June 2013
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Bangladesh: Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria—Staff Report, Staff Supplement and Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Bangladesh

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

- The staff report for the second review under the three-year arrangement under the Extended Credit Facility and request for modification of performance criteria prepared by a staff team of the IMF, following discussions that ended on April 2, 2013, 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 May 14, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A supplement dated May 14, 2013 on the Joint Debt Sustainability Analysis Update prepared by the staffs of the IMF and the World Bank.
- A staff statement of May 23, 2013 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its May 29, 2013 discussion of the staff report that completed the request and/or review.
- A 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

SECOND REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

May 14, 2013

KEY ISSUES

Focus: Discussions focused on program performance to date and commitments through June 2014. The program is broadly on track, and policies going forward are set to build on macroeconomic stabilization gains already achieved. In particular, they reflect a continuation of a prudent fiscal and monetary stance to anchor policies ahead of national elections, due by early 2014. New structural measures aim to further strengthen fiscal revenues, public debt management, and the financial sector, building on commitments already in place, and seeking to achieve the development priorities laid out in Bangladesh's Sixth Five-Year Plan (FY2011–15).

Outlook and Risks: The near-term outlook has weakened. While export growth has picked up and remittances remain supportive, weaker import and credit growth point to slowing domestic demand, and political tensions and nationwide strikes are taking a toll on economic activity. Near-term risks are to the downside. Domestically, the main risk stems from an intensification of civil strife. Exports could also be affected by the fallout from the recent building collapse. External risks arise from a renewed euro area shock or a global commodity price spike.

Program: The Executive Board approved a three-year ECF arrangement on April 11, 2012, in the amount of SDR 639.96 million (120 percent of quota), and completed the first review on February 20, 2013. For the second review, all periodic performance criteria were met at the end-December 2012 test date. Implementation of structural benchmarks for March 2013 has proceeded broadly as expected, including submission to Parliament of amendments to the Bank Companies Act and approval of a value added tax (VAT) implementation plan by the Minister of Finance.

Staff views: Staff recommends completion of the review and modification of performance criteria for 2013, consistent with the revised macroeconomic outlook, while preserving overall program objectives. The authorities have consented to publication of the staff report and the Letter of Intent and attachments.

Approved By
Markus Rodlauer and Peter Allum

The second ECF review mission was held in Dhaka during March 20–April 2, 2013. The staff team comprised David Cowen (outgoing mission chief) and Rodrigo Cubero (incoming mission chief), Seng Guan Toh, Souvik Gupta, and Eteri Kvintradze (Resident Representative) (all APD); Stella Kaendera and Leandro Medina (FAD); and Lars Engstrom (SPR). Muneesh Kapur (OED) joined policy discussions. To-Nhu Dao and Ranee Sirihorachai (APD) assisted in preparing this report.

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APPENDIX

CONTEXT AND PROGRAM PERFORMANCE

1. **The program is broadly on track against its overall objectives.** Macroeconomic pressures continue to ease, with rising reserves and underlying inflation moderating, supported by restrained fiscal and monetary policies. And the authorities continue to advance the structural reform agenda.

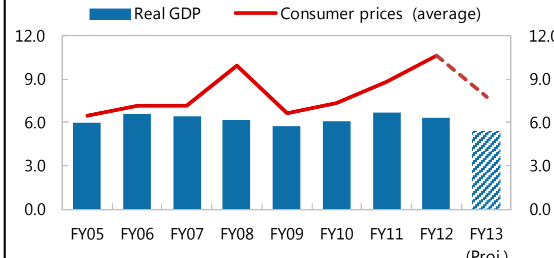
2. **Moreover, policy implementation has been largely in line with commitments.** At end-December 2012, the second test date under the ECF, all periodic performance criteria (PC) were met (Figure 1). Notably, the net international reserves (NIR) buildup exceeded the end-December 2012 target by over US$3 billion. At the completion of the first review under the ECF in February 2013, a waiver was granted for nonobservance of the continuous ceiling on nonconcessional external debt, which resulted from new borrowing in January 2013 (Table 1 in the accompanying Memorandum of Economic and Financial Policies, MEFP). Most indicative targets (IT) for December 2012 and March 2013 were met, with a few exceptions noted below. Finally, key end-March 2013 structural benchmarks were completed (MEFP Table 2), namely submission to Parliament of banking law amendments as a centerpiece of banking reform efforts and the approval of a VAT implementation plan by the Minister of Finance.

3. **This review, however, takes place against the backdrop of deep political tensions.** Since February 2013, nationwide strikes (*hartals*) and episodes of violence have intensified. Most of these have been spurred by ongoing war crime trials (for crimes associated with the 1971 war of independence) involving several leaders of Bangladesh's largest Islamist party. These protests have since been joined by the main political opposition, which is demanding reinstatement of the previous system of a caretaker government to oversee the run up to national elections, expected by early 2014.

MACROECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

4. **Economic developments have been generally positive, but domestic strife is taking a toll on growth** (Figures 2–3).

Bangladesh: Real GDP and Consumer Prices
FY05–FY13
(y/y percent change)



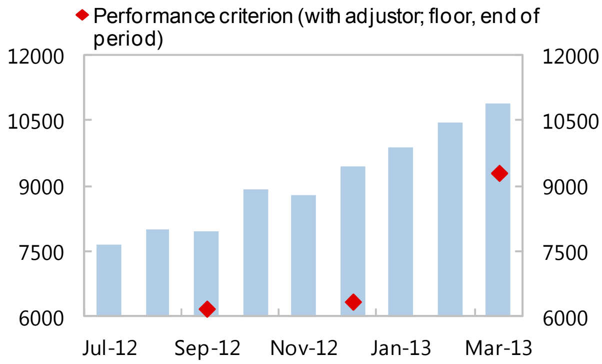
Sources: Data provided by Bangladesh authorities and IMF staff projections.

- ***Growth.*** While there has been some uptick in export performance and public investment is set to remain strong, these are expected to be offset by slower private investment and consumption, evidenced by slowing private credit and weak import growth. As a result, real GDP growth is

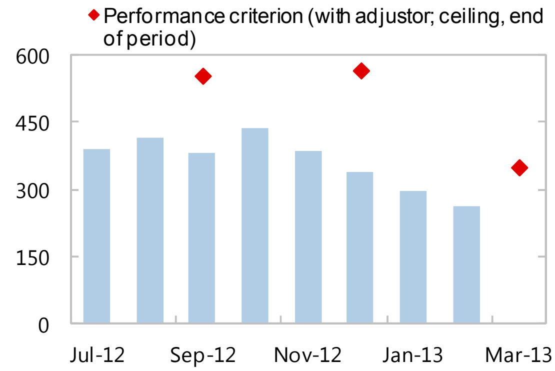
Figure 1. Bangladesh: Selected Performance Criteria and Indicative Targets

Performance Criteria

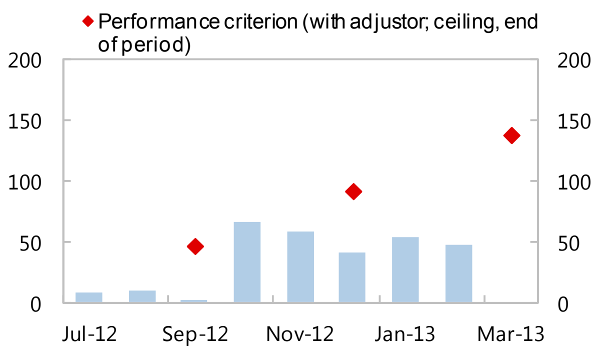
Bangladesh: Net International Reserves of Bangladesh Bank, Jul. 2012–Mar. 2013
(End of period, stock; in millions of U.S. dollars)



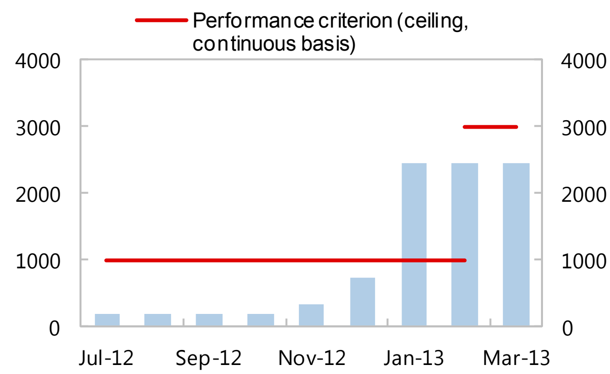
Bangladesh: Net Domestic Assets of Bangladesh Bank, Jul. 2012–Feb. 2013
(End of period stock; in billions of Taka)



Bangladesh: Net Credit to the Central Government by the Banking System, Jul. 2012–Feb. 2013
(Cumulative change from the beginning of the fiscal year; in billions of Taka)

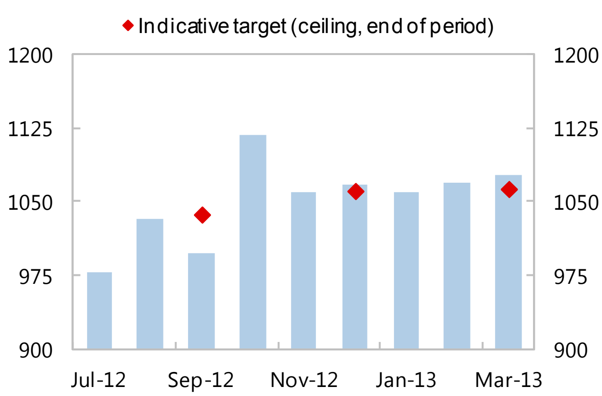


Bangladesh: New Nonconcessional External Debt 1/
Jul. 2012–Mar. 2013
(Stock since December 31, 2011; in millions of U.S. dollars)

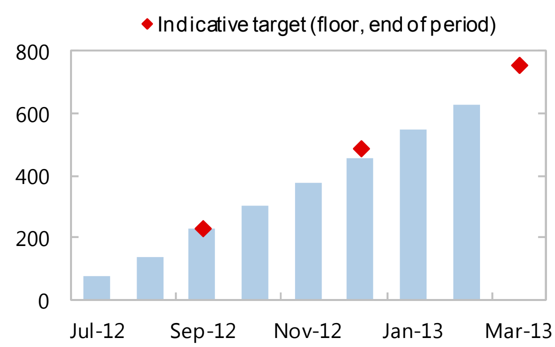


Indicative Targets

Bangladesh: Reserve Money, Jul. 2012–Mar. 2013
(End of period stock; in billions of Taka)



Bangladesh: National Board of Revenue Taxes
Jul. 2012–Feb. 2013
(Cumulative change from the beginning of fiscal year; in billions of Taka)



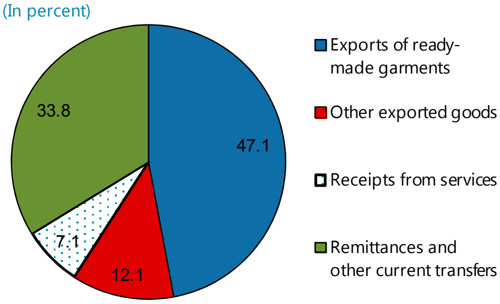
Sources: Data provided by the Bangladesh authorities; and IMF staff calculations.
1/ Maturing in more than one year and contracted by the public sector and/or guaranteed by the central government or Bangladesh Bank.

projected to slow to 5.4 percent in fiscal year 2013 (FY13, July 2012–June 2013) from 6.3 percent in FY12 (Table 1). However, near-term growth projections are subject to greater-than-usual uncertainty, as the effects of ongoing disruptions are difficult to quantify.

- ***Inflation.*** Nonfood inflation has continued to fall, supported by policy tightening and taka appreciation. Headline inflation has remained moderate at 7.7 percent (y/y) in March 2013 compared to decade-highs of 12 percent in September 2011. However, supply disruptions due to *hartals* may have contributed to higher food inflation since February.[1]

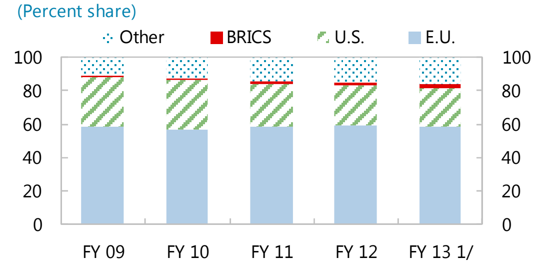
- ***Current account.*** A stronger current account balance is expected in FY13 compared to FY12, arising from slower import growth combined with recovering exports and still-strong remittances (Table 2). Better export performance reflects predominantly a garment export recovery following demand stabilization in mature markets as well as some diversification to non-traditional markets.

Bangladesh: Total Gross Receipts under the Current Account, FY12
(In percent)



Sources: Bangladesh authorities and IMF staff calculations.

Bangladesh: Readymade Garment Exports by Destinations, FY09–Mar. 2013
(Percent share)



Sources: Bangladesh Garment Manufacturers and Exporters Association and IMF staff calculations.
1/ Data for FY13 are for July 2012 - March 2013 period.

- ***Exchange rate and foreign reserves.*** In addition to a stronger current account, oil import-related credits and aid disbursements have provided support to the overall balance of payments (BOP). Against this backdrop, the taka has appreciated by about 7 percent from its all-time low in early 2012, while gross foreign reserves (GIR) stood at US$14.5 billion (3.8 months of imports) at end-April 2013, up by more than US$5 billion from late 2011 lows.

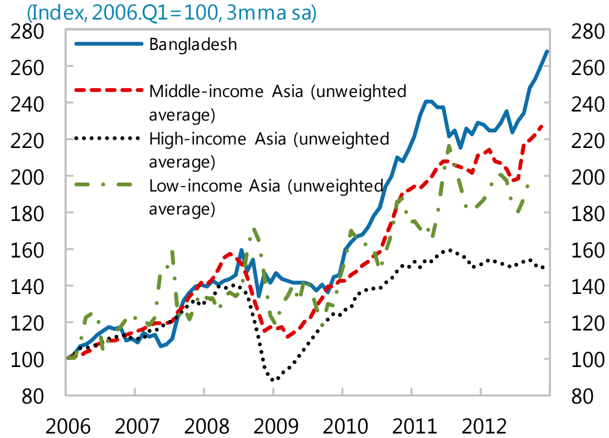
5. For FY14, the growth outlook is less favorable than previously anticipated. The growth outlook from FY14 onward has been marked down slightly compared to the first ECF review, factoring in the impact of political tensions and a more drawn-out implementation of the Padma Bridge project, following from the government's decision in January 2013 to cease pursuit of financial support from the World Bank for the bridge's construction. While supply disruptions may push up prices in the first half of FY14, by end-FY14 headline inflation is expected to decline

[1] Inflation data provided in this report use the FY96 base. The Bangladesh Bureau of Statistics intends to phase out fully this index later in 2013 and replace it with a FY06 base.

Figure 2. Bangladesh: Exports and Remittances

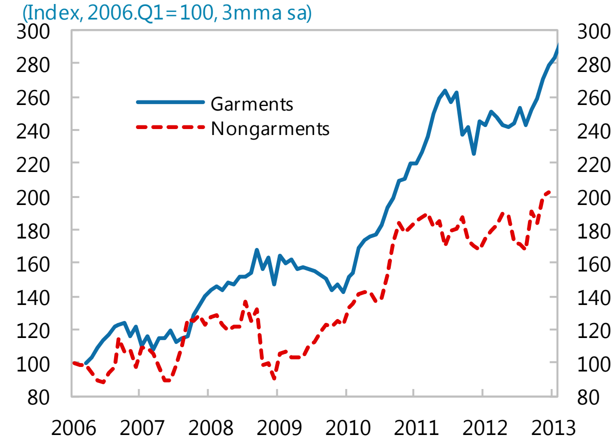
Export performance is holding up reasonably well compared to other parts of the region.

Export Performance in Asia, Mar. 2006–Feb. 2013
(Index, 2006.Q1=100, 3mma sa)



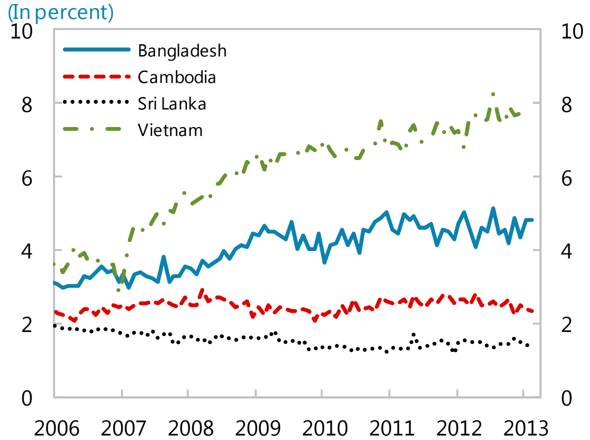
Robust export performance has been driven by ready-made garments, with some pickup since late 2012.

Exports of Bangladesh, Mar. 2006–Mar. 2013
(Index, 2006.Q1=100, 3mma sa)



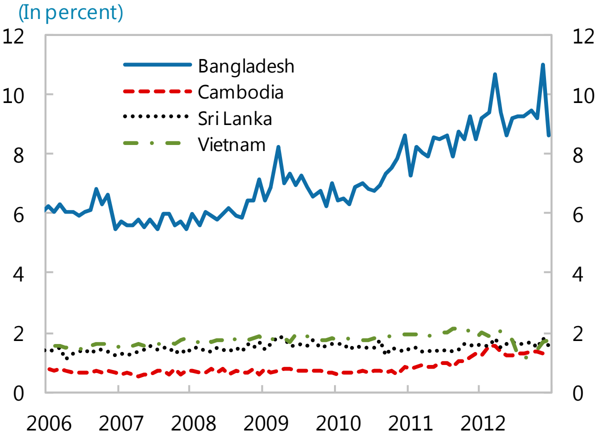
While market shares for garment exports to the U.S. have remained stable...

Shares in U.S. Garment Market, Jan. 2006–Feb. 2013
(In percent)



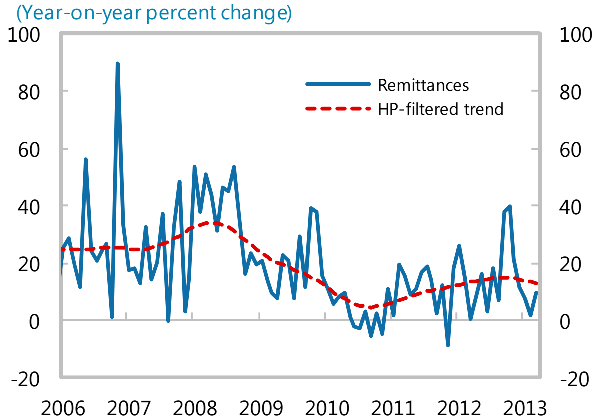
...those in the European Union have trended up, owing in part to shifts in supplier sourcing to Bangladesh.

Shares in E.U. Garment Market, Jan. 2006–Dec. 2012
(In percent)



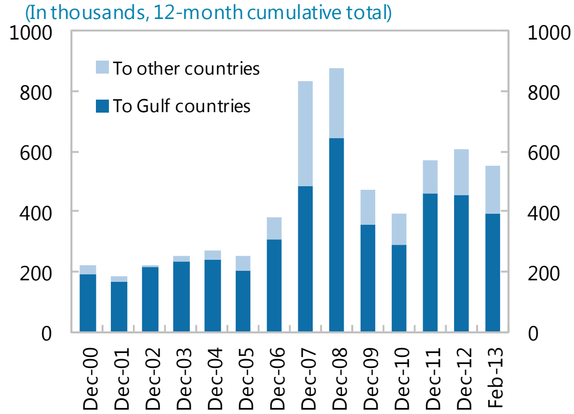
Remittance growth, while still strong, has tapered off to some extent...

Workers' Remittances, Jan. 2006– Mar. 2013
(Year-on-year percent change)



...reflecting slightly lower worker outflows since the global financial crisis.

Workers Moving Abroad, Dec. 2000–Feb. 2013
(In thousands, 12-month cumulative total)

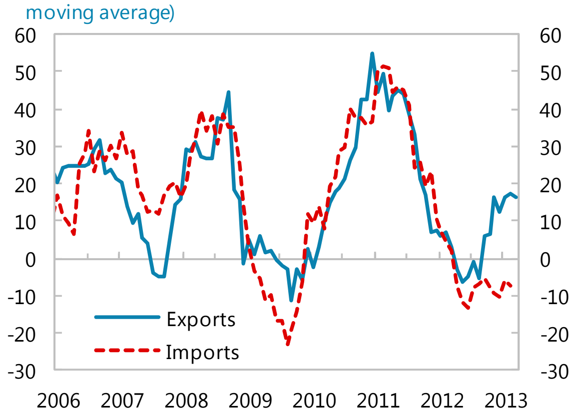


Sources: Data provided by the Bangladesh authorities; CEIC Data Company Ltd.; Eurostat; U.S. Department of Commerce; and IMF staff estimates.

Figure 3. Bangladesh: Real and External Sector Developments

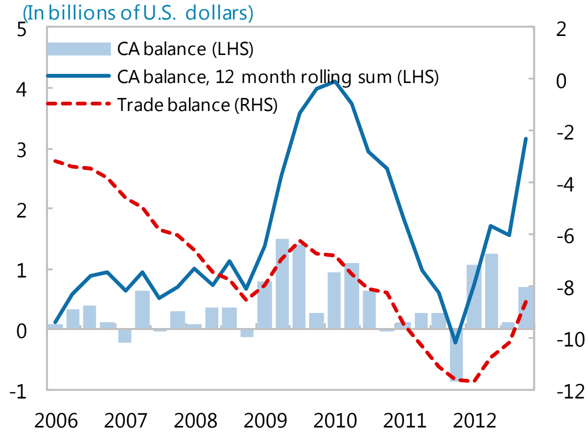
The increasing wedge between export and import growth points to a major pullback in non-export related imports, suggesting a slowdown in domestic economic activity.

Exports and Imports, Jan. 2006–Mar. 2013
(Year-on-year percent change of three-month moving average)



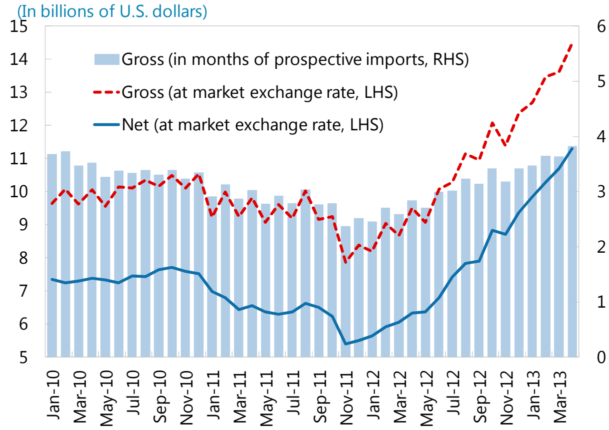
As a result of these developments and still supportive remittances, pressures on the current account have eased, with a surplus emerging in recent quarters.

Current Account (CA) Balance, 2006.Q1–2012.Q4
(In billions of U.S. dollars)



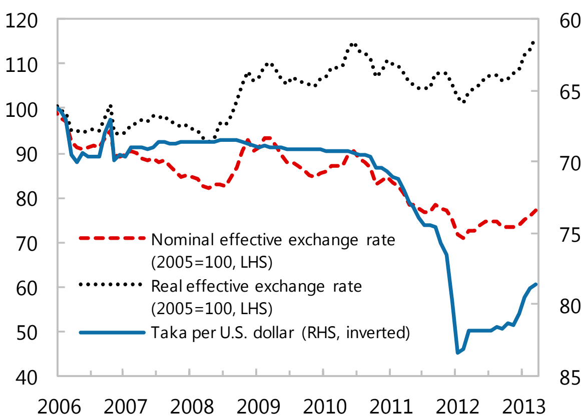
Against this backdrop, BB has built up its reserve buffer, comfortably exceeding program targets.

International Reserves, Jan. 2010–Apr. 2013
(In billions of U.S. dollars)



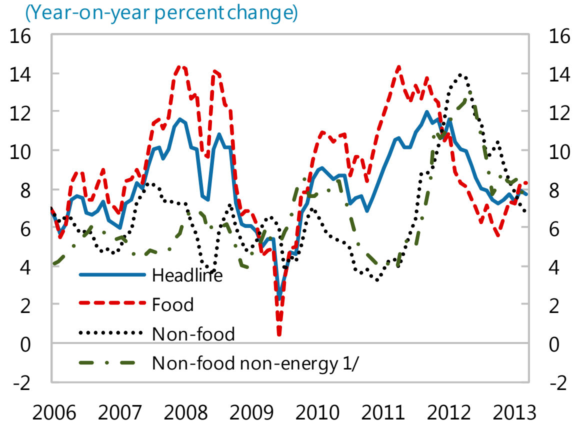
Nominal and real exchange rates have also strengthened, reflecting in part the more favorable current account.

Exchange Rates, Jan. 2006–Mar. 2013



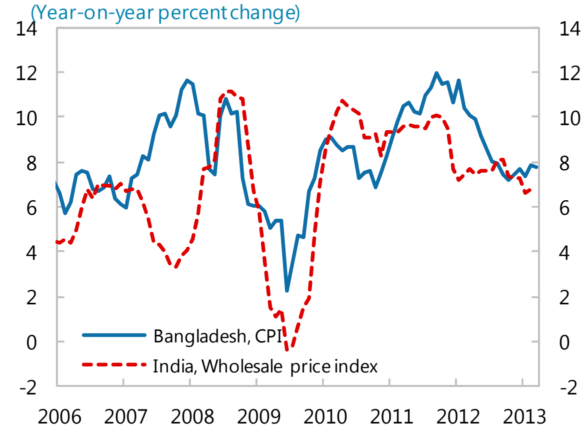
Headline inflation has moderated since early 2012, with a steady decline in nonfood inflation pointing to an easing of underlying pressures.

Consumer Price Index (CPI), Jan. 2006–Mar. 2013
(Year-on-year percent change)



Trends in inflation remain broadly similar to India, especially as nonfood price inflation converges.

Regional Headline Inflation, Jan. 2006–Mar. 2013
(Year-on-year percent change)



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.

further to below 7 percent (y/y) on restrained policies and easing supply constraints. The current account is projected to register a deficit of around ½ a percent of GDP in FY14, as imports are expected to rebound on stepped up infrastructure spending and some restocking after two years of import compression. Nevertheless, GIR are projected to rise to US$16 billion by end-June 2014, as the modest current account deficit is expected to be offset by sustained official capital inflows.

6. **The balance of risks to near-term growth is to the downside** (Box 1). Domestic risks now predominate. In particular, escalating political tensions could possibly create broader disruptions to economic activity. The collapse in April 2013 of a building in an industrial district near Dhaka creates an additional downside risk to the readymade garment sector if exports are affected by industrial disturbances or reputational risks related to worker conditions in the sector. The authorities are framing a policy response to this risk (MEFP, ¶15). The deterioration in state-owned commercial bank (SOCB) finances also poses fiscal and financial stability risks. On the external front, main risks stem from a re-emergence of stress in the euro area, given Bangladesh's export concentration to the European Union, and from a global oil price shock. If any of these risks materializes, adjustments would have to come primarily through the exchange rate and automatic fiscal stabilizers. Monetary policy should remain appropriately restrained to contain inflation and protect reserves while ensuring an adequate supply of liquidity to the markets.

POLICY DISCUSSIONS

7. **Discussions centered on policy actions under the ECF through June 2014, aimed at consolidating macroeconomic stabilization gains, advancing key structural reforms, and promoting sound economic governance to support growth.** The authorities' MEFP (Appendix 1) sets out new program commitments, extending quantitative targets through June 2014 (MEFP Table 1), and adding new structural benchmarks (MEFP Table 2). Proposed modifications to June 2013 program targets lock in reserve over-performance to reinforce buffers against the risk of BOP disruptions, while also providing modest flexibility in bank financing to the government to allow automatic stabilizers to work in light of weaker-than-anticipated growth. A relatively restrained monetary stance and continued exchange rate flexibility is envisaged to help preserve stability gains.

A. Fiscal Policy and Debt Management: Sustaining Fiscal Prudence

8. **Overview.** Fiscal reforms under the ECF-supported program aim at generating higher tax revenues, prioritizing and improving the targeting of public expenditure, and reinforcing debt sustainability. Together, these reforms will help build fiscal space to increase priority development spending, strengthen counter-cyclical buffers, and safeguard stability.

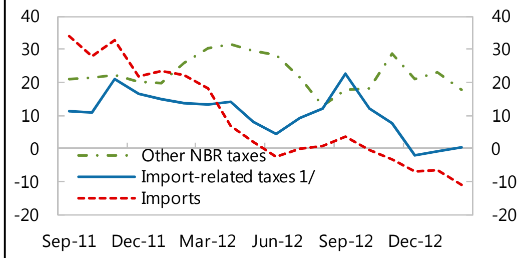
Box 1. Bangladesh: Risk Assessment Matrix 1/

Likelihood	Shock	Vulnerabilities	Potential Impact	Policy Response
Medium-High	Intensification of domestic violence.	Escalating violence would affect investment and growth.	High: Growth prospects could be dampened by a loss of confidence and a slump in investment and consumption. BOP pressures could reemerge from lost export production.	Automatic fiscal stabilizers should be allowed to operate, with greater exchange rate flexibility needed to reduce external pressures (complemented by monetary tightening if pressures are significant).
Medium	Stalled or incomplete delivery of euro area policy commitments (causing re-emergence of stress).	About half of exports go to the European Union (EU), with garments significantly increasing their EU market share over the past five years.	High: Activity would be severely affected in the garment export sector. Balance of payments (BOP) pressures could intensify on a deeper export slump, destabilizing the exchange rate and pressuring reserves.	Greater exchange rate flexibility would need to be coupled with moderate fiscal easing, as modest automatic stabilizers kick in, with possible budgetary provisions needed to top-up existing safety net schemes.
Medium	Further deterioration in state-owned commercial bank (SOCB) finances.	The SOCBs' financial health deteriorated in 2012, with three of them failing to meet the minimum risk-weighted capital requirements as of December 2012.	High: Potential recapitalization needs are around 1½ percent of GDP, including accounting for valuation adjustments treated as capital at these banks.	The SOCBs should be held strictly accountable to the MOUs agreed with BB aimed at improving their financial performance. Stricter macro-prudential controls over their lending activities and more aggressive recovery of bad loans would be needed, backed by a broader strategy to improve their longer-term viability.
Medium	Intensification of pre-election spending pressures.	Lack of fiscal restraint ahead of national elections due by early 2014.	Low-to-medium: Fiscal slippages resulting in higher bank borrowings could increase the devolvement burden on the banking sector and/or government's reliance on BB financing, with spillovers to inflation and monetary policy.	Fiscal slippages would need to be addressed promptly. In addition, monetary targets would need to be adjusted and greater interest rate flexibility would need to be allowed to ensure a stable macroeconomic environment.
Low-Medium	Significant loss of ready-made garment orders due to buyer concerns about labor conditions.	The garment sector accounts for nearly 80 percent of exports, and employs around 4 million workers, mostly women.	High: Apart from the challenges for short-term macro stability, the loss of investment and jobs could raise poverty levels over the longer term.	Macroeconomic management as in the case of euro-area or civil-strife-related shocks to exports discussed above, plus steps to establish reputable factory working conditions.
Low	Global oil price shock triggered by geopolitical events.	Petroleum imports (in U.S. dollars) have more than doubled since FY10, driven by increased reliance on liquid fuel-fired power generation.	Medium: The BOP would come under renewed pressure due to higher import bill. However, stronger remittances could partly offset the BOP pressure if higher oil price improves economic conditions in the Gulf countries, source of nearly two-third of the remittance inflows. On public finances, fuel related subsidies could destabilize the fiscal stance.	Timely adjustments to retail fuel prices guided by the government's existing formula could contain subsidies, temper demand, and protect reserves, backstopped by greater exchange rate flexibility.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. The RAM reflects staff views on the sources of risks and overall level of concerns as of the time of discussions with the authorities.

9. Recent fiscal performance (Figure 4). Fiscal performance in the first half of FY13 was broadly in line with the program. Tax collections by the National Board of Revenue (NBR) fell short by about 0.3 percent of GDP of the program IT in that period, partly reflecting the impact of slower import growth on supplementary duties and other import-related taxes. However, expenditure has been kept in check, including through contained energy-related subsidies following administered fuel price increases, even as implementation of capital spending in the Annual Development Plan (ADP) has improved. As a result, government borrowing from the banking system has remained within the program PC, and the fiscal deficit (excluding grants) is on track to meet the program target of 4.5 percent of GDP in FY13 (Tables 3–4).

Bangladesh: Revenue and Imports, Sep.2011–Feb.2013
(Year-on-year percent change, 3-month moving average)



Sources: National Board of Revenue (NBR) and IMF staff calculations.
1/ Import-related taxes include import VAT, supplementary import duties, and custom duties.

10. Fiscal policy stance (MEFP, ¶2–3). For FY14, the authorities remain committed to a programmed budget deficit target (excluding grants) of 4.3 percent of GDP. Tax collections are likely to continue to suffer from slower imports and *hartal*-related disruptions, at least through the first half of FY14. In light of this, a modest modification of the government's bank borrowing targets is proposed in the period to December 2013. The authorities have, however, committed to strengthening revenue in the near term through further removal of exemptions and phasing out of truncated bases for the VAT, and through stepped up tax enforcement efforts, including tighter audits.[2] Within the programmed spending envelope, the authorities intend to further raise social-related spending (an IT) as well as capital spending, including for a continuation of the Padma Bridge project.[3] Fiscal space will be carved out through continued containment of subsidy-related costs (see below). Over the medium term, a moderate consolidation path will continue to be pursued, while protecting social-related spending and increasing the ADP envelope to meet Bangladesh's key social and development goals, as articulated in the authorities' Sixth Five-Year Plan FY11–15.

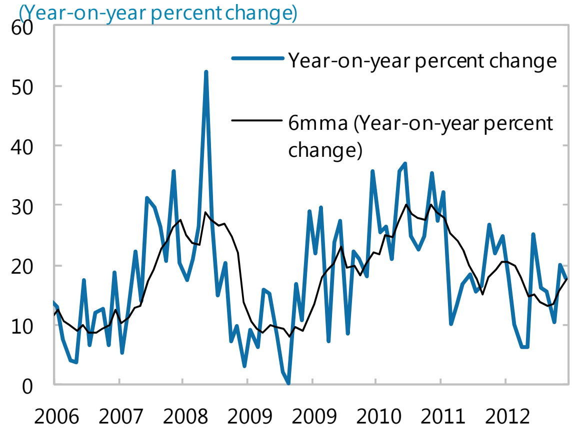
[2] The NBR is also seeking one-off revenues by recovering tax arrears from state owned enterprises and undertaking a comprehensive rollout of the Alternative Dispute Resolution mechanism at the customs level.

[3] The total cost of the Padma Bridge project is estimated by the authorities at US$3.05 billion (2.4 percent of GDP). The authorities have indicated that the FY14 budget will include Tk 68 billion (about 0.7 percent of GDP) for the project, which has been accounted for within the fiscal targets agreed under the program. The baseline assumes continued implementation through FY17 (although more back-loaded than at the time of the first ECF review to reflect delays to date). The scope of the project, the oversight framework (for which the authorities want to engage the Asian Development Bank), and the overall financing package are still under consideration by the authorities, as they discuss options with different development partners. Part of the financing is expected to come from already-committed external resources (a credit line disbursement from India for US$200 million and an Islamic Development Bank credit for US$140 million). Also, the authorities are considering issuing a sovereign bond of between US$500 million and US$1 billion, but the timing of this is uncertain.

Figure 4. Bangladesh: Fiscal Developments

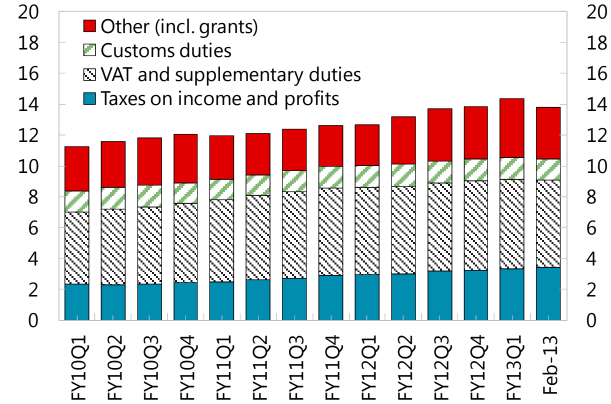
Administrative improvements drove up tax revenues between 2009 and 2011, but revenue growth has slowed more recently...

NBR Revenue, Jul. 2006–Feb. 2013
(Year-on-year percent change)



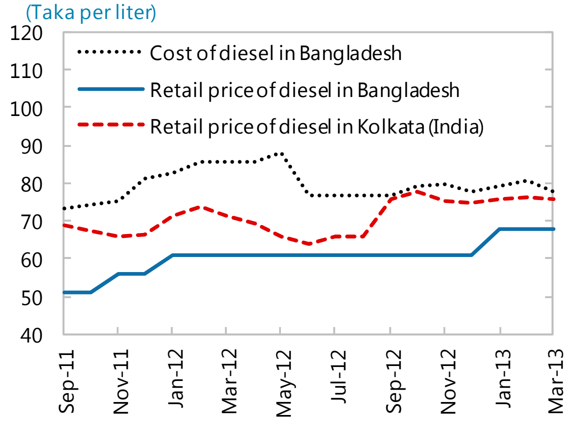
...driven in part by slower VAT and supplementary duty collections. The revenue-to-GDP ratio has stabilized.

Central Government Revenue, FY10.Q1–Feb. 2013
(In percent of GDP; 12-month moving average)



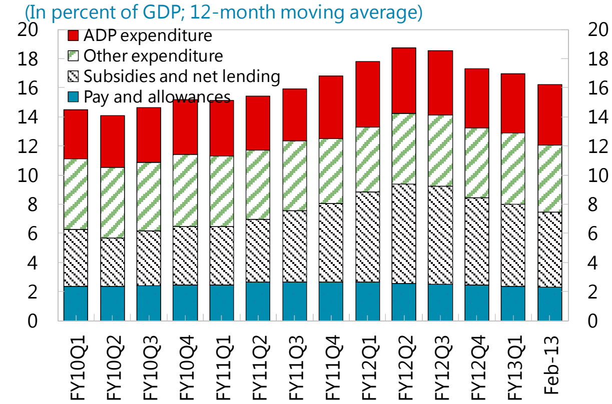
Retail fuel price increases have helped narrow the wedge with international and regional prices.

Diesel Prices, Sep. 2011– Mar. 2013
(Taka per liter)



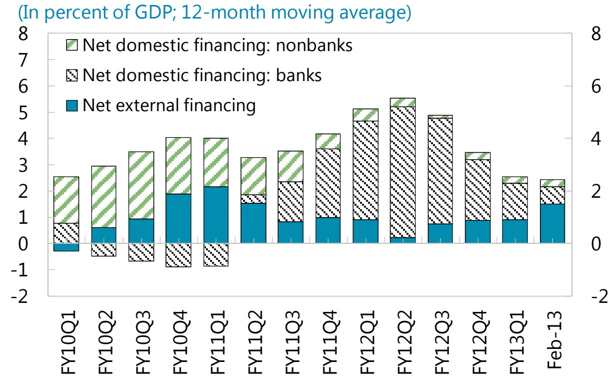
As a result, the fuel subsidy bill has moderated, helping reduce overall government expenditure as a share of GDP.

Central Government Expenditure, FY10.Q1-Feb. 2013
(In percent of GDP; 12-month moving average)



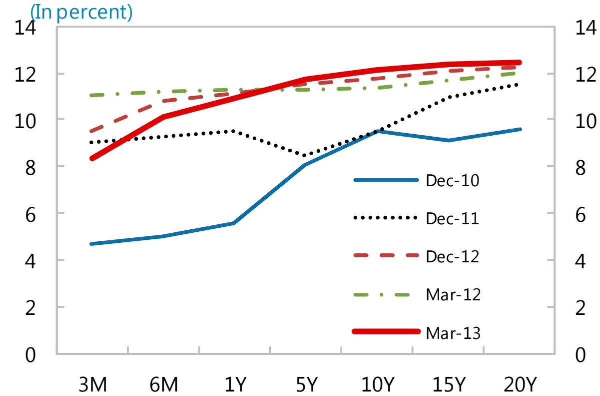
The fiscal balance has narrowed somewhat as a share of GDP, and the financing mix has shifted from domestic banks to external sources.

Central Government: Sources of Financing
FY10.Q1-Feb. 2013
(In percent of GDP; 12-month moving average)



Interest rates on Treasury bonds and bills rose between end-2010 and early 2012. Since then, the yield curve has steepened, reflecting an increased appetite for short-term instruments. .

Yield Curve on Treasury Bonds and Bills
(In percent)



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

11. Structural fiscal reforms.

- ***Pressing ahead on tax and revenue administration reforms*** (MEFP, ¶4). The authorities are committed to continuing to work on VAT implementation, a plan and timetable for which has been approved by the Minister of Finance (a March 2013 benchmark). They are now taking steps toward selecting a vendor for a tax automation system by December 2013 (a new benchmark). Progress has also been made towards automating issuance of taxpayer identification numbers (a June 2013 benchmark), for which a key remaining step is to establish a link with the national identification database.

- ***Managing subsidy costs*** (MEFP, ¶6). After a series of retail energy price adjustments over the past two years, the authorities intend to continue to adjust fuel prices if necessary to limit the wedge with international prices to the agreed 10 taka per liter,[4] while safeguarding the most vulnerable through increased transfers. Over the medium term, as better targeting mechanisms are developed, the authorities should gradually eliminate the wedge with international prices. The authorities will also exercise greater scrutiny of rental power plant contracts, which absorb a disproportionate share of subsidy costs (Box 2). Moreover, the expansion of base power capacity should allow a gradual phasing out of rental plants, and efforts to increase gas supply to base plants will further reduce generation costs. Further savings are expected after completion of efficiency audits of the fuel, electricity and fertilizer-related state-owned enterprises (SOEs), a June 2013 benchmark. To continue to bring subsidy costs fully on-budget, a plan setting out a schedule of disbursements from the government to the Bangladesh Petroleum Corporation (BPC) has been formalized and approved (a prior action). Timely government transfers to BPC will also help ensure observance of the IT on SOCB loans to SOEs, which was breached in December 2012 and in March 2013. The government remains committed to capitalizing all earlier subsidy-related loan losses at the SOCBs (equivalent to 0.5 percent of GDP), and to gradually phasing out external borrowing by BPC through oil-related suppliers credits (also an IT).

- ***Ensuring sound debt management*** (MEFP, ¶7). The authorities will focus external borrowing on high impact projects to meet critical development needs. They are also taking steps to strengthen debt management practices. The authorities have formally requested a Debt Management and Performance Assessment (DeMPA) from the World Bank, which will guide the finalization of a medium-term debt strategy by December 2013. The authorities have established a technical committee (a prior action) to monitor and report on all nonconcessional external borrowing and ensure compliance with the limits set in the ECF program. The committee will also draft revised terms of reference (TOR) for the Cabinet's Hard-Term Loan Committee (HTLC), with the notification for the revised TOR to be issued by June 2013 (a new benchmark). The revised TOR will: (i) ensure that the HTLC oversees all nonconcessional borrowing contracts, covering loans, guarantees, and trade credits (excluding normal import financing) by the public sector and for all purposes; and (ii) determine nonconcessionality based on the grant element of the credit, in line with international best practices.

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[4] First ECF Review Staff Report, IMF Country Report No. 13/61 (March 2013).

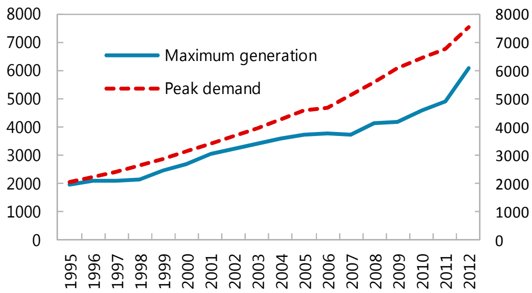
Box 2. Bangladesh: Rental Power Plants and Subsidy Costs

The authorities have made significant efforts to reduce power shortages in recent years by increasingly relying on rental power plants, but this has had a large impact on subsidy costs.

In the decade to 2010, the demand for electricity in Bangladesh far outpaced power generation capacity. To address the shortage, the government has since 2009 mostly relied on liquid-fuel-based rental power plants (RPPs). Indeed, power generated by RPPs increased from around 6 percent of total generation in 2009 to 27 percent in 2012 (Table 1).

This helped reduce the demand-generation gap from around 27 percent in 2011 (in percent of peak demand) to 19 percent in 2012.[1] Consistent with this, load shedding (i.e., rationing) has been reduced significantly, with shortfalls only binding during peak demand in summer months.[2]

Bangladesh: Maximum Generation and Peak Demand
(In megawatts)



Source: Bangladesh Power Development Board Annual Report, 2011-12.

Table 1. Bangladesh: Electricity Generation
(In megawatts)

	2007-08	2008-09	2009-10	2010-11	2011-12
Maximum peak generation	4,130	4,162	4,606	4,890	6,066
Installed capacity	5,307	5,719	5,271	6,639	8,100
Public	3,919	4,038	3,452	3,729	4,555
Private	1,388	1,681	1,819	2,910	3,545
Of which:					
Rental	58	351	548	1,685	2,149
Percentage of installed capacity	1	6	10	25	27

Source: Bangladesh Power Development Board Annual Reports.

Note: Public Generation includes the Rural Electrification Board.

The reliance on RPPs has changed the balance of fuels used for electricity generation. About two-thirds of the total capacity from RPPs comes from liquid-fuel-fired plants (Table 2). Thus, oil-based generation (both diesel and furnace oil) has risen by almost 500 percent nation-wide since 2009 (Table 3).

Table 2. Bangladesh: Rental Power Plants: Number and Generation Capacity

	2008-09			2011-12		
	Number of Plants	Generation Capacity (megawatts)	Generation Capacity (in percent of total rental)	Number of Plants	Generation Capacity (megawatts)	Generation Capacity (in percent of total rental)
Gas	9	311	89	15	702	33
Furnace oil	0	0	0	11	909	42
Diesel	1	40	11	8	538	25
Total	10	351	100	34	2149	100

Source: Bangladesh Power Development Board Annual Reports.

Table 3. Bangladesh: Electricity Generation by Type of Fuel
(In megawatts)

	2008-09	2011-12	Percentage Change
Gas	4,542	5,417	19
Furnace oil	280	1,752	526
Diesel	191	511	168
Other	480	420	(13)

Source: Bangladesh Power Development Board Annual Reports.

[1] Electricity generation, currently estimated at around 6,000 megawatts, is lower than capacity, estimated at 8,100 megawatts, due to out-of-operation plants (maintenance, rehabilitation, or overhauling), aging of plants, and gas shortages.

[2] The maximum load shedding decreased from 1,459 megawatts in 2010 to 1,058 megawatts in 2012.

Box 2. Bangladesh: Rental Power Plants and Subsidy Costs (concluded)

In turn, the increasing reliance on liquid-fuel generation from RPPs has led to a surge in total energy-related subsidy costs for the government, from 0.1 percent of GDP in FY2010 to 1.6 percent in FY2012 (see Table 3 in the staff report). This has occurred through two channels:

- **Fuel subsidies**. The Bangladesh Petroleum Corporation (BPC) subsidizes fuel by selling it domestically at lower than international prices. The sharp rise in BPC's fuel subsidy bill from Tk 10 billion in FY2010 to Tk 86 billion (0.9 percent of GDP) in FY2012 was partly due to growing fuel sales to liquid-fuel-based electricity generators.

- **Electricity-related subsidies**. The Bangladesh Power Development Board (BPDB) provides several types of power subsidy. First, BPDB power tariffs charged to consumers are lower than the costs to BPDB of purchases from power generators. With growing reliance on high-cost oil-based power generation (rather than lower-cost gas, see Table 4), subsidy costs have risen significantly.[3] Second, under contracts between BPDB and RPPs, the BPDB guarantees access to fuel by RPPs at prices well below rates charged by BPC to other consumers. (Thus, for instance, diesel is sold to RPPs at Tk 26 per liter compared to a regular BPC price of Tk 68 per liter). This price difference is financed by BPDB. Last, the contracts between BPDB and RPPs guarantee a minimum fixed payment per month (a "rental") from BPDB, regardless of whether electricity is generated. Government transfers to BPDB cover these various subsidies, and have risen from Tk 9 billion in FY2010 to Tk 64 billion (0.7 percent of GDP) in FY2012. Reflecting these various factors, RPPs account for about 90 percent of the electricity subsidy bill, compared to their 30 percent contribution to electricity generation.

Table 4. Bangladesh: Electricity Purchase and Generation Costs

(Average cost per unit, in taka per kilowatt hour)

	2009-10	2010-11	2011-12
BPDB gen. cost	2.50	3.70	3.20
Purchases from			
Public 1/	1.42	1.83	1.85
Independent Power Project (IPP) 2/	2.77	3.41	3.65
Rental	4.26	7.73	10.17
Of which:			
Gas		2.81	4.30
Furnace oil		9.02	16.07
Diesel		15.07	18.62

Source: Bangladesh Power Development Board Annual Reports.

1/ Owned by Public Entities, with most of shares held by BPDB and the rest distributed among Ministry of Finance, Ministry of Planning, Power Division, MOPEMR, and Energy Division.

2/ IPPs are permanent set ups, with long-term contracts and require 10 to 18 months to install. An IPP contractor procures plant equipment after getting the contract, while rental power contractors must already have all the equipment before getting the contract.

[3] In the current setup, BPDB functions as a single buyer, purchasing electricity from the public and private generators.

- ***Strengthening public financial management (PFM)*** (MEFP, ¶5). The authorities issued guidelines on budget monitoring and reporting under the Public Money and Budget Management Act in March 2013 (June 2013 benchmark). Building on IMF technical assistance (TA), the authorities are committed to placing limits by December 2013 on government borrowing from Bangladesh Bank (BB) through the overdraft facility, and to institutionalizing cash flow forecasting by March 2014.

- ***Strengthening nonbank resource mobilization*** (MEFP, ¶8). Sales of National Savings Certificates (NSCs), a retail savings instrument, are expected to improve following reforms to incentivize their use. Key among those reforms is bringing taxation of interest on NSCs in line with other government debt instruments by June 2013.

12. Nonconcessional borrowing and debt sustainability. The proposed debt ceilings are consistent with program objectives, including boosting spending in critical infrastructure projects and maintaining debt sustainability, and are underpinned by strengthened debt management practices, as noted above. At the time of the first ECF review, debt limits were set through December 2013. In extending targets for this review, staff proposes to modify the cumulative ceilings to reflect a further US$0.75 billion (0.5 percent of GDP) by June 2014 for the existing pipeline of high impact projects, mainly for guarantees in the power sector, bringing the total ceiling for the cumulative stock since end-2011 to US$4.5 billion (3.1 percent of GDP). This increase in the debt ceiling still maintains Bangladesh at a low risk of external debt distress.[5]

B. Monetary and Exchange Rate Policy: Helping Anchor Macroeconomic Stability

13. Overview and recent monetary developments (Figure 5). Under the program, monetary and exchange rate policy aims to further reduce inflation and build a reserve buffer, supported by market-determined interest rates. In response to earlier policy tightening, private credit growth slowed substantially in 2012 and has decelerated further in early 2013. However, strong reserve accumulation by BB coupled with partial sterilization resulted in small overruns in the IT on reserve money at end-December 2012 and end-March 2013 (Table 5). In January 2013, BB cut repo rates by 50 basis points in view of declining inflation and rising downside risks to growth.

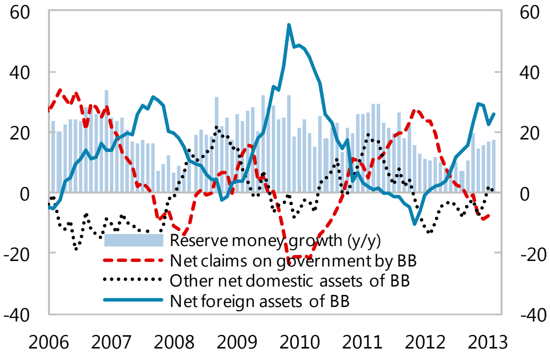
14. Current policy stance. Consistent with its latest monetary policy statement, BB is committed to maintaining a prudent monetary stance to safeguard macroeconomic stability and keep inflation in check, while allowing sufficient space for private credit growth. In this context, the reserve money ITs were kept broadly unchanged relative to the first ECF review. Staff and the authorities agreed that the current levels of policy rates were broadly appropriate, with further easing premature at this stage. To lock-in the over-performance on reserve accumulation and strengthen the external buffer for contingencies, a modification to the NIR PC target for end-

[5] See accompanying Debt Sustainability Analysis (DSA) Update, which incorporates remittance-adjusted thresholds as per the latest IMF guidance. The previous DSA Update was reported in IMF Country Report No. 13/61 (March 2013).

Figure 5. Bangladesh: Monetary and Financial Market Developments

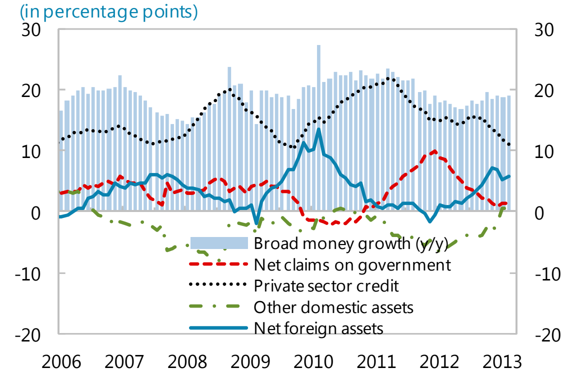
Reserve money growth, which slowed in 2012, has been driven up by BB's large, and not fully sterilized, foreign exchange purchases.

Contribution to Reserve Money Growth
Jan. 2006–Feb. 2013
(In percentage points)



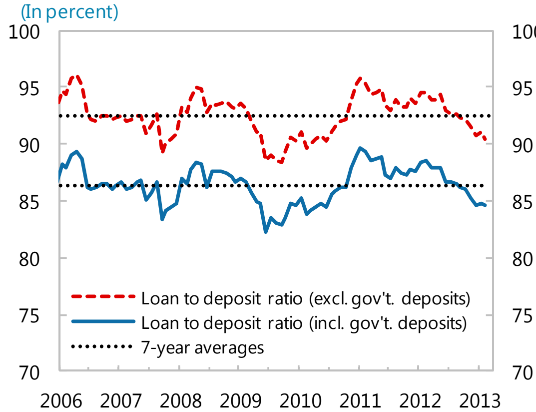
Similarly, broad money growth has picked up recently, with rising net foreign assets offsetting the impact of slower government and private sector borrowing.

Contribution to Broad Money Growth
Jan. 2006–Feb. 2013
(in percentage points)



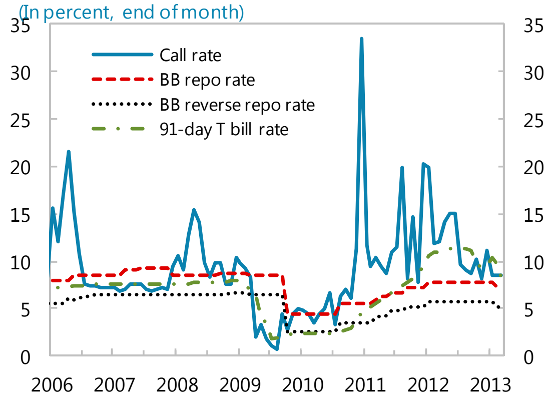
With a slowing credit uptake, loan-to-deposit ratios have fallen.

Loan-to-Deposit Ratio, Jan. 2006–Feb. 2013
(In percent)



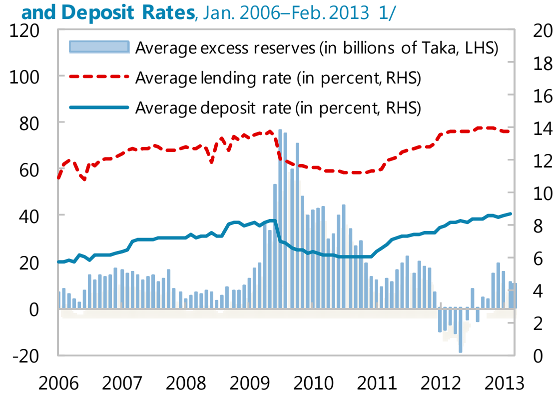
As external pressures eased, money market and Treasury rates have come off, with BB also cutting repo rates in January 2013.

Interest Rates, Jan. 2006–Mar. 2013
(In percent, end of month)



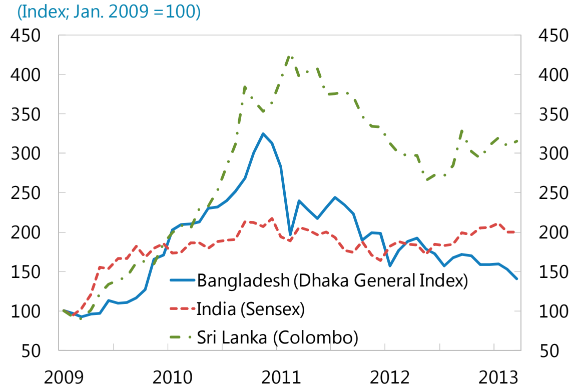
After a period of increases, deposit and lending rates have stabilized.

Commercial Banks' Excess Reserves and Lending and Deposit Rates, Jan. 2006–Feb. 2013 1/



The Dhaka Stock Exchange is well off its December 2010 peak, and has weakened further in recent months as political tensions have increased.

Stock Market Performance, Jan. 2009–Mar. 2013
(Index; Jan. 2009 = 100)



Sources: Data provided by the Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff estimates.
1/ The deposit and lending rate series have been redefined since July 2009.

June 2013 (raising it by about US$1.2 billion) is being proposed, with BB's net domestic asset target lowered accordingly to protect the reserve money IT. Going forward, with reserve levels now approaching adequacy, the authorities committed to allowing more exchange rate flexibility and step up sterilization operations to ensure consistency with monetary targets.

C. Financial Sector Reforms: Addressing Vulnerabilities and Bolstering Governance

15. Overview and recent developments. Program commitments in the financial sector center on strengthening financial sector governance, including improved risk management and operational controls by banks; clearer and expanded supervisory powers for BB; and stronger risk-based supervision. The financial position of the SOCBs has deteriorated further, reflecting a worsening in asset quality as well as the application of tighter loan classification and provisioning standards.[6] Thus, nonperforming loan (NPL) ratios for SOCBs as a group were 24 percent as of December 2012 (Table 6).

16. Structural reforms to strengthen and develop the financial system.

- ***Bank Companies Act (BCA) amendments*** (MEFP, ¶11). As a centerpiece of the authorities' efforts to strengthen the banking system, amendments to the BCA were sent to Parliament in March 2013 (a March 2013 benchmark). The amendments aim to broaden the supervisory mandate of BB, limit special treatments for the SOCBs, and strengthen commercial banks' governance and accountability (Box 3). BB is also preparing an order to revise capital market exposure limits for banks consistent with BCA amendments (also a March 2013 benchmark), with issuance of this now rescheduled for June 2013 as it is legally conditional on parliamentary passage of the BCA amendments.

- ***Strengthening SOCBs*** (MEFP, ¶12). To safeguard financial stability and mitigate fiscal risks, the authorities committed to taking the following measures to strengthen the SOCBs' performance and financial position and increase their operational independence:

  (i) Revise the memoranda of understanding (MoU) with the four largest SOCBs by May 2013 to set targets for net loan growth based on BB's assessment of the financial position of each bank and consistent with program ceilings.

  (ii) Complete special diagnostic examinations of the SOCBs (a June 2013 benchmark), focused on asset quality, liquidity management, and internal audit and control. Their findings will inform further revisions in the MoUs by September 2013 (a new benchmark), and will also inform BB-approved and time-bound restructuring plans to be adopted by the boards of the SOCBs.

[6] Box 5 in IMF Country Report No. 13/61 (March 2013) details the vulnerabilities and pressures at the SOCBs.

Box 3. Bangladesh: Amendments to the Bank Companies Act

Amendments to the Bank Companies Act (BCA) were sent to Parliament in March 2013. The Act was first enacted in 1991 and has been amended twice, most recently in 2003. The current draft amendments underwent several consultations with stakeholders over the last two years and received IMF technical assistance.

Reducing government involvement in prudential regulation and supervision. Under the proposed amendments, the government will not be able to interfere with the autonomy of Bangladesh Bank (BB) in examining banks. Appeals from aggrieved banks on bank licensing will be referred to the BB Board, instead of the government. Further, the amendments eliminate the government's power to suspend the operation of the Act.

Removing special treatments of the state-owned commercial banks (SOCBs). Examples of exclusions of the SOCBs that would be eliminated includes those with respect to regulations on: paid-up and subscribed capital; election of new directors; dividend payments under certain cases; prohibition of common directors; and restricting BB's powers to regulate labor conditions for banks' employees. However, the state-owned specialized banks, which account for about 5½ percent of banking system assets, will continue to be excluded from these provisions.

Strengthening bank governance and internal audit and control. The amended Act will require prior approval from BB, except for the specialized banks, on appointment or removal of directors and top managers; "fit and proper" criteria for appointment of bank directors; at least four independent directors in a bank board within three years of the enactment of the Act; modifications in the tenure of directors; restriction on family links among the directors of a bank; and transparency in financial transactions with bank-related persons. Bank boards will be liable to establish policies and ensure regulatory compliance on internal audit and control and risk management. Common directorship across banks will be prohibited, except for specialized banks, and BB can remove such directors without any conditions attached to such an action. To become a bank's significant shareholder, prior approval from BB will be needed. Though BB will still not be able to remove government-appointed chairmen or directors, it will be allowed to remove government-appointed chief executive officers if necessary.

Restricting banks' risk exposure. The proposed amendments limit banks' capital market exposure, direct or indirect, to 25 percent of the sum of paid-up capital, share premium, statutory reserves, and retained earnings, to be attained over a period of three years from the enactment of the Act. At present this exposure is set at 10 percent of total liabilities. There are also provisions regarding general limits on loan exposure, lending to bank-related persons, and cross-ownership of banks.

These amendments to the BCA represent a very important structural reform under the ECF-supported program. To further strengthen BB's regulatory and supervisory powers in line with international best practice, additional reforms consistent with several other IMF recommendations should be considered in the future. These include: removal of special treatments to the specialized banks, which also accept deposits from the public; reducing total number of directors at bank boards; appointment of all independent directors of banks by bank shareholders, not by BB or the Securities and Exchange Commission; giving BB full authority to remove bank board members, including government-appointed directors; allowing appeals on BB decisions to be heard by an independent tribunal or by a court of competent jurisdiction, not by the BB's Board; and adopting a full-fledged legal setup for a modern bank resolution framework.

(iii) Provide in the FY14 Budget an allocation for recapitalizing the SOCBs as a step to cover their capital shortfalls, with the actual injection of recapitalization funds conditional on the strengthening of the MoUs between the SOCBs and BB following the diagnostic examinations.[7]

- ***Contingency planning*** (MEFP, ¶13). In order to strengthen the financial sector policy framework, BB is working to prepare (i) a contingency plan, which will detail key steps and responses to be taken at various stages in the event of a banking crisis; and (ii) a lender of last resort policy, detailing the arrangements for emergency liquidity provision to the banking system. Finalization of these two components is a September 2013 benchmark.

- ***Securities market*** (MEFP, ¶14). The Demutualization Act was passed by Parliament in April 2013. The Bangladesh Securities and Exchange Commission is continuing to work towards the approval of demutualization models and plans for both Dhaka and Chittagong stock exchanges (a June 2013 benchmark), based on the Demutualization Act.

- ***Developing FX markets*** (MEFP, ¶9). With the improved balance of payments, banks had to sell foreign exchange (FX) to BB to stay within the relatively tight net open position (NOP) limits, set at 15 percent of risk-weighted capital. To foster domestic FX market development, BB revised the NOP limits in April 2013 by about 40 percent by updating the bank risk-weighted capital bases used for their calculation.

- ***Deepening government debt markets*** (MEFP, ¶9). The authorities are committed to further deepening government debt markets. In April 2013, they announced measures to: (i) introduce a two-year Treasury bond to better match investor demand; (ii) remove the one-year holding period for nonresident holdings of Treasury securities; and (iii) introduce reissuance of existing Treasury bonds. BB also remains committed to further reducing devolvement of Treasury securities in order to restore the integrity of the primary dealer system.

D. Enhancing the Regulatory Environment for Investment

17. Structural reforms under the program. The authorities are preparing a strategy paper to review the Foreign Exchange Regulation Act (a September 2013 benchmark) and, in particular, to lay out a roadmap towards exchange control liberalization, assisted by IMF TA. The objective of this reform is to facilitate foreign direct and portfolio investment (MEFP, ¶16).

[7] Based on information from the authorities, the baseline scenario reflects a partial SOCB recapitalization of Tk 20 billion in FY14. The magnitude of the additional recapitalization needed to restore SOCB capital to the regulatory minimum will depend on the findings from the ongoing diagnostic examinations, but on current information it is estimated at about 1½ percentage points of GDP if full write-off of nonperforming loans is assumed.

OTHER PROGRAM ISSUES

18. Financing assurances. The program remains fully financed (Tables 7, 8, and 9), aided by a stronger BOP compared to the time of the first review.

19. Safeguards recommendations (MEFP, ¶10).[8] The authorities have selected a global audit firm (a prior action) to conduct a full external audit of BB's end-June 2013 accounts. Finalization of this audit by December 2013 is a structural benchmark. In other safeguard areas, the authorities are intent on strengthening BB's Audit Committee and internal audit capacity, working to put in place the recommendations provided by IMF TA.

20. Request for modification of program targets. Targets have been extended to June 2014. As discussed above, staff proposes to modify several PCs for June 2013 and related ITs to December 2013. The PCs on NIR and NDA of BB need to be revised to lock-in over-performance on reserve accumulation, while containing overall reserve money growth. A modification to the ceiling on net claims on the central government by the banking system is proposed to provide flexibility for automatic stabilizers to work. Finally, a modification is proposed to the ceiling for September and December 2013 on nonconcessional external debt maturing in more than one year, to account for additional power sector-related guarantees in the pipeline.

STAFF APPRAISAL

21. Program achievements. Under the ECF arrangement, Bangladesh has made substantial progress in strengthening macroeconomic conditions and structural policies:

- The country is now in a better position to withstand adverse external shocks, with international reserve levels almost double the lows in late 2011. Notwithstanding the tepid global economic environment, exports have picked up and remittances remain strong. Headline inflation is now in single digits, and underlying inflation pressures have receded.

- In structural areas, the new VAT law has now moved firmly into the implementation phase following passage by Parliament in late 2012. When fully implemented, it will modernize the tax system and generate substantial internal resources to raise development spending, in support of growth and poverty reduction. Amendments to the BCA have been recently submitted to Parliament, which will significantly strengthen governance in the banking system, enhancing the supervisory powers of BB to safeguard financial stability. Progress is also being made to diagnose critical weaknesses in the SOCBs, as an initial step toward strengthening their governance and financial position.

22. Challenges and risks. The balance of risks is to the downside, with domestic factors predominating. An intensification of political tensions coupled with election-year uncertainty in

[8] An IMF safeguards assessment was completed in July 2011.

Bangladesh pose the most immediate challenge to policymakers, with growth already slowing. Downside risks are exacerbated by the possible fallout for garment exports from the recent building collapse. Deteriorating financial conditions at the SOCBs also pose increasing risks. On the external front, pressures appear manageable, but there can be significant negative spillovers in the event of renewed euro area stresses or commodity price spikes. Persevering with strong policy anchors and the buildup of policy buffers in the run-up to elections and beyond, as reflected in commitments under the ECF arrangement, will prove essential to mitigate the impact of political uncertainty on the economy.

23. Fiscal policy. The overall fiscal stance remains prudent. However, strong vigilance, guided by adherence to programmed deficit targets, is needed to contain spending pressures in the pre-election period. Tax revenue shortfalls are an immediate concern, and call for stepped up tax enforcement. VAT implementation needs to proceed as planned, with TIN automation and procurement of a VAT tax automation system now the foremost priority for action at the NBR. On expenditures, stronger execution of capital spending is welcome. At the same time, subsidy costs need to be further reduced to build up more space for development spending, including through a gradual replacement of subsidies by targeted cash transfers. On energy subsidies, following retail price adjustments over the past two years, the emphasis should increasingly be on other measures to reduce the subsidy bill, including greater scrutiny of contracts with high-cost rental power plants. Moreover, the ongoing and planned expansion of base power generation capacity should provide opportunities to gradually phase out rental plants.

24. Debt management. The authorities should continue to seek maximum concessionality in their external financing, with all nonconcessional borrowing regularly reviewed, monitored, and reported to ensure full transparency and sound governance. The strengthening of debt management practices now underway is a good step towards reinforcing debt sustainability. The forthcoming DeMPA assessment should inform a comprehensive medium-term debt strategy to be put in place by end-2013.

25. Monetary policy and central bank safeguards. Restrained monetary policy since late 2011 has brought down inflationary pressures and supported the rebuilding of reserves. With reserves now approaching comfortable levels, BB should reduce FX intervention and ensure observance of reserve money targets, raising its capacity to fully sterilize any market interventions. To strengthen the central bank's internal controls, the selection of a global audit firm to conduct the external audit of BB for FY13 is welcome.

26. Financial sector reforms. The authorities should press ahead with passage of the amendments to the BCA, which will empower BB to enhance its oversight and undertake needed regulatory reforms to address vulnerabilities in the banking system. The proposed BCA amendments submitted to Parliament reflect key recommendations by staff. The authorities should take steps to implement outstanding recommendations (Box 3, last paragraph) in due course to further strengthen the legal framework for bank supervision and resolution. The deterioration in the financial position of the SOCBs points to the need to step up governance, risk management and controls at these banks. The special diagnostic examinations now underway at the four largest of these banks should inform revisions to their MoUs with BB, incorporating plans to restructure their operations. Any future recapitalization should be made conditional on such plans being adopted by the SOCBs' boards. Further steps to deepen the FX and government debt markets are also needed, while continuing to reduce devolvement.

27. Investment climate reforms. A comprehensive review of foreign exchange regulations is timely and would provide a firm guide to increasing the attractiveness of Bangladesh to FDI and portfolio investment flows. Envisaged steps to strengthen safety conditions for factory workers are also welcome.

28. Staff recommendation. All end-December 2012 (second test date) periodic PCs were met, and a waiver was granted at the time of the first review for the nonobservance in January 2013 of the continuous PC on nonconcessional external debt maturing in more than one year. Key structural benchmarks for March 2013 were also met. On this basis, staff recommends completion of the second review under the ECF arrangement and the approval of the request for modifying end-June 2013 performance criteria in line with the revised macroeconomic outlook, while preserving overall program objectives.

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

	FY10	FY11	FY12		FY13		FY13	FY14	FY15
			Prog.	Est.	Latest		Projections		
National income and prices (percent change)									
Real GDP	6.1	6.7	5.5	6.3	...		5.4	5.5	6.5
GDP deflator	6.5	7.5	10.6	8.0	...		7.7	6.8	5.4
CPI inflation (annual average)	7.3	8.8	11.2	10.6	8.0	Mar. 2013	7.7	7.0	5.4
CPI inflation (end of period)	8.7	10.2	11.7	8.6	7.7	Mar. 2013	8.3	6.8	5.4
Nonfood CPI inflation (end of period)	5.2	5.7	13.6	11.7	6.8	Mar. 2013	7.0	6.5	6.1
Investment and savings (percent of GDP)									
Gross investment	24.4	25.2	24.9	25.4	...		26.1	26.7	27.6
Private	19.4	19.5	19.3	19.1	...		18.7	18.6	19.0
Public	5.0	5.6	5.6	6.3	...		7.4	8.1	8.6
National savings	27.6	23.2	23.8	25.0	...		27.3	26.3	27.3
Private	25.6	21.0	20.5	21.6	...		23.4	22.1	22.7
Public	2.0	2.2	3.4	3.3	...		3.9	4.2	4.6
Central government operations (percent of GDP)									
Total revenue and grants	11.5	11.9	13.1	13.0	8.0	Jul. 2012–Feb. 2013	13.7	14.1	14.7
Total revenue	10.9	11.7	12.5	12.4	7.9	Jul. 2012–Feb. 2013	13.2	13.6	14.2
Tax	9.0	10.0	10.5	10.4	6.3	Jul. 2012–Feb. 2013	10.9	11.3	11.8
Nontax	1.9	1.7	2.0	2.0	1.6	Jul. 2012–Feb. 2013	2.3	2.3	2.4
Grants	0.6	0.3	0.6	0.5	0.1	Jul. 2012–Feb. 2013	0.5	0.5	0.5
Total expenditure	14.6	16.0	17.0	16.4	9.0	Jul. 2012–Feb. 2013	17.8	17.9	18.0
Current expenditure	9.5	9.7	9.8	9.7	5.6	Jul. 2012–Feb. 2013	9.9	10.0	10.1
Annual Development Program (ADP)	3.7	4.2	4.2	4.0	1.7	Jul. 2012–Feb. 2013	4.8	5.1	5.6
Other expenditures 2/	1.4	2.1	3.0	2.8	1.7	Jul. 2012–Feb. 2013	3.1	2.8	2.3
Overall balance (including grants)	-3.1	-4.1	-3.9	-3.4	-1.0	Jul. 2012–Feb. 2013	-4.0	-3.7	-3.3
(Excluding grants)	-3.7	-4.4	-4.5	-4.0	-1.1	Jul. 2012–Feb. 2013	-4.5	-4.3	-3.8
Primary balance (excluding grants)	-1.6	-2.4	-2.3	-1.7	-0.6	Jul. 2012–Feb. 2013	-2.3	-2.1	-1.7
Total central government debt (percent of GDP)	41.4	42.4	43.9	41.4			39.5	39.4	38.6
Money and credit (end of fiscal year; percent change)									
Credit to private sector by the banking system	24.2	25.8	15.9	19.7	12.7	Mar. 2013	15.8	16.0	...
Reserve money	18.1	21.1	13.0	9.0	17.6	Mar. 2013	16.4	16.5	...
Broad money (M2)	22.4	21.4	15.5	17.4	18.1	Mar. 2013	17.6	16.9	...
Balance of payments (in billions of U.S. dollars)									
Exports, f.o.b.	16.2	22.6	25.4	24.0	19.7	Jul. 2012–Mar. 2013	25.7	27.3	30.9
(Annual percent change)	4.2	39.1	10.3	6.2	10.2	Jul. 2012–Mar. 2013	7.2	6.0	13.5
Imports, f.o.b.	-21.4	-32.5	-34.7	-33.3	-21.8	Jul. 2012–Feb. 2013	-33.9	-38.2	-42.6
(Annual percent change)	5.4	52.1	14.3	2.4	-1.5	Jul. 2012–Feb. 2013	1.9	12.6	11.4
Current account balance 3/	3.2	-2.2	-1.2	-0.6	1.4	Jul. 2012–Feb. 2013	1.5	-0.5	-0.6
(Percent of GDP)	3.2	-2.0	-1.1	-0.5	1.2	Jul. 2012–Feb. 2013	1.2	-0.4	-0.4
Capital and financial account balance	0.4	1.9	0.4	2.2	2.1	Jul. 2012–Feb. 2013	1.8	3.4	4.1
Overall balance	2.9	-1.0	-0.8	0.5	3.5	Jul. 2012–Feb. 2013	3.4	2.8	3.6
Gross official reserves (in billions of U.S. dollars) 4/	10.1	9.6	9.2	10.1	14.5	Apr. 2013	13.6	16.1	19.2
In months of imports of goods and services	3.2	2.9	2.4	3.0	...		3.6	3.8	4.1
Exchange rate (taka per U.S. dollar; period average)	69.2	71.2	79.8	79.1	80.3	Jul. 1, 2012–May. 6, 2013	...	...	...
Exchange rate (taka per U.S. dollar; end-period)	69.5	74.2	85.0	81.8	77.9	May. 6, 2013	...	...	...
Nominal effective rate (2005=100; period average)	87.0	82.9	...	74.9	77.5	Apr. 2013	...	...	...
Real effective rate (2005=100; period average)	108.2	108.8	...	105.2	116.2	Mar. 2013	...	...	...
Terms of trade (percent change)	-4.6	-6.7	...	0.1	...		...	...	...
Memorandum item:									
Nominal GDP (in billions of Taka)	6,943	7,967	9,192	9,148	...		10,378	11,695	13,130

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/ Import numbers are based on payment settlements data up to FY10 and customs data starting in FY11, except FY12 program figures, which are based on payment settlements data.
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: Balance of Payments, FY2010–17 1/

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

	FY10	FY11	FY12		FY13	FY14	FY15	FY16	FY17
			Prog.	Est.	Projections				
Current account balance 2/	3,240	-2,227	-1,228	-569	1,538	-539	-555	-703	-810
Trade balance	-5,152	-9,935	-9,292	-9,317	-8,221	-10,966	-11,651	-12,537	-13,483
Exports (f.o.b.)	16,236	22,592	25,379	23,992	25,719	27,263	30,943	34,656	38,815
Of which: RMG sector	12,497	17,914	19,813	19,089	20,571	21,806	24,749	27,719	31,046
Imports (f.o.b.) 2/	-21,388	-32,527	-34,671	-33,309	-33,940	-38,229	-42,594	-47,194	-52,298
Of which: Crude oil and petroleum products	-2,556	-4,109	-6,046	-5,453	-6,170	-7,090	-6,876	-6,977	-7,550
Services	-1,720	-3,290	-3,785	-3,443	-3,802	-4,203	-4,939	-5,711	-6,534
Income	-1,484	-1,454	-1,510	-1,508	-1,616	-1,816	-2,026	-2,279	-2,566
Transfers	11,596	12,452	13,359	13,699	15,177	16,446	18,060	19,824	21,773
Official current transfers 3/	127	103	117	105	110	110	110	98	98
Private transfers	11,469	12,349	13,242	13,594	15,067	16,336	17,951	19,727	21,675
Of which: Workers' remittances	10,987	11,650	12,932	12,843	14,718	15,969	17,566	19,323	21,255
Capital and financial account balance 4/	377	1,853	439	2,229	1,723	2,650	3,285	3,773	4,023
Capital account	512	642	598	469	550	650	640	600	600
Financial account	-135	1,211	-160	1,760	1,173	2,000	2,645	3,173	3,423
Foreign direct investment	913	775	845	1,192	1,250	1,250	1,406	1,582	1,780
Portfolio investment	-117	-28	55	198	150	150	169	190	214
Medium- and long-term loans, net	782	211	528	869	1,322	2,434	2,557	3,179	3,316
Government, net	933	312	528	926	1,159	1,659	1,629	2,164	2,204
Disbursements	1,604	1,051	1,328	1,696	2,059	2,790	2,685	3,219	3,260
Amortization	-671	-739	-800	-770	-901	-1,131	-1,056	-1,055	-1,055
Other long-term loans, net	-151	-101	…	-57	163	775	928	1,014	1,111
Other capital	-1,713	253	-1,587	-499	-1,548	-1,834	-1,488	-1,777	-1,886
Short-term loans and trade credits, net 4/	-496	1,074	-99	1,055	-358	-314	-329	-445	-534
Of which: Short-term oil import credit, net	…	…	812	960	-212	-350	-350	-350	-322
Commercial banks, net	-315	-160	100	52	-230	-350	0	0	0
Other items, net	-902	-661	-1,588	-1,606	-960	-1,171	-1,159	-1,333	-1,352
Errors and omissions	-752	-593	0	-1,138	0	0	0	0	0
Overall balance	2,865	-967	-789	523	3,261	2,110	2,730	3,070	3,213
Prospective official financing	…	…	…	…	200	150	150	0	0
Financing items	-2,865	967	789	-523	-3,461	-2,260	-2,880	-3,070	-3,213
Change in gross international reserves (GIR) (+ = increase)									
Contribution from financing	2,865	-967	-789	523	3,461	2,261	2,880	3,070	3,213
Net use of IMF resources	-38	-57	-55	-55	81	196	219	-41	-5
Change in GIR excluding valuation changes	2,827	-1,024	-844	468	3,541	2,457	3,098	3,030	3,208
Valuation changes	-267	258	…	164	…	…	…	…	…
Total change in GIR (excluding Asian Clearing Union liabilities)	2,560	-766	…	632	3,541	2,456	3,098	3,030	3,208
Memorandum items:									
Current account balance (percent of GDP)	3.2	-2.0	-1.1	-0.5	1.2	-0.4	-0.4	-0.4	-0.4
Exports (annual percent change)	4.2	39.1	10.3	6.2	7.2	6.0	13.5	12.0	12.0
Imports (annual percent change)	5.4	52.1	14.3	2.4	1.9	12.6	11.4	10.8	10.8
Remittances (annual percent change)	13.4	6.0	11.0	10.2	14.6	8.5	10.0	10.0	10.0
Medium- and long-term external public debt	20,907	22,256	22,574	21,509	22,928	25,595	28,178	31,239	34,460
(Percent of GDP)	20.8	19.9	19.6	18.6	17.7	17.7	18.0	18.3	18.5
Gross official reserves 5/	10,140	9,608	9,190	10,070	13,612	16,068	19,166	22,196	25,404
(In months of imports of goods and services)	3.2	2.9	2.4	3.0	3.6	3.8	4.1	4.3	4.4
Gross official reserves (excluding Asian Clearing Union liabilities) 5/	9,536	8,770	8,353	9,403	12,944	15,400	18,499	21,528	24,736
(In months of imports of goods and services)	3.0	2.7	2.1	2.8	3.4	3.6	3.9	4.1	4.3
Net international reserves 5/	7,249	6,299	5,937	6,796	10,257	12,517	15,397	18,467	21,680

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

1/ Fiscal year begins July 1.
2/ Import numbers are based on payment settlements data up to FY10 and customs data starting in FY11, except FY12 program figures which are based on payment settlements data. Use of customs data does not change the overall balance because the difference between customs and settlements data is offset by a corresponding revision of trade credits (net), as reported in the financial account.
3/ Excludes official capital grants reported in the capital account.
4/ Data on trade credits include service fees related to exports until FY12. To adjust for this inconsistency, an amount equal to 3 percent of exports is deducted from reported trade credits and added to current account service payments. The net effect is a decrease in the current account, while the overall BOP balance remains unchanged.
5/ Net international reserves (NIR) reported at market exchange rates. Excluded from NIR are deposits held in offshore accounts of resident financial institutions, non-investment grade sovereign bonds, and foreign exchange overdrafts provided by Bangladesh Bank to domestic banks.

Table 3. Bangladesh: Central Government Operations, FY2010–16 1/

	FY10	FY11	FY12		FY13		FY14	FY15	FY16
			Prog.	Est.	Budget	Prog.	Prog.	Projections	
	(In billions of taka)								
Total revenue and grants	799	949	1,206	1,187	1,457	1,425	1,653	1,925	2,220
Total revenue	757	928	1,149	1,138	1,397	1,372	1,592	1,863	2,160
Tax revenue	625	796	963	952	1,168	1,134	1,321	1,550	1,808
National Board of Revenue (NBR) taxes	598	764	924	916	1,123	1,088	1,269	1,492	1,743
Of which: VAT and supplementary duties	339	426	505	503	604	572	655	789	940
Taxes on income and profits	162	221	282	281	353	359	437	500	574
Customs and excise duties	89	112	129	126	155	151	170	195	220
Non-NBR taxes	27	32	39	36	46	46	51	58	65
Nontax revenue	132	132	186	186	228	238	271	313	352
Foreign grants	42	21	57	49	60	53	61	63	61
Total expenditure	1,013	1,278	1,562	1,501	1,917	1,843	2,090	2,358	2,680
Current expenditure	659	773	898	884	995	1,025	1,165	1,322	1,486
Pay and allowances	161	199	210	209	229	229	271	304	342
Goods and services	86	101	113	108	130	130	187	210	248
Interest payments	148	156	203	203	233	231	257	277	285
Subsidies and transfers 2/	261	314	362	363	386	427	439	496	559
Block allocations	4	3	10	2	16	7	12	36	51
Annual Development Program (ADP)	256	335	390	363	550	493	601	737	893
Non-ADP capital spending	86	78	115	101	173	127	157	176	189
Net lending 3/	9	73	152	141	196	194	159	116	106
Other expenditures 4/	2	20	7	12	4	4	7	7	7
Overall balance (including grants)	-214	-329	-356	-314	-460	-418	-436	-433	-459
(Excluding grants)	-256	-349	-413	-363	-521	-471	-498	-496	-520
Net financing	214	329	356	314	460	418	436	433	459
External	65	28	42	73	125	109	147	149	188
Disbursements	111	81	106	134	204	181	238	237	279
Amortization	-46	-53	-64	-61	-79	-72	-91	-88	-92
Domestic	89	300	314	219	335	309	290	284	271
Banks 3/	-52	245	279	196	230	263	229	219	201
Of which: Bangladesh Bank	-77	114	158	45	…	14	…	…	…
Nonbanks	141	55	35	23	105	46	60	65	71
Cash float and discrepancy	60	1	0	22	0	0	0	0	0

Table 3. Bangladesh: Central Government Operations, FY2010–16 1/ (concluded)

	FY10	FY11	FY12		FY13		FY14	FY15	FY16
			Prog.	Est.	Budget	Prog.	Prog.	Projections	
	(In percent of GDP)								
Total revenue and grants	11.5	11.9	13.1	13.0	14.0	13.7	14.1	14.7	15.0
Total revenue	10.9	11.7	12.5	12.4	13.5	13.2	13.6	14.2	14.6
Tax revenue	9.0	10.0	10.5	10.4	11.3	10.9	11.3	11.8	12.2
NBR taxes	8.6	9.6	10.1	10.0	10.8	10.5	10.9	11.4	11.8
Of which: VAT and supplementary duties	4.9	5.4	5.5	5.5	5.8	5.5	5.6	6.0	6.4
Taxes on income and profits	2.3	2.8	3.1	3.1	3.4	3.5	3.7	3.8	3.9
Customs and excise duties	1.3	1.4	1.4	1.4	1.5	1.5	1.4	1.5	1.5
Non-NBR taxes	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Nontax revenue	1.9	1.7	2.0	2.0	2.2	2.3	2.3	2.4	2.4
Foreign grants	0.6	0.3	0.6	0.5	0.6	0.5	0.5	0.5	0.4
Total expenditure	14.6	16.0	17.0	16.4	18.5	17.8	17.9	18.0	18.1
Current expenditure	9.5	9.7	9.8	9.7	9.6	9.9	10.0	10.1	10.0
Pay and allowances	2.3	2.5	2.3	2.3	2.2	2.2	2.3	2.3	2.3
Goods and services	1.2	1.3	1.2	1.2	1.3	1.3	1.6	1.6	1.7
Interest payments	2.1	2.0	2.2	2.2	2.2	2.2	2.2	2.1	1.9
Subsidies and transfers 2/	3.8	3.9	3.9	4.0	3.7	4.1	3.8	3.8	3.8
Block allocations	0.1	0.0	0.1	0.0	0.2	0.1	0.1	0.3	0.3
ADP	3.7	4.2	4.2	4.0	5.3	4.8	5.1	5.6	6.0
Non-ADP capital spending	1.2	1.0	1.3	1.1	1.7	1.2	1.3	1.3	1.3
Net lending 3/	0.1	0.9	1.7	1.5	1.9	1.9	1.4	0.9	0.7
Other expenditures 4/	0.0	0.2	0.1	0.1	0.0	0.0	0.1	0.1	0.0
Overall balance (including grants)	-3.1	-4.1	-3.9	-3.4	-4.4	-4.0	-3.7	-3.3	-3.1
(Excluding grants)	-3.7	-4.4	-4.5	-4.0	-5.0	-4.5	-4.3	-3.8	-3.5
Primary balance (including grants)	-0.9	-2.2	-1.7	-1.2	-1.8	-1.8	-1.5	-1.2	-1.2
(Excluding grants)	-1.6	-2.4	-2.3	-1.7	-2.3	-2.3	-2.1	-1.7	-1.6
Net financing	3.1	4.1	3.9	3.4	4.4	4.0	3.7	3.3	3.1
External	0.9	0.4	0.5	0.8	1.2	1.0	1.3	1.1	1.3
Disbursements	1.6	1.0	1.2	1.5	2.0	1.7	2.0	1.8	1.9
Amortization	-0.7	-0.7	-0.7	-0.7	-0.8	-0.7	-0.8	-0.7	-0.6
Domestic	1.3	3.8	3.4	2.4	3.2	3.0	2.5	2.2	1.8
Banks 3/	-0.8	3.1	3.0	2.1	2.2	2.5	2.0	1.7	1.4
Of which: Bangladesh Bank	-1.1	1.4	1.7	0.5	...	0.1	...	...	...
Nonbanks	2.0	0.7	0.4	0.2	1.0	0.4	0.5	0.5	0.5
Cash float and discrepancy	0.9	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Subsidy costs (percent of GDP) 3/ 5/	1.3	2.2	2.9	2.9	3.6	3.6	2.6	2.1	2.0
Of which : Energy-related subsidies	0.1	1.0	1.7	1.6	2.0	2.0	1.4	0.9	0.7
Defense-related spending	1.3	1.4	...	1.3	1.2	...	...	...	...
Nominal GDP (in billions of taka)	6,943	7,967	9,192	9,148	10,378	10,378	11,695	13,130	14,802

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 state-owned enterprises (SOEs)) are included in net lending.
3/ Includes Tk 27.0 billion in FY12 and Tk 55.2 billion projected in FY13 in special bonds issued to the state-owned commercial banks 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. Bank financing excludes advances and deposits of semi-autonomous and autonomous bodies.
4/ Includes food account surplus (-)/deficit (+) and extraordinary expenditures.
5/ Comprise food and agriculture and export sector subsidies, as well as subsidy-based lending to large energy-related SOEs and payment of unsettled fertilzer subsidy commitments incurred in FY12 (equivalent to 0.5 percent of GDP).

Table 4. Bangladesh: Central Government Operations, GFSM 2001 Classification, FY2009–14 1/
(In billions of taka)

	FY09	FY10	FY11	FY12 Est.	FY13 Prog.	FY14 Prog.
1. Central government accounts						
Revenue	667	799	949	1,187	1,425	1,653
Taxes	529	625	796	952	1,134	1,321
Grants	21	42	21	49	53	61
Other revenue	117	132	132	186	238	271
Expenditure	643	671	865	1,037	1,222	1,332
Compensation of employees	139	161	199	209	229	271
Purchases of goods and services	82	86	101	108	130	187
Interest	154	148	156	203	231	257
Subsidies 2/	88	81	161	256	363	303
Grants	140	142	170	182	197	218
Other payments	40	53	79	79	72	96
Gross operating balance	24	129	84	150	203	321
Net acquisition of nonfinancial assets	250	342	412	464	621	758
Fixed assets	194	256	335	363	493	601
Nonproduced assets	56	86	78	101	127	157
Net lending (+)/net borrowing (-) 3/	-226	-214	-329	-314	-418	-436
Net financial transactions	-185	-152	-288	-225	-418	-436
Net acquisition of financial assets (+ increase)	26	19	47	67	…	…
Domestic	26	19	47	67	…	…
Deposits	26	19	47	67	…	…
Net incurrence of liabilities (+ increase)	211	170	336	292	418	436
Domestic	185	106	308	219	309	290
Debt securities and loans and advances	185	106	282	219	309	290
Other accounts payable	0	0	26	0	0	0
Foreign	26	65	28	73	109	147
Statistical discrepancy (net borrowing less net financial transaction)	-41	-62	-40	-89	0	0
2. Financial balance sheet						
Net financial worth						
Stock of financial assets	183	202	249	316	316	316
Domestic	183	202	249	316	316	316
Foreign	0	0	0	0	0	0
Stock of liabilities	2,793	2,862	3,327	3,656	4,006	4,621
Domestic	1,305	1,410	1,677	1,896	2,206	2,497
Debt securities and loans and advances	1,305	1,410	1,677	1,896	2,205	2,495
Foreign	1,488	1,452	1,650	1,760	1,800	2,124

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, June 2012–June 2014

	2012									2013				2014	
	Jun.			Sep.			Dec.			Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
	Est.	Prog. 1/	Est. 1/	Rev. Est.	Prog. 1/	Rev. Est. 1/	Est.	Prog. 1/	Est. 1/	Program 1/					
Bangladesh Bank balance sheet	(End of period; in billions of taka)														
Net foreign assets 2/	588	464	541	676	481	614	784	488	729	713	792	827	868	909	959
Net domestic assets 2/	387	550	435	321	556	383	283	573	338	350	344	324	348	334	364
Net credit to central government	352	465	352	336	484	336	317	504	317	358	367	352	370	374	393
Credit to other nonfinancial public sector	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Credit to deposit money banks	67	101	67	66	101	66	67	101	67	72	67	67	67	67	67
Other items, net 2/	-32	-18	15	-82	-30	-20	-102	-33	-47	-81	-91	-96	-90	-108	-96
Of which: Repos with commercial banks	152	102	152	87	90	87	87	87	87	56	84	43	50	49	61
Reserve money	976	1014	976	997	1,037	997	1,067	1,061	1,067	1063	1135	1151	1216	1242	1323
Currency	649	678	649	682	715	682	725	721	725	720	759	771	818	835	896
Reserves 3/	327	336	327	314	322	314	342	340	342	343	376	380	398	408	427
	(Contribution to reserve money growth)														
Net foreign assets	6.9	-7.0	1.6	15.9	-4.1	10.6	28.9	0.8	27.0	23.3	25.7	21.4	13.0	7.6	14.7
Net domestic assets	2.1	20.2	7.3	-5.4	19.1	-0.1	-13.2	14.2	-11.3	-7.4	-9.3	-5.9	1.0	9.3	1.8
Of which: Net credit to central government	5.0	17.6	5.0	-1.8	14.6	-1.8	-8.8	11.4	-8.8	39.0	1.5	1.7	4.9	1.4	2.4
Reserve money (year-on-year percentage change)	9.0	13.3	9.0	10.5	15.0	10.5	15.7	15.0	15.7	15.9	16.4	15.5	14.0	16.9	16.5
Monetary survey	(End of period; in billions of taka)														
Net foreign assets 2/	790	627	724	903	644	820	996	650	926	902	992	1,034	1,081	1,128	1,185
Bangladesh Bank	588	464	541	676	481	614	784	488	729	713	792	827	868	909	959
Commercial banks	202	163	183	227	163	206	212	163	197	189	200	207	213	220	226
Net domestic assets 2/	4,379	4,457	4,445	4,455	4,590	4,538	4,660	4,839	4,730	4,901	5,085	5,241	5,508	5,644	5,917
Domestic credit	5,132	5,145	5,132	5,250	5,287	5,250	5,454	5,556	5,454	5,682	6,019	6,175	6,422	6,628	7,006
Net credit to central government	869	980	869	869	1,029	869	910	1,079	910	1,033	1,132	1,157	1,232	1,287	1,361
Credit to other nonfinancial public sector	126	161	126	120	161	120	139	161	139	98	83	83	83	83	83
Credit to nonbank financial institutions	58	53	58	60	54	60	77	55	77	61	79	80	81	82	83
Credit to private sector	4,079	3,950	4,079	4,200	4,043	4,200	4,329	4,261	4,329	4,490	4,725	4,855	5,026	5,176	5,479
Other items, net 2/	-753	-687	-687	-794	-697	-711	-794	-717	-724	-781	-934	-934	-914	-984	-1,089
Broad money (M2)	5,169	5,084	5,169	5,358	5,233	5,358	5,656	5,489	5,656	5,803	6,077	6,275	6,589	6,772	7,102
	(Year-on-year percent change)														
Net foreign assets	13.4	-10.0	3.9	28.9	-5.8	19.9	49.8	5.9	50.9	38.6	37.0	26.1	16.7	10.2	19.4
Net domestic assets	18.1	20.2	19.9	16.3	19.3	18.0	14.0	16.9	14.3	15.3	14.4	15.5	16.4	18.1	16.4
Domestic credit	19.3	19.6	19.3	17.6	18.5	17.6	14.3	16.4	14.3	15.6	17.3	17.6	17.7	18.1	16.4
Of which: Net credit to central government	23.9	39.7	23.9	12.9	33.7	12.9	4.9	24.4	4.9	19.9	30.3	33.1	35.4	33.2	20.3
Credit to private sector	19.7	15.9	19.7	19.9	15.4	19.9	16.6	14.8	16.6	16.0	15.8	15.6	16.1	16.1	16.0
Broad money (M2)	17.4	15.5	17.4	18.3	15.5	18.3	19.0	15.5	19.0	18.4	17.6	17.1	16.5	16.7	16.9
Memorandum items:															
Required domestic cash reserves (in billions of taka)	301	289	296	311	296	306	328	311	328	329	344	355	370	381	400
Excess domestic cash reserves (in billions of taka)	25	47	31	4	26	8	14	29	14	14	32	25	28	27	27
Broad money multiplier	5.3	5.0	5.3	5.4	5.0	5.4	5.3	5.2	5.3	5.5	5.4	5.5	5.4	5.5	5.4
Broad money velocity	1.8	1.8	1.8	1.8	0.0	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.6
Exchange rate, end of period (taka/U.S. dollar)	81.8	74.2	74.2	81.6	74.2	74.2	79.8	74.2	74.2	74.2	74.2	74.2	74.2	74.2	74.2

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

1/ At constant program exchange rates (as of June 30, 2011).

2/ Estimated outturns are at market exchange rates, unless indicated otherwise. Projections are based on constant program exchange rates (as of June 30, 2011).

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

Table 6. Bangladesh: Financial Soundness Indicators of Banks, 2006–12
(In percent, end-of-period unless otherwise mentioned)

	2006	2007	2008	2009	2010	2011	2012 (Prov.)	
							Jun.	Dec.
Capital adequacy								
Regulatory capital to risk-weighted assets (adjusted) 1/	5.6	4.0	6.5	8.8	7.6	10.1	10.1	9.5
State-owned commercial banks (adjusted) 1/	-2.1	-21.6	-15.1	-7.6	-0.1	5.3	5.1	3.1
Regulatory capital to risk-weighted assets (unadjusted)	5.6	9.3	10.4	11.7	9.3	11.3	11.3	10.5
State-owned commercial banks	-2.1	7.3	7.9	9.0	8.9	11.7	11.2	8.1
Specialized development banks	-4.5	-5.0	-3.3	0.4	-7.3	-4.5	-4.3	-7.8
Private commercial banks	9.0	10.4	11.2	12.1	10.1	11.5	11.4	11.4
Foreign commercial banks	24.5	22.8	23.8	28.1	15.6	21.0	21.5	20.6
Regulatory capital to assets (adjusted) 1/	3.2	2.4	4.0	5.3	6.9	8.0	7.7	7.0
Regulatory capital to assets (unadjusted)	3.2	5.6	6.5	7.1	8.5	9.0	8.6	7.7
Nonperforming loans to regulatory capital (adjusted) 1/ 2/	280.1	411.8	193.1	109.9	69.0	48.1	58.3	87.4
Nonperforming loans to regulatory capital (unadjusted) 2/	280.1	168.5	115.5	80.2	55.1	42.2	51.6	78.5
Asset quality 2/								
Nonperforming loans to total loans	12.8	14.5	11.2	9.0	7.3	6.1	7.2	10.0
State-owned commercial banks	22.8	29.0	28.0	20.1	15.7	11.3	13.5	23.9
Specialized development banks	14.3	13.5	11.7	24.1	24.1	24.6	23.8	26.8
Private commercial banks	4.9	5.4	5.1	4.0	3.1	2.9	3.8	4.6
Foreign commercial banks	2.8	2.9	3.7	2.2	3.0	3.0	3.2	3.5
Loan provisions to total nonperforming loans	45.2	43.0	50.1	61.2	62.7	67.4	57.8	44.4
Loan provisions to total loans	5.8	6.2	5.6	5.5	4.6	4.1	4.1	4.5
Profitability								
Return on equity 3/	-64.0	19.8	25.0	19.5	21.0	16.8	13.5	8.2
State-owned commercial banks	1,262.5	-9.4	35.6	24.9	18.4	18.5	11.7	-11.9
Specialized development banks	24.7	16.6	21.0	-199.0	-3.2	-0.9	1.4	-1.1
Private commercial banks	24.8	26.7	24.3	18.9	20.9	15.7	12.4	10.2
Foreign commercial banks	21.5	20.6	18.5	18.9	17.0	16.6	19.4	17.3
Return on assets 4/	-2.1	1.1	1.6	1.4	1.8	1.5	1.2	0.6
State-owned commercial banks	-9.2	-0.3	1.2	1.0	1.1	1.3	0.7	-0.6
Specialized development banks	-0.9	-0.6	-0.6	-0.6	0.2	0.0	0.0	0.1
Private commercial banks	1.5	1.9	1.9	1.6	2.1	1.6	1.2	0.9
Foreign commercial banks	3.3	3.2	2.9	3.2	2.9	3.2	3.8	3.3
Composition of credit (in percent of total)								
Agriculture, forestry, and fishing	8.4	7.3	6.9	6.2	5.7	5.6	5.4	...
Industry (other than working capital financing)	19.9	21.4	21.3	21.6	20.7	20.9	20.6	...
Working capital financing	19.3	18.0	16.7	15.8	15.1	14.1	13.0	...
Construction	6.9	6.5	6.5	6.9	7.0	8.1	8.3	...
Transport and communication	1.4	1.9	1.7	1.5	1.5	2.0	2.1	...
Trade	34.1	34.3	35.3	36.8	38.1	37.3	38.6	...
Other	10.0	10.6	11.7	11.3	12.0	11.2	12.0	...
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	28.0	27.2	26.1
Specialized development banks	7.9	7.0	6.6	6.5	6.1	5.5	5.7	5.5
Private commercial banks	50.5	51.1	55.2	57.2	58.8	60.0	60.8	62.2
Foreign commercial banks	8.3	8.4	8.3	7.4	6.6	6.4	6.4	6.3

Sources: Bangladesh Bank; and IMF staff calculations.

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/ New loan classification and provisioning regulations became effective with the financial statement for end-December 2012.
3/ Bangladesh Bank defines return on equity (ROE) as the ratio of net income after provision and taxes to regulatory capital. June 2012 ROEs are based on annualizedhalf-yearly net income after provision and taxes.
4/ Bangladesh Bank defines return on assets (ROA) as the ratio of net income after provision and taxes to total assets. June 2012 ROAs are based on annualized half-yearly net income after provision and taxes.

Table 7. Bangladesh: External Financing Requirements and Sources, FY2010–17 1/
(In millions of U.S. dollars)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
				Projections				
Gross financing requirements	2,974	2,971	4,656	4,276	4,917	4,977	5,241	5,531
External current account deficit (+)	-3,240	2,227	569	-1,538	535	551	703	810
Amortization of medium- and long-term debt	671	739	770	901	1,131	1,056	1,055	1,055
Gross reserves accumulation (+ = increase)	2,560	-766	632	3,541	2,461	3,102	3,030	3,208
IMF repayments	38	57	197	198	81	58	41	5
Other net capital outflows	2,945	714	2,488	1,173	710	209	413	452
Available financing	2,224	2,971	4,514	3,797	4,490	4,550	5,241	5,531
Capital grants	512	642	469	550	650	640	600	600
Loan disbursements to the central government	854	1,051	1,696	2,059	2,790	2,685	3,219	3,260
Portfolio investment, net	-117	-28	198	150	150	169	190	214
Foreign direct investment, net	913	775	1,192	1,250	1,250	1,406	1,582	1,780
Short-term oil import credit, net	62	531	960	-212	-350	-350	-350	-322
Exceptional financing	750	...	142	479	427	427	0	0
IMF: ECF arrangement	...	...	142	279	277	277	0	0
Asian Development Bank	750	...	...	150	0	150	0	0
World Bank	...	...	...	0	0	0	0	0
India	...	...	...	50	150	0	0	0

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

1/ Fiscal year begins July 1.

Table 8. 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 prior to current ECF arrangement (in millions of SDRs)															
Principal	36.4	126.7	130.0	53.4	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	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF obligations based on existing and prospective credit (in millions of SDRs)															
Principal	36.4	126.7	130.0	53.4	38.6	26.9	3.4	27.4	64.0	100.6	128.0	128.0	100.6	64.0	27.4
Charges and interest	1.8	1.5	0.5	0.1	0.7	1.6	1.6	1.6	1.5	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	53.5	39.3	28.6	5.0	29.0	65.5	101.9	129.1	128.8	101.0	64.2	27.5
In millions of U.S. dollars	59.6	199.4	199.0	81.1	59.5	43.3	7.5	44.0	99.3	154.5	195.7	195.2	153.1	97.3	41.7
In percent of gross international reserves	0.6	2.0	1.5	0.5	0.3	0.2	0.0	0.2	0.3	0.4	0.5	0.5	0.3	0.2	0.1
In percent of exports of goods and services and remittances	0.2	0.5	0.5	0.2	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0
In percent of debt service 3/	6.2	15.7	15.2	5.5	4.1	2.9	0.5	2.4	4.3	5.8	6.4	5.7	4.1	2.5	1.0
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	0.0	0.0	0.0
In percent of quota	7.2	24.0	24.5	10.0	7.4	5.4	0.9	5.4	12.3	19.1	24.2	24.2	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	448.0	320.0	192.0	91.4	27.4	0.0
In millions of U.S. dollars	590.4	534.9	604.6	797.0	1,015.6	974.8	969.7	928.1	831.1	678.8	484.8	290.9	138.5	41.6	0.0
In percent of gross international reserves	6.1	5.3	4.4	5.0	5.3	4.4	3.8	3.3	2.7	2.0	1.3	0.7	0.3	0.1	0.0
In percent of exports of goods and services and remittances	1.6	1.4	1.4	1.7	2.0	1.7	1.5	1.3	1.1	0.8	0.5	0.3	0.1	0.0	0.0
In percent of debt service 3/	61.4	42.0	46.2	54.0	70.6	64.9	62.3	50.3	35.7	25.5	15.8	8.5	3.7	1.1	0.0
In percent of GDP	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0
In percent of quota	71.1	64.5	74.4	98.6	125.7	120.6	120.0	114.9	102.9	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	53.5	39.3	28.6	5.0	29.0	65.5	101.9	129.1	128.8	101.0	64.2	27.5
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	111.9	115.6	129.7	144.8	157.0	170.5	185.8	202.4	221.2	240.3	261.8	284.4	308.4	333.6	359.7
Exports of goods and services and remittances (in billions of U.S. dollars)	36.8	39.5	43.3	46.5	51.9	57.5	63.8	70.4	77.6	85.4	93.9	103.2	113.4	124.7	137.1
Gross international reserves (in billions of U.S. dollars)	9.6	10.1	13.6	16.1	19.2	22.2	25.4	28.5	31.2	34.7	38.1	41.9	46.4	51.3	56.9
Debt service (in billions of U.S. dollars) 3/	1.0	1.3	1.3	1.5	1.4	1.5	1.6	1.8	2.3	2.7	3.1	3.4	3.7	3.9	4.1
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 ECF arrangement with an access level of 120 percent of quota.
3/ Total public debt service, including IMF repayments.

Table 9. 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
May 1, 2013	17.1	91,423,000	Board completion of second review based on observance of performance criteria for end-December 2012
November 1, 2013	17.1	91,423,000	Board completion of third review based on observance of performance criteria for end-June 2013
May 1, 2014	17.1	91,423,000	Board completion of fourth review based on observance of performance criteria for end-December 2013
November 1, 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.

Appendix I. Bangladesh—Letter of Intent

13 May, 2013

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

Dear Ms. Lagarde:

Our economy continues to show favorable developments despite a challenging global environment. Exports are picking up, remittances remain strong and inflation pressures have eased over the past year, supported by our prudent fiscal and monetary policies and complemented by the support of the IMF's Extended Credit Facility (ECF). International reserves, by the program's definition, stood at US$14.5 billion as of end-April 2013, almost double the lows in late 2011. Prudent policies have further strengthened our capacity to respond to shocks, and will provide an anchor to preserve macroeconomic stability as we approach national elections, due by January 2014.

Under our ECF-supported program, we met all the quantitative performance criteria (PC) as of end-December 2012, and most of the indicative targets at end-December 2012 and end-March 2013. We also met our key structural benchmarks. In this regard, I would like to inform you that the new VAT law, which was passed by the National Parliament in November 2012, is now firmly in the implementation phase, following my approval of an implementation plan and timetable. Draft amendments to the Bank Companies Act were also submitted to the National Parliament, aiming to strengthen banking system governance and the supervisory mandate of the central bank. We also confirm completion of all the prior actions under the second review of the ECF arrangement. These and other details of our policy program are set out in the attached Memorandum of Economic and Financial Policies (MEFP), which extends our commitments to end-June 2014.

To further buttress international reserves while preserving our monetary targets, we are requesting an increase in the end-June 2013 PC on net international reserves of Bangladesh Bank (BB), and an attendant reduction of the PC on BB's net domestic assets. We would also like to request a modest increase in the government's bank borrowing PC ceilings for June 2013, to account for slightly weaker-than-expected non-bank financing, with the overall fiscal deficit on track to meet the programmed target. Finally, we are requesting an increase in our nonconcessional debt ceiling to accommodate loan guarantees for critical power infrastructure for the period to June 2014. As the MEFP indicates, we are putting in place measures to strengthen our debt management practices, so as to ensure compliance with program targets.

We believe that our commitments, as outlined in the MEFP, are adequate to achieve program objectives, but we may consider further measures, as appropriate, for this purpose. In this context, the Government of the People's Republic of Bangladesh is requesting completion of the second review under the ECF arrangement and access to the third disbursement in the amount of SDR 91.423 million.

To ensure strong performance under the ECF arrangement, we will continue to 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. We will also 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

Attachment 1. Bangladesh—Memorandum of Economic and Financial Policies

May 13, 2013

This memorandum updates the Memorandum of Economic and Financial Policies (MEFP) dated February 10, 2013 under the Government of Bangladesh's three-year Extended Credit Facility (ECF) arrangement, extending quantitative targets, structural benchmarks, and other reform commitments to end-June 2014.

I. RECENT DEVELOPMENTS

1. **Economic developments have been broadly in line with our program.** Despite global uncertainties, exports are picking up, remittances remain strong, reserves continue to rise, and inflation pressures have eased over the past year, supported by our restrained fiscal and monetary policies. However, there are signs that political tensions and episodes of violence in recent months may be affecting economic activity. The tragic building collapse in April 2013 in Savar may additionally impact the garment sector. To safeguard the macroeconomic stabilization gains achieved so far, our policies will remain prudent.

II. FISCAL POLICY AND DEBT MANAGEMENT

2. **Fiscal performance in FY13.** We are on track to meet our FY13 fiscal target of an overall budget deficit (excluding grants) of 4.5 percent of GDP. Tax revenue has fallen short of program indicative targets (ITs), as supplementary duties and other taxes on imports have been lower than expected reflecting slower import growth. However, expenditure has been kept under control, in part through containment of fuel and electricity subsidies following administered fuel price increases. As a result, we have met our performance criterion (PC) on net credit to the central government (NCCG) by the banking system at end-December 2012—the second test date of the ECF arrangement. In the immediate term, we are seeking to buttress revenue collections through more aggressive tax enforcement, focusing on recovering arrears at state owned enterprises (SOEs), curbing leakages from bonded warehouses, and a comprehensive rollout of the Alternative Dispute Resolution mechanism at the customs level. We are also following through with implementation of the revenue measures announced in the FY13 budget.

3. **FY14 fiscal targets.** We are committed to adhering to a programmed budget deficit (excluding grants) target of 4.3 percent of GDP in FY14, anchored by restricting the change in NCCG to Tk 229 billion. While slowing economic activity could make tax revenue targets more challenging, we intend to strengthen revenue collections in FY14 by further removing exemptions and phasing out truncated bases for the value added tax (VAT), and strengthening auditing and compliance. On expenditures, following a series of retail price adjustments over the past 18 months, we will emphasize cost containment measures for fuel and electricity

subsidies. Within the programmed spending envelope, we intend to further boost social-related spending (an IT) and significantly increase capital spending in the Annual Development Program (ADP), including for a continuation of the Padma Bridge project, in order to meet our key social and developmental goals.

4. Tax and revenue administration reforms. We remain committed to further progress in modernizing our tax codes, broadening the tax base, and putting in place a sound tax administration framework. To this end, we are making progress towards automating issuance of taxpayer identification numbers (a June 2013 benchmark) and will address any regulatory hurdles to establish a link with the national identification database. We will also advance our VAT implementation plan, which was approved by the Minister of Finance in March 2013. In this regard, we will take steps towards finalizing a contract for a tax automation system by December 2013 (a new benchmark).

5. Public financial management (PFM) reforms. We issued guidelines on budget monitoring and reporting under the Public Moneys and Budget Management Act (a June 2013 benchmark). To strengthen cash and expenditure controls, we will place limits by December 2013 on government borrowing from Bangladesh Bank (BB) through the overdraft facility, and institutionalize cash flow forecasting, establishing a system of quarterly fund releases and developing monthly cash plans consistent with those releases by March 2014. We will also ensure that subsidy costs incurred by Bangladesh's Petroleum Corporation (BPC), Power Development Board (BPDB), and Chemical Industries Corporation (BCIC) are fully funded by timely transfers from the central government to prevent recurrence of the December 2012 breach of the IT on state-owned commercial bank (SOCB) loans to these SOEs.

6. Subsidy costs and state enterprise reforms. On energy subsidies, we commit to settle BPC's past-due subsidy-related loans held by the SOCBs through the issuance of special bonds by June 2013. As indicated in the previous paragraph, we remain intent on making timely budgetary transfers to BPC to cover subsidy costs, fully reflecting these in the FY14 Budget. This commitment has been formalized in a plan setting out the schedule of disbursements from the government to BPC through June 2013, and issuing instructions by the Ministry of Finance that BPC meet its foreign exchange needs through June 2013 by direct purchases from BB or the local market to reduce its dependency on short-term expensive borrowing (a prior action). Consistent with this and our overall objective of bringing subsidy costs on-budget, BPC's net short-term external borrowing will continue to be limited in 2013 (an IT). We also remain committed to capping the gap between international and domestic fuel prices to Tk 10 per liter on average to keep fuel subsidy costs in check, further adjusting prices if necessary. Further savings are expected to be identified after completion of efficiency audits of the fuel, electricity, and fertilizer-related SOEs (a June 2013 benchmark). New management has been put in place at Biman Bangladesh Airlines. Completion of a five-year strategic plan for Biman, expected by June 2013, will remain a pre-condition for any future government guarantees tied to aircraft purchases.

7. External public debt management. We will focus our external borrowing, including the contracting and guaranteeing of nonconcessional external debt, on high impact projects to meet our critical development needs. In this regard, we will take steps to strengthen our debt management practices ahead of any sovereign bond issuance. We will also formally request, by April 2013, a Debt Management and Performance Assessment (DEMPA) from the World Bank, the results of which will guide our medium-term debt strategy, to be finalized by December 2013. We will establish a technical committee on nonconcessional external borrowing chaired by an Additional Secretary/a Joint Secretary in the Ministry of Finance (a prior action). This committee will meet monthly, beginning immediately after its formation, to monitor and report on nonconcessional borrowing to ensure compliance with the limits set in the ECF program. In addition, the committee will draft revised terms of reference (TOR) for the Cabinet's Hard-Term Loan Committee (HTLC). The notification for the revised TOR will be issued by June 2013 (a new benchmark). The revised TOR will: (i) ensure that the HTLC oversees all nonconcessional borrowing contracts, covering loans, guarantees, and trade credits (excluding normal import financing) by the public sector and for all purposes; and (ii) determine nonconcessionality based on the grant element of the credit, in line with international best practices.

8. National Savings Certificates (NSC). A government committee has provided recommendations on reforming the NSC scheme, which were finalized in March 2013, in order to incentivize these retail saving instruments as a source of non-bank government financing. Consistent with the recommendations, we plan to bring taxation of interest on NSCs in line with other government debt instruments by June 2013. For other recommendations we will also work out a time-bound implementation plan.

III. MONETARY POLICY AND CENTRAL BANK OPERATIONS

9. Monetary and exchange rate policy. We will maintain a prudent monetary stance to safeguard macroeconomic stability and keep inflation in check, while allowing adequate space for private credit growth. We exceeded our end-December 2012 net international reserves (NIR) target (a PC) by over US$3 billion (program definition). Bangladesh Bank will continue to accumulate reserves when market conditions are appropriate, and will step up sterilization of foreign exchange intervention to protect program targets. To further deepen the foreign exchange and government debt markets, in April 2013 we have: (i) raised limits on banks' net open positions; (ii) introduced a two-year Treasury bond to better match investor demand; and (iii) removed the one-year holding period for nonresident holdings of Treasury securities. We also remain committed to gradually reducing the devolvement of Treasury securities in order to restore the integrity of the primary dealer system.

10. External audit of BB. We are undertaking steps towards completion of a full external audit of BB by a global audit firm (a December 2013 benchmark). Selection of a global audit firm for these purposes is a prior action for this review.

IV. FINANCIAL SECTOR REFORMS

11. Bank Companies Act (BCA) amendments. As a centerpiece of our efforts to strengthen the banking system, amendments to the BCA were submitted to Parliament in March 2013. They aim to strengthen the supervisory mandate of BB, limit special treatments for SOCBs, and strengthen commercial banks' governance and accountability. We are also taking steps to revise, through an order to be issued by BB, stock market exposure limits for banks consistent with the BCA amendments. This was a March 2013 benchmark, but given the delay in the passage of the BCA amendments, it has now been rescheduled to June 2013.

12. Strengthening SOCBs. Given the deteriorating financial conditions of the SOCBs, our focus will be on measures to strengthen the SOCBs' performance and financial position and increase their operational independence in order to safeguard the banking system and minimize fiscal risks. To this end, we will:

- Revise the MOUs with the four largest SOCBs by May 2013 to set targets for net loan growth based on BB's assessment of the financial position of each bank and consistent with program ceilings.

- Complete special diagnostic examinations of the SOCBs (a June 2013 benchmark), focused on asset quality, liquidity management, and internal audit and control. Their findings will inform further revisions in the MOUs by September 2013 (a new benchmark). These examinations will also inform BB-approved and time-bound restructuring plans to strengthen the financial positions of these banks, to be adopted by the boards of the SOCBs.

- Include, in the FY14 Budget, a provision for recapitalization of the SOCBs as a step to cover their capital shortfalls. The provision of recapitalization funds by the government will be conditional on the formalization of MOUs between the SOCBs and BB reflecting the results of the diagnostics examinations.

13. Bank resolution framework. BB is making progress towards adoption of a bank resolution framework (a September 2013 benchmark), having already put in place a number of elements needed for such a framework. Building on this, and to finalize the framework, we are preparing (i) a contingency plan which will detail key steps and responses needed in such situations; and (ii) a lender of last resort policy.

14. Securities market. The Demutualization Act was passed by Parliament in April 2013. Consistent with this act, we will continue to work towards the approval by the Bangladesh Securities and Exchange Commission of demutualization models and plans for both Dhaka and Chittagong stock exchanges (a June 2013 benchmark).

V. LABOR, TRADE AND INVESTMENT CLIMATE REFORMS

15. Labor conditions. Following the Savar tragedy, we are working, in consultation with our international business and development partners, to address safety issues in readymade garment factories across the country. We have set up a Cabinet committee to scrutinize safety measures in the sector, and are also revising the building code to prevent recurrence of such regrettable loss of life.

16. Foreign Exchange Regulations Act (FERA) and regulations. We are continuing work on reviewing the FERA (September 2013 benchmark). As part of this work, BB is preparing draft amendments to the FERA, guided by views of all stakeholders, and we will prepare a strategy paper laying out the roadmap towards exchange control liberalization, assisted by development partners, with a view to facilitate FDI and portfolio investment.

VI. PROGRAM MONITORING

17. Progress under our program will continue to be monitored through PCs and ITs, structural benchmarks, and other necessary measures, with semi-annual program reviews. Quantitative PCs and ITs for June, September, and December 2013 and for March and June 2014 are set out in Table 1 and structural benchmarks are set out in Table 2. They are guided by the attached Technical Memorandum of Understanding, as amended. The third and fourth reviews are expected to take place on or after November 1, 2013 and May 1, 2014.

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

	6/30/12				9/30/12				12/31/12				3/31/13		6/30/13	9/30/13	12/31/13	3/31/14	6/30/14
	Prog. PC	PC with adjustors	Est.		IT	IT with adjustors	Est.		Prog. PC	PC with adjustors	Est.		IT	Prel. Est.	Prog. PC	IT	Prog. PC	IT	IT
Performance criteria applicable on a periodic basis 2/																			
Net international reserves (NIR) of Bangladesh Bank (BB) (floor, end of period (eop) stock, in millions of U.S. dollars) 3/	5,937	6,097	6,984	Met	6,165	6,193	7,968	Met	6,256	6,356	9,435	Met	9,304	10,887	10,400	10,877	11,428	11,974	12,646
Net domestic assets (NDA) of BB (ceiling, eop stock, in billions of taka) 3/	550	538	435	Met	556	554	383	Met	573	566	338	Met	350	243	344	324	348	334	364
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/ 4/	252	240	139	Met	49	47	1	Met	99	92	41	Met	138	...	208	25	100	155	229
	4/1/2012 – 6/30/12				7/1/2012 – 9/30/2012				10/1/2012 – 2/19/13				2/20/2013 – 3/31/13		4/1/2013 – 6/30/13	7/1/2013 – 9/30/13	10/1/2013 – 12/31/13	1/1/2014 – 3/31/14	4/1/14 onwards
	Prog. PC		Rev. Est.		Prog. PC		Rev. Est.		Prog. PC		Rev. Est.		Prog. PC	Prel. Est.	Prog. PC	Prog. PC	Prog. PC	Prog. PC	Prog. PC
Performance criteria applicable on a continuous basis																			
New nonconcessional external debt maturing in more than one year, contracted by the public sector and/or guaranteed by the central government or BB (ceiling, stock since December 31, 2011, in millions of U.S. dollars) 5/ 6/	500		0	Met	1,000		180	Met	1,000		2,436	Not Met	3,000	2,436	3,250	4,000	4,250	4,500	4,500
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, stock since December 31, 2011, in millions of U.S. dollars) 5/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
Accumulation of new external payment arrears by the public sector (ceiling, stock since December 31, 2011, in millions of U.S. dollars) 5/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0
	6/30/12				9/30/12				12/31/12				3/31/13		6/30/13	9/30/13	12/31/13	3/31/14	6/30/14
	IT		Est.		IT		Rev. Est.		IT		Est.		IT	Prel. Est.	IT	IT	IT	IT	IT
Indicative targets																			
Reserve money (ceiling, eop stock, in billions of taka)	1,014		976	Met	1,037		997	Met	1,061		1,067	Not Met	1,063	1,079	1,135	1,151	1,216	1,242	1,323
Tax revenue of central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka) 7/	924		916	Not met	232		228	Not met	489		456	Not Met	757	...	1,088	240	495	813	1,269
Social-related spending by central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka)	400		421	Met	81		73	Not met	161		174	Met	276	...	455	78	177	317	519
Net suppliers' credit and other short-term financing for oil imports (ceiling, cumulative change from end-FY11, in millions of U.S. dollars), program level	1,000		1,160	Not met	1,125		1,090	Met	1,250		985	Met	1,250	...	1,125	1,125	1,125	975	775
State-owned banks funded loans to Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB), and Bangladesh Chemical Industries Corporation (BCIC) (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka) 8/	0		-10	Met	0		-2	Met	0		11	Not Met	0	6	0	0	0	0	0
Net loans extended by four largest state-owned commercial banks (ceiling, eop stock, in billions of taka) 9/	...	...	...		...	...	...		...	...	...		702	...	731	748	766	785	804
Memorandum items:																			
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		0	0	27		50	50	150		100	200	200	50	100	150	150
Budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 (July 2011-June 2012) (cumulative change from the beginning of the fiscal year, in billions of taka), program level	...	...	...		...	...	12		...	...	...		55	...	55	0	0	0	0

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 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. From March 2013, the ceiling on NCCG by the banking system will be adjusted downward by the amount of budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 short of the programmed level.
4/ The ceiling on NCCG by the banking system excludes special bonds, Tk 27.0 billion issued in FY12 (July 2011-June 2012) and Tk 55.2 billion programmed in FY13 (July 2012-June 2013), by the central government to the state-owned commercial banks for the securitization of loans made by these banks to BPC prior to FY12 to cover shortfalls in government budgetary transfers for fuel-related subsidy costs incurred by BPC.
5/ These performance criteria are applicable on a continuous basis, i.e.the targets are monitored continuously during each period.
6/ Outturns have been revised downward following verification. As a result of new borrowing in January 2013, total new nonconcessional external debt maturing in more than one year, contracted by the public sector and/or guaranteed by the central government or BB since the start of the ECF arrangement was US$2,436 million as of the completion of the first review on February 20, 2013, against the ceiling of US$1,000 million. A waiver for the nonobervance of this continuous PC was granted by the IMF Executive Board on February 20, 2013.
7/ Collections by the National Board of Revenue only.
8/ Outstanding funded loans of Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, and BASIC Bank to BPC, BPDB, and BCIC.
9/ Comprising Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank.

Table 2. Bangladesh: Structural Benchmarks (Existing and Proposed) Under the ECF Arrangement

Actions	Date	Macroeconomic Criticality	Status
Prior Actions:			
Establish a technical committee to monitor external nonconcessional borrowing		To strengthen external public debt management	Completed.
Selection of a global audit firm for full external audit of Bangladesh Bank (BB) for the financial year 2012–13.		To strengthen internal operations and controls of Bangladesh Bank	Completed.
Adopt a plan setting out the schedule of subsidy cost disbursements to Bangladesh Petroleum Corporation (BPC) through June 2013 and issuing instructions for BPC to procure the associated foreign exchange from BB.		To bring subsidy costs on-budget and reduce BPC's dependency on expensive short-term external credit	Completed.
Structural Benchmarks:			
Approval by the Minister of Finance of a value added tax (VAT) implementation plan and timetable and a new organizational structure of the National Board of Revenue (NBR).	March 2013	To increase tax revenue	Met. Approval by the Minister of Finance was granted on March 27, 2013.
Submit amendments to the Banking Companies Act (BCA) to the National Parliament, giving BB the sole legal supervisory and regulatory authority over commercial banks and expanding fit and proper criteria for all commercial banks to all major shareholders, board members, and executive officers.	March 2013	To strengthen risk management and improve bank governance	Met. Submitted to Parliament Secretariat on March 31, 2013.
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.	June 2013	To strengthen banks' financial position	Not met as scheduled for March 2013. Rescheduled to June 2013 because the order legally requires passage of amendments to BCA by Parliament.
Automate taxpayer identification number issuance, including links to the national identification number system.	June 2013	To increase tax revenue	

Table 2. Bangladesh: Structural Benchmarks (Existing and Proposed) Under the ECF Arrangement (concluded)

Actions	Date	Macroeconomic Criticality	Status
Structural Benchmarks (continued):			
Approval by the Bangladesh Securities and Exchange Commission of a demutualization model and plan for the Dhaka and Chittagong stock exchanges.	June 2013	To strengthen the financial sector	
Issue guidelines and procedures on budget monitoring and reporting in accordance with the Public Money and Budget Management Act.	June 2013	To strengthen budget monitoring and controls	Met. Guidelines issued in March 2013.
Complete efficiency audits by the Office of the Auditor General of the Bangladesh Petroleum Corporation, Bangladesh Power Development Board and Bangladesh Chemical Industries Corporation.	June 2013	To minimize fiscal transfers and risks	
Complete special diagnostic examinations by BB at the four largest state-owned commercial banks focused on asset quality, liquidity management, and internal audit and controls.	June 2013	To strengthen financial sector soundness	
Issue notification for revised terms of reference for the Cabinet's Hard Term Loan Committee	June 2013	To strengthen external public debt management	New benchmark under the second review of the program.
Finalize a bank resolution framework, comprising a contingency plan and lender of last resort policy at BB.	September 2013	To reduce systemic risks	
Complete a review of the Foreign Exchange Regulation Act.	September 2013	To strengthen the trade and investment climate	
Revise the memoranda of understanding with the four largest state-owned commercial banks to address key shortcomings identified by the special diagnostic examinations.	September 2013	To strengthen the banking system	New benchmark under the second review of the program.
Engage and complete a full external audit for the financial year of 2012-13 of BB by a global audit firm.	December 2013	To strengthen internal operations and controls	
Selection of a vendor for a tax automation system for VAT	December 2013	To strengthen tax revenue administration	New benchmark under the second review of the program.

Attachment 2. Bangladesh—Technical Memorandum of Understanding

May 13, 2013

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 ECF arrangement, the program exchange rate is Bangladesh taka (Tk) 74.23 per U.S. dollar, as agreed at the time of approval of the ECF arrangement in April 2012. 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. Quantitative performance criteria for end-June 2013 and end-December 2013 and quarterly indicative targets from end-June 2013 through end-June 2014 are set out in Table 1 of the Memorandum of Economic and Financial Policies. The continuous performance criteria for each specific period are also set out in this table, and will be monitored continuously during these periods.

5. Performance criteria under the ECF 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 the state-owned commercial banks (SOCBs) 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.

- A ceiling (aggregate) on net loans and advances of the four largest SOCBs (Agrani, Janata, Rupali, and Sonali).

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 (this adjustor will be removed from March 2013); (iii) suppliers' credit and other short-term financing for oil imports; and (iv) budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 (this adjustor will be introduced from March 2013).

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 which have received investment grade rating by at least two of the following three rating agencies: Moody's, (a rating of at least Baa), Standard & Poors (a rating of at least BBB-) and Fitch (a rating of at least BBB-), or held with an investment-grade institution;

- The reserve position of Bangladesh in the IMF;
- Holding of SDRs; and
- Monetary gold.

Excluded from the definition of GIR are:

- Foreign currency 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) and with Sonali Bank (U.K.) in relation to guarantees provided to Biman Bangladesh Airlines;
- 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 residents and 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) ; foreign currency deposits held by the central government and state-owned enterprises 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) and with Sonali Bank (U.K.) in relation to guarantees provided to Biman Bangladesh Airlines); 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

- Other foreign liabilities that are not included in international reserve liabilities 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. From March 2013, the adjustor on NCCG on the amount of net lending by the central government to the BPC and BPDB short of the programmed level will be removed. In addition, from March 2013, the ceiling on NCCG by the banking system will be adjusted downward by the amount of budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 short of the programmed level. The ceiling on NCCG by the banking system excludes special bonds issued by the central government to the 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. For program monitoring purposes, from March 2013, NCCG by the banking system will be defined to exclude deposits of and credit to autonomous and semi-autonomous bodies of the government (Table 2 of the TMU).

E. Funded Loans by State-Owned Commercial 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 4. 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
Bangladesh Bank bills and auction reports	BB	Weekly, within one week of the end of each week
Balance sheet of BB (form 10 G)	BB	Monthly, within six weeks of the end of each month
Balance sheet (aggregate) of commercial banks (form 20 G)	BB	Monthly, within six weeks of the end of each month
Monetary survey (form 30 G)	BB	Monthly, within six weeks of the end of each month
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

Table 1. Bangladesh: Data Reporting Requirements (continued)		
Item	**Reporting agency**	**Periodicity**
II. Fiscal data	**Ministry of Finance(MOF)**	
Fiscal outturn, including financing of the overall fiscal balance	MOF (Finance Division (FD))/ Controller General of Accounts (CGA)	Monthly, within six weeks of the end of each month
Revenue, by type of tax and nontax revenues (with main subheadings)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Privatization receipts	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
National Bureau of Revenue collections (by type of tax and subheadings)	NBR	Monthly, within six weeks of the end of each month
Recurrent expenditure, including spending on pay and allowances, goods and services, interest payments (domestic and foreign), subsidies, transfers, and block allocations (with main subheadings)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Breakdown of subsidies by main categories (agriculture, fertilizer, food, exports, and others)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Outstanding payments due to settle commitments arising from fertilizer subsidies	MOF(FD)/CGA)	Monthly, within six weeks of the end of each month
Fertilizer subsidy commitments in FY13, both actual and projections, by regularly monitoring the trade gap between import costs and sales revenue as per the monitoring framework.	MOF (FD)	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

Table 1. Bangladesh: Data Reporting Requirements (continued)		
Item	**Reporting agency**	**Periodicity**
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)**	
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
Total amount disbursed for each loan and guarantee included under the ceiling on nonconcessional external debt	MOF (FD)	Quarterly, within six weeks of the end of each quarter
Stock of outstanding external debt (short-term and medium- and long-term obligations) of the 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
Bank-by-bank data for the DMBs on credit to the private sector, as reported to BB for the purpose of compiling the monetary survey	BB	Monthly, within six weeks of the end of each month
Bank-by-bank data for the DMBs on deposit and advance position	BB	Weekly data reported on a monthly basis, within two weeks of the end of each month
Compliance of state-owned commercial banks (SOCBs) with memoranda of understanding	BB (DOS)	Quarterly, within six weeks of the end of the quarter
Net loans and advances and components for each of the four largest SOCBs (Agrani, Janata, Rupali, and Sonali).	BB	Quarterly, within six weeks of the end of each quarter
External borrowing in foreign currency by each SOCB from nonresident institutions	BB	Within a week from the date of approval by BB
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)	Quarterly, 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

Table 1. Bangladesh: Data Reporting Requirements (concluded)

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

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 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 millions of taka, unless otherwise indicated)	
Oil import costs	
Costs of operating BPC	
Repayments of SOCB loans	
Repayments to Islamic Development Bank (IsDB) (in millions of U.S. dollar)	
Repayment of deferred payments (other suppliers' credit) (in millions of U.S. dollar)	
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 millions of U.S. dollar)	
Gross disbursements of deferred payments (other suppliers' credit) (in millions of U.S. dollar)	
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 and Children Affairs	0005
3	Vulnerable Group Feeding (VGF)	Ministry of Women and Children Affairs	0007
4	Test Relief (TR) Food	Food Division	0001
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 and Relief Division	5010

Table 4. Bangladesh: Safety Net Programs (continued)

	Programs	Name of Ministry	Code
(C.1) Micro-Credit Programs: Social Empowerment			
1	Micro-credit for Women Self-employment	Ministry of Women and 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 and 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 and 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 and 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 and Mass Education	6020
2	School Feeding Program	Ministry of Primary and Mass Education	5150
3	Stipend for Dropout Students	Ministry of Primary and Mass Education	5960
4	Char Livelihood	Rural Development and 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

Table 4. Bangladesh: Safety Net Programs (continued)

	Programs	Name of Ministry	Code
7	Maternal Health Voucher Scheme	Ministry of Health and Family Welfare	8540
8	National Nutrition Program	Ministry of Health and Family Welfare	8320
9	Protection of Children at Risk	Ministry of Social Welfare	7011
10	Economic Empowerment of the Poor	Rural Development and Cooperatives Division	8162
11	Fundamental Education for Urban Working Children	Ministry of Primary and Mass Education	5964
12	Employment for Ultra-Poor in Northern Region	Rural Development and Cooperatives Division	7000
13	Participatory Rural Development (2nd Phase)	Rural Development and Cooperatives 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 and Children Affairs	5011
18	Vulnerable Group Development for Ultra Poor (Women)	Ministry of Women and 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 and Animal Division	5300
24	Projects Undertaken for Fisheries Development	Ministry of Fishery and Animal Division	7050
25	Jatka (Fish)Protection and Alternative Employment for Fishermen	Ministry of Fishery and Animal Division	5390
26	Micro-Nutrient Supplementation	Ministry of Health and Family Welfare	8340
27	Post Literacy Education Project for Human Resource Development	Ministry of Primary and 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 and Family Welfare	5450
30	Sisimpur Outreach Project	Ministry of Women and Children Affairs	7021
31	National Sanitation Project	Local Government Division	5140
32	Pulse and Oil Seed Project	Ministry of Agriculture	7450

Table 4. Bangladesh: Safety Net Programs (concluded)

	Programs	Name of Ministry	Code
33	Community Based Adaptation to Climate Change through Coastal Aforestation in Bangladesh	Ministry of Environment and 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 and Animal Division	6463
2	Poverty Eradication through Social Aforestation.	Ministry of Environment and 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 sometime 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.

INTERNATIONAL MONETARY FUND

BANGLADESH

May 14, 2013

SECOND REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS UPDATE

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This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from January 30, 2013, reflecting the most recent macroeconomic developments and borrowing needs.[1] *In line with interim guidance, remittances have been added to three debt burden indicators and thresholds have been adjusted accordingly. As a result, these debt indicators are not directly comparable with those from previous DSAs. The results indicate that Bangladesh remains at a low risk of debt distress.*[2]

1. Main changes in assumptions. Since the previous DSA update, conducted in the context of the first review under the Three-Year Arrangement under the Extended Credit Facility, key updates are:[3]

- **Growth.** Real GDP growth for the FY13–18 period has been marked down to an annual average of 6.3 percent (compared to 6.8 percent in the previous DSA) given the weaker domestic and global environment. Revisions to long-term assumptions are minor. All growth projections assume that the authorities are pursuing policies that maintain macroeconomic stability, promote broad-ranging structural reforms, and strengthen the trade and investment climate.

- **Primary fiscal deficit.** Over the medium term (FY13–18), the primary fiscal deficit is lower than in the previous DSA by 0.2 percent of GDP a year on average, reflecting a revised capital spending profile under the Annual Development Program.

[1] In line with the 2010 Staff Guidance Note, a full joint LIC DSAs is expected to be prepared once every three years for PRGT-eligible IDA-only countries. In between, short annual updates are expected to be produced unless macroeconomic conditions since the last full DSA have significantly changed. See *Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries* (www.imf.org) and IDA/SECM2010-0029.

[2] The DSA presented in this document is based on the standard low-income countries (LIC) DSA framework. See *Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework, Policy Implications* (www.imf.org) and IDA/SECM2004/0629. Under the Country Policy and Institutional Assessment (CPIA), Bangladesh is rated as a medium performer, with an average rating of 3.43 during 2009–11, and the DSA uses the indicative threshold for countries in this category.

[3] IMF Country Report No. 13/61 (March 2013).

- **External borrowing.** While the time profile of external borrowing is slightly revised, total amounts remain essentially unchanged.[4]

- **Domestic borrowing.** The definition of domestic borrowing has been extended to include domestic bank borrowing by SOEs, which corresponded to 1.4 percent of GDP at end-FY12. This stock is assumed to remain constant at 1.4 percent of GDP over the medium and long term.

BASELINE SCENARIO

2. External debt. The present value (PV) of external debt-to-GDP is expected to fall over the long run to 14 percent by FY33. While all external debt indicators remain well below the policy-dependent debt burden thresholds under the baseline scenario, the debt service-to-revenue ratio would exceed the 20 percent threshold in FY14 in the case of a one-time 30 percent nominal depreciation relative to the baseline in FY14. However, the breach is temporary and caused by maturing short-term oil-related suppliers' credits, most of which are expected to be rolled over and refinanced by new short-term credits.

3. Public sector debt. The PV of public sector debt-to-GDP ratio is projected to remain broadly constant over the next five years and then fall gradually to 30 percent of GDP by FY33. In addition to the risks tested in the scenario analysis, contingent fiscal liabilities arising from potential recapitalization costs for state-owned commercial banks (SOCBs) could materialize, leading to an increase in debt ratios.[5]

ALTERNATIVE SCENARIO

4. Alternative assumptions and outcome. The alternative scenario (Figure 3 and Table 6) assumes that (i) a sovereign bond, which the authorities have been considering for some time, is issued in FY14 for a total amount of US$1 billion with a 10-year maturity and (ii) Bangladesh proceeds with new nonconcessional borrowing of US$6 billion to construct two 1,000 megawatt nuclear reactors during FY17–21, with the range of current cost estimates cited in Bangladesh at US$4–8 billion (although these figures need to be verified by feasibility studies).[6] Within that range, the risk of external debt distress remains low.

[4] Under the ECF arrangement, the performance criterion (ceiling) on new nonconcessional external debt is assumed to rise over time to accommodate the new borrowing.

[5] The baseline scenario already reflects recapitalization costs of Tk 55 billion in FY13 to cover Bangladesh Petroleum Corporation-related losses for SOCBs, as well as a further partial SOCB recapitalization of Tk 20 billion in FY14. In addition, Fund staff estimates that the fiscal costs of restoring SOCB capital to the regulatory minimum in case of full write-off of non-performing loans would amount to about 1½ percentage points of GDP. The estimated costs, however, could go up following findings from the ongoing diagnostic examinations of SOCBs by Bangladesh Bank.

[6] Feasibility studies would need to ascertain the costs of risk mitigation associated with the health, safety, and environmental hazards posed by nuclear power in a high population country like Bangladesh. For more details, see the previous DSA.

Table 1. Bangladesh: DSA Update: Key Variables 1/

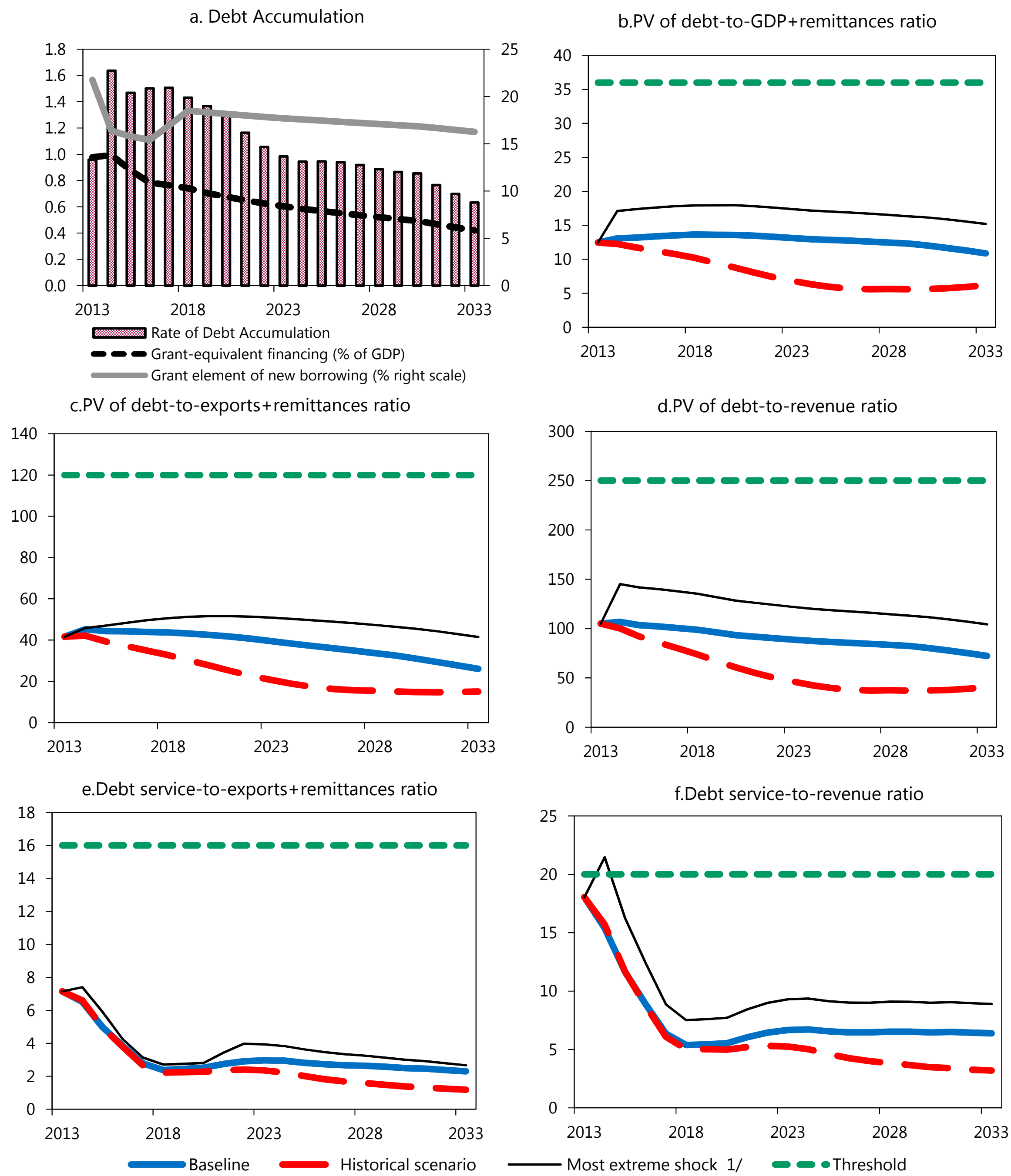
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023	2028	2033
	(Percent of GDP, unless otherwise indicated)											
Nominal GDP (US$ billions)	100	112	116	130	145	157	171	186	202	308	451	658
Real GDP (percentage change)	6.1	6.7	6.3	5.4	5.5	6.5	6.7	7.0	7.0	6.6	6.0	6.0
GDP deflator (percentage change)	6.5	7.5	8.0	7.7	6.8	5.4	5.7	5.6	5.6	4.5	4.5	4.5
Fiscal (central government)												
Total revenue and grants	11.5	11.9	13.0	13.7	14.1	14.7	15.0	15.4	15.7	16.6	16.6	16.6
Foreign grants	0.6	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2
Total expenditure	14.6	16.0	16.4	17.8	17.9	18.0	18.1	18.3	18.5	18.7	18.5	18.3
Interest payments	2.1	2.0	2.2	2.2	2.2	2.1	1.9	1.9	1.9	1.7	1.6	1.6
Overall balance	-3.1	-4.1	-3.4	-4.0	-3.7	-3.3	-3.1	-2.9	-2.8	-2.1	-1.9	-1.7
Primary balance	-0.9	-2.2	-1.2	-1.8	-1.5	-1.2	-1.2	-1.0	-0.9	-0.4	-0.3	-0.1
Net domestic financing	1.3	3.8	2.4	3.0	2.5	2.2	1.8	1.7	1.8	1.6	1.5	1.6
Net external financing	0.9	0.4	0.8	1.0	1.3	1.1	1.3	1.2	1.0	0.5	0.4	0.1
Balance of payments												
Exports of goods and services	18.6	22.5	23.1	22.0	21.1	21.9	22.4	22.9	23.4	26.2	30.8	36.4
Imports of goods and services	25.5	34.3	34.1	31.3	31.6	32.5	33.1	33.7	34.2	36.6	40.8	45.3
Workers' remittances	10.9	10.4	11.1	11.3	11.0	11.2	11.3	11.4	11.4	10.5	9.7	9.0
Current account, including official transfers	3.2	-2.0	-0.5	1.2	-0.4	-0.4	-0.4	-0.4	-0.5	-1.0	-1.5	-1.0
Foreign direct investment	0.9	0.7	1.0	1.0	0.9	0.9	0.9	1.0	1.0	1.5	2.5	2.5
External borrowing												
Central government	1.6	0.9	1.5	1.7	2.0	1.8	1.9	1.8	1.6	1.4	1.3	1.0
Public enterprises with guarantee	0.0	0.0	0.0	0.1	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Debt service by public enterprises	...	...	...	0.0	0.0	0.0	0.1	0.2	0.2	0.5	0.5	0.5
Gross official reserves	3.2	2.9	3.0	3.6	3.8	4.1	4.3	4.4	4.5	4.5	4.7	5.0
(Months of imports of goods and services)												

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

1/ Data on a fiscal year basis, with 2010 corresponding to July 2009–June 2010.

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt under Different Assumptions, 2013–33 1/

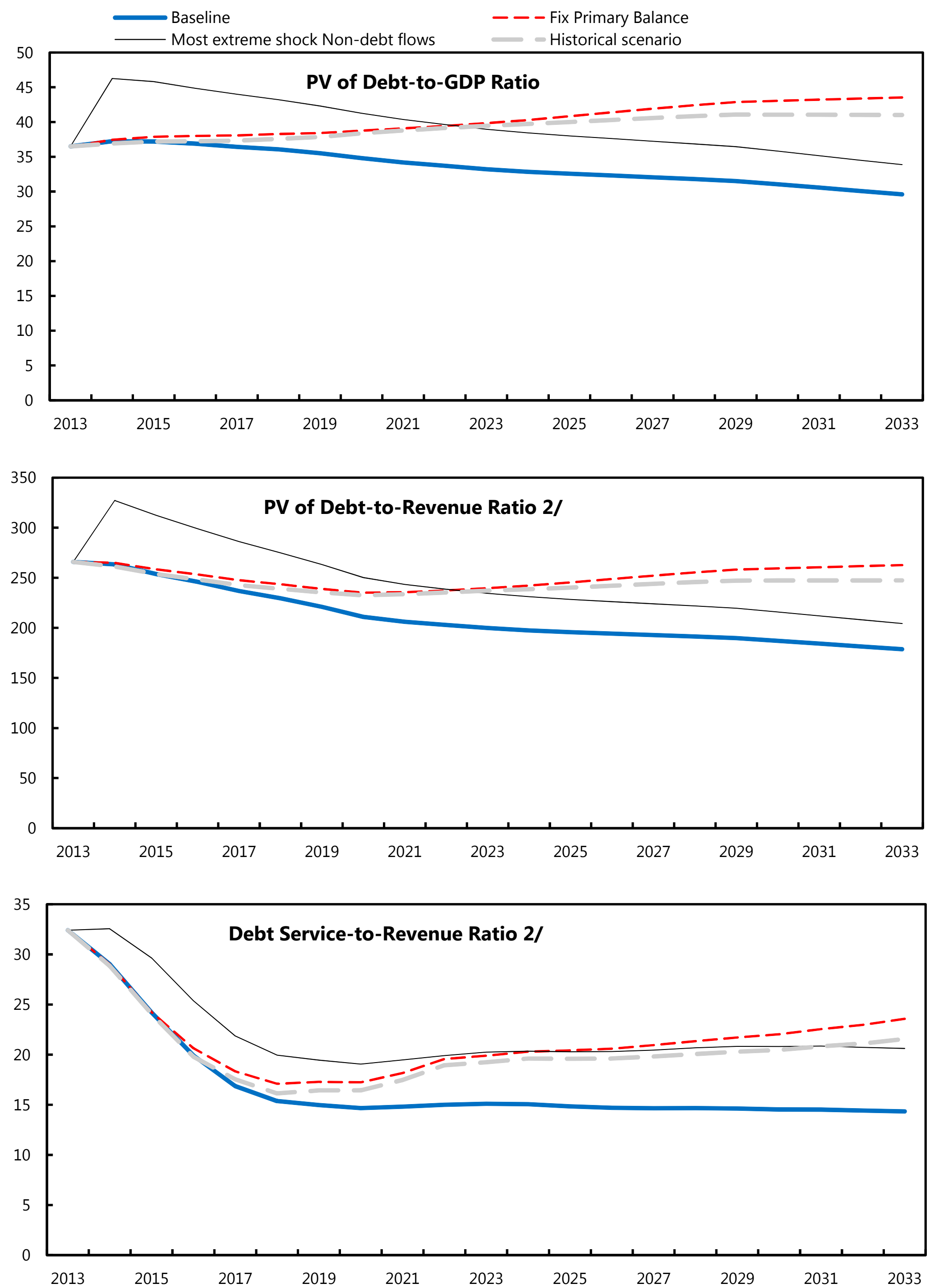
(In percent)



Sources: Data provided by Bangladesh authorities; and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Non-debt flows shock and in figure f. to a One-time depreciation shock.

Figure 2. Bangladesh: Indicators of Public Debt under Different Assumptions, 2013–33 1/

(In percent)



Sources: Data provided by Bangladesh authorities; and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023.
2/ Revenues are defined inclusive of grants.

Table 2. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, 2010–33

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 1/	Standard Deviation 1/	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013–2018 Average	2023	2033	2019–2033 Average
External debt (nominal) 2/	**22.3**	**22.6**	**22.2**			**20.0**	**20.6**	**20.5**	**20.6**	**20.6**	**20.5**		**19.8**	**16.8**	
Of which: Public and publicly guaranteed (PPG)	21.0	21.3	20.7			18.6	19.3	19.3	19.4	19.5	19.5		18.3	14.7	
Change in external debt	-3.4	0.3	-0.5			-2.2	0.6	-0.1	0.1	0.0	0.0		-0.2	-0.5	
Identified net debt-creating flows	-7.0	-1.0	-1.3			-3.2	-1.5	-1.8	-1.8	-1.8	-1.8		-1.7	-2.4	
Non-interest current account deficit	**-3.5**	**1.8**	**0.2**	**-0.8**	**1.5**	**-1.6**	**0.0**	**0.0**	**0.1**	**0.1**	**0.2**		**0.6**	**0.6**	0.8
Deficit in balance of goods and services	6.8	11.8	11.0			9.3	10.5	10.6	10.7	10.8	10.8		10.3	8.8	
Exports	18.6	22.5	23.1			22.0	21.1	21.9	22.4	22.9	23.4		26.2	36.4	
Imports	25.5	34.3	34.1			31.3	31.6	32.5	33.1	33.7	34.2		36.6	45.3	
Net current transfers (negative = inflow)	-11.6	-11.1	-11.8	-9.5	2.1	-11.7	-11.4	-11.5	-11.6	-11.7	-11.7		-10.8	-9.2	-10.3
Of which: Official	-0.1	-0.1	-0.1			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
Other current account flows (negative = net inflow)	1.2	1.1	1.0			0.8	0.9	0.9	1.0	1.0	1.1		1.1	1.0	
Net FDI (negative = inflow)	**-0.9**	**-0.7**	**-1.0**	**-0.9**	**0.2**	**-1.0**	**-0.9**	**-0.9**	**-0.9**	**-1.0**	**-1.0**		**-1.5**	**-2.5**	-1.9
Endogenous debt dynamics 3/	**-2.6**	**-2.1**	**-0.4**			**-0.6**	**-0.6**	**-0.9**	**-0.9**	**-1.0**	**-1.0**		**-0.8**	**-0.6**	
Contribution from nominal interest rate	0.2	0.2	0.3			0.4	0.4	0.4	0.4	0.4	0.4		0.4	0.4	
Contribution from real GDP growth	-1.4	-1.3	-1.4			-1.1	-1.0	-1.2	-1.3	-1.3	-1.3		-1.2	-1.0	
Contribution from price and exchange rate changes	-1.4	-1.0	0.7			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**3.6**	**1.3**	**0.8**			**1.0**	**2.1**	**1.7**	**1.8**	**1.9**	**1.7**		**1.5**	**1.9**	
Of which: Exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	16.9			15.2	15.8	15.9	16.1	16.2	16.3		16.0	14.0	
In percent of exports	...	...	73.2			69.2	74.8	72.5	71.7	70.8	69.6		61.0	38.3	
PV of PPG external debt	**...**	**...**	**15.4**			**13.9**	**14.5**	**14.7**	**14.9**	**15.1**	**15.2**		**14.5**	**11.9**	
In percent of exports	**...**	**...**	**66.9**			**63.1**	**68.9**	**67.1**	**66.6**	**65.9**	**65.0**		**55.3**	**32.6**	
In percent of government revenues	**...**	**...**	**124.0**			**105.0**	**106.8**	**103.4**	**102.2**	**100.6**	**98.8**		**88.7**	**72.3**	
Debt service-to-exports ratio (in percent)	**5.5**	**4.1**	**5.7**			**12.4**	**11.5**	**9.0**	**7.1**	**5.4**	**4.7**		**5.5**	**4.3**	
PPG debt service-to-exports ratio (in percent)	**5.2**	**3.8**	**4.8**			**10.8**	**9.9**	**7.5**	**5.8**	**4.2**	**3.5**		**4.2**	**2.9**	
PPG debt service-to-revenue ratio (in percent)	**8.8**	**7.4**	**8.8**			**18.0**	**15.4**	**11.6**	**8.9**	**6.4**	**5.4**		**6.7**	**6.4**	
Total gross financing need (Billions of U.S. dollars)	-3.3	2.4	1.2			1.9	3.7	2.8	2.0	1.1	0.7		1.9	-1.7	
Non-interest current account deficit that stabilizes debt ratio	-0.1	1.5	0.7			0.6	-0.6	0.1	0.0	0.1	0.2		0.9	1.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.1	6.7	6.3	6.2	0.4	5.4	5.5	6.5	6.7	7.0	7.0	6.3	6.6	6.0	6.4
GDP deflator in US dollar terms (change in percent)	5.9	4.5	-2.8	3.0	4.1	6.5	5.8	1.8	1.8	1.8	1.8	3.3	1.7	1.7	1.7
Effective interest rate (percent) 6/	1.1	0.9	1.5	1.1	0.2	2.1	2.1	2.0	1.9	1.9	1.9	2.0	2.1	2.5	2.2
Growth of exports of G&S (U.S. dollar terms, in percent)	7.5	34.5	6.0	14.9	8.5	7.1	6.9	12.4	11.2	11.4	11.3	10.0	11.4	11.5	11.4
Growth of imports of G&S (U.S. dollar terms, in percent)	5.7	50.0	2.7	16.5	14.0	2.9	12.6	11.4	10.8	10.8	10.6	9.9	9.9	10.1	10.2
Grant element of new public sector borrowing (in percent) 7/	...	...	...	...	...	21.7	16.4	15.8	15.4	16.9	18.5	17.4	17.7	16.3	17.3
Government revenues (excluding grants, in percent of GDP)	10.9	11.7	12.4			13.2	13.6	14.2	14.6	15.0	15.4		16.4	16.4	16.3
Aid flows (in Billions of U.S. dollars) 8/	2.2	1.3	2.3			1.3	1.5	1.4	1.4	1.5	1.6		1.9	2.9	
Of which: Grants	0.6	0.3	0.6			0.7	0.8	0.7	0.7	0.7	0.7		0.8	1.1	
Of which: Concessional loans	1.6	1.1	1.7			0.6	0.7	0.7	0.7	0.8	0.9		1.1	1.8	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.0	1.0	0.9	0.8	0.8	0.7		0.6	0.4	0.6
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			36.7	29.3	29.1	27.6	28.5	30.0		27.5	24.7	26.5
Memorandum items:															
Nominal GDP (Billions of U.S. dollars)	100.4	111.9	115.6			129.7	144.8	157.0	170.5	185.8	202.4		308.4	657.7	
Nominal dollar GDP growth	12.3	11.5	3.3			12.2	11.6	8.4	8.7	8.9	9.0	9.8	8.4	7.8	8.2
PV of PPG external debt (in Billions of U.S. dollars)			17.2			18.4	20.5	22.6	25.0	27.5	30.2		44.2	80.8	
(PVt-PVt-1)/GDPt-1 (in percent)						1.0	1.6	1.5	1.5	1.5	1.4	1.4	1.0	0.6	1.0
Gross workers' remittances (Billions of U.S. dollars)	11.0	11.7	12.8			14.7	16.0	17.6	19.3	21.3	23.1		32.5	59.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.9			12.5	13.1	13.2	13.4	13.5	13.6		13.1	10.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	45.1			41.6	45.3	44.4	44.2	44.0	43.7		39.5	26.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.2			7.2	6.5	5.0	3.9	2.8	2.4		3.0	2.3	

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

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
2/ Central government gross debt, including debt owed to the IMF, plus external borrowing by public enterprises that is supported by central government guarantees, including short-term oil-related suppliers' credits.
The years in the table refers to fiscal years. For example, 2012 refers to July 2011-June 2012.
3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
5/ Assumes that PV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
7/ Reduced grant element in 2014 as a result of the issuance of a sovereign bond.
8/ Defined as grants, concessional loans, and debt relief.
9/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to-GDP+remittances ratio								
Baseline	12	13	13	13	14	14	**13**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	12	12	12	11	11	10	**7**	6
A2. New public sector loans on less favorable terms in 2013-2033 2	12	13	14	15	15	16	**17**	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	12	13	13	13	13	13	**13**	11
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	12	13	14	14	14	14	**13**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	12	14	14	14	14	15	**14**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	12	17	20	19	19	19	**16**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	12	16	19	18	18	18	**16**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	12	17	17	18	18	18	**17**	15
PV of debt-to-exports+remittances ratio								
Baseline	42	45	44	44	44	44	**39**	26
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	42	42	39	37	35	33	**21**	15
A2. New public sector loans on less favorable terms in 2013-2033 2	42	46	47	48	50	51	**51**	42
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	42	44	44	43	43	43	**39**	27
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	42	44	49	48	48	47	**42**	29
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	42	44	44	43	43	43	**39**	27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	42	63	74	63	62	60	**49**	28
B5. Combination of B1-B4 using one-half standard deviation shocks	42	55	63	55	54	53	**45**	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	42	44	44	43	43	43	**39**	27
PV of debt-to-revenue ratio								
Baseline	105	107	103	102	101	99	**89**	72
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	105	100	92	86	80	74	**46**	41
A2. New public sector loans on less favorable terms in 2013-2033 2	105	108	110	112	114	115	**114**	115
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	105	104	102	101	99	97	**88**	75
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	105	105	110	108	106	103	**91**	75
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	105	111	112	110	109	107	**96**	82
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	105	130	152	146	141	136	**110**	79
B5. Combination of B1-B4 using one-half standard deviation shocks	105	126	144	139	135	131	**109**	82
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	105	145	142	140	138	135	**122**	104

Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033
Publicly Guaranteed External Debt, 2013–33 (concluded)

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
Debt service-to-exports+remittances ratio								
Baseline	7	7	5	4	3	2	**3**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	7	7	5	4	3	2	**2**	1
A2. New public sector loans on less favorable terms in 2013-2033 2	7	7	5	4	3	2	**3**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	7	7	5	4	3	2	**3**	2
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	7	7	5	4	3	3	**3**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	7	7	5	4	3	2	**3**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	7	7	6	4	3	3	**4**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	6	4	3	3	**4**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	7	7	5	4	3	2	**3**	2
Debt service-to-revenue ratio								
Baseline	18	15	12	9	6	5	**7**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	18	16	12	9	6	5	**5**	3
A2. New public sector loans on less favorable terms in 2013-2033 2	18	15	12	9	7	6	**7**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	18	15	12	9	6	5	**7**	6
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	18	15	12	9	6	6	**7**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	18	16	13	10	7	6	**7**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	18	15	12	10	7	6	**9**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	18	16	13	10	7	6	**9**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	18	21	16	12	9	8	**9**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	14	14	14	14	14	14	**14**	14

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–33

(In percent of GDP, unless otherwise indicated)

	Actual		Estimate			Projections									
	2010	2011	2012	Average 1/	Standard Deviation 1/	2013	2014	2015	2016	2017	2018	2013–18 Average	2023	2033	2019–33 Average
Public sector debt 2/	42.9	44.2	42.8			41.2	42.0	41.8	41.4	40.8	40.3		37.0	32.5	
Of which: domestic borrowing by nonfinancial public enterprises	1.6	1.8	1.4			1.4	1.4	1.4	1.4	1.4	1.4		1.4	1.4	
Of which: foreign-currency denominated	21.0	21.3	20.7			18.6	19.3	19.3	19.4	19.5	19.5		18.3	14.7	
Of which: guarantee-supported external borrowing	...	...	...			0.1	0.6	1.1	1.7	2.1	2.5		3.9	5.9	
Change in public sector debt	-2.5	1.3	-1.4			-1.5	0.8	-0.2	-0.5	-0.6	-0.5		-0.6	-0.6	
Identified debt-creating flows	-2.0	-0.1	-0.3			-1.7	0.6	-0.3	-0.4	-0.7	-0.7		-0.8	-0.8	
Primary deficit	0.9	2.2	1.1	1.3	0.5	1.7	1.4	1.1	1.2	1.0	1.0	1.2	0.4	0.1	0.3
Revenue and grants	11.5	11.9	13.0			13.7	14.1	14.7	15.0	15.4	15.7		16.6	16.6	
Of which: Grants	0.6	0.3	0.5			0.5	0.5	0.5	0.4	0.4	0.3		0.3	0.2	
Primary (noninterest) expenditure	12.4	14.1	14.1			15.4	15.6	15.8	16.2	16.4	16.7		17.0	16.7	
Automatic debt dynamics	-2.9	-2.3	-1.5			-3.4	-1.4	-2.0	-2.1	-2.2	-2.2		-1.7	-1.5	
Contribution from interest rate/growth differential	-1.8	-2.6	-2.3			-1.6	-1.5	-1.8	-2.1	-2.2	-2.2		-1.7	-1.3	
of which: Contribution from average real interest rate	0.8	0.1	0.3			0.6	0.7	0.8	0.5	0.5	0.4		0.6	0.6	
of which: Contribution from real GDP growth	-2.6	-2.7	-2.6			-2.2	-2.2	-2.6	-2.6	-2.7	-2.7		-2.3	-1.9	
Contribution from real exchange rate depreciation	-1.1	0.2	0.8			-1.9	0.1	-0.2	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.1	0.5	0.6	0.6	0.6	0.6		0.5	0.5	
Guarantee-supported external borrowing	0.0	0.0	0.0			0.1	0.5	0.6	0.6	0.6	0.6		0.5	0.5	
Residual, including asset changes	-0.5	1.4	-1.1			0.1	0.2	0.1	0.0	0.1	0.2		0.2	0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	37.5			36.5	37.2	37.2	36.9	36.4	36.1		33.2	29.6	
Of which: Foreign-currency demonimated	...	...	15.4			13.9	14.5	14.7	14.9	15.1	15.2		14.5	11.9	
Of which: External	...	...	15.4			13.9	14.5	14.7	14.9	15.1	15.2		14.5	11.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	3.9	6.3	6.5			8.6	7.7	6.6	5.8	5.0	4.6		4.1	3.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	289.3			265.9	263.4	253.8	245.9	236.8	229.5		199.9	178.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	301.7			276.1	273.6	262.3	252.8	242.8	234.7		203.0	180.5	
Of which: External 4/	...	...	124.0			105.0	106.8	103.4	102.2	100.6	98.8		88.7	72.3	
Debt service-to-revenue and grants ratio (in percent) 5/	25.2	22.1	24.3			32.4	29.0	24.2	19.9	16.9	15.4		15.1	14.3	
Debt service-to-revenue ratio (in percent) 5/	26.6	22.6	25.3			33.7	30.2	25.0	20.5	17.3	15.7		15.3	14.5	
Primary deficit that stabilizes the debt-to-GDP ratio	3.4	0.9	2.6			3.2	0.7	1.3	1.6	1.6	1.4		0.9	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.1	6.7	6.3	6.2	0.4	5.4	5.5	6.5	6.7	7.0	7.0	6.3	6.6	6.0	6.4
Average nominal interest rate on forex debt (in percent)	1.1	0.9	1.2	1.0	0.1	1.7	1.7	1.6	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Average real interest rate on domestic debt (in percent)	3.6	1.7	2.1	3.3	1.2	2.7	3.0	3.8	2.6	2.6	2.7	2.9	3.7	3.6	3.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.9	1.2	4.2	-0.3	4.7	-9.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.5	7.5	8.0	6.3	1.5	7.7	6.8	5.4	5.7	5.6	5.6	6.1	4.5	4.5	4.6
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent) 6/	...	...	...	...	...	21.7	16.4	15.8	15.4	16.9	18.5	17.4	17.7	16.3	17.3

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

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2/ Central government gross debt, including debt owed to the IMF, plus domestic bank borrowing by the nonfinancial public sector and external borrowing by public enterprises that is supported by central government guarantees, including short-term oil-related suppliers' credits. The years in the table refers to fiscal years. For example, 2012 refers to July 2011–June 2012.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

6/ Reduced grant element in 2014 as a result of the issuance of a sovereign bond.

Table 5. Bangladesh: Sensitivity Analysis for Key Indicators of Public Debt 2013–33

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of Debt-to-GDP Ratio								
Baseline	37	37	37	37	36	36	**33**	30
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	37	37	37	37	37	38	**39**	41
A2. Primary balance is unchanged from 2013	37	37	38	38	38	38	**40**	44
A3. Permanently lower GDP growth 1/	37	37	37	37	37	36	**34**	32
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	37	37	37	37	37	36	**34**	31
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	37	38	38	38	37	37	**34**	30
B3. Combination of B1-B2 using one half standard deviation shocks	37	37	38	37	37	37	**34**	30
B4. One-time 30 percent real depreciation in 2014	37	43	43	42	41	41	**37**	33
B5. 10 percent of GDP increase in other debt-creating flows in 2014	37	46	46	45	44	43	**39**	34
PV of Debt-to-Revenue Ratio 2/								
Baseline	266	263	254	246	237	230	**200**	179
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	266	261	254	248	243	239	**237**	247
A2. Primary balance is unchanged from 2013	266	265	258	253	248	244	**240**	263
A3. Permanently lower GDP growth 1/	266	264	254	247	238	231	**205**	194
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	266	263	255	248	239	232	**204**	185
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	266	266	261	252	243	235	**204**	181
B3. Combination of B1-B2 using one half standard deviation shocks	266	263	258	250	240	233	**203**	181
B4. One-time 30 percent real depreciation in 2014	266	306	291	280	268	259	**223**	199
B5. 10 percent of GDP increase in other debt-creating flows in 2014	266	327	312	299	286	275	**234**	204
Debt Service-to-Revenue Ratio 2/								
Baseline	32	29	24	20	17	15	**15**	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	32	29	24	20	18	16	**19**	22
A2. Primary balance is unchanged from 2013	32	29	24	21	18	17	**20**	24
A3. Permanently lower GDP growth 1/	32	29	24	20	17	16	**16**	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	32	29	24	20	17	16	**16**	15
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	32	29	24	21	19	16	**15**	15
B3. Combination of B1-B2 using one half standard deviation shocks	32	29	24	21	18	16	**15**	15
B4. One-time 30 percent real depreciation in 2014	32	33	30	25	22	20	**20**	21
B5. 10 percent of GDP increase in other debt-creating flows in 2014	32	29	28	45	21	26	**19**	22

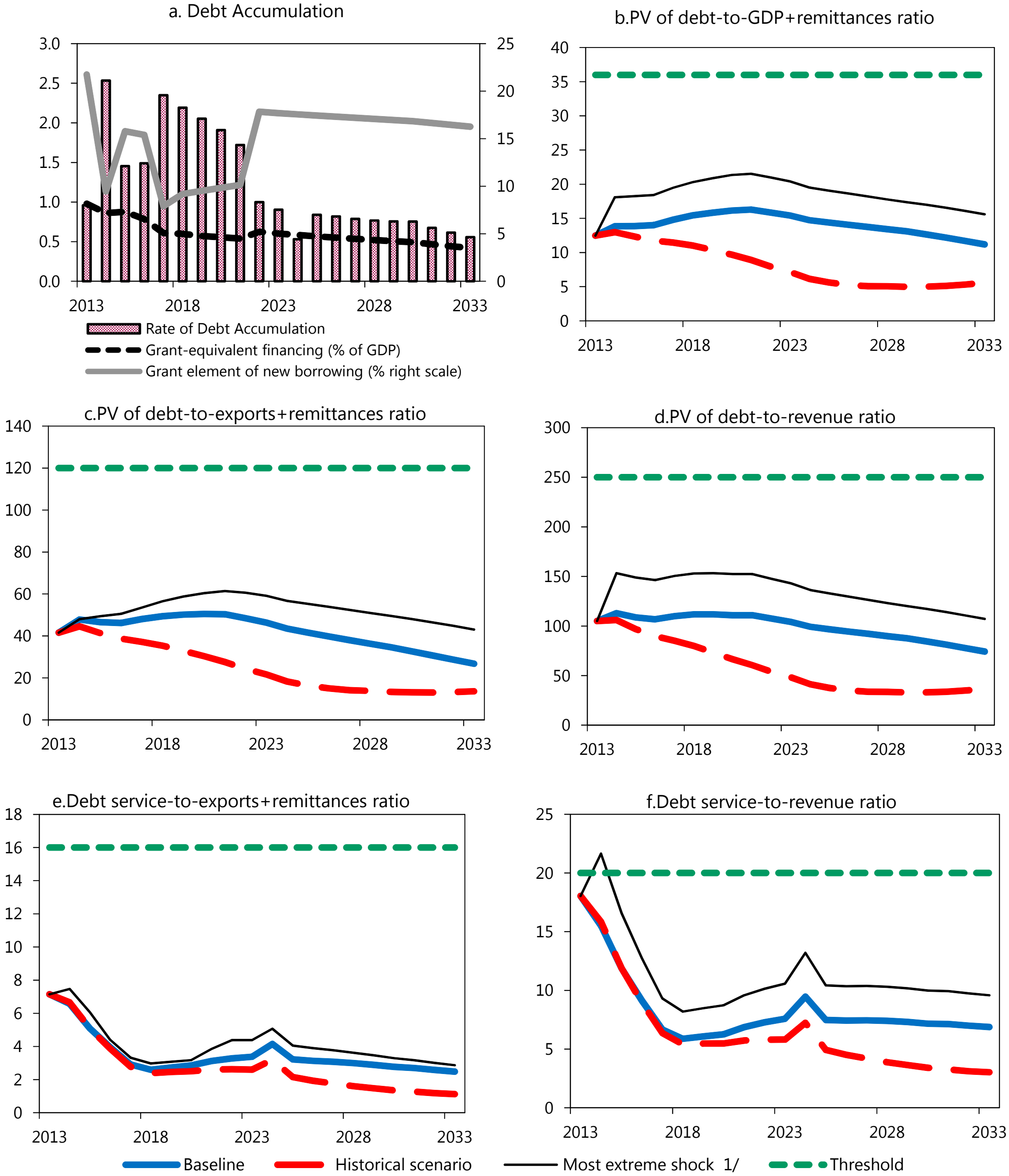
Sources: Data provided by Bangladesh authorities; and IMF staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Figure 3. Bangladesh: Alternative Scenario—Indicators of Public and Publicly Guaranteed External Debt under Different Assumptions, 2013–33 1/

(In percent)



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

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Non-debt flows shock and in figure f. to a One-time depreciation shock.

Table 6. Bangladesh: External Debt Sustainability Framework, Alternative Scenario, 2010–33

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 1/ Average	Standard 1/ Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013–2018 Average	2023	2033	2019–2033 Average
External debt (nominal) 2/	**22.3**	**22.6**	**22.2**			**20.0**	**21.3**	**21.1**	**21.2**	**21.8**	**22.2**		**22.0**	**17.2**	
Of which: Public and publicly guaranteed (PPG)	21.0	21.3	20.7			18.6	20.0	19.9	20.0	20.7	21.2		20.5	15.1	
Change in external debt	-3.4	0.3	-0.5			-2.2	1.3	-0.1	0.0	0.6	0.5		-0.5	-0.6	
Identified net debt-creating flows	-7.0	-1.0	-1.3			-3.2	-1.5	-1.8	-1.8	-1.3	-1.2		-1.7	-2.4	
Non-interest current account deficit	**-3.5**	**1.8**	**0.2**	**-0.8**	**1.5**	**-1.6**	**0.0**	**0.0**	**0.1**	**0.6**	**0.7**		**0.7**	**0.6**	0.9
Deficit in balance of goods and services	6.8	11.8	11.0			9.3	10.5	10.6	10.7	11.3	11.3		10.3	8.8	
Exports	18.6	22.5	23.1			22.0	21.1	21.9	22.4	22.9	23.4		26.2	36.4	
Imports	25.5	34.3	34.1			31.3	31.6	32.5	33.1	34.2	34.7		36.5	45.2	
Net current transfers (negative = inflow)	-11.6	-11.1	-11.8	-9.5	2.1	-11.7	-11.4	-11.5	-11.6	-11.7	-11.7		-10.8	-9.2	-10.3
Of which: Official	-0.1	-0.1	-0.1			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
Other current account flows (negative = net inflow)	1.2	1.1	1.0			0.8	0.8	0.9	1.0	1.0	1.1		1.2	1.1	
Net FDI (negative = inflow)	**-0.9**	**-0.7**	**-1.0**	**-0.9**	**0.2**	**-1.0**	**-0.9**	**-0.9**	**-0.9**	**-1.0**	**-1.0**		**-1.5**	**-2.5**	-1.9
Endogenous debt dynamics 3/	**-2.6**	**-2.1**	**-0.4**			**-0.6**	**-0.6**	**-0.9**	**-0.9**	**-0.9**	**-1.0**		**-0.9**	**-0.6**	
Contribution from nominal interest rate	0.2	0.2	0.3			0.4	0.4	0.4	0.4	0.4	0.4		0.5	0.4	
Contribution from real GDP growth	-1.4	-1.3	-1.4			-1.1	-1.0	-1.3	-1.3	-1.4	-1.4		-1.4	-1.0	
Contribution from price and exchange rate changes	-1.4	-1.0	0.7			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**3.6**	**1.3**	**0.8**			**1.0**	**2.8**	**1.6**	**1.8**	**1.9**	**1.7**		**1.2**	**1.8**	
Of which: Exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	16.9			15.2	16.6	16.6	16.7	17.6	18.3		18.5	14.3	
In percent of exports	...	...	73.2			69.2	78.8	75.9	74.7	76.9	78.2		70.6	39.2	
PV of PPG external debt	**...**	**...**	**15.4**			**13.9**	**15.4**	**15.4**	**15.6**	**16.5**	**17.2**		**17.0**	**12.2**	
In percent of exports	**...**	**...**	**66.9**			**63.1**	**72.8**	**70.5**	**69.6**	**72.1**	**73.6**		**65.0**	**33.5**	
In percent of government revenues	**...**	**...**	**124.0**			**105.0**	**112.8**	**108.7**	**106.8**	**109.9**	**111.8**		**104.2**	**74.3**	
Debt service-to-exports ratio (in percent)	**5.5**	**4.1**	**5.7**			**12.4**	**11.6**	**9.1**	**7.3**	**5.6**	**5.0**		**6.1**	**4.5**	
PPG debt service-to-exports ratio (in percent)	**5.2**	**3.8**	**4.8**			**10.8**	**10.0**	**7.7**	**5.9**	**4.4**	**3.9**		**4.7**	**3.1**	
PPG debt service-to-revenue ratio (in percent)	**8.8**	**7.4**	**8.8**			**18.0**	**15.5**	**11.9**	**9.1**	**6.7**	**5.9**		**7.6**	**6.9**	
Total gross financing need (Billions of U.S. dollars)	-3.3	2.4	1.2			1.9	3.7	2.8	2.1	2.2	1.9		2.5	-1.1	
Non-interest current account deficit that stabilizes debt ratio	-0.1	1.5	0.7			0.6	-1.3	0.1	0.1	0.0	0.2		1.1	1.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.1	6.7	6.3	6.2	0.4	5.4	5.5	6.5	6.7	7.0	7.0	6.3	6.6	6.0	6.4
GDP deflator in US dollar terms (change in percent)	5.9	4.5	-2.8	3.0	4.1	6.5	5.8	1.8	1.8	1.8	1.8	3.3	1.7	1.7	1.7
Effective interest rate (percent) 6/	1.1	0.9	1.5	1.1	0.2	2.1	2.2	2.1	2.0	2.1	2.2	2.1	2.5	2.5	2.5
Growth of exports of G&S (U.S. dollar terms, in percent)	7.5	34.5	6.0	14.9	8.5	7.1	6.9	12.4	11.2	11.4	11.3	10.0	11.4	11.5	11.4
Growth of imports of G&S (U.S. dollar terms, in percent)	5.7	50.0	2.7	16.5	14.0	2.9	12.6	11.4	10.8	12.6	10.4	10.1	9.9	10.1	10.1
Grant element of new public sector borrowing (in percent) 7/	...	...	...	...	...	21.7	9.5	15.8	15.4	7.9	9.2	13.2	17.7	16.3	15.7
Government revenues (excluding grants, in percent of GDP)	10.9	11.7	12.4			13.2	13.6	14.2	14.6	15.0	15.4		16.4	16.4	16.3
Aid flows (in Billions of U.S. dollars) 8/	2.2	1.3	2.3			1.3	1.5	1.4	1.4	1.5	1.6		1.9	2.9	
Of which: Grants	0.6	0.3	0.6			0.7	0.8	0.7	0.7	0.7	0.7		0.8	1.1	
Of which: Concessional loans	1.6	1.1	1.7			0.6	0.7	0.7	0.7	0.8	0.9		1.1	1.8	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.0	0.9	0.9	0.8	0.6	0.6		0.6	0.4	0.5
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			36.7	21.1	29.1	27.6	18.3	19.5		27.4	24.7	24.7
Memorandum items:															
Nominal GDP (Billions of U.S. dollars)	100.4	111.9	115.6			129.7	144.8	157.0	170.5	185.8	202.5		308.6	658.2	
Nominal dollar GDP growth	12.3	11.5	3.3			12.2	11.6	8.4	8.7	8.9	9.0	9.8	8.4	7.8	8.2
PV of PPG external debt (in Billions of U.S. dollars)			17.2			18.4	21.6	23.8	26.1	30.1	34.2		51.9	83.0	
(PVt-PVt-1)/GDPt-1 (in percent)						1.0	2.5	1.5	1.5	2.3	2.2	1.8	0.9	0.6	1.0
Gross workers' remittances (Billions of U.S. dollars)	11.0	11.7	12.8			14.7	16.0	17.6	19.3	21.3	23.1		32.5	59.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.9			12.5	13.8	13.9	14.0	14.8	15.4		15.4	11.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	45.1			41.6	47.8	46.6	46.2	48.1	49.4		46.4	26.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.2			7.2	6.6	5.1	3.9	2.9	2.6		3.4	2.5	

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

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
2/ Central government gross debt, including debt owed to the IMF, plus external borrowing by public enterprises that is supported by central government guarantees, including short-term oil-related suppliers' credits.
The years in the table refers to fiscal years. For example, 2012 refers to July 2011-June 2012.
3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
5/ Assumes that PV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
7/ Reduced grant element in 2014 as a result of the issuance of a sovereign bond.
8/ Defined as grants, concessional loans, and debt relief.
9/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Statement by the Staff Representative on Bangladesh

May 23, 2013

1. This statement provides an update on information that has become available since the issuance of the staff report on May 14, 2013. It does not alter the thrust of the staff appraisal.

Recent data releases relevant for program monitoring:

2. Preliminary data indicate that tax revenue collection by the National Board of Revenue since the beginning of the fiscal year was Tk 723 billion as of end-March 2013, compared to a program floor (indicative target) of Tk 757 billion. The resulting shortfall (Tk 34 million or 0.3 percent of GDP) reflects continued weakness in collections from customs duties and supplementary duties.

3. Despite weaker-than-expected tax revenue, preliminary estimates put net credit to the central government by the domestic banking system since the beginning of the current fiscal year at Tk 66 billion as of end-March 2013, compared to the program ceiling (indicative target) of Tk 138 billion. This mainly reflects lower-than-projected spending so far.

IMF Executive Board Completes Second Review Under the ECF Arrangement for Bangladesh and Approves US$136.6 Million Disbursement

Press Release No.13/193
May 29, 2013

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Bangladesh's economic program under a three-year arrangement supported by the Extended Credit Facility (ECF). The completion of the review enables an immediate disbursement of the third installment under the ECF arrangement for an amount equivalent to SDR 91.423 million (about US$136.6 million), bringing the total amount disbursed equivalent to SDR 274.269 million (about US$409.7 million).

The Executive Board approved a three-year ECF arrangement for Bangladesh on April 11, 2012 (see Press Release No. 12/129) for a total amount equivalent to SDR 639.96 million (about US$956 million), or 120 percent of quota.

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

"Bangladesh's program under the Extended Credit Facility is broadly on track. Macroeconomic pressures have eased, with reserves rising and underlying inflation moderating, supported by restrained fiscal and monetary policies. Notwithstanding the challenging global environment, exports have picked up and remittances remain strong. However, growth is slowing and could weaken further given downside risks. It will be important to maintain sound policy anchors and keep up the reform momentum.

"Fiscal policy has remained on track, but tax collections need to be strengthened and the tax base broadened. Continued policy discipline is also needed during the pre-election period. To further expand space for development spending, subsidy costs should be further reduced while protecting subsidies targeted at the poor. Public debt management needs to be strengthened through better monitoring and transparency and by taking full advantage of concessional borrowing opportunities.

"Bangladesh Bank's prudent monetary policy has helped bring down inflation, while rebuilding international reserves. Going forward, greater exchange rate flexibility and stepped up sterilization operations will be important to contain monetary growth.

"Structural reforms have also moved forward. Timely implementation of the new value added tax will help increase revenues and modernize the tax regime. Timely passage of the banking law amendments recently introduced in parliament will strengthen financial sector governance and keep risks in check, especially those arising from state-owned banks. Continued improvement in labor conditions in the garment sector, in coordination with international business and development partners, would be welcome."

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Statement by Mr. Rakesh Mohan, Executive Director for Bangladesh and Mr. Koodathumuriyil Verghese Eapen, Senior Advisor May 23, 2013

1. The Bangladesh authorities wish to thank the IMF Mission for their positive engagement during the Second Review mission during March/April 2013 for the Extended Credit Facility (ECF) arrangement. The authorities would like to emphasize the following to supplement their request to complete the second review under the ECF arrangement and to access the third disbursement in the amount of SDR 91.423 million under the program.

Overall outlook and developments

2. As brought out in the staff report, Bangladesh has made substantial progress in strengthening macroeconomic conditions and structural policies under the ECF arrangement. The economy continues to exhibit favorable developments despite a challenging global environment. Exports are picking up, remittances remain strong and inflation pressures have eased over the past year, supported by prudent fiscal and monetary policies, complemented by the support of the ECF arrangement. International reserves by the program's definition, stood at US$14.5 billion as of end-April 2013, almost doubling the equivalent import cover compared to late 2011.

3. All the quantitative performance criteria (PC) as of end-December 2012, and most of the indicative targets at end-December 2012 and end-March 2013 under the ECF arrangement have been met as also have key structural benchmarks. The new value added tax (VAT) law which was passed by the National Parliament in November 2012 is now in the implementation phase, following the approval of an implementation plan and timetable. Draft amendments to the Bank Companies Act aiming to strengthen banking system governance and the supervisory mandate of the Bangladesh Bank (BB) have also been submitted to the National Parliament. All the prior actions under the second review of the ECF arrangement have been completed. These and other details of the policy program are set out in the Memorandum of Economic and Financial Policies (MEFP), which extends the authorities' commitments to end-June 2014.

4. The authorities are of the opinion that prudent policies have strengthened the economy's capacity to respond to shocks and will also provide an anchor to preserve macroeconomic stability as the country approaches national elections, due by January 2014. However, they acknowledge that there are some signs that- political tensions and episodes of violence in recent months may be affecting economic activity.

5. In addition, the tragic building collapse in April 2013 in Savar on the outskirts of Dhaka may impact the garment sector. The authorities have taken various steps to allay international and domestic concerns in the wake of this tragedy. They have closed down as many as 20 factories, which were not fulfilling prescribed safety norms. In addition, they are working in consultation with international business and development partners to

address safety issues in readymade garment (RMG) factories across the country. They have set up a Cabinet Committee to scrutinize safety measures in the sector and are also revising the building code to prevent recurrence of such incidents. They have also set up a Committee to revise the minimum wage. The authorities wish to assure everyone that they will do all that is required to try and ensure that such incidents do not recur.

6. The authorities feel that it is also important to place this in context. Following the removal of various restrictions in international trade in textiles in the first decade of this century, Bangladesh has quickly moved to become one of the leading RMG exporters in the world. The country has earned foreign exchange equivalent of US$ 19.1 billion during 2011-12 from the sector. More importantly, the development of the sector has also proved to be an agent of social change. There are around 3.6 million employees in the sector, of which, around 2.88 million are women. The success of the RMG export sector is often seen as the reason for improvement in the overall position of women in the country. It may be noted that population growth and the fertility rate in Bangladesh is lower than the South Asian average.

Fiscal policy

7. Turning to more general policy issues, Bangladesh is on track to meet the 2013 fiscal target of an overall budget deficit (excluding grants) of 4.5 percent of GDP. Though tax revenue has fallen short of program indicative targets as supplementary duties and other taxes on imports have been lower than expected reflecting slower import growth, expenditure has been kept under control, in part through containment of fuel and electricity subsidies following administered fuel price increases. In the immediate term, the authorities are seeking to buttress revenue collections through more aggressive tax enforcement focusing on recovering arrears at state owned enterprises (SOEs), curbing leakages from bonded warehouses and by a comprehensive rollout of the Alternative Dispute Resolution mechanism at the customs level. They are also following through with the implementation of the revenue measures announced in the 2013 fiscal budget.

8. The authorities are also committed to adhering to a programmed budget deficit (excluding grants) target of 4.3 percent of GDP in fiscal year 2014. While slowing economic activity could make tax revenue targets more challenging, they intend to strengthen revenue collections in fiscal 2014 by further removing exemptions and phasing out truncated bases for the VAT, as well as strengthening auditing and compliance. On the expenditure side, following a series of retail price adjustments over the past 18 months, they will emphasize cost containment measures for fuel and electricity subsidies. They intend to further boost social-related spending and significantly increase capital spending in the Annual Development Program (ADP), within the programmed spending envelope including the continuation of the Padma Bridge project, in order to meet key social and developmental goals.

Debt management

9. The latest debt sustainability analysis (DSA), which updates the joint IMF/IDA DSA from January 30, 2013 reflecting the most recent macroeconomic developments and borrowing needs, indicates that Bangladesh remains at a low risk of debt distress. The authorities will focus on external borrowing, including the contracting and guaranteeing of nonconcessional external debt and on high impact projects to meet critical development needs. They will take steps to strengthen debt management practices ahead of any sovereign bond issuance. They have requested, a Debt Management and Performance Assessment (DEMPA) from the World Bank, the results of which will guide their medium-term debt strategy, to be finalized by December 2013.

10. The authorities have also already established a technical committee on nonconcessional external borrowing chaired by a senior official in the Ministry of Finance. This Committee will meet monthly to monitor and report on nonconcessional borrowing to ensure compliance with the limits set in the ECF program. In addition, the committee will draft revised terms of reference (TOR) for the Cabinet's Hard-Term Loan Committee (HTLC). The notification for the revised TOR will be issued by June 2013 and will: (i) ensure that the HTLC oversees all nonconcessional borrowing contracts, covering loans, guarantees and trade credits (excluding normal import financing) by the public sector and for all purposes; and (ii) determine nonconcessionality based on the grant element of the credit, in line with international best practices.

Monetary Policy and Bangladesh Bank operations

11. The authorities will continue to maintain a prudent monetary stance to safeguard macroeconomic stability and keep inflation in check, while allowing adequate space for private credit growth. The end-December 2012 net international reserves (NIR) target (a PC) has been exceeded by over US$3 billion (program definition). The BB will continue to accumulate reserves when market conditions are appropriate and will step up sterilization of foreign exchange intervention to protect program targets. To further deepen the foreign exchange and government debt markets, steps have been taken in April 2013 to: (i) raise limits on banks' net open positions; (ii) introduce a two-year Treasury bond to better match investor demand; and (iii) remove the one-year holding period for nonresident holdings of Treasury securities. The authorities also remain committed to gradually reducing the devolvement of Treasury securities.

12. The authorities are also undertaking steps towards completion of a full external audit of BB by a global audit firm (a December 2013 benchmark). They have already selected the firm, which was a prior action for this review.

Financial sector reforms

13. As a centerpiece of the efforts to strengthen the banking system, amendments to the Bank Companies Act (BCA) were submitted to Parliament in March 2013. The authorities aim to strengthen the supervisory mandate of BB, limit special treatments for

State Owned Commercial Banks (SOCBs) and strengthen commercial banks' governance and accountability. The authorities are also taking steps to revise, through an order to be issued by BB, stock market exposure limits for banks consistent with the BCA amendments. Given the deteriorating financial conditions of the SOCBs, the focus will be on measures to strengthen the SOCBs' performance and financial position and increase their operational independence in order to safeguard the banking system and minimize fiscal risks as brought out in the MEFP.

14. The BB is also making progress towards adoption of a bank resolution framework, having already put in place a number of elements needed for such a framework. Further, the Demutualization Act was passed by Parliament in April 2013. Consistent with this act, the authorities will continue to work towards the approval by the Bangladesh Securities and Exchange Commission of demutualization models and plans, for both the Dhaka and the Chittagong stock exchanges.

The ECF arrangement going ahead

15. To further buttress international reserves while preserving monetary targets, the authorities request an increase in the end-June 2013 PC on net international reserves of the BB and an attendant reduction of the PC on BB's net domestic assets. They would also like to request a modest increase in the government's bank borrowing PC ceilings for June 2013, to account for slightly weaker-than-expected non-bank financing, with the overall fiscal deficit on track to meet the programmed target. They also request an increase in the non-concessional debt ceiling to accommodate loan guarantees for critical power infrastructure for the period to June 2014. As indicated earlier, they are putting in place measures to strengthen debt management practices, so as to ensure compliance with program targets.

16. The authorities will continue to maintain close policy dialogue with the IMF to ensure strong performance under the ECF arrangement. They will request for technical assistance as necessary from the IMF and other development partners, in support of their reform agenda. They will also 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, they will provide the IMF with information in connection with progress in implementing the policies and achieving the objectives of the program. They also authorize publication of the Letter of Intent and its Attachments, as well as the staff report.