INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/71

BANGLADESH

March 2022

2021 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 2021 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 March 2, 2022 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 March 2, 2022, following discussions that ended on December 19, 2021, 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 February 15, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the International Monetary Fund (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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PR/22/57

IMF Executive Board Concludes 2021 Article IV Consultation with Bangladesh

FOR IMMEDIATE RELEASE

Washington, DC – **March 3, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Bangladesh on March 2, 2022.

Bangladesh has made substantial progress in its first 50 years of independence. Since 2010, per capita real GDP growth, averaging 5 percent annually, has resulted in a steady decline in poverty, with increasing access to education and healthcare. Bangladesh met the UN criteria to graduate from the category of Least Developed Countries in February 2021. Macroeconomic policies in recent years have been successful in keeping inflation stable, debt-to-GDP low, and external buffers adequate.

The authorities reacted quickly and decisively to address the economic fallout of the pandemic. Entering the crisis with macroeconomic stability, the authorities announced support packages worth Tk 1.9 trillion (or 6 percent of GDP) with space from curtailing non-priority current spending and suspending low-priority capital projects. Vaccination, dragged down by initial supply shortages, is catching up.

GDP grew by 3.5 percent in FY20 reflecting a sharp contraction in exports, remittances, and imports at the onset of the pandemic, and a nation-wide lockdown that decreased domestic activity. Growth is estimated to have picked up to 5 percent in FY21 supported by a rebound in exports reflecting the recovery of external demand from main trading partners, high take-up of stimulus packages by the export sector, and a partial exemption of the RMG sector from the second-round lockdowns. Remittances surpassed pre-crisis levels, supporting consumption and moderating the current account (CA) deficit to 1.3 percent of GDP in FY21 from 1.7 percent in FY20.

Growth is expected to pick up to 6.6 percent in FY22 supported by a robust rebound in exports, continued implementation of the stimulus packages, and accommodative monetary and fiscal policies. Headline CPI inflation is projected to rise to 5.9 percent in FY22 driven by higher international commodity prices. The fiscal deficit is projected to peak at 6.1 percent of GDP in FY22 as the authorities increase pandemic-related spending. The CA deficit is projected to widen to 2.4 percent of GDP in FY22 as imports rebound and remittances moderate. The uncertainty around the outlook remains high and risks are tilted to the downside.

---

[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 their prompt and decisive policy response to the pandemic, which has facilitated a faster recovery. Directors recognized Bangladesh's impressive economic growth and social development, but noted the risks, including from the uncertain path of the pandemic, low vaccination rates, and vulnerabilities to climate change. Directors emphasized that continuing with sound macroeconomic policies, modernizing policy frameworks, and addressing structural impediments will be key to successfully graduate from the Least Developed Country status and realize the country's aspiration of reaching upper-middle income status.

Directors commended the authorities for exercising fiscal prudence and maintaining a low risk of debt distress, while noting that Bangladesh's capacity to repay the Fund remains sound. They underscored that modernizing revenue administration and implementing tax policy reforms would help raise revenues to sustainably increase development, social, and climate spending. Revenue measures should be accompanied by measures to rationalize spending and improve spending efficiency.

Directors highlighted the need to closely monitor inflation developments and stand ready to normalize monetary policy. They suggested phasing out caps on interest rates to improve credit allocation. Directors encouraged the authorities to continue modernizing the monetary policy framework and suggested to gradually increase exchange rate flexibility. Noting that reserves coverage is adequate, they emphasized need to safeguard reserves and cautioned against using them for nonmonetary purposes.

Directors noted that the pandemic increased existing vulnerabilities in the banking sector that could impair medium-term growth. They called for exiting the COVID-19 policies in a timely and orderly way, monitoring bank asset quality closely, and ensuring adequate capital buffers. Directors stressed the need to strengthen banking regulation and supervision, improve corporate governance, and reform legal systems to stem the flow of high non-performing loans, particularly in the state-owned commercial banks. They urged the authorities to implement the recommendations of the 2021 safeguards assessment and to further strengthen the AML/CFT framework. Further developing capital markets and strengthening governance to attract private financing will also be necessary. Directors welcomed the completion of the audits related to COVID-19 spending and urged the authorities to publish them without further delay.

Directors noted that to lift growth potential, structural policies should focus on diversifying exports, increasing FDI, enhancing productivity, investing in human capital and addressing corruption. They welcomed the authorities' efforts to build resilience to climate change and natural disasters, including by allocating budgetary support for climate adaptation. Directors also encouraged the authorities to undertake reforms to help catalyze climate financing.

---

[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.

Table 1. Bangladesh: Selected Economic Indicators, FY2018–23 1/

I. Social and Demographic Indicators

Population (2020, millions; estimate)	165	Infant mortality (2016, per thousand live births)	28.0
GDP per capita (2020, U.S. dollars)	1962	Life expectancy at birth (2016, years)	71.6
Labor force participation rate (2017, percent; national measure)	58.4	Adult literacy (2016, percent of people)	73.0
Poverty headcount ratio (2019, national measure, percent)	20.5	Population dependency ratio (2017, percent)	50.0
Gini index (2016,World Bank estimate)	32.1	Population growth (FY20, y/y, percent; estimate)	1.0

II. Macroeconomic Indicators

	FY18	FY19	FY20	FY21	FY22	FY23
			Est.	Est.		Proj.
National income and prices (annual percent change)						
Real GDP	7.9	8.2	3.5	5.0	6.6	7.1
GDP deflator	5.6	4.5	4.1	5.3	5.6	5.8
CPI inflation (annual average)	5.8	5.5	5.6	5.6	5.9	5.8
CPI inflation (end of period)	5.5	5.5	6.0	5.6	5.9	5.7
Nonfood CPI inflation (end of period)	4.9	5.7	5.2	5.9	6.4	5.9
Central government operations (percent of GDP)						
Total revenue and grants	10.4	9.5	9.8	10.9	10.8	10.9
Total revenue	10.3	9.4	9.7	10.9	10.8	10.9
Tax	9.3	8.7	8.1	8.9	8.9	9.0
Nontax	1.0	0.7	1.6	1.9	1.8	1.8
Grants	0.1	0.1	0.1	0.1	0.0	0.0
Total expenditure	15.2	15.7	15.4	15.1	16.9	16.5
Current expenditure	8.2	8.7	8.6	8.7	9.9	9.3
Annual Development Program (ADP)	5.9	5.9	5.7	5.3	5.5	5.9
Other expenditures	1.1	1.1	1.1	1.1	1.5	1.3
Overall balance (including grants)	-4.8	-6.3	-5.6	-4.2	-6.1	-5.7
(Excluding grants)	-4.8	-6.3	-5.7	-4.3	-6.1	-5.7
Primary balance (excluding grants)	-3.0	-4.4	-3.6	-1.9	-3.7	-3.0
Total central government debt (percent of GDP)	34.6	36.1	39.5	41.4	42.5	42.7
Money and credit (end of fiscal year; percent change)						
Credit to private sector by the banking system	17.0	11.3	8.6	8.3	11.6	11.5
Reserve money	4.0	5.3	15.5	22.3	10.0	13.7
Broad money (M2)	9.2	9.9	12.7	13.6	15.0	13.7
Balance of payments (billions of U.S. dollars)						
Exports, f.o.b.	36.3	39.6	32.1	36.9	43.2	44.6
(Annual percent change)	6.7	9.1	-18.9	14.9	17.0	3.3
Imports, f.o.b.	-54.5	-55.4	-50.7	-60.7	-67.8	-71.0
(Annual percent change)	25.2	1.8	-8.6	19.7	11.7	4.7
Current account balance	-9.6	-4.5	-5.4	-4.6	-9.4	-11.3
(Percent of GDP)	-3.5	-1.5	-1.7	-1.3	-2.4	-2.6
Capital and financial account balance	9.5	6.1	9.5	13.3	9.5	9.3
Of which: Foreign direct investment	1.9	2.6	1.3	1.4	1.6	1.8
Overall balance	-0.7	1.0	3.8	9.3	0.1	-2.1
Gross official reserves (billions of U.S. dollars) 2/	32.9	32.7	36.0	46.4	47.7	45.5
In months of prospective imports of goods and services	6.0	6.5	6.1	7.0	6.9	6.4
Exchange rate (taka per U.S. dollar; period average)	82.1	84.0	84.8	84.8	...	...
Exchange rate (taka per U.S. dollar; end-period)	83.7	84.5	84.9	84.8	...	...
Nominal effective rate (2010=100; period average)	95.1	97.6	99.1	95.6	...	...
Real effective rate (2010=100; period average)	132.3	139.9	146.9	147.0	...	...
Memorandum item:						
Nominal GDP (billions of taka)	22,505	25,425	27,393	30,284	34,086	38,610

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.

BANGLADESH

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

February 15, 2022

KEY ISSUES

Context. Since independence, Bangladesh has achieved impressive economic growth and social development, making steady progress in reducing poverty and significant improvements in living standards. The COVID-19 pandemic interrupted this long period of robust economic performance, deepening some earlier vulnerabilities. Stagnating job growth, rising inequality, and slowing poverty reduction remain challenges. Revenues are low, and financial sector vulnerabilities continue to be high. Substantial productive investment in infrastructure, human capital, and climate resilience is needed to achieve the authorities' aspiration to reach the upper-middle income status in 2031.

Key Policy Recommendations. Mitigating the COVID-19 impact on health and economic activity, protecting vulnerable groups, and building buffers are immediate policy priorities. Medium-term policies should focus on structural reforms and modernizing policy frameworks to boost growth, support the vulnerable, strengthen governance, and tackle climate change—an important risk to growth.

- *Create fiscal space and enhance fiscal governance.* Raising tax revenues, rationalizing spending, increasing spending efficiency, and addressing medium-term fiscal risks are necessary to increase development, social, and climate spending, while maintaining fiscal sustainability.

- *Foster macroeconomic stability and modernize the monetary policy framework*. With the economy recovering, Bangladesh Bank should closely monitor inflation pressures and stand ready to normalize as needed to maintain price and financial stability. Reforms to modernize the monetary policy framework and improve policy transmission should continue, including allowing for greater exchange rate flexibility.

- *Reduce financial sector vulnerabilities and develop capital markets*. Reform priorities include strengthening banking regulation and supervision, improving corporate governance, and reforming legal systems. Deepening capital markets is important to meet long-term financing needs.

- *Improve investment climate and boost productivity*. To support private sector-led growth, underpinned by exports and investments, structural reforms should focus on improving governance, diversifying exports, increasing productivity, and building climate resilience to lift growth potential.

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

Discussions took place in Dhaka during December 4–19, 2021. The IMF team comprised Rahul Anand (Head), Ritu Basu, Emmanouil Kitsios, Seohyun Lee (HQ), Racha Moussa (HQ), and Fan Qi (HQ), Jayendu De (Resident Representative) and Saiful Islam (Resident Representative Office) (all APD). Surjit Bhalla and Bhupal Singh (OED) joined the meetings. Bhupal Singh participated in in-person meetings and Surjit Bhalla joined the closing meeting virtually. Gulrukh Gamwalla-Khadivi and Pamela Polec (both APD) assisted in the preparation of this report.

CONTENTS

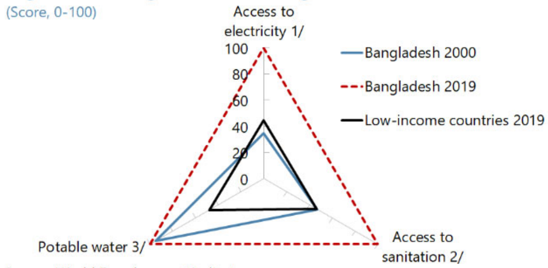
TABLES

ANNEXES

CONTEXT

1. **Bangladesh has made substantial progress in its first 50 years of independence.** From being one of the poorest nations in 1971, Bangladesh successfully met the UN criteria to graduate from the category of Least Developed Countries (LDC) in February 2021.[1] Since 2010, per capita real GDP growth, averaging 5 percent annually, has resulted in a steady decline in poverty, with increasing access to education and healthcare (Figure 1). Following an export-oriented development strategy, Bangladesh has successfully transformed to a more manufacturing-based economy. Macroeconomic policies have been successful in keeping inflation stable, debt-to-GDP ratio low, and external buffers adequate.

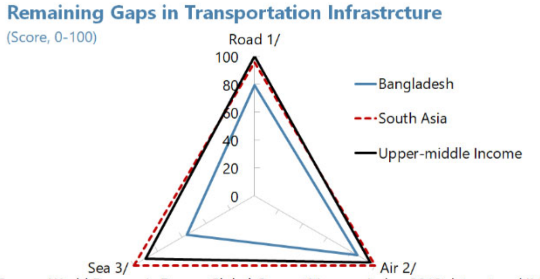
Significant Progress in Accessing Basic Services
(Score, 0-100)



Source: World Development Indicators.
Note: the highest value scaled to 100. A higher value indicates better performance.
1/ Access to electricity (% of population)
2/ People using safely managed sanitation services (% of population)
3/ People using safely managed drinking water services (% of population)

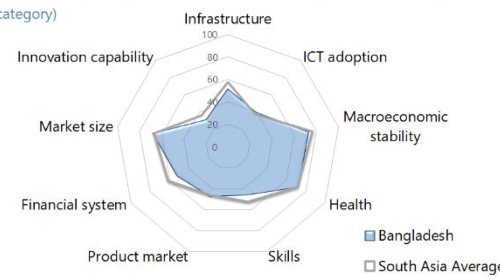
2. **The country's aspiration to reach upper-middle income status by 2031 requires building on successes and addressing structural issues.** Despite significant progress, job creation has been slowing, inequality has been rising, and poverty reduction has been slower than during the previous decade. Lack of education and skills remain the main hurdle for transiting into the formal economy. Supply bottlenecks, especially in transport infrastructure, are constraining growth. With LDC graduation, Bangladesh will gradually lose access to concessional financing (nearly half of total external financing in 2018) and preferential trade treatments, which have played a key role in boosting export competitiveness.[2] As envisaged in the 8th Five-Year Plan (FYP), sustaining high pro-poor growth (above 8 percent) to reach upper-middle income status requires, among others, developing new growth engines and increasing productivity to create decent jobs for an estimated 2.2 million job market entrants annually; bridging

Remaining Gaps in Transportation Infrastrcture
(Score, 0-100)



Source: World Economic Forum, Global Competitiveness Index, 2019 dataset and IMF Staff calculations.
Note: The highest value scaled to 100. A higher value indicates better performance.
1/ Road connectivity and quality of road infrastructure
2/ Airport connectivity and efficiency of air transport services
3/ Liner shipping connectivity and efficiency of seaport services

Competitiveness by Category
(Score, 1-100, 2019, the higher the score the more competitive the country is in the given category)



Source: World Economic Forum, Global Competitiveness Index, 2019 dataset and IMF Staff Calculations.
Note: Regional average includes countries for which data are available.

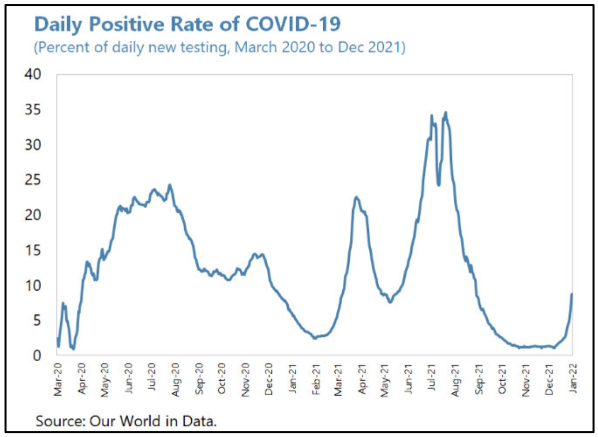
[1] The United Nations Committee for Development Policy (CDP) recommended on February 26, 2021 the graduation of Bangladesh from LDC status with an extended five-year preparatory period to ensure recovery from COVID-19. Bangladesh met the eligibility criteria in terms of per capita income, human assets, and economic and environmental vulnerability.

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

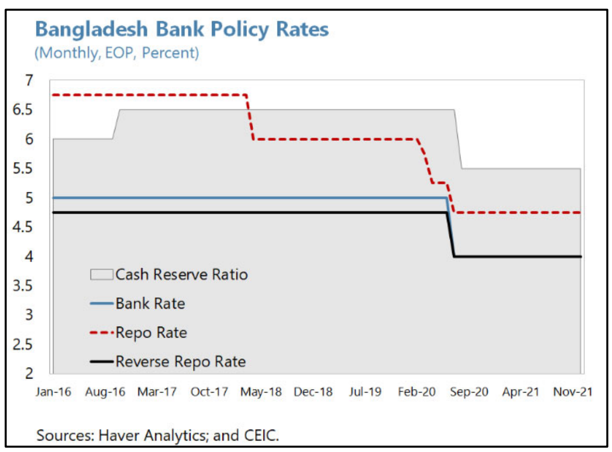
infrastructure gaps; investing in human capital; and addressing climate vulnerabilities. Enhancing productive investments to achieve these goals will require mobilizing domestic revenues and attracting private investment by strengthening governance, improving the investment climate, and modernizing policy frameworks.

COVID-19 IMPACT AND POLICY RESPONSE

3. The authorities reacted quickly and decisively to address the economic fallout of the pandemic. In response to the several waves of the pandemic, the authorities imposed multiple nation-wide lockdowns (March 26-May 30, 2020 and April 14-August 10, 2021). The second lockdown exempted the ready-made garment (RMG) sector and allowed for limited transportation. To curb the spike in cases in early 2022, some less stringent restrictions were introduced. Entering the crisis with macroeconomic stability, the authorities announced support packages worth Tk 1 trillion in the form of wage support, working capital loans and social assistance. This was gradually scaled up to Tk1.9 trillion (US$22 billion or 6 percent of GDP) (Annex II), by curtailing non-priority current spending, and suspending low-priority capital projects.



4. Vaccination is catching up despite initial constraints due to supply shortages. The authorities moved swiftly to secure vaccine financing from development partners and allocated ample funds for vaccine-related spending. The national COVID-19 vaccination strategy, kickstarted in early January 2021, stalled due to significant global vaccine supply shortages between April and June. Mass vaccination resumed in July 2021 and the vaccination is catching up with regional peers (Figure 2). The authorities have started providing booster doses to the most vulnerable groups.



5. Bangladesh Bank (BB) eased monetary policy and increased liquidity in the banking system.[3] BB decreased the cash reserve ratio for domestic banks by 150 bps, the bank rate by 100 bps, the repo rate by 125 bps, and reverse repo by 75 bps. The advance to deposit ratio was

[3] BB's intermediate target is broad money (M2), and the operational target is reserve money. Policy rates are used to signal the monetary stance.

increased by 2 percentage points and refinancing schemes worth Tk 5.5 billion were introduced. BB also increased liquidity, including through unsterilized foreign exchange (FX) interventions, leading to historically low interest rates on government securities.

6. **The banking sector played a crucial role in channeling the stimulus packages.** The bulk of COVID-19 stimulus support was designed in the form of an interest subsidy for working capital loans and loans to Cottage, Micro, Small and Medium Enterprises (CMSMEs) at subsidized interest rates. Several forbearance measures were introduced including a loan moratorium, reclassification freeze, and a relaxation of repayment terms (Annex VII). BB also introduced revolving refinancing facilities. Given the importance of CMSMEs, several specifically targeted initiatives were launched, including a guarantee scheme to encourage lending to the CMSME sector (Annex II).

7. **Real GDP grew by 3.5 percent in FY20 and is estimated to have picked up to 5.0 percent in FY21.[4,5]** At the onset of the pandemic, exports, imports, and remittances contracted sharply, and the nation-wide lockdown led to a decline in domestic economic activity. Given the pandemic only affected the final quarter of FY20, unlike regional peers, growth in Bangladesh remained positive despite falling to a historically low level (lowest since 1991). In FY21, exports and imports rebounded strongly, reaching almost pre-pandemic levels, reflecting the fast recovery of external demand from main trading partners, high take-up of stimulus packages by the export sector, and exemption of the RMG sector from the second-round lockdowns. Remittances surpassed pre-crisis levels, supporting consumption and moderating the current account deficit to 1.3 percent of GDP in FY21 from 1.7 percent in FY20.[6] Private credit growth, however, remained subdued. The domestic recovery in FY21 was disrupted by the second and third waves. The nation-wide lockdown, coupled with the low vaccination rate, resulted in a modest recovery in FY21.

8. **The pandemic has taken a toll on lives and livelihoods and has increased the urgency to implement longstanding structural reforms.** Based on modeled ILO estimates, the unemployment rate in FY20 rose to 5.3 percent from 4.2 percent in FY19. The poverty rate (based on US$1.9 in 2011 PPP) rose from 11.9 percent in FY19 to 12.9 percent in FY20, adding 1.6 million new poor.[7] The most vulnerable groups, such as low-skilled and informal workers, youth and women were the hardest hit. Among adults in Dhaka and Chittagong who lost their jobs due to the

---

[4] Fiscal year in Bangladesh begins in July and ends in June.

[5] In November 2021, the Bangladesh Bureau of Statistics (BBS) released a rebased series of national accounts (base year 2015/16). The rebasing has led to an increase in GDP levels and a slight decline in GDP growth rates, partly reflecting wider coverage of economic activities and methodological changes. For instance, FY20 GDP at current prices is 15.7 percent higher, while real GDP growth rate is 0.06 percentage point lower, compared to the existing data (base year 2005/06). BBS is finalizing the underlying balanced supply and use tables (SUTs) and working on producing back-casted historical GDP series. In the absence of full data, the staff report continues to use the 2005/06 base year GDP series.

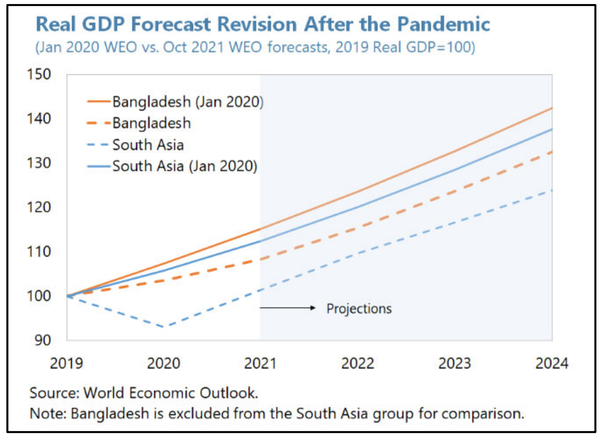
[6] The exceptional spike in remittances through banks in FY21 was driven largely by a disruption to informal channels of remitting with the temporary halt in flights to Bangladesh, as well as a 2 percent incentive to divert these flows to banks. Effective January 1, 2022 the incentive was increased to 2.5 percent.

[7] World Bank. 2021. Shifting Gears: Digitization and Services-Led Development. South Asia Economic Focus, Fall 2021. Washington, DC: World Bank.

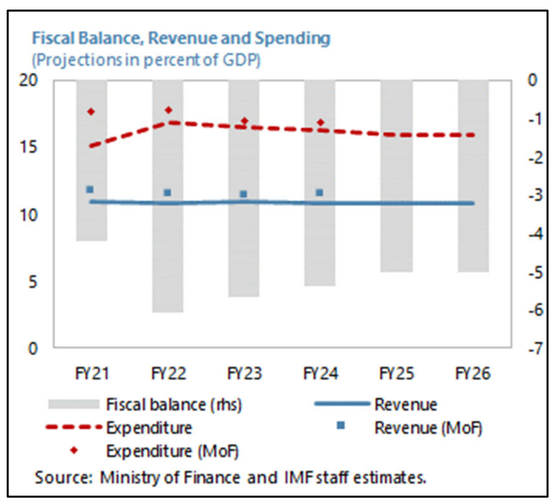
pandemic and were still not working by February 2021, 2 out of 3 were women.[8] Structural reforms have become even more urgent to reverse these trends and to boost inclusive, resilient, green growth.

OUTLOOK AND RISKS

9. **Growth is projected to increase gradually as the impact of COVID-19 abates.** Growth is expected to pick up to 6.6 percent in FY22, supported by a robust rebound in exports, continued implementation of the stimulus packages; and accommodative monetary and fiscal policies. However, the lockdown and restrictions, subdued private credit growth, and a low vaccination rate point to a modest recovery. As the external environment improves and the domestic vaccination program progresses, growth is expected to reach 7.1 percent in FY23. The pandemic's impact is expected to spill over into the medium term leading to a loss in the output level compared to pre-pandemic projections.[9] Headline CPI inflation is projected to rise to 5.9 percent in FY22, slightly higher than BB's yearly target of 5.3 percent. As the economy picks up, non-food inflation is projected to edge up to 6.4 percent, and food inflation is also expected to rise moderately due to higher international commodity prices.



10. **The fiscal deficit is projected to peak at 6.1 percent of GDP in FY22 as pandemic-related spending increases.** The FY22 budget and the medium-term framework have set ambitious revenue targets. Absent reforms, revenue is expected to remain almost flat (about 11 percent of GDP) over the medium term, 0.7 percent of GDP below the authorities' targets. Nevertheless, the authorities have established a track record of remaining within their deficit target by reprioritizing spending. A timely and orderly exit from the stimulus, as well as the gradual rebound of the economy, are expected to bring the deficit back to the authorities' medium-term target of 5 percent of GDP by FY25.

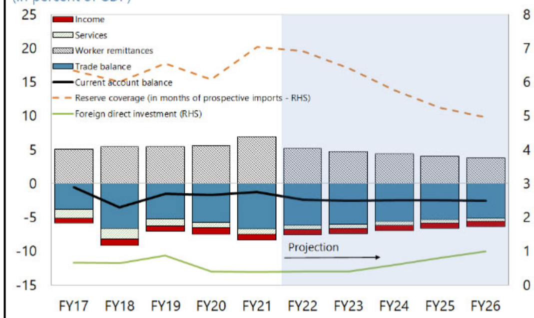


[8] World Bank. 2021. COVID-19 Monitoring Survey in Poor and Slum Areas of Dhaka and Chittagong: Bangladesh Labor Market Situation as of Round 3. Washington, DC: World Bank.

[9] See 2021 *Bangladesh: Selected Issues* paper "The Medium-Term Effect of COVID-19 in Bangladesh."

11. The current account (CA) deficit is projected to widen in FY22 and stabilize over the medium term. With the expected moderation in remittances and a pickup in imports, the CA deficit is projected to increase to 2.4 percent of GDP in FY22. In the medium term, the CA deficit-to-GDP ratio is expected to stabilize at around 2.5 percent of GDP with the share of exports to GDP expected to grow only modestly absent major reforms, and the increase in imports and remittances to moderate.

Current Account Balance and Reserve Coverage
(In percent of GDP)



Sources: Data from authorities and IMF staff estimates.

12. The external position is broadly in line with the level implied by fundamentals and desirable policies in FY21. (Annex III). With the one-time surge in remittances, reserve coverage peaked at 7.0 months of prospective imports at end FY21. Reserves are projected to decline over the medium term, staying around 5 months of prospective imports due to a higher CA deficit in a stabilized exchange rate regime, expected normalization in remittance inflows, and no substantial pick up in FDI.[10,11] To help mitigate this projected decline in reserve coverage, the authorities have appropriately used the recent SDR allocation of US$1.457 billion (0.4 percent of GDP) to bolster reserves. External public and publicly guaranteed debt is projected to remain sustainable around 14 percent of GDP over the medium term (DSA). Bangladesh remains at a low risk of external and overall risk of debt distress.

13. Uncertainty around the outlook remains exceptionally high and risks are tilted to the downside. A slower than expected recovery in trading partners, an increase in food and oil prices, and heightened risks from cyber-attacks are key external risks. Domestically, another surge of COVID-19 requiring strict containment measures, a lower-than-expected vaccination rate, and elevated non-performing loans (NPLs) could present a drag on growth prospects, while slow progress in resolving the Rohingya crisis could lead to donor fatigue. The risk of natural disasters continues to loom (Annex IV). On the upside, a stronger than expected global recovery and acceleration in Annual Development Plan (ADP) execution could spur a stronger recovery.

Authorities' Views

14. The authorities view that the pick-up in economic activity will continue and inflation will remain contained. They are targeting FY22 growth rate to be 7.2 percent, supported by continued implementation of the stimulus packages, recovery in domestic demand, and strong pick-up in exports. The authorities share staff's concerns about inflationary pressures from rising international commodities prices, but expect the impact to be muted and temporary, abating in about nine months. On the external sector, the authorities noted that export growth has been robust —partly fueled by the diversion of orders from elsewhere in Asia, and import growth is

[10] The NEER depreciated at an average rate of 3.8 percent between August 2020-July 2021.

[11] The de-jure exchange rate regime is floating but the de-facto exchange rate regime was reclassified as stabilized from crawl-like since February 2020.

expected to ease. The authorities acknowledge that remittances will normalize. The authorities have secured over 300 million vaccine doses and are confident of achieving their target of vaccinating 70 to 80 percent of the total population by early 2022. They broadly share staff's assessment on risks. The authorities plan to gradually reduce the fiscal deficit to 5 percent of GDP over the medium term. On debt, authorities agreed that high interest costs are increasing the debt service and that the NSC reforms would help.

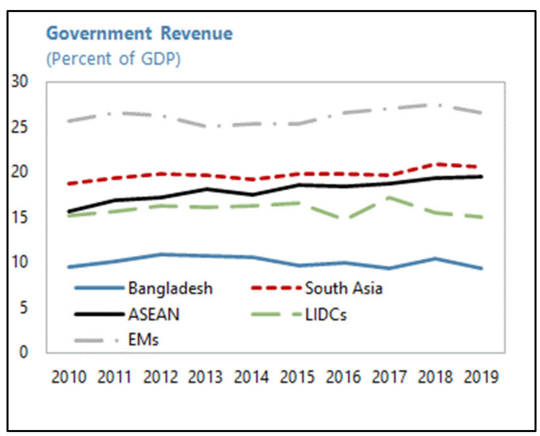
POLICY DISCUSSIONS

The near-term policy measures should aim to make room in the budget for health and social spending, while preserving reserve adequacy and enhancing fiscal transparency and governance. Once the pandemic is under control, policy priorities should shift back to creating greater fiscal space to expand developmental and social spending, reducing fiscal risks, preserving the stability of the financial system, and modernizing the monetary and financial system to support a solid recovery and to mitigate the medium-term economic impact of COVID-19. Such policies will also help prepare the ground to meet longer term development financing needs of the economy.

A. Creating Fiscal Space for Growth-Enhancing and Inclusive Spending

15. Near-term fiscal policy should continue to support the recovery by prioritizing expenditure and improving administrative efficiency. Staff views the authorities' baseline fiscal path as appropriate in the near term. Bangladesh is assessed to retain some fiscal space owing to low public and external debt levels, though fiscal space is constrained by very low tax revenues. The authorities should stand ready to ramp up health and social spending, as risks are tilted to the downside. Emergency spending needs could be met through increasing revenues by rationalizing regressive tax expenditure, postponing low-priority capital spending, and saving on current spending. Reducing interest expenses from National Savings Certificates (NSCs) and improving administrative efficiency of the National Board of Revenue (NBR) and line ministries—including by leveraging on the authorities' current digitalization efforts—will help increase fiscal space in the absence of significant tax policy reforms during the pandemic.

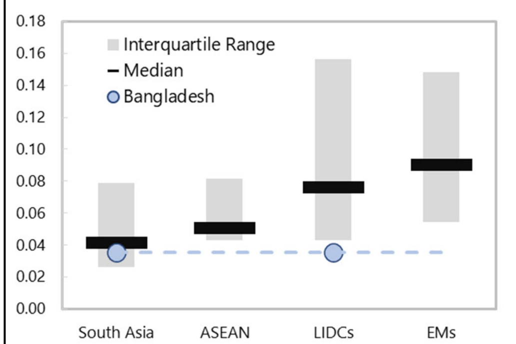
16. Higher revenues are necessary to achieve developmental and social targets in a fiscally sustainable way. Revenue as a share of GDP has remained persistently low and trailed behind peers, with the gap relative to the median of other countries in the region and emerging markets (EMs) increasing since 2013. Bangladesh needs to spend more on health, education, and social safety nets (Annex V) and boost investment in infrastructure. Although the risk of debt



distress remains low, risks from a rising debt service-to-revenue ratio have increased, and developmental and priority spending—including to support the recovery—will continue to put pressure on public finances.

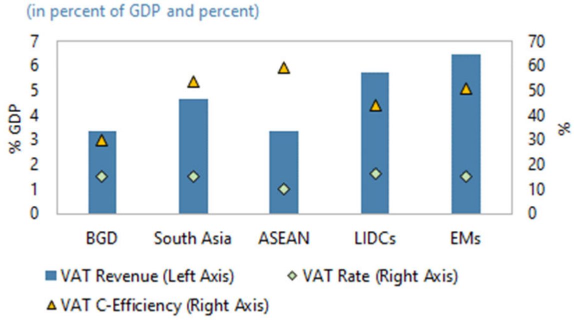
17. Raising tax productivity will help mobilize revenues. Bangladesh's standard Value Added Tax (VAT) rate of 15 percent is in line with that of other countries, but VAT revenue productivity is low. Similarly, the corporate income tax (CIT) and personal income tax (PIT) productivities are lower than the median and closer to the bottom quartile of the measures of peer countries despite comparable tax rates. The difference in revenue performance points to a low tax base, resulting from tax exemptions and generous tax holidays as well as weak revenue administration and low compliance. The 2012 VAT and Supplementary Duty Act, implemented in 2019, has not yielded expected revenues due to multiple VAT rates that exacerbated revenue leakage and rendered tax collection more difficult. In the presence of a large informal sector, streamlined consumption and excise taxes provide an administratively feasible way of increasing revenues.

Personal Income Tax Productivity, 2019



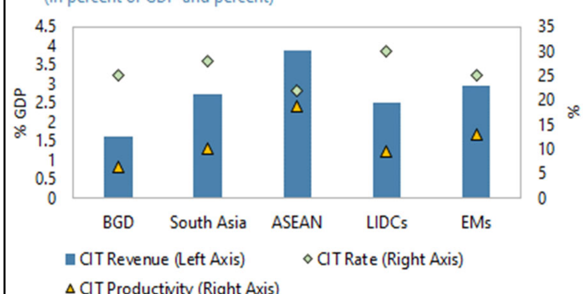
Sources: IMF FAD Tax Rates Database, IMF World Economic Outlook; IMF staff calculation.
Notes: PIT Productivity = PIT Revenue in percent of GDP/[(Lowest PIT Rate×Lowest Threshold)+(Highest PIT rate×Highest PIT threshold)/Lowest PIT Threshold+Highest PIT Threshold)]

VAT Revenue, Standard Rate, and C-Efficiency, 2019
(in percent of GDP and percent)



Source: IMF Internal World Revenue Longitudinal Database (WoRLD); IMF Internal Tax Rates Database. C-Efficiency is calculated as (VAT Revenue) / [(VAT Rate) * (Total Consumption)].

CIT Revenue, CIT Rate, and CIT-Productivity, 2019
(in percent of GDP and percent)



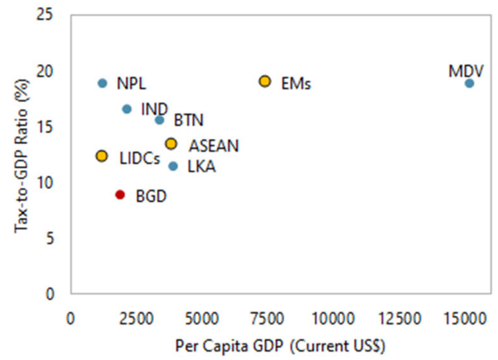
Source: IMF Internal World Revenue Longitudinal Database (WoRLD); IMF Internal Tax Rates Database. CIT-Productivity is calculated as (CIT Revenue in percent of GDP) / (CIT Rate).

18. A multipronged revenue strategy is required to strengthen revenue in line with the authorities' aspirations. The 8th FYP has set the revenue target to reach 14 percent of GDP by FY25. While the recent efforts to promote electronic fiscal devices for VAT collection and to increase non-tax revenue by collecting the surplus cash of the SOEs will help, mobilizing revenue to meet the aspirational targets would require both tax policy and revenue administration reforms. Expansion of well-targeted social spending will help protect the poor as well as build broader consensus for tax reforms.

Tax Policy Reforms:

- Amend the tax and customs codes to rationalize tax expenditures.
- Develop and adopt a medium-term revenue strategy.
- Review and simplify the VAT structure to improve compliance and enhance the ability of the NBR to efficiently administer it.
- Refrain from tax amnesty initiatives to prevent lower compliance in the future.

Income Level and Revenue-to-GDP Ratio, 2019
(Percent)



Source: World Economic Outlook.

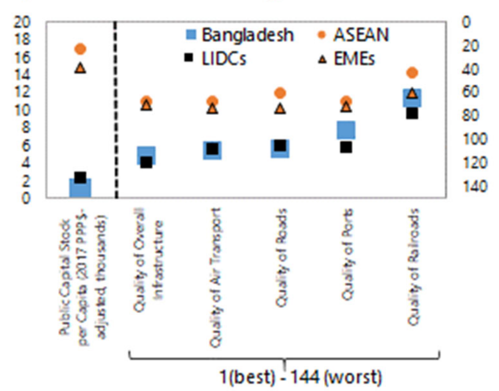
Revenue Administration Reforms:

- Modernize the organizational structure of the NBR and develop the NBR's performance management framework.
- Modernize revenue administration, including via digitalization, to increase tax collections.

19. Additional spending measures would also make fiscal policy more growth friendly and inclusive in the medium term. Reducing the interest burden by limiting the use of NSCs as a financing vehicle and adopting a fuel pricing mechanism will help to accommodate additional spending and to strengthen the social protection system on a permanent basis. Modernizing and digitalizing core government functions can improve the efficiency of public service delivery and improve the transparency of public spending.[12]

20. Fiscal policy framework reforms are needed to scale up productivity-enhancing investments and safeguard fiscal sustainability. With low levels of overall government spending, achieving high levels of efficiency is important to achieve development goals. The stock of public capital remains low, and the perceived quality of infrastructure is closer to other low-income countries and markedly lower than emerging economies. Further efficiency gains can be realized by conducting a spending review. Steps in improving public investment and fiscal risks management include (Annex VI):

Capital Stock and Infrastructure Quality
(Percent of GDP and ranking)



Sources: IMF, FAD Expenditure Assessment Tool (EAT).

[12] See 2021 *Bangladesh: Selected Issues* paper "Digitalization and Public Finance Efficiency."

- Integrating the medium-term budget and the ADP processes to produce a consolidated medium-term budgetary framework (MTBF).
- Developing and publishing an annual fiscal risk statement.
- Streamlining investment management and increasing the economic and spending efficiency of public-private partnerships (PPP) projects.
- Improving the effectiveness of the budget execution system and timeliness of fiscal reporting.
- Updating the 2014 medium-term debt strategy (MTDS).

Text Table. Bangladesh: Other Fiscal Policy Recommendations

- Streamline the VAT rate structure, thresholds, and rules for input VAT credit, and revise withholding schemes.
- Introduce broader Compliance Risk Management (CRM) reform, including a focus on increased registration, improved risk assessment, and higher focus on large taxpayers.
- Improve the coverage of the Integrated Budget and Accounting System (IBASS++) and the timeliness of fiscal reporting.
- Follow more consistent and transparent project appraisal and selection processes to prevent delays and cost overruns.
- Derive PPP projects from the ADP and scrutinize unsolicited proposals for consistency with national and sectoral plans.
- Report and analyze fiscal risks from guarantees, public corporations, and PPP-related long-term commitments.

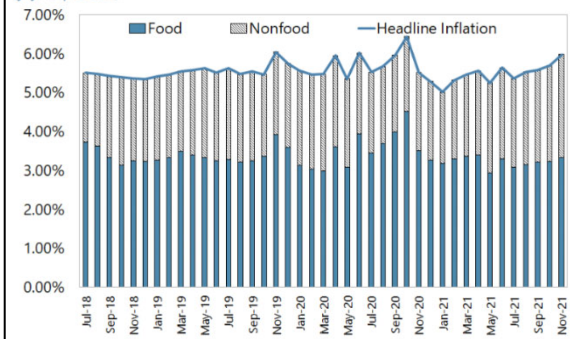
Authorities' Views

21. The authorities reconfirmed their commitment to expand social and developmental expenditure while safeguarding fiscal sustainability. The authorities concur with staff's assessment that strengthening fiscal revenue will sustainably finance higher spending. They maintained that adoption of digitalization solutions and automation would increase revenue collection. They plan to assess tax expenditure to rationalize tax incentives. They pointed out that since many tax filers voluntarily opt for the standard VAT rate to avail input tax credit, there is no need to further streamline the multiple VAT rates. The authorities are actively monitoring energy prices and noted that the November 2021 price increase will help contain fuel subsidies. Closing down loss-making SOEs and creating a database to monitor the financial performance of SOEs will reduce fiscal risks. The authorities plan to publish the updated MTDS within the third quarter of FY22. To improve public expenditure efficiency and cash management, the authorities are implementing the Public Financial Management Action Plan (2018-23) that envisages integrating IBAS++ with other PFM systems to facilitate overall financial operations and improve accountability.

B. Monetary and Exchange Rate Policy to Foster Macroeconomic Stability

22. With the economy rebounding, BB should closely monitor inflation pressures and stand ready to normalize, including to ensure that inflation expectations remain anchored. Lower demand from the COVID-19 shock kept inflation (at 5.6 percent) close to the authorities' yearly target of 5.4 percent in FY21 despite monetary easing. Supply-side pressures, including floods, kept food inflation elevated in early parts of FY21. Reflecting higher energy prices, administered prices for kerosine and diesel were increased by 23 percent in November 2021. Non-food inflation has been creeping up in recent months and the authorities should continue to assess the potential for second-round effects on inflation from a spike in global commodity prices.

Contributions to Inflation
(y/y, in percent)



Source: Bangladesh Bureau of Statistics

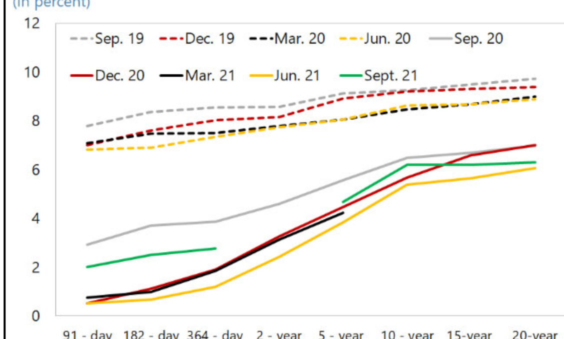
Text Table. Bangladesh: Bank Monetary Program and Outturns

	June, 2021		June, 2022
(y/y percent change)	Program	Actual	Program
Reserve Money	13.5	22.4	10.0
Broad Money	15.0	13.6	15.0
Net Foreign Assets	20.1	27.1	10.4
Net Domestic Assets	13.6	9.8	16.5
Domestic Credit	17.4	10.3	17.8
Credit to the Public Sector	31.7	21.2	32.6
Credit to the Private Sector	14.8	8.4	14.8

Source: Bangladesh Bank

23. The monetary stance should also strike a balance between supporting the recovery and maintaining financial stability. Unsterilized FX interventions during part of the remittance surge period and low credit to both the public and private sectors led to increased liquidity. Credit to the private sector was tepid reflecting disruptions related to COVID-19. In FY21, net issuance of NSC instruments nearly doubled, decreasing government reliance on bank borrowing. Excess liquidity has translated to historically low interest rates on T-bills and T-bonds, which in turn has led

Government T-Bill and T-Bond Rates
(In percent)



Source: Bangladesh Bank.

to historically low lending rates, making the cap on lending rates not binding for some borrowers.[13] From May 2021, the authorities began mopping up liquidity, including in recent months through the sale of FX. The cap on lending rates constrains banks' willingness to extend credit; nevertheless, the authorities should be prepared to speed up the withdrawal of excess liquidity if needed.

24. Distortions in the lending and borrowing rates limit BB's policy space. The lending rate cap and the floor on the deposit rates should be phased out to strengthen market-based pricing, credit allocation, and monetary transmission. The lending rate cap forced banks to lower deposit rates, often below the inflation rate. Despite this, deposit growth recorded 14 percent y/y growth in FY21, driven by remittance inflows, agent banking, and the stimulus package. Because of the negative real return on deposits, BB instructed banks to set a floor on deposit rates for individual term deposits and pension related funds at the rate of inflation, as calculated from the average of the last three months. A floor on deposit rates will put additional pressure on bank profits that could lead to less credit to the private sector and hurt growth. It will also limit BB's ability to provide additional monetary stimulus, if needed. Instead of imposing caps to lower the lending rates, BB should address structural issues impacting the interest rate structure, such as improving the efficiency of the banking system and developing financial markets (Section D).

25. Continued progress towards modernizing the monetary policy framework and developing capital markets is vital. As the economy diversifies and further integrates into the global economy, financial markets will deepen and become more complex. A forward-looking strategy and an interest-rate based monetary policy framework will contribute to macroeconomic stability, promote financial development, and enhance the transmission of monetary policy to the broader economy. Strengthening BB's independence will be important for improving monetary policy transmission. With Fund technical assistance (TA), the authorities plan to move from targeting monetary aggregates to interest rate targeting (Annex VI).[14]

26. Greater exchange rate flexibility would help buffer external shocks and manage domestic liquidity conditions. BB generally intervenes in FX markets to contain excess volatility. Appreciation pressures in FY21 were fully countered by BB's purchase of US$ in FX markets and the Tk/US$ exchange rate remained relatively flat. Greater flexibility will also strengthen monetary transmission and help BB adopt an interest rate based monetary system.

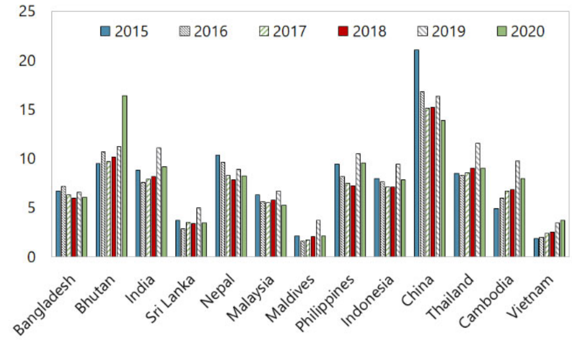
27. Safeguarding FX reserve buffers remains crucial. The use of FX reserves to finance crucial infrastructure projects through the newly created Bangladesh Infrastructure Development Fund (BIDF) raises governance and external sustainability concerns. The BB has committed to finance the

[13] Effective April 1, 2020, BB introduced a cap on lending rates at 9 percent, except for credit cards. The motivation was to increase access to affordable financing and boost investment.

[14] See 2021 *Bangladesh: Selected Issues* paper "Modernizing the Monetary Policy Framework in Bangladesh – Model-Based Insights."

BIDF using FX reserves for up to US$ 2 billion, on the condition that (i) reserves are above 6 months of imports, (ii) project earnings are in FX, and (iii) a sovereign guarantee is provided. Other quasi fiscal operations pose similar risks. Given that risks are tilted to the downside, it would be prudent for Bangladesh to safeguard FX reserves as a buffer against shocks. Ad-hoc use of FX reserves could undermine fiscal discipline and expose the public sector to large contingent liabilities.

Reserve Coverage
(In months of prospective imports)



Source: World Economic Outlook.

Authorities' Views

28. The authorities agree that inflation in FY22 will likely be above their target of 5.3 percent given imported inflation driven by higher food and commodity prices. Inflation in FY22 is projected to be above 6 percent, and the authorities are closely monitoring second-round effects. They noted that recent FX sales have reduced excess liquidity and there are no financial stability risks from excess liquidity. The authorities pointed out that the interest rate cap has lowered the cost of credit and helped growth. They plan to continue the work on modernizing the monetary policy framework, including through IMF TA. To meet rising import needs, the authorities will continue to provide FX and allow the Taka to depreciate gradually against US dollar. They expect this to be a short-run phenomenon and for the exchange rate to stabilize with the repatriation of export proceeds and a pickup in remittances. The authorities emphasized that the lending from the BIDF was only to finance hard-to-finance part of the Payera Port project, and at no point total lending from the BIDF will exceed US$ 2 billion. They reiterated their resolve to maintain adequate reserve coverage and follow necessary safeguards.

C. Addressing Financial Sector Vulnerabilities to Mobilize Productive Investment

29. The banking sector in Bangladesh was weak before the COVID-19 shock, and the crisis has increased existing vulnerabilities. Between FY10 and FY19 the NPL ratio increased steadily, despite high GDP growth, due to structural weaknesses including in governance and legal infrastructure, compounded by lenient regulation, weak supervision and weak credit culture among some large influential debtors. As of September 2021, the overall NPL ratio for the banking sector stood at 8.1 percent of outstanding assets— reaching 20.1 percent for state-owned commercial banks (SOCBs). Reported NPLs do not fully reflect the extent of problem assets. Stressed advances, which encompass NPLs, restructured, and rescheduled loans, stood at 20.5 percent of outstanding loans at end-December 2018, about double the NPL ratio at that time.[15,16] Also, the current NPL data do not capture the impact of policy relaxations introduced to counter the COVID-19 shock (Annex VII).[17] Though capital in the overall banking sector is above the regulatory requirement (10 percent of risk weighted assets), capital in SOCBs (6.3 percent in end September) is below the regulatory minimum, and their profitability is lower than private banks. Ensuring adequate capital buffers is especially important given uncertainty about the quality of assets in the banking system.

30. COVID-19 policies have helped in the near term, but an orderly exit is needed to reduce the buildup of financial sector vulnerabilities. Any further support should be targeted, accompanied by monitoring and reporting for a timely identification of problem loans, with explicit sunset clauses.

- **Monitoring closely the asset quality of banks.** In addition to collecting information about borrowers, sectors, and types of loans, implementing enhanced monitoring remains important. Identifying early signs of distress would help avoid large increases in NPLs after forbearance measures end.

- **Normalizing loan classification and provisioning rules.** It is important to recognize problem loans as soon as possible and provision for them accordingly.

- **Enhancing the capitalization of banks.** Undercapitalized banks should submit a feasible medium-term capital restoration plan**.** The authorities should limit dividend payouts until banks reach the regulatory minimum.

31. With increased vulnerabilities, financial sector risks pose a drag on medium-term growth prospects. Slow credit growth is symptomatic of high NPLs, low profitability, and distortions created by caps on the lending and borrowing rates. The urgency of implementing other existing policy recommendations has increased; these include:

- **Governance reforms:** Strengthening the corporate governance of banks, including by strengthening the role of independent directors.

- **Regulatory reforms:** Classification and provisioning requirements should be in line with Basel standards, including the treatment of rescheduled and non-performing loans.

- **Supervisory reforms:** BB should strictly enforce the current prudential framework. To this end, strengthening BB independence and autonomy is key. The provision of waivers and phase-in

[15] The NPL ratio at end-December 2018 was 10.3 percent.

[16] The Development Module Financial Sector Assessment Program (DM FSAP), conducted by the World Bank in April 2019, also suggests that reported NPL ratios do not accurately represent problem assets which include those with stay orders, special mention loans and loans that have been granted non-objection certificates by Bangladesh Bank.

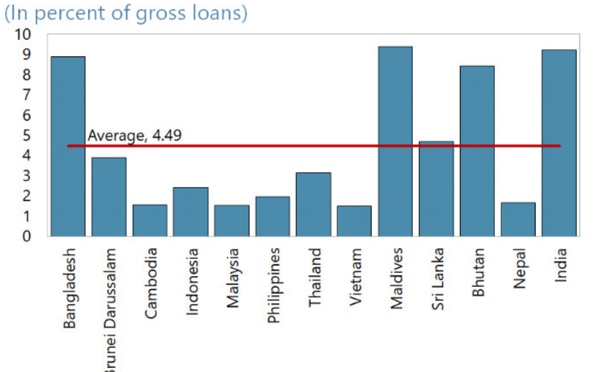
[17] Applications were accepted until Mid – February 2020.

periods for required provisions should be halted. BB is working toward risk-based supervision and is being supported by IMF TA (Annex VI).

- **Legal reforms:** Legal features that allow delayed loan repayment should be addressed, and legal measures should be instituted to support stronger enforcement of creditor rights and debtor incentives to repay.

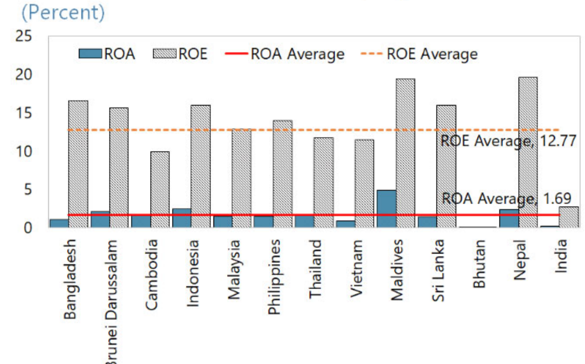
32. Improving the ability of banks to deal with NPLs, especially SOCBs where NPLs are most concentrated, remains a major policy challenge. Implementing reforms to stem the flow of NPLs is critical for the resolution of the stock of NPLs. These reforms are crucial to safeguard medium-term growth prospects. Conducting an asset quality review (AQR) of SOCBs, using definitions and provisioning in line with Basel standards, is an important first step to understand the extent of NPLs. Greater supervisory oversight, including developing internal NPL management skills and setting operational targets to reduce NPLs, can help initiate active NPL resolution in banks. Absent reforms to stem the flow of NPLs, establishing a public asset management corporation (AMC) poses significant fiscal risks. Moreover, it is not obvious that the AMC would have more expertise in resolution than the banks housing the NPLs. International experience suggests that the success of an AMC depends on good governance and sound design. The proposed Bangladesh Asset Management Corporation (BAMCO) draft law should address issues related to its mandate (no sunset clause, lack of details on how and when assets will be transferred, valuation of assets etc.), governance (potential for conflict of interest, expertise of the management), operational arrangements (lack of details on third party management), and transparency and accountability (no requirement for the regular publication of performance against targets).

Non-Performing Loans, 2019
(In percent of gross loans)



Source: IMF Statistics Department, Financial Soundness Indicators.

Return on Assets and Return on Equity, 2019
(Percent)



Source: IMF Statistics Department, Financial Soundness Indicators.

33. The authorities have made amendments to several laws and acts to strengthen the banking sector and should continue to align them with best international practices. Acts include the Bank Company Act (BCA) 2021 (amendment), Financial Institutions Act 1993 (now the Finance Company Act (FCA) 2021), Money Loan Court Act 2020 (amendment), Negotiable Instrument Act 2020, and the Bankruptcy Act 2020 (amendment). The broad objectives of the amendments are to define willful defaulters, make mergers between banks easier, improve the legal process to expedite loan recovery, improve the autonomy of BB, and put in place an orderly bank resolution system. While the amendments take steps to move toward best practices, further improvements are needed including strengthening the power of BB as the supervisor of SOCBs. The BCA and FCA were approved by the cabinet in May 2021.

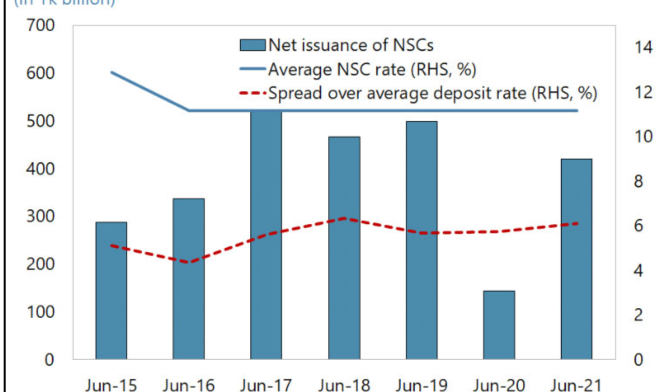
Authorities' Views

34. The authorities emphasized the important role SOCBs play, which was especially highlighted during the COVID-19 shock. The authorities underscored that if the COVID-19 situation remains "as is", no further forbearance measures will be introduced. They reiterated that steps are being taken to reduce financial sector vulnerabilities post pandemic. Banks were required to maintain 1 percent extra provisions for loans that benefitted from the loan moratorium in 2020, extended until end-2021, and an extra 2 percent general provision for loans that benefitted from the ease of repayment measures in 2021. BB has instructed banks to collect data on loans benefitting from the moratorium, which they will examine, and they will also conduct on-site inspections. BB pointed out that of the loans that benefitted from the moratorium, 14 percent of what was due was repaid. To improve the performance of SOCBs, BB has signed MoUs with five of the six SOCBs. Like previous years, the authorities don't plan to recapitalize the SOCBs. They noted that newly introduced online services and automation are likely to enhance profitability of banks. They emphasized that the amendments to the various Acts under consideration will effectively address any weaknesses in governance, supervision, and regulation.

D. Developing Capital Markets to Support Higher Investment and Growth

35. To develop capital markets, which can provide long-term finance, efforts to reform the NSC system should continue. On tap sale of NSCs, offering risk-free fixed interest rates above market rates, has hampered the development of local capital markets and prevented the implementation of a debt management strategy. Reforms in FY20 to enforce the cap on NSC issuance and increase the tax on interest income led to a decline in issuance by around 70 percent y/y. However, issuance in FY21 rebounded driven by the exceptional remittance inflows and the increase in the spread between the deposit rate and the NSC rate. Changes in the tiered interest rates on NSCs, introduced in September 2021, are a welcome move. However, the authorities should reform the mechanism of determining the interest rate to ensure better alignment with market-determined interest rates.

Net Issuance of NSCs
(In Tk billion)



Source: Bangladesh Bank.

Text Table. Bangladesh: NSC Interest Rates

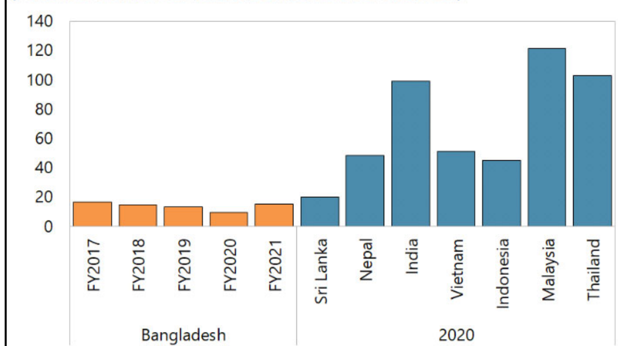
(in percent)	5 - year	3- month	Family	Pensioners'
Old Rate	11.28	11.04	11.52	11.76
Less than or equal to Tk 1.5 million	11.28	11.04	11.52	11.76
More than Tk 1.5 and up to or equal Tk 3 million	10.30	10.00	10.50	10.75
More than Tk 3 million	9.30	9.00	9.50	9.75

Source: Ministry of Finance

36. The Dhaka Stock Exchange reached a historic high in 2021. Total market capitalization is still relatively low at Tk 5.5 trillion or 18 percent of FY21 GDP. Turnover has been volatile but generally increasing since May 2020. In October 2021, the Dhaka Stock Exchange supported the trade of government bonds on the secondary market, allowing retail investors to purchase the assets. This development will contribute to the development of the government security market and other asset classes. Continued progress on implementing regulatory reforms to minimize risks, enhancing the transparency of stock market trading and information, and improving the capacity of the Bangladesh Securities and Exchange Commission (BSEC) remain important for capital market development.

Market Capitalization

(Percent of Nominal GDP, data as of last month of Fiscal Year)



Source: CEIC Data Company Ltd.

Note: Data for Bangladesh are for FY ending June, and for Nepal FY ending July.

Authorities' Views

37. The authorities are working on developing capital markets. The authorities noted that tiered NSC rate cuts and continued automation of the NSC management system will reduce NSC issuances. The staffing of BSEC has been increased to enforce the implementation of governance guidelines. BSEC noted that the availability of an online account will broaden access to investing in the stock market. Trading in the government securities market is being automated to increase the number of securities available for secondary trading. They also shared that they were exploring the development of markets for municipal bonds and Environmental, Social, and Governance (ESG) financial instruments. More recently, a green sukuk bond was floated which was oversubscribed indicating a strong demand for investment opportunities. TA by donors is ongoing to enhance the regulatory environment.

MACRO-STRUCTURAL

Structural policies should focus on finding new drivers of growth, attracting private investment, and enhancing productivity to lift growth potential. Building climate resilience remains critical for the *sustainability of growth. This will require improving the investment climate and investing in skill building. These reforms are necessary to prepare for LDC graduation and support the authorities' goals to achieve middle-income status.*

A. Strengthening Governance to Boost Investment

38. Bangladesh stands to gain from strengthening economic governance and improving frameworks to limit vulnerability to corruption. While close to the average for LIDCs on control of corruption indicators, Bangladesh trails South Asian peers and emerging market peers (Figure 7). Enhancing fiscal governance (¶20) and improving the efficiency of the financial sector (¶31) remain crucial for achieving medium-term goals. Further progress in digitalizing the public sector would help promote transparency and reduce corruption. Improving the skills and staffing of the Anti-Corruption Commission (ACC) to investigate cases will enhance governance and anti-corruption efforts. It is also important to strengthen the asset declaration process for public officials, including by publishing declarations for key officials, imposing sanctions for non-compliance, better verifying information, and using a standard method to utilize and update the declarations. Improved court capacity will be necessary to reduce case backlogs and long wait, including to make improvements in property rights and investor protection.

39. The authorities have made progress on commitments made in the Letter of Intent (LOI) of the RCF/RFI. The Office of the Comptroller and Auditor General (CAG) completed three audits related to COVID-19 spending, including auditing accounts related to emergency response and pandemic preparedness, and spending related to doctors and healthcare workers treating COVID-19. These audit reports will be published online once they have been submitted to and accepted by Parliament. Procurement contract information on the procuring entity, method of procurement, advertisement date, awarded entity, and contact value are documented and published on the Central Procurement Technical Unit website.[18] While information on beneficial ownership of awarded entities, has not been published online, given the current legal framework, this information has been made available to the audit agency, as committed in the LOI.

40. Implementing the recommendations of the 2022 safeguards assessment remains important. The governance and legal structure of BB needs to be updated to strengthen autonomy and thus better safeguard resources. Capacity constraints in the internal audit and accounting functions, identified in the 2011 assessment, remain unresolved. Continued capacity challenges are adversely impacting internal control, including risk management, internal audit, and the quality of financial reporting. It is important to improve the quality of financial statements and external audits. The time-bound exit strategy from non-core central bank activities (quasi-fiscal operations), including financing infrastructure development projects, exporters and other priority sector companies by extending foreign currency lending to and placing foreign currency deposits with local banks is critical to safeguard foreign reserves and reduce BB's credit and reputational risks.

[18] https://cptu.gov.bd/contract-award/contract-award-list.html

41. Progress has been made in strengthening the AML/CFT framework, but overall effectiveness is still lacking. In November 2019 the authorities published the National Strategy for Preventing Money Laundering and Combating Financial Terrorism. In order to empower reporting agencies to collect information on beneficial ownership and impose sanctions for violations, amendments to the Company Act have been put forward. Considerable work has been done in the offsite supervision tool, and future IMF TA missions will focus on completing the tool and the onsite supervision manual (Annex VI).

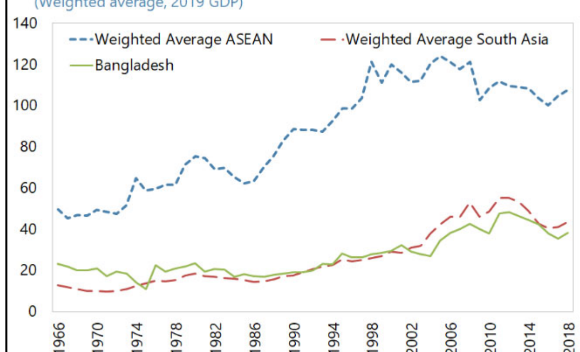
Authorities' Views

42. The authorities agreed that strengthening governance, as highlighted by staff, is vital. The authorities have begun the process to ensure that information compiled on foreign exchange reserves is in accordance with the BPM6 guidelines. They highlighted that some progress has been made in strengthening the AML/CFT framework. They do not have any non-compliance ratings under the FATF. Guidelines for risk-based supervision have been issued, and amendments to the Company Act have been put forward to empower agencies to collect information on beneficial ownership and impose sanctions when transgressions are found. The third National ML/TF Risk and Vulnerability Assessment is ongoing. Efforts to strengthen the ACC continues. Resource allocations have been increased to enable it to function at a level commensurate with its mandate. The ACC has also committed to improve transparency by disseminating information in the public domain. It is expected to be more accountable through public hearings by the parliamentary committee. Along with enacting the Whistle Blower Act, the authorities plan to establish anti-corruption cells in various departments.

B. Boosting Exports and Productivity to Generate Good-Paying Jobs

43. Diversifying exports and maintaining competitiveness in a post-pandemic world is important for growth acceleration. RMG-led export growth has been a key driver of growth and job creation in Bangladesh. However, trade openness is low, and Bangladesh remains one of the least diversified LICs, both in terms of products and destination. The 8th FYP aims to diversify the production and exports of the non-RMG sector. Reducing relatively high nontariff barriers (NTBs) and domestic protection, improving trade-related infrastructure—especially energy and transportation, addressing regulatory barriers, and ensuring financing will be necessary to increase export competitiveness and expand trade.

Trade as Share of GDP
(Weighted average, 2019 GDP)



Source: World Development Indicators and IMF staff calculations.

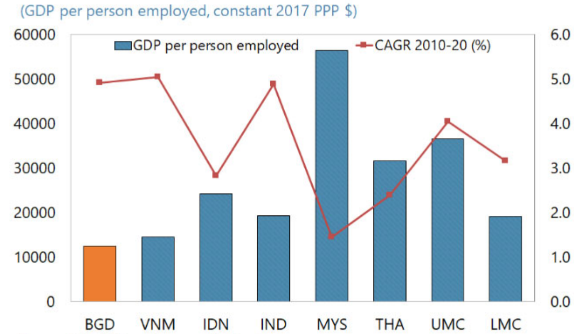
44. Attracting FDI is critical to meeting the authorities' aspirations. FDI inflows, averaging less than 1 percent of GDP over the past two decades, remains low compared to other LICs.

Increasing FDI inflows is crucial to take advantage of GVCs, raising productivity, acquiring new knowledge and technology, and meeting large infrastructure needs in a constrained financing environment with underdeveloped capital markets. To facilitate FDI, the government is accelerating the setting up of Special Economic Zones (SEZs) and has started the One Stop Service virtual platform. However, attaining the ambitious target set in the 8th FYP will require improving the investment climate, including continued liberalization of FX regulations as conditions allow, a review of the regulatory framework to be more supportive of trade and outward FDI, and further legal reforms, such as land registration and contract enforcement.

45. Reducing labor skill-mismatches, increasing human capital, and access to technology would boost labor productivity and total factor productivity (TFP). Labor productivity is relatively low in Bangladesh. A sizable fraction of Bangladesh's labor force is low skilled, and skill mismatch is a big hurdle for transiting to the formal sector. According to the ILO, in 2018, 26 percent of youth were not employed, being educated, or being trained. This is especially pronounced for females, 44 percent compared to 9 percent for males.[19] Improving human capital and technology is crucial to boost productivity. Bolstering spending on health and education; improving educational outcomes, with emphasis on learning and acquiring workplace-relevant skills ; and addressing the gaps in educational and vocational training would help with skill building. Upskilling of female workers is vital to improve productivity as well as gender equity. Also, targeted skill building for economic diversification is needed to offset the negative impact of automation and digitalization.[20] Technological progress through FDI, digitalization, and investment in climate resilience are all likely to boost TFP. Boosting productivity is key to increasing growth potential.

Labor Productivity is Relatively Low

(GDP per person employed, constant 2017 PPP $)



Source: World Development Indicators.

Note: CAGR refers to compound annual growth rate, UMC to upper middle income, and LMC to lower middle income.

Authorities' Views

46. The authorities are working on attracting FDI and boosting competitiveness. They noted that the one-stop service platform, investments in supporting infrastructure, and continued efforts to improve skills will create a conducive investment climate and boost competitiveness. The authorities are reaching out to investors to increase the awareness about the ongoing efforts to improve the business climate. 100 economic zones by 2030 have been planned. They are also stepping up investments in several megaprojects, high tech parks, and SEZs, as well as modernizing agriculture and encouraging agro-processing to diversify exports. To address the challenges of LDC graduation, high-powered committees to handle various aspects of graduation have been formed.

---

[19] Please see "Export Diversification in Bangladesh", Selected Issues, 2019. https://www.imf.org/en/Publications/CR/Issues/2019/09/17/Bangladesh-Selected-Issues-48683

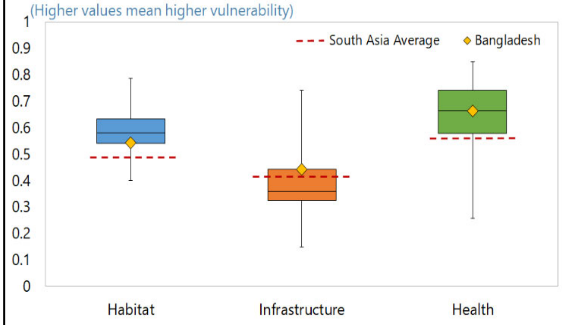
[20] See *Bangladesh: Selected Issues* paper "Preparing for Automation: The Case of Bangladesh."

In addition, the authorities are considering Bilateral Free Trade and Preferential Trade Agreements and are taking measures to reduce tariff and non-tariff barriers.

C. Tackling Climate Challenge to Build Resilience and Competitiveness

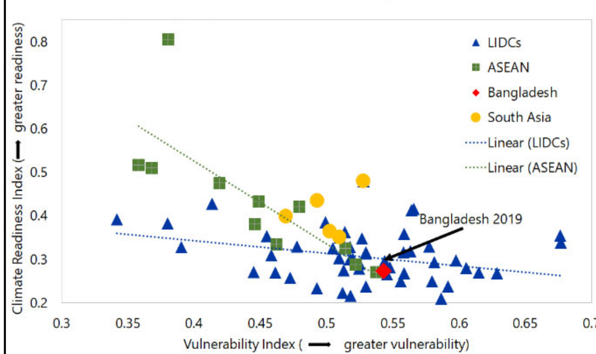
47. Building resilience to climate change and natural disasters is a key priority for sustainable growth. Bangladesh, the 27th most vulnerable country and the 26th least ready country per the Notre Dame's Global Adaptation Initiative Index, has growing needs to mobilize private finance to meet adaptation expenses. The authorities have started allocating budgetary support for adaptation and have updated the Nationally Determined Contributions (NDC). However, climate relevant budgetary allocation has been less than 1 percent of GDP (both for mitigation and adaption) per year, well below the needed 3-4 percent of GDP per year.[21] The authorities' advocacy for adaptation and incentives for green financing has not yet been able to mobilize sufficient green financing.

Climate vulnerability Index in LIDCs by Sector, 2019
(Higher values mean higher vulnerability)



Source: Notre Dame Global Adaptation Initiative and IMF staff estimates.
Note: Box Plot displays the quartiles of the indices for LIDCs, where data is available, middle line being the median.

Climate Readiness and Vulnerability Indices, 2019



Source: Notre Dame Global Adaptation Initiative.
Note: Kiribati and South Sudan are not depicted.
The green and blue lines show the best linear fit for ASEAN and LIDCs groups respectively.

48. A range of policy actions, as envisaged in the 8th FYP, are needed to tackle climate change challenges and attract green financing. Reducing energy subsidies and increasing taxation of greenhouse gas emissions, as planned under the 8th FYP, will help meet NDC targets. Early implementation of carbon taxation or a carbon charge slated for FY25 in the 8th FYP may leverage private finance by signaling environmental commitments laid out in the NDC. This together with broader tax reforms could be a strong commitment signal and help mobilize green finance, as well as preserve competitiveness when border adjustment taxes are imposed by the EU.[22] Financial sector reforms (¶31 and ¶32), capital market reforms (¶35), and governance reforms (¶38-¶40) will help catalyze private capital and FDI for climate action and for meeting broader SDG goals.

[21] As per the estimates of the Bangladesh authorities the cost is estimated at about US$27 billion (FY11-30), which translates to about US$1.4 billion per year for mitigation. Costs for the effective implementation of Nationally Determined Contribution (NDC) for adaptation (over FY15-30) have been estimated at about US$ 42 billion, which translates to about US$ 2.8 billion annually.

[22] See 2021 *Bangladesh: Selected Issues* paper "Addressing Climate Change in Bangladesh – A Smart Carbon Pricing Strategy: A Carbon User Fee to Mobilize Climate Finance."

Authorities' Views

49. The authorities highlighted their commitment to meeting the climate challenge. They underscored that Bangladesh has been on the forefront of climate action, including operationalizing the Climate Fiscal Framework and establishing the Climate Change Trust Fund. They highlighted their continued efforts, including via several central bank initiatives, to promote solar and other renewal energy sources to reduce emissions. BB also circulated the Sustainable Finance Policy for Banks and Financial Institutions in December 2020 and incorporated lists of 68 Green Products/Projects/Initiatives. They added that ten coal-fired power plants projects have been cancelled. The authorities emphasized that Bangladesh has largely been a recipient of climate change and concessional climate financing is needed to meet their mitigation and adaptation challenges. The authorities are also strengthening the regulations for tapping ESG finance, including BB's issuance of Environmental and Social Risk Management Guidelines for mainstreaming ESG in overall credit rating methodology. While they broadly agree that a carbon charge could signal their commitment towards meeting their NDC targets, they reiterated that carbon pricing should be also adopted by other economies. They noted the political economy constraints linked to plausible increase in production costs and energy prices, and that implementing a progressive carbon charge was impeded by several factors, such as the lack of competent energy auditors.

POST FINANCING ASSESSMENT[23]

50. Bangladesh's capacity to repay the Fund is sound. IMF credit outstanding was 83.4 percent of quota (0.4 percent of GDP) at end-FY21 and is projected to decline to 71.4 percent of quota at end-FY22 (0.3 percent of GDP). Bangladesh's capacity to repay the IMF has slightly improved since the 2020 RCF/RFI disbursement, as the negative fallout of the pandemic on exports, remittance inflows, and ultimately GDP was less severe than anticipated at that time. These better-than-expected developments are also leading to a faster rebound of fiscal revenue, and the IMF debt service as a share to GDP, revenue, exports, and reserves is expected to be moderately lower over the medium term compared to the 2020 RCF/RFI disbursement projections. Overall, external and public debt are assessed at low risk of debt distress (DSA).

51. However, the repayment capacity is subject to downside risks (Annex VIII). The largest risk relates to a global resurgence of the COVID-19 pandemic lowering global growth, increasing commodity prices, and severely impacting Bangladesh's exports, remittances inflows, and CA balances. The impact would be aggravated if local COVID-19 outbreaks require costly containment measures that severely disrupt domestic economic activity.

52. In the adverse scenario, Bangladesh's capacity to repay the Fund would deteriorate mildly but would remain sound (Annex VIII). Containing the pandemic and reprioritizing spending would be crucial, should such downside risks materialize. Supporting the health system

[23] This section reports on discussions under the Post Financing Assessment (PFA) policy. For a description of the PFA policy, see Policy Paper No. 2021/026 (https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/05/19/Post-Program-Monitoring-During-The-Pandemic-460350).

and re-enacting containment measures, while ensuring that export and import channels operate safely, as witnessed during the 2021 nation-wide lockdown, will be important. Managing these risks amid large uncertainty will require continued support for the economy, close monitoring of the financial sector, and gradually rebuilding buffers for policy maneuver as the recovery gets entrenched. Under such an adverse scenario, public finances would be impaired by lower revenue, higher health, social and energy subsidy spending, and contingent liabilities materializing from explicit and implicit state guarantees provided to SOEs.

Text Table. Bangladesh: Indicators of Capacity to Repay the Fund, FY2021-26

Outstanding obligations to the Fund	Scenario	FY21	FY22	FY23	FY24	FY25	FY26
In percent of GDP	2021 AIV	0.36	0.27	0.21	0.12	0.05	0.04
	2020 RCF/RFI	0.37	0.28	0.22	0.13	0.06	0.04
	Adverse	0.36	0.28	0.22	0.13	0.06	0.04
In percent of government revenue	2021 AIV	3.3	2.5	1.9	1.1	0.5	0.3
	2020 RCF/RFI	4.2	2.9	2.3	1.3	0.6	0.4
	Adverse	3.3	2.6	2.0	1.2	0.5	0.3
In percent of exports of goods and services	2021 AIV	2.9	2.1	1.7	1.1	0.5	0.3
	2020 RCF/RFI	3.2	2.3	1.9	1.1	0.5	0.3
	Adverse	2.9	2.2	1.8	1.1	0.5	0.3
In percent of gross international reserves	2021 AIV	2.7	2.2	2.0	1.4	0.7	0.5
	2020 RCF/RFI	4.7	3.9	3.4	2.1	1.0	0.7
	Adverse	2.7	2.4	2.5	1.6	0.8	0.6

Authorities' Views

53. The authorities concur with staff's assessment that the capacity to repay the Fund remains sound. Both fiscal and monetary authorities remain committed to jointly support the recovery and mitigate adverse shocks while safeguarding fiscal sustainability, should downside risks materialize.

STAFF APPRAISAL

54. The authorities reacted swiftly and decisively to address the economic fallout of the pandemic. Various stimulus packages helped keep growth positive and aided a pickup thereafter. Entering the shock with macroeconomic stability was an important support to the authorities' efforts.

55. Uncertainties remain high and risks are tilted to the downside. Key external risks include slower than expected recovery in trading partners, an increase in food and oil prices, and risks from cyber-attacks. Domestic risks include a COVID-19 surge, a lower-than-expected vaccination rate, and elevated NPLs. The authorities should stand ready to ramp up health and social spending if downside risks related to COVID-19 materialize.

56. Fiscal discipline has kept Bangladesh at a low risk of debt distress, but higher revenues are necessary to achieve developmental and social targets in a fiscally sustainable way. A multipronged revenue strategy to rationalize tax expenditure and modernize revenue administration, and fiscal policy framework reforms to strengthen investment management and fiscal risks assessment are needed to scale up social, developmental, and climate-related spending.

57. BB should monitor inflation developments closely and stand ready to normalize. Phasing out interest rate caps will strengthen market-based pricing, credit allocation, and monetary transmission. Efforts to modernize monetary policy should continue.

58. The external position is broadly in line with the level implied by fundamentals and desirable policies in FY21. Greater exchange rate flexibility, together with safeguarding FX reserves, will help buffer external shocks. Developing a well-defined public investment plan and financing strategy would help avoid the ad-hoc use of foreign exchange reserves, which raises governance and sustainability concerns.

59. The COVID-19 shock increased vulnerabilities in the already weak banking sector. A healthy banking sector will be critical to ensuring sustainable and high growth over the medium term. Priorities include an orderly exit from COVID-19 policies and strengthening corporate governance in banks, improving regulation and supervision, and legal reforms to enforce creditor rights.

60. Developing a well-functioning capital market can provide long-term financing and reduce dependence on bank financing. Reforms to the NSC system are welcome and should be continued to ensure prices are better aligned with market-determined interest rates. Progress on regulatory reforms and improving the capacity of BSEC remain important.

61. Strengthening governance and improving frameworks to limit vulnerability to corruption will help attract investment. Efforts to digitize the public sector will help promote transparency and reduce corruption. Improving court capacity to reduce case backlogs would also improve property rights and investor protection.

62. Attracting FDI, diversifying exports, and maintaining competitiveness are important for boosting growth potential. Improving the investment climate, reducing tariff and non-tariff barriers, improving trade-related infrastructure, and building industry-relevant skills would help in this regard.

63. Building resilience to climate change and natural disasters and attracting green financing remain important. The budget allocation to support adaptation to meet SDG goals can be bolstered. Additionally, reducing energy subsidies, and introducing greenhouse gas or carbon charge incrementally, can help meet the recently submitted updated NDC targets.

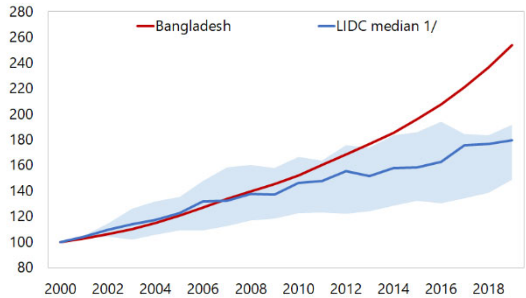
64. Bangladesh's capacity to repay the Fund is sound. Bangladesh's capacity to repay the Fund would remain sound both in the baseline and under an adverse scenario.

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

Figure 1. Bangladesh: Significant Progress Since Independence

GDP per capita has increased rapidly…

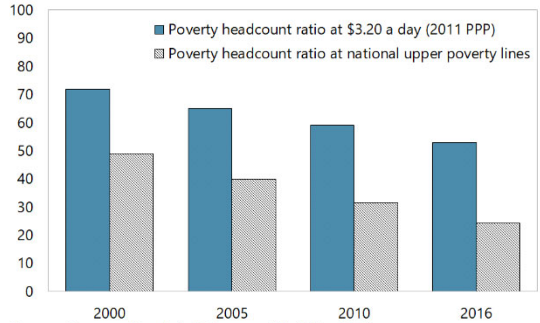
Real GDP per Capita
(1995=100)



Source: World Economic Outlook.
1/ The shaded area represents the three center quintiles for LIDC countries.

…reducing poverty significantly.

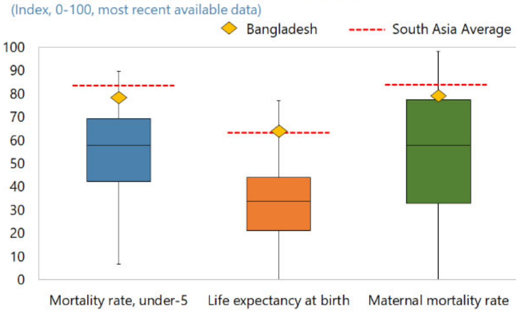
Poverty Headcount Ratios
(Percent of population)



Sources: Sources: Bangladesh Bureau of Statistics (BBS); and World Development Indicators (WDI).

Significant progress has been made in achieving SDG goals on health…

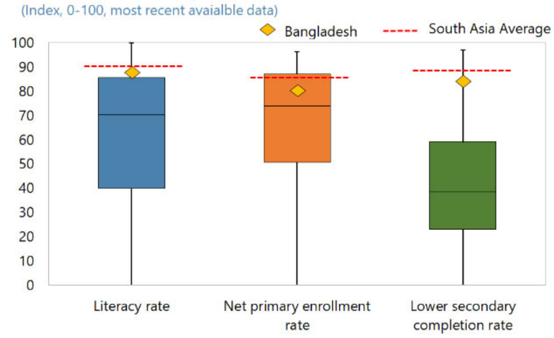
Sustainable Development Goals on Health
(Index, 0-100, most recent available data)



Source: United Nations Development Report, 2020, and IMF Staff Calculations.
Note: Scores range from 0 (worst) to 100 (best performer) following Sachst et al (2020) and are based on the most recently available data for every country. The Box plot displays the quartiles of the index (the middle line being the median) for LIDCs.

…and education.

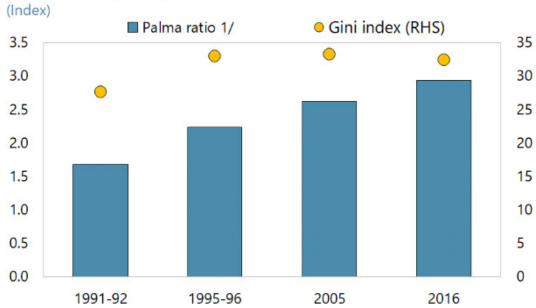
Sustainable Development Goals on Education
(Index, 0-100, most recent avaialble data)



Source: United Nations Development Report, 2020, and IMF Staff Calculations.
Note: Scores range from 0 (worst) to 100 (best performer) following Sachst et al (2020) and are based on the most recently available data for every country. The Box plot displays the quartiles of the index (the middle line being the median) for LIDCs.

Inequality, measured by the Palma ratio, has risen.

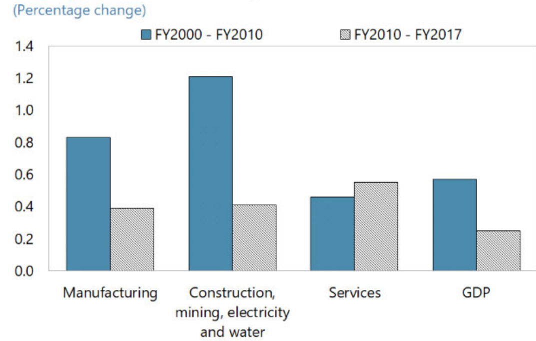
Income Inequality
(Index)



Sources: Bangladesh 8th 5 year plan; and World Development Indicators.
1/ The ratio between the income shares of the bottom 40 percent and the top 10 percent of the population.

Employment elasticity has declined, suggesting less job-creating growth.

Employment Elasticities by Sector
(Percentage change)

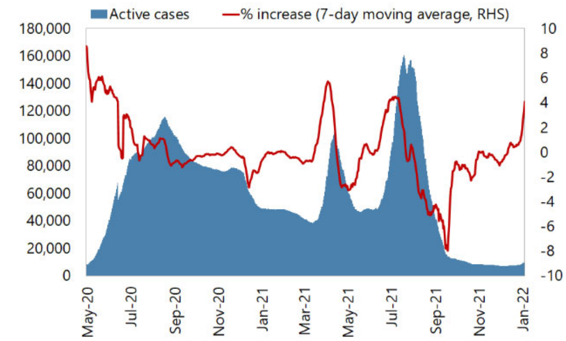


Sources: BBS national accounts and labour force surveys.

Figure 2. Bangladesh: COVID-19 Crisis Disrupted the Growth Momentum

The economy was hit by multiple waves of pandemic…

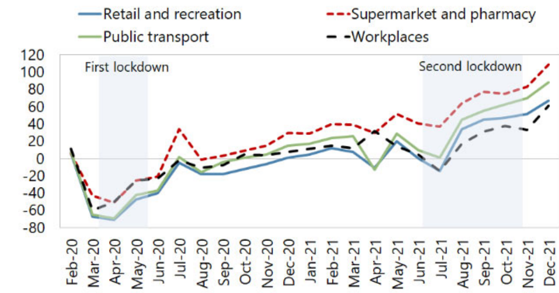
COVID-19 in Bangladesh



Source: Directorate General of Health Services.

…leading to lockdowns and sharp decline of mobility.

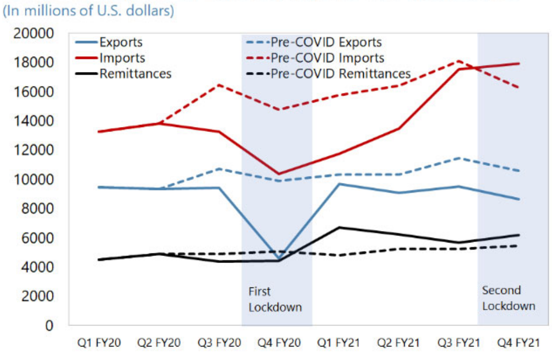
Community Mobility Changes
(Percent change from baseline at month end, Feb 2020-Dec 2021)



Source: Google's COVID-19 Community Mobility Reports.
Note: The baseline is the median value, for the coresponding day of the week, during the five-week period 3 Jan-6 Feb 2020.

At the onset, external demand collapsed, but recovered in FY21…

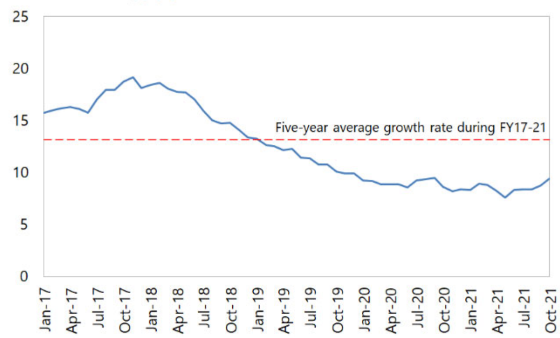
COVID-19 Impact on Exports, Imports and Remittances
(In millions of U.S. dollars)



Sources: Bangladesh Bank and IMF staff estimates.

…but private credit growth has remained low.

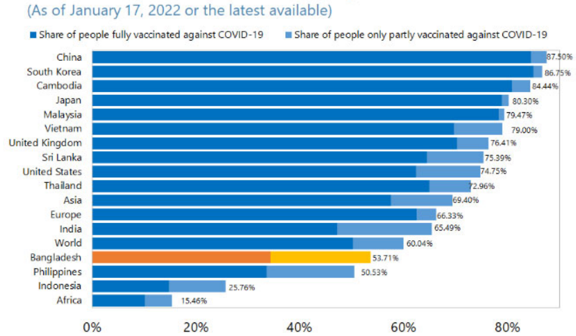
Private Credit Growth
(Percent, monthly y/y growth rate)



Source: Haver Analytics.

The vaccination rate is catching up after initial global supply shortages.

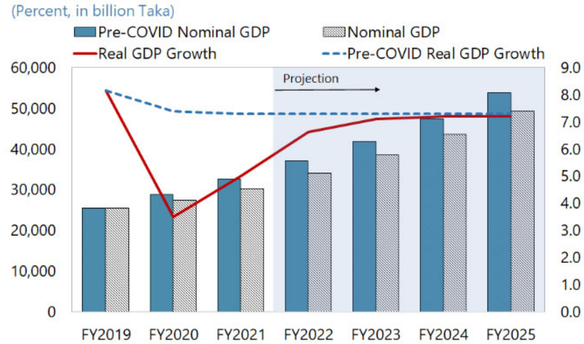
Share of Population Vaccinated Against COVID-19
(As of January 17, 2022 or the latest available)



Source: Our World in Data.
Note: People who received all doses prescribed by the initial vaccination protocol are considered fully vaccinated.

Growth is projected to have declined compared to pre-crisis projections.

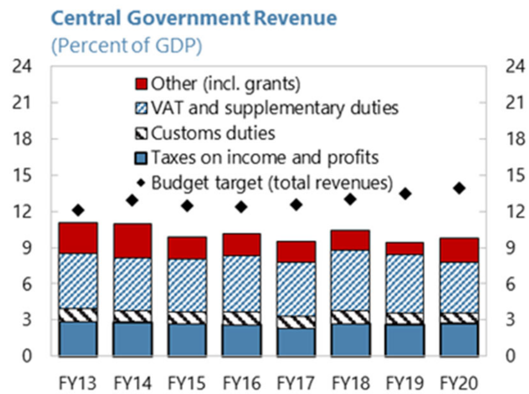
Change in Real GDP Growth Path and Nominal GDP Levels
(Percent, in billion Taka)



Sources: Bangladesh Bureau of Statistics; World Economic Outlook; and IMF staff estimates.

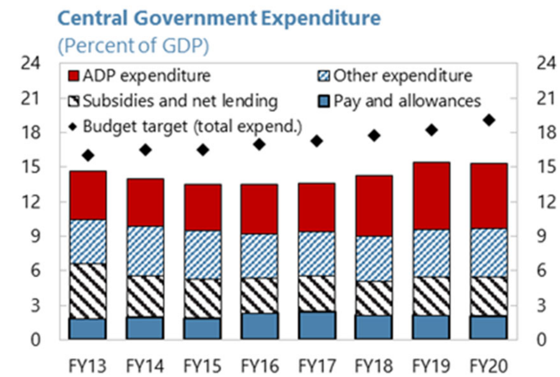
Figure 3. Bangladesh: Fiscal Priorities to Support Development Aspirations

Revenue remained below targets…



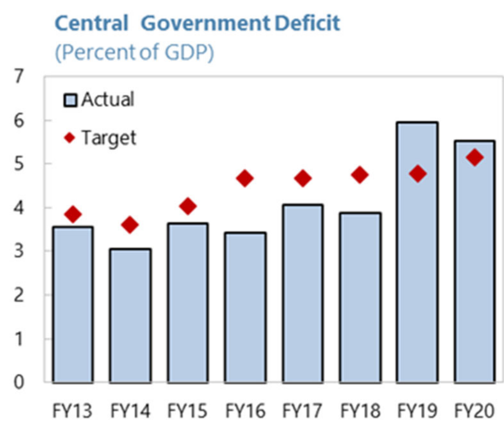
Source: Ministry of Finance.

…but reprioritization of spending…



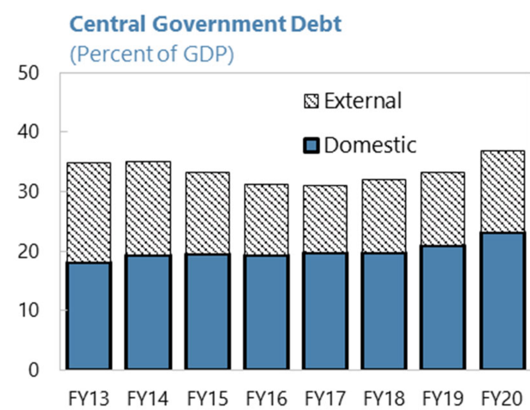
Source: Ministry of Finance.

…helped keep the deficit under control…



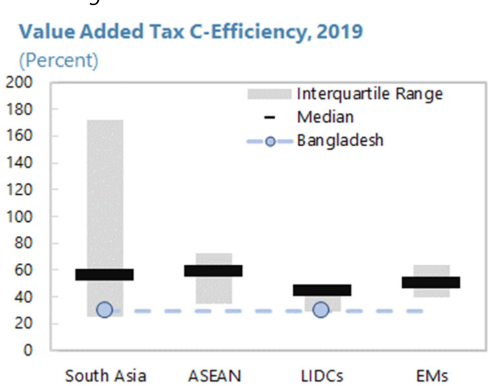
Source: Ministry of Finance.

…and debt manageable.



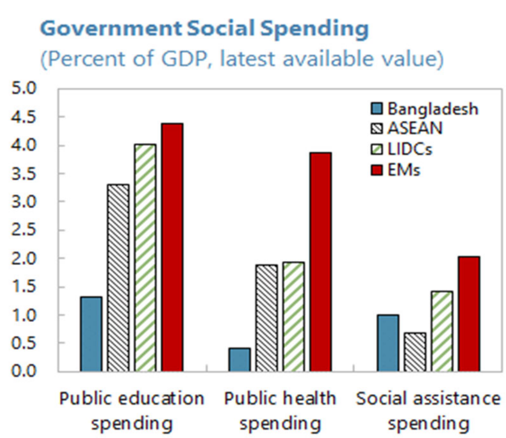
Source: Ministry of Finance.

Modernizing tax administration will raise revenue…



Sources: IMF FAD Tax Rates Database, World Economic Outlook; IMF staff calculation.
Notes: VAT Productivity = VAT Revenue in percent of GDP/(VAT rate × Consumption Expenditure in percent of GDP)

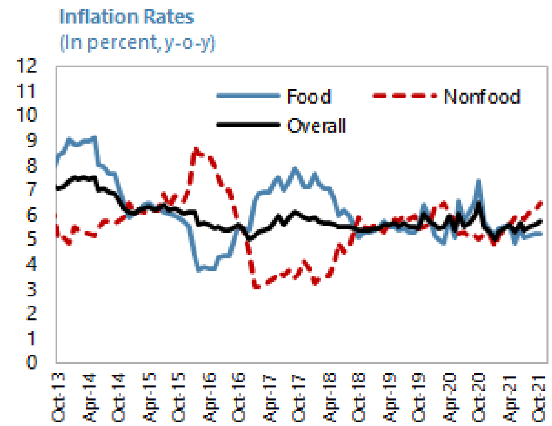
…to accommodate higher social spending.



Source: IMF FAD Expenditure Assessment Tool (EAT), World Economic Outlook.

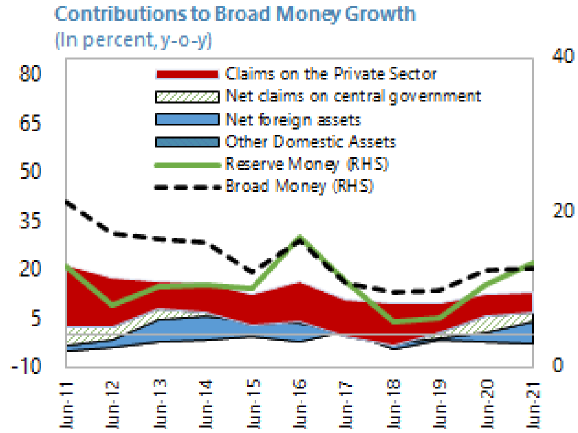
Figure 4. Bangladesh: Monetary and Financial Market Supported the Recovery

Inflation remained close to the authorities' target despite monetary easing…



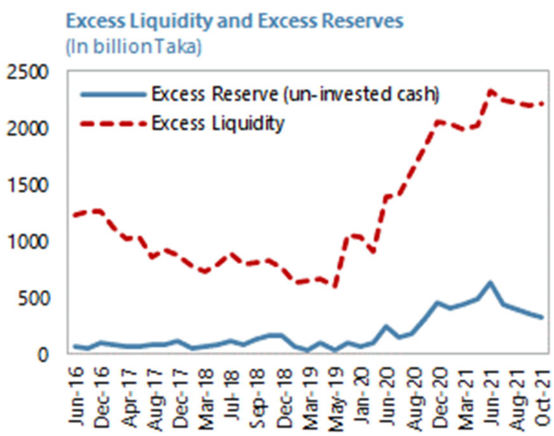
Source: Bangladesh Bureau of Statistics and IMF staff estimates.

…and broad money growth was in line with their program.



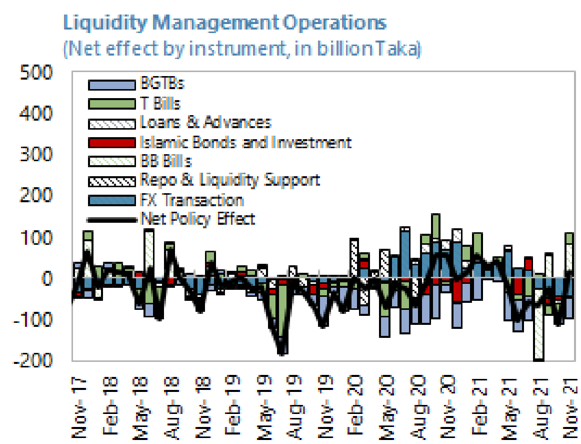
Source: Bangladesh Bank

The system remains flush with liquidity ….



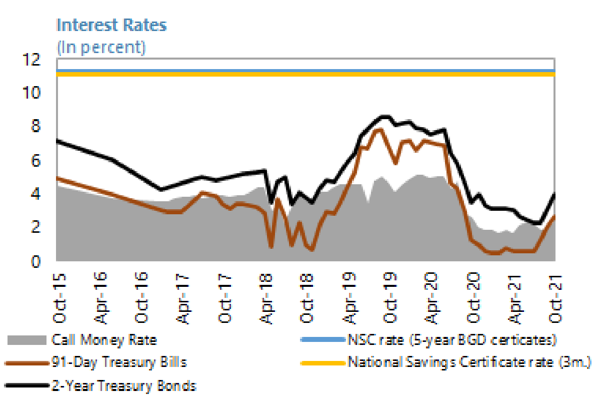
Source: Bangaldesh Bank and IMF staff calculations

…and with BB started mopping up liquidity recently.



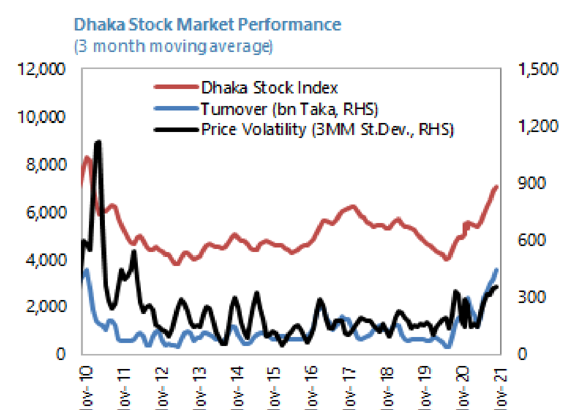
Sources: Bangladesh Bank and IMF Staff calculations

High liquidity has driven interest rates to historically low levels.



Source: Bangladesh Bank

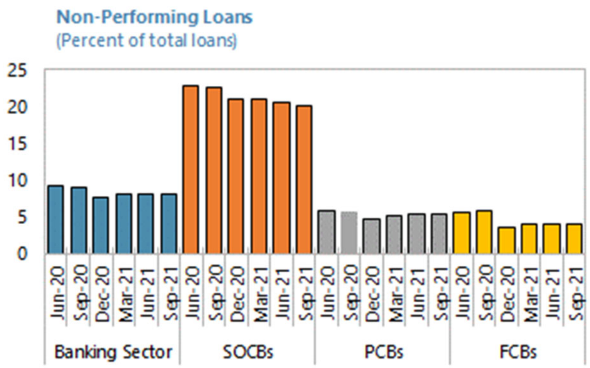
Stocks are at historic highs.



Source: Bloomberg

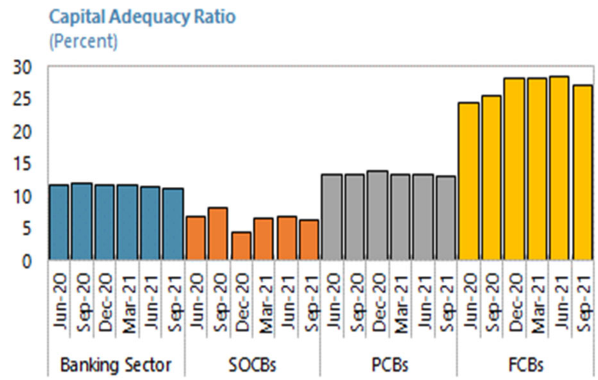
Figure 5. Bangladesh: Banking Sector Challenges Persist

Non-performing loans remain elevated, especially in SOCBs....



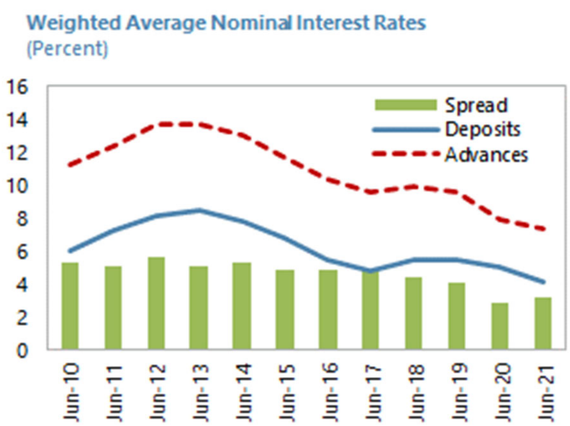
Source: Bangladesh Bank.

....SOCBs are also below the required capital adequacy ratio.



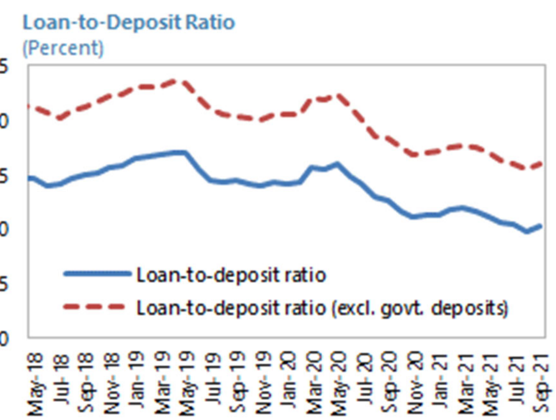
Source: Bangladesh Bank.

The cap on lending rates and later excess liquidity led to a squeeze in the lending margin for banks....



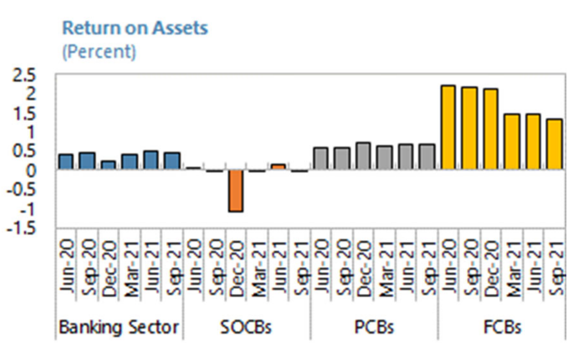
Source: Bangladesh Bank.

...deposit growth remains strong, though credit to the private sector is tepid.



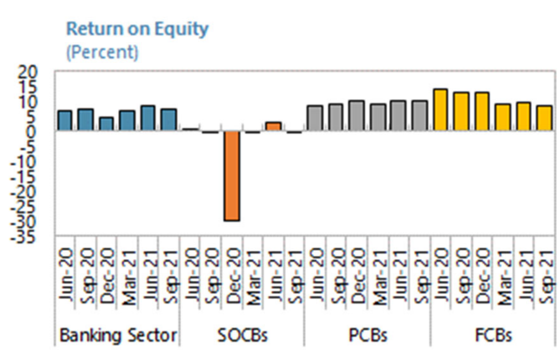
Sources: Bangladesh Bank

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



Source: Bangladesh Bank.

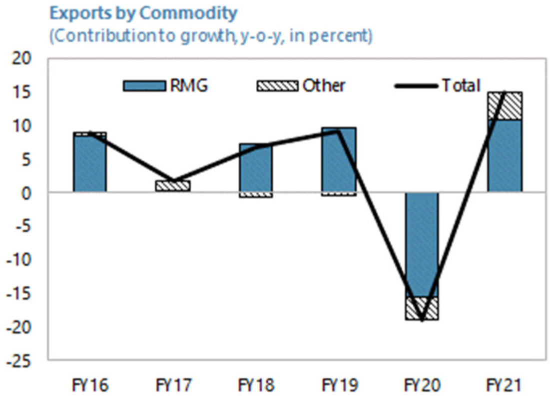
...and profitability is especially low in SOCBs.



Source: Bangladesh Bank.

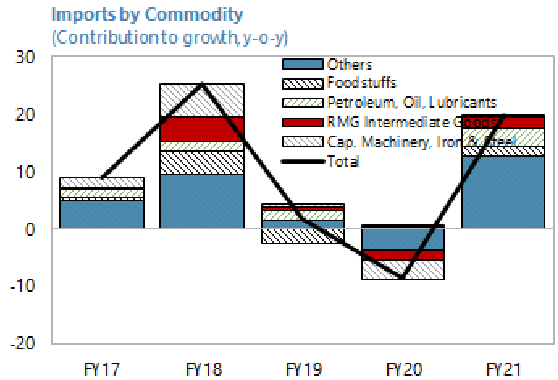
Figure 6. Bangladesh: External Sector Remains Resilient

Export growth rebounded in FY21 after a contraction in FY20....



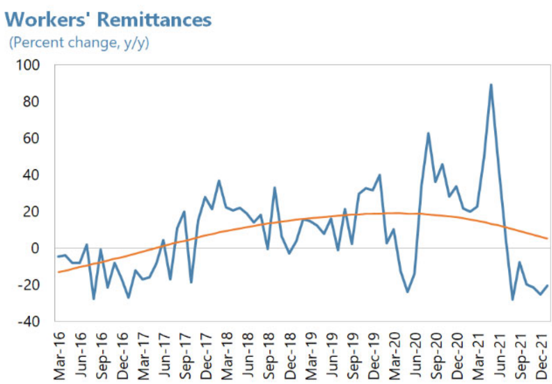
Sources: Bangladesh Bank; and IMF staff estimates.

... and imports are supporting the rebound.



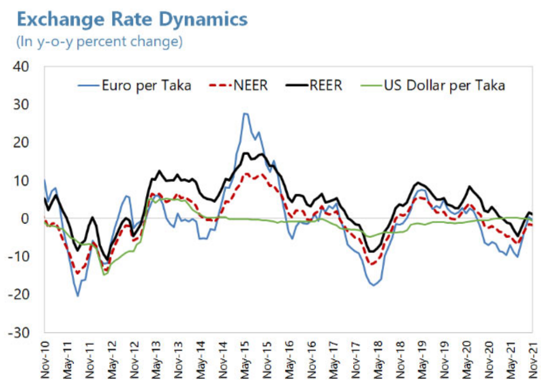
Sources: Bangladesh Bank; and IMF staff Estimates.

Worker remittances exhibited remarkable growth and have started tapering to more normal levels...



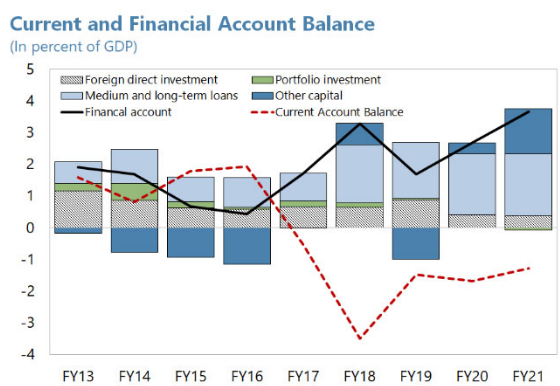
Sources: Haver Analytics; and IMF staff estimates.

....the REER has started to depreciate after appreciating.



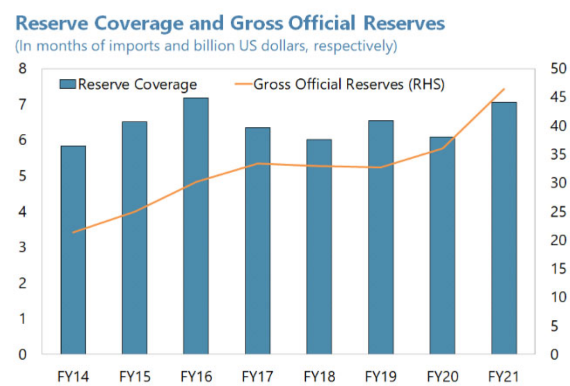
Sources: INS; and FRED.

A narrowing CA deficit and financial account surplus...



Sources: Country authorities and IMF staff estimates.

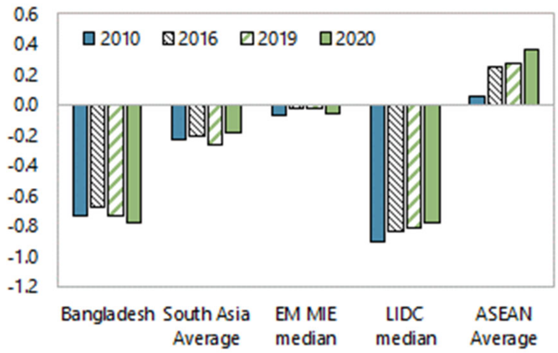
....has led to increased external resilience.



Sources: Data from authorities and IMF staff estimates.

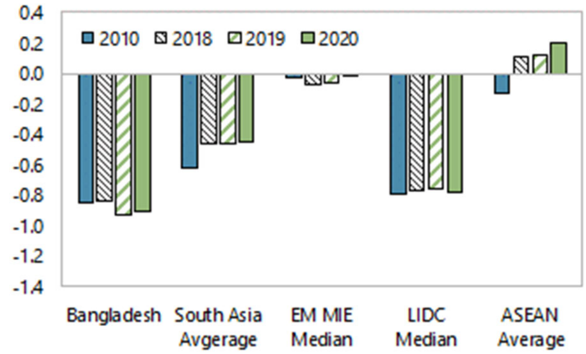
Figure 7. Bangladesh: Governance Indicators 1/

Government Effectiveness
(Index, -2.5 (weak) to 2.5 (strong))



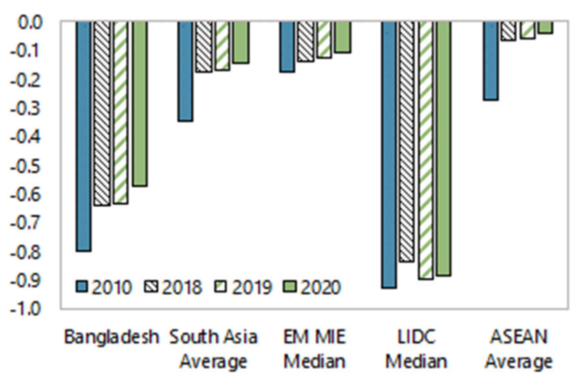
Sources: Worldwide Governance Indicators; and IMF staff calculations.

Regulatory Quality
(Index, -2.5 (weak) to 2.5 (strong))



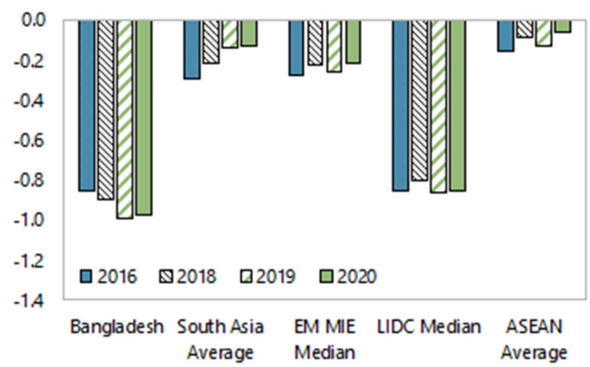
Sources: Worldwide Governance Indicators; and IMF staff calculations.

Rule of Law
(Index, -2.5 (weak) to 2.5 (strong))



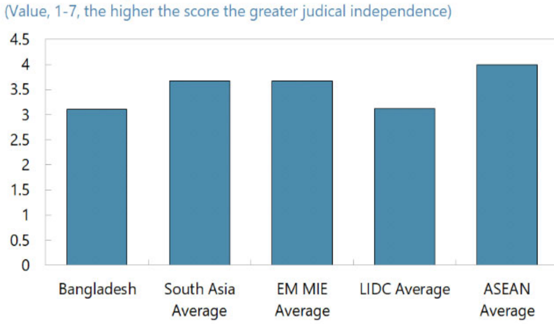
Sources: Worldwide Governance Indicators; and IMF staff calculations.

Control of Corruption
(Index, -2.5 (weak) to 2.5 (strong))



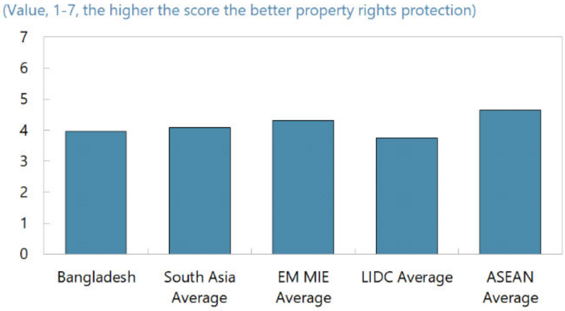
Sources: Worldwide Governance Indicators; and IMF staff calculations.

Judicial independence
(Value, 1-7, the higher the score the greater judical independence)



Source: World Economic Forum, Global Competitiveness Index, 2019 dataset, and IMF Staff Calculations.
Note: Data is 2018–2019 weighted average or most recent period available. Averages include countries for which data are available.

Property Rights
(Value, 1-7, the higher the score the better property rights protection)



Source: World Economic Forum, Global Competitiveness Index, 2019 dataset, and IMF Staff Calculations.
Note: 2018–2019 weighted average data or most recent period available. Averages include countries for which data are available.

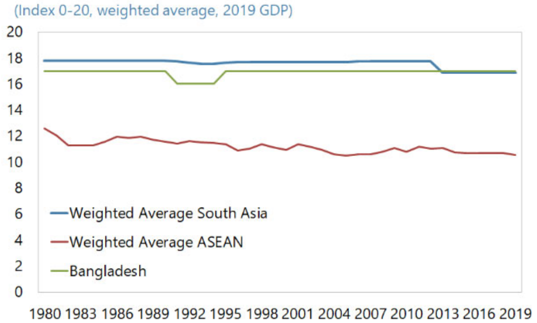
1/ Use of these indicators should be considered carefully, as they are derived from perceptions-based data. Some uncertainty also exists around any point estimate.

Figure 8. Bangladesh: Expanding Exports and Boosting Productivity

Expanding exports will need reducing NBTs…

Non-Tariff Barriers Index

(Index 0-20, weighted average, 2019 GDP)

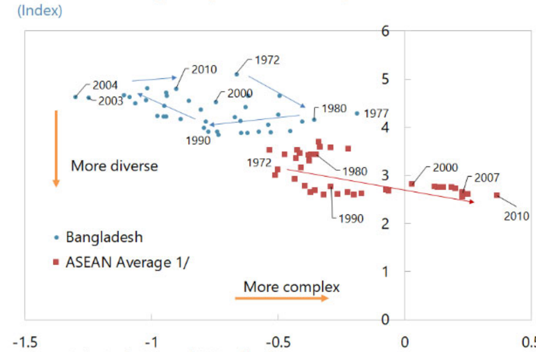


Source: Estefania Flores, Furceri, Hannan, Ostry and Rose (Forthcoming, 2021), and IMF Staff Calculations.

…diversifying exports…

Economic Complexity and Diversity 1972 - 2010

(Index)

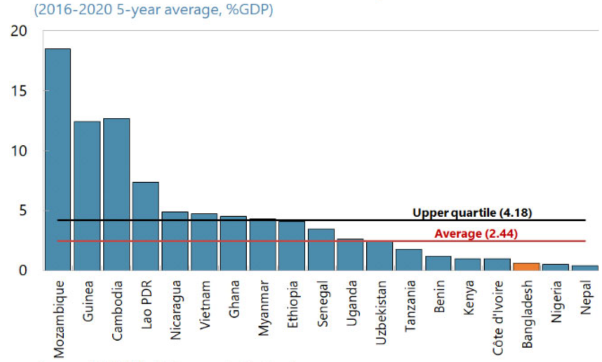


Sources: Atlas Trade Data and IMF staff estimates.
1/ Average includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

…and attracting FDI.

Foreign Direct Investment in a Sample of LIDCs

(2016-2020 5-year average, %GDP)

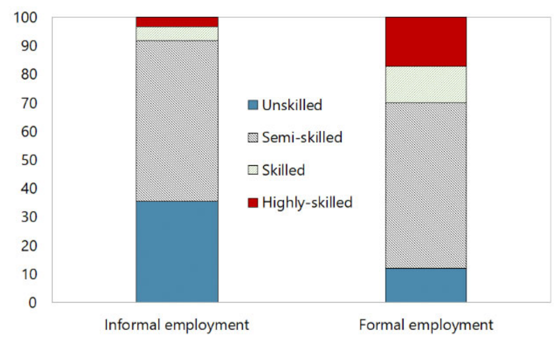


Source: IMF, World Economic Outlook

Productivity could be increased by addressing skill mismatches…

Skill Composition of the Labor Force

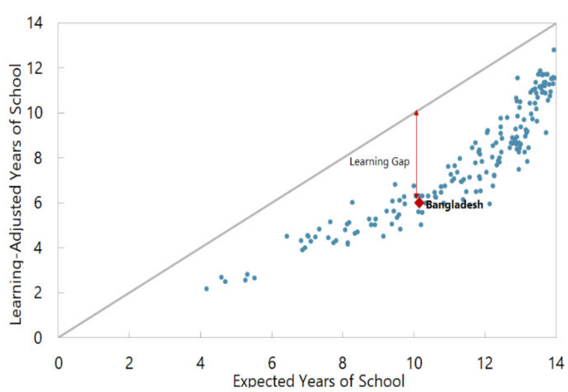
(Percent of total, 2016-17)



Source: Bangladesh Labor Force Survey 2016-17, and IMF staff calculations.

…by improving the quality of services…

Human Capital Index and Learning Gap

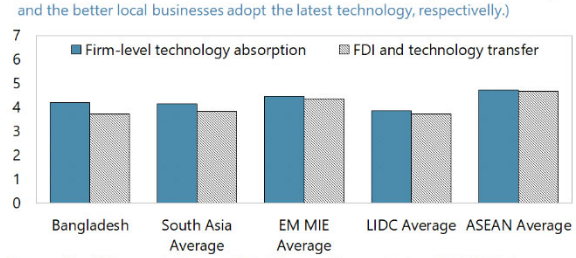


Source: World Bank Human Capital Index 2020.

…and through technology adoption and FDI-tech transfer

FDI, Technology Transfer,and Firm-level Technology Absorption

(Value, 1-7, The higher the score the more technology FDI brings to the economy and the better local businesses adopt the latest technology, respectivelly.)



Source: World Economic Forum, Global Competitiveness Index, 2017-2018 dataset, and IMF Staff Calculations.
Note: 2016–2017 weighted averages data or most recent period available. Averages include countries for which data are available.

Table 1. Bangladesh: Selected Economic Indicators, FY2018–23 1/

I. Social and Demographic Indicators

Population (2020, millions; estimate)	165	Infant mortality (2016, per thousand live births)	28.0
GDP per capita (2020, U.S. dollars)	1962	Life expectancy at birth (2016, years)	71.6
Labor force participation rate (2017, percent; national measure)	58.4	Adult literacy (2016, percent of people)	73.0
Poverty headcount ratio (2019, national measure, percent)	20.5	Population dependency ratio (2017, percent)	50.0
Gini index (2016,World Bank estimate)	32.1	Population growth (FY20, y/y, percent; estimate)	1.0

II. Macroeconomic Indicators

	FY18	FY19	FY20	FY21	FY22	FY23
			Est.	Est.	Proj.	
National income and prices (annual percent change)						
Real GDP	7.9	8.2	3.5	5.0	6.6	7.1
GDP deflator	5.6	4.5	4.1	5.3	5.6	5.8
CPI inflation (annual average)	5.8	5.5	5.6	5.6	5.9	5.8
CPI inflation (end of period)	5.5	5.5	6.0	5.6	5.9	5.7
Nonfood CPI inflation (end of period)	4.9	5.7	5.2	5.9	6.4	5.9
Central government operations (percent of GDP)						
Total revenue and grants	10.4	9.5	9.8	10.9	10.8	10.9
Total revenue	10.3	9.4	9.7	10.9	10.8	10.9
Tax	9.3	8.7	8.1	8.9	8.9	9.0
Nontax	1.0	0.7	1.6	1.9	1.8	1.8
Grants	0.1	0.1	0.1	0.1	0.0	0.0
Total expenditure	15.2	15.7	15.4	15.1	16.9	16.5
Current expenditure	8.2	8.7	8.6	8.7	9.9	9.3
Annual Development Program (ADP)	5.9	5.9	5.7	5.3	5.5	5.9
Other expenditures	1.1	1.1	1.1	1.1	1.5	1.3
Overall balance (including grants)	-4.8	-6.3	-5.6	-4.2	-6.1	-5.7
(Excluding grants)	-4.8	-6.3	-5.7	-4.3	-6.1	-5.7
Primary balance (excluding grants)	-3.0	-4.4	-3.6	-1.9	-3.7	-3.0
Total central government debt (percent of GDP)	34.6	36.1	39.5	41.4	42.5	42.7
Money and credit (end of fiscal year; percent change)						
Credit to private sector by the banking system	17.0	11.3	8.6	8.3	11.6	11.5
Reserve money	4.0	5.3	15.5	22.3	10.0	13.7
Broad money (M2)	9.2	9.9	12.7	13.6	15.0	13.7
Balance of payments (billions of U.S. dollars)						
Exports, f.o.b.	36.3	39.6	32.1	36.9	43.2	44.6
(Annual percent change)	6.7	9.1	-18.9	14.9	17.0	3.3
Imports, f.o.b.	-54.5	-55.4	-50.7	-60.7	-67.8	-71.0
(Annual percent change)	25.2	1.8	-8.6	19.7	11.7	4.7
Current account balance	-9.6	-4.5	-5.4	-4.6	-9.4	-11.3
(Percent of GDP)	-3.5	-1.5	-1.7	-1.3	-2.4	-2.6
Capital and financial account balance	9.5	6.1	9.5	13.3	9.5	9.3
Of which: Foreign direct investment	1.9	2.6	1.3	1.4	1.6	1.8
Overall balance	-0.7	1.0	3.8	9.3	0.1	-2.1
Gross official reserves (billions of U.S. dollars) 2/	32.9	32.7	36.0	46.4	47.7	45.5
In months of prospective imports of goods and services	6.0	6.5	6.1	7.0	6.9	6.4
Exchange rate (taka per U.S. dollar; period average)	82.1	84.0	84.8	84.8	…	…
Exchange rate (taka per U.S. dollar; end-period)	83.7	84.5	84.9	84.8	…	…
Nominal effective rate (2010=100; period average)	95.1	97.6	99.1	95.6	…	…
Real effective rate (2010=100; period average)	132.3	139.9	146.9	147.0	…	…
Memorandum item:						
Nominal GDP (billions of taka)	22,505	25,425	27,393	30,284	34,086	38,610

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, FY2017–26 1/

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
				Est.	Est.			Proj.		
	(Annual percent change)									
Real GDP	7.3	7.9	8.2	3.5	5.0	6.6	7.1	7.2	7.2	7.1
GDP deflator	6.3	5.6	4.5	4.1	5.3	5.6	5.8	5.6	5.5	5.5
CPI inflation (annual average)	5.4	5.8	5.5	5.6	5.6	5.9	5.8	5.6	5.5	5.5
CPI inflation (end of period)	5.9	5.5	5.5	6.0	5.6	5.9	5.7	5.5	5.5	5.5
Credit to private sector (end of period)	15.7	17.0	11.3	8.6	8.3	11.6	11.5	11.5	11.5	11.3
	(In percent of GDP)									
Gross national savings	29.6	27.4	29.5	28.7	29.8	29.5	30.2	30.3	30.4	30.6
Public national savings	0.9	2.2	0.7	1.2	2.2	0.8	1.5	1.3	1.3	1.2
Private national savings	28.8	25.2	28.8	27.5	27.6	28.6	28.7	29.0	29.1	29.3
Gross investment	30.5	31.2	31.6	30.5	31.1	31.8	32.8	32.8	32.9	33.1
Public investment	7.4	8.0	8.0	8.4	7.8	8.4	8.8	8.2	7.7	7.7
Private investment	23.1	23.3	23.5	22.1	23.2	23.4	24.0	24.6	25.2	25.4
Net exports of goods and services	-5.2	-8.6	-6.1	-6.5	-7.5	-6.8	-6.6	-6.2	-5.8	-5.6
Exports of goods and services	15.0	14.8	15.3	12.0	12.4	13.1	12.2	11.5	11.2	11.0
Imports of goods and services	20.3	23.4	21.4	18.5	19.9	19.9	18.8	17.6	17.1	16.6
Current account balance	-0.5	-3.5	-1.5	-1.7	-1.3	-2.4	-2.6	-2.5	-2.5	-2.5
Central government operations										
Total revenue and grants	9.5	10.4	9.5	9.8	10.9	10.8	10.9	10.8	10.8	10.8
Of which : Tax revenue	8.2	9.3	8.7	8.1	8.9	8.9	9.0	9.0	9.0	9.0
Total expenditure	14.4	15.2	15.7	15.4	15.1	16.9	16.5	16.2	15.9	15.9
Of which : Annual Development Program (ADP)	4.9	5.9	5.9	5.7	5.3	5.5	5.9	5.4	5.0	5.0
Overall balance (including grants)	-4.9	-4.8	-6.3	-5.6	-4.2	-6.1	-5.7	-5.4	-5.0	-5.0
(excluding grants)	-5.0	-4.8	-6.3	-5.7	-4.3	-6.1	-5.7	-5.4	-5.1	-5.0
Primary balance (excluding grants)	-3.2	-3.0	-4.4	-3.6	-1.9	-3.7	-3.0	-2.7	-2.3	-2.2
Public sector total debt 2/	33.4	34.6	36.1	39.5	41.4	42.5	42.7	42.6	42.3	42.1
Of which : External debt	13.7	14.9	15.1	16.5	17.5	16.7	15.8	15.2	14.7	14.2
Memorandum item:										
Nominal GDP (in billions of taka)	19,758	22,505	25,425	27,393	30,284	34,086	38,610	43,699	49,400	55,792

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

1/ Fiscal year begins July 1.

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

Table 3. Bangladesh: Balance of Payments, FY2017–26 1/

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

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY 25	FY26
					Est.			Proj.		
Current account balance 2/	-1,331	-9,567	-4,491	-5,435	-4,575	-9,403	-11,337	-12,105	-13,226	-14,599
Trade balance	-9,472	-18,178	-15,835	-18,569	-23,778	-24,623	-26,378	-26,951	-28,098	-29,593
Exports (f.o.b.)	34,019	36,285	39,604	32,121	36,903	43,177	44,602	46,076	49,515	53,212
Of which: Ready-made garment sector	28,150	30,615	34,133	27,949	31,457	36,700	37,801	38,936	41,661	45,410
Imports (f.o.b.) 2/	-43,491	-54,463	-55,439	-50,690	-60,681	-67,800	-70,979	-73,027	-77,613	-82,804
Of which: Crude oil and petroleum products	-3,112	-3,796	-4,479	-4,822	-8,087	-9,052	-10,183	-11,763	-12,350	-15,438
Services	-3,288	-4,202	-3,177	-2,578	-3,002	-2,494	-2,732	-2,773	-2,837	-2,950
Income	-1,870	-2,641	-2,382	-3,070	-3,172	-3,110	-3,467	-3,843	-4,181	-4,384
Transfers	13,299	15,454	16,903	18,782	25,377	20,824	21,240	21,462	21,890	22,327
Official current transfers 3/	59	52	41	19	33	40	40	50	50	50
Private transfers	13,240	15,402	16,862	18,763	25,344	20,784	21,200	21,412	21,840	22,277
Of which: Workers' remittances	12,769	14,982	16,420	18,205	24,778	20,561	20,973	21,182	21,606	22,038
Capital and financial account balance 4/	4,647	9,342	5,369	8,910	13,313	9,460	9,274	10,392	12,170	15,199
Capital account	400	331	239	256	221	275	150	150	150	150
Financial account	4,247	9,011	5,130	8,654	13,092	9,185	9,124	10,242	12,020	15,049
Foreign direct investment	1,653	1,778	2,628	1,271	1,355	1,589	1,761	2,898	4,239	5,807
Portfolio investment	457	349	171	44	-269	-180	176	290	424	581
Medium- and long-term loans, net	2,170	5,015	5,363	6,238	6,992	6,646	6,606	6,474	6,777	8,081
Government, net	2,323	4,874	5,061	5,739	5,308	4,962	4,922	4,790	5,093	5,381
Disbursements	3,218	5,987	6,263	6,996	6,726	6,700	6,748	6,893	7,042	7,392
Amortization	-895	-1,113	-1,202	-1,257	-1,418	-1,738	-1,825	-2,103	-1,949	-2,011
Other long-term loans, net	-153	141	302	499	1,684	1,684	1,684	1,684	1,684	2,700
Other capital	-33	1,869	-3,032	1,101	5,014	1,130	580	580	580	580
Short-term loans and trade credits, net	-155	238	-3,221	1,378	5,562	1,680	580	580	580	580
Commercial banks, net	122	1,631	189	-277	-548	-550	0	0	0	0
Other items, net	0	0	0	0	0	0	0	0	0	0
Errors and omissions	-147	-632	-700	-306	535	0	0	0	0	0
Overall balance	3,169	-857	178	3,169	9,273	57	-2,063	-1,713	-1,056	600
Financing items	-3,169	857	-178	-3,169	-9,273	-57	2,063	1,713	1,056	-600
Memorandum items:										
Current account balance (percent of GDP)	-0.5	-3.5	-1.5	-1.7	-1.3	-2.4	-2.6	-2.5	-2.5	-2.5
Exports (annual percent change)	1.7	6.7	9.1	-18.9	14.9	17.0	3.3	3.3	7.5	7.5
Imports (annual percent change)	9.0	25.2	1.8	-8.6	19.7	11.7	4.7	2.9	6.3	6.7
Remittances (annual percent change)	-14.5	17.3	9.6	10.9	36.1	-17.0	2.0	1.0	2.0	2.0
Foreign direct investment (percent of GDP)	0.7	0.6	0.9	0.4	0.4	0.4	0.4	0.6	0.8	1.0
Medium- and long-term external public debt	33,671	39,935	45,562	53,140	62,434	65,611	68,624	72,413	76,542	81,191
(Percent of GDP)	13.7	14.9	15.1	16.5	17.5	16.7	15.8	15.2	14.7	14.2
Gross official reserves 5/	33,407	32,944	32,717	36,037	46,391	47,732	45,508	43,443	42,075	42,597
(In months of imports of goods and services)	6.3	6.0	6.5	6.1	7.0	6.9	6.4	5.8	5.2	5.0
Net international reserves 5/	29,970	29,745	30,623	34,099	42,837	42,894	40,831	39,118	38,062	38,662
Nominal GDP	249,711	274,039	302,571	323,057	357,097	397,227	440,266	482,983	529,844	580,710

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

1/ Fiscal year begins July 1.

2/ Imports are based on customs data.

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

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

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

Table 4a. Bangladesh: Central Government Operations, FY2017–26 1/
(In billions of Taka)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
			Prel.	Est.	Est.			Proj.			
		(In billions of taka)									
Total revenue and grants	1,875	2,344	2,404	2,685	3,305	3,673	4,199	4,732	5,342	6,052	6,827
Total revenue	1,860	2,328	2,387	2,659	3,286	3,670	4,196	4,727	5,338	6,047	6,822
Tax revenue	1,628	2,092	2,213	2,220	2,698	3,041	3,484	3,921	4,426	5,018	5,661
National Board of Revenue (NBR) taxes	1,567	2,020	2,180	2,160	2,639	2,974	3,408	3,835	4,330	4,909	5,539
Of which: VAT and supplementary duties	886	1,135	1,232	1,136	1,419	1,600	1,874	2,126	2,412	2,731	3,098
Taxes on income and profits	460	607	669	754	873	983	1,113	1,260	1,425	1,609	1,814
Customs and excise duties	208	265	266	260	341	385	414	442	485	559	616
Non-NBR taxes	60	72	32	59	59	67	75	85	97	109	123
Nontax revenue	232	236	174	439	588	629	712	806	911	1,029	1,160
Foreign grants	15	16	17	26	19	3	4	5	5	5	5
Total expenditure	2,844	3,418	4,000	4,219	4,578	5,751	6,384	7,083	7,833	8,850	9,957
Current expenditure	1,705	1,840	2,223	2,361	2,649	3,385	3,607	4,158	4,717	5,355	6,098
Pay and allowances	500	494	549	569	589	698	790	894	1,011	1,142	1,287
Goods and services	201	247	302	290	305	362	410	462	523	591	666
Interest payments	357	423	500	583	706	834	1,017	1,185	1,355	1,558	1,817
Subsidies and transfers 2/	646	674	871	919	1,032	1,492	1,390	1,617	1,828	2,064	2,327
Annual Development Program (ADP)	958	1,337	1,493	1,554	1,592	1,866	2,272	2,358	2,481	2,782	3,062
Non-ADP capital spending	158	169	242	269	289	412	425	481	543	614	692
Net lending 3/	27	12	-10	12	6	45	39	44	49	56	63
Other expenditures 4/	-4	60	52	23	42	42	42	42	42	42	42
Overall balance (including grants)	-969	-1,074	-1,596	-1,535	-1,273	-2,078	-2,185	-2,351	-2,490	-2,798	-3,130
(Excluding grants)	-984	-1,090	-1,613	-1,560	-1,292	-2,081	-2,188	-2,356	-2,495	-2,803	-3,135
Primary balance (including grants)	-612	-651	-1,096	-951	-567	-1,244	-1,168	-1,167	-1,135	-1,239	-1,313
(Excluding grants)	-627	-667	-1,113	-977	-586	-1,247	-1,171	-1,171	-1,140	-1,244	-1,318
Net financing	969	1,074	1,596	1,535	1,272	2,078	2,185	2,351	2,490	2,798	3,130
External	136	253	313	416	455	426	432	433	475	517	593
Disbursements	209	344	421	529	575	575	592	624	657	710	813
Amortization	-73	-91	-108	-113	-120	-149	-160	-190	-182	-193	-220
Domestic	833	821	1,283	1,119	818	1,652	1,753	1,918	2,016	2,281	2,537
Banks	-258	117	-607	793	284	873	1,242	1,359	1,428	1,616	1,798
of which: Fiscal Gap	0	0	0	0	0	0	0	0	0	0	1
Nonbanks 5/	1,091	703	1,890	326	533	779	511	559	587	664	739

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

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

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

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

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

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

Table 4b. Bangladesh: Central Government Operations, FY2017–26 1/
(In percent of GDP)

	FY17	FY18	FY19 Prel.	FY20 Est.	FY21 Est.	FY22	FY23	FY24 Proj.	FY25	FY26
	(In percent of GDP)									
Total revenue and grants	9.5	10.4	9.5	9.8	10.9	10.8	10.9	10.8	10.8	10.8
Total revenue	9.4	10.3	9.4	9.7	10.9	10.8	10.9	10.8	10.8	10.8
Tax revenue	8.2	9.3	8.7	8.1	8.9	8.9	9.0	9.0	9.0	9.0
National Board of Revenue (NBR) taxes	7.9	9.0	8.6	7.9	8.7	8.7	8.8	8.8	8.8	8.8
Of which : VAT and supplementary duties	4.5	5.0	4.8	4.1	4.7	4.7	4.9	4.9	4.9	4.9
Taxes on income and profits	2.3	2.7	2.6	2.8	2.9	2.9	2.9	2.9	2.9	2.9
Customs and excise duties	1.1	1.2	1.0	0.9	1.1	1.1	1.1	1.0	1.0	1.0
Non-NBR taxes	0.3	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Nontax revenue	1.2	1.0	0.7	1.6	1.9	1.8	1.8	1.8	1.8	1.8
Foreign grants	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total expenditure	14.4	15.2	15.7	15.4	15.1	16.9	16.5	16.2	15.9	15.9
Current expenditure	8.6	8.2	8.7	8.6	8.7	9.9	9.3	9.5	9.5	9.6
Pay and allowances	2.5	2.2	2.2	2.1	1.9	2.0	2.0	2.0	2.0	2.0
Goods and services	1.0	1.1	1.2	1.1	1.0	1.1	1.1	1.1	1.1	1.1
Interest payments	1.8	1.9	2.0	2.1	2.3	2.4	2.6	2.7	2.7	2.8
Subsidies and transfers 2/	3.3	3.0	3.4	3.4	3.4	4.4	3.6	3.7	3.7	3.7
Annual Development Program (ADP)	4.9	5.9	5.9	5.7	5.3	5.5	5.9	5.4	5.0	5.0
Non-ADP capital spending	0.8	0.8	1.0	1.0	1.0	1.2	1.1	1.1	1.1	1.1
Net lending 3/	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other expenditures 4/	0.0	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall balance (including grants)	-4.9	-4.8	-6.3	-5.6	-4.2	-6.1	-5.7	-5.4	-5.0	-5.0
(Excluding grants)	-5.0	-4.8	-6.3	-5.7	-4.3	-6.1	-5.7	-5.4	-5.1	-5.0
Primary balance (including grants)	-3.1	-2.9	-4.3	-3.5	-1.9	-3.6	-3.0	-2.7	-2.3	-2.2
(Excluding grants)	-3.2	-3.0	-4.4	-3.6	-1.9	-3.7	-3.0	-2.7	-2.3	-2.2
Net financing	4.9	4.8	6.3	5.6	4.2	6.1	5.7	5.4	5.0	5.0
External	0.7	1.1	1.2	1.5	1.5	1.2	1.1	1.0	1.0	0.9
Disbursements	1.1	1.5	1.7	1.9	1.9	1.7	1.5	1.4	1.3	1.3
Amortization	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3
Domestic	4.2	3.6	5.0	4.1	2.7	4.8	4.5	4.4	4.1	4.1
Banks	-1.3	0.5	-2.4	2.9	0.9	2.6	3.2	3.1	2.9	2.9
of which: Fiscal Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonbanks 5/	5.5	3.1	7.4	1.2	1.8	2.3	1.3	1.3	1.2	1.2
Total central government debt (percent of GDP)	33.4	34.6	36.1	39.5	41.4	42.5	42.7	42.6	42.3	42.1
Nominal GDP (in billions of taka)	19,758	22,505	25,425	27,393	30,284	34,086	38,610	43,699	49,400	55,792

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

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

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

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

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

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

Table 5. Bangladesh: Monetary Accounts, FY2017–26

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
					Est.			Proj.		
Bangladesh Bank (BB) balance sheet					(End of period; in billions of taka)					
Net foreign assets	2,115	2,327	2,351	2,903	3,641	3,729	3,646	3,601	3,611	3,780
Net domestic assets	131	10	111	-58	-161	98	707	1,325	1,958	2,443
Net credit to central government 1/	118	170	269	368	275	275	275	275	275	275
Credit to other nonfinancial public sector	12	12	12	12	12	52	52	92	92	92
Credit to deposit money banks	43	55	52	68	189	189	189	189	189	189
Other items, net	-41	-227	-223	-506	-636	-418	192	770	1,402	1,888
Reserve money 2/	2,247	2,337	2,462	2,845	3,480	3,827	4,353	4,926	5,569	6,223
Currency	1,513	1,549	1,704	2,081	2,269	2,893	3,289	3,723	4,208	4,686
Reserves	727	780	750	758	1,206	934	1,064	1,204	1,361	1,537
					(Contributions to reserve money growth)					
Net foreign assets	-0.1	9.4	1.0	22.4	25.9	2.5	-2.2	-1.0	0.2	3.0
Net domestic assets	16.8	-5.4	4.3	-6.8	-3.6	7.4	15.9	14.2	12.8	8.7
Of which: Net credit to central government	-3.0	2.3	4.3	4.0	-3.3	0.0	0.0	0.0	0.0	0.0
Reserve money (year-on-year percentage change)	16.6	4.0	5.3	15.5	22.3	10.0	13.7	13.2	13.0	11.7
					(End of period; in billions of taka)					
Monetary survey										
Net foreign assets	2,352	2,544	2,616	3,179	3,913	3,901	3,822	3,784	3,799	3,973
Bangladesh Bank	2,115	2,327	2,351	2,903	3,641	3,729	3,646	3,601	3,611	3,780
Commercial banks	237	216	265	276	272	172	177	182	188	194
Net domestic assets	7,802	8,549	9,572	10,552	11,687	14,039	16,584	19,313	22,310	25,515
Domestic credit	8,846	10,131	11,378	12,942	14,245	16,481	19,270	22,348	25,695	29,406
Net credit to central government 1/	913	863	1,039	1,677	2,057	2,930	4,172	5,531	6,960	8,576
Credit to other nonfinancial public sector	91	104	128	175	181	193	205	219	233	248
Credit to nonbank financial institutions	82	88	111	117	119	92	97	101	104	106
Credit to private sector	7,761	9,076	10,100	10,973	11,889	13,267	14,796	16,497	18,398	20,476
Other items, net	-1,044	-1,583	-1,806	-2,389	-2,559	-2,442	-2,686	-3,035	-3,384	-3,892
Broad money (M2)	10,154	11,092	12,188	13,731	15,599	17,940	20,407	23,097	26,110	29,488
					(Year-on-year percent change)					
Net foreign assets	0.9	8.2	2.9	21.5	23.1	-0.3	-2.0	-1.0	0.4	4.6
Net domestic assets	14.3	9.6	12.0	10.2	10.7	20.1	18.1	16.5	15.5	14.4
Domestic credit	6.7	14.5	12.3	13.7	10.1	15.7	16.9	16.0	15.0	14.4
Of which: Net credit to central government	-35.9	-5.4	20.4	61.4	22.7	42.4	42.4	32.6	25.8	23.2
Credit to private sector	15.7	17.0	11.3	8.6	8.3	11.6	11.5	11.5	11.5	11.3
Broad money (M2)	10.9	9.2	9.9	12.7	13.6	15.0	13.7	13.2	13.0	12.9
Memorandum items:										
Required domestic cash reserves (in billions of taka)	512	524	536	683	773	892	1,016	1,150	1,299	1,468
Excess domestic cash reserves (in billions of taka)	215	256	214	75	433	42	48	54	61	69
Broad money multiplier	4.5	4.7	5.0	4.8	4.5	4.7	4.7	4.7	4.7	4.7
Broad money velocity	1.9	2.0	2.1	2.0	1.9	1.9	1.9	1.9	1.9	1.9

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

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

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

Table 6. Bangladesh: Financial Soundness Indicators, FY2010-20

(In percent)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Capital adequacy											
Regulatory capital to risk-weighted assets	9.3	11.4	10.5	11.5	11.3	10.8	10.8	10.8	12.1	11.6	11.6
State-owned commercial banks	8.9	11.7	8.1	10.8	8.3	6.4	5.9	7.0	10.3	5.0	6.9
Private commercial banks	10.1	11.5	11.4	12.6	12.5	12.4	12.4	12.2	12.8	13.6	13.3
Foreign commercial banks	15.6	21.0	20.6	20.2	22.6	25.6	25.4	23.3	25.9	24.5	24.4
Asset quality											
Nonperforming loans to total loans	7.3	6.1	10.0	8.9	10.0	8.8	9.2	9.3	10.3	9.3	9.2
State-owned commercial banks	15.7	11.3	23.9	19.8	22.2	21.5	25.1	26.5	30.0	23.9	22.7
Private commercial banks	3.2	2.9	4.6	4.5	4.9	4.9	4.6	4.9	5.5	5.8	5.9
Foreign commercial banks	3.0	3.0	3.5	5.5	7.3	7.8	9.6	7.0	6.5	5.7	5.5
Loan provisions to total nonperforming loans	62.7	67.4	44.4	61.6	56.1	44.8	49.4	50.5	53.7	68.5	63.4
Loan provisions to total loans	4.6	4.1	4.4	5.5	5.6	3.9	4.5	4.7	5.5	6.4	5.8
Management											
Expenditure-Income Ratio	70.8	68.6	74.0	77.8	76.1	76.3	76.6	74.7	76.6	78.0	84.1
State-owned commercial banks	80.7	62.7	73.2	84.1	84.1	84.5	90.2	81.3	80.5	84.9	85.8
Private commercial banks	67.6	71.7	76.0	77.9	75.8	75.5	73.5	73.8	76.7	77.6	82.6
Foreign commercial banks	64.7	47.3	49.6	50.4	46.8	47.0	45.7	46.6	47.5	48.8	45.5
Earnings											
Return on equity (BB)	21.0	17.0	8.2	11.0	8.1	10.5	9.4	10.6	3.9	6.8	6.7
State-owned commercial banks	18.4	19.7	-11.9	10.9	-13.5	-1.5	-6.0	3.5	-29.6	-13.7	0.8
Private commercial banks	20.9	15.7	10.2	9.8	10.3	10.8	11.1	12.0	11.0	11.2	8.5
Foreign commercial banks	17.0	16.6	17.3	16.9	17.7	14.6	13.1	11.3	12.4	13.4	13.8
Return on assets (BB)	1.8	1.5	0.6	0.9	0.6	0.8	0.7	0.7	0.3	0.4	0.4
State-owned commercial banks	1.1	1.3	-0.6	0.6	-0.6	0.0	-0.2	0.2	-1.3	-0.6	0.0
Private commercial banks	2.1	1.6	0.9	1.0	1.0	1.0	1.0	0.9	0.8	0.8	0.6
Foreign commercial banks	2.9	3.2	3.3	3.0	3.4	2.9	2.6	2.2	2.2	2.3	2.2
Liquidity											
Liquidity Ratio	23.0	25.4	27.1	32.5	32.7	26.5	24.9	19.9	18.2	19.9	22.3
State-owned commercial banks	27.2	31.3	29.2	44.3	42.0	41.4	40.0	30.4	24.8	27.3	30.8
Private commercial banks	21.5	23.5	26.3	28.0	28.2	19.7	17.8	14.8	14.2	16.4	18.0
Foreign commercial banks	32.1	34.1	37.5	46.2	56.9	51.8	48.2	43.8	48.4	29.7	37.9

Source: Bangladesh Bank

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	2019	14.7	14	12	10
Good Health and Well Being	Maternal Mortality Ratio (per 100,000)	2010	216	2019	165	105	85	70
Inclusive and Equitable Education	Participation rate in organized learning (%)	2015	39	2019	77.5	80	90	100
Gender Equality	Proportion of seats held by women in local governments (%)	2016	23	2018	25.2	25	27	33
Clean Water and Sanitation	Proportion of population using safely managed drinking water services (%)			2019	47.9		100	100
Affordable and Clean Energy	Proportion of population with access to electricity (%)	2010	55.2	2019	92.2	96	100	100
Sustainable Growth and Decent Work	Annual growth rate of real GDP per capita (%)	2010	4.1	2018-19	6.91	6.7	7	7.5
Industry, Innovation, and Infrastructure	Manufacturing employment as a percentage of total employment (%)	2010	12.4	2016-17	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	Amount of fossil-fuel subsidies per unit of GDP (production and consumption, %)	2014-15	0.04	2018-19	0.6		0.02	0.01
Climate Action	Number of deaths, missing persons and directly affected persons attributed to disasters (per 100,000)	2015	12,881	2019	4,318	6,500	3,500	1,500
Life Below Water	Coverage of protected areas in relation to marine areas (%)	2015	2.05	2020	5.27	10	10	10
Life on Land	Forest area as a proportion of total land area (%)	2015	14.1	2018	14.5	15	18	20
Peace, Justice, and Strong Institutions	Unsentenced detainees as a percentage of overall prison population (%)	2016	76.5	2018	83.6	70	50	40
Partnerships for the Goals	Fixed internet broadband subscriptions (%)	2015	2.41	2019	4.8	8	15	20

Sources: SDG tracker, Sustainable Development Goals Bangladesh Progress Report 2020, Bangladesh Planning Commission.

Annex I. Response to Past Fund Policy Advice

Since the last Article IV consultation in 2019, several recommendations have been implemented, but key challenges remain. The COVID-19 pandemic has forced the authorities to focus on dealing with the crisis, slowing the progress on longer-term reforms. The authorities continue to closely engage with the Fund through the Article IV consultations, periodic staff visits, capacity development, and the Resident Representative office.

FUND ADVICE	AUTHORITIES' RESPONSE
BB should monitor inflation developments closely and ready to adjust its stance as needed.	In response to the COVID-19 pandemic, BB appropriately eased monetary policy, increased liquidity in the banking system, and relaxed regulatory measures to address the economic fallout from the pandemic. The cash reserve ratio for domestic banks, the bank rate, the repo rate, and the reverse repo rate were decreased while the advance to deposit ratio was increased. BB also increased liquidity including through unsterilized FX interventions, leading to historically low interest rates on government securities. Lower demand from the COVID-19 shock has kept inflation close to the authorities' target during FY21 despite monetary easing. With conditions normalizing BB has started mopping up liquidity including through sale of FX to meet higher demand.
Gradually increase exchange rate flexibility.	BB has intervened in the foreign exchange market to avoid excessive exchange rate volatility. Appreciation pressures in FY21 were fully countered by BB's purchase of US$ in FX markets. The currency has been relatively stable against the US$. The REER after a prolonged phase of appreciation has started depreciating over the second half of FY21.
Address banking sector vulnerabilities by strengthening banking regulation and supervision, SOCB reforms, tighter criteria for loan rescheduling / restructuring, stronger corporate governance, and enhance legal systems to accelerate loan recovery.	In response to the COVID-19 pandemic, a loan moratorium and reclassification freeze were introduced for the period of March to September 2020, which was extended to December 2020. The authorities have provided more time for loans that benefitted from the moratorium to be repaid, and extended the reclassification freeze accordingly. They instructed banks not to classify loans in 2021 where 25 percent of the outstanding amounts were paid. They have proposed the Bangladesh Asset Management Corporation draft law to set up a public corporation to handle distressed loans. The authorities have passed amendments to the Bank Company Act 2021, Financial Institutions Act 1993 (now the Finance Company Act (FCA) 2021) and are in the process of amending Money Loan Court Act 2020, Negotiable Instrument Act 2020, and the Bankruptcy Act 2020.

FUND ADVICE	AUTHORITIES' RESPONSE
Keep public debt broadly stable.	To create room for COVID-19 stimulus, the authorities curtailed non-priority current spending, suspended low-priority capital projects, and moderately increased their deficit target. The risk of debt distress continues to be low. The authorities have recently concluded the MTDS with the intent of updating the MTDS to reflect the latest updates, including from COVID-19.
Increase tax revenues, including through the implementation of the VAT reform.	The authorities implemented the VAT reform in FY20, though it came with the introduction of multiple rates. The government also announced measures to improve tax administration and tax compliance, including via digitalization and making changes in the VAT registration form and VAT online software to give non-resident foreign companies (such as Google, Facebook, and YouTube) direct access to the system. Contracting out the installation and data collection of electronic fiscal devices to private vendors is being discussed.
Create fiscal space for necessary adaptation and mitigation of climate risk.	The authorities have started allocating budgetary support for adaptation and updated the Nationally Determined Contributions.
Develop the capital market, including through reform in the NSCs scheme.	Effective FY20, the issuance of NSCs was digitalized and linked to the purchasers' tax identification number to enforce the existing cap on their issuance. The tax on interest income was also raised from 5 to 10 percent. In September 2021, the authorities implemented a cut on the interest rate of NSCs, increasing with the amount purchased.
Enhance governance and limit vulnerability to corruption.	The authorities have set objectives to revamp the ACC and enforce a zero-tolerance policy for corruption as part of the 8th Five-Year plan. The authorities have published the National Strategy for Preventing Money Laundering and Combating Financial Terrorism. Bangladesh is technically compliant with all 40 FATF recommendations of which 5 are partially compliant. More work is needed to strengthen the asset declaration regime.
Improve the business environment to boost private investment and promote export diversification.	The authorities have accelerated the process of setting up Special Economic Zones (SEZs) under both public and private sector initiatives, and as per the 8th FYP plans to hand over SEZs to investors from specific countries. The authorities have made amendments to several laws and acts to strengthen the banking sector.

Annex II. COVID-19-Related Measures

Category				Name of the package	Amount allocated (Tk. billion)	Execution status (as of Sep 2021)
Financed by budget	Social spending	Job retention /creation	1	Special Fund for salary support to export-oriented industries	50	100%
			17	Employment creation program through state-owned financial institutions	32	70%
			21	Revitalizing the rural economy and job creation in rural area	15	65%
			27	Employment creation through three State-owned financial institutions-2nd phase (PKSF-Tk.500 Crore, Karmasangsthan Bank-Tk.500 Crore and Palli Sanchay Bank-Tk.500 Crore	15	50%
		Food security	8	Free distribution of rice and wheat to the poor people	25	57%
			9	Selling rice at Tk. 10/kg under the OMS among low-income people	7.7	100%
			25	Special OMS at the city area (Rice: 20,000 MT and Flour: 14,000 MT)	1.5	100%
			26	Fund for Deputy Commissioner to provide food support to vulnerable people reached through 333 Call Center (Govt. Information and Service)	1	100%
		Cash transfer	10	Cash transfer for the targeted poor people (Tk. 2,500 per person for 3.5 million, plus 486 thousand fisheries and livestock farmers)	13.26	100%
			23	Second round cash assistance to 3.5 million poor people of Tk. 2,500 per person plus 100,000 Boro farmers affected by cyclone	9.3	83%
			24	Cash Transfer to the targeted poor people (Tk. 2,500 per person with total beneficiary 1.7 million daily labourer, transport worker, small entreprenuers, marine transport workers and construction workers)	4.5	96%
			11	Expansion of cash allowance programs to 112 upazillas	8.15	74%
			22	Expansion of cash allowance programs to another 150 upazillas	12	Process on-going
			20	Social safety net program for the workers who lost their job in the RMG, leather goods and footwear industries	15	0%
		Affordable home	12	Construction of home for homeless people	21.3	121%
	Support to agriculture		13	Support for farm mechanization	32.2	16%
			14	Subsidy for agriculture	95	83%
	Others		6	Special honorarium to doctors, nurses, and medical workers	1.38	88%
			7	Health and life insurance provided to doctors, health workers and other relevant government employees in case of coronavirus infection or death	7.5	10%
			18	Subsidy for commercial banks' suspended interest during April-May 2020	20	70%
Financed by financial system	Support to export-oriented industry & others		2	Working capital loans for the affected industries and service sector	730	48%
			4	Expansion of facility provided through Export Development Fund (EDF) by Bangladesh Bank	170	100%
			5	Pre-Shipment Credit Refinance Scheme	50	8%
	Support to SMEs		3	Working capital loansfor the SMEs, including the cottage industries	400	42%
			19	Credit risk sharing scheme for the SME sector	20	1%
	Support to low-income people		16	Refinance scheme for low income professionals, farmers, and small traders	30	61%
	Support to tourism		28	Working Capital Credit Facility at 4% interest to pay wages to the employees of hotel, motel and theme parks under Tourism Sector	10	Process on-going
	Support to agriculture		15	Agriculture Refinance Scheme	80	54%
Total in Tk. billion					**1876.8**	**54.5%**
Total in US$ billion					**22.1**	
as % of GDP					**6.2%**	

Source: Bangladesh authorities and staff calculation.

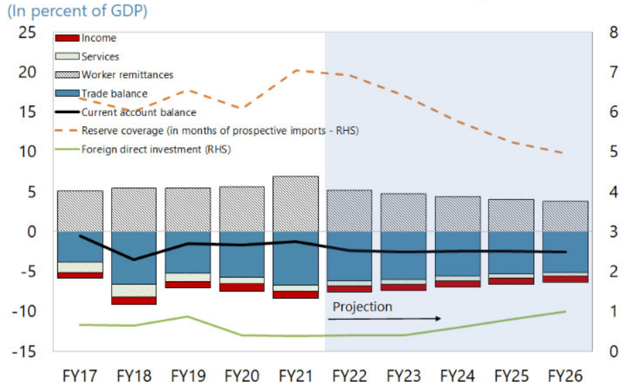
Annex III. External Sector Assessment

Overall Assessment: *The external position in FY21 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The current account (CA) deficit narrowed to 1.3 percent of GDP in FY21, in part due to a pandemic-related surge in remittances. These and other transitory effects are expected to lessen going forward, causing the CA deficit to widen modestly, moving close to its estimated norm.*[1]
Potential Policy Responses*: Greater exchange rate flexibility, together with safeguarding FX reserves, will assist resilience to external shocks.*

Current Account

Background. CA dynamics are primarily driven by the trade balance and worker remittances. The CAD moderated slightly to 1.3 percent in FY21 from 1.7 (1.5) percent of GDP in FY20 (FY19), following a spike in remittances in FY 21 and despite a pick-up in the trade deficit led mostly by capital imports. The remittance surge throughout FY21 was largely attributed to a combination of (i) an increase in the use of formal channels, (ii) migrant workers sending their savings back ahead of repatriation, and (iii) a 2 percent incentive scheme introduced by the authorities in July 2019. These developments led to a narrowing in the CAD to 1.3 percent of GDP in FY21. Beginning FY22, as expected, remittances started to moderate as informal remittance inflows returned to pre-pandemic levels, but imports picked up significantly after COVID related delays and staff projects the CAD to widen to 2.4 percent of GDP. Overall, workers' remittances had been falling as a share of GDP over the past decade, from 9.5 percent of GDP in FY10 to 5.4 percent of GDP in FY19, and this secular decline is expected to continue in the medium term. Imports are expected to grow to meet increasing investment, energy, and food needs, resulting in CA deficit stabilizing around 2 percent of GDP over the medium term.

Current Account Balance and Reserve Coverage
(In percent of GDP)



Sources: Data from authorities and IMF staff estimates.

Assessment. The revised EBA-lite CA model estimates a CA gap of 1.1 percent of GDP in FY21, with a positive policy gap due to a relative gap in fiscal policy (i.e., a lower deficit gap vis-à-vis the rest of the world) and lower-than-optimal spending on public health expenditure, among other factors. Taking into account uncertainty around the CA model's point estimate and the IREER model results (which imply no gap), staff estimates a small CA gap in the range of 0-1¾ percent of GDP, with a mid-point consistent with an external position that is broadly in line with the level implied by medium-term fundamentals and desirable policies.[2, 3]

[1] Fiscal year ends in June.

[2] The external sustainability model is not as relevant for Bangladesh as reserves are adequate and the risk of external debt distress is low.

[3] The COVID-19 adjustment accounts for the temporary remittance surge in FY21 relative to past projection in September 2019.

Bangladesh: Model Estimates for FY 21 (In percent of GDP)

	CA model
CA-Actual	**-1.3**
Cyclical contributions (from model) (-)	0.1
COVID-19 adjustor (+) 1/	-0.6
Additional temporary/statistical factors (+)	0.0
Natural disasters and conflicts (-)	0.7
Adjusted CA	**-2.7**
CA Norm (from model) 2/	**-3.7**
Adjustments to the norm (+)	0.0
Adjusted CA Norm	**-3.7**
CA Gap	**1.1**
o/w Relative policy gap	4.2
Elasticity	-0.12
REER Gap (in percent)	**-8.9**

Source: IMF staff estimates.

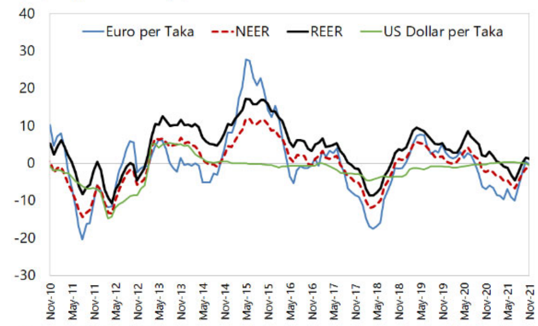
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on on tourism (-0.05), and on remittances (-0.55).

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

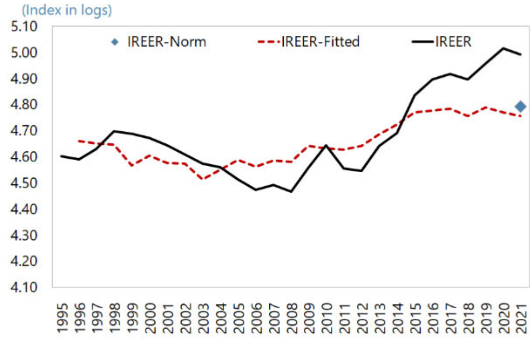
Background. The Real Effective Exchange Rate has been mostly moving in tandem with the Euro/Taka rate since Q2 FY19 and through FY20 and FY21, with the US$/Taka rate largely stabilized. In FY20 (FY21), the Euro appreciated (depreciated) against the Taka on average by 2.3 (-7.4) percent (y/y) and the REER appreciated on average by 5.0 (0.1) percent (y/y). The change in the US$/Taka rate on the other hand was limited moving gradually towards a stable rate. The de-jure exchange rate regime is floating but de-facto Bangladesh was reclassified as stabilized since February 2020.[4]

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



Sources: INS and FRED

IREER: Actual, Fitted, and Norm
(Index in logs)



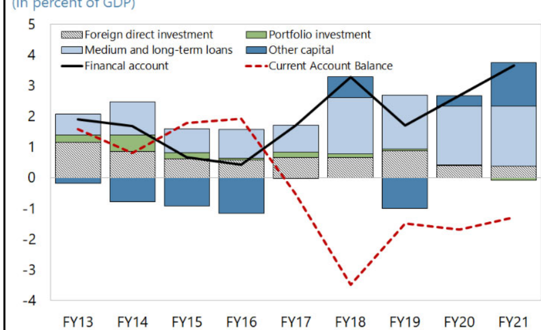
Source: IMF staff estimates.

Assessment. The REER gap (0.2 percent) suggested by the EBA-lite REER model is generated mostly due to the residual. As the model provides a poor fit for Bangladesh, more weight is given to the CA model results. Staff's bottom-line estimated range for the CA gap (0-1¾ percent of GDP) implies an REER gap in the range of 0 to -15 percent, using an elasticity of -0.12.

Capital and Financial Accounts: Flows and Policy Measures

Background. The recorded inflows into the capital and financial accounts increased from 1.8 percent of GDP in FY19 to 3.7 percent of GDP in FY21. This increase reflected to a large extent the increase in short-term debt financing – both for loans and trade credit. However, the FDI inflows, on a net basis over the same period, fell from 0.9 to 0.4 percent of GDP, partly due to the COVID-19 shock.

Current and Financial Account Balance
(In percent of GDP)



Sources: Country Authorities

Assessment. Capital account inflows are expected to revert to pre-crisis ratios as pandemic-related financing tapers off. FDI flows remain low compared to other LICs. Improving the investment climate, including continued liberalization of FX regulations as conditions allow, reducing the regulatory burden, and further legal reforms, such as in land registration and contract enforcement, will help attract FDI. Continued access to concessional financing would also help to meet the large climate adaptation needs.

---

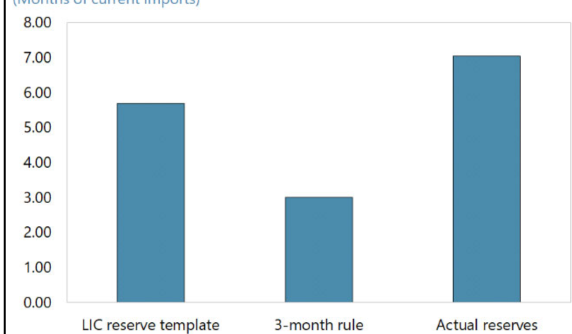
4 The Bangladesh Bank (BB) intervenes in the foreign exchange market to contain undue fluctuations in the exchange rate. Apart from the Annual Report, the BB publishes information on its intervention on quarterly and semiannually basis, respectively. Publication lags are: 2–3 months for Bangladesh Bank Quarterly, 3–4 weeks for Monetary Policy Statements, and 5–7 months for Annual Report. From February 2020, the exchange rate has stabilized within a 2 percent band against the US dollar. Accordingly, the de facto exchange rate arrangement was reclassified to stabilized from crawl-like, effective February 3, 2020.

FX Intervention and Reserves Level

Background. Bangladesh Bank (BB) has been intervening in the spot market to stabilize the Taka/US$ exchange rate. To stabilize the appreciation pressures on the Taka from strong remittance and financial inflows, BB purchased net US$ 7.7 billion in the foreign exchange market and kept the Taka/US$ rate stable throughout FY21 even as the NEER and REER depreciated with shifts in major currencies in trading partner countries (particularly the Euro). Based on the BOP surplus of US$ 9.2 billion foreign exchange reserves reached a record high of US$ 46.4 billion (7.0 months of prospective import cover). Since then, the Bangladesh Bank has sold foreign currency in the open market to temper the depreciation (see Figure 4). The authorities should continue to gradually increase exchange rate flexibility, which would help buffer the economy against external shocks and preserve the level of reserves, while supporting the modernization of the monetary framework. Staff also recommend that their interventions have greater clarity around their purpose, amount, and timing, in line with Fund TA.[5]

Assessment. The reserve coverage is deemed adequate based on a safe threshold of 5.7 months of import cover. The positive overall balance, except in FY18, has supported reserve accumulation over the past years. The reserve adequacy range varies between 4.4 and 5.7 months of imports depending on the assumed cost of reserves.[6,7] With the exceptional surge in remittances, reserves peaked at 7.0 months of imports in FY21. Recent depreciation pressure on the Taka is driven by an increase in import demand. Over the medium-term reserves are expected to decline, given a tapering in remittance inflows, no substantial pick up in FDI, and limited exchange rate flexibility. The authorities recently introduced an option to lend foreign exchange reserves up to US$2 billion for crucial infrastructure projects through the newly created Bangladesh Infrastructure Development Fund (BIDF) on the conditions that (i) reserves are above 6 months of imports, (ii) project earnings are in FX, and (iii) a sovereign guarantee is provided. This raises governance and external sustainability concerns. Given the managed nature of exchange rate regime, Bangladesh may require higher reserve coverage.[8] The authorities should safeguard their FX reserves, including from other quasi-fiscal activities, to build external resilience and use other means of development financing.

Reserve Adequacy Assessment (Flexible ER)
(Months of current imports)



Source: IMF staff estimates.

---

[5] IMF. 2018. Monetary Policy Modernization at Bangladesh Bank Challenges, Next Steps and SARTTAC Support/SARTTAC Technical Assistance report, November, page 34.

[6] 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."

[7] Suggested coverage of 4.4 (5.7) months of imports is attained using a cost of reserve accumulation equal to the marginal product of capital in LICs (ECF external funding cost), as estimated in https://www.imf.org/external/np/pp/eng/2011/021411c.pdf.

[8] The template for assessing reserve adequacy in credit constrained economies with fixed exchange rate suggests a higher value of 12.4 months of import cover.

Annex IV. Risk Assessment Matrix[1/]

Source of Risk	Relative Likelihood	Expected Impact	Main Impacts → Recommended Policy Actions
			Global
Global resurgence of the Covid-19 pandemic. Local outbreaks in other countries lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	M ST	M – H	Lower growth abroad could affect exports and remittances, with significant effects on domestic GDP growth and the current account balance. → Continue to monitor and track domestic transmissions of the virus to prevent local outbreak. Boost vaccination rate; provide additional stimulus, within the available policy space to mitigate adverse health and economic impact; and provide targeted measures to support vulnerable households and firms. Continue with structural reforms to promote green, inclusive, and resilient growth.
Rising commodity prices amid bouts of volatility. Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	M ST	M – H	Increase in current account deficit, higher fiscal burden. Current price controls, while recently increased, limit pass through to inflation. →providing targeted support to the poor; adopting a fuel pricing mechanism; preserving reserve adequacy; increasing exchange rate flexibility; and tightening monetary policy in case of second-round effects.
Cyber-attacks on critical infrastructure, institutions, and financial systems.	M MT	M	Systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements. → Enhance the security in the financial system and key infrastructure. Establish a comprehensive framework to facilitate coordinated responses by government and private sector in the event of a significant cyber-attack.
			Domestic
Uncontrolled Covid-19 local outbreaks.	M ST	H	Limited healthcare capacity, coupled with low vaccination rate, could require costly containment measures, disrupting the recovery. → Boost vaccination rate; provide additional stimulus, within the available policy space; provide targeted measures to support vulnerable households and firms.
Failure to effectively address the problems in the banking system, including high non-performing loans (NPLs).	M ST, MT	M – H	High and increasing NPLs and low capital adequacy in SOCBs would hamper the banking sector's ability to finance business investment, add to the fiscal burden, and undermine growth. → Address main causes of weak bank performance, including structural weaknesses in governance, regulation, supervision, and legal systems. Improve the ability of banks to deal with NPLs, including by establishing framework that can help NPL resolution. Reassess the role of state-owned commercial banks.
Slow progress in resolving the Rohingya crisis and weakened donor support.	M– H ST, MT	M – H	As the repatriation of the refugees takes time and donor support weakens, social and environmental costs, security concerns and fiscal pressures could intensify. → Increase fiscal space to address the difficult situation of the refugees, while maintaining fiscal sustainability. Continuous support of the international community will be essential.
Higher frequency and severity of natural disasters related to climate change.	M– H MT	M – H	Frequent flooding and storms could hit key infrastructure, affect agriculture and allied activities, and the livelihood of those affected. → Expand budgetary support for adaptation by investing in climate-resilient infrastructure and mobilize private green financing. Continue with the mitigation efforts to meet NDC targets.

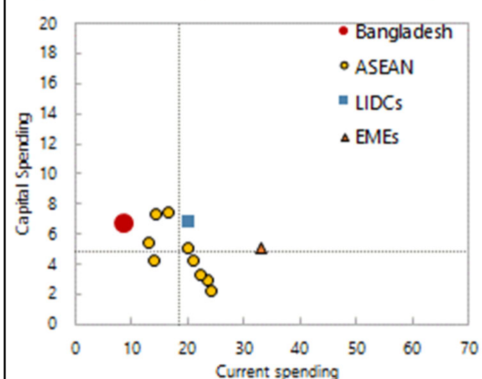
1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("L" (low) is meant to indicate a probability below 10 percent, "M" (medium) a probability between 10 percent and 30 percent, and "H" (high) a probability of 30 percent or more). The RAM reflects staff 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 V. Supporting Inclusive Social Spending

Bangladesh's Social safety net programs (SSNPs) and social spending on health and education have contributed to poverty reduction and improvement in social outcomes. However, a large part of the population still lives in extreme poverty or remains highly vulnerable to shocks such as the COVID-19. Expanding coverage, strengthening benefit adequacy, and improving efficiency of the social safety net programs will help build resilience against economic, health and environmental shocks. Mobilizing resources to sustainably finance higher health and education spending will be critical in facilitating inclusive growth moving forward.

1. **Bangladesh has achieved significant progress in social outcomes despite public spending remaining low**. The high growth performance over the past decade contributed to a remarkable improvement in socio-economic indicators, such as on poverty, health, education, and other dimensions of well-being. Poverty declined as exports-led growth generated demand for low-skilled jobs and large inflows of remittances facilitated greater risk-sharing. However, challenges persist as a large part of the population still lives in extreme poverty or remains highly vulnerable to covariate shocks such as the COVID-19. Government spending to address such covariate risks remains low, with overall current expenditure lagging that of peer countries. While the authorities have increased priority health and social spending during the pandemic, the low level of revenue is restraining public expenditure on other important developmental objectives.

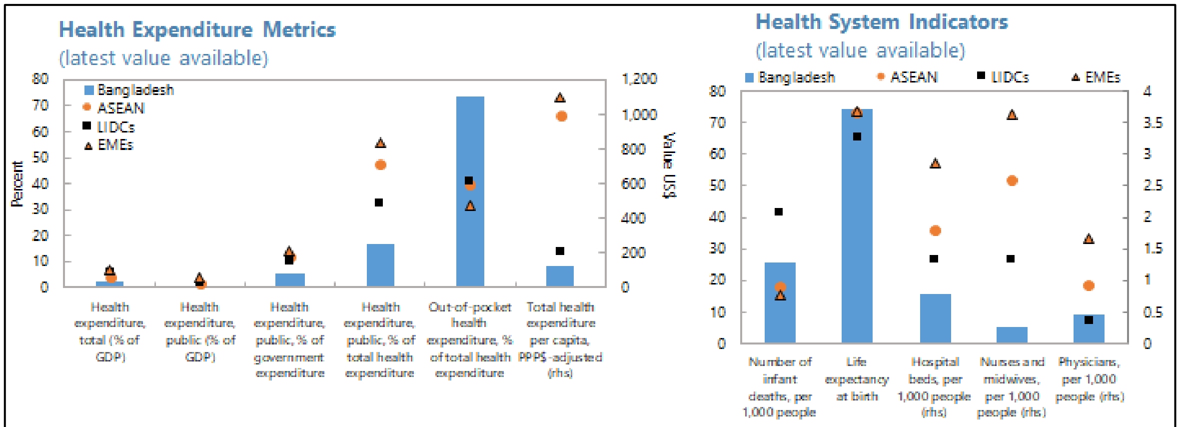
Current and Capital Spending
(Percent of GDP, latest value available)



Note: Dashlines are the average of ASEAN.
Source: World Economic Outlook.

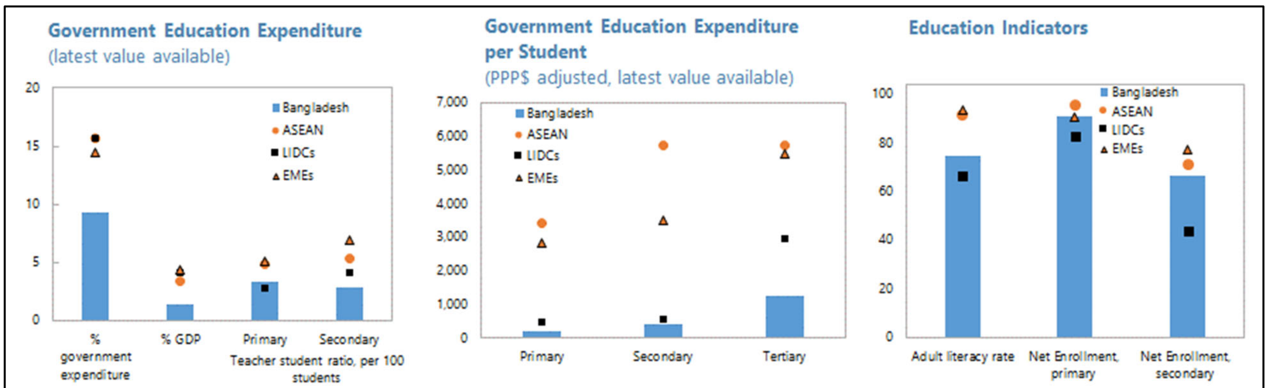
2. **More investment in human capital will be needed to help Bangladesh achieve its target to move to upper-middle income and beyond.** Government spending on health, education and social protection are low and need to be bolstered. In particular:

- **Health financing is characterized by low government spending and high out-of-pocket expenditure.** Total health spending is below the average of comparators both as a share of GDP and in US$ purchasing-power-parity (PPP) per capita terms. Despite notable improvements in several health indicators, considerable challenges in the health sector remain. Large out-of-pocket payments due to limited public health spending further exacerbate inequities. Life expectancy is comparable to more advanced countries. Nevertheless, infant mortality remains high, and the health sector capacity is limited, including because of a low number of nurses and midwives who play a central role in improving service coverage.



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

- **Public spending on education remains inadequately financed.** While spending levels on primary and secondary education are comparable to the average in LIDCs, the spending gap is wider for tertiary education. Despite the lower spending relative to the average of comparator countries, Bangladesh maintains a comparable level of net enrollment in primary and secondary education. Increasing education spending as a share of GDP and a share of overall budget will help increase access to higher levels of education, especially at the tertiary level where the male-female gaps in enrollment and attainment remain.



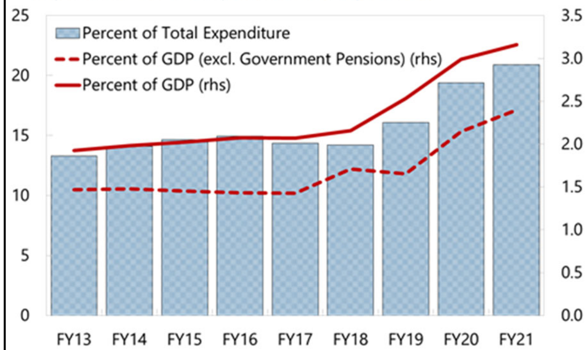
Source: IMF FAD Expenditure Assessment Tool (EAT),

3. **Budget support for social protection increased in recent years and was scaled up during the pandemic.** Total spending on SSNPs as a share of GDP increased from 2 percent to 2.5 percent during FY15-19. However, more than half of this increase is explained by the rise in the pension allocations for retired government employees and their families that increased from 0.6 percent of GDP to 0.9 percent of GDP over the same period. Excluding this mandatory civil

servants' pension program, the allocation on core social safety net programs increased by only 0.2 percent of GDP during the period FY15–19. The authorities scaled up social protection spending during the COVID-19 pandemic to mitigate the economic fallout for the most vulnerable. Spending on SSNPs as a share of GDP reached 2.9 percent and 3.2 percent in FY20 and FY21, respectively, and is budgeted at 3.2 percent in FY22. Existing programs that were expanded include cash allowance to widows and the old age people, food security and affordable home constructions. New programs were introduced and digital tools were used to support the urban poor and to protect jobs. Urban poor, mostly employed in the informal sector, were not only among the most vulnerable groups during the lockdowns, but also the most difficult to target. A new database of urban poor has been developed and several rounds of cash transfers totaling Tk 27 billion are being implemented, estimated to benefit around 9 million people. Wage support programs were offered to formal sector workers, including those working in the export-oriented industries. Government-to-Person (G2P) payment and mobile finance services (MFS) were widely used to ensure transparency and to reach beneficiaries without bank accounts.

Social Safety Net Programs Spending

(in percent of GDP and in percent of total expenditure)

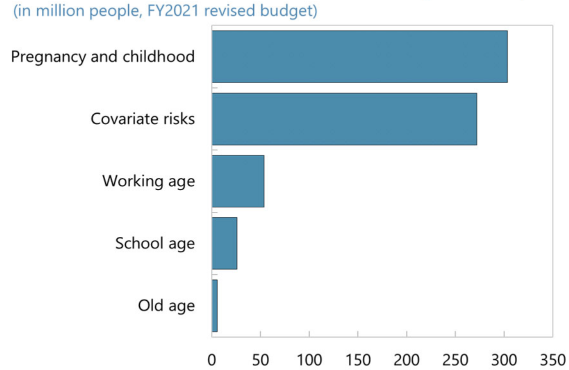


Note: Data are based on revised budget estimates.
Source: Ministry of Finance.

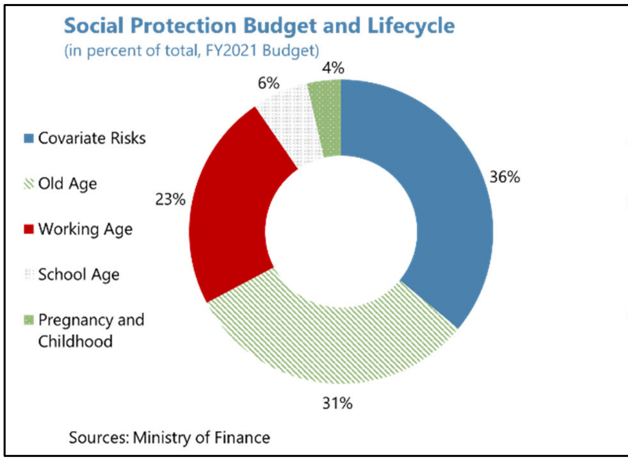
4. The imbalance between expenditure allocations and age group shares suggests that there is scope to better align the lifecycle transfer programs with Bangladesh's demographic composition. Bangladesh adopted a lifecycle approach to social protection with the launch of the National Social Security Strategy (NSSS) in 2015. The lifecycle approach aims at designing social programs to address both covariate risks and risks at each stage of life. Covariate risks—such as economic recessions, natural disasters, and epidemics—are risks that individuals can face across the different stages of life. Lifecycle related programs are split into four categories based on their target population group being pregnant women and children (0-4), the school age (5-17), the working-age (18-59), and the elderly (60+). Disaggregation of the FY21 social security budget allocation into lifecycle and covariate risks shows that covariate risks are allocated 36 percent while the highest lifecycle allocation is provided to old age people (31 percent) despite that their population share is the lowest. On the other hand, the combined allocation targeting the pregnancy, childhood and school age groups is only 10 percent, despite that these groups amount to at least 34 percent of the population.

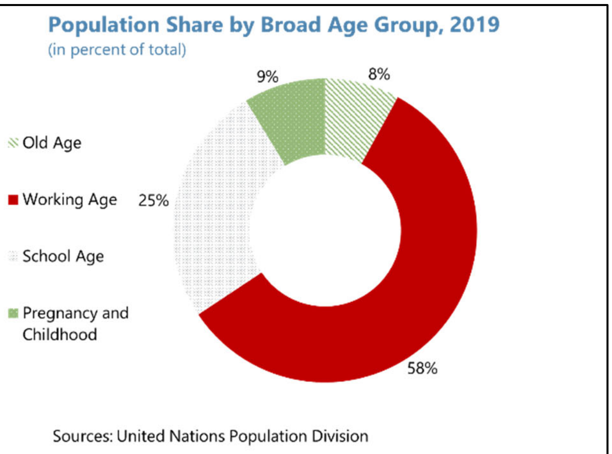
Social Protection Beneficiaries and Lifecycle Groups

(in million people, FY2021 revised budget)

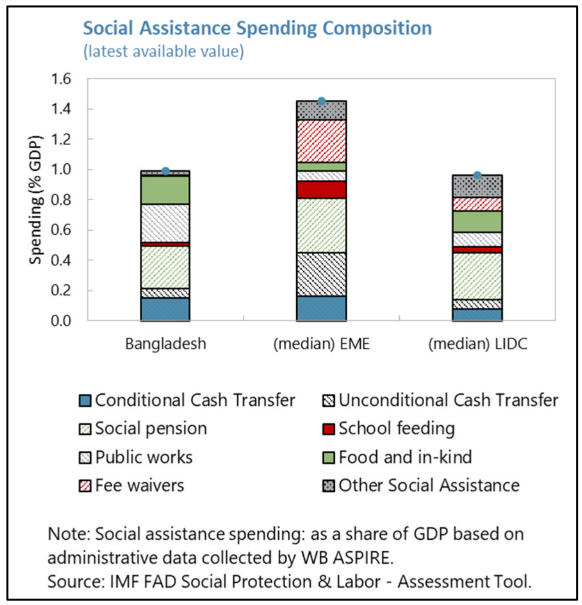


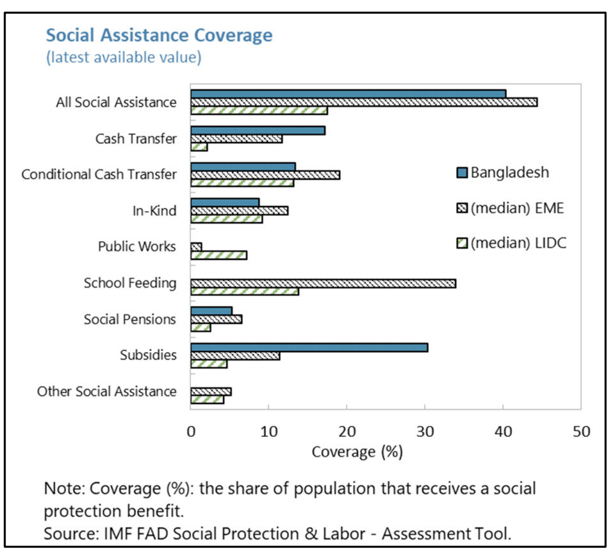
Source: Ministry of Finance.
Note: An individual can be a beneficiary of multiple programs under a single demographic group. Hence, the total number of beneficiaries under multiple programs can exceed the population.

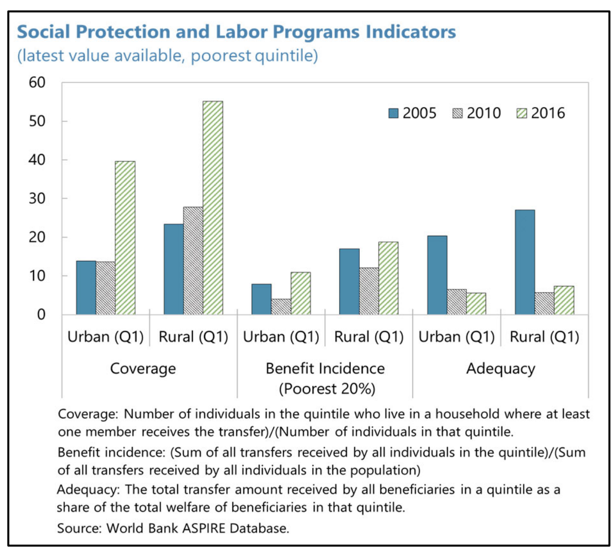




5. While coverage of social assistance programs has increased over time, the level of total spending and benefit adequacy have remained low and urban areas underserved. When compared to EMEs, Bangladesh allocates a higher share of its social assistance budget to food subsidies and public works, while a lower share is distributed as unconditional cash transfers and fee waivers. Bangladesh has a higher social assistance coverage rate than the median of the low income and developing countries (LIDCs), despite having similar spending level and program composition. Based on pre-COVID-19 information, the level of social assistance spending is lower than the median of emerging market economies (EMEs) by about



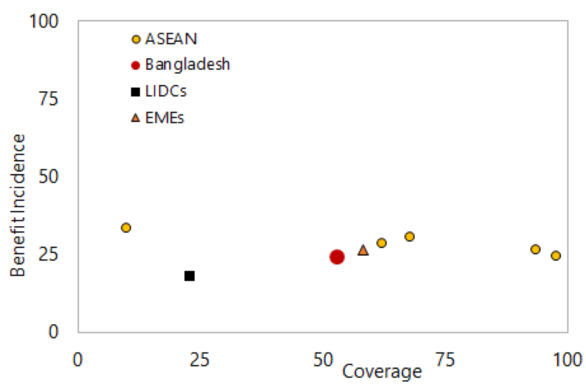




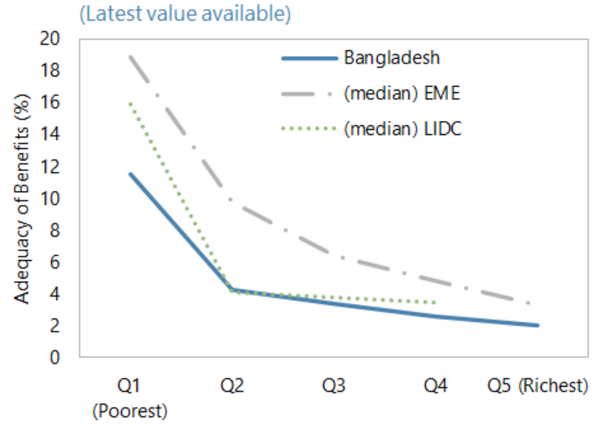
0.5 percent of GDP, while it is at par at about 1 percent of GDP with the median LIDC. Coverage of the poorest quintile has increased significantly over time both in the rural and urban areas of Bangladesh, exceeding 50 percent of the rural households before the pandemic. However, only 4 out of 10 urban poor are receiving social assistance. Benefit incidence declined as coverage increased, particularly for the bottom quintile of urban households that receive only 10 percent of the total social assistance.

6. Social assistance programs will need to be strengthened in the near term to mitigate the impact of the pandemic on the most vulnerable. Pre-pandemic cash transfer programs had a satisfactory coverage rate for the bottom quintile with benefit incidence levels closer to the average of emerging economies. Preserving the gains in poverty reduction over the pre-pandemic period will require expanding the coverage to the new and urban poor not covered by existing programs. Importantly, strengthening the social safety net would require improving benefit adequacy and targeting as the total transfer amount received by beneficiaries as a share of their pre-transfer total income is low.

Social Assistance Coverage and Benefit Share of Poorest 20 percent
(in percent, latest value available)



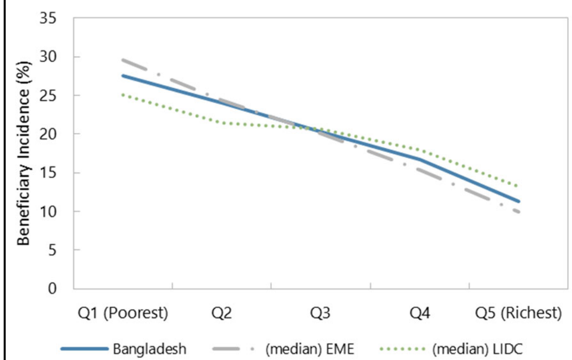
Social Assistance Adequacy of Benefits by Quintile
(Latest value available)



Source: IMF FAD Expenditure Assessment Tool (EAT); and World Bank Aspire database.
Note: Social assistance adequacy refers to the total transfer amount received by all beneficiaries in the quintile as a share of the pre-transfer total income/expenditure of beneficiaries in that quintile.

7. COVID-19 has underscored the urgency to further improve the social safety net, including via better and timely targeting of the assistance programs. While government actions have been timely and appropriate, several challenges to the social protection system were observed during the pandemic. The new urban poor were excluded from most of the existing programs at the time. Thus, although a database has been developed, efforts are needed to maintain the database or find better ways to identify those workers in case of future shocks. Although progress has been made in the past five years on harmonizing programs, there are still 119 social protection programs managed by 25 Ministries or Divisions. This fragmentation has likely led to high administrative costs and low efficiency of execution and monitoring. Most importantly, program coverage is still relatively low to fully realize the potential of the lifecycle approach. Moreover, targeting of social benefits can be improved as 11 percent of the transfers provided before the pandemic was received by the top quintile of the income distribution. Public service digitalization can help reduce benefit leakage to better target those most in need of support.

Social Assistance Beneficiary Incidence
(latest available value, by quintile)



Benefit incidence: (Sum of all transfers received by all individuals in the quintile)/(Sum of all transfers received by all individuals in the population)
Source: IMF FAD Social Protection & Labor Assessment Tool.

8. **Significant policy effort is required to build an inclusive social safety net that will help end poverty.** The 8th Five-Year Plan (8FYP) recognizes the need to implement administrative reforms, expand coverage with a special focus on young children and urban areas, increase generosity of social assistance programs, build a social insurance system, and complete the contributory pension system. Additional challenges are posed by the pandemic's "new poor," as considerable financing will be required to broaden the scope of social protection and at the same time strengthen the benefit adequacy of the offered programs. The following recommendations aim at enhancing Bangladeshi's social safety net to promote more inclusive growth and to improve its disaster-responsiveness:

- **Mobilize revenue to expand and strengthen social protection.** Bangladesh's low tax revenue significantly constrains the authorities' resource envelope to support the vulnerable and poor segments of the population both in normal times and during crises such the COVID-19 pandemic. Therefore, it is crucial to sustainably finance the expansion of the social safety net by pursuing revenue reforms that will streamline the tax system, rationalize tax expenditure, and modernize the revenue administration.

- **Improve public administration efficiency in targeting and delivering social protection, including by adopting GovTech solutions and developing a flexible poverty registry.** Bangladesh will benefit from further advancing its government digitalization efforts to improve efficiency and flexibility in public service delivery. Digitalizing information on beneficiaries and facilitating secure digital transfers can lead to faster, more transparent, and lower-cost procedures in targeting beneficiaries and tracking changes in poverty patterns. Similarly, a well-designed poverty registry could enhance the shock-responsiveness of the social safety net design which is crucial for preventing climate and other shocks from having a lasting impact on the poor.

- **Increase social spending to improve benefit adequacy and to better align program allocations with demographic and regional needs of urban and rural areas.** Mobilizing resources and improving efficiency can help generate the fiscal space to strengthen the currently weak benefit adequacy of the social protection system, particularly for the urban poor and certain lifecycle groups like pregnant women, mothers, and children.

References

Bangladesh Planning Commission, 2020, "8th Five Year Plan: Promoting Prosperity and Fostering Inclusiveness," December 2020. http://www.plancomm.gov.bd

———, 2015. "National Social Security Strategy (NSSS) of Bangladesh," July 2015. http://www.plancomm.gov.bd/nsss/

Bangladesh Cabinet Division and General Economics Division of Planning Commission, 2020, "Urban Social Protection Strategy and Action Plan in Bangladesh," draft. January 2020, Social Security Policy Support (SSPS) Program.

Annex VI. Capacity Development Supporting Surveillance Priorities

Capacity development (CD) remains crucial to help Bangladesh transition into an upper-middle income economy – an aspiration for 2031. CD from the IMF, closely aligned with surveillance priorities, focuses on supporting the authorities' efforts in building fiscal and monetary institutions; modernizing fiscal and monetary frameworks; and improving macroeconomic statistics. Given pandemic-related travel restrictions, CD delivery was limited in FY21. Virtual engagement has picked up recently. However, starting a new CD project virtually has been challenging. In FY21, Bangladesh was in the top ten IMF CD recipients amongst the lower-middle-income countries in Asia.

Background

1. **The IMF CD is aimed at supporting the large development needs, as highlighted in Bangladesh's 8th Five Year Plan (FYP).** Mobilizing revenues by modernizing tax administration, and managing fiscal risks are key fiscal priorities. For monetary and exchange rate policies, the focus remains on shifting to an interest rate framework, increasing exchange rate flexibility gradually, and maintaining adequate FX reserves. Strengthening banking regulation and supervision, improving corporate governance, reforming legal systems, and reforming and reassessing the role of state-owned commercial banks will be important financial sector reforms. In addition, increasing staff capacity with the aim to strengthening policy making remains important. CD has been aligned to these policy objectives of the authorities, which are also in line with the IMF's surveillance priorities. CD is being delivered by regional advisors from IMF South Asia Regional Training and Technical Assistance Center (SARTTAC), and IMF HQ-based missions.

Monetary and Financial Sector

CD in this area is focused on two key surveillance priorities –modernization of the monetary policy framework and addressing financial sector vulnerabilities.

2. **CD is supporting the Bangladesh Bank (BB) to prepare for the transition towards an interest-based monetary policy framework.** To accompany this transition, CD on monetary policy framework and monetary operations are currently underway. The former, through development of a Forecasting and Policy Analysis System (FPAS) at the Bangladesh Bank, should allow an informed decision-making process on the appropriate level of the policy interest rate, and monetary policy stance more generally, given the prevailing macro-economic and financial conditions and outlook. The latter should ensure that the desired monetary policy stance is transmitted into the economy, by steering the short-term interbank market rate close to this policy rate.

3. **The 2019 FSSR for Bangladesh provided a baseline diagnostic assessment upon which financial sector reform programs can be built and implemented.** The 2019 FSSR evaluated the adequacy of institutional frameworks and capacity in the areas of financial policies that may have implications on financial stability and financial deepening. Based on these recommendations, the FSSR has developed a comprehensive TA Roadmap to address gaps that will guide CD to Bangladesh

going forward. Discussions are ongoing to embark on this roadmap starting with stress testing, operationalizing a macroprudential policy framework and training for bank board members.

4. Strengthening the supervisory capacity of the BB to move towards effective risk-based supervision remains important. Several missions have focused on building of a more risk-based approach of the supervision of banks and addressing implementation difficulties will be important.

5. The IMF has reviewed and provided comments on the authorities' amendments to the Bank Companies Act and Financial Institution Act. While progress has been made to align Bangladesh Bank's (BB) autonomy and the bank resolution framework with best practices, based on IMF reviews, further improvements are needed in the Bank Companies Act and Financial Institution Act/Finance Company Act, focusing on the autonomy of BB and the resolution framework for weak banks. The IMF has reviewed these acts to provide comments in the context of aligning these to international best practice. Comments on the draft new guidelines on corporate governance of banks have also been provided.

Fiscal Sector

Mobilizing revenue to create fiscal space, improving the social safety net, and building climate resilience and competitiveness remain important. Reforms of the National Savings Certificates (NSC) to mitigate interest costs and greater reliance on tapping the government securities market are important for developing the medium-term debt strategy (MTDS).

6. Improving the Public Financial Management (PFM) systems is a key part of the overall fiscal governance reform agenda. The PFM Reform Strategy (2016–21) is supported by a PFM Reform Action Plan (2018–23). PFM related CD support through TA missions and customized training programs have thus far focused on (i) fiscal reporting (ii) review of chart of accounts-budget and accounting classification (iii) strengthening cash management practices (iv) designing a commitment management and control system and fiscal risk management. Future TA will focus on improving the content and presentation of the budget documents. A mission to strengthen Debt Management Practices (focusing on NSCs) is also planned.

7. CD projects focused on enhancing revenue collection, with implementation of a few targeted priority reforms, are being delivered. CD thus far has focused on (i) modernizing revenue administration (ii) improving the use of electronic data and building capacity for revenue analysis and (iii) managing for improved revenue collections. Future CD plans will include compliance risk management, audit & investigation techniques, and specific compliance risks.

8. CD for identifying fiscal risks from SOEs, in the context of debt and contingent liabilities, is being discussed. A presentation and discussion, in the context identifying fiscal risks from SOEs, was delivered to the authorities focusing on the approaches to the management of fiscal risks from SOEs. The engagement on this topic is expected to continue once the SOE database and related data is made available for analysis.

9. CD on developing a medium-term debt strategy – important to prepare Bangladesh's graduation from LDC – is being provided. A joint IMF and World Bank mission assisted and advised the authorities on debt market development. It underscored that the pricing and use of non-marketable savings bonds have impacted the growth of the domestic debt market in Bangladesh and resulted in market distortions. A joint IMF and World Bank mission also delivered a virtual TA to support the formulation of the MTDS in Bangladesh. The authorities are committed to updating the MTDS by the end of 2021. The mission delivered detailed presentations on the MTDS framework and the use of the analytical tool. It also provided hands-on training on the computation and interpretation of indicators to assess cost-risk trade-offs. The authorities had earlier formulated a MTDS which ran during FY14 to FY16 but not updated subsequently mainly due to capacity constraints and fragmented debt management responsibilities. The authorities are keen to reinvigorate the development of the domestic debt market and reduce its fragmentation by de-emphasizing its reliance on NSCs. However, this would require TA in several areas including updating and implementing the MTDS, strengthening the government's cash management capacity, formulating the issuance plan, reforming the PD system, repo market, and developing the secondary market.

AML/CFT

10. Progress has been made in strengthening the AML/CFT but overall effectiveness of the framework is still lacking. In November 2019 the authorities published the National Strategy for Preventing Money Laundering and Combating Financial Terrorism. Going forward, the authorities should step-up efforts to fully implement the strategy and enhancing the effectiveness of the framework including by improving entity transparency and the availability of beneficial ownership information, and strengthening AML/CFT risk based supervision of financial institutions. Compliance of financial institutions in implementing preventive measures including in relation to domestic politically exposed persons should also be a matter of priority.

Data

The pandemic has highlighted the importance of high quality and better coverage of data and timely dissemination of statistics. This data is imperative as input for well-designed macro frameworks and forecasting tools used by the authorities for medium-term planning.

11. Progress in improving macroeconomic statistics continues, and improving the quality and timely dissemination of data remain important. Several ongoing CD projects are aimed to help the authorities compile key macroeconomic and financial statistics.

- **Monetary and financial.** TA in compiling monetary statistics for other financial corporations, covering insurance corporations, all other financial intermediaries, and several financial auxiliaries was provided to expand the institutional coverage of MFS for Bangladesh, thus improving its usefulness for financial sector surveillance.

- **Prices.** Good progress has been made in updating the Consumer Price Index (CPI) to reflect updated weights and items, and improving compilation methodologies continues. The first TA mission to assist BB to compile a residential property price index, under the auspices of the Data for Decisions Fund, was also delivered. TA in CPI and Producer Price Index (PPI) is expected to continue in this fiscal year (FY22).

- **Government Finance.** The recent series of GFS missions primarily focused on assisting the authorities in finalizing GFS for fiscal years 2016/17 – 2018/19, and to resume dissemination of those statistics to the IMF.

- **National Accounts.** The national accounts program only contains annual GDP at current and constant prices, using both the production and expenditure approach, but the BBS' longer-term plan is to develop a QGDP program. TA assisting the authorities with developing/updating measures of QGDP was recently delivered.

Training

12. **The IMF is delivering training for staff via customized courses, workshops, and training in methodologies used in surveillance.** In addition to reviewing a PFM related course for the authorities, in 2019, IMF SARTTAC conducted a one-week training program for the course participants on key PFM issues and practices and particularly the relationship between macroeconomic forecasting and fiscal policy. During 2019 and 2020, SARTTAC hosted three cohorts, each comprising 25 mid-level officers, for a week-long course comprising Macroeconomic and Financial Implications of Fiscal Policy, Revenue and Expenditure Forecasting, Strategic Budgeting and Medium-term Expenditure Framework, Fiscal Risks Management, and Accounting, Reporting and Fiscal Transparency. Regional Training in Risk Based Audit Techniques, Collections and Arrears Management, and Taxpayer Registration has also been provided. Training in Forecasting and Policy Analysis Systems models is being considered for BB officials.

13. **The authorities' upgraded macroeconomic framework now captures better linkages between fiscal policy and growth.** The authorities' upgraded macroeconomic framework was developed as a part of the Financial Programming 2.0 project. This training set out to strengthen the macroeconomic analysis capacity of the authorities and enhance their medium-term framework to better capture economic interactions and feedback effects. It is proposed that this project now enters a second phase. The goal for this phase would be to (i) embed the forecasts in the institutional processes for budget preparation and economic analysis, and (ii) further refine the macroeconomic framework. This work would then aim at producing regular forecasts and analysis and communicate them through reports and briefings.

Annex VII. COVID-19 and the Financial Sector Policy Response

Financial Policy Measures Taken to Buffer the Impact of the COVD-19 Shock

1. The bulk of the authorities' stimulus package was directed through the banking sector. The initial policy response from the Bangladesh Bank (BB) consisted of a mix of subsidized lending schemes, refinancing schemes, a loan moratorium and reclassification freeze (Table 1). As the COVID-19 pandemic continued to unfold, the loan moratorium was extended from end-September 2020 to December 2020. Additional measures aimed at targeted lending to cottage, micro, small and medium enterprises (CMSMEs), and the agricultural and rural sector were also introduced. Overall, the pandemic response included a loan moratorium, macroprudential policies, refinancing facilities, a credit guarantee, and guidance on dividend distribution.

Evaluating the COVID-19 Measures and Assessing their Impact on the Banking Sector

2. The loan moratorium was sufficiently broad and fast to help buffer the initial shock from COVID-19 on the economy. All term loans were eligible for the loan moratorium. The breadth of the policy was appropriate given the need to react quickly to the shock. Concurrently, the BB implemented a reclassification freeze, whereby loans benefitting from the moratorium could not be downgraded during the time of the moratorium. Nevertheless, borrowers whose loans were not current and still chose to continue servicing their loans could benefit from an improvement in classification. Several prudential policies were relaxed to direct lending into alternative investments, CMSMEs, and consumer loans.

3. Changes to prudential policies make assessing asset quality in banks more difficult. Classification and prudential standards should not have been lowered, as done with the reclassification freeze and the forbearance measure introduced in 2021 that allows loans to remain unclassified as long as 25 percent of the amount due by December 2021 is paid. Loans benefitting from the moratorium should be monitored closely for viability. Ad-hoc reporting of the stocks and flows of the loans impacted by COVID-19 can enable better monitoring of the financial health of banks and the stability of the banking system. The forbearance measures introduced distort the view on asset quality in the banking system and potentially understate provisioning requirements. Moreover, relaxing prudential measures to attract lending to specific sectors and lowering standards to boost credit disbursement could have been avoided.

4. Pickup in lending was tepid despite the availability of subsidized loans and refinancing schemes. Several refinancing schemes were introduced to make liquidity available in the banking system, and in combination with monetary easing, this ensured banks had ample liquidity to extend credit to the real economy. Subsidized working capital loans, worth Tk 300 billion, to export oriented and service sector industries were introduced in the first phase from April 2020 to June 2021. Take up in this phase was around 82 percent. An additional Tk 330 billion was introduced in the second phase in FY22. Take up to end October was around 15 percent. Subsidized loans to CMSMEs totaling Tk 200 billion were introduced in April 2020. Take up as of end-June 2021 was around 77 percent. This is a revolving scheme with the second phase starting in FY22. To improve take-up in CMSMEs, the authorities introduced a credit guarantee scheme. The credit guarantee was partial ensuring risk sharing between banks and the government, and incentivizing banks to find creditworthy borrowers.

5. A policy introduced early on, later reversed, restricting dividend distribution could have helped preserve the capital of banks to absorb losses. BB initially introduced a restriction preventing the distribution of 2019 dividends before September 30, 2020 (the expiration date of the original loan moratorium before it was extended to end December 2020). This instruction was appropriate given uncertainties in the financial positions of banks. However, this instruction was later reversed and a more liberal instruction on dividend distributions, for banks and financial institutions, was introduced in February 2021.

Exiting from COVID-19 Measures: Best Practices

6. As the economy recovers from the COVID-19 shock, regulatory and supervisory policies must be calibrated to ensure financial stability and credit discipline. Below are some principles reflecting best practice with reference to the Bangladesh context:[1]

7. Moratoria and government guarantees: The authorities allowed the loan moratorium to expire on December 20, 2020 after extending it only once. The forbearance measure introduced in 2021 is broad (all current loans are eligible) and prolongs the recognition of NPLs. Broad measures should be replaced with (i) targeted and time bound support and (ii) risks should be shared between the fiscal agency and banks. Going forward, eligibility criteria for further support, if needed, should become stricter.

8. Asset quality and provisioning: A repayment schedule for loans that benefitted from the moratorium was announced, allowing repayment on a quarterly basis for up to two years, as determined by banks based on their assessment of the creditor and the loans. This gradual repayment schedule will help support firm recovery. It remains crucial that supervisors require banks to collect information and monitor these loans for quick identification of problem loans. More generally, banks should also be required to disclose criteria used to determine loan classification and share assumptions used to assess the adequacy of provisions. Banks should be prepared to deal with a higher than usual level of NPLs. Banks with large NPLs should be required to develop internal capacity to manage NPLs and should develop plans to reduce their levels. The legal framework for insolvency and debt enforcement should be strengthened to increase loan recovery.

9. Profitability and capital distributions: Banks with low capital should submit a credible capital restoration plan. The plan should be feasible, gradual, and planned for execution in a timely manner. Dividend distributions should be restricted given the distortion to bank profitability from the moratorium and uncertainty around the viability of borrowers.

---

[1] Please see "Unwinding COVID-19 Policy Interventions for Banking Systems," Money and Capital Markets Department, IMF, March 10, 2021.

Table 1. Bangladesh: Selected COVID-19 Related Financial Sector Policies

Stimulus Lending and Refinancing Schemes

Export-oriented industries

Tk 50 billion of loans to cover the salaries and allowances of workers in export-oriented industries for three months (April-June 2020), later increased by an additional Tk 30 billion for the month of July. The loan was interest free with a service charge of 2 percent.

Large and service sector industries

Tk 300 billion for working capital to large industries and service sectors was enhanced to Tk 400 billion in October 2020. A refinance scheme, with an interest rate of 4 percent, was made available from BB for 50 percent of the loan with the rest funded from banks and NBFIs. The loans carried a 9 percent interest rate with the government subsidizing 4.5 percentage points of the interest cost -- the borrower pays the rest.

Refinance scheme for pre-shipment credit

Tk 50 billion for a revolving "Pre-Shipment Credit Refinance Scheme" announced in April 2020 to facilitate pre-shipment export credit to the export-oriented industries. Loans are extended by banks at a 6 percent interest rates and can be refinanced 100 percent by the BB at 3 percent interest.

Agriculture and rural credit refinance scheme

In April 2020 BB introduced a refinance scheme for Tk 50 billion from its own fund for horticulture, fisheries, poultry, dairy, and livestock. Loans under the scheme have a 4 percent interest rate and banks are refinanced at 1 percent from BB.

Agriculture and rural credit interest rate subsidy

In April 2020 BB announced subsidizing 5 percent of the interest rate on agricultural loans for all crops and grains. This lowers interest rate to borrowers to 4 percent from 9 percent effective until June 20, 2021.

Financial inclusion refinance scheme

In April 2020, "BB launched a refinance scheme of Tk 30 billion to generate sufficient income for the COVID-19 affected low-income professionals, farmers and micro/small businesses. This facility is being implemented through Micro Finance Institutions (MFIs). Banks get the fund from BB at 1 percent interest, but they lend it to MFIs at 3.5 percent and finally MFIs disburse loan to the affected groups at maximum 9 percent interest."

CMSME stimulus package loans

In April 2020, the government announced a stimulus package of Tk 200 billion for CMSMEs in the form of loans from Banks and NBFIs. The loans carry a 9 percent interest rate of which 5 percent is subsidized by the government and 4 percent is paid by the borrower. The BB also introduced a refinancing facility for 50 percent of the loan at a 4 percent interest rate.

In June 2021, additional funds were announced for refinancing loans to CMSMEs, funded by the AIIB, for US$ 300 million. Under this facility, banks and financial institutions that lent to CMSMEs under the stimulus package can refinance the remaining 50 percent of the loan.

Table 1. Bangladesh: Selected COVID-19 Related Financial Sector Policies (Continued)

CMSME refinance schemes

In May 2020, BB increased the size of three refinancing schemes for CMSMEs “Small Enterprise Refinance Scheme” from Tk 8.5 billion to Tk 15 billion, the “Refinance Scheme for Setting up Agro-based Product Processing Industries in Rural Areas” from Tk 7 billion to Tk 14 billion and the “Refinance Scheme for New Entrepreneurs in Cottage, Micro and Small Enterprise Sector” from Tk 0.50 billion to Tk 1 billion. The interest rate under these schemes to banks and financial institutions is 3 percent to be lent at an interest rate of 7 percent for borrowers.

Agricultural and rural credit policy for FY22

In July 2020, BB announced the agricultural and rural credit policy and program of Tk 262.92 billion for the FY21, around 9 percent higher than the credit program in the previous year.

CMSME credit facility

BB introduced a pre-finance credit facility for eligible RMG factories in November 2020 under social upgradation of SREUP for improving the safety/healthy/hygienic facility of workers and workplace environment to overcome the COVID-19 pandemic situation.

Agriculture and rural credit cap on interest rates

Effective April 1, 2021 the interest rate on Agricultural and Rural Credit was capped at 8 percent (the previous cap was 9 percent).

Working Capital Loans for Salaries of Workers in the Tourism Sector

On July 15, 2021, BB issued a circular regarding the Tk 10 billion package for working capital loans to pay the salaries of low-income staff in the tourism industry. The facility has an interest rate of 8 percent of which 4 percent is subsidized and a tenure of one year. Banks extending the working capital loan can refinance 50 percent of the disbursed amount from BB at 4 percent with a maturity of one year.

Stimulus Package

Related to the stimulus package for the industrial and service sector impacted by COVID 19, BB issued a circular on July 28, 2021 instructing banks to make sure that the package is disbursed to a broad swath of the sector and to focus institutions that have not yet received the benefit.

Stimulus Package

Related to the stimulus package for the industrial and service sector impacted by COVID 19, BB issued a circular on July 29, 2021 instructing that these institutions that received a partial benefit by June 30, 2021 can get the remaining amount as a working capital loan starting July 1, 2021 with December 21, 2019 as the base year. Institutions that did not receive a benefit can receive the working capital loan starting fiscal year 2021/2022 with December 31, 2020 as the base year.

Refinance scheme for Financial Inclusion

On September 5, 2021 BB reconstituted a refinancing scheme with the title "Refinance Scheme for marginal/landless farmers, low-earning professionals, school-banking account holder and small businessmen of 10/50/100-Tk-account holder" to bolster financial inclusion given the COVID-19 pandemic. The size of the scheme was increased from Tk 2 billion to Tk 5 billion and will be effective for 5 years with the option of extension. The scheme is not open to defaulters or those who have benefitted from other schemes. The maximum amount an individual can borrow is Tk 500 thousand and for groups of 2 to 5 a maximum of Tk 400 thousand per person. The maximum interest rate to the borrower is 7 percent with a maturity of 3 years with 6 months grace. BB will charge 1 percent interest for refinance to the financing bank.

Table 1. Bangladesh: Selected COVID-19 Related Financial Sector Policies (Continued)

Special Loans and Advances for the CMSME Sector

On September 9, 2021 BB issued directives on the implementation of the second phase of CMSME stimulus package of Tk 200 billion. BB will allocate the funds according to the previous year's loans outstanding in CMSMEs excluding classified loans, and the implementation rate with discretion to increase or decrease the allocation. Defaulters and borrowers who have rescheduled three times are not eligible for the funds. At least 70 percent of the funds should be allocated to cottage small and micro industries (of which at least 65 percent for the production and service subsector with the remaining maximum 35 percent to the trading subsector) with the remaining 30 percent maximum for medium industries. At least 8 percent of the annual amount lent should be for women entrepreneurs. Loans cannot be used towards the previous loan, for the expansion of a business or for a new business. The interest rate is capped at 9 percent of which 5 percent is subsidized by the government. The interest rate subsidy will be available for one year from the issuance of the loan.

Refinance Scheme for the Agriculture Sector

On September 14, 2021 BB introduced a refinance scheme for Tk 30 billion available until June 30, 2022. Banks participating receive 1 percent interest from BB and the maturity is 18 months. The interest rate of the loans extended is capped at 4 percent with a maturity of 12 months for crop farmers and 18 months for other sectors.

Government Guarantee

CMSME credit guarantee scheme

In July 2020 BB set up a Credit guarantee Scheme (CGS) for Tk 20 billion for the Cottage, Micro and Small enterprises (CMS) seeking financing under the Tk 200 billion stimulus for CMSMEs who do not have adequate collateral. Subject to having adequate funds, participating banks and financial institutions get a maximum of 30 percent guarantee against their stipulated portfolio limit for working capital loans/investment in CMS sector. Within the portfolio guarantee cap, a single entrepreneur or borrower/investor can get up to a maximum of eighty (80) percent guarantee coverage. Regardless of the existing limit for loan/investment, the amount of loan/investment facility for guarantee under the scheme is a minimum of Tk 0.20 million and a maximum of Tk 5 million.

Prudential measures

Loan moratorium and classification freeze

In March 2020, BB announced a loan moratorium and reclassification freeze until Sept 30, 2020, later extended to December 31, 2020 based on classification status on 1 January 2020. Borrowers willing to pay during this period were still able to and could improve the classification of their loans. BB instructed banks to transfer accrued interest/profit to the income account after approval from the relevant part of the bank and to maintain prescribed provisions against the loans/investments. Banks were advised to maintain 1 percent extra provision for all unclassified loans, including special mention account (SMA) for the year ending 31 December 2020.

Advance-deposit ratio (ADR) and investment-deposit ratio (IDR)

In April 2020 BB increased the Advance-Deposit Ratio (ADR) for conventional banks to 87 percent from 85 percent and Investment-Deposit Ratio (IDR) for Islamic banks to 92 percent from 90 percent effective 15 April 2020.

Table 1. Bangladesh: Selected COVID-19 Related Financial Sector Policies (Continued)

Dividend distribution for Banks

In May 2020 BB instructed banks not to distribute the cash dividend of the year 2019 before 30 September 2020. Relatedly, a guideline for dividend distribution was later issued by BB. In the end, BB relaxed the rules for the individual investors to protect their interest allowing dividend distribution to them before 30 September 2020.

CMSME Loan classification and provisioning

The Loan classification and provisioning policy for Cottage, Micro and Small Enterprises (CMSME) was relaxed on 21 July 2020 to encourage bank lending in this sector.

NBFI maturity extension of loans and leases

In August 2020 BB allowed the extension of maturity of the term loan/leases of FIs which is set at maximum 50 percent of the remaining time to maturity of the loan/leases.

Risk weights for alternative investments

BB revised the risk weight in September 2020 from 150 percent to 100 percent for investment under alternative investment (Private Equity, Impact Fund etc.) including venture capital effective until 30 September 2022.

Consumer loan provisioning

In October 2020, BB advised banks to maintain a general provision 2 percent (instead of 5 percent) against unclassified loans of all categories under consumer financing excluding home financing where the required rate of general provision remains 1 percent.

NBFI loan, lease, advance classification

In November 2020 BB directed the NBFIs not to change the current status of loans/leases/advances as of 01 January 2020 till 31 December 2020 and during the period, the respective borrower is not treated as default.

End of loan moratorium and classification freeze

The classification freeze in effect from January to December 2020 will not be extended from 1 January 2021. To facilitate the payment of the installments of existing unclassified loans on January 1, 2021, 50 percent of the remaining term can be extended on the basis of banker-customer relationship, not to exceed two years.

Repayment plan and classification for loans benefitting from the moratorium

In March 2021, BB announced that "The imposed/levied interests, if unrealized/unpaid, on continuous loan(s)/investment(s) from 01 January 2020 to 31 December 2020, the tenure of which already expired and was not renewed by the bank under existing policy have been allowed to be paid in 6 (six) equal quarterly installments from March/2021 to June/2022. Such loan(s)/investment(s) shall not be deemed as classified until 30 June 2022, if regular installments from March/2021 to June/2022 along with the unpaid interest of 2020 are cleared.

Demand or demand natured loan(s)/investment(s) have been permitted to be paid in 8 (eight) equal quarterly installments from March/2021 to June/2022. If the installments are paid on a quarterly basis, those loans/investments are not allowed to be declassified.

However, if the installment of any quarter is not paid as per aforementioned criteria, such provision on loans/investments shall remain revoked from that quarter and those loans/investments shall have to be classified as per proper norms."

Table 1. Bangladesh: Selected COVID-19 Related Financial Sector Policies (Concluded)

Dividend declaration for financial institutions

In February 2021, "BB declared that financial institutions which are enjoying deferral facilities from the Bangladesh Bank to adjust deficit without maintaining required provisions/ conservable resource shall not declare any form of cash dividend prior to maintaining entire provisions/ resource conservation. They are, however, allowed to declare 5 percent stock dividend upon approval of the Bangladesh Bank. For those of which the rate of classified loans is above 10 percent shall not announce any form of dividend without prior approval of the Bangladesh Bank. For those of which the CAR (Capital Adequacy Ratio) is below 10 percent and the rate of classified loans is above 10 percent shall be barred from the declaration of any form of dividend. The rate of cash dividend of the financial institutions shall have to be limited to 15 percent considering the overall situation [Through DFIM Circular Letter No. 04, dated March 22, 2021, financial institutions are allowed to declare total 30 percent dividend including 15 percent in cash considering the overall situation]."

Dividend declaration for Banks

In February 2021, "BB announced that after maintaining required provisions and executing all other necessary expenses without deferral facility from the Bangladesh Bank in a calendar year under consideration, banks which shall be able to maintain 15 percent and above capital including 2.5 percent capital conservation buffer against risk-weighted assets are allowed to declare total 30 percent dividend including 15 percent in cash according to their financial capacity [through DOS Circular Letter No. 07, dated march 16, 2021, they are allowed to declare total 35 percent dividend including 17.50 percent in cash]. For banks of which capital shall be between 13.5 percent and less than 15 percent, total 25 percent dividend is allowed to declare including 12.5 percent in cash on approval of Bangladesh Bank. And for banks which shall be capable of maintaining minimum 11.875 percent capital conservation including minimum capital conservation buffer may declare total 15 percent dividend including maximum 7.5 percent in cash on approval of Bangladesh Bank.

After maintaining required provisions and executing all other necessary expenses without deferral facility from the Bangladesh Bank in a calendar year under consideration, banks whose capital shall be minimum 12.5 percent and above including minimum capital conservation buffer against risk-weighted assets, total 12 percent dividend is allowed to disburse including 6 percent in cash on approval of Bangladesh Bank. For banks whose capital shall be between 11.875 percent and less than 12.5 percent, total 10 percent dividend is allowed to disburse including 5 percent in cash on approval of Bangladesh Bank. And for banks whose capital shall be between 11.875 percent and 10.625 percent, on approval of Bangladesh Bank, they are allowed to announce 5 (five) percent stock dividend."

Ensuring Proper Use of COVID-19 Packages

On August 2, 2021 BB advised financial institutions to monitor the effective implementation of stimulus packages regularly and instructed them to audit the funds through their internal audit.

Loan Classification

On August 26, 2021 BB issued a circular directing banks not to classify loans/investments as long as 25 percent of the amounts due from January 2021 to December 2021 are repaid within the last working day of December 2021. The outstanding amount must be repaid within the next year and other amounts payable are due on a regular basis.

Source: Bangladesh Bank

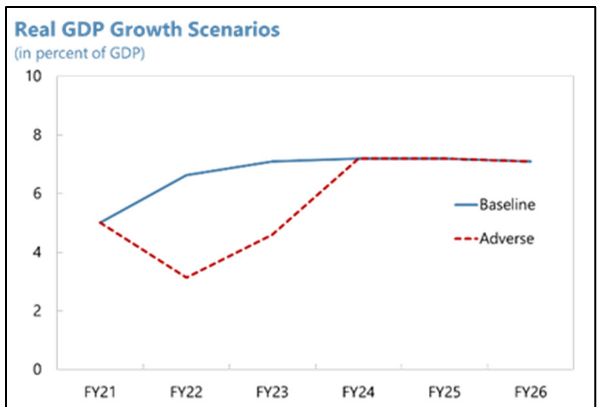
Annex VIII. An Illustrative Adverse Scenario[1]

Despite the COVID-19 shock, the Bangladeshi economy maintains a positive medium-term outlook. However, the outlook is subject to major uncertainties with risks tilted to the downside due to the uncertain nature of the pandemic. This Annex presents an adverse scenario that assumes a global resurgence of the pandemic coupled with supply disruptions that lead to increased commodity prices. Under such a shock, Bangladesh's capacity to repay the Fund would deteriorate but remain sound. External and domestic debt indicators would be below their respective thresholds under the baseline and stress test scenarios.

1. The downside scenario assumes a sharp global and domestic resurgence of the pandemic. Should the pandemic intensify beyond what is assumed under the baseline scenario, weaker growth in trading partners' economies would result in lower exports and remittance inflows for Bangladesh. The adverse scenario assumes that a new wave of global COVID-19 outbreak takes place in 2022, disrupting world and domestic economic activity in the second half of FY22 and first half of FY23. Furthermore, global supply chain disruptions lead to higher commodity and energy prices making their import costlier.

2. External and fiscal balances are expected to deteriorate under such an adverse scenario (Table).

- **Growth:** Efforts to contain the spread of the virus domestically would dampen economic activity lowering exports, private consumption, and investment. Growth would decline by 3.5 and 2.5 percentage points in FY22 and FY23, respectively, and inflation would pick up as commodity prices soar.

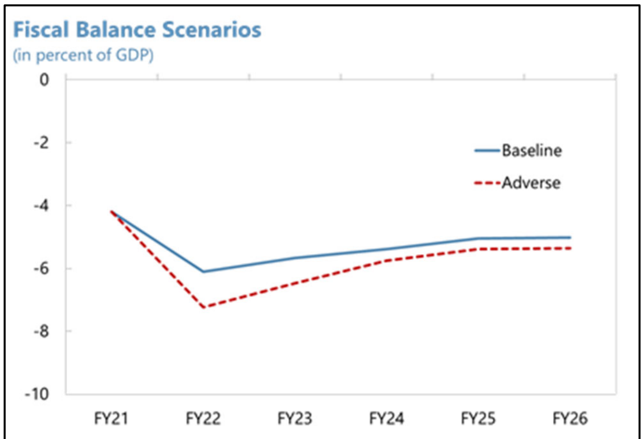


Sources: Ministry of Finance; Staff estimates.

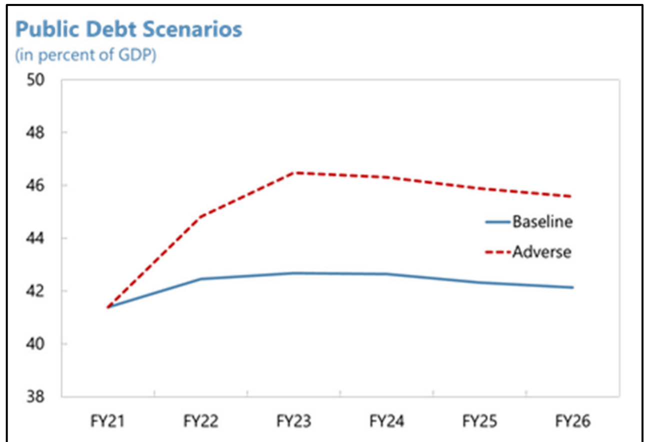
- **External:** Exports and remittances would decline owing to weaker-than-expected growth of trading partners. Higher commodity prices would increase the import bill, widen the current account deficit, and put pressure on reserves. However, export growth would as of FY24 improve the current account after commodity prices normalize and domestic demand for imports becomes more nuanced relative to the baseline.

[1] This section reports on discussions under the Post Financing Assessment (PFA) policy. For a description of the PFA policy, see Policy Paper No. 2021/026 (https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/05/19/Post-Program-Monitoring-During-The-Pandemic-460350).

- **Fiscal:** Fiscal balances would be impaired both from shortfalls in revenues and from scaling up health and social spending to protect livelihoods. Additionally, it is assumed that the rising commodity prices would imply higher energy and food subsidies, while SOEs would need to be supported with cash loans and subsidies to cover their losses.



Sources: Ministry of Finance; Staff estimates.



Sources: Ministry of Finance; Staff estimates.

- **Financial activity:** The growth slowdown combined with lower consumer and business confidence could reduce liquidity in the banking system, raise NPLs and reduce capital adequacy ratios. This would increase banks' reluctance to provide credit and ultimately contribute to delaying the recovery

3. **Bangladesh's capacity to repay the Fund would deteriorate but would remain adequate under the adverse scenario.** External and public debt would still be assessed at low risk of debt distress including under a stress test of a one-time 10 percent of GDP shock occurring due to contingent liabilities related to the financial sector. External and domestic debt indicators would be below their respective thresholds. Key indicators such as Fund debt service as a percent of exports and gross reserves would rise moderately under the adverse scenario relative to the baseline projections. Despite this mild worsening of key indicators, Bangladesh's capacity to repay the IMF would be preserved.

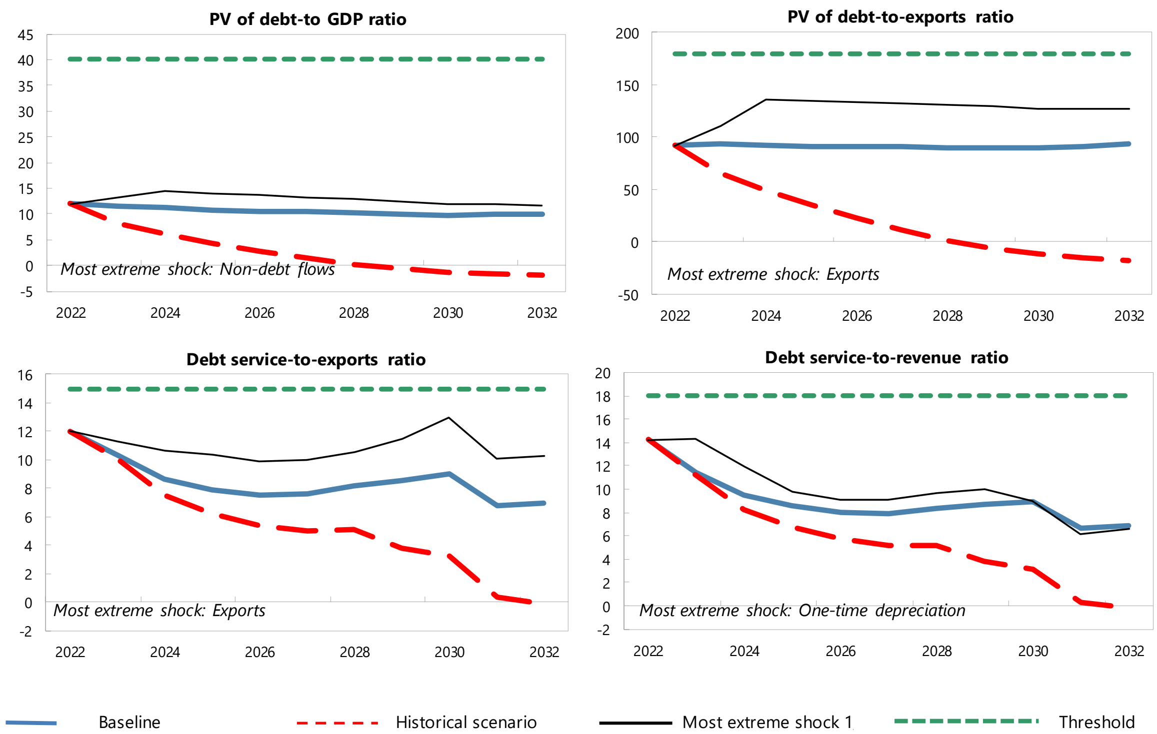
Table 1. Bangladesh: Adverse Scenario, FY2022–26 1/

	Scenario	FY22	FY23	FY24	FY25	FY26
Real GDP	Baseline	6.5	7.2	7.2	7.2	7.1
(Annual percent change)	Adverse	3.1	4.6	7.2	7.2	7.1
CPI inflation (end of period)	Baseline	5.8	5.7	5.4	5.4	5.4
(Annual percent change)	Adverse	5.9	5.7	5.5	5.5	5.5
Exports of goods and services	Baseline	43,177	44,602	46,076	49,515	53,212
(In US$ million)	Adverse	41,131	42,373	46,076	49,515	53,212
Imports of goods and services	Baseline	-67,800	-70,979	-73,027	-77,613	-82,804
(In US$ million)	Adverse	-69,563	-72,870	-72,291	-76,767	-81,893
Current account balance	Baseline	-2.4	-2.6	-2.5	-2.5	-2.5
(In percent of GDP)	Adverse	-3.4	-3.8	-2.5	-2.4	-2.5
Gross international reserves	Baseline	47,732	45,508	43,443	42,075	42,597
(In US$ million)	Adverse	43,871	37,249	35,848	35,191	36,404
Overall fiscal balance	Baseline	-6.1	-5.7	-5.4	-5.0	-5.0
(In percent of GDP)	Adverse	-7.2	-6.5	-5.8	-5.4	-5.4
Public sector total debt	Baseline	42.5	42.7	42.6	42.3	42.1
(In percent of GDP)	Adverse	44.8	46.5	46.3	45.9	45.6
Outstanding obligations to the Fund						
In percent of exports of goods and services	Baseline	2.1	1.7	1.1	0.5	0.3
	Adverse	2.2	1.8	1.1	0.5	0.3
In percent of gross international reserves	Baseline	2.2	2.0	1.4	0.7	0.5
	Adverse	2.4	2.5	1.6	0.8	0.6

Sources: IMF staff estimates and projections.
1/ Fiscal year begins July 1.

Figure 1. Adverse Scenario Indicators of Public and Publicly Guaranteed External Debt, 2022–2032 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	3.1%	3.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	19	19
Avg. grace period	5	5

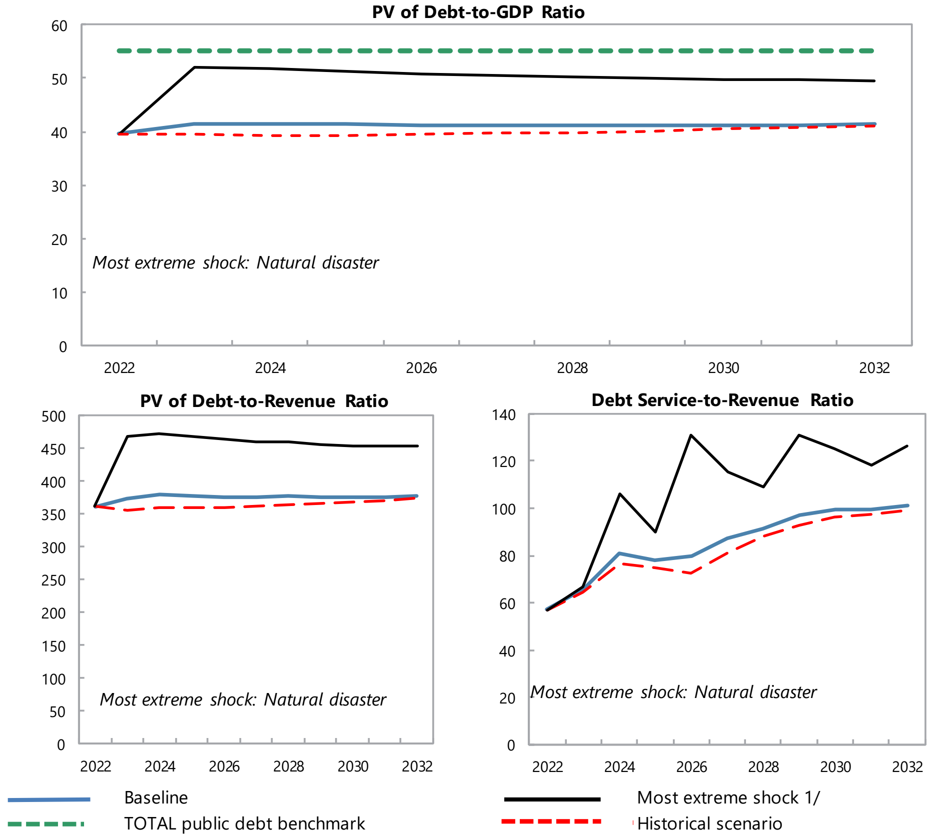
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2032. 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. Adverse Scenario Indicators of Public Debt, 2022–2032 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	12%	12%
Domestic medium and long-term	65%	65%
Domestic short-term	22%	22%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.1%	3.1%
Avg. maturity (incl. grace period)	19	19
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.9%	2.9%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	1.5%	1.5%

* 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 2032. 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.

INTERNATIONAL MONETARY FUND

BANGLADESH

February 15, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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

CONTENTS

FUND RELATIONS

(As of December 31, 2021)

Membership Status

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

General Resources Account

	SDR Million	Percent Quota
Quota	1,066.60	100.00
Fund holdings of currency (exchange rate)	1,288.13	120.77
Reserve tranche position	134.08	12.57

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,532.69	100.00
Holdings	1,649.91	107.65

Outstanding Purchases and Loans

	SDR Million	Percent Quota
RCF Loans	177.77	16.67
Emergency Assistant 1/	355.53	33.33
ECF arrangements	292.55	27.43

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

Latest Financial Commitments

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (In millions of SDRs)	Amount Drawn (In millions of SDRs)
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.

Outright Loans[1]:

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

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

Projected Payments to the Fund[2]

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

	2022	2023	2024	2025	2026
Principal	118.85	180.31	223.48	143.23	35.55
Charges/Interest	3.84	3.77	2.33	0.50	0.03
Total	122.69	184.08	225.81	143.73	35.58

[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 September 9, 2019 (IMF Country Report No. 19/299).

Safeguards Assessment

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

Exchange Arrangement

- The *de jure* exchange rate regime is a float. Effective February 3, 2020, the exchange rate has stabilized within a 2percent band against the US dollar. Accordingly, the *de facto* exchange rate arrangement was reclassified to stabilized from crawl-like, effective February 3, 2020.

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

Resident Representative

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

Bangladesh Capacity Development, August 2019–November 2021		
Department	**Topic**	**Timing**
FAD	Improved budget execution and control (SARTTAC)	August-19
	Improving the Use of Electronic Data and Building Capacity for Revenue Analysis (SARTTAC)	September-19
	Managing Fiscal Risks from Public-Private Partnerships and Public Corporations (SARTTAC)	November-19
	Strengthening Cash Management by Improving Cash Flow Forecasting (SARTTAC)	January-20
STA	Consumer Price Index rebasing (SARTTAC)	September-19
	Government Finance Statistics (In-country training, SARTTAC)	October-19
	National Accounts—Concepts and Definitions TA Mission (SARTTAC)	December-19
	Government Finance Statistics (SARTTAC)	December-19
	Consumer Price Index Technical Assistance Mission (SARTTAC)	February-20
	Government Finance and Public Sector Debt Statistics Mission (SARTTAC)	December-20
	Government Finance Statistics (SARTTAC)	May-21
	National Accounts Quarterly GDP (SARTTAC)	October-21
MCM	Strengthening Bangladesh Bank Supervisory Capacity (SARTTAC)	September-19
	Liquidity Monitoring and Forecasting (SARTTAC)	October-19
	Strengthening Bangladesh Bank Supervisory Capacity (SARTTAC)	December-19
	Modernizing the Monetary Policy Framework (SARTTAC)	March-20

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 October 2021)

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 December 2021. Preliminary annual GDP estimates are now published four, rather than ten, months after the reference period. The BBS has been provided with technical assistance on GDP rebasing and customized training on development of QGDP series and construct a statistical business register.

3. Price Statistics. A CPI series with base year 2005/06 was introduced in July 2012. These weights are no longer representative of current consumer expenditures in Bangladesh and should be updated. The IMF has been providing technical assistance to support updates to the CPI weights and basket based on the results of the 2015/16 Household Income and Expenditure Survey, but these updated data are not yet disseminated. The producer price index is compiled for manufacturing only and weights are based on the 2005/2006 Survey of Manufacturing Industries**.** These weights should be updated based on the results of the 2019 Survey of Manufacturing Industries. The Bangladesh Bank compiles an experimental residential property price index for Dhaka for internal analysis only. Recent IMF technical assistance was provided to expand data collection and improve compilation methods.

4. Government Finance Statistics. The Government of Bangladesh has made significant progress developing their integrated budgeting and accounting system++ (IBAS), which includes GFS classified in line with the latest international standard, the *Government Finance Statistics Manual* (*GFSM 2014*). They have submitted, to the IMF's Statistics Department, annual GFS budgetary central government (BCG) data up to financial year (FY) 2018/19, and are finalizing FY2019/20 data. Using IBAS they intend, starting in FY 2020/21, delivering estimates of quarterly BCG GFS. Areas of improvement remain that no stock asset data is reported and that the coverage of extrabudgetary and local government units outside central government is inadequate. BB provides 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. The monetary and financial statistics technical assistance mission in September 2019 made several recommendations for the compilation of OFCs data to expand the institutional coverage of MFS for Bangladesh. The BB, in coordination with STA, is working on the implementation of the mission's recommendations. Bangladesh reports data on several series and indicators of the Financial Access Survey (FAS), including mobile money and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

6. Financial Soundness Indicators. 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. The frequency of financial soundness indicators (FSIs) that the BB reports has improved from semi-annual to quarterly frequency starting from the first quarter of 2019.

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 October 22, 2021)

	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Sep 2021	Oct 2021	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Sep 2021	Oct 2021	M	M	M
Reserve/Base Money	Sep 2021	Oct 2021	M	M	M
Broad Money	Aug 2021	Sep 2021	M	M	M
Central Bank Balance Sheet	Sep 2021	Oct 2021	M	M	M
Consolidated Balance Sheet of the Banking System	Aug 2021	Sep 2021	M	M	M
Interest Rates[3]	Aug 2021	Sep 2021	M	M	M
Consumer Price Index	Sep 2021	Oct 2021	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	June 2021	Sep 2021	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	June 2021	Sep 2021	Q/M	Q/M	Q/M
External Current Account Balance	June 2021	Sep 2021	Q	Q	Q
Exports and Imports of Goods and Services	June 2021	Sep 2021	Q	Q	Q
GDP/GNP	FY2020	Aug 2021	A	A	A
Gross External Debt	June 2021	Oct 2021	A	A	A
International Investment Position[7]	June 2021	Sep 2021	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

February 15, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

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

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

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

Bangladesh remains at a low risk of external and overall debt distress. External and domestic debt indicators are below their respective thresholds under the baseline and stress test scenarios, despite a lower debt-carrying capacity threshold, due to a debt carrying capacity downgrade from strong to medium, driven mostly by a lower CPIA score in 2020. Growth is projected to be slower than estimated in the previous DSA over the medium-term, reflecting the prolonged nature of the pandemic, nation-wide lockdowns, and slower-than-expected roll out of vaccines, and converges to the previous DSA growth rates over long run. Favorable debt dynamics in the medium term keep the PPG external debt-to-GDP ratio on a declining path, and the overall public debt-to-GDP ratio stabilizes, although at a higher level than in the previous DSA. Risks are on the downside and include pandemic-related uncertainties, rising commodity prices, higher domestic interest rates, elevated NPLs, prospective losses from natural disasters. Under these circumstances, financing the much-needed climate adaptive expenditure, as laid out in the 8th five year plan (FYP) and Delta Plan, will be challenging unless financed concessionally or through non-debt creating flows (foreign direct investment). Improving the investment climate to attract FDI and raising the revenue-to-GDP ratio to boost social spending while limiting fiscal risks remain top priorities.

A. Background and Developments on Debt

1. Total public debt in Bangladesh stood at about US$147.8 billion in FY21, around 41.4 percent of GDP.[1] The majority of public debt over the last decade is domestic and denominated in local currency. In FY21, domestic debt was 58 percent of the total public and publicly guaranteed (PPG) debt stock.

2. About half of the outstanding domestic debt is composed of National Saving Certificates (NSCs). NSCs stifle the development of a domestic bond market as they provide a yield of around 9–11 percent, whereas government bonds of similar maturities provide a yield between 5 and 6 percent.[2] The authorities lowered the interest rates of new issuances of NSCs in September 2021, linking rates to investment brackets to disincentivize investments from high income individuals. However, NSC rates still remain well above market rates. Continued reforms to align NSC interest rates to market-determined rates, together with phasing out the cap on lending rates and floor on deposit rates, would help debt dynamics by lowering the cost of domestic borrowing, improving monetary policy transmission and deepening domestic debt markets.[3]

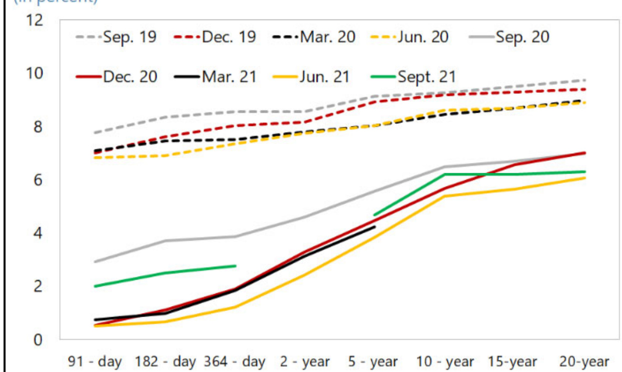
Selected NSC Interest Rates

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

Source: Ministry of Finance

Government T-bill and T-bond rates

(in percent)



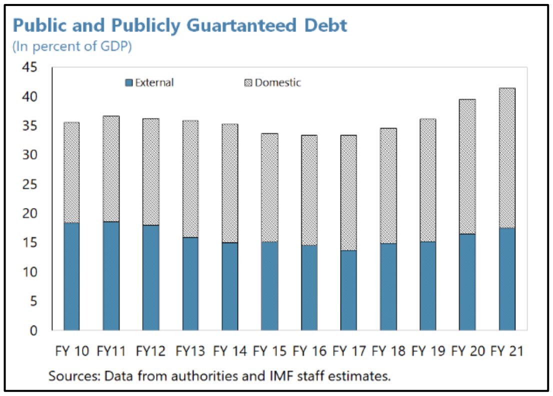
Source: Bangladesh Bank.

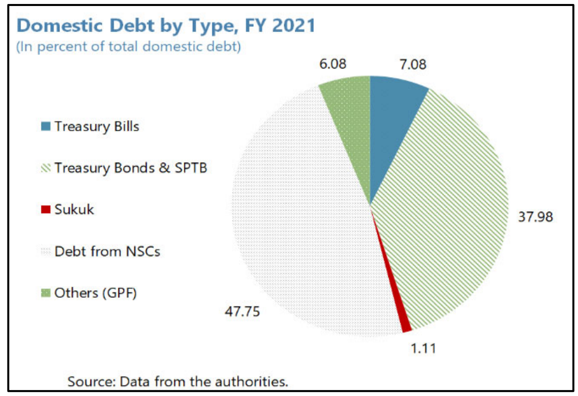
3. A shariah-compliant investment instrument, 'Ijarah Sukuk', was launched for the first time in December 2020. A second tranche of this instrument, totaling Tk. 40 billion, was issued in June 2021. The oversubscription of the second issuance (Tk 327 billion) points to a huge demand for the instrument. The authorities are planning to continue issuing these Sukuk bonds.

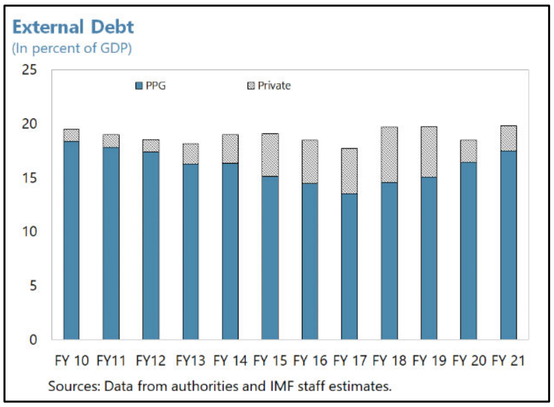
[1] FY21 is the fiscal year from July 2020 to June 2021.

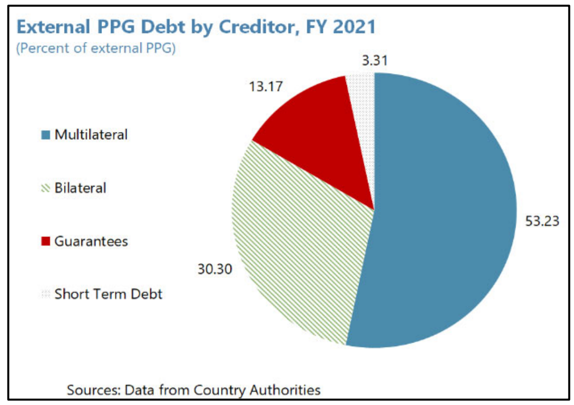
[2] NSCs were introduced in the subcontinent in 1944 by the National Savings Institute of the Ministry of Finance of India. The intent was to promote savings among the population and finance the government's budget deficit. Currently, the Department of National Savings under the Bangladesh Ministry of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

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









4. External PPG debt stood at US$62 billion in FY21, around 17.5 percent of GDP.[4] External PPG debt is predominantly owed to multilateral and bilateral creditors, 53.2 and 30.3 percent of outstanding external PPG debt respectively, with some guaranteed SOE debt. External medium- and long-term (MLT) PPG debt has helped finance infrastructure projects and is expected to decrease gradually from about 16.9 percent of GDP in FY21, to about 11.6 percent of GDP by 2042. With some rationalization of capital goods imports, private sector debt fell to about 2.0 percent of GDP in FY20 (4.7 percent in FY19) and picked up slightly to around 2.3 percent of GDP in FY21, primarily driven by an increase in short term trade credit.[5] Despite several new infrastructure megaprojects and slower GDP growth, the larger share of concessional external borrowing has helped external PPG debt-to-GDP ratio remain on a downward path. However, infrastructure needs in Bangladesh remain high. In the absence of reforms to attract FDI, external financing for large projects will be constrained. Overall public debt-to-GDP (41.4 percent in FY21) is expected to stabilize at around 41.8 percent by FY31 and thereafter. However, domestic debt remains sensitive to interest rates and overall debt ratings are sensitive to changes in potential CI ratings, which impact the debt carrying capacity threshold.

[4] The total external PPG debt includes US$50.9 billion central government debt, US$1.268 billion IMF debt (including RCF/RFI), and US$8.2 billion guaranteed commercial debt, US$2.0 billion of short term debt.

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

Text Table. Bangladesh: Outstanding External PPG Debt by Creditor
(end-FY21)

	US $ million	Percent of PPG debt
Total External PPG Debt	62,434.11	100.00
Multilateral	33,232.20	53.23
of which		
World Bank (IDA)	18,304.18	29.32
Asian Development Bank	11,672.44	18.70
Bilateral	18,915.47	30.30
of which		
Japan	9,077.62	14.54
China	3,977.32	6.37
Guarantees	8,222.44	13.17
Short Term Debt	2,064.00	3.31

Source: Data from the authorities

B. Macroeconomic and Financing Assumptions

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

- **Growth and inflation.** Near term growth projections are less optimistic than in the June 2020 RCF/RFI report, reflecting the prolonged nature of the pandemic, another round of nation-wide lockdowns (mid-April to mid-August 2021) and restrictions, subdued credit growth and a low vaccination rate.[6] The authorities also revised down the FY20 growth to 3.5 percent.[7] Real GDP growth is projected to pick up to 6.6 percent in FY22 as the impact of COVID-19 abates and policies remain accommodative. As the external environment improves and the domestic vaccination program progresses, growth is projected to reach 7.1 percent in FY23. Inflation is expected to increase in FY 22-23 on the back of higher global commodity prices and economic recovery and then moderates over the medium and long-term, staying anchored around 5.5 percent. External debt dynamics under the baseline are favorable under a projected medium (long)-term growth rate of around 7.1 (6.5) percent and an effective nominal interest rate of new US$ borrowing around 3.0 percent. In the long run, investment and productivity enhancements are assumed to play a critical role in driving growth. Exports as a share of GDP is assumed to

[6] As of February 2, 2022, around 36 percent of total population have received their second dose. The authorities aim to vaccinate 70 to 80 percent of total population by early 2022.

[7] In November 2021, the Bangladesh Bureau of Statistics (BBS) released a rebased series of national accounts (base year 2015/16). The rebasing has led to an increase in GDP levels and a slight decline in GDP growth rates, partly reflecting wider coverage of economic activities and methodological changes. For instance, FY20 GDP at current prices is 15.7 percent higher, while real GDP growth rate is 0.06 percentage point lower, compared to the existing data (base year 2005/06). BBS is finalizing the underlying balanced supply and use tables (SUTs) and working on producing back-casted historical GDP series. In the absence of full data, the DSA uses the 2005/06 base year GDP series.

moderate due to the impact of LDC graduation keeping growth in the long-term lower than in the medium-term. Important risks to future GDP growth could arise from a prolonged impact of the pandemic, accompanied by slow implementation of macro critical structural reforms to boost productivity and exports, or a large depreciation with rising debt servicing costs without matching increases in domestic revenues, elevated NPLs, diverting resources from growth friendly investment spending.

- **Fiscal policy.** The primary fiscal balance is projected to be weaker over the medium term than in the June 2020 RCF/RFI report. The fiscal (primary) deficit is projected to peak at 6.1 (3.6) percent of GDP in FY22 as the authorities increase pandemic-related spending. In the absence of measures to mobilize tax and non-tax collections, the revenue-to-GDP ratio is expected to remain flat at about 11 percent of GDP over the medium-term—0.7 percent of GDP below the authorities' medium term target.[8] However, the authorities have established a track record of remaining within their deficit target of 5 percent of GDP and have maintained a low deficit throughout FY21 by curtailing non-priority current spending, suspending low-priority capital projects as revenue under-performed, and under-executing ADP spending due to COVID-19. A timely and orderly exit from the stimulus is expected to bring the deficit back to 5 percent of GDP by FY25, keeping the overall public debt ratio below the debt threshold.

- **Current account (CA) dynamics.** The CA deficit moderated in FY20 and FY21 due to a temporary surge in remittances and a gradual recovery in exports. Remittance inflows peaked in FY21 (growing at about 36 percent y/y), reflecting a temporary switch from the informal channels to the formal banking channels, a 2 percent incentive scheme introduced by the authorities in July 2019, as well as savings from returning migrants. Decline in remittance inflows in the first six months of FY22 (July-December) suggest that remittances will settle down closer to the pre-COVID 19 levels.[9] Starting FY22, the CA-to-GDP ratio is expected to widen as the share of remittances decline, and the share of exports to GDP grow only modestly absent major reforms. With expected increase in imports of capital goods, industrial raw materials, food and energy, the CA deficit is expected to increase to around 2.5 percent of GDP over the medium term. With FDI inflows remaining below LIDC peers, FDI-linked technology absorption and innovation, is expected to remain weak. Slower-than-expected growth in trading partners due to the pandemic, shocks to commodity prices, including LNG, oil and food, as well as higher frequency of natural disasters could lead to a further deterioration in the CA deficit.

- **Financing assumptions.** On average, net external financing, as a share of total financing, is projected to stabilize around 19 percent. Reserves were also bolstered by the recent SDR allocation of US$1.457 billion (0.4 percent of GDP). Reserve coverage is expected to fall steadily before stabilizing at around 5 months of prospective import coverage. The concessionality of debt is expected to decline over the medium-term as Bangladesh graduates from the LDC status

[8] In the medium term budgetary framework, the authorities growth assumptions underpinning revenue projections are more optimistic.

[9] The slowdown in the remittance inflows was expected, as the number of expatriate workers going abroad declined in 2021 amid the ongoing pandemic.

and income levels rise. Cost of domestic debt is assumed to vary from 7.0 percent for T-bills, 7.5 percent (1-3 year) to 9 percent (for above 3 years and up to 7 years) and 10.5 percent above 7 years. The debt is assumed to be skewed towards T-bonds, with the share increasing from 75 percent in the medium-term to 90 percent by FY42. The assumptions on the share are slightly more skewed towards long term debt than the June 2020 RCF/RFI report (with T-bond share between 65-80 percent of total debt issued), the interest rates are expected to be lower as a result of the NSC price reforms but overall debt is sensitive to higher interest rates.[10]

Text Table. Bangladesh: Macroeconomic Assumptions

	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Real GDP growth (in percent change)							
Current	3.5	5.0	6.6	7.1	7.2	7.2	7.1
Previous	3.8	5.7	8.0	7.3	7.3	7.3	7.2
Inflation							
Current	5.6	5.6	5.9	5.8	5.6	5.5	5.5
Previous	5.7	5.6	5.5	5.5	5.5	5.5	5.5
Primary fiscal balance (in percent of GDP)							
Current	-3.5	-1.9	-3.6	-3.0	-2.7	-2.3	-2.2
Previous	-4.4	-3.7	-3.1	-2.6	-1.9	-1.9	-2.1
Current account deficit (in percent of GDP)							
Current	-1.7	-1.3	-2.4	-2.6	-2.5	-2.5	-2.5
Previous	-2.2	-3.5	-1.8	-1.8	-1.8	-1.9	-1.9

6. **Unexpected changes to debt have been small (Figures 1 and 2).** Historically, PPG external debt has been driven by favorable growth and a positive CA balance. The historical residual is high due to infrastructure related increases in external debt occurring at the same time that growth was strong and the CA was in surplus. Looking forward, the residual declines due to a slowdown in short-term flows.

7. **Realism tools suggest that the macroeconomic projections are consistent with the experience of LICs and under the pandemic (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 supported program. The growth projections are explained only partially by the fiscal multiplier applied to the fiscal deficit, especially in the outer years. This suggests growth is determined also by other factors such as normalization and non-recurrence of lockdowns. Public and private investment plans are in line with previous and historical projections, and so is the contribution of government capital investment to GDP.

8. **Guaranteed SOE debt is included in the baseline projection.** The stock of guaranteed SOE debt in FY21 is estimated to be about US$8.2 billion or around 13 percent of the PPG external debt stock. 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

[10] Note, for external debt the only exception is the assumption of sovereign commercial borrowing at 9 percent rate assuming authorities will access the market. The export import bank of NPC debt is assumed at 3.18 percent rate as in RCF/RFI. The T bill rates are very low 1.5–6.0 percent range (91 day- 10 year) in FY21 likely reflecting the excess liquidity in the system. These rates were in the 7-9 percent range in FY20 and assumed to revert.

assessment. The calibrations of the contingent liability shock is based on the default values for the SOE debt (2 percent of GDP) and financial market component (5 percent of GDP) since they are sufficient to represent potential fiscal risks. 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.

Text Table. Bangladesh: Debt Coverage

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

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

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

C. Country Classification and Determination of Scenario Stress Tests.

9. The debt carrying capacity for Bangladesh has been downgraded from strong to medium, based on the October 2021 WEO and the 2020 World Bank CPIA. The Composite Index (CI) is based on a weighted average of several factors such as the country's real GDP growth, remittances, international reserves, world growth, and the World Bank CPIA score. The downgrade is driven mostly by a lower CPIA score in 2020 – reflecting institutional weaknesses- as well as expected worsening of world and domestic growth projections. The CI is calculated for the last two WEO vintages, in this case the October 2021 and April 2021 WEO, and uses 10-year averages of the variables, with 5 years of historical data and 5 years of projections. The threshold for a medium classification is a CI score above 2.69 and below 3.05.[11] The downgrade of the overall debt carrying capacity lowered the threshold from 70 percent of GDP to 55 percent of GDP.[12] The thresholds for external debt indicators were also reduced implying a lower fiscal space and the need to mobilize revenue to support the much-needed social and developmental spending.

[11] The CPIA score, which determined the debt carrying capacity until April 2019, was revised down slightly, and was one of the key drivers of change in CI and country classification. Starting 2019 the CPIA was lowered to 3.10 from 3.38 in 2015 and projected to stay at 3.10 thereafter.

[12] Changes in a country's classification would require two consecutive signals where country's CI exceed its classification cut-off. The cut-off are greater than 2.69 and lower than 3.05 for medium CI rating.

Text Table. Bangladesh: Country Classification

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.94	Medium 2.95	Medium 2.94

D. External and Public Debt Sustainability

10. **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 expected to settle at around 11.6 percent by FY42. The most extreme shock to the external PPG debt-to-GDP ratio is a non-debt flows shock, or a shock to official transfers, remittances and FDI. Given the still competitive RMG sector, the PV of debt-to-exports and debt service-to-exports ratios remain well below their thresholds even under the most extreme shock to exports. The debt service-to-revenue ratio is on a declining trend and remains under the threshold under the most extreme shock of a one-time depreciation.[13]

11. **Overall public debt indicators suggest a low overall risk of debt distress (Figure 2).** The PV of total public debt-to-GDP (higher compared to the June RCF/RFI report) is below its indicative threshold. 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[14]. Indicators in percent of revenues are on a slightly increasing trend, further highlighting the importance of raising the revenue-to-GDP ratio which is assumed to remain stagnant at a low level over the projection period. Increasing the revenue-to-GDP ratio will be critical in providing non-debt financing to growth-enhancing and climate-resilient infrastructure projects. Reforms to improve investment climate are crucial for attracting FDI.

E. Assessment

12. **Bangladesh has a low risk of external debt distress and a low overall risk of debt distress.** All external debt indicators are below their corresponding thresholds under the most extreme shock. The overall public debt is only slightly below its indicative threshold. This suggests that vulnerabilities have increased since the RCF/RFI assessment due to adverse impact of COVID-19 pandemic on growth and revenues. This also reflects the downgrade in debt carrying capacity from strong to medium is due to the deterioration of the CPIA performance, and a pandemic-driven reduction in global growth which flags lower debt carrying capacity. Risks are titled to the downside. This has further increased the urgency of mobilizing revenue to support the much-needed spending to support pro-poor growth recovery. Also, implementing the adaptive expenditure, as laid out in

[13] Per BB's end year balance of payments data, disbursements of short-term debt of US$1,142 million in FY20 and US$2,064 million in F21 are included in PPG debt. These were assumed zero in the June 2020 RCF/RFI report.

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

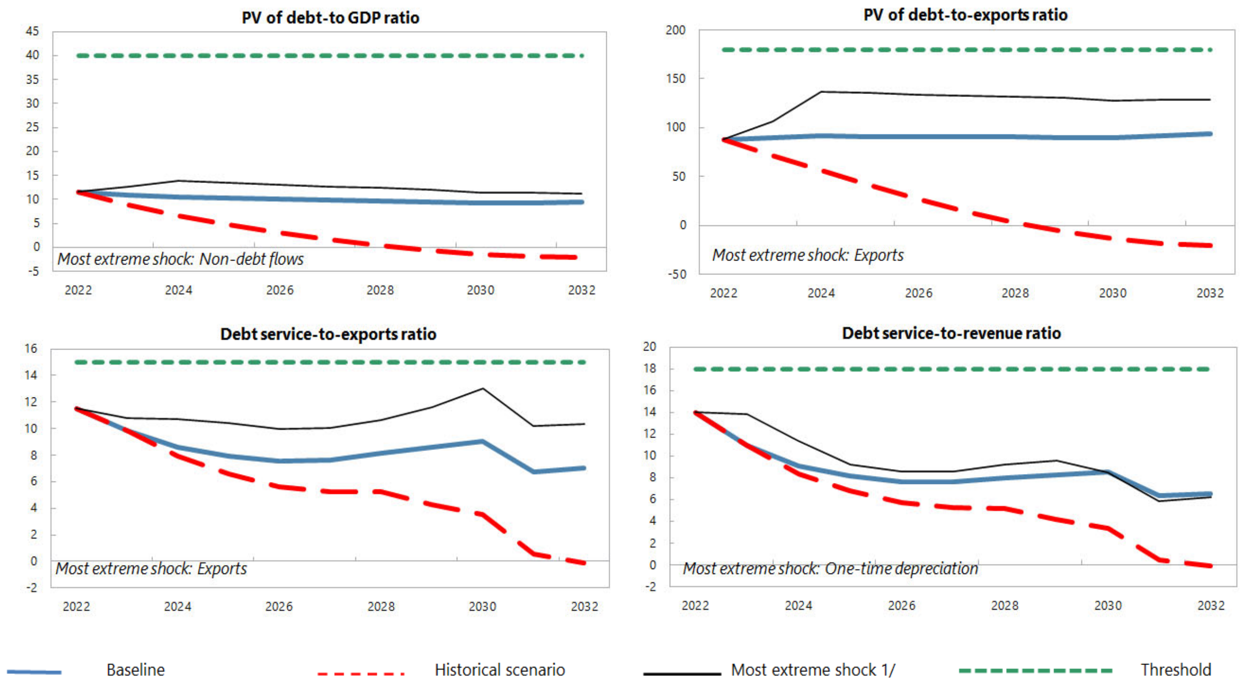
the 8th FYP and the Delta Plan, will be challenging unless it is financed through concessional or non-debt creating flows (FDI). The authorities should continue to seek concessional financing to the extent possible, as well as improve the investment climate to attract FDI financing. In line with the recommendations of the recently concluded Medium Term Debt Strategy (MTDS) TA mission, staff advice is to continue NSCs price reforms to facilitate the development of domestic debt and capital markets.

F. Authorities' Views

13. The authorities agree that the risk of external debt distress and overall risk of debt distress remains low. The authorities remain cautious about contracting external debt. The authorities agreed that domestic interest costs are high and that NSC reforms would help. They expressed concern about the lowering of their debt carrying capacity, which is mostly driven by the CPIA score. They also noted that while the public debt included guaranteed debt held by the SOEs the analysis does not consider the revenues generated by those entities. The authorities acknowledged that access to concessional financing will gradually decline as they proceed toward upper middle-income status. The authorities are enhancing the investment climate to attract financing and investments. They are committed to the automation of revenue administration, and tax expenditure rationalization to boost tax revenues. The authorities plan to publish the updated MTDS within the third quarter of FY22. Authorities are taking mitigating steps including a gradual phase out of inconsistent cash incentives and subsidies and rationalizing of tariffs to be consistent with the WTO framework in time with the graduation process in 2026. The government is also planning to formulate a 'National Tariff Policy' with a view to coordinate the tariff rationalization process, to maintain predictability of tariff rate determination, and to encourage export diversification.

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt, 2022–2032[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.

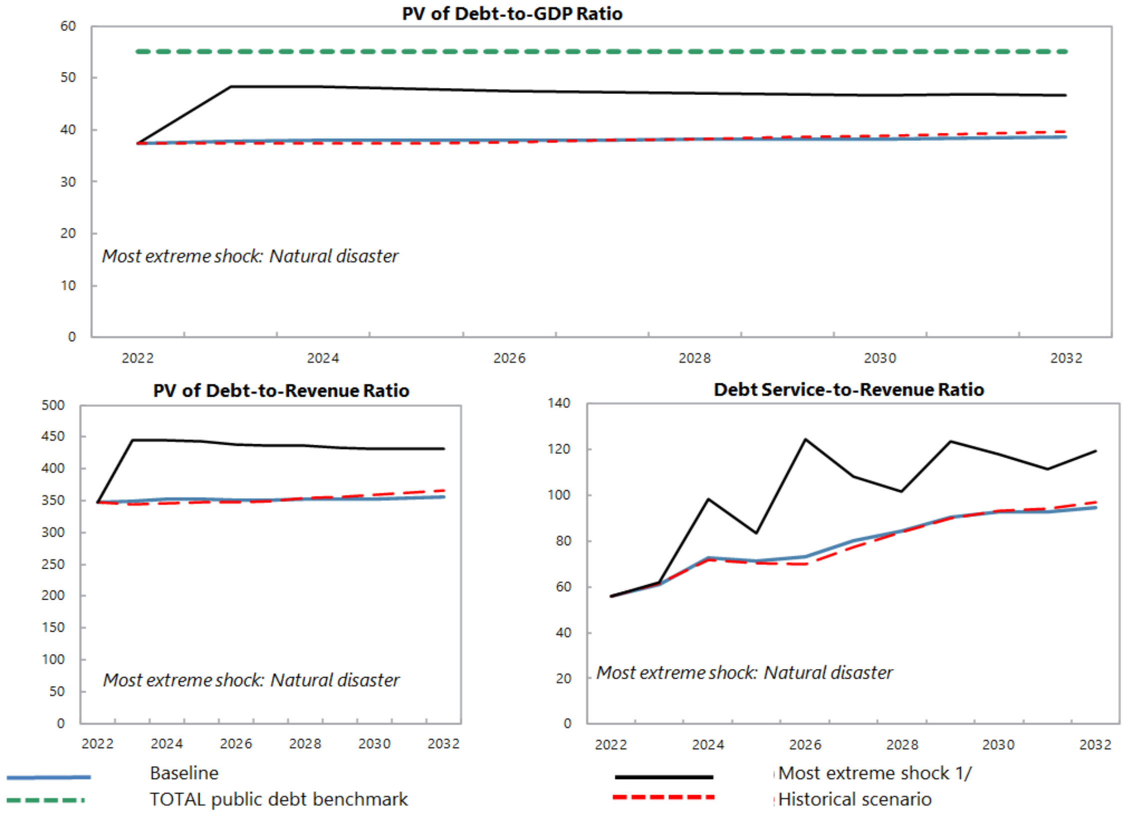
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.1%	3.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace 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 2032. 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, 2022–2032 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	13%	13%
Domestic medium and long-term	65%	65%
Domestic short-term	22%	22%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.1%	3.1%
Avg. maturity (incl. grace period)	19	19
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.9%	2.9%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	1.5%	1.5%

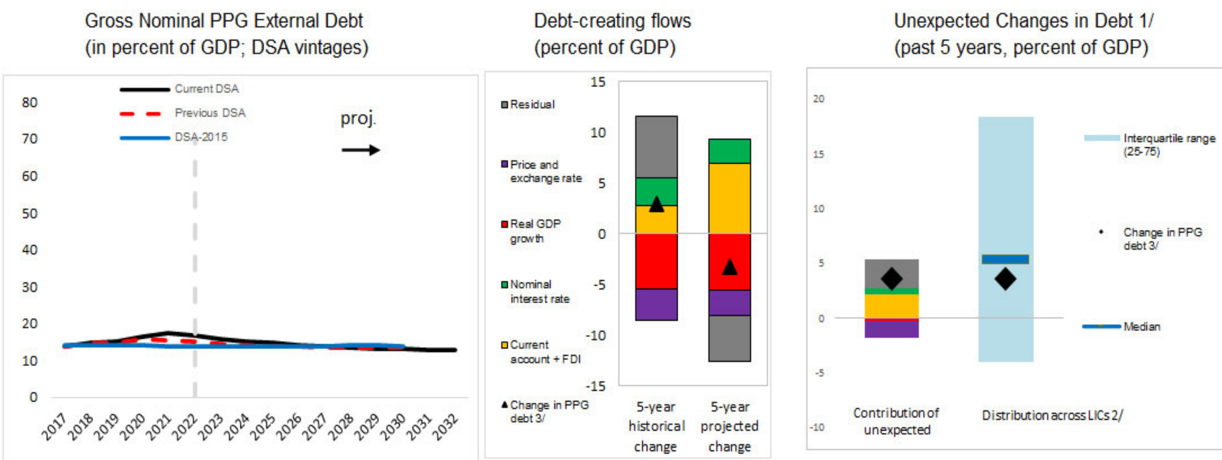
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

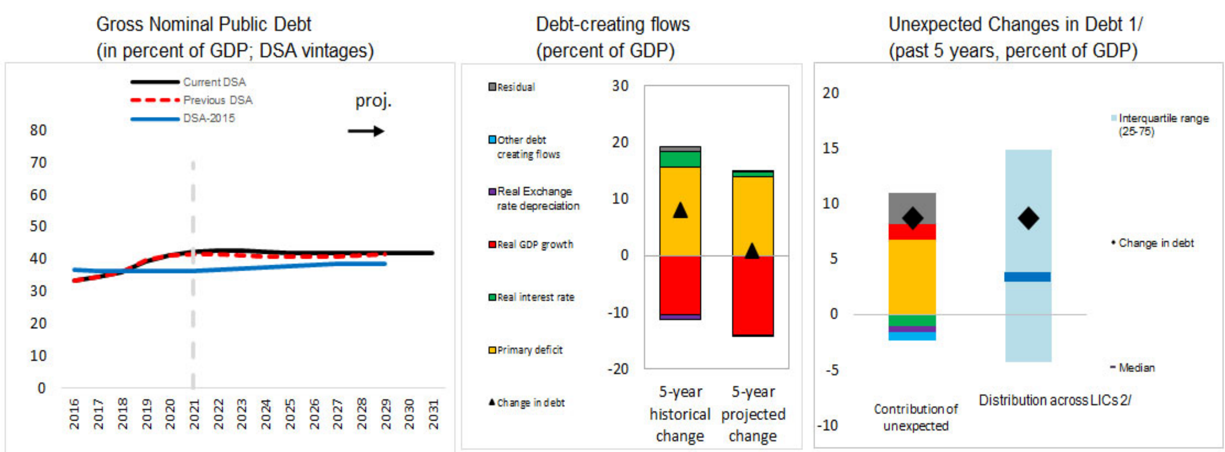
1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

External debt



Public debt



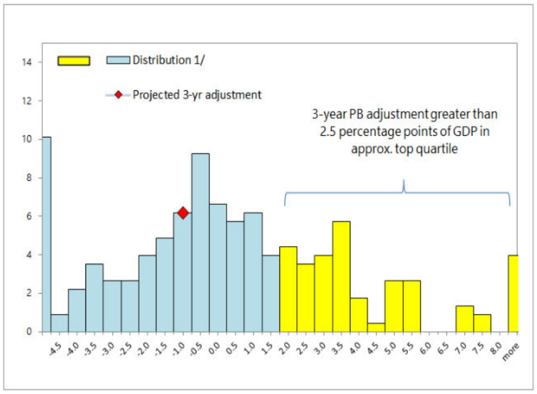
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

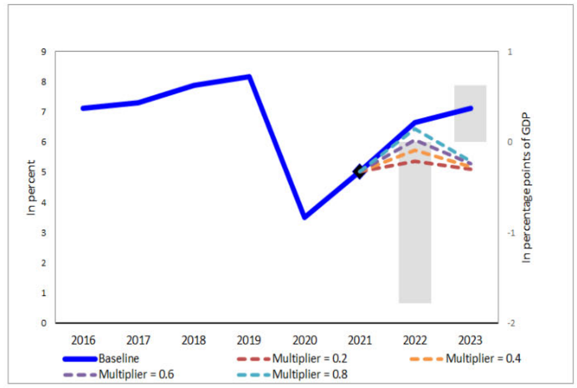
Figure 4. Bangladesh: Realism Tools

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



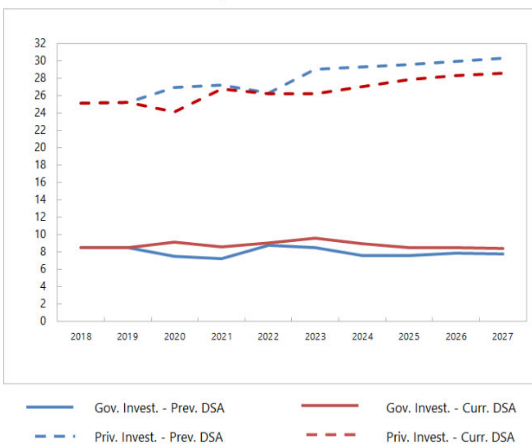
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

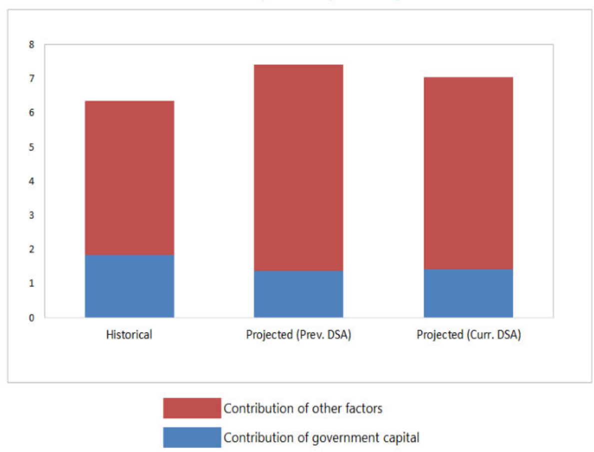
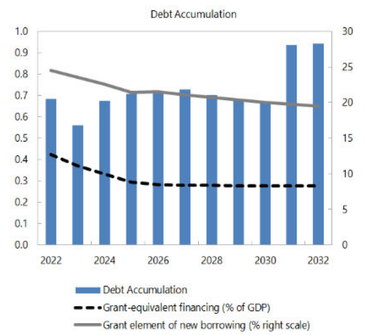


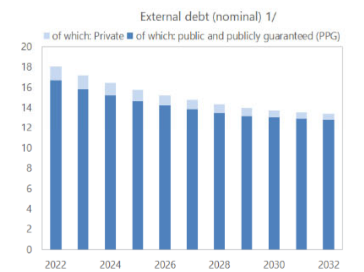
Table 1. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, 2019–2042 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	19.8	18.5	19.8	18.1	17.2	16.4	15.8	15.2	14.8	13.4	11.8	18.7	15.1
of which: public and publicly guaranteed (PPG)	15.1	16.5	17.5	16.7	15.8	15.2	14.7	14.2	13.8	12.8	11.6	15.6	14.2
Change in external debt	-0.1	-1.4	1.3	-1.8	-0.9	-0.7	-0.7	-0.6	-0.5	-0.1	-0.5		
Identified net debt-creating flows	-1.3	0.0	-0.9	0.8	1.0	0.8	0.6	0.5	0.5	0.1	0.1	-2.2	0.5
Non-interest current account deficit	0.7	1.3	0.9	1.9	2.1	2.0	2.0	2.1	2.1	2.2	3.0	-0.2	2.0
Deficit in balance of goods and services	6.3	6.5	7.5	6.8	6.6	6.2	5.8	5.6	5.4	4.4	4.0	6.5	5.5
Exports	15.5	12.0	12.4	13.1	12.2	11.5	11.2	11.0	10.8	10.1	10.3		
Imports	21.7	18.6	19.9	19.9	18.8	17.6	17.1	16.6	16.2	14.4	14.2		
Net current transfers (negative = inflow)	-5.6	-5.8	-7.1	-5.2	-4.8	-4.4	-4.1	-3.8	-3.6	-2.5	-1.0	-7.3	-3.7
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)	0.0	0.6	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.6	0.3
Net FDI (negative = inflow)	-0.9	-0.4	-0.4	-0.4	-0.4	-0.6	-0.8	-1.0	-1.1	-1.6	-2.6	-0.7	-1.0
Endogenous debt dynamics 2/	-1.1	-0.9	-1.4	-0.7	-0.7	-0.7	-0.6	-0.6	-0.5	-0.5	-0.4		
Contribution from nominal interest rate	0.7	0.3	0.4	0.5	0.5	0.5	0.4	0.5	0.5	0.3	0.3		
Contribution from real GDP growth	-1.5	-0.7	-0.8	-1.2	-1.2	-1.1	-1.1	-1.0	-1.0	-0.8	-0.7		
Contribution from price and exchange rate changes	-0.4	-0.6	-0.9	...	...	...	...	...	...	...	...		
Residual 3/	1.1	-1.4	2.2	-2.5	-1.9	-1.5	-1.3	-1.1	-0.9	-0.2	-0.6	2.2	-1.1
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	...	...	12.1	11.5	10.9	10.5	10.2	10.0	9.8	9.4	9.6		
PV of PPG external debt-to-exports ratio	...	...	97.5	88.1	89.4	91.9	91.3	90.8	90.7	93.4	93.2		
PPG debt service-to-exports ratio	5.3	6.1	5.5	11.5	9.9	8.6	7.9	7.5	7.6	7.0	8.3		
PPG debt service-to-revenue ratio	8.7	7.5	6.3	14.0	11.0	9.1	8.2	7.6	7.6	6.5	7.8		
Gross external financing need (Million of U.S. dollars)	16554.2	17120.1	9198.4	19235.8	16225.5	14675.8	14264.7	13900.1	14394.9	15266.6	33931.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	8.2	3.5	5.0	6.6	7.1	7.2	7.2	7.1	6.9	6.5	6.5	6.4	6.9
GDP deflator in US dollar terms (change in percent)	2.1	3.2	5.3	4.3	3.5	2.3	2.3	2.3	2.3	2.3	7.9	4.1	2.6
Effective interest rate (percent) 4/	4.1	1.9	2.2	2.7	3.0	3.0	3.0	3.2	3.3	2.7	3.2	2.6	3.2
Growth of exports of G&S (US dollar terms, in percent)	14.5	-16.9	14.2	16.9	3.3	3.3	7.5	7.5	7.5	8.0	9.7	6.2	7.7
Growth of imports of G&S (US dollar terms, in percent)	4.1	-8.8	18.6	11.0	4.7	2.9	6.3	6.7	6.7	7.0	10.5	6.8	6.5
Grant element of new public sector borrowing (in percent)	...	...	...	24.6	23.6	22.6	21.4	21.5	21.1	19.5	17.9	...	21.4
Government revenues (excluding grants, in percent of GDP)	9.4	9.7	10.9	10.8	10.9	10.8	10.8	10.8	10.8	10.8	10.8	10.1	10.8
Aid flows (in Million of US dollars) 5/	6466.1	7298.0	6948.9	1581.3	1581.3	1591.3	1591.3	1591.3	1592.3	1597.3	1611.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	...	0.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	25.0	24.0	23.1	22.0	22.1	21.6	19.8	18.0	...	21.8
Nominal GDP (Million of US dollars)	302,571	323,057	357,097	397,227	440,266	482,983	529,844	580,710	635,270	986,020	2,458,415		
Nominal dollar GDP growth	10.4	6.8	10.5	11.2	10.8	9.7	9.7	9.6	9.4	9.0	14.9	10.8	9.7
Memorandum items:													
PV of external debt 7/	...	...	14.4	12.9	12.2	11.8	11.4	11.0	10.7	10.0	9.8		
In percent of exports	...	...	116.2	98.4	100.5	102.6	101.3	100.1	99.3	99.3	95.5		
Total external debt service-to-exports ratio	33.0	35.6	13.9	21.7	14.3	14.0	12.9	12.2	11.9	9.9	9.4		
PV of PPG external debt (in Million of US dollars)			43228.1	45666.3	47887.3	50864.6	54278.5	58047.5	62282.5	92858.4	234908.5		
(PVt-PVt-1)/GDPt-1 (in percent)				0.7	0.6	0.7	0.7	0.7	0.7	0.9	1.0		
Non-interest current account deficit that stabilizes debt ratio	0.9	2.7	-0.4	3.6	3.0	2.8	2.7	2.6	2.5	2.3	3.5		

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.

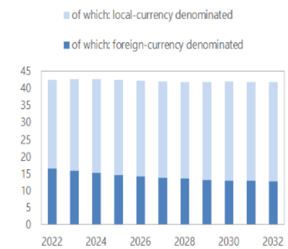
Table 2. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2042

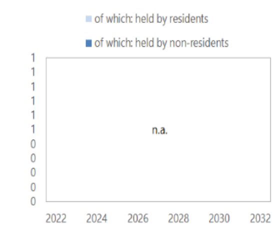
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	36.1	39.5	41.4	42.5	42.7	42.6	42.3	42.1	42.0	41.8	41.0	35.9	42.1
of which: external debt	15.1	16.5	17.5	16.7	15.8	15.2	14.7	14.2	13.8	12.8	11.6	15.6	14.2
Change in public sector debt	1.6	3.4	1.9	1.1	0.2	0.0	-0.3	-0.2	-0.2	-0.1	-0.4		
Identified debt-creating flows	2.0	2.0	0.3	0.9	0.3	0.0	-0.2	-0.2	-0.1	0.0	0.1	0.5	0.1
Primary deficit	4.3	3.5	1.9	3.6	3.0	2.7	2.3	2.2	2.1	1.9	1.7	2.3	2.3
Revenue and grants	9.5	9.8	10.9	10.8	10.9	10.8	10.8	10.8	10.9	10.8	10.8	10.3	10.8
of which: grants	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	13.8	13.3	12.8	14.4	13.9	13.5	13.1	13.1	12.9	12.7	12.5	12.6	13.2
Automatic debt dynamics	-2.3	-1.5	-1.6	-2.8	-2.7	-2.6	-2.5	-2.4	-2.2	-1.9	-1.6		
Contribution from interest rate/growth differential	-2.1	-1.1	-1.4	-2.8	-2.7	-2.6	-2.5	-2.4	-2.2	-1.9	-1.6		
of which: contribution from average real interest rate	0.6	0.1	0.5	-0.2	0.1	0.2	0.3	0.4	0.5	0.6	1.0		
of which: contribution from real GDP growth	-2.6	-1.2	-1.9	-2.6	-2.8	-2.9	-2.9	-2.8	-2.7	-2.6	-2.5		
Contribution from real exchange rate depreciation	-0.2	-0.3	-0.2	...	...	...	...	...	...	...	...		
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	-0.5	1.4	1.6	0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0	-0.5	0.0	0.0
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	36.0	37.4	37.9	38.1	38.1	38.1	38.1	38.6	39.0		
PV of public debt-to-revenue and grants ratio	...	...	330.0	346.9	348.5	352.0	352.0	351.1	351.1	356.3	360.7		
Debt service-to-revenue and grants ratio 3/	56.2	60.1	81.2	55.9	61.0	72.9	71.2	72.9	79.9	94.7	87.1		
Gross financing need 4/	10.1	9.4	11.1	9.7	9.7	10.6	10.0	10.1	10.8	12.1	11.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	8.2	3.5	5.0	6.6	7.1	7.2	7.2	7.1	6.9	6.5	6.5	6.4	6.9
Average nominal interest rate on external debt (in percent)	2.1	1.1	0.9	2.2	2.3	2.4	2.5	2.7	2.9	2.4	3.0	1.3	2.8
Average real interest rate on domestic debt (in percent)	2.8	0.6	4.5	0.9	0.6	0.8	1.1	1.3	1.6	2.2	3.1	4.1	1.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.7	-2.3	-1.2	...	...	...	...	...	...	...	...	-2.5	...
Inflation rate (GDP deflator, in percent)	4.5	4.1	5.3	5.6	5.8	5.6	5.5	5.5	5.5	5.5	5.5	5.9	5.5
Growth of real primary spending (deflated by GDP deflator, in percent)	11.9	-0.2	1.1	20.3	3.2	4.1	4.1	6.7	5.9	5.5	6.2	7.0	6.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.7	0.1	0.0	2.6	2.8	2.7	2.6	2.4	2.2	1.9	2.1	0.9	2.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–2032

(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	11	11	11	10	10	10	10	9	9	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	11	9	7	5	3	2	0	-1	-1	-2	-2
B. Bound Tests											
B1. Real GDP growth	11	11	11	11	11	10	10	10	10	10	10
B2. Primary balance	11	11	11	11	10	10	10	10	10	10	10
B3. Exports	11	12	13	13	12	12	12	11	11	11	11
B4. Other flows 3/	11	13	14	13	13	13	12	12	11	11	11
B5. Depreciation	11	14	10	10	10	9	9	9	9	10	10
B6. Combination of B1-B5	11	13	13	12	12	12	12	11	11	11	11
C. Tailored Tests											
C1. Combined contingent liabilities	11	12	11	11	11	11	11	11	11	11	11
C2. Natural disaster	11	12	12	12	12	12	12	12	12	12	12
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	88	89	92	91	91	91	90	90	90	92	93
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	88	72	57	41	27	14	3	-6	-14	-18	-21
B. Bound Tests											
B1. Real GDP growth	88	89	92	91	91	91	90	90	90	92	93
B2. Primary balance	88	90	94	94	94	94	94	94	94	96	98
B3. Exports	88	106	137	135	134	133	132	131	128	128	129
B4. Other flows 3/	88	103	121	119	118	117	116	114	112	111	111
B5. Depreciation	88	89	69	69	69	70	70	70	72	75	79
B6. Combination of B1-B5	88	106	103	112	111	110	110	108	107	108	109
C. Tailored Tests											
C1. Combined contingent liabilities	88	96	100	99	102	103	103	105	105	107	110
C2. Natural disaster	88	102	107	107	111	113	114	116	117	120	123
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	12	10	9	8	8	8	8	9	9	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	12	10	8	7	6	5	5	4	4	1	0
B. Bound Tests											
B1. Real GDP growth	12	10	9	8	8	8	8	9	9	7	7
B2. Primary balance	12	10	9	8	8	8	8	9	9	7	7
B3. Exports	12	11	11	10	10	10	11	12	13	10	10
B4. Other flows 3/	12	10	9	9	8	9	9	10	11	9	9
B5. Depreciation	12	10	9	7	7	7	7	8	7	5	5
B6. Combination of B1-B5	12	10	10	9	9	9	9	11	11	8	9
C. Tailored Tests											
C1. Combined contingent liabilities	12	10	9	8	8	8	9	9	10	7	8
C2. Natural disaster	12	10	9	9	8	8	9	10	10	8	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	14	11	9	8	8	8	8	8	9	6	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	14	11	8	7	6	5	5	4	3	0	0
B. Bound Tests											
B1. Real GDP growth	14	11	10	9	8	8	9	9	9	7	7
B2. Primary balance	14	11	9	8	8	8	8	8	9	7	7
B3. Exports	14	11	10	9	8	8	9	9	10	8	8
B4. Other flows 3/	14	11	10	9	9	9	9	10	11	8	8
B5. Depreciation	14	14	11	9	9	9	9	10	8	6	6
B6. Combination of B1-B5	14	12	10	9	9	9	9	10	10	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	14	11	9	8	8	8	8	9	9	7	7
C2. Natural disaster	14	11	9	9	8	8	9	9	9	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	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Bangladesh: Sensitivity Analysis for Key Indicators for Public Debt, 2022–2032
(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	37	38	38	38	38	38	38	38	38	38	39
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	37	37	37	37	38	38	38	39	39	39	40
B. Bound Tests											
B1. Real GDP growth	37	39	42	42	43	44	44	45	45	46	47
B2. Primary balance	37	39	40	40	40	40	40	40	40	40	40
B3. Exports	37	39	41	40	40	40	40	40	40	40	40
B4. Other flows 3/	37	40	41	41	41	41	41	41	41	40	40
B5. Depreciation	37	38	37	36	36	35	34	34	33	33	32
B6. Combination of B1-B5	37	37	38	38	38	38	37	38	38	38	38
C. Tailored Tests											
C1. Combined contingent liabilities	37	45	45	44	44	44	43	43	43	43	43
C2. Natural disaster	37	48	48	48	48	47	47	47	47	47	47
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	347	348	352	352	351	351	353	353	353	354	356
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	347	344	345	347	348	350	354	357	359	362	366
B. Bound Tests											
B1. Real GDP growth	347	363	385	391	396	401	408	413	418	424	431
B2. Primary balance	347	358	371	370	368	367	368	368	367	368	369
B3. Exports	347	357	375	374	372	371	372	371	369	369	369
B4. Other flows 3/	347	364	383	382	379	378	378	377	374	373	373
B5. Depreciation	347	351	344	337	328	322	317	311	305	301	297
B6. Combination of B1-B5	347	344	352	350	347	347	347	347	347	348	350
C. Tailored Tests											
C1. Combined contingent liabilities	347	411	412	409	405	403	402	400	398	397	397
C2. Natural disaster	347	445	445	443	439	436	436	434	431	431	431
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	56	61	73	71	73	80	84	90	93	93	95
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	56	61	72	70	70	77	84	90	93	94	97
B. Bound Tests											
B1. Real GDP growth	56	63	79	78	82	92	98	106	111	112	116
B2. Primary balance	56	61	75	75	79	88	89	95	98	97	99
B3. Exports	56	61	73	72	74	81	85	91	94	94	96
B4. Other flows 3/	56	61	73	72	74	81	85	92	95	95	97
B5. Depreciation	56	58	70	67	69	73	80	85	87	86	87
B6. Combination of B1-B5	56	59	72	72	72	81	83	89	92	91	93
C. Tailored Tests											
C1. Combined contingent liabilities	56	61	90	79	107	98	94	111	108	103	109
C2. Natural disaster	56	62	98	83	124	108	102	124	118	111	119
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

Statement by Surjit Bhalla, Executive Director for Bangladesh
and Bhupal Singh, Advisor to Executive Director
March 2, 2022

On behalf of our Bangladeshi authorities, we thank the staff for their analytical reports and the productive engagement during the Article IV consultation. Our authorities welcome the opportunity provided by this policy dialogue and value staff's assessment and recommendations. We will focus our remarks on the macroeconomic outlook and key policy challenges.

Pandemic and the macroeconomy

1. **The pandemic significantly impacted the economy of Bangladesh as GDP growth slowed down to 3.5 percent in FY2020 (July 2019-June 2020), which is the lowest since FY2009.[1] The Government's strategy to combat the pandemic aimed at striking a careful balance between lives and livelihoods was successful in containing the severity of the pandemic.** Thus, the economy quickly turned around with 6.9 percent growth in FY2021, aided by progressive normalization of the external demand and trade. The daily death rates reached a negligible level by the end of 2021 with the trend in mobility rising since August 2021 and remaining higher than many Asian peers. Though Omicron-led new case counts peaked in January 2022, the trend soon reverted with 1,298 daily cases on February 23, 2022. Nevertheless, the death rate remains very low. Authorities expect to vaccinate 70 percent of the population by March 2022 with financing arrangements from development partners. The country has also ensured gender equality in vaccination with about 50.2 percent of the doses administered to women. The challenges in vaccination arise from disruption of supply chains, storage, cold chains, and vaccine hesitancy.
2. The fiscal policy prioritized funding health and social safety nets, while monetary and financial policies facilitated adequate liquidity in the financial system. The stimulus packages estimated at 6 percent of GDP so far, facilitated additional expenditure in the healthcare sector, humanitarian assistance, including the workers affected in garment manufacturing. The fiscal stimulus was financed mainly by curtailing non-priority current spending and suspending low-priority capital projects. To minimize the financial stress stemming from the pandemic shock, Bangladesh Bank proactively addressed the liquidity challenges and adjusted the Bank Rate, CRR, and Repo rate. The timely monetary stimulus also provided positive signals to the market.
3. **Despite the mobility challenges posed by the pandemic, food production and supply chains remained largely unaffected.** The inflation rate at 5.6 percent in FY21, stayed close to the target of 5.4 percent. It has, however, marginally hardened to 6.1 percent in December 2021 due to higher global commodity prices but fallen below 6 percent again in January 2022. Exports recovered strongly, recording 30.3 percent growth in FY22 so far (July21-Jan22), with a faster recovery in major trading partners, diversion of orders from the rest of Asia, faster reopening of economic activities at home, and policy support to the ready-made garment (RMG) industry. The underlying pace of domestic activity is also mirrored in strong growth (26 percent) in imports of capital machinery imports so far (up to November 2021) and robust growth in VAT collection (15.2 percent). After remaining strong in FY21,

[1] The fiscal year for Bangladesh is July-June.

overseas remittances slowed down during the current fiscal year as many Bangladeshi migrants lost their jobs and many returning migrants couldn't travel back due to international travel disruptions. Despite some expansion in CAD, foreign exchange reserves stood at US$ 45.6 billion on February 10, 2022, providing about 6 months of import cover.

Outlook

4. **The domestic macroeconomic stability remains firmly anchored**. Our authorities believe that the pick-up in economic activity will continue, and inflation will remain contained. They expect the economy to expand by 7.2 percent in FY22, supported by large-scale vaccination, a continuation of the stimulus packages, recovery in domestic demand, and a strong pickup in exports. The fiscal deficit is expected to remain within 5 percent of GDP in FY22 on the back of expenditure rationalization and robust revenue growth; the authorities recognize some upside risks to the fiscal position from the recapitalization of the banking sector. They agree that inflation in FY22 may exceed their target of 5.7 percent given food and energy-driven imported inflation. They are closely monitoring second-round effects and believe that the impact of imported inflation is likely to be muted and temporary. The key sources of uncertainty and risk regarding the outlook continue to be the evolution of the global health pandemic. The authorities are striving with the vaccination drive to cover the unvaccinated population.

Augmenting revenues and buffers

5. **Despite the revenue mobilization challenge, Bangladesh performed well in fiscal management by keeping public debt at a moderate level. Our authorities are seized by the tax revenue challenges and striving to reach the tax-GDP ratio of 14 percent by FY25.** The main objective under the domestic resource mobilization strategy is to improve tax compliance without increasing tax rates. Therefore, reform measures aim at (i) strengthening revenue administration and improving compliance, (ii) broadening tax base and simplifying tax structures, and (iii) elimination of, or reduction in, tax exemptions and tax holidays awarded for prolonged periods. Accordingly, the government has planned and undertaken measures, including implementation of the new VAT law to boost collections, automation of VAT systems and Electronic Fiscal Devices to minimize evasions, harmonization and simplification of customs processes and tax procedures, expansion of taxpayer base, and minimization of tax exemptions.
6. The government had introduced a saving scheme for small savers, called National Savings Certificate (NSC), to motivate people to save money, collect scattered small savings, and provide a safety net for certain groups of the population, including senior citizens and women. NSCs pay a higher interest rate than bank deposits with similar maturity, thus involving some fiscal cost. Realizing the fiscal burden, the government has introduced digitalization of the scheme for better targeting of the benefits and has rationalized interest rates by introducing tiered interest rates since September 2021. To accelerate the development of the local bond market, the government has recently introduced the Islamic Sukuk Bond. They are also closing loss-making SOEs and creating a database to monitor the financial performance of SOEs to contain fiscal risks.

Monetary and Financial Sector issues

7. Our authorities plan to continue the work on modernizing the monetary policy framework, including through IMF TA. The authorities plan to move from targeting monetary aggregates to interest rate targeting.
8. On the exchange rate front, the authorities will continue to provide FX to meet rising import demand and allow the Taka to depreciate gradually against the US dollar. They expect this to be a short-run phenomenon and for the exchange rate to stabilize with the repatriation of export proceeds and a pickup in remittances.
9. State-Owned Commercial Banks (SOCBs) in Bangladesh, like other low and lower-middle-income countries, carry a large social inclusion programme and are a key vehicle to attain inclusion, and reduce poverty and inequality. Responding to the challenges posed by the SOCBs' rising NPLs, our authorities have made amendments to several laws and acts to strengthen the banking sector and would continue to align them with best international practices. The broad objectives of the amendments are to define willful defaulters, make mergers between banks easier, improve the legal process to expedite loan recovery, improve the autonomy of the central bank, and put in place an orderly bank resolution system. To improve the performance of SOCBs, Bangladesh Bank has signed MoUs with five of the six SOCBs and is also working toward risk-based supervision being supported by the IMF TA.

Export-led growth and diversification challenges

10. COVID-19 severely affected Bangladesh exports leading to a contraction of 16.9 percent in FY20 due to the closure of economic activities at home and abroad. However, aided by timely stimulus packages of the government and revival of global demand, exports strongly rebounded recording 15.1 percent growth in FY21 and further strengthening in FY22 so far.
11. Export growth led by the readymade garments industry has created enormous employment opportunities, with many backward and forward linkage with industries as well as services. Being a labor-intensive sector, it has generated employment opportunities for millions, most of whom are women. The challenge, however, is that exports remained heavily concentrated in readymade garments (85 percent) and limited markets. **Recognizing the challenges, the 8th Five Year Plan (FY21-25) has focused on many policy options to diversify both products and markets. A blend of skills, finance, improved technology, entrepreneurship, and adequate quality infrastructure are identified as key to export diversification. Pharmaceuticals, leather, processed food, and light engineering have been identified as product categories.**

Structural reforms

12. During the pre-pandemic period, Bangladesh's economy grew by an average of 6.9% during FY2011-19, leading to the economy attaining a size of US$ 416 billion by FY2021. **A higher growth trajectory of the last two decades has helped reduce poverty by more than one-half from 48.9 percent in FY 2001 to 20.5 percent in FY2019,[2] and extreme poverty (World Bank $1.9 PPP 2011 prices) from 34.3 percent to 10.5 percent during the same period.** While the healthy flow of remittances to rural areas supported the growth of

[2] Percentage of the population living below the national poverty line.

consumption and created new jobs in services, the spread of microcredit programmes helped protect the consumption of the rural poor.

13. **The country attained lower-middle-income status in 2015 and met all the criteria to graduate from the LDC status with graduation to be effective in 2026.** Even before the move towards graduation, the share of concessional financing is progressively coming down and the country is gearing up to the challenges arising from market-based financing, including measures to enhance the role of FDI, which is likely to play an important role in bringing new technology, markets and bridging the financing gap.
14. To meet the challenges, the government is incorporating graduation priorities into national development plans, enhancing competitiveness through increased productivity, reducing the cost of production and doing business, diversifying exports in terms of both products and markets, and strengthening participation in the global value chain. The authorities are stepping up investments in several megaprojects, high-tech parks, and SEZs, as well as modernizing agriculture. 100 special economic zones are planned with emphasis on logistics including the development of deep ports and technology.

Tackling climate change

15. Despite the economic size exceeding US$400 billion, the share of Bangladesh in global CO2 emissions has been very low (0.3 percent of total global CO2 emission). In terms of per capita CO2 emission, Bangladesh ranked a low 193rd among 229 countries with a per capita emission of 0.6 tonnes in 2019 – a fraction of the world average emission of 4.8 tonnes. **To address the vulnerability of climate change, the Bangladesh Delta Plan 2100 was launched in 2018 and the government is working on a strategic investment framework to mobilize financing (Mujib Climate Prosperity Plan 2030)**. Energy Efficiency and Conservation Master Plan (2030) will reduce dependence on coal for power generation. To promote green technology, Bangladesh Bank has established a refinance scheme to support environment-friendly technology such as solar energy, biogas plants, and effluent treatment plants.
16. **Bangladesh may need US$ 37 billion by 2030 to implement climate change projects under the Delta Plan. Climate-specific support mechanisms and financial aid for mitigation and adaptation activities are key to spur and enable a just transition towards low-carbon climate-resilient development.** Developing countries should receive the necessary support and tools to make climate-resilient investment decisions and budget allocations. Thus, there is an urgent need for technology transfer, and scaling up funding to enable a just transition to a low emission economy. The energy transition must be fair and equitable as Bangladesh’s per capita energy consumption is still $1/7^{th}$ of what a global citizen consumes. The advanced countries should recognize their historical responsibilities to promote a global public good i.e., mitigation and adaptation efforts of developing countries, including Bangladesh.