INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/299

BANGLADESH

September 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BANGLADESH

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Bangladesh, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 9, 2019 consideration of the staff report that concluded the Article IV consultation with Bangladesh.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 9, 2019, following discussions that ended on June 27, 2019, with the officials of Bangladesh on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 5, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Bangladesh.

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

Selected Issues

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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International Monetary Fund
Washington, D.C.

Press Release No. 19/337
FOR IMMEDIATE RELEASE
September 18, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Bangladesh

On September 9, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Bangladesh.

Bangladesh continues to achieve impressive economic growth and social development. Rapid expansion of the Ready-Made Garment (RMG) sector helped the economy transform to a more manufacturing-based economy and large inflows of remittances helped strengthen its external position and supported private consumption. The country made steady progress in reducing income poverty and improving many indicators for Sustainable Development Goals.

Economic growth remained strong with stable inflation in FY18. Real GDP growth increased to 7.9 percent. Private consumption growth was exceptionally strong, influenced by the rebound in remittance and exports growth. Average annual inflation picked up slightly to 5.8 percent in FY18 due mainly to higher food prices. The current account deficit expanded to 3½ percent of GDP with higher import growth, reflecting need for capital goods due to mega infrastructure projects and temporary flood-related food imports.

Growth is projected to be strong at above mid-7 percent in FY19 and FY20. After a slowdown in private investment before the election in last December, robust growth is expected, led by private consumption with strong remittance inflows and smaller negative contributions from net exports. Average annual inflation is expected to close to the central bank's 5½ percent target though non-food inflation slightly picked up over the last few months. The current account deficit is projected to decline to around 2 percent of GDP with strong export and remittance growth. Slow progress in resolving the Rohingya refugee crisis could add to social tensions as well as spending pressures, and donor support will remain essential.

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

Executive Board Assessment[2]

Executive Directors commended the authorities for Bangladesh's strong and stable economic performance, which has resulted in reduced income poverty and improving social indicators. Looking ahead, Directors noted that, to realize the country's growth potential and reach upper middle-income status, the authorities will need to promote productive investments and upgrade the economic policy framework.

Directors commended the Bangladesh Bank for keeping inflation broadly stable. However, with inflation expectations remaining elevated, they urged the Bangladesh Bank to monitor inflation developments closely and stand ready to adjust its policy promptly if warranted. Directors encouraged the authorities to continue efforts to gradually increase exchange rate flexibility to help buffer the economy against external shocks, preserve foreign reserves, and support the modernization of the monetary policy framework.

Directors commended the authorities for fiscal discipline and encouraged them to keep the public debt ratio broadly stable. In this context, they stressed the need to step up the effort to increase revenues to finance the upgrade of infrastructure, support the vulnerable, and meet the potential costs of climate change. They highlighted the need to expand the tax base by reducing exemptions, and to modernize tax administration. While the launch of the new VAT is welcome, Directors noted that simplifying the multiple rates would facilitate administration and improve revenue intake.

Directors expressed concern about the continued weak financial situation in the banking sector, including high nonperforming loans and the rising amount of restructured and rescheduled loans. They called for resolute steps to enhance banking regulation and supervision, reform state-owned commercial banks, tighten the criteria for loan rescheduling and restructuring, strengthen banks' corporate governance, and enhance legal systems to accelerate loan recovery. Directors encouraged the authorities to continue to develop a well-functioning capital market to reduce the economy's dependence on bank financing. In this context, they welcomed the ongoing reform of the National Savings Certificates system and called for further steps, including reform of the pricing mechanism.

Directors underscored that further improvements in public financial management and strengthening governance will be crucial for continued growth. They highlighted the importance of better public investment management and tax administration, and welcomed the work to revise the authorities' medium-term debt management strategy. They urged continued progress in strengthening the AML/CFT framework.

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

Directors emphasized the importance of greater export diversification for stronger and more sustainable economic growth. They noted that improving the business environment and boosting human capital would help increase Bangladesh’s integration into global value chains and make exports more resistant to changes in global demand patterns.

Directors welcomed the authorities’ effort to address the country’s vulnerability to climate change and natural disasters. They recommended continued efforts to create fiscal space for adaptation and mitigation, managing the impact of natural disasters, and promoting climate-friendly investments.

Table 1. Bangladesh: Selected Economic Indicators, FY2015–20 1/

I. Social and Demographic Indicators

Population (2017, millions; estimate)	165	Infant mortality (2016, per thousand live births)	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, percent)	50.0
Gini index (2016,World Bank estimate)	32	Population growth (FY16, y/y, percent; estimate)	1.1

II. Macroeconomic Indicators

	FY15	FY16	FY17	FY18	FY19	FY20
				Prelim.	Staff proj.	
National income and prices (annual percent change)						
Real GDP	6.6	7.1	7.3	7.9	8.0	7.6
GDP deflator	5.9	6.7	6.3	5.6	5.8	5.8
CPI inflation (annual average)	6.4	5.9	5.4	5.8	5.5	5.6
CPI inflation (end of period)	6.3	5.5	5.9	5.5	5.5	5.6
Nonfood CPI inflation (end of period)	6.3	4.2	7.5	6.0	4.8	4.9
Central government operations (percent of GDP)						
Total revenue and grants	9.8	10.1	10.2	9.7	9.9	10.2
Total revenue	9.6	10.0	10.2	9.6	9.8	10.1
Tax	8.5	8.8	9.0	8.6	8.8	9.1
Nontax	1.1	1.2	1.2	1.0	1.0	1.0
Grants	0.2	0.1	0.1	0.0	0.1	0.1
Total expenditure	13.8	13.4	13.6	14.3	14.8	15.1
Current expenditure	7.9	8.3	8.3	7.9	8.4	9.0
Annual Development Program (ADP)	4.3	4.4	4.1	5.3	5.3	5.2
Other expenditures	1.6	0.8	1.1	1.0	1.0	0.9
Overall balance (including grants)	-4.0	-3.4	-3.3	-4.6	-4.8	-4.8
(Excluding grants)	-4.1	-3.5	-3.4	-4.7	-5.0	-5.0
Primary balance (excluding grants)	-2.1	-1.6	-1.7	-2.8	-3.3	-3.1
Total central government debt (percent of GDP)	33.7	33.3	32.6	34.0	34.6	35.2
Money and credit (end of fiscal year; percent change)						
Credit to private sector by the banking system	13.2	16.8	15.7	16.9	15.2	14.2
Reserve money	14.3	30.1	16.3	4.0	5.8	13.9
Broad money (M2)	12.4	16.3	10.9	9.2	12.7	13.9
Balance of payments (billions of U.S. dollars)						
Exports, f.o.b.	30.7	33.4	34.0	36.2	40.7	44.1
(Annual percent change)	3.1	8.9	1.7	6.4	12.5	8.3
Imports, f.o.b.	-37.7	-39.9	-43.5	-54.5	-56.9	-61.5
(Annual percent change)	3.0	5.9	9.0	25.2	4.5	8.0
Current account balance	3.5	4.3	-1.3	-9.8	-5.9	-6.9
(Percent of GDP)	1.8	1.9	-0.5	-3.6	-2.0	-2.1
Capital and financial account balance	2.4	1.4	4.6	9.4	6.0	7.5
Of which: Foreign direct investment	1.8	1.3	1.7	1.6	1.9	2.0
Overall balance	5.0	5.0	3.2	-0.9	-0.3	0.5
Gross official reserves (billions of U.S. dollars) 2/	24.9	30.2	33.5	33.0	33.0	33.4
In months of prospective imports of goods and services	6.5	7.2	6.3	5.8	5.3	5.0
Exchange rate (taka per U.S. dollar; period average)	77.7	78.3	79.1	82.1	…	…
Exchange rate (taka per U.S. dollar; end-period)	77.8	78.4	80.6	83.7	…	…
Nominal effective rate (2010=100; period average)	95.4	100.4	101.2	93.4	…	…
Real effective rate (2010=100; period average)	120.7	133.1	139.3	133.1	…	…
Memorandum item:						
Nominal GDP (billions of taka)	15,158	17,329	19,758	22,505	25,706	29,276

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.

INTERNATIONAL MONETARY FUND

BANGLADESH

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

August 5, 2019

KEY ISSUES

Context. Economic growth in Bangladesh continues to be strong with stable inflation. Sustained growth in the ready-made garment sector with abundant low-cost labor has helped the economy to diversify away from the agricultural sector to a more manufacturing-based economy. Remittance inflows from Bangladeshis overseas continue to play an important role in promoting private consumption and external stability. While the economy still has significant potential with favorable demographics, to ensure sustainability and resilience of growth, the country needs to keep upgrading its macroeconomic policy framework and advance a range of structural measures.

Near-term outlook. Growth is projected to be strong at above mid-7 percent in FY19 and FY20. Average annual inflation is expected at close to the central bank's 5½ percent target. The current account deficit is projected to be around 2 percent of GDP. Risks to the outlook are tilted downward.

Main policy recommendations:

- Bangladesh Bank should monitor inflation developments closely and stand ready to adjust its stance as needed. A gradual increase in exchange rate flexibility would help buffer the economy against external shocks and preserve the level of reserves.
- Fiscal policy should continue to keep the public debt ratio broadly stable. To finance needed infrastructure investment, raising tax revenue is indispensable, which requires a coordinated approach in both tax administration and tax policy.
- Comprehensive reform is required to address banking sector weaknesses. Measures should include enhanced banking regulation and supervision, SOCB reforms, tighter criteria for loan rescheduling/restructuring, stronger corporate governance in the banking sector, and enhanced legal systems to accelerate loan recovery.
- Continuous improvements in public financial management and frameworks to limit vulnerability to corruption will help the authorities' goal to reach upper middle-income country status.
- Improving the business environment will be critical in boosting private investments and promoting export diversification.
- The authorities should consider options to create fiscal space for necessary adaptation and mitigation of climate risk, manage the impact of natural disasters, and promote climate-friendly investments.

Approved By
Anne-Marie Gulde-Wolf (APD) and Kevin Fletcher (SPR)

Discussions took place in Dhaka during June 16–27, 2019. The staff team comprised Daisaku Kihara (head), Jiri Jonas, Racha Moussa, Ragnar Gudmundsson (resident representative) and Muhammad Imam Hussain (resident representative office) (all APD). Subir Gokarn (OED) participated in the concluding meetings. Gamwalla-Khadivi and Biying Zhu (both APD) assisted in preparing the report.

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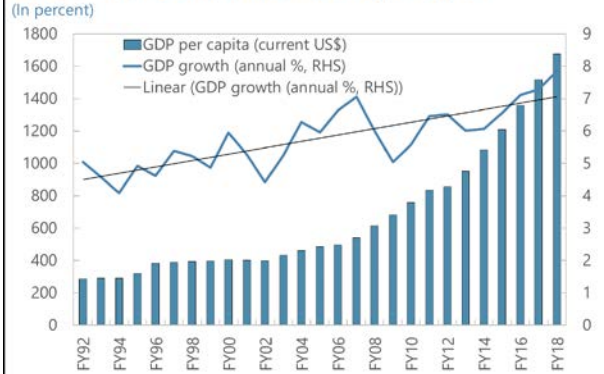
CONTEXT

1. **Bangladesh continues to achieve impressive economic growth and social development.** Rapid expansion of the Ready-Made Garment (RMG) sector helped the economy transform to a more manufacturing-based economy, and large inflows of remittances helped strengthen its external position and support private consumption. The country made steady progress in reducing income poverty and improving many Sustainable Development Goals (SDGs) indicators. Bangladesh is emerging from a low-income to lower-middle income status.[1]

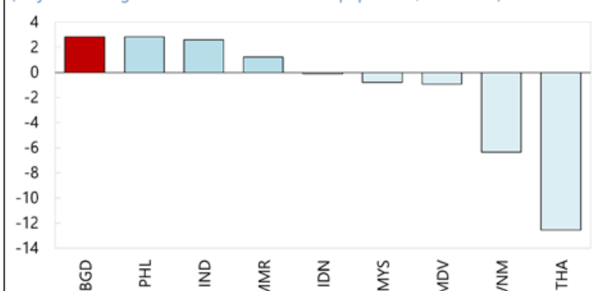
2. **Important challenges remain to achieve the authorities' aspiration to reach upper middle-income status.** The economy continues to have significant potential with favorable demographics for the next few decades. However, to realize this potential the government will need to promote productive investments with an upgraded macroeconomic policy framework. This will reduce reliance on the RMG sector and ensure sustainability and resilience of growth. Climate change will also present an important challenge for future growth. The ruling parties won the general election last December, leading to a post-election period that is an opportunity to pursue important policy reforms.

Trend of Real GDP Growth and GDP per Capita
(In percent)



Source: Bangladesh Bureau of Statistics.

Working Age Population
(Projected change in the share relative to total population, 2015-2045)



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). Note: Working age population calculated as population aged 15-64 as a percentage of total population. For 2045 projections, the medium fertility variant is used.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. **Economic growth remained strong with stable inflation in FY18.**[2] Real GDP growth increased to 7.9 percent. Private consumption growth was exceptionally strong in FY18, influenced by the rebound in remittance and export growth. Average annual inflation picked up slightly to 5.8 percent in FY18 due mainly to higher food prices. The current account deficit (CAD) expanded to

[1] Bangladesh continues to be PRGT-eligible in the IMF and is IDA eligible in the World Bank. The country is considered a lower middle-income country by the World Bank. Bangladesh fulfilled the eligibility criteria to graduate from the Least Developed Country category (UN classification) for the first time in 2018.

[2] FY18 is from July 2017 to June 2018.

3½ percent of GDP with higher import growth (25 percent), reflecting the need for capital goods linked to mega infrastructure projects and temporary flood-related food imports.

4. Slow progress in resolving the Rohingya refugee crisis could add to social tensions as well as spending pressures, and donor support will remain essential. Progress in repatriating over 700,000 Rohingya refugees has been limited. The Joint Response Plan called for the mobilization of around US$1 billion for CY2018 and 2019. With most humanitarian needs met by donor support, the fiscal impact appears limited so far, but donor fatigue is a risk in the future.

5. Growth is estimated to have been strong at above mid-7 percent in FY19 and to continue in FY20. After a slowdown in private investment before the election last December, robust growth is expected, led by private consumption with strong remittance inflows and smaller negative contributions from net exports. Average annual inflation is expected at close to the central bank's 5½ percent target though non-food inflation slightly picked up over the last few months. The CAD is projected to decline to around 2 percent of GDP with strong export and remittance growth (13 percent and 11 percent, respectively) while import growth is expected to slow to 5 percent from high growth in FY18.

6. Risks to the outlook are tilted downward (Annex II). Slow progress in banking sector reforms could undermine financial sector stability and growth, and pose fiscal risks. Weaker-than-expected global growth could slow exports and remittance inflows. Rising protectionism could weaken exports and investment, though potential demand shifts could mitigate the negative impact. Natural disasters continue to present downside risks.

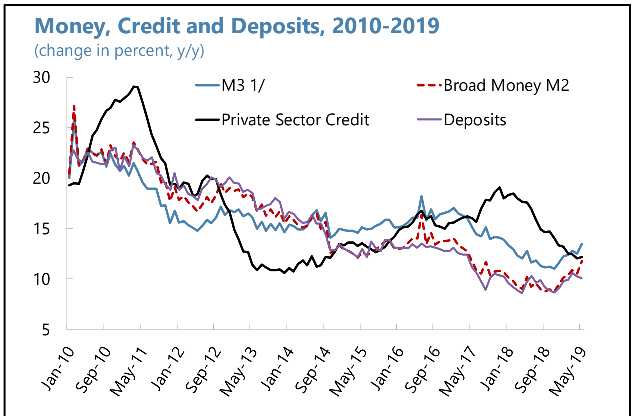
Authorities' Views

7. The authorities view that robust economic activity will continue. They estimate 8.1 percent growth in FY19, supported by strong domestic demand, high growth in exports and remittances, and political stability. This performance is expected to continue in FY20. The authorities consider inflationary pressures well contained aided by moderating food inflation so far. They broadly shared staff's assessment on risks, including sluggish global growth in the face of continued trade and political tensions, and unsteady remittance inflows due to weak growth in source countries.

NEAR-TERM MACROECONOMIC MANAGEMENT

A. Monetary Policy

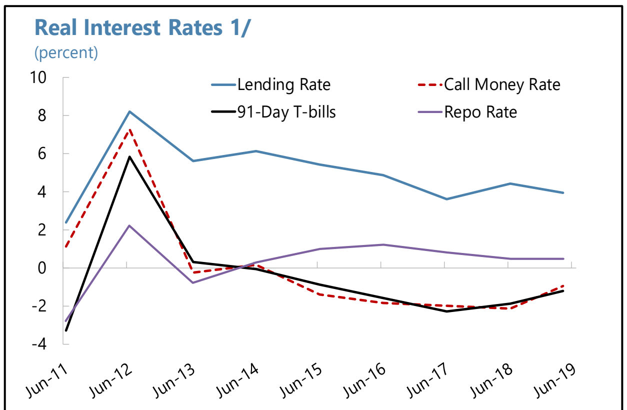
8. Monetary policy has been supportive of economic growth. As of May 2019, reserve money growth was 16 percent (yoy), above the 8 percent target of Bangladesh Bank (BB) in FY19, while broad money growth was close to the 12 percent target. The growth of M3 - a broader measure of financing which includes the issuance of National Saving Certificates (NSCs) – has been higher by about 2 percentage points than M2 growth. Growth of credit to the private sector slowed from its peak in late 2017, reflecting the BB's measures[3] as well as investors' cautious stance before the election, but is expected to remain solid.



Sources: Bangladesh Bank, staff calculation
1/ M2 plus National Savings Certificates

9. Bank deposit and lending rates have been broadly stable recently. However, several factors have been preventing further rates reduction: (i) banks' need to reduce the advances-to-deposits ratio from 85 percent to 83.5 percent; (ii) the adverse impact of high issuance of NSCs on banks' deposits; and (iii) high and growing nonperforming loans (NPLs). The authorities tried to keep lending rates in single digits through moral suasion.

10. BB should monitor inflation developments closely and stand ready to adjust its stance as needed. Following the easing of monetary policy in April 2018, inflation has remained broadly stable at around the BB target. However, looking ahead, several sources of potential inflationary pressures are lurking. Growth continues to be strong, and BB's real repo and call money rates remain close to zero or negative. The BB's survey points to elevated inflation expectations (6-7 percent), and nonfood inflation has been increasing moderately in recent months. BB also needs to be alert to the potential inflation impacts of the announced increase in electricity tariffs and the VAT reform (see ¶16 and ¶18).



Sources: Bangladesh Bank, staff calculation
1/ Nominal rates less CPI inflation

[3] In January 2018, BB required banks to reduce the advances-to-deposits ratio from 85 percent to 83.5 percent by June. This deadline was subsequently extended several times and most recently to September 2019.

Authorities' Views

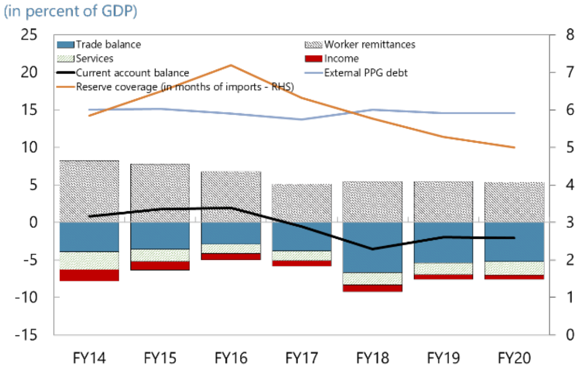
11. The authorities agreed that inflation needs to be monitored closely but saw the risk as broadly balanced. They recognize several potential sources of inflationary pressures, including elevated inflation expectations, gradually increasing non-food inflation, and strong growth supported by robust domestic demand. However, they also noted that the growth of monetary and credit aggregates has been decelerating until recently and remains below the BB's targets, while a bumper harvest in FY19 has led to declining food inflation. The authorities emphasized that they will be monitoring economic and financial developments closely and adjust monetary policy promptly as needed.

B. External Development and Exchange Rate Policies

12. The CAD is estimated to have narrowed to around 2 percent of GDP in FY19 and is projected to remain broadly at the same ratio to GDP over the medium term. Future export growth will remain strong with a still competitive and growing RMG industry, and an increase in agriculture and food exports. The medium-term CAD is also driven by efforts to close the infrastructure gap which increase imports of capital goods, the substitution of depleting domestic gas reserves with imported liquified natural gas (LNG), and a decline in the remittances to GDP ratio.

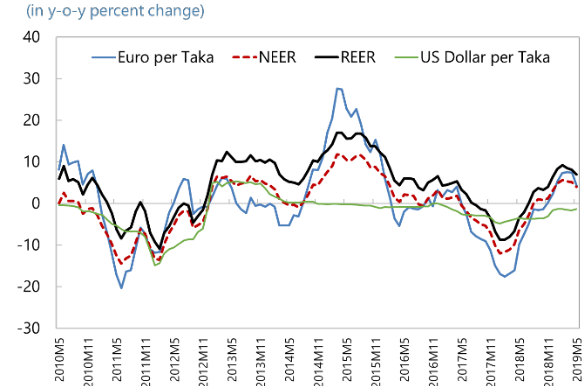
13. The external position in CY18 was broadly in line with fundamentals and desired policies (Annex III). The real effective exchange rate (REER) appreciated by around 5 percent in April 2019 (average 12-month y-o-y rate). The EBA-lite current account methodology suggests a negligible current account gap of 0.2 percent. Reserve coverage is adequate with gross official reserves covering 5.8 months of prospective imports in FY18, but is expected to gradually decline as imports continue to grow without further accumulation in reserves (Annex IV). The overall balance is projected to be small and negative as the increase in capital goods imports for infrastructure projects will be financed with external debt. The authorities should continue to gradually expand exchange rate flexibility. This will help buffer the economy against external shocks and preserve the level of reserves. Bangladesh remains at low risk of debt distress with public and publicly guaranteed external debt at about 15 percent of GDP, though the authorities should continue to seek concessional terms on external borrowing as LDC graduation nears. They should also aim to

Current Account Balance
(in percent of GDP)



Sources: data from authorities and staff estimates

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



Sources: INS and FRED

improve the depth and liquidity of the domestic debt market which will benefit domestic financial market development while increasing the range of available financing options.

Authorities' Views

14. The authorities project the remittance and export growth will further accelerate. They agreed with staff that the current account would be in a deficit over the medium term. However, they expect that ongoing mega infrastructure projects will attract Foreign Direct Investment (FDI) and further strengthen export growth, and that remittance inflows will remain solid, which should reduce the deficit of the overall balance of payments. The authorities emphasized that their goal is to maintain an adequate level of reserves to support confidence in the economy and increase FDI flows. Given the low debt-to-GDP ratio and projected high medium-term growth, the authorities expressed confidence that there will be no risks of external debt distress.

C. Fiscal Policy

15. Preliminary data indicate that the FY19 fiscal deficit remained within the budget target of 5 percent of GDP. As in previous years, lower-than-budgeted revenues have been compensated by lower-than-budgeted spending. However, the revenue under-performance in FY19 appears to have been even more pronounced than in previous years: the projection suggests that revenues were about 3.5 percent of GDP less than the budget target. On the spending side, implementation of the Annual Development Program (ADP) has again been slow with about 55 percent release of the annual budgeted amount in the first ten months of FY19. The ADP underperformance suggests that the main adjustment to lower revenues will again come from lower capital spending.

Budget and Actual Outcome
(percent of GDP)

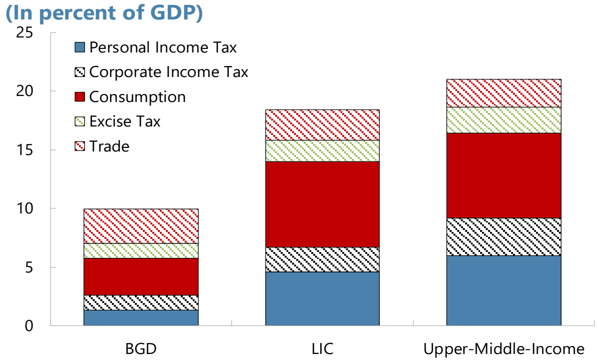
	FY17		FY18		FY19		FY20	
	Budget	Actual	Budget	Actual	Budget	Prel.	Budget	Staff Proj.
Revenue incl. grants	12.4	10.2	12.8	9.6	13.4	9.9	13.2	10.2
Expenditure	17.4	13.5	17.8	13.3	18.3	14.8	18.1	15.1
Balance	-5.0	-3.4	-5.0	-4.7	-4.9	-4.9	-4.9	-4.9

Source: Ministry of Finance and Staff Calculations.

16. While the commitment to keep fiscal deficits within 5 percent of GDP is welcome, spending growth in budgets should be aligned with realistic projections of revenue growth. The FY20 budget is again anchored at the 5 percent of GDP deficit. However, given the projected outcome for the current fiscal year, its revenue target again appears very ambitious: it assumes an increase in revenues by more than 3 percent of GDP and much higher than projected by staff. While the likely revenue shortfall will again be compensated by lower spending, particularly capital spending, meeting the deficit target could be more challenging this time because of the additional spending pressures arising from a budgeted increase in subsidies and cash incentives for remittances and exports.[4] Any required adjustment in the budget during the fiscal year should protect priority social spending. Bangladesh is assessed to have some fiscal space owing to low public and external debt levels, though fiscal space is constrained by very low tax revenues.

17. Fiscal policy should continue to keep the public debt ratio broadly stable, while the significant need to increase tax revenues remains. With a tax-to-GDP ratio remaining below 10 percent, raising tax revenue is indispensable to improve public infrastructure needed to sustain strong growth and make progress towards the SDGs. In particular, Bangladesh is lagging behind its peers in collection of personal income tax and consumption tax. Increasing tax revenues will require a coordinated approach in both tax administration and tax policy areas.

Tax Revenue, Average 2010-18
(In percent of GDP)



Sources: Ministry of Finance and IMF World Data

- On **tax administration**, the priority is the modernization of the organizational structure of the National Board of Revenue (NBR) to improve coordination of the different wings and NBR's efficiency and to bring more people into the tax net. To that effect, the authorities plan to expand the income tax department and set up tax offices in every upazila (sub-district). However, the fragmentation of the NBR organizational structure remains to be addressed.
- **Tax policy** reforms should focus on tax base broadening and reducing tax concessions and tax avoidance. The revenues forgone due to tax exemptions and concessions are likely to be significant. The effective corporate tax rate is estimated by NBR to be only 5 percent, well below statutory rates. The current practice of using tax policy to support or protect specific industries and activities in an ad-hoc manner is inefficient and should be gradually phased out. Instead, the additional revenues generated by a broader tax base could be used to invest in infrastructure and education which is likely to generate higher returns in terms of increased economic activity and employment.

18. The delayed implementation of the new VAT law on July 1, 2019, is a step towards modernization of the tax regime. Along with the 15 percent standard rate, there are reduced 5 percent, 7.5 percent and 10 percent rates for specific goods and services. The VAT registration threshold has been increased from Tk 8 million (US$94,000) to Tk 30 million (US$353,000). Taxpayers now falling below the threshold will be subject to the turnover tax which will be increased from 3 to 4 percent. Even though the standard rate has been kept at 15 percent, it is uncertain whether the implementation will have a positive revenue impact, particularly in the near term, because of

[4] Increased import of LNG sold domestically at below the import prices has resulted in higher need for budgetary subsidies to cover the import bill. On July 1, domestic gas tariffs have been increased by about 33 percent, to an average Tk 9.8 per cubic meter (m^3). The cost of imported LNG is about Tk 31 per m^3 and the cost of domestically produced gas is about Tk 7 per m^3. The blend of imported and domestically produced LNG costs about Tk 14 per m^3.

multiple rates, a significant increase in the VAT threshold, and implementation challenges. The authorities should continue to work toward a simpler VAT structure with fewer non-standard rates and exemptions and a well-functioning refund mechanism.

Authorities' Views

19. The authorities reconfirmed their commitment to keep the fiscal deficit at 5 percent of GDP. They acknowledged that the revenue target for FY20 is ambitious but argued that several policy initiatives should boost tax revenues, including the launch of the new VAT and VAT automation, the rollout of the Electronic Fiscal Devices (EFD) for VAT taxpayers, improvements in tax administration and tax compliance, and the increase in the number of local tax offices. The authorities also pointed to their efforts to increase recurrent expenditure savings. These include recently increased gas tariffs that will limit subsidies, lower interest payments because of expected reduced issuance of high-yielding NSCs, and the termination of the current practice of providing advanced payments to autonomous bodies. The authorities also noted that keeping the deficit at 5 percent, in combination with continued strong growth, should lead to a gradual reduction of the public debt-to-GDP ratio.

MODERNIZING THE POLICY FRAMEWORK TO SUSTAIN STRONG GROWTH AND BUILD RESILIENCE

20. Maintaining robust economic performance will require an increase in productive investments supported by a modernized policy framework. The government needs to address key bottlenecks to promote investments, including a weak banking sector, insufficient infrastructure and governance weaknesses. A strengthened macroeconomic policy framework and further diversification of the economy would enhance resilience, including the ability to adjust to climate change – an important risk for future growth.

A. Banking Sector Regulation and Supervision

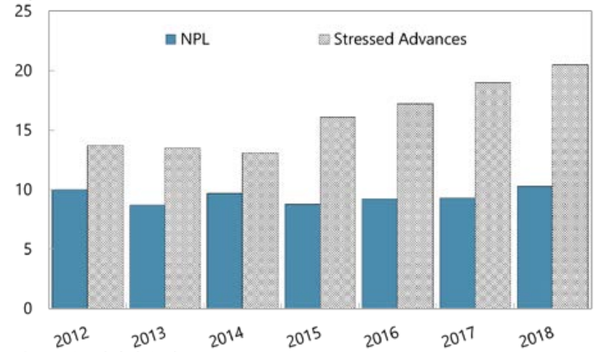
21. The financial situation in the banking sector continues to deteriorate despite strong growth. The NPL ratio has increased from 9.3 percent at end-2017 to 10.3 percent at the end-2018. Most of NPLs are in the State-Owned Commercial Banks (SOCBs), with an end-2018 NPL ratio at 30 percent. The published NPL ratio likely underestimates potential problems in the banking sector. There has been a growing trend of loan rescheduling and restructuring, including those granted by BB on individual basis, though BB requires banks to keep provisioning for these loans. Total stressed advances, which include NPLs, restructured and rescheduled loans, now exceed 20 percent of total loans. This reflects mainly the very high stressed assets in SOCBs, though in recent years the stressed asset ratio has also been increasing in PCBs.[5] The high level of stressed assets limits banks' ability to engage in new lending and limits access to credit. The default of borrowers who obtained "stay

[5] About one half of the total rescheduled loans are for industrial sector and RMG and textile sector.

orders" from the courts also appears to be outside of NPL calculation. The worsening asset quality reflects a combination of factors, including poor due diligence and compliance with risk management practices. The authorities argue that loan rescheduling and restructuring is targeted at borrowers who are unable to abide by the original loan terms because of adverse events outside of their control (e.g., insufficient electricity supply) and its objective is to prevent unnecessary loss of output and employment.

NPLs and Stressed Advances

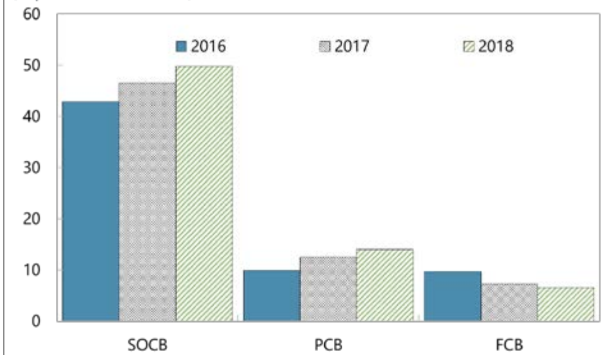
(In percent of total loans)



Source: Bangladesh Bank.
Note: Stressed advances is the sum of banks' NPLs, restructured and rescheduled loans.

Stressed Advances

(In percent of total loans)



Source: Bangladesh Bank.
Note: Stressed advances is the sum of banks' NPLs, restructured and rescheduled loans.

22. **Prompt actions are required to address the banking sector's financial stability risks and associated fiscal risks (Box 1).**[6] While bank credit to the private sector remains at around 40 percent of GDP, total stressed advances amount to almost 9 percent of GDP, and SOCB shortfall in required capital is at 1 percent of GDP, based on the authorities' estimates. The shortfall in NPL provisions has been increasing, reaching Tk 66 billion (close to 12 percent of required provisions) at end-2018, from close to zero in 2013–14. Comprehensive reform will be necessary to enhance banking sector stability.

23. **A comprehensive time-bound action plan should help maintain confidence in the banking system.** Such a plan should include the following steps:

- Regulatory forbearance needs to be avoided with strict and prompt remedial actions imposed upon banks. BB's independence and autonomy are key for effective regulation and supervision. Efforts to adopt risk-based supervision should continue. A clear entry and exit strategy for banks should be introduced and enforced, while establishing an emergency financing facility for solvent but temporarily illiquid banks.
- Building on the ongoing special audit for SOCBs in trade finance, the authorities should proceed with a comprehensive review of the entire banking sector's assets.

[6] The Financial Sector Stability Review (FSSR) will further examine these issues and elaborate on the policy advice.

- BB should tighten the criteria for rescheduling/restructuring of loans and avoid their repeated use. Clear criteria should also help prevent BB's involvement when banks grant rescheduling/restructuring for specific cases.
- Banks' corporate governance needs to be strengthened. Serious graft cases point to insufficient internal control and risk management. Loan concentration limits should be observed. Fit and proper criteria should be strictly enforced and updated, including to require the identification of beneficial owners of a significant or controlling interest of a financial institution.
- Legal systems should be strengthened to support banks to recover NPLs, particularly those by willful defaulters. Further strengthening capacity and efficiency of the court could expedite the legal process.
- The role of SOCBs needs to be reassessed. A limited number of SOCBs with clear public mandates could receive transparent budget support. Other SOCBs should be converted to banks operating on commercial principles or closed.

Authorities' Views

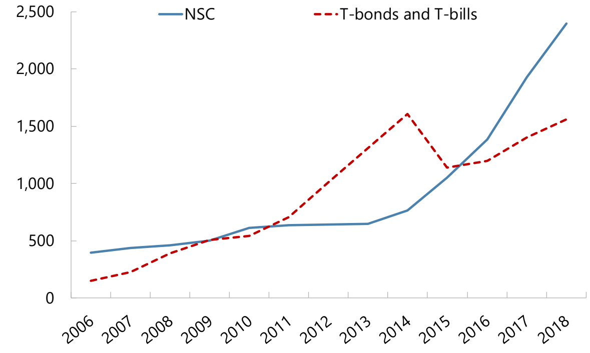
24. The authorities agreed that continued high NPLs are a source of concern, though they expect that their ongoing measures will address the situation effectively. They pointed out that most banks maintain a sufficient level of provisions and that the level of net NPLs is relatively moderate. They also emphasized that NPLs are concentrated in several banks, particularly SOCBs, and that NPLs are relatively moderate in the rest of the banking sector. The authorities stressed that, in some cases, an adverse shock outside of borrowers' control led to NPLs. In these cases, to mitigate the impact on growth and jobs, they view that loan rescheduling could be preferable, though they emphasized that the limit of maximum three loan reschedulings is now strictly enforced and that all rescheduled loans are required to be adequately provisioned. The authorities are now working on a legal definition of willful defaulters that would allow them to take more effective steps against them. The authorities are also discussing a bank merger policy to promote consolidation of the banking sector and setting up an asset management company that would take over NPLs from banks. The authorities observed that BB does not allow any regulatory forbearance, but at the same time, they take into account potential economic costs when deciding whether to provide a relief to borrowers.

B. Monetary Policy Framework and Capital Market Development

25. BB should continue its effort to make progress in modernizing the current monetary policy framework. BB is presently operating a *de jure* monetary targeting regime, using reserve money as its operational target. An eclectic approach to signal the monetary policy stance, in combination with high NPLs, weakens the effectiveness of the monetary transmission mechanism. Adopting a rule-based interest rate targeting regime with market-based monetary instruments should improve the transmission of BB's policy. This would require several building blocks, including bolstering understanding of the drivers of inflation, improving liquidity monitoring and forecasting, and developing a well-functioning interbank market.

26. A well-developed capital market should play an important role in supporting future growth. Development of a government securities market has been hampered by rapid increases in on tap sale of NSCs, which offer higher interest rates than government securities. The introduction of a database is expected to help enforce the upper limits of NSC holdings for each investor and reverse the rapid growth of NSC issuance. Though, further reforms are necessary to improve control of budget financing, reduce interest costs, and create conditions for faster capital market development. While the increase in tax on NSC interest income from 5 percent to 10 percent should reduce the incentives for buying the NSC, a reform of the NSC pricing structure will eventually be needed by tying NSC rates to market yields. To regain control over the composition of government borrowing, the authorities should also consider the separation of NSC issuance from direct budget financing. Instead, a separate entity managing NSCs would use the proceeds from NSC sales for purchases of government securities.

NSCs and Marketable Securities
(in billion taka)



Sources: Ministry of Finance

Authorities' Views

27. The authorities recognize that bringing NSC issuance under control is necessary for modernizing the monetary policy framework and developing capital markets. The authorities expressed confidence that the recent measures to prevent NSC purchase above the existing limits will reduce issuance. In addition, the authorities have increased the tax on NSC interest. They expect that this should reduce the spread between NSC yields and bank deposit rates, reducing demand.

C. Governance and Fiscal Framework

28. The authorities should continue ongoing efforts to improve public financial management. A modern accounting and fiscal reporting regime, including the new Budget Accounting and Classification System (BACS) under iBAS++, was adopted recently. At the same time, staff emphasized the need to strengthen public investment management, including through: (i) better alignment of public investment projects with priorities identified in national and sectoral plans, while ensuring consistency of these priorities with available financial resources; (ii) an improved project appraisal and selection process; (iii) stronger oversight of public corporations; and (iv) integration of the ADP process with the medium-term budget, ensuring approved projects remain within available financial resources. The relatively low level of public investment efficiency in Bangladesh indicates potentially high growth impacts from this reform. Coverage of the electronic government procurement system should also continue.

29. The authorities' work on revising the medium-term debt management strategy (MTDS) is welcome. The last MTDS was prepared in 2014, but the recent rapid increases in NSC issuance reduced its relevance. A new MTDS should consider the implications of possible reduction in concessional financing with the forthcoming graduation from LDC status and increased need for issuance of market-based government securities as a result of ongoing NSC reforms.

30. Improvement in tax administration should strengthen the fiscal framework as well as revenue outcomes. Ongoing efforts to use IT, including the introduction of electronic taxpayers' registration and electronic filing of income tax and VAT returns, should continue. This will minimize the interaction of taxpayers and tax collectors and reduce compliance costs. NBR's risk management also needs to be strengthened, including through risk-based auditing.

31. Strengthening frameworks to limit vulnerability to corruption will help Bangladesh achieve its goal to reach upper middle-income status. Control of corruption indicators have improved in recent years but remain modestly below the average for South Asia and low-income countries (Figure 6). Corruption is cited as a major inhibitor to doing business and inclusive growth. The Anti-Corruption Commission (ACC) does not yet have sufficient skills and staffing levels for investigations. Asset declarations are carried out by the appointing authorities for all officials, though these declarations should be utilized more effectively to detect risks. Publication of declarations for key officials, sanctions imposed for non-compliance, and verification of the information in the declaration forms could help strengthen compliance. Reforms to strengthen financial sector oversight (¶23), improve public investment management (¶28), minimize interaction between tax payers and tax collectors (¶30), improve AML/CFT framework (¶32) and simplify regulatory procedures (¶36) would also help reduce vulnerabilities to corruption.

32. Progress in improving AML/CFT framework should continue. The legal and regulatory framework were strengthened to enhance investigation and cooperation by financial institutions and relevant agencies guided by the recommendations in the 2016 Mutual Evaluation Report (MER). Nonetheless, sustained reform efforts will be important to enhance effectiveness notably by adopting risk-based AML/CFT supervision, increasing the capacity of banks, particularly SOCBs, strengthening the implementation of preventive measures in particular for politically-exposed persons, establishing a clear definition of beneficial ownership, and improving access to such identifying information.

Authorities' Views

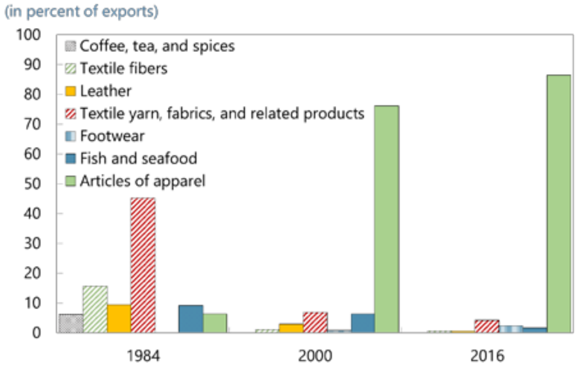
33. The authorities emphasized that with the implementation of the new BACS in FY19, public financial management will improve significantly. The BACS will support better public financial management by providing additional and better-quality information, including on a broader set of government entities, financial assets and liabilities, and location of spending. It will allow for a more detailed, transparent and accurate reporting of budget allocations and expenditures, and enable government to introduce accrual accounting in the future. The authorities agreed that a coordinated effort is needed to improve public investment management. They noted that project directors have been given more discretion to utilize project funding which should accelerate the implementation of development projects. The authorities also stressed that significant progress has been achieved in strengthening public procurement as a result of the introduction of the electronic government procurement system.

34. The authorities emphasized that controlling corruption is a priority of the current government. They are working to enhance public awareness on the need to reduce corruption, though challenges remain in lack of capacity and the judicial process. The Bangladesh Financial Intelligence Unit emphasized that they have initiated several changes in line with recommendations from the MER and are addressing remaining issues. The authorities expressed concerns on some third-party indicators on corruption perception, emphasizing their subjective judgments.

D. Economic Diversification

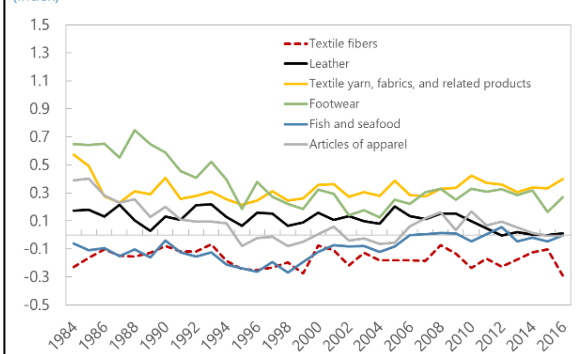
35. Diversification into more complex products will be necessary to increase potential growth. The set of products for which Bangladesh has a revealed comparative advantage have relatively low complexity. Production of more complex exports could increase Bangladesh's integration into global value chains and make exports more robust to changes in global demand patterns. This could be facilitated by reforms to improve the business climate and boost human capital, as these would help enhance productivity in more complex sectors. Import tariffs which protect domestic markets and make intermediate inputs more expensive also distort incentives to diversify (see *Selected Issues*).

Bangladesh: Exports with Revealed Comparative Advantage
(in percent of exports)



Sources: Atlas of Economic Complexity and IMF staff calculations

Bangladesh: Complexity of Exports with Revealed Comparative Advantage
(index)



Sources: Atlas of Economic Complexity and staff calculations

36. Improving the business environment continues to be important to facilitate investment outside the RMG industry despite some progress over the past year. Under the One Stop Service virtual platform, procedures such as company registration, online payment of registration fees, obtention of a tax identification number, and online VAT registration have all been merged into a single process. Reform priorities are still in the pipeline to enhance the judicial system. By December 2019, a monitoring system should ensure that commercial disputes are settled within 500 calendar days, and commercial courts are to be created at district levels.

E. Climate Change

37. Bangladesh is one of the most vulnerable countries to climate change and natural disasters. The government has undertaken several initiatives to confront the issue. It was notably one of the first to develop a Climate Fiscal Framework (CFF) in 2014 to track mitigation and adaptation investments. A key challenge remains to mobilize more domestic revenue to increase such investments. Policy options to address climate change include to: (i) gradually eliminate costly energy subsidies; (ii) consider the phased introduction of carbon taxes; (iii) enhance financial cover to better manage the impact of natural disasters; (iv) stimulate climate-friendly private sector investments; and (v) intensify efforts to mobilize external funding (see Box 2 and *Selected Issues*).

Authorities' Views

38. The authorities highlighted Bangladesh's demonstrated commitment to address climate change, both domestically and internationally. They emphasized that the government is fully committed to address the vulnerabilities arising from climate change and its commitments are well articulated in its overarching national plans and the CFF, which provides a roadmap for climate finance in the country's public financial management systems and helps link climate policies and strategies with the resource allocation process. They pointed to the economy's enhanced resilience to natural disasters and indicated that provisions are made in the budget each year to respond to possible extreme weather events. On energy subsidies, they emphasized that the provision of affordable energy remains essential over the medium term to sustain rapid economic growth. They saw merit in incentivizing use of cleaner technologies and development of renewable energy potential.

STAFF APPRAISAL

39. Macroeconomic performance continues to be solid, with strong growth, moderate inflation and a narrowing current account deficit. Real GDP growth remains strong, supported by robust private consumption growth because of the rebound in remittance and export growth. Inflation has remained within the 5-6 percent range, broadly in line with the BB target, and the current account deficit has declined as import growth slowed while exports accelerated.

40. Looking ahead, growth is projected to remain solid, but risks are tilted downward. Strong growth, supported by solid private consumption, is expected to continue, while inflation will remain moderate. And the current account deficit is projected to remain at around 2 percent of GDP. However, weaker-than-expected global growth and rising protectionism present downside risks. Slow progress in domestic banking sector reforms could also undermine growth.

41. BB should monitor inflation developments closely and stand ready to adjust its policy promptly. Inflation has been broadly stable, and money and credit growth has been slowing down until recently. However, inflation expectations remain elevated, growth continues to be strong, and real policy rates are low.

42. The external position was broadly in line with fundamentals and desirable policies in CY18. The authorities should continue efforts to gradually increase exchange rate flexibility. This should help buffer the economy against external shocks and preserve foreign reserves. Moreover, it would support the authorities' effort to modernize the monetary policy framework.

43. The authorities' commitment to fiscal discipline is commendable, but policy efforts to increase revenues should continue. Budget revenues remain very low and need to be increased to allow financing of the upgrade of infrastructure, support of the vulnerable, and meet the potential costs of climate change. A coordinated approach to expand the tax base and modernize tax administration will be necessary, including a simplification of the multiple rates in the VAT.

44. The financial situation in the banking sector continues to weaken and requires prompt action. Despite solid economic performance, the NPL ratio remains high, particularly for SOCBs, and the amount of restructured and rescheduled loans continues to increase. Priorities include enhanced banking regulation and supervision, including adoption of risk-based supervision, SOCB reforms, tighter criteria for loan rescheduling/restructuring, stronger corporate governance in the banking sector, and enhanced legal systems to accelerate loan recovery.

45. Developing a well-functioning capital market will reduce the economy's dependence on bank financing and provide an alternative source of financing. More steps would be needed to reform the NSC system, including reform of the pricing mechanism and the separation of NSC issuance from direct budget financing.

46. Further improvements in public financial management and frameworks to limit vulnerability to corruption will help maintain the growth momentum. Better public investment management, tax administration, and control of corruption could strengthen the fiscal framework and governance.

47. Increasing export diversification will help make growth stronger and more sustainable. Production of more complex exports could increase Bangladesh's integration into global value chains and make exports more robust to changes in global demand patterns. Improving the business environment and boosting human capital will be critical in increasing private investment in non-RMG sectors.

48. Efforts to address challenges from climate change should continue. The authorities can consider options to create fiscal space for adaptation and mitigation, manage the impact of natural disasters, and promote climate-friendly investments.

49. Staff recommends that the next Article IV consultation be held on the standard 12-month cycle.

Box 1. Recent Regulatory Measures to Address Banking Sector Problems

In 2019, the authorities implemented several measures aimed at reducing NPLs and strengthening the banking system. While some of them (e.g., increases in capital requirements and auditing SOCBs) could strengthen the banking sector, others (e.g., easing loan classification rules) could lessen financial sector resilience and worsen the NPL problem in the future. To achieve sizeable and lasting NPL reduction, more fundamental reforms, including better credit risk management and strengthened regulatory enforcement, would be necessary.

Relaxation of bank loan write-off policy. In February, BB eased the NPL write-off policy. Banks are allowed to write off default loans that have been in the bad category for three years, down from five years previously. Banks no longer have to file with the Money Loan Court to write off a loan worth up to Tk 200,000, up from Tk 50,000 previously. The requirement for banks to create a separate debt collection unit remains to encourage them to recover written-off loans.

Loan classification. In April, BB changed the loan classification rules, which came into force from June 30, 2019. This reverses the 2012 tightening of the same rules. Rules for provisions are unchanged as banks still must hold 100 percent provisions against bad/loss, 50 percent against doubtful, and 20 percent against sub-standard loans.[1] Nonetheless, the easing of classification requirements reduces the total amount of provisioning and hence lessens financial sector resilience.

	Previous Rules – 2012	Revised Rules – June 2019
Sub-standard	Overdue for 3-6 months	Overdue for 3-9 months
Doubtful	Overdue for 6-9 months	Overdue for 9-12 months
Bad/loss	Overdue for more than 9 months	Overdue for more than 12 months

Increases in paid-in capital requirement. BB raised the minimum requirement for paid-in-capital for banks from TK 4 billion to 5 billion. BB plans to consider further increases to strengthen the capital base and potentially promote mergers among small banks.

Special audit for SOCBs. The authorities started a special audit for SOCBs. It does not cover the entire loan portfolio and focuses on trade credits because the authorities believe that these loans present higher risks without sufficient collateral.

Regularization of defaulted loans. In May, BB issued a special policy circular providing substantial relief to loan defaulters who were classified as such on December 31st, 2018. It allows these defaulters to regularize their loans by making a down payment of 2 percent of the outstanding loans, instead of the previous 5-30 percent down payment. The defaulters would then have up to 10 years to repay the remaining balance, paying annual interest of maximum 9 percent. This new scheme could add to disincentives for borrowers to make regular repayments.[2]

[1] For short-term agricultural and micro-credits, the provisions requirements are 100 percent against bad/loss loans and 5 percent against sub-standard and doubtful loans.

[2] The scheme's legality has been challenged. Before it makes a ruling, the Supreme Court allowed its temporary implementation with a condition that defaulters who used the scheme are not allowed to take new loans during the repayment period.

Box 2. Acting on Climate Change

With sixty percent of its land surface at five meters or less above sea level, Bangladesh is one of the countries most affected by climate change-related natural disasters. The worst episode of flooding in 1998 affected over two-thirds of the country and led to damages and losses estimated at close to 5 percent of GDP. Experts worry that a third of Bangladesh's population may be at risk of displacement because of rising sea levels and coastal erosion, which could lead to a loss of 17 percent of land surface and 30 percent of food production by 2050.

Because of its extreme vulnerability, Bangladesh became one of the most active countries in terms of planning and action on climate change. Even though it accounts for less than 0.35 percent of global greenhouse gas emissions, Bangladesh was the first South Asian country to submit targets for adaptation and mitigation activities in the context of the United Nations Framework on Climate Change in 2015, committing to reduce emissions in the power, transport, and industry sectors by 5 percent below Business-As-Usual levels by 2030. Efforts to track and monitor climate change spending in the budget have benefitted from the creation in 2014 of a Climate Fiscal Framework, which shows that as of June 2018, 8.8 percent of the national budget was allocated for climate change adaptation and mitigation activities—the largest share going to adaptation, including crop protection and flood resilient infrastructure. BB has also spearheaded efforts since 2008 to: (i) prompt banks to incorporate environmental risk in lending decisions; and (ii) promote green banking, including through the establishment of a US$200 million Green Transformation Fund in 2016.

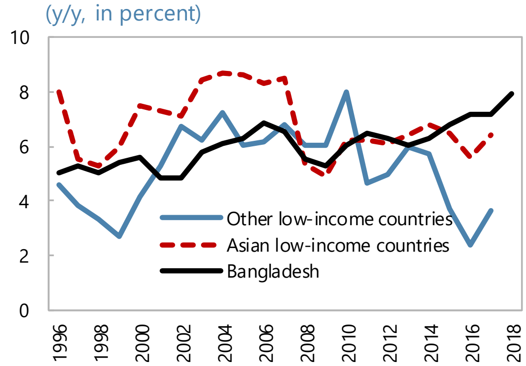
Looking forward, several options can be considered as priorities to create fiscal space for adaptation and mitigation, manage the impact of natural disasters, and promote climate-friendly investments:

- Reduce and gradually eliminate costly energy subsidies, which may be costing the economy more than 3 percent of GDP, while mitigating the impact on the poorest through targeted transfers.
- Consider phased introduction of a carbon tax on selected fuel products, notably those consumed by more affluent households, such as petrol and diesel at the pump. This would help raise domestic revenue by up to 1.5 percentage points of GDP, reduce pollution, and encourage the use of cleaner, emissions-saving technologies.
- Enhance financial cover against the impact of natural disasters through a dedicated contingency line in the budget and the use of insurance mechanisms such as catastrophe bonds that provide more extensive coverage.
- Create a conducive environment for climate-friendly investments, including by taxing pollution, incentivizing green products, and enhancing the business environment to attract foreign investors who promote the use of clean technologies.
- Mobilize greater financial support from the international community, in line with commitments under the December 2015 Paris Agreement, including though advocacy and building a pipeline of suitable projects.

Figure 1. Bangladesh: Structural Transformation

Growth in Bangladesh has been robust and stable....

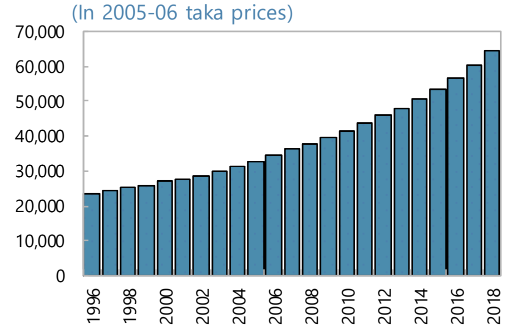
Bangladesh: Real GDP Growth
(y/y, in percent)



Source: WEO

... boosting GDP per capita.

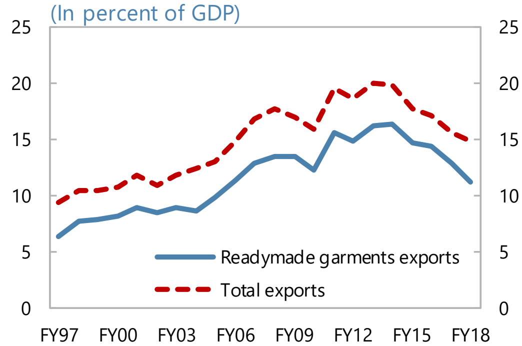
GDP per capita
(In 2005-06 taka prices)



Source: WEO

Readymade garment exports have been the main drivers of exports.

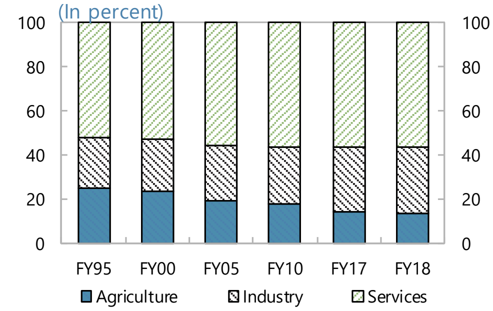
Total and Garment Exports
(In percent of GDP)



Source: Bangladesh Bank

The share of agriculture shrank, while industry and services expanded.

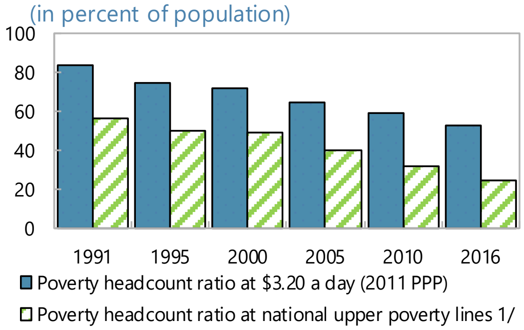
GDP by Activity
(In percent)



Source: Bangladesh Bank

Poverty has declined significantly.

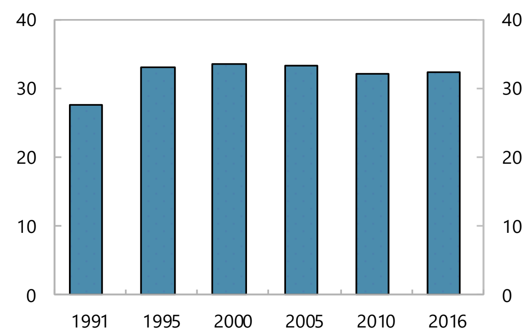
Poverty Headcount Ratios 1/
(in percent of population)



Sources: Bangladesh Bureau of Statistics (BBS) & WDI
1/ In 1995 redefined from caloric intake to cost of basic needs

The Gini Index has remained broadly stable.

Income Inequality: Gini Index

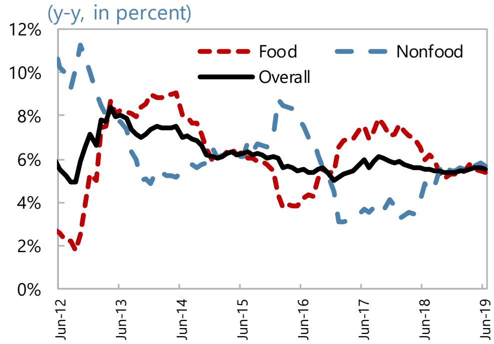


Source: World Development Indicators

Figure 2. Bangladesh: Recent Macroeconomic Developments

Headline inflation has been relatively stable…

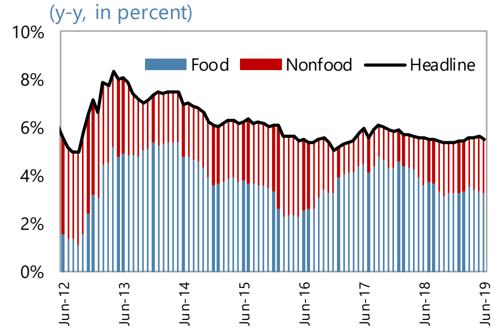
Inflation Rates
(y-y, in percent)



Source: Bangladesh Bureau of Statistics

… with falling food inflation offsetting increasing nonfood inflation.

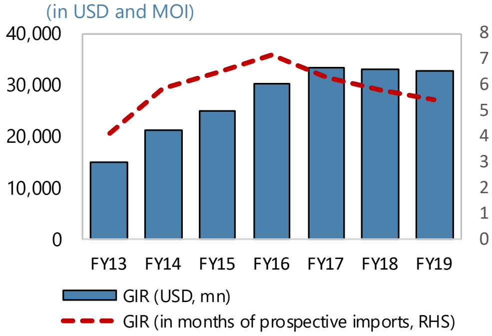
Contributions to Inflation
(y-y, in percent)



Source: Bangladesh Bureau of Statistics

Foreign reserves have been stable in dollar terms though falling gradually in terms of prospective imports.

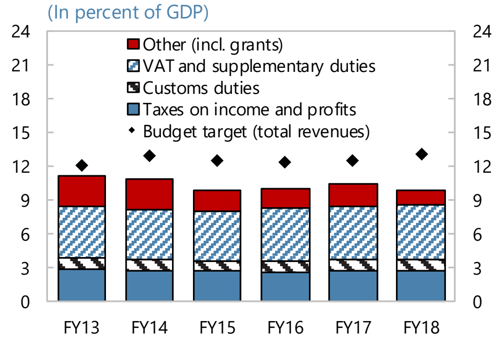
Gross International Reserves
(in USD and MOI)



Source: Bangladesh Bank

Fiscal revenues as percent of GDP have been stagnant and below budget targets in recent years.

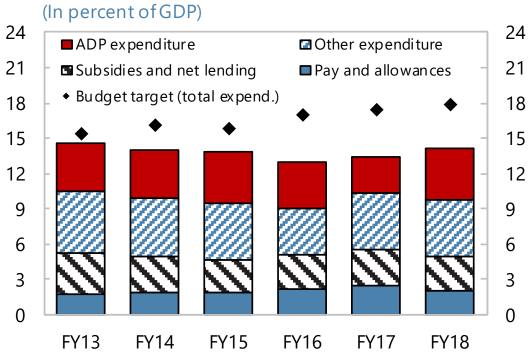
Central Government Revenue
(In percent of GDP)



Source: Ministry of Finance

Similarly, fiscal expenditures as a percent of GDP have remained below the budgeted levels.

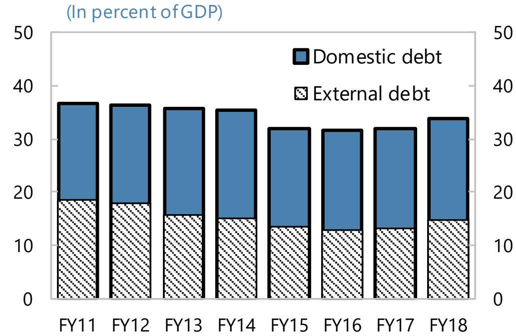
Central Government Expenditure
(In percent of GDP)



Source: Ministry of Finance

After a period of decline, public debt-to-GDP ratio has increased slightly in recent years.

Public Debt
(In percent of GDP)

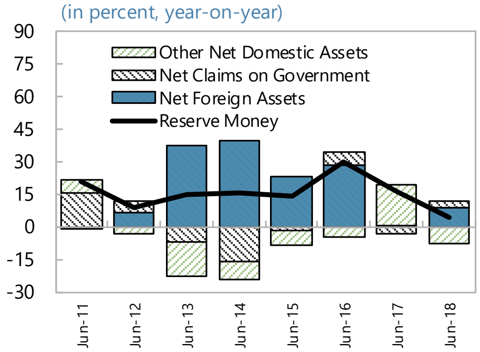


Source: Ministry of Finance

Figure 3. Bangladesh: Monetary and Financial Market Developments

Reserve money growth has moderated recently....

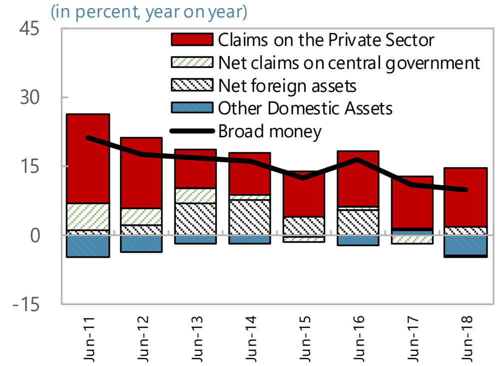
Contributions to Reserve Money Growth
(in percent, year-on-year)



Source: Bangladesh Bank

... with a similar trend for broad money growth.

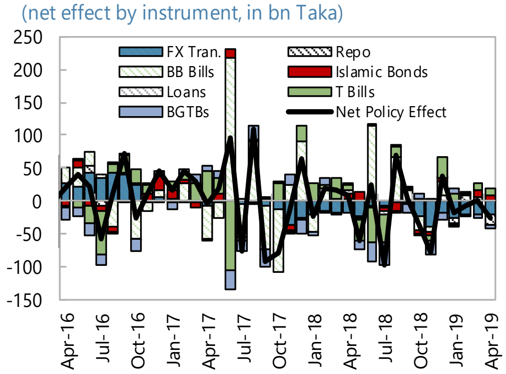
Contributions to Broad Money Growth
(in percent, year on year)



Source: Bangladesh Bank

Bangladesh Bank has been recently withdrawing liquidity.

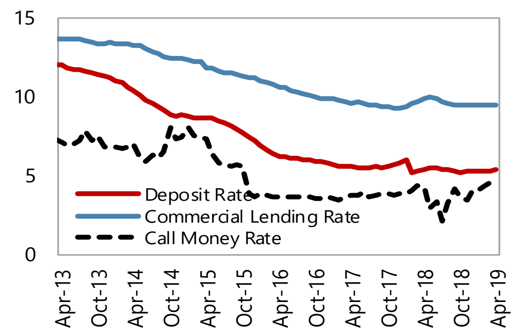
Liquidity Management Operations
(net effect by instrument, in bn Taka)



Sources: Bangladesh Bank; and IMF Staff calculations

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

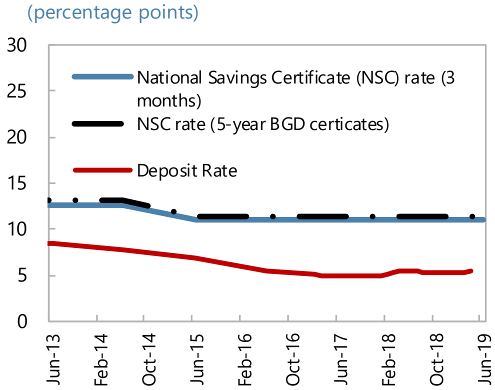
Interest Rates
(in percent)



Source: Bangladesh Bank

Wide spread between NSC rates and deposit rate remains.

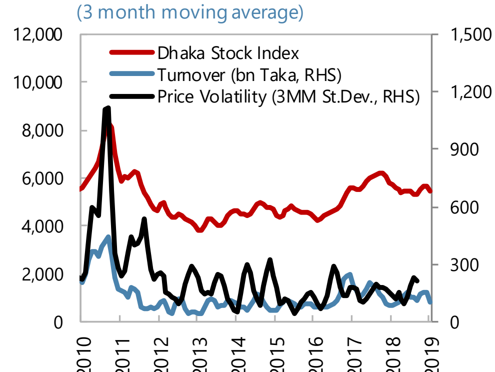
Postal Savings, NSC and Commercial Banks' Rates
(percentage points)



Source: Bangladesh Bank

The stock market has declined in 2018.

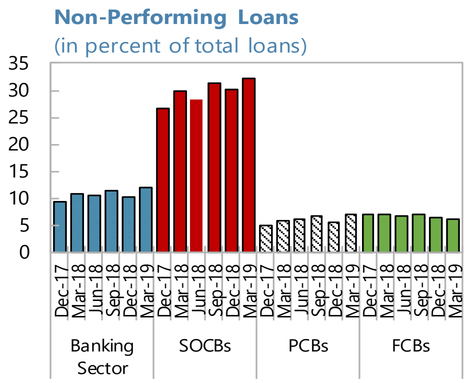
Dhaka Stock Market Performance
(3 month moving average)



Source: Bloomberg

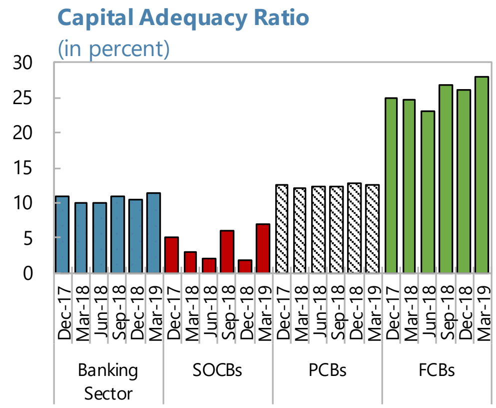
Figure 4. Bangladesh: Banking Sector Conditions

NPLs are high and continue to grow, particularly in SOCBs.



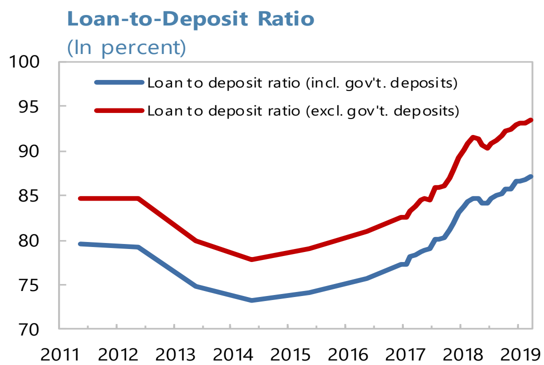
Source: Bangladesh Bank

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



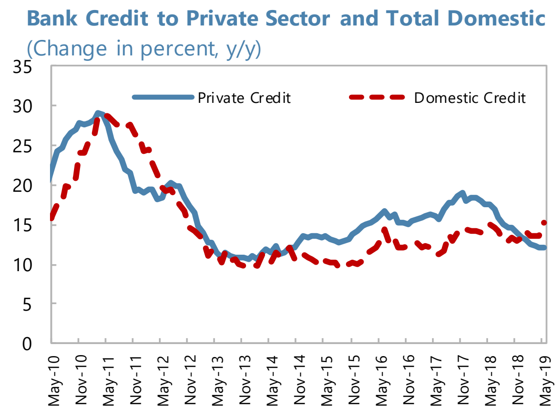
Source: Bangladesh Bank

The loan-to-deposit ratio continues to increase….



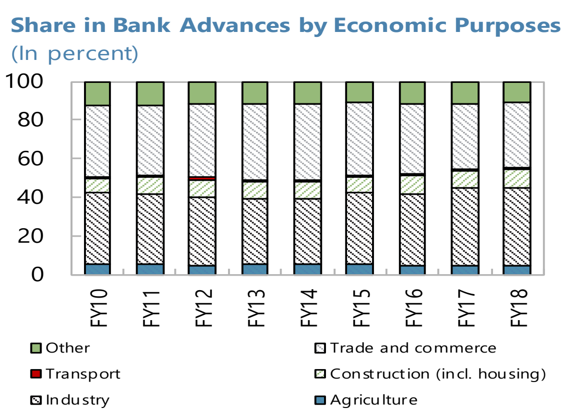
Source: Bangladesh Bank

… despite recent stabilization in credit growth.



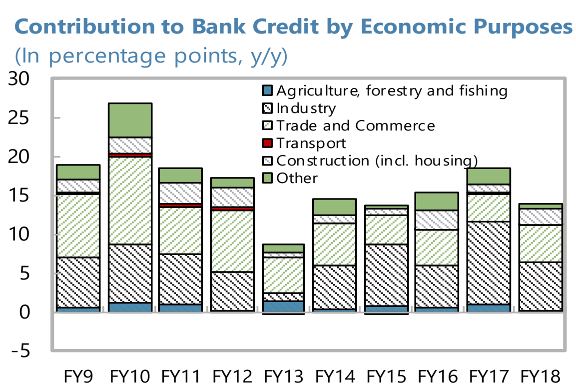
Source: Bangladesh Bank.

Bank credit goes mainly to industry and services….



Source: Bangladesh Bank

… which also contribute most to credit growth.

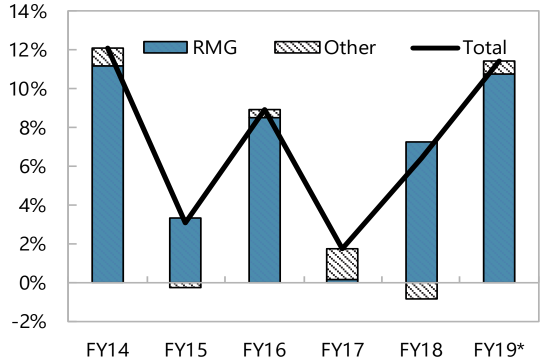


Source: Bangladesh Bank.

Figure 5. Bangladesh: External Sector Developments

Export growth was strong in FY19....

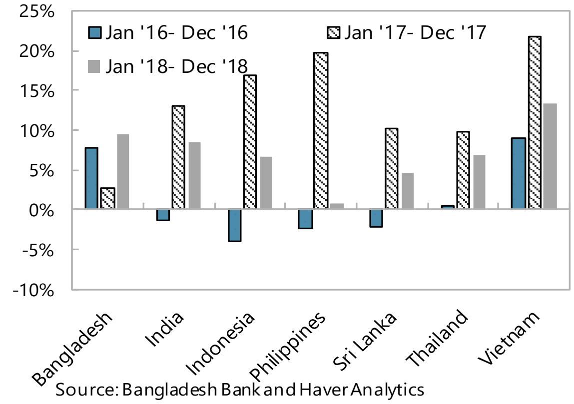
Exports by Commodity
(Contribution to growth, year-year, in percent)



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

... surpassing most regional competitors recently.

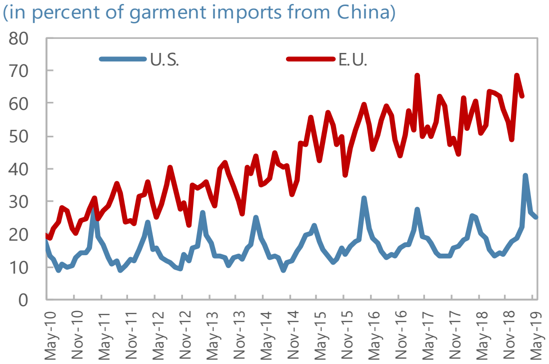
Selected Asia: Exports of Goods
(Year-on-year percent change)



Source: Bangladesh Bank and Haver Analytics

Bangladesh's garment exports to the EU and to the US have been increasing relative to China's.

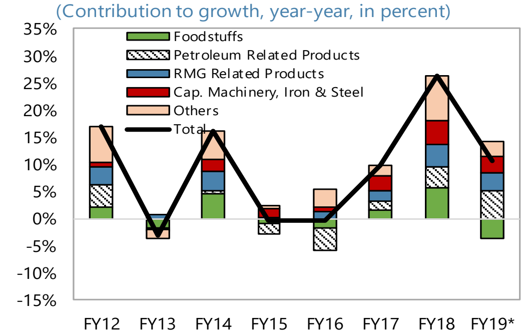
Garment Imports from Bangladesh
(in percent of garment imports from China)



Source: Eurostat; US Department of Commerce.

Import growth slowed down in FY19.

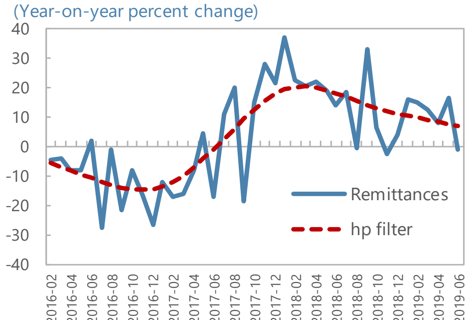
Imports by Commodity
(Contribution to growth, year-year, in percent)



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

Inbound remittances growth has been slowing down.

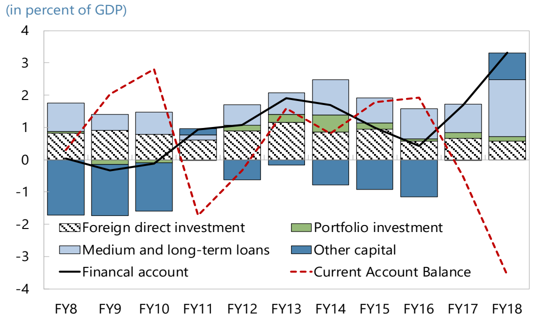
Workers' Remittances, Jan. 2016– Jun. 2019
(Year-on-year percent change)



Sources: Bangladesh Bank and Staff Calculations.

The current account deficit expanded in FY18.

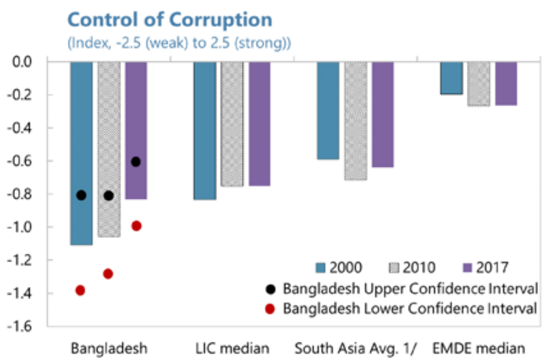
Current and Financial Account Balance
(in percent of GDP)



Sources: data from authorities

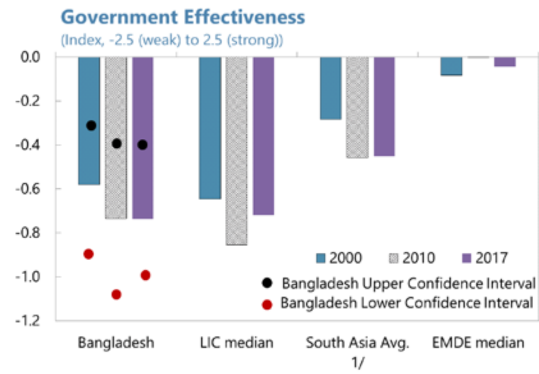
Figure 6. Bangladesh: Governance Indicators

Bangladesh is lagging its peers in control of corruption but is narrowing the gap.



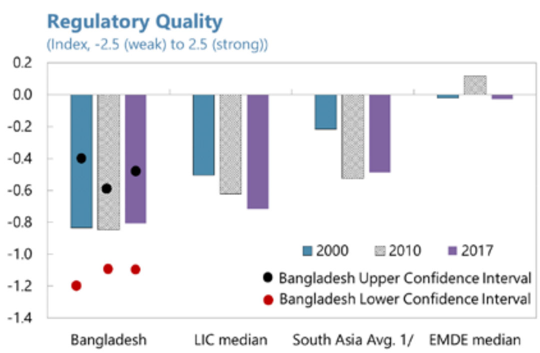
Source: Worldwide Governance Indicators and IMF staff calculations

Government effectiveness is broadly in line with LICs though weaker than the South Asia average.



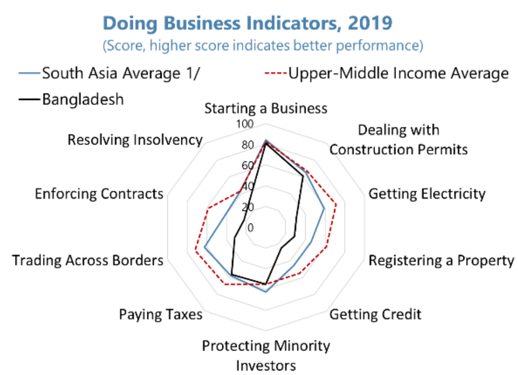
Source: Worldwide Governance Indicators and IMF staff calculations

Regulatory quality is somewhat weaker in Bangladesh compared to peers.



Source: Worldwide Governance Indicators and IMF staff calculations

Scores on doing business for Bangladesh are also lower than the average in South Asia.



Source: Doing Business Indicators and IMF staff calculations

1/ Includes Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka. Use of these indicators should be considered carefully, as they are derived from perceptions-based data. In addition, governance indicators on corruption should not be interpreted as providing independent confirmation of one another. Ranges are for a 90 percent confidence interval; intervals for peer groups are negligible.

Table 1. Bangladesh: Selected Economic Indicators, FY2015–20/1

I. Social and Demographic Indicators

Population (2017, millions; estimate)	165	Infant mortality (2016, per thousand live births)	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, percent)	50.0
Gini index (2016,World Bank estimate)	32	Population growth (FY16, y/y, percent; estimate)	1.1

II. Macroeconomic Indicators

	FY15	FY16	FY17	FY18	FY19	FY20
				Prelim.	Staff proj.	
National income and prices (annual percent change)						
Real GDP	6.6	7.1	7.3	7.9	8.0	7.6
GDP deflator	5.9	6.7	6.3	5.6	5.8	5.8
CPI inflation (annual average)	6.4	5.9	5.4	5.8	5.5	5.6
CPI inflation (end of period)	6.3	5.5	5.9	5.5	5.5	5.6
Nonfood CPI inflation (end of period)	6.3	4.2	7.5	6.0	4.8	4.9
Central government operations (percent of GDP)						
Total revenue and grants	9.8	10.1	10.2	9.7	9.9	10.2
Total revenue	9.6	10.0	10.2	9.6	9.8	10.1
Tax	8.5	8.8	9.0	8.6	8.8	9.1
Nontax	1.1	1.2	1.2	1.0	1.0	1.0
Grants	0.2	0.1	0.1	0.0	0.1	0.1
Total expenditure	13.8	13.4	13.6	14.3	14.8	15.1
Current expenditure	7.9	8.3	8.3	7.9	8.4	9.0
Annual Development Program (ADP)	4.3	4.4	4.1	5.3	5.3	5.2
Other expenditures	1.6	0.8	1.1	1.0	1.0	0.9
Overall balance (including grants)	-4.0	-3.4	-3.3	-4.6	-4.8	-4.8
(Excluding grants)	-4.1	-3.5	-3.4	-4.7	-5.0	-5.0
Primary balance (excluding grants)	-2.1	-1.6	-1.7	-2.8	-3.3	-3.1
Total central government debt (percent of GDP)	33.7	33.3	32.6	34.0	34.6	35.2
Money and credit (end of fiscal year; percent change)						
Credit to private sector by the banking system	13.2	16.8	15.7	16.9	15.2	14.2
Reserve money	14.3	30.1	16.3	4.0	5.8	13.9
Broad money (M2)	12.4	16.3	10.9	9.2	12.7	13.9
Balance of payments (billions of U.S. dollars)						
Exports, f.o.b.	30.7	33.4	34.0	36.2	40.7	44.1
(Annual percent change)	3.1	8.9	1.7	6.4	12.5	8.3
Imports, f.o.b.	-37.7	-39.9	-43.5	-54.5	-56.9	-61.5
(Annual percent change)	3.0	5.9	9.0	25.2	4.5	8.0
Current account balance	3.5	4.3	-1.3	-9.8	-5.9	-6.9
(Percent of GDP)	1.8	1.9	-0.5	-3.6	-2.0	-2.1
Capital and financial account balance	2.4	1.4	4.6	9.4	6.0	7.5
Of which : Foreign direct investment	1.8	1.3	1.7	1.6	1.9	2.0
Overall balance	5.0	5.0	3.2	-0.9	-0.3	0.5
Gross official reserves (billions of U.S. dollars) 2/	24.9	30.2	33.5	33.0	33.0	33.4
In months of prospective imports of goods and services	6.5	7.2	6.3	5.8	5.3	5.0
Exchange rate (taka per U.S. dollar; period average)	77.7	78.3	79.1	82.1	…	…
Exchange rate (taka per U.S. dollar; end-period)	77.8	78.4	80.6	83.7	…	…
Nominal effective rate (2010=100; period average)	95.4	100.4	101.2	93.4	…	…
Real effective rate (2010=100; period average)	120.7	133.1	139.3	133.1	…	…
Memorandum item:						
Nominal GDP (billions of taka)	15,158	17,329	19,758	22,505	25,706	29,276

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: Medium-Term Indicators, FY2015–24/[1]

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
					Staff proj.					
	(Annual percent change)									
Real GDP	6.6	7.1	7.3	7.9	8.0	7.6	7.3	7.3	7.3	7.3
GDP deflator	5.9	6.7	6.3	5.6	5.8	5.8	5.6	5.5	5.5	5.5
CPI inflation (annual average)	6.4	5.9	5.4	5.8	5.5	5.6	5.6	5.5	5.5	5.5
CPI inflation (end of period)	8.0	6.3	5.9	5.5	5.5	5.6	5.6	5.5	5.5	5.5
Credit to private sector (end of period)	13.2	16.8	15.7	16.9	15.2	14.2	13.6	13.5	13.5	13.5
	(In percent of GDP)									
Gross national savings	29.0	31.3	29.8	27.4	29.2	29.1	28.6	29.4	29.1	29.0
Public national savings	1.9	1.8	1.9	1.7	1.5	1.2	1.3	1.4	1.3	1.1
Private national savings	27.1	29.5	27.9	25.7	27.7	27.8	27.3	28.0	27.8	27.8
Gross investment	28.9	29.7	30.5	31.2	31.2	31.2	30.7	31.4	31.1	30.9
Public investment	6.8	6.7	7.4	8.0	8.0	7.7	7.8	7.7	7.3	7.2
Private investment	22.1	23.0	23.1	23.3	23.2	23.5	22.9	23.7	23.7	23.7
Net exports of goods and services	-7.4	-4.7	-5.2	-8.6	-7.0	-7.0	-6.9	-6.7	-6.5	-6.4
Exports of goods and services	17.3	16.6	15.0	14.8	15.8	15.6	15.3	14.9	14.6	14.3
Imports of goods and services	24.7	21.3	20.3	23.4	22.8	22.6	22.1	21.6	21.2	20.7
Current account balance	1.8	1.9	-0.5	-3.6	-2.0	-2.1	-2.1	-2.0	-2.0	-2.0
Central government operations										
Total revenue and grants	9.8	10.1	10.2	9.7	9.9	10.2	10.2	10.2	10.2	10.1
Of which : Tax revenue	8.5	8.8	9.0	8.6	8.8	9.1	9.0	9.0	9.0	8.9
Total expenditure	13.8	13.4	13.6	14.3	14.8	15.1	15.0	14.8	14.7	14.6
Of which : Annual Development Program (ADP)	4.3	4.4	4.1	5.3	5.3	5.2	5.3	5.3	5.1	5.0
Overall balance (including grants)	-4.0	-3.4	-3.3	-4.6	-4.8	-4.8	-4.8	-4.6	-4.5	-4.5
(excluding grants)	-4.1	-3.5	-3.4	-4.7	-5.0	-5.0	-4.9	-4.8	-4.7	-4.7
Primary balance (excluding grants)	-2.1	-1.6	-1.7	-2.8	-3.3	-3.1	-3.0	-2.8	-2.6	-2.6
Public sector total debt 2/	33.7	33.3	32.6	34.0	34.9	35.5	36.1	36.4	36.5	36.6
Of which : External debt	15.1	14.5	13.7	15.0	14.5	14.6	14.6	14.4	14.3	14.1
Memorandum item:										
Nominal GDP (in billions of taka)	15,158	17,329	19,758	22,505	25,706	29,276	33,175	37,567	42,526	48,140

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, FY2015–24/[1]

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

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
					Staff proj.					
Current account balance 2/	3,492	4,262	-1,331	-9,780	-5,897	-6,946	-7,502	-8,080	-8,722	-9,401
Trade balance	-6,965	-6,460	-9,472	-18,258	-16,188	-17,365	-18,573	-19,858	-21,232	-22,701
Exports (f.o.b.)	30,697	33,441	34,019	36,205	40,725	44,102	47,197	50,515	54,068	57,869
Of which : Ready-made garment sector	25,491	28,094	28,150	30,615	34,800	37,584	40,027	42,629	45,400	48,351
Imports (f.o.b.) 2/	-37,662	-39,901	-43,491	-54,463	-56,914	-61,467	-65,770	-70,374	-75,300	-80,571
Of which : Crude oil and petroleum products	-2,153	-2,376	-3,112	-2,583	-3,430	-3,612	-3,657	-3,754	-3,932	-4,172
Services	-3,186	-2,708	-3,288	-4,574	-4,812	-5,886	-6,296	-6,734	-7,203	-7,704
Income	-2,252	-1,915	-1,870	-2,392	-1,958	-1,928	-2,139	-2,367	-2,626	-2,905
Transfers	15,895	15,345	13,299	15,444	17,061	18,232	19,506	20,880	22,339	23,909
Official current transfers 3/	75	67	59	49	50	30	30	40	40	50
Private transfers	15,820	15,278	13,240	15,395	17,011	18,202	19,476	20,840	22,299	23,859
Of which : Workers' remittances	15,170	14,931	12,769	14,982	16,555	17,714	18,954	20,280	21,700	23,219
Capital and financial account balance 4/	2,421	1,408	4,647	9,368	5,950	7,488	7,538	7,614	8,222	8,949
Capital account	496	464	400	292	235	150	150	150	150	150
Financial account	1,925	944	4,247	9,076	5,715	7,338	7,388	7,464	8,072	8,799
Foreign direct investment	1,830	1,285	1,653	1,583	1,890	1,990	2,178	2,383	2,608	2,855
Portfolio investment	379	139	457	365	135	199	218	238	261	285
Medium- and long-term loans, net	1,527	2,074	2,170	4,827	4,860	5,149	4,993	4,842	5,203	5,659
Government, net	1,562	2,184	2,323	4,672	4,710	4,999	4,843	4,692	5,053	5,509
Disbursements	2,472	3,033	3,218	5,785	5,951	6,386	6,301	6,201	6,616	7,016
Amortization	-910	-849	-895	-1,113	-1,241	-1,386	-1,458	-1,508	-1,563	-1,507
Other long-term loans, net	-35	-110	-153	155	150	150	150	150	150	150
Other capital	-1,811	-2,554	-33	2,301	-1,170	0	0	0	0	0
Short-term loans and trade credits, net	-2,613	-2,536	-155	677	-1,465	0	0	0	0	0
Commercial banks, net	802	-18	122	1,624	295	0	0	0	0	0
Other items, net	0	0	0	0	0	0	0	0	0	0
Errors and omissions	-923	-634	-147	-473	-400	0	0	0	0	0
Overall balance	4,990	5,036	3,169	-885	-347	542	37	-466	-500	-452
Financing items	-4,990	-5,036	-3,169	885	347	-542	-37	466	500	452
Change in gross international reserves (GIR) (+ = increase)										
Contribution from financing	4,990	5,036	3,169	-885	-347	542	37	-466	-500	-452
Change in GIR excluding valuation changes	4,934	5,282	3,164	-940	-438	411	-119	-648	-656	-543
Memorandum items:										
Current account balance (percent of GDP)	1.8	1.9	-0.5	-3.6	-2.0	-2.1	-2.1	-2.0	-2.0	-2.0
Exports (annual percent change)	3.1	8.9	1.7	6.4	12.5	8.3	7.0	7.0	7.0	7.0
Imports (annual percent change)	3.0	5.9	9.0	25.2	4.5	8.0	7.0	7.0	7.0	7.0
Remittances (annual percent change)	6.6	-1.6	-14.5	17.3	10.5	7.0	7.0	7.0	7.0	7.0
Foreign direct investment (percent of GDP)	0.9	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Medium- and long-term external public debt	29,500	32,088	34,293	41,155	43,946	48,276	52,831	57,241	62,024	67,268
(Percent of GDP)	15.1	14.5	13.7	15.0	14.5	14.6	14.6	14.4	14.3	14.1
Gross official reserves 4/	24,946	30,176	33,487	33,049	33,011	33,423	33,303	32,655	31,999	31,456
(In months of imports of goods and services)	6.5	7.2	6.3	5.8	5.3	5.0	4.6	4.3	3.9	3.6
Gross official reserves (excluding Asian Clearing Union liabilities) 4/	24,043	29,297	32,608	32,170	32,132	32,543	32,424	31,776	31,120	30,576
(In months of imports of goods and services)	6.3	7.0	6.2	5.6	5.1	4.9	4.5	4.1	3.8	3.5
Net international reserves 4/	21,618	26,654	29,970	29,558	29,611	30,153	30,190	29,724	29,224	28,772
Nominal GDP	195,147	221,398	249,695	274,006	302,080	331,597	362,919	397,200	434,720	475,784

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

1/ Fiscal year begins July 1.

2/ Imports are based on customs data.

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

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

Table 4. Bangladesh: Central Government Operations, FY2015–20/1

	FY15	FY16	FY17	FY18	FY19		FY20	
					Budget	Staff proj.	Budget	Staff proj.
	(In billions of taka)							
Total revenue and grants	1,485	1,748	2,019	2,174	3,433	2,551	3,820	2,992
Total revenue	1,460	1,729	2,008	2,166	3,393	2,517	3,778	2,950
Tax revenue	1,288	1,519	1,778	1,943	3,059	2,263	3,401	2,661
National Board of Revenue (NBR) taxes	1,240	1,462	1,715	1,871	2,962	2,170	3,256	2,545
Of which : VAT and supplementary duties	665	807	953	1,047	1,593	1,180	1,712	1,423
Taxes on income and profits	407	451	525	590	1,007	710	1,139	808
Customs and excise duties	158	178	238	221	346	266	387	298
Non-NBR taxes	48	56	63	72	97	92	145	115
Nontax revenue	172	211	230	222	334	254	377	289
Foreign grants	25	18	11	9	41	34	42	42
Total expenditure	2,087	2,330	2,679	3,219	4,646	3,796	5,232	4,411
Current expenditure	1,191	1,439	1,635	1,789	2,517	2,160	2,779	2,631
Pay and allowances	288	400	488	478	609	547	601	622
Goods and services	167	183	216	235	449	343	318	391
Interest payments	310	331	339	418	513	443	571	540
Subsidies and transfers 2/	424	523	590	656	936	825	1,243	1,076
Annual Development Program (ADP)	648	754	818	1,195	1,797	1,371	2,027	1,518
Non-ADP capital spending	138	122	191	152	329	174	413	168
Net lending 3/	90	11	25	12	21	21	9	24
Other expenditures 4/	21	4	11	70		70	74	70
Overall balance (including grants)	-603	-582	-660	-1,044	-1,212	-1,246	-1,412	-1,419
(Excluding grants)	-628	-601	-671	-1,053	-1,253	-1,280	-1,454	-1,461
Primary balance (including grants)	-293	-251	-320	-627	-699	-803	-879	-879
(Excluding grants)	-318	-270	-332	-635	-740	-837	-922	-922
Net financing	603	583	660	1,044	1,212	1,246	1,412	1,419
External	116	94	110	256	500	401	638	441
Disbursements	190	237	182	331	606	506	754	564
Amortization	-74	-66	-72	-75	-106	-106	-116	-122
Domestic	359	489	550	788	712	845	774	978
Banks	-23	147	-84	117	420	294	474	550
Nonbanks 5/	383	342	634	671	292	551	300	427

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 an
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. I
special bonds issued to the commercial banks for the noncash issued to the state-owned securitization of past subsidy-related
loans made to Bangladesh Petroleum Corporation, consistent with the earlier treatment in the fiscal
4/ Includes food account surplus (+)/deficit (-) and extraordinary expenditures.
5/ Includes National Savings Certificates, net purchase of Treausry securities by nonbank entities, and financing through
the General Provident Fund.

Table 4. Bangladesh: Central Government Operations, FY2015–20/[1] (concluded)

	FY15	FY16	FY17	FY18	FY19		FY20	
					Budget	Staff proj.	Budget	Staff proj.
	(In percent of GDP)							
Total revenue and grants	9.8	10.1	10.2	9.7	13.5	9.9	13.2	10.2
Total revenue	9.6	10.0	10.2	9.6	13.4	9.8	13.1	10.1
Tax revenue	8.5	8.8	9.0	8.6	12.1	8.8	11.8	9.1
NBR taxes	8.2	8.4	8.7	8.3	11.7	8.4	11.3	8.7
Of which : VAT and supplementary duties	4.4	4.7	4.8	4.7	6.3	4.6	5.9	4.9
Taxes on income and profits	2.7	2.6	2.7	2.6	4.0	2.8	3.9	2.8
Customs and excise duties	1.0	1.0	1.2	1.0	1.4	1.0	1.3	1.0
Non-NBR taxes	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.4
Nontax revenue	1.1	1.2	1.2	1.0	1.3	1.0	1.3	1.0
Foreign grants	0.2	0.1	0.1	0.0	0.2	0.1	0.1	0.1
Total expenditure	13.8	13.4	13.6	14.3	18.3	14.8	18.1	15.1
Current expenditure	7.9	8.3	8.3	7.9	9.9	8.4	9.6	9.0
Pay and allowances	1.9	2.3	2.5	2.1	2.4	2.1	2.1	2.1
Goods and services	1.1	1.1	1.1	1.0	1.8	1.3	1.1	1.3
Interest payments	2.0	1.9	1.7	1.9	2.0	1.7	2.0	1.8
Subsidies and transfers 2/	2.8	3.0	3.0	2.9	3.7	3.2	4.3	3.7
Annual Development Program (ADP)	4.3	4.4	4.1	5.3	7.1	5.3	7.0	5.2
Non-ADP capital spending	0.9	0.7	1.0	0.7	1.3	0.7	1.4	0.6
Net lending 3/	0.6	0.1	0.1	0.1	0.1	0.1	0.0	0.1
Other expenditures 4/	0.1	0.0	0.1	0.3	0.0	0.3	0.3	0.2
Overall balance (including grants)	-4.0	-3.4	-3.3	-4.6	-4.8	-4.8	-4.9	-4.8
(Excluding grants)	-4.1	-3.5	-3.4	-4.7	-4.9	-5.0	-5.0	-5.0
Primary balance (including grants)	-1.9	-1.5	-1.6	-2.8	-2.8	-3.1	-3.0	-3.0
(Excluding grants)	-2.1	-1.6	-1.7	-2.8	-2.9	-3.3	-3.2	-3.1
Net financing	4.0	3.4	3.3	4.6	4.8	4.8	4.9	4.8
External	0.8	0.5	0.6	1.1	2.0	1.6	2.2	1.5
Disbursements	1.3	1.4	0.9	1.5	2.4	2.0	2.6	1.9
Amortization	-0.5	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4
Domestic	2.4	2.8	2.8	3.5	2.8	3.3	2.7	3.3
Banks	-0.2	0.8	-0.4	0.5	1.7	1.1	1.6	1.9
Nonbanks 5/	2.5	2.0	3.2	3.0	1.2	2.1	1.0	1.5
Total central government debt (percent of GDP)	33.7	33.3	32.6	34.0	35.2	34.6	...	35.2
Nominal GDP (in billions of taka)	15,158	17,329	19,758	22,505	25,378	25,706	28,859	29,276

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 an
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. I
special bonds issued to the commercial banks for the noncash issued to the state-owned securitization of past subsidy-related
loans made to Bangladesh Petroleum Corporation, consistent with the earlier treatment in the fiscal
4/ Includes food account surplus (+)/deficit (-) and extraordinary expenditures.
5/ Includes National Savings Certificates, net purchase of Treausry securities by nonbank entities, and financing through
the General Provident Fund.

Table 5. Bangladesh: Monetary Accounts, FY2015–20

	FY15	FY16	FY17	FY18	FY19	FY20
					Staff proj.	
Bangladesh Bank (BB) balance sheet			(End of period; in billions of taka)			
Net foreign assets	1695	2117	2,122	2,330	2,575	2,717
Net domestic assets	-216	-191	124	7	-102	99
Net credit to central government 1/	83	176	114	170	51	36
Credit to other nonfinancial public sector	12	12	12	12	12	12
Credit to deposit money banks	48	44	43	55	44	44
Other items, net	-359	-423	-44	-229	-208	8
Reserve money 2/	1,480	1,926	2,247	2,337	2,473	2,817
Currency	982	1323	1,513	1,549	1,820	2,072
Reserves	498	603	727	780	654	744
			(Contributions to reserve money growth)			
Net foreign assets	22.9	28.5	0.2	9.2	10.5	5.8
Net domestic assets	-8.6	1.6	16.4	-5.2	-4.7	8.1
Of which : Net credit to central government	-1.4	6.2	-3.2	2.5	-5.1	-0.6
Reserve money (year-on-year percentage change)	14.3	30.1	16.6	4.0	5.8	13.9
			(End of period; in billions of taka)			
Monetary survey						
Net foreign assets	1,893	2,331	2,359	2,546	2,619	2,763
Bangladesh Bank	1,695	2,117	2,122	2,330	2,575	2,717
Commercial banks	197	214	237	216	44	46
Net domestic assets	5,979	6,827	7,795	8,546	9,885	11,478
Domestic credit	7,230	8,279	8,842	10,131	11,819	13,867
Net credit to central government 1/	1,317	1,409	909	863	1,157	1,708
Credit to other nonfinancial public sector	111	90	91	104	119	136
Credit to nonbank financial institutions	56	70	82	88	88	88
Credit to private sector	5,746	6,710	7,761	9,075	10,455	11,936
Other items, net	-1,251	-1,452	-1,047	-1,585	-1,934	-2,389
Broad money (M2)	7,871	9,158	10,154	11,092	12,505	14,241
			(Year-on-year percent change)			
Net foreign assets	18.3	23.2	1.2	8.0	2.9	5.5
Net domestic assets	10.7	14.2	14.2	9.6	15.7	16.1
Domestic credit	10.5	14.5	6.8	14.6	16.7	17.3
Of which : Net credit to central government	-1.7	7.0	-35.5	-5.0	34.1	47.6
Credit to private sector	13.2	16.8	15.7	16.9	15.2	14.2
Broad money (M2)	12.4	16.3	10.9	9.2	12.7	13.9
Memorandum items:						
Required domestic cash reserves (in billions of taka)	471	500	512	524	624	711
Excess domestic cash reserves (in billions of taka)	28	103	215	256	29	34
Broad money multiplier	5.3	4.8	4.5	4.7	5.1	5.1
Broad money velocity	1.9	1.9	1.9	2.0	2.1	2.1

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

(In percent)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Capital adequacy										
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
Asset quality										
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
Management										
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
Earnings										
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
Liquidity										
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: Sustainable Development Goals

Goals	Selected Indicator	Earlier Observation		Latest Observation		Target		
		Year		Year		2020	2025	2030
End Poverty	Proportion of population living below the International poverty line (%)	2010	19.6	2016	14.8	9.3	4.8	0
End Hunger	Prevalence of undernourishment (%)	2010	17.2	2017	15.2	14	12	10
Good Health and Well Being	Maternal Mortality Ratio (per 100,000)	2010	216	2017	172	105	85	70
Inclusive and Equitable Education	Participation rate in organized learning (%)			2015	39	80	90	100
Gender Equality	Proportion of seats held by women in local governments (%)			2016	23	25	27	33
Clean Water and Sanitation	Proportion of population using safely managed drinking water services (%)	2010	84	2017	98	100	100	100
Affordable and Clean Energy	Proportion of population with access to electricity (%)	2010	55.2	2017	85.3	96	100	100
Sustainable Growth and Decent Work	Annual growth rate of real GDP per capita (%)	2010	4.1	2018	6.4	6.7	7	7.5
Industry, Innovation, and Infrastructure	Manufacturing employment as a percentage of total employment (%)	2010	12.4	2015	14.4	20	22	25
Reduce Inequality	Growth rates of household expenditure among the bottom 40 percent (%)	2016	3.1	2018	7.7	8	9	10
Cities and Communities	Proportion of urban population living in slums (%)			2014	55.1	40	30	20
Responsible Consumption and Production								
Climate Action	Number of deaths attributed to disasters (per 100,000)	2015	12,881	2016	2,155	6,500	3,500	1,500
Life Below Water	Coverage of protected areas in relation to marine areas (%)			2017	7.9	10	10	10
Life on Land	Forest area as a proportion of total land area (%)	2014	13.2	2016	13.2	15	18	20
Peace, Justice, and Strong Institutions	Unsentenced detainees as a percentage of overall prison population (%)			2017	79	70	50	40
Partnerships for the Goals	Fixed internet broadband subscriptions (%)	2015	2	2017	4.5	8	15	20

Source: SDG tracker, Bangladesh Planning Commission

Annex I. Response to Past Fund Policy Advice

After the completion of the Extended Credit Facility arrangement in October 2015, the authorities continue to closely engage with the Fund through the Article IV consultations, periodic staff visits, capacity development, and the Resident Representative office. Since the last Article IV consultation, a number of recommendations have been implemented, but several key important challenges remain.

FUND ADVICE	AUTHORITIES' RESPONSE
Tighten monetary policy in case inflation increases well above their target.	BB kept monetary policy unchanged as inflation stayed broadly in line with BB's target (5½ percent). Private sector credit growth was slower in FY19.
Gradually increase exchange rate flexibility.	BB has intervened occasionally in the foreign exchange market to avoid excessive exchange rate fluctuations. The currency has been relatively stable against USD, while REER appreciated.
Keep public debt broadly stable.	The authorities continued to keep fiscal deficit below 5 percent of GDP. The public debt-to-GDP ratio has been broadly stable.
Increase tax revenues, including through the implementation of the VAT reform.	Tax revenue has not increased as percent of GDP. The authorities implemented the VAT reform in FY20, though it came with the introduction of multiple rates. The government also announced some measures to improve tax administration and tax compliance.
Address banking sector vulnerabilities by strengthening banking regulation and supervision.	NPLs continued to increase despite strong economic growth. There is also a growing trend of loan rescheduling and restructuring. The authorities initiated a special audit of SOCBs and raised minimum capital requirement for banks, though they also plan to introduce a new loan rescheduling scheme and relaxed definition of NPLs.
Develop the capital market, including through reform in the NSCs scheme.	A database was introduced to enforce the upper limits of NSC holdings for each investor. The tax on NSC interest income was raised from 5 to 10 percent. However, the level of NSC issuance is still high and reforms in NSC pricing structure will be necessary.
Improve the business environment and promote higher female labor participation.	The government made progress in improving the business environment, inducing through the One Stop Service Platform. However, expenditures on health and infrastructure to promote female labor force participation are still constrained with low tax revenues.

Annex II. Risk Assessment Matrix 1/

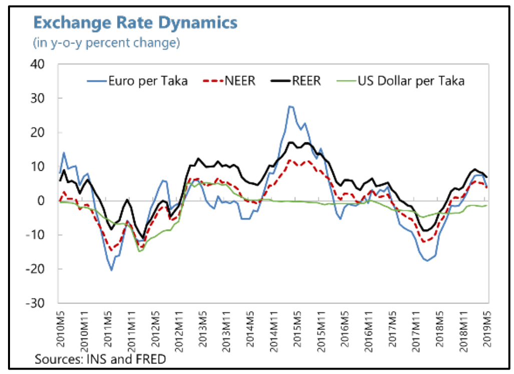
Source of Risk	Location of Source	Relative Likelihood	Time Horizon	Expected Impact	Direction of Impact	Main Impacts → Recommended Policy Actions
Failure to effectively address the problems in the banking system, including high non-performing loans	Domestic	M	ST, MT	M – H	↓	High and increasing non-performing loans and low capital adequacy would hamper the banking sector's ability to finance business investment, add fiscal burden, and hamper growth. → Address the main causes of weak bank performance, including weak corporate governance, weaknesses in the regulatory framework and regulatory forbearance. Reassess the role of state-owned commercial banks.
Slow progress in resolving the Rohingya refugee crisis and weakened donor support	Domestic	M– H	ST, MT	M – H	↓	As the repatriation of the refugees take time and donor support weakens, social and environmental costs, security concerns and fiscal pressures could intensify. → Increase fiscal space to create room to address the difficult situation of the refugees, while keeping the fiscal deficit broadly under control. Continuous support by the international community will be essential.
Rising protectionism and retreat from multilateralism	External	H	MT, LT	M – H	↓	While Bangladesh could temporarily benefit from the reallocation of some exports from China, in the medium and long-term, rising protectionism could slow down export of ready-made garments and FDI inflows, leading to weaker current account balance and loss of reserves. → Diversify the composition of exports away from RMG and seek new export markets outside the EU and the US.
Weaker-than-expected global growth	External	M- H	ST, MT	M – H	↓	Weaker global growth could adversely affect demand for Bangladesh exports and remittances, leading to a weaker balance of payments and slower economic growth. → If the shock is temporary, there should be a moderate fiscal easing by allowing automatic stabilizers to accommodate transfers to the poor as needed, and possibly an exchange rate adjustment. If the shock is protracted, the exchange rate should be allowed to adjust, and fiscal policy would also require some adjustment to keep the deficit broadly in line with the fiscal anchor, with social spending on the poor protected. The authorities also need to accelerate productivity-enhancing structural reforms and diversification of the economy, improve business climate and reduce barriers to trade and inward FDIs.

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

Annex III. External Sector Assessment

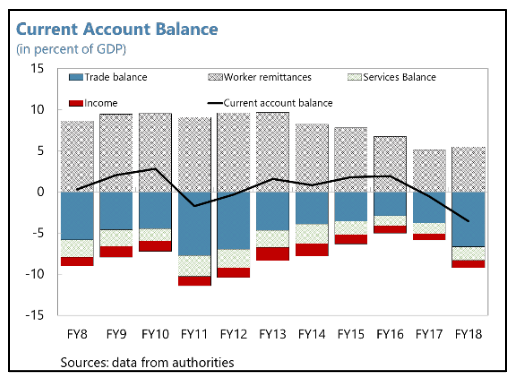
The external position in Bangladesh was broadly in line with fundamentals and desirable policies in CY18. The current account has recently entered a deficit, driven by higher imports of capital goods and lower worker remittances in percent of GDP. The EBA-lite CA methodology suggests a negligible gap of 0.2 percent. Reserve coverage remains adequate covering around 6 months of imports. Staff advise fostering conditions to support greater exchange rate flexibility.

1. **The real effective exchange rate has been appreciating in line with the USD appreciation against other currencies.** In April 2019, the Taka appreciated against the Euro by 4.3 percent (y-o-y) and the REER appreciated by 7 percent (y-o-y). During this time, the Taka depreciated by 1.3 percent (y-o-y) against the USD. The de-jure exchange rate regime is floating[1], but Bangladesh Bank (BB) intervenes in the spot market to limit volatility and to supply foreign exchange to the market. The authorities should continue to gradually expand exchange rate flexibility, which would help buffer the economy against external shocks and preserve the level of reserves. Staff also recommend that their interventions have greater clarity around their purpose, amount and timing, in line with Fund TA.



Exchange Rate Dynamics
(in y-o-y percent change)
Sources: INS and FRED

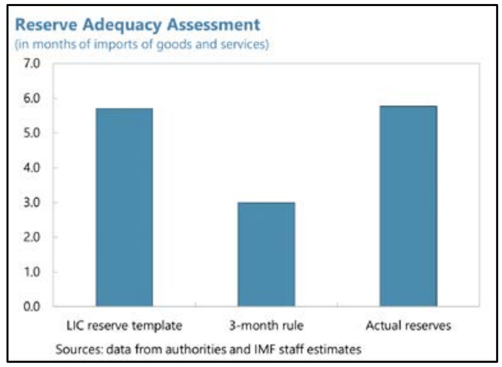
2. **The current account deficit increased by 3 percent of GDP in FY18 to 3.6 percent of GDP.** Current account dynamics are driven by the trade balance and worker remittances. Imports in FY18 grew driven by larger capital imports related to infrastructure projects, and a one-off surge in food imports due to floods. Worker remittances have been decreasing in percent of GDP, and though they grew in FY18, they were not enough to cover the larger trade deficit.



Current Account Balance
(in percent of GDP)
Sources: data from authorities

[1] The de facto exchange rate arrangement is classified as crawl-like.

3. Reserve coverage is adequate at nearly 6 months of imports of goods and services. The overall balance has been broadly positive supporting reserve accumulation over the past years. FY18 marked the first year of a depletion of reserves since FY11. The template for assessing reserve adequacy in credit constrained economies suggests around 3 months of import coverage.[2, 3] This range varies between 2 and 6 months of imports depending on the assumed cost of reserves.



4. The revised EBA-lite CA model indicates a negligible CA gap in CY18.[4] The small policy gap[5] reflects contributions from the public health expenditure variable (due to a policy target for greater social protections) and the capital control variable (due to a policy target for a more open capital account).[6] The elasticity used to calculate the REER gap is -13.3 percent. This elasticity is calculated by weighing the import and export elasticities calculated within the EBA-lite CA model by the share of imports and exports of goods and services to GDP. The resulting REER gap is 1.6 percent, supporting the assessment that the external position is broadly in line with fundamentals.[7]

CA approach	
CA-Actual	-2.8%
Cyclical Contributions (from model)	0.1%
Cyclically adjusted CA	-2.9%
CA-Norm	-3.5%
Cyclically adjusted CA Norm	-3.6%
Multilaterally Consistent Cyclically adjusted CA Norm	-3.1%
CA-Gap	0.2%
of/which Policy gap	-0.3%
Elasticity	-13.3%
REER Gap	-1.6%
CA-Fitted	-3.0%
Residual	0.2%
Natural Disasters and Conflicts	0.9%

[2] Bangladesh is assessed to be "credit constrained" for this exercise given that it does not regularly borrow from international capital markets—defined as at least one issuance of bonds per year in the last five years—and is not rated to be "investment grade."

[3] Suggested coverage of 3 months of imports is attained using a cost of reserve accumulation equal to the marginal product of capital in LICs as estimated in https://www.imf.org/external/np/pp/eng/2011/021411c.pdf

[4] The EBA-lite CA model is estimated using calendar year data for Bangladesh. The current account deficit in CY 2018 was 2.8 percent of GDP.

[5] Exact calculation of policy gap is "{(current policy level of the country) - (desirable policy level of the country)} - {(current policy level of world average) - (desirable policy level of world average)}.

[6] P* for all variables were set by the methodology elaborated in http://intranetapps.imf.org/fundwide/KE/Topics/External-Sector-Assessment/Documents/Background%20Notes%20on%20Review%20of%20the%20EBA-Lite%20to%20Board.pdf

[7] The REER gap suggested by the EBA-lite REER model is mostly due to the residual. The poor fit of the model to Bangladesh makes it unsuitable. The external sustainability model is not as relevant for Bangladesh as reserves are adequate and the risk of external debt sustainability is low.

5. Bangladesh stands to benefit from structural improvements to competitiveness. Diversifying the export market from the ready-made garment (RMG) sector will make Bangladesh more resilient to external shocks and will improve its growth potential. To this end, it is important to improve the ease of doing business and attract FDI and domestic investment into nascent industries that are more complex.

Policy gap	**-0.3%**
Fiscal Policy	0.5%
Public Health Expenditure	1.7%
Change in Reserves	-0.3%
Private Credit Level	-0.9%
Private Credit Growth	0.1%
Capital Control	-1.5%

6. The external position in Bangladesh was broadly in line with fundamentals in CY18. Adequate reserve coverage, a small REER gap suggested by the EBA-lite CA model, and low external debt support this assessment. In line with Fund TA, staff advise BB to form rules governing its intervention in the spot market and to make these transparent. This would help increase the flexibility of the exchange rate its ability to absorb external shocks.

Annex IV. BOP Sensitivity Analysis

Several structural changes are set to impact the current account of Bangladesh over the medium-term. We construct alternative scenarios to illustrate potential upside and downside risks should they materialize.

1. **The current account in Bangladesh will no longer be in a surplus as was broadly the case between FY02 and FY16.** The current account is projected to remain in deficits into the medium term under the baseline scenario. This is a result of structural changes to the external sector. Bangladesh's current account surpluses were the result of strong RMG exports and remittance inflows that covered the trade deficit and allowed the accumulation of reserves. Remittance inflows, though still growing, have been declining as a share of GDP since FY14. This trend is not expected to reverse as destination countries further tighten their immigration policies.

2. **In addition to lower remittances, imports are set to increase over the medium term due to:**

- **An increase in the reliance on imports of liquified natural gas (LNG).** Demand for energy in Bangladesh has grown beyond what domestic gas resources can supply. Bangladesh has been importing LNG since 2018 to meet demand. Existing domestic natural gas resources are set to be depleted by 2027 if no further exploration is done. Bangladesh's reliance on imported LNG will increase over the medium-term as growth remains strong. LNG imports are around four times more expensive than domestic gas.

- **An increase in infrastructure spending.** The infrastructure gap in Bangladesh remains large. Investments in capital over the medium term may move faster than expected, increasing associated imports and external debt to finance the projects.

3. **To better capture potential outcomes from these structural changes we calibrate alternative scenarios for the balance of payments.** Scenario A calibrates the downside risks to our baseline scenario. Differences between scenario A and the baseline are as follows:

- **Remittances** will gradually decline to become around 1 percent of GDP lower than the baseline scenario in FY25.

- **LNG imports** will gradually increase to reach twice the amount in the baseline scenario by FY25.

- **Capital imports** will be steady at around 10 percent of GDP compared to a gradual decline to 8 percent of GDP by FY25 in the baseline scenario.

4. **In scenario A, the current account deficit will deteriorate over the medium term to reach 5.6 percent of GDP in FY25.** We make two assumptions on the way the additional current account deficit will be financed. First, we assume the additional deficit will be fully financed by an

increase in external borrowing. Under this assumption, gross official reserves will remain unchanged from the baseline scenario, though coverage in months of imports will decline to 2.8 from 3.3. External public debt will increase to around 18 percent of GDP by FY25. The alternative financing assumption is that 30 percent of the contribution to the deficit will be absorbed by reserves. Under this alternative financing assumption, the import coverage of reserves declines to 2.3 months and public external debt increases to around 17 percent of GDP.

Scenario A

	Baseline							Scenario A						
(in percent of GDP)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Current account balance	**-2.0**	**-2.1**	**-2.1**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.5**	**-3.1**	**-3.5**	**-4.1**	**-4.6**	**-5.2**	**-5.6**
Trade balance	-5.4	-5.2	-5.1	-5.0	-4.9	-4.8	-4.7	-5.9	-6.2	-6.4	-6.6	-6.9	-7.2	-7.3
Exports (f.o.b.)	13.5	13.3	13.0	12.7	12.4	12.2	11.9	13.5	13.3	13.0	12.8	12.5	12.2	11.9
***Of which*: Ready-made garment sector**	**11.5**	**11.3**	**11.0**	**10.7**	**10.4**	**10.2**	**9.9**	**11.5**	**11.3**	**11.0**	**10.7**	**10.4**	**10.2**	**9.9**
Imports (f.o.b.)	-18.8	-18.5	-18.1	-17.7	-17.3	-16.9	-16.6	-19.4	-19.6	-19.4	-19.4	-19.4	-19.4	-19.3
***Of which*: Crude oil and petroleum products**	**-1.1**	**-1.1**	**-1.0**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-1.1**	**-1.3**	**-1.4**	**-1.5**	**-1.7**	**-1.9**	**-2.0**
***Of which*: Capital goods**	**-9.4**	**-9.3**	**-9.1**	**-8.9**	**-8.7**	**-8.5**	**-8.3**	**-9.7**	**-10.0**	**-10.0**	**-10.0**	**-10.0**	**-10.0**	**-10.0**
Private transfers	**5.6**	**5.5**	**5.4**	**5.2**	**5.1**	**5.0**	**4.9**	**5.6**	**5.5**	**5.2**	**4.8**	**4.5**	**4.2**	**3.9**
Of which: Workers' remittances	5.5	5.3	5.2	5.1	5.0	4.9	4.8	5.5	5.3	5.0	4.7	4.4	4.1	3.8
								External Debt Fiancing						
Gross official reserves (US$ Million)	33,011	33,423	33,303	32,655	31,999	31,456	30,782	33,011	33,423	33,303	32,655	31,999	31,456	30,782
(In months of imports of goods and services)	5.3	5.0	4.6	4.3	3.9	3.6	3.3	5.0	4.7	4.3	3.9	3.5	3.2	2.8
Medium- and long-term external public debt	14.5	14.6	14.6	14.4	14.3	14.1	13.9	15.1	15.5	16.0	16.5	17.0	17.5	17.8
								External Debt and Reserves						
Gross official reserves (US$ Million)								32,509	32,446	31,725	30,251	28,605	26,895	25,022
(In months of imports of goods and services)								5.0	4.6	4.1	3.6	3.1	2.7	2.3
Medium- and long-term external public debt								15.0	15.2	15.6	15.9	16.2	16.6	16.7

5. **We consider an additional scenario where the export sector slowly diversifies into more complex products.** Scenario B incorporates the downside risks higlighted in scenario A and adds the upside of increased exports from diversification. Capital imports will increase slightly as a result of imported inputs into the new sectors. We assume that exports will steadly increase and be higher by 3 percent of GDP in FY25. The current account deficit in FY25 will be 3.1 percent of GDP. We use the same options for financing as in scenario A. If external debt covers the additional deficit, the external debt to GDP ratio will be around 15 percent of GDP in FY25 compared to around 14 percent in the baseline and 18 percent in scenario A. Assuming reserves will absorb the 30 percent of the contribution to the deficit, by FY25, external debt to GDP will be around 15 percent and reserve coverage will be 2.6 months of prospective imports.

Scenario B

	Baseline							Scenario B						
(in percent of GDP)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Current account balance	**-2.0**	**-2.1**	**-2.1**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.5**	**-2.9**	**-3.1**	**-3.3**	**-3.5**	**-3.5**	**-3.1**
Trade balance	-5.4	-5.2	-5.1	-5.0	-4.9	-4.8	-4.7	-5.9	-6.1	-6.0	-5.9	-5.8	-5.5	-4.8
Exports (f.o.b.)	13.5	13.3	13.0	12.7	12.4	12.2	11.9	13.5	13.6	13.6	13.8	14.1	14.4	14.9
***Of which*: Ready-made garment sector**	**11.5**	**11.3**	**11.0**	**10.7**	**10.4**	**10.2**	**9.9**	**11.5**	**11.3**	**11.0**	**10.7**	**10.4**	**10.2**	**9.9**
Imports (f.o.b.)	-18.8	-18.5	-18.1	-17.7	-17.3	-16.9	-16.6	-19.4	-19.7	-19.6	-19.7	-19.9	-19.9	-19.7
***Of which*: Crude oil and petroleum products**	**-1.1**	**-1.1**	**-1.0**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-1.1**	**-1.3**	**-1.4**	**-1.5**	**-1.7**	**-1.9**	**-2.0**
***Of which*: Capital goods**	**-9.4**	**-9.3**	**-9.1**	**-8.9**	**-8.7**	**-8.5**	**-8.3**	**-9.7**	**-10.2**	**-10.2**	**-10.3**	**-10.5**	**-10.6**	**-10.4**
Private transfers	**5.6**	**5.5**	**5.4**	**5.2**	**5.1**	**5.0**	**4.9**	**5.6**	**5.5**	**5.2**	**4.8**	**4.5**	**4.2**	**3.9**
Of which: Workers' remittances	5.5	5.3	5.2	5.1	5.0	4.9	4.8	5.5	5.3	5.0	4.7	4.4	4.1	3.8
								External Debt Fiancing						
Gross official reserves (US$ Million)	33,011	33,423	33,303	32,655	31,999	31,456	30,782	33,011	33,423	33,303	32,655	31,999	31,456	30,782
(In months of imports of goods and services)	5.3	5.0	4.6	4.3	3.9	3.6	3.3	5.0	4.7	4.3	3.8	3.4	3.1	2.8
Medium- and long-term external public debt	14.5	14.6	14.6	14.4	14.3	14.1	13.9	15.1	15.3	15.6	15.8	16.0	15.9	15.3
								External Debt and Reserves						
Gross official reserves (US$ Million)								32,509	32,595	32,161	31,102	29,996	29,250	29,039
(In months of imports of goods and services)								4.9	4.6	4.1	3.6	3.2	2.9	2.6
Medium- and long-term external public debt								15.0	15.1	15.3	15.4	15.5	15.4	14.9

Annex V. Capacity Development in Bangladesh

Background

1. Despite significant progress in both economic and social development, Bangladesh still faces various challenges, including the modernization of its policy framework. GDP growth has averaged more than 6 percent over the last decade, significantly lifting GDP per capita. Social indicators have also improved. Bangladesh is now moving from low-income to lower-middle income country status. However, the authorities need to modernize the policy framework to sustain this robust economic performance. They also face new policy challenges, including deeper integration into the global economy and financial markets and reduced availability of concessional assistance by donors.

2. Recent capacity development (CD) activities have been closely linked with surveillance priorities. Bangladesh has extensively benefitted from Fund CD especially after the establishment of the South Asia Regional Training and Technical Assistance Center (SARTTAC). Recent CD activities have put particular emphasis on some of the key policy challenges identified in the context of surveillance, including low tax revenues, insufficient public investment in infrastructure, monetary policy modernization, and a weak banking sector.

Forward Looking Priorities

3. Forward looking priorities will continue to be guided by key policy recommendations stemming from the Fund surveillance, while reflecting the authorities' priorities. CD activities aim to make steady progress in addressing the key policy challenges as described in paragraph 2. Following the December 2018 elections, the authorities initiated several key reforms, including implementation of the VAT reform. CD activities will try to build on this momentum while reflecting the priorities of the authorities.

A. Strengthening Tax Revenue Administration

4. Activities will focus on key reforms to improve tax collection, including adoption of risk-based auditing. Low tax revenue collection remains one of the most pressing challenges for Bangladesh. SARTTAC has already provided training to help the authorities move forward with risk-based auditing and will continue to engage with them to make progress. A recent FAD diagnostic mission also identified various challenges in modernizing tax revenue administration, including strategic governance, compliance risk management and core functions related to tax and customs administration. Staff will also closely engage with the authorities on potential challenges linked to the VAT reform starting in FY20.

B. Managing Fiscal Risks

5. CD activities will aim to further improve fiscal reporting following the adoption of the Integrated Budget and Accounting System (iBAS++) and the new Budget and Accounting Classification System (BACS). Their introduction is expected to significantly improve the timeliness of data reporting. SARTTAC has provided support for the smooth rollout of iBAS++ and will promote further improvement in its implementation by enhancing the frequency, accuracy, and timeliness of in-year reports.

6. Other priorities include better managing contingent liabilities. Bangladesh initiated various major infrastructure projects recently with some of them adopting a PPP scheme. While usage is still in its early stages and potential macroeconomic impacts are relatively small, the authorities should establish a strong framework to manage potential risks at this stage. Fund support will start with defining the framework for fiscal risk analysis and reporting. There is also a growing need to properly analyze and manage foreign currency risks as part of a debt management strategy, building on recently provided support.

C. Strengthening Banking Supervision and Regulation

7. Reflecting imminent challenges in the banking sector, CD activities will aim at enhancing BB's banking sector supervision. SARTTAC has been providing assistance to implement risk-based supervision and upgrade other supervisory functions. The workplan aims to assist the authorities in establishing risk profiles of individual banks and use them to determine supervisory priorities. SARTTAC assistance also covers corporate governance and risk management framework and practices in banks.

8. A forthcoming FSSR will also help step up engagement with the authorities on banking sector reform. It will provide an updated assessment of the financial sector with CD needs.

D. Modernizing Monetary Policy Framework

9. CD activities will continue to support the authorities' efforts to modernize their monetary policy framework. SARTTAC has been engaging with the authorities to help them gradually shift away from the current quantity-based policy regime towards interest rate as an operational target which will strengthen the monetary policy transmission mechanism. Remaining challenges include improving liquidity management, strengthening economic forecasting, establishing a clear foreign exchange intervention policy, developing the government securities market, and gradually adopting an interest rate corridor.

E. Statistics

10. Activities will focus on improvements in several key macroeconomic data. SARTTAC has assisted the authorities in developing new CPI weights. It has also advised on populating preliminary 2015 supply and use tables which will subsequently be used as an input in the GDP benchmarking/rebasing effort. The current base year for the Bangladesh national accounts is FY2006

(2005-2006), and the authorities have the ambition to finish the GDP rebasing by June 2020. SARRTAC also plans to provide further training on public sector debt statistics and assistance on balance of payments statistics.

F. Training

11. SARTTAC significantly expanded training opportunities for Bangladesh officials. In particular, its financial programming and policies course was tailored to economic circumstances in Bangladesh and helped to enhance the skills and knowledge of country authorities for macroeconomic analysis. The course will go further by targeting a core group of officials in BB, the Ministry of Finance, and other relevant Ministries, who are expected to play a key role in macroeconomic policy making in Bangladesh.

12. SARTTAC will also provide further assistance to a training institution in Bangladesh. The authorities requested Fund assistance to revamp the Fiscal Economics and Economic Management (FEEM) course delivered by the government's Institute of Public Finance (IPF). Following a review of the budget preparation and execution modules of the course, Fund experts will advise on its macro-fiscal modules. The revamped FEEM course will include a one-week training on identified topics at SARTTAC in New Delhi.

INTERNATIONAL MONETARY FUND

BANGLADESH

August 5, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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

CONTENTS

FUND RELATIONS

(As of June 30, 2019)

Membership Status

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

General Resources Account

	SDR Million	Percent Quota
Quota	1,066.60	100.00
Fund holdings of currency (exchange rate)	932.60	87.44
Reserve tranche position	134.08	12.57

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	510.40	100.00
Holdings	895.91	175.53

Outstanding Purchases and Loans

	SDR Million	Percent Quota
ECF arrangements	557.68	52.29

Latest Financial Arrangements

(In millions of SDRs)

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
ECF	Apr. 11, 2012	Oct. 29, 2015	639.96	639.96
ECF[1]	Jun. 20, 2003	Jun. 19, 2007	400.33	316.73
ECF[1]	Aug. 10, 1990	Sep. 13, 1993	345.00	330.00

[1] Extended Credit Facility (ECF), formerly PRGF.

Projected Payments to the Fund[2]

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

	2019	2020	2021	2022	2023
Principal	45.71	91.42	127.99	118.85	91.42
Charges/Interest		0.01	0.01	0.01	0.01
Total	45.71	91.43	128.00	118.86	91.43

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

Article IV Consultation

The previous Article IV consultation was concluded on May 30, 2018 (IMF Country Report No. 18/158).

Safeguards Assessment

- A safeguards assessment of Bangladesh Bank (BB) was concluded in July 2011. Since then, BB has implemented a number of recommendations and strengthened audit committee oversight. BB's autonomy continues to be undermined, as the present legal framework allows for considerable government influence over bank operations. Progress in establishing effective safeguards in key areas needs to be supported by effective oversight and continued capacity building.

Anti-Money Laundering and Combating the Financing of Terrorism

- Bangladesh has been strengthening its anti-money laundering and counter-terrorism financing systems in line with recommendations from the assessment of the Asia/Pacific Group on Money Laundering (APG). The assessment is a comprehensive review of the effectiveness of Bangladesh's AML/CFT system and its level of compliance with the FATF Recommendations. The report was formally adopted at the APG Annual Meeting in September 2016. The Bangladesh Financial Intelligence Unit has recently issued circulars related to information sharing among financial institutions and within financial institutions, published guidance notes on best practices. Continued effort includes work on strengthening risk-based supervision, improving oversight of wire transfers, establishing a clear definition of beneficial ownership, and improving access to it.

Exchange Arrangement

- The *de jure* exchange rate regime is a float. Effective January 10, 2017, the *de facto* exchange rate arrangement was reclassified from a stabilized to crawl-like arrangement.

- Bangladesh is an Article VIII member and maintains one restriction subject to Fund approval under Article VIII, Section 2(a) on the convertibility and transferability of proceeds of current international transactions in nonresident taka accounts.

Resident Representative

The resident representative office was established in 1972. Mr. Ragnar Gudmundsson is the current Resident Representative since November 2017.

Bangladesh Capacity Development, May 2018–July 2019

Department	Topic	Timing
FAD	Revenue Administration Diagnostic Mission (SARTTAC)	March-19
	Risk Based Audit Techniques (SARTTAC)	February-19
	Review of the Fiscal Economics and Economic Management (FEEM) Course (SARTTAC)	February-19
	Assist with the Development of a Compliance Risk Management System (SARTTAC)	February-19
	Public Investment Management Assessment (PIMA)	September-18
	Revenue Administration (Scoping Mission, SARTTAC)	July-18
	Fiscal Reporting (SARTTAC)	July-18
STA	Price Statistics (Technical assistance and in-country training, SARTTAC)	June-19
	Price Statistics (SARTTAC)	May-19
	National Accounts (SARTTAC)	February-19
	Price Statistics (SARTTAC)	December-18
	National Accounts (In-country training, SARTTAC)	November-18
	Government Finance Statistics (In-country training, SARTTAC)	October-18
	Balance of Payments Statistics (SARTTAC)	July-18
MCM	Strengthening Bangladesh Bank Supervisory Capacity (SARTTAC)	July-19
	Financial System Stability Review (FSSR) Scoping Mission	April-19
	Modernizing the Monetary Policy Framework (SARTTAC)	March-19
	Debt Portfolio Risk Management	March-19
	Strengthening Bangladesh Bank Supervisory Capacity (SARTTAC)	January-19
	Strengthening Bangladesh Bank Supervisory Capacity (SARTTAC)	December-18
	Modernizing the Monetary Policy Framework (SARTTAC)	September-18
	Strengthening Bangladesh Bank Supervisory Capacity (SARTTAC)	August-18

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Information on the activities of other IFIs in Bangladesh can be found at:

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

https://www.adb.org/countries/bangladesh/main

STATISTICAL ISSUES

(As of July 2019)

Assessment of Data Adequacy for Surveillance

1. General. Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected areas are national accounts, fiscal, and external sector statistics.

2. National Accounts. Bangladesh's annual GDP time series has a base year of 2005/06 based on a benchmark compiled and published by the Bangladesh Bureau of Statistics (BBS) in 2013. Two shortcomings include: (a) value added of residential dwelling construction is dependent upon data collected in a 1980/81 survey; and (b) the absence of a comprehensive producer price index reduces the quality of estimates of price change used to compile industry value added. A revision of the entire GDP time series based on the new 2015/16 benchmark is expected to be published in June 2020. Final annual GDP estimates are now published four, rather than ten, months after the reference period. The BBS has been provided with technical assistance to use value-added tax data to compile quarterly estimates of GDP and construct a statistical business register.

3. Price Statistics. A new CPI series with base year 2005/06 was introduced in July 2012 and improved coverage. However, data users such as Bangladesh Bank (BB) have raised concern about the reliability of the CPI data. The CPI series is currently undergoing further improvements, including incorporating the results of the recent household survey and VAT data, and using the Classification of Individual Consumption According to Purpose (COICOP). The IMF has been providing technical assistance TA in these areas. The producer price index is compiled for manufacturing only and weights are based on the 2005/2006 Survey of Manufacturing Industries**.**

4. Government Finance Statistics. Government of Bangladesh has implemented a new Budget and Accounting Classification System (BACS) in FY19 to follow the latest international standard, the *Government Finance Statistics Manual* (GFSM 2014) and integrate the accounting and reporting systems for the budgetary central government. Bangladesh currently reports budgetary central government flow data, including COFOG data, for the annual GFS database, with the latest year available 2016. No stock data is reported. The coverage of extrabudgetary and local government units outside central government is inadequate and is an area for future attention. BB provides data to the World Bank-IMF Quarterly Public Sector Debt Statistics database.

5. Monetary and Financial Statistics. BB compiles monetary data using the standardized report forms (SRFs) framework. The SRFs are reported electronically to the IMF on a regular basis. As a result, a consistent time series based on SRF data is available from December 2001. A survey of Other Financial Corporations (OFCs) is not yet available. BB has accepted IMF's proposed technical assistance mission to assist in developing a framework to compile the SRF 4SR for OFCs. Bangladesh reports data on several series and indicators of the Financial Access Survey (FAS), including mobile money and the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

6. **Financial Soundness Indicators.** Bangladesh reports all 12 core and 8 encouraged Financial Soundness Indicators (FSIs) for deposit takers and two FSIs for real estate markets for posting on the FSI website. However, FSIs are reported with semi-annual frequency and long lag.

7. **External Sector Statistics (ESS).** Bangladesh compiles a comprehensive array of ESS in line with *BPM6*. The external statistical framework includes: (a) quarterly balance of payments (BOP) and International Investment Position (IIP) data; (b) the IMF's coordinated portfolio investment survey; (c) the IMF's coordinated direct investment survey; and (d); quarterly time series for external debt statistics (EDS) that have been published by BB and reflect improved coverage of indicators, as well as of periodicity and dissemination. The most recent TA mission on ESS found that: (i) the reconciliation between the IIP, EDS and BOP should be enhanced. More attention should also be given to the reconciliation of specific data sets with bilateral data from counterpart countries, and (ii) Inconsistencies between international trade statistics disseminated by the BB in the compilation of the BOP and BBS in the calculation of the national accounts to be addressed by a high-level committee.

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

Bangladesh: Table of Common Indicators Required for Surveillance

(As of July 12, 2019)

	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	June 2019	July 2019	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	June 2019	July 2019	D	D	D
Reserve/Base Money	June 2019	July 2019	D	D	D
Broad Money	May 2019	July 2019	M	M	M
Central Bank Balance Sheet	May 2019	July 2019	M	M	M
Consolidated Balance Sheet of the Banking System	May 2019	July 2019	M	M	M
Interest Rates[3]	June 2019	July 2019	W	W	D
Consumer Price Index	May 2019	July 2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	n/a	n/a	n/a	n/a	n/a
Revenue, Expenditure, Balance and Composition of Financing[4] —Central Government	April 2019	June 2019	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec 2018	June 2019	Q/M	Q/M	Q/M
External Current Account Balance	April 2019	July 2019	M	M	M
Exports and Imports of Goods and Services	May 2019	July 2019	M	M	M
GDP/GNP	FY2018	June 2019	A	A	A
Gross External Debt	Dec 2018	May 2019	A	A	A
International Investment Position[7]	Q1/2019	June 2019	Q	Q	Q

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

INTERNATIONAL MONETARY FUND

BANGLADESH

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

August 5, 2019

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

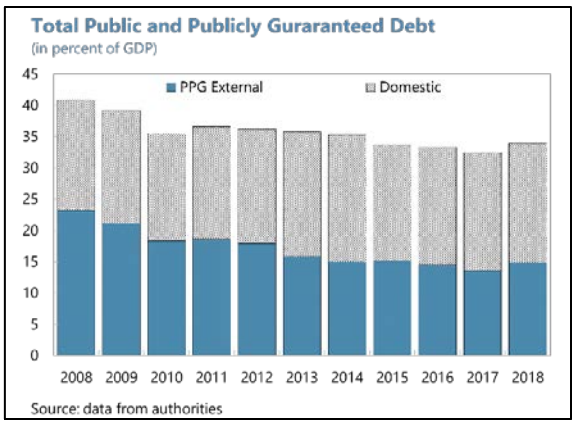
Prepared by
International Monetary Fund
International Development Association

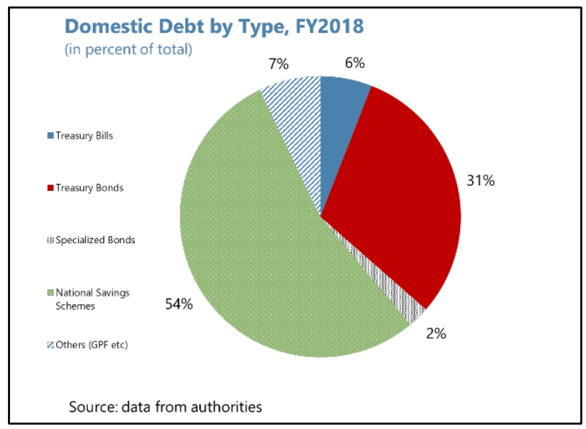
Bangladesh Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Low*
Overall risk of debt distress	*Low*
Granularity in the risk rating	*Tool not applicable*
Application of judgment	*No*

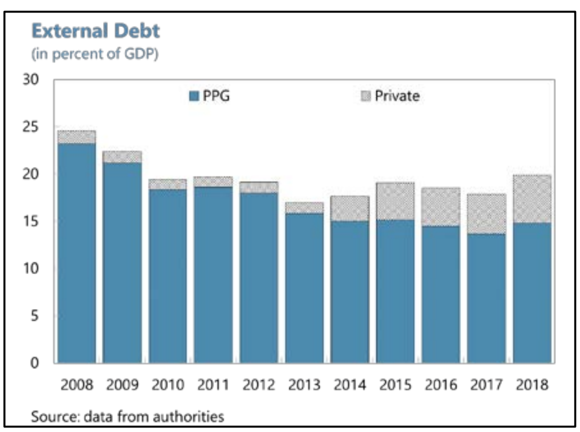
Bangladesh remains at a low risk of debt distress. External and domestic debt indicators are below their respective thresholds under the baseline and stress test scenarios. Future infrastructure projects will be financed with external debt, but favorable debt dynamics keep PPG external debt on a declining path. The authorities should continue to seek concessional financing to the extent possible. In line with Fund TA, staff also advise the reform of the National Savings Certificates' (NSCs) system so that the domestic debt market has more space to develop.

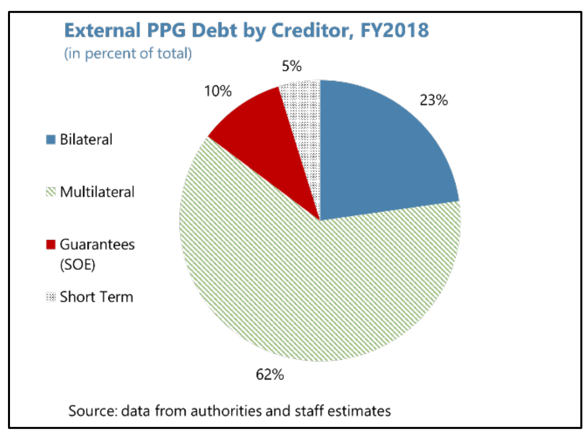
A. Background and Developments on Debt

1. Public debt in Bangladesh stood at US$91 billion in FY18, around 34 percent of GDP.[1] The majority of public debt is domestic and denominated in local currency. In FY18, domestic debt was 56 percent of the total public and publicly guaranteed debt stock. More than one half of outstanding domestic debt is composed of National Saving Certificates (NSCs) and around one third is treasury bonds. NSCs stifle the development of a domestic bond market as they provide a yield of around 11 percent whereas government bonds of similar maturities provide a yield between 5 and 6 percent.[2] A cap on the amount of NSCs a person can hold has been difficult to enforce. To bolster enforcement of the cap, the authorities have rolled out an online database to keep track of NSC purchasers. They plan to use this database to help downsize the amount of new NSCs issued. However, there are no plans to reform interest rates of NSCs.









[1] FY18 is the fiscal year from July 2017 to June 2018.

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

2. External PPG debt stood at US$40 billion in FY18, around 15 percent of GDP. External PPG debt is predominantly owed to multilateral and bilateral creditors, respectively 62 and 23 percent of outstanding external PPG debt, with some guaranteed SOE debt. External debt has helped finance infrastructure project and the recent increase in private external debt is associated with bank borrowing and the activity of trade companies. Short-term debt is only 5 percent of the outstanding PPG external debt stock and is mainly composed of trade credits.[3] As infrastructure needs in Bangladesh remain, external debt will likely be the primary avenue to finance large infrastructure projects. Favorable debt dynamics help support the sustainability of the investment effort.

Outstanding External PPG debt by creditor
(end-FY18)

	US$ million	Percent of PPG debt
Total PPG Debt	$ 40,374.1	100.0
Multilateral	$ 25,214.1	62.5
of which		
World Bank (IDA)	$ 14,201.7	35.2
Asian Development Bank	$ 8,847.7	21.9
Bilateral	$ 9,183.0	22.7
of which		
Japan	$ 4,705.1	11.7
China	$ 1,997.4	4.9
Short Term Debt	$ 1,947.0	4.8
Guarantees (SOE)	$ 4,030.0	10.0

Source: data from authorities

3. The macroeconomic assumptions underlying this debt sustainability analysis (DSA) are as follows:

- **Growth and inflation.** Growth projections in FY19 are higher than in the 2018 AIV because of higher exports of ready-made garments (RMG) as evidenced by strong export data for FY19 to date. The medium-term growth outlook is slightly higher owing to competitive RMG exports. Inflation was revised downward due to lower non-food inflation and is projected to remain moderate over the medium-term as GDP growth is projected to be around potential. Debt dynamics in Bangladesh are favorable under a projected growth rate of around 7 percent in the medium term and an effective interest rate of around 3 ½ percent.[4] Important risks to future GDP growth could arise from lower than expected private sector credit growth.

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

[4] The effective interest rate is the ratio of interest payments to outstanding debt in the previous period.

- **Fiscal policy.** The primary balance is projected to be marginally weaker. The main reason is weaker-than-projected tax revenue growth during the election year, FY19, reflecting the absence of new revenue-increasing measures and implementation of new tax exemptions. Only a moderate improvement of the primary balance is projected under the baseline scenario over the medium term, mainly because of a gradual decline in public infrastructure investment, while revenues are projected to grow broadly in line with nominal GDP.

- **Current account dynamics.** Import growth is expected to slow from high growth in FY18 due to a flood related one-off spike in food imports. The current account deficit (CAD) is projected to narrow in the short term relative to the previous DSA owing to higher exports of RMG reflecting strong actual year-to-date data. Over the medium term, the CAD will remain broadly stable at around 2 percent of GDP with lower remittances to GDP, imports of capital, and imports of liquified natural gas counteracting strong export performance. Reserve coverage in months of imports will gradually decline from around 6 months in FY19 to around 4 months over the medium term.

- **Financing assumptions.** As externally financed infrastructure projects have been increasing in recent years, the share of PPG external financing of total public financing needs was around 33 percent in FY18. Over the medium term, we project external financing to decline as a share of total financing as the role of domestic debt markets increases. The concessionality of debt will also decline over the medium term as Bangladesh approaches upper-middle income status.

Change in Macroeconomic Assumptions

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Real GDP growth (in percent change)						
Current	8.0	7.6	7.3	7.3	7.3	7.3
Previous	7.0	7.0	7.0	7.0	7.0	7.0
Inflation						
Current	5.8	5.8	5.6	5.5	5.5	5.5
Previous	6.2	6.1	6.0	5.7	5.5	5.5
Primary fiscal deficit (in percent of GDP)						
Current	3.1	3.0	2.9	2.6	2.4	2.4
Previous	2.9	2.5	2.4	2.4	2.2	2.0
Current account deficit (in percent of GDP)						
Current	2.0	2.1	2.1	2.0	2.0	2.0
Previous	2.3	2.4	2.2	2.0	1.8	1.8

4. **Unexpected changes to debt have been low and negative (Figure 3).** Historically, PPG external debt has been driven by favorable growth and a positive current account. The historical residual is high owing to infrastructure related increases in external debt occurring at the same time as strong growth and a current account surplus. Projections for external PPG debt dynamics are favorable as strong growth would more than offset impacts from the projected current account deficit. Public debt dynamics are projected to remain broadly at the same level as the projected fiscal deficit is matched by strong growth.

5. Realism tools suggest that the macroeconomic projections are sensible and consistent with the experience of LICs (Figure 4). The 3-year adjustment in the primary balance is near the median of the sample of 3-year fiscal adjustments for LICs since 1990 that were under an IMF program. The growth projections are around the value suggested by a fiscal multiplier of 0.2 applied to the fiscal deficit. Public and private investment plans are slightly lower in percent of GDP due to our revised GDP projections. The projected contribution of government capital investment to GDP is broadly in line with past projections and historical outcomes.

6. Guaranteed SOE debt is included in the baseline projection. The stock of guaranteed SOE debt is estimated to be around 10 percent of the PPG external debt stock in FY18 or US$4 billion. The authorities are working to standardize the reporting of SOE debt to cover non-guaranteed debt. This DSA is prepared on a currency basis as data are not available for the residency basis. The difference between the two definitions should not materially affect the assessment. The calibrations of the contingent liability shock is based on the default values for the SOE debt and financial market component since they are sufficient to represent potential risks. The stock of debt linked to private public partnerships (PPPs) is less than 3 percent of GDP. A natural disaster stress test was also applied, calibrated at the default setting of a one-time 10 percent of GDP shock to the external debt-to-GDP ratio.

Debt Coverage

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

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

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

7. The Composite Index (CI) rating for Bangladesh is calculated as 3.06 and the debt carrying capacity is assessed as strong. The CI is based on a weighted average of several factors such as the country's real GDP growth, remittances, international reserves, world growth and the CPIA score. The CI is calculated for the last two WEO vintages, in this case the October 2018 and April 2019 WEO, and uses 10-year averages of the variables, with 5 years of historical data and 5 years of projections. The threshold for a strong classification is a CI score above 3.05.

Country Classification

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Strong	Strong 3.06	Strong 3.07	Strong 3.09

B. External and Public Debt Sustainability

8. All external debt indicators are below their respective thresholds under the baseline and stress-test scenarios (Figure 1). External PPG debt-to-GDP ratios are on a declining trend moving from 15 percent of GDP in FY2018 to around 13 percent in FY2029. The most extreme shock to the external PPG debt-to-GDP ratio is the non-debt flows shock, or a shock to remittances, which would increase the current account deficit. Given the still competitive RMG sector, the PV of debt-to-exports and debt service-to-exports ratios are well below their thresholds with the most extreme shock being to exports. The debt service-to-revenue ratio is on a declining trend and below its threshold with the most extreme shock a one-time depreciation given the currency mismatch.

Change in Thresholds for Bangladesh

External debt burden thresholds	Medium (old DSA)	Strong (new DSA)
PV of debt in % of		
Exports	150	240
GDP	40	55
Debt service in % of		
Exports	20	21
Revenue	20	23
Total public debt benchmark		
PV of total public debt in % of GDP	56	70

9. Overall public debt indicators suggest a low overall risk of debt distress (Figure 2). The PV of total public debt-to-GDP is well below its indicative threshold and the largest shock to this indicator is a natural disaster. The shock is kept at default calibrations and is equivalent to a one-time 10 percent of GDP shock. Indicators in percent of revenues are on a slightly increasing trend, which further highlights the importance of increasing the revenue-to-GDP ratio which is assumed to be roughly constant in the projection period. Increasing the revenue-to-GDP ratio will be critical in providing non-debt financing to growth-enhancing infrastructure projects.

C. Assessment

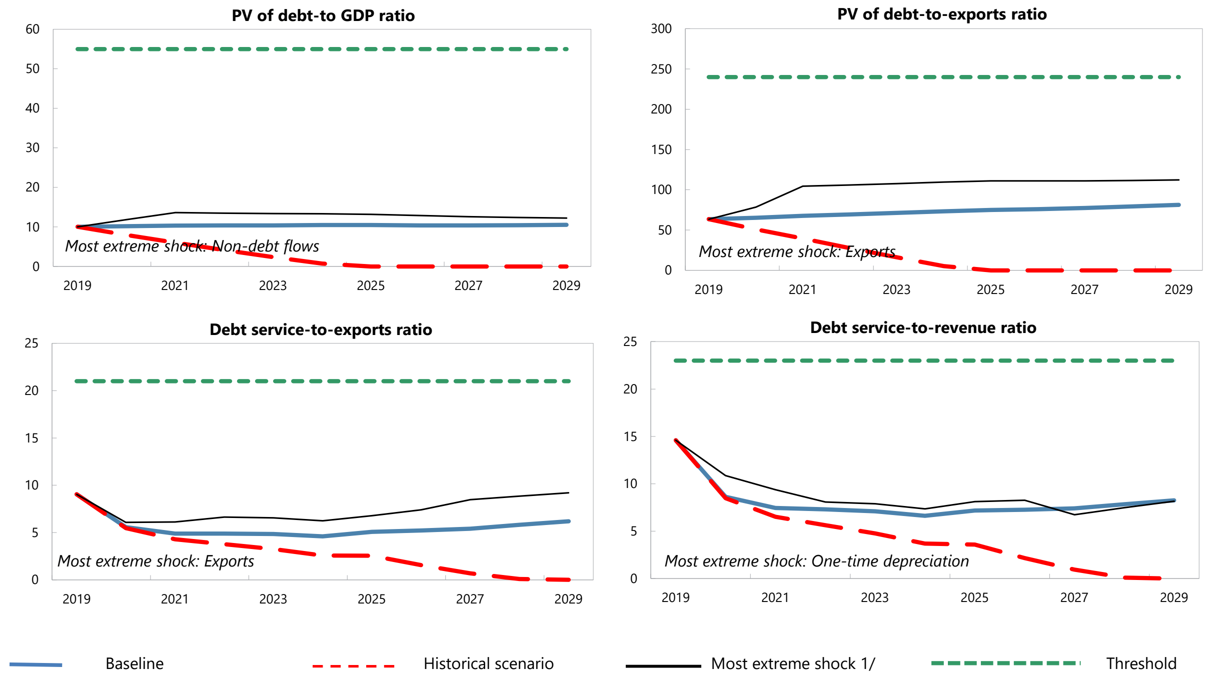
10. Bangladesh has a low risk of external debt distress and a low overall risk of debt distress. This assessment is reached without the use of judgement as all external debt indicators are below their thresholds and overall public debt is below its indicative threshold. Future infrastructure projects will be financed with external debt, but favorable debt dynamics keep PPG external debt on a declining path. The authorities should continue to seek concessional financing to the extent possible. In line with Fund TA, staff also advise the reform of NSCs in order to develop the domestic debt market.

D. Authorities' Views

11. The authorities agree that the risk of external debt distress and overall risk of debt distress remains low. The authorities are cautious in contracting external debt and view the low risk of debt distress as an important indicator signaling confidence in the economy. They are proud of being good borrowers and remain committed to do so through servicing their debts on time. They recognize that infrastructure gaps remain and that large infrastructure projects are likely to be financed in part with external debt. They are also aware that they will face less concessional terms as they proceed toward upper middle income status. In the authorities view, these risks are fully contained so far.

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt, 2019–2029 1/

(In percent, unless otherwise mentioned)



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

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

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

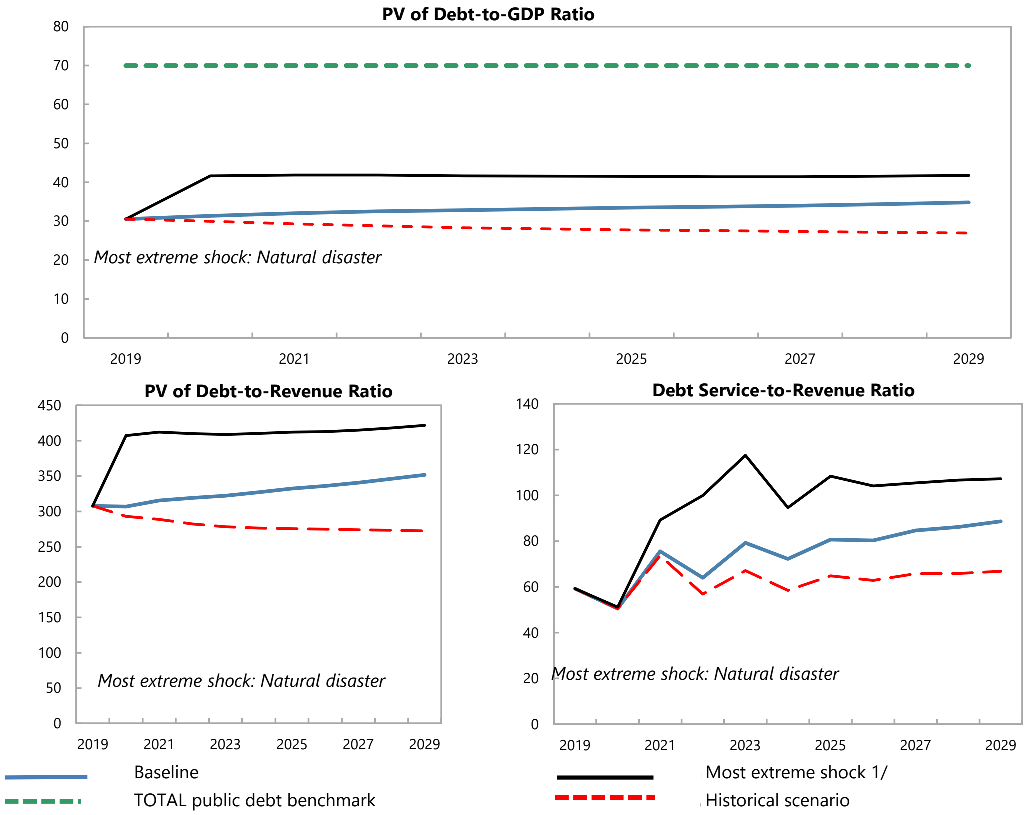
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Bangladesh: Indicators of Public Debt, 2019–2029 1/

(In percent)



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	16%	16%
Domestic medium and long-term	76%	76%
Domestic short-term	8%	9%
Terms of marginal debt		
External MLT debt		
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
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.8%	0.8%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	-0.6%	-0.6%

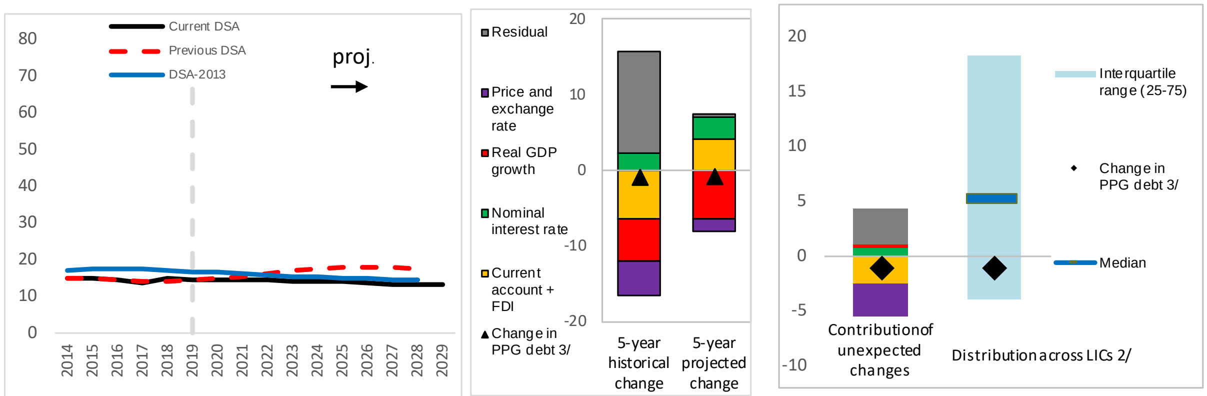
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

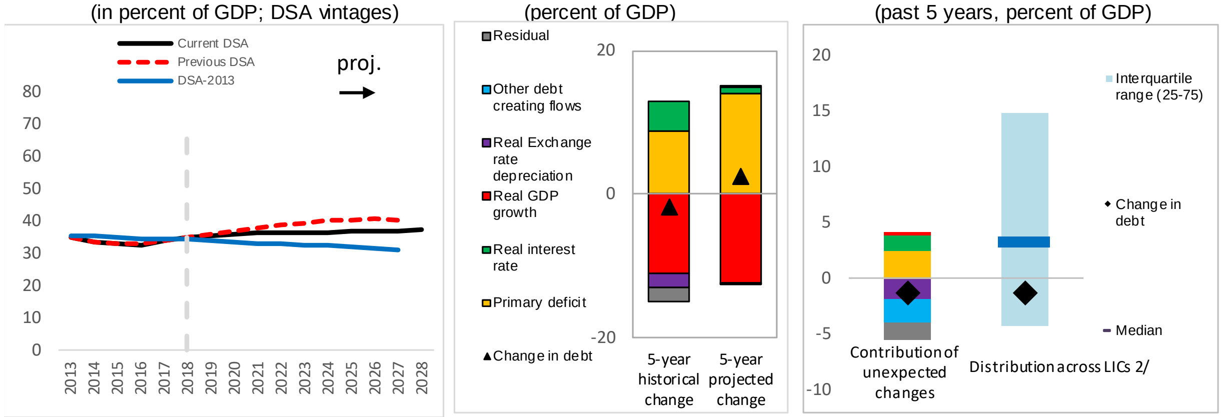
Figure 3. Bangladesh: Drivers of Debt Dynamics – Baseline Scenario

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



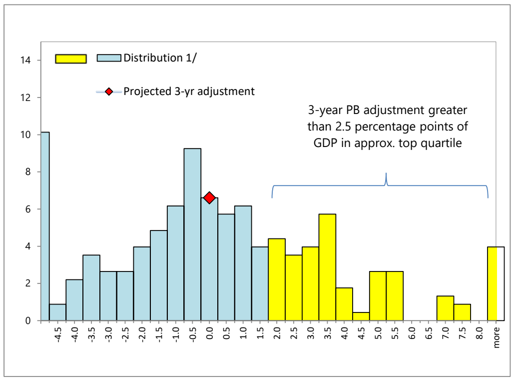
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

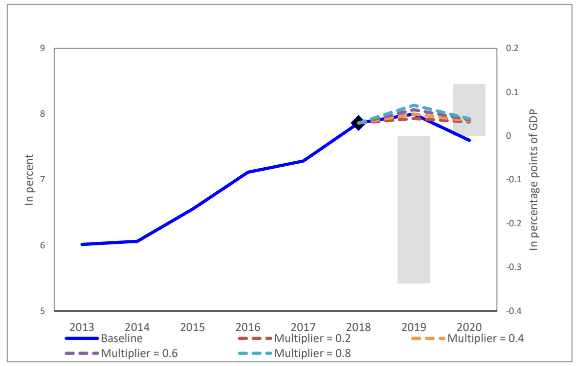
Figure 4. Bangladesh: Realism Tools

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



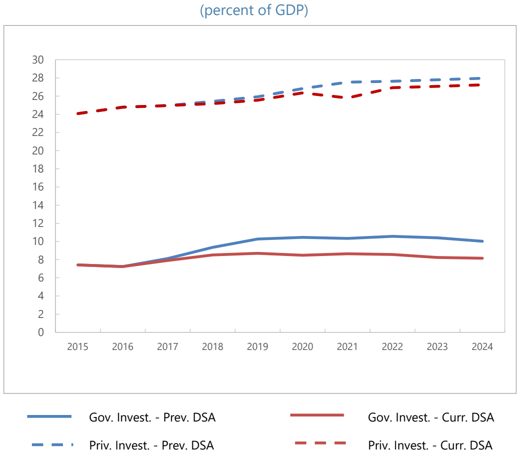
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

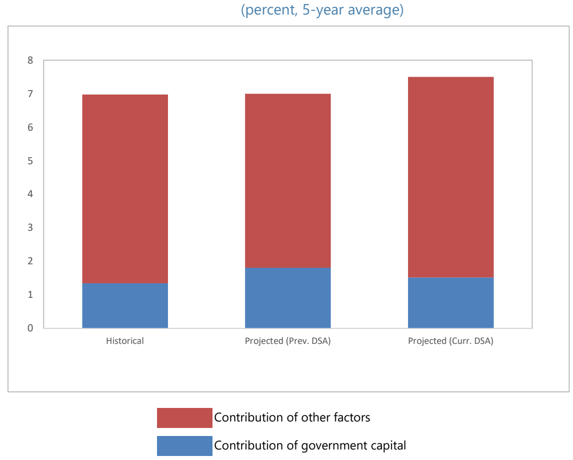
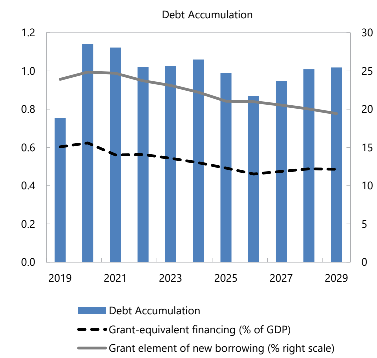


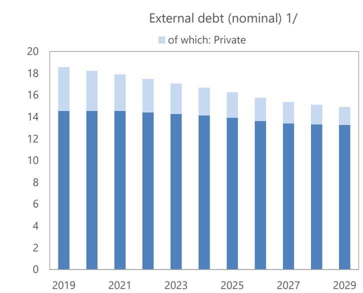
Table 1. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, 2016–2039 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**18.5**	**18.0**	**20.1**	**18.6**	**18.2**	**17.9**	**17.5**	**17.1**	**16.7**	**14.9**	**15.7**	**19.1**	**16.7**
of which: public and publicly guaranteed (PPG)	**14.5**	**13.7**	**15.0**	**14.5**	**14.6**	**14.6**	**14.4**	**14.3**	**14.1**	**13.3**	**14.9**	**16.5**	**14.0**
Change in external debt	-0.6	-0.5	2.2	-1.5	-0.3	-0.3	-0.4	-0.4	-0.4	-0.2	-0.2		
Identified net debt-creating flows	**-4.8**	**-2.2**	**1.4**	**-0.1**	**0.2**	**0.3**	**0.2**	**0.2**	**0.2**	**-0.1**	**1.1**	**-3.3**	**0.1**
Non-interest current account deficit	**-2.3**	**-0.1**	**2.9**	**1.3**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.4**	**3.5**	**-0.8**	**1.4**
Deficit in balance of goods and services	4.1	5.1	8.3	7.0	7.0	6.9	6.7	6.5	6.4	5.8	6.1	**6.8**	**6.4**
Exports	16.7	15.1	14.9	15.8	15.6	15.3	14.9	14.6	14.3	12.9	13.1		
Imports	20.8	20.2	23.2	22.8	22.6	22.1	21.6	21.2	20.7	18.7	19.2		
Net current transfers (negative = inflow)	-6.9	-5.3	-5.6	-5.6	-5.5	-5.4	-5.3	-5.1	-5.0	-4.5	-2.8	**-8.4**	**-5.0**
of which: official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	0.5	0.2	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.3	**0.8**	**0.1**
Net FDI (negative = inflow)	**-0.6**	**-0.7**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-1.1**	**-2.1**	**-0.8**	**-0.7**
Endogenous debt dynamics 2/	**-1.9**	**-1.5**	**-0.9**	**-0.8**	**-0.7**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.5**	**-0.4**		
Contribution from nominal interest rate	0.4	0.6	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5		
Contribution from real GDP growth	-1.2	-1.2	-1.3	-1.5	-1.3	-1.2	-1.2	-1.2	-1.1	-0.9	-0.9		
Contribution from price and exchange rate changes	-1.1	-0.9	-0.3	...	...	...	...	...	...	...	...		
Residual 3/	**4.2**	**1.7**	**0.8**	**-1.4**	**-0.6**	**-0.6**	**-0.7**	**-0.6**	**-0.6**	**-0.1**	**-1.2**	**2.8**	**-0.6**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**10.3**	**10.0**	**10.2**	**10.3**	**10.4**	**10.4**	**10.5**	**10.5**	**12.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**69.3**	**63.5**	**65.1**	**67.6**	**69.4**	**71.2**	**73.3**	**81.3**	**97.8**		
PPG debt service-to-exports ratio	**17.0**	**18.8**	**4.7**	**9.0**	**5.6**	**4.9**	**4.9**	**4.9**	**4.6**	**6.2**	**8.3**		
PPG debt service-to-revenue ratio	**28.5**	**27.9**	**7.3**	**14.6**	**8.6**	**7.5**	**7.3**	**7.1**	**6.6**	**8.3**	**11.1**		
Gross external financing need (Million of U.S. dollars)	3374.1	9043.8	19168.3	21031.6	17117.4	16856.2	17279.1	17751.2	18127.9	19604.5	55153.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	7.1	7.3	7.9	8.0	7.6	7.3	7.3	7.3	7.3	6.8	6.5	**6.4**	**7.3**
GDP deflator in US dollar terms (change in percent)	5.9	5.1	1.7	2.1	2.0	2.0	2.0	2.0	2.0	2.0	3.0	**4.9**	**2.0**
Effective interest rate (percent) 4/	2.2	3.6	4.1	3.6	3.6	3.5	3.5	3.4	3.4	3.3	3.5	**2.0**	**3.4**
Growth of exports of G&S (US dollar terms, in percent)	9.4	1.8	8.2	17.2	8.5	7.0	7.0	7.0	7.0	7.0	9.8	**10.1**	**8.1**
Growth of imports of G&S (US dollar terms, in percent)	5.0	9.3	26.1	8.2	9.2	7.0	7.0	7.0	7.0	7.0	13.0	**11.4**	**7.3**
Grant element of new public sector borrowing (in percent)	...	...	...	23.9	24.9	24.7	23.7	23.1	22.2	19.4	17.4	**...**	**22.2**
Government revenues (excluding grants, in percent of GDP)	10.0	10.2	9.6	9.8	10.1	10.0	10.0	10.0	9.9	9.7	9.8	**10.0**	**9.9**
Aid flows (in Million of US dollars) 5/	3267.7	3358.0	5890.7	1805.0	2021.3	2021.3	2306.1	2374.6	2459.5	2939.5	4716.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	**...**	**0.5**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	28.7	30.1	30.0	32.1	31.7	31.2	28.3	24.2	**...**	**30.3**
Nominal GDP (Million of US dollars)	221,398	249,695	274,006	302,080	331,597	362,919	397,200	434,720	475,784	738,829	1,712,319		
Nominal dollar GDP growth	13.5	12.8	9.7	10.2	9.8	9.4	9.4	9.4	9.4	8.9	9.7	**11.6**	**9.4**
Memorandum items:													
PV of external debt 7/	...	...	15.4	14.1	13.8	13.7	13.4	13.2	13.0	12.2	13.5		
In percent of exports	...	...	103.6	88.9	88.6	89.5	89.8	90.3	91.2	94.0	103.2		
Total external debt service-to-exports ratio	21.1	24.7	28.9	35.7	26.7	24.6	23.3	22.1	20.7	17.6	13.1		
PV of PPG external debt (in Million of US dollars)			28238.6	30307.8	33756.5	37478.9	41183.0	45255.4	49862.3	77667.8	219647.3		
(PVt-PVt-1)/GDPt-1 (in percent)				0.8	1.1	1.1	1.0	1.0	1.1	1.0	1.4		
Non-interest current account deficit that stabilizes debt ratio	-1.7	0.5	0.7	2.8	1.8	1.8	1.9	1.9	1.8	1.6	3.7		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

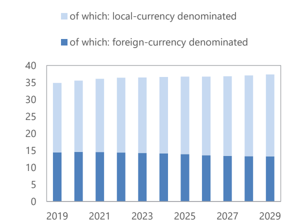
Table 2. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–2039

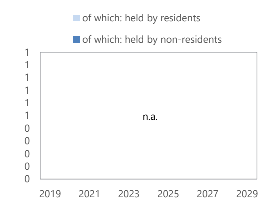
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	**33.3**	**32.6**	**34.0**	**34.9**	**35.5**	**36.1**	**36.4**	**36.5**	**36.6**	**37.4**	**39.9**	**35.2**	**36.4**
of which: external debt	**14.5**	**13.7**	**15.0**	**14.5**	**14.6**	**14.6**	**14.4**	**14.3**	**14.1**	**13.3**	**14.9**	**16.5**	**14.0**
Change in public sector debt	-0.3	-0.7	1.4	0.9	0.7	0.5	0.3	0.1	0.1	0.3	-0.2		
Identified debt-creating flows	**-0.6**	**-0.2**	**1.3**	**0.9**	**0.7**	**0.6**	**0.3**	**0.1**	**0.1**	**0.3**	**-0.2**	**-0.4**	**0.3**
Primary deficit	**1.5**	**1.6**	**2.8**	**3.1**	**3.0**	**2.9**	**2.6**	**2.4**	**2.4**	**2.3**	**2.2**	**1.5**	**2.5**
Revenue and grants	10.1	10.2	9.7	9.9	10.2	10.2	10.2	10.2	10.1	9.9	10.0	**10.3**	**10.1**
of which: grants	0.1	0.1	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2		
Primary (noninterest) expenditure	11.5	11.8	12.4	13.0	13.2	13.0	12.8	12.6	12.5	12.2	12.1	**11.8**	**12.6**
Automatic debt dynamics	**-2.0**	**-1.9**	**-1.5**	**-2.2**	**-2.3**	**-2.3**	**-2.3**	**-2.3**	**-2.2**	**-2.1**	**-2.4**		
Contribution from interest rate/growth differential	-1.4	-1.6	-1.5	-2.2	-2.3	-2.3	-2.3	-2.3	-2.2	-2.1	-2.1		
of which: contribution from average real interest rate	0.9	0.6	0.8	0.3	0.2	0.1	0.1	0.2	0.2	0.3	0.4		
of which: contribution from real GDP growth	-2.2	-2.3	-2.4	-2.5	-2.5	-2.4	-2.5	-2.5	-2.5	-2.4	-2.4		
Contribution from real exchange rate depreciation	-0.7	-0.2	0.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**0.2**	**-0.5**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.3**	**-0.3**	**0.0**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**29.5**	**30.5**	**31.4**	**32.0**	**32.5**	**32.8**	**33.1**	**34.8**	**37.8**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**305.1**	**307.8**	**306.7**	**315.5**	**319.0**	**322.2**	**327.2**	**351.7**	**379.6**		
Debt service-to-revenue and grants ratio 3/	**26.3**	**57.8**	**49.6**	**59.2**	**50.5**	**75.6**	**64.0**	**79.2**	**72.3**	**88.7**	**97.7**		
Gross financing need 4/	5.0	8.2	7.9	9.0	8.2	10.6	9.2	10.5	9.7	11.1	11.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.1	7.3	7.9	8.0	7.6	7.3	7.3	7.3	7.3	6.8	6.5	**6.4**	**7.3**
Average nominal interest rate on external debt (in percent)	1.3	1.3	1.4	1.9	1.8	1.9	2.0	2.1	2.1	2.4	3.2	**1.1**	**2.1**
Average real interest rate on domestic debt (in percent)	4.7	3.9	5.3	1.8	1.1	0.5	0.8	0.7	1.1	1.1	0.9	**4.8**	**1.1**
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.7	-1.8	0.4	...	...	...	...	...	...	...	...	**-2.8**	**...**
Inflation rate (GDP deflator, in percent)	6.7	6.3	5.6	5.8	5.8	5.6	5.5	5.5	5.5	5.5	5.8	**6.7**	**5.6**
Growth of real primary spending (deflated by GDP deflator, in percent)	5.4	10.1	13.4	13.2	9.1	5.8	5.6	5.2	6.5	6.7	6.6	**7.3**	**7.1**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.8	2.3	1.4	2.2	2.3	2.4	2.3	2.3	2.2	2.0	2.4	**1.9**	**2.2**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–2029

(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	10	10	10	10	10	10	10	10	10	10	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	10	8	6	4	2	1	0	0	0	0	0
B. Bound Tests											
B1. Real GDP growth	10	10	11	11	11	11	11	11	11	11	11
B2. Primary balance	10	10	10	11	11	11	11	11	11	11	11
B3. Exports	10	11	13	13	13	13	13	13	13	12	12
B4. Other flows 3/	10	12	14	14	13	13	13	13	13	12	12
B5. Depreciation	10	13	10	10	10	10	10	10	11	11	11
B6. Combination of B1-B5	10	13	13	13	13	13	13	12	12	12	12
C. Tailored Tests											
C1. Combined contingent liabilities	10	11	11	12	12	12	12	12	12	12	12
C2. Natural disaster	10	12	12	12	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.
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	63	65	68	69	71	73	75	76	77	79	81
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	63	51	39	28	16	5	0	0	0	0	0
B. Bound Tests											
B1. Real GDP growth	63	65	68	69	71	73	75	76	77	79	81
B2. Primary balance	63	66	69	71	73	75	77	78	79	81	83
B3. Exports	63	79	104	106	108	110	111	111	111	111	112
B4. Other flows 3/	63	76	89	90	92	93	94	94	94	94	95
B5. Depreciation	63	65	50	52	55	57	59	61	63	67	70
B6. Combination of B1-B5	63	79	77	86	87	89	91	91	92	93	95
C. Tailored Tests											
C1. Combined contingent liabilities	63	71	74	77	81	84	87	88	90	93	95
C2. Natural disaster	63	76	79	84	89	92	96	98	101	104	107
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	9	6	5	5	5	5	5	5	5	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	9	5	4	4	3	3	3	2	1	0	0
B. Bound Tests											
B1. Real GDP growth	9	6	5	5	5	5	5	5	5	6	6
B2. Primary balance	9	6	5	5	5	5	5	5	6	6	6
B3. Exports	9	6	6	7	7	6	7	7	8	9	9
B4. Other flows 3/	9	6	5	6	6	5	6	6	7	8	8
B5. Depreciation	9	6	5	4	4	4	5	5	4	4	5
B6. Combination of B1-B5	9	6	6	6	6	5	6	7	7	7	8
C. Tailored Tests											
C1. Combined contingent liabilities	9	6	5	5	5	5	5	6	6	6	7
C2. Natural disaster	9	6	5	5	5	5	6	6	6	7	7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	15	9	7	7	7	7	7	7	7	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	15	8	7	6	5	4	4	2	1	0	0
B. Bound Tests											
B1. Real GDP growth	15	9	8	8	8	7	8	8	8	8	9
B2. Primary balance	15	9	7	7	7	7	7	7	8	8	8
B3. Exports	15	9	8	8	8	8	8	9	10	10	10
B4. Other flows 3/	15	9	8	8	8	8	8	9	10	10	10
B5. Depreciation	15	11	9	8	8	7	8	8	7	7	8
B6. Combination of B1-B5	15	9	9	8	8	8	8	9	9	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	15	9	8	8	7	7	8	8	8	8	9
C2. Natural disaster	15	9	8	8	8	7	8	8	8	9	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	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 for Public Debt, 2019–2029
(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	31	31	32	33	33	33	33	34	34	34	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	31	30	29	29	28	28	28	28	27	27	27
B. Bound Tests											
B1. Real GDP growth	31	33	35	36	36	37	38	39	39	40	41
B2. Primary balance	31	32	33	34	34	34	34	34	35	35	35
B3. Exports	31	32	35	35	36	36	36	36	36	36	36
B4. Other flows 3/	31	33	35	36	36	36	36	36	36	36	37
B5. Depreciation	31	32	31	31	30	30	30	30	29	29	29
B6. Combination of B1-B5	31	31	32	32	32	33	33	33	33	34	34
C. Tailored Tests											
C1. Combined contingent liabilities	31	38	38	38	38	38	38	38	38	38	39
C2. Natural disaster	31	42	42	42	42	42	42	41	41	42	42
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	308	307	316	319	322	327	332	336	341	346	352
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	308	293	289	282	278	277	276	275	274	273	273
B. Bound Tests											
B1. Real GDP growth	308	319	341	350	358	367	377	385	393	402	412
B2. Primary balance	308	312	327	329	332	336	341	344	348	353	358
B3. Exports	308	317	346	348	350	354	358	360	362	365	369
B4. Other flows 3/	308	324	348	350	352	356	360	361	363	366	370
B5. Depreciation	308	309	308	303	300	298	297	295	294	294	294
B6. Combination of B1-B5	308	302	314	315	318	322	326	330	334	340	345
C. Tailored Tests											
C1. Combined contingent liabilities	308	373	378	377	376	378	380	381	383	386	390
C2. Natural disaster	308	407	412	410	409	410	412	413	415	418	422
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	59	51	76	64	79	72	81	80	85	86	89
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	59	51	74	57	67	59	65	63	66	66	67
B. Bound Tests											
B1. Real GDP growth	59	52	80	69	87	82	92	93	99	101	105
B2. Primary balance	59	51	76	67	83	76	83	83	87	88	91
B3. Exports	59	51	76	65	80	73	82	82	87	88	91
B4. Other flows 3/	59	51	76	65	80	73	82	82	87	88	91
B5. Depreciation	59	48	72	61	73	67	76	75	79	80	82
B6. Combination of B1-B5	59	49	74	63	79	72	80	79	83	85	87
C. Tailored Tests											
C1. Combined contingent liabilities	59	51	84	88	104	86	98	95	97	98	99
C2. Natural disaster	59	51	89	100	117	95	108	104	105	107	107
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 Mahinda Siriwardana, Alternate Executive Director for Bangladesh; and Bhupal Singh, Advisor to Executive Director
September 9, 2019

1. Our Bangladesh authorities thank staff for the candid and constructive discussions and convey their appreciation to the management and staff for their continued engagement. Our authorities look forward to continuing this engagement. The authorities broadly agree with staff's assessment and recommendations regarding the economy, although there are some divergences in views. Broadly, they reiterate their strong commitment to maintaining macroeconomic stability and promoting inclusive growth.

2. Bangladesh economy seems to be in a sweet spot by maintaining a high growth trajectory with stability, notwithstanding adverse global environment and domestic challenges. The macroeconomic performance continues to be robust, with strong GDP growth, moderate inflation and a narrowing current account deficit. Real GDP growth further increased from 7.9 percent in FY18 (July 2017-June 2018) to 8.1 per cent in FY19 (provisional estimates). High growth in the manufacturing sector has played an important role in achieving this growth trajectory. With end-June 2019 inflation at 5.47 percent - below the central bank's target of 5.6 per cent - and current account deficit at 1.7 per cent of GDP (3.2 percent of GDP in FY18), the economy is further poised for macroeconomic stability. The stock of foreign exchange reserves stood at US$ 32.72 billion at the end of FY2019, providing a cover of 5.9 months of imports. From the financial stability angle, moderating broad money and domestic credit growth indicate a welcome decline in frothiness of dubious quality lending in the domestic credit market.

3. In staff's assessment as well, GDP growth is expected to be above mid-7 percent in FY19 and FY20 with average annual inflation projected close to the central bank's 5.5 percent target and current account deficit around 2 percent of GDP. However, weaker-than-expected global growth presents downside risks, though trade tensions have not negatively affected export growth. Slow progress in domestic banking sector reforms could also undermine growth. In staff's view, the central bank should monitor inflation developments closely and stand ready to adjust its policy promptly.

4. According to the authorities, robust economic activity will be sustained. The provisionally estimated GDP growth of 8.1 percent for FY19 was supported by strong domestic demand, high growth in exports and remittances, and political stability, which is expected to extend in FY20. The authorities have set the targets for GDP growth and inflation at 8.2 per cent and 5.5 per cent, respectively for FY20. The policy focus will be on increased domestic demand through consumption and investment, and increased external demand by enhancing exports. Authorities have broadly shared staff's assessment on risks, including sluggish global growth and unsteady remittance inflows due to weaker growth in source countries.

5. In staff's view, following the easing of monetary policy in April 2018, inflation has remained broadly stable at around the Bangladesh Bank's (BB) target. However, several sources of potential inflationary pressures persist. The authorities also recognize several potential sources of inflationary pressures, including elevated inflation

expectations, gradually increasing non-food inflation, and strong growth supported by robust domestic demand. However, growth of monetary and credit aggregates has been decelerating until recently, while a bumper harvest in FY19 has led to declining food inflation. Agreeing to the staff advice, the authorities emphasize that they will be monitoring economic and financial developments closely and adjust monetary policy promptly as needed.

6. On the external front, the staff report finds the position in CY18 broadly in line with fundamentals and desired policies. Reserve coverage is adequate with gross official reserves covering 5.9 months of prospective imports in FY18 but is expected to gradually decline as imports continue to grow without further accumulation in reserves. In staff's view, current account deficit is estimated to have narrowed to around 2 percent of GDP in FY19 and is projected to remain broadly at the same level over the medium term. Although the rapid growth in the readymade garment sector has significantly supported growth, concentrated exports pose a risk as well. A broader and more complex export base would help start integration into global supply chains and increase potential growth. The authorities are also advised to continue to gradually expand exchange rate flexibility, which will help buffer the economy against external shocks.

7. The authorities perceive remittances and export growth to accelerate further. Although, they concurred with the staff that current account would be in a deficit over the medium term, the ongoing mega infrastructure projects will attract Foreign Direct Investment (FDI), which will further strengthen export growth, while remittance inflows are likely to remain robust. The authorities emphasize that their goal is to maintain an adequate level of reserves to support confidence in the economy and increase FDI flows. Given the low debt-to-GDP ratio and projected high medium-term growth, the authorities express confidence that there will be no risks of external debt distress.

8. On the fiscal situation, the FY20 budget is again anchored at 5 percent fiscal deficit-GDP ratio. However, in staff's view, revenue target appears ambitious primarily because of the assumed increase in revenues by more than 3 percent of GDP - much higher than staff projections. In staff's view, tax policy reforms should focus on tax base broadening and reducing tax concessions and tax avoidance. It needs to be noted that the implementation of the new VAT law on July 1, 2019, is a step towards modernization of the tax regime.

9. Our authorities reconfirm their commitment to keep the fiscal deficit at 5 percent of GDP. The government has taken various important reform measures to modernize the revenue and expenditure management. They acknowledge that revenue target for FY20 is high but several policy initiatives, including the launch of the new VAT and VAT automation, the rollout of the electronic modes for VAT taxpayers, improvements in tax administration and tax compliance, and the increase in the number of local tax offices, will all help boost tax revenues. The authorities also point to their efforts to increase recurrent expenditure savings through recently increased gas tariffs, lower interest payments due to expected reduced issuance of high-yielding NSCs, and termination of the current practice of providing advanced payments to autonomous bodies. We would also

like to mention that external and domestic debt indicators are below their respective thresholds under the baseline and stress test scenarios conducted by the fund staff.

10. Staff assesses that financial situation in the banking sector continues to deteriorate despite strong growth. The NPL ratio has increased from 9.3 percent at end-2017 to 10.3 percent at the end-2018. In the view of staff, there has been a growing trend of loan rescheduling and restructuring. They suggest a comprehensive time-bound action plan including: avoidance of regulatory forbearance; comprehensive review of the banking sector's assets; tightening the criteria for rescheduling/restructuring of loans; strengthening of corporate governance and legal systems; transparent budgetary support for state owned banks and adherence to commercial principles.

11. The authorities do agree that persistently high NPLs are a source of concern, though they expect that ongoing measures will address the situation effectively. The NPLs are concentrated, particularly in state owned banks. Most banks maintain a sufficient level of provisions and that the level of net NPLs is relatively moderate. In view of the authorities, loan rescheduling and restructuring is targeted at borrowers who are unable to abide by the original loan terms because of adverse events outside of their control and its objective is to prevent unnecessary loss of output and employment. The limit of maximum three loan rescheduling is now strictly being enforced and that all rescheduled loans are required to be adequately provisioned. BB does not allow any regulatory forbearance, but at the same time, they take into account potential economic costs when deciding whether to provide a relief to borrowers. They are now working on a legal definition of willful defaulters that would allow them to take more effective steps. A bank merger policy is also being discussed to promote consolidation of the banking sector and setting up an asset management company to take over NPLs.

12. On the issue of improving public financial management, the authorities emphasize that implementation of the new Budget Accounting and Classification System (BACS) will support better public financial management by providing additional and better-quality information, including on a broader set of government entities, financial assets and liabilities, and location of spending.

13. The staff views that control of corruption in Bangladesh has improved in recent years but remains modestly below the average for South Asia and low-income countries. The authorities argue that controlling corruption is a priority of the current government. They are working to enhance public awareness on the need to reduce corruption, though challenges remain, particularly in lack of capacity and the judicial process. In this respect, the Bangladesh Financial Intelligence Unit has initiated several changes. The authorities have expressed concerns on use of some third-party indicators on corruption perception, emphasizing their subjective judgments.

14. Improving the business environment continues to be important to facilitate investment outside the garment industry despite some progress over the past year. Under the One Stop Service virtual platform, procedures such as company registration, online payment of registration fees, tax identification number, and online VAT registration have

all been merged into a single process. Reform priorities are still in the pipeline to enhance the judicial system.

15. The authorities are fully committed to addressing the vulnerabilities arising from climate change and its commitments are well articulated in its overarching national plans. The government is implementing ‘Vision 2021’, incorporating the environmental development as one of the most important goals. Furthermore, a detailed work plan has been formulated with a view to achieving environmental targets of SDG’s. The economy has developed enhanced resilience to natural disasters and provisions have been made in the budget each year to respond to possible extreme weather events. On energy subsidies, provision of affordable energy remains essential over the medium term to sustain rapid economic growth.