



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

BANGLADESH

Ministry of Finance Macroeconomic Framework
Technical Assistance: Scoping Mission Report

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High-Level Strategic Summary and Technical Assistance Report Institute for Capacity Development (ICD)

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The Finance Division (FD) of the MoF has sought Macroeconomic Framework Technical Assistance from ICD and SARTTAC to support them in improving their Medium-term Macroeconomic Framework. A scoping mission was held in Dhaka in January 2023 to diagnose the FD's current forecasting and policy analysis systems and to agree on a multi-year action plan. The project action plan is centered around the customization of the Macroframework Foundations Tool (MFT), which will support the FD in overcoming significant limitations in their current approach. This note summarizes the main findings and action plan agreed on for the project.

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¹ Christian Johnson was the previous Project Manager of this TA project, while working as Macroeconomic Advisor at the South Asia Training and Technical Assistance Center (SARTTAC). Barrett Owen is an Economist in the General Macro and Fiscal Division of the Institute for Capacity Development (ICDMF). Werner Schule is a short-term expert (STX) hired on the project.

High-Level Strategic Summary: Bangladesh

Background

- **The MoF Finance Division (FD) is committed to improving the Medium-term Macroeconomic Framework (MTMF) that feeds the budget process and fiscal strategy planning.** Correspondingly, the recently approved ECF/EFF/RSF program and agreements with other international partners include improvements to the MTMF as targets, with a particular emphasis on the incorporation of climate-related risk scenarios. The FD leads in the formulation of the Government budget and economic policy. They requested ICD and SARTTAC support to help improve the MTMF and build macroeconomic forecasting and analysis capacity at the FD and the Macroeconomic Wing (MEW), the team that leads in the development of the MTMF.
- **This scoping mission initiated a Macroeconomic Framework Technical Assistance (TA) project to support the FD in building capacity and enhancing their MTMF.** The scoping mission took place in Dhaka between January 22 to February 1, 2023. This mission diagnosed and assessed the current macroeconomic forecasting and policy analysis systems at the FD, including current tools in use, and delivered a FPP training course focusing on the essentials of financial programming. The scoping information was used to develop and agree with the authorities an action plan for the TA project.

Summary of Key Findings

- **The FD has a well-established institutional structure in place to produce an MTMF and to present this to key decision makers.** The FD adheres closely to the Public Money and Budget Management Act of 2009. The FD leads in producing the MTMF in collaboration with other key agencies twice a year. The MTMF is presented to and approved by the Coordination Council (CC) in November, ahead of Budget Call Circular 1, and in April before the budget is finalized. The CC was established to enhance the coordination of fiscal, monetary and exchange rate policies and key decision makers and senior officials from across the relevant institutions are represented. The MTMF and CC processes provide a well institutionalized structure for technical staff to interact with policymakers on the macroeconomic framework at key stages.
- **The Macroeconomic Wing (MEW) has good working relationships with other technical teams within the MoF and in other agencies.** There is a formalized multi-agency MTMF working group, and the MEW works effectively across teams within the MoF. An accessible macroeconomic framework tool would foster further cooperation among the teams and discussions at the expert level.
- **With dedicated and skilled staff, the key challenges for the MEW are staff turnover and limited staff numbers.** Most of the MEW staff have Masters or PhDs in Economics-related fields, providing them with a good base of general theoretical economics knowledge and analytical skills. While staff mobility within the Bangladesh civil service contributes to spread of knowledge and staff fungibility, the merits of longer tenure to sustain forecasting and policy analysis expertise should not be overlooked. The team is also relatively small compared to MoF teams in other countries with a similar work-remit.

- **The MEW is not currently operating a macroeconomic framework tool to produce the MTMF and MTMF forecasts are largely anchored on 5-year development targets.** The MEW has several macroeconomic framework and forecasting tools but their practical use is limited and policy makers are not equipped with alternative risk scenarios.

Summary of Recommendations

- **The MEW would benefit from a macroeconomic framework tool with an economic structure to produce consistent MTMF baseline forecasts and assess policy and risk scenarios.** Developing and building the capacity to operate a macroeconomic framework tool with behavioral linkages across the macroeconomic sectors will enhance the MEW's input into policymaking. A consistent macroframework tool will allow the MEW to produce baseline forecasts with a satisfactory economic narrative and to assess a range of policy and risk scenarios, including those related to climate and the debt-path.
- **The FD are advised to prioritize the accessibility of the tool to ensure that it can be sustained independently and used meaningfully by the FD.** An accessible tool will: (i) address the current skills capacity of the MEW, (ii) allow for the participation of larger pool of staff from other Wings, (iii) facilitate the integration of new members of the MEW, and (iv) enable more effective dialogue with policymakers and the wider MTMF working group.
- **There are several further measures to help to sustainability address skills capacity gaps and staff turnover challenges.** The MEW emphasized a need to develop training material and user guides, and to develop a tool that is as user-friendly as possible. This will be important to further mitigate turnover risks and facilitate the training and integration of future members of the team, as well as provide reference material for the current members to refer to as they proceed on rounds of forecasting.
- **There is possible scope to improve the processes of producing the MTMF, including the greater involvement of other technical teams.** A core group, incorporating analysts from other Wings, could be assigned to develop the tool and produce the MTMF. This will deepen the pool of analysts that can operate the tool and it will bring in further sector expert views during forecasting and analysis rounds. Further efforts can also be incorporated in forecasting rounds to develop on discussions with other technical teams and supervisors.

Next Steps and Agreed Action Plan

- **The FD agreed with the mission team on an Action Plan for a macroeconomic framework TA project, centered on the customization of the Fund's Macroframework Foundations Tool (MFT).** The MFT is an internally-consistent model of the economy, based on FPP principles. Its key advantage, compared to the more traditional Accounting-Based FPP Frameworks, is that it incorporates a basic underlying economic structure and behavioral relationships to help develop coherent economic narratives and to run internally consistent scenarios. The tool is user-friendly and its accessibility lowers turnover risks and related challenges.
- **A core team from the FD will customize and adapt the MFT to their needs, with ICD and SARTTAC support.** The FD has assigned 17 staff from multiple Wings to the core team, which will

be coordinated by the MEW and supervised by the respective Additional Secretaries of each Wing involved. The project has 10 missions planned from January 2023 to July 2025, with a hybrid model of in-person and virtual mission deliveries.

- **The TA project has been split into four phases:** **(Phase 1)** the mission team will introduce the core team to the MFT, and the core team will develop a macroeconomic database containing data quality checks. **(Phase 2)** The core team will begin customizing the canonical version of the MFT to the Bangladesh economy and, if sufficient capacity exists, start using it in practice. **(Phase 3)** The MFT will be expanded to further meet the needs of the core team and used to develop policy and risk scenarios for their medium-term projections. **(Phase 4)** The full institutionalization of the tool will be targeted -- the core team will use the framework to improve their policy advice and analytical output and the user manual will be finalized, bolstering the sustainability of the newly-built capacity.