



# BANGLADESH

June 2020

## REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BANGLADESH

In the context of the Requests for Disbursement under the Rapid Credit Facility and Purchase under the Rapid Financing Instrument, 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 May 29, 2020, following discussions that ended on May 7, 2020, with the officials of Bangladesh on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility and Rapid Financing Instrument. Based on information available at the time of these discussions, the staff report was completed on May 21, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Bangladesh.

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

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## IMF Executive Board Approves a US\$732 Million Disbursement to Bangladesh to Address the COVID-19 Pandemic

### FOR IMMEDIATE RELEASE

- The IMF Executive Board approves the 60th request for emergency financial assistance to help its member countries address the challenges posed by COVID-19.
- Bangladesh's economy has been severely impacted by the COVID-19 pandemic with weaker domestic demand and a sharp decline in exports and remittances.
- To address the urgent balance-of-payments and fiscal needs, the IMF approved US\$ 732 million emergency assistance for Bangladesh under the Rapid Credit Facility and the Rapid Financing Instrument.
- The government has scaled up health and social protection expenditures to mitigate the pandemic's impact on the population and adopted several stimulus measures to preserve economic activity.

**Washington, DC – May 29, 2020** The Executive Board of the International Monetary Fund (IMF) today approved a disbursement of SDR 177.77 million (about US\$ 244 million or 16.67 percent of quota) under the [Rapid Credit Facility](#) (RCF), and a purchase of SDR 355.53 million (about US\$ 488 million or 33.33 percent of quota) under the [Rapid Financing Instrument](#) (RFI). This will help finance the health, social protection and macroeconomic stabilization measures, meet the urgent balance-of-payments and fiscal needs arising from the COVID-19 outbreak, and catalyze additional support from the international community.

The COVID-19 pandemic is severely impacting the Bangladeshi economy. Two major sources of external financing, namely exports of Ready-Made Garments (RMG) and remittance inflows, are projected to decline rapidly. Necessary policy responses to prevent a domestic pandemic, including the shutdown of major cities, will inevitably affect economic activities and slow growth.

The authorities have started implementing several measures to mitigate the impact of the pandemic and preserve the country's macroeconomic prospects. In addition to increasing health expenditures, the government's immediate response has focused on expanding food distribution and cash transfer programs to vulnerable populations, ensuring the payment of wages in export-oriented industries, and facilitating the provision of working capital to businesses and farmers.

The authorities remain committed to promoting strong and inclusive growth while preserving macroeconomic stability. Key policy challenges include tax revenue mobilization, addressing the non-performing loans in the banking sector, and improving infrastructure and governance to enhance the business environment and attract foreign direct investment.

The IMF continues to monitor Bangladesh's situation closely and stands ready to provide further advice and support if needed. The authorities have also committed to put in place targeted transparency and accountability measures to ensure the appropriate use of emergency financing.

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

"The outbreak of COVID-19 is severely affecting the two main sources of Bangladesh's external earnings, exports of ready-made garments and remittances. Together with the measures to contain the spread of the virus in the country, the outbreak is expected to result in a significant slowdown of economic growth and the emergence of fiscal and balance of payments needs. The IMF's emergency financial assistance will help cover the financing gap and support the authorities' effort to contain the adverse impact of the outbreak and catalyze additional support from the international community.

"The authorities have responded quickly to the COVID-19 outbreak with a comprehensive set of measures aimed at containing the spread of the pandemic, providing immediate relief to the most vulnerable households and affected businesses, and preserving the country's macroeconomic prospects. A temporary increase in the fiscal deficit is necessary, and it will be important to ensure transparency and accountability in the use of all emergency spending.

"The Bangladesh Bank took appropriate steps to ease liquidity conditions and allow the financial sector to support the economy. Further easing could be considered if the economic situation deteriorates and inflation remains moderate. A gradual increase in exchange rate flexibility should be allowed to adjust to the external shock while preserving foreign reserves.

"Once the crisis abates, the authorities are committed to re-focus on addressing banking sector problems, including nonperforming loans and the poor performance of the state-owned commercial banks. They are also committed to ensuring fiscal discipline and debt sustainability by broadening the tax base and strengthening tax administration and compliance."

More information:

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)  
<https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>

IMF Executive Board calendar  
<https://www.imf.org/external/NP/SEC/bc/eng/index.aspx>

IMF Factsheet: The IMF's Rapid Credit Facility (RCF)  
<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility>

IMF Factsheet: The IMF's Rapid Financing Instrument (RFI)  
<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/19/55/Rapid-Financing-Instrument>



# BANGLADESH

May 21, 2020

## REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

### EXECUTIVE SUMMARY

**Context.** The COVID-19 pandemic is expected to severely affect the Bangladeshi economy. Remittance inflows have already started to decline in March. Exports also declined sharply in April with cancellation of several billion USD orders for the Ready-Made Garment industry. As a result, an immediate external financing gap of about USD 2.9 billion has emerged along a fiscal financing gap of about USD 2.8 billion.

**Request for Fund Support.** The authorities are seeking financial assistance under the exogenous shock window of the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) to address the urgent balance of payments needs posed by the COVID-19 pandemic. In the attached Letter of Intent, the authorities request a disbursement of 16.67 percent of quota, SDR 177.77 million, from PRGT resources and a purchase of 33.33 percent of quota, SDR 355.53 million, from GRA resources, with the full amount to become available upon Board approval and to be used for budget support. Staff supports the request. Public debt is at a low risk of distress, and there is adequate capacity to repay the Fund. IMF financing is expected to play a catalytic role in securing additional financing from Bangladesh's development partners.

**Macroeconomic Policies.** The authorities have been actively addressing economic shocks created by the COVID-19 pandemic. Fiscal policy sets priorities to provide additional funds to the Ministry of Health and address those who are severely affected by the pandemic while monetary and financial sector policies intend to ensure adequate liquidity to the banking system and support access to credit. Prudent macroeconomic policies before the COVID-19 pandemic, particularly a relatively low level of public debt supported by the authorities' strong commitment to keep fiscal deficits under control, provide vital policy space for Bangladesh's pandemic-response efforts. The authorities remain committed to promoting strong and inclusive growth while preserving macroeconomic stability. Key policy challenges include tax revenue mobilization, addressing the high level of non-performing loans in the banking sector, and improving infrastructure and governance to enhance the business environment and attract foreign direct investment.

Approved By  
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An IMF team consisting of Daisaku Kihara (head), Jiri Jonas, Racha Moussa, Ragnar Gudmundsson, Muhammad Imam Hussain, Fan Qi (all APD), Evan Curtis Tanner (ICD), and Arindam Roy (MCM) held discussions with the Bangladeshi authorities by teleconference during May 3–7, 2020. Surjit Singh Bhalla and Bhupal Singh (both OED) participated in the teleconferences. Gulrukh Gamwalla-Khadivi and Biying Zhu (both APD) contributed to this report.

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## INTRODUCTION

1. **The COVID-19 pandemic is expected to severely affect the Bangladeshi economy, leading to an urgent balance of payments (BOP) need.** Two major sources of external financing, namely exports of Ready-Made Garments (RMG) and remittance inflows, are projected to decline rapidly. Necessary policy responses to prevent a domestic pandemic, including the shutdown of major cities, will also stall economic activities and slow down growth. The BOP financing gap is estimated to be about USD 2.9 billion, and the fiscal financing gap is estimated to be about USD 2.8 billion.
2. **The authorities have requested financing support from the Fund to address the urgent financing needs caused by the COVID-19 pandemic.** Bangladesh is a presumed blend country and one-third of the financing is expected to be under the exogenous shock window of the Rapid Credit Facility (RCF) and two-thirds will be from the Rapid Financing Instrument (RFI). The financing provided by the Fund is expected to help maintain confidence and catalyze support from other development partners.

## IMPACT OF THE PANDEMIC AND OUTLOOK

### A. Pre-Pandemic Conditions

3. **Before the pandemic, economic growth was projected to be strong at above 7 percent.** After reaching 8.2 percent in FY19<sup>1</sup>, growth was expected to be around 7½ percent in FY20. Private consumption remained robust with stronger remittance inflows. CPI inflation had been around the Bangladesh Bank (BB) target of 5.5 percent with increases in non-food inflation offset by a decline in food inflation. The current account deficit was projected to decline to about 1 percent of GDP in FY20, about 0.7 percentage points lower than in FY19. Foreign exchange reserves were expected to be above USD 32 billion at the end of FY20, which would cover about 5.4 months of prospective imports of goods and services.

### B. Impact of the COVID-19 Pandemic

4. **The impact of the COVID-19 pandemic is increasing, raising concerns.** The first imported case was identified on March 8<sup>th</sup>, and as of May 14<sup>th</sup>, there were 18,863 officially confirmed cases and 283 deaths. To contain the spread of the virus, the government declared a national holiday from March 26<sup>th</sup> to May 30<sup>th</sup>, prompting the closure of government and private offices, as well as restrictions on public transport and individual movement. A majority of factory owners complied with recommendations from industry associations to close their factories, notably in the RMG sector. Localized outbreaks have led to the imposition of stricter lockdowns in parts of Dhaka and as a

<sup>1</sup> The fiscal year in Bangladesh ends in June. FY20 ends in June 2020.

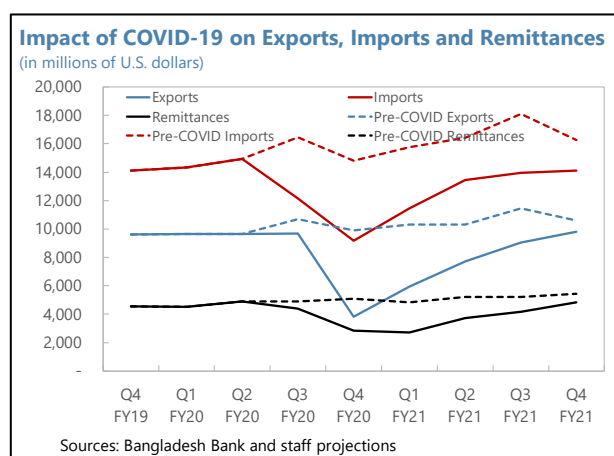
precautionary measure in Rohingya refugee camps. As health risks mount and economic hardship grows, ensuring food security and preserving social stability are priorities.

**5. GDP growth is projected at 3.8 percent for FY20, about 3½ percentage points less than pre-COVID projections.** Growth is projected to decline by about 4½ percentage points relative to FY19, the largest one-year decline in the last three decades. In this baseline, the negative impact from COVID-19 is concentrated in the last quarter of FY20 and the first quarter of FY21. Growth in the first half of FY20 was in line with pre-pandemic projections as indicated by high frequency indicators, including industrial production and cargo vessel traffic. Domestic activity is projected to decline as policies to limit the spread of COVID-19 are implemented and the national shutdown mandated by the government aims to keep people indoors. The large share of workers in the informal sector<sup>2</sup> and in daily paid work<sup>3</sup> indicates that a substantial part of the labor force is highly vulnerable to the COVID-19 shock. Gradual recovery is projected to start in the second quarter of FY21. Despite signs of disruptions in the domestic food supply chain, overall inflation is projected to remain broadly unchanged, owing partly to a bumper harvest in the agriculture sector.

**6. The current account deficit (CAD) is projected to widen in FY21 and FY22 owing to the negative impact from COVID-19.**

Remittances grew by 20 percent in the first 8 months of FY20 but have started to decline in March and April by 11 percent and 25 percent y/y, respectively. Continued remittance weakness in the coming months will slow FY20 growth to 1.4 percent and lead to a 7 percent fall in FY21. Some Bangladeshi diaspora workers have elected to return, while those that remain are likely to experience job losses amid a stall in economic

activity.<sup>4</sup> Some countries have also officially asked Bangladesh to repatriate its undocumented workers. After a modest decline in the first three quarters in FY20, exports in April contracted by 83 percent y/y. COVID-19 has heavily affected the RMG sector, with reports of more than USD 3 billion in garment orders already cancelled and shutdowns in many factories<sup>5</sup>. An estimated 3.5 million Bangladeshis work in the garment sector, and around one million workers have been reportedly laid off. Exports are projected to contract by around 18 percent in FY20 and further decline by 1 percent in FY21 as demand from major trade partners remains weak. The impact on the CAD in FY20 is partially offset by the decline in energy prices and the slowdown in imports with the



<sup>2</sup> According to the latest labor force survey (Bangladesh Bureau of Statistics, Labor Force Survey 2016/17), around 85 percent of employment in Bangladesh is informal, translating to around 52 million workers.

<sup>3</sup> Of the estimated 24 million paid workers (i.e. not self-employed) around 35 percent are paid daily. (Ibid.)

<sup>4</sup> Around 50 percent of expatriate Bangladeshi workers are in Gulf countries.

<sup>5</sup> RMGs make up more than 80 percent of exports in Bangladesh. The U.S. and Europe are the destination of 80 percent of RMG exports.



deficit projected at 2.2 percent of GDP. As the domestic economy begins to recover, the CAD is expected to widen to 3½ percent of GDP in FY21.

<b>Bangladesh: The Impact of COVID-19 on Selected Economic Indicators 1/</b>							
	FY17	FY18	FY19	FY20	FY21	FY20	FY21
			Est.	Pre-COVID		Proj.	
	(annual percent change)						
Real GDP	7.3	7.9	8.2	7.4	7.3	3.8	5.7
CPI inflation, annual average	5.4	5.8	5.5	5.7	5.6	5.7	5.6
Current account balance (percent of GDP)	-0.5	-3.5	-1.7	-1.0	-1.5	-2.2	-3.5
Exports of Goods	1.7	6.7	10.1	-1.5	7.0	-17.9	-0.8
Imports of Goods	9.0	25.2	1.8	1.0	10.0	-8.8	4.8
Remittances	-14.5	17.3	9.6	18.0	7.0	1.4	-7.1
Gross official reserves (in millions of USD) 2/	33,471	32,838	32,762	32,747	33,165	30,652	26,778
(In months of imports of goods and services)	6.4	6.0	5.9	5.4	5.0	5.6	4.8
Central government operations	(in percent of GDP)						
Overall balance (including grants)	-3.3	-4.6	-5.3	-5.7	-5.4	-6.3	-6.1
(excluding grants)	-3.4	-4.7	-5.3	-5.8	-5.5	-6.3	-6.1
Primary balance (excluding grants)	-1.7	-2.8	-3.2	-3.8	-3.4	-4.4	-3.8
Public sector total debt 3/	33.4	34.6	35.9	36.9	38.2	39.1	40.7
Of which : External debt	13.7	14.9	14.9	14.9	15.4	16.0	15.8
<i>Memorandum item:</i>							
Fiscal gap (in billions of taka)						75	173
in percent of GDP						0.3	0.6
BOP gap (in millions of USD)						1,678	1,200
in percent of GDP						0.5	0.3
Nominal GDP (in billions of taka)	19,758	22,505	25,425	28,910	32,737	27,759	31,009

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

1/ Fiscal year begins July 1.

2/ Gross and net international reserves for the projection period do not include valuation adjustments. Net international reserves are reported at market exchange rates.

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

**7. The BOP financing gap is estimated at around USD 2.9 billion, equivalent to 0.9 percent of GDP.** It is important for Bangladesh to maintain sufficient reserve coverage at around 4.8 months of imports, given heightened risks posed by COVID-19.<sup>6</sup> Maintaining reserve buffers will increase the ability of Bangladesh to withstand the large uncertainties relating to the duration of the pandemic and its impact on major sources of foreign exchange and will help

<sup>6</sup> The level of this import coverage is broadly in line with the reserve adequacy assessment of 4.8 months of imports for credit-constrained economies under a large economic shock, which is appropriate given the large uncertainties arising from the COVID-19.

preserve market confidence. Bangladesh has maintained a healthy level of foreign exchange reserves in past years with coverage around 6 months of prospective imports since FY14. The financing need is borne out of the heightened risks and uncertainties arising from the COVID-19 shock which require more reserve buffers than in less uncertain times.

**8. The COVID-19 outbreak is expected to worsen the fiscal position.** Before the outbreak, the authorities had been pursuing broadly disciplined fiscal policy, keeping the deficit at or below 5 percent of GDP, with the public debt-to-GDP ratio relatively low and stable. However, efforts to increase low tax revenue collection, including the launch of the modernized VAT in FY20, have so far not been successful with lower preferential VAT rates applied to many items.<sup>7</sup> In FY20, the fiscal situation became more challenging even before the COVID-19 outbreak. During July 2019-January 2020, revenues increased by only about 2 percent, while expenditures grew by almost 20 percent, reflecting strong growth of both current spending and development spending. The fiscal deficit during this period almost doubled to Tk 650 billion (2.3 percent of GDP), and the authorities planned to increase non-tax revenue to keep the deficit close to 5 percent of GDP. Following the outbreak, even weaker tax revenues and higher spending related to COVID-19 are projected to increase the deficit to over 6 percent of GDP. Most of the higher FY20 deficit will be financed by banks through investment in government securities as the issuance of National Savings Certificates (NSC), a major source of financing in previous years, has been reduced in response to government efforts to prevent abuse of the system and increase in source tax.<sup>8</sup> However, a fiscal financing gap of about 0.9 percent of GDP is estimated for FY20-FY21, as the projected large increase in government borrowing from banks would constrain private credit growth.<sup>9</sup>

**9. Risks to the outlook are clearly tilted downward.** External risks include a prolonged COVID-19 outbreak that would delay and slow down recovery in exports and remittance inflows. Oversupply in the oil market could continue to slow down economic activity in Middle East countries which are the most important source of remittances for Bangladesh. Domestically, a larger outbreak of COVID-19 might require longer containment measures by the authorities, which could increase social discontent, further weaken domestic demand, and disrupt the lives of Bangladeshi people, particularly those who are vulnerable. The already-weak banking sector could face further challenges

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<sup>7</sup> While the new on-line system for registration has been successfully introduced, numerous challenges have yet to be addressed to achieve the full automation of the new VAT system. Introduction of software for online submission of VAT returns and online payment as well as installation of Electronic Fiscal Devices at shops have not yet been implemented, and business are still submitting VAT returns manually. In addition, there remain ambiguities about some aspects of the VAT law.

<sup>8</sup> NSC includes different types of savings schemes. Some schemes target certain qualified segments of the population such as pensioners and female. NSCs have higher yield than bank deposits, and the scheme has been increasingly misused, resulting in rapidly growing issuance and high interest costs for the government.

<sup>9</sup> The fiscal gap was estimated, taking into account the amount of banks' purchases of government securities that can be accommodated while allowing for banks' private sector credit expansion envisaged under the authorities' stimulus program.

in maintaining its asset quality and providing necessary support to the private sector, against increased government borrowing.

## POLICY DISCUSSIONS

### A. Fiscal Policy

**10. To contain and mitigate the impact of the COVID-19 outbreak, the authorities announced a stimulus package amounting to close to Tk 1 trillion (about 3.6 percent of GDP), consisting of fiscal and regulatory measures.**<sup>10</sup> The package, and the revised FY20 budget issued earlier, include support for the health sector, transfer programs for the vulnerable, and support for various industries affected by COVID-19. (please see Box 1 for more details)

**11. The prompt fiscal response to the adverse shock to mitigate economic disruptions and assist the population is welcome.** In the near term, the authorities should be prepared to quickly scale up relief efforts if the crisis worsens and to seek additional external financing and grants to support these efforts. However, the shock also underscores the need to address the long-standing low level of tax revenue to help build fiscal buffers and provide more space for the authorities to respond to adverse shocks going forward. Bangladesh has had a long-standing weakness in tax revenue mobilization. The authorities recognize that the COVID-19 outbreak further underscored the urgency of strengthening tax policy and reforming organization and operation of tax administration. This could include targeted focus on data analytics to ensure relief measures are properly targeted, and revenue is safeguarded as much as possible during the crisis. In addition, once the crisis is over, the authorities intend to reverse the crisis-related spending. While public debt is presently relatively low, below 40 percent of GDP, it is now projected to increase. These policies and reforms will be necessary to continue to ensure debt sustainability.

### B. Monetary and Exchange Rate Policy

**12. BB has eased monetary policy and is taking several other steps to contain the negative fallout from the COVID-19 outbreak:**

- Reduction of the repo rate in two steps by 75 basis points (bps) to 5.25 percent and the cash reserve requirement (CRR) by 150 bps to 3.5 percent on a daily basis and to 4 percent on a bi-weekly average basis.
- Expanded provision of the repo facility and initiating outright purchase of treasury bonds and bills from the secondary market at the market rate from banks and nonbank financial institutions after these institutions meet the statutory liquidity ratio (SLR).

<sup>10</sup> With a large part of the package channeled through the banking system, the main impact on fiscal accounts results from weaker revenue collection, offset partly by a reduction in capital spending due to outbreak-related disruptions.

### Box 1. Stimulus Package to Address the COVID-19 Outbreak

*The Bangladesh authorities have announced a series of stimulus packages with a total size of close to Tk 1 trillion (about 3.6 percent of GDP). Nevertheless, most of the packages are composed of bank loans using bank's own capital with some support by BB's refinancing schemes, implying much smaller fiscal costs of around Tk 275 billion.*

**COVID-19 Response Plan.** Provision of an additional Tk 2.5 billion to fund the COVID-19 Preparedness and Response Plan by the Ministry of Health.

**Support for health care sector.** Provision of Tk 7 billion for the salary of the newly recruited doctors and medical staff; Tk 1.25 billion for the salary and allowance of the nursing institutes; provision of Tk 7.5 billion for the compensation against the COVID-19 related health risks of government officials, doctors, and field administration staff; and of Tk 1 billion honoraria for government doctors, nurses, and health-workers who treat COVID-19 patients.

**Transfer programs for the vulnerable.** Transfer programs that benefit the poor, workers in the informal economy, and other vulnerable populations, including: (i) Tk 21.3 billion subsidy to housing scheme for the homeless; (ii) Tk 12.5 billion cash assistance to jobless poor; (iii) Tk 27.54 billion food allocation; and (iv) Tk 8.15 billion expansion of allowance program for the old age, widows and financially insolvent persons with a disability.

**Support for agriculture sector.** Tk 95 billion agriculture subsidy program; Tk 8.6 billion additional procurement from farmers; and Tk 2 billion for agricultural machinery.

**Wage support for the export industries.** Tk 50 billion funds from the budget to finance salaries of about 4 million workers in the export industries for three months, which will be channeled to banks by BB as loans.

**Interest payment subsidies for working capital.** Interest payment subsidies for working capital loans by banks to businesses: (i) Tk 300 billion loans to COVID-19 impacted industries and service sector firms and (ii) Tk 200 billion loans to Cottage, Micro, Small and Medium Enterprises (CMSMEs). BB has launched two revolving refinance schemes of Tk 150 billion for (i) and Tk 100 billion for (ii) to ensure adequate liquidity of banks.

**Export facilitation.** Facilitation of exports by increasing the size of BB's Export Development Fund by USD 1.5 billion to USD 5 billion with lower interest rates.

**Refinance schemes by BB.** Tk 50 billion Pre-shipment Credit Refinance Scheme to provide short-term working capital for raw materials, manufacturing, insurance and freight based on evidence of an export commitment; Tk 50 billion for refinancing scheme to support the working capital of small and medium farmers; and Tk 30 billion scheme to assist the COVID-19 affected low-income professionals, farmers, and marginal/micro-businessmen.

- BB raised the advance/investment-deposit ratio (ADR/IDR) by 2.0 percentage points, increasing ADR to 87 percent for the conventional banks, and IDR to 92 percent for the Shariah-based banks.
- Private and public banks were instructed to provide a minimum level of banking services during the national shutdown to facilitate financial transactions for clients.
- Relaxation of foreign exchange regulations for trade and some specific non-trade transactions. This includes: (i) relaxing import financing requirements and allowing banks to provide advances of up to USD 0.5 million for imports of COVID-19 related drugs and other essential items; and (ii) easing the regulations for banks to release foreign exchange to Bangladeshi nationals visiting abroad on account of travel and medical treatment.
- Liquidity provision in foreign exchange markets by selling USD.

**13. These measures should ease liquidity pressures and allow the financial sector to support the economy.** In case of further deterioration of the economic situation and/or declining inflation, BB could consider further cuts in the repo rate or ease liquidity through reduction in the CRR and, if required, use of liquidity buffers under the liquidity coverage ratio (LCR). The authorities should continue to gradually permit more exchange rate flexibility which would help buffer the economy against external shocks and preserve the level of reserves.<sup>11</sup>

**14. Looking ahead, the authorities remain committed to modernizing the monetary framework.** With IMF technical assistance, the authorities plan to move from targeting monetary aggregates to interest rate targeting, to better align the monetary policy framework with the development of the economy and improve monetary policy transmission.

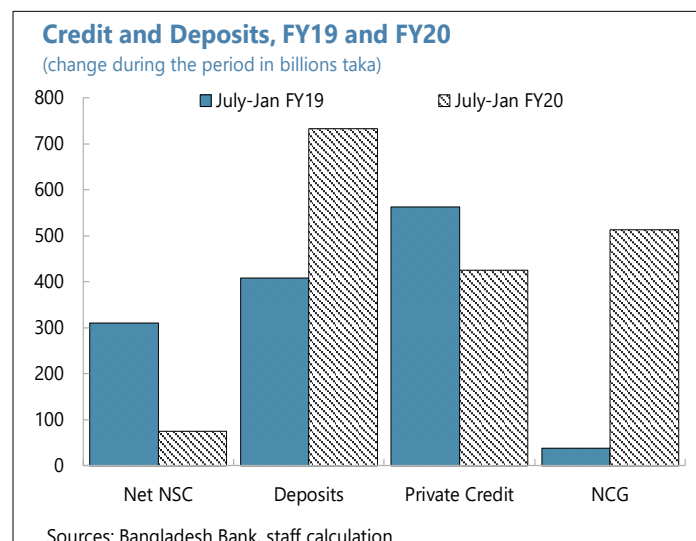
## C. Financial Sector Policy

**15. The banking sector is expected to play an important role in channeling assistance to the economy.** A substantial portion of the recently unveiled stimulus package will be provided via subsidized bank loans to targeted recipients. BB has also asked banks to keep loan, lease, and advance classification unchanged until June 30<sup>th</sup>, though upward classification changes are allowed.

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<sup>11</sup> The de-jure exchange rate regime is floating. The de-facto exchange rate arrangement is classified as crawl-like, and BB intervenes in spot markets to limit volatility of the exchange rate against the USD.

All banks are asked by BB to temporarily suspend interest payments during April and May. However, as noted above, bank credit to the government has increased sharply in FY20 as a result of the higher deficit and reduced financing from NSC issuance, while bank deposits also grew as funds were diverted from NSCs. During July-January FY20, net credit to government (NCG) increased by Tk 516 billion (1.9 percent of GDP), compared to a Tk 42 billion increase (0.2 percent of GDP) during the same period in FY19. With budget financing needs projected to increase in the period ahead, demand for banks to finance government borrowing is likely to grow.



**16. Faced with rising demand for bank lending, the authorities are taking measures to provide the necessary headroom to the banking sector and alleviate risks of crowding out private sector credit to support the economy.** Lending from BB for financing working capital loans to industries and CMSMEs will provide banks with additional resources of 0.9 percent of GDP. The government's initiative to draw upon emergency loans from international financial institutions will also reduce demand for bank lending. Adequate liquidity support will be required from BB to ensure smooth and unconstrained credit flow to the private sector credit, especially if the recovery rate for the banking sector deteriorates.

**17. BB will also need to monitor closely banking sector conditions given the elevated level of nonperforming loans (NPLs).** Controlling stressed assets of the banking sector will be imperative with banks bearing the entire credit risk for the stimulus package routed through banks. Effective supervision by BB needs to continue while strengthening the corporate governance of commercial banks. Loans under the stimulus package should be effectively targeted and monitored by the authorities with necessary due diligence and risk assessment considerations by banks to preserve banking soundness while providing support where most needed. Banks can be encouraged to undertake prudent loan re-negotiations targeted to loans that have deteriorated due to the shock, but loan reporting, classification and provisioning standards should not be eased, as it is important to maintain an accurate picture of banks' financial condition. BB should take actions to preserve banks' capital resources by temporarily suspending the distribution of capital, including dividends, share buybacks, and increases in executive compensation and discretionary bonus payments.

**18. Following the crisis, the authorities will have to re-focus on addressing the banking sector problems, particularly those for state-owned commercial banks (SOCBs).** Before the Covid-19 pandemic, reported NPLs approached 9 percent as of December 2019 with SOCBs' NPLs reaching 24 percent. The authorities have already started amending several laws to enforce more discipline, but repeated loan rescheduling, regulatory forbearance, and failure to deal with weak and insolvent banks hindered progress. In order to strengthen the banking sector, the authorities should focus on: (i) introducing effective and risk-based supervision and avoid regulatory forbearance; (ii) strengthening corporate governance in private commercial banks; (iii) ensuring that classification and provisioning requirements are in line with Basel standards; (iv) addressing the poor financial performance of SOCBs through improved governance and risk management, a more level playing field, and a clear definition of the public mandate with transparent budget support; and (v) putting in place a framework for the effective resolution of weak banks.

#### D. Structural Reforms

**19. To sustain robust economic performance in the medium-term, the authorities will need to step up their reform efforts, while upgrading the country's economic policy framework.** Improvements in infrastructure, governance, and stepping up anti-corruption efforts will be necessary to enhance the business environment and attract FDI. This will also promote further diversification of the economy. Bangladesh should continue to make progress in strengthening the effectiveness of the AML/CFT framework in line with the recommendations of the Financial Action Task Force. As a matter of priority, the authorities should amend the procurement rules to make the beneficial ownership information of awarded companies publicly available. Addressing climate change risks through continuous efforts in mitigation and adaptation will be required to enhance the resilience and sustainability of economic growth.

## FUND SUPPORT UNDER THE RAPID CREDIT FACILITY AND RAPID FINANCING INSTRUMENT

**20. Given the urgency of the situation, a disbursement/purchase of a blend of RCF and RFI is the most appropriate instrument for Fund assistance to Bangladesh.** Bangladesh is facing a temporary shock due to the COVID-19 pandemic. The BOP need is temporary and expected to be resolved within one year without major policy adjustments as global health and economic conditions normalize.

**21. Staff consider access at 50 percent of quota with a blend of RCF and RFI to be appropriate given the scale of the urgent needs and the size of the economy.** The BOP need is estimated at USD 2.9 billion, equivalent to 0.9 percent of GDP. Because Bangladesh is a presumed blender based on the income criteria, access under the exogenous shock window will blend RCF-RFI resources in the ratio of 1:2 with 16.67 percent of quota, SDR 177.77 million, from PRGT resources and 33.33 percent of quota, SDR 355.53 million, from GRA resources. Financing from the IMF would total about USD 728 million, or 25 percent of the financing gap. Disbursements from the World Bank

amounting to USD 350 million and the ADB amounting to USD 600 million are also expected to go toward filling the financing gap. The authorities do not plan to apply for the Debt Service Suspension Initiative supported by the G20 and Paris Club at this time. Outstanding access with the IMF would increase to 96.3 percent of quota and remain below allowable limits.<sup>12</sup>

**22. Capacity to repay the Fund under this access would remain adequate.** IMF financing of 50 percent of quota would increase the Fund's exposure to Bangladesh to 0.4 percent of GDP and 4.6 percent of foreign exchange reserves. Total repayments would peak in 2024 at 0.7 percent of government revenue and 0.6 percent of exports of goods and services.

**23. Bangladesh continues to be assessed at low risk of external and overall debt distress.** The updated debt sustainability analysis (DSA) capturing the impact of the COVID-19 pandemic shock shows that debt remains at a low risk of debt distress. Despite the adverse shock to growth and exports, all external debt indicators are below their respective thresholds under the baseline and stress-test scenarios. Public debt also remains below its indicative benchmark under the baseline and stress-test scenarios.

**24. Staff supports the authorities' request to channel the RCF/RFI financing to the budget.** The fiscal deficit is projected to be over 6 percent in FY20 and FY21, with risks of even higher deficits. Large government borrowing would risk crowding out private sector credit growth. The disbursement of Fund assistance to the budget would free banks' limited resources to provide the needed support to the economy. Staff emphasize the importance of safeguarding Fund and other financial assistance to ensure that it is used to address the immediate needs resulting from COVID-19. The authorities are committed to use crisis resources transparently and effectively, including through ex-post auditing of COVID-19 related spending and transparency in procurement process. They will also seek to amend procurement rules to make the beneficial ownership information of awarded companies publicly available as soon as feasible.

**25. In line with the IMF safeguards policy, the authorities have committed to undergoing a new safeguards assessment.** The previous assessment was concluded in July 2011. The assessment is to be completed before the Board approval of any subsequent arrangement to which the safeguards policy applies. BB and the Ministry of Finance will sign a Memorandum of Understanding to: (i) commit to maintaining funds received from the IMF in a government account at the central bank, pending their use, and (ii) clarify the responsibilities for repaying Fund resources.

<sup>12</sup> As of end-April, Bangladesh has outstanding credit to the Fund equivalent to 46.3 percent of quota from the 2012 to 2015 Extended Credit Facility (ECF) arrangement.



## STAFF APPRAISAL

**26. The COVID-19 pandemic will significantly impact the Bangladeshi economy.** Necessary policies to contain the outbreak will inevitably slow down domestic economic activities. A sharp decline in exports and remittances is also expected to negatively impact the economy and weaken the external position. GDP growth in FY20 is projected to decline to 3.8 percent, about 3½ percentage lower than pre-pandemic projections. The fiscal deficit is also expected to widen to over 6 percent of GDP.

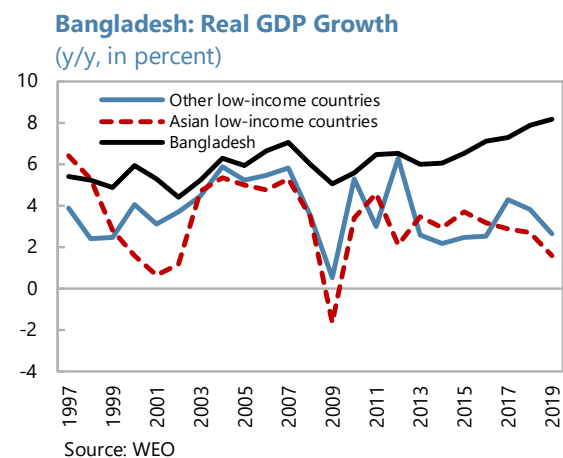
**27. Based on these developments, the country is expected to face urgent external financing needs.** Estimates point to a BOP need of around USD 2.9 billion, equivalent to 0.9 percent of GDP, and a fiscal financing gap of a similar size is also expected to emerge.

**28. The authorities have started implementing several measures to mitigate the impact of the pandemic and preserve the country's macroeconomic prospects.** In addition to increasing health expenditures, the government's immediate response has focused on expanding food distribution and cash transfer programs to vulnerable populations, ensuring the payment of wages in export-oriented industries, and facilitating the provision of working capital to businesses and farmers. As focus shifts to economic recovery efforts, the authorities remain committed to promoting inclusive growth, while strengthening financial-sector and external stability, preserving fiscal sustainability, and enhancing good governance.

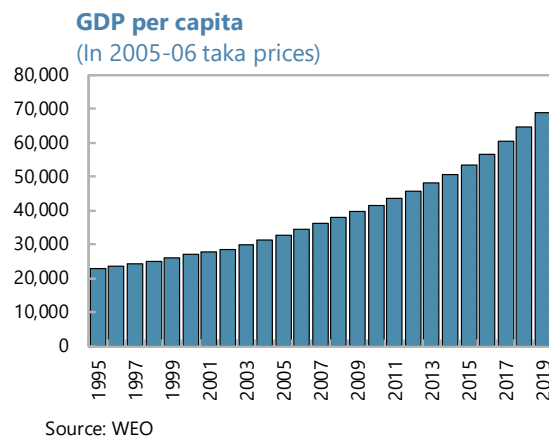
**29. Staff supports the authorities' request for a disbursement/purchase under a blend of RCF and RFI in the ratio of 1:2 with 16.67 percent of quota, SDR 177.77 million, from PRGT resources and 33.33 percent of quota, SDR 355.53 million, from GRA resources.** Staff's support is based on the urgent BOP need arising from a major external shock caused by the COVID-19 pandemic. While the risks to the outlook are firmly tilted downward, Bangladesh continues to be assessed at low risk of debt distress and its capacity to repay the Fund remains adequate.

**Figure 1. Bangladesh: Recent Macroeconomic Developments**

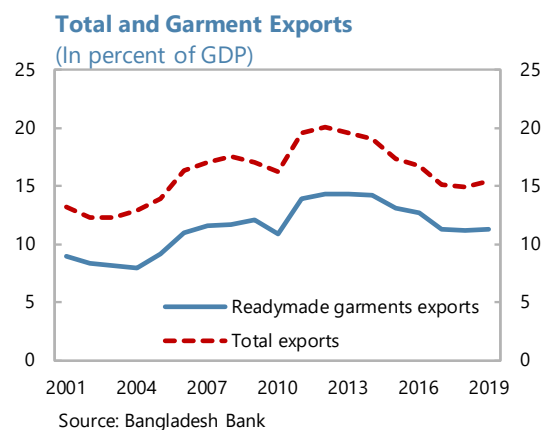
*Bangladesh has consistently exhibited strong growth....*



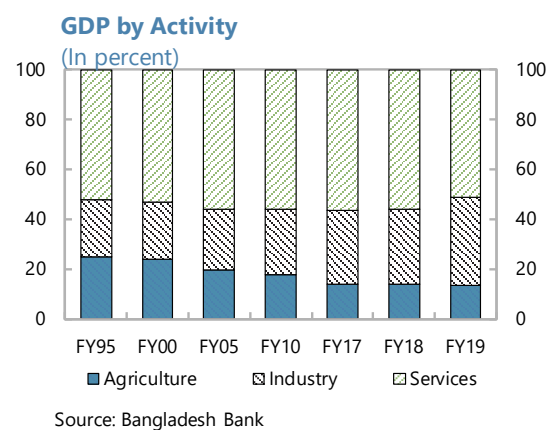
*... and standards of living have improved significantly.*



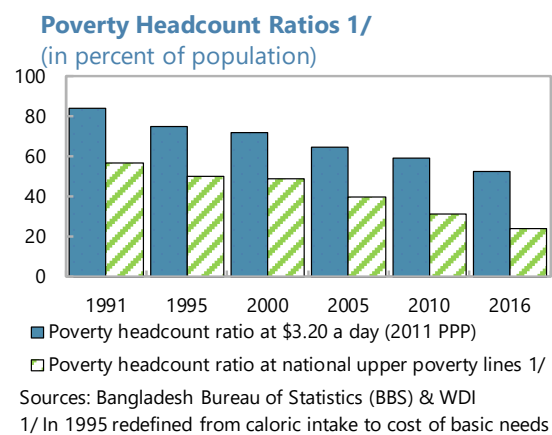
*Exports are highly concentrated in ready-made garments...*



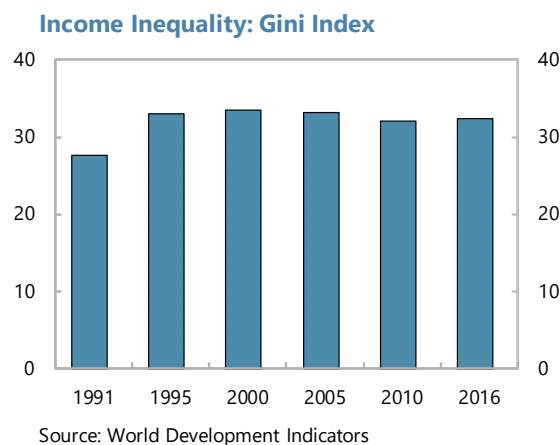
*...and the services sector has the largest share in output.*



*Poverty has declined significantly...*

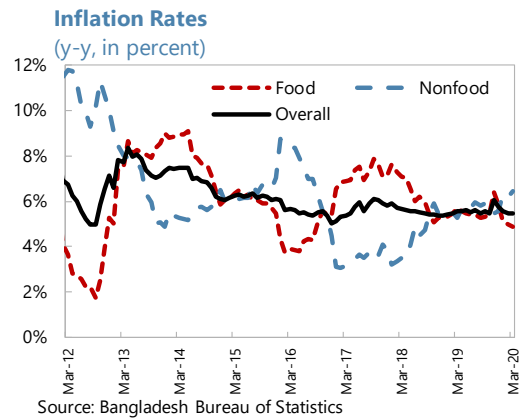


*... yet income inequality has been broadly stable.*

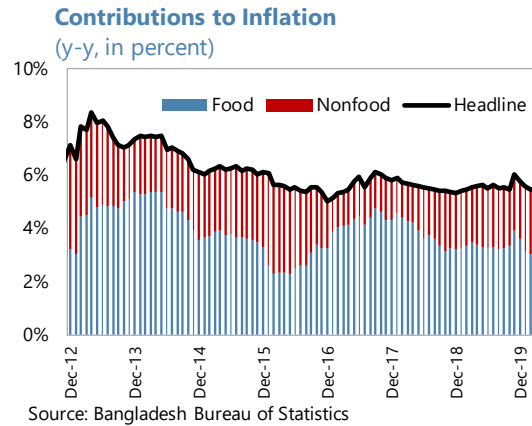


**Figure 2. Bangladesh: Recent Fiscal and Monetary Developments**

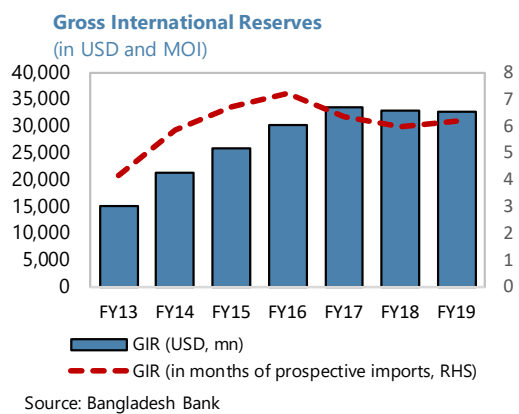
*Inflation has remained around BB's target of 5.5 percent...*



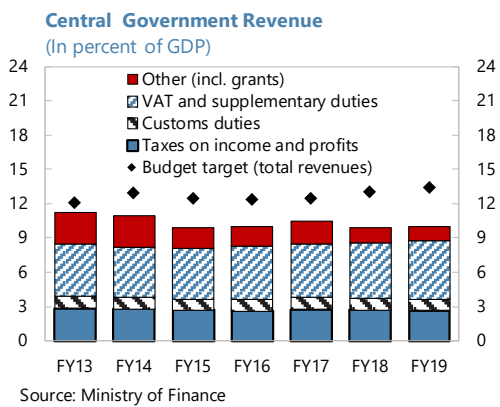
*... with food inflation offsetting non-food inflation.*



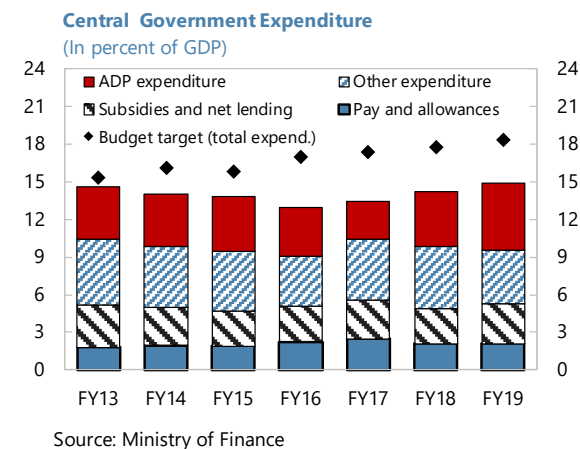
*Gross international reserves have increased in dollar terms and remained stable at around 6 months of imports...*



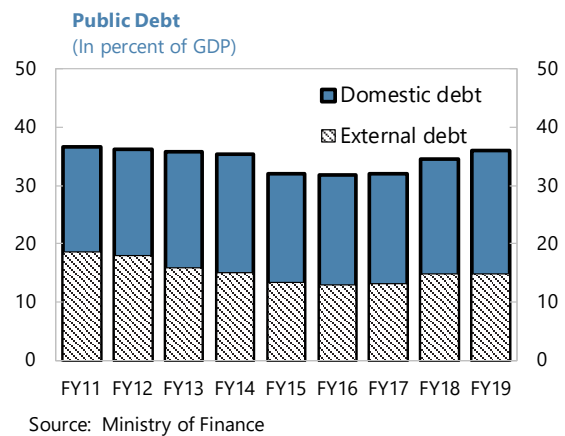
*... and fiscal revenues as percent of GDP have been stagnant and below budget targets.*



*Fiscal expenditure as percent of GDP have remained below budget targets...*



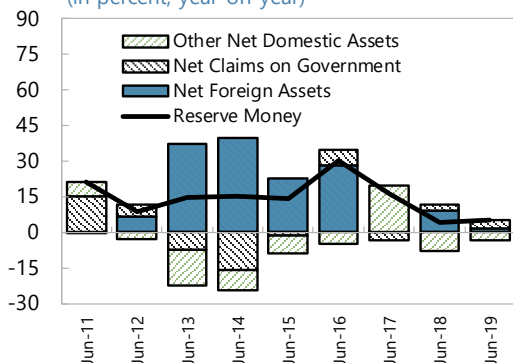
*... but public debt remains low.*



**Figure 3. Bangladesh: Monetary and Financial Market Developments**

Reserve money growth has moderated recently...

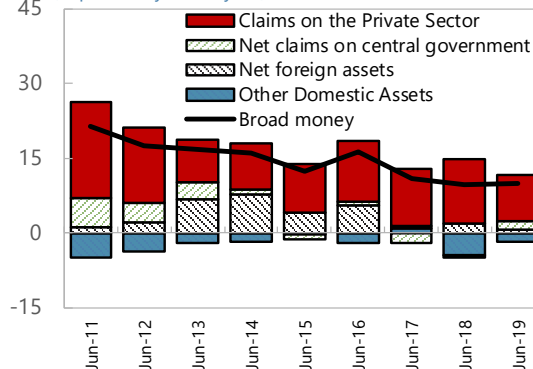
**Contributions to Reserve Money Growth**  
(in percent, year-on-year)



Source: Bangladesh Bank

...with a similar trend for broad money.

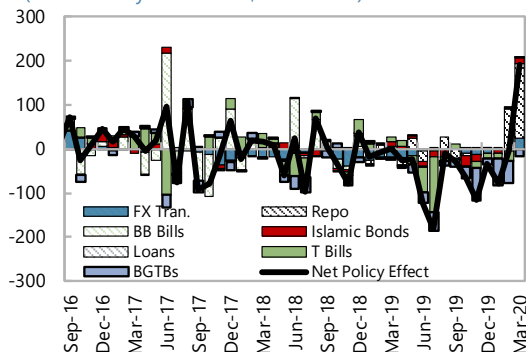
**Contributions to Broad Money Growth**  
(in percent, year on year)



Source: Bangladesh Bank

BB has been recently increasing liquidity.

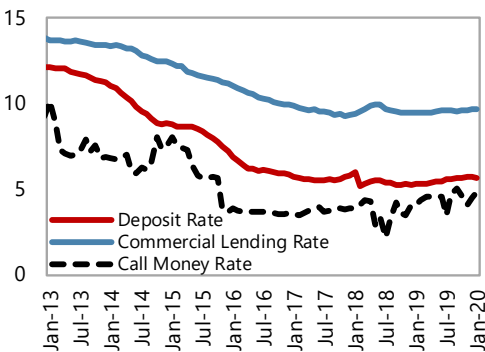
**Liquidity Management Operations**  
(net effect by instrument, in bn Taka)



Sources: Bangladesh Bank; and IMF Staff calculations

Lending and deposit rates have been broadly stable while call money rates have increased somewhat.

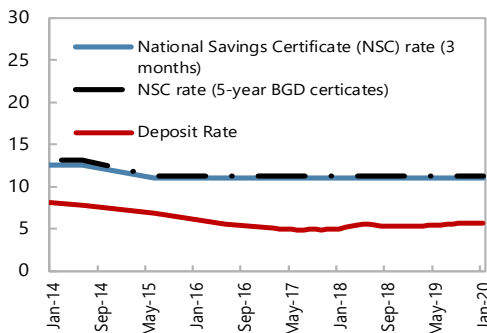
**Interest Rates**  
(in percent)



Source: Bangladesh Bank

The spread between NSC and deposit rates persists.

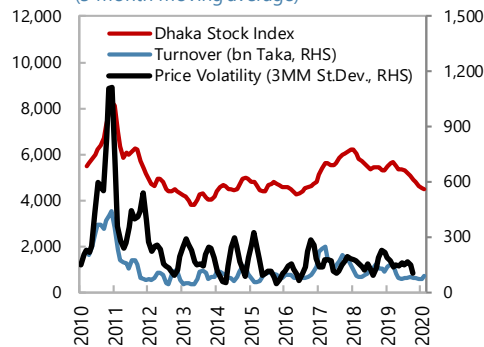
**Postal Savings, NSC and Commercial Banks' Rates**  
(percentage points)



Source: Bangladesh Bank

The Dhaka stock market has declined recently.

**Dhaka Stock Market Performance**  
(3 month moving average)

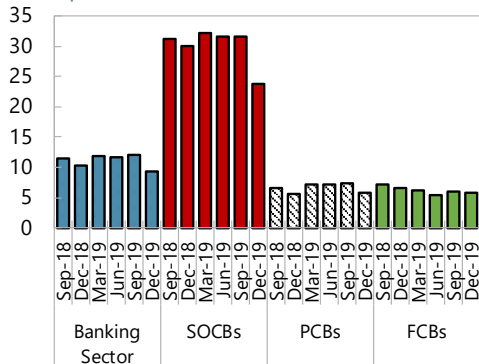


Source: Bloomberg

**Figure 4. Bangladesh: Banking Sector Conditions**

*NPLs remain high, particularly in SOCBs.*

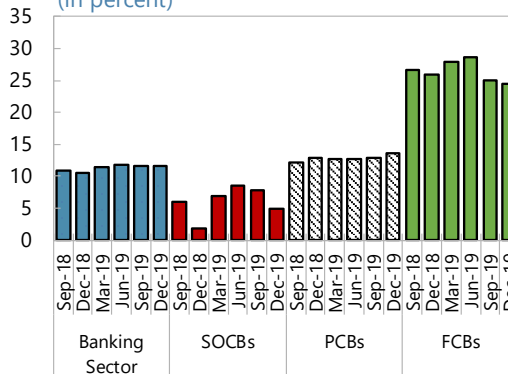
**Non-Performing Loans**  
(in percent of total loans)



Source: Bangladesh Bank

*Private and foreign banks have sufficient capital but SOCBs remain undercapitalized.*

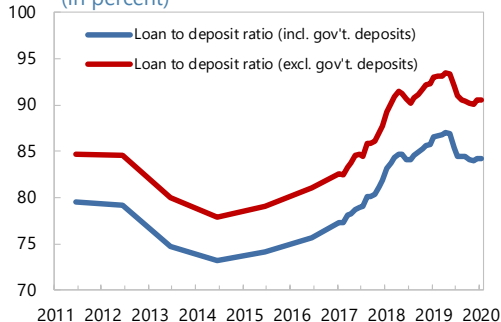
**Capital Adequacy Ratio**  
(in percent)



Source: Bangladesh Bank

*The loan-to-deposit ratio fell recently...*

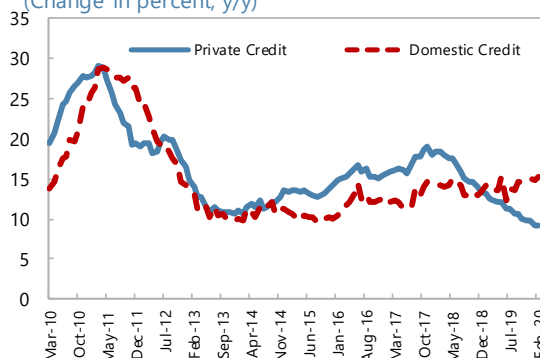
**Loan-to-Deposit Ratio**  
(In percent)



Source: Bangladesh Bank

*...despite continued growth in domestic credit growth.*

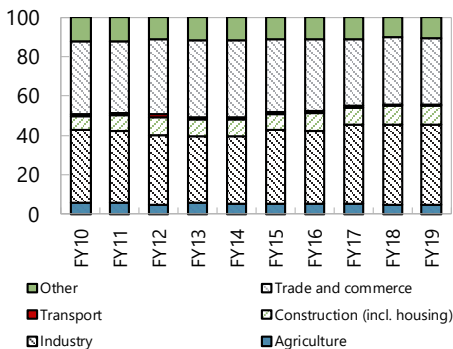
**Bank Credit to Private Sector and Total Domestic**  
(Change in percent, y/y)



Source: Bangladesh Bank.

*Bank credit goes mainly to industry and services...*

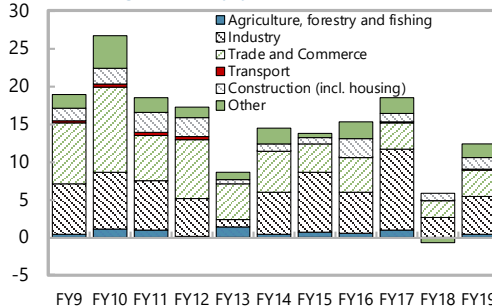
**Share in Bank Advances by Economic Purposes**  
(In percent)



Source: Bangladesh Bank

*...which also contribute most to private credit growth.*

**Contribution to Bank Credit by Economic Purposes**  
(In percentage points, y/y)



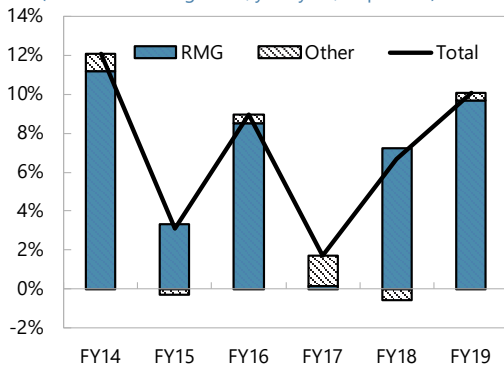
Source: Bangladesh Bank.

**Figure 5. Bangladesh: External Sector Developments**

RMG exports are the primary driver of exports...

**Exports by Commodity**

(Contribution to growth, year-year, in percent)

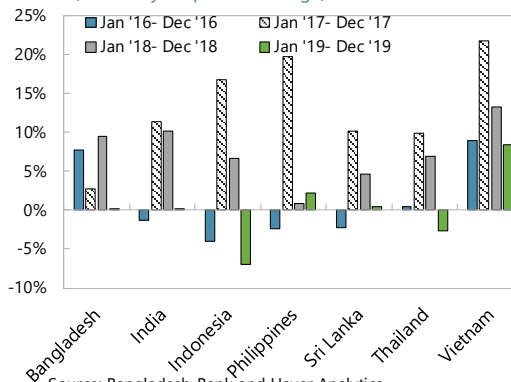


Source: Bangladesh Bank  
\* = y-o-y from July to May

...and export growth in CY2019 moderated.

**Selected Asia: Exports of Goods**

(Year-on-year percent change)

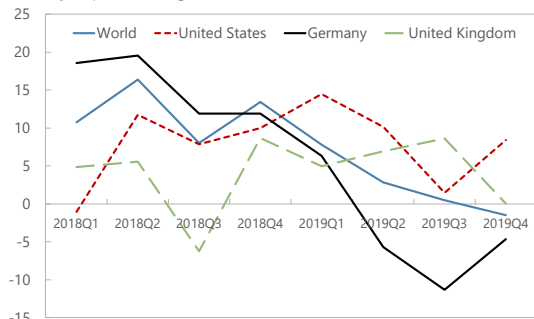


Source: Bangladesh Bank and Haver Analytics

Major export destination exhibited lower demand...

**Exports of Apparel to Major Destinations**

(Year-on-year percent change)

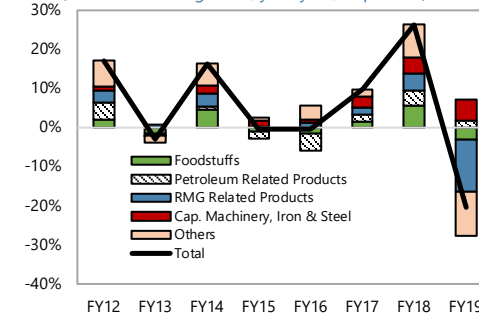


Source: International Trade Statistics

... with imports declining for intermediate goods.

**Imports by Commodity**

(Contribution to growth, year-year, in percent)

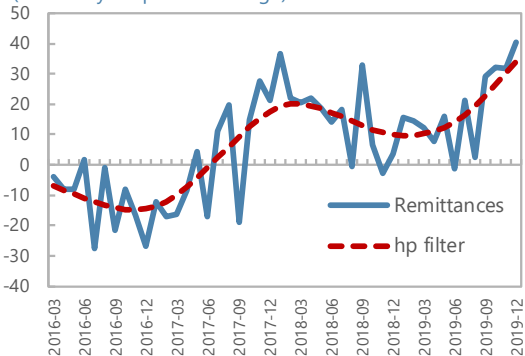


Source: Bangladesh Bank  
\* = y-o-y from July to April

Remittance growth was strong in CY2019...

**Workers' Remittances, Jan. 2016– Dec. 2019**

(Year-on-year percent change)

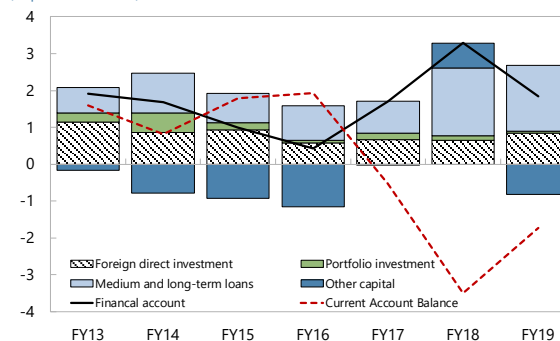


Sources: Bangladesh Bank and Staff Calculations.

... contributing to an improvement in the CAD.

**Current and Financial Account Balance**

(in percent of GDP)



Sources: data from authorities

**Table 1. Bangladesh: Selected Economic Indicators, FY2016–22 1/**

<b>I. Social and Demographic Indicators</b>							
Population (2017, millions; estimate)	165	Infant mortality (2016, per thousand live birth)	28.0				
GDP per capita (2017, U.S. dollars)	1517	Life expectancy at birth (2016, years)	71.6				
Labor force participation rate (2017, percent; national measure)	58	Adult literacy (2016, percent of people)	73.0				
Poverty headcount ratio (2016, national measure, percent)	24	Population dependency ratio (2017,	50.0				
Gini index (2016, World Bank estimate)	32	Population growth (FY16, y/y, percent;	1.1				
<b>II. Macroeconomic Indicators</b>							
	FY16	FY17	FY18	FY19	FY20	FY21	FY22
				Est.	Proj.		
<b>National income and prices (annual percent change)</b>							
Real GDP	7.1	7.3	7.9	8.2	3.8	5.7	8.0
GDP deflator	6.7	6.3	5.6	4.5	5.2	5.6	5.5
CPI inflation (annual average)	5.9	5.4	5.8	5.5	5.7	5.6	5.5
CPI inflation (end of period)	5.5	5.9	5.5	5.5	5.7	5.6	5.5
Nonfood CPI inflation (end of period)	4.2	7.5	6.0	5.4	5.8	5.6	5.6
<b>Central government operations (percent of GDP)</b>							
Total revenue and grants	10.1	10.2	9.7	9.7	8.2	8.7	9.7
Total revenue	10.0	10.2	9.6	9.7	8.2	8.7	9.7
Tax	8.8	9.0	8.6	8.7	7.0	7.8	8.7
Nontax	1.2	1.2	1.0	1.0	1.2	1.0	1.0
Grants	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total expenditure	13.4	13.6	14.3	15.0	14.5	14.8	15.2
Current expenditure	8.3	8.3	7.9	8.7	9.0	9.6	9.0
Annual Development Program (ADP)	4.4	4.1	5.3	5.2	4.6	4.4	5.5
Other expenditures	0.8	1.1	1.0	1.0	0.9	0.8	0.7
Overall balance (including grants)	-3.4	-3.3	-4.6	-5.3	-6.3	-6.1	-5.5
(Excluding grants)	-3.5	-3.4	-4.7	-5.3	-6.3	-6.1	-5.5
Primary balance (excluding grants)	-1.6	-1.7	-2.8	-3.2	-4.4	-3.8	-3.1
Total central government debt (percent of GDP)	33.3	33.4	34.6	35.9	39.1	40.7	41.1
<b>Money and credit (end of fiscal year; percent change)</b>							
Credit to private sector by the banking system	16.8	15.7	16.9	11.3	8.5	11.9	12.3
Reserve money	30.1	16.3	4.0	5.3	3.9	7.3	12.7
Broad money (M2)	16.3	10.9	9.2	9.9	11.3	13.4	16.7
<b>Balance of payments (billions of U.S. dollars)</b>							
Exports, f.o.b.	33.4	34.0	36.3	39.9	32.8	32.5	37.8
(Annual percent change)	8.9	1.7	6.7	10.1	-17.9	-0.8	16.1
Imports, f.o.b.	-39.9	-43.5	-54.5	-55.4	-50.6	-53.0	-54.0
(Annual percent change)	5.9	9.0	25.2	1.8	-8.8	4.8	2.0
Current account balance	4.3	-1.3	-9.6	-5.3	-7.1	-11.9	-6.6
(Percent of GDP)	1.9	-0.5	-3.5	-1.7	-2.2	-3.5	-1.8
Capital and financial account balance	1.4	4.6	9.5	6.0	3.7	7.0	7.6
Of which : Foreign direct investment	1.3	1.7	1.9	2.7	1.7	2.8	3.0
Overall balance	5.0	3.2	-0.9	0.0	-3.5	-4.9	1.0
<b>Gross official reserves (billions of U.S. dollars) 2/</b>							
In months of prospective imports of goods and services	7.2	6.3	6.0	6.2	5.6	4.8	4.6
<b>Exchange rate (taka per U.S. dollar; period average)</b>							
	78.3	79.1	82.1	84.0	...	...	...
<b>Exchange rate (taka per U.S. dollar; end-period)</b>							
	78.4	80.6	83.7	85.5	...	...	...
<b>Nominal effective rate (2010=100; period average)</b>							
	102.0	103.0	95.1	94.9	...	...	...
<b>Real effective rate (2010=100; period average)</b>							
	132.2	138.3	132.3	132.3	...	...	...
<b>Memorandum item:</b>							
Nominal GDP (billions of taka)	17,329	19,758	22,505	25,425	27,759	31,009	35,302

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

1/ Fiscal year begins July 1.

2/ 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 2. Bangladesh: Near and Medium-Term Indicators, FY2017–25 1/

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
			Est.	Proj.					
	(Annual percent change)								
Real GDP	7.3	7.9	8.2	3.8	5.7	8.0	7.3	7.3	7.3
GDP deflator	6.3	5.6	4.5	5.2	5.6	5.5	6.2	6.2	6.2
CPI inflation (annual average)	5.4	5.8	5.5	5.7	5.6	5.5	5.5	5.5	5.5
CPI inflation (end of period)	5.9	5.5	5.5	5.7	5.6	5.5	5.5	5.5	5.5
Credit to private sector (end of period)	15.7	16.9	11.3	8.5	11.9	12.3	12.6	12.9	13.0
	(In percent of GDP)								
Gross national savings	29.8	27.4	29.1	25.5	24.1	29.3	28.8	27.9	27.8
Public national savings	1.9	1.7	1.0	-0.9	-0.8	0.7	0.7	0.6	0.6
Private national savings	27.9	25.7	28.1	26.4	24.9	28.5	28.1	27.3	27.2
Gross investment	30.5	31.2	31.6	27.7	27.6	31.0	30.7	29.8	29.6
Public investment	7.4	8.0	8.0	7.0	6.7	8.1	7.7	6.9	6.7
Private investment	23.1	23.3	23.5	20.7	20.9	22.9	22.9	22.9	22.9
Net exports of goods and services	-5.2	-8.6	-6.1	-7.0	-7.5	-5.4	-5.3	-5.1	-4.9
Exports of goods and services	15.0	14.8	15.3	12.6	11.6	12.2	12.0	11.8	11.6
Imports of goods and services	20.3	23.4	21.4	19.6	19.1	17.7	17.3	16.9	16.5
Current account balance	-0.5	-3.5	-1.7	-2.2	-3.5	-1.8	-1.8	-1.8	-1.9
Central government operations									
Total revenue and grants	10.2	9.7	9.7	8.2	8.7	9.7	9.9	9.8	9.8
<i>Of which</i> : Tax revenue	9.0	8.6	8.7	7.0	7.8	8.7	8.9	8.9	8.8
Total expenditure	13.6	14.3	15.0	14.5	14.8	15.2	15.1	14.5	14.4
<i>Of which</i> : Annual Development Program (ADP)	4.1	5.3	5.2	4.6	4.4	5.5	5.3	4.7	4.6
Overall balance (including grants)	-3.3	-4.6	-5.3	-6.3	-6.1	-5.5	-5.2	-4.6	-4.6
(excluding grants)	-3.4	-4.7	-5.3	-6.3	-6.1	-5.5	-5.2	-4.7	-4.6
Primary balance (excluding grants)	-1.7	-2.8	-3.2	-4.4	-3.8	-3.1	-2.6	-2.0	-1.9
Public sector total debt 2/	33.4	34.6	35.9	39.1	40.7	41.1	41.1	40.7	40.3
<i>Of which</i> : External debt	13.7	14.9	14.9	16.0	15.8	15.3	14.7	14.4	14.0
<i>Memorandum item:</i>									
Nominal GDP (in billions of taka)	19,758	22,505	25,425	27,759	31,009	35,302	40,217	45,816	52,194

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

1/ Fiscal year begins July 1.

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



**Table 3. Bangladesh: Balance of Payments, FY2017–25 1/**  
(in millions of U.S. dollars, unless otherwise indicated)

	FY17	FY18	FY19 Est.	FY20 Proj.	FY21	FY22	FY23	FY24	FY25
Current account balance 2/	-1,331	-9,567	-5,254	-7,109	-11,892	-6,642	-7,641	-8,368	-9,222
Trade balance	-9,472	-18,178	-15,494	-17,758	-20,435	-16,250	-17,217	-18,236	-19,306
Exports (f.o.b.)	34,019	36,285	39,945	32,793	32,543	37,788	40,603	43,632	46,892
Of which: Ready-made garment sector	28,150	30,615	34,133	27,874	27,662	32,120	34,368	36,774	39,348
Imports (f.o.b.) 2/	-43,491	-54,463	-55,439	-50,551	-52,978	-54,038	-57,820	-61,868	-66,199
Of which: Crude oil and petroleum products	-3,112	-2,583	-3,214	-1,522	-1,607	-2,015	-2,276	-2,539	-2,803
Services	-3,288	-4,202	-3,715	-4,612	-5,248	-4,308	-4,570	-4,848	-5,140
Income	-1,870	-2,641	-2,930	-1,845	-2,118	-2,322	-2,576	-2,851	-3,218
Transfers	13,299	15,454	16,885	17,105	15,909	16,237	16,723	17,567	18,443
Official current transfers 3/	59	52	23	15	30	40	40	50	50
Private transfers	13,240	15,402	16,862	17,090	15,879	16,197	16,683	17,517	18,393
Of which: Workers' remittances	12,769	14,982	16,420	16,642	15,463	15,772	16,245	17,058	17,911
Capital and financial account balance 4/	4,647	9,476	5,971	3,651	7,000	7,602	7,717	9,452	10,407
Capital account	400	331	233	80	150	150	150	150	150
Financial account	4,247	9,145	5,738	3,571	6,850	7,452	7,567	9,302	10,257
Foreign direct investment	1,653	1,912	2,650	1,700	2,752	3,030	3,317	4,084	4,966
Portfolio investment	457	349	172	50	275	303	332	408	497
Medium- and long-term loans, net	2,170	5,015	5,418	4,221	3,822	4,119	3,919	4,810	4,794
Government, net	2,323	4,874	4,752	4,171	3,822	4,119	3,919	4,810	4,794
Disbursements	3,218	5,987	5,954	5,451	5,322	5,669	5,657	6,524	6,542
Amortization	-895	-1,113	-1,202	-1,280	-1,500	-1,550	-1,738	-1,714	-1,748
Other long-term loans, net	-153	141	666	50	0	0	0	0	0
Other capital	-33	1,869	-2,502	-2,400	0	0	0	0	0
Short-term loans and trade credits, net	-155	238	-2,694	-2,400	0	0	0	0	0
Commercial banks, net	122	1,631	192	0	0	0	0	0	0
Other items, net	0	0	0	0	0	0	0	0	0
Errors and omissions	-147	-766	-705	0	0	0	0	0	0
Overall balance	3,169	-857	12	-3,458	-4,892	960	75	1,085	1,185
Financing items	-3,169	857	-12	3,458	4,892	-960	-75	-1,085	-1,185
Change in gross international reserves (GIR) (+ = increase)									
Contribution from financing	3,169	-857	12	-3,458	-4,892	960	75	1,085	1,185
Net use of IMF resources	39	394	-406	611	-183	-171	-257	-316	-202
of which: IMF financing (RCF disbursement/RFI purchase)				728	0	0	0	0	0
World Bank 4/				350	0	0	0	0	0
ADB 4/				600	0	0	0	0	0
Unidentified gap				0	1,200	0	0	0	0
Change in GIR excluding valuation changes	3,208	-463	-394	-1,898	-3,874	789	-181	769	983
<i>Memorandum items:</i>									
Current account balance (percent of GDP)	-0.5	-3.5	-1.7	-2.2	-3.5	-1.8	-1.8	-1.8	-1.9
Exports (annual percent change)	1.7	6.7	10.1	-17.9	-0.8	16.1	7.4	7.5	7.5
Imports (annual percent change)	9.0	25.2	1.8	-8.8	4.8	2.0	7.0	7.0	7.0
Remittances (annual percent change)	-14.5	17.3	9.6	1.4	-7.1	2.0	3.0	5.0	5.0
Foreign direct investment (percent of GDP)	0.7	0.7	0.9	0.5	0.8	0.8	0.8	0.9	1.0
Medium- and long-term external public debt (Percent of GDP)	33,671	39,935	44,165	50,243	53,340	56,699	59,897	63,926	68,241
Gross official reserves 5/ (In months of imports of goods and services)	6.3	6.0	6.2	5.6	4.8	4.6	4.3	4.1	4.0
Gross official reserves (excluding Asian Clearing Union liabilities) 5/ (In months of imports of goods and services)	32,608	32,491	33,117	29,528	24,480	25,257	25,177	26,170	27,303
Net international reserves 5/	29,970	29,879	30,596	27,138	22,246	23,205	23,281	24,366	25,550
Nominal GDP	249,695	274,006	302,524	318,955	344,009	378,784	414,564	453,724	496,583

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

5/ Gross and net international reserves for the projection period do not include valuation adjustments. Net international reserves are reported at market exchange rates.

Table 4a. Bangladesh: Central Government Operations, FY2017–25 1/

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
			Prel.	Proj.					
	(In billions of taka)								
Total revenue and grants	2,019	2,174	2,476	2,265	2,709	3,424	3,979	4,512	5,116
Total revenue	2,008	2,166	2,474	2,263	2,706	3,420	3,975	4,507	5,111
Tax revenue	1,778	1,943	2,223	1,938	2,406	3,078	3,586	4,063	4,606
National Board of Revenue (NBR) taxes	1,715	1,871	2,132	1,838	2,295	2,951	3,441	3,898	4,418
Of which: VAT and supplementary duties	953	1,047	1,158	993	1,206	1,555	1,858	2,103	2,381
Taxes on income and profits	525	590	702	583	781	1,067	1,216	1,385	1,578
Customs and excise duties	238	221	257	246	290	308	344	385	429
Non-NBR taxes	63	72	92	100	112	127	145	165	188
Nontax revenue	230	222	251	326	300	342	389	443	505
Foreign grants	11	9	2	1	3	4	4	5	5
Total expenditure	2,679	3,219	3,814	4,021	4,588	5,370	6,084	6,642	7,500
Current expenditure	1,635	1,789	2,222	2,501	2,967	3,173	3,692	4,227	4,809
Pay and allowances	488	478	541	575	642	731	832	948	1,080
Goods and services	216	235	340	402	499	468	513	582	665
Interest payments	339	418	522	545	716	850	1,066	1,237	1,401
Subsidies and transfers 2/	590	656	817	978	1,108	1,122	1,278	1,456	1,659
Annual Development Program (ADP)	818	1,195	1,328	1,268	1,368	1,940	2,129	2,145	2,415
Non-ADP capital spending	191	152	172	158	156	158	160	162	164
Net lending 3/	25	12	21	24	27	30	33	37	42
Other expenditures 4/	11	70	70	70	70	70	70	70	70
Overall balance (including grants)	-660	-1,044	-1,337	-1,756	-1,879	-1,946	-2,105	-2,130	-2,384
(Excluding grants)	-671	-1,053	-1,339	-1,757	-1,881	-1,950	-2,109	-2,135	-2,389
Primary balance (including grants)	-320	-627	-815	-1,211	-1,163	-1,097	-1,039	-893	-983
(Excluding grants)	-332	-635	-817	-1,212	-1,165	-1,100	-1,043	-898	-988
Net financing	660	1,044	1,337	1,756	1,879	1,946	2,105	2,130	2,384
External	110	256	399	363	345	384	380	486	504
Disbursements	182	331	500	474	480	528	549	659	688
Amortization	-72	-75	-101	-111	-135	-144	-169	-173	-184
Domestic	550	788	938	1,393	1,534	1,562	1,725	1,644	1,880
Banks	-84	117	459	1,043	1,064	1,107	1,207	1,054	1,207
of which: Fiscal Gap	0	0	0	75	173	0	0	0	0
Nonbanks 5/	634	671	479	350	470	455	518	591	673

Table 4b. Bangladesh: Central Government Operations, FY2017–25 1/

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
			Prel.	Proj.					
	(In percent of GDP)								
Total revenue and grants	10.2	9.7	9.7	8.2	8.7	9.7	9.9	9.8	9.8
Total revenue	10.2	9.6	9.7	8.2	8.7	9.7	9.9	9.8	9.8
Tax revenue	9.0	8.6	8.7	7.0	7.8	8.7	8.9	8.9	8.8
National Board of Revenue (NBR) taxes	8.7	8.3	8.4	6.6	7.4	8.4	8.6	8.5	8.5
Of which: VAT and supplementary duties	4.8	4.7	4.6	3.6	3.9	4.4	4.6	4.6	4.6
Taxes on income and profits	2.7	2.6	2.8	2.1	2.5	3.0	3.0	3.0	3.0
Customs and excise duties	1.2	1.0	1.0	0.9	0.9	0.9	0.9	0.8	0.8
Non-NBR taxes	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Nontax revenue	1.2	1.0	1.0	1.2	1.0	1.0	1.0	1.0	1.0
Foreign grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	13.6	14.3	15.0	14.5	14.8	15.2	15.1	14.5	14.4
Current expenditure	8.3	7.9	8.7	9.0	9.6	9.0	9.2	9.2	9.2
Pay and allowances	2.5	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Goods and services	1.1	1.0	1.3	1.4	1.6	1.3	1.3	1.3	1.3
Interest payments	1.7	1.9	2.1	2.0	2.3	2.4	2.7	2.7	2.7
Subsidies and transfers 2/	3.0	2.9	3.2	3.5	3.6	3.2	3.2	3.2	3.2
Annual Development Program (ADP)	4.1	5.3	5.2	4.6	4.4	5.5	5.3	4.7	4.6
Non-ADP capital spending	1.0	0.7	0.7	0.6	0.5	0.4	0.4	0.4	0.3
Net lending 3/	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expenditures 4/	0.1	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Overall balance (including grants)	-3.3	-4.6	-5.3	-6.3	-6.1	-5.5	-5.2	-4.6	-4.6
(Excluding grants)	-3.4	-4.7	-5.3	-6.3	-6.1	-5.5	-5.2	-4.7	-4.6
Primary balance (including grants)	-1.6	-2.8	-3.2	-4.4	-3.7	-3.1	-2.6	-1.9	-1.9
(Excluding grants)	-1.7	-2.8	-3.2	-4.4	-3.8	-3.1	-2.6	-2.0	-1.9
Net financing	3.3	4.6	5.3	6.3	6.1	5.5	5.2	4.6	4.6
External	0.6	1.1	1.6	1.3	1.1	1.1	0.9	1.1	1.0
Disbursements	0.9	1.5	2.0	1.7	1.5	1.5	1.4	1.4	1.3
Amortization	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Domestic	2.8	3.5	3.7	5.0	4.9	4.4	4.3	3.6	3.6
Banks	-0.4	0.5	1.8	3.8	3.4	3.1	3.0	2.3	2.3
of which: Fiscal Gap	0.0	0.0	0.0	0.3	0.6	0.0	0.0	0.0	0.0
Nonbanks 5/	3.2	3.0	1.9	0.3	1.5	1.3	1.3	1.3	1.3
Total central government debt (percent of GDP)	33.4	34.6	35.9	39.1	40.7	41.1	41.1	40.7	40.3
Nominal GDP (in billions of taka)	19,758	22,505	25,425	27,759	31,009	35,302	40,217	45,816	52,194

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

1/ Fiscal year begins July 1. Cash basis, unless otherwise specified.

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

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

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

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

Table 5. Bangladesh: Monetary Accounts, FY2017–25

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Bangladesh Bank (BB) balance sheet (End of period; in billions of taka)									
Net foreign assets	2,122	2,330	2,351	2,412	2,048	2,216	2,314	2,520	2,751
Net domestic assets	124	7	111	145	697	878	1,204	1,508	1,862
Net credit to central government 1/	114	170	269	236	221	221	221	221	221
Credit to other nonfinancial public sector	12	12	12	52	52	92	92	132	132
Credit to deposit money banks	43	55	52	84	124	124	124	124	124
Other items, net	-44	-229	-223	-226	300	441	768	1,032	1,385
Reserve money 2/	2,247	2,337	2,462	2,557	2,744	3,093	3,518	4,028	4,613
Currency	1,513	1,549	1,704	1,836	1,923	2,128	2,397	2,743	3,140
Reserves	727	780	750	721	821	965	1,121	1,285	1,474
(Contributions to reserve money growth)									
Net foreign assets	0.2	9.2	0.9	2.5	-14.3	6.1	3.2	5.9	5.7
Net domestic assets	16.4	-5.2	4.4	1.4	21.6	6.6	10.6	8.6	8.8
Of which : Net credit to central government	-3.2	2.5	4.3	-1.4	-0.6	0.0	0.0	0.0	0.0
Reserve money (year-on-year percentage change)	16.6	4.0	5.3	3.9	7.3	12.7	13.7	14.5	14.5
Monetary survey (End of period; in billions of taka)									
Net foreign assets	2,359	2,546	2,616	2,466	2,103	2,273	2,374	2,583	2,817
Bangladesh Bank	2,122	2,330	2,351	2,412	2,048	2,216	2,314	2,520	2,751
Commercial banks	237	216	265	54	56	58	60	63	65
Net domestic assets	7,795	8,546	9,572	11,103	13,280	15,685	18,402	21,208	24,428
Domestic credit	8,842	10,131	11,378	13,303	15,700	18,347	21,330	24,430	27,971
Net credit to central government 1/	909	863	1,039	2,082	3,146	4,254	5,460	6,514	7,721
Credit to other nonfinancial public sector	91	104	128	139	156	177	202	230	262
Credit to nonbank financial institutions	82	88	111	122	134	148	163	179	197
Credit to private sector	7,761	9,075	10,100	10,960	12,264	13,769	15,505	17,507	19,791
Other items, net	-1,047	-1,585	-1,806	-2,200	-2,420	-2,662	-2,928	-3,221	-3,543
Broad money (M2)	10,154	11,092	12,188	13,569	15,383	17,959	20,776	23,791	27,245
(Year-on-year percent change)									
Net foreign assets	1.2	8.0	2.8	-5.8	-14.7	8.1	4.4	8.8	9.1
Net domestic assets	14.2	9.6	12.0	16.0	19.6	18.1	17.3	15.3	15.2
Domestic credit	6.8	14.6	12.3	16.9	18.0	16.9	16.3	14.5	14.5
Of which : Net credit to central government	-35.5	-5.0	20.3	100.4	51.1	35.2	28.4	19.3	18.5
Credit to private sector	15.7	16.9	11.3	8.5	11.9	12.3	12.6	12.9	13.0
Broad money (M2)	10.9	9.2	9.9	11.3	13.4	16.7	15.7	14.5	14.5
Memorandum items:									
Required domestic cash reserves (in billions of taka)	512	524	536	689	784	921	1,070	1,227	1,407
Excess domestic cash reserves (in billions of taka)	215	256	214	32	37	43	50	58	66
Broad money multiplier	4.5	4.7	5.0	5.3	5.6	5.8	5.9	5.9	5.9
Broad money velocity	1.9	2.0	2.1	2.0	2.0	2.0	1.9	1.9	1.9

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

1/ Includes special bonds issued to the commercial banks for the noncash issued to the state-owned securitization of past subsidy-related loans made to Bangladesh Petroleum Corporation. Excludes government lending fund and net credit to autonomous and semi-autonomous government bodies. Excluded items are included in "Other items, net."

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

**Table 6. Bangladesh: Financial Soundness Indicators, 2009–18**  
(in percent)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Capital adequacy</b>										
Regulatory capital to risk-weighted assets	11.6	9.3	11.4	10.5	11.5	11.3	10.8	10.8	10.8	10.5
State-owned commercial banks	9.0	8.9	11.7	8.1	10.8	8.3	6.4	5.9	5.0	1.9
Private commercial banks	12.1	10.1	11.5	11.4	12.6	12.5	12.4	12.4	12.5	12.8
Foreign commercial banks	28.1	15.6	21.0	20.6	20.2	22.6	25.6	25.4	24.9	26
<b>Asset quality</b>										
Nonperforming loans to total loans	9.2	7.3	6.1	10.0	8.9	10.0	8.8	9.2	9.3	10.3
State-owned commercial banks	21.4	15.7	11.3	23.9	19.8	22.2	21.5	25.1	26.5	30.0
Private commercial banks	3.9	3.2	2.9	4.6	4.5	4.9	4.9	4.6	4.9	5.5
Foreign commercial banks	2.3	3.0	3.0	3.5	5.5	7.3	7.8	9.6	7.0	6.5
Loan provisions to total nonperforming loans	61.3	62.7	67.4	44.4	61.6	56.1	92.9	74.3	50.5	50.3
Loan provisions to total loans	5.6	4.6	4.1	4.4	5.5	5.6	8.2	6.8	4.7	5.2
<b>Management</b>										
Expenditure-Income Ratio 1/	72.6	70.8	68.6	74.0	77.8	76.1	76.3	76.6	74.7	80.3
State-owned commercial banks	75.6	80.7	62.7	73.2	84.1	84.1	84.5	90.2	81.3	83.9
Private commercial banks	72.6	67.6	71.7	76.0	77.9	75.8	75.5	73.5	73.8	78.4
Foreign commercial banks	59.0	64.7	47.3	49.6	50.4	46.8	47.0	45.7	46.6	44.3
<b>Earnings</b>										
Return on equity (BB)	21.7	21.0	17.0	8.2	11.0	8.1	10.5	9.4	9.6	3.9
State-owned commercial banks	24.9	18.4	19.7	-11.9	10.9	-13.6	-1.5	-6.0	-17.2	-13.5
Private commercial banks	21.0	20.9	15.7	10.2	9.8	10.3	10.8	11.1	12.0	11.0
Foreign commercial banks	22.4	17.0	16.6	17.3	16.9	17.7	14.6	13.1	11.3	12.4
Return on assets (BB)	1.4	1.8	1.5	0.6	0.9	0.6	0.8	0.7	0.7	0.3
State-owned commercial banks	1.0	1.1	1.3	-0.6	0.6	-0.6	0.0	-0.2	0.2	-1.3
Private commercial banks	1.6	2.1	1.6	0.9	1.0	1.0	1.0	1.0	0.9	0.8
Foreign commercial banks	3.2	2.9	3.2	3.3	3.0	3.4	2.9	2.6	2.2	2.2
<b>Liquidity</b>										
Liquidity Ratio 1/	20.6	23.0	25.4	27.1	32.5	32.7	26.5	24.9	19.9	20.3
State-owned commercial banks	25.1	27.2	31.3	29.2	44.3	42.0	41.4	40.0	30.4	31.7
Private commercial banks	18.2	21.5	23.5	26.3	28.0	28.2	19.7	17.8	14.8	21.5
Foreign commercial banks	31.8	32.1	34.1	37.5	46.2	56.9	51.8	48.2	43.8	46.8
Sources: Bangladesh Bank										
1/ June 2018										

**Table 7. Bangladesh: External Financing Requirements and Sources, FY2020–25**  
(in millions of U.S. dollars, unless otherwise indicated)

	FY20	FY21	FY22	FY23	FY24	FY25
<b>Financing Requirements</b>	<b>8522.0</b>	<b>13604.4</b>	<b>8403.2</b>	<b>9676.5</b>	<b>10446.7</b>	<b>11221.8</b>
Current account deficit excluding grants	7124.3	11921.6	6682.5	7681.4	8417.6	9272.3
Public sector loan amortization	1280.0	1500.0	1550.0	1738.5	1713.5	1747.8
Interest and amortization payments on existing Fund loans	117.7	182.8	170.7	256.7	315.6	201.7
<b>Financing Sources</b>	<b>6843.7</b>	<b>12404.0</b>	<b>8403.2</b>	<b>9676.5</b>	<b>10446.7</b>	<b>11221.8</b>
Capital account balance	80.0	150.0	150.0	150.0	150.0	150.0
Net foreign direct investment	1700.0	2752.1	3030.3	3316.5	4083.5	4965.8
Portfolio inflows	50.0	275.2	303.0	331.7	408.4	496.6
Public sector grants	15.0	30.0	40.0	40.0	50.0	50.0
Public sector loan disbursements	5451.0	5322.3	5668.8	5657.0	6524.0	6542.3
Other capital flows (net)	-2350.0	0.0	0.0	0.0	0.0	0.0
Change in reserves (+ decrease)	1897.7	3874.4	-788.9	181.4	-769.2	-982.9
<b>Financing Gap 1/</b>	<b>1678.2</b>	<b>1200.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Financing from IMF (RCF disbursement/RFI purchase)	728.2	0.0	0.0	0.0	0.0	0.0
World Bank	350.0	0.0	0.0	0.0	0.0	0.0
ADB	600.0	0.0	0.0	0.0	0.0	0.0
Other (unidentified)	0.0	1200.4	0.0	0.0	0.0	0.0

Sources: data from authorities; and IMF staff projections.

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

Table 8. Bangladesh: Indicators of Capacity to Repay the Fund, 2020–30

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Repayment based on existing credit</b>											
(in millions of SDRs)											
Principal	73.14	127.99	118.85	91.42	45.71	36.57	0.00	0.00	0.00	0.00	0.00
Charges and interest	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
<b>Repayment based on existing and prospective credit</b>											
(in millions of SDRs)											
<b>Total Principal</b>	<b>73.14</b>	<b>127.99</b>	<b>118.85</b>	<b>180.31</b>	<b>223.48</b>	<b>143.23</b>	<b>35.55</b>	<b>35.55</b>	<b>35.55</b>	<b>35.55</b>	<b>17.78</b>
<i>of which: Extended Credit Facility</i>	73.14	127.99	118.85	91.42	45.71	36.57	0.00	0.00	0.00	0.00	0.00
<i>of which: Rapid Credit Facility</i>	0.00	0.00	0.00	0.00	0.00	17.78	35.55	35.55	35.55	35.55	17.78
<i>of which: Emergency Assistance</i>	0.00	0.00	0.00	88.88	177.77	88.88	0.00	0.00	0.00	0.00	0.00
<b>Total Charges and interest</b>	<b>3.35</b>	<b>3.74</b>	<b>3.74</b>	<b>3.66</b>	<b>2.25</b>	<b>0.46</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
<i>of which: Extended Credit Facility</i>	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
<i>of which: Rapid Credit Facility</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>of which: Emergency Assistance</i>	3.35	3.73	3.73	3.65	2.25	0.46	0.00	0.00	0.00	0.00	0.00
<b>Total Principal and Charges and interest</b>											
In percent of government revenue	0.40	0.61	0.47	0.63	0.71	0.42	0.09	0.09	0.08	0.07	0.03
In percent of exports of goods and services	0.26	0.46	0.37	0.52	0.59	0.35	0.08	0.08	0.07	0.07	0.03
In percent of GDP	0.03	0.05	0.05	0.06	0.07	0.04	0.01	0.01	0.01	0.01	0.00
<b>Total Outstanding Fund obligations based on existing credit</b>											
In millions of SDRs	420.54	292.55	173.70	82.28	36.57	0.00	0.00	0.00	0.00	0.00	0.00
In percent of IMF Quota	39.43	27.43	16.29	7.71	3.43	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Outstanding Fund obligations based on existing and prospective credit</b>											
In millions of SDRs	953.84	825.85	707.00	526.70	303.22	159.99	124.44	88.88	53.33	17.78	0.00
In millions of USD	1,302.44	1,145.87	984.36	735.32	424.44	224.78	174.83	124.87	74.93	24.98	0.00
In percent of government revenue	5.01	3.82	2.68	1.79	0.95	0.46	0.33	0.22	0.12	0.04	0.00
In percent of exports of goods and services	3.24	2.87	2.12	1.48	0.79	0.39	0.28	0.19	0.10	0.03	0.00
In percent of GDP	0.41	0.33	0.26	0.18	0.09	0.05	0.03	0.02	0.01	0.00	0.00
In percent of IMF Quota	89.43	77.43	66.29	49.38	28.43	15.00	11.67	8.33	5.00	1.67	0.00
<b>Memorandum items</b>											
Nominal GDP (millions of USD)	318,955	344,009	378,784	414,564	453,724	496,583	542,984	592,612	646,777	704,573	767,534
Exports of goods and services (millions of USD)	40,257	39,951	46,389	49,845	53,564	57,566	61,867	66,490	71,458	76,797	82,535
Government revenue (millions of USD)	26,007	30,023	36,696	40,973	44,633	48,624	52,937	57,550	62,569	67,926	73,746
Gross international reserves (millions of USD)	30,652	26,778	27,567	27,385	28,155	29,137	31,152	33,889	37,792	43,078	49,933
IMF Quota (millions of SDR)	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6

Source: IMF staff estimates and projections.

## Appendix I. Letter of Intent

May 20, 2020

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

Dear Ms. Georgieva,

The Bangladesh economy has undergone a major transformation over the past decade. Macroeconomic stability has been preserved, and Bangladesh is in a stronger position. This has led to higher reserves, lower public debt as a share of GDP, and lower underlying inflation. This change has also been spearheaded by the rapid expansion of the garment industry and inflow of remittances, the lifeline for many rural families, which have helped reduce poverty and raise employment in rural communities, particularly for women.

The COVID-19 outbreak is having a significant adverse impact on the Bangladeshi economy and has resulted in an urgent balance of payments need. The outbreak will result in a major disruption of two main sources of external financing, exports of Ready-Made Garments (RMG) and remittance inflows in FY20 and FY21. In FY19, these two sources generated about USD 50 billion (about 17 percent of GDP) of foreign receipts. In addition, policy responses implemented to prevent the domestic spread of the pandemic, including the shutdown of major cities, will also adversely affect domestic economic activity and reduce growth. Current estimates point to an external financing gap of about USD 2.9 billion or 0.9 percent of GDP, and a fiscal financing gap of similar size is also projected to emerge. This estimate is subject to downside risks should a more adverse impact from COVID-19 materialize. In this regard, financing from the IMF and other multilateral lenders will be critical early on to control the spread of COVID-19 and mitigate its adverse economic impact.

As a result of the outbreak, the current account deficit is expected to expand to around 2.2 percent of GDP in FY20. The RMG sector accounts for more than eighty percent of the country's exports, and the industry has been hard hit by the cancellation or postponement of several billion US dollars in orders from major retailers in importing countries. Exports are projected to decline by about 18 percent in FY20. At the same time, many migrant workers are based in Gulf countries that are affected by the abrupt decline in oil prices, and remittances have started to decline. In March, remittances fell by about 11 percent y/y, following 20 percent growth in the first 8 months of FY20. In April, remittances declined further by around 25 percent y/y. Overall in FY20, remittances are projected to grow by 1.4 percent. The current account deficit is projected to expand further to around 3½ percent in FY21 as remittances are expected to further decline and as export growth remains weak while imports start to increase.



In addition to its impact on the balance of payments, the COVID-19 outbreak is expected to have significant adverse impacts on economic growth and fiscal revenues. In FY20, growth is projected to decline by about half, compared to about 8 percent in FY19. The fiscal position is projected to weaken substantially as well. Before the outbreak, we have been pursuing a policy of keeping the deficits at or below 5 percent of GDP, and the public debt-to-GDP ratio has been relatively stable at around 35 percent. In FY20, we launched a reformed VAT which is expected to boost revenue collection in the medium term. However, with the COVID-19 outbreak, the fiscal situation is expected to weaken. The disruption of economic activity is expected to weaken tax revenues, which in combination with COVID-19 related spending, is expected to further increase the deficit to over 6 percent of GDP. Most of this deficit (close to 4 percent of GDP) is expected to be financed by domestic banks. Bank lending to the government has already increased sharply before the COVID-19 outbreak as the issuance of national savings certificates (NSC), a major source of financing in previous years, has been reduced in order to reform the system. This high demand for bank borrowing could complicate banks' ability to play the envisaged role in supporting the economy (see below), particularly in case of deposit outflows and reduced liquidity. The use of RCF/RFI funds to finance part of the temporary increased budget deficit would mitigate this risk and free bank credit to support the economy.

The government has responded actively to contain and mitigate the impact of the COVID-19 outbreak and declared a stimulus package of Tk 991.09 billion. To contain the outbreak, the government declared a general holiday from March 26<sup>th</sup> to April 4<sup>th</sup>, which has been extended until May 30<sup>th</sup>: government offices, private offices, and courts were closed, commercial banks operated shorter hours and individuals have been requested to stay home except to collect daily necessities and emergency supplies. To mitigate the impact on the economy and the population, a series of fiscal, monetary and regulatory measures have been put in place.

At end-March, the Ministry of Finance issued a revised budget for FY20 that includes additional resources to fund the Health Services Division, Ministry of Health and Family Welfare's COVID-19 Preparedness and Response Plan, including compensation and honoraria to the front line health workers exposed to the pandemic while on duty, purchase of medical and surgical requisites (MS&R), as well as covering quarantine expenditures for medical institutes. It also expanded existing transfer programs that benefit the poor. Increased allocation has been made to the Open Market Sale (OMS) program to facilitate the purchase of rice at one-third of the market price. The Ministry of Disaster Management and Relief has distributed more than 325,000 Metric tons of food at the district level and has a plan to provide food support to 5 million more families through ration cards under the Food-Friendly Program during FY20. The government also intends to increase allowances for the elderly, widows and financially insolvent disabled persons, provide housing for the homeless, and develop cash transfer programs to reach the urban poor. In addition, we have announced a Tk 50 billion stimulus package for exporting industries to pay worker salaries. These funds will be channeled by Bangladesh Bank (BB) through commercial banks. The scheme is expected to benefit close to 4 million workers for a three-month period. The Ministry of Finance will also subsidize interest payments on up to Tk 500 billion in working capital loans by scheduled banks to businesses. In addition, an agricultural subsidy of Tk 107 billion, including for seeds, fertilizer, innovation,

mechanization and irrigation, is to be included in the FY20/21 Budget. The National Board of Revenue has suspended duties and taxes on imports of medical supplies, including protective equipment and test kits. The government has approached international financial institutions seeking immediate needs for health sector and budget support, and similar requests have been addressed to bilateral development partners.

On its part, BB's main priority has been to ensure adequate liquidity in the financial system so that banks and other financial institutions can provide the necessary support to the economy. The measures implemented thus far include:

- Reduction in the repo rate in two steps from 6 percent to 5.25 percent.
- Reduction of the cash reserve requirement (CRR) in two steps from 5 percent to 3.5 percent (daily-basis) and from 5.5 percent to 4 percent (bi-weekly basis).
- To support their operations and provide liquidity, BB expanded a repo facility to purchase treasury bonds and bills at the market rate from banks and nonbank financial institutions after these institutions meet the statutory liquidity ratio (SLR).
- BB's Export Development Fund was raised to USD 5 billion from USD 3.5 billion, with the interest rate now fixed at 2 percent.
- BB has also taken measures to relieve late fees for credit cards, extend tenures of trade instruments, and ensure access to financial services.
- BB has also relaxed foreign exchange regulations for trade and some specific non-trade transactions and provided liquidity to foreign exchange markets by selling USD.

With the support of BB, the banking sector is expected to play an important role in channeling assistance to the economy. While banks will bear credit risks of these activities and are expected to use their own capital for the majority of the funding, they will be receiving some limited financial support. Specifically, banks will:

- Provide 2-year loans with 6 months grace period up to Tk 50 billion (financed by the budget and channeled to banks by BB at zero interest rate) with a 2 percent one-time service charge to finance salaries and allowances for workers in export industries.
- Provide Tk 300 billion loans to existing clients in industry and services to finance working capital using their own capital, at an interest rate of 9 percent with the government providing a subsidy to banks for 4.5 percent. BB has launched a refinance scheme (revolving) of Tk150 billion to ensure available liquidity for these loans.
- Provide Tk 200 billion loans to SMEs and cottage industry to finance working capital using their own capital, at interest rate 9 percent with government providing subsidy to banks for 5 percent. BB has launched a revolving refinance scheme of Tk 100 billion to facilitate these loans.

- Lend from the two refinancing schemes provided by BB: Tk 50 billion Pre-shipment Credit Refinance Scheme and Tk 50 billion Special Incentive Re-financing Scheme for the agricultural sector. Banks will borrow from the schemes at 3 percent (1 percent) and lend at 6 percent (4 percent).
- Lend from BB's newly launched refinance scheme of Tk 30 billion for COVID-19 affected low-income professionals, farmers, and marginal/micro businessmen. BB will charge banks interest of 1 percent, and banks will charge micro-finance institutions (MFIs) 3.5 percent interest. At the client level, MFIs will charge a maximum interest rate of 9 percent.

Following the emergency response to the crisis and stabilization of the economy, we intend to re-focus on addressing banking sector problems, including nonperforming loans and poor performance of SOCBs. Before the Covid-19 outbreak, we have already started amending several laws to enforce more banking sector discipline. Looking ahead, we are committed to address the issues as a matter of priority by ensuring effective banking sector supervision, strengthening corporate governance of commercial banks, and improving the financial performance of SOCBs.

At the same time, following the temporary widening as a result of the COVID-19 outbreak, we are committed to bring the fiscal deficit gradually back to 5 percent of GDP while ensuring smooth recovery of economy. We recognize that restoring fiscal discipline and debt sustainability, while allowing the government to provide the necessary public services and investment, will require an improvement in revenue performance. With the ongoing Fund technical assistance, we are determined to strengthen tax administration, reduce tax exemptions, broaden the tax base, and strengthen tax compliance.

Against this background, the Government of Bangladesh requests emergency financing from the IMF in the equivalent of SDR 533.3 million (about USD 728 million), equivalent to 50 percent of quota with a 1:2 ratio under the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) with 16.67 percent of quota, SDR 177.77 million, from PRGT resources and 33.33 percent of quota, SDR 355.53 million, from GRA resources. The IMF assistance will help meet the urgent foreign exchange needs stemming from the disruptions to remittances and RMG exports as a result of the COVID-19 pandemic and mitigate the near-term pressure on balance of payments and on the budget. The Fund's assistance is also expected to catalyze additional financial assistance in the form of grants and concessional loans from the World Bank, the Asian Development Bank, the Islamic Development Bank, the Asian Infrastructure Investment Bank, and bilateral partners.

Bangladesh commits to undergo a safeguard assessment, provide Fund staff with access to its central bank's most recently completed external audit reports, and authorize its external auditors to hold discussions with Fund staff. The Ministry of Finance and BB are finalizing a Memorandum of Understanding on their respective roles and responsibilities for servicing financial obligations to the Fund. We are committed to ensuring that crisis resources are used transparently and effectively. Toward that end, we will ensure that applicants for COVID-19 related contracts provide their beneficial ownership information to the government and that this information is appropriately recorded and made available to audit authorities and will publish online (i) an audit of COVID-19

related expenditures and other government subsidized programs by the Office of the Comptroller and Auditor General within 12 months and (ii) crisis-related public procurement contracts and related documents, including the names of the companies awarded the contract and ex-post validation of delivery. We will seek to adopt reforms to allow publication of beneficial ownership information of companies awarded public procurement contracts as soon as feasible.

BB affirms that it will support the recovery efforts, in its capacity as the counterparty for Fund lending to Bangladesh. The resources provided under the RCF/RFI will be lent to the Treasury. BB will make all efforts to avoid monetary financing of government credit operations. The Government does not intend to introduce measures or policies that would exacerbate balance of payments difficulties, including not to introduce or intensify exchange and trade restrictions that would compound these difficulties.

We authorize the Fund to publish this Letter of Intent and the staff report for the request for disbursement under the RCF/RFI.

Sincerely yours,

/s/

Mr. A.H.M. Mustafa Kamal  
Minister of Finance of Bangladesh

/s/

Mr. Fazle Kabir  
Governor of Central Bank of Bangladesh



# BANGLADESH

May 21, 2020

## REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS<sup>1</sup>

Approved By  
**Anne-Marie Gulde-Wolf and Kevin Fletcher**  
(IMF) and **Marcello Estevão** (IDA)

Prepared by  
International Monetary Fund  
International Development Association

<b>Bangladesh: Joint Fund-Bank Debt Sustainability Analysis<sup>1</sup></b>	
<b>Risk of external debt distress</b>	Low <sup>2</sup>
<b>Overall risk of debt distress</b>	Low
<b>Granularity in the risk rating</b>	Tool not applicable
<b>Application of judgement</b>	No
<b>Macroeconomic projections</b>	Growth is projected at 3.8 percent in FY20 compared with a pre-pandemic projection above 7 percent. The current account deficit (CAD) is projected at 2.2 percent compared to around 1 percent before the pandemic. The CAD deterioration is due to lower exports, as ready-made garment (RMG) orders are being cancelled into the summer, and remittances decline, as workers are being asked to return to Bangladesh and as economic activity declines in their destination economies. COVID-19 will also impact FY21 through the same channels with growth projected at

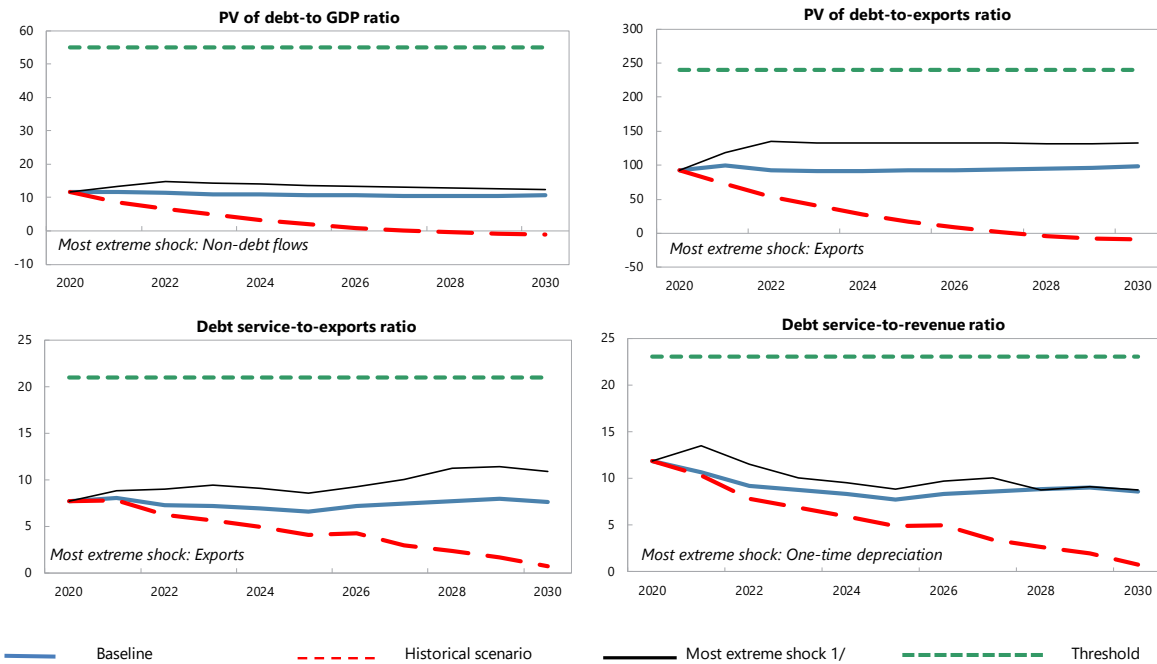
<sup>1</sup> This joint World Bank/IMF Debt Sustainability Analysis (DSA) has been prepared in the context of the 2020 request for emergency financing from the Fund. The macroeconomic framework underlying this DSA update is the same as that included in the staff report of the 2020 RFI/RCF request which reflects recent global and domestic developments. The current macroeconomic framework reflects currently available information. However, updates with respect to the economic impact and policy response to the COVID-19 crisis are rapidly evolving and risks are heavily tilted to the downside.

<b>Bangladesh: Joint Fund-Bank Debt Sustainability Analysis (concluded)</b>	
	5.7 percent (compared to 7.3 percent pre-pandemic) and the CAD projected at 3.5 percent (compared to 1.5 percent pre-pandemic). The fiscal deficit is projected to worsen to around 6.3 percent of GDP in FY20 due to lower revenues and higher expenditure as the government increases expenditures in an effort to counter the negative economic impact from COVID-19.
<b>Financing strategy</b>	The COVID-19 shock is projected to disrupt the execution of externally financed projects in FY20 but external PPG debt-to-GDP ratios over the long run are broadly similar to the last DSA. Domestic financing is projected to remain an important source of deficit financing as in the past and as assumed in the last DSA. Financing-gap-filling funds from the IMF, World Bank, ADB, and other unidentified sources are included in this DSA. <sup>3</sup> Unidentified funds are assumed to be semi-concessional with a grant element around 14 percent.
<b>Realism tools flagged</b>	No
<p><sup>1</sup> Debt coverage includes debt guaranteed by the government.</p> <p><sup>2</sup> The composite indicator for Bangladesh is 3.06 based on the October 2019 WEO and suggests a strong debt-carrying capacity.</p> <p><sup>3</sup> The authorities do not plan to apply for the Debt Service Suspension Initiative supported by the G20 and Paris Club at this time. The initiative provides a time-bound suspension of official bilateral debt service payments to IDA-eligible and least developed countries.</p>	

*Bangladesh remains at a low risk of external and a low overall risk of debt distress. This assessment stands despite the economic shock caused by COVID-19. External debt indicators are below their thresholds and the public debt level is below the benchmark under the baseline and stress test scenarios. Risks to the baseline are tilted downward. Under the baseline, the impact from COVID-19 is concentrated in Q4 of FY20<sup>2</sup> and Q1 of FY21 with some recovery in Q2 of FY21 and growth gradually resumes thereafter though output remains below pre-pandemic projections. Should the impact from COVID-19 be more protracted, debt indicators will worsen but are expected to remain below thresholds. Future infrastructure projects will be financed with external debt, but favorable debt dynamics in the medium-term keep PPG external debt stable. The authorities should continue to increase tax revenues and seek concessional financing to the extent possible. Staff commend recent reforms to the sale of National Savings Certificates (NSCs) and advise further reform to pricing so that the domestic debt market has more space to develop.*

<sup>2</sup> The fiscal year begins in July and ends in June. The years in tables and charts refer to fiscal years.

**Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2020–2030**



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

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

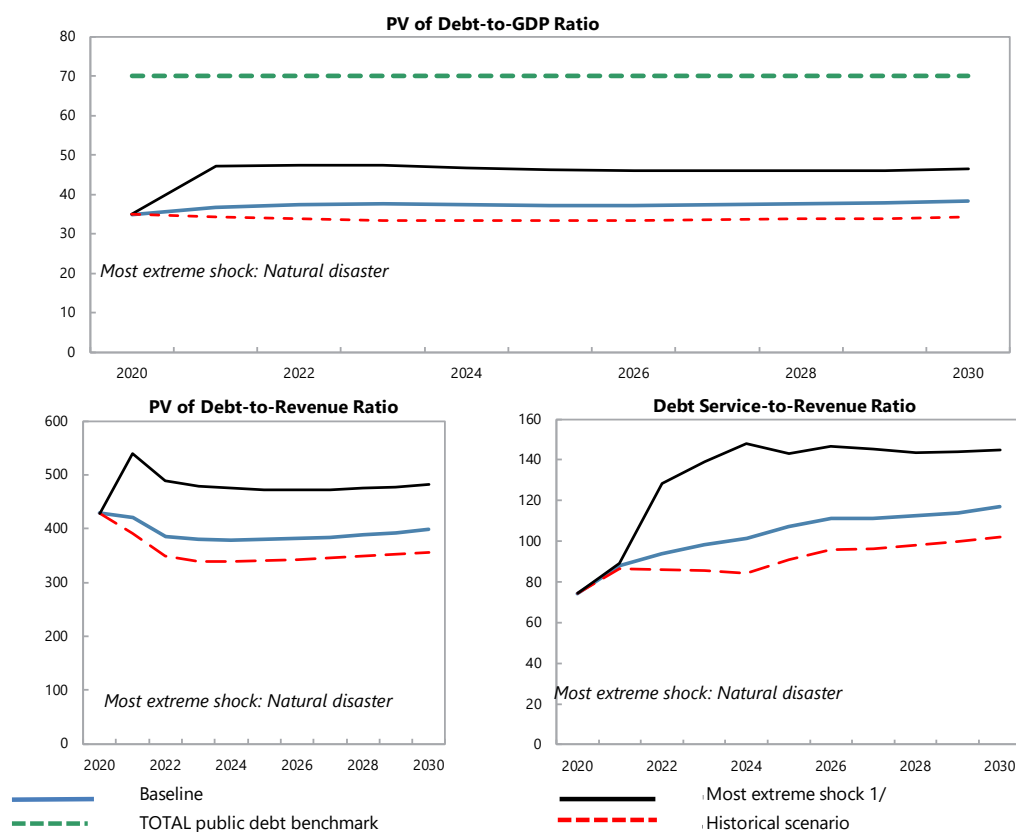
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
<b>Shares of marginal debt</b>		
External PPG MLT debt	100%	
<b>Terms of marginal debt</b>		
Avg. nominal interest rate on new borrowing in USD	2.9%	2.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	19	19
Avg. grace period	5	5

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Figure 2. Bangladesh: Indicators of Public Debt Under Alternative Scenarios, 2020–2030**



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
<b>Shares of marginal debt</b>		
External PPG medium and long-term	13%	13%
Domestic medium and long-term	59%	59%
Domestic short-term	28%	28%
<b>Terms of marginal debt</b>		
<b>External MLT debt</b>		
Avg. nominal interest rate on new borrowing in USD	2.9%	2.9%
Avg. maturity (incl. grace period)	19	19
Avg. grace period	5	5
<b>Domestic MLT debt</b>		
Avg. real interest rate on new borrowing	3.8%	3.8%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
<b>Domestic short-term debt</b>		
Avg. real interest rate	1.4%	1.4%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.



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

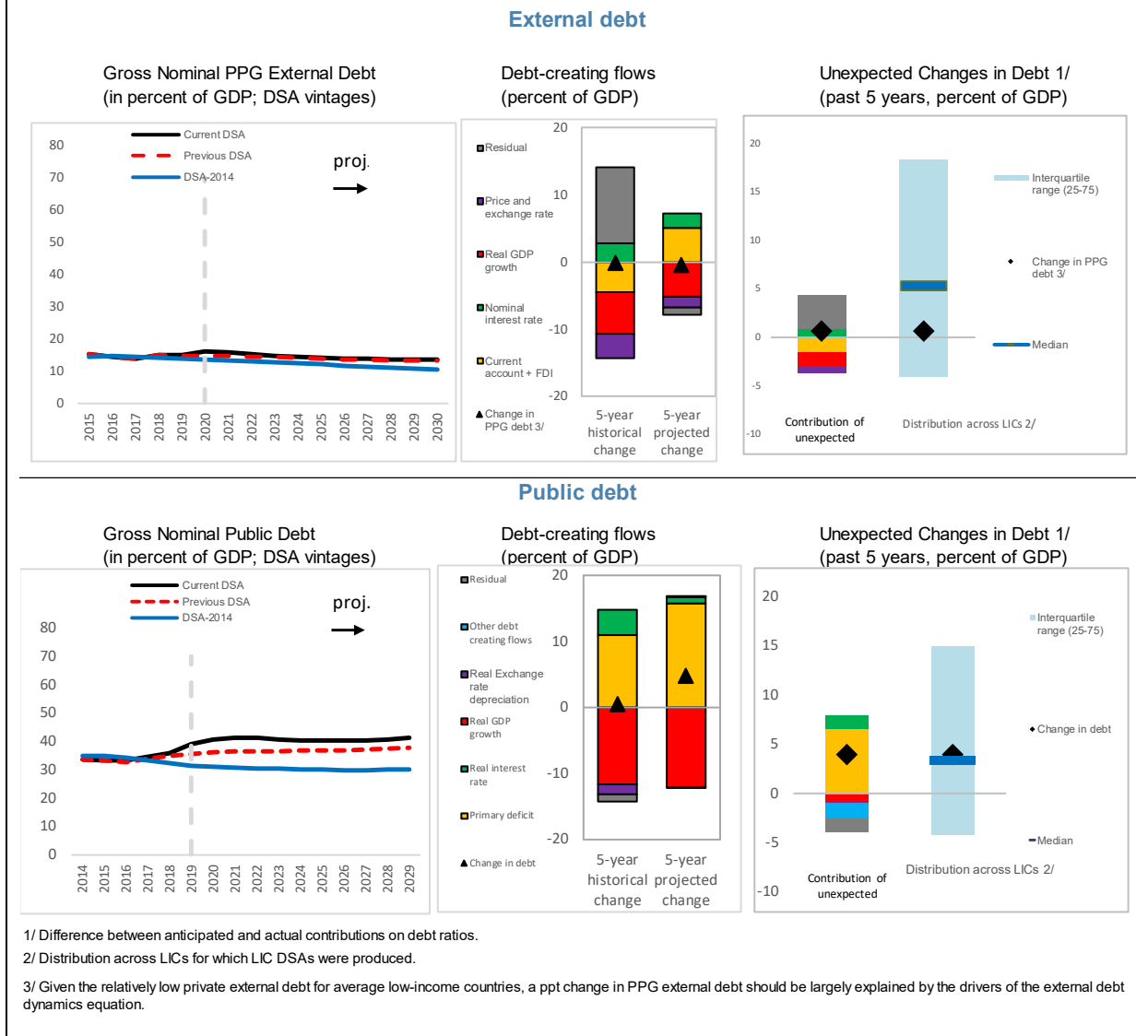
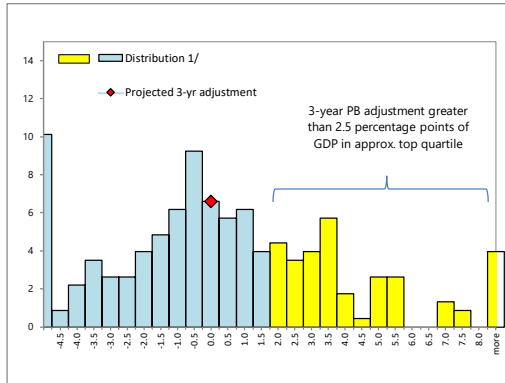


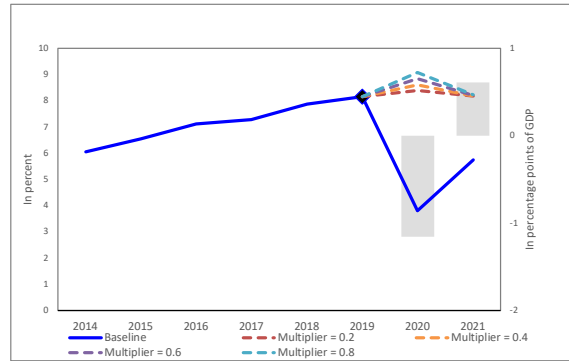
Figure 4. Bangladesh: Realism Tools

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



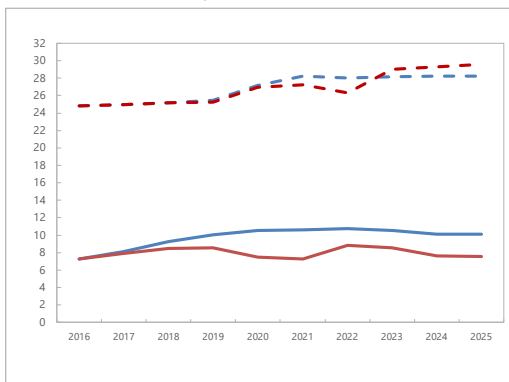
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



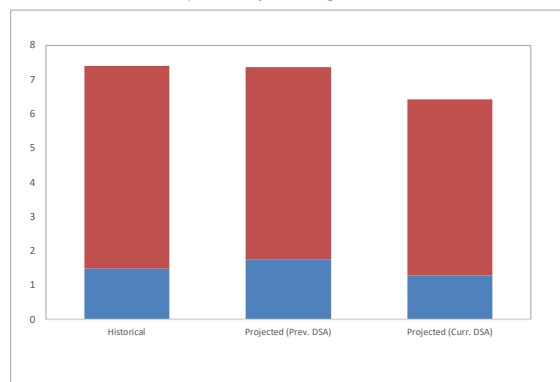
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates  
(percent of GDP)



— Gov. Invest. - Prev. DSA      — Gov. Invest. - Curr. DSA  
- - - Priv. Invest. - Prev. DSA      - - - Priv. Invest. - Curr. DSA

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

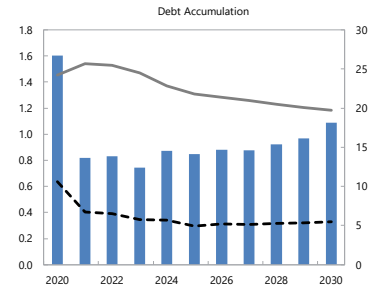


■ Contribution of other factors  
■ Contribution of government capital

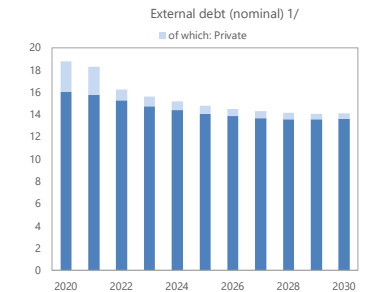
**Table 1. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, 2017–2040 1/**  
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
<b>External debt (nominal) 1/</b>	18.0	20.0	18.5	18.7	18.3	16.2	15.6	15.2	14.8	14.1	16.5	18.7	15.4
<i>of which: public and publicly guaranteed (PPG)</i>	13.7	14.9	14.9	16.0	15.8	15.3	14.7	14.4	14.0	13.6	16.3	15.9	14.4
Change in external debt	-0.5	2.0	-1.4	0.2	-0.5	-2.1	-0.6	-0.4	-0.4	0.0	0.0		
Identified net debt-creating flows	-2.2	1.2	-1.0	1.0	1.7	-0.4	0.0	-0.1	-0.2	-0.5	1.5	-2.9	0.0
<b>Non-interest current account deficit</b>	-0.1	2.8	1.1	1.7	2.9	1.4	1.5	1.5	1.5	1.6	4.5	-0.5	1.6
Deficit in balance of goods and services	5.1	8.2	6.3	7.0	7.5	5.4	5.3	5.1	4.9	4.2	5.7	6.8	5.2
Exports	15.1	14.9	15.4	12.6	11.6	12.2	12.0	11.8	11.6	10.8	11.4		
Imports	20.2	23.1	21.8	19.6	19.1	17.7	17.3	16.9	16.5	15.0	17.0		
Net current transfers (negative = inflow)	-5.3	-5.6	-5.6	-5.4	-4.6	-4.3	-4.0	-3.9	-3.7	-3.1	-1.6	-8.0	-3.9
<i>of which: official</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	0.2	0.2	0.3	0.0	0.1	0.2	0.3	0.3	0.3	0.4	0.5	0.7	0.2
<b>Net FDI (negative = inflow)</b>	-0.7	-0.7	-0.9	-0.5	-0.8	-0.8	-0.8	-0.9	-1.0	-1.5	-2.5	-0.8	-1.0
<b>Endogenous debt dynamics 2/</b>	-1.5	-0.9	-1.2	-0.1	-0.5	-0.9	-0.7	-0.7	-0.6	-0.5	-0.5		
Contribution from nominal interest rate	0.6	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.4	0.4	0.5		
Contribution from real GDP growth	-1.2	-1.3	-1.5	-0.7	-1.0	-1.3	-1.1	-1.0	-1.0	-0.9	-1.0		
Contribution from price and exchange rate changes	-0.9	-0.3	-0.4	...	...	...	...	...	...	...	...		
<b>Residual 3/</b>	1.7	0.8	-0.4	-0.8	-2.1	-1.7	-0.6	-0.3	-0.3	0.5	-1.5	2.5	-0.4
<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		
<b>Sustainability indicators</b>													
<b>PV of PPG external debt-to-GDP ratio</b>	...	...	10.7	11.7	11.6	11.3	11.0	10.8	10.7	10.6	13.9		
<b>PV of PPG external debt-to-exports ratio</b>	...	...	69.5	92.7	99.9	92.2	91.5	91.9	92.2	98.8	122.8		
<b>PPG debt service-to-exports ratio</b>	4.4	5.1	5.3	7.7	8.0	7.2	7.2	6.9	6.6	7.6	10.0		
<b>PPG debt service-to-revenue ratio</b>	6.5	7.9	8.4	11.9	10.7	9.2	8.8	8.3	7.8	8.6	11.5		
Gross external financing need (Million of U.S. dollars)	9043.8	18626.3	17297.3	16506.2	17600.9	12158.9	7997.3	7992.6	7698.1	8371.8	57151.8		
<b>Key macroeconomic assumptions</b>													
Real GDP growth (in percent)	7.3	7.9	8.2	3.8	5.7	8.0	7.3	7.3	7.3	6.8	6.5	6.8	6.7
GDP deflator in US dollar terms (change in percent)	5.1	1.7	2.1	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.6	4.4	2.0
Effective interest rate (percent) 4/	3.6	4.4	3.5	3.1	3.1	2.2	2.4	2.4	2.8	2.8	3.2	2.3	2.9
Growth of exports of G&S (US dollar terms, in percent)	1.8	8.5	14.5	-13.9	-0.8	16.1	7.5	7.5	7.5	7.5	9.7	10.7	5.6
Growth of imports of G&S (US dollar terms, in percent)	9.3	25.4	4.3	-5.0	4.8	2.0	7.0	7.0	7.0	7.0	12.0	11.4	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	24.2	25.7	25.4	24.5	22.9	21.8	19.7	17.9	...	22.5
Government revenues (excluding grants, in percent of GDP)	10.2	9.6	9.7	8.2	8.7	9.7	9.9	9.8	9.8	9.6	9.9	10.1	9.5
Aid flows (in Million of US dollars) 5/	3358.0	6092.7	5977.0	1556.3	1571.3	1581.3	1581.3	1591.3	1591.3	1595.3	1607.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.6	0.4	0.4	0.3	0.3	0.3	0.3	0.4	...	0.4
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	24.4	26.1	26.0	25.0	23.4	22.4	20.1	18.0	...	22.9
Nominal GDP (Million of US dollars)	249,695	274,006	302,524	318,955	344,009	378,784	414,564	453,724	496,583	767,534	1,767,004		
Nominal dollar GDP growth	12.8	9.7	10.4	5.4	7.9	10.1	9.4	9.4	9.4	8.9	9.3	11.5	8.8
<b>Memorandum items:</b>													
PV of external debt 7/	...	...	14.4	14.4	14.1	12.3	11.9	11.7	11.4	11.1	14.1		
In percent of exports	...	...	93.1	114.2	121.6	100.1	98.8	98.7	98.5	103.2	124.6		
Total external debt service-to-exports ratio	24.7	29.2	32.4	31.3	25.8	21.5	10.4	9.9	9.3	9.6	10.7		
PV of PPG external debt (in Million of US dollars)	...	...	32457.2	37307.4	39923.9	42786.2	45609.9	49221.0	53059.3	81566.2	246348.2		
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	1.6	0.8	0.8	0.7	0.9	0.8	1.1	1.7	1.7		
Non-interest current account deficit that stabilizes debt ratio	0.5	0.8	2.5	1.5	3.4	3.4	2.1	1.9	1.9	1.5	4.5		

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



■ Debt Accumulation  
 - - - Grant-equivalent financing (% of GDP)  
 — Grant element of new borrowing (% right scale)



■ External debt (nominal) 1/  
 ■ of which: Private

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

Table 2. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–2040

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
<b>Public sector debt 1/</b>	33.4	34.6	35.9	39.1	40.7	41.1	41.1	40.7	40.3	41.1	43.5	35.0	40.5
of which: external debt	13.7	14.9	14.9	16.0	15.8	15.3	14.7	14.4	14.0	13.6	16.3	15.9	14.4
Change in public sector debt	0.0	1.2	1.3	3.2	1.6	0.4	0.0	-0.5	-0.3	0.4	-0.4		
<b>Identified debt-creating flows</b>	-0.2	1.3	1.1	3.0	1.7	0.4	0.0	-0.4	-0.3	0.4	0.0	-0.1	0.5
<b>Primary deficit</b>	1.6	2.8	3.2	4.4	3.7	3.1	2.6	1.9	1.9	2.3	1.8	1.8	2.6
Revenue and grants	10.2	9.7	9.7	8.2	8.7	9.7	9.9	9.8	9.8	9.6	9.9	10.2	9.5
of which: grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	11.8	12.4	12.9	12.5	12.5	12.8	12.5	11.8	11.7	11.9	11.6	12.0	12.1
<b>Automatic debt dynamics</b>	-1.9	-1.5	-2.1	-1.3	-2.1	-2.7	-2.5	-2.3	-2.2	-1.9	-1.7		
Contribution from interest rate/growth differential	-1.6	-1.6	-2.1	-1.3	-2.1	-2.7	-2.5	-2.3	-2.2	-1.9	-1.7		
of which: contribution from average real interest rate	0.7	0.8	0.5	0.0	0.1	0.3	0.3	0.5	0.6	0.7	1.0		
of which: contribution from real GDP growth	-2.3	-2.4	-2.6	-1.3	-2.1	-3.0	-2.8	-2.8	-2.8	-2.6	-2.7		
Contribution from real exchange rate depreciation	-0.2	0.1	0.0	...	...	...	...	...	...	...	...		
<b>Other identified debt-creating flows</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Residual</b>	0.3	-0.1	0.2	0.2	-0.1	0.0	-0.1	-0.1	0.0	0.0	-0.4	-0.2	0.0
<b>Sustainability indicators</b>													
<b>PV of public debt-to-GDP ratio 2/</b>	...	...	31.9	35.0	36.7	37.4	37.6	37.3	37.2	38.4	41.1		
<b>PV of public debt-to-revenue and grants ratio</b>	...	...	327.7	428.6	420.2	385.2	380.0	379.2	379.6	399.3	416.9		
<b>Debt service-to-revenue and grants ratio 3/</b>	57.8	50.1	54.6	74.3	87.9	93.9	98.5	101.3	107.3	116.8	110.3		
Gross financing need 4/	8.2	8.0	9.0	10.4	11.4	12.2	12.3	11.9	12.4	13.6	12.6		
<b>Key macroeconomic and fiscal assumptions</b>													
Real GDP growth (in percent)	7.3	7.9	8.2	3.8	5.7	8.0	7.3	7.3	7.3	6.8	6.5	6.8	6.7
Average nominal interest rate on external debt (in percent)	1.3	1.8	2.1	1.9	2.0	2.0	2.0	2.0	2.4	2.6	3.2	1.3	2.4
Average real interest rate on domestic debt (in percent)	3.9	4.9	2.8	-0.4	0.1	1.3	1.1	1.8	2.1	2.5	3.0	4.3	1.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.8	0.5	-0.1	...	...	...	...	...	...	...	...	-2.4	...
Inflation rate (GDP deflator, in percent)	6.3	5.6	4.5	5.2	5.6	5.5	6.2	6.2	6.2	6.7	7.0	6.5	6.1
Growth of real primary spending (deflated by GDP deflator, in percent)	10.1	13.4	12.5	0.4	5.4	10.7	4.6	1.5	6.3	8.3	6.2	9.2	6.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.6	1.6	1.9	1.1	2.2	2.7	2.6	2.4	2.2	1.9	2.1	1.7	2.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

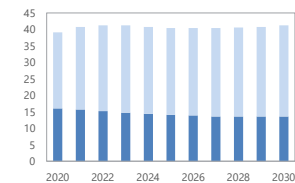
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-); a primary surplus, which would stabilize the debt ratio only in the year in question.

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

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

Public sector debt 1/

■ of which: local-currency denominated  
■ of which: foreign-currency denominated



**Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020-2030**

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>PV of debt-to GDP ratio</b>											
<b>Baseline</b>	12	12	11	11	11	11	11	10	10	10	11
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2020-2030 2/	12	8	7	5	3	2	1	0	0	-1	-1
<b>B. Bound Tests</b>											
B1. Real GDP growth	12	12	12	11	11	11	11	11	11	11	11
B2. Primary balance	12	12	11	11	11	11	11	11	11	11	11
B3. Exports	12	13	14	14	13	13	13	13	12	12	12
B4. Other flows 3/	12	13	15	14	14	14	13	13	13	13	12
B5. Depreciation	12	15	11	11	11	11	11	11	11	11	12
B6. Combination of B1-B5	12	14	13	13	13	13	12	12	12	12	12
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	12	12	12	12	12	12	12	12	12	12	13
C2. Natural disaster	12	13	13	13	13	13	13	13	13	13	14
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	55	55	55	55	55	55	55	55	55	55	55
<b>PV of debt-to-exports ratio</b>											
<b>Baseline</b>	93	100	92	92	92	92	93	94	95	96	99
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2020-2030 2/	93	73	54	40	28	17	8	1	-4	-8	-9
<b>B. Bound Tests</b>											
B1. Real GDP growth	93	100	92	92	92	92	93	94	95	96	99
B2. Primary balance	93	101	94	93	94	95	96	97	98	100	102
B3. Exports	93	118	135	133	133	133	133	132	132	132	133
B4. Other flows 3/	93	115	120	119	118	118	118	117	116	115	116
B5. Depreciation	93	100	73	72	73	74	75	77	79	82	86
B6. Combination of B1-B5	93	118	104	113	113	113	113	113	113	114	116
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	93	106	100	101	103	105	107	109	111	113	116
C2. Natural disaster	93	113	107	109	113	115	118	121	124	127	131
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	240	240	240	240	240	240	240	240	240	240	240
<b>Debt service-to-exports ratio</b>											
<b>Baseline</b>	8	8	7	7	7	7	7	7	8	8	8
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2020-2030 2/	8	8	6	6	5	4	4	3	2	2	1
<b>B. Bound Tests</b>											
B1. Real GDP growth	8	8	7	7	7	7	7	7	8	8	8
B2. Primary balance	8	8	7	7	7	7	7	8	8	8	8
B3. Exports	8	9	9	9	9	9	9	10	11	11	11
B4. Other flows 3/	8	8	8	8	8	7	8	9	10	10	10
B5. Depreciation	8	8	7	7	6	6	7	7	6	6	6
B6. Combination of B1-B5	8	8	8	8	8	8	8	9	9	10	9
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	8	8	7	7	7	7	8	8	8	8	8
C2. Natural disaster	8	8	8	8	8	7	8	8	9	9	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	21	21	21	21	21	21	21	21	21	21	21
<b>Debt service-to-revenue ratio</b>											
<b>Baseline</b>	12	11	9	9	8	8	8	9	9	9	9
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2020-2030 2/	12	10	8	7	6	5	5	3	3	2	1
<b>B. Bound Tests</b>											
B1. Real GDP growth	12	11	9	9	9	8	9	9	9	9	9
B2. Primary balance	12	11	9	9	8	8	8	9	9	9	9
B3. Exports	12	11	10	10	9	9	9	10	11	11	10
B4. Other flows 3/	12	11	10	10	9	9	9	10	11	11	11
B5. Depreciation	12	13	12	10	10	9	10	10	9	9	9
B6. Combination of B1-B5	12	11	10	10	9	9	9	10	10	11	10
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	12	11	9	9	9	8	9	9	9	10	9
C2. Natural disaster	12	11	10	9	9	8	9	9	10	10	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

**Table 4. Bangladesh: Sensitivity Analysis for Key Indicators of Public Debt, 2020-2030**

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>PV of Debt-to-GDP Ratio</b>											
<b>Baseline</b>	35	37	37	38	37	37	37	37	38	38	38
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2020-2030 2/	35	34	34	33	33	33	33	34	34	34	34
<b>B. Bound Tests</b>											
B1. Real GDP growth	35	37	39	39	39	39	39	40	40	41	41
B2. Primary balance	35	37	39	39	39	38	38	38	39	39	39
B3. Exports	35	38	40	40	40	39	39	39	39	39	40
B4. Other flows 3/	35	38	41	41	41	40	40	40	40	40	40
B5. Depreciation	35	37	37	36	35	35	34	33	33	33	33
B6. Combination of B1-B5	35	36	37	36	36	36	36	36	36	36	37
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	35	44	44	44	43	43	43	42	42	43	43
C2. Natural disaster	35	47	47	47	47	46	46	46	46	46	46
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>TOTAL public debt benchmark</b>	70	70	70	70	70	70	70	70	70	70	70
<b>PV of Debt-to-Revenue Ratio</b>											
<b>Baseline</b>	429	420	385	380	379	380	382	384	388	392	399
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2020-2030 2/	429	392	348	338	339	340	343	345	349	352	356
<b>B. Bound Tests</b>											
B1. Real GDP growth	429	427	399	395	397	399	404	408	414	420	429
B2. Primary balance	429	428	400	393	392	394	396	399	399	403	409
B3. Exports	429	430	411	404	403	402	404	404	406	408	414
B4. Other flows 3/	429	441	421	414	411	410	412	412	413	414	419
B5. Depreciation	429	427	380	367	359	352	348	344	342	340	341
B6. Combination of B1-B5	429	410	377	367	365	364	366	368	372	376	383
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	429	498	452	442	439	436	437	436	438	441	446
C2. Natural disaster	429	539	488	478	475	472	473	473	475	477	483
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Debt Service-to-Revenue Ratio</b>											
<b>Baseline</b>	74	88	94	99	101	107	111	111	113	114	117
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2020-2030 2/	74	86	86	86	84	91	96	96	98	100	102
<b>B. Bound Tests</b>											
B1. Real GDP growth	74	89	97	102	106	113	118	119	121	123	127
B2. Primary balance	74	88	96	104	107	113	116	116	117	118	121
B3. Exports	74	88	94	99	102	108	112	112	114	116	118
B4. Other flows 3/	74	88	94	100	102	108	112	113	115	117	119
B5. Depreciation	74	83	90	92	95	100	105	104	105	106	108
B6. Combination of B1-B5	74	85	91	96	99	105	107	107	109	110	113
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	74	88	117	125	132	130	133	132	131	131	133
C2. Natural disaster	74	89	128	139	148	143	147	145	144	144	145
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

**Statement by Surjit Bhalla, Executive Director for Bangladesh  
and Bhupal Singh, Advisor to Executive Director  
May 29, 2020**

1. On behalf of our Bangladesh authorities, we would like to express gratitude to the management and staff for productive engagement and timely response to the request for assistance under the Rapid Credit Facility (RCF)/Rapid Financing Instrument (RFI). The authorities also thank the Executive Board for its support in swiftly responding to the crisis engendered by the COVID-19 pandemic.

**I. Covid-19 and Bangladesh**

2. Bangladesh has not escaped the Covid-19 pandemic and its fallout with 38,292 reported cases as on May 27, 2020, including 544 related deaths but relatively low case fatality rate of 1.4 percent, against the world average of 6.2 percent. This is encouraging given that it has one of the highest population densities in the world. The government has responded swiftly to contain the impact of the COVID-19 outbreak. As a part of containment measures, authorities declared a general holiday from March 26 to May 30. Government and private offices, and courts were closed, while commercial banks operated shorter hours. About 60 areas in the country, with half of the places in the capital city, were placed under a specialized form of localized lockdown to fight the spread of COVID-19. Supply chains and transportation networks were disrupted by the pandemic. After several weeks of quarantine, government is phasing out lockdown and expects domestic markets to normalize.

3. Despite moderate spread of the pandemic, it has enormously impacted trade and domestic economic activity which has resulted in an urgent external financing need, as is the case in many EMEs. Current estimates point to emergence of both the external and the fiscal financing gap of 0.9 percent of GDP. Against this backdrop, authorities request emergency financing from the IMF of 50 percent of quota (about SDR 533 million) with a 1:2 ratio under RCF/RFI blend to meet the urgent foreign exchange needs.

4. The response from other international organizations has been quite encouraging. The World Bank has extended \$100 million financing to help respond to the COVID-19 pandemic and strengthen the public health emergency systems. The authorities are also grateful to the European Union for allocation of Euro 334 million for providing support in terms of health and livelihoods to those most affected by COVID-19. On 30 April, Asian Development Bank (ADB) approved a \$100 million concessional loan to support the Government's efforts to address the immediate public health requirements. Subsequently, it extended an additional \$500 million loan as part of its COVID-19 Active Response and Expenditure Support (CARES). The Asian Infrastructure Investment Bank (AIIB) has approved a USD 250 million loan to Bangladesh (co-financed with the ADB) to mitigate the adverse effects of the pandemic on the country's poor and most vulnerable, particularly those affected by job losses in small and medium enterprises and in the informal sector. Support from other bilateral donors is in the pipeline.

**II. Recent macroeconomic developments**

5. Bangladesh has made remarkable progress in reducing poverty, supported by sustained economic growth with a much-reduced absolute poverty level (poverty headcount ratio 14.8 percent in 2016 at \$1.90 a day 2011 international prices). This has been made possible by a period of sustained high growth (7.4 percent per annum) spanning a decade (FY 2010 to

2019), marked by a moderate level of twin deficits. In 2018 and 2019, Bangladesh emerged as the fastest growing economy of Asia and the sixth fastest in the world (with 8.2 percent growth in 2019). The main vehicle has been a double-digit growth in manufacturing, propelled both by large and medium sized firms. Cautiously accommodative monetary and fiscal stances have helped stabilize headline CPI inflation at 5.5 percent (y-o-y) in March 2020, same as the target for FY2020 (July 2019-June 2020).<sup>1</sup> Although supply chain disruptions have caused some uptick in non-food inflation, a significant drop in international commodity prices along with bumper agricultural production is likely to keep food and headline inflation within target. Further, the government expects total foodgrain stock of 2.1 million tonnes to be sufficient to meet food security and the higher distribution required by pandemic-related relief measures.

6. Implementation of the new VAT law in July 2019, in part, helped generate increased tax revenues, although they still remained short of the target. Domestic VAT revenue grew slower at 9.5 percent during July 2019-January 2020 (11.9 percent growth in the same period last year), overall tax revenue growth (7.5 percent) was higher than last year (7 percent), supported by higher growth in personal income tax and custom revenues. The balance of payments witnessed a surplus during July-Jan of FY 2020, contributed by a decline in the current account deficit (on the back of robust remittance inflows) and a higher inflow of FDI. The trade deficit narrowed amid tepid export growth (3.3 percent) and a contraction in imports (-4.7 percent). Since January 2020, export growth has become negative.

### **III. Economic impact of the pandemic**

7. The unprecedented world lockdown has disrupted production and supply chains of Bangladesh, and this has predictably had a large negative impact on the economy. Industries and factories have suffered from the shortage of raw materials and the disrupted supply of capital machinery. Businesses and commercial enterprises, particularly SMEs, have also experienced a negative impact. The pandemic is expected to have significant adverse impact on economic growth and fiscal position. In FY2020, growth is projected to decline to about 4 percent compared to approximately 8.2 percent in FY2019. Informal sector workers are also undergoing difficult times because of a large loss in income, particularly in the Ready-Made Garments (RMG) sector. Revenue collection is seriously hampered as production and exports are halted and the operations of most services have slowed down considerably. This will mean that the fiscal position will be substantially weakened. Disruption in economic activity is expected to weaken tax collections, which in combination with COVID-19 related spending, is expected to raise the fiscal deficit to over 6 percent of GDP in FY 2020 (budget target of 5 percent of GDP).

8. Beyond lockdown induced domestic disruptions, the two key channels of transmission of global shock are remittances (about 5 percent of GDP) and exports of RMG (more than 80 percent of total exports). As per WTO data, Bangladesh, stood as the third largest exporter of apparels in 2018, after China and the European Union (EU28). Though exports were already impacted by the global trade frictions before the pre-COVID-19 period, with the onset of the pandemic, buyers from Europe, the USA, Canada and other key export destinations have been postponing or cancelling their orders, which in turn, has affected more than a thousand factories. With export-oriented industries as the main source of formal sector employment, factory owners now face a challenging situation to pay wages.

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<sup>1</sup> Financial year for Bangladesh refers to July-June.



9. This is further compounded by declining remittance inflows due to widespread job losses of Bangladeshi migrant workers in host countries, notably due to abrupt decline in oil prices in the Middle East, which contributes about 60 percent of inward remittances. About 600,000 migrant workers have returned home since the outbreak of the pandemic. Remittance inflows declined by about 12 percent (yoy) in March and 24 percent in April 2020, in contrast to 23 percent growth in the first 8 months of FY20 (July 2019 to February 2020). The fall in remittances in recent months seems to be in line with the World Bank assessment of a plunge of about 22 percent in remittance flows to South Asia attributed to COVID-19 induced global slowdown as well as oil price collapse. Further, remittance service providers (RSPs) are not classified as essential services in host countries and interruption in their services may also be impacting the remittance flows to EMEs. Despite the significant fall, remittances continue to be important source of external finance with drying up of private capital to EMEs. The authorities are of the view that unless oil price breaches the mark of US\$ 40 per barrel, remittance inflows may not exhibit a recovery. Thus, as a result of the outbreak, current account deficit is expected to widen to 2.2 percent of GDP in FY2020 and further to 3.5 percent in FY2021. Although the import cover of reserves was 6.4 months before the pandemic, reserve balances are also declining due to expansion in current account deficits and maturing debt service obligations.

#### **IV. Policy responses to the pandemic**

##### ***Fiscal policy response***

10. Authorities have announced a series of stimulus packages, including subsidized loans by the commercial banks, aggregating about Tk 1.03 trillion (3.7 percent of GDP). The authorities issued a revised budget for FY2020 (July-June) at the end of March that includes additional resources to fund COVID-19 Preparedness and Response Plan, and to augment existing transfer programs that benefit the poor. Increased allocation has also been made to the Open Market Sale (OMS) program to ensure adequate food supply for lower-income households, particularly those dependent on daily wages. The government also intends to increase allowances for the elderly, widows and financially insolvent persons with disability, provide housing for the homeless, and develop cash transfer programs to reach the new poor. Twenty million people are expected to be the beneficiary of cash transfers. In addition, the government has announced a Tk 50 billion (US\$ 0.6 billion) stimulus package for exporting industries to pay workers' salaries. These funds will be channeled by Bangladesh Bank (BB) through commercial banks, and the scheme is expected to benefit close to 4 million workers for a three-month period.

11. The authorities will also subsidize interest payments on scheduled banks' loan disbursements of Tk. 500 billion (about US\$ 6 billion) for working capital to businesses. This program will be further extended to FY 2021 and FY 2022. In addition, an agricultural subsidy of Tk 107 billion (US\$ 1.3 billion), including for seeds, fertilizer, innovation, mechanization and irrigation, is to be included in the FY20/21 Budget. The National Board of Revenue has suspended duties and taxes on imports of medical supplies, including protective equipment and test kits.

12. The constraint for fiscal stimulus will also be eased with savings from development projects; reprioritization of spending from low-priority projects to health spending; release of funds by autonomous bodies; and unutilized corpus of the recapitalization fund. Revenue collections in March were also higher than in February. Besides this, savings from LNG subsidy due to fall in global oil prices and electricity subsidy on account of lower usage, will help contain pressures on the budget.

## ***Monetary and financial policies***

13. Some segments of the financial sector, e.g. non-bank financial institutions faced liquid stress. The central bank has, however, ensured adequate liquidity in the financial system so that banks and other financial institutions are able to provide the necessary support to the economy. The measures implemented thus far include reduction in the repo rate (from 6.0 to 5.25 percent), and a reduction in cash reserve requirements (CRR) (150 basis points). To ensure market liquidity, Bangladesh Bank expanded a repo facility to purchase treasury bonds and bills at the market rate from banks and nonbank financial institutions after these institutions meet the statutory liquidity ratio (SLR). Bangladesh Bank's Export Development Fund size was raised to \$5 billion from \$3.5 billion, with the interest rate now fixed at 2 percent. Bangladesh Bank has also extended tenures of trade instruments and ensured access to financial services.

14. As part of the stimulus measures, banks will provide Tk 300 billion (US\$ 3.5 billion) loans to existing clients in industry and services to finance working capital using their own capital, at an interest rate of 9 percent with government providing a 4.5 percent subsidy to banks. Further, Bangladesh Bank will provide refinance to banks up to 50 percent of the amount of loans extended. Additionally, banks will extend Tk 200 billion (US\$ 2.4 billion) loans to SMEs and cottage industry to finance working capital. It will be extended at 9 percent interest rate with government subsidy to banks (5 percent) and Bangladesh Bank providing refinance up to 50 percent of loan value disbursed. In order to preempt the scope for misuse of funds, no past defaulters of banks will be eligible to avail these facilities.

## **V. Looking ahead and outlook**

15. Bangladesh commits to undergo a safeguards assessment, provide Fund staff with access to its central bank's most recently completed external audit reports, and authorize its external auditors to hold discussions with Fund staff. The public Procurement Act, 2006 aims to ensure transparency, accountability and fairness in government procurements. Authorities are committed to ensuring that crisis resources are used transparently and effectively. They will ensure that applicants for COVID-19 related contracts provide their beneficial ownership information to the government and that this information is appropriately recorded and made available to audit authorities. They will publish online an audit of COVID-19 related expenditures and other government subsidized programs as also crisis-related public procurement contracts and related documents. Further, retail cash transfers to households will be channeled through bank accounts and mobile payments to ensure effective targeting and plugin leakages. About 3 million mobile payment accounts have been opened to transfer wages/salaries to workers engaged in government contracted projects. The cash transfer formats to workers/households include novel designs for targeting benefits in emergencies, such as that induced by the pandemic.

16. Following the emergency response to the crisis and stabilization of the economy, the authorities intend to resume measures aimed at addressing banking sector problems, including nonperforming loans and weak performance of state-owned banks. Looking ahead, authorities are committed to the priority of effective banking sector supervision, strengthening corporate governance of commercial banks and improving the financial performance of state-owned banks.

17. Despite a temporary widening of the fiscal deficit as a result of the COVID-19, Bangladesh remains at a low risk of external and overall debt distress. Authorities are

committed to bringing the fiscal deficit gradually back to 5 percent of GDP, while ensuring a smooth economic recovery. The economy is expected to record a sharp V-shaped recovery with supply chains resuming. As the two key elements of the external sector, viz., remittances and apparel exports, normalize, the authorities expect the external financing pressure to subside significantly. Given the moderate level of the pre-pandemic fiscal deficit, general government debt, current account deficit and well anchored inflation, the economy is placed favourably to gain traction once external risks subside.