (ceiling, cumulative change from end-FY11, in millions of U.S. dollars), program level	775		637	Met	750		348	Met	600		376	Met			
State-owned banks funded loans to Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDDB), and Bangladesh Chemical Industries Corporation (BCIC) (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka)	0		4	Not Met	0		13	Not Met	0		30	Not Met			
Net loans extended by four largest state-owned commercial banks (ceiling, eop stock, in billions of taka)	719		707	Met	736		716	Met	752		722	Met			
<b>Memorandum items:</b>															
Budget support from bilateral and multilateral donors agencies (cumulative change from the beginning of the fiscal year, in millions of U.S. dollars), program level	100		50		150		0		150		0				
Budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 (July 2011-June 2012) (cumulative change from the beginning of the fiscal year, in billions of taka), program level	...		...		...		...		...		...				
Budgetary transfers for recapitalizing the four largest state-owned commercial banks (cumulative change from the beginning of the fiscal year, in billions of taka), program level	50		41		0		0		15	15	7				
1/ Fiscal year begins July 1. Cell marked by "..." indicates that the cell is not applicable for that particular date.															
2/ For definitions of these quantitative targets and the applicable adjustors please see the Technical Memorandum of Understanding for the arrangement (IMF Country Report No. 14/149).															
3/ Evaluated at the program exchange rate.															
4/ These performance criteria are applicable on a continuous basis, i.e., the targets are monitored continuously during each period.															
5/ Information available as of September 30, 2015.															

**Table 2. Bangladesh: Structural Benchmarks and Prior Actions under the ECF Arrangement**

Actions	Date	Macroeconomic Criticality	Status
<b>Structural Benchmarks:</b>			
Selection of a vendor for a tax automation system for value-added tax (VAT).	June 2014	To strengthen tax revenue administration	Not met. The Cabinet Committee on Government Purchases rejected the tender process, and requested a retendering. Completion of this action became a prior action for the fifth and sixth reviews. The prior action was completed on July 22, 2015.
Adopt guidelines for the credit risk assessment, approval and issuance of loan guarantees provided by the central government.	July 2014	To strengthen public debt management	Met.
Complete a full external audit for the financial year 2012-13 of Bangladesh Petroleum Corporation (BPC) by a global audit firm in association with a local firm.	September 2014	To strengthen financial management at the largest state-owned enterprise	Not met. Tender for the global audit firm attracted no interest by potential bidders. The authorities are amending legislation clarifying the legal authority of BPC to appoint international audit firms to conduct audits of BPC's accounts. Submission to Parliament of this legislation is a prior action for the fifth and sixth reviews. The prior action was completed on October 4, 2015.
Review and adopt the amendments to foreign exchange regulations and reporting routines for all current account transactions, guided by the September 2013 roadmap adopted by Bangladesh Bank (BB) and the Ministry of Finance.	December 2014	To strengthen the trade and investment climate	Met.
An assessment by Bangladesh Bank of compliance by the state-owned commercial banks (SOCBs) with the Internal Control and Compliance policies approved in December 2013.	December 2014	To further improve governance at the SOCBs	Met.
<b>Prior Actions for the Combined Fifth and Sixth Reviews</b>			
Public announcement via Gazette notification of the revised VAT launch date of July 1, 2016 for the new VAT law.		To prepare general public for launch of new VAT system	Met. The gazette notification was issued on April 15, 2015.
Approval by the Cabinet Committee on Government Purchases (CCGP) of the combined tender for procuring hardware, software, networking and support services for the VAT.		To provide critical inputs for VAT implementation	Met. The procurement was approved by CCGP on July 22, 2015.
Approval by the Cabinet Committee on Government Purchases (CCGP) of the procurement for the project management consultancy (PMC) for the VAT.		To provide critical inputs for VAT implementation	Met. Procurement of PMC was approved by CCGP on June 17, 2015.
Amendments to the 2012 VAT and Supplementary Duty Act, restricted to none, either or both of, but any any case no more than: (i) an increase in the enlistment threshold for the turnover tax from Tk 2.4 million to Tk 3 million per year of annual turnover, and (ii) adding one or two additional items to the list of exemptions from VAT.		To maintain the integrity of the 2012 VAT Act	Met. The VAT and Supplementary Duty Act was amended to increase the enlistment threshold from Tk 2.4 million to Tk 3 million. This was passed by Parliament on September 2, 2015.
Submission to Parliament of legislation allowing international audit firms to conduct audits of BPC's accounts.		To strengthen financial management at the largest state-owned enterprise	Met. Submitted to Parliament Secretariat on October 4, 2015.



# BANGLADESH

## FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

October 5, 2015

Approved By  
**Markus Rodlauer and Peter Allum (IMF)**  
**and Satu Kahkonen (IDA)**

Prepared by  
International Monetary Fund  
International Development Association

<b>Risk of external debt distress</b>	Low
<b>Augmented by significant risks stemming from domestic public and/or private external debt?</b>	No

*This debt sustainability analysis (DSA) was prepared jointly by the staffs of the IMF and IDA (World Bank Group). The results indicate that Bangladesh remains at a low risk of external public debt distress, with no significant vulnerabilities related to domestic debt or private external debt.<sup>1</sup>*

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<sup>1</sup> For the purposes of this DSA, the public sector comprises the central government and nonfinancial public enterprises. This analysis is based on the joint Fund-Bank debt sustainability framework for conducting debt sustainability analysis in low-income countries. Under IDA's Country Policy and Institutional Assessment (CPIA), Bangladesh is assessed to be a medium performer, with an average rating of 3.28 during 2011–13. This DSA uses the indicative thresholds for countries for this category.

## A. Background

**This Debt Sustainability Analysis (DSA) presents staffs' macroeconomic outlook and assumptions about the public sector's external and domestic borrowing paths.**<sup>2</sup> The DSA incorporates the authorities' estimates of the stock of public external and domestic debt and private external debt as of end-FY14 (fiscal year 2014, July 2013-June 2014) and analyzes the likely trajectories of standard debt sustainability (solvency and liquidity) ratios through FY35.

**As of end-FY14, total public sector and public sector-guaranteed external nominal debt amounted to US\$26 billion (15 percent of GDP or 79 percent of exports of goods and services).** The World Bank and the Asian Development Bank are—by far—the two largest creditors, with outstanding loans of US\$12 and US\$7 billion, respectively. The largest bilateral creditor is Japan, with an outstanding loan of US\$2 billion (text table).

**Bangladesh: Public and Publicly Guaranteed External Debt**  
(At end-June 2014)

	In millions of U.S. dollars	In percent of total external debt
Multilateral debt	21,019	81.0
World Bank	12,167	46.9
Asian Development Bank	7,403	28.5
International Monetary Fund	813	3.1
International Fund for Agricultural Development	344	1.3
Islamic Development Bank	231	0.9
Other	61	0.2
Bilateral debt	3,469	13.4
Japan	2,229	8.6
China	329	1.3
Korea, Republic of	318	1.2
India	174	0.7
Kuwait	144	0.6
Other	275	1.1
Guarantees provided to external borrowing by state-owned enterprises	364	1.4
Short-term debt	1,103	4.3
Total	25,954	100.0
(Percent of GDP)	15.0	

Sources: Bangladesh authorities; and IMF staff estimates.

<sup>2</sup> The last full DSA was prepared in FY12 and based on the end-June 2011 stock of debt (SM/11/278, Supplement 1 and IDA/SEC/65557). In line with the *Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries* (SM/13/292, IDA/SEC/82566), a full DSA is expected to be prepared once every three years for PRGT-eligible, IDA-only countries.

**Total public sector domestic debt as of end-FY14 amounted to 2.8 trillion taka (21 percent of GDP or 190 percent of central government revenue, including grants).**

Domestic debt comprises mostly commercial banks' holdings of treasury instruments and non-banks' holdings of national savings certificates.<sup>3</sup> It also includes net credit by Bangladesh Bank and the outstanding liabilities of state-owned enterprises to the banking system (text table).

**Bangladesh: Public Domestic Debt**  
(At end-June 2014)

	In billions of taka	In percent of total domestic debt
Central government	2,724	97.4
Overdraft at Bangladesh Bank (BB)	132	4.7
Ways and means advances from BB	0	0.0
Treasury bills	425	15.2
Treasury bonds	1,178	42.1
Directorate of National Savings instruments	761	27.2
General Provident Fund	229	8.2
State-owned enterprises		
Net liabilities to the banking system	72	2.6
Total	2,796	100.0
(Percent of GDP)	20.8	

Sources: Bangladesh authorities; and IMF staff estimates.

**In FY12–14 economic growth and inflation outcomes were broadly in line with what had been projected in the FY12 DSA (the last full DSA), but the outturns for some other macroeconomic variables were significantly different**

(text table). In particular, exports, imports and real primary fiscal spending grew significantly slower than what had been envisaged. The real US\$/taka bilateral exchange rate (using GDP deflators)

**Bangladesh: Selected Macroeconomic Indicators, FY2012–14**  
(Average annual percent change, unless otherwise mentioned)

	FY12 DSA projection	Outcome
Economic growth	6.4	6.2
Inflation (GDP deflator)		
In taka	9.2	7.0
In dollars	2.0	4.0
Exports of goods and services (in dollars)	14.6	9.4
Imports of goods and services (in dollars)	14.7	4.6
Average interest rates (in percent)		
Nominal rate on foreign debt	1.6	1.0
Real rate on domestic debt	1.5	3.5
Real primary spending	13.2	5.2

Sources: Bangladesh authorities; and IMF staff calculations.

<sup>3</sup> High exposure of commercial banks to the central government remains a concern (see Box 1 in IMF Country Report No. 14/149 for a discussion). Development of an active secondary market and a funded pension system could help weaken the bank-sovereign link.

appreciated by 7 percent over the three-year period against the expectation of no change.

**The public sector's debt to GDP ratio has declined relative to the FY12 DSA.** This is the result of two main factors. First, the authorities introduced in FY14 a rebased and higher GDP series (base year shifted from FY96 to FY06), which led the debt-to-GDP ratio to decline from 41.9 percent to 36.3 percent in FY13. Second, actual fiscal deficits have been lower than expected. As a result, the public debt-to-GDP ratio fell by 2.3 percentage points from FY11 to FY14 (using the new GDP series for both years) as compared with a 0.7 percentage point increase projected in the FY12 DSA. The public sector's external debt to GDP fell over the same period by 3.5 percentage points of GDP as compared with a projected decline of 1.9 percentage points of GDP in the FY12 DSA.

## B. Underlying Assumptions

The new set of macroeconomic projections and assumptions is elaborated in Box 1 and also shown in Table 1. These projections and assumptions are broadly in line with those in the FY12 DSA (text table). The new DSA incorporates a significant ramp up of public investments financed by the revenue gain expected from the new value-added tax (VAT) that will be introduced in FY17.

**Bangladesh: Comparison of Selected Macroeconomic Assumptions in Different DSAs**  
(In percent; unless otherwise indicated)

	Historical average 1/	Medium-term projection 2/	Long-term projection 3/
<b>Economic growth</b>			
FY12 DSA (FY02–32)	6.0	6.8	6.5
FY14 DSA Update (FY04–34)	6.2	6.6	6.5
FY15 DSA (FY05–35)	6.1	6.8	6.5
<b>Inflation (GDP deflator)</b>			
FY12 DSA (FY02–32)	5.7	8.3	4.5
FY14 DSA Update (FY04–34)	6.6	6.8	4.9
FY15 DSA (FY05–35)	6.7	6.8	5.0
<b>Inflation (GDP deflator in US\$ terms)</b>			
FY12 DSA (FY02–32)	2.9	1.9	1.6
FY14 DSA Update (FY04–34)	3.3	5.3	3.0
FY15 DSA (FY05–35)	3.9	2.5	2.0
<b>Growth of exports</b>			
FY12 DSA (FY02–32)	14.0	13.2	9.0
FY14 DSA Update (FY04–34)	15.1	10.3	12.0
FY15 DSA (FY05–35)	14.8	8.7	9.5
<b>Growth of imports</b>			
FY12 DSA (FY02–32)	14.1	12.5	8.4
FY14 DSA Update (FY04–34)	15.2	9.8	11.0
FY15 DSA (FY05–35)	15.0	9.7	8.7
<b>Non-interest current account deficit (in percent of GDP)</b>			
FY12 DSA (FY02–32)	-1.4	0.3	0.4
FY14 DSA Update (FY04–34)	-1.0	0.0	1.0
FY15 DSA (FY05–35)	-0.9	1.0	1.7
<b>Average nominal interest rate on external borrowing</b>			
FY12 DSA (FY02–32)	1.0	1.6	2.1
FY14 DSA Update (FY04–34)	1.0	2.2	3.1
FY15 DSA (FY05–35)	1.0	1.5	3.0
<b>Average real interest rate on domestic borrowing</b>			
FY12 DSA (FY02–32)	3.9	2.5	5.4
FY14 DSA Update (FY04–34)	3.3	2.2	3.7
FY15 DSA (FY05–35)	3.4	3.9	4.4
<b>Average annual growth of real primary spending</b>			
FY12 DSA (FY02–32)	7.0	11.0	6.4
FY14 DSA Update (FY04–34)	3.7	8.0	6.7
FY15 DSA (FY05–35)	1.6	10.4	6.3

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

1/ The historical average covers the years FY02–FY11, FY04–FY13, and FY05–FY14 for the three DSAs respectively.

2/ The medium-term projection covers the years FY12–FY17, FY14–FY19, and FY15–FY20 for the three DSAs respectively.

3/ The long-term projection covers the years FY18–FY32, FY20–FY34, and FY21–FY35 for the three DSAs respectively.

### Box 1. Bangladesh: Main Macroeconomic Assumptions Underlying the DSA

In the medium term (FY15–20), average annual **real GDP growth** is projected to accelerate to 6.8 percent up from 6.1 percent in recent years, reflecting the demand-pull effect from a significant expected jump in public investment spending. Private investment is expected to benefit from a deepening of the financial sector and an improved trade and investment climate. Over the long term (FY21–35), average annual growth is assumed to converge down to a steady state of 6.5 percent, with the increase over the historical average growth rate of 6.1 percent reflecting the growth impact from expected reforms to improve the investment climate and remove infrastructure bottlenecks.

**Inflation**, as measured by the GDP deflator, is expected to remain broadly stable over the medium term on the expectation of a broadly unchanged monetary policy framework (although global currency shifts and commodity price shocks pose risks to the inflation projections).

The **real bilateral taka-dollar exchange rate** is projected to remain constant from FY16 onward following a 4 percent increase in FY15.

The **tradable sector** is projected to continue to expand rapidly (both exports and imports are expected to increase about 9 percent annually in nominal terms).

Moderate **current account deficits** are expected to prevail during the projection period. The deficit will increase slightly over time to reach 2.3 percent from FY30 onward, reflecting mainly an assumption that growth in workers' remittances will slow to 6 percent on average. The capital and financial account surplus will strengthen gradually over time led by higher FDI. The overall balance of payments is expected to register surpluses of close to 1 percent of GDP, allowing for the accumulation of reserves broadly in line with the growth of imports.

The **real interest rate on external debt** rises gradually over the projection period, reflecting an assumed decline in the **grant element of new external borrowing** to less than 10 percent. **The government's real domestic borrowing rates** are expected to increase to between 4-4.5 percent over the medium term, where they remain over the longer term.

The **primary fiscal deficit (including grants)** is expected to average 1.8 percent of GDP over the medium term as compared to an average annual deficit of 1.2 percent in recent years. The higher primary deficit over the medium term reflects the impact of a public sector pay hike (effective from FY16, and adding about 1 percent of GDP) and a significant increase in public investment, partly offset by higher revenue from the implementation of the new VAT and by lower energy subsidies. In the long term, the primary fiscal deficit stabilizes at a lower share of GDP as public investment moderates following the expected spike in coming years, more than offsetting an expected increase in pension costs due to population ageing..

## C. External DSA

Under the baseline scenario, Bangladesh's public and publicly guaranteed (PPG) external debt to GDP ratio is projected to trend down slightly from 15 percent of GDP in FY14 to 13 percent of GDP in FY35. All associated PPG indicators remain well within the respective policy-dependent solvency thresholds under the baseline scenario and all associated standard bound tests (Figure 1 and Tables 2–3).

## D. Public DSA

The present value (PV) of public debt to GDP ratio is projected to remain broadly stable over the medium term, but rise slightly in the long term, reflecting a gradual increase in real interest rates as the concessionality of debt is assumed to decline steadily. By FY35 the debt-to-GDP ratio will rise to 39 percent of GDP as compared with 36 percent of GDP in FY14. As in the case of the external DSA, all associated PPG indicators remain well within the benchmark value for all standard bound tests (Figure 2 and Tables 4–5).<sup>4</sup>

## E. Alternative scenario

An alternative scenario has been constructed to consider the consequences of failing to introduce the new VAT. In that case, the tax revenue to GDP ratio would be lower by about 2 percentage points relative to the baseline. With no consolidation in expenditure assumed, the fiscal deficit would widen, leading to higher domestic borrowing costs. As a result, there would be a significant deterioration in all standard debt sustainability indicators, and the debt trajectory would become clearly unsustainable (Figure 4). This implies that in the absence of a boost to tax revenues through the introduction of the new VAT, to keep public debt on a sustainable path, a significant cut in public expenditure would eventually be needed with knock-on effects on economic growth and poverty reduction.

## F. Authorities' views

The authorities agreed with staffs' view that the risk of external debt distress is low. This low risk results principally from the government's commitment to maintain low fiscal deficits in line with long-standing practice. Moreover, most external borrowing is either on highly concessional terms (grant element of 35 percent or higher) or moderately concessional, but with long maturities. Domestic borrowing is more costly and with lower duration; however, it

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<sup>4</sup> Risks to the medium-term growth outlook are tilted clearly to the downside. In particular, the main risk is an intensification of domestic political unrest and uncertainty. A materialization of this risk in the short run is unlikely to derail the main debt trajectory: if the medium-term growth rate remains the same as the historical average, the public debt-to-GDP ratio would worsen by 1.8 percentage points of GDP by FY35 relative to the baseline. Another risk would be a slower-than-anticipated implementation rate for public investment projects, but the impact on debt sustainability would be offset by a smaller fiscal deficit. Failure to implement the VAT would make the debt path unsustainable (see Alternative Scenario).



helps in developing local debt markets in addition to providing needed resources for the budget.

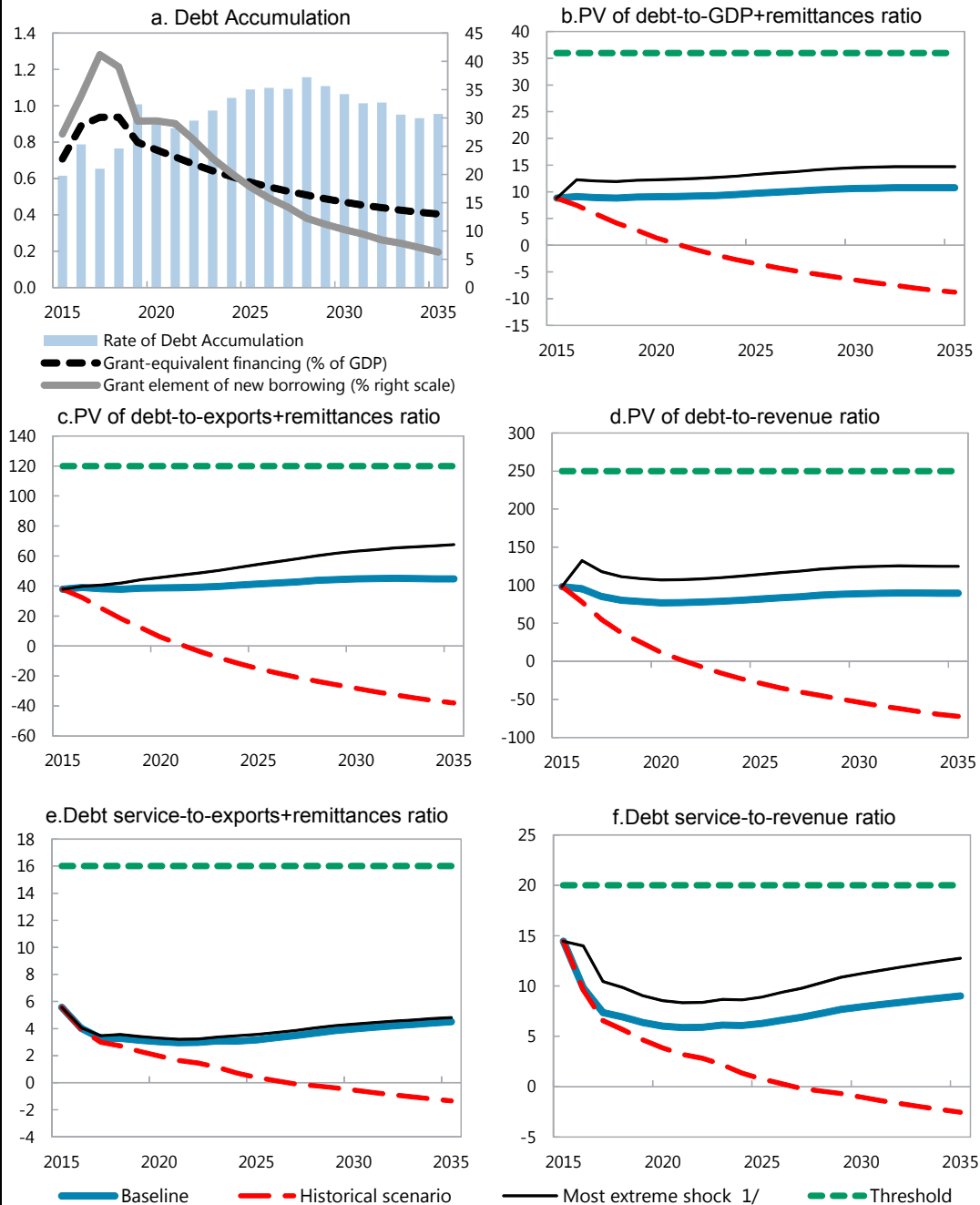
The risk of debt distress is further contained by an active and prudent debt management policy in line with the provisions in the Public Money and Budget Management Act of 2009. In the Ministry of Finance, debt management responsibilities are distributed between (1) Economic Relations Division (in charge of most external borrowing), (2) Finance Division (in charge of government guarantees), and (3) Internal Resources Division (in charge of domestic borrowing). In addition, Bangladesh Bank acts as fiscal agent and issues marketable domestic debt on behalf of the government. Overall responsibility for formulating the debt management strategy rests with the Finance Division. Interagency coordination has been strengthened with the creation of a Standing Committee on Nonconcessional Borrowing in 2013. In FY14, the Finance Division prepared a medium term debt strategy paper, which found that Bangladesh's debt position was robust given the stable macroeconomic outlook.

## **G. Conclusion**

The macroeconomic framework is broadly unchanged from the last full DSA. With no major changes to prospective borrowing assumptions (volumes and costs), the debt sustainability assessment remains unchanged and the risk of external and public debt distress continues to be classified as low. However, in the absence of a permanent boost to revenues, derived for instance from a failure to implement the VAT, and with no fiscal consolidation, there would be a significant deterioration in all standard debt sustainability indicators, and the debt trajectory would become unsustainable.

**Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt, 2015-2035 1/ 2/**

(In percent, unless otherwise mentioned)



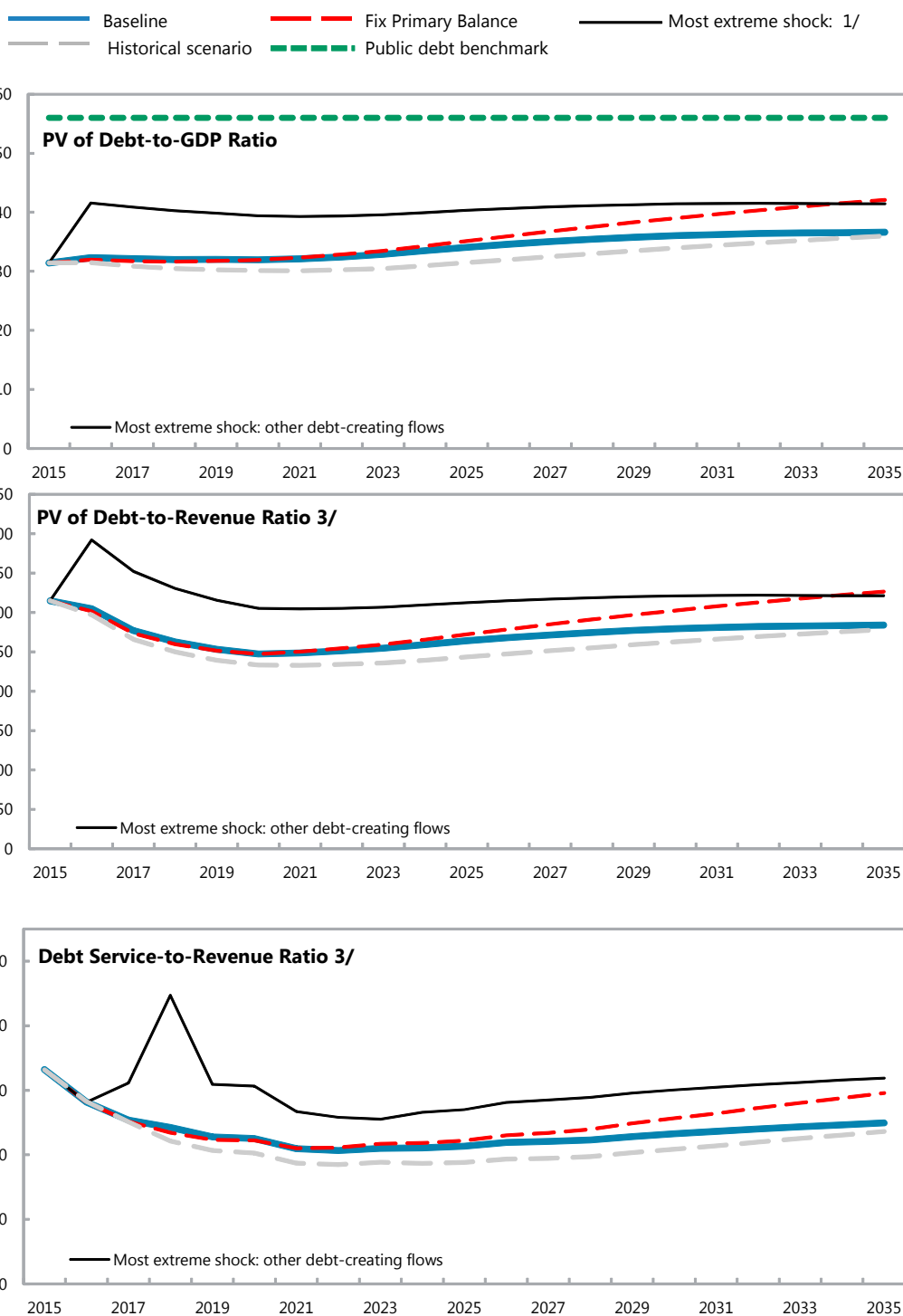
Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Data on a fiscal year basis; e.g., 2014 corresponds to July 2013–June 2014.

2/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a one-time depreciation shock; in c. to a terms shock; in d. to a one-time depreciation shock; in e. to a non-debt flows shock; and in figure f. to a one-time depreciation shock.

**Figure 2. Bangladesh: Indicators of Public Debt, 2015-2035 1/ 2/**

(In percent)



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

1/ Data on a fiscal year basis; e.g., 2014 corresponds to July 2013–June 2014.

2/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

3/ Revenues are defined inclusive of grants.

Table 1. Bangladesh: DSA Key Variables 1/

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025	2030	2035
	(In percent of GDP, unless otherwise mentioned)											
Nominal GDP (in billions of U.S. dollars)	133	150	173	195	210	229	250	273	298	450	681	1,030
Real GDP (percentage change)	6.5	6.0	6.1	6.5	6.5	7.0	7.0	7.0	7.0	6.5	6.5	6.5
GDP deflator (percentage change)	8.2	7.2	5.7	5.8	6.8	7.2	7.1	6.8	7.1	5.2	4.7	4.7
GDP deflator (percentage change in US\$)	-2.7	6.2	8.7	5.8	1.0	1.9	2.1	2.1	2.0	2.0	2.0	2.0
Gross national savings	27.9	30.0	29.4	28.1	28.6	30.1	31.2	31.8	32.0	31.7	31.4	31.2
Public national savings	2.9	2.9	2.7	2.1	1.6	2.1	2.7	3.2	3.4	3.4	3.3	3.1
Private national savings	25.1	27.1	26.7	26.0	27.0	28.0	28.4	28.5	28.6	28.2	28.1	28.1
Gross investment	28.3	28.4	28.6	29.0	29.9	31.5	32.8	33.5	33.8	33.8	33.6	33.4
Public investment	5.8	6.6	6.5	6.9	7.9	8.9	9.7	10.1	10.2	9.9	9.7	9.6
Private investment	22.5	21.7	22.0	22.1	22.0	22.6	23.1	23.4	23.6	23.9	23.9	23.9
<b>Fiscal (central government)</b>												
Total revenue and grants	11.2	11.2	10.9	10.0	10.6	11.6	12.2	12.6	12.9	12.9	12.9	12.9
Foreign grants	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total expenditure	14.2	14.6	14.0	13.9	15.0	15.9	16.4	16.7	16.9	16.7	16.6	16.6
Interest payments	1.9	2.0	2.1	2.0	2.1	2.3	2.3	2.3	2.4	2.2	2.1	2.2
Overall balance	-3.0	-3.4	-3.1	-3.9	-4.4	-4.3	-4.2	-4.1	-4.0	-3.8	-3.7	-3.7
Primary balance	-1.1	-1.4	-1.0	-1.9	-2.3	-2.0	-1.9	-1.8	-1.7	-1.7	-1.6	-1.5
Net domestic financing	2.3	2.2	2.1	3.2	3.4	3.3	3.2	3.0	3.1	3.0	2.8	2.8
Net external financing	0.6	0.8	0.7	0.8	1.0	1.0	0.9	1.1	1.0	0.8	0.9	0.9
<b>Balance of payments</b>												
Exports of goods and services	20.0	19.6	19.0	17.3	17.5	17.7	17.8	18.0	18.2	18.9	19.7	20.5
Imports of goods and services	29.3	26.4	25.3	24.8	25.3	25.4	25.5	25.6	25.7	25.7	25.8	25.9
Workers' remittances	9.6	9.6	8.2	7.8	7.7	7.5	7.2	7.0	6.8	6.0	5.3	4.7
Other current account items (net)	-0.6	-1.2	-1.1	-1.2	-1.1	-1.1	-1.1	-1.1	-1.2	-1.3	-1.4	-1.6
Current account, including official transfers	-0.3	1.6	0.8	-0.8	-1.3	-1.4	-1.6	-1.7	-1.8	-2.1	-2.3	-2.3
Foreign direct investment	0.9	1.2	0.8	0.9	0.9	1.0	1.0	1.1	1.1	1.5	1.5	1.5
External borrowing (net)	0.6	0.8	0.8	0.9	1.0	1.0	1.0	1.2	1.1	1.0	1.0	1.0
Central government	0.6	0.8	0.8	0.8	1.0	1.0	0.9	1.1	1.0	0.8	0.9	0.9
Public enterprises with guarantee	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Gross official reserves	7.6	10.1	12.4	12.8	13.0	12.8	12.5	12.3	12.1	11.9	11.8	11.8
(months of prospective imports of goods and services)	3.1	4.1	5.3	5.6	5.6	5.5	5.4	5.2	5.2	5.1	5.1	5.0

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

1/ Data on a fiscal year basis; e.g., 2014 corresponds to July 2013–June 2014.

**Table 2. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, 2012–2035 1/**

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections						2015-2020			2021-2035		
	2012	2013	2014			2015	2016	2017	2018	2019	2020	Average	2025	2035	Average		
<b>External debt (nominal) 1/</b>	<b>19.1</b>	<b>16.9</b>	<b>17.7</b>			<b>16.8</b>	<b>17.0</b>	<b>16.7</b>	<b>16.4</b>	<b>16.1</b>	<b>15.9</b>		<b>15.1</b>	<b>13.9</b>			
<i>of which: public and publicly guaranteed (PPG)</i>	17.9	15.8	15.1			14.1	14.5	14.2	14.1	14.1	14.0		13.9	13.4			
Change in external debt	-0.6	-2.2	0.8			-1.0	0.3	-0.3	-0.3	-0.3	-0.2		-0.1	-0.2			
Identified net debt-creating flows	-1.2	-4.9	-3.9			-1.1	-0.6	-0.6	-0.5	-0.4	-0.3		-0.3	-0.1			
<b>Non-interest current account deficit</b>	<b>0.1</b>	<b>-1.8</b>	<b>-1.1</b>	<b>-0.9</b>	<b>1.4</b>	<b>0.4</b>	<b>0.9</b>	<b>1.0</b>	<b>1.1</b>	<b>1.3</b>	<b>1.4</b>		<b>1.7</b>	<b>1.7</b>	1.7		
Deficit in balance of goods and services	9.2	6.8	6.3			7.5	7.9	7.8	7.7	7.6	7.5		6.8	5.4			
Exports	20.0	19.6	19.0			17.3	17.5	17.7	17.8	18.0	18.2		18.9	20.5			
Imports	29.3	26.4	25.3			24.8	25.3	25.4	25.5	25.6	25.7		25.7	25.9			
Net current transfers (negative = inflow)	-10.1	-10.0	-8.6	-9.0	1.3	-8.2	-8.0	-7.8	-7.6	-7.3	-7.1		-6.3	-4.9	-5.9		
<i>of which: official</i>	-0.1	-0.1	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)	0.9	1.3	1.3			1.1	1.0	1.0	1.0	1.1	1.0		1.1	1.2			
<b>Net FDI (negative = inflow)</b>	<b>-0.9</b>	<b>-1.2</b>	<b>-0.8</b>	<b>-0.9</b>	<b>0.2</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-1.1</b>	<b>-1.1</b>		<b>-1.5</b>	<b>-1.5</b>	-1.5		
<b>Endogenous debt dynamics 2/</b>	<b>-0.4</b>	<b>-1.9</b>	<b>-2.0</b>			<b>-0.6</b>	<b>-0.6</b>	<b>-0.7</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.6</b>		<b>-0.5</b>	<b>-0.3</b>			
Contribution from nominal interest rate	0.3	0.2	0.3			0.4	0.4	0.4	0.4	0.4	0.4		0.5	0.5			
Contribution from real GDP growth	-1.2	-1.0	-0.9			-1.0	-1.0	-1.1	-1.1	-1.1	-1.0		-0.9	-0.8			
Contribution from price and exchange rate changes	0.5	-1.1	-1.3			...	...	...	...	...	...		...	...			
<b>Residual (3-4) 3/</b>	<b>0.7</b>	<b>2.7</b>	<b>4.7</b>			<b>0.1</b>	<b>0.9</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>		<b>0.2</b>	<b>-0.1</b>			
<i>of which: exceptional financing</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0			
PV of external debt 4/	...	...	12.7			12.2	12.4	12.1	11.8	11.6	11.6		11.6	11.8			
In percent of exports	...	...	66.7			70.2	70.9	68.3	66.3	64.8	63.6		61.2	57.7			
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>10.1</b>			<b>9.5</b>	<b>9.8</b>	<b>9.6</b>	<b>9.5</b>	<b>9.6</b>	<b>9.7</b>		<b>10.3</b>	<b>11.3</b>			
<b>In percent of exports</b>	<b>...</b>	<b>...</b>	<b>52.9</b>			<b>54.8</b>	<b>56.1</b>	<b>54.3</b>	<b>53.3</b>	<b>53.7</b>	<b>53.2</b>		<b>54.5</b>	<b>55.0</b>			
<b>In percent of government revenues</b>	<b>...</b>	<b>...</b>	<b>96.4</b>			<b>98.2</b>	<b>95.5</b>	<b>85.1</b>	<b>80.0</b>	<b>78.4</b>	<b>76.8</b>		<b>81.9</b>	<b>89.5</b>			
<b>Debt service-to-exports ratio (in percent)</b>	<b>5.7</b>	<b>5.9</b>	<b>5.3</b>			<b>10.5</b>	<b>8.1</b>	<b>6.9</b>	<b>6.7</b>	<b>6.2</b>	<b>6.0</b>		<b>6.3</b>	<b>7.8</b>			
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>4.8</b>	<b>4.4</b>	<b>3.7</b>			<b>8.1</b>	<b>5.8</b>	<b>4.7</b>	<b>4.6</b>	<b>4.4</b>	<b>4.2</b>		<b>4.2</b>	<b>5.5</b>			
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>8.9</b>	<b>8.1</b>	<b>6.8</b>			<b>14.4</b>	<b>9.8</b>	<b>7.3</b>	<b>6.9</b>	<b>6.4</b>	<b>6.0</b>		<b>6.3</b>	<b>9.0</b>			
Total gross financing need (Billions of U.S. dollars)	1.1	-1.1	0.0			6.2	6.5	6.3	6.9	7.3	7.5		9.7	22.4			
Non-interest current account deficit that stabilizes debt ratio	0.6	0.4	-1.9			1.4	0.6	1.4	1.4	1.6	1.6		1.7	1.9			
<b>Key macroeconomic assumptions</b>																	
Real GDP growth (in percent)	6.5	6.0	6.1	6.1	0.6	6.5	6.5	7.0	7.0	7.0	7.0	6.8	6.5	6.5	6.5		
GDP deflator in US dollar terms (change in percent)	-2.7	6.2	8.7	3.9	4.4	5.8	1.0	1.9	2.1	2.1	2.0	2.5	2.0	2.0	2.0		
Effective interest rate (percent) 5/	1.5	1.4	1.7	1.2	0.3	2.6	2.7	2.8	2.9	2.7	3.0	2.8	3.2	4.2	3.5		
Growth of exports of G&S (US dollar terms, in percent)	6.0	10.2	11.9	14.8	8.4	2.7	8.4	10.2	10.2	10.2	10.2	8.7	9.5	9.5	9.5		
Growth of imports of G&S (US dollar terms, in percent)	1.6	1.4	10.7	15.0	14.9	10.4	9.9	9.5	9.5	9.5	9.5	9.7	8.7	8.7	8.7		
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	27.1	33.9	41.2	39.0	29.4	29.5	33.4	17.8	6.3	14.6		
Government revenues (excluding grants, in percent of GDP)	10.8	10.7	10.4			9.7	10.3	11.3	11.9	12.3	12.6		12.6	12.6	12.6		
Aid flows (in Billions of US dollars) 7/	2.2	2.8	3.2			3.0	3.7	3.9	4.4	4.9	4.9		6.9	16.1			
<i>of which: Grants</i>	0.6	0.7	0.8			0.6	0.7	0.7	0.8	0.9	0.9		1.4	3.1			
<i>of which: Concessional loans</i>	1.5	2.1	2.4			2.4	3.1	3.2	3.6	4.0	4.0		5.5	13.0			
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.7	0.9	0.9	0.9	0.8	0.8		0.6	0.4	0.5		
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			38.8	44.5	51.6	49.3	41.0	41.8		31.8	21.4	29.0		
<b>Memorandum items:</b>																	
Nominal GDP (Billions of US dollars)	133.3	150.0	172.9			194.8	209.6	228.5	249.7	272.7	297.5		450.1	1029.9			
Nominal dollar GDP growth	3.7	12.5	15.2			12.7	7.6	9.0	9.3	9.2	9.1	9.5	8.6	8.6	8.6		
PV of PPG external debt (in Billions of US dollars)	...	...	17.4			18.5	20.0	21.4	23.2	25.7	28.2		45.7	114.5			
(Pvt-Pvt-1)/GDPT-1 (in percent)	...	...	...			0.6	0.8	0.7	0.8	1.0	0.9	0.8	1.1	1.0	1.0		
Gross workers' remittances (Billions of US dollars)	12.7	14.3	14.1			15.2	16.1	17.0	18.1	19.2	20.3		27.2	48.7			
PV of PPG external debt (in percent of GDP + remittances)	...	...	9.3			8.8	9.1	8.9	8.8	9.0	9.0		9.7	10.8			
PV of PPG external debt (in percent of exports + remittances)	...	...	37.0			37.8	39.0	38.2	37.9	38.6	38.7		41.3	44.7			
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.6			5.6	4.0	3.3	3.3	3.1	3.0		3.2	4.5			

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

1/ Includes both public and private sector external debt. Data on a fiscal year basis; e.g., 2014 corresponds to July 2013–June 2014.

2/ Derived as  $[r - g - p(1+g)] / (1+g+p+gp)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $p$  = 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/ Assumes that PV of private sector debt is equivalent to its face value.

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

**Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035 1/**  
(In percent)

	Projections							2035
	2015	2016	2017	2018	2019	2020	2025	
<b>PV of debt-to-GDP+remittances ratio</b>								
<b>Baseline</b>	9	9	9	9	9	9	<b>10</b>	11
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2015-2035 2/	9	7	6	4	3	1	<b>-3</b>	-9
A2. New public sector loans on less favorable terms in 2015-2035 3/	9	9	9	10	10	11	<b>13</b>	16
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	9	9	9	9	9	9	<b>10</b>	11
B2. Export value growth at historical average minus one standard deviation in 2016-2017 4/	9	9	10	10	10	10	<b>10</b>	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	9	9	9	9	9	9	<b>10</b>	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 5/	9	9	10	9	10	10	<b>10</b>	11
B5. Combination of B1-B4 using one-half standard deviation shocks	9	8	8	8	8	8	<b>9</b>	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 6/	9	12	12	12	12	12	<b>13</b>	15
<b>PV of debt-to-exports+remittances ratio</b>								
<b>Baseline</b>	38	39	38	38	39	39	<b>41</b>	45
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2015-2035 2/	38	32	25	18	12	6	<b>-15</b>	-38
A2. New public sector loans on less favorable terms in 2015-2035 3/	38	40	41	42	44	46	<b>54</b>	68
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	38	38	37	37	38	38	<b>41</b>	44
B2. Export value growth at historical average minus one standard deviation in 2016-2017 4/	38	40	43	43	43	43	<b>45</b>	47
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	38	38	37	37	38	38	<b>41</b>	44
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 5/	38	41	41	40	41	41	<b>43</b>	44
B5. Combination of B1-B4 using one-half standard deviation shocks	38	35	32	33	33	34	<b>37</b>	42
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 6/	38	38	37	37	38	38	<b>41</b>	44
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	98	95	85	80	78	77	<b>82</b>	89
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2015-2035 2/	98	78	55	38	24	12	<b>-29</b>	-72
A2. New public sector loans on less favorable terms in 2015-2035 3/	98	97	90	89	90	91	<b>108</b>	135
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	98	94	85	80	78	77	<b>82</b>	90
B2. Export value growth at historical average minus one standard deviation in 2016-2017 4/	98	96	92	87	84	82	<b>86</b>	89
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	98	95	86	81	79	78	<b>84</b>	91
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 5/	98	98	91	85	83	81	<b>85</b>	89
B5. Combination of B1-B4 using one-half standard deviation shocks	98	89	75	71	70	69	<b>76</b>	88
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 6/	98	132	118	111	109	107	<b>114</b>	125

**Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035 1/ (continued)**  
(In percent)

	Projections							2035
	2015	2016	2017	2018	2019	2020	2025	
<b>Debt service-to-exports+remittances ratio</b>								
<b>Baseline</b>	6	4	3	3	3	3	<b>3</b>	4.5
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2015–2035 2/	6	4	3	3	2	2	<b>0</b>	-1
A2. New public sector loans on less favorable terms in 2015–2035 3/	6	4	3	3	3	3	<b>4</b>	6
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2016–2017	6	4	3	3	3	3	<b>3</b>	4
B2. Export value growth at historical average minus one standard deviation in 2016–2017 4/	6	4	3	4	3	3	<b>4</b>	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016–2017	6	4	3	3	3	3	<b>3</b>	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016–2017 5/	6	4	3	3	3	3	<b>3</b>	5
B5. Combination of B1–B4 using one-half standard deviation shocks	6	4	3	3	3	3	<b>3</b>	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 6/	6	4	3	3	3	3	<b>3</b>	4
<b>Debt service-to-revenue ratio</b>								
<b>Baseline</b>	14	10	7	7	6	6	<b>6</b>	9
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2015–2035 2/	14	10	7	6	5	4	<b>1</b>	-3
A2. New public sector loans on less favorable terms in 2015–2035 3/	14	10	7	7	6	6	<b>7</b>	12
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2016–2017	14	10	8	7	7	6	<b>6</b>	9
B2. Export value growth at historical average minus one standard deviation in 2016–2017 4/	14	10	7	7	7	6	<b>7</b>	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016–2017	14	10	8	7	7	6	<b>7</b>	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016–2017 5/	14	10	8	7	7	6	<b>7</b>	9
B5. Combination of B1–B4 using one-half standard deviation shocks	14	10	7	7	6	6	<b>6</b>	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 6/	14	14	10	10	9	9	<b>9</b>	13
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 7/	14	14	14	14	14	14	<b>14</b>	14

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

1/ Data on a fiscal year basis; e.g., 2014 corresponds to July 2013–June 2014.

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

3/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

4/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock an offsetting adjustment in import levels).

5/ Includes official and private transfers and FDI.

6/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

7/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

**Table 4. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–2035**  
(in percent of GDP, unless otherwise indicated)

	Actual			Est.	Average <sup>5/</sup>	Standard Deviation <sup>5/</sup>	Projections										
	2012	2013	2014	2014			2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average	
<b>Public sector debt 1/</b>	37.4	36.3	35.9														
<i>of which: foreign-currency denominated</i>	17.9	15.8	15.1														
Change in public sector debt	-0.8	-1.1	-0.4														
Identified debt-creating flows	-0.4	-1.9	-0.9														
Primary deficit	1.0	1.4	1.0	1.2	0.4	1.9	2.2	2.0	1.8	1.8	1.6	1.9	1.6	1.1	1.4		
Revenue and grants	11.2	11.2	10.9			10.0	10.6	11.6	12.2	12.6	12.9		12.9	12.9			
<i>of which: grants</i>	0.5	0.5	0.5			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.3			
Primary (noninterest) expenditure	12.2	12.6	11.9			11.9	12.8	13.6	14.0	14.4	14.5		14.5	14.0			
Automatic debt dynamics	-1.4	-3.2	-1.8			-1.9	-1.2	-1.8	-1.8	-1.7	-1.7		-1.3	-1.1			
Contribution from interest rate/growth differential	-2.1	-1.6	-1.2			-1.3	-1.5	-1.8	-1.7	-1.6	-1.6		-1.3	-1.0			
<i>of which: contribution from average real interest rate</i>	0.3	0.5	0.9			0.8	0.7	0.6	0.7	0.8	0.8		1.0	1.3			
<i>of which: contribution from real GDP growth</i>	-2.3	-2.1	-2.1			-2.2	-2.2	-2.4	-2.4	-2.4	-2.4		-2.3	-2.4			
Contribution from real exchange rate depreciation	0.7	-1.7	-0.6			-0.6	0.3	0.0	0.0	0.0	-0.1		...	...			
Other identified debt-creating flows	0.0	0.0	0.0			0.1	0.1	0.1	0.2	0.2	0.1		0.3	0.3			
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 implicit or contingent liabilities	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 (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.1	0.1	0.1	0.2	0.2	0.1		0.3	0.3			
Residual, including asset changes	-0.4	0.8	0.5			0.0	-0.2	-0.5	-0.4	-0.4	-0.3		-0.1	-0.4			
<b>Other Sustainability Indicators</b>																	
<b>PV of public sector debt</b>	...	...	30.9			31.4	32.3	32.1	32.0	32.0	31.9		34.1	36.6			
<i>of which: foreign-currency denominated</i>	...	...	10.1			9.5	9.8	9.6	9.5	9.6	9.7		10.3	11.3			
<i>of which: external</i>	...	...	10.1			9.5	9.8	9.6	9.5	9.6	9.7		10.3	11.3			
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...			
Gross financing need 2/	5.6	6.2	4.9			6.3	6.2	5.5	4.9	4.5	4.1		3.3	3.3			
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	282.8			315.0	304.9	277.0	262.8	253.5	247.4		264.2	284.1			
PV of public sector debt-to-revenue ratio (in percent)	...	...	295.6			324.5	314.5	284.9	269.9	260.0	253.7		270.7	291.0			
<i>of which: external 3/</i>	...	...	96.4			98.2	95.5	85.1	80.0	78.4	76.8		81.9	89.5			
Debt service-to-revenue and grants ratio (in percent) 4/	24.3	24.5	24.6			33.2	28.2	25.4	24.2	22.8	22.5		21.3	24.9			
Debt service-to-revenue ratio (in percent) 4/	25.3	25.6	25.7			34.2	29.1	26.1	24.9	23.4	23.1		21.9	25.5			
Primary deficit that stabilizes the debt-to-GDP ratio	1.8	2.5	1.4			1.8	1.3	2.2	2.0	1.9	1.9		1.1	1.2			
<b>Key macroeconomic and fiscal assumptions</b>																	
Real GDP growth (in percent)	6.5	6.0	6.1	6.1	0.6	6.5	6.5	7.0	7.0	7.0	7.0	6.8	6.5	6.5	6.5		
Average nominal interest rate on forex debt (in percent)	1.2	1.0	0.9	1.0	0.1	1.2	1.3	1.4	1.6	1.6	2.0	1.5	2.6	4.0	3.0		
Average real interest rate on domestic debt (in percent)	2.1	3.5	4.9	3.4	1.2	4.3	3.3	3.3	3.4	3.6	3.7	3.6	4.0	4.3	4.1		
Real exchange rate depreciation (in percent, + indicates depreciation)	3.9	-9.9	-4.1	-1.8	5.5	-4.1	...	...	...	...	...	...	...	...	...		
Inflation rate (GDP deflator, in percent)	8.2	7.2	5.7	6.7	1.1	5.8	6.8	7.2	7.1	6.8	7.1	6.8	5.2	4.7	5.0		
Growth of real primary spending (deflated by GDP deflator, in percent)	6.4	9.1	0.2	1.6	3.3	6.1	15.3	13.2	10.5	9.9	8.0	10.5	6.1	6.9	6.3		
Grant element of new external borrowing (in percent)	...	...	...	...	...	27.1	33.9	41.2	39.0	29.4	29.5	33.4	17.8	6.3	...		

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

1/ Central government gross debt including debt owed to the IMF, plus domestic bank borrowing by the nonfinancial public sector and external borrowing by public enterprises that is supported by central government guarantees, including short-term oil related suppliers' credits. The years in the table refer to fiscal years. For example, 2014 refers to July 2013-June 2014.

2/ 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.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.



**Table 5. Bangladesh: Sensitivity Analysis for Key Indicators of Public Debt, 2015–2035 1/**  
(In percent)

	Projections							2025	2035
	2015	2016	2017	2018	2019	2020			
<b>PV of Debt-to-GDP Ratio</b>									
<b>Baseline</b>	31	32	32	32	32	32	<b>34</b>	37	
<b>A. Alternative scenarios</b>									
A1. Real GDP growth and primary balance are at historical averages	31	31	31	30	30	30	<b>31</b>	36	
A2. Primary balance is unchanged from 2015	31	32	32	32	32	32	<b>35</b>	42	
A3. Permanently lower GDP growth 2/	31	32	32	32	32	32	<b>35</b>	40	
<b>B. Bound tests</b>									
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	31	33	33	33	34	34	<b>37</b>	41	
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	31	32	31	31	31	31	<b>34</b>	36	
B3. Combination of B1-B2 using one half standard deviation shocks	31	32	31	32	32	32	<b>35</b>	39	
B4. One-time 30 percent real depreciation in 2016	31	37	36	36	35	35	<b>37</b>	41	
B5. 10 percent of GDP increase in other debt-creating flows in 2016	31	42	41	40	40	39	<b>40</b>	41	
<b>PV of Debt-to-Revenue Ratio 3/</b>									
<b>Baseline</b>	315	305	277	263	253	247	<b>264</b>	284	
<b>A. Alternative scenarios</b>									
A1. Real GDP growth and primary balance are at historical averages	315	297	266	250	239	233	<b>244</b>	278	
A2. Primary balance is unchanged from 2015	315	302	273	260	251	247	<b>272</b>	327	
A3. Permanently lower GDP growth 2/	315	305	278	264	255	250	<b>272</b>	308	
<b>B. Bound tests</b>									
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	315	308	286	273	265	261	<b>285</b>	317	
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	315	300	270	257	248	242	<b>260</b>	281	
B3. Combination of B1-B2 using one half standard deviation shocks	315	300	271	259	252	248	<b>272</b>	304	
B4. One-time 30 percent real depreciation in 2016	315	346	310	292	279	271	<b>287</b>	318	
B5. 10 percent of GDP increase in other debt-creating flows in 2016	315	392	352	330	316	305	<b>313</b>	322	
<b>Debt Service-to-Revenue Ratio 3/</b>									
<b>Baseline</b>	33	28	25	24	23	23	<b>21</b>	25	
<b>A. Alternative scenarios</b>									
A1. Real GDP growth and primary balance are at historical averages	33	28	25	22	21	20	<b>19</b>	24	
A2. Primary balance is unchanged from 2015	33	28	25	23	22	22	<b>22</b>	30	
A3. Permanently lower GDP growth 2/	33	28	25	24	23	23	<b>22</b>	27	
<b>B. Bound tests</b>									
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	33	28	26	25	24	24	<b>23</b>	28	
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	33	28	25	23	22	22	<b>21</b>	25	
B3. Combination of B1-B2 using one half standard deviation shocks	33	28	25	23	21	22	<b>22</b>	27	
B4. One-time 30 percent real depreciation in 2016	33	30	29	28	27	27	<b>27</b>	34	
B5. 10 percent of GDP increase in other debt-creating flows in 2016	33	28	31	45	31	31	<b>27</b>	32	

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

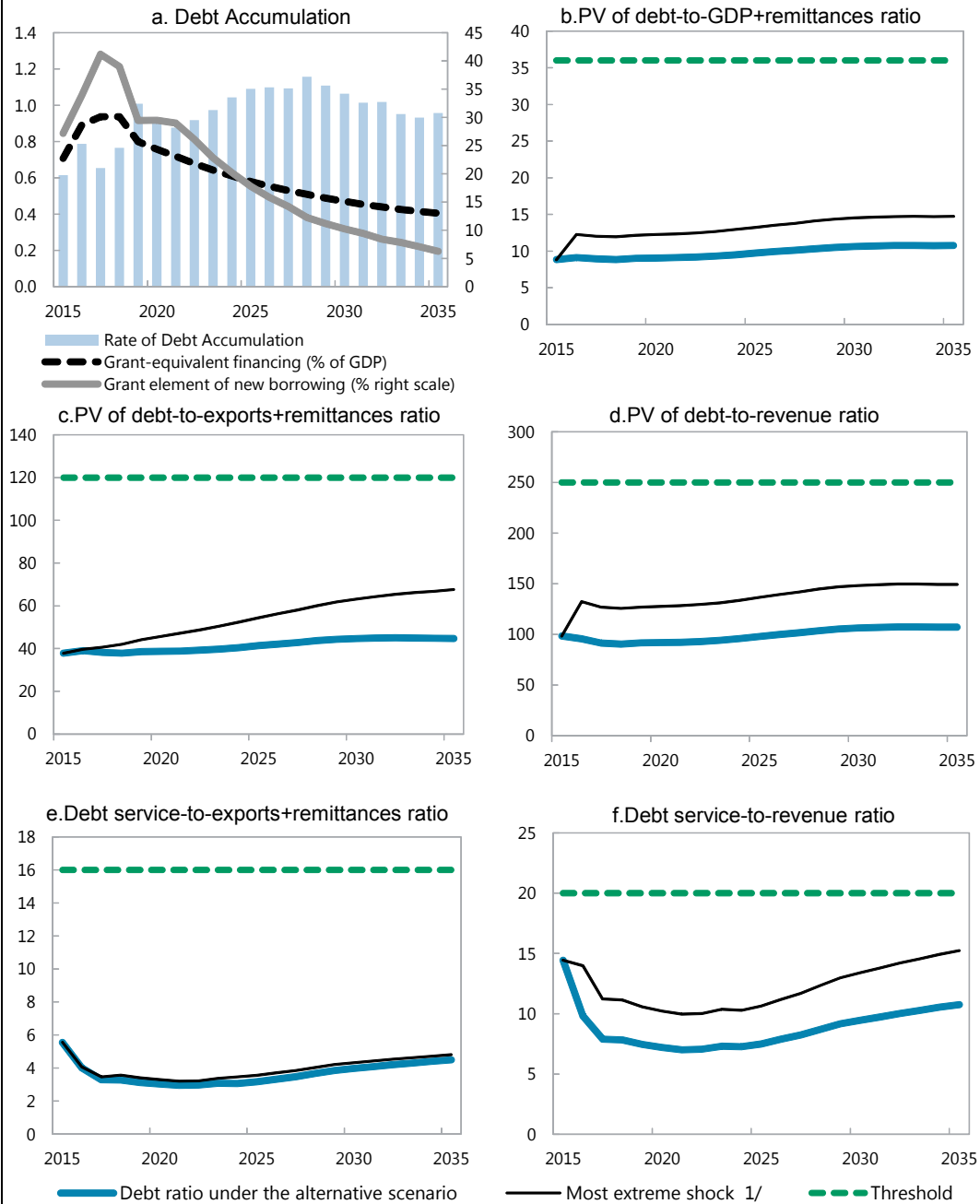
1/ Data on a fiscal year basis; e.g., 2014 corresponds to July 2013–June 2014.

2/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

3/ Revenues are defined inclusive of grants.

**Figure 3. Bangladesh (Alternative Scenario): Indicators of Public and Publicly Guaranteed External Debt, 2015-2035 1/ 2/**

(In percent, unless otherwise mentioned)



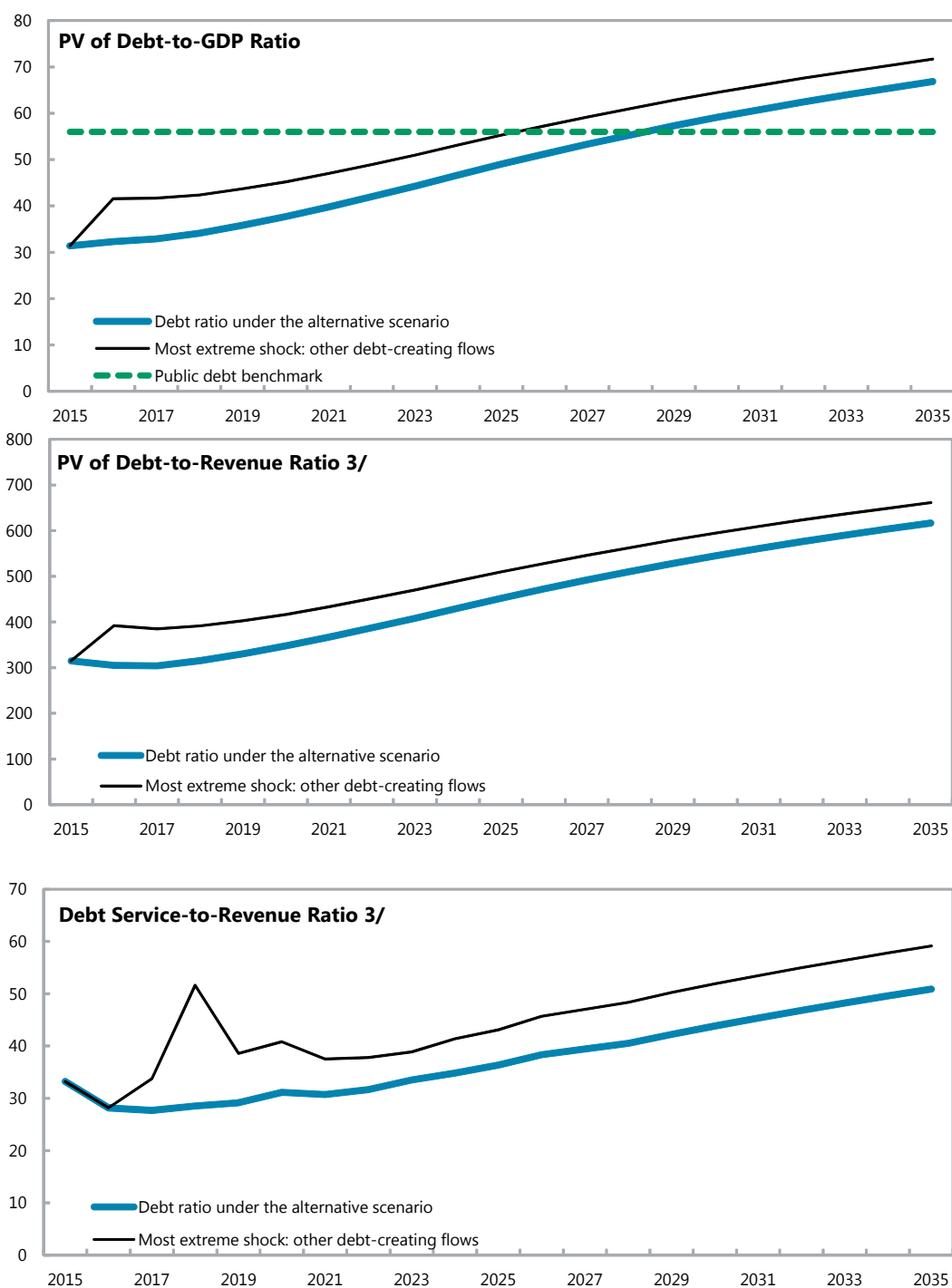
Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Data on a fiscal year basis; e.g., 2014 corresponds to July 2013–June 2014.

2/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a one-time depreciation shock; in c. to a terms shock; in d. to a one-time depreciation shock; in e. to a non-debt flows shock; and in figure f. to a one-time depreciation shock.

**Figure 4. Bangladesh (Alternative Scenario): Indicators of Public Debt, 2015-2035 1/ 2/**

(In percent)



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

1/ Data on a fiscal year basis; e.g., 2014 corresponds to July 2013–June 2014.

2/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

3/ Revenues are defined inclusive of grants.