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BANGLADESH

April 2012

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

In the context of the Bangladesh—request for a three-year arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- **Staff Report** for the Bangladesh—Request for a Three-Year Arrangement Under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on February 15, 2012 with the officials of Bangladesh on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 28, 2012. 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.
- **Staff Statement** of April 5, 2012.
- **Press Release** summarizing the views of the Executive Board as expressed during its April 11, 2012 discussion of the staff report that completed the request.
- **Statement by the Executive Director** for Bangladesh.

The documents listed below have been separately released.

Letter of Intent sent to the IMF by the authorities of Bangladesh*
Memorandum of Economic and Financial Policies by the authorities of Bangladesh*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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BANGLADESH

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

March 28, 2012

KEY ISSUES

Background: Macroeconomic pressures have intensified since late 2010 due mainly to a negative terms-of-trade shock, rising oil imports, and accommodative policies. More recently, global headwinds and increasing oil prices have accentuated these pressures. As a result, the balance of payments went into a deficit in FY11 (July 2010–June 2011) and reserves declined significantly. The 2011 Article IV consultation staff report noted that without policy adjustments and additional external support, further anticipated reserve losses would heighten vulnerability to external shocks and increase risk of a payments crisis.

Program objectives: The government of the People's Republic of Bangladesh has requested a three-year Extended Credit Facility (ECF) arrangement with access of 120 percent of quota (SDR 639.96 million) in support of their reform program. It aims to restore macroeconomic stability, strengthen the external position, and engender higher, more inclusive growth—Bangladesh's key development objective. During the program period, the authorities are committed to taking actions to create more fiscal space, reinvigorate the financial sector, and catalyze additional resources to boost social- and development-related spending, tackle power shortages and the infrastructure deficit, and stimulate export-oriented investment and job growth.

Main components: Under the ECF-supported program, the main components are upfront macro-tightening measures buttressed by greater exchange and interest rate flexibility, sound debt management, and complementary reforms to tax policy and administration, public financial management, and the financial sector. Longer-term measures are also expected to focus on liberalizing the trade and investment regime.

Risks: A further rise in world oil prices could jeopardize the program's fiscal and reserve targets, necessitating additional policy adjustments and external support. Delays in legislative actions, weaknesses in implementation capacity, and opposition to a rationalization of energy subsidies without better-targeted support could undermine program objectives. These concerns will be addressed through extensive policy consultations and sizable technical assistance, as well as safety net reform.

Approved By
Masahiko Takeda and Thomas Dorsey

A staff team comprising Messrs. Cowen (head), Almekinders, and Toh and Ms. Kvintradze (Resident Representative) (all APD); Ms. Kaendera (FAD); and Mr. Leichter (SPR) visited Dhaka during November 30–December 13, 2011 and February 7–15, 2012. Mr. Maino (MCM) participated in the first mission. Mr. Eapen (OED) also joined the December discussions. Mses. Hussiada and Loucks (APD) assisted in the preparation of this report.

CONTENTS

TABLES

FIGURES

BOXES

ANNEX

APPENDIX

BACKGROUND

1. Over the past 18 months, macroeconomic pressures have intensified in Bangladesh, resulting in a marked deterioration in its external position. These pressures stem mainly from large oil and capital imports associated with new fuel-intensive power stations, an oil price-driven terms-of-trade shock, and expansionary fiscal and monetary policies. As a result, the balance of payments (BOP) slipped into a deficit in FY11 (July 2010–June 2011) for the first time in a decade. Much of the foreign reserve buffer built during 2009–10 was used up in 2011, against the backdrop of limited exchange rate flexibility. A now-weaker global outlook and firming in oil prices weigh on the near-term BOP prospects, while ongoing efforts to address power shortages and infrastructure deficit are expected to add to pressures.

2. The government of Bangladesh is seeking a three-year ECF arrangement, in support of a comprehensive reform program. It centers on restoring macroeconomic stability, building an adequate reserve buffer, and laying a foundation for higher, more inclusive growth. Achieving these objectives will require prudent fiscal and monetary policies, deep-seated structural reforms, and exceptional financing in the transitional period. Notably, Bangladesh will need to make a decisive break from its low tax revenue-low capital spending-low investment nexus (Figure 1). Program commitments have been laid out in the government's Letter of Intent and Memorandum of Economic and Financial Policies (MEFP) (Appendix I). During the first year of the ECF arrangement, the main program components center on upfront macroeconomic stabilization, supported by exchange and interest rate flexibility and tax, public financial management (PFM), and financial sector reforms.

RECENT DEVELOPMENTS AND OUTLOOK

3. Recent economic developments in Bangladesh have been broadly in line with those envisaged in the 2011 Article IV consultation staff report (see Country Report No. 11/314). The near-term macroeconomic outlook remains challenging, with risks posed by external, fiscal, and inflation pressures (Figures 2–6). With oil prices firming and global growth decelerating in the first half of FY12, the immediate balance of risks is to the downside.

- **Growth and inflation.** Real GDP growth is expected to moderate to 5.5 percent in FY12 from 6.7 percent in the previous year (Table 1). Weaker net exports and slower investment growth are the main factors. Private consumption growth is also expected to be affected by relatively high inflation. Headline inflation was 10.4 percent (y/y) in January 2012, driven mainly by administered energy price hikes and relatively loose macro-policies. It is expected to rise to around 12 percent by end-FY12, owing to seasonal factors and further electricity tariff hikes, then moderate to 10 percent by December 2012 as policy tightening takes hold.
- **Balance of payments.** The BOP is expected to remain in deficit in FY12 (Table 3). Developments are being driven mainly by the current account, which is expected to register a deficit of around

1.1 percent of GDP in FY12, compared to a surplus of 0.2 percent of GDP in the previous year. The trade deficit widened significantly in the first half of FY12. Export growth slowed sharply from its record pace in FY11. Non-oil import growth also slowed, given the taka's recent depreciation and tightening credit conditions. However, oil import demand continued to expand rapidly. On the positive side, remittances growth has picked up, reflecting firming manpower exports as well as a weaker exchange rate.

- **Foreign reserves.** Foreign reserves were at US$9.3 billion at end-February 2012—down by more than US$1.2 billion from their October 2010 peak. Despite greater exchange rate flexibility and other adjustment measures, reserves are expected to further decline to US$9.2 billion at end-June 2012 (2.3 months of import cover), with oil imports looming large.

4. The authorities have taken significant measures in recent months to mitigate pressures. Foremost, they have sought to contain subsidy costs by adjusting fuel and electricity prices, given distortive effects across the economy (Box 1). As a result, government domestic borrowing, which spiked in the first half of FY12, has retracted modestly. However, the total subsidy bill remains large, risking further crowding out of social and development spending. Bangladesh Bank (BB) has tightened monetary policy, raising its repo rate by a cumulative 325 bps since August 2010 to 7.75 percent and imposing a penalty rate (at 300 bps higher) for most discretionary liquidity support.[1] Treasury bill and bond rates have also been allowed to rise significantly across maturities and bank lending rates have been further liberalized. The central bank has taken other prudential measures to reduce credit growth and refrained since late 2011 from foreign exchange intervention to protect reserves, allowing the exchange rate to absorb more external pressures.

5. The medium-term outlook hinges on policy adjustments needed to strengthen the external position and create conditions for higher growth. Under the program baseline, GDP growth is expected to rise to 7 percent by FY15 (Table 2) on structural reforms aimed at raising investment levels (supported by expanded savings) and reducing the power and infrastructure constraints in a sustainable manner. Higher growth also hinges on increasing skill levels and creating new jobs, taking full advantage of Bangladesh's favorable demographics and proximity to major regional markets. Inflation is expected to be brought down to the single digits by FY13 through appropriately restrained fiscal and monetary policies and, over time, by a further easing of supply constraints. The current account is projected to be broadly in balance by FY15, as remittances continue to grow moderately and export growth outpaces import growth on account of a rebound in global economic activity and the supply-side

[1] Bangladesh Bank has three windows for conducting repo operations: regular repo, emergency repo (regular repo plus the penalty rate), and the Liquidity Support Facility (LSF). The first two operations are done on a discretionary basis, while LSF operations are done on a nondiscretionary basis (i.e., they are reserved for primary dealers in Treasury securities, following a formula based on IMF technical assistance recommendations). From December 1, 2011 to date, no regular repo bids have been accepted by BB.

response to improved infrastructure, accompanied by greater export-oriented foreign direct investment (FDI). Reserves are programmed to reach nearly three months of import cover by FY15. This level would strengthen the buffer against external shocks and align with current metrics on reserve adequacy (Box 2).

POLICY SETTING AND COMMITMENTS

6. The ECF-supported program encompasses four main reform pillars viewed necessary to ensure macroeconomic stability, external viability, and sustained growth. In the design of the first year of the ECF-supported program, macro-policy tightening has been weighed against the uncertain global environment, with the balance of risks pointing to the need to contain demand-side pressures despite the anticipated growth slowdown. Reform objectives are broadly consistent with Bangladesh's Sixth Five Year Plan (SFYP) (FY11–15) and are also expected to be embodied in the government's annual budget and BB's semi-annual monetary policy statements. During the first year, the ECF arrangement is underpinned by quantitative performance criteria (PC) and indicative targets (IT) (MEFP Table 1) and macro-critical prior actions and structural benchmarks (MEFP Table 2).

7. The main risks to the program are:

- Limited scope to relax fiscal or monetary policy in the event of adverse real shocks, given heightened inflation and reserve losses. On this count, a sharper-than-expected slowdown in the euro area is a major external risk, given sizable ready-made garment exports to this region.
- Prolonged delays in adjusting fuel, electricity, and fertilizer prices and/or unanticipated increases in import-related costs, possibly from an oil price shock, exerting greater pressure on the fiscal and external positions.
- Over the medium term, a less stable political environment in the run up to elections in early 2014, slowing adjustment and reforms and/or weakening support for the program.

In addition, weak implementation capacity and governance issues could slow the pace of reform. These issues prevented decisive progress in a few areas under the last PRGF arrangement (2003–07), notably in tax reform and administration. To mitigate these risks, the program envisages extensive policy dialogue and technical assistance (TA), anchored by resident/regional advisers and supported by development partners (DPs), as outlined in the MEFP.

A. Reform Pillar #1—Fiscal Policy and Reforms

8. Main issues. Despite recent gains in tax revenue mobilization, fiscal pressures have emerged, stemming mainly from rising fuel, electricity, and fertilizer subsidies. The below-cost provision of fuel and electricity against the backdrop of a rapid expansion in oil-dependent power generation has placed a major burden on the FY12 budget and had other distortive effects. As a result, government domestic borrowing surged in the first half of FY12. In view of this, the authorities have taken a range of measures concentrated on containing subsidy-related costs and reducing nonessential spending to limit the overall fiscal deficit (excluding grants) to

4.5 percent of GDP in FY12 (Table 4). On-budget subsidy-related losses of the Bangladesh Power Development Board (BPDB) and Bangladesh Petroleum Corporation (BPC) have been restricted to Tk 150 billion (1.6 percent of GDP) (a prior action).[2] Overall, the programmed deficit in FY12 is modestly lower than originally budgeted, but it will still necessitate a programmed increase in domestic bank financing, mainly in view of slow uptake in nonbank financing and shortfalls in external budget support.

9. Program objectives. The program seeks moderate fiscal consolidation over the medium term, with the overall fiscal deficit (excluding grants) expected to narrow by 1 percentage point to 3.5 percent of GDP by FY15. During the program period, off-budget financing of quasi-fiscal losses of large energy- and fertilizer-related state-owned enterprises (SOEs) will be phased out, in effect doubling the amount of programmed fiscal adjustment.[3] These targets will be met mainly by increasing tax revenue to around 12.5 percent of GDP by FY15 and containing subsidy costs through greater pass-through of energy and fertilizer costs to end-users, with appropriate safeguards for vulnerable groups put in place. Achieving these objectives is expected to create sufficient fiscal space to ramp up Annual Development Program (ADP) spending as a share of GDP to 6 percent by mid-decade from an average of around 4 percent in recent years. Complementary efforts will also be needed to improve aid utilization.[4] Fiscal performance under the ECF-supported program will be anchored by a PC (ceiling) on net credit to the central government by the banking system and an IT (floor) on tax revenue. Underpinning these targets will be a range of structural fiscal reforms, as discussed below.

10. Contingencies. Despite a limited fiscal buffer, the authorities could redouble efforts to increase externally-funded ADP spending to counter a negative real shock (e.g., a prolonged euro area recession). Faster-than-envisaged adjustment in energy prices could also be necessary in the face of an adverse oil price shock, to contain subsidy-related costs in the budget. In each case, a reprioritization of spending could help bolster safety nets.

11. Policy reforms. To achieve these objectives, the program aims to:

- **Accelerate tax policy and revenue administration reforms** (MEFP, ¶8–9). In support of the program's tax revenue targets, extensive efforts are under way in the National Board of Revenue (NBR) to strengthen revenue administration and broaden the tax base by automating systems, registering taxpayers, and improving voluntary compliance. Over the near- to medium-term, this work is expected to be guided by a tax modernization plan under preparation with donor assistance. As a centerpiece of this

[2] Over the past year, the authorities have undertaken a series of administered energy price hikes aimed at capping subsidy costs. On fuel, prices were increased in May, August, and November 2011 and in January 2012 by a cumulative 39 percent for diesel and kerosene and 50 percent for fuel oil. For electricity, weighted average bulk and retail tariffs were increased in November 2011 and February 2012 by a total of 34 percent and 20 percent, respectively. As of mid-March 2012, retail diesel prices would need to rise by around 45 percent to achieve the break-even level.

[3] As noted in Box 1, the consolidated fiscal deficit is projected to be around 5.7 percent of GDP in FY12; it is inclusive of the off-budget losses of the large SOEs (1.2 percent of GDP in FY12).

[4] The low rate of aid utilization in Bangladesh arises mainly from lengthy project approvals and preparations, irregular procurement processes, and weak implementation capacity in line ministries.

plan, a new value-added tax (VAT) law was approved by Cabinet in March 2012 (prior action) and is due to be submitted to Parliament by June 2012 (program benchmark). As a follow-up measure, a VAT implementation plan and timetable and new organizational structure for the NBR are to be approved by September 2012 (program benchmark). The authorities also continue their work on a direct tax law, with a draft expected to be finalized in FY13. The law would be anchored by a new income tax code with a view to limiting exemptions and concessions and rationalizing rates and thresholds. As a precursor, tax concessions and exemptions equivalent to 0.5 percent of GDP will be removed in the FY13 Finance Bill to be submitted to Parliament in June 2012 (program benchmark). An alternative dispute resolution mechanism, officially launched in March 2012, is expected to become fully operational in FY13. Finally, the issuance of taxpayer identification numbers will be automated by December 2012, with links established to the national identification and business identification systems (program benchmark).

- **Contain subsidy-related costs** (MEFP, ¶10–11). Concerted actions will be taken to contain subsidy-related losses of key SOEs and ensure adequate budgetary resources for more critical spending needs. Meeting fiscal targets in FY13 will hinge on further energy price adjustments. An automatic adjustment mechanism for retail petroleum prices is expected to be adopted by December 2012 to ensure full pass-through of changes in international prices (program benchmark). Reflecting the authorities' commitment to limit quasi-fiscal borrowing by SOEs to cover losses, the program also has an IT (ceiling) on net lending by state-owned commercial banks (SOCBs) to large energy- and fertilizer-related SOEs.
- **Strengthen public financial management** (MEFP, ¶12). Under the program, PFM reform is expected to be guided by the World Bank-coordinated Strengthening Public Expenditure Management Program, which seeks to bolster strategic planning, budget management, and public financial systems, supported by TA and training. In the near term, the authorities aim to improve cash and debt management by commencing regular preparation of bi-weekly projections of the Treasury Single Account balance by June 2012. New budget management wings/branches in all line ministries and uniform budget implementation and reporting standards are to be put in place by June 2012 (program benchmark). The authorities are also committed to completing a Fiscal Report on Standards and Codes in FY13 to increase budget transparency.
- **Improve ADP implementation and public-private partnerships (PPPs) mechanisms** (MEFP, ¶13 and ¶15) To boost aid utilization, the authorities are foremost committed to building project appraisal capacity, streamlining land acquisition procedures, and strengthening government-donor interface, including through the local consultative group of DPs. The government also set up an inter-ministerial committee in FY11 to prioritize large projects. Given large aid commitments, restrictions on substituting taka funding for shortfalls in the externally-funded ADP budget were introduced in January 2012 (prior action), also to help achieve fiscal targets in FY12. Operational and institutional guidelines are

also being established for PPPs, with TA from the Asian Development Bank (AsDB). Earlier steps were taken to ensure technical and viability gap funding provided by the government was consistent with the medium-term budget framework through the formation of a cell in the Ministry of Finance (MoF) to assess fiscal implications of proposed PPP projects.

- **Safeguard social spending and safety nets** (MEFP, ¶14). Efforts will be made to ensure adequate budgetary provisions for social spending during the program period. Performance will be monitored through an IT (floor) in this area. Regarding social safety nets (SSNs), Bangladesh has a number of operating schemes, although some of them are weakly administered and/or poorly targeted (Annex I). Under the program, resources are expected to be freed up from energy subsidies currently in place and through better designed SSN programs to compensate households most vulnerable to rising fuel and food prices, building on World Bank TA and the work of non-governmental organizations and other DPs in this area.
- **Strengthen debt management** (MEFP, ¶16–17). Maintaining a sustainable fiscal stance will be critical to ensuring sound debt management. The Joint IMF-World Bank Debt Sustainability Analysis in the 2011 Article IV consultation staff report concluded that Bangladesh faced a low risk of external debt distress, which is consistent with the current outlook. At the same time, it recognized the need to continue contracting external borrowing on highly concessional terms, which remains a cornerstone of the government's debt management strategy (DMS). Under the program, standard PCs (ceilings) exist on new nonconcessional borrowing (short and medium-to-long term) and external payment arrears. The authorities are taking steps to mobilize more nonbank financing by benchmarking yields on National Savings Certificates to market-based returns. In addition, they are weighing carefully the benefits of a possible sovereign issue to ensure that any such borrowing is consistent with their DMS and preferably tied to high-return infrastructure projects.

B. Reform Pillar #2—Monetary and Exchange Rate Policy Reforms

12. Main issues. Accommodative monetary policy coupled with expansionary fiscal policy, alongside inadequate exchange rate flexibility, has contributed to recent inflationary pressures and reserve losses. Tightening measures now appear to be taking hold, with private credit growth at 19 percent (y/y) in January 2012 compared to an all-time high of 29 percent in March 2011 (Table 5). At the same time, greater fiscal discipline will be necessary to avoid undermining central bank liquidity management, forcing heavy devolvement of Treasury instruments, and putting undue pressure on bank lending rates.

13. Program objectives. Monetary and exchange rate policy will be aimed at reducing aggregate demand pressures, stabilizing inflation expectations, and stemming reserves losses, while at the same time providing adequate room for private sector credit growth. The monetary stance will be anchored by a PC (ceiling) on net domestic assets of BB—its main operating target—complemented by an IT (ceiling) on reserve money as a nominal anchor. To achieve program targets, BB has agreed to further tighten monetary policy, as necessary, and at the same time improve overall liquidity management. A modest buildup in net international reserves (NIR) of BB, as a PC (floor), will also be targeted in the first year of the ECF arrangement, with further increases programmed over the medium term to strengthen external buffers.

14. Contingencies. Adverse real and oil price shocks could add to reserve losses. If so, the exchange rate movements would need to continue absorbing external pressures. Further monetary tightening would have to be weighed against the strength of the fiscal impulse, in response to the shock, and underlying trends in non-food, non-energy inflation.

15. Policy reforms.

- **Strengthen liquidity management and monetary transmission mechanisms** (MEFP, ¶19). Bangladesh Bank is taking steps to improve liquidity management by ensuring policy rates and Treasury yields are aligned with market conditions. In this context, it remains committed to allowing banks to set interest rates, as demonstrated by BB's removal of most remaining lending rate caps in January 2012 (prior action).[5] To address possible systemic liquidity shortages, a lender of last resort policy and contingency plan are expected to be finalized by May 2012.
- **Allow greater exchange rate flexibility and improve market operations** (MEFP, ¶20). To boost turnover in the foreign exchange markets to alleviate pressures on reserves, BB will allow interbank transactions at market-determined rates and limit its intervention to smoothing short-term volatility, consistent with meeting NIR targets. Bangladesh Bank ceased issuing foreign exchange overdrafts in December 2011 and will reduce their outstanding balances to zero by June 2012 (program benchmark), in keeping with sound reserve management.
- **Improve central bank operations** (MEFP, ¶21). The program includes steps to strengthen BB's financial operations, as identified in the IMF safeguards assessment concluded in July 2011, updating the 2005 assessment.[6] In particular, the government floated a tender in March 2012 for an internationally-affiliated firm to conduct an external audit on BB's end-June 2012 accounts (prior action). In addition, BB has begun implementing a fully automated accounting system to ensure timely and comprehensive financial reporting.

[5] Lending rate caps remain on agricultural loans and short-term pre-shipment credits for exports.

[6] The latest safeguards assessment found that BB's governance structure and legal underpinning need to be updated to strengthen autonomy and better safeguard resources. It also identified significant vulnerabilities in the external and internal audit mechanisms, along with inadequate oversight by the BB's board and audit committee.

C. Reform Pillar #3—Financial Sector Reforms

16. Main issues. Rapid growth in the banking sector and equity markets has strained supervisory capacity and heightened systemic risks. While financial soundness indicators (FSIs) have improved in recent years (Table 6), banking system stability could be undermined by systemic risks emanating from rising liquidity pressures, limited prudential oversight, and weak bank governance and risk management controls, most notably at the SOCBs. Over the past few years, these institutions have been subject to more outside interference, which has undermined earlier efforts to fully commercialize their operations. As a pioneer in microfinance, Bangladesh has made considerable progress in financial inclusion over the past few decades, but broader efforts will be needed to support more equitable growth, as envisaged in the SFYP (Box 3).

17. Program objectives. Financial sector governance will be strengthened to better manage risks and support growth, with steps toward this anchored by proper managerial and operational controls in banks, particularly those necessary to reduce fiscal risks posed by SOCBs. The ability of regulators to ensure sound bank governance will be enhanced by the establishment of clear oversight responsibilities and strong risk-based supervision. The performance of SOCBs is expected to be buttressed by steps taken to reduce the burden on them of energy subsidies (as discussed in Box 1).

18. Policy reforms.

- **Strengthen bank governance and oversight** (MEFP, ¶23). Foremost, the government will undertake the necessary legal and prudential reforms in order to establish a clear supervisory mandate for BB and strengthen internal governance at commercial banks. To achieve these objectives, relevant amendments to the Bank Companies Act (BCA) will be submitted to Parliament by September 2012 (program benchmark). In view of current liquidity pressures, limited supervisory capacity, and pending governance reforms, BB is expected to strictly enforce new bank licensing criteria to ensure a stable banking environment. It will also strengthen memoranda of understanding with each SOCB, in response to the findings of external audits of these banks in 2011 and the need to tighten their lending standards. In this context, the SOCBs will be urged to build their capital bases through larger retained earnings, in view of the nonstandard methods currently employed to meet Basel II capital requirements.
- **Improve BB's supervisory capacity and enforcement** (MEFP, ¶24). In support of this, BB will focus more resources on risk-based supervision and controls. It issued a set of risk management guidelines in February 2012 aimed at strengthening processes in place at commercial banks. Bangladesh Bank also intends to adopt a new organizational structure by May 2012 that consolidates management of on- and off-site supervisory wings. These efforts should allow a clearer picture to emerge of bank-by-bank performance, to be supported by further efforts to improve the integrity of FSIs. The central bank will also issue new loan classification and loss-provisioning guidelines embracing international best practices by June 2012 (program benchmark).

- **Contain risks posed by equity markets** (MEFP, ¶25). Consistent with the envisaged amendments to the BCA, BB plans to issue an order by September 2012 establishing limits on commercial banks' shareholdings in the stock market to 25 percent of total regulatory capital (program benchmark). Furthermore, approval will be sought from the Securities and Exchange Commission (SEC) by December 2012 of a demutualization model and plan for the Dhaka and Chittagong stock exchanges (program benchmark). Together, BB and the SEC will begin conducting consolidated supervision of merchant bank subsidiaries of commercial banks by mid-2012, with a view to bring all of these entities under BB's supervisory umbrella by mid-2013.

D. Reform Pillar #4—Trade and Investment Reforms

19. Main issues. Bangladesh remains a relatively closed economy owing to a restrictive trade regime. As a share of GDP, total trade was 48 percent in FY11, compared to an average of 74 percent among low-income ASEAN countries. Foreign direct investment also remains low by most measures, constrained by the trade regime, poor infrastructure, and the business climate. *Ad hoc* changes to the tariff regime are routinely made with each budget, as a second best to comprehensive tax policy reform.

20. Program objectives. Over the medium term, the government aims to reduce trade distortions, minimize anti-export biases, and strengthen regional linkages to ensure greater integration into the multilateral trading system. Improvements in the business climate are expected to come from maintaining a stable macroeconomic environment; developing a modern, transparent tax regime; ensuring a well-regulated financial system; and expanding social and physical infrastructure.

21. Policy reforms.

- **Rationalizing trade barriers** (MEFP, ¶28). A Diagnostic Trade Integration Study for Bangladesh, under preparation with the World Bank, is expected to be completed by early 2013. It will help guide policies for reducing tariff and nontariff barriers to trade during the program period, including para-tariffs arising from supplementary and regulatory duties, as tax revenues rise. Better infrastructure, particularly strategic investments in ports and transport, should facilitate more cross-border and transit trade activity with India.

- **Strengthen the investment climate** (MEFP, ¶29). Working with the International Finance Corporation along with the World Bank, the authorities will look to take steps to improve property registration, contract enforcement, and adjudication processes. Intensifying efforts to attract and retain FDI and diversify the export base will also be high priorities, supported by more enabling infrastructure, particularly in export processing zones.

PROGRAM MODALITIES

22. Program reviews. Semi-annual program reviews will be conducted (Table 7) based around quantitative targets and structural benchmarks. Test dates for the first and second program reviews will be end-June 2012 and end-December 2012, respectively.

23. Access and use. Under the current outlook and on the strength of envisaged reforms, the proposed access of SDR 639.96 million (120 percent of quota) has been determined by staff's assessment of the BOP financing need and guided by the norm of ECF arrangements for countries with outstanding concessional IMF credit of less than 100 percent of quota. Seven equal disbursements to BB are envisaged, beginning with program approval.

24. Gross external financing requirement. During the program period, the gross financing requirement is around US$19 billion, of which US$1 billion will be covered by the requested access to IMF resources and another US$0.6 billion from other exceptional financing (Table 8). Most of the rest of the external financing requirement will be met by multilateral and bilateral agencies (US$11.4 billion), led by the World Bank Group, AsDB, and Japan International Cooperation Agency, mainly as project-based lending; FDI (US$4.7 billion); and nonconcessional short-term oil credits (US$0.8 billion).

25. Capacity to repay. Bangladesh is expected to be able to meet its obligations to the IMF under the proposed ECF arrangement. With the proposed access, outstanding IMF resources would peak in Bangladesh's FY15 at SDR 670 million, equivalent to 1.7 percent of exports and remittances (Table 9). Debt service to the IMF (including previous obligations) would peak at SDR 131 million in FY13, equivalent to 0.4 percent of exports and remittances.

26. Poverty Reduction Strategy. Bangladesh's SFYP, entitled *Accelerating Growth and Reducing Poverty*, was released in July 2011. It provides a framework for implementing the government's poverty reduction strategy during FY11–15, as Bangladesh pushes to meet it Millennium Development Goals (Table 10). The government has also published its longer-term Outline Perspective Plan (2010–21), laying out its development vision, which will be implemented under the sixth and seventh five-year plans.

27. Technical assistance. Implementation of the ECF-supported program will be backstopped by considerable TA and capacity building from the IMF, World Bank Group, AsDB, and other DPs. Currently, the IMF envisages providing TA in a range of program-critical areas, notably follow-up tax reforms and VAT implementation; cash management, fiscal reporting, and subsidy reform; bank supervision and central bank accounting; and statistical methods. The World Bank Group is expected to continue focusing on revenue administration and tax reforms; PFM, SSN reforms, and vulnerability monitoring; central bank strengthening and financial sector reform; and statistical policy. The AsDB is also supporting revenue administration and involved in building a PPP operational framework and capital market development.

28. Statistical policy. The authorities are committed to strengthening macroeconomic statistics, in order to better inform policy decisions and monitor outcomes, guided by a national strategy for statistics under preparation with World Bank support and a new Statistics Act expected to be approved in 2012 (MEFP, ¶30). While data are adequate for program monitoring purposes, work is under way to address deficiencies in national income accounts and the BOP in the context of ongoing IMF TA.

STAFF APPRAISAL

29. Bangladesh faces major challenges in restoring macroeconomic stability, strengthening its external position, and engendering higher, more inclusive growth. These efforts come at a time of increased global headwinds and firming oil prices, making all the more urgent the need for decisive policy adjustments and structural reforms. The government's near-term objectives focus on bringing down inflation, rebuilding a reserve buffer, and solidifying the foundation for sustained growth. To these ends, credible, well-coordinated actions are needed to build upon stabilization measures already in train. While policy buffers are limited, contingencies are in place to mitigate external risk factors, consistent with achieving program targets. Medium-term objectives center on creating more fiscal space and catalyzing additional resources to boost social and development spending and reduce the infrastructure deficit. They also aim at reinvigorating the financial sector and further liberalizing the trade and investment regime to stimulate business creation and job growth.

30. In support, the three-year ECF arrangement embodies a comprehensive set of policy adjustments and reforms aimed at meeting these challenges. Its core priorities in the first year focus on macro-tightening measures, supported by greater exchange and interest rate flexibility, sound debt management, and reforms in tax policy and administration, PFM, and the financial sector, and, over the medium term, improvements to the trade and investment climate. Upfront actions have been taken to begin addressing external, fiscal, and inflation pressures. Program conditionality is focused on macro-critical areas to better ensure lasting adjustment. In support, a number of critical TA and capacity building requirements have been identified, to be met by the IMF and other DPs.

31. A credible path of moderate fiscal consolidation is expected to anchor stability and generate resources to support growth. Further gains in tax revenue and curbs on subsidies will be necessary to create additional fiscal space for development spending, restrain domestic borrowing, and meet program fiscal targets. On tax reforms, the draft VAT law presents an opportunity to usher in a modern tax regime built around transparency and efficiency. Similar decisive steps will be needed on a direct tax law. All are expected to be supported by comprehensive administrative reforms.

32. Recent fuel and electricity price adjustments have helped mitigate fiscal pressures, but the current situation warrants sustained vigilance. In view of the rapid expansion in demand and sustained rise in costs, further price changes and subsidy reforms will be necessary to ensure fuel, electricity, and fertilizer subsidies do not undermine fiscal sustainability, heighten dependence on costly suppliers' credit, or exacerbate broader stability concerns. These efforts are also expected to free up resources to mitigate the impact of rising energy and food prices on the most vulnerable. However, to achieve this objective, a clear strategy is needed to improve the design, breadth, and administration of safety nets.

33. Improved ADP implementation and sound debt management will also buttress growth with stability. On ADP spending, the government, line ministries, and DPs need to cooperate closely to resolve procedural bottlenecks and governance concerns that slow project implementation and aid utilization. Priority needs to be given to high-return projects—notably roads, bridges, and ports; electricity generation, transmission, and distribution; and health and education networks—in support of inclusive growth and poverty reduction. In keeping with this, debt management should factor in commitments of existing aid and access to concessional financing into future borrowing plans, taking a cautious approach toward a sovereign issuance, to ensure Bangladesh remains at a low risk of external debt distress and maintains manageable domestic debt levels.

34. Sound monetary management and exchange rate flexibility remain essential to reducing inflation pressures and building a reserve buffer. Policy tightening over the past year appears to be taking hold, but risks of backsliding remain high. Bangladesh Bank will need to resist calls to reduce interest rate flexibility or to contain exchange rate movements, in keeping with program monetary and reserve targets. At the same time, it should be prepared to further tighten monetary policy if macroeconomic pressures intensify. Success in meeting program targets will also hinge on greater monetary and fiscal policy coordination, ensuring that government domestic borrowing does not crowd out private sector credit or fuel inflation through excessive central bank financing of the budget.

35. A well-regulated financial sector will help reinforce macroeconomic stability and make it more responsive to growth-critical financing needs. Efforts to strengthen regulatory oversight, the supervisory framework, and internal governance of the banking system will need to be anchored by appropriate amendments to the BCA and associated changes to key prudential guidelines. In this context, BB's new oversight and enforcement powers should help it better manage systemic risks, in particular those posed by SOCBs, as the financial system matures, products and services expand, and the economy further opens, as necessary to support growth. New bank licensing criteria will also need to be strictly enforced to ensure a stable banking environment. Collaboration between the MoF, BB, and the SEC remains critical to contain banks' exposures to the equity market in view of recent volatility.

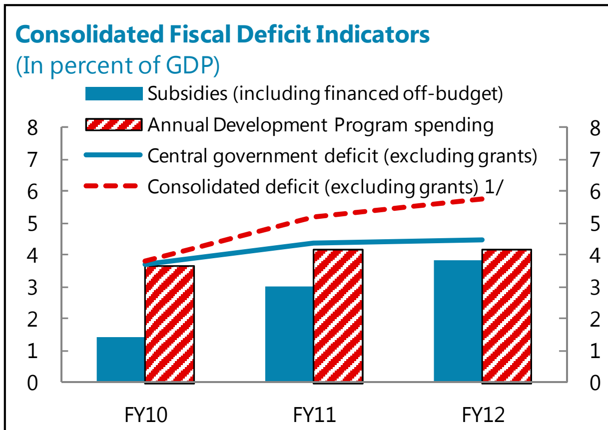
36. Strong implementation of the program will bring substantial benefits, but it will require broad ownership to mitigate risks. Efforts to realign policies and to jumpstart structural reforms are already under way. To build on this, the authorities are encouraged to work closely with political leaders, DPs, and civil society to sustain support for the program, which will be essential to achieving its objectives and bringing lasting adjustment. Staff recommend approval of the authorities' request for an ECF arrangement.

Box 1. Bangladesh: Managing Macro-Distortions Amid Energy Decompression and Subsidies[1]

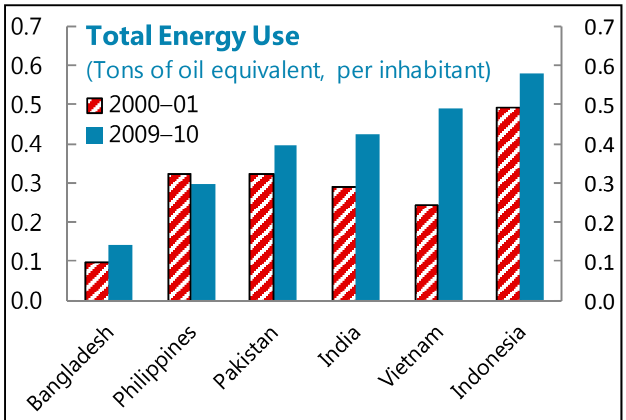
Starting in 2010, the government embarked on an ambitious plan to more than double electricity generation by 2016. Decades of underinvestment in the energy sector in Bangladesh have constrained energy availability and held back growth. Currently, per capita energy use is only one-third of that in India. In the short run, power generation is being boosted by installing "rental power plants" that run on diesel and furnace oil. Over the medium term, Bangladesh is planning to set up new power plants with more than 12,000 MW in total generating capacity (see Appendix I in IMF Country Report 11/314), effectively tripling current capacity.

Energy decompression has caused a surge in oil imports and BPC losses, with broad macroeconomic implications. The volume of fuel imports is projected to increase by 21 percent in FY12, following a 29 percent rise in FY11. On this basis, the oil import bill is expected to be around 5 percent of GDP in FY12—roughly doubling as a share of GDP over the past two years. Against the backdrop of rising international oil prices and the depreciation of the taka, low administered retail prices have led to rising BPC losses and fiscal pressures related to energy subsidies. In addition to borrowing from foreign oil suppliers, the state-owned BPC has resorted to additional loans from the SOCBs and the budget to cover its operating losses, adding to liquidity pressures. It has also depended on the SOCBs to provide much of the foreign exchange needed to import oil, which has exacerbated the distortions caused by inadequate exchange rate flexibility and led to pressures on foreign reserves.

- **The rising oil import bill has created challenges for fiscal and monetary policy and financial sector stability.** Official subsidies doubled to 3.0 percent of GDP in FY11 and are set to rise to 3.8 percent of GDP in FY12, almost equal to ADP spending. The increasing subsidy bill has contributed to a widening of the fiscal deficit, increasing the government's reliance on central bank financing and adding to inflation pressures. Accumulated losses of the BPC have also resulted in higher nonperforming loans (NPLs) for SOCBs, forcing the government to issue special



Sources: Bangladesh authorities; and IMF staff estimates and projections.
1/ Central government consolidated with BPC, BPDB, and BCIC.



Sources: BP Energy Statistics; and IMF WEO database.

recapitalization bonds to allow write-down of some of these NPLs, equivalent to around 0.3 percent of GDP in FY12.

- **The BPC has regularly lacked domestic currency to purchase foreign exchange for oil imports**. Key culprits were delayed budget transfers—themselves necessitated by low retail prices and inadequate cost recovery—and weaknesses in cash-flow forecasting. Liquidity problems on the side of the SOCBs were a compounding factor; owing to weaknesses in their asset and liability management alongside their drive to expand their loan portfolio amid low real deposit and lending rates, SOCBs have been increasingly unable to help the BPC meet its liquidity shortfalls. Over much of the past year, the SOCBs have been unable to buy foreign exchange for oil imports in the interbank market, as inadequate exchange rate flexibility depressed turnover in this market.

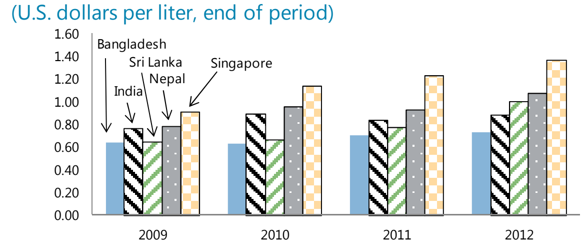
[1] Prepared by Gerard Almekinders (APD).

Box 1. Bangladesh: Managing Macro-Distortions Amid Energy Decompression and Subsidies (concluded)

- **To cope with the BPC and SOCBs' dual problems of taka and U.S. dollar liquidity shortages, BB started providing foreign exchange overdrafts (FXODs) to SOCBs in late 2010, alongside direct FX sales**. The stock of FXODs reached about US$0.5 billion in April 2011 and again in November 2011 (around 5 percent of gross reserves at the time). In October and November 2011 alone, BB provided US$0.8 billion in foreign exchange through FXODs and direct sales, contributing to a US$1 billion fall in net international reserves during the same period.

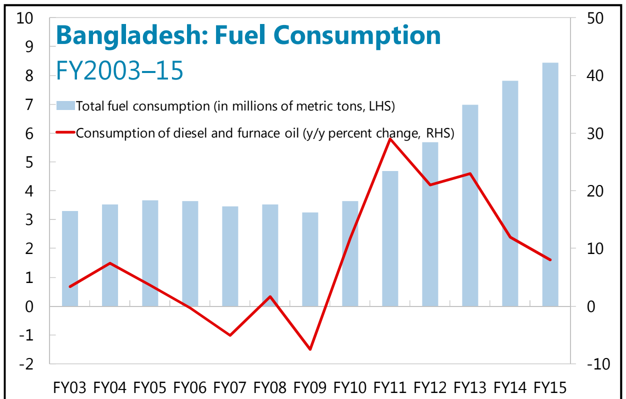
Regional Diesel Prices 1/

(U.S. dollars per liter, end of period)



Sources: Nepal Oil Corporation; and IMF staff estimates.

1/ For 2012, data are as of: Bangladesh (latest), India (latest), Nepal (latest), Singapore (February 1), Sri Lanka (February 11).



Sources: Bangladesh Petroleum Corporation; and IMF staff estimates and projections.

Since late 2011, the availability of taka and U.S. dollar liquidity has improved, mainly by virtue of increased exchange rate and interest rate flexibility. A weakening of the taka and slowing of non-oil import growth has increased foreign exchange turnover in the spot interbank market. As a result, the SOCBs began settling FXODs (around US$0.2 billion since the November 2011 peak) and meeting foreign exchange needs through some outright purchases. At the same time, however, they have come to rely more on foreign currency swaps. As a result, the SOCBs have been running negative net open foreign exchange positions (NOPs) in excess of prudential limits. Greater exchange rate flexibility could be expected to further deepen the interbank market and allow the SOCBs to procure more foreign exchange for oil imports, while also bringing NOPs within the prevailing limits.

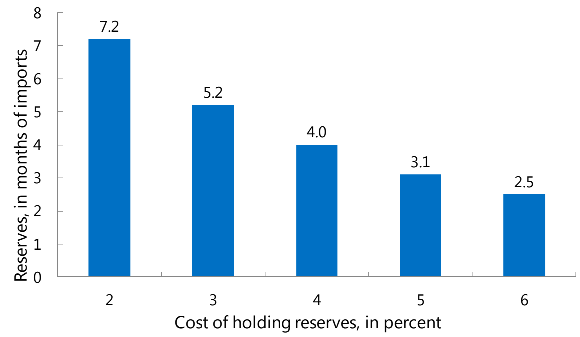
Under the ECF-supported program, a three-pronged approach will be taken to adjust to the higher energy imports while safeguarding macroeconomic stability. First, the losses of the BPC—which has a monopoly on fuel imports—and the BPDB will need to be contained through further adjustments to retail petroleum and electricity prices, with the expectation that Bangladesh will close the diesel price wedge with neighboring India by the end of the first year of the ECF-supported program. Second, the shock to the BOP will be absorbed through a combination of adjustment (i.e., the exchange rate) and financing (namely short-term oil import credits). Finally, reforms to the trade and investment regime will be stepped up over the medium term to enhance Bangladesh's capacity to earn and conserve foreign exchange, by diversifying exports and tapping domestic energy resources (namely coal, natural gas, and bio-fuels), supported by more FDI in this area. The government has also recognized the need to strengthen policy coordination to address the macroeconomic pressures resulting from the rising oil import bill. Accordingly, an interagency working group has been established to help improve the BPC's cash-flow planning, including by reducing the delays with which the Ministry of Finance makes budgetary transfers and by better coordinating the mobilization of foreign financing for the BPC.

Box 2. Bangladesh: Reserve Adequacy[1, 2]

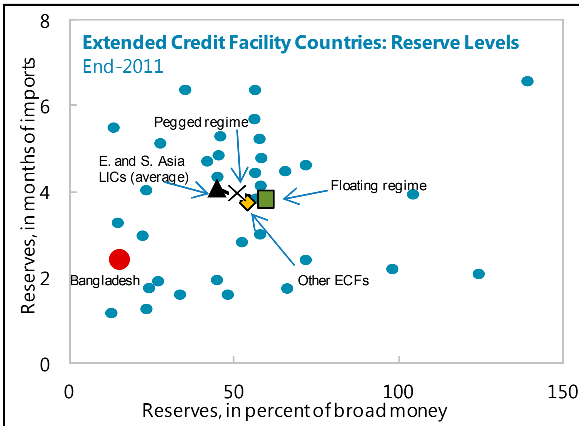
Using recently developed methodologies, the optimal level of reserves is estimated to be 3–4 months of imports, assuming the opportunity cost of holding reserves is in the range of 4–5 percent. For Bangladesh, this cost could be seen as the difference between short-term U.S. dollar-denominated borrowing to finance oil imports and BB's return on reserve assets (proxied by U.S. Treasury bills).

These estimates should be considered at the lower bound, given the model's assumption of risk-neutrality and the exclusion of adverse shocks to remittances—an important driver of foreign exchange inflows in Bangladesh. They underscore the importance of rebuilding reserve buffers under the program following the recent depletion.

Bangladesh: Optimal Level of Reserves



Source: IMF staff estimates.



Source: IMF staff estimates.

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[1] Prepared by Tiago Severo (APD) and Jules Leichter (SPR).

[2] See the IMF Working Paper *Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefit Analysis* (WP/11/249) and IMF Board Paper *Assessing Reserve Adequacy* (PIN No. 11/47).The optimal level of reserves prescribed by the model in the working paper is a decreasing function of the opportunity cost of holding reserves. The findings for Bangladesh are broadly consistent with countries classified as having a more flexible regime, based on the classification used in the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions.

Box 3. Bangladesh: Financial Inclusion and Growth[1]

Financial inclusion is an integral part of achieving higher growth with greater equity. A broad base of literature has associated financial access and development with growth and poverty reduction.[2] Reflecting this, Bangladesh's SFYP emphasizes the need to make further financing available for job-creating small enterprises, expand private investment in non-rice agricultural activities through rural finance, and enhance factor endowments of the poor, including capital, through financial sector policies. Financial inclusion goes beyond the traditional rubric of microfinance in Bangladesh, which mainly focuses on the provision of financial services to the poor, and instead encompasses the whole continuum of financial service providers working within their comparative advantages to reach underserved but bankable firms and individuals. That said, Bangladesh's vibrant microfinance sector has been a catalyst for broader inclusion given its reach, with more than one in four adults a member of a microfinance institution (MFI) at end-FY11, three-quarters of whom were women.

For its income level, Bangladesh has progressed well in financial inclusion, including when seen against other countries in the South Asia region (see table below). While recognizing the limitations of such metrics in reflecting technological change, levels of financial development, and product innovation, Bangladesh appears to not only exceed typical low-income country thresholds on a range of metrics, but is nearing levels associated with lower middle-income countries in a few areas. It particularly stands out on the level and use of bank deposits and also shows high degree of geographic penetration of bank branches (although once scaled for population, Bangladesh is still below the SAARC average). Here, private commercial banks (PCB) are making inroads into the legacy dominance of SOCBs, with the number of PCB branches broadly proportional to their share of assets in the banking system.

Pro-active and sustained policy attention to financial inclusiveness, reinforced by domestic MFI expertise, has catalyzed progress. Bangladesh Bank is playing a lead role through an agricultural credit policy that gives priority to marginal farmers, underdeveloped areas in the country, and women. In addition to credit lines for small- and medium-scale enterprises, BB has introduced refinancing schemes with MFIs for landless sharecroppers. It has also created facilities for marginal and small farmers to open bank accounts for as little as Tk 10 (less than US$0.15), through which they can receive cash transfers from the government for farm inputs (see Annex I).

Drawing on experiences with financial inclusion in countries that have reached middle-income status suggests several areas for further attention. First, given the large number of those who remain unbanked in Bangladesh (45 percent of the adult population by some estimates), raising further participation levels in formal financial services could have a sizable payoff. Second, in light of the low presence in rural areas and potential to leverage on substantial remittance inflows, steps could be taken to expand financial access by leapfrogging traditional branch/ATM expansion constraints, building on technological innovations such as mobile banking, which BB is now promoting. Third, expanding initiatives to cover basic financial literacy as part of the broader financial education process has been effective in other countries (e.g., Indonesia, Malaysia, and Peru) toward increased financial capability and consumer protection.

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[1] Prepared by Seng Guan Toh and Tiago Severo (APD).

[2] For a cross-country case discussion (including Bangladesh), see Demirgëc Kunt, A., Beck, T., and Honahan, P. (2008), Finance for All? Policies and Pitfalls in Expanding Access, *World Bank Policy Research Report,* Washington, D.C.

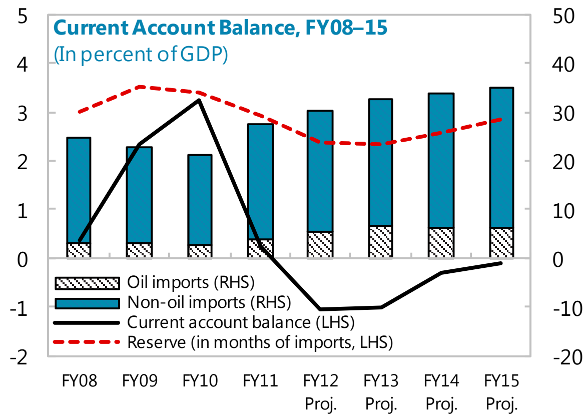
Financial Inclusion Indicators

	Selected SAARC Countries 1/									Selected Emerging Markets			Global Averages		
	Bangladesh		India		Maldives		Pakistan		SAARC 1/	Brazil	Malaysia	South Africa	Low Income	Lower Middle Income	Upper Middle Income
	2005	2010	2005	2010	2005	2010	2005	2010	2010	2010	2010	2010	2010	2010	2010
Penetration															
Geographic															
Bank branches per 1,000 sq. km.	49.4	58.9	23.9	29.1	90.0	126.7	9.6	12.2	33.6	2.3	6.2	2.9	5.8	12.6	18.0
Demographic															
ATMs per 100,000 adults	0.2	1.9	...	...	8.1	20.2	1.1	4.4	6.8	120.6	56.2	59.6	3.7	30.9	48.5
Bank branches per 100,000 adults	6.3	6.9	9.7	10.9	13.7	17.1	7.7	8.8	9.2	13.8	10.5	10.1	3.6	13.2	21.0
Actual usage															
Depositors per 1,000 adults	321	418	637	747 2/	795	1,200	131	249	492	...	1,620	978	146	826	967
Borrowers per 1,000 adults	82	81	92	137 2/	158	129	...	28	60	194	284	428 2/	22	147	247
Deposits-to-GDP (in percent)	43	54	47	58 2/	58	53	37	30	49	48	117	41	28	44	67
GDP per capita (in US$, PPP basis)	1,134	1,585	2,190	3,408	5,317	7,855	2,231	2,721	3,274	11,273	14,744	10,518	...	...	...

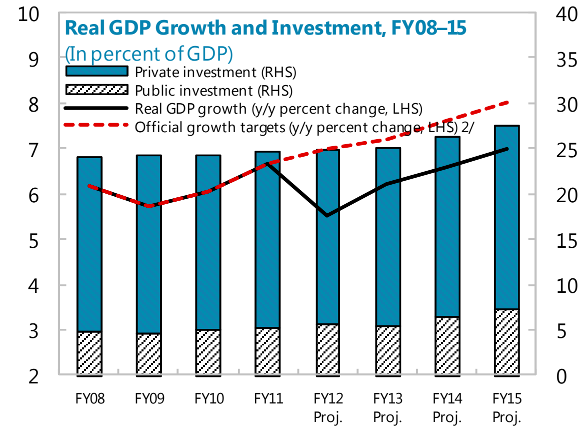
Sources: IMF *Access to Finance Project;* and IMF staff estimates.
1/ Average of eight South Asian Association for Regional Cooperation (SAARC) countries, subject to data availability.
2/ 2008 data.

Figure 1. Bangladesh: ECF Program Focus and Objectives 1/

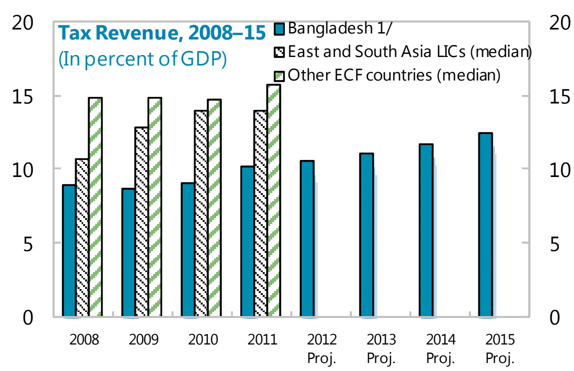
Under the ECF arrangement, upfront policy tightening and exchange rate flexibility are needed to counter increased pressures on the current account and reserve cover.



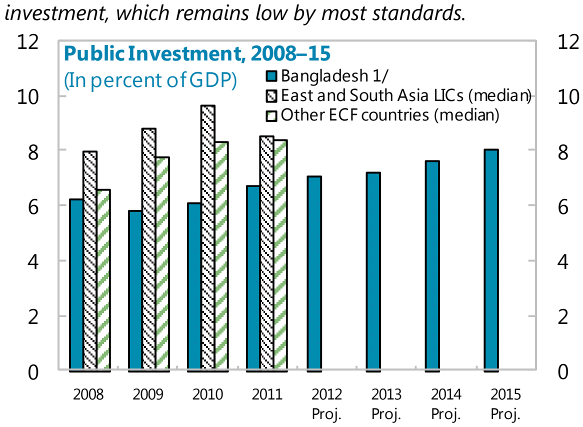
Over the medium term, policy adjustments and structural reforms are also expected to boost total investment and growth prospects.



In Bangladesh, achieving these objectives will require raising tax revenue more in line with its peers…



…thus providing more internal resources to support public investment, which remains low by most standards.

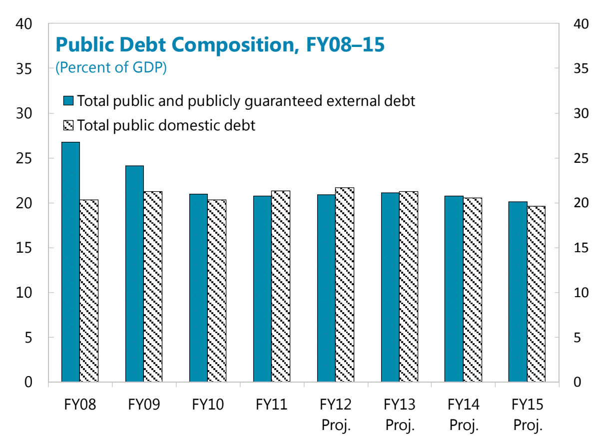


Moderate fiscal consolidation will be pursued over the medium term by increasing tax collections and containing subsidy costs to ensure macro-stability and protect priority spending…

Bangladesh: Central Government Operations, FY09–15
(In percent of GDP)

	FY09	FY10	FY11 Est.	FY12 Projections	FY13	FY14	FY15
Total revenue and grants	10.8	11.5	12.0	13.1	13.8	14.4	15.2
Revenue	10.5	10.9	11.8	12.5	13.2	13.9	14.7
Tax revenue	8.6	9.0	10.1	10.5	11.0	11.6	12.3
Nontax revenue	1.9	1.9	1.7	2.0	2.2	2.3	2.4
Grants	0.3	0.6	0.3	0.6	0.6	0.6	0.6
Total expenditure	14.5	14.6	16.2	17.0	17.5	17.7	18.2
Current expenditure	10.1	9.5	9.8	9.8	9.9	9.9	10.1
Development expenditure 3/	4.1	4.9	5.2	5.5	5.5	6.5	7.2
Of which: ADP	3.2	3.7	4.2	4.2	4.6	5.3	6.0
Net lending and other expenditure	0.3	0.2	1.2	1.7	2.1	1.3	0.9
Overall balance (including grants)	-3.7	-3.1	-4.1	-3.9	-3.6	-3.3	-3.0
(Excluding grants)	-4.0	-3.7	-4.4	-4.5	-4.3	-3.8	-3.5

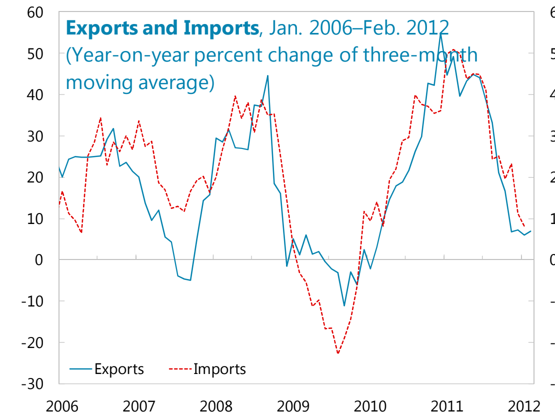
…with external and domestic debt levels expected to remain relatively low and fully sustainable.



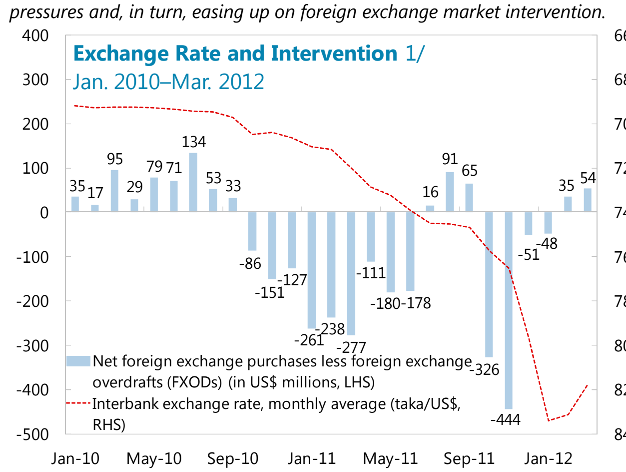
Sources: Bangladesh authorities, *World Economic Outlook*; and IMF staff estimates.
1/ For Bangladesh, fiscal year (July 1–June 30).
2/ See the SFYP, FY11–15.
3/ Includes ADP and non-ADP capital spending.

Figure 2. Bangladesh: Response to External Pressures

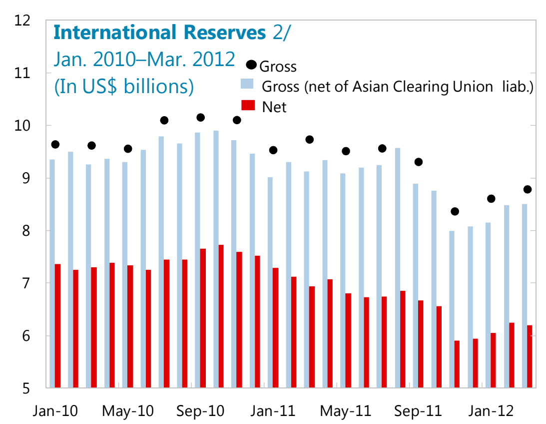
Amid the weaker global environment, exports have slowed more than imports, as oil imports have remained firm.



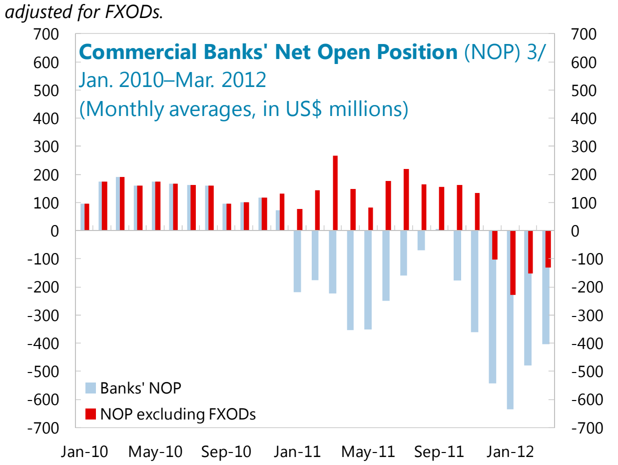
In response, BB is now allowing the exchange rate to absorb more external pressures and, in turn, easing up on foreign exchange market intervention.



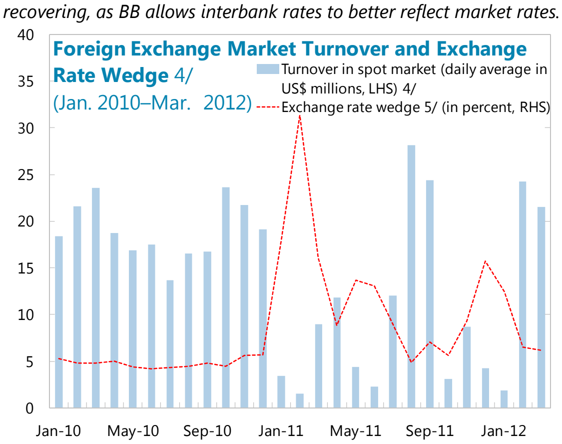
Increased exchange rate flexibility alongside monetary policy tightening is helping BB to arrest the loss of reserves.



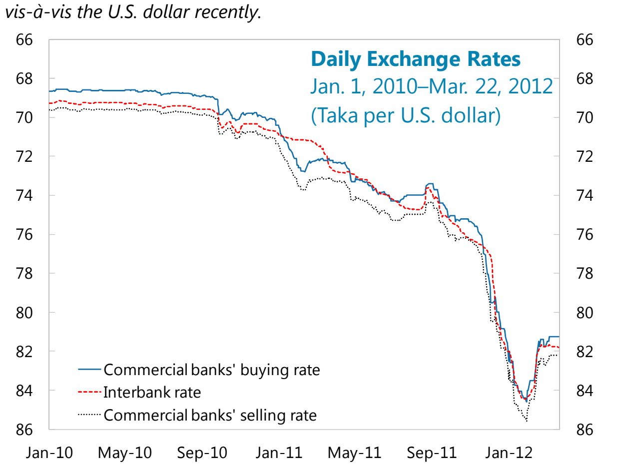
However, the more limited availability of foreign exchange has pushed banks (mainly state-owned ones) to exceed their net open limits—more so when adjusted for FXODs.



Still, turnover in the interbank foreign exchange market appears to be recovering, as BB allows interbank rates to better reflect market rates.



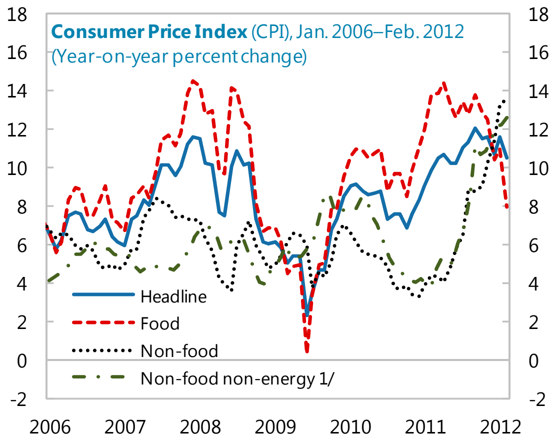
Improved market conditions have also helped slow the taka's depreciation vis-à-vis the U.S. dollar recently.



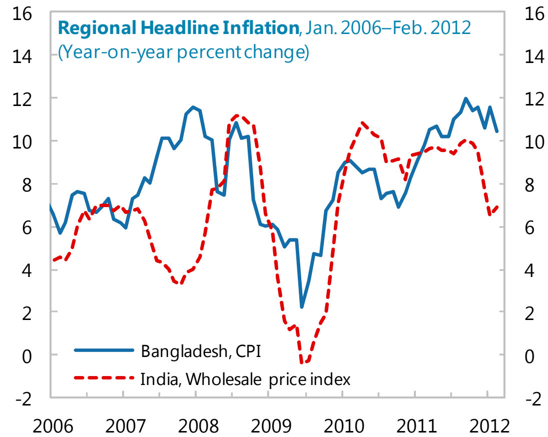
Sources: Bangladesh authorities; Bloomberg; CEIC Data Company Ltd; and IMF staff estimates.
1/ Observations for March 2012 are through March 22.
2/ Excludes the stock of FXODs and Bangladesh Bank's nonreserve foreign assets. The observation for March 2012 is as of March 21.
3/ The observation for March 2012 is the average for March 1–20.
4/ The observations for March 2012 are the averages for March 1–22.
5/ Wedge between the weighted-average interbank exchange rate and the market rate (proxied by commercial banks' rates), in percent.

Figure 3. Bangladesh: Real and External Sector Developments

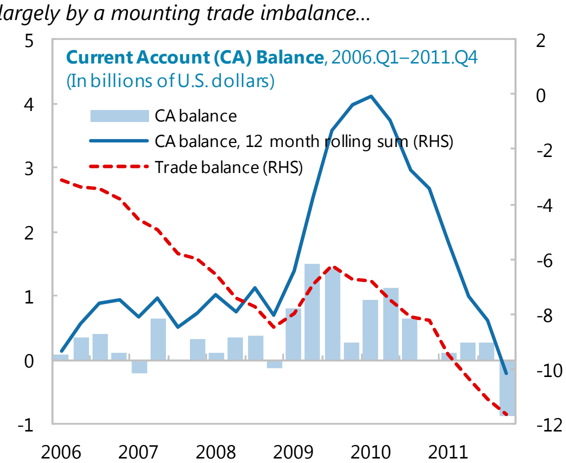
Both food and non-food inflation reached double digits in late 2011, reflecting aggregate demand pressures and administrative energy price hikes.



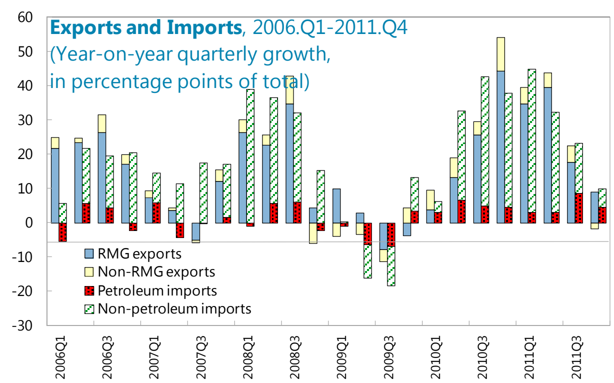
Trends in inflation have been broadly similar to India until recently, with Bangladesh now diverging mainly due to higher non-food price inflation.



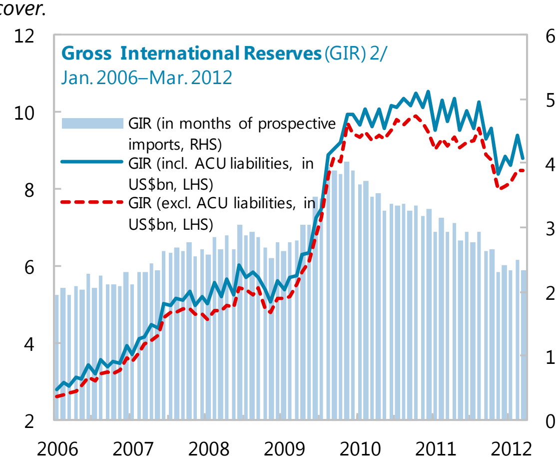
Pressures on the current account have intensified, driven largely by a mounting trade imbalance…



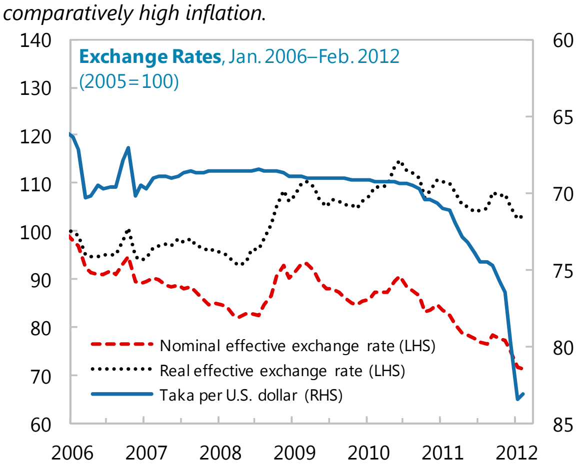
… caused by strong growth in petroleum imports, driven up mainly by increased demand from the power sector



These pressures have led to reserve losses and heightened external vulnerability, as evidenced by the declining import cover.



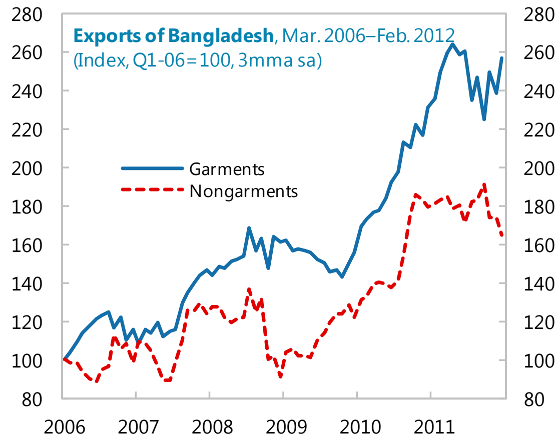
In response, BB has allowed greater exchange rate flexibility, which has also helped mitigate competitiveness losses from comparatively high inflation.



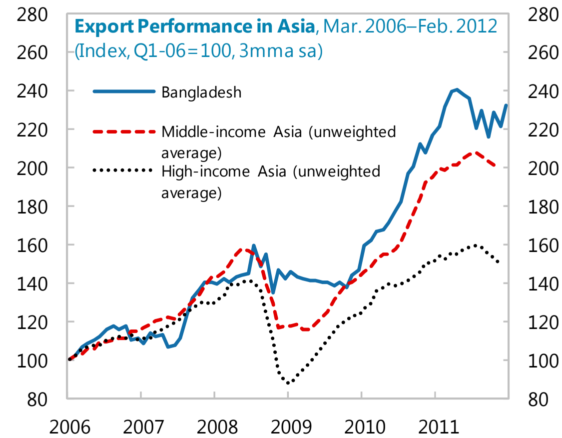
Sources: Data provided by the Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff estimates.
1/ Energy-related CPI components proxied by gross rent, fuel and lighting, and transport and communications.
2/ ACU: Asian Clearing Union; GIR in March 2012 is as of March 22.

Figure 4. Bangladesh: Exports, Imports, and Remittances Performances

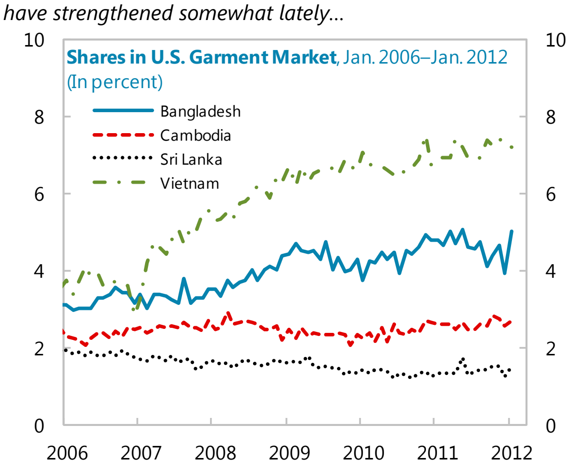
Slower export growth extends to both garments and non-garments in Bangladesh, although the latter has shown signs of rebounding lately…



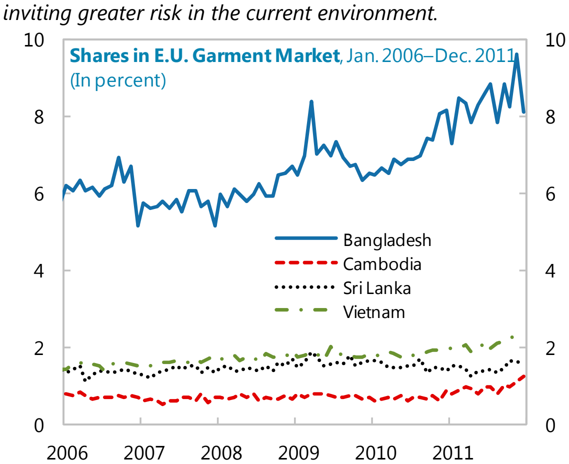
…with overall export performance holding up reasonably well compared to other parts of the region.



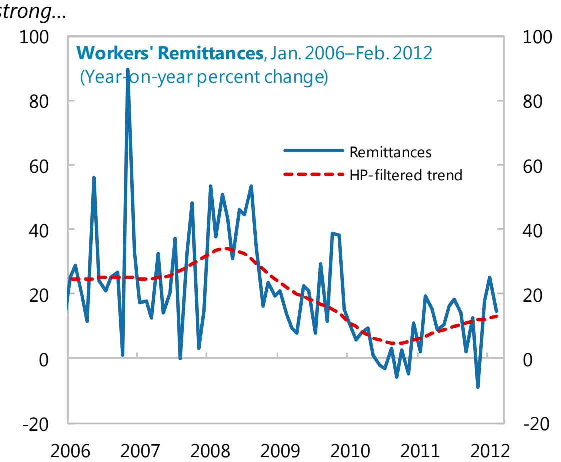
Bangladesh's share of the U.S. market for garments appears to have strengthened somewhat lately…



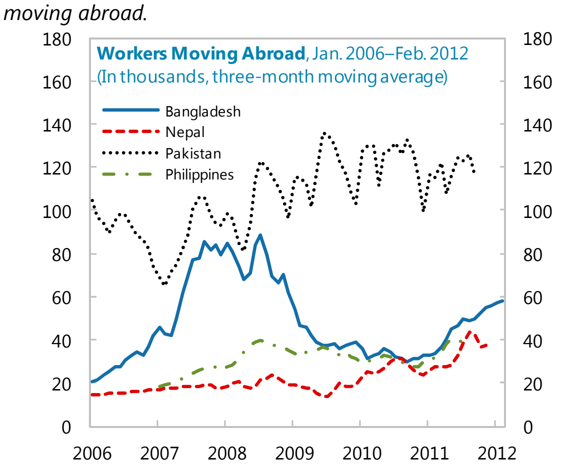
…while its share to the EU market remaining volatile, possibly inviting greater risk in the current environment.



The performance of and outlook for remittances is reasonably strong…



…buoyed by a pick-up in the pace of Bangladeshi workers moving abroad.



Sources: Data provided by the Bangladesh authorities; CEIC Data Company Ltd.; Eurostat; U.S. Department of Commerce; Office of Textiles and Apparel; and IMF staff estimates.

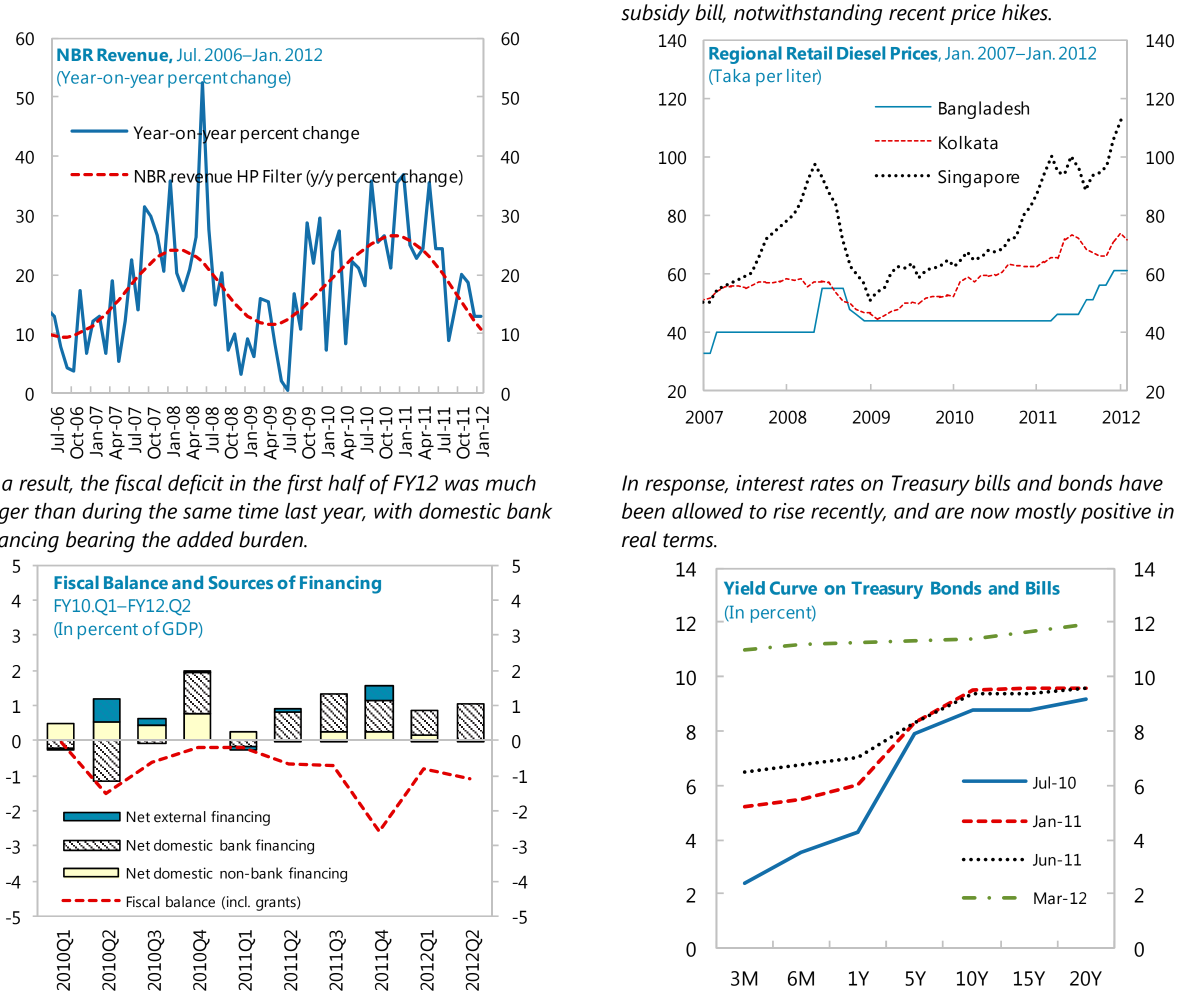
Figure 5. Bangladesh: Fiscal Developments

While slowing lately, NBR data suggest that tax revenue is growing in line with program targets.

However, administered retail prices for petroleum products continue to fall short of import costs, pushing up the budget's subsidy bill, notwithstanding recent price hikes.

As a result, the fiscal deficit in the first half of FY12 was much larger than during the same time last year, with domestic bank financing bearing the added burden.

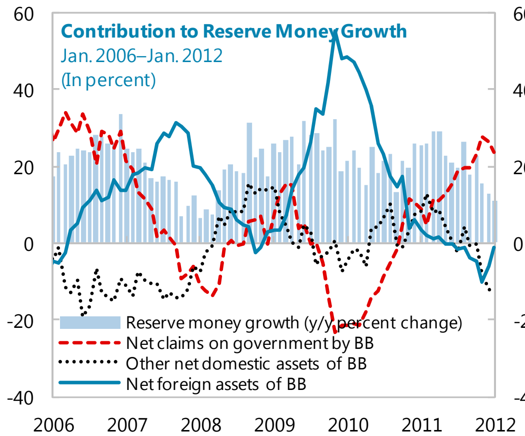
In response, interest rates on Treasury bills and bonds have been allowed to rise recently, and are now mostly positive in real terms.



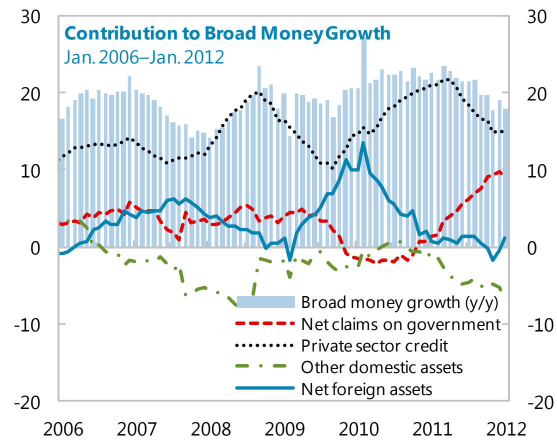
Sources: Data provided by the Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff estimates.

Figure 6. Bangladesh: Monetary and Financial Market Developments

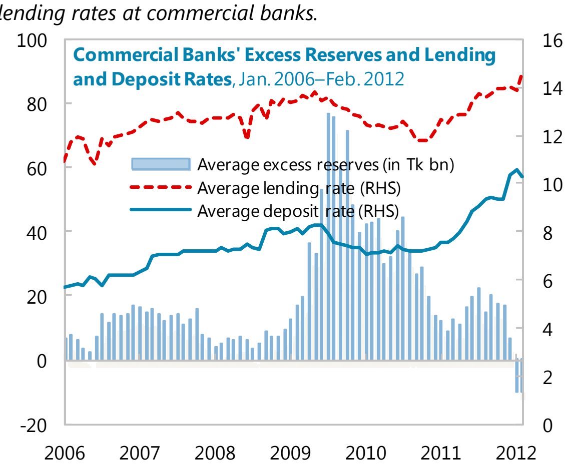
Reserve money growth is decelerating as declining foreign reserves and monetary tightening more than compensate for higher government borrowing from BB.



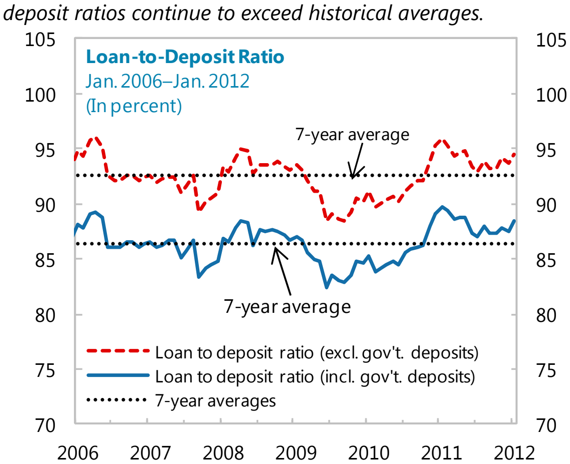
Meanwhile, the deceleration in private credit growth has contributed to a slowdown in broad money growth.



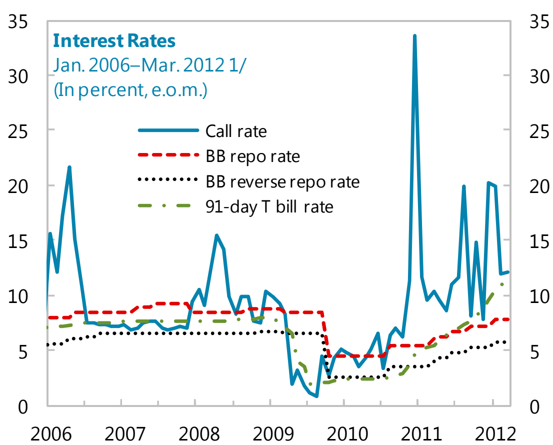
Tighter liquidity conditions have also driven up deposit and lending rates at commercial banks.



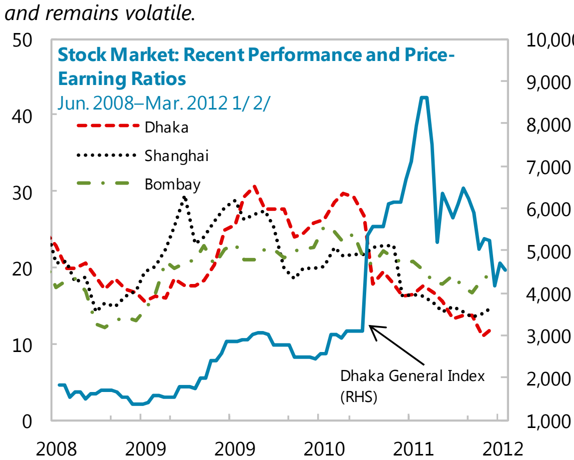
Private credit growth is expected to slow further as loan-to-deposit ratios continue to exceed historical averages.



Monetary tightening is also driving up short-term interest rates.



The Dhaka Stock Exchange is well off its December 2010 peak and remains volatile.



Sources: Data provided by the Bangladesh authorities; Bangladesh National Petroleum Corporation; Bloomberg; and IMF staff estimates.
1/ March 2012 is as of March 22.
2/ Monthly averages in Dhaka General Index; Grameen Phone is not correctly reflected in the DSE index from November 2009.

Table 1. Bangladesh: Selected Economic Indicators, FY2010–15 1/

	FY10	FY11	FY12			FY13	FY14	FY15
		Est.	Proj.	Latest		Projections		
National income and prices (percent change)								
Real GDP	6.1	6.7	5.5	...		6.2	6.6	7.0
GDP deflator	6.5	6.3	10.6	...		9.0	7.0	6.3
CPI inflation (annual average)	7.3	8.8	11.2	11.0	Feb. 2012	9.1	6.9	6.2
CPI inflation (end of period)	8.7	10.2	11.7	10.4	Feb. 2012	8.2	6.5	5.9
Nonfood CPI inflation (end of period)	5.2	5.7	13.6	13.2	Feb. 2012	7.0	5.7	4.7
Investment and savings (percent of GDP)								
Gross investment	24.4	24.7	24.9	...		25.1	26.4	27.6
Private	19.4	19.5	19.3	...		19.5	19.8	20.2
Public	5.0	5.3	5.6	...		5.6	6.6	7.4
National savings	27.7	25.0	23.8	...		24.1	26.1	27.5
Private	25.6	22.8	20.5	...		20.1	21.6	22.3
Public	2.0	2.2	3.4	...		4.0	4.5	5.1
Central government operations (percent of GDP)								
Total revenue and grants	11.5	12.0	13.1	5.6	Jul.–Dec.2011	13.8	14.4	15.2
Total revenue	10.9	11.8	12.5	5.6	Jul.–Dec.2011	13.2	13.9	14.7
Tax	9.0	10.1	10.5	4.5	Jul.–Dec.2011	11.0	11.6	12.3
Nontax	1.9	1.7	2.0	1.2	Jul.–Dec.2011	2.2	2.3	2.4
Grants	0.6	0.3	0.6	0.0	Jul.–Dec.2011	0.6	0.6	0.6
Total expenditure	14.6	16.2	17.0	7.5	Jul.–Dec.2011	17.5	17.7	18.2
Current expenditure	9.5	9.8	9.8	4.2	Jul.–Dec.2011	9.9	9.9	10.1
Annual Development Program (ADP)	3.7	4.2	4.2	1.1	Jul.–Dec.2011	4.6	5.3	6.0
Other expenditures 2/	1.4	2.2	3.0	2.2	Jul.–Dec.2011	3.0	2.5	2.1
Overall balance (including grants)	-3.1	-4.1	-3.9	-1.9	Jul.–Dec.2011	-3.6	-3.3	-3.0
(Excluding grants)	-3.7	-4.4	-4.5	-1.9	Jul.–Dec.2011	-4.3	-3.8	-3.5
Primary balance (excluding grants)	-1.6	-2.4	-2.3	-1.0	Jul.–Dec.2011	-2.1	-1.9	-1.6
Financing (net)	3.1	4.1	3.9	1.9	Jul.–Dec.2011	3.6	3.3	3.0
Of which : External (net)	0.9	0.4	0.5	0.3	Jul.–Dec.2011	1.1	1.4	1.4
Total central government debt (percent of GDP)	41.4	42.9	43.9	...		43.0	41.8	40.1
Money and credit (end of fiscal year; percent change)								
Net domestic assets of the banking system	19.6	24.5	20.2	19.9	Jan.2012	16.0	...	...
Credit to private sector by the banking system	24.2	25.8	15.9	18.9	Jan.2012	14.9	...	...
Reserve money	18.1	21.0	13.0	11.2	Jan.2012	13.9	...	...
Broad money (M2)	22.4	21.4	15.5	17.9	Jan.2012	15.4	...	...
Balance of payments (in billions of U.S. dollars)								
Exports, f.o.b.	16.2	23.0	25.4	15.9	Jul.2011–Feb.2012	29.4	34.5	39.6
(Annual percent change)	4.2	41.7	10.3	13.0	Jul.2011–Feb.2012	15.7	17.3	15.0
Imports, f.o.b.	-21.4	-30.3	-34.7	-19.0	Jul.2011–Jan.2012	-39.5	-44.3	-49.7
(Annual percent change)	5.4	41.8	14.3	15.5	Jul.2011–Jan.2012	13.9	12.1	12.4
Current account balance 3/	3.2	0.3	-1.2	0.5	Jul.2011–Jan.2012	-1.2	-0.4	-0.1
(Percent of GDP)	3.2	0.2	-1.1	0.0	Jul.2011–Jan.2012	-1.0	-0.3	-0.1
Capital and financial account balance	0.4	-0.3	0.4	...		2.2	2.6	2.8
Overall balance	2.9	-1.0	-0.8	-0.8	Jul.2011–Jan.2012	1.0	2.2	2.6
Gross official reserves (in billions of U.S. dollars) 4/	10.1	10.0	9.2	9.3	end-Feb.2012	10.2	12.7	15.5
In months of imports of goods and services	3.4	2.9	2.4	2.5	end-Feb.2012	2.3	2.6	2.9
Exchange rate (taka per U.S. dollar; period average)	69.2	71.2	...	78.3	Jul.1,2011–Mar.22,2012	...	...	...
Exchange rate (taka per U.S. dollar; end-period)	69.5	74.2	...	81.8	Mar.22,2012	...	...	...
Nominal effective rate (2000=100; period average)	87.0	82.9	...	...		...	...	...
Real effective rate (2000=100; period average)	108.2	108.8	...	...		...	...	...
Terms of trade (percent change)	-4.6	-6.7	...	...		...	...	...
Memorandum item:								
Nominal GDP (in billions of taka)	6,943	7,875	9,192	...		10,642	12,140	13,809

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

1/ Fiscal year begins July 1.
2/ Includes non-ADP capital spending , net lending, food account surplus (-)/deficit (+), and extraordinary expenditures.
3/ Latest data reported in FY12 is unadjusted for misclassification of current and capital account flows (see Table 3).
4/ Excludes deposits held in offshore accounts of resident financial institutions, noninvestment grade sovereign bonds, and foreign exchange overdrafts provided by Bangladesh Bank to domestic banks.

Table 2. Bangladesh: Medium-Term Outlook, FY2010–15 1/

	FY10	FY11	FY12	FY13	FY14	FY15
		Est.		Projections		
			(In percent of GDP)			
Gross national savings	27.7	25.0	23.8	24.1	26.1	27.5
Public national savings	2.0	2.2	3.4	4.0	4.5	5.1
Private national savings	25.6	22.8	20.5	20.1	21.6	22.3
Gross investment	24.4	24.7	24.9	25.1	26.4	27.6
Public investment	5.0	5.3	5.6	5.6	6.6	7.4
Private investment	19.4	19.5	19.3	19.5	19.8	20.2
Net exports of goods and services	-6.6	-8.5	-10.3	-11.0	-10.5	-10.4
Exports of goods and services	18.4	22.7	23.9	26.0	27.9	29.2
Of which: Exports of goods	16.2	20.8	22.0	24.2	26.2	27.7
Imports of goods and services	25.0	31.2	34.2	37.0	38.3	39.6
Of which: Imports of goods	21.3	27.4	30.1	32.5	33.7	34.7
Current account balance	3.2	0.2	-1.1	-1.0	-0.3	-0.1
Gross domestic savings	20.1	19.6	14.6	14.0	15.9	17.2
Public domestic savings	1.4	2.0	2.7	3.4	4.0	4.6
Private domestic savings	18.7	17.6	11.9	10.7	11.9	12.6
Consumption	79.9	80.4	85.4	86.0	84.1	82.8
Public consumption 2/	5.4	5.5	5.2	5.3	5.5	5.6
Private consumption	74.5	74.9	80.2	80.7	78.6	77.2
			(Annual percentage change)			
Real GDP	6.1	6.7	5.5	6.2	6.6	7.0
Real GNI	6.5	5.6	6.9	7.1	6.7	7.1
Real public consumption	8.9	8.2	-1.0	9.2	10.0	9.2
Real private consumption	5.1	5.1	9.8	6.3	2.4	3.6
Real public investment	15.1	13.8	8.2	5.2	27.3	20.5
Real private investment	6.2	8.8	1.5	6.7	9.2	10.2
ICOR (investment to GDP ratio/real GDP growth)	4.0	3.7	4.5	4.0	4.0	3.9

Source: IMF staff estimates and projections.

1/ Fiscal year begins July 1.
2/ Current government expenditure, excluding interest payments.

Table 3. Bangladesh: Balance of Payments, FY2010–16 1/

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

	FY10	FY11	FY12	FY13	FY14	FY15	FY16
		Est.	Projections				
Current account balance	3,250	264	-1,228	-1,204	-397	-140	455
Trade balance	-5,152	-7,324	-9,292	-10,115	-9,804	-10,108	-10,077
Exports (f.o.b.)	16,236	23,008	25,379	29,375	34,465	39,634	44,906
Of which: RMG sector	12,497	17,914	19,813	22,785	26,887	30,920	34,939
Imports (f.o.b.)	-21,388	-30,332	-34,671	-39,490	-44,269	-49,743	-54,984
Of which: Crude oil and petroleum products	-2,556	-4,109	-6,046	-8,010	-8,356	-9,025	-9,756
Services	-1,727	-3,134	-3,785	-4,665	-5,509	-6,453	-7,354
Income	-1,484	-1,354	-1,510	-1,602	-1,742	-1,882	-2,047
Transfers	11,613	12,075	13,359	15,179	16,657	18,304	19,933
Official current transfers 2/	125	127	117	110	98	106	114
Private transfers	11,488	11,948	13,242	15,068	16,559	18,198	19,818
Of which: Workers' remittances	10,987	11,650	12,932	14,742	16,216	17,838	19,440
Capital and financial account balance 3/	353	-294	439	1,956	2,428	2,587	2,522
Capital account	488	600	598	646	633	684	735
Financial account	-135	-894	-160	1,310	1,795	1,904	1,788
Foreign direct investment	913	768	845	1,048	1,297	1,543	1,837
Portfolio investment	-117	-28	55	69	86	107	134
Medium- and long-term loans	933	312	528	1,079	1,592	1,860	1,474
Disbursements	1,604	1,051	1,328	2,000	2,671	2,844	2,470
Amortization	-671	-739	-800	-921	-1,079	-984	-996
Other capital	-1,864	-1,946	-1,587	-885	-1,180	-1,607	-1,657
Short-term oil import credit (net)	67	531	812	500	0	-500	-750
Trade credits (net) 3/	-558	-1,205	-911	-507	-311	-129	0
Commercial banks (net)	-315	-160	100	0	0	0	0
Other items (net)	-1,058	-1,112	-1,588	-878	-870	-978	-907
Errors and omissions	-738	-936	0	0	0	0	0
Overall balance	2,865	-967	-789	752	2,030	2,447	2,977
Prospective official financing	...	...	0	200	200	200	0
Financing items	-2,865	967	789	-952	-2,230	-2,647	-2,977
Change in gross international reserves (GIR), net of valuation changes (increase -)	-2,827	1,023	844	-1,034	-2,432	-2,871	-2,935
Net use of IMF resources	-38	-57	-55	82	201	224	-42
Of which: IMF disbursements (+)	...	0	143	284	284	284	0
Valuation changes (increase -)	267	-685	0	0	0	0	0
Change in GIR (increase -)	-2,560	339	844	-1,034	-2,432	-2,871	-2,935
Memorandum items:							
Current account balance (percent of GDP)	3.2	0.2	-1.1	-1.0	-0.3	-0.1	0.3
Exports (annual percent change)	4.2	41.7	10.3	15.7	17.3	15.0	13.3
Imports (annual percent change)	5.4	41.8	14.3	13.9	12.1	12.4	10.5
Of which: Crude oil and petroleum products (annual change)	-1.0	60.8	47.1	32.5	4.3	8.0	8.1
Remittances (annual percent change)	13.4	6.0	11.0	14.0	10.0	10.0	9.0
Medium- and long-term external public debt	20,907	22,256	22,574	23,650	25,358	27,322	28,753
(Percent of GDP)	20.8	20.1	19.6	19.5	19.3	19.1	18.4
Net aid flows (percent of GDP)	1.5	0.9	1.1	1.8	2.1	2.1	1.5
Gross official reserves 4/	10,140	10,035	9,190	10,224	12,656	15,527	18,462
(In months of imports of goods and services)	3.4	2.9	2.4	2.3	2.6	2.9	3.1
Gross official reserves (excluding Asian Clearing Union liabilities) 4/	9,536	9,197	8,353	9,387	11,818	14,689	17,624
(In months of imports of goods and services)	3.2	2.7	2.1	2.1	2.4	2.7	2.9
Net international reserves 4/	7,249	6,726	5,937	6,889	9,119	11,766	14,743

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

1/ Fiscal year begins July 1.

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

3/ IMF technical assistance has found weaknesses in the methodology for compiling trade credits, which are largely the difference between exports reported on a customs and payments basis. Based on preliminary estimates by Bangladesh Bank, it is assumed that 3 percent of exports reported on a customs basis are service fees related to exports. This change effectively moves some of the previously recorded financial account outflows to current account service payments, but with no impact on the overall BOP balance.

4/ Excludes deposits held in offshore accounts of resident financial institutions, noninvestment grade sovereign bonds, and foreign exchange overdrafts provided by Bangladesh Bank to domestic banks.

Table 4a. Bangladesh: Central Government Operations, FY2010–15 1/

	FY10	FY11		FY12		FY13	FY14	FY15
		Budget	Est.	Budget	Rev.	Projections		
	(In billions of taka)							
Total revenue and grants	799	977	948	1,233	1,206	1,473	1,753	2,103
Total revenue	757	928	927	1,184	1,149	1,407	1,686	2,027
Tax revenue	625	760	795	958	963	1,173	1,407	1,696
National Board of Revenue (NBR) taxes	598	726	763	919	924	1,127	1,355	1,637
Of which: VAT and supplementary duties	339	400	426	505	505	612	729	871
Taxes on income and profits	162	210	220	276	282	351	435	534
Customs and excise duties	89	112	112	131	129	156	182	221
Non-NBR taxes	27	35	32	39	39	45	52	59
Nontax revenue	132	168	132	226	186	234	279	331
Foreign grants	42	48	21	49	57	66	67	76
Total expenditure	1,013	1,322	1,274	1,636	1,562	1,860	2,151	2,513
Current expenditure	659	768	773	879	898	1,050	1,205	1,396
Pay and allowances	161	204	199	216	210	243	287	327
Goods and services	86	104	101	118	113	141	175	209
Interest payments	148	147	156	180	203	231	238	261
Subsidies and transfers 2/	261	298	314	346	362	422	501	595
Block allocations	4	15	3	18	10	13	4	5
Annual Development Program (ADP)	256	385	331	460	390	489	639	830
Non-ADP capital spending	86	133	78	197	115	92	147	168
Net lending	9	32	73	94	152	225	157	116
Other expenditures 3/	2	4	20	6	7	3	3	3
Overall balance (including grants)	-214	-345	-326	-403	-356	-387	-398	-410
(Excluding grants)	-256	-393	-347	-452	-413	-453	-465	-486
Net financing	214	345	326	403	356	387	398	410
External	65	108	28	131	42	112	165	199
Disbursements	111	160	81	187	106	193	265	294
Amortization	-46	-51	-53	-56	-64	-81	-100	-95
Domestic	87	237	260	272	314	275	233	211
Banks 4/	-54	157	205	190	279	201	172	142
Of which: Bangladesh Bank	-77	80	114	...	158	81	...	...
Nonbanks	141	80	55	83	35	74	61	69
Cash float and discrepancy	62	0	38	0	0	0	0	0

Table 4a. Bangladesh: Central Government Operations, FY2010–15 1/ (concluded)

	FY10	FY11		FY12		FY13	FY14	FY15
		Budget	Est.	Budget	Rev.	Projections		
	(In percent of GDP)							
Total revenue and grants	11.5	12.5	12.0	13.4	13.1	13.8	14.4	15.2
Total revenue	10.9	11.9	11.8	12.9	12.5	13.2	13.9	14.7
Tax revenue	9.0	9.7	10.1	10.4	10.5	11.0	11.6	12.3
NBR taxes	8.6	9.3	9.7	10.0	10.1	10.6	11.2	11.9
Of which: VAT and supplementary duties	4.9	5.1	5.4	5.5	5.5	5.8	6.0	6.3
Taxes on income and profits	2.3	2.7	2.8	3.0	3.1	3.3	3.6	3.9
Customs and excise duties	1.3	1.4	1.4	1.4	1.4	1.5	1.5	1.6
Non-NBR taxes	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Nontax revenue	1.9	2.2	1.7	2.5	2.0	2.2	2.3	2.4
Foreign grants	0.6	0.6	0.3	0.5	0.6	0.6	0.6	0.6
Total expenditure	14.6	16.9	16.2	17.8	17.0	17.5	17.7	18.2
Current expenditure	9.5	9.8	9.8	9.6	9.8	9.9	9.9	10.1
Pay and allowances	2.3	2.6	2.5	2.4	2.3	2.3	2.4	2.4
Goods and services	1.2	1.3	1.3	1.3	1.2	1.3	1.4	1.5
Interest payments	2.1	1.9	2.0	2.0	2.2	2.2	2.0	1.9
Subsidies and transfers 2/	3.8	3.8	4.0	3.8	3.9	4.0	4.1	4.3
Block allocations	0.1	0.2	0.0	0.2	0.1	0.1	0.0	0.0
ADP	3.7	4.9	4.2	5.0	4.2	4.6	5.3	6.0
Non-ADP capital spending	1.2	1.7	1.0	2.1	1.3	0.9	1.2	1.2
Net lending	0.1	0.4	0.9	1.0	1.7	2.1	1.3	0.8
Other expenditures 3/	0.0	0.1	0.3	0.1	0.1	0.0	0.0	0.0
Overall balance (including grants)	-3.1	-4.4	-4.1	-4.4	-3.9	-3.6	-3.3	-3.0
(Excluding grants)	-3.7	-5.0	-4.4	-4.9	-4.5	-4.3	-3.8	-3.5
Primary balance (including grants)	-0.9	-2.5	-2.2	-2.4	-1.7	-1.5	-1.3	-1.1
(Excluding grants)	-1.6	-3.2	-2.4	-3.0	-2.3	-2.1	-1.9	-1.6
Net financing	3.1	4.4	4.1	4.4	3.9	3.6	3.3	3.0
External	0.9	1.4	0.4	1.4	0.5	1.1	1.4	1.4
Disbursements	1.6	2.0	1.0	2.0	1.2	1.8	2.2	2.1
Amortization	-0.7	-0.7	-0.7	-0.6	-0.7	-0.8	-0.8	-0.7
Domestic	1.3	3.0	3.3	3.0	3.4	2.6	1.9	1.5
Banks 4/	-0.8	2.0	2.6	2.1	3.0	1.9	1.4	1.0
Of which: Bangladesh Bank	-1.1	1.0	1.4	…	1.7	0.8	…	…
Nonbanks	2.0	1.0	0.7	0.9	0.4	0.7	0.5	0.5
Cash float and discrepancy	0.9	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Subsidy costs (percent of GDP) 5/	1.3	…	2.2	…	2.9	3.1	2.3	1.9
Nominal GDP (in billions of taka)	6,943	7,803	7,875	9,192	9,192	10,642	12,140	13,809

Sources: Bangladesh authorities; and IMF staff estimates and projections.
1/ Fiscal year begins July 1. Cash basis, unless otherwise specified.
2/ Comprise budget allocations for safety net programs and other social-related spending, pensions and gratuities, and direct subsidies for food and to the agriculture and export sectors. Other subsidy-related costs (i.e. lending to large energy-related SOEs) are included in net lending.
3/ Includes food account surplus (-)/deficit (+) and extraordinary expenditures.
4/ Includes Tk 27 billion in special bonds issued to SOCBs for the noncash securitization of past subsidy-related loans made to Bangladesh Petroleum Corporation, consistent with the earlier treatment in the fiscal accounts of similar operations.
5/ Comprise food and agriculture and export sector subsidies, as well as subsidy-based lending to large energy-related SOEs.

Table 4b. Bangladesh: Central Government Operations, GFSM 2001 Classification, FY2009–13 1/

(In billions of taka)

	FY09	FY10	FY11	FY12	FY13
			Est.	Proj.	
1. Central government accounts					
Revenue	667	799	948	1,206	1,473
Taxes	529	625	795	963	1,173
Grants	21	42	21	57	66
Other revenue	117	132	132	186	234
Expenditure	643	671	865	1,057	1,278
Compensation of employees	139	161	199	210	243
Purchases of goods and services	82	86	101	113	141
Interest	154	148	156	203	231
Subsidies 2/	88	81	161	271	336
Grants	140	142	170	188	248
Other payments	40	53	79	72	79
Gross operating balance	24	129	83	149	195
Net acquisition of nonfinancial assets	250	342	409	505	582
Fixed assets	194	256	331	390	489
Nonproduced assets	56	86	78	115	92
Net lending (+)/net borrowing (-) 3/	-226	-214	-326	-356	-387
Net financial transactions	-185	-152	-288	-356	-387
Net acquisition of financial assets (+ increase)	26	19	47	0	0
Domestic	26	19	47	0	0
Deposits	26	19	47	0	0
Net incurrence of liabilities (+ increase)	211	170	336	356	387
Domestic	185	106	308	314	275
Debt securities and loans and advances	185	106	282	314	275
Other accounts payable	0	0	26	0	0
Foreign	26	65	28	42	112
Statistical discrepancy (net borrowing less net financial transaction)	-41	-62	-38	0	0
2. Financial balance sheet					
Net financial worth					
Stock of financial assets	183	202	249	249	249
Domestic	183	202	249	249	249
Foreign	0	0	0	0	0
Stock of liabilities	2,793	2,864	3,329	3,909	4,395
Domestic	1,305	1,410	1,677	1,991	2,267
Debt securities and loans and advances	1,305	1,410	1,677	1,991	2,266
Foreign	1,488	1,453	1,652	1,919	2,128

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

1/ Fiscal year begins July 1.

2/ Includes transfers to Bangladesh Petroleum Corporation and Bangladesh Power Development Board, previously included in net lending.

3/ Includes statistical discrepancy.

Table 5. Bangladesh: Monetary Accounts, December 2010–December 2012

	2010	2011			2012			
	Dec.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.
				Est.	Projections			
Bangladesh Bank balance sheet	(End of period; in billions of taka)							
Net foreign assets 1/	569	526	533	518	467	464	481	488
Net domestic assets 1/	251	371	371	407	483	550	556	573
Net credit to central government	183	307	352	399	411	465	484	504
Credit to other nonfinancial public sector	1	1	1	1	1	1	1	1
Credit to deposit money banks	65	96	77	101	101	101	101	101
Other items, net 1/	3	-33	-58	-94	-30	-18	-30	-33
Of which: Repos with commercial banks	59	82	51	59	90	102	90	87
Reserve money	820	897	904	925	950	1,014	1,037	1,061
Currency	579	605	625	639	650	678	715	721
Reserves 2/	239	290	277	284	300	336	322	340
	(Contribution to reserve money growth)							
Net foreign assets	6.3	-0.3	-3.8	-6.2	-7.6	-6.9	-5.7	-3.2
Net domestic assets	20.9	21.3	21.5	19.0	23.1	19.9	20.4	17.9
Of which: Net credit to central government	11.3	15.4	19.4	26.4	26.6	17.7	14.6	11.4
Reserve money (year-on-year percentage change)	25.9	21.0	17.7	12.7	15.5	13.0	14.7	14.7
Monetary survey	(End of period; in billions of taka)							
Net foreign assets 1/	685	696	701	665	617	627	644	650
Bangladesh Bank	569	526	533	518	467	464	481	488
Commercial banks	116	170	168	147	150	163	163	163
Net domestic assets 1/	3,306	3,707	3,830	4,087	4,217	4,457	4,590	4,839
Domestic credit	3,774	4,302	4,462	4,772	4,903	5,145	5,287	5,556
Net credit to central government	475	701	770	867	902	980	1,029	1,079
Credit to other nonfinancial public sector	148	146	138	140	170	161	161	161
Credit to nonbank financial institutions	42	48	50	53	52	53	54	55
Credit to private sector	3,109	3,407	3,504	3,712	3,779	3,950	4,043	4,261
Other items, net 1/	-469	-595	-632	-685	-686	-687	-697	-717
Broad money (M2)	3,991	4,403	4,531	4,752	4,834	5,084	5,233	5,489
	(Year-on-year percent change)							
Net foreign assets	10.6	7.0	2.1	-2.9	-8.7	-10.0	-8.1	-2.2
Net domestic assets	24.2	24.5	23.5	23.6	20.8	20.2	19.8	18.4
Domestic credit	24.1	28.2	27.1	26.4	22.5	19.6	18.5	16.4
Of which: Net credit to central government	4.7	41.3	59.8	82.4	60.7	39.7	33.7	24.4
Credit to private sector	27.6	25.8	22.0	19.4	16.6	15.9	15.4	14.8
Broad money (M2)	21.7	21.4	19.6	19.1	16.0	15.5	15.5	15.5
Memorandum items:								
Required domestic cash reserves (in billions of taka)	226	252	258	273	275	289	296	311
Excess domestic cash reserves (in billions of taka)	13	38	19	11	25	47	26	29
Broad money multiplier	4.9	4.9	5.0	5.1	5.1	5.0	5.0	5.2
Broad money velocity	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Exchange rate, end of period (taka/U.S. dollar)	70.7	74.2	75.2	81.9	74.2	74.2	74.2	74.2

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

1/ Projections are based on June 30, 2011 constant exchange rates.

2/ Liabilities arising from banks' foreign currency clearing accounts and nonbank deposits are excluded.

Table 6. Bangladesh: Financial Soundness Indicators, 2006–11

(In percent, end-of-period)

	2006	2007	2008	2009	2010	2011	
						June	December Est.
Capital adequacy							
Regulatory capital to risk-weighted assets (adjusted) 1/	5.6	4.1	6.5	8.8	7.6	8.2	...
State-owned commercial banks (adjusted) 1/	-2.1	-21.2	-14.8	-7.6	-0.1	1.5	...
Regulatory capital to risk-weighted assets (unadjusted)	5.6	9.3	10.4	11.7	9.3	9.7	11.3
State-owned commercial banks	-2.1	7.3	7.9	9.0	8.9	9.5	11.7
Specialized development banks	-4.5	-5.0	-3.3	0.4	-7.3	-7.1	-4.5
Private commercial banks	9.0	10.4	11.2	12.1	10.1	10.4	11.5
Foreign commercial banks	24.5	22.8	23.8	28.1	15.6	17.1	21.0
Regulatory capital to assets (adjusted) 1/	3.2	2.4	4.0	5.3	6.9	7.1	...
Regulatory capital to assets (unadjusted)	3.2	5.6	6.5	7.1	8.5	8.5	9.0
Nonperforming loans to regulatory capital (adjusted) 1/	280.1	404.6	191.6	109.9	69.0	64.2	...
Nonperforming loans to regulatory capital (unadjusted)	280.1	168.5	115.5	80.2	55.1	52.8	42.2
Asset quality							
Nonperforming loans to total loans	12.8	14.5	11.2	9.0	7.3	7.1	6.1
State-owned commercial banks	22.8	29.0	28.0	20.1	15.7	14.1	11.3
Specialized development banks	14.3	13.5	11.7	24.1	24.1	21.8	24.6
Private commercial banks	4.9	5.4	5.1	4.0	3.1	3.5	2.9
Foreign commercial banks	2.8	2.9	3.7	2.2	3.0	3.1	3.0
Loan provisions to total nonperforming loans	45.2	43.0	50.1	61.2	62.7	62.5	67.4
Loan provisions to total loans	5.8	6.2	5.6	5.5	4.6	4.5	4.1
Profitability							
Return on equity 2/	-64.0	19.8	25.0	19.5	21.0	15.5	16.8
State-owned commercial banks	1,262.5	-9.4	35.6	24.9	18.4	10.0	18.5
Specialized development banks	24.7	16.6	21.0	-199.0	-3.2	-5.1	-0.9
Private commercial banks	24.8	26.7	24.3	18.9	20.9	15.6	15.7
Foreign commercial banks	21.5	20.6	18.5	18.9	17.0	20.2	16.6
Return on assets 3/	-2.1	1.1	1.6	1.4	1.8	1.3	1.5
State-owned commercial banks	-9.2	-0.3	1.2	1.0	1.1	0.6	1.3
Specialized development banks	-0.9	-0.6	-0.6	-0.6	0.2	-0.3	0.0
Private commercial banks	1.5	1.9	1.9	1.6	2.1	1.6	1.6
Foreign commercial banks	3.3	3.2	2.9	3.2	2.9	3.6	3.2
Sensitivity to market risk							
Net open position in foreign exchange to capital	16.6	4.2	6.0	3.3	...	...	...
Composition of credit (in percent of total)							
Oil and gas	1.8	0.8	0.9	1.6	0.7	0.8	...
Industry (other)	32.2	34.5	36.0	36.4	35.5	35.8	...
Agriculture	8.2	7.7	6.8	6.9	5.7	6.0	...
Forestry	2.4	2.1	1.8	0.5	0.0	0.0	...
Trade	22.1	24.3	24.0	26.6	37.6	37.2	...
Construction	4.1	3.4	3.3	3.6	7.0	7.6	...
Households	3.3	4.7	4.8	4.7	6.8	5.6	...
Other	26.0	22.6	22.5	19.7	6.7	7.1	...
Memorandum items:							
Share of assets (as a percent of total banking system assets)							
State-owned commercial banks	33.3	33.5	29.8	28.8	28.5	28.8	28.0
Specialized development banks	7.9	7.0	6.6	6.5	6.1	5.8	5.5
Private commercial banks	50.5	51.1	55.2	57.2	58.8	59.0	60.0
Foreign commercial banks	8.3	8.4	8.3	7.4	6.6	6.3	6.4

Sources: Bangladesh Bank; and IMF staff estimates.

1/ From 2007, an adjustment is made to exclude special accounts set up in banks' balance sheets, which contain the accumulated losses arising from the difference in market and book value of assets. These amounts are deducted from banks' assets and from their regulatory capital.

2/ Bangladesh Bank defines return on equity as the ratio of net income after taxes to regulatory capital.

3/ Bangladesh Bank defines return on assets as the ratio of net income after taxes to total assets.

Table 7. Bangladesh: Proposed Schedule of Disbursements and Timing of ECF Arrangement Reviews

Availability Date	Disbursement (In percent of quota)	Disbursement (In SDRs)	Conditions for Disbursement
April 11, 2012	17.1	91,423,000	Board approval of the arrangement
November 15, 2012	17.1	91,423,000	Board completion of first review based on observance of performance criteria for end-June 2012
April 15, 2013	17.1	91,423,000	Board completion of second review based on observance of performance criteria for end-December 2012
November 15, 2013	17.1	91,423,000	Board completion of third review based on observance of performance criteria for end-June 2013
April 15, 2014	17.1	91,423,000	Board completion of fourth review based on observance of performance criteria for end-December 2013
November 15, 2014	17.1	91,423,000	Board completion of fifth review based on observance of performance criteria for end-June 2014
April 1, 2015	17.1	91,422,000	Board completion of sixth review based on observance of performance criteria for end-December 2014
Total	120.0	639,960,000	

Source: IMF.

Table 8. Bangladesh: External Financing Requirements and Sources, FY2010–15 1/

(In millions of U.S. dollars)

	FY10	FY11	FY12	FY13	FY14	FY15
			Projections			
Gross financing requirements	2,955	2,922	3,781	4,746	5,171	5,162
External current account deficit	-3,250	-264	1,228	1,204	397	140
Amortization of medium- and long-term debt	671	739	800	921	1,079	984
Gross reserves accumulation (+ = increase)	2,827	-1,023	-844	1,034	2,432	2,871
IMF repayments	38	57	199	202	83	60
Other net capital outflows	2,669	3,413	2,399	1,385	1,180	1,107
Available financing	2,205	2,922	3,638	4,262	4,687	4,678
Capital grants	488	600	598	646	633	684
Loan disbursements to the public sector	854	1,051	1,328	2,000	2,671	2,844
Portfolio investment, net	-117	-28	55	69	86	107
Foreign direct investment, net	913	768	845	1,048	1,297	1,543
Short-term oil import credit, net	67	531	812	500	0	-500
Exceptional financing	750	0	143	484	484	484
IMF: Prospective arrangement	...	0	143	284	284	284
Asian Development Bank	750	0	0	100	100	100
World Bank	...	0	0	0	0	0
Other development partners	...	0	0	100	100	100

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

1/ Fiscal year begins July 1.

Table 9. Bangladesh: Indicators of the Capacity to Repay the IMF, FY2011–25 1/ 2/

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
	Est.	Projections													
IMF obligations based on existing credit (in millions of SDRs)															
Principal	36.4	126.7	130.0	53.5	38.6	26.9	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	1.8	1.5	0.5	0.2	0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
IMF obligations based on existing and prospective credit (in millions of SDRs)															
Principal	36.4	126.7	130.0	53.5	38.6	26.9	3.4	27.4	0.0	100.6	128.0	128.0	100.6	64.0	27.4
Charges and interest	1.8	1.5	0.5	0.7	1.6	1.7	1.7	1.7	0.0	1.4	1.1	0.8	0.5	0.2	0.1
Total obligations based on existing and prospective credit															
In millions of SDRs	38.2	128.1	130.5	54.1	40.2	28.7	5.1	29.1	0.0	101.9	129.1	128.8	101.0	64.2	27.5
In millions of U.S. dollars	59.6	201.0	202.8	84.1	62.4	44.5	7.9	45.2	0.0	158.4	200.6	200.1	157.0	99.8	42.8
In percent of gross international reserves	0.6	2.3	2.0	0.7	0.4	0.2	0.0	0.2	0.0	0.5	0.5	0.5	0.3	0.2	0.1
In percent of exports of goods and services and remittances	0.2	0.5	0.4	0.2	0.1	0.1	0.0	0.1	0.0	0.2	0.2	0.2	0.1	0.1	0.0
In percent of debt service 3/	6.2	15.8	14.8	5.9	4.7	3.2	0.5	2.6	0.0	6.9	7.8	7.1	5.4	3.3	1.4
In percent of GDP	0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
In percent of quota	7.2	24.0	24.5	10.2	7.5	5.4	0.9	5.5	0.0	19.1	24.2	24.1	18.9	12.0	5.2
Outstanding IMF credit															
In millions of SDRs	379.0	343.7	396.6	526.0	670.2	643.3	639.9	612.5	548.5	447.9	319.9	191.9	91.4	27.4	0.0
In millions of U.S. dollars	590.4	539.2	616.2	817.3	1,041.4	999.5	994.3	951.7	852.3	696.0	497.1	298.3	142.0	42.6	-0.1
In percent of gross international reserves	6.1	6.1	6.2	6.6	6.8	5.5	4.5	3.6	2.9	2.0	1.3	0.7	0.3	76.6	-0.1
In percent of exports of goods and services and remittances	1.6	1.3	1.3	1.5	1.7	1.5	1.3	1.2	1.0	0.7	0.5	0.3	0.1	0.0	0.0
In percent of debt service 3/	61.4	42.3	45.0	57.2	77.7	72.7	66.4	54.8	42.1	30.2	19.3	10.7	4.8	1,391.9	-1.6
In percent of GDP	0.5	0.5	0.5	0.6	0.7	0.6	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
In percent of quota	71.1	64.5	74.4	98.6	125.7	120.6	120.0	114.8	102.8	84.0	60.0	36.0	17.1	5.1	0.0
Net use of IMF credit (in millions of SDRs)															
Disbursements	0.0	91.4	182.8	182.8	182.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	38.2	128.1	130.5	54.1	40.2	28.7	5.1	29.1	0.0	101.9	129.1	128.8	101.0	64.2	27.5
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	110.6	115.2	121.4	131.5	143.2	156.0	170.0	185.4	202.4	221.1	240.7	261.3	283.1	305.9	329.6
Exports of goods and services and remittances (in billions of U.S. dollars)	37.2	41.0	46.8	53.5	60.4	67.3	73.8	80.8	88.5	96.9	105.5	114.8	124.7	135.3	145.8
Gross international reserves (in billions of U.S. dollars)	9.7	8.9	9.9	12.4	15.2	18.2	22.2	26.2	29.9	34.2	38.5	42.9	48.6	55.5	63.4
Debt service (in billions of U.S. dollars) 3/	1.0	1.3	1.4	1.4	1.3	1.4	1.5	1.7	2.0	2.3	2.6	2.8	2.9	3.1	3.1
Quota (in millions of SDRs)	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3

Source: IMF staff estimates and projections.

1/ Fiscal year begins July 1.

2/ Includes the proposed ECF arrangement with an access level of 120 percent of quota.

3/ Total public debt service, including IMF repayments.

Table 10. Bangladesh: Millennium Development Goals, 1990–2015 1/

	Base 1990–95	Current 2005–10	Target 2015	Status
Goal 1: Eradicate extreme poverty and hunger	**Goal will probably be met**			
Target 1: Halve by 2015 the proportion of people living below the poverty line				
Poverty headcount ratio	59	32	29	On Track
Poverty gap ratio	17	7	8	Goal Met
Income share held by lowest 20 percent	9	9	...	Needs Attention
Target 2: Halve by 2015 the proportion of people who suffer from hunger				
Prevalence of child malnutrition (percent of children under 5)	68	45	33	Off Track
Population below minimum level of dietary energy consumption (percent)	28	20	14	On Track
Goal 2: Achieve universal primary education	**Goal will probably be met**			
Target 3: Ensure that all boys and girls complete a full course of primary schooling				
Net enrollment ratio in primary education	61	91	100	On Track
Proportion of pupils starting grade 1 who reach grade 5, percent	43	55	100	Needs Attention
Adult literacy rate of 15–24 years old population (percent)	37	58	---	Needs Attention
Goal 3: Promote gender equality and empower women	**Goal will probably be met**			
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and at all levels by 2015				
Ratio of girls to boys in primary and secondary education (percent)	77	106	100	Achieved
Ratio of girls to boys in tertiary education (percent)	37	32	100	Needs Attention
Ratio of literate females to males (percent of ages 15–24)	65	85	100	Needs Attention
Share of women employed in the nonagricultural sector (percent)	19	25	50	Needs Attention
Proportion of seats held by women in national parliament (percent)	13	19	33	Needs Attention
Goal 4: Reduce child mortality	**Goal will probably be met**			
Target 5: Reduce by two thirds by 2015 the under 5 mortality rate				
Under 5 mortality rate (per 1,000)	146	54	50	On Track
Infant mortality rate (per 1,000 live births)	92	41	31	On Track
Immunization, measles (percent of children under 12 months)	54	82	100	On Track
Goal 5: Improve maternal health	**Goal will probably be met**			
Target 6: Reduce by three quarters, by 2015, the maternal mortality ratio				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	574	194	143	On Track
Births attended by skilled health staff (percent of total)	5	24	50	Needs Attention
Goal 6: Combat HIV/AIDS, malaria, and other diseases	**Goal will potentially be met**			
Target 7: Have halted by 2015 and begin to reverse the spread of HIV/AIDS				
Contraceptive prevalence rate (percent of women ages 15–49)	40	60	72	Needs Attention
HIV prevalence among population (per 100,000 population)	0	0.3	Halting	On Track
Target 8: Have halted by 2015 and begin to reverse the incidence of malaria and other major diseases				
Prevalence of malaria (per 100,000 people)	1.4	0.4	0.0	Needs Attention
Incidence of tuberculosis (per 100,000 people)	264	225	Halting	Needs Attention
Tuberculosis treatment success rate under DOTS (percent)	21	74	75	On Track
Goal 7: Ensure environmental sustainability	**Goal will potentially be met**			
Target 9: Integrate the principles of sustainable development into country policies and reverse the loss of environmental resources				
Productive forest area (%) (70 % tree density)	9.0	13.0	20	Needs Attention
CO2 emissions (metric tons per capita)	0.1	0.3	...	Needs Attention
Terrestrial protected areas (percent of total surface area)	1.6	1.7	5	Needs Attention
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and sanitation				
Improved water source (percent of population with access)	93	79	97	Needs Attention
Improved sanitation facilities (percent of population with access)	15	85	56	On Track
Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers				
Slum population as percentage of urban (percent)	87.3	70.8	...	Insufficient Data
Goal 8: Develop a global partnership for development	**Goal will potentially be met**			
Target 12: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system				
Net ODA received per capita (current U.S. dollars)	20	8	...	Needs Attention
Target 13: Make available the benefits of new technologies, especially information and communication				
Fixed line and mobile telephones (per 100 people)	0.2	13.6	50	On Track
Internet users (per 100 people)	0.0	3.4	...	Insufficient Data
General indicators				
Population (in millions)	115.6	146.7	...	
Gross national income (in billions of U.S. dollars)	39.2	104.7	...	
GNI per capita, Atlas method (current, in U.S. dollars)	330	700	...	
Total fertility rate (births per woman)	3.4	2.7	...	
Life expectancy at birth (years)	58.0	66.6	70	

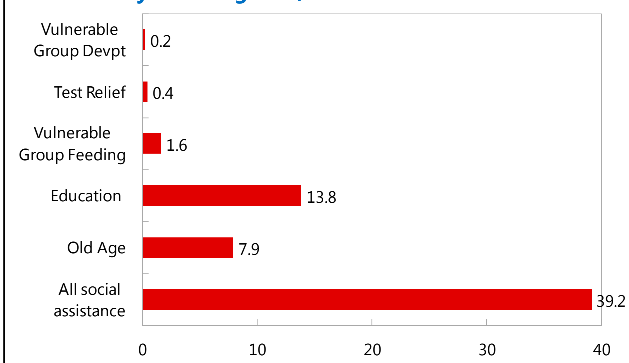
Sources: United Nations Development Program and World Development Indicators.
1/ In some cases, the data are for earlier or later years than those stated.

ANNEX I. MACROECONOMIC ADJUSTMENT WITH A HUMAN FACE: PUBLIC SOCIAL SAFETY NETS IN BANGLADESH[1]

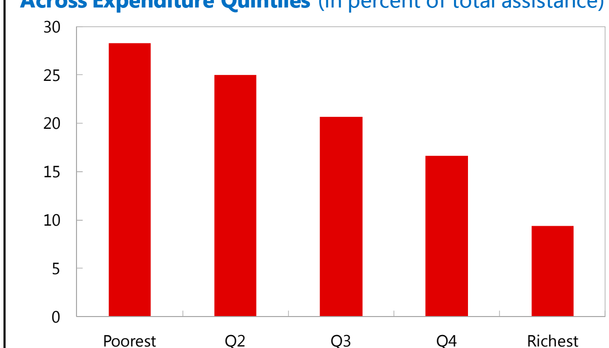
The note focuses on the Public Social Safety Net (PSSN) programs that are financed through the budget of the government of Bangladesh. While a number of programs are already in place, weak administrative capacity and poor benefits targeting constrain their effectiveness. Over the near term, several successful programs could be scaled up to mitigate the impact of higher food and energy prices, with resources in part coming from a better targeting of existing schemes.

A wide range of PSSN programs shield the poor from destitution in Bangladesh, where 31.5 percent of the population lives under the poverty line.[2] These programs address poverty from a broad perspective, including through education, health, nutrition, employment, and disaster response programs targeted to the poor (see table). Vulnerable groups, particularly the elderly, women, children, and disabled persons, are given priority in the delivery of PSSNs. Programs provide benefits in the form of food, cash transfers, or a combination of the two and are administered through the government, bilateral, and multilateral development partners.

Bangladesh: Share of Poorest Quintile Covered by Social Safety Net Programs, 2010



Bangladesh: Distribution of Social Assistance Coverage Across Expenditure Quintiles (in percent of total assistance)



Sources: Bangladesh authorities; and World Bank staff estimates.

Budgetary allocations for PSSN programs have increased over time. Relative to other South Asian countries, SSN spending in Bangladesh, as a share of GDP, is comparable to India, but higher than Nepal, Pakistan, and Sri Lanka. The government provided an average of 9 percent of total annual public expenditures (about 1.3 percent of GDP) to PSSNs during 1996–2008. The allocation was increased in response to the global food and energy price crisis to about 2.0 percent of GDP in FY10 and FY11. A major portion of the support has gone to food assistance covered through direct feeding programs, followed by cash transfer social protection programs (including the flagship Employment Generation Program for the Poorest (EGPP) that was set up in response to the 2008 food price crisis).

[1] Prepared by Stella Kaendera (FAD), Eteri Kvintradze (APD), and Iffath Sharif (World Bank).

[2] Bangladesh Bureau of Statistics, *Household Income and Expenditure Survey* (2010).

Despite this growth, coverage of PPSN programs is low, mainly concentrated in the rural areas, and coordination in their administration is lacking. Existing PSSN schemes currently reach about 7 million beneficiaries, which is equivalent to less than 15 percent of the population living below the poverty line and only around 39 percent of the poorest quintile (text chart 1). The urban poor are generally marginalized and excluded from most of these programs. At the same time, a significant number of nonpoor households gain access to multiple programs due to the lack of an integrated policy aimed at targeting and coordinating the delivery of safety nets (text chart 2). The widest reaching scheme is the Old Age Allowance (OAA) program, which provides a monthly allowance of Tk 500 per month through bank accounts of the elderly poor.

Poor institutional and administrative capacity is a particularly challenging constraint for quickly expanding food-based programs in response to rising prices. Currently, more than a dozen ministries implement 30 major programs in this area. The programs are often fragmented, administered by multiple ministries, and have considerable overlap. This makes for possible duplication and spreads scarce resources too thin. Better targeting and implementation of these programs could increase coverage and have a greater impact on poverty mitigation within the existing budget.[3]

Nevertheless, faced with the recent increase in food and energy prices, Bangladesh has managed to scale up participation in several of its ongoing PSSN. A fair price cardholder program resumed in November 2010, which allows some 2 million low-income households to purchase up to 20 kilograms of rice per month at a below-market price. Open market sales are also being used to provide subsidized rice, but they tend to be poorly targeted, with anyone allowed to buy up to 5 kilograms of low-quality rice per day through this operation. In addition, the government initiated an input subsidy program in 2010, allowing the then approximately 9 million marginal and small farmers (i.e., those with less than 3 hectares of land) to open a bank account and receive a cash subsidy for diesel used in irrigation pumps and other agricultural inputs used during the boro (main) crop season.

Looking ahead, the continued development of PSSNs with a stronger focus on improving administrative capacity is necessary for mitigating the impact on the most vulnerable. Efficiency gains could be realized by consolidating and rationalizing existing programs, with resources reallocated from poorly performing ones (such as Food for Works) to those that are relatively better targeted and administered (e.g., EGPP, VGF, and VGD). Such reform measures are likely to allow both the expansion of coverage and increase in per capita benefit levels.

Bangladesh could also broaden the reach of its successful targeted cash transfer systems. To increase coverage and remove inefficiencies in the existing system, efforts need to be made to create a database of the most vulnerable, including the urban poor, through existing household surveys; give these individuals or households access to bank accounts; and administer electronic cash transfer through these accounts, with support from development partners. Emerging evidence shows that such administrative reforms have markedly improved the performance of EGPP. Once an adequate PSSN transfer infrastructure is developed, schemes such as the EGPP and OAA could be easily topped up.

[3] See Sharif (2009), *Building a Targeting System for Bangladesh Based on Proxy Means Testing*, World Bank Social Protection Discussion Paper Series No. 0914.

Bangladesh: Main Type of Safety Net Programs

Type of Assistance	Safety Net Programs
Cash transfers	*Old Age Allowance:* Social pension using community-based targeting to select individuals based on eligibility criteria for low monthly cash benefits. About 7 percent of the population (i.e., 10 million people) are older than 65 years of age, but only 2 million are covered under the old age allowance program. *Widowed and Distressed Women Allowance:* A monthly allowance (Tk 250 per person) distributed to about 900,000 selected women residing in rural areas. *Disabled Allowance:* A monthly allowance (Tk 250 per person) distributed among mentally or physically challenged/handicapped persons. Currently, 200,000 persons are covered under this scheme.
Conditional cash transfers	*Primary Education Stipend Program:* A monthly stipend (Tk 100–125 per pupil aimed at supporting poor families (under a specific targeting criteria) to send their children to school. *Stipends for Female Secondary Students:* Monthly cash transfer conditioned on school attendance, academic performance, and girls remaining unmarried.
Public works	*Rural Maintenance Program:* *Food-for-Work:* A 100-day employment guarantee scheme where beneficiaries receive food grain instead of cash for their work. *Employment Generation Program for the Poorest (EGPP):* Short-term employment on community sub-projects, currently covering approximately 800,000 workers per year (and partially funded by the World Bank). *Vulnerable Group Development (VGD):* 30 kilograms of rice for a period of 24 months to poor women.
Emergency or seasonal relief	*Vulnerable Group Feeding (VGF) program:* Food to households affected by disasters and lacking agriculture land and productive assets. Under the program, an affected person gets 10 kilograms of food grains per month for three months following a disaster, with no labor requirement. *Gratuitous Relief:* Emergency food and other necessities to the victims of natural calamities. The program is short-term in nature and can provide 10 kilograms of food grains per person per month. Additionally, cash can be distributed under the program. *Test Relief:* 5–6 kilograms of wheat per day for a month during rainy months. *Open Market Sales:* Rice made available to rural and urban areas. Anyone can buy a maximum of five kilograms of subsidized rice each day. The program was established in response to the 2008 food crisis.

Sources: Bangladesh authorities; and the World Bank.

APPENDIX I. LETTER OF INTENT

27 March, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

Bangladesh continues to open its economy, which is driving up investment rates, stimulating new exports, and creating employment opportunities, especially for women. Our economy grew by 6¾ percent in FY11 (July 2010-June 2011) and on average by 6 percent a year during the past decade. Domestic resources mobilization, as a share of GDP, reached a record level in FY11. Over the past 10 years, external trade increased by almost four-fold in U.S. dollar terms and more than doubled as a share of GDP. At the same time, the poverty level nearly halved, in line with achieving most of our Millennium Development Goals by 2015, but it remains unacceptably high. Bangladesh has drawn up a Vision-2021 programme aiming to raise its growth rate to 8 percent by 2015 and possibly to 10 percent by 2021, in line with our objective to attain middle income status in the next 10 years. In the process, we intend to further reduce poverty to a tolerable range of 12-15 percent and bring the unemployment rate down to this vicinity.

Our strategy of growth with equity has been embraced in many reform measures announced in our annual budget statements as well as in our finalized Sixth Five-Year Plan. However, due to the process of slow recovery out of the global financial crisis and expansionary domestic measures, we face several major challenges now, which have given rise to an actual balance of payment financing need that is expected to be protracted. First, relatively accommodative policies coupled with increasing global headwinds have led to widening trade imbalances and foreign reserve losses. Second, a rapid rise in oil imports, continued firmness in commodity prices, and associated increases in government subsidies have added to external and fiscal pressures. Third, power, transportation, and climate change-mitigating infrastructure needs remain immense, creating huge import requirements that exacerbate BOP needs.

In response, we have formulated a reform program based on various policy announcements that we have made in the last three years in support of high, sustainable, and equitable growth. The current three-year programme is centered on upfront policy actions aimed at preserving macroeconomic stability and gradually rebuilding our reserve buffer, while going forward with macro-critical structural reforms. In keeping with these objectives, stepped-up efforts will be made to (a) create more fiscal space and better utilize resources mobilized from development partners; (b) ensure a stable, well-regulated financial system; (c) create a business-friendly trade and investment regime; and (d) secure greater regional and global economic integration. This is likely to raise saving and investment rates, strengthen our external position, and achieve broad-reaching labor-intensive export-led growth.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the major objectives of the government's reform program for the period 2012-2015. In this context, the government of the People's Republic of Bangladesh is requesting access to IMF resources under an Extended Credit Facility (ECF) in the amount of SDR 639.96 million (120 percent of quota) over a three-year period to meet in part our BOP financing need and provide a buffer against shocks until our policy adjustments and reform measures take hold. During this time, we expect to secure support from other development partners to meet our overall financing needs.

We believe that our commitments, as outlined in the MEFP, are adequate to achieve program objectives, but we are prepared to take further measures, as appropriate, for this purpose. To ensure strong performance under an ECF-supported arrangement, we will maintain a close policy dialogue with the IMF and pursue technical assistance, 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. We also authorize publication of this Letter of Intent and its attachments, as well as the accompanying staff report.

Sincerely yours,

/s/
Abul Maal Abdul Muhith
Minister of Finance
Government of the People's Republic of Bangladesh

Attachments: Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding

March 27, 2012

ATTACHMENT 1. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. OVERVIEW

1. **This memorandum lays out the reform program of the government of the People's Republic of Bangladesh under the three-year Extended Credit Facility (ECF) arrangement.** It focuses on the targets and objectives in the first year of the ECF, setting forth the policy adjustments and structural reforms needed to preserve macroeconomic stability, strengthen the external position, and enhance overall competitiveness. Our ultimate aim is to lay a strong foundation for higher, more inclusive growth. This objective is in keeping with our long-term Perspective Plan (2010-2021), which seeks to halve poverty rates and elevate Bangladesh to middle-income status over the next decade. In support, our Sixth Five Year Plan (FY11-15) (SFYP) sets out specific policies intended to narrow our infrastructure deficit, enhance the business environment, and expand the industrial base, while effectively mobilizing resources on all fronts, in order to create employment opportunities, especially for women, as a key plank of our poverty reduction efforts.

II. MACROECONOMIC CONDITIONS

2. **Macroeconomic pressures have intensified over the past 18 months, resulting in heightened risks to Bangladesh's external position.** Our balance of payments (BOP) slipped into a deficit in FY11 (July 2010-June 2011) for the first time in a decade. Record exports were driven higher by ready-made garments, in part from the capture of new market share. However, they were more than offset by record imports, which were pushed up by surging oil demand and accommodative policies. Remittances flows were supportive, as the pace of workers going abroad picked up in 2011, but aid disbursements slowed, owing in part to the low uptake of project loans. External pressures have prevailed in FY12, but with exports now affected by the weaker global demand. As a result, gross international reserves (GIR) have declined substantially since late 2010. Despite record tax takes, fiscal pressures have also emerged, stemming mainly from rising fuel, electricity, and fertilizer subsidies. In turn, domestic borrowing by the government rose sharply in the first half of FY12, straining available liquidity in the banking system and putting upward pressure on interest rates. Lastly, inflation pressures have firmed, with headline, food, and non-food rates now in excess of 10 percent due to rising commodity prices and strong aggregate demand.

3. **Current conditions have given rise to an actual and protracted BOP financing need.** Notwithstanding recent policy adjustments and sizable exchange rate depreciation, reserves could slip well below two months of import without further adjustments and reforms, exposing Bangladesh to greater risks and vulnerabilities. In the longer term, our external position is expected to come under additional pressures from increased import demand, previously held back by less-open trade policies and repressed energy demand, as we take steps to further open our economy and relieve infrastructure bottlenecks, most notably in the power and transport sectors, which currently constrain growth.

III. POLICY FRAMEWORK

4. **Against this backdrop, our reform program aims to preserve macroeconomic stability, strengthen our external position, and ultimately bolster growth prospects.** During the program period (FY12-15), we will seek to bring down inflation to and retain it at single-digit levels through appropriately restrained fiscal and monetary policies and over time by further easing supply constraints. We also intend to increase reserves to 2¾-3 months of import cover by FY15 by putting the BOP on a sustainable path through sound aggregate demand management, continued exchange rate flexibility, and structural reforms needed to bolster competitiveness. These measures are also expected to catalyze additional external inflows, including foreign direct investment (FDI). Finally, we aim to increase real GDP growth to 7.5-8 percent a year by mid-decade through reforms aimed at increasing investment rates, further opening our economy, and broadening employment opportunities, focused on labor-intensive and export-oriented activities, consistent with our SFYP.

5. **We recognize that upfront policy actions are needed to reduce the risk of a payments crisis and put Bangladesh on a firm adjustment path.** Under our program, we will pursue moderate fiscal consolidation over the near to medium term by further increasing tax revenue, reducing subsidy costs, and prioritizing development spending, with a view to containing domestic borrowing. In keeping with this, we will also limit monetary policy accommodation by setting appropriate policy rates and containing Bangladesh Bank (BB) financing of the budget deficit, aided by stronger policy coordination, to ensure stable reserve money growth. Greater interest rate flexibility should help improve monetary policy transmission. Finally, we will continue to maintain a flexible exchange rate regime, taking steps to deepen the foreign exchange market and limit official intervention to smoothing short-term volatility, in order to facilitate adjustment. A well-coordinated mix of fiscal and monetary tightening and continued exchange and interest rate flexibility, combined with limited BB activity in the foreign exchange market, should help protect reserves.

6. **In addition, macro-critical structural reforms are necessary to raise saving and investment rates, expand the export base, and ensure BOP sustainability.** They are also aimed at promoting sound economic governance and accountability. Thus, over the near to medium term, we will undertake structural fiscal reforms centered on modernizing our tax regime, strengthening public financial management (PFM), and promoting a sound debt policy, in order to provide adequate budgetary resources to bolster social and infrastructure outlays over the medium term, supported by new public-private partnerships (PPP). Moreover, we will take steps to ensure a stable, inclusive, and well-regulated financial system conducive to meeting private financing needs, including in agriculture and for small- and medium-scale enterprises, and minimizing fiscal and systemic risks. Finally, focus will be placed on enhancing Bangladesh's integration into the global economy through business-friendly trade and investment climate reforms, drawing on the experience of outward-oriented economies that have transitioned successfully to middle income status.

A. Fiscal Policy and Debt Management

7. **Policy objectives.** Fiscal policy will be geared towards promoting a stable macroeconomic environment, debt sustainability, and broad-based growth. Upfront tightening measures will be complemented by tax, subsidy, and PFM reforms to ensure Bangladesh stays on a sound fiscal path. To this end, we will limit our overall fiscal deficit (excluding grants) to around 4.5 percent of GDP in FY12 and pursue moderate fiscal consolidation in FY13 and over the medium term. During the program period, we aim to increase tax revenue to around 13 percent of GDP in order to create adequate space to raise Annual Development Program (ADP) spending to at least 6 percent of GDP, in support of higher growth. Fiscal performance will be anchored by a ceiling on net claims on government by the banking system (a performance criterion) and supported by a floor on tax revenue (an indicative target). To ensure targets are met in FY12, we have capped total energy-related subsidy costs to Tk 150 billion in FY12 (a prior action). In part, this is being aided by recent domestic fuel prices increases, which have averaged nearly 40 percent since mid-2011, as well as through scheduled adjustments to electricity tariffs.

8. **Tax policy.** The adoption of new VAT and income tax regimes will be the centerpiece of our tax reform efforts, with the aim to broaden the tax base and increase tax receipts, in support of stability and growth. On the VAT, we received approval by our Cabinet of the new legislation in March 2012 (a prior action), following careful drafting and extensive stakeholder consultation, supported by technical assistance (TA) from the IMF and other development partners (DPs). The law, which will build on recent reforms, has a single 15 percent VAT rate with very limited exemptions, no truncated valuations, and minimal advance payment and withholding schemes. A final draft of the law that is consistent with tax modernization efforts and medium-term revenue targets will be submitted to the National Parliament by June 2012 (a program benchmark). To ensure a modern VAT is fully in place by FY15, we will get the approval of the Minister of Finance of an implementation plan and timetable and a new organizational structure for the National Board of Revenue (NBR) by September 2012 (a program benchmark). Timely implementation will be ensured with support from a resident adviser as well as by peripatetic experts from DPs. We will remove certain tax concessions and exemptions in the FY13 Finance Bill in June 2012 equivalent to 0.5 percent of GDP (a program benchmark). We also plan to finalize a new draft direct tax code in FY13 that further rationalizes exemptions, rates, and thresholds in keeping with our medium term revenue target and embracing international best practices.

9. **Revenue administration.** We will consolidate revenue administration reforms already under way over the past few years to further modernize tax collections and enforcement. An NBR modernization plan (2012-16), building on its June 2011 outline of a tax modernization plan, will be formulated by mid-2012, with support from DPs. As part of our efforts, we aim to continue upgrading systems, broadening the coverage, and improving the coordination of the Large Taxpayers Units for income tax and indirect taxes. The use of the taxpayer identification numbers is also being expanded by beginning to automate their

issuance and linking them to national identification and business identification numbers—a process we aim to complete in our main tax offices by December 2012 (a program benchmark). Furthermore, we are upgrading the ASYCUDA system, with an aim of installing it in major land customs stations by December 2012, with support from UNCTAD. We have also begun implementing an alternative dispute resolution (ADR) mechanism in FY12 at the NBR on a pilot basis. Over the medium term, we will further improve tax compliance by strengthening audit and investigative procedures, establishing separate court benches dedicated to taxation issues, and fully rolling out the ADR mechanism.

10. **Subsidy reforms.** Effective steps are being taken to contain the growth in fuel, electricity, and fertilizer subsidies and to bring these costs fully on budget starting in FY13, in order to protect priority social and development spending and reduce price distortions. The overall size of these subsidies has grown rapidly in recent years due to rising import costs and inadequate cost recovery undermining our fiscal position and overall macroeconomic stability. Notwithstanding significant fuel and electricity prices adjustments over the past year, we recognize that further adjustments to energy prices are likely necessary in 2012, given projected import costs and available budgetary financing. To contain fuel subsidies, we will move to an automatic adjustment formula by December 2012, which will ensure full pass-through of changes in international prices (a program benchmark), with a clear timeline being developed to make necessary preparations for this change. In the meantime, we established a technical committee in January 2012 comprising the Ministry of Finance (MoF) and BB to monitor closely the finances of the Bangladesh Petroleum Corporation (BPC) in order to ensure regular budget transfers to cover subsidy-related losses and subsequently to enable it to buy foreign exchange from domestic banks to pay for petroleum imports. In addition, we are undertaking timely implementation of the medium-term electricity tariff adjustment schedule, as set out by the independent Bangladesh Energy Regulatory Commission. Moreover, we will adjust fertilizer prices, as necessary, to more fully capture changes in local and imported inputs, in order to contain subsidy growth. Finally, taking a longer-term perspective, we will make efforts to accelerate our *Power Sector Road Map*, adopted in 2010, so that higher-cost temporary rental power units now being used to relieve electricity shortages can be replaced with more cost-effective permanent power plants. Chronic under-investment in the power, gas and coal, and oil sectors will be further aided by moves towards full cost recovery by energy producers and distributors.

11. **State-owned enterprise finances.** In keeping with our commitment to bring subsidy costs on budget, new subsidy-related loans from the state-owned commercial banks (SOCBs) to the BPC, Bangladesh Power Development Board (BPDB), and Bangladesh Chemical Industries Corporation (BCIC) will be limited to zero on a net basis in FY12 (an indicative target). Agreement to settle existing legacy loans held by the SOCBs stemming from earlier subsidy-related losses will be fully reflected in our budget framework, with around Tk 27 billion in these loans already securitized in FY12. We are further committed to conducting efficiency audits of the BPC and BPDB in 2012. To safeguard fiscal targets, we will continue to monitor closely budget transfers and directed lending to all state-owned enterprises

(SOEs), placing strict limits on support to largely inoperative ones, to ensure public resources are not diverted away from priority needs.

12. **Public financial management.** We are committed to strengthening PFM, focusing our efforts on performance-focused budgeting, budget integration and monitoring and improved cash and debt management. The Strengthening Public Expenditure Management Program (SPEMP)—a multi-donor trust fund administered by the World Bank—will guide these reforms, with its mandate now focused on strategic policy planning and budget management, public financial systems, and training and capacity building in PFM. In keeping with our priorities, we will establish new budget management wings/branches in all line ministries and issue a circular ensuring uniform budget implementation and reporting standards by June 2012 (a program benchmark). In our efforts to improve cash and debt management, we will expand the terms of reference of the Cash and Debt Management Technical Committee to prepare bi-weekly and monthly rolling cash flow projections of the government's Treasury Single Account (TSA) balance by June 2012, with reporting standards to be consistent with previous TA in this area. To better monitor performance, we are further committed to revising the current budget classification structure and reporting, with the new Integrated Budget and Accounting System expected to provide an important bridge in generating *GFS* compliant statements. As a follow up to Public Expenditure and Financial Accountability (PEFA) assessment done in mid-2011, a fiscal Report on Standards and Codes focused on budget transparency will be sought in FY13.

13. **Annual Development Program implementation and aid effectiveness.** In support of our growth strategy and poverty reduction efforts, we are taking steps to improve ADP implementation, better align spending with development objectives, and increase overall aid effectiveness, in close collaboration with DPs. Balancing these objectives with current resource constraints, we have reprioritized development projects in FY12 budget and also issued a government circular in January 2012 restricting the use of taka funding to make up for shortfalls in the externally-funded ADP budget (a prior action). Going forward and working closely with DPs, we will further rationalize the number of ADP projects, build project appraisal capacity in the Planning Commission and line ministries, and issue a basic technical manual on project formulation and appraisal by December 2012. During the program period, measures will also be taken to improve land acquisition procedures, strengthen government-DP interface on procurement processes, and improve aid coordination, especially on multi-donor projects, consistent with the Joint Cooperation Strategy agreed between the government and DPs in 2011.

14. **Social spending and safety nets.** During the program period, we will intensify efforts to protect priority social spending and improve the effectiveness of safety nets, carefully monitoring social-related spending (an indicative target). We will use this information in our regular reporting to the National Parliament on budget implementation, which we commenced following the adoption of the Public Moneys and Budget Management Act in 2009. In recognition that fuel and electricity price increases could place a heavy

burden on the poor, we will develop an action plan by June 2012 to ensure well-targeted social safety net programs aimed at mitigating this burden. As an upfront measure, we will ensure that open market sales of food staples, a self-targeted program mostly for the urban poor, are done in a timely and judicious way in 2012 to mitigate the impact of rising fuel and food prices on their purchasing power.

15. **Public-private partnerships.** Operational guidelines and legal and institutional framework for PPPs are being established, as part of our strategy to increase infrastructure investment, with support from the Asian Development Bank (AsDB). The government will take equity stakes in projects through the new Bangladesh Infrastructure Finance Fund, as well as provide technical and viability gap funding. Large projects will be approved by the Cabinet Committee on Economic Affairs to ensure consistency with our growth and debt strategies. As a coordinating body, a PPP office has been established in the Prime Minister's Office and staffed by professional managers. It is charged with supporting line ministries to ensure that PPP projects are properly identified, contracted, and implemented, with a view to minimizing fiscal risks. A cell was also created in the MoF in mid-2011 to assess the medium-term fiscal implications of PPP projects and ensure that government resources required for selected projects are fully incorporated into future budgets.

16. **Debt management. Our debt management strategy (DMS) is consistent with minimizing borrowing costs and ensuring a sustainable fiscal stance.** The strategy, prepared in 2011, is anchored by maintenance of prudent levels of domestic borrowing and reliance for the foreseeable future on concessional terms for most external borrowing. Its execution and monitoring are being supported by a dedicated debt management wing in the MoF. Under our DMS, annual borrowing plans will be guided by a macro-fiscal framework and debt sustainability analysis and supported by a single, comprehensive debt database. We will also move toward fully recognizing the debts of SOEs and other official entities in our analysis, particularly on BPC, BPDB, and BCIC, where government guarantees on borrowing have been provided and/or contingent liabilities exist. To ensure adequate domestic financing, we have signaled to primary dealers in the Treasury market that yields on bills and bonds will continue to be responsive to market conditions by setting auction cut-off rates across all maturities at market-clearing level. As part of this effort, we will also strengthen the operations of the National Savings Directorate, benchmark yields on National Savings Certificates (NSCs) to market-based rates, and bring the taxation of interest on NSCs in line with other government debt instruments by June 2012. In this process, we will also revamp savings schemes aimed at non-resident Bangladeshis to attract stronger foreign inflows. Building on progress in recent years in recording external debt flows, we will install the UNCTAD's Debt Management and Financial Analysis System (DMFAS.6) by June 2012 to incorporate most domestic debt flows.

17. **Debt ceilings and limits.** Under our program, we will adhere to nonconcessional external debt ceilings, consistent with our DMS and continued sound management of public sector external borrowing. In compliance with our ceiling on new nonconcessional external

debt maturing in more than one year (a continuous performance criterion), we will limit any such borrowing to properly evaluated projects, in line with procedures followed by the executive committee of our National Economic Council in considering and approving larger development projects. We will also have a ceiling on nonconcessional external debt maturing in one year or less (a continuous performance criterion). This debt will exclude normal import-related credits, notably suppliers' credit and other short-term financing for oil imports from the Islamic Development Bank and other official entities, on which we will have a separate non-zero ceiling (an indicative target). To keep this borrowing manageable, our program will have adjustors on net international reserves (NIR) of BB, net domestic assets (NDA) of BB, and NCG by the banking system for suppliers' credit contracted by BPC and guaranteed by the government in excess of programmed levels. We will also continue to ensure no new accumulation of external payment arrears by the public sector (a continuous performance criterion).

B. Monetary and Exchange Rate Policy and Central Bank Operations

18. **Policy objectives.** Monetary policy will aim to contain aggregate demand pressures, bring down inflation, and help build a reserve buffer. Bangladesh Bank has demonstrated its resolve by increasing its benchmark repo rate by 325 bps over the past 18 months to 7.75 percent, including the latest 50 bps rise in January 2012. As a result, credit growth has slowed significantly since mid-2011, in support of stabilization efforts. To improve the monetary transmission mechanism, Treasury bill and bond yields have also been allowed to adjust more to market conditions. In addition, most remaining bank lending rate caps were removed in December 2011 (a prior action). Greater exchange rate flexibility has also been allowed to facilitate adjustment. Central bank actions will continue to be guided by its semi-annual monetary policy statements, which will be consistent with our program ceilings on reserve money (an indicative target), as a nominal anchor, and on NDA of BB—its main operating targets (a performance criterion). To contain external vulnerability, we will target a modest reserve buildup in NIR of BB in 2012 (a performance criterion) and a further significant increase over the medium term, in keeping with monetary as well as fiscal tightening, continued exchange rate flexibility, and, over time, improved external prospects.

19. **Monetary management.** To help achieve our program targets, BB is prepared to maintain the existing restrained monetary policy and to take further steps to strengthen liquidity management, backed by an appropriately tight fiscal policy. Bangladesh Bank will undertake further hikes in its repo and reverse repo rates, as necessary, and continue to channel most liquidity support through the emergency repo window (currently provided at 300 bps above the regular repo window). It will also encourage all commercial banks to maintain market-determined lending and deposit rates to facilitate monetary transmission and properly price risk. Furthermore, BB will strictly enforce its cash reserves, liquid asset, and credit-to-deposit ratio requirements, sanctioning banks found in violation of these standards. In addition, it will finalize a lender of last resort policy and contingency plan in May 2012, approved by BB management, in line with TA we received earlier in this area. Finally, BB is

committed to improve its liquidity forecasting framework in 2012, with possible TA from DPs.

20. **Exchange rate policy.** We will continue to allow greater exchange rate flexibility, to ensure orderly conditions in the foreign exchange market and facilitate external adjustment over the medium term. Bangladesh Bank will allow interbank transactions at market-determined rates and limit its intervention to smoothing short-term volatility, consistent with meeting NIR targets. To boost turnover in the spot interbank foreign exchange market, BB will monitor that the interbank selling rate remains aligned with the selling rate for bills of collection of foreign exchange dealers. In keeping with our reserve targets, SOCBs will be expected to procure foreign exchange for oil-, food-, and fertilizer-related import payments from the interbank spot market, taking advantage of rising turnover in this market. At the same time, other banks will be encouraged to open letters of credits for these payments, notably for BPC, with BB setting notional targets, if necessary. Bangladesh Bank ceased issuing foreign exchange overdrafts in December 2011 and will reduce their outstanding balances to zero by June 2012 (a program benchmark), with settlement being done consistent with meeting our NIR targets. It will also enforce banks' net open foreign exchange position limits.

21. **Central bank operations.** Other measures are being taken by BB to strengthen its financial operations and controls. Bangladesh Bank will adhere to new reserve management guidelines adopted in mid-2011. It will also address significant vulnerabilities identified in the IMF's Safeguards Assessment, completed in July 2011, notably in external and internal audits and oversight mechanisms. On this matter, the government floated a tender in February 2012 for an internationally-affiliated firm to conduct an external audit on BB's end-June 2012 accounts, with the audit opinion to be signed by both the audit firm's international or regional head office and by its local affiliate (a prior action). Bangladesh Bank has also begun implementing an automated Enterprise Resource Planning system, phasing out its manual accounting system by June 2012, to ensure timely and comprehensive financial reporting, with ongoing support from the DPs.

C. Financial Sector Reforms

22. **Policy objectives.** Under our program, we will strengthen financial sector governance and oversight in order to better manage risks and support growth. Further steps will be taken to improve the stability, soundness, and reach of our financial system, anchored by clear oversight responsibilities, strong risk-based supervision, and proper managerial and operational controls. We recognize that a rapidly expanding financial sector, deepening inter-bank linkages, and increasing parent-subsidiary activities require coordinated efforts by regulators to minimize risks posed by poorly governed or weakly supervised institutions.

23. **Bank governance and performance.** On banks' internal governance and risk controls, we are committed to making necessary legal and prudential reforms, with a focus on

the SOCBs. An amended Bank Companies Act (BCA) will be submitted to the National Parliament by September 2012 aimed at establishing a clear supervisory mandate for BB, allowing remedial actions against prudential lapses, and strengthening the internal governance of commercial banks (a program benchmark). In view of current liquidity pressures, limited supervisory capacity, and pending governance reforms, we will strictly enforce new bank licensing criteria to ensure a stable banking environment. With regard to the SOCBs, we will pursue further measures aimed at increasing operational independence, strengthening their finances, broadening their capital bases with a view to corporatizing their operations, minimizing fiscal risks, and reducing the government's effective ownership over the program period. Bangladesh Bank will continue to anchor this process through memoranda of understanding with each bank, with new ones issued in March 2012 particularly focused on SOCBs' lending standards. To improve their financial performance, an audit of each SOCB was conducted by reputable internationally-affiliated auditors in 2011. Using these audits as a guide, we intend to help stabilize the financial position of SOCBs over the near to medium term by limiting their dividend payments, ensuring proper loan loss provisions, and prohibiting their purchase of any classified loans from other banks, as notified by BB in February 2012. The SOCBs will adhere strictly to agreed schedules to amortize valuation adjustments made to their balance sheets to cover earlier losses, as part of BB's effort to fully enforce Basel II capital adequacy standards introduced in 2010.

24. **Financial supervision.** Bangladesh Bank will focus more efforts and resources on risk-based supervision and controls. To lay a foundation for this, BB issued a set of guidelines in February 2012 aimed at strengthening the risk management framework and processes of commercial banks. It also intends to adopt a new organizational structure by May 2012 aimed at consolidating management over on-site and off-site activities. As a complement, a council of the regulatory agencies will be established by June 2012, comprising BB, the MOF, Insurance Development and Regulatory Authority (IDRA) and the Securities and Exchange Commission (SEC), with a mandate to preserve financial stability and powers *inter alia* to designate potentially systemic financial firms for enhanced supervision. The central bank will also adopt new loan classification and loss-provisioning standards that embrace international best practices by June 2012 (a program benchmark), implementing them over a two-year period. To increase transparency, BB published its inaugural *Financial Stability Report* in December 2011, detailing the finding of its off-site supervisory activities. It will continue to compile a unified set of financial soundness indicators and report them on a quarterly basis, putting greater emphasis on data integrity. An IMF resident advisor at BB is supporting efforts to improve bank supervision, with peripatetic experts also expected to help strengthen on-site inspections.

25. **Securities markets.** We will also closely regulate the securities market to ensure a stable trading environment, in view of recent volatility. The SEC will develop and enforce a transparent regulatory framework in line with international best practices, with support from the AsDB. In this context, we will strengthen the SEC's autonomy, ensuring it has a sufficient supervisory mandate and qualified personnel to properly oversee brokers, dealers,

and merchant banks and develop the necessary contingencies to contain systemic risk. As part of our effort to strengthen self-governance over securities markets, we will seek approval by the SEC of a demutualization model and plan for the Dhaka Stock Exchange and Chittagong Stock Exchange by December 2012 (a program benchmark). We are also committed to capping banks' shareholding limits to 25 percent of their regulatory capital by September 2012 (a program benchmark), subject to parliamentary approval of the amended BCA. Bangladesh Bank and the SEC will conduct jointly consolidated supervision of merchant bank subsidiaries, completing examinations of the larger ones by June 2012. They, in tandem, are further committed to ensuring all banks comply with a reduced margin lending and collateral requirements. We will also bring all bank subsidiaries under BB's supervision by mid-2013.

26. **Anti-money laundering.** In order to conform to international best practices, we have promulgated the Anti-Money Laundering Ordinance and the Anti-Terrorism Financing Ordinance which will be placed before the National Parliament for ratification in February 2012.

D. Trade and Investment Environment

27. **Policy objective.** Achieving our ambitious growth targets depends on creating a more supportive investment climate, accelerating trade liberalization, and attracting more FDI. During the program period, our efforts on trade reform will aim at reducing trade distortions, minimizing anti-export biases, and ensuring greater integration of Bangladesh into the multilateral trading system. Improvements in the investment climate are expected to come from maintaining a stable macroeconomic environment; developing a modern, transparent tax regime; and ensuring well-regulated financial system, supported by improved social and physical infrastructure.

28. **Trade regime.** We will work closely with the World Bank on a Diagnostic Trade Integration Study for Bangladesh in 2012, which is expected to inform on the near to medium term priorities in our trade development strategy. In this context, we are committed to rationalizing trade taxes, inclusive of para-tariffs arising from supplementary and regulatory duties. We will also bring down trade logistic costs, which are substantially higher than those in the region, with strategic investments in ports and transport. In addition, we will seek more effective regional trade cooperation, using recent inroads with India as a catalyst for change.

29. **Investment climate.** We will work with the International Finance Corporation (IFC) and other DPs to strengthen property registration, contract enforcement, and adjudication processes—each of which currently constrain investment, as highlighted in the IFC's *2012 Doing Business* report rankings. Elevating government support to attract and retain FDI will also be a high priority, with an upfront focus on ensuring adequate power supply in export processing zones and improving access to information on land availability and logistical support.

E. Statistical Policy

30. **We are committed to strengthening macroeconomic statistics, in order to better inform policy decisions and monitor targeted outcomes.** The Bangladesh Bureau of Statistics (BBS) is preparing a National Strategy for the Development of Statistics (NSDS), supported by development partners. The NSDS, when fully formulated in late 2012, will provide a roadmap for improving the timeliness and accuracy of national statistical reporting and better integrating statistics into planning and development processes. A new Statistics Act that provides the BBS with greater autonomy will be submitted to the National Parliament by June 2012. The BBS, in turn, will receive more resources, including staff, and upgrade regional facilities to improve statistical surveys. It plans to complete the rebasing of the national accounts to 2005/06 by mid-2012, with continued IMF TA. Bangladesh Bank is also improving external statistics to ensure proper recording and classification of balance of payments flows.

IV. PROGRAM MONITORING

31. **Progress under the our program will be monitored** through quantitative performance criteria and indicative targets, structural benchmarks, and other necessary measures, in order to complete semi-annual program reviews, as summarized in Tables 1 and 2 and guided by the attached Technical Memorandum of Understanding.

Table 1: Bangladesh: Quantitative Performance Criteria (PC) and Indicative Targets (IT) 1/

	2011			2012			
	6/30 Est.	9/30 Est.	12/31 Est.	3/31 IT	6/30 PC	9/30 IT	12/31 PC
Performance criteria 2/							
Net international reserves (NIR) of Bangladesh Bank (BB) (floor, end of period (eop) stock, in millions of U.S. dollars (US$)) 3/	6,726	6,791	6,154	5,977	5,937	6,165	6,256
Net domestic assets (NDA) of BB (ceiling, eop stock, in billions of taka) 3/	371	377	444	483	550	556	573
Net credit to the central government (NCCG) by the banking system (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka) 3/	205	68	139	174	252	49	99
New nonconcessional external debt maturing in more than one year, contracted by the public sector or and/or guaranteed by the central government or BB (ceiling, eop stock since the beginning of the program, in millions of U.S. dollars) 4/	…	…	…	500	500	1,000	1,000
New nonconcessional external debt maturing in one year or less, contracted by the public sector and/or guaranteed by the central government or BB (ceiling, eop stock since the beginning of the program,in millions of U.S. dollars) 4/	…	…	…	0	0	0	0
Accumulation of new external payment arrears by the public sector (ceiling, eop stock since the beginning of the program, in millions of U.S. dollars) 4/	…	…	…	0	0	0	0
Indicative targets							
Reserve money (ceiling, eop stock, in billions of taka)	897	904	925	950	1,014	1,037	1,061
Tax revenue of central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka) 5/	763	190	394	627	924	232	489
Social-related spending by central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka)	342	70	…	248	400	81	161
Net suppliers' credit and other short-term financing for oil imports (cumulative change from end-FY11, in millions of U.S. dollars), program level	…	-75	-55	750	1,000	1,125	1,250
State-owned banks funded loans to BPC, BPDB and BCIC (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka) 6/	41	-7	2	15	0	0	0
Memorandum item:							
Budget support from bilateral and multilateral donors agencies (cumulative change from the beginning of the fiscal year, in millions of U.S. dollars), program level	…	…	…	0	0	0	50

1/ Fiscal year begins July 1.
2/ Evaluated at the program exchange rate.
3/ The adjustors are specified in the Technical Memorandum of Understanding. Accordingly, the floor on NIR of BB will be adjusted upward (downward) and the ceiling on NCCG by the banking system and the ceiling on NDA of BB will be adjusted downward (upward) by the amount of budget support received from bilateral and multilateral donors in excess (short) of the programmed level. The floor on NIR of BB will be adjusted upward and the ceiling on NCCG by the banking system and the ceiling on NDA of BB will be adjusted downward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level. The ceiling on NCCG by the banking system will be adjusted downward by the amount of net lending by the central government to the Bangladesh Petroleum Corporation (BPC) and the Bangladesh Power Development Board (BPDB) short of the programmed level.
The ceiling on NCCG by the banking system in FY12 (July 2011-June 2012) excludes Tk 27 billion of special bonds issued by the central government to state-owned commercial banks for securitization of loans made by these banks to the BPC prior to FY12 to cover shortfalls in government budgetary transfers for fuel-related subsidy costs incurred by the BPC.
4/ These performance criteria are applicable on a continuous basis.
5/ Collections by the National Board of Revenue only.
6/ Outstanding funded loans of Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, and BASIC Bank to BPC, BPDB, and Bangladesh Chemical Industries Corporation.

Table 2. Bangladesh: Prior Actions and Structural Benchmarks in the First Year of the ECF Arrangement

Actions	Date	Macroeconomic Criticality	Status
Prior Actions:			
Approval by the Cabinet of Ministers of a new value added tax (VAT) law consistent with National Board of Revenue (NBR) tax modernization plans and medium-term revenue targets.		To increase tax revenue	Completed. Cabinet approved law in March 2012.
Issue a government circular to line ministries indicating that shortfalls in externally-funded ADP budget will not be substituted with taka funding.		To achieve fiscal targets	Completed. Circular issued in January 2012.
Adjust retail electricity and petroleum prices to contain budgetary transfers to the Bangladesh Petroleum Corporation (BPC) and the Bangladesh Power Development Board (BPDB) to Tk 150 billion in FY12.		To reduce operating losses of BPC and BPDB and overall subsidy costs in the budget	Completed. Programmed fiscal targets in FY12 are consistent with this cap.
Lift the remaining lending caps on commercial bank loans, except on agricultural loans and short-term pre-shipment credits for exports.		To increase interest rate flexibility and deepen financial markets	Completed. Caps lifted in January 2012.
Float a tender for an internationally-affiliated firm to conduct an external audit on Bangladesh Bank's (BB) end-June 2012 accounts, with the audit opinion to be signed by both the audit firm's international or regional head office and local affiliate.		To strengthen central bank operations	Completed. Tender floated in February 2012.
Structural Benchmarks:			
Reduce the outstanding balances of foreign exchange overdrafts provided by BB to zero.	June 2012	To increase transparency and safeguard foreign reserves	
Submit a new VAT law to the National Parliament consistent with tax modernization plans and medium-term revenue targets.	June 2012	To increase tax revenue	
Remove tax concessions and exemptions in the FY13 Finance Bill equivalent to at least 0.5 percent of GDP in FY13.	June 2012	To increase tax revenue	
Establish budget management wings/branches in all line ministries and issue a circular to ensure uniform budget implementation and reporting standards.	June 2012	To strengthen budget monitoring and controls	
Issue new BB regulations on loan classification and loan-loss provisioning in line with international best practices, to take full effect by June 2014.	June 2012	To strengthen the financial sector	
Approval by the Minister of Finance of a VAT implementation plan and timetable and a new organizational structure of the NBR.	September 2012	To increase tax revenue	
Submit amendments to the Bank Companies Act (BCA) to the National Parliament, giving BB the sole legal supervisory and regulatory authority over all commercial banks and expanding fit and proper criteria for all commercial banks to major shareholders, board members, and executive officers.	September 2012	To strengthen risk management and improve bank governance	
Issue a BB order, consistent with the amended BCA, establishing a limit on a commercial bank's shareholdings in the stock market to 25 percent of its total regulatory capital.	September 2012	To strengthen banks' financial position	
Automate taxpayer identification number issuance, including links to the national identification number system.	December 2012	To increase tax revenue	
Adopt an automatic adjustment mechanism for retail petroleum prices to ensure full pass-through of international prices.	December 2012	To eliminate operating losses of BPC and reduce overall subsidy costs in the budget	
Approval by the Securities and Exchange Commission of a demutualization model and plan for the Dhaka and Chittagong stock exchanges.	December 2012	To strengthen the financial sector	

March 27, 2012

ATTACHMENT 2. TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative performance criteria and indicative targets under the Extended Credit Facility (ECF) arrangement, 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 first year of the ECF arrangement, the program exchange rate is Bangladesh taka (Tk) 74.23 per U.S. dollar, or the average interbank rate prevailing on June 30, 2011. 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 June 30, 2011, and then be converted to Bangladesh taka.

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 quantitative performance criteria or benchmarks. All revisions to data will be promptly reported to IMF staff.

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

4. Under the first year of the ECF arrangement, quantitative performance criteria will be set for end-June 2012 and end-December 2012, while indicative targets will be set for end-March 2012 and end-September 2012.

5. Performance criteria under the ECF 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;
- Ceiling on the level of net domestic assets of BB, calculated as an end-of-period stock; and
- Ceiling on the change in net credit to the central government from the banking system, calculated as a cumulative flow from the beginning of the fiscal year (FY) (i.e., FY12 is July 1, 2011–June 30, 2012).

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

- Ceiling on new medium- and long-term nonconcessional external debt (maturing in more than one year) contracted by the public sector and/or guaranteed by the central government or BB, calculated in cumulative terms from December 31, 2011;

- Ceiling on new short-term nonconcessional external debt (maturing in one year or less) contracted by the public sector and/or guaranteed by the central government or BB, calculated in cumulative terms from December 31, 2011; and

- Ceiling on the accumulation of new external payment arrears by the public sector, calculated in cumulative terms from December 31, 2011.

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

- Ceiling on the level of reserve money, calculated as an end-of-period stock;

- Ceiling on the net change in suppliers' credit and other short-term financing for oil imports, calculated in cumulative terms from June 30, 2011;

- Ceiling on the net change in funded loans made by state-owned banks to Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB) and Bangladesh Chemical Industries Corporation (BCIC), calculated in cumulatively from the beginning of the fiscal year;

- Floor on tax revenue of central government, calculated cumulatively from the beginning of the fiscal year; and

- Floor on social-related spending by central government, calculated cumulatively from the beginning of the fiscal year.

8. Adjustors to the measurement of performance criteria are (i) budget support to the central government from bilateral and multilateral agencies, calculated cumulatively from the beginning of the fiscal year; (ii) net lending by the government to the BPC and BPDB calculated cumulatively from the beginning of the fiscal year; and (iii) suppliers' credit and other short-term financing for oil imports.

II. Institutional Definitions

9. 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).

10. 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.

11. 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.

12. Nonbank claims on the central government represent the sum of cash receipts from sales of National Savings Certificates and Treasury bill and bond holdings outside BB and the DMBs, as reported by National Savings Directorate and BB's Debt Management Department.

III. MONETARY AGGREGATES

A. Reserve Money

13. A ceiling applies on the level of reserve money, which comprises currency 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.

B. Net International Reserves of Bangladesh Bank

14. A floor applies to the level of net international reserves (NIR) of BB. The floor on NIR of BB will be adjusted upward (downward) by the amount of budget support from bilateral and multilateral agencies in excess (short) of the programmed level. The floor on NIR of BB will be adjusted upward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level.

15. For program monitoring purposes, NIR of BB is defined as gross international reserves (GIR) less international reserve liabilities. 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.

16. Gross international reserves 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 of investment grade (i.e., a rating of at least Baa (Moody's) or BBB- (Standard & Poors and Fitch)) 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 assets that are in any way encumbered or pledged, including, but not limited to, reserve assets used as collateral or guarantee for third-party external liabilities, BB's blocked account with the Central Bank of Iraq, and BB's deposits with Rupali Bank (Pakistan);
- Foreign currency assets in nonconvertible currencies and precious metals other than gold, including BB's Silver Acquisition Account;
- Non-investment grade foreign currency sovereign bonds;
- Foreign currency claims on entities incorporated in Bangladesh, including funds lent out through the Foreign Exchange Overdraft Facility (FXOD) and funds invested in offshore banking units (OBUs) of domestic banks and subsidiaries or branches of international banks in Bangladesh;
- Any other foreign currency claims on residents; and
- Capital subscriptions in international institutions.

17. International reserve liabilities of BB are defined as the sum of:

- All outstanding liabilities of Bangladesh to the IMF; and
- Foreign currency liabilities in convertible currencies to nonresidents, including liabilities to the Asian Clearing Union, the Foreign Currency Clearing Account (i.e., the total amount of DMBs' foreign currency deposits held at BB), and forward contracts, foreign currency swaps, and other futures market contracts.

C. Net Domestic Assets of Bangladesh Bank

18. A ceiling applies to the level of net domestic assets (NDA) of BB. The ceiling on NDA of BB will be adjusted downward (upward) by the amount of budget support from bilateral and multilateral agencies in excess (short) of the programmed level. The ceiling on NDA of BB will be adjusted downward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level.

19. For program monitoring purposes, NDA of BB is defined as the difference between reserve money and the sum of NIR of BB and other net foreign assets (NFA) of BB valued in taka using the program exchange rates specified in paragraph 2. Any revisions to the historical stock of reserve money based on changes to the accounting treatment of the profit/loss account of BB will be notified to the IMF immediately and used to adjust monetary aggregates by an equivalent amount, as deemed appropriate. Other NFA of BB includes:

- Foreign assets related to holdings of foreign currency deposits and securities not included in NIR of BB, and loans, shares, financial derivatives, or other accounts receivable with nonresidents (including BB's blocked account with the Central Bank of Iraq and deposits with Rupali Bank (Pakistan); holdings of noninvestment grade foreign currency bonds; and other foreign assets that are not included in NIR of BB, as defined in Section III. B (including the Silver Acquisition Account); and

- Foreign liabilities related to foreign currency deposits and securities of nonresidents, and loans, shares, financial derivatives, and other accounts payable with nonresidents; and other foreign liabilities that are not included in NIR of BB, as defined in Section III. B.

Other NFA does not include funds invested in OBUs of resident domestic banks and subsidiaries or branches of resident foreign banks in Bangladesh. These funds are included as a part of NDA of BB.

D. Net Credit to the Central Government by the Banking System

20. A ceiling applies on the change in net credit to the central government (NCCG) by the banking system measured cumulatively from the beginning of the fiscal year. The ceiling on NCCG by the banking system will be adjusted upward (downward) by the amount of budget support from bilateral and multilateral agencies short of (in excess of) the programmed level. The ceiling on NCCG by the banking system will be adjusted downward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level and by the amount of net lending by the central government to the BPC and the BPDB short of the programmed level. The ceiling on NCCG by the banking system excludes special bonds issued by the central government to the state-owned commercial banks (SOCBs) for the securitization of loans made by these banks to the BPC prior to FY12 to cover shortfalls in government budgetary transfers for fuel subsidy-related costs incurred by the BPC.

21. For program monitoring purposes, NCCG by the banking system is defined as the sum of net claims of BB and DMBs on the central government (see Table 2).

E. Funded Loans by State-Owned Banks to State-Owned Enterprises

22. A ceiling applies on the net change in funded loans by selected banks to state-owned enterprises. Funded loans are defined as cash lending by Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, and BASIC Bank to BPC, BPDB and BCIC (see Table 3).

IV. FISCAL AGGREGATES

A. Tax Revenue

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

24. For program monitoring purposes, tax revenue is defined as collections by the National Bureau of Revenue that have been transferred to the Controller General of Accounts.

B. Social-Related Spending

25. A floor applies on social-related spending by central government cumulatively from the beginning of the fiscal year.

26. For program monitoring purposes, social spending comprises all spending categories of the Ministry of Primary and Mass Education; Ministry of Education; Ministry of Health, Family, and Welfare; and all expenditures on social safety net programs in the budget economic codes listed in Table 34. Safety net programs hosted in one of these ministries already included in this definition will be deducted from the total to avoid double counting.

V. EXTERNAL DEBT

A. Medium- and Long-Term External Debt

27. A continuous ceiling applies to new nonconcessional external debt with nonresidents with original maturities of more than one year contracted by the public sector and/or guaranteed by the central government or BB. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitutes a contingent liability of the central government or BB.

28. For program monitoring purposes, the definition of debt is set out in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangement

Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09-91), effective December 1, 2009 (see Annex I). External debt is defined by the residency of the creditor, excluding any taka-denominated Treasury bonds and any U.S. dollar-denominated bonds issued by the central government's Directorate of National Savings that are held by nonresidents (see TMU paragraph 29).

29. Excluded from the ceiling are (i) the use of IMF resources; (ii) concessional debts; (iii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt; (iv) any taka-denominated Treasury bonds held by nonresidents; and (v) any U.S. dollar-denominated bonds issued by the central government's Directorate of National Savings that are held by nonresidents.

30. For program purposes, the guarantee of a debt arises on any explicit legal obligation of the central government or BB to service debt in the event of nonpayment by the main obligor (involving payments in cash or in kind).

31. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD would continue to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

B. Short-Term External Debt

32. A continuous ceiling applies to new nonconcessional debt with nonresidents with original maturities of up to and including one year contracted by the public sector and/or guaranteed by the central government or BB. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the central government or BB.

33. For program monitoring purposes, the definition of debt is set out in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangement approved by the Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09-91), effective December 1, 2009 (see Annex I). External debt is defined by the residency of the creditor, excluding any taka-denominated Treasury bills or BB bills held by nonresidents (see TMU paragraph 34).

34. Excluded from the ceiling are (i) debts classified as international reserve liabilities of BB; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt; (iii) taka-denominated Treasury bills and BB bills held by nonresidents; (iv) concessional debts; (v) normal import financing; (vi) suppliers' credit and other short-term financing for oil imports from the Islamic Development Bank (IsDB) and other official entities; and (vii) forward contracts, foreign currency swaps, other futures market contracts, and short-term liabilities of the banking system. A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

C. Suppliers' Credit and Other Short-Term Financing for Oil Imports

35. A ceiling applies on the net change in suppliers' credit and other short-term financing for oil imports.

36. For program monitoring purposes, suppliers' credit is defined in Annex I. Other short-term financing for oil imports comprises financing received for this purpose from the IsDB and other official entities and through syndicated loans, which is contracted by the public sector and/or guaranteed by the central government or BB.

VI. External Payment Arrears

37. A continuous ceiling applies on the accumulation of new external payments arrears by the public sector.

38. 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, for program purposes, overdue debt and debt-service obligations that are in dispute will not be considered as external payment arrears.

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) 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
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
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)	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

Table 1. Bangladesh: Data Reporting Requirements

Item	Reporting agency	Periodicity
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, exports, and others)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Social spending (see Table 4)	MOF (FD)/CGA	Quarterly, within six weeks of the end of each quarter
Food account surplus/deficit	MOF (FD)/CGA	Monthly, within six weeks of the end of each month (quarterly for detailed data)
Annual Development Program (ADP) expenditure funded by (i) the central government and (ii) foreign grants and loans, included in the budget, including separately for Padma Bridge (domestically and externally funded)	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 four weeks of the end of each month
Disbursements of program and project grants by donor	MOF (ERD)	Monthly, within four weeks of the end of each month
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. State-owned enterprise data	**MOF**	
See Table 3 on key financial indicators for Bangladesh Power Development Board (BPDB), Bangladesh Petroleum Corporation (BPC), and Bangladesh Chemical Industries Corporation (BCIC).	MOF (FD/SOE Monitoring Unit)/BPC	Quarterly, within six weeks of the end of each quarter
IV. Debt data	**MOF/BB/National Savings Directorate (NSD)**	

Table 1. Bangladesh: Data Reporting Requirements

Item	Reporting agency	Periodicity
New external debt obligations contracted and/or guaranteed (concessional and nonconcessional) by the government of Bangladesh, BB, nonfinancial public enterprises, departments and autonomous and semi-autonomous bodies of all ministries and divisions (i.e., the public sector) , 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
Stock of outstanding external debt (short-term and medium- and long-term obligations) of the public sector, 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 public sector 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 instruments of the National Savings Directorate (i.e., National Savings Certificates)	MOF (FD)/BB/NSD	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
V. Financial data	**BB**	
Financial soundness indicators of DMBs	BB (Department of Off-Site Supervision (DOS))	Quarterly, within eight weeks of the end of the quarter
Compliance of state-owned commercial banks (SOCBs) with memoranda of understanding	BB (DOS)	Quarterly, within six weeks of the end of the quarter
Total capital market exposure and total share holding (in percent of total liabilities) of DMBs, and their exposures via subsidiaries	BB (DOS)	Monthly, within six weeks of the end of each month
Risk-weighted capital asset ratios and asset quality indicators of DMBs	BB (DOS)	Monthly, within six weeks of the end of each month
Stock of loans extended to SOEs (BPC, BPDB, BCIC) by SOCBs (Sonali, Agrani, Janata, Rupali) and BASIC bank, both funded and unfunded loans	BB (DOS)	Monthly, within four weeks of the end of each month
VI. 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

Table 1. Bangladesh: Data Reporting Requirements

Item	Reporting agency	Periodicity
Remittances and manpower exports	BB/Bureau Manpower, Employment, and Training	Monthly, within two weeks of the end of each month
VII. 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
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		
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 credit to autonomous and semi-autonomous bodies		
Change in accrued interest		
Change in government deposits and lending funds		
Change in government deposits		
Change in government lending funds		
Commercial banks		
Change in claims on government		
Of which: Change in holdings of Treasury bills and bonds		
Change in advances and bills to ministries (of food and others)		
Change in credit to autonomous and semi-autonomous bodies		
Change in accrued interest		
Change in government deposits and lending funds		
Change in government deposits		
Change in government lending funds		

Table 3. Bangladesh: Template for Key Financial Indicators of Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB), and Bangladesh Chemical Industries Corporation (BCIC)

Name of company (BPC, BPDB, or BCIC)	**Periodicity**
Item (in Tk millions of taka)	All quarterly
Tax payments, due to the National Bureau of Revenue (NBR)	
Tax payments, paid to the NBR	
Debt service payments, due to the government	
Debt service payments, paid to the government	
Quarterly profit (loss) reported by company	
Transfers received from the budget	
New interest-bearing loans received from the budget	
Outstanding stock of funded loans from state-owned commercial banks (SOCBs)	
Additional items (for BPC only)	All monthly
Financing requirements: (in Tk millions, unless otherwise indicated)	
Oil import costs	
Costs of operating BPC	
Repayments of SOCB loans	
Repayments to Islamic Development Bank (IsDB) (in US$ millions)	
Repayment of deferred payments (other suppliers' credit) (in US$ millions)	
Repayment of syndicated loans	
Increase in assets (inventories, cash, etc.)	
Other	
Sources of financing: (in millions of taka, unless otherwise indicated)	
Sales revenue	
Other income	
Gross disbursements of loans from SOCBs	
Gross disbursements from IsDB (in US$ millions)	
Gross disbursements of deferred payments (other suppliers' credit) (in US$ millions)	
Gross disbursement of syndicated loans	
Net lending from the government	
Increase in payables	
Other items:	
Exchange rate imputed for estimated outturns (taka per U.S. dollar)	
Demand volumes of petroleum products (kerosene (SKO), diesel (HSD), furnace oil (FO), petrol (MS), octane (HOBC), and jet fuel (JET-A-1))	

Table 4. Bangladesh: Safety Net Programs

	Programs	Name of Ministry	Code
(A.1) Cash Transfer (Allowances) Programs & Other Activities:			
(A.1.1) Social Protection			
1	Old Age Allowance	Ministry of Social Welfare	3960
2	Allowances for the Widow, Deserted and Destitute Women	Ministry of Social Welfare	3965
3	Allowances for the Financially Insolvent Disabled	Ministry of Social Welfare	3970
4	Maternity Allowance Program for the Poor Lactating Mothers	Ministry of Social Welfare	4715
5	Honorarium for Insolvent Freedom Fighters	Ministry of Social Welfare	3587
6	Honorarium & Medical Allowances for Injured Freedom Fighters	Ministry of Social Welfare	3585
7	Grants for Residents in Government Orphanages and Other Institutions	Ministry of Social Welfare	0000
8	Capitation Grants for Orphan Students in Non-government Orphanages	Ministry of Social Welfare	3451
9	General Relief Activities	Disaster Management & Relief Division	0001
10	Block Allocation for Disaster Management	Disaster Management & Relief Division	0003
11	Non-Bengali Rehabilitation	Ministry of Social Welfare	0015
12	Allowances for Distressed Cultural Personalities/ Activists	Ministry of Cultural Affairs	0001
13	Pension for Retired Government Employees and their Families	All Ministries	
14	Ration for Shaheed Family and Injured Freedom Fighters	Ministry of Liberation War Affairs	0001
(A.1.2) Social Empowerment			
1	Stipend for Disabled Students	Ministry of Social Welfare	4711
2	Grants for the Schools for the Disabled	Ministry of Social Welfare	0001
(A.2) Cash Transfer (Special) Program			
(A.2.1) Social Empowerment			
1	Housing Support	Disaster Management & Relief Division	0001
2	Agriculture Rehabilitation	Ministry of Agriculture	0012
(B) Food Security Programs: Social Protection			
1	Open Market Sales (OMS)		
2	Vulnerable Group Development (VGD)	Ministry of Women & Children Affairs	0005
3	Vulnerable Group Feeding (VGF)	Ministry of Women & Children Affairs	0007
4	Test Relief (TR) Food	Food Division	0001

	Programs	Name of Ministry	Code
5	Gratuitous Relief (GR)- Food	Food Division	0001
6	Food Assistance in CTG-Hill Tracts Area	Ministry of Chittagong Hill Tracts	0003
7	Food For Work (FFW)	Disaster Management & Relief Division	5010
(C.1) Micro-Credit Programs: Social Empowerment			
1	Micro-credit for Women Self-employment	Ministry of Women & Children Affairs	3092
2	Fund for Micro-Credit through PKSF	Finance Division	3912
3	Social Development Foundation	Finance Division	3946
4	NGO Foundation	Finance Division	2829
(C.2) Miscellaneous Funds: Social Empowerment			
1	Fund for the Welfare of Acid Burnt and Disabled	Ministry of Social Welfare	3967
2	Fund for Assistance to the Small Farmer and Poultry Farms	Finance Division	3996
3	Swanirvar Training Program	Finance Division	3961
4	Shamaj Kallyan Parishad	Ministry of Social Welfare	3091
(C.3) Miscellaneous Funds: Social Protection			
1	Fund for Climate Change	Ministry of Environment & Forest	0002
2	Allowances for Urban Low-income Lactating Mothers	Finance Division	4005
3	Block Allocation for Various Program	Finance Division	0000
4	Employment Generation Program for the Ultra Poor	Disaster Management & Relief Division	0006
5	National Service	Ministry of Youth and Sports	4729
6	Special Program for Irrigation and Water Logging	Ministry of Agriculture	4837
7	Skill Development Fund for Expatriate Returnees and New Entrants to Labor market	Ministry of Expatriates Welfare & Overseas Employment	0010
8	Child Development Center	Ministry of Social Welfare	3489
9	Service and Assistance Center for Disabled	Ministry of Social Welfare	3490
10	Ghare Fera Program (Returning Home)	Banking Division	0014
(C.4) New Fund: Social Protection			
1	Rehabilitation and Creation of Alternative Employment for People Engaged in Begging Profession	Ministry of Social Welfare	3495
(D) Development Sector Programs: Social Empowerment			
(D.1) Running Development Programs			
1	Stipend for Primary Students	Ministry of Primary & Mass Education	6020

	Programs	Name of Ministry	Code
2	School Feeding Program	Ministry of Primary & Mass Education	5150
3	Stipend for Dropout Students	Ministry of Primary & Mass Education	5960
4	Char Livelihood	Rural Development & Cooperatives Division	6980
5	"Ashrayan" (Housing)	Prime Minister's Office	6520
6	Stipend and Access Increase for Secondary and Higher Secondary Level Students (including Secondary Education Stipend Project)	Ministry of Education	5620
7	Maternal Health Voucher Scheme	Ministry of Health & Family Welfare	8540
8	National Nutrition Program	Ministry of Health & Family Welfare	8320
9	Protection of Children at Risk	Ministry of Social Welfare	7011
10	Economic Empowerment of the Poor	Rural Development & Cooperatives Division	8162
11	Fundamental Education for Urban Working Children	Ministry of Primary & Mass Education	5964
12	Employment for Ultra-Poor in Northern Region	Rural Development & Cooperatives Division	7000
13	Participatory Rural Development (2nd Phase)	Rural Development & Cooperative Division	8090
14	Rural Employment Opportunity for Public Asset	Local Government Division	6030
15	"Gucchagram" (Climate victims rehabilitation project)	Ministry of Land	5010
16	Rural Employment and Rural Maintenance Program	Local Government Division	8112
17	Preliminary Education for Development of Children	Ministry of Women & Children Affairs	5011
18	Vulnerable Group Development for Ultra Poor (Women)	Ministry of Women & Children Affairs	5100
19	Reconstruction of Houses of SIDR affected landless people	Food Division	5160
20	Construction of Flood-Shelter in Flood Prone and River-Erosion Areas	Food Division	5381
21	Disaster Risk Mitigation and Reduction	Disaster Management & Relief Division	5010
22	Small Farmers Development Foundation	Rural Development & Cooperatives Division	7250
23	Regional Fisheries and Livestock Development	Ministry of Fishery & Animal Division	5300
24	Projects Undertaken for Fisheries Development	Ministry of Fishery & Animal Division	7050
25	Jatka (Fish)Protection and Alternative Employment for Fishermen	Ministry of Fishery & Animal Division	5390

	Programs	Name of Ministry	Code
26	Micro-Nutrient Supplementation	Ministry of Health & Family Welfare	8340
27	Post Literacy Education Project for Human Resource Development	Ministry of Primary & Mass Education	5960
28	One Household One Farm	Rural Development & Cooperatives Division	7310
29	Revitalization of Community Health Care Initiative in Bangladesh	Ministry of Health & Family Welfare	5450
30	Sisimpur Outreach Project	Ministry of Women & Children Affairs	7021
31	National Sanitation Project	Local Government Division	5140
32	Pulse and Oil Seed Project	Ministry of Agriculture	7450
33	Community Based Adaptation to Climate Change through Coastal Aforestation in Bangladesh	Ministry of Environment & Forest	5360
34	Comprehensive Village Development	Rural Development & Cooperatives Division	8167
35	Comprehensive Disaster Management Program	Disaster Management & Relief Division	5041
36	Urban Public Environment Health Development Program	Local Government Division	7479
(D.2) New Development Programs			
1	Poverty Eradication and Ensuring Livelihood for the People Living in Economically Backward Areas.	Ministry of Fishery & Animal Division	6463
2	Poverty Eradication through Social Aforestation.	Ministry of Environment & Forest	7396
3	Improvement and Quality Seed Production of Rice, Wheat and Maize.	Ministry of Agriculture	8881

Annex I. Guidelines on Performance Criteria with Respect to External Debt

Excerpt from Executive Board Decision No. 6230-(79/140), subsequently amended, including by Executive Board Decision No. 14416-(09-91), effective December 1, 2009.

9. (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Statement by the IMF Staff Representative
April 5, 2012

This statement provides additional information that has become available since the issuance of the staff report (March 28, 2012). It does not change the thrust of the staff appraisal.

1. **Indicative targets.** Preliminary data suggest that indicative targets on net international reserves (floor), net domestic assets of Bangladesh Bank (ceiling), and reserve money (ceiling) under the prospective Extended Credit Facility arrangement were met at end-March 2012. Net international reserves were US$6.405 billion, net domestic assets of Bangladesh Bank were Tk 418 billion, and reserve money was Tk 917 billion. Data on other indicative targets at end-March are currently not available.

2. **Recent developments.**

- Headline inflation declined to 10.1 percent (y/y) in March 2012 from 10.4 percent in February 2012, with lower food price inflation the main cause.

- Weighted-average bulk and retail electricity tariffs were raised on March 29, 2012 by 7½ and 6¼ percent, respectively, retroactively from March 1. These hikes follow tariff increases effected in November 2011 and February 2012 (see footnote 2 in the staff report) and are consistent with restricting on-budget subsidy-related losses of the Bangladesh Power Development Board to agreed levels in FY12 (July 2011–June 2012).

- Budget performance in January 2012 was in line with the programmed fiscal outlook for FY12. Preliminary data on National Board of Revenue collections in February 2012 were also consistent with this outlook.

- Workers' remittances were US$1.1 billion in March 2012 and US$9.5 billion so far in FY12, in line with balance of payments projections.

Press Release No. 12/129
FOR IMMEDIATE RELEASE
April 11, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year ECF Arrangement for Bangladesh

The Executive Board of the International Monetary Fund (IMF) approved today a three-year arrangement for Bangladesh under the Extended Credit Facility (ECF) in a total amount equivalent to SDR 639.96 million (about US$987 million). The Board's decision will immediately enable the initial disbursement of an amount equivalent to SDR 91.423 million (about US$141 million).

The ECF arrangement is designed to support the authorities' program, which aims to restore macroeconomic stability, strengthen the external position, and engender higher, more inclusive growth. During the program period, the authorities are committed to taking actions to create fiscal space, reinvigorate the financial sector, and catalyze additional resources, in order to boost social- and development-related spending, tackle power shortages and the infrastructure deficit, and stimulate export-oriented investment and job growth.

Following the Board's discussion of Bangladesh, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"Macroeconomic pressures have intensified in Bangladesh since late 2010 due to a negative terms-of-trade shock, rising oil and infrastructure-related imports, and accommodative policies. More recently, a weakening in external demand and a surge in oil prices have further weakened Bangladesh's balance of payments and added to fiscal and inflationary pressures.

"The authorities' program focuses on policy adjustments and structural reforms aimed at restoring macroeconomic stability, strengthening the external position, and promoting higher, more inclusive growth. The authorities are committed to these objectives and stand ready to take additional measures, as appropriate, to ensure the success of the program.

"Under the program, upfront tightening of macroeconomic policies are being undertaken, supported by structural reforms to strengthen tax policy and administration, public financial management, and financial sector oversight. A moderate fiscal consolidation path will be underpinned over the medium term by a modernization of the tax regime and rationalization of subsidy costs, in order to create fiscal space for more social and development spending and to contain public debt. Monetary policy has been tightened, supported by greater exchange and interest rate flexibility. The central bank is committed to further policy measures if needed to bring inflation firmly under control. The authorities also aim to accelerate trade liberalization and improve the investment climate.

"With steady but forceful action, the authorities' program is expected to reduce imbalances and catalyze additional support from development partners, putting Bangladesh's balance of payments on a sustainable path over the medium term."

Recent economic developments

Macroeconomic pressures have intensified in Bangladesh over the past 18 months. The balance of payments went into a deficit in FY11 (July 2010–June 2011) and reserves declined significantly owing mainly to increased demand for oil imports. Global headwinds and firming oil prices have accentuated these pressures in the current fiscal year, with growth in exports outstripped by that in imports. As a result, GDP growth is expected to slow to 5.5 percent in FY12. Fiscal strains have emerged due to rising subsidy costs, mainly on account of higher fuel consumption. Finally, headline inflation, while moderating recently, remains at an elevated level, with nonfood inflation the main driver.

The near- to medium-term outlook hinges on timely progress on policy adjustments and structural reforms envisaged under the authorities' program. Starting in FY13, growth is projected to rebound, assuming stable domestic economic conditions; more effective resource usage, notably development partner support; and improved global economic conditions. Inflation is expected to decline to single digits by end 2012 through appropriately restrained fiscal and monetary policies and, over time, by a further easing of supply constraints. The overall BOP is projected to return to a surplus in FY13 through a combination of policy tightening measures, exchange rate flexibility, and more supportive global conditions. Reserves are programmed to rise, reaching nearly three months of import cover by FY15.

Bangladesh's medium-term prospects are broadly favorable, but still subject to risks. Policy buffers are limited in the event of adverse real shocks, given heightened inflation and reserve losses. Prolonged delays in adjusting fuel, electricity, and fertilizer prices and unanticipated increases in import-related costs could exert additional pressure on the fiscal and external positions. Adjustments and reforms also require strengthened implementation capacity.

Program objectives

The authorities' program encompasses four main reform pillars viewed necessary to ensure macroeconomic stability, external viability, and sustained growth. These reforms are broadly consistent with Bangladesh's Sixth Five Year Plan (SFYP) (FY11–15). They center on:

- Fiscal policy and reforms. Moderate fiscal consolidation and sound debt management will underpin macroeconomic stability and create space for more growth-critical spending, supported by tax and public financial management reforms aimed at raising tax revenues, containing subsidy costs, and better targeting social safety nets.

- Monetary and exchange rate policy. A restrained monetary policy, anchored by sound fiscal performance and exchange rate and interest rate flexibility, will aim at reducing aggregate demand pressures, stabilizing inflation expectations, and rebuilding a reserve buffer, also providing adequate room for private sector credit growth.

- Financial sector reforms. Strengthened financial sector governance will be used to better manage risks and support growth, centered on proper managerial and operational controls in banks, particularly state-owned ones, clear oversight responsibilities among regulators, and strong risk-based supervision.

- Trade and investment reforms. Over the medium term, reductions in trade barriers and distortions and improvements in the business climate will be necessary to raise growth, supported by a stable macroeconomic environment, tax and financial sector reforms, and expanded social and physical infrastructure.

Statement by Arvind Virmani, Executive Director for Bangladesh and Koodathumuriyil Eapen, Senior Advisor to Executive Director April 5, 2012

1. The Bangladesh authorities wish to thank IMF staff for their positive engagement during the discussions on the proposed ECF Program. The main program commitments made under the request for a three-year arrangement under the Extended Credit Facility are highlighted in this statement. They embody the constructive dialogue between IMF staff and the authorities on various macroeconomic issues and the government's economic and structural reform program.

Recent Macroeconomic Developments

2. As brought out during the Article IV Discussions held in October 2011, Bangladesh is steadily moving towards a higher growth path. It has achieved an average annual growth rate of 6.2 percent over the last 5 years; in particular- a growth rate of 6.1 and 6.7 percent during FY10 and FY11 respectively, despite global economic slow-down (Bangladesh follows a July to June fiscal). Stable growth in the agriculture sector and an improved performance in the industry and in the service sectors have contributed to this achievement. Moreover, the steps taken to reduce infrastructural bottlenecks in the power, energy, and communication sectors have made a positive impact on crowding in private investment and achieving increased real GDP growth. An additional 3,300 MW of electricity has been added to the national grid between January 2009 and March 2012. Bangladesh has also made remarkable progress in achieving the targets of most of the Millennium Development Goals (MDGs), particularly in halving income-poverty between 1990 and 2010.

3. However, macroeconomic pressures have emerged since the last fiscal year. Inflation has been in double digits and fiscal pressure has escalated, mainly due to increased subsidy costs as global oil prices have sharply risen. Reductions in the current account balance and sluggish capital inflows have led to the depletion of the gross international reserves with significant depreciation of the exchange rate.

4. In addition, international price-hikes mainly in food, fuel, and fertilizer have driven food and non-food inflation. The twelve-month average CPI has risen from 7.3 percent in FY10 to 8.8 percent in FY11. This increasing trend has continued in the current fiscal year. At the end of February 2012, the twelve-month average CPI is in the neighborhood of 11 percent, whereas point to point inflation has hit 10.4 percent. Although, food inflation has started to decline since the second quarter of FY12, the steady rise in non-food inflation has put continuous upward pressure on general inflation.

5. Fiscal pressure has emerged from rising fuel, electricity and fertilizer subsidies despite the remarkable growth in tax revenues, particularly in the National Board of Revenue (NBR) collected revenues. With the slow outturn in non-bank sources, government borrowing from the domestic banking system rose significantly in the first

half of FY12, which strained existing liquidity in the banking system, and exerted upward pressure on interest rates. In response, the authorities have taken measures to contain recurrent expenditure and they have reprioritized development projects in FY12 to keep expenditure within current available resources. In addition, they issued a circular in January 2012 to restrict taka-funding if there are shortfalls in externally-funded Annual Development Program (ADP) projects. Further, they have raised the administered prices of fuel oil, compressed natural gas (CNG), and electricity several times to contain subsidy costs. Notwithstanding these measures, the rise in international petroleum prices in recent months (Brent Crude oil per barrel reached \$125 on 27th March, 2012) is posing additional threats to fiscal management. The authorities recognize that further revisions to energy prices will be necessary to maintain a stable fiscal path.

6. On the external front, unprecedented but necessary import payments and the impact of the global economic crisis on exports have resulted in the trade deficit amounting to \$ 7.3 billion in FY11. Growing petroleum demand for operating quick-rental power plants combined with a sustained rise in petroleum prices in the international market have greatly intensified pressure on import payments. These developments, together with reduced remittance inflows, have generated significant pressures on the current account. In June 2010 the current account balance was about \$ 3.7 billion in surplus; this has reduced to only \$ 462 million at the end of January 2012. In addition, slow external aid disbursements and stagnant FDI have contributed to larger deficits in capital and financial accounts. The twin deficits in the balance of payments have resulted in the reduction of the gross international reserve and a significant depreciation of exchange rate. Gross international reserves, on an official basis, have fallen from \$11.3 billion in April 2011 to \$ 9.3 billion in January 2012 and the exchange rate has depreciated by 12.5 percent during the period June 2011 to February 2012.

7. The authorities point out that the recent adjustments in interest rates and exchange rates have had a positive impact on the balance of payments. Remittance inflows have also picked up following currency depreciation. However, the balance of payments remains under increasing risk and vulnerability. Export growth has subsided with the economic slow-down in major trading partners like the EU. Indeed, the reserves could slip below two months' of imports as import demand is expected to rise with higher investment needs in the power, energy, and transport sectors, required for sustaining growth.

8. It is against this backdrop that the authorities recognize that restrained fiscal and monetary policies together with strengthening the external position will help maintain macroeconomic stability and improve growth prospects. With these objectives the authorities have formulated a three-year reform program aimed at improving policies in the fiscal, monetary, financial, trade and investment sectors, along with data improvement, as outlined in the Memorandum of Economic and Financial Policies (MEFP). This three-year program is centered on actions aimed at preserving macroeconomic stability and gradually rebuilding foreign exchange reserve buffers. The authorities have already undertaken five prior actions set for the first year of the ECF arrangement consistent with the requirements in the proposed ECF arrangement.

Fiscal Policy

9. The authorities have planned to increase revenue by 0.6-0.8 percent of GDP every year for providing adequate budgetary resources for the social and physical infrastructure sectors in the medium term. They have introduced a new tax regime with this objective by adopting new policies as well as modernizing revenue administration. The authorities have undertaken initiatives to adopt new VAT and income tax laws to widen the tax base and increase tax receipts., The Cabinet has approved the new legislation for the VAT in March 2012, and a draft bill will be submitted to the National Parliament by June 2012. Proposals for the removal of certain tax concessions and exemptions will be included in the FY13 Finance Bill. Apart from the tax policy reforms, steps have been taken to strengthen the revenue administration for enhancing tax collection and enforcement. The authorities have formulated an NBR modernization plan (2011-16), which includes process modernization, automation, upgrading systems, restructuring administration, tax payer outreach and education, HR and institutional development. Further, an Alternate Dispute Resolution (ADR) mechanism has been introduced. The authorities will make efforts to improve tax compliance and will establish dedicated Court branches for taxation issues.

10. The authorities have adjusted fuel prices to contain fuel subsidy costs and have a plan to adopt an automatic adjustment formula to ensure a pass through of the changes in international prices. In addition, electricity tariff adjustments are being pursued. Efforts are also being made to replace high cost temporary rental power plants with cost-effective large power plants.

Monetary Policy

11. Bangladesh Bank (BB) has raised its repo rate by 175 basis points over a year in pursuit of monetary tightening to bring down aggregate demand pressure and to contain inflation. Caps on bank lending rates that were remaining were removed in January 2012. Treasury bills and bond yields have been allowed to move according to market conditions. Greater interest rate and exchange rate flexibility has been permitted to help effective monetary transmission. To help achieve the program targets, BB is prepared to maintain the existing restrained monetary policy and to take further steps to strengthen liquidity management, backed by an appropriately tight fiscal policy. BB will undertake further hikes in its repo and reverse repo rates, as necessary, and continue to channel most liquidity support through the emergency repo window (currently provided at 300 bps above the regular repo window). BB will continue to allow greater exchange rate flexibility, to ensure orderly conditions in the foreign exchange market and facilitate external adjustment over the medium term.

Financial Sector Policy

12. The authorities recognize the importance of strengthening the financial sector to reduce risks and support growth. To improve the governance and performance of banks (including the state-owned commercial banks) the authorities are committed to submit

amendments to the Bank Companies Act (BCA) to the National Parliament by September 2012. BB has issued a set of guidelines in February 2012 to strengthen the risk management framework and processes of commercial banks. The guidelines will encourage all commercial banks to maintain market-determined lending and deposit rates to facilitate monetary transmission and properly price risk. Furthermore, BB will strictly enforce its cash reserves, liquid asset, and credit-to-deposit ratio requirements, disciplining banks found in violation of these standards.

13. The authorities have undertaken institutional reforms to develop the capital market and to restore investors' confidence. Two stock exchanges (the Dhaka Stock Exchange & the Chittagong Stock Exchange) have already submitted comprehensive concept papers detailing steps and legal requirements to be followed in the demutualization process. The Securities and Exchange Commission (SEC) is currently examining the demutualization model and plan. In addition there are commitments to reduce bank exposure to the capital market, supervision of merchant bank subsidiaries, compliance by banks to reduced margin lending and also collateral requirements.

Access to IMF Resources

14. The Bangladesh Government has drawn up a Vision-2021 program aimed to raise growth rates to 8 percent by 2015 and to 10 percent by 2021 in line with the objective to elevate the country to the status of a middle-income country over the next decade. In the process, the authorities also intend to reduce poverty and bring down the unemployment rate. A considerable amount of public and private investment in social and physical infrastructure is required to reach this goal. The authorities' have indicated that the recent BoP pressures are due to insufficient external resource inflows to support the public and private sector investment demand needed to take the country to the desired growth trajectory.

15. In this context and with above prior actions and planned policy initiatives, the Bangladesh authorities request access to Fund resources under an ECF in the amount of SDR 639.96 million (120 percent of quota) over a three-year period to meet in part the BOP financing needs and to provide a buffer against shocks until the policy adjustments and reform measures take hold. They also take the opportunity to confirm that they are committed to implement the policies as outlined in the MEFP. The authorities strongly believe that the various reform programs meant to revamp economic and financial management will help maintain macroeconomic stability and improve growth prospects. During this time, they expect to secure support from other development partners to meet their overall financing needs. They believe that their commitments, as outlined in the MEFP and summarized above, are adequate to achieve program objectives, but are prepared to take further measures, as appropriate, for this purpose. To ensure a strong performance under an ECF-supported arrangement, they will maintain a close policy dialogue with the IMF and pursue technical assistance, as necessary, from the IMF and other development partners in support of the reform agenda. The authorities request Directors to support their planned program. They also authorize publication of the Letter of Intent and its attachments, as well as the accompanying staff report.