

Bangladesh: Use of Fund Resources—Request for Emergency Assistance—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Bangladesh

In the context of the Use of Fund Resources—Request for Emergency Assistance, the following documents have been released and are included in this package:

- The staff report for the Use of Fund Resources—Request for Emergency Assistance, prepared by a staff team of the IMF, following discussions with officials of Bangladesh. Based on information available at the time of these discussions, the staff report was completed on March 14, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release summarizing the views of the Executive Board as expressed during its Board meeting April 2, 2008 discussion of the staff report that completed the request.
- A statement by the Executive Director for Bangladesh.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

BANGLADESH

Use of Fund Resources—Request for Emergency Assistance

Prepared by the Asia and Pacific Department

Approved by Kalpana Kochhar and Anthony Boote

March 14, 2008

- **Two consecutive natural disasters in the second half of 2007 have had a substantial impact on Bangladesh's economy.** Severe flooding during July–September followed by a devastating cyclone in November has caused extensive damage to agriculture, housing, and infrastructure.
- **The authorities have made a request for a purchase under the Fund's policy on emergency assistance for natural disasters along with a subsidy on the rate of charge for such purchase** (see letter of intent dated March 14, 2008).
- **The most recent Article IV consultation was concluded by the Executive Board on June 22, 2007.** At that time, Directors noted that most of the macroeconomic objectives of the expired PRGF arrangement were achieved, but pointed to low revenue collection, poor infrastructure, low skill levels, and governance concerns as the main impediments to sustained growth and poverty reduction.
- **Bangladesh has accepted the obligations of Article VIII, Sections 2, 3, and 4.** One restriction remains in place on the convertibility and transferability of proceeds of current international transactions in nonresident taka accounts. The exchange rate regime is characterized as a managed float.
- **Consultations with the authorities** were conducted via the Resident Representative and the Offices of the Executive Director at the Fund and the Bank.

Contents	Page
Executive Summary	3
I. Background.....	4
II. Economic Developments Preceding the Disasters.....	5
III. Impact and Policy Response.....	7
IV. Access and Capacity to Repay.....	9
V. Staff Appraisal	10
Figure	
1. External Sector Indicators, FY2002–08.....	11
Tables	
1. Key Economic Indicators, FY2003–13.....	12
2. Balance of Payments, FY2005–08.....	13
3. Central Government Operations, FY2005–08	14
4. Monetary Survey, June 2006–June 2009	15
5. Indicators of Capacity to Repay the Fund 2006–14.....	16
Annex	
Fund Relations	17
Attachment	
Letter from the Authorities	19

EXECUTIVE SUMMARY

- **A devastating cyclone struck the coast of Bangladesh on November 15, 2007 shortly after the country had experienced severe flooding.** The disasters resulted in at least 4,400 deaths and disrupted the lives of millions of people in one of the poorest and most vulnerable regions of the country. Damage was mainly to agriculture, housing, and infrastructure and is estimated at \$2.7 billion (3.7 percent of GDP), exacerbating already slowing growth and increasing food prices. Relief and reconstruction costs for the current fiscal year are estimated at \$850 million, and approximately \$400 million has been secured from development partners.
- **The biggest balance of payments impact arises from the need to import large volumes of food.** Staff estimates that without additional balance of payments support, international reserves would be depleted below three months of import coverage by end-June 2008. The fiscal impact is also considerable, but the authorities intend to manage the situation without increasing domestic financing above budgeted levels by making use of additional donor assistance and improved revenue performance, and by reallocating spending within the budget.
- **The authorities have requested a purchase for an amount equivalent to SDR 133.3 million (25 percent of quota)** to help prevent a deterioration in international reserves. Staff supports the request under the Fund's policy on emergency assistance for natural disasters.

I. BACKGROUND

1. **On November 15, 2007, cyclone Sidr struck Bangladesh on the heels of two monsoon floods leaving many dead, injured, or deprived of livelihood.** The floods, which occurred between July and September, killed over a thousand people and inflicted substantial damage on the agricultural sector. The cyclone killed 3,400, injured 55,000, and disrupted the lives of almost 9 million people. The number of cyclone fatalities was much lower than in the past, thanks to an improved forecasting and warning system. The impact of the natural disasters was particularly severe in the coastal area, which is home to some of the poorest segments of society.

Impact of Recent Natural Disasters in the Region

	Sri Lanka ^{1/}	Maldives ^{1/}	Indonesia ^{1/}	Bangladesh ^{2/}
Deaths	31,000	82	225,000	4,400
Displaced	1.0 million	14,000	500,000	8.7 million
Damage	\$1.5b	\$304 m	\$4–5b	\$2.7b
(In percent of GDP)	(7.5)	(35.0)	(2.0)	(3.7)
NIR (months of imports)	2.2	3.2	5.7	2.9
Fund support (SDR million)	103.4	4.1	...	[133.3]
(In percent of quota)	(25.0)	(50.0)	...	(25.0)

Sources: IMF Country Report Nos. 05/84 and 05/145.

1/ December 2004 tsunami.

2/ 2007 floods/cyclone.

2. **Beyond the human cost, the physical damage caused by the floods and the cyclone is estimated at \$2.7 billion or 3.7 percent of GDP.**³ The damage inflicted by the floods is estimated at \$1.1 billion (1.5 percent of GDP) and comprises loss of crops, houses, livestock, and roads. The damage caused by the cyclone is estimated at \$1.6 billion (2.2 percent of GDP) and is concentrated in the agricultural, housing, and transport sectors. The private sector sustained the brunt of the damage and losses.

3. **The government program for relief and reconstruction being implemented in FY08 is estimated to cost \$850 million.**⁴ Nearly \$450 million in funding has been secured

³ These estimates are based on the draft Damage, Loss, and Needs Assessment for Disaster Recovery and Reconstruction completed on February 17, 2008 by the government, the World Bank, and 11 development partners.

⁴ The fiscal year runs from July to June. Hence, both the floods and the cyclone occurred in FY08.

from development partners, including about \$220 million in grants (commodity aid and NGO assistance) that will take place outside of the central government's budget, and \$225 million in additional budget support from the World Bank and the AsDB. The direct budgetary cost will be about \$450 million and will be financed by the additional budget support, improved revenue collections, and budgetary reallocations. The remaining reconstruction and rehabilitation needs will be implemented over the medium to longer term and are expected to be financed through additional foreign assistance.

4. **In the attached letter to the Managing Director** dated March 14, the authorities request a purchase in the amount of SDR 133.3 million (25 percent of quota) under the Fund's policy for emergency assistance related to natural disasters. This purchase would support the authorities' international reserve position in the face of a sharp rise in disaster-related imports. The letter sets out the authorities' policy responses to the natural disasters and macroeconomic objectives for the period ahead. In line with the Fund policy on providing emergency assistance for natural disasters to PRGF-eligible countries, the authorities have requested a subsidy on the rate of charge, subject to the availability of subsidy resources. The authorities delayed making a request for emergency assistance until mid-February to provide time to mobilize as much grant funding and other concessional assistance as possible from donors, and to complete a comprehensive damage and needs assessment.

II. ECONOMIC DEVELOPMENTS PRECEDING THE DISASTERS

5. **Even before the natural disasters, growth was slowing down and inflation was on the rise.** Political uncertainty surrounding the emergency transition government and the preparation for elections, the ensuing anti-corruption drive, and the slowdown in the global economy led to a downward revision in the growth forecast from an estimated 6¼ percent in FY07 to about 6 percent for FY08. Price pressures emerged on the back of international commodity inflation, earlier monetary accommodation, and supply bottlenecks resulting from the government's anti-corruption and anti-hoarding policies. In June 2007, on the eve of the first period of flooding, consumer price inflation stood at 9 percent (year-on-year), up from 6 percent half a year earlier.

6. **Revenues were showing early signs of improvement after many years of underperformance, but quasi-fiscal liabilities continued to increase in the energy sector.** Overall, the central government's budget deficit was considered to be on track with revenue improving and slow implementation of the Annual Development Program (ADP) keeping expenditure lower than expected. The ADP implementation rate in the early months of FY08 was the lowest in a decade, as the government's anti-corruption drive led to greater scrutiny of projects. However, state-owned enterprise (SOE) losses continue to take place. The FY08 budget assumed debt equivalent to 1.4 percent of GDP from the state-owned petroleum company (BPC) for its past losses; but without further adjustments in energy prices, new SOE losses could reach 1–1½ percent of GDP in FY08.

7. **The external position was fairly strong, but starting to weaken even before the disasters hit.** The most recent debt sustainability analysis (IMF Country Report No. 06/406) found that Bangladesh had low levels of external debt but moderate risk of debt distress overall because of the level of domestic debt.⁵ However, high food and oil prices were putting pressure on the import bill, while garment exports slowed markedly owing to the global slowdown and lost orders during the period of political turmoil. While remittances continue to grow in excess of 20 percent, import coverage of official reserves was on pace to fall to 3.1 months in FY08, compared to 3.3 months of imports in FY07, even without the impact of the natural disasters.

8. **Money growth was coming down prior to the disasters, reflecting the slowdown in economic activity.** Despite accelerating growth in official reserves and virtually no change in the central bank's interest rate policy, reserve money growth declined steadily from 34 percent in December 2006 to 16 percent by June 2007. During the same time span, broad money and private credit growth declined by about 5 percentage points to 17 and 15 percent, respectively.

9. **The government moved forward with some important structural reforms, which are starting to show results.** The government placed the new container terminal at Chittagong port under private management shortly after coming to power. As a result, turnaround time for ships has been cut from 8.7 days in March to 2.8 days in January. To support and extend the recent improvement in tax revenue, the government is implementing several measures in the areas of tax policy and administration: the government has agreed to separate tax administration and tax policy responsibilities, and merge the two Large Taxpayer Units; unique taxpayer identification numbers are being introduced for all taxpayers; and a newly introduced self assessment system has increased individual taxpayer submissions threefold. Significant steps were also made with respect to governance by separating the judiciary from the executive branch, and by strengthening the Anti-Corruption Commission. However, the government has indicated that it will take a more gradual approach to the privatization of state-owned commercial banks after the failure of the Rupali divestment, and is yet to administer an adjustment in energy prices since the last increase in April 2007. The government continues to work closely with the World Bank in these areas.

III. IMPACT AND POLICY RESPONSE

10. **Output losses in agriculture from the floods and cyclone will further reduce growth and increase price pressures.** More than 2.4 million acres of cropland are reported damaged, resulting in the loss of almost one-quarter of the November crop that was ready to harvest, and most shrimp farms in the cyclone affected areas have been destroyed. Together with the indirect effect on growth expected from the damage sustained by infrastructure, this

⁵ An updated DSA will be prepared for the 2008 Article IV consultation discussions scheduled for July 2008.

is projected to reduce the growth rate staff projected prior to the disasters by $\frac{3}{4}$ of a percentage point to 5–5½ percent. Since September, inflation increased by a further 2½ percentage points to 11½ percent in January (year-on-year), led by food price increases of 14 percent. As food imports gather pace, inflation is expected to moderate only slightly to 10 percent by end-FY08 given prevailing high international prices.

11. **As described in the attached letter, the authorities have introduced several policies in response to the disasters.** These include the following:

- Distributing to vulnerable groups at subsidized prices about 500,000 metric tons of rice imported by the government. The total import need is estimated at 1.25 million metric tons with much of this imported by the private sector.
- Distributing seeds, fertilizer, and insecticides to disaster-affected farmers.
- Providing benefits for disaster-related deaths and injuries, cash transfers to repair and rebuild homes, and low-interest loans to fishermen and farmers.
- Beginning to repair and reconstruct roads, bridges, coastal embankments, and the electricity distribution network.

12. **The fiscal impact of these policies will be significant, but donor support, improved revenue, and budget reallocations will contain domestic financing.** The fiscal cost of the disaster program for FY08 is estimated at Tk 31 billion (\$450 million; 0.6 percent of GDP), of which Tk 18 billion will be for social assistance programs, including subsidized food and fertilizer and the remainder for capital spending. Notwithstanding these costs, as well as higher subsidies to cover SOE losses (not related to the disasters), the overall deficit is expected to be close to budgeted levels, given that revenues are likely to be higher than budgeted and regular capital spending lower than budgeted. The latter is due to the continued low implementation rate to date (partly attributable to the floods) and a deliberate policy decision to delay low-priority projects. Tax revenue collected by the National Board of Revenue rose by 25 percent in the fiscal year to January, led by income taxes and VAT, while the anti-corruption drive contributed to an increase in nontax revenue. The FY08 budget was based on revenue growth of 17 percent, and this target could be exceeded by 0.3 percentage points of GDP. Disaster-related donor assistance amounts to 0.3 percent of GDP, which should allow for total net domestic financing to remain in line with the budget.

13. **The balance of payment impact will be only partly financed by higher aid inflows.** The impact on exports owing to the damage sustained by the shrimp and fisheries sector is projected to be mild at \$60 million. However, disaster-related food and fertilizer imports will boost the import bill by about \$530 million (\$630 million on a c.i.f. basis). Foreign budget support of \$225 million and current transfers of \$220 million,

Key Balance of Payments Indicators (Without Fund assistance)		
	Before Disasters	After Disasters
(In millions of US\$)		
Exports (f.o.b)	13,202	13,142
Imports (c.i.f.)	20,006	20,638
Official transfers	87	309
Net aid flows	595	820
(In months of imports of goods and nonfactor services)		
Gross official reserves	3.1	2.9

mostly in the form of food, will offset some of this impact. The remainder will be borne by official reserves, which would decline below three months of import coverage as a result of the disasters without additional balance of payments support. The exchange rate has remained at Tk 68–69 per dollar with the nominal effective rate depreciating by 4 percent from August through end-February.

14. **The monetary program leaves sufficient space for projected budget financing and private sector recovery without further fueling inflationary pressures.** Money growth has lost more momentum in the course of the disasters. Reserve money growth declined by a further 3.8 percentage points to 12.4 percent in December, while broad money growth came down 2.3 percentage points to 14.7 percent. Private credit growth increased to 17.5 percent, partly reflecting directed lending programs encouraged by Bangladesh Bank. The authorities' monetary policy statement of January 2008 aims to support a recovery in real sector growth while ensuring reasonable price stability.

15. **Short-term risks to this outlook are largely on the downside.** Export growth could decline more than envisaged, particularly if there is a further slowing of world growth, and food import needs could increase further late in the fiscal year if the main (Boro) rice crop, due to be harvested in May, is smaller than projected.

16. **The government is working closely with donors to make further improvements in the institutional setting for disaster management.** The government has already made substantial progress in this area in recent years. Had it not been for the Cyclone Preparedness Program that allowed four days of advanced warning with evacuation messages delivered house to house, the death toll would have been much greater. The recently completed Damage and Needs assessment has identified three possible modalities in which the government will work closely with donors in the period ahead to help mitigate the impact of any future natural disasters: (i) a Disaster Response Fund that would provide funding for early recovery to avoid diverting budget funds for operations and maintenance; (ii) exploring the possibility of purchasing catastrophic risk coverage from international capital markets;

and (iii) establishing a multi-donor trust fund to support a risk mitigation agenda related to global climate change.

IV. ACCESS AND CAPACITY TO REPAY

17. **The authorities have requested a purchase of an amount equivalent to SDR 133.3 million (25 percent of quota) under the Fund's policy on Emergency Assistance for Natural Disasters along with a subsidy on the rate of charge on this purchase.** The purchase—which represents approximately 0.3 percent of Bangladesh's GDP—would help meet the immediate foreign exchange needs stemming from the disasters, thereby avoiding a decline in Bangladesh's official reserves below three months of import coverage. Following elections projected to be held by December 2008, and the formation of a new government, it is expected that discussions could resume on a possible new Fund-supported program.

18. **As of end-2007, the Fund's available subsidy resources for emergency assistance amounted to SDR 25 million.** Total needs in net present value terms are projected at about SDR 49 million, including those associated with existing cases (SDR 16 million),⁶ Bangladesh's request (SDR 24 million) and an expected request for EPCA from another member (SDR 8 million). Based on these estimates, and assuming no further requests for subsidized emergency assistance, available subsidy resources will likely be exhausted by end-2009 if new resources are not secured by that time. In the context of Bangladesh's request, staff has initiated discussions with potentially interested members on mobilizing additional resources.⁷ Given the uncertainty associated with the availability of subsidy resources, and consistent with past practice, both the authorities' letter of intent and the staff report emphasize that subsidization of the rate of charge is subject to resource availability. This is also reflected in Table 5 on Bangladesh's capacity to repay the Fund.

19. **In view of the authorities' policies outlined in the attached letter, it is expected that Bangladesh will be able to discharge its obligations to the Fund in a timely manner.** Medium-term growth potential, supported by regional momentum, remains positive. It is also expected that rehabilitation and reconstruction needs beyond FY08 will be financed by external assistance. Gross official reserves are projected to increase steadily and remain at three months of import coverage. As attested by the latest debt sustainability analysis exercise, Bangladesh is at low risk of external debt distress. Debt service is projected to be less than 5 percent of exports of goods and services, and debt service payments to the Fund

⁶ Dominica, Grenada, Maldives, and Sri Lanka (all ENDA), and Cote d'Ivoire and Guinea-Bissau (all EPCA).

⁷ The forthcoming semi-annual update on the financing of the Fund's concessional operations and debt relief to low-income countries will also provide an opportunity to discuss subsidy resource needs for emergency assistance.

are projected to remain below 2 percent of gross official reserves throughout the repayment period.

V. STAFF APPRAISAL

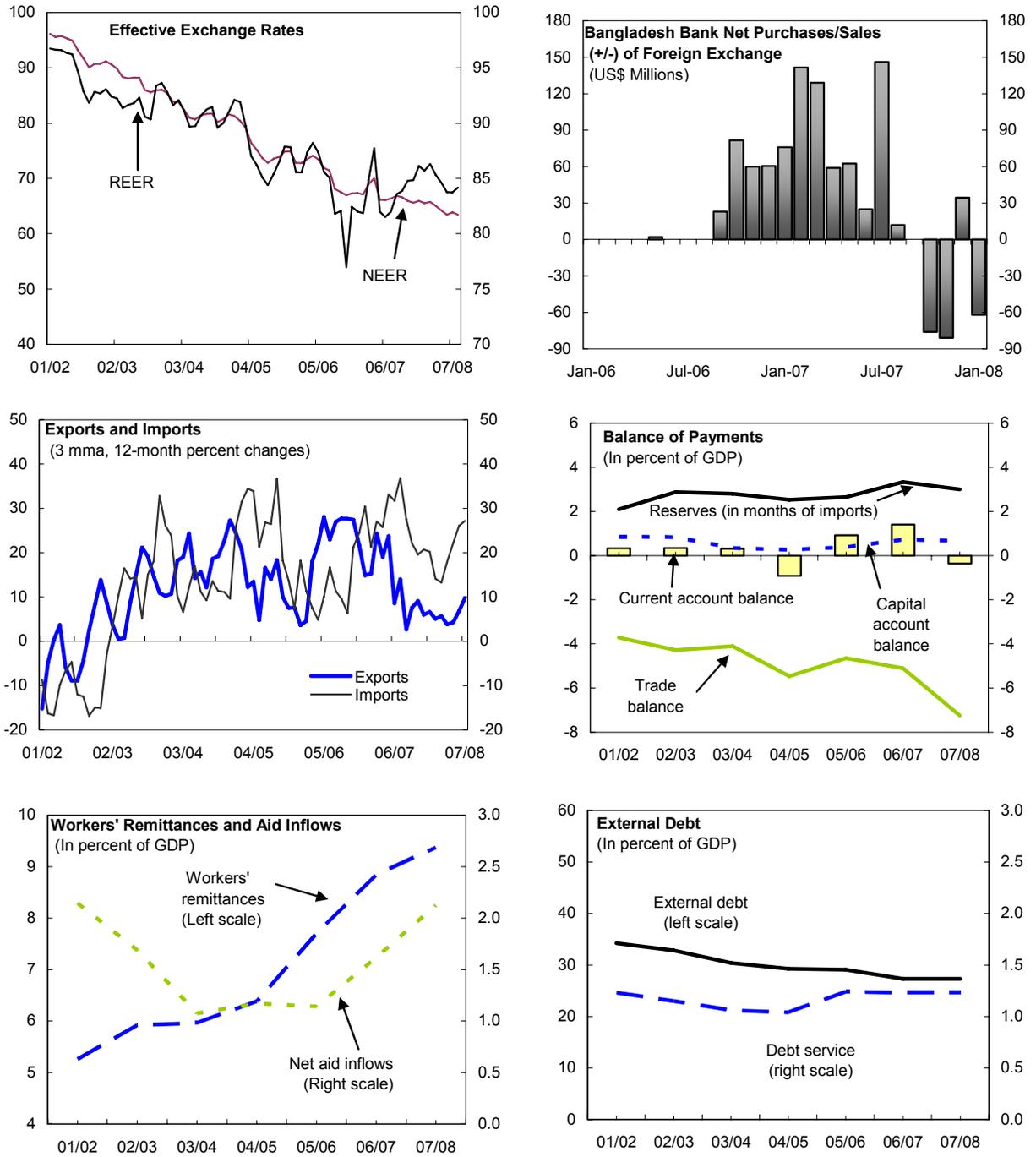
20. **Following severe flooding, the impact of cyclone Sidr on Bangladesh has been substantial.** There has been a considerable impact on the welfare and livelihood of some of the world's poorest and most vulnerable groups. High international commodity prices and slowing export growth had already reduced the economy's room for maneuver. Extensive damage to agriculture and infrastructure has led to a sharp increase in import needs, in the near term for food and other primary needs, and put further pressure on the balance of payments and fiscal position.

21. **The authorities' letter of intent outlines the steps that have been taken in response to the disasters, as well as the efforts by the authorities to maintain macroeconomic stability and advance the structural reform agenda.** The staff welcomes the authorities' intention to make use of available external assistance while keeping the overall fiscal framework in line with the original FY08 budget targets. Keeping domestic financing of the budget under control will be important to avoid further aggravating inflationary pressures.

22. **Recent progress in revenue performance, if sustained, will be a fundamental element of improved macroeconomic performance going forward.** Staff urges the authorities to continue to move forward with reforms underway in tax administration. Policy changes with respect to income taxes and VAT to broaden the base and reduce exemptions will also be necessary to achieve sustainable long-term improvement in revenue performance. Moreover, the on-going quasi-fiscal liabilities being generated in SOEs still need to be addressed, especially with respect to energy pricing policy, to establish a sustainable fiscal policy. Reinvigorating reforms in the state-owned commercial banks, as well as strengthening prudential regulations for the wider banking sector, also remain an important structural priority.

23. **Staff supports the authorities' request for a purchase under the Fund's policy on emergency assistance for natural disasters.** The authorities' requested purchase in the amount of 25 percent of quota is appropriate in view of the damage to the agricultural sector in very poor and vulnerable areas, and the associated large need for food and other imports. It is estimated that this level of access would allow the authorities to maintain international reserves at about three months of import coverage. Staff also supports the request in view of the authorities' efforts to maintain macroeconomic stability and continue the implementation of reforms after the expiration of the PRGF-supported arrangement in June 2007, as well as their commitment to continue working closely with the Fund in developing their reform strategy in the period ahead.

Figure 1. Bangladesh: External Sector Indicators, FY 2002–08 1/



Sources: Data provided by the Bangladesh authorities; IMF, *Information Notice System*, *International Financial Statistics*; and Fund staff estimates and projections.

1/ Projection for 07/08.

Table 1. Bangladesh: Key Economic Indicators, FY03–13 1/

Nominal GDP: US\$61.9 billion
 Main export (percent of total): garment (75)
 Population (FY05): 139.5 million
 GDP per capita (FY05): US\$430
 Poverty rate (FY05): 40.8 percent
 FDI (percent of GDP): US\$760 million (1.1)
 Government debt: 46.5 percent of GDP
 Foreign government debt: 62 percent of total government debt

	FY03	FY04	FY05	FY06	FY07	Projection					
						FY08	FY09	FY10	FY11	FY12	FY13
National income and prices (percent change)											
Real GDP	5.3	6.3	6.0	6.6	6.2	5.0	6.0	7.0	7.0	7.0	7.0
GDP deflator	4.5	4.2	5.1	5.2	5.9	7.9	7.0	5.5	4.5	4.0	4.0
CPI inflation (annual average) 2/	4.4	5.8	10.4	6.8	7.2	10.9	9.0	7.0	4.5	4.0	4.0
Central government operations (percent of GDP)											
Total revenue	10.3	10.2	10.5	10.7	10.3	11.1	11.6	12.1	12.5	12.9	13.0
Tax	8.3	8.2	8.5	8.5	8.3	8.8	9.3	9.8	10.2	10.6	10.7
Nontax	2.0	1.9	2.0	2.2	2.0	2.4	2.4	2.4	2.4	2.4	2.4
Total expenditure	13.7	13.3	13.8	13.9	13.6	17.1	15.1	15.4	15.9	16.3	16.5
Current expenditure	8.1	7.8	8.4	8.4	9.2	10.1	9.4	9.3	9.3	9.3	9.3
Of which: Interest payments	1.9	1.6	1.7	1.8	1.9	2.1	1.9	1.9	1.8	1.8	1.8
Of which: Subsidies and transfers	2.3	2.4	2.8	2.6	3.0	3.8	3.3	3.3	3.3	3.3	3.3
Annual Development Program	5.4	5.0	5.0	4.7	4.1	4.0	4.4	4.8	5.3	5.7	5.9
Other expenditures 3/	0.1	0.5	0.4	0.8	0.3	3.1	1.3	1.3	1.3	1.3	1.3
Overall balance (excluding grants) 4/	-3.4	-3.1	-3.3	-3.2	-3.2	-6.0	-3.4	-3.3	-3.3	-3.4	-3.5
Primary balance 4/	-1.5	-1.4	-1.7	-1.4	-1.3	-3.9	-1.5	-1.4	-1.5	-1.6	-1.6
Financing (net)	3.4	3.1	3.3	3.2	3.2	6.0	3.4	3.3	3.3	3.4	3.5
Domestic 4/	1.2	1.8	1.7	2.1	2.0	3.6	1.7	1.6	1.6	1.6	1.6
External	2.1	1.3	1.6	1.2	1.3	2.3	1.7	1.7	1.7	1.8	1.9
Total central government debt (percent of GDP)	51.1	51.0	50.1	48.3	46.5	45.5	43.6	41.7	40.1	38.9	37.8
Money and credit (end of fiscal year; percent change)											
Net domestic assets	12.2	13.5	17.1	19.6	13.4	16.8	14.1	13.4	13.4	13.5	13.8
Credit to private sector	12.6	17.5	17.0	18.3	15.1	15.1	14.9	15.7	15.0	14.0	14.1
Broad money (M2)	15.6	13.8	16.7	19.3	17.5	15.9	16.2	14.5	14.2	14.7	14.6
Balance of payments (in billions of U.S. dollars)											
Exports, f.o.b.	6.5	7.5	8.6	10.4	12.1	13.1	15.2	17.5	20.1	23.0	26.2
(Annual percent change)	9.5	15.9	14.0	21.6	15.6	9.0	15.5	15.6	14.4	14.6	13.8
Imports, f.o.b.	-8.7	-9.8	-11.9	-13.3	-15.5	-18.7	-21.8	-25.6	-29.4	-33.7	-38.6
(Annual percent change)	13.1	13.0	20.6	12.1	16.6	20.8	16.5	17.3	14.8	14.6	14.5
Current account	0.2	0.2	-0.6	0.6	1.0	-0.3	-0.4	-0.8	-1.0	-1.1	-1.5
(Percent of GDP)	0.3	0.3	-0.9	0.9	1.4	-0.4	-0.5	-0.9	-1.0	-1.0	-1.3
Gross official reserves (in billions of U.S. dollars)	2.5	2.7	2.9	3.5	5.1	5.5	6.4	7.3	8.4	9.8	11.3
In months of imports of goods and nonfactor services	2.9	2.8	2.5	2.7	3.3	3.0	3.0	2.9	2.9	3.0	3.0
Exchange rate (taka per US\$; period average)	58.2	59.5	64.3	68.1	68.8	...	...	...	...	...	...
Nominal effective rate (2000=100)	89.0	82.8	77.0	71.2	66.9	...	...	...	...	...	...
Real effective rate (2000=100)	91.9	91.4	88.1	84.6	83.0	...	...	...	...	...	...
Terms of trade (percent change)	-0.5	-2.2	-4.4	-3.7	0.4	...	...	...	...	...	...
Memorandum item:											
Nominal GDP (in billions of taka)	3,006	3,330	3,707	4,157	4,675	5,297	6,008	6,782	7,584	8,439	9,391

Sources: Data provided by the Bangladesh authorities; and Fund staff estimates and projections.

1/ Fiscal year begins July 1.

2/ CPI uses FY96 weights.

3/ Consists of other capital, net lending, food account balances, check float and discrepancy.

4/ Includes assumption of BPC liabilities of 1.4 percent of GDP in FY08.

Table 2. Bangladesh: Balance of Payments, FY05–08 1/
(In millions of U.S. dollars, unless otherwise indicated)

	FY05	FY06	FY07	FY08	
		Est.	July 07	Without floods & cyclone	With floods & cyclone
Trade balance	-3,297	-2,879	-3,459	-5,006	-5,597
Exports (f.o.b.)	8,573	10,422	12,053	13,202	13,142
<i>Of which: RMG sector</i>	6,432	7,903	9,211	9,893	9,893
Imports (f.o.b.)	-11,870	-13,301	-15,511	-18,208	-18,739
<i>Of which: Crude petroleum and petroleum products</i>	-1,602	-2,004	-2,233	-3,156	-3,156
Services	-870	-1,110	-1,261	-1,676	-1,777
Income	-680	-786	-883	-1,009	-1,050
Transfers	4,290	5,347	6,554	7,919	8,141
Official current transfers 2/	37	34	97	87	309
Private transfers	4,253	5,313	6,457	7,832	7,832
<i>Of which: Workers' remittances</i>	3,848	4,802	5,979	7,235	7,235
Current account balance	-557	572	952	227	-283
Capital and financial account balance	624	-207	360	208	433
Capital account	163	242	490	517	517
Financial account	461	-449	-130	-309	-84
Foreign direct investment	800	675	760	725	725
Portfolio investment	0	32	106	100	100
Net aid flows	491	432	508	595	820
Aid disbursements	940	921	1,037	1,120	1,345
Debt amortization	-449	-489	-529	-525	-525
Other capital 3/	-830	-1,588	-1,504	-1,729	-1,729
Overall balance	67	365	1,312	436	150
Financing items	-67	-365	-1,312	-436	-150
Bangladesh Bank	-67	-365	-1,312	-436	-150
Assets (- increase)	-225	-554	-1,602	-526	-448
Liabilities 4/	158	189	290	90	298
Exceptional Financing (identified)	...	...	...	531	964
World Bank	...	...	...	300	475
AsDB	...	...	...	96	146
Other	...	...	...	135	135
IMF	...	...	...	0	208
Memorandum items:					
Current account balance (percent of GDP)	-0.9	0.9	1.4	0.3	-0.4
Export growth rate (percent)	14.0	21.6	15.6	9.5	9.0
Import growth rate (percent)	20.6	12.1	16.6	17.4	20.8
Gross official reserves (in millions of U.S. dollars)	2,930	3,471	5,073	5,598	5,521
(In months of imports of goods and services)	2.5	2.7	3.3	3.1	3.0
Net international reserves (in millions of U.S. dollars)	2,046	2,221	3,533	3,968	3,683
Medium and long-term external public debt (in millions of U.S. dollars)	19,286	18,603	19,111	19,706	19,931
(In percent of GDP)	32.0	30.0	28.2	25.4	25.8
Net aid flows/GDP (in percent)	1.1	1.1	1.6	1.5	2.1
Nominal GDP (in millions of U.S. dollars)	60,299	61,952	77,207	77,575	77,207

Sources: Data provided by the Bangladesh authorities; and Fund staff estimates and projections.

1/ Fiscal year begins July 1.

2/ Excludes official capital grants.

3/ Includes trade credits, long-term borrowing, short-term financing for Bangladesh Petroleum Company (BPC), commercial bank net borrowing, and errors and omissions.

4/ Includes Asian Clearing Union balances.

Table 3. Bangladesh: Central Government Operations, FY2005–08 1/

	FY05	FY06	FY07	FY08	
				Budget	Proj.
(In billions of taka)					
Total revenue	389.2	443.7	483.4	573.0	589.6
Tax revenue	314.1	354.2	389.6	458.4	465.0
NBR taxes	299.9	338.9	371.1	438.5	445.1
VAT, supplementary duties, excises	161.6	182.9	199.5	232.6	239.2
Customs duties	79.1	78.4	81.7	93.5	90.2
Taxes on income and profits	56.7	71.5	86.7	108.4	111.7
Other NBR taxes	2.6	6.2	3.1	4.0	4.0
Non-NBR taxes	14.2	15.3	18.6	19.9	19.9
Nontax revenue	75.1	89.5	93.8	114.6	124.6
Total expenditure	513.3	578.1	634.0	885.4	906.4
Current expenditure	312.5	350.4	429.8	498.8	533.0
Pay and allowances	84.2	100.4	128.7	135.1	135.1
Goods and services	56.4	60.7	62.4	74.6	76.6
Interest payments	61.8	75.1	90.2	107.9	109.9
Subsidies and transfers	103.2	108.6	142.5	166.7	203.8
Block allocations	6.9	5.7	6.0	14.5	7.7
Annual Development Program	185.8	194.7	191.1	265.0	211.0
Non-ADP capital spending	29.5	38.4	28.5	50.3	71.8
Net lending	-5.3	2.9 3/	-11.4	51.3	66.6 4/
Other expenditures 2/	2.5	-1.2	-3.9	20.0	24.0
Overall balance (excluding grants)	-124.0	-134.5	-150.6	-312.4	-316.8
Primary balance (excluding grants)	-62.2	-59.4	-60.4	-204.5	-206.9
Overall balance (excl. grants and BPC debt operation)				-237.1	-241.6
Net financing	124.0	134.5	150.6	312.4	316.8
External	60.2	48.1	59.3	119.6	124.0
Domestic	63.8	86.4	91.4	192.8	192.8
Banks	35.0	58.8 3/	41.4	147.8	160.8 4/
Nonbanks	28.8	27.6	50.0	45.0	32.0
Privatization receipts	0.0	0.0	0.0	0.0	0.0
(In percent of GDP, unless otherwise specified)					
Total revenue	10.5	10.7	10.3	10.8	11.1
Tax revenue	8.5	8.5	8.3	8.7	8.8
Nontax revenue	2.0	2.2	2.0	2.2	2.4
Total expenditure	13.8	13.9	13.6	16.7	17.1
Current expenditure	8.4	8.4	9.2	9.4	10.1
Pay and allowances	2.3	2.4	2.8	2.6	2.6
Goods and services	1.5	1.5	1.3	1.4	1.4
Interest payments	1.7	1.8	1.9	2.0	2.1
Subsidies and transfers	2.8	2.6	3.0	3.1	3.8
Block allocations	0.2	0.1	0.1	0.3	0.1
Annual Development Program	5.0	4.7	4.1	5.0	4.0
Non-ADP capital spending	0.8	0.9	0.6	0.9	1.4
Net lending	-0.1	0.1 3/	-0.2	1.0	1.3 4/
Other expenditures 2/	0.1	0.0	-0.1	0.4	0.5
Overall balance (excluding grants)	-3.3	-3.2	-3.2	-5.9	-6.0
Primary balance (excluding grants)	-1.7	-1.4	-1.3	-3.9	-3.9
Overall balance (excl. grants and BPC debt operation)				-4.5	-4.6
Net financing	3.3	3.2	3.2	5.9	6.0
External	1.6	1.2	1.3	2.3	2.3
Domestic	1.7	2.1	2.0	3.6	3.6
Banks	0.9	1.4 3/	0.9	2.8	3.0 4/
Nonbanks	0.8	0.7	1.1	0.8	0.6
Privatization receipts	0.0	0.0	0.0	0.0	0.0
Memorandum items:					
Nominal GDP (in billions of taka)	3,707	4,157	4,675	5,297	5,297
Overall balance, including grants	-3.0	-2.8	-3.0	...	-5.0
Poverty reducing spending	6.9	6.8	6.9	...	6.8
Total central government debt	50.1	48.3	46.5	...	45.5

Sources: Data provided by the Bangladesh authorities; and Fund staff estimates and projections.

1/ Fiscal year ends June 30. Cash basis unless otherwise specified.

2/ Include food account surplus(-)/deficit(+) and extraordinary expenditures.

3/ Includes bonds (Tk 10 billion) issued to a nationalized commercial bank to assume BPC's liabilities.

4/ Includes bonds (Tk 75 billion) issued to three nationalized commercial banks to assume BPC's liabilities.

Table 4. Bangladesh: Monetary Survey, June 2006—June 2009

	Actual				Proj.	
	Jun-06	Jun-07	Sep-07	Dec-07	Jun-08	Jun-09
	(End of period; in billions of taka)					
Net foreign assets	218	326	339	356	355	457
Net domestic assets	1,588	1,788	1,821	1,951	2,104	2,400
Domestic credit	1,732	1,982	2,065	2,176	2,347	2,660
Net credit to central government	296	338	357	419	498	566
Credit to other nonfinancial public sector	127	139	147	85	115	100
Credit to private sector	1,309	1,506	1,561	1,672	1,734	1,993
Other items, net	-144	-194	-244	-225	-243	-260
Broad money (M2)	1,806	2,114	2,160	2,306	2,459	2,857
	(Change since start of fiscal year; in billions of taka)					
Net foreign assets	32	108	13	30	29	101
Net domestic assets	260	200	32	162	315	296
Domestic credit	301	250	83	194	365	313
Net credit to central government	59	41	20	81	161	68
Credit to other nonfinancial public sector	40	12	8	-54	-24	-15
Credit to private sector	202	197	55	166	228	259
Other items, net	-41	-50	-50	-31	-49	-16
Broad money (M2)	292	308	45	192	345	398
	(Year-on-year percent change)					
Net foreign assets	17.2	49.7	52.0	41.9	9.0	28.5
Net domestic assets	19.6	12.6	11.0	10.9	17.6	14.1
Domestic credit	21.1	14.5	14.9	14.4	18.4	13.3
Net credit to central government	24.8	14.0	11.6	20.6	47.6	13.7
Credit to other nonfinancial public sector	46.7	9.3	12.9	-35.4	-17.4	-12.7
Credit to private sector	18.3	15.1	15.9	17.5	15.1	14.9
Other items, net	40.2	35.0	15.9	59.1	25.5	6.8
Broad money (M2)	19.3	17.1	15.9	14.7	16.3	16.2
	(In billions of taka, unless otherwise noted)					
Memorandum items:						
Broad money multiplier	5.32	5.36	5.20	4.93	5.47	5.61
Broad money velocity	2.30	2.21	2.25	2.17	2.15	2.10
Net domestic financing (since beginning of FY)	86	91.4	23	91	193	102
Bank	59	41.4	20	81	161	68
Nonbanks	28	50.0	3	10	32	34

Sources: Data provided by the Bangladesh authorities; and Fund staff estimates and projections.

Table 5. Bangladesh: Indicators of Capacity to Repay the Fund 2006-14

	Projections										
	2006	2007	2008	2009	2010	2011	2012	2013	2014		
Fund obligations based on existing credit											
(in millions of SDRs)											
Principal	0	0	5.0	14.9	29.7	49.9	63.4	58.4	48.5		
Charges and interest	3.0	3.5	3.1	3.0	2.9	2.6	2.4	2.0	1.8		
Fund obligations based on existing and prospective credit 1/											
(In millions of SDRs)											
Principal	0.0	0.0	5.0	14.9	29.7	83.2	130.0	91.7	48.5		
Charges and interest	3.0	3.5	7.2	8.8	8.7	8.2	5.4	2.5	1.8		
Total obligations based on existing and prospective credit 1/											
In millions of SDRs	3.0	3.5	12.1	23.7	38.4	91.4	135.4	94.2	50.3		
In millions of U.S. dollars	4.5	5.4	19.0	37.4	60.9	145.7	216.4	150.6	80.3		
In percent of exports of goods and services	0.0	0.0	0.1	0.2	0.3	0.6	0.8	0.5	0.2		
In percent of debt service 2/	0.7	0.7	2.4	4.4	6.7	14.6	20.3	14.0	7.4		
In percent of quota	0.6	0.7	2.3	4.4	7.2	17.1	25.4	17.7	9.4		
In percent of gross international reserves	0.1	0.1	0.3	0.5	0.8	1.6	2.0	1.3	0.6		
Outstanding Fund credit 1/											
In millions of SDRs	316.7	316.7	445.1	430.3	400.6	317.3	187.3	95.6	47.1		
In millions of U.S. dollars	466.8	484.1	698.3	679.4	635.3	505.9	299.5	152.8	75.3		
In percent of exports of goods and services	3.7	3.4	4.4	3.8	3.1	2.2	1.1	0.5	0.2		
In percent of debt service 2/	68.9	66.9	89.6	80.6	69.6	50.6	28.1	14.2	6.9		
In percent of quota	59.4	59.4	83.5	80.7	75.1	59.5	35.1	17.9	8.8		
In percent of gross international reserves	10.9	9.1	11.8	9.9	8.1	5.6	2.8	1.3	0.6		
Memorandum items:											
Charges and interest, after assumed subsidies (millions of SDRs) 3/	...	...	4.3	3.9	3.8	3.5	2.8	2.1	1.8		
Exports of goods and services (millions of U.S. dollars)	12,627	14,119	15,774	18,087	20,647	23,494	26,677	29,739	32,473		
Debt service (millions of U.S. dollars) 2/	678	724	779	843	913	999	1067	1076	1086		
Quota (millions of SDRs)	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3		
Gross international reserves (millions of U.S. dollars)	4,272	5,297	5,941	6,830	7,842	9,096	10,576	11,636	12,584		
GDP (millions of U.S. dollars)	64,812	72,440	80,435	87,258	95,517	105,257	115,925	127,674	140,614		

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

1/ Including ENDA purchase of SDR 133.325 millions (25 percent of quota) in April 2008. No subsidization of ENDA purchase is assumed.

2/ Including IMF repurchases and repayments in total debt service.

3/ Subsidization of rate of charge on ENDA purchase is subject to the availability of subsidy resources.

ANNEX: BANGLADESH: FUND RELATIONS
(As of January 31, 2008)

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

II. General Resources Account:	<u>SDR million</u>	<u>Percent Quota</u>
Quota	533.30	100.00
Fund holding of currency	533.04	99.95
Reserve position in Fund	0.28	0.05

III. SDR Department:	<u>SDR million</u>	<u>Percent Allocation</u>
Net cumulative allocation	47.12	100.00
Holdings	0.49	1.05

IV. Outstanding Purchases and Loans:	<u>SDR million</u>	<u>Percent Quota</u>
PRGF arrangements	316.73	59.39

V. **Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	6/20/03	6/19/07	400.33	316.73
ESAF	8/10/90	9/13/93	345.00	330.00
SAF	2/06/87	2/05/90	201.25	201.25

VI. **Projected Payments to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	2008	2009	2010	2011	2012
Principal	4.95	14.85	29.70	49.88	63.35
Charges/Interest	3.08	2.98	2.85	2.64	2.35
Total	8.03	17.83	32.55	52.52	65.69

VII. **Safeguards Assessment**

Under the Fund's safeguards assessment policy, Bangladesh Bank (BB) is subject to an assessment with respect to the PRGF arrangement, which was approved on June 20, 2003 and augmented on July 28, 2004. A safeguards assessment of the BB was completed on January 24, 2005 and concluded that substantial risks exist in the legal, financial reporting,

internal audit, and systems of internal controls. The assessment proposed recommendations to address them. The authorities have appointed a local affiliate of an international firm to audit, in accordance with International Standards on Auditing, the financial statements of the BB for financial year 2007.

VIII. Exchange Arrangement

Exchange regime. The exchange regime is characterized as a managed float with no preannounced path for the exchange rate. Until end-May 2003, the taka was fixed to the U.S. dollar, but was periodically adjusted. It was devalued on three occasions during 2000–02, when the trading band for BB’s transactions was correspondingly widened or raised. From January 2002 until end-May 2003, the official band for the taka remained unchanged at Tk 57.4–58.4 per U.S. dollar. Authorized dealer (AD) banks set their own buying and selling rates for the U.S. dollar and other currencies generally within the band until October 2002. From November 2002, however, AD banks have set rates outside the band. Effective end-May 2003, BB no longer announced a trading band for its foreign exchange transactions.

At the last Article IV consultation (June 2007), the Executive Board urged the authorities to remove the restriction on the convertibility and transferability of proceeds of current international transactions in nonresident taka accounts.

IX. Article IV Consultation

The previous Article IV consultation was concluded on June 22, 2007 (IMF Country Report No. 07/234).

X. Resident Representative

The resident representative office was established in 1972. The current Resident Representative, Mr. Jonathan Dunn, took up the post in August 2004.

Dhaka, Bangladesh
March 14, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

Further to my letter of February 18, 2008, I am writing to request assistance from the IMF under the policy on Emergency Assistance for Natural Disasters (ENDA). The assistance would be used to fill the short-term balance of payments financing gap arising from the consecutive natural disasters that struck Bangladesh in the latter half of 2007. Accordingly, reflecting the severity of the situation, we request a purchase in an amount equivalent to SDR 133.325 million (25 percent of quota) under the Fund's policy on ENDA and further request a subsidy on the rate of charge on such purchase, subject to resource availability.

The damage from the two natural disasters is severe. We need to ensure that there is no lasting fallout from the natural disasters that have negatively affected people's livelihoods and the overall economy. Two consecutive floods between July and September 2007 killed over a thousand people and resulted in substantial damage to the agriculture sector. This situation was further compounded by the cyclone that struck the country on November 15, 2007 killing nearly 4,000 people, adversely affecting the lives of 8.7 million people, and severely damaging the rice crop. While we are fortunate that the loss of human life from the cyclone was relatively low due to our effective early warning system, there was substantial loss of assets, including livestock, shelters, houses, roads, bridges, culverts, embankments, and many public utility establishments and equipment. The combined impact of the floods and cyclone is estimated to be around US\$2.7 billion (3.7 percent of GDP). The damage and losses were primarily in coastal districts, where poverty levels were already higher than the national average.

The government has moved swiftly to alleviate the impact of these disasters. Following the floods, we activated emergency response committees in affected districts and established an operations center in Dhaka to coordinate relief activities. To assist the flood-affected households, the government also expanded the Vulnerable Group Feeding program by targeting about 3 million additional families. We also distributed clothing and bundles of corrugated iron sheets, along with cash grants and house-building grants.

Following the cyclone, we built on these programs, by establishing food security, shelter, health care, and income support programs in the affected areas. These activities are expected to cost around US\$300 million, much of which has been incurred already. We have also begun to repair and reconstruct vital transport and power infrastructure. The long-term reconstruction program is expected to cost around US\$1 billion over a five year period.

The overall effect on GDP growth of the two disasters is likely to be around 0.7 of a percentage point in 2007/08, mainly due to the devastating impacts on agricultural production and fisheries in the affected areas. We estimate that the direct budgetary cost of relief activities will be in the order of 0.6 percent of GDP in 2007/08. The additional expenditure is expected to be mostly met from new and existing sources of external concessional financing and from improved revenue performance. Nevertheless, we will have to reprogram a significant amount of budgeted expenditure, mainly from lower priority capital projects, in order to avoid overrunning our domestic financing target.

The most significant impact of the disasters will be on the balance of payments—which were already under pressure from high world oil and food prices and a slowdown in garments exports. We now expect that we will need to import more than 10 times as much rice as in previous years at import prices that are now 60 to 70 percent higher than one year ago. We are, in addition, faced with a requirement to import additional fertilizer at much higher prices in order to help make up food crop losses through a larger Boro rice harvest. With an estimated total short-term need for additional imports of more than \$600 million and a disaster-related reduction of exports of around \$60 million (on account of lost shrimp exports), the pressure on the balance of payments has intensified significantly and our current account balance is now negative for the first time in several years. Fortunately, the international community has responded positively to our requests for emergency assistance, and emergency aid from the World Bank, AsDB, and key bilateral donors has already filled around \$400 million of this financing need. However, a substantial gap still remains and the urgent need for a large volume of food imports in the coming months will lead to a depletion in our international reserve position to below the level we were targeting under the recent PRGF-supported program.

Funds purchased under the ENDA facility would help alleviate these pressures and assist us to continue to maintain our international reserves at above three months of import coverage. We will continue to operate a flexible exchange rate policy, aiming to supplement our international reserve position where possible. The government of Bangladesh does not intend to introduce any new, nor intensify existing exchange restrictions or multiple currency practices as per the provisions of Article VIII of the Fund's Articles of Agreement. Furthermore, it does not intend to introduce any restrictions on, or changes to prevailing trade or payments arrangements. On the monetary side, we are confident that by containing domestic financing to the government to budgeted levels, we can implement the relief and recovery program while allowing monetary policy to maintain reasonable domestic price stability and support private sector growth.

Looking forward, the public expenditure profile will be influenced by post-disaster relief and reconstruction needs. Reconstruction of the affected areas will also be given priority in the allocation of public investment funds in the 2008/09 Annual Development Program. We remain, however, fully committed to maintaining a prudent fiscal stance and improving fiscal performance by continuing to broaden the tax base and improve the management of public revenues and expenditure.

Recent increases in revenue collections demonstrate our strong commitment to improving the fiscal position. We have recently taken steps to improve revenue administration and plan to step up our efforts in the latter part of this fiscal year, making use of Fund technical assistance, including through merging our Large Taxpayer Units, separating tax policy from administration, revising the income tax law, and improving VAT administration.

We are aware of the risk that low administered prices on fuel and electricity pose to our fiscal stance and intend to adjust these prices toward market rates at an appropriate time in the near future. We will also continue our efforts to reform other loss-making state-owned enterprises, and state-owned commercial banks.

We will continue to work closely with the IMF in monitoring macroeconomic developments and policies. The Article IV consultation in July 2008 will provide a useful opportunity to take stock of our recent achievements and reevaluate the macroeconomic impact of the natural disasters. It will also be a useful forum to discuss how our reform agenda will put in place a sound economic position that continues to reduce poverty and make progress toward MDG targets, while helping to set the stage for possible Fund-supported programs in the future.

Meanwhile, we will appreciate if our request noted in the first paragraph receives a favorable response.

Yours sincerely,

/s/

Dr. A. B. Mirza Md. Azizul Islam
Finance Advisor
Government of Bangladesh



Press Release No. 08/70
FOR IMMEDIATE RELEASE
April 2, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US\$217.7 million in Emergency Assistance for Bangladesh

The Executive Board of the International Monetary Fund (IMF) today approved SDR 133 million (about US\$217.7 million) in emergency assistance to Bangladesh to assist the government's efforts to deal with the impact of severe damage from a November 2007 cyclone that had followed severe monsoon-related flooding.

Cyclone Sidr and two preceding floods resulted in at least 4,400 deaths and disrupted the lives of millions of people in one of the poorest and most vulnerable regions of the country. Total damage, mainly to agriculture, housing and infrastructure, is estimated at US\$2.7 billion, or 3.7% of Bangladesh's GDP. The IMF's emergency assistance will support Bangladesh's international reserve position that has been put under pressure in the face of a sharp rise in disaster-related imports, including large volumes of food.

The IMF provides emergency assistance to member countries hit by natural disasters to help them meet immediate balance of payments financing needs, and to maintain or restore macroeconomic stability. Emergency assistance is repaid in eight equal quarterly installments over 3¼ to 5 years from the disbursement date. In line with the Executive Board's decision to subsidize emergency assistance for PRGF-eligible countries hit by natural disaster, the rate of charge on the assistance will be subsidized to 0.5 percent per annum, subject to resource availability (See [Public Information Notice No. 05/8](#)).

At the conclusion of the Executive Board's discussion on Bangladesh, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, said:

“We extend our deepest sympathy to the people of Bangladesh. The destruction, suffering, and loss of life caused by the floods of July-September and the cyclone of November 15 were devastating. It will take years to repair the physical damage, while the human loss is irretrievable.

“The government, with the support of the international community, responded swiftly to the catastrophe. The authorities allocated food to expand the Vulnerable Group Feeding Program

and provide for open market sales of rice. Budgetary funds have been allocated to augment social safety nets and to fund additional subsidies for fertilizer and fuel. Increased revenue collections, the reallocation of funds within the budget, and additional donor assistance have kept the budgetary impact of the disaster response within the parameters of the FY2008 budget.

“Damage to the agricultural sector will reduce economic growth in FY2008. The balance of payments has been adversely affected by the disasters, largely owing to a substantial rise in food imports, which has led to some pressure on international reserves. Support from the international community, including emergency assistance from the IMF, will therefore be crucial for financing needed imports while allowing international reserves to remain at about three months of import coverage. Ensuring that pledged aid commitments from donors are effectively mobilized and efficiently used will be crucial for the ultimate success of the recovery and reconstruction program.

“As relief and reconstruction efforts proceed, the limits to implementation capacity and potential inflationary pressures will be an important consideration. In this regard, it is reassuring that the authorities intend to contain domestic financing of the government to budgeted levels. Looking forward, a recovery in agricultural production, reconstruction activity, and an improved business climate should allow growth to recover in FY2009 to Bangladesh’s medium-term potential growth path.

“The government is also working with stakeholders and donors to further improve the institutional setting for disaster management by developing a specific Disaster Response Fund, exploring other means of financial support, and establishing a dialogue with all development partners on a risk mitigation agenda related to global climate change.

“The government has indicated their intention to maintain macroeconomic stability and pursue important reforms in the areas of revenue administration and policy, expenditure management, energy pricing, and state-bank reform,” Mr. Kato said.

**Statement by Adarsh Kishore, Executive Director for Bangladesh
and Ranjit Bannerji, Senior Advisor to Executive Director
April 2, 2008**

1. My authorities would like to record their appreciation to the IMF staff for putting together an objective and balanced report to support our request for Emergency Natural Disaster Assistance. On November 15, 2007, super-cyclone Sidr struck Bangladesh on the heels of two debilitating floods, leaving a trail of death, destruction and dislocation. My authorities have requested a purchase of an amount equivalent to SDR 133.3 million under the Fund's policy on ENDA with a subsidy on the rate of charge for such purchase through their letter of March 14. The request was made only after a clearer understanding of the resource gap following completion of a joint government-donor assessment of the damage, securing the commitment of donor support against the assessed damages, and analyzing the revenue position and determining feasible reallocation of resources within the budget to address the challenges the country is facing.

Impact of Super Cyclone Sidr:

2. At least 4,400 people died and 55,000 were injured, and a staggering 8.7 million people were displaced and had their livelihoods disrupted due to damage to their homes, infrastructure and crops in the field. Many deaths were averted thanks to an effective cyclone early warning system in place in the coastal areas, but livestock, infrastructure and other assets could not be protected from the tidal surge that visited along with the cyclone. The severity of destruction was more in evidence in the coastal area, home to the poorest segments of the society.
3. The joint assessment conducted by the Government, World Bank and other donors, determined the loss of assets and damage caused by the twin-floods and the cyclone at US\$2.7 billion or 3.7 percent of the GDP. The damage was concentrated mainly in the housing, agriculture, fisheries and transport sectors with the private sector sustaining most of the damages.

Response:

4. The relief and reconstruction planned by the Government during FY08 is estimated to cost US\$850 million. Out of this, external funding of about US\$ 450 million has been secured from development partners in a blend of US\$ 220 million in grants which is extra budgetary and another US\$ 225 million as direct budget support from the World Bank and AsDB. The gap of another US\$ 220 million has to be met from improved revenue collection and reallocation of funds from within the budget.
5. While the last PRGF arrangement ended in June 2007, the Government's resolve on maintaining reforms has remained firm. Looking forward, the government will continue to work to promote economic growth, generate employment, reduce poverty and put the country on a higher growth trajectory. The disaster-related shocks referred

to above, however, have been made worse by the external shocks of spiraling food, fertilizer and oil prices. The shocks have together negatively impacted food production, restoration of communication systems and infrastructure, and general inflation.

6. My authorities have quickly allocated 430,000 tons of food to expand the Vulnerable Group Feeding Programme and Open Market Sales of rice for immediate relief. They have allocated Taka 40 billion as against budgeted Taka 22.5 billion for fertilizer and direct diesel subsidy, enough to cater to 80 percent of augmented demand. Taka 40 billion obtained by pruning lower priority Annual Development Plan (ADP) projects has been diverted to augment social safety nets and fund subsidies amounting to Taka 68 billion. Despite the increased outlay, the overall budget deficit is expected to be close to the originally projected budget deficit for the year. This will be made possible through the remarkable rise in revenue collection (25 percent in tax and 34 percent in non-tax revenue), the high flow of concessional foreign assistance directed at supporting flood and cyclone recovery efforts, and the reallocation of resources away from low priority ADP projects.

BOP Pressures:

7. As anticipated, rice (and other food) imports have jumped sharply, with the cost of combined private and public sector rice imports through January 2008 rising almost nine fold—to US\$455 million—compared to the same period in the previous fiscal year. Total rice imports arising because of the disasters are now expected to exceed the earlier estimated 1.25 million metric tons due to government's decision to expand further its open market sales of rice so that it may ensure food security for the country's most vulnerable groups. Balance of payment pressure has also risen further due to recent increases in oil and other commodity prices. Of specific concern is the sharp rise in international rice prices in recent months. The assistance my authorities are requesting from the Fund under the ENDA policy will help to ensure that the reserve position is protected in the face of looming large food imports during the remainder of this fiscal year.

Conclusion:

8. In sum, my authorities would like to express their appreciation to the IMF for its assistance as Bangladesh faces economic dislocation arising from the natural disasters. My authorities approve the publication of the staff report and their letter of intent following the conclusion of this Executive Board meeting.