INTERNATIONAL MONETARY FUND

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BANGLADESH

June 2024

SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR REPHASING OF ACCESS, A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF A PERFORMANCE CRITERION, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BANGLADESH

In the context of the Second Review under the Extended Credit Facility arrangement and the Arrangement under the Extended Fund Facility, and Requests for Rephasing of Access, a Waiver of Nonobservance of a Performance Criterion, and Modifications of a Performance Criterion, and Second Review under the Resilience and Sustainability Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 24, 2024, following discussions that ended on May 8, 2024, with the officials of Bangladesh on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 7, 2024.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **World Bank Assessment Letter for the Resilience and Sustainability Facility**.
- A **Statement by the Executive Director** for Bangladesh.

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

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Washington, D.C.

IMF Executive Board Concludes the Second Review under the Extended Credit Facility, Extended Fund Facility, Resilience and Sustainability Facility for Bangladesh

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded the second review under of Bangladesh's arrangements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF), providing the country with immediate access to about US$928 million.
- The IMF Executive Board also concluded the second review of Bangladesh's arrangement under the Resilience and Sustainability Facility (RSF), making available about US$220 million to support Bangladesh's ambitious climate change agenda.[1]
- Bangladesh's homegrown comprehensive program of economic reforms is being supported by the IMF to help restore economic stability and protect the vulnerable, while laying the foundations for an inclusive and environmentally sustainable growth.

Washington, DC – June 24, 2024: The Executive Board of the International Monetary Fund (IMF) completed the second review under the Extended Credit Facility (ECF), Extended Fund Facility (EFF), and Resilience and Sustainability Facility (RSF) arrangements for Bangladesh, allowing the authorities to withdraw the equivalent to SDR704.70 million (about US$928 million) under the ECF/EFF, and SDR166.68 million (about US$220 million) under the RSF. This brings total disbursements under the ECF/EFF so far to SDR1,409.40 million (about US$1,856 million) and under the RSF to SDR333.35 million (about US$439 million).[2] Further, the Executive Board granted a waiver of nonobservance of a performance criterion for the floor on net international reserves on the basis of corrective actions.

Bangladesh's economy continues to face multiple challenges. Stubbornly high international commodity prices and continued global financial tightening have amplified macroeconomic vulnerabilities. Although the current account remains compressed, a sudden reversal of the financial account has kept foreign exchange (FX) reserves and the Taka under pressure. In response to these pressures, the authorities have recently undertaken bold exchange rate reforms.

Real GDP growth slowed to 4.8 percent in FY24H1, while headline inflation reached a decade high of 9.7 percent year-on-year in April 2024. Looking ahead, real GDP growth is projected at 5.4 percent in FY24, owing to the ongoing import compression and policy tightening, and will

[1] Refer to the latest IMF Country Focus report as an illustration of the numerous vulnerabilities to climate change that Bangladesh faces, along with the innovative strategies it employs to address them.

[2] SDR figures for the disbursed are converted at the market rate of U.S. dollar per SDR on the day of the Board approval.

pick up to 6.6 percent in FY25 as imports rebound and FX pressures ease. Inflation is projected to remain elevated at approximately 9.4 percent in FY24 but is anticipated to decline to around 7.2 percent in FY25, on the back of the continued tighter policy mix and projected lower global food and commodity prices. Following the exchange rate realignment, gross international reserves (GIR) are projected to gradually increase. Nonetheless, uncertainties around the outlook remain high and risks are tilted to the downside.

Bangladesh's arrangements under the ECF/EFF and RSF were approved by the Executive Board on January 30, 2023 (see Press Release No. 23/25) in an amount equivalent to SDR2.5 billion (154.3 percent of quota or about US$3.3 billion) under the ECF/EFF and SDR1 billion (93.8 percent of quota or about US$1.4 billion) under the RSF. The ECF/EFF arrangement has helped to prevent disruptive adjustments to restore macroeconomic stability and to protect the vulnerable, while laying the foundations for strong, inclusive, and environmentally sustainable growth. The concurrent RSF arrangement has supplemented the resources made available under the ECF/EFF to expand the fiscal space to finance the authorities' climate investment priorities, help catalyze additional financing, and build resilience against climate risks.

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

"Bangladesh's economy is navigating multiple macroeconomic challenges. Even in the difficult environment, program performance has been broadly on track and the authorities remain committed to undertaking the necessary policy actions and reforms. The IMF-supported program is helping to safeguard macroeconomic stability and protect the vulnerable, while helping to accelerate economic reforms to deliver strong, inclusive, and green growth.

"Near-term policies should focus on rebuilding external resilience and bringing down inflation. The authorities' recent actions to realign the exchange rate and implement the new exchange rate arrangement are welcome. Periodic reviews of the crawling peg would be important to ensure its effectiveness. Continued monetary and fiscal policy tightening would help to rein in inflation. Should external and inflationary pressures intensify, a further tightening in policies is warranted.

"Ongoing reforms to modernize the monetary policy framework and improve policy transmission will foster macroeconomic stability. Smooth transitioning to a flexible exchange rate regime and bolstering FX reserve buffers are necessary conditions for external resilience. Concurrently, addressing vulnerabilities in the financial sector, while strengthening banking regulation, supervision, and governance are important priorities. Deepening capital markets will help mobilize financing to support long-term growth objectives.

"Efforts to raise tax revenues and rationalize expenditure, including by reducing subsidies are crucial to generate the much-needed fiscal space to enhance social, development and climate initiatives. Sustained efforts to strengthen public financial and investment management, along with enhanced state-owned enterprise oversight are essential to improve spending efficiency and mitigate fiscal risks.

"Sustained structural reforms are required to achieve Bangladesh's goal of reaching upper middle-income country status by 2031. Diversifying exports, attracting more foreign direct investment, and strengthening governance are key.

"Building resilience to climate change and natural disasters is a priority for achieving high, inclusive, and green growth. Strengthening institutions and policy coordination, improving climate spending efficiency, and mobilizing climate financing remain crucial. The launch of the Bangladesh Climate and Development Platform in collaboration with development partners is a welcome development."

Bangladesh: Selected Economic Indicators, FY2021-26 1/

	FY21	FY22	FY23	FY24	FY25	FY26
					Projections	
Real GDP (annual percent change)	6.9	7.1	5.8	5.4	6.6	7.6
Consumption						
Private	8.0	7.5	3.6	4.9	6.3	6.2
Public	6.9	6.2	10.5	5.0	6.7	7.3
Gross Capital Formation	8.1	11.7	2.9	5.4	10.3	9.7
Private	7.8	11.8	1.7	2.1	12.9	10.3
Public	9.1	11.1	6.7	15.6	3.3	7.9
Trade						
Exports of goods and services	9.2	29.4	10.6	15.0	4.7	5.9
Imports of goods and services	15.3	31.2	-2.6	2.2	10.6	5.1
Prices (annual percent change)						
GDP Deflator	4.1	5.0	6.9	5.8	6.9	5.6
CPI inflation (annual average)	5.6	6.1	9.0	9.4	7.2	5.9
CPI inflation (end of period)	5.6	7.6	9.7	8.4	7.0	5.5
Central government operations (in percent of GDP)						
Total revenue and grants	9.4	8.9	8.2	8.8	9.3	9.9
Of which: tax revenue	7.6	8.0	7.3	7.9	8.4	9.1
Total expenditure	13.0	13.0	12.8	13.5	13.3	14.7
Of which: Annual Development Program (ADP)	4.5	4.7	4.3	4.6	5.0	5.9
Overall balance (including grants)	-3.6	-4.1	-4.6	-4.6	-4.0	-4.8
(excluding grants)	-3.7	-4.2	-4.6	-4.7	-4.1	-4.9
Primary balance (including grants)	-1.6	-2.1	-2.5	-2.8	-2.2	-2.4
Public sector total debt 2/	35.6	37.9	39.3	41.3	40.7	40.9
Of which: External debt	15.1	15.4	17.5	18.9	18.6	17.8
Balance of Payments (in percent of GDP)						
Current account balance	-1.1	-4.1	-0.7	-0.1	-2.5	-2.7
Trade balance	-6.4	-8.0	-5.7	-4.2	-6.5	-6.4
Service balance	-0.7	-0.9	-0.9	-0.9	-1.2	-1.2
Income balance	-0.8	-0.7	-0.9	-0.8	-0.9	-0.9
Transfers	6.1	4.7	4.9	5.0	5.0	4.6
Of which: Remittances	6.0	4.6	4.8	4.8	4.8	4.5
Capital account balance	0.1	0.0	0.1	0.0	0.1	0.1
Financial account balance	3.4	3.4	-0.5	-1.3	3.5	4.3
Foreign direct investment, net	0.3	0.4	0.4	0.4	0.9	1.1
Gross international reserves (billions of U.S. dollars)	46.4	33.4	24.8	19.0	23.3	32.1
In months of next year's imports	5.8	4.9	3.6	2.3	2.5	3.1
Money and credit (in percent of GDP)						
Reserve money	9.8	8.7	8.5	7.5	8.0	8.8
Broad money (M2)	54.6	52.9	50.7	50.5	51.3	51.9
Credit to private sector	36.2	36.6	35.3	33.9	32.0	32.3
Credit to private sector (percent change)	8.2	13.7	9.1	7.0	7.7	14.6
Savings and Investment (in percent of GDP)						
Gross national savings	30.8	29.3	31.0	28.7	28.5	29.0
Public	1.9	1.2	0.3	0.4	1.7	2.0
Private	28.9	28.2	30.8	28.2	26.8	27.0
Gross investment	31.0	32.0	30.9	28.8	31.0	31.7
Public	7.3	7.5	7.5	7.7	7.8	7.9
Private	23.7	24.5	23.4	21.1	23.3	23.8
Memorandum items:						
Nominal GDP (in billions of Taka)	35,302	39,717	44,908	50,068	57,045	64,844

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

1/ Fiscal year begins on July 1 and ends on June 30.

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.

INTERNATIONAL MONETARY FUND

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June 7, 2024

SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR REPHASING OF ACCESS, A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF A PERFORMANCE CRITERION, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context. The Bangladesh economy continues to face multiple challenges. Persistently high international commodity and food prices and global uncertainties have amplified macroeconomic vulnerabilities. A sudden reversal of the financial account intensified pressures on foreign exchange reserves and the exchange rate, calling for a reinvigoration of the reform momentum.

Program status. The 42-month ECF/EFF and RSF arrangements for Bangladesh were approved by the IMF Executive Board in January 2023 in an amount equivalent to SDR 2.5 billion (231.4 percent of quota) under the ECF/EFF and SDR 1 billion (93.8 percent of quota) under the RSF. The completion of the second review will allow the authorities to withdraw the equivalent to SDR 704.70 million under the ECF/EFF, and SDR 166.68 million under the RSF.

Program performance. All quantitative performance criteria have been met with the exception of the floor on net international reserves. In response to the external pressures, the authorities adopted a new exchange rate regime with an initial devaluation of the Taka as a transitional step towards greater exchange rate flexibility, which is being supported by further monetary and fiscal tightening. All structural benchmarks under the ECF/EFF and reform measures under the RSF for the second review were met.

Policy Recommendations

- **Fiscal policy**. Policies should support monetary tightening through revenue-based consolidation, while protecting social and development spending. If external and

- inflationary pressures intensify, the authorities should stand ready to tighten policies further. Prioritizing sustainable revenue generation is imperative to bolster investments in social welfare and development initiatives. Reducing subsidies, improving expenditure efficiency, and managing fiscal risks will allow for additional spending on social safety nets and growth-enhancing investment.

- **Monetary and exchange rate policy**. Still elevated inflation and inflation expectations require continued monetary policy tightening. The authorities should prioritize the smooth functioning of the new exchange rate regime comprising a crawling peg with a band. Ongoing efforts to modernize the monetary and exchange rate policy framework will help foster macroeconomic stability.

- **Financial sector policy**. Priorities should focus on reducing non-performing loans in the banking sector, implementing risk-based supervision, enhancing corporate governance, and accelerating regulatory reform. Developing the domestic capital market is crucial to mobilize long-term financing to support growth.

- **Macro-structural policy**. Diversifying trade, attracting more foreign direct investment, enhancing the investment environment, and strengthening governance are key requirements to achieving the authorities' goal of reaching upper middle-income country status.

- **Climate change policy**. Accelerated efforts to strengthen institutions, prioritize climate-responsive fiscal management reforms, undertake green and resilient infrastructure investment, and better manage climate-related risks in the financial sector remain important to meet climate objectives and mobilize climate finance.

- **Requests**. Staff supports the authorities' request for: (i) the completion of the second review under the ECF/EFF and RSF arrangements; (ii) rephasing of disbursements; (iii) a waiver of non-observance of a performance criterion; and (iv) the modification of end-June 2024 performance criteria targets.

Approved By
Sanjaya Panth (APD) and Boileau Yeyinou Loko (SPR)

Discussions were held in Dhaka during April 24–May 8, 2024. The team included C. Papageorgiou (Head), M. Pranovich, S. Yoon (all APD), S. Suphachalasai, G. Zinabou (both FAD), P. Toffano (MCM), A. Said (SPR), F. Khatun (STA), J. De (Resident Representative) and S. Islam (local economist). Mr. Jain (OED) attended most meetings. The team met with State Minister of Finance W.A. Khan, Bangladesh Bank Governor A.R. Talukder, Finance Secretary K. Mozumder, other senior government and central bank officials, development partners, and representatives of the business community. A. Guansing and R. Yang (both APD) contributed to the preparation of this report.

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TABLES

ANNEXES

APPENDIX

Acronyms

AB	Autonomous Body
ADB	Asian Development Bank
ADP	Annual Development Plan
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BCDP	Bangladesh Climate and Development Platform
BCBS	Basel Committee on Banking Supervision
BB	Bangladesh Bank
BBO	Bangladesh Bank Order
BBS	Bangladesh Bureau of Statistics
BPS	Basis Points
BCA	Bank Company Act
BOP	Balance of Payments
CD	Capacity Development
CIT	Corporate Income Tax
COP	Conference of the Parties
DP	Development Partners
DSA	Debt Sustainability Analysis
EBA	External Balance Assessment
FCA	Finance Companies Act
FDI	Foreign Direct Investment
FPAS	Forecasting and Policy Analysis System
FX	Foreign Exchange
GFSM	Government Financial Statistics Manual
GIR	Gross International Reserves
JICA	Japan International Cooperation Agency
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IAD	Internal Audit Department
IT	Indicative Target
LC	Letter of Credit
MCP	Multiple Currency Practice
MEFP	Memorandum of Economic and Financial Policies
ML/TF	Money Laundering/Terrorism Financing
MLTRS	Medium- and Longer-term Revenue Strategy
MPC	Monetary Policy Committee
MTDS	Medium-Term Debt Management Strategy
MTMPS	Medium-Term Macro Policy Statement
NIR	Net International Reserves
NOP	Net Open Position
NPL	Non-Performing Loans

NSC	National Savings Certificate
PCA	Prompt Corrective Action
PC	Performance Criterion
PD	Primary Dealer
PFM	Public Financial Management
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PIT	Personal Income Tax
PPP	Public Private Partnership
PRGS	Poverty Reduction and Growth Strategy
RBS	Risk-Based Supervision
RM	Reform Measure
RMG	Ready-made Garment
SB	Structural Benchmark
SDDS	Special Data Dissemination Standard
SDF	Standing Deposit Facility
SLF	Standing Lending Facility
SMART	Six-Month Moving Average Rate of T-bills
SoCBs	State-owned Commercial Banks
SOE	State-Owned Enterprises
TA	Technical Assistance
TCFD	Task Force on Climate-related Financial Disclosure
TSA	Treasury Single Account
UPS	Universal Pension Scheme
VAT	Value-added tax

CONTEXT

1. The Bangladesh economy continues to face multiple and persistent challenges. The ongoing IMF-supported program is helping the authorities navigate a difficult external environment and preserve macroeconomic stability. But persistently high international commodity and food prices and global uncertainties have amplified macroeconomic vulnerabilities. External shocks, coupled with an initially insufficient domestic policy response, have led to an unprecedented reversal of the financial account, intensifying pressures on foreign exchange (FX) reserves and exchange rate.

2. In response to elevated inflation and external imbalances, the authorities have been taking corrective actions. The authorities have further tightened the monetary stance and kept the fiscal deficit in check. For greater exchange rate flexibility, Bangladesh Bank (BB) followed through on its announced intention to move to a crawling peg with a band exchange rate arrangement as a transitional step towards more exchange rate flexibility in line with IMF policy advice.

3. The newly elected government is expected to continue the reform momentum. In a context marked by the boycott of major opposition parties, the Awami League won the general elections held in January 2024 by a comfortable majority. With election uncertainties resolved, it is anticipated that the momentum of reforms gained under the IMF-supported program will continue.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

A. Recent Developments

4. Growth momentum has moderated, while inflationary pressures remain elevated. GDP growth slowed to 4.8 percent (y-o-y) in FY24H1 on the back of continued import compression and monetary tightening, compared to 7.1 percent in the same period of FY23.[1] On the production side, the moderation of industrial production was the main contributor to the slowdown. Inflation remains above BB's target range of 5-6 percent.[2] In April 2024, the headline inflation rate was 9.7 percent (y-o-y), nearing its highest point in a decade. While food inflation decelerated from its peak level (above 12 percent in FY23Q2) to 10.2 percent (y-o-y), non-food inflation picked up to 9.3 percent (vis-à-vis about 8 percent). High inflation levels were mainly due to persistently strong high inflation expectations and anticipated depreciation of the exchange rate ahead of the recent devaluation.

5. Despite improvements in the current account, the overall Balance of Payments (BoP) remained under pressure in FY24. The recent surplus in the current account (0.4 percent of GDP in

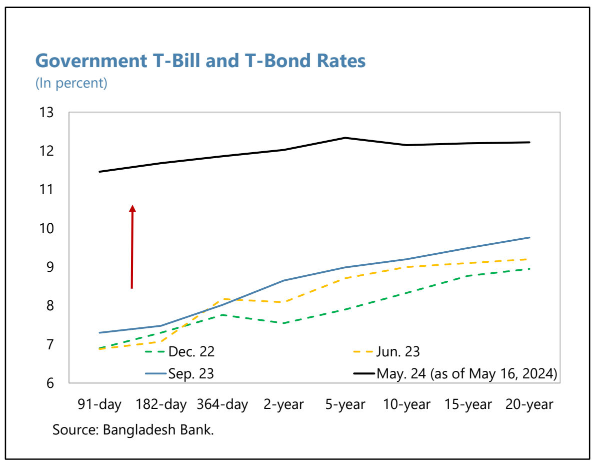
[1] The fiscal year in Bangladesh runs from July through June.

[2] The average rate of one-year ahead inflation expectations stood at close to 10 percent in December 2023 (www.bb.org.bd/pub/halfyearly/monetaryprev/mpr_01062023.pdf).

FY24H1) mostly reflects import contraction, due in large part to the intensification of FX shortages ahead of the recent exchange rate reforms. Exports continued to show resilience with modest growth, although the repatriation of export earnings fell behind amidst possible concerns about FX shortages and impending exchange rate realignment. Remittances, however, continued to recover from the post-pandemic lows of September 2023. Driven primarily by a sharp decline in short-term trade credit, the financial account deficit widened to 1.2 percent of GDP in FY24H1. Reflecting these developments, net international reserves (NIR) fell to US$12.8 billion at end-April 2024, down from US$19.6 billion at end-June 2023.[3] Bangladesh's external position at end-FY23 is assessed to be moderately weaker than the level implied by medium-term fundamentals and desirable policies (Annex I).

6. **To arrest the decline in NIR, the authorities have implemented measures for greater exchange rate flexibility as recommended by staff**. Restoring external balance and stabilizing the FX market called for realigning the official exchange rate to the market-clearing level. On May 8, 2024, BB followed through on its earlier announced intention (in January 2024) and implemented a crawling peg with a band regime together with an upfront devaluation of 6.4 percent (from 110 to 117 BDT/USD). BB also adopted a mechanism for readjusting (shifting) the exchange rate band to avoid excessive loss of FX reserves, should FX market pressures reemerge. Such a mechanism brings the new arrangement a further step closer to exchange rate flexibility.

7. **Monetary tightening continued in response to persistently elevated inflation and exchange rate realignment and the benchmark interest rate for retail rates was abolished to improve monetary transmission**. Still elevated inflation and inflation expectations called for continued monetary policy tightening. Coupled with potential additional inflationary pressures following the exchange rate adjustment, BB tightened monetary policy on May 8, 2024 by raising its policy rate by 50 basis points (bps) to 8.5 percent. Thus far, the cumulative increase of the policy rate since September 2023 amounts to 200 bps. Increasing the rate and limiting the supply of domestic liquidity—primarily through partially sterilizing BB's FX interventions and phasing out devolvement of government securities (i.e., purchase of government securities at below market-clearing interest rates)—pushed the call money rates up by about 350 bps during the same period. In turn, the yield curve for government securities moved upwards by 250 to 400 bps across maturities. In addition to launching the new exchange rate arrangement and tightening policy, BB has abolished the benchmark rate, i.e., the six-month moving average rate of T-bills (SMART), for



Source: Bangladesh Bank.

[3] Measured at the program exchange rate.

retail interest rates. This has paved the way for market-based setting of lending and deposit interest rates by banks and therefore for stronger monetary policy transmission.

8. The primary balance registered a surplus in FY24H1 driven by improved revenue collections and spending under-execution. In the first half of FY24, tax revenue growth increased to 12.5 percent (y-o-y), compared to 0.5 percent in the same period of the previous year. This was driven by robust import VAT and customs revenue, which was partially due to the earlier depreciation of the exchange rate, even as import compression persisted. A surge in dividend payments from BB fueled by profits from FX interventions, led to strong growth in non-tax revenues (37.3 percent y-o-y). By contrast, expenditures rose mildly, due to seasonal factors and domestic arrears accumulation, despite a strong rebound in goods and services spending associated with elevated inflation. As a result, the primary balance registered a surplus of about 1 percent of GDP in FY24H1.

9. Vulnerabilities in the financial sector remain elevated, particularly for state-owned commercial banks (SoCBs). At end-September 2023, banks disclosed a capital adequacy ratio of 11.1 percent relative to risk-weighted assets and a liquidity ratio of 24.8 percent, alongside modest earnings, evidenced by a 0.4 percent return on assets. Non-performing loans (NPLs) amounted to 9.9 percent of total loans and the provisioning maintenance ratio was approximately at 79 percent.[4] Rescheduled loans, reported at 14 percent of total loans in 2022, suggest that the systemwide NPL ratio is likely understated. SoCBs remain under-capitalized, with an average capital ratio of 6 percent compared to the regulatory benchmark of 10 percent and are afflicted by high levels of NPLs, estimated at around 22 percent.

B. Outlook and Risks

10. The macroeconomic outlook and external position are expected to gradually stabilize as policy actions start to take hold. The recent exchange rate realignment will exert some upward pressure on inflation. Although partially offset by a more depreciated exchange rate, an uptick in imports attributed to the gradual easing of import compression measures, will lead to a deterioration of the current account deficit. To mitigate adverse macro effects, the baseline incorporates the tightening of both fiscal (¶13) and monetary (¶20) policies. This would lead to slower credit growth and the economy operating below capacity, which would partially offset inflationary pressures post-realignment. Furthermore, with the step adjustment of the exchange rate and along with favorable interest rate differentials, outflows in the financial account of the BoP are anticipated to reverse.

- *Growth and inflation*. Real GDP growth is projected to moderate to 5.4 percent for the full FY24 reflecting continued import compression and monetary tightening. However, growth is anticipated to rebound to 6.6 percent in FY25 reflecting the exchange rate adjustment and provided the FX market stabilizes. Inflation is projected to persist at 9.4 percent (annual average,

[4] The provisioning maintenance ratio represents the proportion of provisions maintained compared to the required provision per regulation.

y-o-y) in FY24, before tapering off to around 7.2 percent in FY25, supported by a tighter policy mix and the declining trend in global food and commodity prices.

- *Fiscal*. With spending execution expected to pick up, the overall and primary balance are anticipated to turn negative in FY24H2 with the fiscal deficit in FY24 expected to remain largely unchanged compared to FY23. Fiscal balances in FY25 are, however, expected to show a small improvement, underpinned by the policy mix to support the transition to the new exchange rate regime. The joint IMF-World Bank DSA assesses that Bangladesh remains at low risk of external and overall debt distress. While the assessment is unchanged from the previous DSA, the current DSA further revises up assumptions on domestic interest rates to reflect the now tighter monetary policy stance associated with the exchange rate realignment.
- *BoP*. The current account is expected to be balanced with a small deficit of 0.1 percent of GDP in FY24, as the current account turns from surplus in FY24H1 to a deficit in FY24H2, reflecting the gradual lifting of letters of credit (LC) margin requirements, especially for small and medium enterprises, and food items.[5] Following the exchange rate realignment, gross international reserves (GIR) are projected to see a gradual increase in FY25. The current account deficit is expected to widen to 2.5 percent of GDP in FY25 as measures to compress imports are lifted. Larger-than-expected exports and remittances can help cushion the rebound of imports. While the financial account is expected to remain in negative territory (-1.3 percent of GDP in FY24), it is anticipated to shift into a surplus, reaching 3.5 percent of GDP in FY25 driven by the recovery of inflows from trade credit.

11. Uncertainty surrounding the outlook is high and risks remain tilted to the downside (Annex II). The realignment of the exchange rate and the implementation of the new exchange rate arrangement has reduced the risks to macroeconomic stability emanating from the loss of FX reserves and dysfunction of the FX market. Without this effort, risks of disorderly adjustments would have remained high, potentially leading to further exchange rate depreciation and subsequent inflation, requiring an even stronger policy adjustment down the road. Uninterrupted and consistent implementation of the new exchange rate regime, in particular, by deploying available degrees of flexibility built into the new system, will be critical in the near term. Bangladesh is also susceptible to global risks related to geopolitical conflicts, geoeconomic fragmentation and disruptions in supply of commodities. Should such risks materialize, they may lead to a deterioration of the current account, additional fiscal burden, higher inflation, and constitute a drag on activity, leading to further squeezing of the already limited policy buffers, including FX reserves. To mitigate these risks, the authorities have pledged to implement additional policy tightening measures (¶13, ¶20), as needed.

[5] In December 2022, letters of credit (LC) margin requirements were introduced on imports, requiring banks to keep a 100 percent cash margin on luxury items and a 75 percent margin on raw materials and capital goods, which helped compress imports. In July 2023, LC margin requirements on select imports were abolished, including raw materials and industrial machinery, especially for micro, small and medium enterprises.

PROGRAM PERFORMANCE

12. **Program performance for the second review has been broadly on track with one exception**. The performance criterion (PC) of the floor on NIR was missed amidst continued FX pressures and delay in implementing a sufficiently robust domestic policy response during a period of heightened electoral uncertainty. The authorities have, however, now implemented strong corrective actions, notably further monetary tightening, and greater exchange rate flexibility. This will help attract FX inflows, including repatriation of overdue export proceeds. PCs on the primary balance and external payments arrears were met. All indicative targets (IT) have also been met. All structural benchmarks (SBs) and RSF reform measures (RMs) for the second review were met. The authorities have also made good progress on other reforms committed under the memorandum of economic and financial policies (MEFP), including keeping devolvement of government securities at zero, developing a medium- and long-term revenue strategy (MLTRS), and adopting prompt corrective action (PCA) to implement the Bank Company Act (BCA).

Bangladesh: Program Implementation

Text Table 1. Bangladesh: Program Targets under the ECF/EFF Arrangement

(In billions of Taka, unless otherwise indicated)

	December 2023		
	Targets	Actual	Status
Quantitative performance criteria:			
Floor on net international reserves (US$ millions)	17,784	16,728	Not met
Floor on primary balance	-905.2	475.4	Met
Ceiling on accumulation of external payments arrears	0.0	0.0	Met
Indicative targets:			
Ceiling on reserve money	4,004.0	3,651.6	Met
Floor on tax revenue	1,436.4	1,621.6	Met
Floor on priority social spending	309.9	557.7	Met
Floor on capital investment undertaken	222.8	351.7	Met

Text Table 2. Bangladesh: Reforms Under the ECF/EFF Arrangement

Measure	Target Date	Status
NBR staffs Compliance Risk Management Units in the customs and VAT wings	End-December 2023	Met
MoF develops a plan to reduce net NSC issuance to below ¼ of total net domestic financing by FY26	End-December 2023	Met
Government adopts a periodic formula-based price adjustment mechanism for petroleum products	End-December 2023	Met
MoF develops a policy note to guide decisions on integrating bank accounts outside the TSA and on the sequencing of TSA enhancements	End-December 2023	Met
BBS publishes quarterly GDP	End-December 2023	Met
BB allows automatic access to the SLF for all banks and unrestricted access for all banks to the SDF.	End-March 2024	Met
MoF submits to Parliament the FCA 2020, drafted in line with best practices.	End-March 2024	Met
BB prepares a guidance note detailing assessment criterion for various risks covering a robust set of objective and qualitative indicators with regard to RBS.	End-March 2024	Met

Text Table 3. Bangladesh: Reforms Under the RSF Arrangement (Concluded)

Reform Measures	Target Date	Status
RM2: Government adopts a periodic formula-based price adjustment mechanism for petroleum products.	End-December 2023	Met
RM3: BB adopts guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).	End-December 2023	Met

POLICY DISCUSSION

The transition to greater exchange rate flexibility warrants continued monetary policy tightening to contain inflationary pressures. Fiscal policy should support monetary tightening, while mitigating its adverse impact on the poor. Enhancing revenue mobilization and reducing banking sector vulnerabilities remain priorities. Improving governance and facilitating the transition to a climate-friendly economy will help achieve a more resilient, inclusive, and green growth.

A. Fiscal Policy

13. Near-term fiscal policy should support monetary tightening, while protecting social and development spending. The authorities remain committed to keeping the FY24 fiscal deficit in check to rein in inflation and external pressures and to prevent any further accumulation of domestic arrears. For FY25, adopting a tighter fiscal policy stance, mainly through revenue-based consolidation, will help avert inflationary pressures from the exchange rate reform. This will entail raising additional tax revenues in FY25 and rationalizing non-interest spending (¶14), while safeguarding priority social and development spending. Should external and inflationary pressures intensify, the authorities stand ready to tighten further by cutting non-priority spending.

14. Sustainable revenue mobilization remains a priority. The FY25 budget is expected to include new tax policy revenue measures. These include: (1) reducing corporate income tax (CIT) exemptions and depletion allowances; (2) raising previously reduced value added tax (VAT) rates on several products to the full 15 percent statutory rate; (3) introducing an additional personal income tax (PIT) bracket for high income earners; and (4) increasing tax rates on tobacco and select products.[6] Combined with continued efforts to widen the tax net, improve compliance, and automate tax collection (MEFP ¶12), these measures will underpin an upturn in the tax-to-GDP ratio by an expected 0.5 percent of GDP in FY25. The finalization of a MLTRS and an accompanying implementation framework (new end-December 2024 SB) will guide future reform efforts for revenue mobilization, while the development of e-return and e-payment frameworks for income tax (new end-June 2025 SB) will support the gradual digitalization of tax collection.

15. Containing subsidies is key to enabling higher development and social spending while safeguarding fiscal sustainability. During the first eight months of FY24, subsidy spending

[6] About 1,200 products continued to be taxed at reduced rates.

pressures remained high, notably for electricity producers and fertilizer importers who faced rising import costs against government-regulated retail prices (Annex III). In February 2024, the government raised electricity prices by 4 percent. However, further increases—carefully calibrated to avoid undue negative impact on lifeline tariff consumers—will be required to reduce subsidies back to more manageable levels (MEFP ¶13).[7] In line with program commitments, starting March 2024 the authorities have also started implementing an automatic fuel price adjustment mechanism for petroleum products, which prescribes monthly price adjustments and is expected to keep fuel subsidies at zero. Moving towards a more targeted system for fertilizer subsidies, which preserves food security and protects poor farmers and consumers, would help create additional fiscal space for more productive spending.

16. Avoiding new domestic arrears and clearing arrears already accumulated is crucial to safeguarding fiscal prudence. Increased subsidy demands from independent power producers and fertilizer suppliers since FY22 have resulted in domestic arrears of about 1 percent of GDP. The authorities are committed to avoiding any new accumulation of net arrears (MEFP, ¶13) and plan to gradually clear these arrears through transparent transfers from the budget over the next five years. The issuance of special bonds to commercial banks at below-market interest rates to pay off outstanding debts of electricity and fertilizer companies in lieu of subsidy payments should be discontinued.[8]

17. Stronger debt and cash management, fiscal risk reporting, and state-owned enterprise (SOE) oversight will support the optimal use of budget resources. Work to update the Medium-Term Debt Strategy (MTDS) for FY25-27 is progressing (end-June 2024 SB) as is the preparation of a fiscal risk statement that analyzes major macroeconomic risks and risks from selected SOEs as well as climate change in the FY25 budget (RM5). To further strengthen SOE oversight, the government should classify existing SOEs and autonomous bodies (ABs) into sectors according to the Government Finance Statistics Manual (GFSM) 2014 and produce an SOE sector report for the 40 largest SOEs (new end-June 2025 SB). [9] The implementation of the recently approved policy note and implementation plan for expansion of the treasury single account (TSA) will help strengthen cash management, while greater use of electronic funds transfer for central government transactions (new end-June 2025 SB) will reduce leakages and improve spending efficiency.

18. Public investment management reforms will help channel spending toward priority projects. With CD support from IMF and other development partners, the authorities are rolling out Sector Strategy Papers and Multi-Year Public Investment Program tools to an increasing number of sectors, with a plan to complete the first five sectors by end-2024 (new end-December 2024 SB).

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[7] Residential electricity tariffs increase with consumption, with the lowest "lifeline" tariff applied to households consuming less than 50 kWh per month.

[8] Since January 2024, the government has issued special bonds worth BDT 262 billion (0.5 percent of GDP). The bonds carry interest rates equal to the repo rate, below prevailing market rates for treasury bonds of comparable maturity (8-10 years) and can be used as collateral against liquidity facilities from BB.

[9] SOEs and ABs should be classified as either market-producing public corporations or non-market-producing entities which should be counted as part of general government.

These efforts will ensure more strategic project selection and aid the eventual production of a consolidated medium-term budget framework that incorporates more realistic capital spending projections derived from the Annual Development Program (MEFP, ¶14). Strengthening capacity to conduct project approvals and assess contingent risks stemming from projects carried out via public private partnerships (PPP) will further help improve project selection.

19. Efforts to strengthen social protection are ongoing. The government continues to expand the coverage of its social protection schemes (MEFP, ¶17) and has made it mandatory for employees of state-owned autonomous and semi-autonomous bodies recruited after July 1, 2024, to participate in the new Universal Pension Scheme (UPS).

B. Monetary and Exchange Rate Policies

20. Monetary policy should continue to focus on addressing internal imbalances. Still elevated inflation and inflation expectations will require continued monetary policy tightening until inflation consistently slows down to BB's medium-term target range of 5-6 percent. According to staff's estimates, the policy rate may need to increase to a peak of 9 percent (from 8.5 percent currently) by mid-FY25 to tame inflation to 7 percent by end-FY25 and bring it close to 5.5 by end-FY26. The elimination of the SMART benchmark rate for retail interest rates will enhance the effectiveness of monetary policy transmission.

21. Exchange rate policy should focus on ensuring the smooth functioning of the new exchange rate regime. Restoring the proper functioning of the interbank FX market is critical to ensure the success of the new exchange rate arrangement. In the near term, BB should also steadfastly adhere to the mechanism of readjusting (shifting) the band to avoid excessive depletion of FX reserves (MEFP, ¶21). Over time, the parameters of the new regime should be periodically reviewed to ensure that the rate of crawl is consistent with the monetary policy settings and the band is gradually widened to allow for greater exchange rate flexibility.

22. BB continues to modernize its monetary policy framework. The objective over time is to arrive at an interest-rate-based forward-looking system capable of maintaining price stability with a fully flexible exchange rate system. To this end, a two-stage approach is appropriate. The first stage should focus on de-emphasizing the role of the exchange rate as a monetary policy tool and increasing its flexibility. At the same time, efforts should focus on strengthening monetary policy transmission and developing BB's forecasting capacity, operations, and communications. With these prerequisites in place, the final stage would be to adopt a flexible inflation targeting framework with BB's policy decisions and operations aiming at stabilizing inflation at the medium-term target of 5-6 percent.

- *Monetary policy framework*. With IMF assistance, work is in progress to build a Forecasting and Policy Analysis System (FPAS). Supported by March- and June-2024 SBs, BB is establishing an effective interest rate corridor system, while Bangladesh Bureau of Statistics (BBS) has started publishing quarterly GDP data—an input for assessing the business cycle for policy deliberations. Building on this progress, BB has committed to further developing policy operations to enhance policy transmission consistent with the IMF technical assistance (TA) mission's high-priority recommendations (new SB for end-September 2024). To support effectiveness of monetary policy, BB remains committed to zero devolvement of government securities (MEFP, ¶23).

- *Monetary policy communications and governance.* Improvements to decision-making and communications will be needed to support the transition to the modernized policy framework. In this respect, BB is committed to publishing the schedule of regular Monetary Policy Committee (MPC) meetings starting from FY25 and aims to start publishing a quarterly monetary policy report before the IMF-supported program ends (MEFP, ¶24). Further IMF capacity development (CD) assistance will be needed to help enhance BB's communication practices.

- *Legal framework*. BB should continue revamping its legal framework to strengthen the foundation of the emerging modern policy framework. Implementing the recommendations of the IMF's 2022 Safeguards Assessment remains important. BB has agreed to approve the external auditors' selection and rotation policy, by December 2024, in this context. Furthermore, by December 2024, BB will share the draft amendments of the Bangladesh Bank Order (BBO) for the IMF's review to affirm its alignment with best international practices (MEFP, ¶25).

23. The government subsidy for remittances has triggered a multiple currency practice (MCP) under the new IMF guidelines.[10] The authorities introduced a 2 percent subsidy on remittances (August 2019) to make remitting through official banking channels more attractive. This was subsequently raised to 2.5 percent in January 2022. While there is no breach of the continuous PC on MCP as the subsidy was introduced prior to the IMF-supported program, under the new IMF guidance on MCP (which came into effect in February 2024), the subsidy for remittances triggered an MCP.[11] The recent exchange rate reforms make such an incentive for attracting inflows unnecessary. Consequently, the authorities are encouraged to reduce this subsidy below 2 percent and eliminate it eventually.

C. Financial Sector Policies

24. The impact of the recent exchange rate reform on the banking sector is anticipated to be minimal. Banks' balance sheets are relatively protected from fluctuations of exchange rates as BB regulation mandates banks to maintain their net open position (NOP) at a maximum of 15 percent of their regulatory capital. At end-September 2023, the aggregate NOP amounted to 9 percent of the aggregate regulatory capital, and among the 61 banks, only 13 exhibited small negative NOPs. FX swaps account for a significant share of FX assets, while FX deposits dominate FX liabilities.

[10] https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/12/20/Guidance-Note-for-the-Fund-s-Policy-on-Multiple-Currency-Practices-542811.

[11] Staff will monitor the FX market to assess MCP compliance under the new policy guidance.

Recent stress tests conducted by BB indicate that a depreciation of the Taka by 10 percent would not cause any banks to fall short of the regulatory capital requirements.

25. The authorities have created a roadmap to reduce NPLs but a careful sequencing of milestones is needed. In February and March 2024, BB: (1) repealed the 2019 Circular[12] and reintroduced the obligation to treat exposures as non-performing when they are more than 90 days past due; (2) reduced the time needed for a bank to write-off bad loans from five to two years and mandated the set-up of a "write-off debt recovery unit" in each bank. At the same time, BB planned to introduce mandatory valuation of collateral provided against loans through listed collateral valuation institutes in addition to commercial banks' own valuation (MEFP, ¶27). Building on this progress, BB has committed to: (1) further strengthening loan classification and provisioning rules and improving forbearance practices in line with the Basel Committee on Banking Supervision (BCBS) Guidelines "Prudential Treatment of problem assets" (new end-December 2024 SB); and (2) developing a plan for the banking sector to adopt International Financial Reporting Standards 9 (IFRS9) by 2027 (new end-June 2025 SB), complemented by prudential backstops for provisioning. The authorities should consider conducting an asset quality review to accurately evaluate the state of banks' balance sheets before setting NPL targets, which might be difficult to assess otherwise.[13].

26. The authorities have taken steps to enhance governance in the banking sector. In February 2024, BB upgraded policies related to: (1) the selection of the managing director or chief executive officer of banks adding performance indicators to their assessment; (2) the fit and proper test for banks' directors; and (3) the appointment, remuneration and responsibilities of banks' independent directors (MEFP, ¶29). In March 2024, the authorities formulated policies to take actions against willful defaulters. Building on this progress, BB should establish a rigorous process framing the fit and proper testing for banks' directors and minimum requirements in terms of education, years of experience and conflicts of interest, and introduce a robust definition of related party transactions.

27. The authorities are encouraging mergers and NPL sales to private asset management companies (AMCs) to address vulnerable banks. In April 2024, BB introduced guidelines that oversee both voluntary and compulsory mergers.[14] The guidelines require banks subject to mergers to undergo external audits and to obtain approval from their boards and BB. They also allow the authorities to provide support to merging banks, including liquidity assistance and forbearance (such as lower capital and liquidity requirements); require the acquiring bank to retain the acquired bank's employees for three years; and bar top management of the acquired bank from holding positions in the acquiring bank for five years. To clean up NPLs, including in the context of bank mergers, the authorities intend to facilitate the establishment of private AMCs. Staff noted the need

[12] See Box 1, 2019 Article IV Staff Report.

[13] According to the roadmap, the authorities plan to reduce the NPL ratio to below: (1) 8 percent for the banking system; (2) 10 percent for SoCBs; and (3) 5 percent for private commercial banks by end-June 2026.

[14] From March 2025, the authorities will have the authority to enforce mandatory mergers if banks fail to implement their recovery plan, as stipulated under section 77A of the PCA framework..

for bank mergers and the NPL resolution strategy to be market driven, and cautioned against approaches that could undermine financial stability, such as mandating mergers of weak into healthier banks and introducing forbearance. Staff also emphasized the importance of following good international practice in the operation of AMCs, and of broader reforms to insolvency and forbearance regimes to support NPL resolution. The authorities are committed to (1) only approving mergers that are commercially sound and predicated on continued compliance with regulatory requirements; and (2) continuing working on the AMC legislation in consultation with international development partners, including the IMF (MEFP, ¶32).

28. Strengthening the regulatory framework remains vital for financial sector resilience. Following the approval of the amendments to the BCA and FCA, the authorities plan to submit to Parliament the Bankruptcy (Amendment) Act 2020, the Money Loan Court (Amendment) Act 2003, and the Negotiable Instrument (Amendment) Act 2020 by June 2025 (MEFP, ¶34). These reforms will help strengthen the financial sector, enhance the insolvency process, facilitate loan recovery, and improve the legal environment for credit and business activities.

29. The authorities are advancing the agenda on risk-based supervision (RBS). Following the completion of the pilot on RBS for three banks, BB intends to extend its application to 20 banks (new end-March 2025 SB). RBS will also incorporate specific procedures for Islamic banking operations in the assessment tool and inspection manual (MEFP, ¶33). BB is committed to simplifying the BB's organigramme to strengthen the effectiveness and efficiency of RBS, in particular by consolidating the supervision of each bank in a single team thus ensuring a more cohesive and unified approach for RBS supervision (new end-December 2024 SB).

30. Continuing reforms to develop the domestic capital market will help mobilize long-term financing to support growth objectives. As a first step, the authorities plan to issue guidelines to reform the primary dealer (PD) system for government securities with an active set of players, focused on market-making activities (new end-June 2025 SB), following the recommendations in the IMF CD (MEFP, ¶35).

D. Macro-Structural Policies

31. Creating an enabling environment will help further expand trade and attract foreign direct investment (FDI). The authorities remain committed to reducing the existing relatively high non-tariff barriers, improving trade-related physical infrastructure, and removing regulatory barriers. Assisted by development partners such as Asian Development Bank (ADB), Japan International Cooperation Agency (JICA), and the World Bank, the authorities are improving essential infrastructure and electricity access. This effort aims to bolster the business environment, foster trade growth, and attract FDI sustainably.

32. Export diversification is key to achieving sustainable long-term growth. Bangladesh's trade profile has remained relatively unchanged over the past decades, characterized by concentrated export and product portfolios. Although the ready-made garment (RMG) industry has significantly contributed to the country's economic growth for many years, diversifying exports beyond this sector is essential for reaching upper middle-income status by 2031. To achieve this goal, authorities are investigating the potential for new drivers of growth, focusing on sectors like leather products and initiatives supporting a green transition (including in solar, wind and hydroelectricity generation projects).

33. Enhancing governance and reducing vulnerability to corruption would contribute to a better business environment. Further improvement in fiscal and financial governance, increased transparency, and strengthening of policy frameworks remain critical to enhance the business climate (¶17, ¶25). Progressive digitalization of government administration and services will help promote transparency and reduce corruption. The authorities are modernizing their supervisory framework on AML/CFT with IMF CD assistance. To this end, the authorities have developed a tool to conduct RBS supervision for money laundering/terrorism financing (ML/TF) risks with IMF CD support (MEFP, ¶36).[15] The authorities are committed to conducting onsite examinations of at least five high-risk banks by end-FY25 (new end-June 2025 SB). To combat high-level corruption effectively, it is essential to reinforce the asset declaration process for public officials by enforcing sanctions for non-compliance and adopting a standardized approach for the usage and regular updating of the declarations.

34. Improving the quality and accessibility of data is essential for more effective policy making. The authorities have made good progress in compiling national account data. BBS started publishing quarterly GDP in November 2023, including historical time series dating back to 2015-2016. They are committed to further improving quarterly GDP estimates in accordance with IMF recommendations (MEFP, ¶42).

E. Climate Change Policies

35. Strengthening the comprehensive climate change policy framework would enable climate-related reforms to be carried out in a more coordinated and systematic way. While successful implementation of the RSF reform measures (RMs) is key to building Bangladesh's climate resilience and supporting a green transition, the authorities should continue to strengthen the overall climate policy framework in line with Bangladesh's commitments under the Paris Agreement. In this context, they intend to prepare a new Nationally Determined Contribution (NDC) which includes emission reduction target for 2035 ahead of the 30th Conference of the Parties (COP) (MEFP, ¶38). The authorities also reaffirmed their commitment of generating at least 40 percent of total electricity from renewable energy sources by 2041 and have adopted a new integrated energy and power sector master plan to achieve this goal. A variety of stakeholders have undertaken numerous initiatives to execute the National Adaptation Plan and the Bangladesh Delta Plan 2100. However, bridging the gap in adaptation financing continues to be a significant policy obstacle.

[15] As of December 2023, the tool encompasses data for all 61 banks, producing a ranked list of banks based on ML/TF risk. This ranking is determined by assessing each bank's business risk and the effectiveness of its risk mitigation measures (internal controls).

36. Efforts to incorporate climate risks into the fiscal framework and enhance the resilience of the financial sector are progressing. The authorities adopted a formula-based monthly price adjustment mechanism for petroleum products in December 2023 (RM2) and started implementing the mechanism from March 2024.[16] Moreover, in December 2023, BB issued guidelines for banks and financial institutions regarding the reporting and disclosure of climate-related risks. These guidelines adhere to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and are in line with the IFRS on sustainability and climate-related disclosures (IFRS S1 and S2).[17] The implementation will phase in the requirements gradually toward full risk disclosures by 2027. Future reviews will monitor progress and impact of these RMs.

37. The implementation of RMs due end-June 2024 and end-December 2024 is on track. These include development of a national disaster risk financing strategy that integrates social assistance (RM4) and the analysis of macro-fiscal risks from climate change and its publication in the medium-term macro policy statement (MTMPS) (RM5). The Planning Commission's process of integrating climate considerations in the appraisal of major infrastructure projects (RM6) has begun. Regarding climate stress testing for the overall financial system, BB plans to adopt a macroprudential approach based on publicly available data as a first step by end-December 2024 target date (RM7) and further build its capacity to deepen the framework toward a more granular approach in the medium term, with IMF support throughout the two phases.

38. IMF CD plays a critical role in aiding the authorities to enact climate-related reforms and enhance climate resilience. IMF CD has helped strengthen climate-related fiscal risk management, including developing a national disaster risk financing strategy (RM4) and integrating climate and disaster risks in the analysis of macro-fiscal risks (RM5).[18] IMF CD is set to provide further support on integrating considerations of climate change into the appraisal and selection of major infrastructure projects (RM6 and RM9). Additionally, it aims to help establish a registry for public assets that captures climate-related risks and vulnerabilities of new public assets, with a special focus on major public infrastructure and government buildings (RM10). The IMF will continue to provide CD support to help BB conduct climate stress testing as part of RM7. The authorities also benefit from complementary CDs including from the International Finance Corporation on RM3, the United Nations agencies on RM4, and the Agence Française de Développement on RM11.

[16] The formula tracks the one-month moving average price of imported fuel oils according to the Mean of Platts Arab Gulf (MOPAG) and imported crude oil, to which are added transport and operational expenses, taxes, dealers and suppliers commission, development fund fees, and a margin for the Bangladesh Petroleum Corporation (BPC). The guidelines allow for some flexibility in application of the formula to avoid abnormally large decreases or increases in international fuel oil prices or to keep prices comparable with those in neighboring countries, primarily by adjusting BPC's margin.

[17] https://www.bb.org.bd/mediaroom/circulars/gbcrd/dec262023sfd06e.pdf.

[18] In the fiscal risks chapter of the MTMPS, alternative climate scenarios and disaster shocks are simulated using the Quantitative Climate Change Risk Assessment Fiscal Tool (Q-CRAFT) to assess the impacts on key macro-fiscal indicators such as GDP, debt-to-GDP ratio, and primary deficit toward 2040. The tool was provided by FAD as part of a TA mission on fiscal risk statement.

39. The authorities are exploring options to scale up climate finance catalyzed by the RSF. In the context of the RSF arrangement, the authorities together with international development partners and the private sector, announced a collaborative approach (Bangladesh Climate and Development Platform—BCDP) at COP28 in December 2023 to accelerate efforts to mobilize climate finance (MEFP, ¶41). To operationalize this platform, a consultation meeting with development partners (DPs) was organized in April 2024 to discuss key features of the BCDP, including its structure and working modalities, as well as the role of different ministries and DPs. Going forward, the BCDP will be supported by four working groups to deal with: (1) domestic resources mobilization; (2) international climate finance; (3) building a project pipeline and project planning; and (4) monitoring and evaluating the BCDP. Ultimately, the BCDP aims to mobilize additional concessional climate financing, guarantees, and other green financing, which could be leveraged to attract private sector financing.[19]

PROGRAM MODALITIES AND OTHER PROGRAM ISSUES

40. The authorities are requesting a waiver for the non-observance of the end-December 2023 PC on NIR. Larger-than-expected spillovers from global monetary tightening combined with insufficient and delayed domestic policy responses, as well as heightened economic uncertainties in the run-up to elections led to the breach of the PC on NIR. Staff supports this waiver on the basis of the following corrective actions: (1) the appropriate realignment of the exchange rate and operationalization of the new exchange rate arrangement; and (2) the authorities' commitment to a tighter policy mix to counter inflation.

41. The authorities are requesting a rephasing of access under ECF/EFF and a modification of the end-June 2024 NIR PC. Staff supports the authorities' request for frontloading of SDR352.25 million (22 percent of quota; doubling of SDR access at the Second Review relative to what had been reflected in the First Review) and a corresponding reduction and rephasing of disbursements for the subsequent four reviews under ECF/EFF. This is aimed at supporting the authorities' implementation of the new exchange rate regime without causing market disruptions. Staff also supports the authorities' request to modify the NIR target for the third review, which would help enhance BB's room to manage unforeseen FX pressures arising from the transition to the new exchange rate regime.

42. New performance criteria targets and structural benchmarks are proposed for the next 12 months. New quantitative targets are proposed through June 2025 (Table 7), along with new structural benchmarks (Table 10). These additional targets are intended to support the authorities'

[19] BCDP aims to ensure coordination among the government entities and better-coordinated support from the multilateral development banks (MDBs) and bilateral development partners (DPs). By pooling resources from MDBs and bilateral DPs and providing the scale of financing without duplication, BCDP is expected to help facilitate systemic transformation in and across key economic sectors. In addition, BCDP will build a catalytic climate project pipeline, develop knowledge, and strengthen the capacity needed.

reform efforts, guided by the agreed upon sequencing of reforms at program approval.[20] The RSF-supported reform measures remain unchanged (Table 11).

43. The authorities' Eighth Five Year Plan (FYP) fulfills the poverty reduction and growth strategy (PRGS) requirements under the ECF (Annex IV). The plan, developed in consultation with multiple domestic and international stakeholders, focuses on achieving sustainable growth, improving governance, and strengthening social protection as well as policies needed for climate-change. The plan also identifies priorities that are consistent with Fund-supported program objectives, which include fostering inclusive growth through job creation, education, diversification of key industries and increasing productivity.

44. Financing assurances. Bangladesh's total financing needs for the duration of the program remain broadly unchanged from program approval. The ECF/EFF program is fully financed, without RSF disbursements, with good prospects of financing for the remainder of its duration. There are firm commitments for the next 12-months of the program.

45. Capacity to repay. Bangladesh's capacity to repay the Fund is adequate. Risks have increased due to lower reserves but are mitigated by the proposed reform measures under the program and the authorities' strong track record of servicing IMF debt. Total Fund credit outstanding peaks in 2026 at 0.9 percent of GDP (6.2 percent of exports of goods and services or 14.9 percent of GIR). Total obligations to the Fund would peak in 2031 at 0.1 percent of GDP (0.5 percent of exports of goods and services or 0.8 percent of GIR). The risk of debt distress is assessed to be low, and the debt outlook is expected to remain sustainable.

46. Safeguards assessment. BB has initiated publication of its financial statements in compliance with IFRS and is building staff capacity. To enhance the Internal Audit Department (IAD), BB has prepared a five-year plan, appointed a chief information security officer to implement IT audits and updated the terms of references to strengthen the function of IAD, including by applying a risk-based audit methodology. BB remains committed to fully unwinding the non-monetary use of FX reserves over the IMF-supported program period and not engaging in any new non-monetary operations, including FX lending. BB has finalized the draft for the emergency liquidity assistance framework and plans to adopt it during the program period. By December 2024, BB intends to authorize a policy for the selection and rotation of external auditors. This policy aims to continue the practice of appointing an audit firm affiliated with global networks to conduct external audits of BB. The authorities are making progress with preparing draft amendments to BBO.

47. Risks to program implementation. Major risks to the program include limited scope to relax fiscal or monetary policy in the event of adverse shocks. Weaknesses in implementation capacity and political opposition to some proposed reforms present other risks, which will be mitigated by continued engagement and conditionality under the program, as well as by developing contingency measures.

[20] Bangladesh: Sequencing of Reforms under the ECF/EFF and RSF, FY23-FY26 (IMF Country Report No. 2023/66).

48. Capacity Development. Aligned with program objectives, CD priorities continue to strengthen key reform implementation in the areas of operationalization of the new exchange rate regime, forward-looking monetary policy formulation, revenue mobilization, public financial management (PFM) and public investment management (PIM), banking supervision, capital markets, and macro statistics.

STAFF APPRAISAL

49. Bangladesh continues to face multifaceted challenges amid persistent external pressures. Continued global monetary tightening and persistently high international commodity prices, coupled with existing vulnerabilities and an initially insufficient domestic policy response, led the exchange rate and FX reserves to come under significant pressure and increased the cost of living.

50. Even in a difficult environment, program performance is broadly on track for the second review. All quantitative targets were met, except for the PC on NIR. All structural benchmarks under the ECF/EFF and the reform measures under the RSF were met.

51. Near-term policy priorities should focus on restoring external balance and reducing inflation. The authorities' bold action to realign the exchange rate and simultaneously implement the new exchange rate arrangement is welcome. Given elevated internal and external imbalances, the exchange rate reform warrants continued monetary policy tightening to contain inflationary pressures. Fiscal policy should support monetary tightening through revenue-based consolidation, while mitigating adverse impacts on the poor. If external and inflationary pressures intensify, the authorities should stand ready to tighten policies further.

52. With an appropriate policy mix, the macroeconomic outlook and external position are expected to stabilize. The exchange rate realignment is expected to add pressure to inflation and ease import compression. Tighter fiscal and monetary policies will lead to slower credit growth and the economy operating below capacity, which would then partially offset inflationary pressures post-realignment. As a result, growth is expected to moderate in FY24 but to recover in FY25 reflecting the gradual lifting of compressed imports. Inflation is projected to slow down in FY25. Nevertheless, risks to the outlook remain tilted to the downside.

53. Further modernization of the monetary and exchange rate policy framework is critical to bolster macroeconomic resilience. Correcting the exchange rate misalignment will help reverse outflows in the financial account in the BoP. The parameters of the crawling peg should be periodically reviewed to support consistency with the overall monetary policy framework and allow for greater exchange rate flexibility in the face of possible shocks and towards the continued move to a fully flexible exchange rate system over time. The ongoing momentum to modernize the monetary policy framework should continue to promote greater macroeconomic stability and help better manage inflation.

54. Sustained efforts at revenue mobilization and expenditure reforms are needed to further expand social spending and investment. A multifaceted revenue strategy should include rationalization of tax expenditures, holistic compliance risk management, and modernization of revenue administration. Reforms to strengthen investment and debt management, enhance fiscal risks assessment, and improve subsidies in a more targeted manner would help channel revenues toward much-needed social, developmental, and climate-related spending.

55. Reducing banking sector vulnerabilities and developing capital markets remain priorities to support the authorities' long-term development goals. Policy should focus on implementing NPL reduction and addressing weak bank balance sheets. Strengthening oversight, enhancing governance and the regulatory framework, and developing capital markets will help mobilize financing to support growth objectives.

56. Maintaining the reform momentum is critical to align with the authorities' goal of reaching upper middle-income country status by 2031. Diversifying trade, reducing tariff and non-tariff barriers, attracting more foreign direct investment, enhancing the investment climate, and strengthening governance will be crucial in this regard.

57. Building resilience to climate change and natural disasters will help mitigate macroeconomic risks and to achieve sustainable growth. Ongoing efforts to strengthen institutions and enhance spending efficiency would help meet climate objectives and mobilize climate finance, particularly from private sources. Prioritizing climate-responsive fiscal management reforms, undertaking green and resilient infrastructure investment, and better managing climate-related risks will be key.

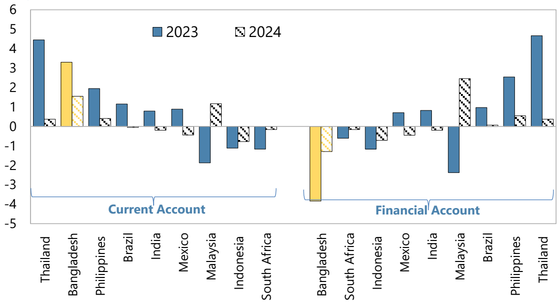
58. Based on Bangladesh's overall strong performance and commitments under the program, staff recommends completion of the second review. Staff supports the authorities request for (1) rephasing of disbursements and (2) a waiver for nonobservance of the NIR, and (3) the modification of end-June 2024 performance criteria targets.

Figure 1. Bangladesh: Pressures from External Shocks

Bangladesh's current account remains compressed and there is no sign yet of a reversal of financial account…

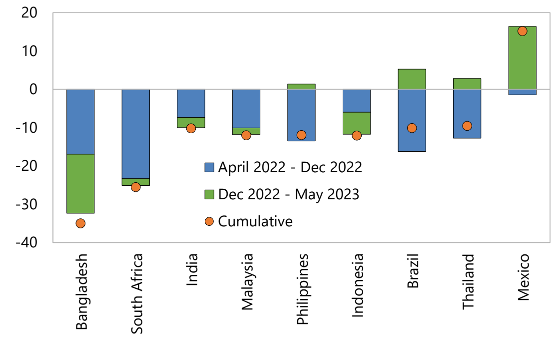
… leading to a sharp depreciation of the Taka

Annual Changes of Current Account and Financial Account Balance in Selected Economies
(In percent of GDP)



Note: Bangladesh and India data are reported for Fiscal Years 2023 and 2024. 2024 CA and FA changes for Bangladesh are as of the CA and FA Balance from Jul-Dec 2022 to Jul-Dec 2023.

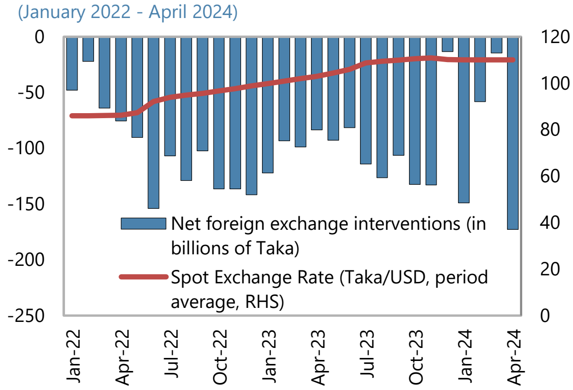
Exchange Rate Movement Against USD in Selected Economies
(In percent; negative = depreciation)



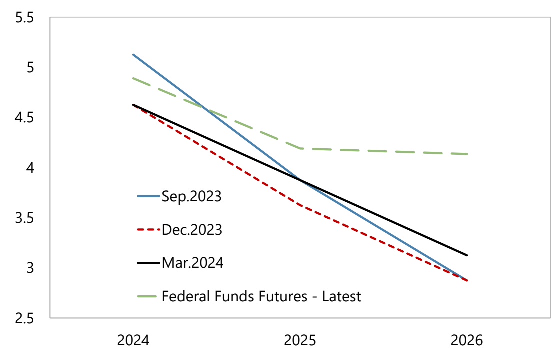
Despite active FX interventions,…

global monetary tightening…

Exchange Rate and Foreign Exchange Interventions
(January 2022 - April 2024)



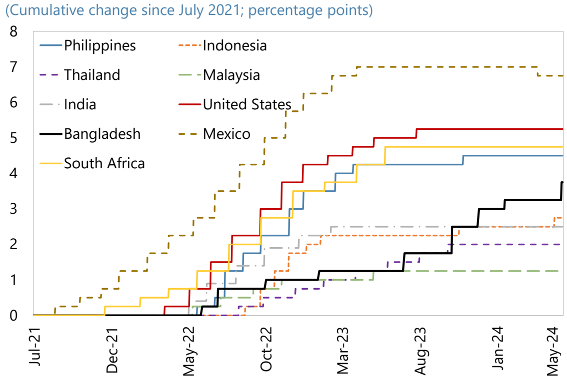
Year-End Target of Fed Funds Rate
(In percent)



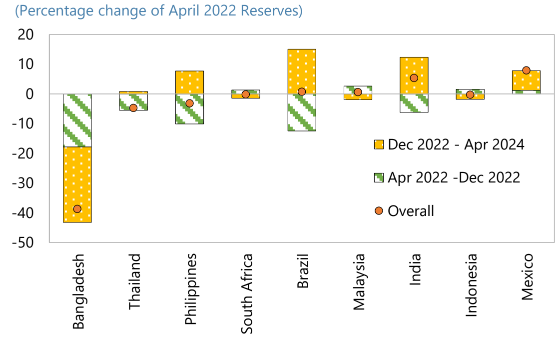
…and insufficient and delayed monetary policy response…

…led to continued reserve losses.

Policy Rates
(Cumulative change since July 2021; percentage points)



Foreign Exchange Reserves Developments in Selected Economies
(Percentage change of April 2022 Reserves)



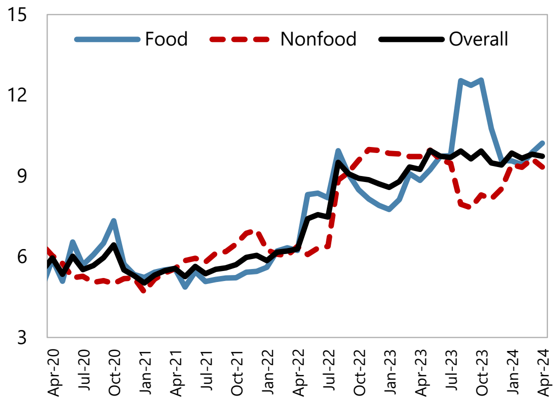
Note: Data for Mexico as of March 2024.

Sources: Bangladesh Bureau of Statistics; Bangladesh Bank; Bloomberg Finance L.P.; Haver Analytics, Inc.; CEIC Data Company Limited; World Economic Outlook; and IMF staff calculations and estimations.

Figure 2. Bangladesh: Monetary and Financial Market Developments

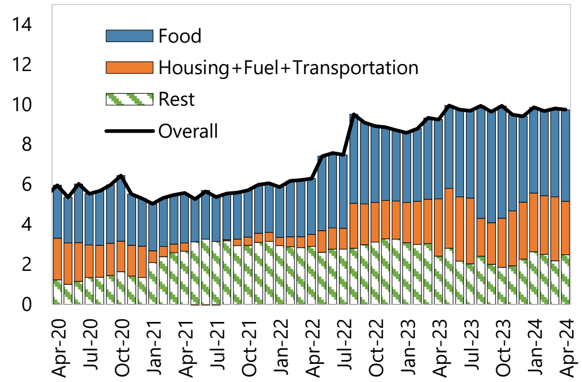
Inflation remained elevated...

Inflation Rates
(In percent, y-o-y)



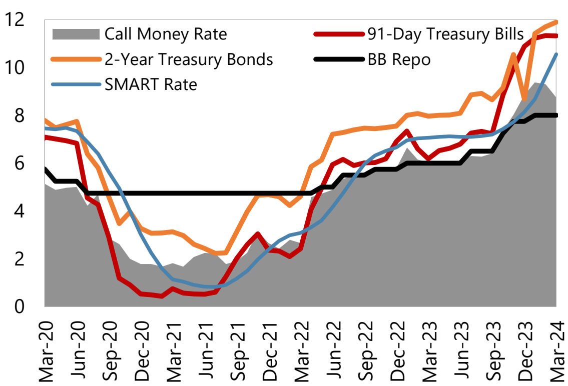
...driven by high and volatile food prices and increased inflation expectation.

Contributions to Inflation
(y-y, in percent)



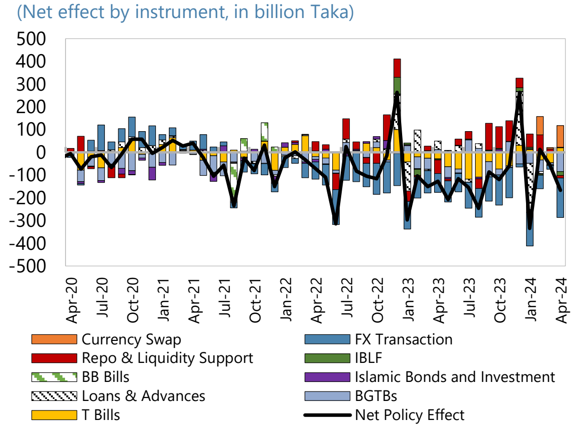
Policy rate and rates on debt instruments has further increased...

Interest Rates
(In percent)



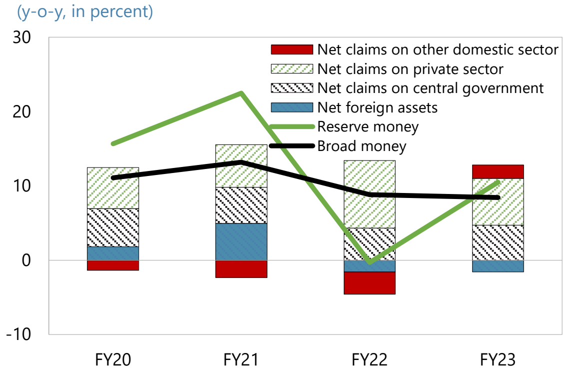
...and unsterilized FX sales kept liquidity in the system tight.

Liquidity Management Operations
(Net effect by instrument, in billion Taka)



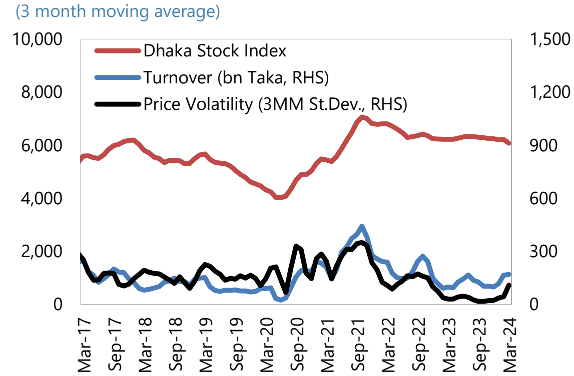
Broad money growth has continued to slow.

Contributions to Broad Money Growth
(y-o-y, in percent)



Stock prices have stabilized.

Dhaka Stock Market Performance
(3 month moving average)

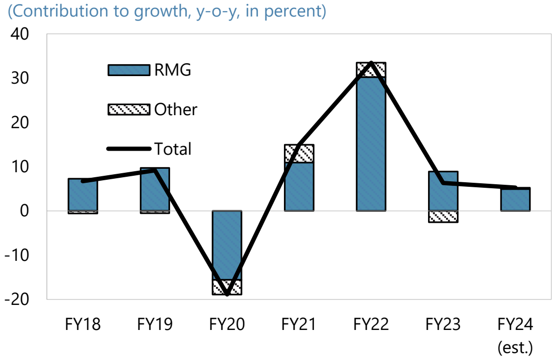


Sources: Bangladesh Bureau of Statistics; Bangladesh Bank; Bloomberg Finance L.P.; Haver Analytics, Inc.; CEIC Data Company Limited; and IMF staff calculations.

Figure 3. Bangladesh: External Sector Developments

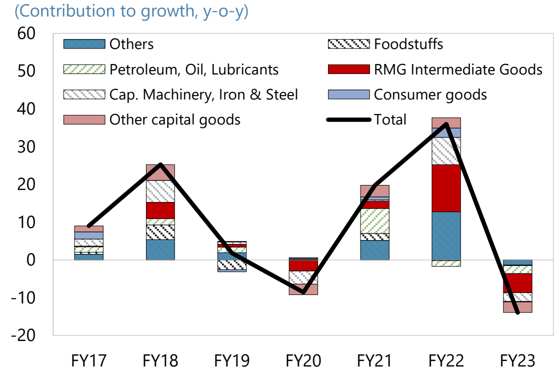
Export growth remains sluggish.

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



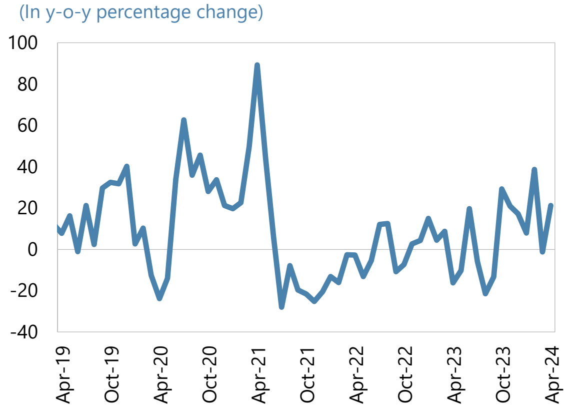
Slowdown in export growth was largely offset by a sharp contraction in imports.

Imports by Commodity
(Contribution to growth, y-o-y)



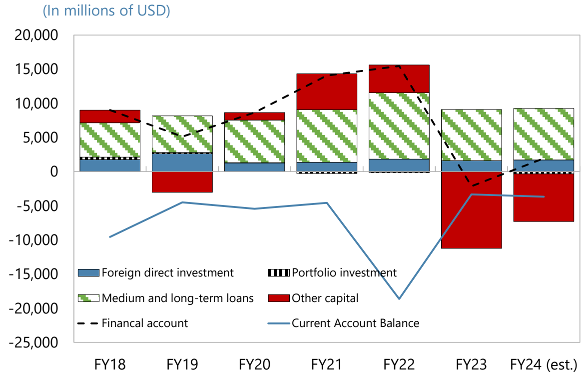
Growth in workers' remittances have stabilized.

Workers' Remittances
(In y-o-y percentage change)



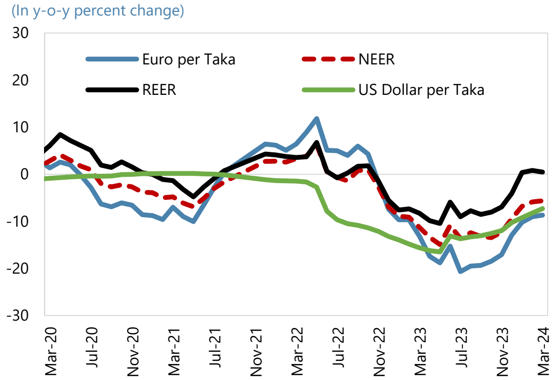
Consequently, the current account deficit shrank substantially

Current and Financial Account Balance
(In millions of USD)



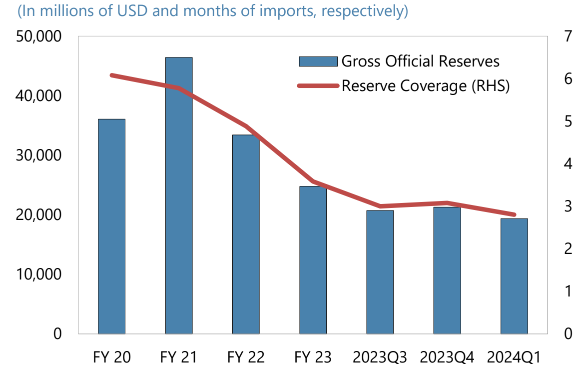
The Taka remains under pressure...

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



...leading to further decline in reserves and reserve coverage.

Gross Official Reserves and Reserve Coverage
(In millions of USD and months of imports, respectively)

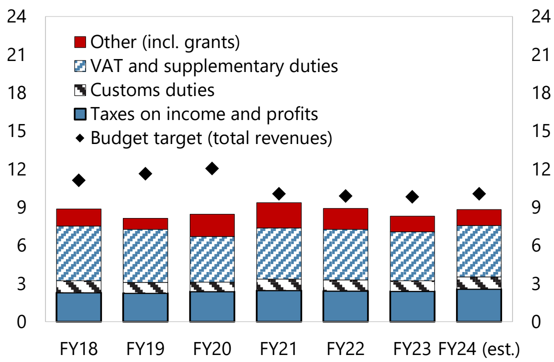


Source: Bangladesh Bank; Haver Analytics, Inc.; FRED; INS; and IMF staff estimates.

Figure 4. Bangladesh: Fiscal Developments

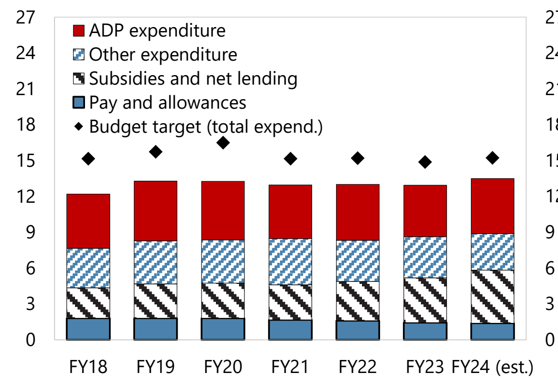
Revenue collection has improved despite import compressions.

Central Government Revenue
(Percent of GDP)



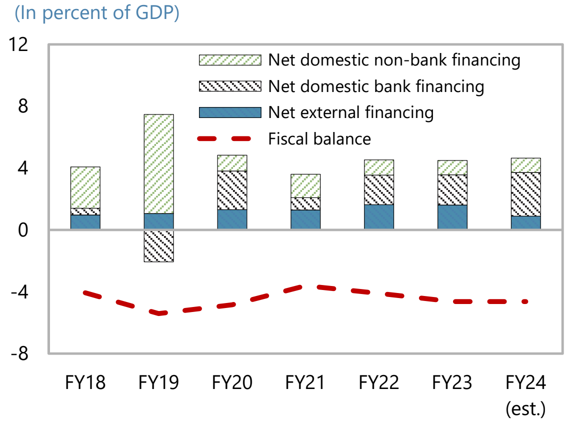
Spending has been contained to support monetary tightening.

Central Government Expenditure
(Percent of GDP)



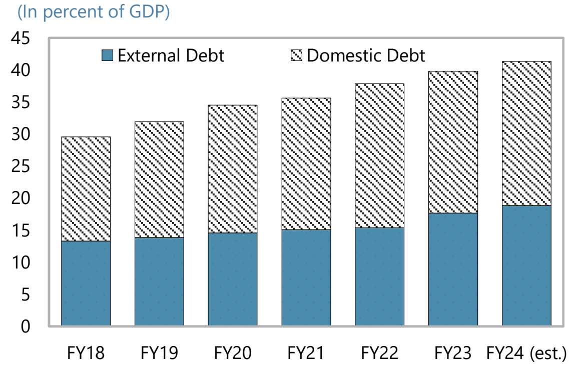
Fiscal deficit has been kept in check…

Fiscal Balance and Sources of Financing
(In percent of GDP)



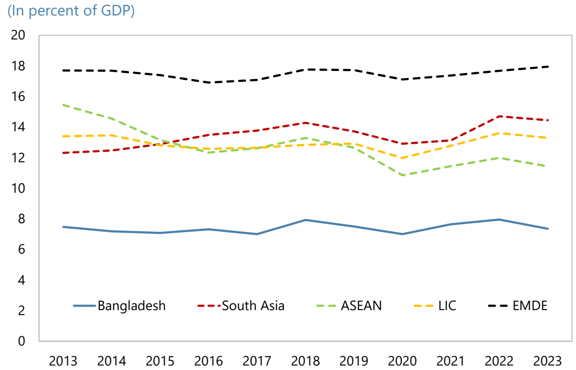
…while keeping public debt low and sustainable.

Total Public Debt
(In percent of GDP)



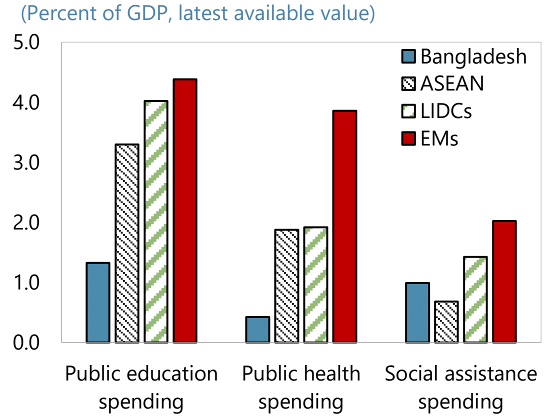
Revenue collection has been persistently low…

Tax Revenue
(In percent of GDP)



…constraining social and development spending.

Government Social Spending
(Percent of GDP, latest available value)

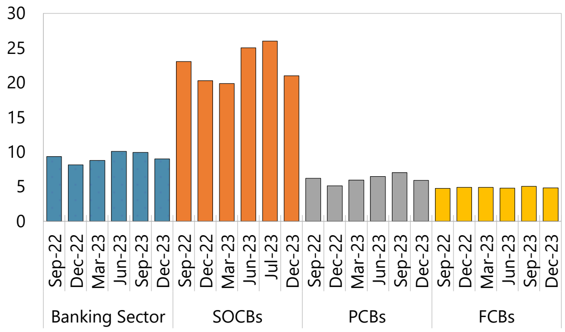


Sources: Bangladesh Ministry of Finance; World Economic Outlook; and IMF staff estimates.

Figure 5. Bangladesh: Banking Sector Developments

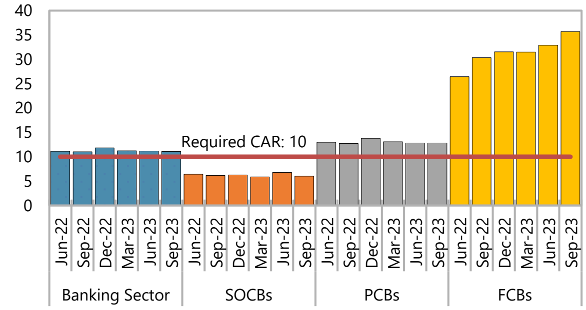
NPLs remain elevated, especially in SoCBs.

Non-Performing Loans
(In percent of total loans)



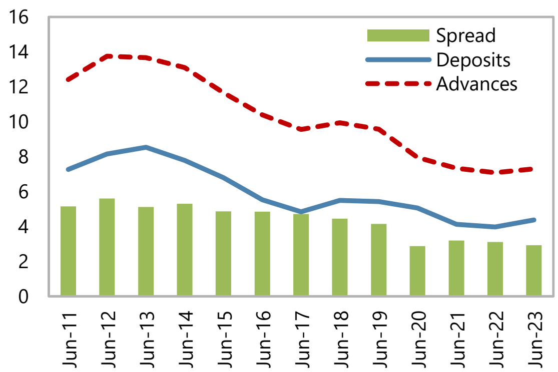
SoCBs' capital adequacy ratios continue to stay below the required ratio.

Capital Adequacy Ratio
(In percent)



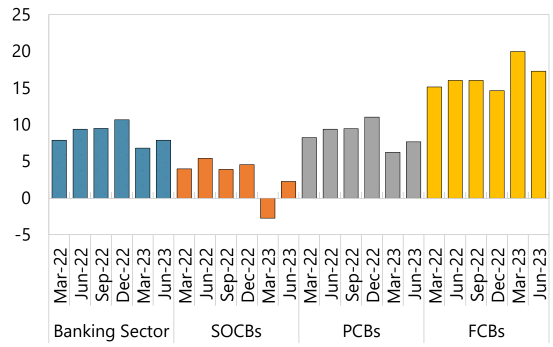
Poor asset quality has led to low bank profits...

Weighted Average Nominal Interest Rates
(In percent)



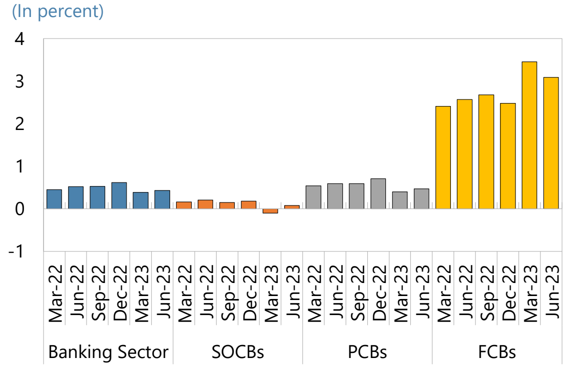
...particularly among SoCBs.

Return on Equity
(In percent)



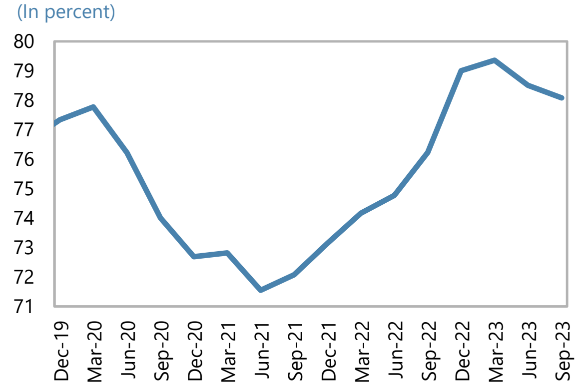
Interest margin continues to be suppressed.

Return on Assets
(In percent)



Growth of credit to private sector moderated but deposit growth fell further.

Loan-to-Deposit Ratio
(In percent)



Source: Bangladesh Bank.

Table 1. Bangladesh: Selected Economic Indicators, FY21-29 1/

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
						Proj.			
Real GDP	6.9	7.1	5.8	5.4	6.6	7.6	7.3	7.0	7.0
Consumption									
Private	8.0	7.5	3.6	4.9	6.3	6.2	5.8	5.7	5.6
Public	6.9	6.2	10.5	5.0	6.7	7.3	7.3	6.9	6.8
Gross Capital Formation	8.1	11.7	2.9	5.4	10.3	9.7	10.5	9.3	9.2
Private	7.8	11.8	1.7	2.1	12.9	10.3	11.4	10.0	9.8
Public	9.1	11.1	6.7	15.6	3.3	7.9	7.7	7.0	7.1
Trade									
Exports of goods and services	9.2	29.4	10.6	15.0	4.7	5.9	5.2	8.6	10.5
Imports of goods and services	15.3	31.2	-2.6	2.2	10.6	5.1	6.4	8.2	9.2
Prices									
GDP deflator	4.1	5.0	6.9	5.8	6.9	5.6	5.5	5.4	5.4
CPI inflation (annual average)	5.6	6.1	9.0	9.4	7.2	5.9	5.5	5.5	5.5
CPI inflation (end of period)	5.6	7.6	9.7	8.4	7.0	5.5	5.5	5.5	5.5
Central government operations									
Total revenue and grants	9.4	8.9	8.2	8.8	9.3	9.9	10.0	10.2	10.2
Of which: Tax revenue	7.6	8.0	7.3	7.9	8.4	9.1	9.2	9.4	9.5
Total expenditure	13.0	13.0	12.8	13.5	13.3	14.7	14.9	15.1	15.2
Of which: Annual Development Program (ADP)	4.5	4.7	4.3	4.6	5.0	5.9	6.0	6.2	6.4
Overall balance (including grants)	-3.6	-4.1	-4.6	-4.6	-4.0	-4.8	-4.9	-4.9	-5.0
(excluding grants)	-3.7	-4.2	-4.6	-4.7	-4.1	-4.9	-4.9	-4.9	-5.0
Primary balance (including grants)	-1.6	-2.1	-2.5	-2.8	-2.2	-2.4	-2.4	-2.5	-2.6
Public sector total debt 2/	35.6	37.9	39.3	41.3	40.7	40.9	41.3	42.1	42.9
Of which: External debt	15.1	15.4	17.5	18.9	18.6	17.8	17.1	17.0	16.9
Balance of Payments									
Current account balance	-1.1	-4.1	-0.7	-0.1	-2.5	-2.7	-3.0	-3.0	-3.1
Trade balance	-6.4	-8.0	-5.7	-4.2	-6.5	-6.4	-6.6	-6.7	-6.7
Service balance	-0.7	-0.9	-0.9	-0.9	-1.2	-1.2	-1.2	-1.3	-1.3
Income balance	-0.8	-0.7	-0.9	-0.8	-0.9	-0.9	-0.9	-0.8	-0.8
Transfers	6.1	4.7	4.9	5.0	5.0	4.6	4.4	4.5	4.4
of which: Remittances	6.0	4.6	4.8	4.8	4.8	4.5	4.3	4.4	4.3
Capital account balance	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Financial account balance	3.4	3.4	-0.5	-1.3	3.5	4.3	4.6	4.7	4.3
Foreign direct investment, net	0.3	0.4	0.4	0.4	0.9	1.1	1.3	1.3	1.2
Gross international reserves (billions of U.S. dollars)	46.4	33.4	24.8	19.0	23.3	32.1	41.9	53.4	63.0
in months of next year's imports	5.8	4.9	3.6	2.3	2.5	3.1	3.6	4.1	4.3
Monetary and Credit									
Reserve money	9.8	8.7	8.5	7.5	8.0	8.8	9.1	9.2	9.2
Broad money (M2)	54.6	52.9	50.7	50.5	51.3	51.9	53.1	54.3	55.6
Credit to private sector	36.2	36.6	35.3	33.9	32.0	32.3	33.7	34.8	35.8
Credit to private sector (percent change)	8.2	13.7	9.1	7.0	7.7	14.6	18.2	16.5	16.0
Savings and Investment									
Gross national savings	30.8	29.3	31.0	28.7	28.5	29.0	29.7	30.5	31.2
Public	1.9	1.2	0.3	0.4	1.7	2.0	2.0	2.2	2.3
Private	28.9	28.2	30.8	28.2	26.8	27.0	27.8	28.3	28.9
Gross investment	31.0	32.0	30.9	28.8	31.0	31.7	32.8	33.6	34.3
Public	7.3	7.5	7.5	7.7	7.8	7.9	8.0	8.0	8.1
Private	23.7	24.5	23.4	21.1	23.3	23.8	24.8	25.5	26.2
Memorandum item:									
Nominal GDP (in billions of taka)	35,302	39,717	44,908	50,068	57,045	64,844	73,423	82,816	93,388

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

1/ Fiscal year begins on July 1 and ends on June 30.

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 2. Bangladesh: Balance of Payments, FY21-29 1/

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

	FY21	FY22	FY23	FY24	FY 25	FY26	FY27	FY28	FY29
				Proj.					
Current account balance 2/	-4,575	-18,639	-3,334	-394	-11,870	-14,757	-18,205	-20,208	-22,717
Trade balance	-26,798	-37,205	-21,411	-19,061	-31,035	-34,837	-39,761	-44,673	-49,695
Exports (f.o.b.)	36,903	49,245	52,340	55,076	60,480	66,361	73,201	81,864	93,184
Of which: Ready-made garment sector	31,457	42,613	46,992	49,567	54,035	58,628	63,611	69,972	78,439
Imports (f.o.b.) 2/	-60,681	-82,495	-69,495	-70,190	-85,632	-94,623	-105,505	-118,165	-133,527
Of which: Crude oil and petroleum products	-8,278	-7,385	-5,334	-6,718	-8,997	-9,288	-9,595	-10,061	-10,765
Services	-3,020	-3,955	-4,256	-3,947	-5,883	-6,575	-7,457	-8,372	-9,352
Income	-3,172	-3,152	-4,233	-3,827	-4,451	-4,951	-5,222	-5,521	-5,703
Transfers	25,395	21,718	22,310	22,494	23,616	25,030	26,779	29,987	32,681
Official current transfers 3/	51	16	88	50	50	50	50	50	50
Private transfers	25,344	21,702	22,222	22,444	23,566	24,980	26,729	29,937	32,631
Of which: Workers' remittances	24,778	21,032	21,611	21,827	22,918	24,294	25,994	29,113	31,734
Capital and financial account balance 4/	14,525	15,639	-1,669	-6,174	16,886	23,663	28,327	31,858	32,517
Capital account	458	181	473	-101	391	444	496	550	611
Financial account	14,067	15,458	-2,142	-6,073	16,494	23,219	27,830	31,308	31,906
Foreign direct investment	1,355	1,827	1,611	1,806	4,284	5,943	7,854	8,694	8,918
Portfolio investment	-269	-158	-18	-332	428	594	785	869	892
Medium- and long-term loans, net	7,716	9,727	7,477	8,172	8,314	8,285	10,920	14,762	17,935
Government, net	6,032	8,284	6,944	7,915	7,314	6,785	8,220	12,062	15,235
Disbursements	7,449	9,811	8,689	10,290	10,184	10,095	11,251	15,089	18,367
Amortization	-1,417	-1,527	-1,745	-2,375	-2,870	-3,310	-3,031	-3,027	-3,133
Others	5,265	4,062	-11,212	-15,514	3,285	8,618	8,271	6,983	4,162
of which: Short-term loans and trade credits, net	5,813	2,877	-8,440	-14,125	3,423	8,298	8,255	6,954	4,162
Errors and omissions	-676	-697	-3,220	0	0	0	0	0	0
Overall balance	9,274	-3,697	-8,223	-6,568	5,016	8,906	10,122	11,650	9,800
Financing items	-9,274	3,697	8,223	6,100	-5,016	-8,906	-10,122	-11,650	-9,800
Reserve assets (+ decrease; excl. RSF)	...	...	...	6,194	-3,859	-8,453	-9,793	-11,466	-9,596
Financing gap	0	0	0	468	0	0	0	0	0
				(in percent of GDP)					
Current account balance	-1.1	-4.1	-0.7	-0.1	-2.5	-2.7	-3.0	-3.0	-3.1
Trade balance	-6.4	-8.1	-4.7	-4.2	-6.5	-6.4	-6.6	-6.7	-6.7
Exports (f.o.b.)	8.9	10.7	11.6	12.2	12.7	12.3	12.1	12.2	12.5
Imports (f.o.b.)	-14.6	-17.9	-15.4	-15.5	-18.0	-17.5	-17.5	-17.7	-18.0
Services	-0.7	-0.9	-0.9	-0.9	-1.2	-1.2	-1.2	-1.3	-1.3
Income	-0.8	-0.7	-0.9	-0.8	-0.9	-0.9	-0.9	-0.8	-0.8
Transfers	6.1	4.7	4.9	5.0	5.0	4.6	4.4	4.5	4.4
Of which: Workers' remittances	6.0	4.6	4.8	4.8	4.8	4.5	4.3	4.4	4.3
Capital account	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Financial account	3.4	3.4	-0.5	-1.3	3.5	4.3	4.6	4.7	4.3
Foreign direct investment	0.3	0.4	0.4	0.4	0.9	1.1	1.3	1.3	1.2
Portfolio investment	-0.1	0.0	0.0	-0.1	0.1	0.1	0.1	0.1	0.1
Medium- and long-term loans, net	2.1	2.6	2.0	2.2	2.2	2.2	2.9	3.9	4.8
Other investment, net	1.3	0.9	-2.5	-3.4	0.7	1.6	1.4	1.0	0.6
Memorandum items:									
Remittances (annual percent change)	36.1	-15.1	2.8	1.0	5.0	6.0	7.0	12.0	9.0
Medium- and long-term external public debt	62,882	65,482	74,007	80,635	88,463	95,933	102,689	112,618	124,929
(Percent of GDP)	15.1	15.4	17.5	18.9	18.6	17.8	17.1	17.0	16.9
Gross official reserves (incl. RSF) 5/	46,391	33,386	24,754	18,986	23,270	32,149	41,942	53,408	63,004
(In months of imports of goods and services)	5.8	4.9	3.6	2.3	2.5	3.1	3.6	4.1	4.3
Net international reserves (incl. RSF) 5/	...	28,408	20,015	14,786	19,470	27,949	37,742	49,208	58,804
(In months of imports of goods and services)	...	4.2	2.9	1.8	2.1	2.7	3.2	3.7	4.0
Gross official reserves (excl. RSF)	...	...	...	18,560	22,844	31,723	...	...	...
Net international reserves (excl. RSF)	...	...	...	14,360	19,044	27,523	...	...	...
Nominal GDP	416,265	460,201	451,534	451,468	476,010	540,276	604,158	668,788	743,143

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

1/ Fiscal year begins July 1 and ends on June 30.

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 are per BPM6 definition and exclude valuation adjustments. Net international reserves are reported at market exchange rates, and is calculated as the gross reserves minus FX liabilities.

Table 3a. Bangladesh: Central Government Operations, FY21-29 1/

(In billions of Taka, unless otherwise indicated)

	FY21	FY22	FY23		FY24		FY25	FY26	FY27	FY28	FY29
			Budget	Est.	Budget	Proj.			Proj.		
Total revenue and grants	3,305	3,542	4,363	3,686	4,596	4,425	5,307	6,440	7,362	8,450	9,566
Total revenue	3,286	3,519	4,330	3,658	4,549	4,376	5,247	6,391	7,356	8,444	9,560
Tax revenue	2,698	3,158	3,880	3,276	4,104	3,945	4,780	5,888	6,786	7,801	8,835
National Board of Revenue (NBR) taxes	2,639	3,077	3,700	3,186	4,005	3,844	4,666	5,758	6,638	7,635	8,647
Of which: VAT and supplementary duties	1,419	1,584	1,839	1,712	2,231	1,997	2,418	2,975	3,424	3,931	4,432
Taxes on income and profits	873	961	1,159	1,071	1,378	1,321	1,648	2,101	2,428	2,800	3,157
Customs and excise duties	341	358	370	388	396	505	575	654	755	869	1,018
Non-NBR taxes	59	81	180	90	99	100	114	130	147	166	187
Nontax revenue	588	360	450	382	445	431	466	504	570	643	725
Foreign grants	19	23	33	27	47	49	60	49	6	6	6
Total expenditure	4,560	5,177	6,605	5,742	7,157	6,749	7,602	9,551	10,939	12,521	14,225
Current expenditure	2,631	3,082	3,901	3,572	4,445	4,202	4,353	5,160	5,913	6,621	7,435
Pay and allowances	589	633	706	634	737	697	795	903	1,023	1,154	1,301
Goods and services	305	318	349	332	442	412	475	540	611	689	776
Interest payments	706	778	892	921	944	922	1,013	1,523	1,794	1,975	2,198
Subsidies and transfers 2/	1,032	1,353	1,954	1,685	2,322	2,171	2,071	2,194	2,485	2,803	3,160
Block allocations	0	0	0	0	0	0	0	0	0	0	0
Annual Development Program (ADP)	1,592	1,861	2,294	1,912	2,258	2,304	2,858	3,816	4,374	5,163	5,959
Non-ADP capital spending	289	271	140	287	394	200	342	519	587	663	747
Net lending 3/	6	-51	35	-21	49	50	57	65	73	83	93
Other expenditures 4/	42	15	235	-8	11	-8	-8	-8	-8	-8	-8
Overall balance (including grants)	-1,255	-1,635	-2,242	-2,056	-2,561	-2,324	-2,296	-3,111	-3,578	-4,070	-4,659
(Excluding grants)	-1,274	-1,659	-2,275	-2,083	-2,608	-2,373	-2,356	-3,160	-3,584	-4,076	-4,666
Primary balance (including grants)	-567	-848	-1,351	-1,135	-1,618	-1,402	-1,283	-1,588	-1,783	-2,095	-2,462
(Excluding grants)	-586	-871	-1,383	-1,162	-1,664	-1,451	-1,343	-1,637	-1,789	-2,101	-2,468
Net financing	1,272	1,802	2,242	1,998	2,561	2,324	2,296	3,111	3,578	4,070	4,659
External	455	651	838	714	658	443	844	882	1,126	1,242	1,559
Disbursements	575	784	1,020	912	984	1,046	1,259	1,329	1,551	1,695	2,057
Of which: RSF financing	…	…	…	…	0	47	51	51	…	…	…
Amortization	-120	-133	-182	-198	-326	-603	-415	-447	-425	-454	-498
Domestic	818	1,152	1,404	1,284	1,904	1,881	1,451	2,229	2,452	2,829	3,100
Banks	284	755	1,154	868	1,415	1,419	951	1,680	1,789	2,081	2,257
Of which: Bangladesh Bank-IMF Budget support	…	…	24	22	92	122	92	92	…	…	…
Nonbanks 5/	533	396	250	416	489	461	500	550	663	748	843
Of which: National Saving Certificate	430	203	50	-33	286	235	217	195	221	249	281

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

1/ Fiscal year begins July 1 and ends June 30. 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 3b. Bangladesh: Central Government Operations, FY21-29 1/

(In percent of GDP, unless otherwise indicated)

	FY21	FY22	FY23		FY24		FY25	FY26	FY27	FY28	FY29
			Budget	Est.	Budget	Proj.	Proj.				
Total revenue and grants	9.4	8.9	9.9	8.2	9.3	8.8	9.3	9.9	10.0	10.2	10.2
Total revenue	9.3	8.9	9.8	8.1	9.2	8.7	9.2	9.9	10.0	10.2	10.2
Tax revenue	7.6	8.0	8.8	7.3	8.3	7.9	8.4	9.1	9.2	9.4	9.5
National Board of Revenue (NBR) taxes	7.5	7.7	8.4	7.1	8.1	7.7	8.2	8.9	9.0	9.2	9.3
Of which: VAT and supplementary duties	4.0	4.0	4.2	3.8	4.5	4.0	4.2	4.6	4.7	4.7	4.7
Taxes on income and profits	2.5	2.4	2.6	2.4	2.8	2.6	2.9	3.2	3.3	3.4	3.4
Customs and excise duties	1.0	0.9	0.8	0.9	0.8	1.0	1.0	1.0	1.0	1.0	1.1
Non-NBR taxes	0.2	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Nontax revenue	1.7	0.9	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Foreign grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Total expenditure	12.9	13.0	15.0	12.8	14.5	13.5	13.3	14.7	14.9	15.1	15.2
Current expenditure	7.5	7.8	8.8	8.0	9.0	8.4	7.6	8.0	8.1	8.0	8.0
Pay and allowances	1.7	1.6	1.6	1.4	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Goods and services	0.9	0.8	0.8	0.7	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Interest payments	2.0	2.0	2.0	2.1	1.9	1.8	1.8	2.3	2.4	2.4	2.4
Subsidies and transfers 2/	2.9	3.4	4.4	3.8	4.7	4.3	3.6	3.4	3.4	3.4	3.4
Annual Development Program (ADP)	4.5	4.7	5.2	4.3	4.6	4.6	5.0	5.9	6.0	6.2	6.4
Non-ADP capital spending	0.8	0.7	0.3	0.6	0.8	0.4	0.6	0.8	0.8	0.8	0.8
Net lending 3/	0.0	-0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expenditures 4/	0.1	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (including grants)	-3.6	-4.1	-5.1	-4.6	-5.2	-4.6	-4.0	-4.8	-4.9	-4.9	-5.0
(Excluding grants)	-3.6	-4.2	-5.2	-4.6	-5.3	-4.7	-4.1	-4.9	-4.9	-4.9	-5.0
Primary balance (including grants)	-1.6	-2.1	-3.1	-2.5	-3.3	-2.8	-2.2	-2.4	-2.4	-2.5	-2.6
(Excluding grants)	-1.7	-2.2	-3.1	-2.6	-3.4	-2.9	-2.4	-2.5	-2.4	-2.5	-2.6
Net financing	3.6	4.5	5.1	4.4	5.2	4.6	4.0	4.8	4.9	4.9	5.0
External	1.3	1.6	1.9	1.6	1.3	0.9	1.5	1.4	1.5	1.5	1.7
Disbursements	1.6	2.0	2.3	2.0	2.0	2.1	2.2	2.0	2.1	2.0	2.2
Of which: RSF financing	…	…	…	…	0.0	0.1	0.1	0.1	…	…	…
Amortization	-0.3	-0.3	-0.4	-0.4	-0.7	-1.2	-0.7	-0.7	-0.6	-0.5	-0.5
Domestic	2.3	2.9	3.2	2.9	3.9	3.8	2.5	3.4	3.3	3.4	3.3
Banks	0.8	1.9	2.6	1.9	2.9	2.8	1.7	2.6	2.4	2.5	2.4
Nonbanks 5/	1.5	1.0	0.6	0.9	1.0	0.9	0.9	0.8	0.9	0.9	0.9
Of which: National Saving Certificate	1.2	0.5	0.1	-0.1	0.6	0.5	0.4	0.3	0.3	0.3	0.3
Memorandum items:											
Total central government debt (percent of GDP)	35.6	37.9	42.1	39.3	41.7	41.3	40.7	40.9	41.3	42.1	42.9
Nominal GDP (in billions of taka)	35,302	39,717	44,133	44,908	49,258	50,068	57,045	64,844	73,423	82,816	93,388

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

1/ Fiscal year begins July 1 and ends June 30. 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 4. Bangladesh: Monetary Accounts, FY21-29 1/

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
						Proj.			
Bangladesh Bank (BB) balance sheet				(End of period; in billions of taka)					
Net foreign assets	3,648	3,456	2,259	1,756	2,262	3,204	4,455	5,972	7,276
Net domestic assets	-183	-1	1,559	2,023	2,289	2,495	2,197	1,614	1,323
Net credit to central government 2/	91	449	1,440	1,471	1,433	1,433	1,342	1,342	1,342
Credit to other nonfinancial public sector	12	12	12	12	12	12	12	12	12
Credit to deposit money banks	221	194	1,259	1,268	1,268	1,268	1,268	1,268	1,268
Other items, net	-506	-656	-1,152	-728	-424	-218	-425	-1,008	-1,299
Reserve money 3/	3,465	3,455	3,818	3,779	4,551	5,700	6,651	7,586	8,599
Currency	2,079	2,348	2,901	2,259	2,789	3,669	4,292	4,856	5,443
Reserves	1,386	1,107	917	1,520	1,762	2,031	2,360	2,730	3,156
				(Contributions to reserve money growth)					
Reserve money (year-on-year percentage change)	22.5	-0.3	10.5	-1.0	20.4	25.2	16.7	14.0	13.4
Net foreign assets	28.6	-5.5	-34.6	-13.2	13.4	20.7	21.9	22.8	17.2
Net domestic assets	-6.1	5.3	45.1	12.2	7.0	4.5	-5.2	-8.8	-3.8
Of which: Net credit to central government	-8.2	10.4	28.7	0.8	-1.0	0.0	-1.6	0.0	0.0
Monetary survey				(End of period; in billions of taka)					
Net foreign assets	3,325	3,023	2,099	1,816	2,318	3,249	4,498	6,012	7,317
Bangladesh Bank	3,648	3,456	2,259	1,756	2,262	3,204	4,455	5,972	7,276
Commercial banks	-322	-433	-161	60	56	44	43	40	41
Net domestic assets	15,967	17,971	20,663	23,468	26,946	30,416	34,512	38,986	44,574
Domestic credit	18,788	21,452	23,865	26,159	28,447	32,823	38,449	44,627	51,529
Net credit to central government 2/	5,486	6,317	7,306	8,605	9,556	11,236	13,025	15,106	17,363
Credit to other nonfinancial public sector	194	264	349	298	319	340	363	386	411
Credit to nonbank financial institutions	318	323	342	283	292	302	302	298	295
Credit to private sector	12,790	14,548	15,869	16,973	18,280	20,945	24,759	28,837	33,460
Other items, net	-2,821	-3,482	-3,202	-2,691	-1,501	-2,407	-3,937	-5,641	-6,955
Broad money (M2)	19,292	20,994	22,762	25,284	29,264	33,665	39,010	44,998	51,892
				(Year-on-year percent change)					
Net foreign assets	34.0	-9.1	-30.6	-13.5	27.7	40.1	38.4	33.7	21.7
Net domestic assets	9.6	12.5	15.0	13.6	14.8	12.9	13.5	13.0	14.3
Domestic credit	10.6	14.2	11.2	9.6	8.7	15.4	17.1	16.1	15.5
Of which: Net credit to central government	17.8	15.1	15.7	17.8	11.1	17.6	15.9	16.0	14.9
Credit to private sector	8.2	13.7	9.1	7.0	7.7	14.6	18.2	16.5	16.0
Broad money (M2)	13.2	8.8	8.4	11.1	15.7	15.0	15.9	15.4	15.3
Memorandum items:				(In percent of GDP, unless otherwise indicated)					
Reserve money 3/	9.8	8.7	8.5	7.5	8.0	8.8	9.1	9.2	9.2
Broad money (M2)	54.6	52.9	50.7	50.5	51.3	51.9	53.1	54.3	55.6
Credit to private sector	36.2	36.6	35.3	33.9	32.0	32.3	33.7	34.8	35.8
Broad money multiplier (ratio)	5.6	6.1	6.0	6.7	6.4	5.9	5.9	5.9	6.0
Broad money velocity (ratio)	1.8	1.9	2.0	2.0	1.9	1.9	1.9	1.8	1.8

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

1/Fiscal year in Bangladesh begins July 1 and ends June 30.

2/ 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."

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

Table 5. Bangladesh Financial Soundness Indicators 1/

(In percent)

	FY18	FY19	FY20	FY21	FY22	FY23
Capital adequacy						
Regulatory capital to risk-weighted assets	12.1	11.6	12.5	12.0	11.2	11.2
State-owned commercial banks	10.3	5.0	9.6	8.1	6.4	6.8
Private commercial banks	12.8	13.6	13.7	13.7	13.0	12.8
Foreign commercial banks	25.9	24.5	28.4	25.9	26.4	32.9
Asset quality						
Nonperforming loans to total loans	10.3	9.3	7.7	7.9	8.2	10.1
State-owned commercial banks	30.0	23.9	20.9	19.3	20.3	25.0
Private commercial banks	5.5	5.8	4.7	5.3	5.1	6.5
Foreign commercial banks	6.5	5.7	3.5	4.3	4.9	4.8
Management						
Expenditure-Income Ratio	76.6	78.0	79.2	77.0	78.3	81.1
State-owned commercial banks	80.5	84.9	83.2	86.1	82.3	81.9
Private commercial banks	76.7	77.6	79.6	75.3	76.3	81.0
Foreign commercial banks	47.5	48.8	46.2	43.9	35.2	35.0
Earnings						
Return on equity (BB)	3.9	6.8	4.3	4.4	4.4	7.9
State-owned commercial banks	-29.6	-13.7	-29.6	-21.6	-21.6	2.3
Private commercial banks	11.0	11.2	10.2	9.3	9.3	7.7
Foreign commercial banks	12.4	13.4	13.1	7.6	7.6	17.3
Return on assets (BB)	0.3	0.4	0.3	0.3	0.5	0.4
State-owned commercial banks	-1.3	-0.6	-1.1	-0.7	0.2	0.1
Private commercial banks	0.8	0.8	0.7	0.6	0.6	0.5
Foreign commercial banks	2.2	2.3	2.1	1.2	2.6	3.1
Liquidity						
Liquidity Ratio	18.2	19.9	26.2	25.4	24.0	24.8
State-owned commercial banks	24.8	27.3	37.8	35.4	32.9	28.2
Private commercial banks	14.2	16.4	20.9	20.1	19.3	21.4
Foreign commercial banks	48.4	29.7	40.7	42.0	41.4	49.5

Source: Bangladesh Bank.

1/Fiscal year in Bangladesh begins July 1 and ends June 30.

Table 6a. Bangladesh: Proposed Schedule of Purchases and Disbursements for ECF/EFF Arrangements

	Amount of Disbursements						Conditions
	(million SDRs)			(Percent of Quota)			
Available on or after	Total	ECF	EFF	Total	ECF	EFF	
January 30, 2023	352.35	117.45	234.90	33.0	11.0	22.0	Board approval of the arrangement
November 1, 2023	352.35	117.45	234.90	33.0	11.0	22.0	Board completion of first review
May 1, 2024	704.70	234.90	469.80	66.1	22.0	44.0	Board completion of second review based on observance of end-December 2023 performance criteria.
November 1, 2024	264.77	88.26	176.51	24.8	8.3	16.5	Board completion of third review based on observance of end-June 2024 performance criteria.
May 1, 2025	264.77	88.26	176.51	24.8	8.3	16.5	Board completion of fourth review based on observance of end-December 2024 performance criteria.
October 31, 2025	264.77	88.26	176.51	24.8	8.3	16.5	Board completion of fifth review based on observance of end_June 2025 performance criteria.
May 1, 2026	264.75	88.24	176.51	24.8	8.3	16.5	Board completion of sixth review based on observance of performance criteria for end-December 2025
Total	2,468.46	822.82	1,645.64	231.4	77.1	154.3	

Source: IMF.

Table 6b. Bangladesh: Schedule of Disbursements for RSF

Available on or after	Amount of Disbursements		Conditions
	million SDRs	Percent of Quota	
January 30, 2023	-	-	Board approval of the arrangement
November 1, 2023	166.67	15.8	Reform measure 1 implementation review
May 1, 2024	83.34	7.8	Reform measure 2 implementation review
May 1, 2024	83.34	7.8	Reform measure 3 implementation review
November 1, 2024	83.34	7.8	Reform measure 4 implementation review
November 1, 2024	83.33	7.8	Reform measure 5 implementation review
May 1, 2025	83.33	7.8	Reform measure 6 implementation review
May 1, 2025	83.33	7.8	Reform measure 7 implementation review
October 31, 2025	83.33	7.8	Reform measure 8 implementation review
October 31, 2025	83.33	7.8	Reform measure 9 implementation review
May 1, 2026	83.33	7.8	Reform measure 10 implementation review
May 1, 2026	83.33	7.8	Reform measure 11 implementation review
Total	1,000.00	93.8	

Source: IMF.

Table 7. Bangladesh: Quantitative Performance Criteria and Indicative Targets 1/2/

(In billions of Taka, unless otherwise indicated)

	FY23/24									FY24/25			
	End-Sep IT						End-Mar IT	End-Jun PC		End-Sep	End-Dec	End-Mar	End-Jun
	Targets 3/	Actual	Status	Targets 3/	Actual	Status	Targets 3/	Targets 3/	Revised Targets	IT	PC	IT	IT
Quantitative performance criteria:													
Floor on net international reserves (NIR, millions of US$) 4/	17, 989	16,919	Not met	17,784	16,728	Not met	19,267	20,109	14,786	14,902	15,317	16,701	19,470
Floor on primary balance (PB) 5/ 9/	-822.0	339.4	Met	-905.2	475.4	Met	-908.7	-1,383.6	-1,383.6	-903.5	-899.1	-830.0	-1,283.0
Ceiling on accumulation of external payments arrears 6/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets:													
Ceiling on reserve money (RM)	3,892.0	3,436.3	Met	4,004.0	3,717.7	Met	4,176.0	4,257.7	4,257.7	3,971.9	4,165.0	4,358.0	4,551.1
Floor on tax revenue	615.6	777.8	Met	1,436.4	1,621.6	Met	2,761.7	3,945.3	3,945.3	956.1	2,151.2	3,346.3	4,780.5
Floor on priority social spending of the Government of Bangladesh 7/ 9/	155.0	226.0	Met	309.9	557.7	Met	869.7	1,449.5	1,449.5	247.7	578.0	1,156.1	1,651.5
Floor on capital investment undertaken by the Government of Bangladesh 8/ 9/	49.8	143.6	Met	222.8	351.7	Met	505.9	1,445.4	1,445.4	132.8	398.5	531.3	1,671.0

Sources: Bangladesh's authorities; and IMF staff estimates/projections.

1/ Fiscal year starts in July and ends in June.
2/ The quantitative targets, indicative targets and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).
3/ Approved in December 2023
4/ Net international reserves are gross reserves (based on BPM6 definition) minus the central bank FX liabilities and reserves earmarked for quasi-fiscal activities.
5/ Including grants
6/ This quantitative target is applied on a continuous basis.
7/ Social spending that is domestically financed.
8/ Capital investment from annual development program that is domestically financed.
9/ Quarterly target is projected in line with historical quarterly outturns and seasonality patterns reflecting backloaded disbursements.

Table 8. Bangladesh: External Financing Requirements and Sources, FY24-26 1/

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

	FY24	FY25	FY26
Gross Financing Requirements	**2,768.9**	**14,739.7**	**18,067.2**
Current account deficit excluding grants	393.9	11,869.7	14,757.2
Public sector loan amortization	2,375.0	2,870.0	3,310.0
Of which: IMF	342.4	258.1	137.4
Identified Financing Sources	**38.8**	**12,763.4**	**16,050.9**
Capital account balance	-101.0	391.2	444.0
Net foreign direct investment	1,805.9	4,284.1	5,943.0
Porfolio inflows	-332.0	428.4	594.3
Public sector loan disbursements	7,560.1	8,207.7	8,078.7
Other capital flows (net)	-15,513.8	2,884.8	9,018.0
Change in reserves (+ decrease; excl. RSF)	6,193.8	-3,858.6	-8,452.8
Financing Gap	**2,730.1**	**1,976.3**	**2,016.3**
Prospective Financing 2/	**2,730.1**	**1,976.3**	**2,016.3**
Financing from IMF (ECF/EFF disbursement)	1,350.1	676.3	676.3
World Bank	500.0	500.0	500.0
Asian Development Bank	740.0	600.0	600.0
Other multilateral and bilateral 3/	140.0	200.0	240.0
Exceptional Financing/Residual Gap	**0.0**	**0.0**	**0.0**
RSF disbursement	425.7	425.7	425.7
Change in reserves (+ decrease; incl. RSF)	5,768.1	-4,284.3	-8,878.5

Sources: Bangladesh's authorities; and IMF staff projections.

1/Fiscal year in Bangladesh begins July 1 and ends June 30.

2/Of the prospective financing amounts some are pending approval.

3/Includes Agence Française de Développement, Asian Infrastructure Investment Bank, and Japan International Cooperation Agency.

Table 9. Bangladesh: Indicators of Fund Credit, 2024-2045 1/

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Net Use of IMF credit																						
Disbursements (millions of SDRs)	1,038.1	1,038.0	1,040.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disbursements (percent of quota)	97.3	97.3	97.5	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	0.0	0.0	0.0	0.0	0.0	0.0
Repayment and repurchases (millions of SDRs)	223.5	143.2	35.6	55.1	164.7	306.8	397.8	430.0	438.8	407.5	275.9	176.0	115.2	100.0	100.0	100.0	100.0	100.0	100.0	100.0	75.0	41.7
Repayment and repurchases (percent of quota)	21.0	13.4	3.3	5.2	15.4	28.8	37.3	40.3	41.1	38.2	25.9	16.5	10.8	9.4	9.4	9.4	9.4	9.4	9.4	9.4	7.0	3.9
Total Obligations																						
Millions of SDRs	276.5	237.8	160.7	187.2	294.7	429.9	510.1	528.7	523.6	478.4	334.9	226.2	159.2	138.9	134.1	129.3	124.5	119.6	114.7	109.9	80.2	43.5
of which: Principal	223.5	143.2	35.6	55.1	164.7	306.8	397.8	430.0	438.8	407.5	275.9	176.0	115.2	100.0	100.0	100.0	100.0	100.0	100.0	100.0	75.0	41.7
of which: Charges/Interest	53.0	94.6	125.1	132.0	130.0	123.2	112.3	98.7	84.7	70.9	59.0	50.2	44.0	38.9	34.1	29.3	24.5	19.6	14.7	9.9	5.2	1.8
Percent of quota	25.9	22.3	15.1	17.5	27.6	40.3	47.8	49.6	49.1	44.9	31.4	21.2	14.9	13.0	12.6	12.1	11.7	11.2	10.8	10.3	7.5	4.1
Percent of GDP	0.081	0.066	0.040	0.041	0.059	0.078	0.083	0.077	0.069	0.057	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.6	0.5	0.3	0.3	0.4	0.5	0.6	0.5	0.4	0.4	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	1.9	1.4	0.7	0.6	0.7	0.9	0.9	0.8	0.7	0.5	0.3	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding IMF Credit																						
Millions of SDRs	2,477.4	3,197.0	3,592.9	3,537.8	3,373.0	3,066.3	2,668.5	2,238.5	1,799.6	1,392.1	1,116.2	940.2	825.0	725.0	625.0	525.0	425.0	325.0	225.0	125.0	50.0	8.3
Percent of quota	232.3	299.7	336.9	331.7	316.2	287.5	250.2	209.9	168.7	130.5	104.7	88.1	77.3	68.0	58.6	49.2	39.8	30.5	21.1	11.7	4.7	0.8
Percent of GDP	0.7	0.9	0.9	0.8	0.7	0.6	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	5.2	6.1	6.2	5.6	4.8	3.8	2.9	2.2	1.5	1.0	0.7	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Percent of gross international reserves	17.3	18.3	14.9	11.3	8.5	6.5	4.7	3.3	2.3	1.5	1.0	0.8	0.6	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Memorandum items:																						
Nominal GDP (billions of U.S. dollars)	451.5	476.0	540.3	604.2	668.8	743.1	825.7	916.8	1,018.0	1,130.3	1,255.0	1,393.5	1,547.3	1,718.0	1,907.6	2,118.1	2,351.8	2,611.3	2,899.5	3,219.4	3,574.6	3,969.1
Exports of goods and services (billions of U.S. dollars)	63.8	70.1	76.9	84.8	94.9	108.0	122.4	138.9	157.6	179.0	203.5	230.6	261.5	296.6	336.6	382.2	433.9	492.9	554.8	625.0	706.7	802.2
Gross international reserves (billions of U.S. dollars)	19.0	23.3	32.1	41.9	53.4	63.0	75.9	90.0	105.9	122.3	143.9	167.8	194.5	224.7	259.0	295.5	334.6	377.6	420.3	463.0	502.9	445.2
IMF quota (millions of SDRs)	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6

1/Fiscal year in Bangladesh begins July 1 and ends June 30.

Source: IMF staff projections.

Table 10. Bangladesh: Proposed Structural Benchmarks: 12 Months After Completion of Second Review

Measure	Target Date	Macro-Criticality/Objectives
Revenue Mobilization		
MoF reports tax expenditures for PIT, CIT and VAT as part of the FY25 budget	End-June 2024	Increase revenue collection to cover priority spending
NBR adopts a tax compliance improvement plan covering VAT and IT	End-June 2024	Increase revenue collection to cover priority spending
NBR finalizes a Medium- and Long-term Revenue Strategy covering indirect and direct tax and an accompanying implementation framework	End-December 2024	Increase revenue collection to cover priority spending
Government approves a development project proposal (DPP) for digital transformation of income tax administration including e-return and e-payment framework	End-June 2025	Increase revenue collection to cover priority spending
Public Financial Management		
MoF publishes an updated Medium Term Debt Management Strategy covering FY25-FY27	End-June 2024	Improve debt management and strengthen fiscal risk management
Ministry of Planning formulates Sector Strategy Papers and Multi-Year Public Investment Programmes for a total of five sectors	End-December 2024	Strengthen public investment management
At least 50 percent of the value of central government transactions, excluding interest payments, subsidies, loans, equity, and liabilities are carried out via electronic funds transfer (EFT)	End-June 2025	Improve budget execution and increase fiscal transparency
MoF (i) classifies at least 120 SOEs and/or autonomous bodies (ABs) into sectors in accordance with the GFSM 2014; and (ii) publishes an SOE sector report that provides detailed analysis on the financial position of at least 40 SOEs and/or ABs selected based on largest liabilities and/or grants and subsidies received from the government	End-June 2025	Increase fiscal transparency and strengthen fiscal risk management.
Monetary Policy Framework		
BB streamlines open market operations (OMOs), reserves averaging provisions, and reserve maintenance period in line with recommendations from IMF TA [1/]	End-June 2024	Operationalize BB's interest rate targeting framework
BB completes implementation of high-priority recommendations in the first stage of modernization of the monetary policy framework in line with recommendations of the IMF TA [1/]	End-September 2024	Operationalize BB's interest rate targeting framework
Financial Sector		
RBS pilot expanded to cover 20 banks	End-March 2025	Establish risk-based banking supervision.
BB simplifies organigramme related to RBS functions by consolidating the supervision of each bank in a single team	End-December 2024	Improve effectiveness and efficiency of risk-based banking supervision.
BB issues an updated regulation to align definition of non-performing exposures and forbearance in line with the Basel BCBS guidelines: 'Prudential treatment of problem assets - definitions of non-performing exposures and forbearance'	End-December 2024	Improve effectiveness and efficiency of risk-based banking supervision.
BB introduces a plan for the banking sector to adopt IFRS9 by 2027	End-June 2025	Improve effectiveness and efficiency of risk-based banking supervision.
MoF and BB issue guidelines to reform the primary dealer system for government securities with an active set of players, focused on market-making functions, and with a balance between privileges and obligations	End-June 2025	Develop domestic capital markets
AML/CFT		
Conduct onsite examinations of at least five high-risk banks (in order of ML risks) – identified in the list obtained from the AML/CFT offsite risk assessment tool – using the examination procedures developed as part of the IMF technical assistance project.	End-June 2025	Improve AML/CFT

[1/] Including by conducting 7-day weekly fixed-rate full-allotment OMO at the policy rate, to replace the current multiplicity of daily OMOs, allowing unrestricted banks' access to collateralized SLF and SDF, increasing averaging provisions to allow banks cope with short-term liquidity shocks, and aligning the main OMO with the 2-week reserve maintenance period.

Table 11. Bangladesh: Board Approved Reform Measures Under the Resilience and Sustainability Facility

Reform Measures	Target Date	Analytical Underpinning	Status
RM1: Government to adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions	End-September 2023	RM1 is a top reform priority identified in CCDR.	Met
RM2: Government to adopt a periodic formula-based price adjustment mechanism for petroleum products **RM3**: BB to adopt guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)	End-December 2023	RM2 is an urgency, medium feasibility in CCDR. RM3 is a high urgency, medium feasibility in CCDR.	Met
RM4: Government to adopt a national disaster risk financing strategy while integrating social assistance measures **RM5**: MoF to adopt and implement a methodology for embedding climate change in the MTMF, through analyzing macro-fiscal risks from climate change and publishing it in the Medium-Term Macroeconomic Policy Statement (MTMPS)	End-June 2024	RM4 is a high feasibility, medium urgency in CCDR and has been discussed with the World Bank (WB) as an important reform area. RM5 is highlighted as a key need in the updated Climate Fiscal Framework and has been discussed with the WB and the ADB as an important reform area that the Fund could contribute.	
RM6: Government to issue a circular on an update to the Green Book[1/] to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors **RM7**: BB to conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations	End-December 2024	RM6 is a critical area identified in C-PIMA study and has been discussed with the WB and the ADB for synergies in the PIM reform agenda. RM7 is a high urgency, medium feasibility in CCDR.	
RM8: Government to adopt an updated PPP policy and framework that integrates climate-related risks and develop relevant guidelines **RM9**: Government to issue a circular on the adoption of an annex to the Green Book that specifies selection and prioritization criteria for major infrastructure projects that is aligned with the NDC and the NAP	End-June 2025	RM8 and RM9 are critical areas identified in C-PIMA study and have been discussed with the WB and the ADB for synergies in the PIM reform agenda.	
RM10: Government to establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks and vulnerability of new public assets to the module **RM11**: BB to update the Policy on Green Bond Financing, particularly the annex on green taxonomy to be fully aligned with the NAP's strategic and investment priorities	End-December 2025	RM10 targets critical areas identified in C-PIMA study and have been discussed with the WB and the ADB for synergies in the PIM reform agenda. RM11 is high feasibility, medium urgency in CCDR.	

1/ Green Book refers to the Ministry of Planning, 2022, "Guidelines for Formulation, Processing Approval, and Revision of Development Projects in the Public Sector.

Annex I. External Sector Assessment

***Overall Assessment**: The external position of Bangladesh in FY23 is assessed to be moderately weaker than the level implied by medium-term fundamentals and desirable policies. Running current account (CA) deficits is in line with Bangladesh's level of per capita income, growth prospects, and development needs. Nevertheless, driven by the authorities' policy responses to successive external shocks and FX shortages, the CA deficit sharply narrowed in FY23 due to import compression. However, staff estimates that the CA deficit would have been closer to FY22 levels if imports were in line with historical levels. Meanwhile, the financial account experienced outflows for the first time in over a decade, leading to a sharp decline in FX reserves. Import compression continues in FY24, contributing to further narrowing of the CA deficit. The financial account outflows, rigid exchange rates, and FX interventions have all led to ongoing decline in FX reserves in FY24. According to the February 2024 data, the real effective exchange rate (REER) appreciated by about 4 percent in FY24.*

***Potential Policy Responses**: Realigning exchange rates to the level implied by fundamentals and desirable policies has been a critical priority to aid the authority's efforts to stem reserve losses and strengthen external resilience. FX interventions should be consistent with the new exchange rate regime comprising a crawling peg with a band and limited to keeping the exchange rate within the band. The exchange rate realignment has warranted monetary policy tightening to contain inflationary pressures from the exchange rate pass-through. Fiscal policy should be calibrated to balance the net budgetary impact from exchange rate changes and support monetary policy tightening. Delays in structural reforms to expand trade and foreign investment would further weigh on Bangladesh's growth potential and exacerbate vulnerabilities slowing its progression to upper middle-income status.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Bangladesh's NIIP at the end of FY23 declined to –20.1 percent of GDP, from -15.6 percent of GDP at the end of FY22 and -10.6 percent of GDP at end-FY18. Gross foreign assets were 8.6 percent of GDP, declining further from 12.4 percent at the end of FY22. Gross liabilities, however, broadly remained unchanged at 28.7 percent of GDP when compared to 28 percent of GDP at the end of FY22. The decline in assets over the last fiscal year was driven by change in official reserves which form the bulk of the total assets. Meanwhile, liabilities were dominated by general government liabilities which increased to 15.1 from 13.1 percent of GDP during the same period.

Assessment. The NIIP-to-GDP ratio, over the short term, has been driven by reserves which has continued to decline in FY24. The CA deficit is projected to stabilize at a higher level in the medium term as compressions measures removed and imports rebound. Bangladesh's liabilities are mostly related to the public sector, reflecting closed capital account, and engagement with multilateral and bilateral donors.

FY2023 (% GDP)	NIIP: -20.1	Gross Assets: 8.6	Debt Assets: 0.2	Gross Liab.: 28.7	Debt Liab.: 1.0

Current Account

Background. In Bangladesh, the CA is driven primarily by the trade balance and remittances dynamics. Nevertheless, the CA has experienced large fluctuation in recent years, driven by the COVID-19 pandemic, post-pandemic recovery, and external shocks. The CA deficit narrowed sharply to 0.7 percent of GDP in FY23, due to a sharp import compression driven by the authorities' policy responses and FX shortages. In FY24H1, data suggests continued import compression leading to a slight CA surplus. Over the medium term, however, imports are projected to rebound gradually, and the CA deficit to reach around 3 percent of GDP.

Assessment. The cyclically adjusted CA balance stood at -0.3 percent of GDP in FY23. The EBA CA regression estimates a norm of -2.2 percent of GDP, with a standard error of 0.6 percent. An additional Bangladesh-specific adjustment of 0.2 percent of GDP was made for the migrant share contribution to the CA norm in line with the EBA-lite methodology, given Bangladesh's very high share of migrant workers and large remittance inflows not captured in EBA methodology. This would adjust EBA CA norm downward to -2.4 percent of GDP. Including these adjustments, the FY23 EBA CA model's CA gap midpoint is assessed at 2.1 percent of GDP. However, staff estimates that the actual CA deficit would have been closer to FY22 levels in the absence of macroeconomic shocks, and consequent import compression. Given recent FX market developments and to address features not fully captured in the CA model (including import compression), staff's bottom-line assessment draws on the REER model. With assumed semi-elasticity of CA/GDP to REER at -0.15, the results of both REER index and level models suggests a CA gap of -1.6 and -1.7 percent of GDP respectively, placing Bangladesh in the range between -1 and -2 percent of GDP. Therefore, the external position of Bangladesh in FY23 is assessed to be moderately weaker than the level implied by medium-term fundamentals and desirable policies.

Bangladesh: Model Estimates for FY23

(In percent of GDP, unless otherwise indicated)

	CA Model	REER Index Model	REER Level Model
CA-Actual	**-0.7**		
Cyclical Contributions (from model) (-)	-0.4		
COVID-19 adjustors (+) 1/	0.0		
Additional temporary factors	0.0		
Adjusted CA	**-0.3**		
CA Norm (from model) 2/	**-2.2**		
Adjustment to the norm	-0.2		
Adjusted CA Norm	**-2.4**		
CA Gap	**2.1**	**-1.6**	**-1.7**
o/w Policy gap	0.9		
Elasticity	-0.15		
REER Gap (in percent) 3/	**-14.0**	**9.1**	**8.6**

Source: IMF staff estimates.

1/ Additional adjustment to account for the temporary impact of the COVID-19 pandemic has been phased out.

2/ Cyclically adjusted, including multilateral consistency adjustments.

3/ Positive REER gap impiles nominal exchange rate overvaluation.

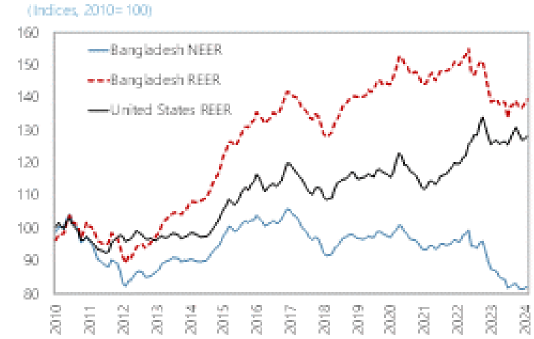
Real Exchange Rate

Background. In FY23, REER depreciated by about 6 percent with the Taka depreciating in nominal terms by 16.3 percent against U.S. dollar According to February 2024 data, however, REER appreciated by 4.2 percent in FY24 amidst stubbornly elevated inflation and nominal exchange rate depreciation limited to 1.2 percent.

Assessment. REER index and level model estimates suggest that the Taka is overvalued by 9.1 percent and 8.6 percent respectively. Given ongoing REER appreciation in FY24, elevated inflation, and limited nominal exchange rate adjustment, the Taka overvaluation to date could be higher than model estimates. Given recent FX market developments and to

Nominal and Real Effective Exchange Rates

(Indices, 2010=100)



Sources: INS; and IMF staff calculations.

address features not fully captured in the CA model (including import compression), staff's bottom-line assessment draws on the REER model. With assumed semi-elasticity of CA/GDP to REER at -0.15, the results of both REER index and level models suggests a CA gap of -1.6 and -1.7 percent of GDP respectively, placing Bangladesh in the range between -1 and -2 percent of GDP. Therefore, the external position of Bangladesh in FY23 is assessed to be moderately weaker than the level implied by fundamentals and desirable policies.

Capital and Financial Accounts: Flows and Policy Measures

Background. Capital and financial account balance registered an outflow of 0.4 percent of GDP in FY23, a historical reversal. The financial account experienced a sharp reversal in FY23 from surplus to deficit (0.5 percent of GDP) driven by faster than anticipated global monetary tightening, lower than estimated project finance disbursements, and significant delays in repatriation of export proceeds. Specifically, trade credit and private external credit inflows declined, with net short-term private inflows reversing in FY23, as repayments outpaced new loans due to higher global financing costs. FDI inflows remained broadly unchanged at 0.4 percent of GDP. Structural reforms — including reduction of tariff barriers and improvement of the investment regime to promote FDI in export-oriented sectors — are expected to contribute to an increase in FDI inflows over the medium term. Driven by trade credit outflows, the financial account has continued to remain in deficit in FY24.

Assessment. FDI flows remain critically low compared to other low income and developing countries. Targeted efforts to attract FDI including through Export Processing Zones are underway, macroeconomic uncertainty and overall investment climate has resulted in limited success. Continued liberalization of foreign exchange regulations, as macroeconomic conditions allow, and reducing the regulatory burden, will help attract FDI. Access to concessional financing remains critical while eliminating structural impediments to improve absorptive capacity would help to meet large development and climate adaptation needs.

FX Intervention and Reserves Level

Background. Gross FX reserves declined from US$33.4 billion in FY22 to US$24.8 billion at end-FY23 driven by the deterioration of the financial account, despite sharp narrowing of the CA. Gross FX reserves stood at US$19.8 billion at end-March 2024. The FY24 data suggests continued FX intervention with net FX sales reaching about US$7.8 billion through March 7, 2024.

Assessment. Realigning exchange rates to a market-clearing level has been critical to rebuild FX reserves which should remain a near-term priority. Greater exchange rate flexibility has warranted a tighter monetary policy stance to counter inflationary pressure stemming from the exchange rate pass-through to inflation. Further scaling back non-monetary use of foreign exchange reserves could provide some short-term relief. According to staff estimates, gross FX reserves currently cover about 2.5 months of imports. However, gross FX reserves are projected to increase to cover 3.6 months of imports by FY27 under the program. Over the medium-term, policies to support further exchange rate flexibility, expand and diversify export earnings, and attract FDI inflows, should help in maintaining adequate reserves coverage.

Annex II. Risk Assessment Matrix 1/

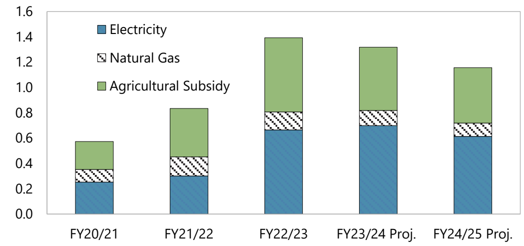
Source of Risk	Relative Likelihood	Expected Impact	Main Impacts → Recommended Policy Actions
Global			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	H ST	M – H	Disruption of wheat exports from Ukraine, fuel supply from Russia may increase import prices and reduce food availability, with adverse effects on activity, current account and inflation. → Targeted support to the vulnerable within the available fiscal space; allow exchange rate to adjust; and tighten monetary policy in case of second-round effects.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	H ST	M – H	Increase in current account deficit and fiscal burden, pressures on exchange rate and reserves. →Targeted support to the poor; adopt an automatic fuel pricing mechanism; allow exchange rate to adjust to preserve external sustainability; and tighten monetary policy to counter second-round effects.
Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	M ST	M – H	Lower growth abroad could lower exports and remittances and adversely impact GDP growth and external accounts. → Targeted policy support to the poor; allow greater exchange rate to adjust; and accelerate structural reforms to expand trade and FDI.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	M ST	M	Tighter global financial conditions could intensify financial account reversal and put pressure on exchange rate and reserves. → Allow greater exchange rate flexibility; tighten monetary policy; and closely monitor financial stability risks.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	H ST, MT	M	Supply disruptions and weaker confidence adversely affect economic activity and external accounts. → Allow greater exchange rate flexibility to preserve reserve adequacy; and accelerate structural reforms to create conducive business environment for expanding trade and FDI.
Domestic			
Failure to maintain higher degree of exchange rate flexibility consistent with the new exchange rate regime, and to clear the foreign exchange market and support orderly external adjustment.	M ST	H	Further FX market imbalances and exhausted BB's foreign reserves may ignite disorderly external adjustment with depreciation-inflation spiral. → Take further steps to realign the exchange rate to clear the FX market, tighten monetary policy to sustain positive interest rate differential to gain credibility and counter speculations
Failure to effectively address the problems in the banking system, including elevated NPLs.	M ST, MT	M – H	Elevated NPLs and low capital adequacy in SOCBs may elevate fiscal burden and hamper banks' ability to finance growth. → Expedite reforms to address structural weaknesses in governance, regulation, supervision, and legal systems. Implement NPL strategy in line with the BB's' program.
Insufficient international support in resolving the Rohingya crisis.	M– H ST, MT	M – H	Social and environmental costs, security concerns and fiscal pressures may intensify on weaker donor support and delays in repatriating refugees. → Increase fiscal space to accommodate refugees-related expenditure, while maintaining fiscal sustainability. Continue engaging with international community to secure additional resources
Higher frequency and severity of natural disasters related to climate change.	M– H MT	M – H	Extreme weather events could adversely impact key infrastructure, agriculture, allied activities, and livelihoods. → Expand budgetary support for adaptation and mitigation to meet NDC targets, implement reforms under RSF to address climate risks; and mobilize private green financing.

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

Annex III. Energy and Agricultural Subsidies in Bangladesh

1. **Bangladesh is highly dependent on imports of oil, natural gas, and fertilizers**. A sharp rise in global prices of these commodities since 2021 has led to a significant increase in subsidy claims in recent years, concentrated in the electricity and agricultural sectors where domestic price adjustments have failed to keep pace with the rise in costs (see Annex chart). Whereas natural gas and fuel prices were raised broadly in line with international prices, concerns about food security and affordability amid an already inflationary environment led the government to limit price increases on fertilizers and electricity. As a result, subsidy claims by electricity and fertilizer producers and importers have risen substantially and were met in part through arrears and the issuance of special, low-interest bonds to commercial banks to offset outstanding loans to electricity and fertilizer companies.

Energy and Agricultural Budget Subsidies 1/2/
(In percent of GDP, FY20/21 to FY24/25)



Sources: Bangladesh Ministry of Finance; and IMF staff calculations and estimates.
1/ Excludes arrears amounting to about 1 percent of GDP accumulated in FY22/23 and FY23/24.
2/ Budget subsidies for petroleum products are nil since FY15/16.

2. **The government has recognized the unsustainable nature of the current subsidy bill and signaled its intention to raise electricity prices in 2024 and beyond**. The government intends to avoid incurrence of new arrears and enable the gradual clearing of arrears and eventual phasing out of electricity subsidies over a five-year horizon. To this end, the authorities implemented a first round of increase in the retail electricity price by 4 percent in February 2024 and are expected to continue raising prices gradually with around four price adjustments per year. Electricity subsidies are thus expected to start declining from FY25. At the same time, electricity tariff reform needs to be carefully calibrated to avoid undue negative impact on poor and vulnerable households. This can be achieved in part through limiting the increase in the "lifeline" tariff offered to households that consume less than 50 kWh per month. However, given that households in the lifeline tariff category make up more than half of all consumers, some increase in tariffs is likely to be necessary and should be complemented with continued strengthening of the government's social safety net.

3. **Reforming agricultural subsidies—consisting primarily of fertilizer subsidies and rebates on electricity used in irrigation—poses several challenges**. Agricultural production and particularly rice production in Bangladesh is heavily dependent on the use of chemical fertilizers but a shortage of natural gas supply has led to underutilization of domestic production capacity and importation of the difference between demand and domestic supply. Moreover, Bangladesh's agricultural sector is dominated by smallholder farmers[1] and about one fifth of the rural population

[1] Asian Development Bank. 2023. "Bangladesh's Agriculture, Natural Resources, And Rural Development Sector Assessment And Strategy, March 2023."

still falls below the poverty line.[2] Ensuring fertilizer supply at affordable prices is thus seen as important for national food security, controlling food price inflation, and poverty reduction.

4. Nonetheless, several options can be considered to reduce the fertilizer subsidy bill. The current fixed price system, under which farmers purchase fertilizer at a set price, irrespective of quantity procured or farmer characteristics, provides a universal, untargeted subsidy that favors the use of fertilizer over other agricultural inputs. As a result, farmers may overuse fertilizers while underinvesting in other inputs such as high-yielding seed varieties and precision irrigation systems.[3] Better agricultural extension services could help to reduce reliance on fertilizers and achieve the same agricultural output with a smaller amount of fertilizer inputs. Increases in fertilizer prices could be coupled with cash transfers or vouchers for a range of agricultural inputs (including fertilizer) targeted at small or poor farmers. Raising domestic production of fertilizer by increasing natural gas supply to existing fertilizer factories could also help reduce reliance on expensive imports, although the impact of a reduction in gas supply to other sectors would need to be carefully considered. In April 2023, the authorities and the World Bank signed a US$500 million financing agreement for the Program on Agricultural and Rural Transformation for Nutrition, Entrepreneurship, and Resilience (PARTNER). This program is expected to transform the agriculture sector by promoting crop diversification, greater efficiency in input use, good agriculture practices, and expanded access to digital agricultural service tools, among other things. As part of PARTNER, the World Bank is aiding the authorities to build a comprehensive database of farmers and experiment with the use of e-vouchers for fertilizers and other agricultural inputs. The new database and experimental findings are expected to yield valuable information, which the authorities can use to rethink the existing agricultural subsidy system and put current budget allocations for fertilizer subsidies to more productive uses.

[2] Bangladesh Bureau of Statistics. 2022. Household Income and Expenditure Survey, 2022.

[3] World Bank. 2024. Program on Agricultural and Rural Transformation for Nutrition, Entrepreneurship, and Resilience in Bangladesh.

Annex IV. Eighth Five-Year Plan

1. **Bangladesh adopted the Eighth Five Year Plan (FYP) in December 2020**. Covering the period up to June 2025, the Eighth FYP aims to implement Bangladesh's agenda of achieving social and economic transformation as described in the "Perspective Plan of Bangladesh 2021-2041". The Eighth FYP supports Bangladesh's pursuit to reach upper-middle-income country (UMIC) status by 2031 and eliminate extreme poverty by 2031. The FYP was prepared by the Bangladesh Planning Commission in consultation with government ministries, academia, civil society organizations, think tanks and NGOs. Preparation of the Ninth FYP has begun for the period beyond June 2025.

2. **The Eighth FYP, which was prepared during the COVID-19 pandemic, centers around six core themes**. The COVID-19 pandemic significantly changed the macroeconomic situation of the country, leading to a short-term increase in poverty. The core themes of the Eighth FYP include: (1) rapid recovery from COVID-19; (2) growth acceleration, employment generation and rapid poverty reduction; (3) inclusiveness; (4) resilience to disaster and climate change; (5) improvement of critical institutions necessary to lead the economy to UMIC status; and (6), attaining sustainable development goal targets and mitigating the impact of LDC status graduation.

3. **Poverty reduction continues to remain an important focus in the Eighth FYP**. Building on past success, the poverty reduction strategy for the Eighth FYP focuses on inclusive growth to create more jobs and provide higher real incomes to the poor, while also improving access to education of the poor and vulnerable. Specifically, the policies in the Eighth FYP aim to provide a greater supply of credit through micro-finance institutions, increase access to finance to support the growth of small businesses and promote innovation. These policies are further strengthened by a social inclusion and protection strategy which include policies to increase labor participation from women and minority groups, improve health and social infrastructure as well as faster implementation of the National Social Security Strategy to better support the vulnerable and poor.

4. **The strategies and goals of the Eighth FYP are well aligned with the priorities of the ECF-support program**. The strategies focus on achieving sustainable growth, improving governance, strengthening of social protection as well as policies needed for climate-change. Macroeconomic policies should help accelerate inclusive growth through job creation; diversify key industries; and increase productivity. Monetary and financial policies include price stability, greater exchange rate flexibility, regulatory reform on the banking sector, and development of the capital markets. Policies are also included to strengthen the RMG sector and continue its strong performance to support the balance of payments, with additional policies to mobilize FDI. Fiscal priorities include restoring fiscal balance through increasing tax revenues and increasing public investment through the Annual Development Program.

5. **Monitoring and evaluation of the Eighth FYP is conducted based on a results-based management approach**. The Eighth FYP identifies 15 key priorities (4 macroeconomic and 11 sectoral) to support the implementation, monitoring and evaluation of the Eighth FYP. The Bangladesh Planning Commission is responsible for monitoring and evaluation of mid- and long-term plans, working with ministries/agencies/divisions to do so.

Appendix I. Letter of Intent

June 4, 2024
Dhaka

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

Dear Ms. Georgieva:

This Letter of Intent (LOI), along with the attached update to the Memorandum of Economic and Financial Policies (MEFP), outlines our continued commitments to the policies and objectives of the economic program supported by the Extended Credit Facility (ECF)/Extended Fund Facility (EFF) arrangement and the Resilience and Sustainability Facility (RSF) arrangement. In the face of ongoing macroeconomic challenges, the IMF-supported economic program is pivotal in ensuring macroeconomic stability, facilitating a sustained economic recovery, and promoting stronger, greener, and more inclusive growth over the medium and long term.

Bangladesh continues to face challenges as external shocks persist, which has made it difficult to restore macroeconomic stability. On the back of import compression and resilient exports, the current account deficit narrowed considerably. Nevertheless, the financing need for balance of payments (BOP) increased further due to an unprecedented reversal in the financial account, which has impeded our efforts to restore foreign exchange (FX) reserves. In addition, continued import compression has slowed economic activities, while persistently high global commodity prices and continued Taka depreciation have kept inflation persistently high, placing disproportionate burden on the poor.

Despite this difficult environment, our program implementation has been broadly on track. We have successfully met all quantitative targets, except for the performance criteria (PC) on net international reserves (NIR). The underperformance in NIR reflects challenging external conditions, including continued global monetary tightening and larger-than-expected spillovers into Bangladesh, and heightened economic uncertainties. We have made good progress on structural reforms for the second review, with all eight structural benchmarks (SBs) under the ECF/EFF and two reform measures under the RSF implemented. In particular, we adopted a formula-based price adjustment mechanism for petroleum products to reduce structural subsidy spending pressure as well as fossil fuel subsidies.

To address elevated inflation and falling FX reserves, we have realigned the exchange rate to the market-clearing level and simultaneously adopted a crawling peg with a band system as a transitional step toward greater exchange rate flexibility in line with the IMF recommendations. We have also prepared measures to further safeguard FX reserves buffer with the IMF assistance. We have also adopted a mechanism of readjusting (shifting) the band to allow for additional exchange rate flexibility and to prevent excessive loss of FX reserves. In addition, we are committed to further tightening the monetary policy stance and recalibrating fiscal policy to support monetary tightening.

In view of good progress under the program, prompt recalibration of policy measures, and our strong commitment to program objectives, we request: (1) the completion of the second review under the ECF/EFF and the RSF; (2) a waiver for the non-observance of the end-December 2023 PC on NIR; (3) an approval of the modification for end-June 2024 PC on NIR; and (4) an approval of the rephasing of access. Upon completion of this review, we request the disbursement of SDR 871.38 million (81.7 percent of quota), of which SDR 234.90 million (22 percent of quota) under the ECF, SDR 469.80 million (44 percent of quota) under the EFF, and SDR166.68 million (15.6 percent of quota) under the RSF. The proposed disbursements will help mitigate near-term pressures on the BOP and on the budget; support the adversely affected groups due to inflationary pressures from the transition to the new exchange rate regime; and provide a buffer against shocks until our policy adjustments and reform measures take hold. The Fund’s financial assistance is also expected to catalyze support from other development partners to meet our overall financing needs.

The attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) update the versions dated November 21, 2023, and set out economic objectives of the government’s reform program for the remaining program period 2024–26. The updated program will continue to be centered on upfront policy actions aimed at restoring macroeconomic stability and rebuilding our reserve buffer, while undertaking macro-critical structural reforms to lay the foundations for achieving upper-middle income status by 2031. Considering persistently difficult external conditions, we commit to step up our efforts to (1) raise revenues to enable higher development and social spending and enhance fiscal governance; (2) modernize the monetary policy framework; (3) further increase exchange rate flexibility; (4) reduce financial sector vulnerabilities and develop capital markets; (5) improve the investment climate and boost productivity; and (6) establish an enabling environment to better adapt to climate change.

We believe that our commitments, as outlined in the MEFP, are adequate to achieve program objectives, but we are prepared to take additional measures, as appropriate, for this purpose. This includes commitments not to impose or intensify restrictions on the making of payments and transfers for current international transactions, introduce or modify multiple currency practices, conclude bilateral agreements which are inconsistent with Article VIII, or impose or intensify import restrictions for balance of payments reasons. To ensure strong performance under the ECF/EFF and RSF arrangements, we will maintain a close policy dialogue with the IMF and seek capacity development, as necessary, from the IMF and other development partners in support of our reform agenda. In keeping with this, we will consult with the IMF on the adoption of measures and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such matters. Moreover, we will provide the IMF with information in connection with our progress in implementing the policies and achieving the objectives of the program.

Since part of the resources will be lent to the Treasury, the Ministry of Finance and Bangladesh Bank have signed a Memorandum of Understanding on their respective responsibilities for servicing financial obligations to the Fund. In keeping with our policy of transparency, we authorize publication of this Letter of Intent and its attachments, as well as the accompanying staff report.

Sincerely yours,

/s/	/s/
Abdur Rouf Talukder Governor, Bangladesh Bank	Abdul Hassan Mahmood Ali Minister of Finance

Attachments

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

A. Context

1. This memorandum lays out the reform program of the government of the People's Republic of Bangladesh under the IMF's 42-month Extended Credit Facility (ECF)/Extended Fund Facility (EFF) arrangement and a concurrent Resilience and Sustainability Facility (RSF) arrangement. This memorandum lays out the objectives, policy adjustments and structural reforms needed to restore macroeconomic stability, prepare for least developed country (LDC) graduation, and tackle climate change challenges under the IMF's ECF/EFF and the RSF arrangements. Our aim is to lay a strong foundation to reach high-income status by 2041, in line with our Vision 2041. Our Eighth Five Year Plan (FYP, FY21–FY25) sets out specific policies intended to narrow the infrastructure deficit, enhance the business environment, and build climate resilience, while mobilizing resources to create gainful employment opportunities, especially for women, key to promote inclusive and pro-poor growth.[1]

B. Recent Macroeconomic Development and Outlook

2. Macroeconomic challenges remain high in Bangladesh. Elevated global food, energy, and other commodity prices, disruptions in international supply chains, and tighter global financial conditions continue to pose macroeconomic challenges for Bangladesh. Our real GDP growth slowed to 3.8 percent in Q2FY24 from the strong post-pandemic recovery of 7.1 percent. Inflation remained close to a decade high of 9.8 percent year-on-year in March 2024. Due to import compression as well as resilient exports and remittances, the current account (CA) balance is expected to be in surplus in FY24 of an estimated 1.4 percent of GDP. Nevertheless, our financial account deficit continued to widen in FY24, mostly on the back of large trade credit outflows, resulting in a significant and continued decline in foreign exchange (FX) reserves. Gross international reserves (GIR) have declined further to US$19 billion at end-Q3FY24 from US$21.1 billion at end-Q1FY24. Meanwhile, the Taka has depreciated by about 5 percent over the same period.

3. In response, we have taken measures to contain external pressures. We have tightened the monetary policy stance by raising the policy rate by 200 basis points since Q2FY24 and reduced liquidity in the banking system through unsterilized FX interventions, which further tightened monetary conditions. We also raised domestic prices of electricity and gas to reduce pressures on foreign reserves buffer and the state budget. While we maintained letter of credit (LC) margin requirements on the payments by bank deposits on some non-essential imports since July 2022, capital machinery, raw materials, and imports needed for key industries were not part of any such requirements.

[1] The fiscal year in Bangladesh runs from July to June. Reflecting this, H1 and H2 refer to the period July through December and January to June respectively.

4. **We kept the fiscal deficit in check**. Tax revenue collections performed well in H1FY24, reflecting measures introduced in the FY24 budget to increase revenues from VAT and customs. By contrast, both recurrent and capital spending were under-executed partly due to fiscal austerity measures, including budget cuts for land acquisition and vehicle purchases, and restrictions on foreign travel. As a result, the overall fiscal balance registered a small deficit. Public debt remained below 40 percent of GDP at end-FY23.

5. **We expect the near-term economic outlook to improve, but significant uncertainties remain**. We project our economy to grow by 6.5 percent in FY24 and 6.7 percent in FY25. Nevertheless, we expect challenges to continue in the coming months, given uncertainties surrounding elevated commodity prices, tight global financial conditions, and pressures on the Taka, which may weigh on our efforts to contain inflation.

6. **To achieve sustainable and inclusive growth, addressing long-standing structural issues, including climate change, remains a top priority**. This will require developing growth engines, increasing productivity to harness our demographic dividend, bridging infrastructure gaps, and investing in human capital. We are committed to boosting social and development spending, tax revenues, export diversification, foreign direct investment (FDI) inflows, and the investment climate. Despite being one of the lowest per capita carbon emitting countries, Bangladesh is one of the world's most at-risk nations to climate change and natural disasters. We are at risk of losing 2 to 9 percent of our annual GDP by the mid- and end of the century, respectively. Bangladesh has set its course toward achieving climate-resilient development by putting in place various strategies and policies including the Bangladesh Delta Plan (BDP) and the National Adaption Plan (NAP). It is estimated that the annual climate financing needs amount to 2 to 3 percent of GDP.

C. Program Performance

7. **Despite challenges surrounding the economy, program implementation has been broadly on track**.

- Performance Criteria (PC) and Indicative Targets (IT). We have met all PCs and ITs, with the exception of the PC on net international reserves. This was mainly due to an unprecedented reversal in the financial account.
- Structural benchmarks (SBs). We have implemented all SBs related to strengthening revenue mobilization, improving public financial management (PFM), modernizing the monetary policy framework, and enhancing governance in the financial sector.
- RSF Reform Measures (RM). We have implemented both RMs required for the second review. First, a formula-based price adjustment mechanism for petroleum products has been adopted, which came into effect in March 2024. Second, Bangladesh Bank (BB) adopted guidelines for banks and financial institutions on reporting and disclosure of climate-related risks line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

D. Policy Framework

8. Our priorities under the IMF-supported program aim at restoring macroeconomic stability and undertaking structural reforms to promote inclusive and green growth. Given the elevated external pressure, we have adjusted the nominal exchange rate to the market-clearing level and adopted a crawling peg with a band regime as a transitional step toward greater exchange rate flexibility. This will be further supported by sustained monetary tightening to contain inflationary pressures arising from the exchange rate policy reform. Fiscal policy will support monetary tightening, while protecting the poor. With these efforts, we aim to bring down inflation to 5–6 percent by end-FY26. We also plan to rebuild GIR to close to 4 months of prospective imports by FY26 through prudent aggregate demand management policies, increased exchange rate flexibility, and structural reforms to boost competitiveness. These measures are expected to catalyze additional external inflows, including FDI. Finally, we aim to boost growth potential by improving the business climate, diversifying the economy, and enhancing employment opportunities, as outlined in our Eighth FYP.

A. Fiscal Policy

9. In the near-term, fiscal policy will support monetary tightening to contain inflationary pressures, while protecting the vulnerable. Given the immediate need to curb inflation and preserve international reserves, we will maintain the primary deficit at 2.8 percent of GDP in FY24 as committed in the first review and lower it to 2.2 percent of GDP in FY25. To this end, we will rationalize non-interest spending by 0.1 percent of GDP relative to the projected FY24 outturn and raise additional tax revenues of 0.5 percent of GDP. In the event that additional pressures on inflation and external accounts materialize, we stand ready to adjust our fiscal stance as needed to preserve macroeconomic stability.

10. We are stepping up efforts to mobilize additional tax revenues. In FY24, we (1) increased applicable taxes on tobacco, land registration, carbonated beverages, and travel; (2) implemented an environmental surcharge on multiple car ownership; (3) removed several value-added tax (VAT) exemptions; (4) increased import duties on select products; and (5) improved revenue administration. We assessed tax expenditures in corporate income tax (CIT), personal income tax (PIT) and VAT with the help of IMF TA **(end-June 2024 SB)** to identify and eliminate less effective exemptions. Building on this progress, we will include additional measures in the FY25 budget, which should yield another 0.5 percent of GDP of tax revenue. These include removal of VAT, income tax, and customs duty exemptions on some goods, services, and sectors, and strengthened tax administration/compliance.

11. We will continue our revenue mobilization efforts over the medium term by streamlining tax expenditures and adopting a Medium- and Long-Term Revenue Strategy (MLTRS). We will continue to rationalize existing tax expenditures in the FY26 budget. Moreover, we will explore options to enhance Parliamentary oversight of new tax exemptions. Also, we will conduct a review of existing income tax exemptions and decide which exemptions to repeal by end-

FY26. We are in the process of finalizing our MLTRS, which sets out our high-level revenue mobilization strategy over the next 4-6 years and will complement this with a detailed implementation framework **(end-December 2024 SB)**. These measures will ensure that our tax-to-GDP ratio improves even while we gradually eliminate para-tariffs and reduce average nominal protection rates on imports to be in line with our LDC graduation strategy.

12. We are stepping up efforts to strengthen tax administration through greater digitalization, tax net expansion, and compliance risk management.

- We have taken steps to increase taxpayer registration by making it mandatory to present proof of tax return submission to receive 38 services, which has helped increase the number of registered taxpayers by 2 million in FY24. We plan to reach 10 million registered taxpayers by FY25.
- We have installed 25,741 electronic fiscal devices (EFDs) as of April 2024, which we estimate has contributed Tk 7.4 billion to additional revenue so far in FY24. Looking ahead, we plan to install 300,000 EFDs in total over the next five years.
- With help of IMF TA, we plan to shift towards electronic tax administration. To this end, the government will approve a development project proposal (DPP) for digital transformation of income tax administration including e-return and e-payment framework by end-FY25 **(end-June 2025 SB)**. We plan to implement this framework, starting with large corporations and individual taxpayers managed by Large Taxpayer Unit in FY27.
- Following the establishment of compliance risk management units (CRMUs) in the customs and VAT wings of the National Board of Revenue (NBR), we will create a separate CRMU in the income tax wing by end-FY25. Until then, the Taxes Inspection Directorate should carry out the function of CRMU for income tax. To ensure close coordination of activities by the CRMUs, we will establish official guidelines for data sharing. Simultaneously, we are developing a tax compliance improvement plan covering VAT and income tax **(end-June 2024 SB)**.

13. We are committed to contain subsidies to safeguard priority spending. Despite implementing several price increases for petroleum products, natural gas, electricity, and fertilizers since 2021, persistently high import prices have increased subsidy claims in the electricity and fertilizer sectors, and, amid limited fiscal space, resulted in arrears to independent power producers, fertilizer suppliers, and—to a lesser extent—our natural gas company, PetroBangla, amounting to 1.1 percent of GDP at end-FY24. The stock of arrears is expected to fall slightly by end-FY24 and we are committed to no further accumulation of net arrears from FY25 onwards. At the same time, we plan to gradually clear arrears and return subsidy spending to a level consistent with our fiscal program targets, by raising electricity prices as needed. We will further avoid any new capacity charge commitments to power producers in case of contract renewals. In line with program commitments, we adopted a formula-based monthly price adjustment mechanism for diesel, kerosene, petrol, and octane, starting in March 2024, which is expected to keep structural subsidies for petroleum products close to zero.

14. We are taking steps to enhance the effectiveness of public investment to support the achievement of our development goals. To this end, we will follow our updated Public Financial Management Action Plan for FY24–FY28, which seeks to strengthen strategic linkages between the FYP, Annual Development Programme (ADP) and Medium-Term Budgetary Framework (MTBF), and improve investment portfolio quality. To enable better integration of the MTBF and ADP processes and strengthen project selection, we have already completed Sector Strategy Papers or Sector Action Plans for seven out of 15 sectors and will formulate Multi-Year Public Investment Programmes (MYPIP) for a total of five sectors by end-H1FY24 **(end-December 2024 SB)**. Building on a positive initial experience, we plan to progressively roll out these tools to all fifteen sectors, covering at least ten sectors by end-FY25 and providing the basis for development expenditure projections in the MTBF. In parallel, we are reinforcing staff capacity to prepare Development Project Proposals (DPPs) and carry out project appraisals. In view of our growing pipeline of Public Private Partnership (PPP) projects, we are also committed to strengthening the capacity of the PPP Unit in the Ministry of Finance (MoF) to independently assess the viability, affordability, and value-for-money of new proposed PPP projects and will seek IMF TA in this regard.

15. We intend to improve our debt management to reduce financing costs and support capital market development. Our Medium-Term Debt Management Strategy (MTDS), covering FY22 to FY24, aims to minimize borrowing costs while ensuring long-term fiscal sustainability. The strategy focuses on reducing reliance on National Savings Certificates (NSCs) and shifting toward more concessional sources of external financing in the medium term as long as Bangladesh remains eligible. At the same time, we are working to develop local bond markets to increasingly tap into long-term market financing. Implementation of our strategy has been mostly successful to date, however, rapid changes in the global and domestic financing landscape necessitate regular monitoring and adjustment of this strategy. We will soon publish our third MTDS covering FY25 to FY27 **(end-June 2024 SB),** and will aim to move towards annual MTDS updates, complemented by our quarterly debt bulletin and eventually an annual borrowing plan.

16. We will continue reforming our NSC system to better control issuances and rationalize interest expenditure. Reforms undertaken since FY21 have been successful in reducing demand for NSCs. Net NSC issuance has turned negative since FY23, also reflecting the recent rise in government bond yields and a fall in household savings amid the higher cost-of-living. We will continue monitoring NSC subscribers and enforcing access limits to reduce the scope for misuse. We are on track to fully automate issuances by end-FY25. To guide the reform process, we articulated a plan to sustainably keep net NSC issuance below one-fourth of net domestic financing by FY26, in line with our commitments to the IMF-supported program. This plan relies on enforcing access limits, local bond market development, as well as prudent fiscal policy in line with available financing.

17. We will continue our efforts to enhance the effectiveness of social safety nets and gradually increase priority social spending.

- Our updated Action Plan to Implement the FY21-FY26 National Social Security Strategy of Bangladesh spells out plans to strengthen and broaden the scope and coverage of our social safety net programs with the goal of lowering income inequality and supporting human development. Our priorities include improving targeting, expanding coverage both in rural and urban areas, consolidating existing programs, adopting G2P systems, and expanding social insurance. In FY24, we expanded the number of beneficiaries of the Mother and Child Benefit Program, Old Age Allowance, Widow and Destitute Women Allowance, and Disabled Allowance from 11.8 million to 12.6 million. 19 out of 34 cash transfer programs are now covered by G2P.

- Our recently launched Universal Pension Scheme (UPS) aims to improve the financial protection of our growing elderly population by providing a pension scheme available to all Bangladeshis and is expected to replace various existing social safety programs over time. Participation in the initial four schemes targeted to the private sector, is voluntary and reached 87,857 as of April 2024, whereas the recently introduced fifth scheme will be mandatory for all officials and employees of state-owned autonomous and semi-autonomous bodies recruited after July 1, 2024.

18. We will optimize cash management by expanding the coverage of the treasury single account (TSA) and the use of electronic funds transfer (EFT).

- We have recently developed a policy note and an accompanying implementation plan to guide the expansion of the TSA. Priority actions include (1) adopting new guidelines for the approval of opening new bank accounts by end-FY24; (2) completing a census of bank accounts of budgetary central government and closing dormant accounts by end-FY25; and (3) completing a census of bank accounts of autonomous bodies and local governments by end-FY26. The government will also explore the feasibility to develop and roll out the Zero Balance Account system.
- We further intend to bring 176 out of 215 government services under the Automated Challan (A-Challan) system by end-FY25.
- We are progressively expanding the use of EFT to cover vendor payments and are targeting EFT coverage of central government transactions of at least 50 percent, in value terms (excluding interest payments, subsidies, loans, equity, and liabilities), by end-FY25 **(end-June 2025 SB)**. This will enable efficient settlement of obligations and reduce leakages.
- We aim for the treasury to produce regular cashflow forecasts to be shared with the budget department and BB by end-FY26 and to undertake IMF training to improve cash forecasting.

19. We will continue to build out the functionality of our Integrated Budget and Accounting System (iBAS++) to facilitate on-line bill submission, integrate with e-CMS (contract management system), reconcile tax receipts and deductions, prepare budget at the spending unit level, and support electronic payments. Integration between iBAS++ and e-CMS has been achieved for 200 spending units. Online bill submission has started in over 2,000 offices in four divisions including Dhaka. As of now, over 4,000 spending units have prepared their budget in the iBAS++. The government has issued a circular to make it mandatory for bills below Tk 100,000 to be paid by EFT.

20. Efforts are underway to improve the quality of our fiscal forecasting and enhance fiscal data transparency.

- We intend to strengthen the role of the Medium-Term Macroeconomic Framework (MTMF) working group (comprising MoF, NBR, BB and Planning Commission) in preparing macroeconomic forecasts by regular meetings on a quarterly basis.
- We plan to improve our revenue forecasting by pursuing training from the IMF or other development partners. We will publish quarterly budget execution reports within 60 days of quarter-end for Q1-Q3 and within 90 days for Q4.
- We will continue to train staff on the International Public Sector Accounting Standards to ensure that the government's annual financial statements are compliant with international standards and are submitted for audit within six months of year-end. Accordingly, the FY23 financial statement was submitted to the Comptroller and Auditor General of Bangladesh in December 2023.
- We are taking steps to institute a modern internal audit function in the government, capable of implementing risk-based audits, by starting with five high-spending ministries/departments. Four internal audit units have already been set up and the first risk-based internal audit in the Ministry of Primary and Mass Education will be completed by end-Q2FY25.

21. We are actively working to improve transparency and governance of state-owned enterprises (SOEs). Over 120 SOEs have now published their annual financial statements on their websites as well as the website of the Ministry of Finance. We have conducted a thorough analysis of the financial health of ten of these SOEs, selected based on the size of outstanding liabilities to inform our upcoming fiscal risk statement for the FY25 budget. Building on this progress, we plan to classify at least 120 SOEs and/or autonomous bodies (ABs) into sectors in accordance with the GFSM 2014, based on the number of available annual financial statements, and publish an SOE sector report that provides a detailed analysis on the financial position of at least 40 market-producing SOEs and/or ABs selected based on largest liabilities and/or grants and subsidies received from the government **(end-June 2025 SB)**. Next steps include formulating an SOE governance framework by end-2025.

B. Monetary and Exchange Rate Policy

22. We are committed to the exchange rate reform and rebuilding reserves.

- We have eliminated the official exchange rate for transactions on behalf of the government and adopted a unified official exchange rate.
- We have adjusted the official exchange rate to the market-clearing level, and are improving FX market mechanisms to support its liquidity and market-based price discovery. Simultaneously, we adopted a transitional crawling exchange rate peg arrangement with a band. We communicated our intentions to the market in January 2024. The design of the arrangement and avenues to improve market functioning have been defined with the help of IMF TA.

- We have prepared measures to further safeguard FX reserves buffer with the IMF assistance. We have also adopted a mechanism of readjusting (shifting) the band to allow for additional exchange rate flexibility and to prevent excessive loss of FX reserves. We will periodically review and revise parameters of the new regime to support its consistency with the overall monetary policy framework. We plan to gradually widen the exchange rate band to facilitate moving towards more flexibility.
- In addition, we will take the necessary policy measures to rebuild GIR to cover about 4 months of prospective imports by the end of the IMF-supported program. Accordingly, we expect FX availability to increase and the reserve position to improve. We intend to accelerate the reduction of LC margin requirements and commit to gradually unwind it by end-FY25.

23. To contain inflation, we have tightened our monetary policy stance and remain committed to further tightening. BB has increased the policy rate by 250 bps since the start of the tightening cycle in May 2022. We further tightened monetary policy at the time of the exchange rate adjustment to counter expected inflationary pressures. BB will continue calibrating monetary policy to put inflation on a declining path to the medium-term target range of 5-6 percent by end-FY26.

24. To support effectiveness of monetary policy, we remain committed to zero devolvement of government securities. To strengthen monetary transmission and effectiveness of monetary policy, we have stopped devolvement since August 2023, and kept it at zero for the remainder of FY24. In FY25 we will not allow for new devolvement of government debt on BB. With the help of IMF TA, we will phase out the devolvement practice completely, as recommended by the joint IMF-World Bank TA on the local currency bond market (LCBM) development.

25. We will continue to modernize BB's monetary policy framework and operations. With the help of IMF TA, we intend to transition to a flexible inflation targeting framework over the medium term, with the policy interest rate serving as an operating target. We have reached several important milestones toward this objective since January 2023 and remain committed to continued progress. In particular,

- We have transitioned to an interest rate corridor (IRC) system with standing lending and deposit facilities, progressed with allowing unrestricted automatic access to such facilities (subject to meeting collateral requirements to access the former facility) and announced the adoption of the policy interest rate as an operating target. We will continue operationalizing the interest rate-based framework, in line with recommendations of IMF TA, including by streamlining the open market operations (OMOs) and reserve maintenance period **(end-June 2024 and end-September 2024 SBs)**, resolving remaining issues with access to standing facilities by foreign banks operating in Bangladesh, ensuring that the call money market rate is aligned with the key policy rate and improving liquidity forecasting capacity.
- In July 2023, we replaced the lending interest rate cap with a market-driven reference lending rate (the SMART, a six-month moving average rate of 182 day T-bills) supplemented by a maximum mark-up margin for banks of 300 basis points. In May 2024 we discontinued the

SMART benchmark to allow for free risk- and market-based setting of the lending interest rates by all commercial banks.

- We will continue to upgrade BB's monetary policy formulation and communication functions. As part of this effort, we have reconstituted the Monetary Policy Committee (MPC)—a decision-making body at BB—which includes the BB Governor, three internal and three external members. From July 2024, we will begin announcing annual schedule of quarterly MPC meetings and start issuing policy press-releases after such meetings communicating macroeconomic outlook and BB's policy actions. We have continued building analytical and forecasting capacities and improving the decision-making processes at BB by developing a model-based Forecasting and Policy Analysis System (FPAS). We plan to further strengthen BB's communication and enhance monetary policy transparency in the medium term. We shall develop and publish a coherent strategy that outlines the objectives and operational modalities of BB's communications. We aim to start publishing a quarterly monetary policy report during the IMF-supported program period.

26. We are making progress to implement recommendations of the latest IMF's Safeguards Assessment Report. BB has started publishing its financial statements in compliance with International Financial Reporting Standard (IFRS) and is building staff capacity. To enhance our Internal Audit Department (IAD), we have prepared a five-year plan and appointed a chief information security officer to implement information technology audits. We have also updated our terms of references to strengthen the function of IAD, including by applying a risk-based audit methodology. We are committed to fully unwind the non-monetary use of FX reserves over the IMF-supported program period and not engage in any new non-monetary operations, including FX lending. We have finalized the draft for the emergency liquidity assistance framework and plan to adopt it during the program period. We have started the process for the external cyber risk vulnerability assessment since December 2022. We have appointed an audit firm affiliated with global firms to conduct an external audit of BB for FY23 and by December 2024 we will approve the external auditors' selection and rotation policy to sustain this practice going forward. By December 2024, we will seek IMF assistance with the review of draft amendments to Bangladesh Bank Order (BBO) to ensure that the BBO is consistent with best international practices. Following that, we intend to submit the amendments for Cabinet's approval within the program period.

C. Financial Sector Reforms

27. We have exited from the COVID-19 pandemic support measures. These measures, which included a soft repayment facility and low-interest working capital loans to the large industry and service sector, expired at end-FY23. BB will ensure that asset classification accurately reflects current balance sheet risks and that classified assets, including rescheduled loans, are adequately provisioned for. At the same time, we will continue to support individuals and business sectors that are most at risk as part of our regular financial support schemes.

28. We plan to strengthen the definitions of non-performing exposures and forbearance and align them with international good practices. BB issued BRPD Circular No. 9 in April 2024 to repeal the 2019 circular (which relaxed the definition of "overdue" for term loans) and reintroduce the obligation to treat material exposures as non-performing when they are more than 90 days past due. To give banks lead time to re-adjust, we will follow a two-step approach: for loans due from April to September 2024, we will apply a "due date + 180 days" definition of "overdue" and for loans due from September 2024 till the end of 2024, we will apply a "due date + 90 days" definition of "overdue". Thereafter we will remove the 90 days grace. By end-March 2025, all loans will be considered overdue one day after the payment due date. In consultation with the IMF, we will continue to strengthen loan classification and provisioning rules and improve forbearance practices in line with the Basel Committee on Banking Supervision (BCBS) Guidelines "Prudential treatment of problem assets - definitions of non-performing exposures and forbearance" **(end-December 2024 SB)**. To better identify the true state of distressed assets, we will develop a plan for the banking sector **(end-June 2025 SB)** to adopt the IFRS9 by 2027 and have sought IMF TA for implementing this plan.

29. We have introduced a roadmap to reduce non-performing loans (NPLs). The roadmap aims to reduce the NPL ratio to below: (1) 8 percent for the banking system; (2) 10 percent for state-owned commercial banks (SoCBs); and (3) 5 percent for private commercial banks (PCBs) by end-FY26. For effectively reducing NPLs, we plan to require strengthening the legal departments of banks to settle cases pending in the Debt Court more quickly; and to give targets to banks for increasing the efficiency of using out-of-court settlements of cases through the Alternative Dispute Resolution System. We will review the legal framework for insolvency and debt enforcement to ensure they are supportive of effective management and resolution of NPLs. We plan to require banks to strengthen risk management functions as well as collection and workout practices in order to minimize new NPLs. At the same time, the plan intends to introduce regulation imposing mandatory valuation of the collateral provided against loans through listed collateral valuation institutions in addition to banks' own valuation. Also, we have provided instructions to avoid the transfer of interest charged against stressed assets to the income account if there is no actual realization and to show stressed assets separately in the balance sheet. We will continue to strengthen our NPL roadmap in consultation with the IMF.

30. To support the implementation of the roadmap, we issued various circulars to strengthen governance in the banking sector.

- We have reduced the time needed for a bank to write-off bad loans from five to two years and we have mandated the set-up of a "Write-off Debt Recovery Unit" in each bank with the debt collection level entering the performance evaluation of the bank's managing director/chief executive officer (BRPD Circular No. 04, February 2024).
- We have formulated policies to take action against "willful defaulters" as identified in the Bank Company (Amendment) Act (BRPD Circular No. 06, March 2024).
- We have upgraded policies on: (1) the selection of the managing director or chief executive officer of banks adding performance indicators to their assessment; (2) the Fit & Proper Test for banks' directors; (3) the appointment, remuneration and responsibilities of banks' independent directors (BRPD Circulars No. 2, 3, 5, February 2024).

- While, according to the current regulation, there is no scope for banks to extend loans in breach of the limit on single borrower exposure, we plan to provide further instructions on not exceeding such limit under any circumstance.

31. To strengthen our financial system, we are encouraging a market-driven process of consolidation of weak banks that we plan to complete in the next few years. Memorandums of Understanding (MoUs) for voluntary mergers have been signed between two PCBs and two SoCBs. Mergers of these banks will likely be completed in the next 2 years. When the Prompt Corrective Action (PCA) framework enters into force in March 2025, we will have the ability to enforce mandatory mergers if banks fail to implement their recovery plan.

32. To enhance support for bank mergers, BB has introduced guidelines. According to BB's guidelines, banks should undergo due diligence before formulating their merger scheme, which should then be approved by their Boards and BB. The acquiring bank is also obligated to retain all employees of the acquired bank for three years, and directors from the acquired bank are prohibited from holding any positions in the acquiring bank for at least five years (BRPD Circular No. 8, April 2024). To tackle NPLs and strengthen the merger process, we will align the NPL definition with international standards, conduct due diligence on the acquired banks, vet any merger proposal and send such proposals to the Honorable High Court for approval. We plan to approve only merger proposals that are commercially sound and are predicated on continued compliance with regulatory requirements; and will resolve weak banks that have no takers, with depositors protected by our insurance scheme.

33. We plan to facilitate the establishment of private Asset Management Companies (AMCs). We are drafting legislation to establish a legal framework conducive to the entry of private AMCs that would acquire at market terms and manage the stock of NPLs in the banking system. We will discuss the establishment of these AMCs with the IMF and other development partners.

34. We are advancing the agenda on risk-based supervision (RBS). We have incorporated RBS in BB's five-year strategic plan FY20-FY24 to adopt it by FY25. We have completed the current pilot on RBS by finalizing the assessment of three pilot banks, including one Islamic bank, and plan to extend this pilot to 20 banks **(end-March 2025 SB)**. We have developed guidance notes detailing the assessment criteria for various risks covering a robust set of objective and qualitative indicators to enhance the accuracy, credibility, comparability, and consistency of the risk assessments **(end-March 2024 SB)**. The RBS will also incorporate specific procedures for Islamic banking operations in the assessment tool and inspection manual. At the same time, we will simplify the BB's organigramme to strengthen the effectiveness and efficiency of RBS, in particular by consolidating the supervision of each bank in a single team thus ensuring a more cohesive and unified approach for RBS supervision **(end-December 2024 SB)**.

35. We continued to enhance the regulatory framework for the financial sector. We adopted the Bank Companies (Amendment) Act 2023 (BCA) in June 2023 and the related Circular on Prompt Corrective Action (PCA) in December 2023. We passed the Finance Companies Act (FCA) in November 2023 **(end-March 2024 SB)** to upgrade the legal and supervisory framework for nonbank financial institutions. We also plan to submit to Parliament the Bankruptcy (Amendment) Act 2020, the Money Loan Court (Amendment) Act 2003, and the Negotiable Instrument (Amendment) Act 2020 by June 2025. These reforms will help strengthen the financial sector, enhance the insolvency process and facilitate recovery of loans, and improve the legal environment for credit and business activities.

36. To develop domestic capital markets, we will implement the roadmap for local currency bond markets (LCBM) development, devised with the help of IMF TA. As a first step, we will introduce guidelines to reform the primary dealer (PD) system for government securities with an active set of players, focused on market-making functions, and with a balance between privileges and obligations **(end-June 2025 SB)** and implement these guidelines afterwards. The implementation of the MTDS, the development of the secondary market for government securities, the expansion of the non-bank investor base, and the enhancement of the financial market infrastructure should help facilitate capital market development.

D. Governance and Anti-Corruption Reforms

37. We remain committed to strengthen governance and combat corruption. We will move toward international best practices on anti-money laundering (AML), by enhancing the RBS, following the roadmap developed with the help of IMF TA. We will implement the supervisory tools being developed by Bangladesh Financial Intelligence Unit, which is critical to mitigate substantial money laundering (ML) risks. To this end, we will update the risk matrix tools for offsite supervision and augment its onsite supervision checklist. With this, we will conduct onsite examinations of at least five high-risk banks by end-FY25 **(end-June 2025 SB)**. We aim to amend the Companies Act to facilitate the information collection for fully identifying the ultimate beneficial ownership in the financial sector. We will continue to strengthen central bank governance and fiscal transparency. We remain committed to combat corruption by safeguarding the independence of the Anti-Corruption Commission.

E. Climate Change Policy

38. Addressing the significant adaptation challenges, mobilizing climate finance, and enhancing climate mitigation efforts remain our top priorities. With current annual climate-related government spending under 1 percent of GDP against the needed 3 to 4 percent of GDP of financing over the next 15 years, Bangladesh has a significant financing need to meet climate change challenges. The 2022 National Adaptation Plan (NAP) outlines adaptation investment requirement of US$230 billion between now and 2050. To this end, we will continue to implement reform measures that strengthen institutions to enable large-scale climate investments, particularly the priorities identified in the NAP, the BDP, the Mujib Prosperity Plan, and the Nationally Determined Contributions (NDC). Further, we will undertake reforms to mobilize climate finance including through public and private sources, as well as enhance financial sector resilience to climate-related risks. Over the years, we have made significant strides toward meeting our national climate mitigation and adaptation objectives and have put in place a range of policy tools, notably the Climate Fiscal Framework (CFF), climate budget tagging, sustainable finance policy, green bond policy and taxonomy.

39. We are taking bold steps to better transition to a green and low-carbon economy. The existing NDC, updated in August 2021, makes the commitment to reduce greenhouse gas (GHG) emissions by 6.7 percent below business-as-usual in 2030 and up to 21.9 percent if combined with international support. We intend to prepare a new NDC which includes targets for 2035 ahead of the 30th Conference of the Parties (COP). We announced at COP26 the cancellation of 10 coal-fired power plant projects involving US$12 billion foreign investment. We also set the target of generating at least 40 percent of total electricity from renewable energy sources by 2041 and have prepared a new integrated energy and power sector master plan to support this goal. We are in the process of finalizing the imports of renewable-based electricity from neighboring countries which will further shift electricity generation away from fossil fuel sources. We remain committed not to increase subsidies on fossil-fuel-based energy as percentage of GDP during the program period and will adjust natural gas and electricity prices as needed to gradually reduce subsidies.

40. We are committed to building climate-resilient infrastructure. Making infrastructure investment green and resilient is key to achieving our climate and sustainable development objectives. We recognize that efficient, green, and resilient public investment has multiple benefits, as it creates jobs, spurs economic growth, and stimulates private sector investment and other innovative financing. We will enhance climate-informed public investment management (PIM) practices to support the prioritization and allocation of resources for the BDP and scaling up of climate-smart investment as envisaged in the NAP. Building on the PIM reform measures, we are committed to integrate a climate perspective in the appraisal of major infrastructure projects starting from two key sectors **(end-December 2024 RM)** and align the selection and prioritization of major capital projects with the NDC and the NAP. To help leverage private sector climate finance and ensure that PPP vehicle supports national climate goals, we will update the PPP policy and framework to reflect climate risks and opportunities and develop accompanying guidelines for PPP project proponents and developers. Furthermore, we will establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks/damages and vulnerability of new public assets, focusing on major public infrastructure and government buildings, with the help of IMF TA.

41. We plan to improve our climate fiscal management. The implementation of our CFF is key to the success of Bangladesh's climate strategies and will lay foundation for sound and transparent climate-sensitive PFM processes. In the CFF, we set out an institutional framework for embedding climate change aspects in Bangladesh's PFM systems and the budget setting process under MTBF. Importantly, the CFF is among our main tools to facilitate the mobilization of both domestic and international sources of climate finance and help catalyze new climate finance. To support the planning and budget process, we will develop and implement methodologies for the analysis of macro-fiscal risks from climate change and natural disasters and publish such information in the Medium-Term Macroeconomic Policy Statement (MTMPS) (end-June 2024 RM). In the context of the National Plan for Disaster Management and strengthening preparedness for disaster response, we will develop and adopt a National Disaster Risk Financing strategy that integrates shock-responsive social assistance measures (end-June 2024 RM). In addition, we have adopted a sustainable public procurement policy and an associated action plan to integrate climate and green dimensions into the public procurement process.

42. We will further enhance financial sector resilience to climate shocks and boost private climate finance. Financial institutions play an important role in mobilizing private climate finance but face significant physical and transition risks. The recent update of the CFF incorporates the essential role of the financial sector and private sector finance. To this end, we have developed and adopted guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the TCFD and the IFRS on sustainability and climate-related disclosures (IFSR S1 and S2). To strengthen financial sector resilience to climate-related risks, we will conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations, with the support of IMF TA (end-December 2024 RM). We are operationalizing the Sustainable Finance Policy for Banks and Financial Institutions and the Policy on Green Bond Financing. To further promote the mobilization of climate finance and extend the framework to include climate adaptation, we will update the Policy on Green Bond Financing, particularly the annex on green taxonomy to be fully aligned with the NAP's strategic and investment priorities. In addition, we have launched the Bangladesh Climate and Development Platform (BCDP) in December 2023 to explore options to scale-up climate finance in collaboration with International Financial Institutions, bilateral donors, and the private sector. Consultations with domestic stakeholders and international development partners are underway to operationalize the BCDP.

F. Statistics

43. We continue to strengthen macroeconomic statistics to better inform policy decisions and monitor targeted outcomes. We have published the rebased national accounts and consumer price index. We have released the historical national accounts quarterly and published quarterly GDP for the first two quarters of FY24. We remain committed to improving these statistics. We intend to continue publishing financial soundness indicators with expanded coverage as well as historical monthly BOP data.

G. Program Monitoring

44. Progress under our program will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks, in order to complete semi-annual program reviews, as summarized in Tables 1, 2 and 3 and guided by the attached Technical Memorandum of Understanding. The third review will take place on or after October 1, 2024 based on end-June 2024 quantitative targets and the fourth review will take place on or after May 1, 2025 based on end-December 2024 quantitative targets.

Table 1. Bangladesh: Quantitative Performance Criteria and Indicative Targets 1/2/

(In billions of Taka, unless otherwise indicated)

	FY23/24									FY24/25			
	End-Sep IT						End-Mar IT	End-Jun PC		End-Sep	End-Dec	End-Mar	End-Jun
	Targets 3/	Actual	Status	Targets 3/	Actual	Status	Targets 3/	Targets 3/	Revised Targets	IT	PC	IT	IT
Quantitative performance criteria:													
Floor on net international reserves (NIR, millions of US$) 4/	17, 989	16,919	Not met	17,784	16,728	Not met	19,267	20,109	14,769	14,885	15,300	16,683	19,448
Floor on primary balance (PB) 5/ 9/	-822.0	339.4	Met	-905.2	475.4	Met	-908.7	-1,383.6	-1,383.6	-903.5	-899.1	-830.0	-1,283.0
Ceiling on accumulation of external payments arrears 6/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets:													
Ceiling on reserve money (RM)	3,892.0	3,436.3	Met	4,004.0	3,717.7	Met	4,176.0	4,257.7	4,257.7	3,971.9	4,165.0	4,358.0	4,551.1
Floor on tax revenue	615.6	777.8	Met	1,436.4	1,621.6	Met	2,761.7	3,945.3	3,945.3	956.1	2,151.2	3,346.3	4,780.5
Floor on priority social spending of the Government of Bangladesh 7/ 9/	155.0	226.0	Met	309.9	557.7	Met	869.7	1,449.5	1,449.5	247.7	578.0	1,156.1	1,651.5
Floor on capital investment undertaken by the Government of Bangladesh 8/ 9/	49.8	143.6	Met	222.8	351.7	Met	505.9	1,445.4	1,445.4	132.8	398.5	531.3	1,671.0

Sources: Bangladesh's authorities; and IMF staff estimates/projections.

1/ Fiscal year starts in July and ends in June.
2/ The quantitative targets, indicative targets and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).
3/ Approved in December 2023
4/ Net international reserves are gross reserves (based on BPM6 definition) minus the central bank FX liabilities and reserves earmarked for quasi-fiscal activities.
5/ Including grants
6/ This quantitative target is applied on a continuous basis.
7/ Social spending that is domestically financed.
8/ Capital investment from annual development program that is domestically financed.
9/ Quarterly target is projected in line with historical quarterly outturns and seasonality patterns reflecting backloaded disbursements.

Table 2. Bangladesh: Implementation of Structural Benchmarks:

Measure	Target Date	Status
NBR staffs Compliance Risk Management Units in the customs and VAT wings	End-December 2023	Met
MoF develops a plan to reduce net NSC issuance to below ¼ of total net domestic financing by FY26	End-December 2023	Met
Government adopts a periodic formula-based price adjustment mechanism for petroleum products	End-December 2023	Met
MoF develops a policy note to guide decisions on integrating bank accounts outside the TSA and on the sequencing of TSA enhancements	End-December 2023	Met
BBS publishes quarterly GDP	End-December 2023	Met
BB allows automatic access to the SLF for all banks and unrestricted access for all banks to the SDF.	End-March 2024	Met
MoF submits to Parliament the FCA 2020, drafted in line with best practices.	End-March 2024	Met
BB prepares a guidance note detailing assessment criterion for various risks covering a robust set of objective and qualitative indicators with regard to RBS.	End-March 2024	Met

Table 3. Bangladesh: Structural Benchmarks: 12 Months After Completion of Second Review

Measure	Target Date	Macro-Criticality/Objectives
Revenue Mobilization		
MoF reports tax expenditures for PIT, CIT and VAT as part of the FY25 budget	End-June 2024	Increase revenue collection to cover priority spending
NBR adopts a tax compliance improvement plan covering VAT and IT	End-June 2024	Increase revenue collection to cover priority spending
NBR finalizes a Medium- and Long-term Revenue Strategy covering indirect and direct tax and an accompanying implementation framework	End-December 2024	Increase revenue collection to cover priority spending
Government approves a development project proposal (DPP) for digital transformation of income tax administration including e-return and e-payment framework	End-June 2025	Increase revenue collection to cover priority spending
Public Financial Management		
MoF publishes an updated Medium Term Debt Management Strategy covering FY25-FY27	End-June 2024	Improve debt management and strengthen fiscal risk management
Ministry of Planning formulates Sector Strategy Papers and Multi-Year Public Investment Programmes for a total of five sectors	End-December 2024	Strengthen public investment management
At least 50 percent of the value of central government transactions, excluding interest payments, subsidies, loans, equity are carried out via electronic funds transfer (EFT)	End-June 2025	Improve budget execution and increase fiscal transparency
MoF (i) classifies at least 120 SOEs and/or autonomous bodies (ABs) into sectors in accordance with the GFSM 2014 and (ii) publishes an SOE sector report that provides detailed analysis on the financial position of at least 40 SOEs and/or ABs selected based on largest liabilities and/or grants and subsidies received from the government	End-June 2025	Increase fiscal transparency and strengthen fiscal risk management
Monetary Policy Framework		
BB streamlines open market operations (OMOs), reserves averaging provisions, and reserve maintenance period in line with recommendations from IMF TA 1/	End-June 2024	Operationalize BB's interest rate targeting framework
BB completes implementation of high-priority recommendations in the first stage of modernization of the monetary policy framework in line with recommendations of the IMF TA 1/	End-September 2024	Operationalize BB's interest rate targeting framework
Financial Sector		
RBS pilot expanded to cover 20 banks	End-March 2025	Establish risk-based banking supervision.
BB simplifies organigramme related to RBS functions by consolidating the supervision of each bank in a single team	End-December 2024	Improve effectiveness and efficiency of risk-based banking supervision.
BB issues an updated regulation to align definition of non-performing exposures and forbearance in line with the Basel BCBS guidelines: 'Prudential treatment of problem assets – definitions of non-performing exposures and forbearance'	End-December 2024	Improve effectiveness and efficiency of risk-based banking supervision.
BB introduces a plan for the banking sector to adopt IFRS9 by 2027.	End-June 2025	Improve effectiveness and efficiency of risk-based banking supervision.
MoF and BB issue guidelines to reform the primary dealer system for government securities with an active set of players, focused on market-making functions, and with a balance between privileges and obligations.	End-June 2025	Develop domestic capital markets
AML/CFT		
Conduct onsite examinations of at least five high-risk banks (in order of ML risks) – identified in the list obtained from the AML/CFT offsite risk assessment tool – using the examination procedures developed as part of the IMF technical assistance project.	End-June 2025	Improve AML/CFT

1/ including by conducting 7-day weekly fixed-rate full-allotment OMO at the policy rate, to replace the current multiplicity of daily OMOs, allowing unrestricted banks' access to collateralized SLF and SDF, increasing averaging provisions to allow banks cope with short-term liquidity shocks, and aligning the main OMO with the 2-week reserve maintenance period.

Table 4. Bangladesh: Board Approved Reform Measures Under the Resilience and Sustainability Facility

Reform Measures	Target Date	Analytical Underpinning	Status
RM1: Government to adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions	End-September 2023	RM1 is a top reform priority identified in CCDR.	Met
RM2: Government to adopt a periodic formula-based price adjustment mechanism for petroleum products **RM3:** BB to adopt guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)	End-December 2023	RM2 is an urgency, medium feasibility in CCDR. RM3 is a high urgency, medium feasibility in CCDR.	Met
RM4: Government to adopt a national disaster risk financing strategy while integrating social assistance measures **RM5:** MoF to adopt and implement a methodology for embedding climate change in the MTMF, through analyzing macro-fiscal risks from climate change and publishing it in the Medium-Term Macroeconomic Policy Statement (MTMPS)	End-June 2024	RM4 is a high feasibility, medium urgency in CCDR and has been discussed with the World Bank (WB) as an important reform area. RM5 is highlighted as a key need in the updated Climate Fiscal Framework and has been discussed with the WB and the ADB as an important reform area that the Fund could contribute.	
RM6: Government to issue a circular on an update to the Green Book[1/] to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors **RM7:** BB to conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations	End-December 2024	RM6 is a critical area identified in C-PIMA study and has been discussed with the WB and the ADB for synergies in the PIM reform agenda. RM7 is a high urgency, medium feasibility in CCDR.	
RM8: Government to adopt an updated PPP policy and framework that integrates climate-related risks and develop relevant guidelines **RM9:** Government to issue a circular on the adoption of an annex to the Green Book that specifies selection and prioritization criteria for major infrastructure projects that is aligned with the NDC and the NAP	End-June 2025	RM8 and RM9 are critical areas identified in C-PIMA study and have been discussed with the WB and the ADB for synergies in the PIM reform agenda.	
RM10: Government to establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks and vulnerability of new public assets to the module **RM11:** BB to update the Policy on Green Bond Financing, particularly the annex on green taxonomy to be fully aligned with the NAP's strategic and investment priorities	End-December 2025	RM10 targets critical areas identified in C-PIMA study and have been discussed with the WB and the ADB for synergies in the PIM reform agenda. RM11 is high feasibility, medium urgency in CCDR.	

1/ Green Book refers to the Ministry of Planning, 2022, "Guidelines for Formulation, Processing Approval, and Revision of Development Projects in the Public Sector.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative performance criteria (QPC) and indicative targets (ITs) under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements, as specified in the Memorandum of Economic and Financial Policies (MEFP). It also describes the methods to be used to assess program performance and information requirements to ensure adequate monitoring of the targets.

2. Under the arrangements, the program exchange rate is Bangladesh taka (Tk) 104.95 per U.S. dollar, as agreed at the time of approval of the ECF/EFF arrangements in January 2023. Foreign currency accounts denominated in currencies other than the U.S. dollar and monetary gold will first be valued in U.S. dollars as at the exchange rates and gold prices prevailing on October 24, 2022 (Text Table 1), and then be converted to Bangladesh taka.

Text Table 1. Bangladesh: Program Exchange Rates for ECF-EFF Arrangements
(as of October 24, 2022)

Exchange Rate	Program Rate
U.S. dollar/Taka	0.00953
U.S. dollar / Swiss franc	0.99930
U.S. dollar / Pounds sterling	1.13135
U.S. dollar / Japanese yen	0.00685
U.S. dollar / Australian dollar	0.63460
U.S. dollar / Canadian dollar	0.72876
U.S. dollar / Chinese renminbi	0.14039
U.S. dollar / Russian ruble	0.01634
U.S. dollar / Singapore dollar	0.70348
U.S. dollar / Swedish krona	0.08942
U.S. dollar / Euro	0.98740
U.S. dollar / Gold	1,649.78
U.S. dollar / SDR	1.27719

Sources: Haver Analytics; Bloomberg; and https://www.imf.org/external/np/fin/data/param_rms_mth.aspx.

3. The data listed in Table 1 will be provided for monitoring performance under the program based on data templates agreed with IMF staff. Under each section, reporting responsibilities are indicated. The best available data will be submitted, so that any subsequent data revisions will not lead to a breach of QPC or benchmarks. All revisions to data will be promptly reported to IMF staff.

Quantitative Performance Criteria and Indicative Targets

4. QPC for end-December 2023 and end-June 2024 and quarterly indicative targets for end-September 2023 and end-March 2024 are set out in Table 1 of the Memorandum of Economic

and Financial Policies. The continuous performance criteria for each specific period are also set out in this table and will be monitored continuously during these periods.

5. Performance criteria under the ECF/EFF arrangement have been established with respect to a:

- Floor on the level of net international reserves of Bangladesh Bank (BB), calculated as an end-of-period stock;
- Floor on primary balance, calculated cumulatively from the beginning of the fiscal year;

6. Performance criteria applicable on a continuous basis have been established with respect to a:

- Ceiling on the accumulation of new external payment arrears by the central government and BB, calculated in cumulative terms from December 31, 2022.

7. Indicative targets (ITs) have been established with respect to a:

- Ceiling on the level of reserve money of the BB, calculated as an end-of-period stock;
- Floor on tax revenue of the central government, calculated cumulatively from the beginning of the fiscal year;
- Floor on priority social spending by the central government, calculated cumulatively from the beginning of the fiscal year; and
- Floor on capital development spending undertaken by the central government, calculated cumulatively from the beginning of the fiscal year.

Institutional Definitions

8. The central government is defined as all budgetary units of the government of Bangladesh. It captures balances in the Treasury accounts and for special projects outside the Treasury accounts (as will be measured by government lending funds reported in the monetary accounts).

9. The public sector is defined as the central government, BB, nonfinancial public enterprises, departments, and autonomous and semi-autonomous bodies of all ministries and divisions.

10. Deposit money banks (DMBs) include commercial banks (state-owned, Islamic, private, and foreign-owned) and specialized banks, on which BB compiles data for the monthly monetary survey.

11. The definitions of "debt" and borrowing for the purposes of this TMU are set out in paragraph 8(a) of the Guidelines on Public Debt Limits in Fund-Supported Programs attached to the IMF Executive Board Decision No. 15688-(14/107) adopted on December 5, 2014. For purposes of these Guidelines, "debt" is understood to mean a direct, i.e., noncontingent, liability created under a contractual arrangement under which a value must be provided, in the form of assets (including monetary assets) or services, and under which the debtor also undertakes to make one or more payments in the form of assets (including monetary assets) or services, according to an established schedule. These payments will discharge the debtor from the principal and/or interest liabilities undertaken under the contract. In accordance with the foregoing definition of debt, any penalties or damages awarded by a court as a result of the nonpayment of a contractual obligation that constitutes debt are debt.

12. External debt, in the assessment of the relevant criteria, is defined as any borrowing or debt service in a currency other than the Bangladesh taka. The relevant performance criteria apply to external debt of the central government, BB, public enterprises that receive transfers from the central government, and other public entities in which the central government holds more than 50 percent of the capital stakes, or any other private debt for which the central government has provided a guarantee that should be considered to constitute a contingent liability. Guaranteed debt refers to any explicit legal obligation incumbent on the central government to reimburse a debt in the event of payment default by the debtor (whether the payments must be made in cash or in kind).

13. Nonbank claims on the central government represent the sum of cash receipts from sales of National Savings Certificates (reported by the National Savings Directorate), Treasury bills and bond holdings outside BB and the DMBs (reported by BB's Debt Management Department), and net flows to the General Provident Fund (reported by the Controller General of Accounts).

Monetary Aggregates

Reserve Money of the Bangladesh Bank—Indicative Target

14. A ceiling applies on the level of reserve money of the BB, which comprises currency in circulation issued by BB (excluding BB holdings of currency) plus deposits of DMBs held at BB. Reserve money excludes DMBs' foreign currency clearing accounts at BB and nonbank deposits at BB.

Adjustment mechanism:

15. If any DMB fails to meet its legal reserve requirement, the ceiling on reserve money will be adjusted downward to the extent of any shortfall in compliance with the requirement.

16. Changes in required reserve regulations will modify the reserve money ceiling according to the formula:

$$\Delta RM = \Delta r \cdot B_0 + r_0 \cdot \Delta B + \Delta r \Delta B$$

where ΔRM denotes the change in reserve money; r_0 denotes the reserve requirement ratio prior to any change; B_0 denotes the reservable base in the period prior to any change; Δr denotes the change in the reserve requirement ratio; and ΔB denotes the immediate change in the reservable base resulting from changes to its definition.

Net International Reserves of Bangladesh Bank—Quantitative Performance Criterion

17. For program monitoring purposes, the Net International Reserves (NIR) of BB is defined as Gross International Reserves (GIR, as defined in paragraph 18) minus the reserve-related liabilities (as defined in paragraph 19). For program monitoring purposes, the stock of foreign assets and foreign liabilities of BB shall be valued at the program exchange rate in U.S. dollars, as described in paragraph 2.

18. GIR of BB are defined as the sum of:

- Foreign currency assets in convertible currencies held abroad and as vault cash that are under the direct and effective control of BB, readily available for intervention in the foreign exchange market or the direct financing of balance of payments imbalances, and which have received investment grade rating by at least two of the following three rating agencies: Moody's, (a rating of at least Baa), Standard & Poor's (a rating of at least BBB-) and Fitch (a rating of at least BBB-), or held with an investment-grade institution;
- The reserve position of Bangladesh in the IMF;
- Holding of SDRs; and
- Monetary gold.

Excluded from the definition of GIR are:

- Foreign currency loans to local banks;
- Deposit with state-owned local banks;
- Deposits with the International Islamic Trade Finance Corporation (Islamic Development Bank Group);
- Fixed income securities below investment-grade;
- Reciprocal deposits acquired by the BB under the 2021 swap arrangement with the Central Bank of Sri Lanka

- Any other foreign currency assets in nonconvertible currencies and precious metals other than gold; and

- Any other foreign currency claims, which are not high-quality claims on non-residents readily available for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes.

19. Reserve-related liabilities of the BB are defined as the sum of the liabilities from SDR allocation; and all other outstanding liabilities of Bangladesh to the IMF with a maturity of less than one year; and foreign currency liabilities, with a maturity of less than one year, in convertible currencies to nonresidents, including liabilities to the Asian Clearing Union; the Japan Debt Relief Grant[1] (JDRG); the Foreign Currency Clearing Account (i.e., the total amount of Deposit Money Banks' foreign currency deposits held at BB);[2] and forward contracts, foreign currency swaps, and other futures market contracts.

20. A floor applies to the level of NIR of the BB. Should the actual disbursement of budget support from development partners be below the projections under the program, the NIR floor will be adjusted downward by the difference between the actual level and the projected level of disbursements under the program. This adjustment is calculated cumulatively from the beginning of the fiscal year.

- The end-June 2024 NIR target assumes the following planned budget support from development partners: US$500 million from the World Bank; US$250 million from the ADB; US$400 million from the AIIB; and Euro100 million from AFD. Should actual disbursements be below projections, the end-June 2024 NIR target will be adjusted downward by the same amount.

Fiscal Aggregates

Primary Balance

21. A floor applies on the primary balance of the central government (including grants) measured cumulatively from the beginning of the fiscal year.

22. For program monitoring purposes, the primary balance is defined as the overall balance of the central government excluding interest payments and including foreign grants.

23. Should the actual disbursement of grants from development partners be below the projections under the program, the floor on the primary balance will be adjusted downward by

[1] BB acts as agent on behalf of the Government of Bangladesh for managing the Japan Debt Relief Grant.

[2] Deposit money banks (DMBs) include commercial banks (state-owned, Islamic, private, and foreign-owned) and specialized banks, on which BB compiles data for the monthly monetary survey.

the difference between the actual level and the projected level of disbursements under the program. This adjustment is calculated cumulatively from the beginning of the fiscal year.

Tax Revenue

24. A floor applies on tax revenue of the central government measured cumulatively from the beginning of the fiscal year.

25. For program monitoring purposes, tax revenue is defined as the sum of (i) tax revenue collected by the National Board of Revenue, (ii) tax revenue from narcotics and liquor duty, (iii) tax revenue from motor vehicles, (iv) land development tax, (v) tax revenue from sale of stamps, and (vi) tax revenue from surcharges.

Priority Social Spending

26. A floor applies on priority social spending financed by the Government of Bangladesh calculated cumulatively from the beginning of the fiscal year.

27. For program monitoring purposes, priority social spending comprises all expenditures on education, health, and social safety nets as listed in Text Table 2.

Text Table 2. Bangladesh: Composition of Priority Social Spending of the Government

Component	Spending Ministry/Divisions	Data Source and Calculation
Education	Ministry of Primary and Mass Education	iBAS++, Total Spending
	Secondary and Higher Education Division	iBAS++, Total Spending
	Technical and Madrasa Education Division	iBAS++, Total Spending
Health	Health Services Division	iBAS++, Total Spending
	Medical Education and Family Welfare Division	iBAS++, Total Spending
Social Protection (Excluding Education and Health)	Concerned Ministries as documented by the Finance Division (FD)	IBAS++ and FSMU Program data of the social protection activities/programs as published in the budget document, excluding the program “Pension for Retired Government Employees and their Families” and “Agricultural Subsidy.”

Development Capital Investment

28. A floor applies on development capital investment financed by the Government of Bangladesh, calculated cumulatively from the beginning of the fiscal year.

29. For program monitoring purposes, development capital investment comprises all Annual Development Program (ADP) expenditure in the budget.

External Payment Arrears

30. A continuous ceiling applies on the accumulation of new external payments arrears by the central government and BB.

31. For program monitoring purposes, external payments arrears comprise external debt and debt-service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements. However, nonpayment of external debt service will not give rise to arrears when the Central Government and Bangladesh Bank cannot pay or settle based on the contractual terms solely because of the transfer of funds being rejected owing to intermediary financial institutions' compliance policies, as long as the debt service payments have been paid into an escrow account by the contractual due date, taking into account any contractual grace period. Funds in such escrow accounts may be used only to satisfy the related external debt obligations, and their use or withdrawal for other purposes would constitute a breach of the QPC.

Table 1. Bangladesh: Data Reporting Requirements		
Item	**Reporting agency**	**Periodicity**
I. Monetary, exchange rate, and interest rate data	**Bangladesh Bank (BB)**	
Daily exchange rates (taka per U.S. dollar)—weighted-average, open market (buy and sell rates), interbank (high and low rates), and BAFEDA member rates.	BB	Daily, next working day
Daily foreign exchange interbank market trading spot, forward, and swap volume	BB	Daily, next working day
Net open position of deposit money banks	BB	Daily, next working day
Stock of gross international reserves (GIR), Asian Currency Unit liabilities, Foreign Exchange Clearing Account balances, Foreign exchange overdraft balance (FXOD), Export Development Fund, Green Transformation Fund, Long Term Financing Facility, Sonali bank Financing Facility, Deposits with ITFC, reciprocal deposits acquired by the BB under the 2021 swap arrangement with the Central Bank of Sri Lanka, and exchange rate valuation changes to GIR.	BB	Daily, next working day
Detailed data on the composition of GIR, including currency composition	BB	Daily, next working day
Stock of GIR, net international reserves (NIR), NFA including subcomponents, both at program and market exchange rates.	BB	Daily, next working day
Stock of noninvestment grade bonds by name of issuer, investment rating, and currency composition	BB	Monthly, within two weeks of the end of each month
Sales and purchases of foreign exchange by BB	BB	Daily, next working day
Daily bank and call money market rates	BB	Daily, next working day
Daily BB repo and reverse repo rates and interbank repo and reverse repo rates (weighted average yields)	BB	Daily, next working day
Daily BB repo and reverse repo and interbank repo and reverse repo trading volumes (billions of taka)	BB	Daily, next working day
Daily volume of open market operations (sales and purchases) by BB (billions of taka)	BB	Daily, next working day
Stock of reserve money and its components	BB	Daily, next working day
Excesses/shortfalls of DMBs' reserves	BB	Daily, next working day
Bangladesh Bank's balance sheet and off-balance items by currency representation	BB	Monthly, within two weeks of the end of each month
Treasury bill and bond auction reports, including range of bids submitted by primary dealers	BB	Weekly, within one week of the end of each week
Weekly retirement of government securities and outstanding balances of Treasury bills and bonds	BB	Weekly, within one week of the end of each week
Bangladesh Bank bills and auction reports	BB	Weekly, within one week of the end of each week
Balance sheet of BB (form 10 G)	BB	Monthly, within six weeks of the end of each month
Balance sheet (aggregate) of commercial banks (form 20 G)	BB	Monthly, within six weeks of the end of each month
Monetary survey (form 30 G)	BB	Monthly, within six weeks of the end of each month
Bank deposits of Bangladesh Petroleum Corporation, Meghna Petroleum Limited, Padma Oil Company Limited, and Jamuna Oil Company Limited	BB	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (Continued)		
Foreign assets and liabilities of BB	BB	Monthly, within six weeks of the end of each month
Foreign exchange cash flow of BB	BB (Foreign Reserve and Treasury Management Department (FRTMD))	Monthly, within five working days of the end of each month
II. Fiscal data	**Ministry of Finance (MOF)**	
Fiscal outturn, including financing of the overall fiscal balance	MOF (Finance Division (FD))/ Controller General of Accounts (CGA)	Monthly, within six weeks of the end of each month
Revenue, by type of tax and nontax revenues (with main subheadings)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Privatization receipts	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
National Bureau of Revenue collections (by type of tax and subheadings)	NBR	Monthly, within six weeks of the end of each month
Recurrent expenditure, including spending on pay and allowances, goods and services, interest payments (domestic and foreign), subsidies, transfers, and block allocations (with main subheadings)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Breakdown of subsidies by main categories (agriculture, fertilizer, food, fuel, electricity, exports, and others)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Fiscal outturn, excluding railways and Controller General, and defense finance	MOF(FD)/CGA	Monthly, within six weeks of the end of each month
Social spending	MOF (FD)/CGA	Quarterly, within six weeks of the end of each quarter
Annual Development Program (ADP) expenditure funded by (i) the central government and (ii) foreign grants and loans, included in the budget	MOF (FD)/CGA	Monthly, within six weeks of the end of each month (quarterly for detailed data)
Non-ADP capital spending (including main subheadings) and net lending (including by receipts and payments, including a breakdown by state-owned enterprises (SOEs))	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Extraordinary expenditures (by type)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Foreign financing, comprising (i) disbursements and amortization of program and project loans; and (ii) changes in external debt arrears, classified into principal and interest arrears	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Disbursements of program and project grants	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Foreign financing, comprising (i) disbursements and amortization of program and project loans; and (ii) changes in external debt arrears, classified into principal and interest arrears	MOF (Economic Relations Division (ERD))	Monthly, within six weeks of the end of each month
Disbursements of program and project grants by donor	MOF (ERD)	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (Continued)		
Domestic financing, comprising (i) borrowing from and repayment to BB, DMBs, and nonbanks; (ii) changes in deposits held in BB, DMBs, and other deposit-taking institutions (see Table 2)	MOF(FD)/CGA/BB	Monthly, within six weeks of the end of each month
Balancing items reported by the CGA	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
III. Debt data	**MOF/BB/National Savings Directorate (NSD)**	
New external debt obligations contracted and/or guaranteed (concessional and non-concessional) by the government of Bangladesh, BB, nonfinancial public enterprises, departments and autonomous and semi-autonomous bodies of all ministries and divisions (i.e. the central government and BB), including details on the amounts, terms, and conditions of each new obligation	MOF (ERD)/BB	Monthly, within six weeks of the end of each month
Total amount disbursed for each loan and guarantee included under the ceiling on non-concessional external debt	MOF (FD)	Quarterly, within six weeks of the end of each quarter
Stock of outstanding external debt (short-term and medium- and long-term obligations) of the central government and BB, by creditor (in original currency and U.S. dollars)	MOF (ERD)/BB	Quarterly, within eight weeks of the end of the quarter
Stock of arrears on external debt contracted or guaranteed by the central government and BB by creditor (in original currency and U.S. dollars)	MOF (ERD)/BB	Monthly, within six weeks of the end of each month
Stock of domestic debt, including the outstanding balance of Treasury bills, Treasury bonds, as well as breakdown of National Savings Certificates	MOF (FD)/BB/NSD	Monthly, within six weeks of the end of each month
Stock of domestic expenditure arrears	MOF (FD)	Monthly, within six weeks of the end of each month
Projections of daily individual oil-related payments by commercial banks.	BB	Monthly, two weeks in advance of the beginning of each month
Actual and six-month projections on short-term external financing and repayment	BPC	Monthly, two weeks in advance of the beginning of each month
Actual and six-month projections on deferred payments for oil imports	BPC/BB (FRTMD)	Monthly, two weeks in advance of the beginning of each month
Syndicated loans by BPC from commercial banks	BPC/BB (FRTMD)	Monthly, two weeks in advance of the beginning of each month
IV. Financial data	**BB**	
Financial soundness indicators of the aggregate state-owned commercial banks (SOCBs) and private commercial banks (PCBs)	BB (Department of Off-Site Supervision (DOS))	Quarterly, within eight weeks of the end of the quarter
Compliance of SOCBs and PCBs with memoranda of understanding (MOU).	BB (DOS)	Quarterly, within six weeks of the end of the quarter
Common equity tier 1 ratio, tier 1 capital ratio and total capital ratio of each of the SOCBs and PCBs under the MOU.	BB	Monthly, within six weeks of the end of each month
Net loans and advances and components for each of the SOCBs and PCBs under the MOUs.	BB	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (Concluded)		
Special mention loans, loans which are 90 days and more in arrears, rescheduled loans of each of the SOCBs and PCBs under the MOU.	BB	Monthly, within six weeks of the end of each month
Letter of credit (LC) opening and settlement for each of the SOCBs and PCBs under the MOU.	BB	Monthly, within six weeks of the end of each month
External borrowing in foreign currency by each SOCBs and PCBs under the MOU from nonresident institutions.	BB	Within a week from the date of approval by BB
Risk-weighted capital asset ratios and asset quality indicators of SOCBs and PCBs under the MOU	BB (DOS)	Quarterly, within six weeks of the end of each month
Stock of loans extended to SOEs (BPC, BPDB, BCIC) by each SOCBs, both funded and unfunded loans	BB (DOS)	Monthly, within four weeks of the end of each month
V. External data	**BB/Other agencies**	
Detailed balance of payments	BB	Monthly, within six weeks of the end of each month
Export data by goods	Export Promotion Bureau	Monthly, within four weeks of the end of each month
Import letters of credit (settlement, opening, and outstanding)	BB	Monthly, within four weeks of the end of each month
Remittances	BB	Monthly, within two weeks of the end of each month
Manpower exports	Bureau Manpower, Employment, and Training	Monthly, within six weeks of the end of each month
VI. Other data	**Bangladesh Bureau of Statistics (BBS)**	
National accounts, by expenditure and by production, in nominal and real terms	BBS	Annual, within three months of the end of each year; quarterly within 100 days of the end of each quarter from January 2024.
Overall consumer price index	BBS	Monthly, within six weeks of the end of each month
Industrial production statistics	BBS	Monthly, within eight weeks of the end of each month

Table 2. Bangladesh: Components of Domestic Bank Financing of the Central Government

Item (in Tk millions)	**Reporting agency**	**Periodicity**
Bank financing	Bangladesh Bank	All quarterly
Bangladesh Bank		
Change in claims on government (excluding change in claims on autonomous and semi-autonomous bodies)		
Of which: Change in ways and means balance		
Change in overdraft		
Change in overdraft block		
Change in holdings of Treasury bills and bonds		
Change in government currency liabilities		
Change in accrued interest		
Change in government deposits and lending funds (excluding change in deposits of autonomous and semi-autonomous bodies)		
Change in government deposits		
Change in government lending funds		
Memorandum items:		
Change in credit to autonomous and semi-autonomous bodies		
Change in deposits of autonomous and semi-autonomous bodies		
Commercial banks		
Change in claims on government (excluding change in claims on autonomous and semi-autonomous bodies)		
Of which: change in holdings of Treasury bills and bonds		
Change in advances and bills to ministries (of food and others)		
Change in accrued interest		
Change in government deposits and lending funds (excl. change in deposits of autonomous and semi-autonomous bodies)		
Change in government deposits		
Change in government lending funds		
Memorandum items:		
Change in credit to autonomous and semi-autonomous bodies		
Change in deposits of autonomous and semi-autonomous bodies		

INTERNATIONAL MONETARY FUND

BANGLADESH

June 7, 2024

SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR REPHASING OF ACCESS, A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF A PERFORMANCE CRITERION, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
Sanjaya Panth and Boileau Yeyinou Loko (IMF) and Manuela Francisco and Mathew Verghis (IDA)

Prepared by the staffs of 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. Bangladesh's debt-carrying capacity is unchanged from the previous debt sustainability analysis (DSA).[1] *External and overall debt indicators are below their respective thresholds under the baseline. Under a standard stress test, the present value of debt-to-export ratio breaches the threshold of the external debt sustainability indicator for one period, which is automatically discounted as per the guidelines. Despite increased external borrowing projected in the near-term, favorable debt dynamics in the medium term keep the public and publicly guaranteed (PPG) external debt-to-GDP ratio on a declining path. Risks are tilted to the downside and include continued foreign exchange (FX) pressures notwithstanding the recent exchange rate realignment, persistent inflation, increasing interest burden, revenue mobilization constraints, slowdown in major trading partners, slow implementation of macro-critical structural reforms, elevated non-performing loans (NPLs), and climate related events.*

[1] Bangladesh's Composite Index is estimated at 2.83 and is based on IMF's April 2024 WEO and WB's 2022 CPIA. The debt carrying capacity remains medium.

A. Debt Coverage

1. Debt coverage used for the analysis appropriately captures Bangladesh's debt vulnerabilities.[2] The DSA covers the full stock of public debt issued by the central government, as well as debt issued by SOEs and guaranteed by the central government. IMF financial support is included in the public debt, which is provided to the Bangladesh Bank (BB) and then on lent to the central government. Local governments are not allowed to borrow and are excluded from the analysis. The authorities are working to standardize the reporting of SOE debt to cover non-guaranteed debt. This DSA is prepared on a currency basis, the difference relative to the residency basis should not materially affect the assessment.

Text Table 1. 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%.

B. Developments on Debt

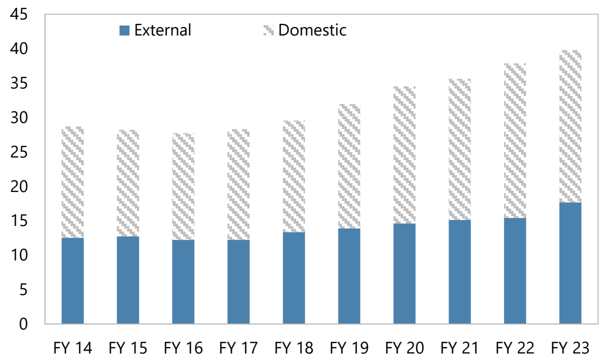
2. Total public and publicly guaranteed debt in Bangladesh stood at US$166.7 billion in FY23, around 39.8 percent of GDP (Text Table 2 and Text Figure 1).[3] The majority of public debt accumulated over the last decade is domestic and denominated in local currency. In FY23, domestic debt was at 55.6 percent of PPG debt stock. Domestic debt service payments amounted to US$7.8 billion in FY23 (1.9 percent of GDP). External debt was at 44.4 percent of PPG debt stock. External debt service payments in FY23 comprised of the payments to multilateral creditor of US$2.1 billion (0.5 percent of GDP) and bilateral creditor of US$0.9 billion (around 0.2 percent of GDP). Debt service payments to Paris Club and non-Paris Club creditors amounted to US$0.5 billion and US$0.4 billion, respectively.

[2] Based on the authorities' data, non-guaranteed SOE debt (outside debt coverage) is assessed to be lower than 2 percent of GDP (informing the calibrations of the contingent liability shock) and does not represent a fiscal risk based on the information available.

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

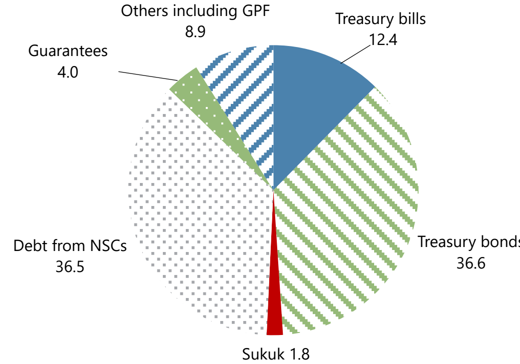
Table 1. Bangladesh: External and Domestic Debt by Type

Public and Publicly Guartanteed Debt
(In percent of GDP)



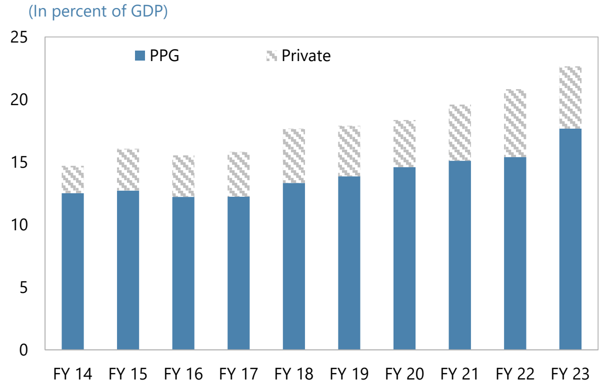
Sources: Data from authorities and IMF staff calculations.

Domestic Debt by Type, FY2023
(In percent of total)



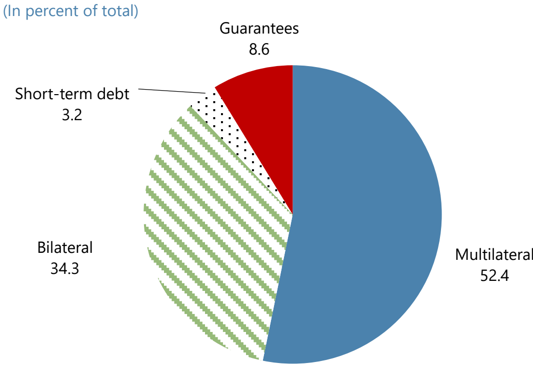
Source: Bangladesh authorities.

External Debt
(In percent of GDP)



Sources: Data from authorities and IMF staff calculations.

External Debt by Creditor, FY2023
(In percent of total)



Source: Bangladesh authorities.

Text Table 2. Bangladesh: Decomposition of Public Debt, FY23 [1]

	Debt Stock			Debt Service		
	FY2023			FY2023		
	(In million of US$)	(Percent total debt)	(Percent GDP)	(In million of US$)	(Percent total debt)	(Percent GDP)
Total	166,655	100.0	39.8	23,325	14.0	5.6
External PPG	74,007	44.4	17.7	3,886	2.3	0.9
Medium-to-long term	71,632	43.0	17.1	3,676	2.2	0.9
Multilateral creditors[2]	38,812	23.3	9.3	2,058	1.2	0.5
IMF	1,849	1.1	0.4	270	0.2	0.1
World Bank	19,530	11.7	4.7	687	0.4	0.2
ADB	14,115	8.5	3.4	938	0.6	0.2
Other Multilaterals	3,318	2.0	0.8	162	0.1	0.0
o/w: AIIB	1,504	0.9	0.4	49	0.0	0.0
o/w: IDB	696	0.4	0.2	66	0.0	0.0
Bilateral creditors	25,350	15.2	6.1	882	0.5	0.2
Paris Club	18,327	11.0	4.4	518	0.3	0.1
o/w: Japan	11,000	6.6	2.6	145	0.1	0.0
o/w: Russia	5,900	3.5	1.4	330	0.2	0.1
Non-Paris Club	7,023	4.2	1.7	364	0.2	0.1
o/w: China	5,374	3.2	1.3	251	0.2	0.1
o/w: India	1,299	0.8	0.3	70	0.0	0.0
SOE borrowing	6,391	3.8	1.5	736	0.4	0.2
Others	1,079	0.6	0.3	NA	NA	NA
Short-term	2,375	1.4	0.6	210	0.1	0.1
Domestic	92,648	55.6	22.1	19,439	11.7	4.6
Treasury bills	11,452	6.9	2.7	413	0.2	0.1
Treasury bonds	33,897	20.3	8.1	5,957	3.6	1.4
Sukuk	1,667	1.0	0.4	85	0.1	0.0
Debt from NSCs	33,818	20.3	8.1	12,984	7.8	3.1
Guarantees	3,560	2.1	0.8	-	0.0	0.0
Others including GPF	8,254	5.0	2.0	NA	NA	NA
Memo items:						
Collateralized debt [3]	-	0.0	0.0			
Contingent liabilities	9,553	5.7	2.3			
o/w: Public guarantees	9,553	5.7	2.3			
o/w: Other explicit contingent liabilities[4]	-	0.0	0.0			
Nominal GDP[5]	418,799					

1/ As reported by Bangladesh authorities according to their classification of creditors.
2/ Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into
3/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue
4/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims,
5/ Nominal GDP reported in this table is based on end of the period exchange rate, 106 Taka per dollar.

3. **Almost 50 percent of the domestic debt is dominated by government securities – treasury bonds and bills – the bulk of which is held by banks**. As of April 2024, two-thirds of government securities is held by Bangladesh's banking sector,[4] whereas Bangladesh Bank (BB) holds roughly 17.4 percent of the Treasury bonds and bills (primarily through BB's participation in primary market auctions). Non-banks, especially insurance companies (nine percent) own the remainder of government securities. The remainder of domestic debt is comprised of National Savings Certificates (NSCs)[5], comprising a little under 40 percent of domestic debt, and the rest includes guarantees, and GPF (Text Figure 1).

[4] Domestic and foreign banks held differing views on whether the banking system's holdings of government securities crowds out financing to the non-financial private sector. Domestic banks did not view that their holdings of treasury bills and bonds affected their lending to the private sector, whereas foreign banks believed that crowding out does occur. Given the borrowing pressure through tradeable instruments (shrinking NSC stocks and flows) and the rising yield of government securities, crowding out may be occurring.

[5] NSCs tend to target specific groups (mostly women, retired and senior citizens, as well as the socially vulnerable) with interest rates tending to be higher than the yield of comparable treasuries.

4. **National Saving Certificates (NSCs) make up a large but declining share of domestic debt**.[6] Gross NSC issuance declined 25 percent year-on-year and net issuance turned negative since FY23, and has continued through Q2FY24, as a combination of reforms initiated since 2019[7] and increases in cost-of-living reduced demand. Rising domestic bond yields have led to a narrowing of the gap with interest rates offered on NSCs (Text Table 3). Nonetheless, continued reforms to fully align NSC interest rates with market-determined rates, together with further liberalization of a reference lending rate (the six-month moving average rate of T-bills, SMART), would help to improve monetary policy transmission and deepen domestic debt markets, while ultimately lowering the cost of domestic borrowing. The authorities have recently developed a plan to reduce NSC issuance to below ¼ of total net domestic financing by FY26 as part of their commitment under the IMF-supported program (i.e., structural benchmark for end-December 2023).

Text Table 3. Bangladesh: Selected NSCs Interest Rates

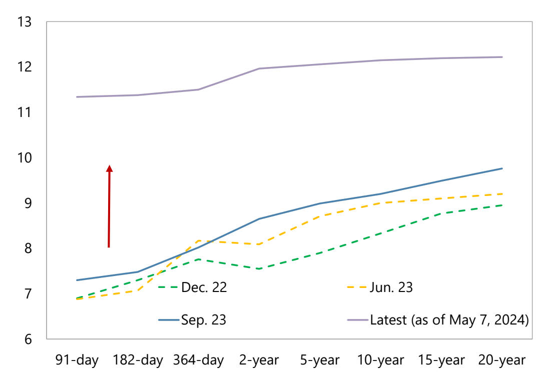
(in percent)	Three-monthly profit basis	Bangladesh bond	Family	Pensioner
Maturity	3-yr	5-yr	5-yr	5-yr
Up to Tk 1.5 million	11.0	11.3	11.5	11.8
Between Tk 1.5 and Tk 3 million	10.0	10.3	10.5	10.8
More than Tk 3 million	9.0	9.3	9.5	9.8
Comparable bond market yield	11.3	12.1	12.1	12.1

Source: Ministry of Finance.

5. **Yields on government securities continued to edge higher in FY24**. BB raised the policy rate by 200 bps as of May 2024 from its September 2023 level. Starting from October 2023, BB maintained tight domestic liquidity conditions amidst unsterilized FX sales, which led to a disproportional increase of the overnight call money market rate by 300 bps. Such a tightening contributed to sharp increases in the government debt yield curve by about 400 bps on the short term and 250 bps on the long-term (Text Figure 2). Net domestic claims on the central government increased by about 9 percent in November 2023 compared to that in November 2023. From the beginning of FY24 such claims declined by about 4 percent as net claims of depository corporations remained flat and central bank net claims declined by about 19 percent.

Table 2. Bangladesh: Government T-Bill and T-Bonds Rates

(In percent)



Source: Bangladesh Bank.

6. **External PPG debt stood at US$74 billion, accounting for about 17.7 percent of GDP, in FY23**. External PPG debt is predominantly owed by the central government to multilateral and bilateral

[6] 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.

[7] In FY2020, the government digitized the issuance of NSCs and linked it to the purchasers' tax identification number, facilitating better enforcement of existing caps, as well as increased the tax on interest income from 5 to 10 percent. This was followed by the introduction of a tiered interest rate system in September 2021 under which interest rates decline with the size of NSC holdings.

creditors, at about 52 percent and 34 percent of outstanding external PPG debt respectively, with the rest being short-term, others (sovereign bonds held by non-resident Bangladeshis), and guaranteed SOE debt. External project financing disbursements in FY23 were lower than projected previously. Global inflationary environment and supply chain disruptions, and the inability of banks to open letters of credits (LCs) due to FX shortages, contributed to increased import costs and delayed project execution, reducing disbursements from donor partners. Private sector external debt was 5 percent of GDP in FY23, declining from FY22, and has continued to decline in the first half of FY24, declining by 13.8 percent year-on-year and 5.9 percent since end FY23. As of March 24, new debt contracted (external loan commitments) stood around USD$6.7 billion (1.5% of GDP).

7. The functioning of the securities market—especially the primary market—have displayed a general improvement. With a joint WB-IMF Local Currency Bond Market (LCBM) development TA and WB's Joint Capital Markets Program (JCAP) initiatives in place, the Finance Ministry and BB have been receiving support in this area. BB termination of devolving on the primary government securities auctions since August 2023 triggered a significant interest rate increase of the marketable instruments.[8] Secondary market transactions have only started recently, so the volume remains small.

C. Macroeconomic and Financing Assumptions

8. The macroeconomic assumptions underlying this DSA are as follows (Text Table 4):

- **Growth and inflation**. Bangladesh continues to face macroeconomic challenges. Inflation remained elevated and FX pressures continued in FY24, both amplified by expectations of further depreciation. Compared to growth projections in the previous DSA in December 2023, real GDP growth is expected to soften to 5.4 percent in FY24, due to monetary tightening and demand compression measures. Headline inflation y-o-y in FY24 is projected to stay above 9 percent, driven by food and energy price increases. Against the backdrop of the exchange rate realignment that has been implemented in May 2024 to ensure external sustainability and to balance the FX market, further monetary tightening is being required to tame inflation to close to 7 percent in FY25, and to further moderating to 5.5 percent in the medium-term. In turn, policy tightening and import compression measures, that are expected to remain in place in the short-run, suggest economic expansion in FY25 at 6.4 percent – still below the long-term trend. Longer-term projections, however, assume import restrictions to be lifted, and consequently, not to affect the long-term potential growth in the baseline. However, prolonged import compression could have a negative impact on the potential. External debt dynamics under the baseline are projected to be favorable under the medium- to long-term growth rate of 6.5-7 percent. In the long run, growth will be mainly based on productive capital accumulation and productivity improvement. Structural reforms will be key to achieve, and sustain, such a growth rate, especially as Bangladesh seeks to graduate from LDC status. Increased female participation in the workforce will provide an upside to growth as population growth moderates. Downside risks to growth could arise on continued FX pressures, despite the ER realignment,

[8] Devolvement of government securities is the purchase of government securities at below market-clearing interest rates, when primary dealers are unable to accept the rate offered by the BB.

and persistent inflation, escalated geopolitical tensions, elevated non-performing loans (NPLs), and slow implementation of macro-critical structural reforms. Climate related events continue to pose a downside risk to growth. Upside risks include global disinflation, higher growth, increased revenue mobilization/tax collection, and more remittances/trade credit inflows (leading to a faster than expected easing of FX pressures).

Text Table 4. Bangladesh: Macroeconomic Assumptions 1/

	FY23	FY24	FY25	FY26	FY27	FY28	Long Term Avg. 2/
			Proj.				
Real GDP growth							
Current DSA	5.8	5.4	6.6	7.6	7.3	7.0	7.0
Previous DSA	6.0	6.0	6.6	7.1	7.2	7.0	7.0
Inflation							
Current	9.0	9.4	7.2	5.9	5.5	5.5	5.5
Previous DSA	9.0	7.9	6.8	5.5	5.5	5.5	5.5
Primary fiscal balance (in percent of GDP) 3/							
Current	-2.5	-2.8	-2.2	-2.4	-2.4	-2.5	-2.5
Previous DSA	-2.6	-2.8	-2.3	-2.5	-2.5	-2.5	-2.5
Revenue (in percent of GDP)							
Current	8.1	8.7	9.2	9.9	10.0	10.2	10.4
Previous DSA	8.2	8.7	9.2	9.8	10.0	10.0	10.3
Expenditure (in percent of GDP)							
Current	12.8	13.5	13.3	14.7	14.9	15.1	15.4
Previous DSA	12.9	13.4	13.9	14.9	15.0	15.1	15.4
Current account balance (in percent of GDP)							
Current	-0.7	-0.1	-2.5	-2.7	-3.0	-3.0	-2.6
Previous DSA	-0.7	-0.8	-2.7	-3.0	-3.0	-3.0	-2.5
Exports (in percent of GDP)							
Current	11.6	12.2	12.7	12.3	12.1	12.3	14.8
Previous DSA	11.7	12.1	12.4	12.2	12.0	12.0	14.7
Imports (in percent of GDP)							
Current	15.4	15.5	18.0	17.5	17.5	17.7	19.4
Previous DSA	15.6	16.0	17.8	17.7	17.4	17.3	19.3

1/ Previous DSA refers to the Joint DSA published in December 2023.
2/ Long term average figure covers FY29-FY44 for the current DSA and FY29-FY43 for the previous DSA.
3/ Primary fiscal balance includes the grants. The difference in historical data are caused by GDP rebasing.

- **Fiscal policy**. The primary fiscal balance is projected to improve slightly in FY24 and FY25, compared to the previous DSA, underpinned by the authorities' efforts to support monetary tightening to counter inflationary pressures stemming from global prices and greater exchange rate flexibility. The primary deficit is projected to stabilize around 2.5 percent of GDP in the three subsequent fiscal years. Over the long term, the overall fiscal deficit is expected to be contained to 5 percent of GDP in line with the authorities' target. Under the IMF-supported program, as well as the WB's forthcoming support, stepped up efforts to mobilize fiscal revenues are expected to raise the revenue-to-GDP ratio by 1.7 percentage points during FY24 and FY26, with additional gradual increases totaling about 0.5 percent of GDP per year in revenues projected over the long term.

- **Climate policy**. Climate polices for Bangladesh, supported by the World Bank, should help the authorities (1) implement climate-responsive PIM reforms to make infrastructure investment green and resilient and (2) better manage climate-related risks to enhance financial sector resilience. Since the RSF arrangement, additional climate financing worth US$900 million from the World Bank (US$500 million) and ADB (US$400 million) was approved in FY23. As envisaged in the previous DSA, additional financing is expected, including new budget support from Agence Française de Développement (AFD) amounting to US$580 million during FY24-FY26. The FY24 budget includes 0.7 percent of GDP in climate-related spending, similar to the FY23 allocation and historical spending.[9] Starting in FY25, the baseline scenario includes a gradual scaling up of climate investment of 0.3-0.8 percent of GDP annually supported by RSF and other financing catalyzed through development partners. RSF disbursements would help reduce the present value (PV) of debt and debt servicing burdens by substituting for more expensive domestic debt. The authorities do not intend to undertake additional climate-related spending, beyond what is already included in the baseline DSA, that would jeopardize risks to public and publicly guaranteed debt sustainability.

- **Current account (CA) dynamics**. The CA deficit further narrowed in FY24 due to FX shortages and LC margin requirements on the payments on imports, while exports remained resilient. Remittance inflows grew slightly by an estimated 1 percent (y/y) in FY24, but could surprise to the upside in the last quarter of the year. A reversal in the financial account—reflecting delays in repatriation and repayment of export proceeds, faster than anticipated global monetary tightening, uncertainty over FX setting, and expectation of future depreciation, continued to exert significant pressures on the Taka and FX reserves. Import compression measures are projected to continue into FY24, and the CA deficit is expected to remain muted at 0.1 percent of GDP in FY24. From FY25 onward, the CA deficit is expected to increase, as FX pressures ease, thus helping normalize imports, and the resumption of trade credit inflows should help return the financial account to surplus territory. In the medium to long term, the CA deficit is expected to gradually stabilize to around 3 percent of GDP, as non-ready-made garment (RMG) exports gain market share, due to structural reforms, trade facilitation, infrastructure development, and skill enhancement, as well as steady contributions from remittances. Reserve coverage is currently below the threshold of 3 months of prospective imports, but it is expected to stabilize around 4 months of coverage in the medium term.

- **Financing assumptions**. Gross public financing need is projected to stabilize around 12 percent of GDP by FY34. The concessionality of debt increases in the short run reflecting additional disbursements. However, they are projected to decline over the medium term, as Bangladesh graduates from the LDC status and income levels rise. Multilateral donor financing is projected to contribute to around 50 percent of total external financing in the near term, and gradually decline to 30 percent by FY44. The remainder of the external financing is assumed to come from

[9] Actual climate-related spending for FY23 is not yet available. Between FY18-22, climate spending averaged 0.6-0.7 percent of GDP. Data on climate-related spending covers twenty-five Ministries/Divisions, responsible for implementing major climate projects. Other Ministries/Divisions may have climate relevant expenditures not captured here.

bilateral donors. Average nominal interest rate on external debt is 2.7 percent in FY34. In line with expected monetary tightening to contain inflationary pressures from the exchange rate passthrough post-realignment, the interest rates on domestic debt have been revised up compared to the previous DSA, averaging 3.9 percent in real terms over the projection period. In nominal terms, the interest rates on new domestic debt are assumed to peak in FY25 at 10.7 percent for T-bills, 12.2 percent for domestic debt with maturity of 1–3 year, 12.6percent for domestic debt with maturity above 3 years and up to 7 years, and 12.8 percent for domestic debt with maturity above 7 years in the near term. Over the longer term, as monetary policy normalizes, reliance on NSCs declines and domestic bond markets deepen, the cost of new domestic debt is expected to decline with 7.5percent for T-bills, 9 percent for domestic debt with maturity of 1–3 year, 9.4 percent for domestic debt with maturity above 3 years and up to 7 years, and 9.6 percent for domestic debt with maturity above 7 years in the near term, yet higher than the previous DSA. Average real interest rate on domestic debt is projected to be 3.9 percent in FY34. The debt is assumed to be skewed toward T-bonds, with the share of T-bonds issuance with 4-year and above maturity increasing from 50 percent in the medium-term to 75 percent by FY44. As a result, debt service from domestic new debt will significantly increase over the projection period. Lack of household savings and capital market development could pose risk to a shortfall of additional domestic debt absorption, requiring higher longer domestic interest rates or higher share of external debt.

9. Drivers of debt dynamic is expected to remain broadly unchanged (Figures 3). Historically, PPG external debt has been driven by favorable growth. The historical residual is high due to infrastructure-related spending and 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. Unexpected changes in debt is close to median of the distribution across low-income countries (LICs).

10. Realism tools suggest that the macroeconomic projections are consistent with the experience of LICs (Figure 4). Bangladesh's 3-year projected adjustment in the primary balance is 1 percent of GDP. This is below the median of the sample of 3-year fiscal adjustments for LICs since 1990 that were under an IMF supported program. Real GDP growth projections under different fiscal multiplier is comparable to the baseline projections. There is high uncertainty of long-term growth projections and, consequently the real GDP growth could be in the range of 6.5 to 7 percent. Additional analysis suggests that long-term growth at 6.5 percent does not change external and overall debt risk ratings. Public and private investment rates are comparable to the previous DSA. Following the ER realignment, private investment is expected to increase relative to the previous DSA, while public investment is anticipated to stabilize, given the favorable path of private investment.

D. Country Classification and Determination of Scenario Stress Tests

11. The debt carrying capacity measured by the Composite Index (CI) for Bangladesh remains at medium, based on IMF's April 2024 World Economic Outlook (WEO) and World Bank's 2022 Country Policy and Institutional Assessment (CPIA). The CI is based on a weighted average of several factors such as the country's real GDP growth, remittances, international reserves, world growth, and the World Bank CPIA score. The CI is calculated for the last two WEO vintages, in this case the October 2023 and April 2024 WEO vintages, 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. Under medium classification, the threshold for the overall debt carrying is 55 percent of GDP. The threshold for the PV of external debt-to-GDP ratio is 40 percent (Text Table 5).

Text Table 5. Bangladesh: Country Classification

Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.83	Medium 2.87	Medium 2.88

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

12. The calibration of stress tests is similar to the previous DSA. 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. 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.[10] The default setting to calibrate for the export shock could exaggerate the adverse impact, as the standard deviation (SD) of export growth over the past 10 years is much higher at 12.7 due to the large fluctuation of exports under a series of external shocks since the pandemic, in contrast to the SD of 4.5 over FY12–FY19.

E. External Debt Sustainability

13. All external debt indicators are on a declining trend and remain below their respective thresholds under the baseline (Figure 1). External PPG debt-to-GDP ratio are expected to settle at around 11 percent by FY44. Under the baseline, all but one (the PV of debt-to-export) sustainability indicators improve compared to the previous DSA. The PVs of debt-to-exports ratios path is at a higher level compared to the previous DSA. The most extreme shock to the PV of external PPG debt-to-GDP ratio is a one-time depreciation shock. The PV of debt-to-exports breaches the threshold under the most

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

extreme shock, an export shock. However, this single-period breach in FY25, is of a small magnitude and is driven by large export fluctuations during the pandemic and the post-pandemic recovery periods.[11] Both debt service-to-exports and debt service-to-revenue ratios are on a declining trend and remain under the threshold under the most extreme shock of an export shock and a one-time depreciation shock respectively. Reflecting increases in projected interest payments, debt service-to-revenue ratio for FY24 is close to the threshold including under the baseline. Given the low share of external debt in financing mix, the projected increase in total debt service-to-revenue ratio could raise external debt rollover risks going forward.

F. Public Debt Sustainability

14. Overall public debt indicators suggest a low overall risk of debt distress (Figure 2). The PV of total public debt-to-GDP, while higher compared to the previous DSA, is below its indicative threshold. The largest shock to this indicator is the natural disaster shock. The shock is kept at default calibrations and is equivalent to a one-time 10 percent of GDP shock. All sustainability indicators are on a higher level than the previous DSA. Debt service-to-revenue ratio is projected to increase to 92.7 percent in FY34 in the baseline reflecting revisions to the cost of domestic debt and is over 100 percent for most years under the most extreme shock—a real GDP growth shock. This reiterates the importance of raising the revenue-to-GDP ratio in Bangladesh. Increasing the revenue-to-GDP ratio beyond the IMF-supported program period will be critical in providing non-debt financing to growth-enhancing and climate-resilient infrastructure projects, and more importantly for transition to upper middle income status.

G. Assessment

15. Bangladesh has a low risk of external and overall debt distress. All but one external debt indicators are below their corresponding thresholds under the most extreme shock. The PV of debt-to-exports breaches the threshold under the most extreme shock to exports. However, a short-lived and small breach (lower than previous DSA), as well as favorable debt dynamics with a declining external debt-to-GDP ratio path, supports the use of judgment and deviation from mechanical rating. The PV of public debt-to-GDP is also below its indicative threshold and is projected to increase to 46.2 percent of GDP in the long term (FY34), reflecting increasing reliance on less concessional domestic financing and monetary policy tightening to contain inflationary pressures. The increasing debt service to revenue ratio highlights the urgency of mobilizing tax revenue to support much-needed spending to achieve pro-poor, green growth recovery. Development of domestic debt and capital markets is an important component of the IMF-supported program. Resolving macroeconomic uncertainty remains important in the near-term. Reforms to attract FDI, increase domestic revenue mobilization, enhance the efficiency of public investment management, build capacity for public private partnerships, strengthen the financial sector including addressing banking sector vulnerabilities, develop local capital market, and improve debt management remain essential to support much needed capital investments to support long-term growth. Improving investment climate to attract FDIs and promote investment remains high priority for boosting potential growth. Currently, multiple IDA projects are supporting adaptive delta management and climate resilience

[11] Specifically, the breach is driven by how a sharp rebound in exports in FY22 affect standard deviation of export growth.

building.[12] RSF financing under the IMF-supported program would also help finance priorities identified in the Bangladesh Delta Plan (BDP2100) and the National Adaptation Plan (NAP), crowd in other financing, substitute for more expensive domestic financing, improve public debt dynamics, and reduce the balance of payments pressures from import-intensive climate investment.

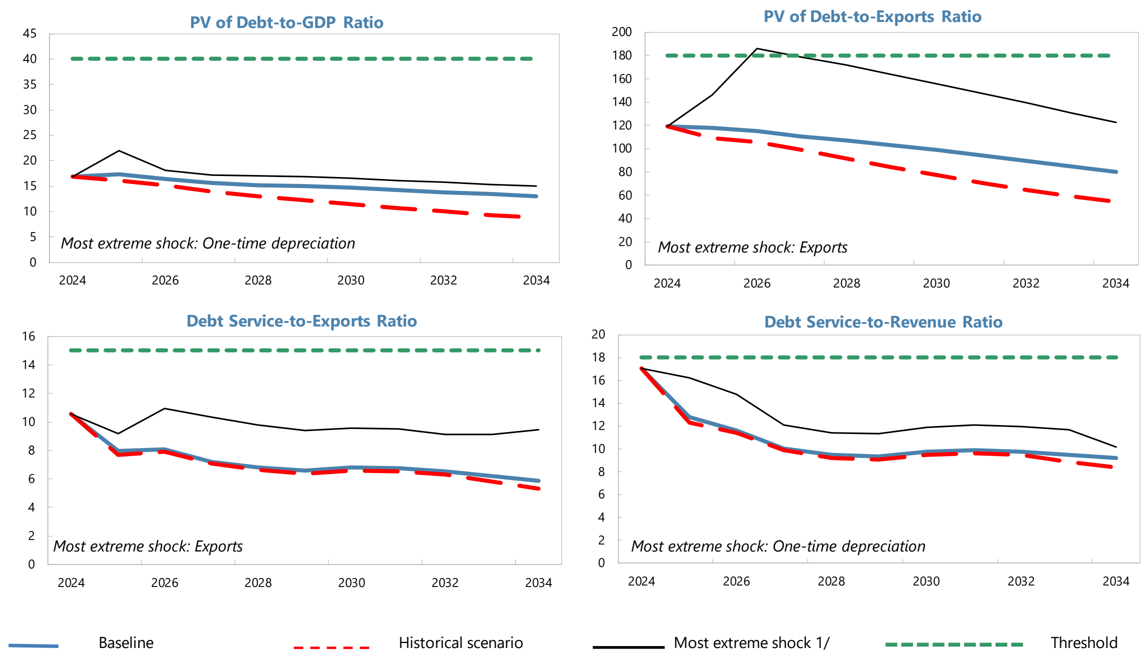
H. Authorities Views

16. The authorities agreed that the risk of external debt distress and overall risk of debt distress remain low. The authorities also agreed that higher interest rates, both external and domestic, will remain a critical challenge in the coming years. While they restated their commitment to public financial and debt management to improve the debt dynamics and ensure fiscal and debt sustainability and that their debt to GDP ratios are likely to remain in line with current levels, they acknowledged the urgent need to accelerate domestic revenue mobilization to meet financing needs. The authorities reiterated their concern about lowering of the debt carrying capacity, which occurred as part of the 2021 DSA, mostly due to the change in CPIA score. They also reconfirmed that there are no plans to issue Eurobonds.

[12] See, Bangladesh Country Climate and Development Report, for details. World Bank Group. 2022. Bangladesh Country Climate and Development Report. CCDR Series; World Bank Group, Washington, DC. © World Bank Group. https://openknowledge.worldbank.org/handle/10986/38181 License: CC BY-NC-ND.

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt, FY24–FY34

(In percent, unless otherwise mentioned)



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

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

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.0%	2.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	7	7

* 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.

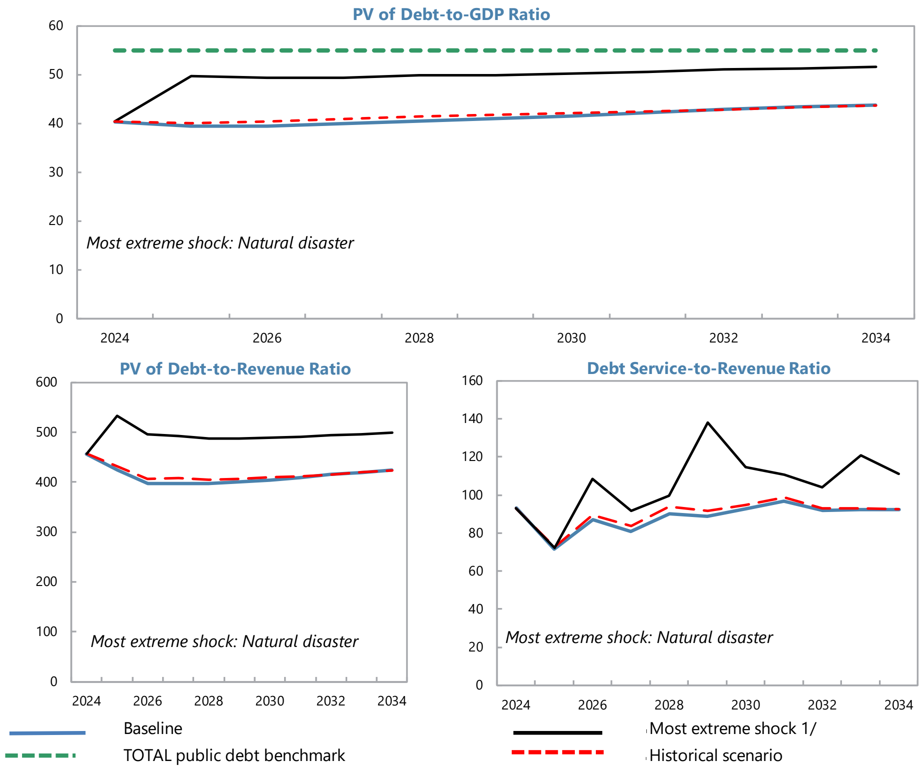
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. 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.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Bangladesh: Indicators of Public Debt, FY24–FY34

(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	18%	18%
Domestic medium and long-term	67%	67%
Domestic short-term	14%	14%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.0%	2.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.1%	4.1%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	2.3%	2.3%

* 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.

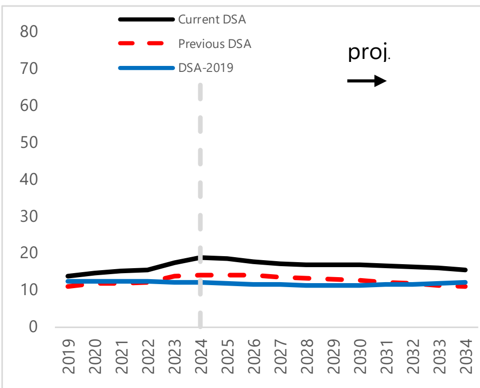
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. 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.

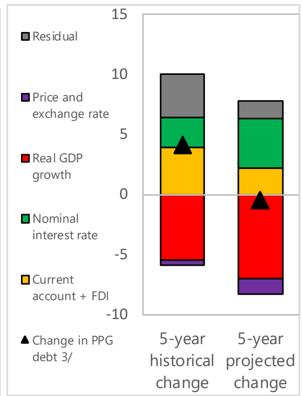
Figure 3. Bangladesh: Drivers of Debt Dynamics—Baseline Scenario

External Debt

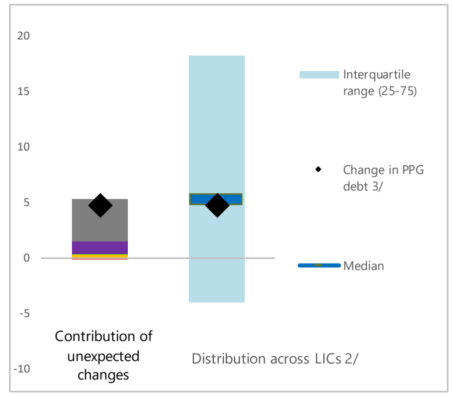
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)

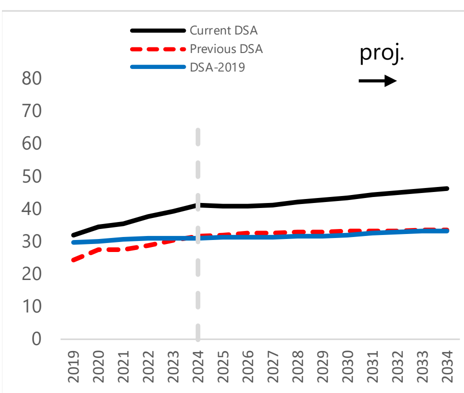


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

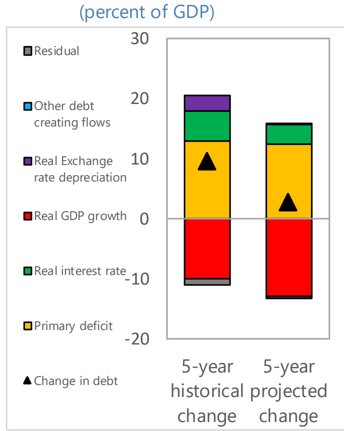


Public Debt

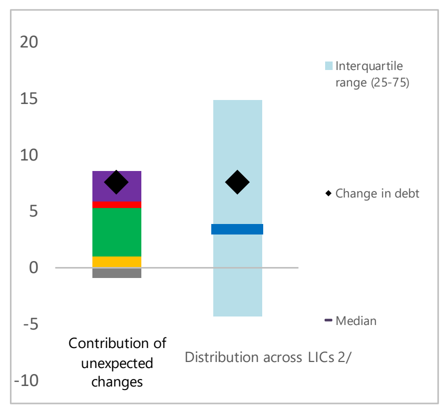
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



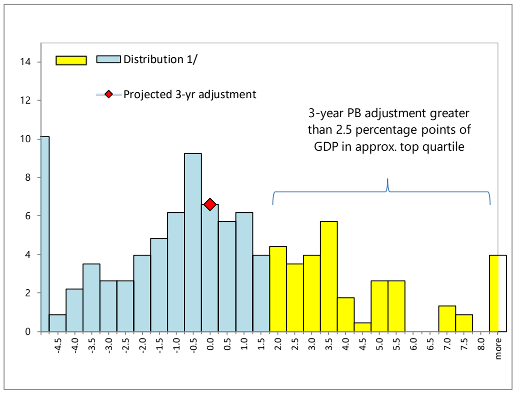
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

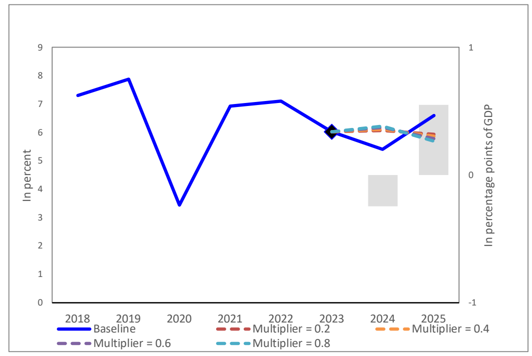
Figure 4. Bangladesh: Realism Tools

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



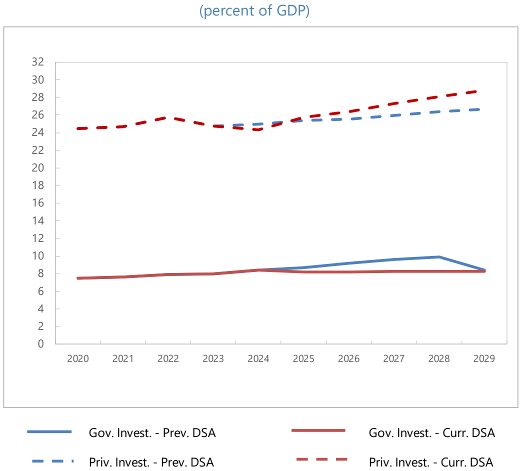
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

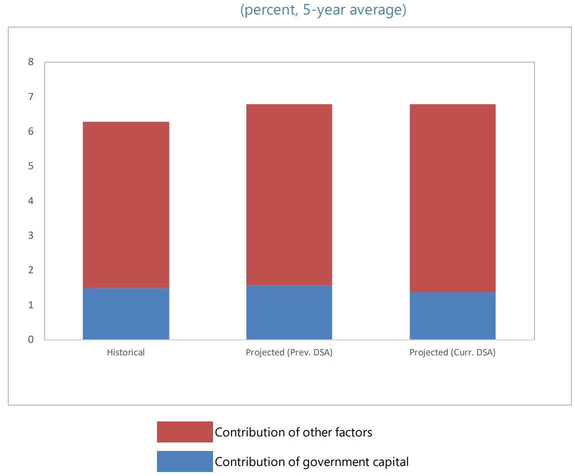


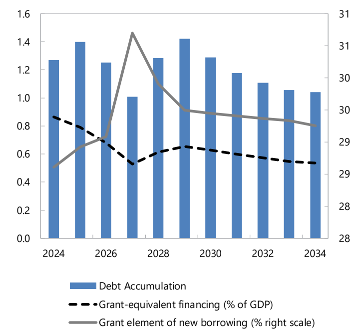
Table 1. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, FY21–FY44

(In percent of GDP, unless otherwise indicated)

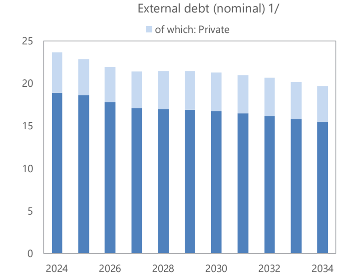
	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	19.6	20.8	22.7	23.6	22.8	21.9	21.4	21.4	21.5	19.7	14.2	**17.9**	**21.4**
of which: public and publicly guaranteed (PPG)	15.1	15.4	17.7	18.9	18.6	17.8	17.1	16.9	16.9	15.5	11.2	**14.0**	**17.0**
Change in external debt	1.2	1.2	1.8	1.0	-0.8	-0.9	-0.5	0.0	0.0	-0.5	-0.6		
Identified net debt-creating flows	-1.1	1.8	1.0	-1.5	0.1	0.1	0.3	0.4	0.5	0.1	0.4	**-1.1**	**0.1**
Non-interest current account deficit	0.8	3.4	-0.1	-0.7	1.6	1.9	2.2	2.2	2.2	1.8	2.0	**0.4**	**1.8**
Deficit in balance of goods and services	6.4	8.1	4.8	4.2	6.5	6.4	6.6	6.7	6.7	6.0	4.9	**5.5**	**6.2**
Exports	10.7	12.9	13.6	14.1	14.7	14.2	14.0	14.2	14.5	16.1	19.5		
Imports	17.1	20.9	18.4	18.4	21.2	20.7	20.6	20.8	21.2	22.1	24.4		
Net current transfers (negative = inflow)	-6.1	-4.7	-5.0	-5.0	-5.0	-4.6	-4.4	-4.5	-4.4	-4.0	-2.6	**-5.5**	**-4.4**
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)	0.4	0.1	0.1	0.1	0.0	0.1	0.1	0.0	-0.1	-0.2	-0.2	**0.4**	**-0.1**
Net FDI (negative = inflow)	-0.3	-0.4	-0.4	-0.4	-0.9	-1.1	-1.3	-1.3	-1.2	-1.2	-1.2	**-0.5**	**-1.1**
Endogenous debt dynamics 2/	-1.5	-1.3	1.5	-0.4	-0.6	-0.7	-0.6	-0.5	-0.5	-0.5	-0.4		
Contribution from nominal interest rate	0.3	0.6	0.9	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.5		
Contribution from real GDP growth	-1.1	-1.3	-1.3	-1.2	-1.5	-1.5	-1.4	-1.4	-1.3	-1.3	-0.9		
Contribution from price and exchange rate changes	-0.7	-0.6	1.9	...	...	...	...	...	...	...	...		
Residual 3/	2.3	-0.5	0.8	2.5	-0.9	-1.0	-0.8	-0.3	-0.5	-0.6	-1.0	**1.9**	**-0.4**
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	**...**	**...**	**15.8**	**16.9**	**17.3**	**16.4**	**15.5**	**15.2**	**14.9**	**13.0**	**8.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**116.3**	**119.4**	**117.8**	**115.1**	**110.7**	**107.2**	**103.0**	**80.3**	**45.1**		
PPG debt service-to-exports ratio	**4.4**	**5.1**	**6.1**	**10.6**	**8.0**	**8.1**	**7.2**	**6.8**	**6.6**	**5.9**	**4.1**		
PPG debt service-to-revenue ratio	**5.0**	**7.5**	**10.0**	**17.1**	**12.8**	**11.6**	**10.1**	**9.4**	**9.3**	**9.2**	**7.7**		
Gross external financing need (Million of U.S. dollars)	16951.5	35283.2	25905.5	22924.7	26564.4	26261.4	28521.5	31908.6	36824.9	53866.0	134302.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.9	7.1	6.0	5.4	6.6	7.6	7.3	7.0	7.0	7.0	7.0	**6.5**	**6.9**
GDP deflator in US dollar terms (change in percent)	4.1	3.2	-8.5	-4.0	-1.1	5.5	4.3	3.5	3.9	3.8	3.8	**2.9**	**2.9**
Effective interest rate (percent) 4/	2.1	3.4	4.0	3.5	4.0	4.1	4.1	4.2	4.2	4.2	3.9	**2.8**	**4.1**
Growth of exports of G&S (US dollar terms, in percent)	14.2	33.4	2.5	5.2	9.8	9.7	10.3	11.8	13.8	13.7	13.1	**8.2**	**11.7**
Growth of imports of G&S (US dollar terms, in percent)	18.6	35.5	-14.8	1.0	22.0	10.5	11.5	12.0	13.0	12.2	12.2	**8.5**	**11.9**
Grant element of new public sector borrowing (in percent)	...	...	...	28.6	28.9	29.1	30.7	29.9	29.5	29.3	29.0	**...**	**29.4**
Government revenues (excluding grants, in percent of GDP)	9.3	8.9	8.2	8.7	9.2	9.9	10.0	10.2	10.2	10.3	10.4	**8.5**	**10.0**
Aid flows (in Million of US dollars) 5/	7672	10080	8965	2965	2475	2418	1850	1850	1750	1750	1756		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.9	0.8	0.7	0.5	0.6	0.7	0.5	0.4	**...**	**0.6**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	31.1	31.9	31.6	31.0	30.2	29.7	29.4	29.1	**...**	**30.3**
Nominal GDP (Million of US dollars)	416,265	460,201	446,349	451,468	476,010	540,611	604,901	670,009	744,942	1,261,796	3,615,028		
Nominal dollar GDP growth	11.3	10.6	-3.0	1.1	5.4	13.6	11.9	10.8	11.2	11.1	11.1	**9.6**	**10.0**
Memorandum items:													
PV of external debt 7/	...	...	20.8	21.6	21.6	20.5	19.9	19.7	19.5	17.2	11.8		
In percent of exports	...	...	153.0	153.0	146.7	144.0	141.5	139.0	134.5	106.4	60.4		
Total external debt service-to-exports ratio	31.3	32.1	42.7	39.9	33.2	28.5	27.1	27.2	27.0	22.6	14.7		
PV of PPG external debt (in Million of US dollars)			70583	76254	82564	88514	93952	101724	111235	163403	318410		
(PVt-PVt-1)/GDPt-1 (in percent)				1.3	1.4	1.2	1.0	1.3	1.4	1.0	0.5		
Non-interest current account deficit that stabilizes debt ratio	-0.5	2.2	-1.9	-1.7	2.4	2.8	2.7	2.2	2.2	2.3	2.6		

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

Debt Accumulation



External debt (nominal) 1/



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.

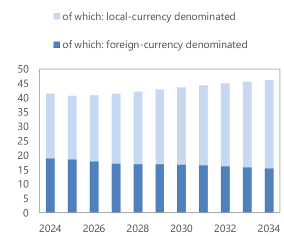
Table 2. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, FY21–FY44

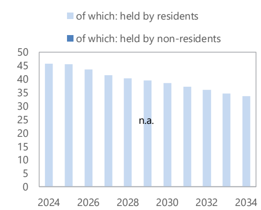
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	**35.6**	**37.9**	**39.8**	**41.3**	**40.7**	**40.9**	**41.3**	**42.1**	**42.8**	**46.1**	**50.1**	**32.2**	**43.1**
of which: external debt	**15.1**	**15.4**	**17.7**	**18.9**	**18.6**	**17.8**	**17.1**	**16.9**	**16.9**	**15.5**	**11.2**	**14.0**	**17.0**
Change in public sector debt	1.1	2.2	1.9	1.5	-0.6	0.1	0.4	0.8	0.8	0.5	0.2		
Identified debt-creating flows	**0.7**	**1.6**	**2.6**	**0.3**	**-0.2**	**0.6**	**0.8**	**1.0**	**1.0**	**0.8**	**0.4**	**1.4**	**0.8**
Primary deficit	**1.6**	**2.1**	**2.6**	**2.8**	**2.2**	**2.5**	**2.4**	**2.5**	**2.6**	**2.5**	**2.2**	**2.2**	**2.6**
Revenue and grants	9.4	8.9	8.3	8.8	9.3	9.9	10.0	10.2	10.2	10.3	10.4	**8.6**	**10.0**
of which: grants	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	11.0	11.1	10.9	11.6	11.6	12.4	12.5	12.7	12.9	12.9	12.6	**10.8**	**12.6**
Automatic debt dynamics	**-0.9**	**-0.5**	**0.0**	**-2.5**	**-2.4**	**-1.9**	**-1.7**	**-1.6**	**-1.6**	**-1.7**	**-1.8**		
Contribution from interest rate/growth differential	-0.6	-2.1	-1.9	-2.5	-2.4	-1.9	-1.7	-1.6	-1.6	-1.7	-1.8		
of which: contribution from average real interest rate	1.6	0.3	0.3	-0.4	0.1	1.0	1.1	1.1	1.2	1.3	1.4		
of which: contribution from real GDP growth	-2.2	-2.4	-2.2	-2.0	-2.6	-2.9	-2.8	-2.7	-2.8	-3.0	-3.3		
Contribution from real exchange rate depreciation	-0.2	1.6	1.9	...	...	...	...	...	...	...	...		
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	**0.4**	**0.6**	**-0.7**	**1.2**	**-0.4**	**-0.5**	**-0.3**	**-0.2**	**-0.3**	**-0.3**	**-0.2**	**-0.2**	**-0.2**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**39.0**	**40.3**	**39.5**	**39.5**	**39.9**	**40.4**	**41.0**	**43.7**	**47.8**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**469.4**	**456.0**	**424.7**	**397.6**	**397.5**	**396.3**	**400.1**	**422.8**	**459.4**		
Debt service-to-revenue and grants ratio 3/	**58.7**	**72.0**	**71.8**	**93.1**	**71.4**	**87.0**	**81.0**	**90.3**	**88.7**	**92.3**	**99.5**		
Gross financing need 4/	7.4	9.0	9.0	11.0	8.9	11.1	10.6	11.8	11.7	12.1	12.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.9	7.1	6.0	5.4	6.6	7.6	7.3	7.0	7.0	7.0	7.0	**6.5**	**6.9**
Average nominal interest rate on external debt (in percent)	0.0	1.4	2.0	1.8	2.7	2.8	2.7	2.7	2.7	2.7	2.3	**1.0**	**2.6**
Average real interest rate on domestic debt (in percent)	6.1	4.8	3.6	-1.4	0.0	4.1	4.5	4.6	4.5	4.2	3.9	**5.3**	**3.4**
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.7	11.7	13.6	...	...	...	...	...	...	...	...	**0.8**	**...**
Inflation rate (GDP deflator, in percent)	4.1	5.0	5.4	7.0	6.9	5.7	5.6	5.5	5.5	5.4	5.4	**5.1**	**5.7**
Growth of real primary spending (deflated by GDP deflator, in percent)	2.3	7.9	4.2	13.0	5.8	15.5	7.9	9.4	8.2	7.1	6.0	**7.0**	**8.6**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.5	-0.1	0.6	1.3	2.8	2.3	2.0	1.8	1.9	2.0	2.0	**0.3**	**2.0**
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, FY24–FY34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	17	17	16	16	15	15	15	14	14	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	17	16	15	14	13	12	12	11	10	9	9
B. Bound Tests											
B1. Real GDP growth	17	18	17	16	16	16	15	15	15	14	14
B2. Primary balance	17	17	17	16	15	15	15	15	14	14	13
B3. Exports	17	19	20	19	19	18	18	17	16	16	15
B4. Other flows 3/	17	18	19	18	17	17	16	16	15	15	14
B5. Depreciation	17	22	18	17	17	17	16	16	16	15	15
B6. Combination of B1-B5	17	20	19	18	18	17	17	16	16	15	15
C. Tailored Tests											
C1. Combined contingent liabilities	17	18	17	17	16	16	16	16	15	15	14
C2. Natural disaster	17	19	18	17	17	17	17	17	16	16	16
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	119	118	115	111	107	103	99	94	89	85	80
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	119	109	106	99	92	85	78	72	65	60	55
B. Bound Tests											
B1. Real GDP growth	119	118	115	111	107	103	99	94	89	85	80
B2. Primary balance	119	118	117	112	109	105	101	96	91	87	82
B3. Exports	119	146	**186**	178	172	163	156	147	139	131	122
B4. Other flows 3/	119	125	130	125	120	115	110	104	99	93	87
B5. Depreciation	119	118	100	97	94	91	88	84	80	76	73
B6. Combination of B1-B5	119	138	126	141	136	130	124	118	112	105	99
C. Tailored Tests											
C1. Combined contingent liabilities	119	124	122	118	114	112	108	103	98	94	90
C2. Natural disaster	119	131	129	125	121	120	116	111	106	102	98
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	11	8	8	7	7	7	7	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	11	8	8	7	7	6	7	7	6	6	5
B. Bound Tests											
B1. Real GDP growth	11	8	8	7	7	7	7	7	7	6	6
B2. Primary balance	11	8	8	7	7	7	7	7	7	6	6
B3. Exports	11	9	11	10	10	9	10	9	9	9	9
B4. Other flows 3/	11	8	8	8	7	7	7	7	7	7	7
B5. Depreciation	11	8	8	7	6	6	6	7	6	6	5
B6. Combination of B1-B5	11	9	10	9	8	8	8	8	8	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	11	8	8	7	7	7	7	7	7	6	6
C2. Natural disaster	11	8	9	8	7	7	7	7	7	7	6
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	17	13	12	10	9	9	10	10	10	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	17	12	11	10	9	9	10	10	10	9	8
B. Bound Tests											
B1. Real GDP growth	17	13	12	11	10	10	10	10	10	10	10
B2. Primary balance	17	13	12	10	10	9	10	10	10	10	9
B3. Exports	17	13	12	11	10	10	11	11	10	11	11
B4. Other flows 3/	17	13	12	11	10	10	10	10	10	10	10
B5. Depreciation	17	16	15	12	11	11	12	12	12	12	10
B6. Combination of B1-B5	17	13	13	11	10	10	11	11	11	11	11
C. Tailored Tests											
C1. Combined contingent liabilities	17	13	12	10	10	10	10	10	10	10	10
C2. Natural disaster	17	13	12	10	10	10	10	10	10	10	10
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, FY24–FY34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	40	40	39	40	40	41	41	42	43	43	44
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	40	40	40	41	42	42	42	43	43	44	44
B. Bound Tests											
B1. Real GDP growth	40	40	42	43	44	45	46	47	49	49	50
B2. Primary balance	40	40	41	41	42	42	43	43	44	44	45
B3. Exports	40	41	43	43	44	44	44	45	45	45	46
B4. Other flows 3/	40	41	42	42	42	43	43	44	44	45	45
B5. Depreciation	40	42	41	40	40	39	39	39	39	39	39
B6. Combination of B1-B5	40	39	39	39	40	40	41	41	42	42	43
C. Tailored Tests											
C1. Combined contingent liabilities	40	46	46	46	46	46	47	47	47	48	48
C2. Natural disaster	40	50	49	49	50	50	50	50	51	51	51
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	456	425	398	397	396	400	404	408	414	419	423
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	456	431	407	409	407	409	412	414	419	423	427
B. Bound Tests											
B1. Real GDP growth	456	435	427	432	435	443	452	460	471	479	487
B2. Primary balance	456	433	413	412	410	413	416	419	425	429	433
B3. Exports	456	439	434	432	428	430	431	433	438	441	442
B4. Other flows 3/	456	436	419	417	415	417	420	423	428	431	434
B5. Depreciation	456	452	409	399	389	384	380	377	376	375	374
B6. Combination of B1-B5	456	416	395	390	388	392	396	398	405	409	413
C. Tailored Tests											
C1. Combined contingent liabilities	456	496	461	457	453	452	453	455	459	461	463
C2. Natural disaster	456	534	496	492	487	487	487	489	493	495	497
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	93	71	87	81	90	89	93	97	92	92	92
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	93	73	90	84	94	92	96	100	94	94	94
B. Bound Tests											
B1. Real GDP growth	93	73	92	87	97	97	103	108	104	105	106
B2. Primary balance	93	71	89	83	92	93	98	99	93	95	96
B3. Exports	93	71	87	82	91	89	93	97	92	93	94
B4. Other flows 3/	93	71	87	82	91	89	93	97	92	93	93
B5. Depreciation	93	68	84	78	86	85	87	92	88	88	88
B6. Combination of B1-B5	93	69	85	80	89	87	92	95	90	91	91
C. Tailored Tests											
C1. Combined contingent liabilities	93	71	101	87	95	122	106	104	98	109	103
C2. Natural disaster	93	72	108	92	99	138	114	110	104	120	111
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.

INTERNATIONAL MONETARY FUND

BANGLADESH

June 7, 2024

SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR REPHASING OF ACCESS, A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATIONS OF A PERFORMANCE CRITERION, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—UPDATED WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This note provides the World Bank's current assessment of Bangladesh's vulnerability to climate change as well as government policies and commitments for adaptation and mitigation. An updated assessment has been requested in relation to the Second Review under the Resilience and Sustainability Facility arrangement for Bangladesh.

A. Country Vulnerability to Climate Change, Including Human, Social and Economic Costs

1. **Climate change poses a severe risk to the substantial development progress achieved in Bangladesh**. Bangladesh has been among the fastest growing economies in the world, with annual per capita income growth of 4.0 percent over the past three decades. From 2016 to 2022, extreme poverty rate (at the US$2.15 poverty line) has declined from 9.0 percent to 5.0 percent. However, climate change puts this rapid development progress at risk, even under optimistic global climate scenarios. Bangladesh is one of the world's most vulnerable and climate risk-affected countries, ranks seventh most affected country over the period 2000–2019[1], facing significant risks from tropical cyclones, tidal surge, riverine and coastal flooding, torrential rain, extreme heat and geophysical hazard like landslides, with 185 extreme events recorded and 0.38 fatalities per 100,000 inhabitants over the past two decades.[2] Average annual losses from tropical cyclones alone are already US$1 billion per annum (0.7 percent of GDP). These impacts are likely to increase, with more frequent and intense cyclone events and extreme rainfall exacerbated by climate change. Under severe flooding scenarios, for example, GDP falls by as much as 9 percent relative to baseline projections through 2050. Climate vulnerability is

[1] Climate Vulnerability Index. https://www.undp.org/bangladesh/publications/climate-vulnerability-index-draft#:~:text=Bangladesh%20is%20vulnerable%20to%20both,Global%20Climate%20Risk%20Index%202021

[2] Source: World Bank Climate Change Knowledge Portal. https://climateknowledgeportal.worldbank.org/country/bangladesh/vulnerability

particularly acute on Bangladesh's coast where many of the poorest communities reside and rely on natural resources for livelihoods. Under a 1.5°C increase in temperature and 4 percent increase in precipitation, sea levels in the Bay of Bengal could rise by 27 centimeters or more by 2050. Sea level rise and tidal surges are responsible for salinity intrusion which affects the supply of drinking water and the arability of the agricultural land. Such sea level rise would nearly double asset risk, currently at approximately US$300 million per annum, and threaten agricultural production, water supply, and the diversity of coastal ecosystems. Without action, by 2040 cropland could shrink by more than 6.5 percent nationally and 18 percent in Southern Bangladesh. One-third of total agricultural GDP may be lost due to climate variability and extreme events by 2050.

2. **Environmental degradation is expected to compound the impacts of climate change, with a disproportionate impact on the poor**. The annual cost of air pollution has been estimated at 9 percent of GDP while 32 percent of all deaths in Bangladesh are linked to environmental degradation, particularly outdoor and household air pollution; inadequate water, sanitation, and hygiene standards; and lead exposure. Vulnerable populations are most impacted by climate change due to reliance on agriculture and other climate-sensitive natural resources for income and livelihoods. With a higher frequency of climate related shocks and disasters, vulnerable populations and the chronically poor will face long lasting and multigenerational effects, resulting in costly coping strategies such as divesting productive assets and curtailing investments in human capital (e.g., nutrition and education). Communities exposed to multiple natural hazards show a substantially lower decrease in poverty or even poverty increases over time. Climate-related hazards could pose a barrier to the lowering of poverty rates, continuing development progress and increasing the resilience of communities. This will be compounded by higher heat and humidity, which impacts on health, particularly on the urban poor. In addition, over 13 million people may become internal migrants due to climate impacts, with higher impacts on women and children.

3. **Bangladesh is a modest contributor to global greenhouse gas (GHG) emissions, but a high reliance on fossil fuels for energy production underscores the urgency of transition measures**. Bangladesh accounted for an estimated 0.4 percent of global emissions in 2020. Rapid economic growth has resulted in higher GHG emissions, which rose from 115 million metric tons of carbon dioxide equivalent (MtCO2e) in 1990 to an estimated 247 MtCO2e in 2022, including changes from land use. The growth of GHG over the past three decades was led by the energy sector, consistent with the expansion of the industrial sector and increased electricity access. Approximately 70 percent of primary energy consumption is currently derived from natural gas. Energy accounted for an estimated 42.5 percent of GHG emissions in 2022, followed by agriculture (36.5 percent), waste (8.8 percent), land use change and forestry (8.8 percent), industrial processes (2.7 percent) and fugitive energy (0.7 percent).

B. Government Policies and Commitments—Adaptation and Priority Areas to Strengthen Resilience

4. **Bangladesh has a robust domestic climate policy framework that focuses on resilience, but implementation challenges persist**. In 2005, the GoB launched its National Adaptation Programme of Action and tasked a new Climate Change Unit under the Ministry of Environment and Forests with mainstreaming climate change into national development planning, along with Climate Change Focal Points in various ministries. The Bangladesh Climate Change Strategy and Action Plan (BCCSAP),

formulated in 2009, presents a vision of pro-poor climate management that centers on reducing disaster risk. The BCCSAP addresses mainstreaming climate change into national development planning through six thematic areas: (i) food security, social protection, and health; (ii) comprehensive disaster management; (iii) infrastructure; (iv) research and knowledge management; (v) mitigation and low-carbon development; and (vi) capacity building and institutional strengthening. A series of national plans have set out climate priority areas that cut across all key sectors, including agriculture, water, and coastal protection. The 2018 Bangladesh Delta Plan 2100 (BDP2100) is a long-term investment plan for climate resilience and economic growth that focuses on multidimensional water investments and water management, linking these issues to other sectors such as agriculture and transport in the context of comprehensive delta management. This is a critical issue as Bangladesh is home to the largest river delta in the world. Implementation of the BDP2100 has been challenging, in project identification and prioritization, budget allocation, and timely execution. The Mujib Climate Prosperity Plan (MCPP), published in 2023, seeks to integrate these plans into an overarching framework for climate resilience and green energy transition. However, these existing various climate related plans remain to be fully integrated into the country's five-year plans (FYPs), including the current 8th FYP. Also, implementation of FYPs has been weak in the past. In the near term, climate related plans would need to clearly highlight financing mobilization and budget allocations for priority investments. Ensuring coherence between plans, monitoring and evaluating implementation, and prioritizing key investments remains challenging. Climate change will need to be integrated throughout the recurrent and capital budgets and the next five-year plan to achieve national objectives, including investments in adaptation and mitigation. Translating large-scale investment programs into action will require increased capacity in public investment management, domestic revenue mobilization, and financial sector intermediation.

5. **Bangladesh has a strong track record in disaster risk management**. Bangladesh's successful experience with enhancing coastal resilience and disaster risk management demonstrates the potential for high returns on public adaptation expenditure, by saving lives, reducing economic losses, and protecting development gains. Proactive policies and sound investments over the last five decades resulted in a drastic decline in cyclone casualties. Bangladesh has taken an integrated approach based on a strategic policy framework, from strengthening grassroots community-level adaptation and early warning systems, to investing in protective infrastructure accompanied by afforestation initiatives and innovations. Since independence in 1971, Bangladesh has reduced cyclone-related fatalities by 100-fold. Despite this progress, resilience will remain a priority as the coastal population and economy grow and the intensity and magnitude of extreme events increases due to climate change. Bangladesh has also emerged as a global leader of the Vulnerable Twenty Group and has demonstrated global best practices on disaster risk management, such as cyclone preparedness. Bangladesh's experience in flood management including preparedness, response and recovery efforts serves as a valuable model for other flood-prone regions around the world.

C. Government Policies and Commitments—Mitigation and Priority Areas to Reduce GHG Emissions

6. **Bangladesh has made mitigation commitments under the Paris Agreement**. Bangladesh's 2021 Nationally Determined Contributions (NDC) update outlined actions to address rising GHG emissions,

and to remain below average per capita emissions for developing countries. The original NDC covered the power, industry, and transport sectors. The 2021 update expanded coverage to energy, industrial processes and product use, agriculture, forestry and other land use, and waste, in line with guidance from the Intergovernmental Panel on Climate Change (IPCC). The updated NDC commits to reducing emissions across these sectors by 89.5 MtCO2e, or 21.9 percent by 2030, relative to business as usual (27.6 MTCO2e unconditional, 61.9 MTCO2e conditional). The energy sector accounts for 96.1 percent of the planned reductions, the water sector accounts for 2.7 percent and agriculture, forestry, and other land use for 1.2 percent. Bangladesh has experienced a short-term power crisis in the recent past driven by the fall in necessary gas and fuel imports due to FX shortages and decline in domestic gas production, which highlights the need to diversify the sources of energy, including renewable energy, and to leverage regional energy trade. These reforms will require improved pricing mechanisms and investments in energy efficiency. Decarbonization of the energy sector will require increased efficiency in the near term, as well as adoption of renewable energy and improved distribution and transmission networks. A transition away from high emission industries will have distributional and inclusion impacts, affecting poor and vulnerable groups, including informal labor. However, there is opportunity for cleaner and more equitable growth through spatial development that leverages agglomeration effects and reduces congestion, makes cities more resilient to heat and reduces environmental pollution. Enhanced regional cooperation can support trade in renewable energy over the longer term. This requires cross-border transmission connectivity; identification of opportunities to share generation reserves and backup capacity and development of clear transmission and trade tariff regimes with standardized contractual framework documents.

D. Other Challenges

7. **Implementation of these ambitious commitments depends on concurrent reforms in public investment management, financial sector reforms, and domestic revenue mobilization**. Translating ambitious national climate investment plans into action will require advancing reforms to enhance public investment management. Efficient public investment management and an appropriate regulatory environment are necessary to develop a pipeline of projects and attract private investments. Cost-benefit analysis that incorporates physical and transition risks will be critical to prioritize limited financing capacity. Scaling up investments in adaptation and mitigation plans will require significant additional sources of public and private investments, including foreign financing, given that the country faces challenges of low levels of tax collection and FDI inflows, an underdeveloped domestic capital market, and constrained institutional capacity for public-private partnerships. National plans point to a range of financing requirements. At a minimum, public and private financing options will need to support an estimated US$ 12 billion in annual climate investment expenditure over the medium term (approximately 2.8 percent of FY23 GDP) for unconditional NDC commitments and BDP2100 investments. According to the Bangladesh Delta Plan 2100, Bangladesh aims to mobilize at least 0.5 percent of GDP per year from the private sector, particularly in the areas of water resource management, irrigation, and dredging. Operationalizing financing at this scale will require change in tax policy and administration to mobilize public revenues. Reaching those most vulnerable to climate impacts at the scale will also require a devolved climate finance approach that strengthens the capacity of local governments to work in partnership with civil society and grassroots organizations. Localized investments have strengthened community resilience

to climate change. However, there are opportunities to improve learning, innovation, and scaling for greater impact.

8. **Scaling up private sector financing is also a priority under national plans**. Reaching these objectives will require addressing longstanding financial sector vulnerabilities, including weak corporate and regulatory governance, related party lending, and weak credit underwriting capacity. The private sector can also play a key role through partnerships for technology transfer. Adaptation and mitigation technologies can be pursued in areas such as flood safeguards, weather forecasting, air quality monitoring, insurance tools, crop resilience, water recycling, water purification, efficient irrigation systems, and sensors in flood zones. Continued close collaboration between the World Bank, the IMF, and other public and private sector partners can support Bangladesh in these areas.

E. World Bank Engagement in the Area of Climate Change

9. **World Bank Group lending, technical assistance, and knowledge instruments support the implementation of the government's climate change objectives**. The Bangladesh Climate Change and Development Report (CCDR) identifies potential synergies between decarbonization and development and highlights priority interventions in sectors to build climate resilience and meet development goals. The report underscores the urgency of investments in climate adaptation to build resilience and safeguard livelihoods. Key recommendations include scaling up investments in people-centric, climate smart spatial development guided by the BDP2100; investing in devolved climate finance and locally led climate action, decarbonization and adaptation initiatives in the agriculture, transportation, and energy sectors that also deliver development co-benefits such as reduced air pollution; and strengthening the enabling environment and institutional arrangements needed for climate and environmental reform management. The CCDR informed the World Bank's Bangladesh Country Partnership Framework (2023–27), which includes enhanced climate resilience as one of three high-level outcomes. The World Bank continues to play a key role in enhancing regional cooperation on climate-related issues, such as air pollution, carbon markets and trade in electricity.

10. **Climate objectives are integrated across World Bank operations**. All IDA projects approved since FY14 have been screened for climate and disaster risk to inform design. Since then, cumulatively US$ 7.2 billion (or 35 percent) of total IDA commitments in Bangladesh (FY14–23) had climate co-benefits, 55 percent of which was for adaptation. Adaptation investments include coastal protections against cyclones and storm surges, flood risk reduction, livelihood adaptation, urban resilience, and social protection, and projects in agriculture, energy, and transport, amongst others, are supporting mitigation objectives. Building on CCDR policy recommendations, the Green and Climate Resilient Development Policy Credit series (FY23-25) has been supporting structural reforms to (i) enhance public planning, financing, and delivery of green and climate resilient interventions at national and local levels; and (ii) promote key sector reforms for climate-smart production and services. The reforms include incorporating green and climate resilience in public investment management; strengthening the system of fiscal transfers to local governments for green and climate resilience activities at the local level; strengthening air quality management policies; disclosure of highly polluting industries and activities and introducing a measurement, reporting, and verification (MRV) system; reducing fiscal costs of fuel subsidies; and rationalizing capacity charges in rental power plants, which are primarily based on fossil fuels. The

ongoing Bangladesh Recovery and Resilience DPC series (FY22–24) supports the cancellation of planned investments in coal-fired powerplants, the introduction of a new building code to increase energy efficiency, and adoption of the Mujib Climate Prosperity Plan, which includes retrofitting the built environment to adapt to the impacts of climate change and climate migration. The recently closed Coastal Embankment Improvement Project as well as ongoing Bangladesh Urban Resilience Project, Multipurpose Disaster Shelter Project, Bangladesh Weather and Climate Services Regional Project, Resilient Infrastructure for Adaptation and Vulnerability Reduction Project, and Jamuna River Sustainable Management Project have supported critical resilience infrastructure in coastal, riverine and urban areas to protect people and livelihoods as well as institutional capacity building for climate risk management.

Statement by Krishnamurthy V. Subramanian, Executive Director for Bangladesh and Rajeev Jain, Advisor to Executive Director
June 24, 2024

1. Our Bangladesh authorities would like to convey their deep appreciation to Mr. Papageorgiou and his team for having a candid and constructive policy dialogue during the second review mission under the EFF/ECF and RSF arrangements. Our authorities broadly share staff's assessment and policy recommendations. In our statement, we mainly focus on Bangladesh's macroeconomic situation and outlook, major policy reforms and program performance so far.

I. Macroeconomic Outlook

2. Bangladesh's post pandemic recovery continues to face multiple headwinds. Weak external demand, power shortages, and continued elevated inflation impacted demand and supply conditions in the economy. While persistent inflation eroded purchasing power of households and impacted consumption growth, tight monetary policy and import measures impacted input costs and investment. Provisional estimates released in May 2024 for FY2023-24 suggest that the real GDP growth of 5.8 per cent was slightly better than staff's projection but remained below the government's own target for the year. However, both the authorities and staff are quite sanguine about the economy's near and medium-term growth outlook. The authorities are confident that ongoing reforms on various fronts will gradually boost growth and productivity over the medium-term.

3. Addressing persistent inflation pressures remains a policy priority for the authorities. Since the beginning of 2022, inflationary pressures have intensified due to high and volatile food, fuel, and fertilizer prices, and the exchange rate depreciation of the Taka. Incidentally, headline inflation has remained above 9 per cent since March 2023. The upward adjustment in domestic fuel and energy prices also contributed to non-food inflation. Accordingly, monetary policy has been tightened to restrict credit growth and curb inflation pressures. To anchor inflation expectations, Bangladesh Bank (BB) raised its policy repo rate by 50 basis points in FY2022-23 and further 250 basis points to 8.5 per cent in FY2023-24. BB is prepared to calibrate monetary policy stance until inflation expectations are firmly anchored around the desired level. The authorities expect headline inflation to moderate to 6.5 per cent in FY2024-25. They also recognize the role of supply-side frictions contributing to inflation which they intend to address by improving the efficiency of the downstream food supply chains and curbing unfair business practices.

4. Our authorities believe that fiscal discipline is a pivotal element of macroeconomic stability. They recognize that fiscal policy needs to support monetary policy in dealing with high inflation. Accordingly, the fiscal deficit was kept in check at 4.7 per cent of GDP in FY2023-24, *i.e.*, well below its budgeted level of 5.2 per cent. In FY2024-25 too, the fiscal

deficit will be further lowered in line with the IMF program target. Around 63 per cent of the deficit is proposed to be financed from domestic sources. Keeping in view the country's long-term developmental goals, the budget has accorded special priority to social and development spending with focus on creating employment opportunities, strengthening social security provisions, and expanding/modernizing physical infrastructure. In the FY2024-25 budget, 53 per cent of total public spending has been earmarked for development of social and physical infrastructure.

5. Bangladesh's external sector remained susceptible to multiple headwinds in FY2023-24. In the first three quarters of FY2023-24, the current account recorded surplus on account of lower imports and robust inflow of remittances. Despite a challenging global trade environment, readymade garments exports performed reasonably well. On the other hand, however, financial inflows (including inward FDI) remained weak due to economic uncertainty and unfavorable global financial conditions. As the deficit in the financial account continued to exceed the current account surplus, the overall BOP remained under stress. Against this difficult backdrop, foreign exchange reserves had to be utilized for the third consecutive year to meet FX shortages. This impeded authorities' efforts to rebuild FX buffers in line with the performance criteria on net international reserves (NIR) as prescribed under the program. Nevertheless, as suggested by staff analysis, Bangladesh remains at a low risk of external and overall debt distress. From the external sector perspective, the authorities perceive favorable global financial conditions to be one of the most critical factors for the resumption of foreign capital flows in the economy.

II. Major Reforms and Policy Initiatives

6. After the January 2024 national elections, domestic political uncertainty has diminished, and the country is set for policy continuity to provide impetus to the development agenda envisaged under Vision 2041. With due recognition of various challenges, **the authorities have undertaken various reforms that are critical for macroeconomic stability in the economy.** Keeping in view the development agenda, efforts are being made to strengthen the domestic institutional framework and upgrade policy approaches. There is due recognition that the economy needs to be diversified and structural reforms are necessary to not only engage with development partners but also to attract private investment.

7. Based on its impressive track record on key socio-economic indicators of development, Bangladesh is slated to graduate from its LDC status in November 2026. On graduation, the domestic economy may face formidable challenges due to withdrawal of the benefits accruing from LDC-specific international support measures. The authorities are, therefore, prioritizing domestic preparedness to make LDC graduation sustainable by setting-up a high-level committee to recommend sector-specific policies and strategies.

8. On the fiscal front, the priority is to create adequate fiscal space for implementation of government's development plans by strengthening domestic revenue mobilization capacity

and rationalizing public expenditure. For instance, in March 2024, the automated fuel pricing mechanism, which links domestic fuel oil prices to international prices, has been introduced. Similarly, after raising power tariffs in February 2024, the authorities are prepared to undertake further adjustments in power tariffs at an appropriate pace and eventually phase out electricity subsidies over a five-year horizon.

9. To improve the tax-GDP ratio, various policy measures have been undertaken to address shortcomings of the existing revenue collection system, expand the tax base and narrow the scope of tax evasion. Efforts are underway to improve tax collection infrastructure by focusing on administrative capacity of National Board of Revenue (NBR) and automation to reduce human interface. The authorities are committed to continue their revenue mobilization efforts over the medium term by streamlining tax expenditures and adopting a Medium-and Long-Term Revenue Strategy. With a view to provide more conducive trade and business environment, the Customs Act 2023 has also been enacted by incorporating international best practices in customs procedures.

10. In the FY2024-25 budget tabled in Parliament in June 2024, various tax exemptions have been withdrawn or reduced in their scope. VAT rates have been increased on select goods and services (*e.g*., refrigerators and freezers, select fruit juices, cigarette paper/bidi paper, bulbs and services of 'amusement park and theme park' and auctioneers). Supplementary duties have been raised on select goods and services, *viz*., cigarettes, ice cream, carbonated beverages and SIM/RUIM card enabled mobile telecom services. The budget also proposed to increase the maximum tax rate from 25 percent to 30 percent for natural individual taxpayers and firms with tax slab adjustments. On the back of these measures, the tax-GDP ratio is estimated to improve to 8.8 per cent in FY2024-25.

11. For financing its borrowing program, the government intends to tap sources of long-term market financing. Bangladesh Bank (BB) has already ceased lending to government through devolvement of government securities. The government aims to reduce reliance on the banking system and National Saving Certificates (NSC) as well. **To reduce reliance on NSC, reforms in the NSC system have been undertaken to better control issuances and rationalize interest expenditure.** In line with the IMF-supported program, the authorities aim to keep net NSC issuance below one-fourth of net domestic financing by FY2025-26. Efforts are also being made to improve debt profile of the government by developing local bond markets to tap long-term market financing. Work is also underway to update the Medium-Term Debt Strategy (MTDS) for FY25-27. **With CD support from the Fund and other development partners, steps towards public investment management reforms have been initiated.** In order to provide strategic guidance on planning, allocation, and implementation of government projects, the authorities aim to roll-out Sector Strategy Papers and Multi-Year Public Investment Program tools with expanded sectoral coverage.

12. In recent years, BB has focused on modernization of its monetary policy framework by transitioning from reserve money targeting to an interest rate targeting. With the introduction of an interest rate corridor and variable lending rate cap, the new framework focused on the repo rate as the primary target of monetary policy. In July 2023, it replaced the lending interest rate cap with a Six-Month Moving Average Rate of T-Bills (*i.e.*, SMART) as reference lending rate. To further improve the transmission of monetary policy, the SMART system was discontinued in May 2024 with a shift towards a fully market-based system for lending rates. With these changes, banks and non-bank financial intermediaries are free to determine the lending rates based on demand-supply conditions in the credit market, banker-customer relationship, and borrowers' risk profile.

13. The interest-rate based monetary policy framework is also being supported by **relevant reforms in the exchange rate regime**. To ensure that the exchange rate of the Bangladesh taka (BDT) begins to reflect its value based on market fundamentals, the authorities adopted a new exchange rate regime in May 2024 with an initial devaluation of BDT as a transitional step towards greater exchange rate flexibility. A crawling peg system has been introduced for buying and selling of foreign currencies under which a Crawling Peg Mid-Rate (CPMR) is set at Taka 117.00 per US dollar. BB will continue to review the new regime and is prepared to adjust its parameters as and when necessary. Our authorities also intend to move towards a free-floating exchange rate system as per the evolving conditions.

14. **As regards the financial sector, various reforms have been implemented since the last review of the IMF-program.** The broad focus has been to improve governance structure, transparency, and financial soundness of domestic banking system. Under the roadmap to reduce NPLs**,** BB aims to reduce NPL ratio to below 10 per cent for public sector banks and 5 per cent for private commercial banks by 2026. BB has also eased the loan write-off policy and empowered banks to expedite the process within a two-year timeframe instead of the previous three years. The Bank has also taken various steps to enhance transparency in loan reporting in line with international best practices. The authorities recognize the need for restructuring of the banking system. Accordingly, in April 2024, policy guidelines were issued to oversee both voluntary and compulsory mergers in the banking sector.

15. As detailed in the staff report, BB has recently upgraded its policies related to the selection criteria for the Managing Director or Chief Executive Officer of banks; the "fit and proper" test for banks' directors; and terms and conditions of appointment for banks' independent directors. In March 2024, BB announced its policy guidelines for banks to identify willful defaulters and take actions against them. Our authorities take good note of staff's recommendations to further accelerate the pace of regulatory and governance reforms in the banking sector.

16. Pursuing their agenda on climate reforms, the authorities have made commendable efforts to streamline regulatory and institutional settings in realizing the aspiration of climate-resilient sustainable development. They are working towards the objective of generating at least 40 percent of total electricity from renewable energy sources by 2041 and have already adopted a new integrated energy and power sector master plan to achieve this goal. As detailed in the staff report, relevant stakeholders have undertaken various initiatives to execute the National Adaptation Plan and the Bangladesh Delta Plan 2100. Further, in May 2024, Dhaka North and South City Corporation announced its first-ever Paris-aligned climate action plans to transform Dhaka into a carbon-neutral city by 2050.

17. Given the scale of funding needs to meet climate change challenges, mobilizing climate finance is a top priority. Apart from the RSF arrangement, alternative sources are being explored to effectively implement the climate reform agenda. To attract external financing, Bangladesh has launched the Bangladesh Climate and Development Platform in collaboration with other development Partners. The platform will enable additional private investments in adaptation and mitigation activities. BB has also modernized its sustainable finance policy to advance green banking and climate-conscious finance covering a revised list of green products.

III. Program Performance

18. The authorities have demonstrated strong program ownership by taking desired steps to achieve program objectives. As required under the second review, they were able to meet all quantitative performance criteria, barring one relating to the floor on net international reserves. As explained in point #5 above, even the inability to meet the performance criterion on net international reserves stemmed from economic uncertainty and unfavorable global financial conditions. As the staff report suggests, all structural benchmarks under the ECF/EFF and reform measures under the RSF for the second review have also been met. In fact, as detailed in the foregoing discussions, **various important reforms have been implemented as part of the on-going program**. Nevertheless, the authorities are fully aware that there is a long way to go before the structural bottlenecks are appropriately addressed and the economy becomes more resilient and stronger over the medium-term. They are also committed to continue their efforts to strengthen the overall climate policy framework in line with country's commitments under the Paris Agreement.

IV. Conclusion

19. As the Bangladesh economy is grappling with multiple challenges, our authorities expect external support from their development partners to pursue their reform agenda. They acknowledge not only Fund's support through the ongoing program but also its TA and capacity development initiatives in different critical areas. In fact, they have identified certain areas where the Fund's TA and CD support would be required. They are highly receptive of the staff's policy recommendations and remain open to considering them for

implementation while taking account of the domestic economic and social context. Based on their strong program performance, they look forward to Directors' support for completion of the second review under the ECF/EFF and RSF and other associated proposals.