



BANGLADESH

SELECTED ISSUES

December 2023

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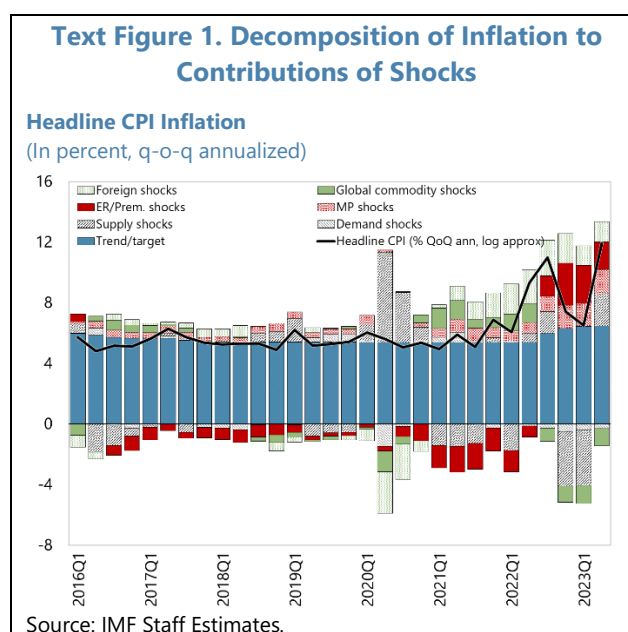
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TAMING INFLATION: POLICY OPTIONS AND TRADE-OFFS¹

After a prolonged period of stable inflation, Bangladesh is experiencing a bout of persistently high inflation since the beginning of Russia's war in Ukraine. Bringing inflation down and restoring macroeconomic stability requires a balancing act between managing inflation and growth. This analysis applies a semi-structural Quarterly Projection Model (QPM)² to assess the drivers of the recently elevated inflation in Bangladesh and evaluate different policy options in taming inflation, as well as tradeoffs involved with these policy choices. Analysis suggests that a concerted but carefully calibrated tightening of the monetary policy stance will be needed to bring inflation down to BB's target range. While concurrent fiscal policy consolidation could aid a faster disinflation process, it could lead to disproportionately substantial output costs as the Bangladesh economy is operating at below potential and navigating multiple external shocks. Ongoing reforms to modernize monetary policy framework could reduce the economic volatility and costs associated with navigating periods of significant exchange rate pressures and heightened inflation.

A. Drivers of Inflation in Bangladesh

1. Bangladesh's inflation accelerated to a decade high in FY23³, triggered by cost-push factors. In the wake of Russia's invasion of Ukraine, heightened global commodity prices, supply disruptions, and slowing external demand for Bangladesh's export led to a sharp widening of the current account deficit and depreciation of the Taka, intensifying the surge in import prices. After remaining stable for a prolonged period (averaging 5.8 percent during FY15-FY22), inflation peaked first time at 9.5 percent year-on-year (y/y) in August 2022, following the government's decision to hike domestic fuel and energy prices to stem the rapid rise in import and subsidy bills. Helped by expanded government



¹ Prepared by Yaroslav Hul (ICD).

² The QPM model for Bangladesh had been developed by the IMF staff and reflects selected stylized features of the Bangladeshi economy and key characteristics of the BB's monetary policy framework. For more detailed discussion on the unique features of the QPM for Bangladesh see *Bangladesh: Selected Issues* paper "Modernizing the Monetary Policy Framework in Bangladesh – Model-Based Insights" IMF Country Report No. 22/72, (<https://www.imf.org/en/Publications/CR/Issues/2022/03/07/Bangladesh-Selected-Issues-514021>). For details about a canonical QPM model, see Berg et al. (2006)

³ Fiscal year in Bangladesh starts in July and ends in June.

food subsidies and bumper harvest in late 2022, inflation showed a temporary moderation. Nevertheless, inflation picked up again in the first half of 2023, as higher transportation costs stemming from fuel price hike, continued import restrictions, and further Taka depreciation significantly increased input costs for domestic producers and importers, who passed them on to consumers by raising prices. As a result, headline inflation peaked again at 9.9 percent y/y in May 2023, reaching more than a decade high.

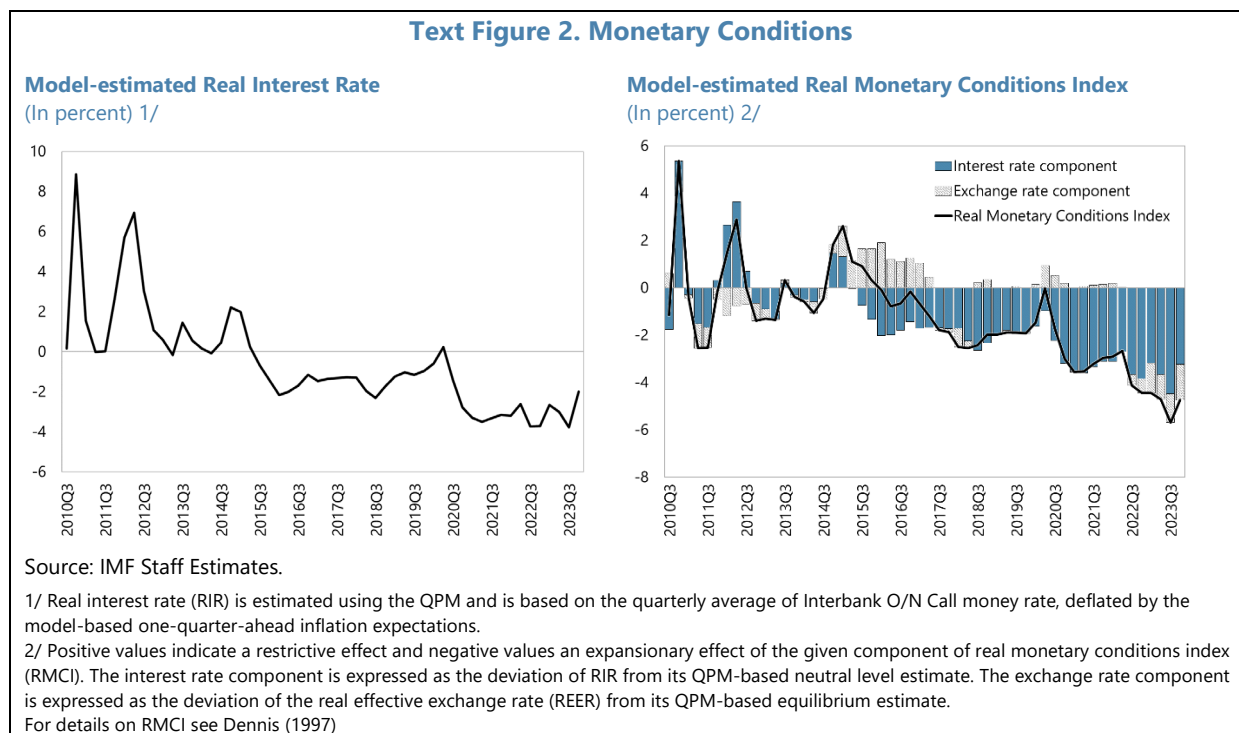
2. Pass-through from exchange rate depreciation has contributed significantly to a surge in prices. Worsening current account and significant tightening of the global monetary conditions have put significant pressure on the Taka. To stem reserves losses and help restore external balance, the authorities have allowed the Taka to depreciate by close to 20 percent cumulatively over FY23. To estimate the pass-through of this exchange rate depreciation to inflation, this paper uses the QPM model for Bangladesh to decompose inflation into contribution of individual shocks. The exchange rate pass-through (ERPT) is then estimated as a relative contribution of uncovered interest rate parity (UIP) premia shocks (red bars on Text Figure 1) to overall inflation over the course of FY23.⁴ The short-run ERPT ratio is estimated at 0.25, implying that the 20 percent Taka depreciation in FY23 contributed to an increase in overall price level by about 5 percent. In other words, of the total consumer price index (CPI) increase of close to 10 percent in FY23, about half of it can be attributed (directly and indirectly) to exchange rate depreciation.

3. Although initially triggered by temporary cost-push factors, higher inflation has over time gotten more entrenched as second-round effects took hold. Responding preemptively to the adverse shocks, Bangladesh Bank (BB) began raising the interest rates starting May 2022. However, the gradual pace of this monetary tightening appears to not be enough in stemming second-round inflationary pressures emanating from multiple sources, including rising global commodity prices, bouts of Taka depreciation, and hikes in domestic fuel and energy prices. Widening policy rate gap with the US Fed Funds rate has further compounded the situation. As a result, real interest rates (RIRs) have remained negative (Text Figure 2). Real effective exchange rate (REER) depreciation has contributed to the effective loosening of the real monetary conditions (Text Figure 2). Moreover, increasing devolvement of the government securities to BB at below market-clearing interest rates⁵, resulting in effective capping of lending rates (through maximum

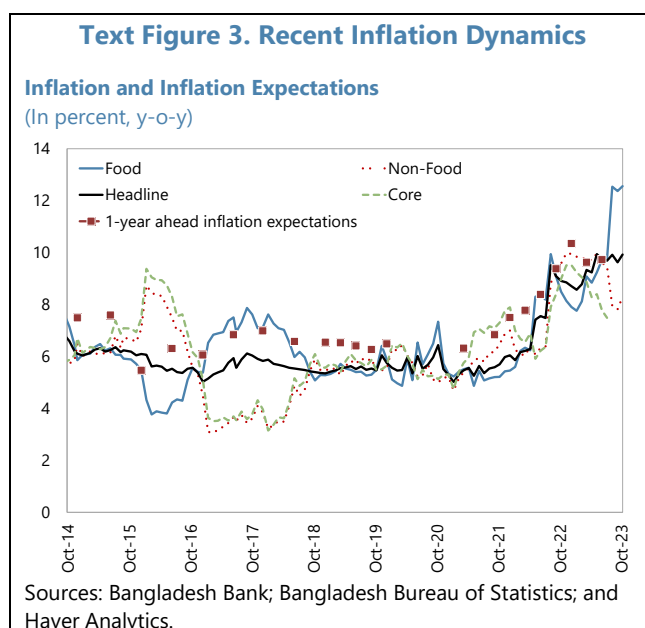
⁴ Extent of exchange rate pass-through (ERPT) to prices depends critically on the nature of the underlying shocks hitting the economy—some shocks affect both exchange rate and inflation in the same direction (e.g., monetary policy tightening typically works to bring down inflation and strengthens the domestic currency), some can affect in different directions (e.g., a foreign deflation leads to lower import prices, but puts pressure on the exchange rate to depreciate to restore the trade competitiveness). Therefore, there is no single notion of an ERPT to prices, and each episode should be analyzed on its own, depending on the underlying nature of the shocks driving the episode. A (semi-)structural model, such as a QPM, is particularly useful in this regard, as it helps in identifying different sources of shocks during different economic episodes. For discussion on ERPT see Ha et al. (2019).

⁵ Although government securities are mostly oversubscribed in auctions, the cut-off yields have been systematically set below market-clearing yields. In FY23, devolvement on BB represented 44 percent of the total issued amount, and in some auctions accounted for 70-80 percent of the entire issuance.

mark-up margins imposed on the reference lending rate, called the SMART⁶), as well as multiple subsidized BB credit schemes for various priority sectors, have kept the yield curve and monetary transmission subdued.



4. Inflation expectations have remained persistently elevated. Not being firmly anchored at a clear and credible inflation target, headline inflation has become persistently elevated as second-round effects have transmitted into higher input costs and rising inflation expectations. One year ahead inflation expectations, as measured by BB, have reached their historical maximum of 10.3 percent in December 2022 (Text



⁶ Under the new SMART (six month moving average rate of T-bills) system, maximum lending rates across different categories of borrowers are indexed to the average of the 182-day T-bill rates issued in the last six months and updated monthly. Even though 182-day T-bill are presently not devolved to BB, devolvement of government securities of other maturities has kept SMART rate subdued.

Figure 3). BB's measure of core inflation,⁷ which is typically used to track the underlying inflation trends, has accelerated and also peaked at the end of 2022, at 9.5 percent. Although, both inflation expectations and core inflation have moderated in the second half of FY23, they remain elevated and well above the authorities' inflation target range of 5-6 percent.

B. Monetary Policy Options and Tradeoffs

5. A further tightening of the monetary policy stance is needed to bring inflation to the authorities' target range over the medium term. In order to assess the extent of the required monetary tightening and evaluate the associated policy trade-offs, three QPM-based policy scenarios are considered:

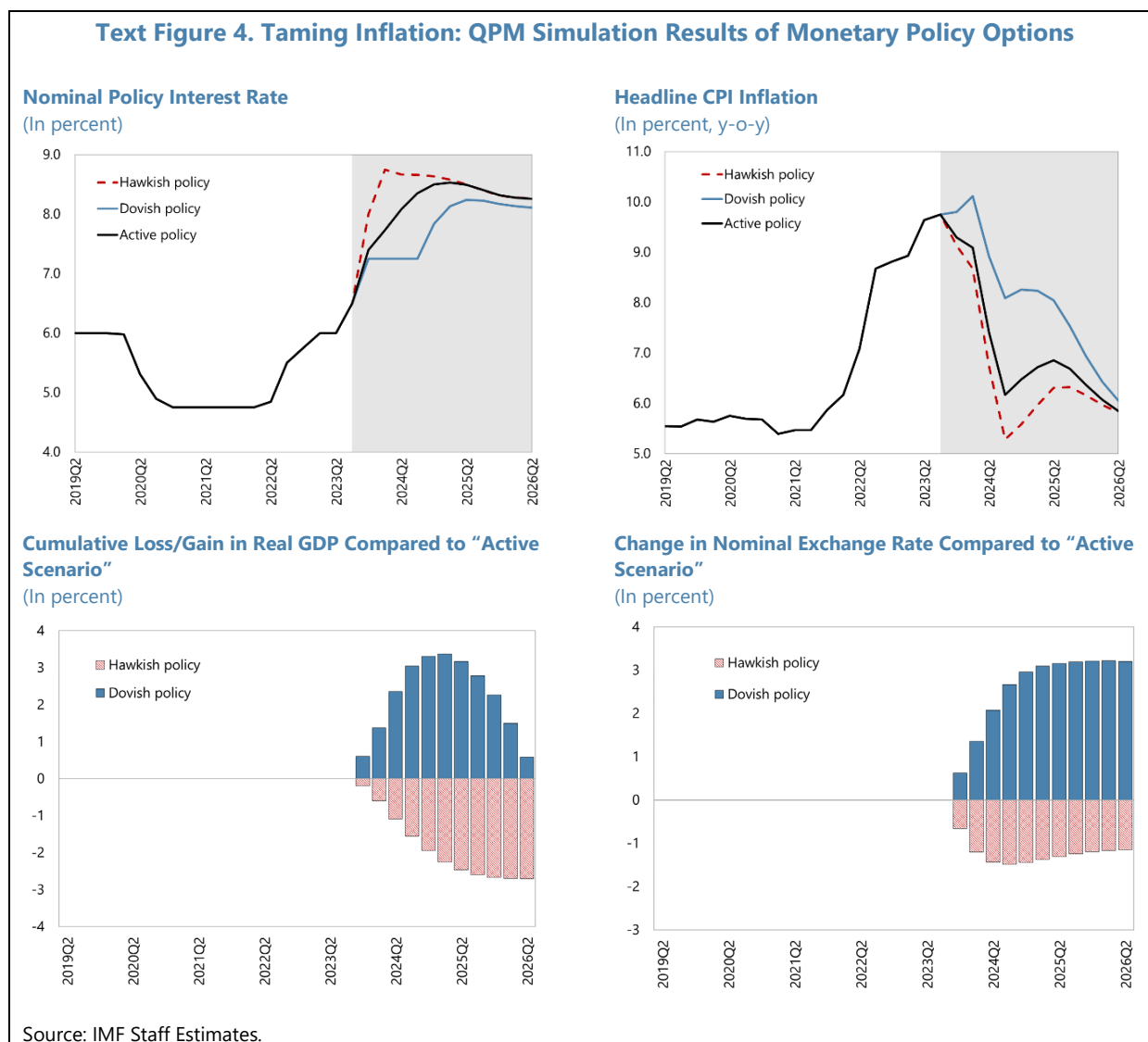
- *Scenario 1.* The "active policy" scenario assumes that BB actively determines its policy rate in every quarter of the forecast horizon to (i) minimize expected inflation deviation from BB's target over the monetary policy horizon (up to 2 years), and (ii) keep the demand pressures (approximated by output gap in the model) checked, while (iii) ensuring that Call money rate remains closely aligned with the policy rate.
- *Scenario 2.* The "hawkish policy" scenario assumes that BB decides to bring inflation down to the target range by end-FY24, before pursuing an active policy in adjusting the policy rate as in Scenario 1.
- *Scenario 3.* The "dovish policy" scenario characterizes BB's current monetary policy stance, keeping the stance unchanged until end of FY24, before pursuing an active policy in adjusting the policy rate as in Scenario 1.

Based on the simulations using the QPM, Text Figure 4 summarizes the policy rate responses under the three scenarios (top left chart), the projected paths for inflation (top right), as well as a cumulative percentage change in GDP and a percentage difference in the Taka exchange rate for the "hawkish" and "dovish" scenarios, compared to the "active policy" scenario.

6. Given the trade-offs involved and the monetary policy transmission lags, a concerted but carefully calibrated monetary tightening will help restore price stability. The simulation results suggest that inflation would remain elevated throughout FY24 under the "dovish" scenario and start decelerating gradually towards the target range only after monetary policy begins raising the rates. The real output gains from this policy, compared to the "active policy" scenario, are short-lived and start dissipating quickly as the monetary policy tightens in FY25 and are largely undone by the end of forecast horizon. The nominal exchange rate ends up about 3 percent weaker, compared to "active policy" scenario. On the contrary, the rapid disinflation under the "hawkish" scenario is costly,

⁷ BB's measure of core inflation excludes food and fuel items, which are typically most volatile and affected by cost-push shocks. Interestingly, in Bangladesh core inflation has historically been more volatile than headline inflation. This could be explained by the fact that core items constitute residual spending in the consumer basket (the weight of core items is relatively low at close to [30] percent). Therefore, for example, whenever food prices rise, the share of disposable income spent on food items increases and demand for core items goes down along with prices.

as the cumulative output loss reaches around 3 percent compared to the “active policy” scenario, but the exchange rate is stronger by about 1 percent, on the back of tighter monetary policy. The optimal policy response is therefore believed to be between these two extremes—dovish versus hawkish, and would have to carefully weigh the benefits of disinflation against the associated output costs. Given the lags in monetary transmission, the orderly disinflation process should take several quarters to two years to bring inflation to the target range, unless aided by favorable unexpected shocks.⁸



⁸ Central banks generally operate with a medium-term perspective when implementing monetary policy to achieve their goals and are considered most effective on a horizon from 1 to 2 years. Many factors can impact the effectiveness of monetary policy, including the specific economic conditions, the credibility of the central bank’s commitment to its policy goals, and the responsiveness of households and businesses to changes in interest rates and other monetary policy tools. For Emerging Markets and Developing Economies (EMDEs), this is particularly relevant for a disinflation process, when a central bank has to tighten to bring inflation down to a target (range).

C. Role of Fiscal Policy in Disinflation

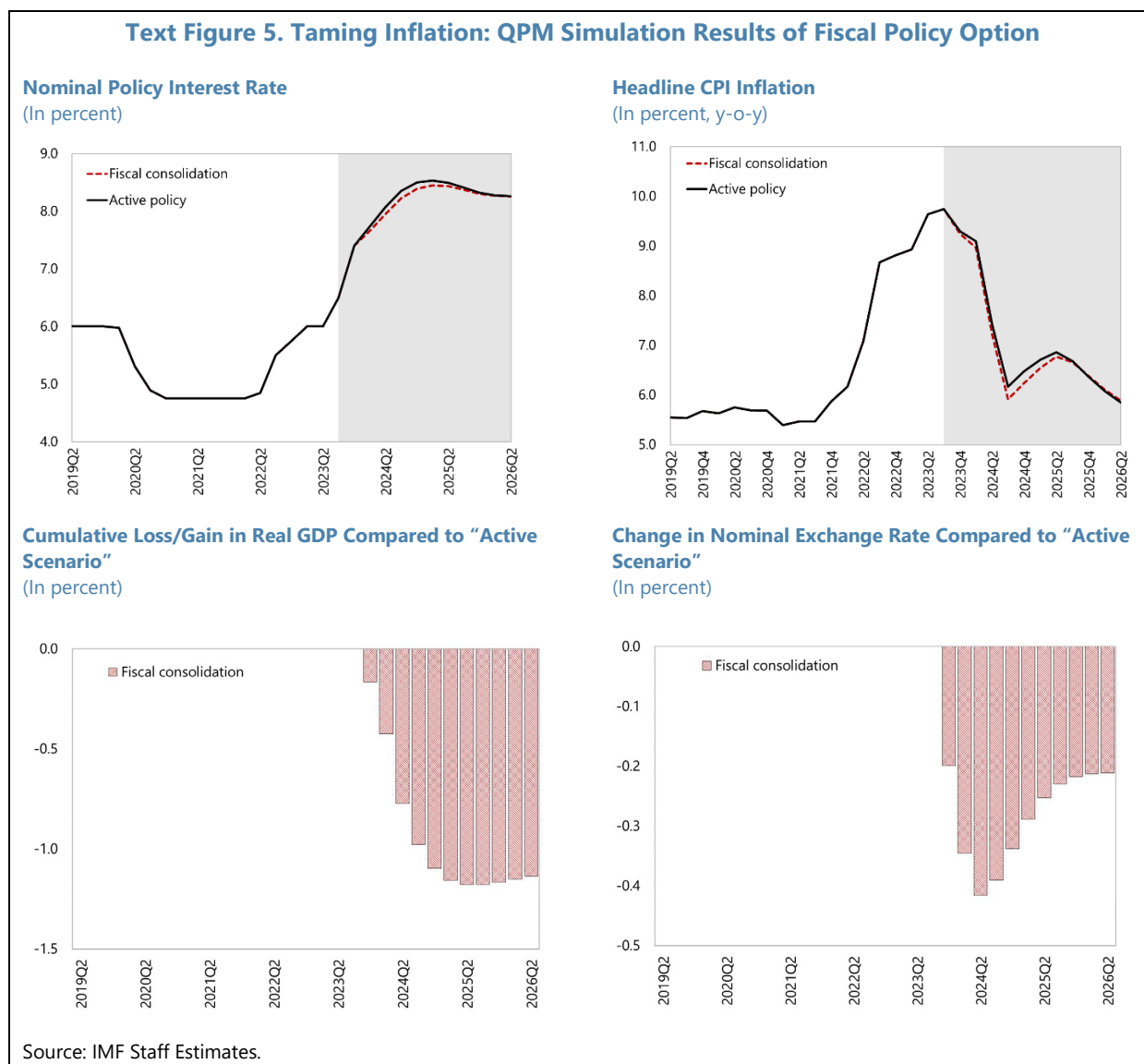
7. Concurrent fiscal policy consolidation could aid a faster disinflation process, but as the Bangladesh economy is operating at below potential and navigates multiple external shocks, it could lead to disproportionately high output costs. An ad hoc analysis is performed by extending the QPM framework to analyze a stylized fiscal consolidation proposed against the “active policy” scenario. As the QPM is primarily a monetary policy model and does not generally contain a separate fiscal block, a fiscal consolidation of 1 percent of GDP is assumed in FY24, which given that the economy is operating below potential and that the exchange rate remains broadly similar to the “active policy” case (see bottom left figure on Text Figure 5), translates into a fiscal impulse of about -1.5 percent of GDP, and with the fiscal multiplier of 0.3⁹, results in 0.5 percent reduction in the output gap. Text Figure 5 summarizes the results. The end-of-period inflation in FY24 goes down by an additional 0.2 percentage point, but the permanent cumulative loss in output reaches 1 percent, compared to the “active policy” scenario. At the same time, as fiscal policy consolidates, monetary policy could adopt a mildly looser stance, with the policy rates lower by some 15 basis points compared to the “active policy” scenario.

D. Modernizing Monetary Policy Framework

8. A more credible and forward-looking monetary policy framework can notably reduce the economic volatility and costs associated with navigating periods of significant exchange rate pressures and heightened inflation. A more rule-based monetary policy framework, anchored at a clear medium-term inflation objective, can help in stabilizing an economy during periods of intensified economic volatility and increased uncertainty. A forward-looking approach allows a central bank to act proactively rather than reactively. By anticipating potential economic challenges and adjusting its policy tools accordingly, it can mitigate the impact of adverse shocks. At the same time, high credibility is also a policy tool, which allows central banks to better manage market expectations without resorting to excessive adjustments in other tools. (The more market participants believe that the central bank is determined to “do what it takes” to achieve price stability, the less it actually needs to “do it”.) However, a central bank's credibility is built over time through consistent policy actions and communication. Therefore, periods of economic challenges and uncertainty present opportune moment to build credibility for active and forward-looking monetary policy.¹⁰

⁹ In line with other low-income countries; see IMF (2014).

¹⁰ This qualitative assessment is further supported for Bangladesh by a counter-factual QPM-based analysis in IMF (2022). There, an episode from recent Bangladesh economic history is analyzed, when a build-up of exchange rate pressures led to significant depreciation of the Taka in FY12, with subsequent spike in inflation and increased macroeconomic volatility. The counter-factual simulations show that having a forward-looking monetary policy regime with a clear and credible inflation anchor would have allowed BB to navigate the mentioned period in a much smoother and controlled fashion, with faster and less disruptive disinflation and lower output cost.



9. Therefore, modernizing monetary policy framework, streamlining monetary operations, and enhancing central bank transparency and communications remain key reform priorities for Bangladesh Bank (BB) under the IMF-supported program. This is especially vital as Bangladesh graduates from the Least Developed Countries (LDC) status in FY26 and becomes more closely integrated into the global financial system. Adopting a modern, more forward-looking and credible monetary policy framework, which is well understood and accountable, with clearly defined primary and secondary objectives, would allow Bangladesh to achieve a higher level of macroeconomic stability and be better equipped to deal with external shocks, which will become more frequent and intense as Bangladesh graduates from LDC. A modernization process should therefore remain a key priority for BB in the coming years, and be underpinned by a comprehensive set of reform measures, including strengthening of the central bank’s independence and governance, enhancing its analytical and forecasting capacity, streamlining operational framework, developing money markets, and improving policy communications.

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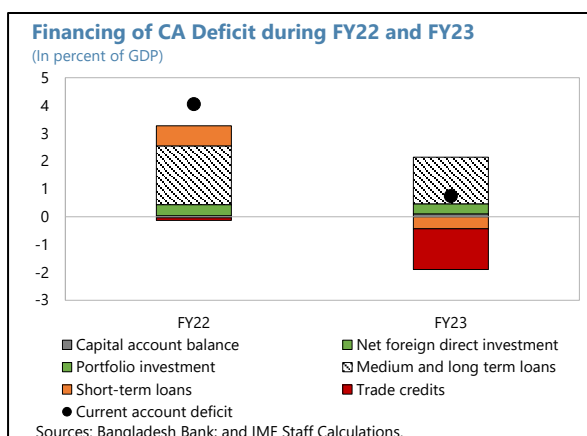
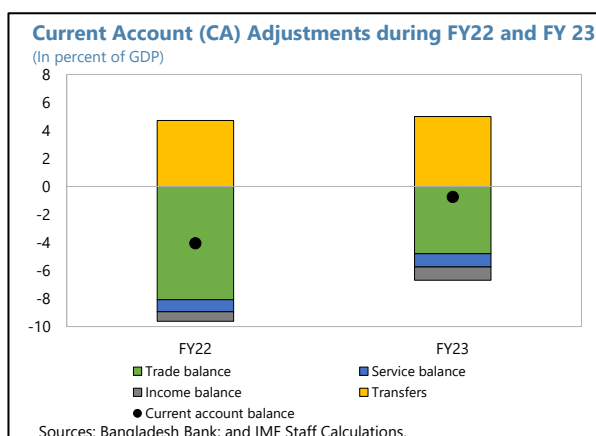
BANGLADESH: TOWARD GREATER EXCHANGE RATE FLEXIBILITY¹

Multiple external shocks and suboptimal domestic policy responses have led to sustained foreign exchange (FX) pressures in Bangladesh. These developments have highlighted the need for a more flexible exchange rate regime to rebuild external resilience as well as to prepare Bangladesh to successfully integrate into the global financial system post LDC graduation. While the authorities have appropriately accelerated reforms to allow greater exchange rate flexibility, managing transition risks remains crucial. Policy actions to restore external resilience need to be well calibrated and carefully sequenced to facilitate a non-disruptive transition toward greater exchange rate flexibility.

A. Recent Pressures in the FX Market

1. Bangladesh has faced a challenging external environment in recent years, amidst Russia’s war in Ukraine and global monetary tightening. Led by worsening terms of trade including from rising global commodity prices and a strong post-pandemic rebound in imports, the CA deficit widened substantially in FY22. This resulted in sharp decline in FX reserves and depreciation of the Taka against the U.S. dollar. The authorities responded to adverse external developments by tightening monetary conditions and implementing demand management measures, including restrictions on non-essential imports by requiring higher margin on letters of credit (LC), and sought a Fund-supported program.

2. To further arrest currency pressures, Bangladesh Bank (BB) accelerated several reforms to allow greater exchange rate flexibility in line with its commitments under the Fund-supported program. BB discontinued the use of official exchange rate for transactions on behalf of the government by replacing it with the prevailing daily interbank exchange rate, announced by the Bangladesh Foreign Exchange Dealers’ Association (BAFEDA) as a reference rate, thus eliminating multiple currency practice subject to Fund jurisdiction under Article VIII. BB also published gross

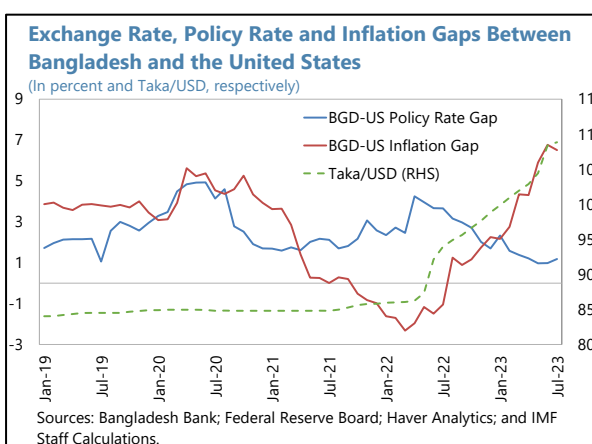
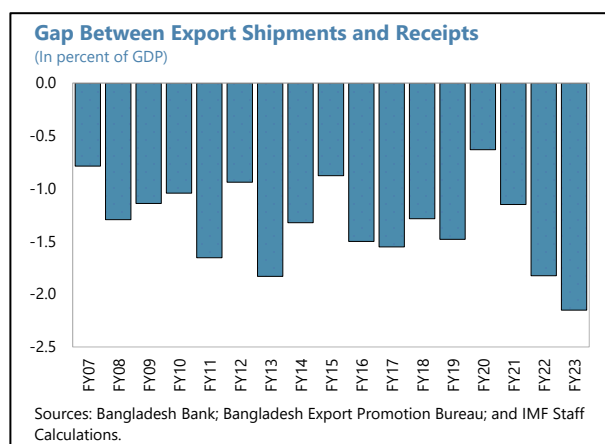


¹ Prepared by Richard Varghese (SPR) and Yaroslav Hul (ICD).

official reserves as per *BPM6* definition by excluding foreign currency assets which are claims on residents or not readily available. BB further scaled back non-monetary use of FX reserves, including foreign currency lending, by about US\$2 billion in FY23.

3. The CA deficit narrowed considerably but overall BOP balance deteriorated in FY23.

FX shortages and LC margin requirements on the payments by bank deposits to curb non-essential imports (aimed at managing import demands) have led to a sharp contraction in imports by 16 percent y-o-y in FY23. Exports remained resilient, despite slow growth in major trading partners. The CA balance improved significantly. Nevertheless, the financial account experienced an outflow of 0.5 percent of GDP (US\$2.1 billion) in FY23, compared to inflows historically averaging about 2.5 percent of GDP, signaling capital flight. While export shipments (i.e., total shipment value of exports from Export Promotion Bureau recorded under BOP) grew by 6.3 percent y-o-y in FY23, export proceeds (i.e., the export receipts recorded by BB based on FX deposits at commercial banks) increased marginally relative to FY22. Consequently, unrealized export proceeds—the difference between export shipments and realized export proceeds—increased to US\$9.6 billion amounting to 2.1 percent of GDP in FY23.² This reflected delayed repatriation and repayment of export proceeds, turning short-term trade credit sharply negative. High global inflation and continued supply disruptions have increased import costs for externally financed investment projects, resulting in delayed project execution, and consequently reducing corresponding external project finance disbursements. An unprecedented reversal in the financial account led to a continued decline in FX reserves, despite the improvement of the above-the-line current account.



4. Faster-than-anticipated global monetary policy tightening, inadequate domestic policy response, and expectation of further currency depreciation have contributed to financial outflows. The policy rate gap between Bangladesh and the U.S. declined from 4.9 percent at the

² While some share of this gap can be attributed to “local exports” (shipments from export processing zones to domestic market mistakenly attributed to exports) and export payment cancellations due to quality control issues and vendor bankruptcies, historically high unrealized export proceeds signal capital flight. Uncertainty around general elections could also be another near-term contributing factor to high levels of unrealized export proceeds, as exporters reportedly choose to withhold bringing their proceeds back into the country until the elections results are finalized.

start of the pandemic to 1.2 percent by end-June 2023. At the same time, inflation in Bangladesh remains elevated leading to a widening inflation gap with the U.S. As Bangladeshi firms reduced foreign borrowing, private external credit inflows declined sharply. Net short-term private loan inflows of US\$3.1 billion in FY22 reversed to an outflow of US\$1.9 billion in FY23, as repayments outpaced new loans due to higher global financing costs. In addition, frequent changes to exchange rate policy setting, uncertainty surrounding the FX management framework and expectation of further currency depreciation have added to significant delays in export repatriation. To address these repatriation delays, BB in March 2023 mandated that export receipts will be converted at the exchange rate prevailing on the market on the date when the proceeds should have been realized.

B. Transitioning to a More Flexible Exchange Rate

5. Given recent developments and continued challenging external environment, Bangladesh would benefit from greater exchange rate flexibility. The benefits for Bangladesh at the current juncture, include: (1) stemming losses of FX reserves and relieving ongoing depreciation pressures triggered initially by the worsening terms of trade in FY22 and later by the reversal in financial account in FY23, (2) enhancing resilience and adaptability to external shocks, especially as Bangladesh graduates from the LDC category and becomes more closely integrated into the global financial system, and (3) supporting the move to a more modernized and forward-looking monetary policy framework and enhancing BB independence. In this regard, policy actions and reform measures should be well-calibrated and carefully sequenced to facilitate the transition toward a more flexible exchange rate system, while minimizing adjustment costs to the economy.

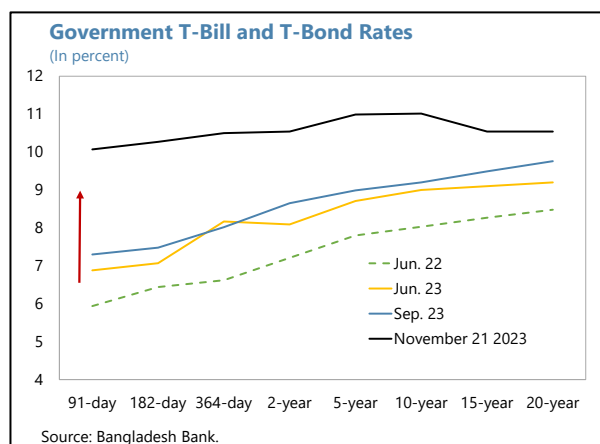
Near-Term Policy Priorities

6. To restore external resilience, near-term corrective policy actions would require reducing the reliance on the exchange rate as primary nominal anchor for monetary policy, further tightening the monetary policy stance, and maintaining fiscal discipline. Country experiences suggest that when supported by appropriate macroeconomic policies a move to a market-clearing exchange rate level could be accomplished in a less disruptive manner and with lower macroeconomic costs even in the absence of ideal pre-conditions for gradual transition (Ötoker-Robe et al., 2007). Building on such country experiences, the near-term policy priorities for Bangladesh could include:

- *Reducing the reliance on the exchange rate as the primary nominal anchor for monetary policy and allowing market forces to determine the exchange rate to better buffer external shocks.* While broad money (M2), GDP growth forecast, and projected inflation all serve as the stated intermediate targets in BB's updated monetary policy framework and the policy interest rate has de-jure become the operational target, both the authorities and market participants still view the exchange rate as a de-facto nominal anchor. This is signaled by the significant efforts which both BAFEDA and BB put into maintaining the exchange rate at desired levels—the former, by mandating a specific price of Taka per dollar for forex transactions, and the latter, by extensive unsterilized FX interventions. Since the recent shift in terms of trade and reversal of the financial flows, the demand for FX increased notably and authorities had to step up efforts to keep the

exchange rate from falling, resulting in depletion of FX reserves. To offset these pressures the authorities should continue to de-emphasize the role of the exchange rate as a nominal anchor, while working on establishing an alternative forward-looking nominal anchor (e.g., a credible inflation target). During this process, reporting ex-post open-high-low-close exchange rates would enhance transparency and better support price discovery. FX interventions should be limited to smoothen volatility and should not counter persistent trends.

- Further tightening monetary policy stance and liberalizing market lending rates to improve monetary transmission.* Monetary policy under the alternative nominal anchor arrangement described above should aim at responding to expected inflationary pressures, while limiting imbalances in the money and foreign exchange markets. The current macroeconomic conditions in Bangladesh are characterized by persistently high inflation and seemingly unanchored inflation expectations, coupled with global financial tightening. To this end, raising the policy rate, while allowing this rate hike to transmit more freely through the entire yield curve, would help restore macroeconomic stability in a swifter and more effective manner.

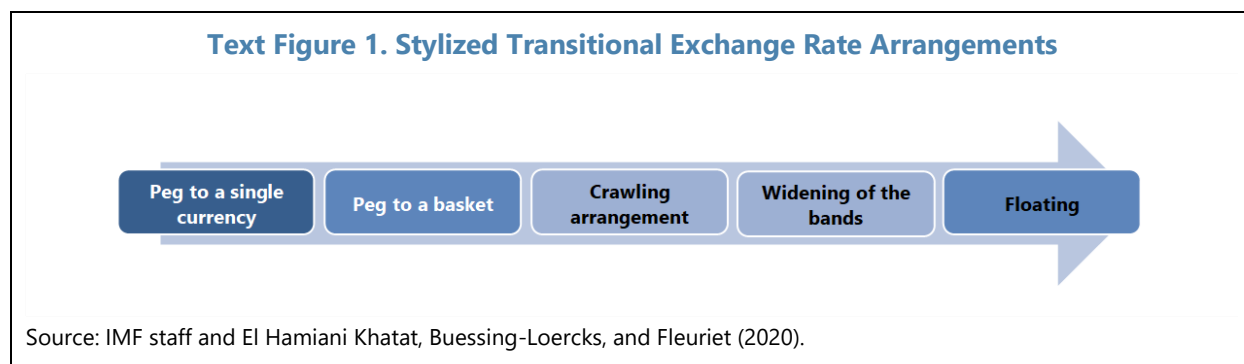


- Maintaining fiscal prudence to complement the monetary authorities' efforts.* Monetary financing, direct or indirect, often generates excess domestic liquidity that puts pressure on the exchange rate while at the same time weakening the central bank's financial position and its ability to sterilize the excess at the appropriate level of interest rate (IMF, 2023). Country experiences suggest that central bank deficit financing is associated with exchange rate depreciation and higher inflation (Hooley, et al., 2021), rendering monetary policy ineffective. For Bangladesh, phasing out and eliminating devolvement of government securities on BB at below market-clearing interest rates would increase central bank independence, enhance the monetary transmission, and reduce pressures on the exchange rate.

Medium-Term Reform Measures

7. Looking ahead, the transitional exchange rate arrangement over the medium term could gradually shift from a single reference currency peg to a basket of currencies with a narrow band corridor in a first phase, and a gradual widening of the exchange rate bands in a second phase. Successful transitions have typically implemented a peg to a currency basket or a crawling arrangement with a gradual widening of the exchange rate bands (Text Figure 1). In an exchange rate band arrangement, the exchange rate is allowed to freely fluctuate within an announced percentage deviation from a midpoint rate, and the central bank intervenes to prevent the exchange rate from crossing the band barriers. The midpoint of the band corridor could be determined in different ways but should not be allowed to persistently deviate from the underlying fundamental

trend which is defined by the equilibrium/long-run dynamics of the real effective exchange rate adjusted by inflation differential with the trading partners.



8. Country experiences show that an exchange rate band could provide greater exchange rate flexibility and monetary policy independence. Introducing a sufficiently wide band around the existing (central) parity or by adjusting the midpoint level would allow balancing the costs of exchange rate volatility and the benefits of monetary policy independence. Persistent upward or downward trends might require adjusting the midpoint level to ensure that the flexibility provided by the bandwidth is not quickly exhausted by a potential misalignment. The width of the band will reflect the trade-off between the costs of exchange rate volatility and the benefits of monetary policy independence, and over the medium term could be informed by historical norms in the exchange rate volatility (e.g., nominal effective exchange rate and real effective exchange rate).

9. Modernizing the monetary policy framework in tandem would assist the transition to greater exchange rate flexibility. The current episode in Bangladesh have demonstrated that exchange rate as a nominal anchor is very costly to maintain in the face of significant adverse external shocks. Broad money as a nominal anchor has two concerns: first, central banks have limited control over it due to unstable multipliers, and second, the relationship between broad money and inflation/inflation expectations has been weak and unstable due to volatile money velocity (IMF, 2015). This leaves inflation target as the optimal choice for a nominal anchor that will operationalize the price stability mandate of BB. A credible inflation target would help BB better anchor inflation expectations while providing room to support its growth objective without destabilizing inflation. It would also help to better absorb external shocks by letting the exchange rate to adjust more freely, which in turn would allow BB to focus instead on domestic price stability. Country experiences also show that successful transitions to a free-floating exchange rate regime were often accompanied by the adoption of explicit inflation target (Ötoker-Robe and others, 2007).

10. Infrastructure development and deepening of the interbank FX market is essential to support price formation in FX markets. Importers and exporters in Bangladesh largely lack appropriate risk management practices, often creating uneven demand and supply conditions. This situation reflects many factors including BB interventions as *de facto* exchange rate insurance (IMF, 2018). Transitioning to greater exchange rate flexibility in a sustainable manner, however, will require developing deep and liquid FX markets. Developing derivatives markets would be critical for market participants to manage foreign exchange risk better, allowing BB to reduce its role as a

market maker and FX insurance provider. BB should foster market development by removing obstacles to market activity and upgrading necessary infrastructure.

C. Managing Transition Risks: Some Considerations

11. Transitioning to greater exchange rate flexibility could incur adjustment costs. Even in well-managed transitions three specific frictions might induce adjustment costs and require considerations—net impact on budget, unhedged private sector FX exposures, and passthrough to inflation. Moreover, disorderly transitions could result in sharp depreciations or exchange rate overshooting as in the cases of Brazil (1999), Czech Republic (1996–97), and Uruguay (2002) if not accompanied by appropriate monetary and fiscal policy stance (Ötoker-Robe and others, 2007). Lack of developed FX markets, appropriate intervention policy, technical capacity to adopt an alternate nominal anchor, and monetary policy independence have resulted in short-lived but ultimately unsustainable attempts to adopt flexible exchange rate regimes as in the cases of Ecuador, Pakistan, and Uzbekistan (Ötoker-Robe and others, 2007).

12. Quantifying these adjustment costs remains challenging in Bangladesh. First, net negative impact on budget stemming from increased external debt servicing costs and higher implied fiscal subsidies for imported essentials (including food, energy, and other commodities) could be substantial. External debt service, which stood at around 1 percent of GDP for FY23, and fiscal subsidies for natural gas, electricity, fertilizers, and food, which amounted to 1.4 percent of GDP (or around 12 percent of total spending) in FY23, would rise further with depreciation, the latter especially given the absence of automatic domestic price adjustment mechanism. Second, the passthrough from depreciation could contribute to increase in prices, in which the short-run exchange rate passthrough ratio for Bangladesh is estimated to be at 0.25.³ Finally, FX exposures in the private sector⁴ (i.e., through banks and corporates) might adversely expose some private entities to any large movements in exchange rates, particularly for those with large unhedged FX liabilities.

13. A gradual transition, supported by appropriate macroeconomic policies, could mitigate many of the associated adjustment costs. Country experiences suggest that developing a credible alternative nominal anchor is a slow process, with an interim arrangement often characterized by a crawling band while policymakers shift to another nominal anchor. Notably, Chile, Hungary, Israel, and Poland have transitioned successfully using crawling bands that were widened over time in response to increases in capital inflows (Dutttagupta, Karacadag, & Fernandez, 2006). On the other hand, countries which adopted flexible exchange rates under market pressure, with little preparation, and lack of supporting institutions and policies, faced higher upfront macroeconomic costs. Persistent FX market pressures and the prevailing macroeconomic imbalances, as well as current financial and institutional conditions, might require an expedited transition schedule in Bangladesh.

³ See *2023 Bangladesh: Selected Issues* paper “Taming Inflation: Policy Options and Trade-offs.”

⁴ Private sector external debt was 5 percent of GDP in FY23, declining marginally from FY22.

D. Conclusions

14. A more flexible exchange rate regime is essential for Bangladesh to rebuild external resilience and successfully integrate into the global financial system post LDC graduation.

Near-term policy actions should adopt a tight monetary stance and maintain fiscal discipline to support a move toward greater exchange rate flexibility. BB should adopt a transitional exchange rate arrangement, reducing the reliance on the exchange rate as primary nominal anchor, and gradually moving to a credible inflation target as a sole nominal anchor for monetary policy. The transitional exchange rate arrangement could involve a gradual shift from a single reference currency peg to a basket of currencies with a narrow band corridor. Gradually increasing flexibility through wider exchange rate bands would develop better awareness of FX risks among market participants. BB should establish necessary technical platforms for interbank foreign exchange transactions, and with time deepen the interbank foreign exchange market to support price formation and develop derivatives markets to help manage foreign exchange risk.

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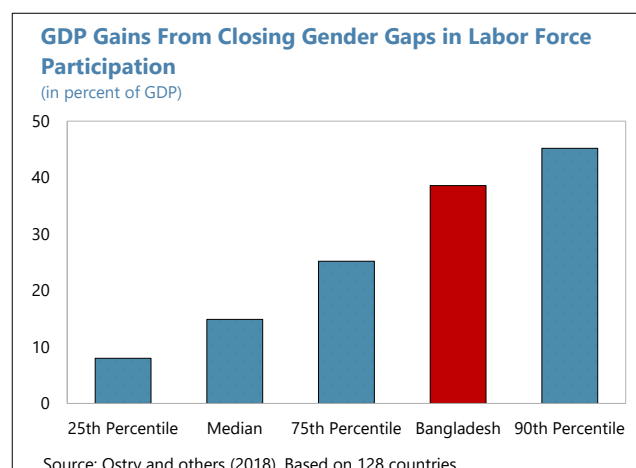
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WOMEN'S EMPOWERMENT, GENDER BUDGETING, AND INTERSECTION WITH CLIMATE CHANGE¹

Gender inequality carries significant economic costs by keeping women from realizing their full potential. Moreover, climate change threatens to further exacerbate gender inequalities around the world as women tend to be more vulnerable to its effects. While Bangladesh has made significant progress to empower women, gender gaps persist with climate change as an added obstacle. This analysis examines the ways that gender and climate change issues intersect in the country and draws recommendations for policies, including through gender responsive budgeting, that can advance both women's empowerment and climate change mitigation and adaptation.

A. Macro-Criticality of Gender Equality in Bangladesh

1. Greater gender equality and economic participation of women can yield significant economic gains for Bangladesh. Women and girls make up half the world's population, yet their participation in the economy is limited leading to substantial productivity losses. Cuberes and Teignier (2012) found that existing gender gaps in the labor market could be costing Bangladesh as much as 21-34 percent of its potential national income. Similarly, Ostry and others (2018) estimate that Bangladesh would gain nearly 40 percent of its current GDP level by closing gender gaps in labor force participation. From a macroeconomic perspective, reducing barriers to women's economic participation and narrowing gender gaps in health, education, and decision-making power could hence lead to large potential welfare and output gains for Bangladesh.



2. Bangladesh is one of the most vulnerable countries to climate change, and gender inequality could intensify the effects of climate change and natural disasters on women. Since women tend to have fewer assets and income-generating opportunities, are less educated, and more likely to work in the informal economy, they are often especially vulnerable to the shocks generated by climate change. In countries like Bangladesh, where both domestic and international migration are key drivers of economic development, women are also more likely to remain living in rural areas and working in agriculture, while men migrate for economic opportunities. This leaves

¹ Prepared by Genet Zinabou (FAD, lead), Jayendu De and Saiful Islam (both APD), in collaboration with UN-Women in Bangladesh.

women disproportionately exposed to the direct effects of higher temperatures, rainfall variability and sea level rise on the natural habitat.

3. Recognizing the macroeconomic benefits and unequal climate change impacts on women, Bangladesh includes women empowerment as a core goal of national planning efforts. Women's well-being is explicitly considered in many of the country's laws and national plans, including the annual budget, the Five-Year Plans, Vision 2041, the Bangladesh Labour Act 2006, and the National Women Development Policy 2011. Policy efforts have focused on increasing economic empowerment for women, particularly in education, health, and employment. To date, gender disparity in education has been largely eliminated and maternal mortality has declined substantially. Nevertheless, important gaps remain in women's economic participation, with women less likely to be formally employed and working relatively low-skilled jobs, corresponding to low earnings, poor working conditions, and lack of social safety nets and job security.

4. Gender responsive budgeting (GRB) is a core tool used by the Government of Bangladesh to channel public resources toward gender equality and women's empowerment. Bangladesh started adopting GRB practices as early as FY06, focusing initially on the expenditure of four select ministries/divisions. GRB has since evolved to become a central part of the government's performance-oriented budgeting process as part of the Medium-Term Budgetary Framework (MTBF), which also includes climate budget tagging. Nonetheless, the ex-post nature of GRB in Bangladesh coupled with shortcomings in methodology and absence of effective impact evaluation mechanisms limit its relevance in the broader public policy dialogue.

5. The IMF-supported program covering 2023-2026 encourages the government's efforts to advance women's empowerment. By supporting a sustainable increase in revenue collection and rationalization of untargeted and environmentally harmful subsidies, the program aims to help Bangladesh create the necessary fiscal space to invest in social programs² and development infrastructure, which in turn is expected to improve women's access to education, health care and economic opportunities. In addition, reforms under the Resilience and Sustainability Fund (RSF), which seek to bolster Bangladesh's resilience to climate change, are expected to support the well-being of women who are on average more exposed to the effects of climate change and natural disasters. Lastly, by supporting policies that facilitate skill development, trade and foreign direct investment, the IMF-supported program expects to encourage upskilling of female workers and creation of more good quality jobs.

6. Against this background, this paper takes stock of the current state of gender equality in Bangladesh, examines the interaction of gender inequality and climate change, and identifies policies to close remaining gender gaps while also addressing climate change. Given the

² Existing social programs run by the Government of Bangladesh's which support women empowerment and facilitate formal employment include the Ministry of Women and Children's Affairs' Mother and Child Benefit Program, Micro-Credit for Women Self-Employment, Skill-Based Training Program for Women for Livelihood, Development of Women Entrepreneurs in Economic Empowerment at the grass root level, as well as Rural Development and Cooperative Division's Integrated Rural Employment Assistance for Poor Women.

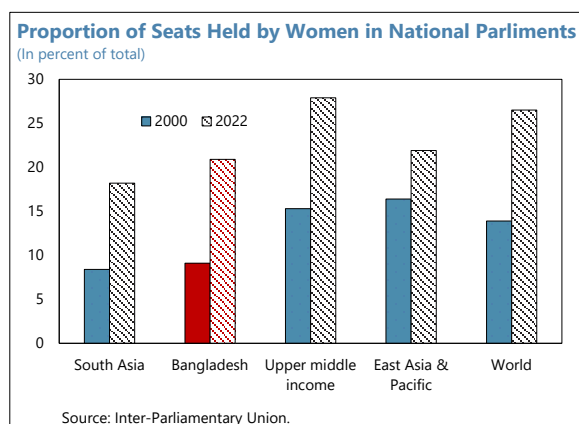
centrality of GRB to the country’s gender policies, the paper also examines the benefits and shortcomings of current GRB practices and draws lessons on how to improve them.

B. The State of Gender Equality in Bangladesh

7. Gender equality and women’s development are emphasized in Bangladesh’s longer-term development goals. The 7th Five Year Plan (FYP) adopted a gender strategy aimed at increasing women’s access to resources and opportunities and reducing structural and institutional barriers to equal rights for women, while the ongoing 8th FYP (July 2020 – June 2025) sets a vision where women will be recognized as equal contributors in economic, social, and political development. The Perspective Plan (2021-41) emphasizes increasing labor force participation, skills developments, higher education, and technical and vocational education for ensuring gender equality and overall development of women. Specific goals targeting women, as set out in the Gender Budget Report (2023-24), include ending all forms of discrimination and violence against women, eliminating child marriage, valuing unpaid care and domestic work, ensuring full and effective participation and equal opportunities at all levels, guaranteeing equal rights to economic resources as well as access to ownership and control, ensuring access to sexual and reproductive health, enhancing the use of enabling technology, and adopting and strengthening sound policies and enforceable legislation.

8. In the past half-century, Bangladesh made significant progress in reducing infant mortality and maternal mortality and raising women’s education (Figure 1). Bangladesh’s life expectancy at birth, which stood at 46.6 years in 1971, had increased to 72.9 years in 2020, and life expectancy of females at birth has exceeded that of males since 1990. The maternal mortality rate was also brought down from 441 in 2000 to 123 per 100,000 live births in 2020. The educational attainment of Bangladesh’s women reached 93.6 percent of that of men and full parity in enrollment in secondary education has already been achieved. The emphasis on reproductive healthcare, family planning, economic participation, and structural and legislative support from the government have contributed to such progress. Nonetheless, gender gaps persist in tertiary education (World Economic Forum (WEF), 2023).

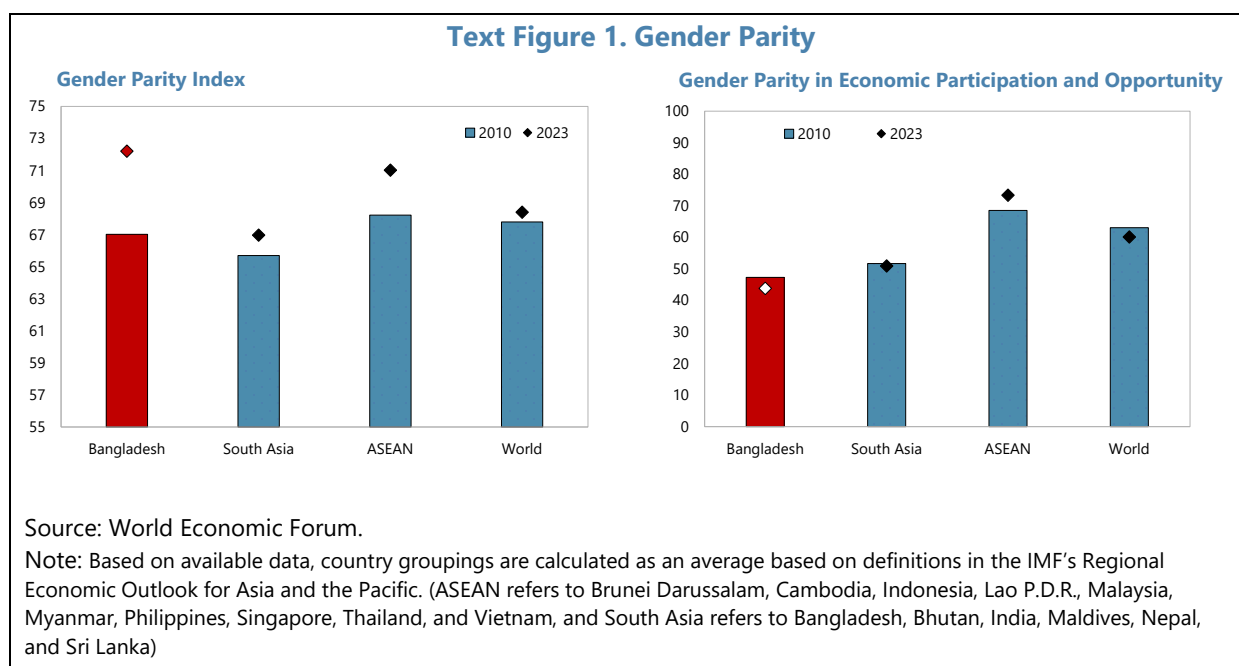
9. Globally, Bangladesh ranks high in political empowerment. According to World Economic Forum (WEF)’s 2023 Global Gender Gap Index, Bangladesh ranks at 7th position out of 146 countries and first in South Asia on political empowerment, and Bangladesh has been served by women as heads of the government for more than half of the years since its independence (over 29 years)—the longest duration globally.³ Article 65 (3) of the constitution reserves 50 seats for women in the parliament, while in all local



³ The current Prime Minister, Sheikh Hasina, has served as Prime Minister totaling almost 20 years while Khaleda Zia served for 10 years and 60 days.

government bodies 33 percent of the seats are reserved for women.⁴ This sustained empowerment in the political spheres has helped Bangladesh’s progress in narrowing gender gaps (WEF, 2023).

10. The rights of women are officially recognized in national laws, including the constitution. Various articles of the constitution ensure equal opportunity and protection to all citizens and no discrimination on grounds of religion, race, caste, sex, and place of birth is allowed. In addition, articles such as 28(2) and 28(4) highlight equal rights for women and men in all spheres of the state and public life while allowing the state the freedom to make special provisions for women or children. Bangladesh has also ratified international commitments, such as the Convention of the Elimination of All forms of Discrimination Against Women (1984) and is a signatory to Beijing Platform of Action (1995). In the country’s legal framework, several legislations have been passed and policies adopted for ensuring gender equality and the empowerment of women.⁵



11. Women’s economic empowerment in Bangladesh still needs attention (Text Figure 1 and Figure 2), reflecting low female labor force participation (FLFP), wage discrimination, limited participation in decision making, and inadequate representation in senior positions in the labor force. Despite its rising trend, the FLFP in Bangladesh at 42.7 percent remains relatively low by

⁴ In addition, in the proposed Political Parties Registration Act (2020), provisions are included to ensure representation of women (at least thirty three percent) in all the committees (Ministry of Finance 2023).

⁵ Some of these include the Acid Crime Prevention Act 2002, Domestic Violence Act 2010, Prevention and Suppression of Human Trafficking Act 2012, Hindu Marriage Registration Act 2012, Overseas Employment and Migration Act 2013, Domestic Violence Rules 2013, Child Marriage Restraint Act 2017, Dowry Prevent Act 2018, and the Women and Children Repression Prevention Act 2020.

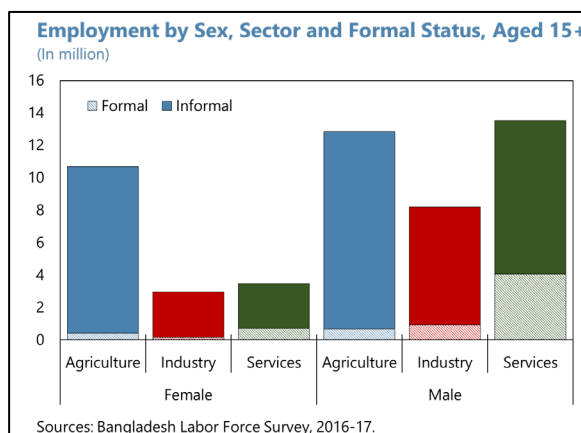
international comparisons. Lack of skills and training have limited women’s access to quality jobs.⁶ Even in sectors with high levels of women’s participation such as the Ready-Made Garment (RMG) sector, women are concentrated at the lowest rungs of the work pyramid, with very limited access to leadership and decision-making positions. Financial inclusion of women also lags comparators.

12. Social norms and gender biases often prevent women from participating in the economy on equal footing with men. Child marriage remains prevalent in Bangladesh, with 51percent of women between the ages of 20-24 having married before their 18th birthday and 33 percent of girls aged 15-19 already married as of 2019 (UN Women 2022). In addition, inequities in property and inheritance rights and difficulties in accessing divorce serve to disempower women within marital and familial relations (Bangladesh Planning Commission, 2020). Domestic violence against women remains an issue and further discourages women’s participation in the economy (Bangladesh Bureau of Statistics (BBS), 2016). Moreover, women are expected to shoulder the lion’s share of unpaid domestic and care work, spending seven times more time on these activities than men (BBS, 2022), and a large proportion of women work as unpaid laborers in family farms and enterprises with no access to their own income (Kabeer and Natali, 2013).

C. The Intersection of Gender and Climate

13. Climate change poses a substantial threat to women’s development in Bangladesh.

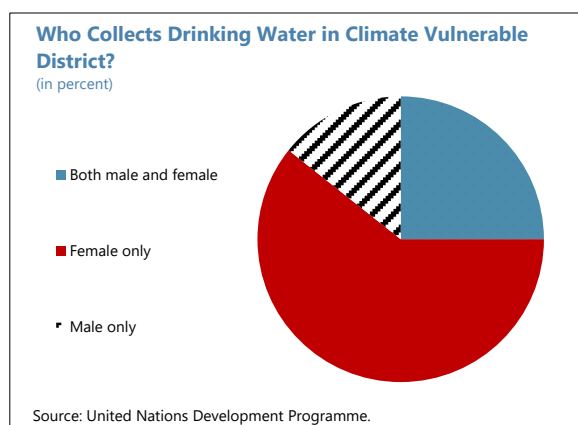
Bangladesh is among the most vulnerable countries to climate change and natural disasters worldwide, suffering from already high and increasing temperatures, sea level rise, and frequent flooding and cyclone.⁷ Like other economic shocks, climate shocks generally impact the most vulnerable households and individuals the worst due to their already fragile starting position (Hallegatte et al. 2016). Women in Bangladesh are on average less educated than men, have lower access to finance, are less likely to own land or property, and disproportionately work in the agricultural sector and informally, leaving them highly exposed to the effects of climate change. Women are also especially vulnerable to food insecurity caused by climate change due to their nutritional requirements during pregnancy, lactation, and childbirth. Moreover, climate-related stress tends to heighten social tensions which increases the risk of gender-based violence (UN Women and IUCN 2022).



⁶ For example, women’s participation in Technical and Vocational Education and Training (TVET) in Bangladesh ranges from 9 percent to 13 percent in public institutions and is 33 percent in private institutions (Draft National Strategy for Promotion of Gender Equality in Technical and Vocational Education and Training (TVET) in Bangladesh).

⁷ See IMF Country Report No. 23/66.

14. Existing gender roles and divisions of labor can render women uniquely exposed to certain climate hazards. For example, women in Bangladesh are primarily responsible for collecting drinking water and biofuels to use in cooking, already contributing to women’s time poverty (see text figure, UNDP 2021). These tasks can become especially dangerous or time-consuming in the aftermath of flooding or during droughts. Women also tend to be less mobile than men as they are tasked with taking care of children while men migrate in search of paid work. This makes women less able to move if climate conditions become inhospitable and can make evacuating disaster areas more difficult (UN Women and IUCN 2022).



15. Important synergies exist between policy efforts to build resilience to climate change and to advance women’s empowerment and well-being. Existing research on how to foster women’s empowerment highlights the importance of safe water and hygiene, equitable access to finance, education, land ownership, transportation, affordable childcare, and diversified labor market opportunities (Kochhar et al. 2016). Improvements in these areas would simultaneously increase women’s resilience to climate change as they will be less likely to fall ill in the aftermath of climate-related disasters, better able to borrow or change jobs to overcome climate-related shocks and make strategic decisions to prepare for the effects of climate change and natural disasters. Building a social safety net that protects women from different shocks they may experience over a lifetime, including climate-related shocks, would also improve women’s welfare and resilience.

16. The Government of Bangladesh officially recognized the need to integrate a gender perspective in its climate change strategy as early as 2008. The first Bangladesh Climate Change Strategy and Action Plan (BCCSAP), published in 2008, highlighted the special vulnerability of women due to their lower socio-economic status and frequent responsibility for collecting drinking water for their families. The report further recommended “comprehensive study of the impact of climate change on women and gender relations and the development of recommendations to address these in all actions under the BCCSAP.” Since then, an official Climate Change Gender Action Plan (ccGAP) to ensure gender equality and inclusion in climate change related policies was published in 2013 and is currently being updated to align with the Mujib Climate Prosperity Plan, the National Adaptation Plan, and the updating of the BCCSAP.

17. The updated draft ccGAP includes both sector-specific and cross-cutting priority actions. Sector-specific priority actions aim to improve women’s access to and control over land, water and forest resources, promote climate-smart agricultural, fishing and livestock rearing technologies among women, provide women training to enable livelihood diversification, enhance women’s access to early-warning systems, give women a stronger role in infrastructure development, and improve access to safely managed water and sanitation facilities as well as to affordable health care. Cross-cutting priority actions focus on encouraging participation of women

at all levels of climate policy design and implementation, raising general stakeholder awareness of the gender-climate nexus, mobilizing financial resources for the implementation of gender-responsive climate action, and collecting and disseminating relevant data.

18. One particularly innovative action under the ccGAP concerns the fostering of women leadership in renewable energy development. The inclusion of this action signals the government's intention to not only support women in adapting to the negative effects of climate change but to also encourage women's equal participation in the green transition, ultimately ensuring that they reap equal benefits from it. For the first time, women have been recognized as "change agents", not just beneficiaries. The ccGAP's recognition of women's priority role in achieving widespread adoption of clean cooking solutions and sustainable forest management further contribute to these goals.

19. While the ccGAP holds significant promise to improve the gender-responsiveness of climate action in Bangladesh, its ultimate impact hinges on its successful implementation. There were significant implementation gaps in the 2013 ccGAP as identified by a joint review of UN Women, International Centre for Climate Change and Development (ICCCAD), and Action Aid in 2018, pointing to the need to enhance government ownership. Hence, the updated ccGAP designates the Ministry of Environment, Forest, and Climate Change to lead the ccGAP implementation, and is also aligned with the National Adaptation Plan (NAP) to facilitate the integration of relevant interventions in ministry-level action plans. Specific time-bound immediate, mid-term, and long-term priorities have also been established in the updated ccGAP. Looking ahead, securing high-level support and buy-in from the concerned ministries and stakeholders, setting clear benchmarks and timelines for achieving them, budgeting adequate resources, and establishing transparent reporting mechanisms will be key for effective implementation.

D. Gender Responsive Budgeting

20. Gender responsive budgeting (GRB) is a strategic approach to incorporate gender considerations in the budget process, including planning, allocation, and monitoring of budget execution. Approaches to GRB, also sometimes called "gender-sensitive budgeting" or simply "gender budgeting", vary across countries but generally entail elements of the following: identifying gender-related goals in the budget planning stage for all sectoral ministries, mapping tax and expenditure policies to said targets, and assessing the effectiveness of said policy measures via institutional monitoring and evaluation mechanisms. By drawing attention to the differential impacts the budget has on women vis-à-vis men, GRB aims to support equitable distribution of public resources for the benefit of all.

21. Bangladesh was an early adopter of gender budgeting practices. Gender considerations were formally introduced into the budget process as part of the adoption of the Medium-Term Budgetary Framework (MTBF), starting with four ministries in FY06 and covering 44 (out of 62) ministries and divisions in FY24. Under the MTBF guidelines, each ministry or division must evaluate the impact of its medium-term strategic objectives on women's advancement as well as on poverty reduction and climate change and calculate the share of total budget allocation relevant to each of

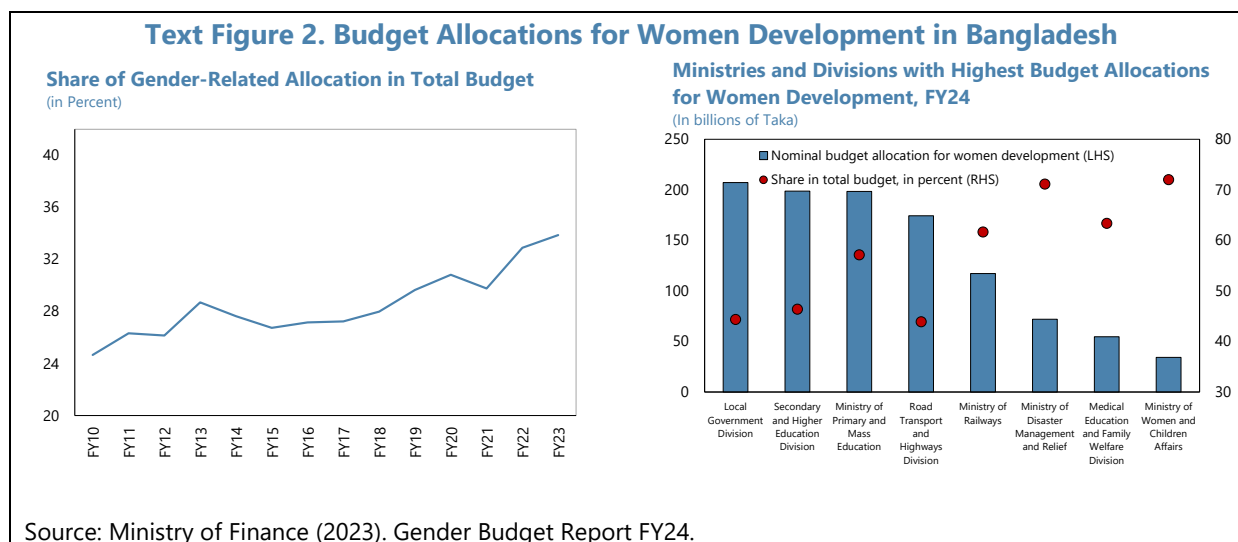
these three objectives. The resulting gender-related allocations are recorded in the Recurrent Capital Gender and Poverty (RCGP) database, further broken down into recurrent vs. development spending (UN Women, 2014).

22. Since 2009, Bangladesh has also published an annual ‘Gender Budget Report’. The ‘Gender Budget Report’ is prepared by the Finance Division and presented in parliament together with the budget every year in June. It provides a summary of each Ministry/division’s activities to promote women’s development, evaluates Ministries/divisions’ key performance indicators related to women’s advancement, and analyzes trends in gender-related budget allocations over time. It also takes stock of how the status and well-being of women is progressing against national objectives enshrined in the constitution, other laws, and the government’s strategic plans (e.g., Five-Year Plan, ‘Vision 2041’ Perspective Plan), and offers policy recommendations for the way forward.^{8,9}

23. Bangladesh’s budget allocations for women empowerment have risen over time (Text Figure 2). According to the RCGP database, gender-related budget allocations increased from 24.7 percent of the total budget in FY10 to 34.4 percent in the latest FY24 budget. While some of the increase over time is likely attributable to more comprehensive reporting of gender-related expenditure across ministries and divisions, these sizable numbers reflect the government’s commitment to directing budget resources to advance women’s well-being. A ministry-wise breakdown of gender-related budget allocations reveals the four highest nominal allocations in the Local Government Division, Ministry of Primary and Mass Education, Secondary and Higher Education Division, and Road Transport and Highways Division, whereas the largest share of the budget benefiting women was found in the Ministry of Women and Children Affairs (MoWCA), Ministry of Disaster Management and Relief, Medical Education and Family Welfare Division, and Ministry of Railways, all with shares above 60 percent (Ministry of Finance 2023). A more detailed breakdown of gender-related budget allocations (e.g., by project or activity) is not available in the RCGP.

⁸ A similar annual Climate Budget Report is produced also since FY19.

⁹ The methodology used to calculate the share of budgetary allocations for women’s development, namely the RCGP model, is described in the Gender Budget Report (see Ministry of Finance 2023). According to this model, the share of recurrent expenditure that benefits women is calculated based on employment shares of women in each Ministry/division, whereas the relevant share of development projects and programs is derived from a more complicated scoring system which assigns a percentage score between 0 and 100 for the degree of impact on women’s development across sixteen criteria.



24. The increasing focus on gender budgeting and the rising share of gender-related budget allocations have coincided with notable improvements in gender equality in Bangladesh. Although it is difficult to causally link these developments, it is noteworthy that the past 15 to 20 years have seen significant advances in Bangladeshi women’s education and health outcomes (see Figure 1). These improvements are intrinsically linked to the explicit focus the government has placed on women’s empowerment, including through its gender budgeting efforts.

25. Bangladesh’s gender budgeting practice shows key strengths in its integration in core budget processes, though the GRB data management could be enhanced. Through its integration with the MTBF, GRB in Bangladesh is well-embedded into the budget process and fully owned by the government. All major Ministries and divisions undertake GRB. The tagging of gender-relevant budget allocations is supported by a formal framework (the RCGP model) and line ministries receive official instructions from the MoF on its application. Nevertheless, the data management system of the Gender Budget Report needs further improvement, including to establish and automate the data submission process among ministries and divisions. Such process will help facilitate the production and publication of annual Gender Budget Report that analyzes key trends in gender-relevant budget allocations and links them to tangible outcomes such as gender ratios in primary, secondary and tertiary education, women’s participation in government programs, or maternal mortality rates.

26. Bangladesh also has scope to improve the effectiveness of its gender budgeting efforts. Priorities include:

- **GRB could be better integrated into the strategic phase of budget formulation as well as in project planning and execution.** Although the Gender Budget Report analyzes the pace of progress on gender-related key performance indicators (KPIs) and highlights key challenges by relevant ministry/division, it stops short of providing an in-depth analysis of the effectiveness of government spending in reaching women’s development goals. Moreover, gender-related objectives are not systematically considered during the strategic phase of budget preparation.

This means that GRB practices in Bangladesh remain largely ex post in nature, happening post-budget preparation. On the other end, development project design, monitoring and evaluation do not sufficiently incorporate explicit gender criteria, further undermining the link between strategic objectives and budget execution.

- **Updating the RCGP model for tagging gender-relevant budget allocations, tracking gender budget execution, and making the RCGP database more widely accessible would render GRB simpler and more transparent, enhancing its role in public policy debate.** While relatively detailed, the current methodology still has blind spots¹⁰, which leads to potentially significant mismeasurement of gender-relevant allocations. Moreover, the execution of gender-relevant allocation is not tracked which, given historically significant under-execution of budgeted spending, means the gender content of actual spending remains unknown. Lastly, the RCGP database is not made publicly available which undermines transparency and makes it impossible for civil society organizations to scrutinize the data and methodology (UN Women 2014, 2016).
- **Extending GRB to revenue policy formulation and local governments would enable a fuller mainstreaming of gender in the government’s fiscal policy.** GRB in Bangladesh currently focuses on the expenditure side of the budget, whereas gendered impacts of the tax system have remained largely unexplored. Moreover, local government institutions have not yet been sensitized to GRB methods despite playing a crucial role in the delivery of government services that impact women’s lives.
- **Finally, it is important to address data gaps and capacity development needs that may be required for ministries and divisions, including Finance Division,** in order to (i) identify critical gender inequalities in their respective sectors, (ii) develop relevant budget plans, and (iii) design and track appropriate performance measures for assessing the associated gender progress. A forward-looking assessment of GRB, currently planned by the MoWCA with the support of UN Women, is expected to help in identifying the most critical areas where further training and development is needed.

27. As adapting to and mitigating climate change have become increasingly important policy goals, Bangladesh has developed climate budgeting tools similar in nature to GRB. The Climate Fiscal Framework (CFF), which sets out an institutional framework for embedding climate change aspects in Bangladesh’s Public Financial Management (PFM) systems, was adopted in 2014. Climate budget tagging has been carried out since 2018 and culminates in an annual Climate Budget Report, which—like the Gender Budget Report—presents data on climate-relevant spending

¹⁰ For example, to compute gender allocations for development projects, each project is assigned a percentage indicating what portion of the total expenditure is expected to directly benefit women (with benefits to women classified across 14 categories). In practice, this percentage can be difficult to determine, leading to significant noise in the data. Moreover, the 14 categories used for assessing gender impact are not applicable to certain sectors such as infrastructure sectors, where direct beneficiaries are not easily identified, leading to expenditures in these sectors often being coded as having “neutral” gender impact for lack of better information.

by Ministry/division and evaluates trends against goals enshrined in national policy documents.¹¹ Given the similarities in underlying processes and overlapping policy goals, gender and climate budgeting efforts are by nature complementary.

28. Aligning GRB and climate budgeting tools would help to realize the synergies between gender and climate action. Strategic objectives defined in MTBFs could be chosen such that they benefit both climate- and gender-related policy goals and modified from year to year based on the findings of both the Gender Budget Report and the Climate Budget Report. Moreover, reforms to the RCGP model and database, such as the introduction of dedicated codes in the government's budget and accounting system iBAS++, should be designed such that they easily facilitate the cross-tagging of expenditures (and ultimately revenues) that benefit both women's development and climate-related goals.

E. Conclusions

29. Bangladesh has made important strides in empowering its women, but additional efforts are needed to support women to reach their full potential. Particular attention must be paid to policies that support women's successful labor force participation, such as expanding women's access to skills development and higher education, decreasing women's unpaid care burden by expanding affordable childcare and critical infrastructure, reducing informality, and addressing gender norms that discourage women from seeking formal and higher-paying jobs. Persistent gender gaps in access to finance should be tackled via policy interventions to increase women's financial literacy and strengthen women's property rights. Policy efforts are also needed to address persistently high rates of child marriage and violence against women.

30. The special needs of women as well as their capacity to act as change agents should be recognized in Bangladesh's climate policy. Women's disproportionate vulnerability to the effects of climate change calls for special policy focus on raising their resilience. Policies that foster women's empowerment simultaneously increase women's ability to cope with climate-related shocks and adapt to changing climate conditions, but dedicated resources should also be channeled towards policy actions that explicitly address the intersection of climate change and women's empowerment as identified in the updated ccGAP. Well-designed adaptive social safety nets that adequately cover women are one way to protect against climate shocks, whereas expanding existing social programs targeted to women such as the Mother and Child Benefit Programme and rural employment programs would contribute to raise resilience more broadly. Simultaneously, women's role as 'change agents' in the green transition should be fostered.

31. GRB is a powerful tool to ensure that budget resources are strategically utilized to progress on the country's gender equity goals, but improvements to the current system are needed. Gender-related policy goals should receive greater attention during the strategic phase of budget formulation as well as in project planning and execution to render GRB in Bangladesh more

¹¹ See the latest version for FY24 available [here](#) on the Ministry of Finance website.

effective, and impact evaluation of the government's gender policies should be strengthened.¹² The existing RCGP model for tagging gender-relevant budget allocations could be updated to be simpler to use while resulting data should be recorded transparently, track execution rates, and be made publicly available to inform policy debates. Ultimately, GRB should be extended to the revenue side of the budget and to local governments.¹³ Finally, synergies between gender- and climate-related goals should be considered in the formulation of strategic planning documents such as the upcoming 9th Five Year Plan and in the design of budget tagging and monitoring systems.

¹² To facilitate this, Finance Division and MoWCA could organize tripartite meetings with all divisions and ministries during the budget planning stage. Moreover, a robust monitoring system to track progress towards gender-related goals could be anchored by the Implementation, Monitoring and Evaluation Division of the Ministry of Planning who would provide input to the Gender Budget Report.

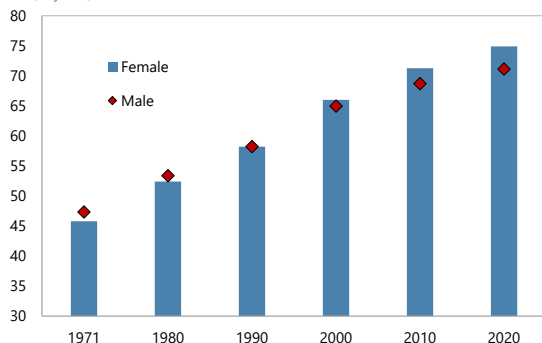
¹³ Bangladesh has scope to improve the periodicity and quality of its reporting on SDG Indicator 5.c.1 and use this reporting tool to regularly assess its GRB practices as well as gaps that require attention.

Figure 1. Bangladesh: Gender Progress and Gaps 1/

Improved female life expectancy has...

Life Expectancy at Birth in Bangladesh by Sex

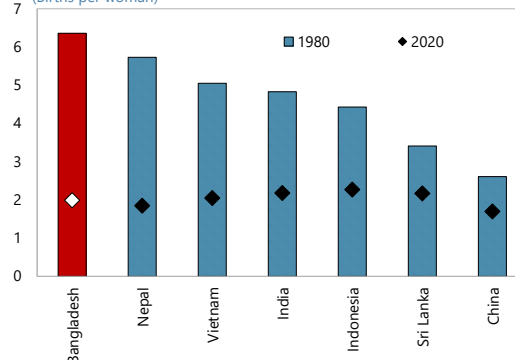
(In years)



...been accompanied by lower fertility rates...

Total Fertility Rate

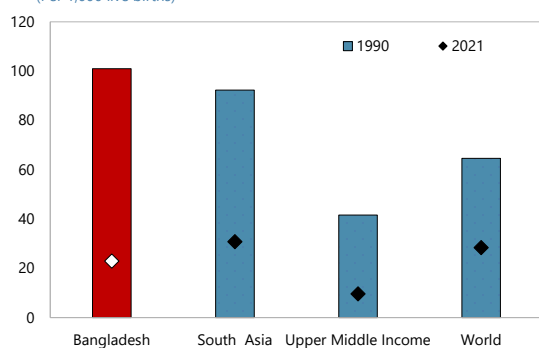
(Births per woman)



...and lower infant mortality rates.

Infant Mortality Rate

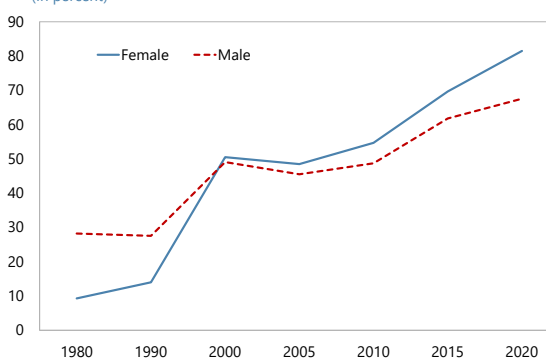
(Per 1,000 live births)



A steady increase in female secondary school enrollment...

School Enrollment at Secondary Education

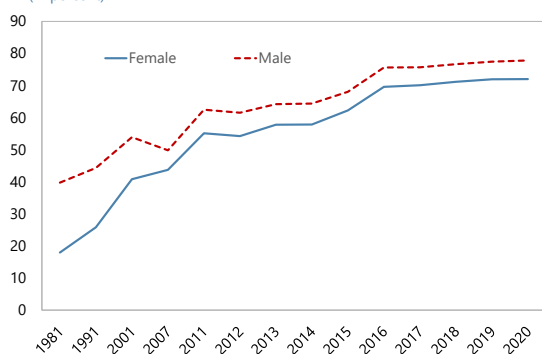
(In percent)



...has helped to increase the female adult literacy rate...

Adult Literacy Rate

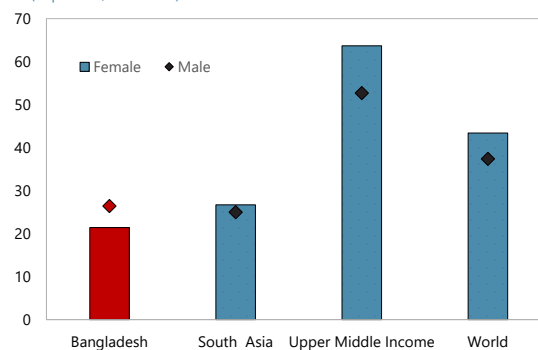
(In percent)



...however, significant gaps in tertiary education remain.

School Enrollment at Tertiary Education

(In percent, 2020 data)



Sources: World Development Indicators, World Bank; UN Inter-agency Group for Child Mortality Estimation (UNICEF, WHO, World Bank, UN DESA Population Division); and UNESCO Institute for Statistics (UIS).

1/ South Asia and upper middle income country groups follow the World Bank's definition based on *World Development Indicators* database.

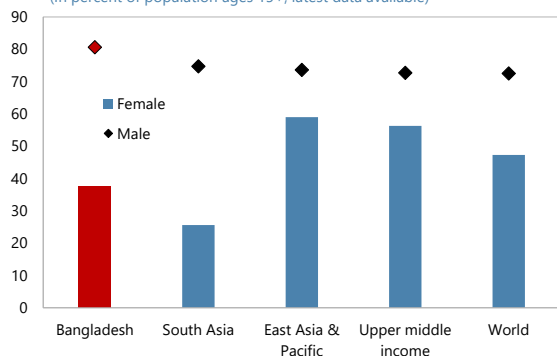
Figure 2. Bangladesh: Women’s Economic Empowerment 1/

Although women’s labor force participation in Bangladesh compares well to the rest of South Asia...

.... it remains low compared to global standards and much below that of men.

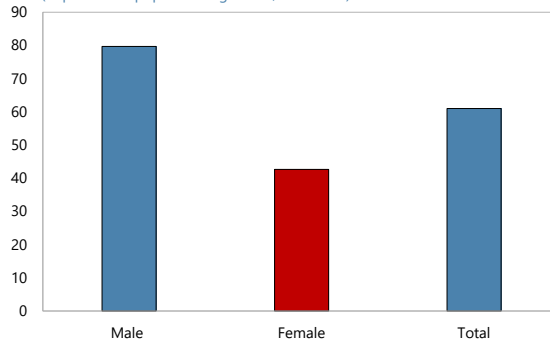
Labor Force Participation Rate

(In percent of population ages 15+, latest data available)



Labor Force Participation Rate in Bangladesh

(In percent of population ages 15+, 2022 data)

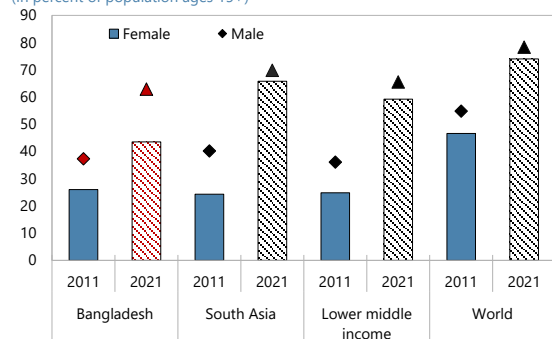


Gender based financial inclusion gaps persist...

.... as does access to formal finance.

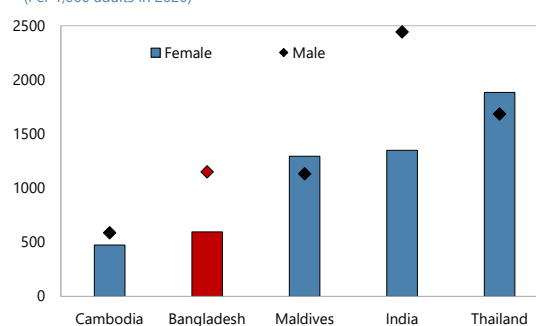
Account Ownership at a Financial Institution or with a Mobile-Money-Service Provider

(In percent of population ages 15+)



Number of Household Sector Deposit Accounts With Commercial Banks

(Per 1,000 adults in 2020)



Sources: International Labour Organization; Quarterly Labor Force Survey 2023: Bangladesh (Apr-Jun 2023), Bangladesh Bureau of Statistics; Global Findex Database, accessed from Gender Data Portal, the World Bank; and Financial Access Survey, IMF.

1/ The classification of country grouping for South Asia, East Asia & Pacific, Upper Middle Income is based on the World Bank’s definition from *World Development Indicators* database.

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