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BANGLADESH

December 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

In the context of Staff Report for the 2013 Article IV Consultation and Third Review 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** prepared by a staff team of the IMF for the Executive Board's consideration on November 27, 2013, following discussions that ended on October 7, 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 November 11, 2013.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF.
- A **Staff Statement** of November 27, 2013, updating information on recent developments.
- **Press Releases** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its November 27, 2013 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- A **Statement by the Executive Director** for Bangladesh.

The documents listed below have been or will be 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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KEY ISSUES

Context. Since the last Article IV Consultation in 2011, there have been significant macro-stabilization gains and progress in structural reforms, underpinned by a Fund-supported program. At the program midpoint, the economy faces two key challenges: political uncertainty and strikes in the run up to national elections (due by January 2014), already creating a visible slowdown; and a transition in the garment sector to higher wages and more stringent labor and safety norms.

Macroeconomic policies. While adhering to the program target, fiscal policy should allow for a continued increase in priority investments and social spending. To safeguard stabilization gains, the current monetary stance should be maintained, as it strikes the right balance between keeping inflation restrained and allowing for a recovery in private credit to support domestic investment.

Structural reforms. The priorities for structural reforms going forward are: (1) strengthening revenue collection and administration capacity, including through implementation of the new value-added tax; (2) enhancing public financial management, especially treasury cash management and financial reporting in state-owned enterprises; (3) reforming the state-owned commercial banks through improved governance, credit risk management and internal controls, complemented by recapitalization; and (4) boosting growth and inclusion through better labor and safety standards, improved social safety nets, and streamlined trade and investment regulations.

Program. The program remains on track. All performance criteria at end-June 2013 (the third review test date) were met and all structural benchmarks have been completed. Staff recommends completion of the review and modification of the performance criteria for December 2013 (to lock-in the recent improvement in reserves). The authorities have consented to publication of the Staff Report and the Letter of Intent.

Approved By
Nigel Chalk and Peter Allum

Discussions took place in Dhaka during September 22–October 7, 2013. The staff team comprised Rodrigo Cubero (mission chief), Seng Guan Toh, Souvik Gupta, and Eteri Kvintradze (Resident Representative) (all APD); Leandro Medina (FAD); and Lars Engstrom (SPR). Manoj Govil (OED) joined the closing policy discussions. To-Nhu Dao and Ranee Sirihorachai (APD) assisted in preparing this report.

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GLOSSARY

ADP	Annual Development Program
BB	Bangladesh Bank
BCA	Bank Companies Act
BPC	Bangladesh Petroleum Corporation
CA	current account
CGER	Consultative Group on Exchange Rate Issues
CPI	consumer price index
DeMPA	Debt Management Performance Assessment
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
FX	foreign exchange
FY	fiscal year
GDP	gross domestic product
GPF	General Provident Fund
GSP	Generalized System of Preferences
Hartal	nationwide strike
HIES	Household Income and Expenditure Survey
IT	indicative target
MEFP	Memorandum of Economic and Financial Policies
MoDMR	Ministry of Disaster Management and Relief
MOU	memorandum of understanding
MPC	marginal propensity to consume
NBR	National Board of Revenue
NCB	nonconcessional borrowing
NGO	nongovernmental organization
NPL	nonperforming loan
PC	performance criterion
PFM	public financial management
RAM	risk assessment matrix
REER	real effective exchange rate
RMG	ready-made garment
ROA	return on assets
SCNCB	Standing Committee on Non-Concessional Borrowing
SOCB	state-owned commercial bank
SOE	state-owned enterprise
SSN	social safety net
TA	technical assistance
TIN	taxpayer identification number
VAT	value-added tax

CONTEXT

1. Taking stock. Bangladesh successfully averted the balance of payments crisis that was foreshadowed in the 2011 Article IV consultation by undertaking combined monetary and fiscal tightening, supported by a three-year Extended Credit Facility (ECF) approved in April 2012. At the program midpoint, macro-stabilization achievements and progress on structural reform have been strong (Box 1). International reserves have doubled, underlying inflation has steadily eased, and public debt has declined. Progress has been made in lowering poorly targeted subsidies, raising development spending, laying the foundation for tax revenue increases, improving public financial and debt management, and strengthening financial supervision. Meanwhile, Bangladesh's two-decade trend of poverty reduction continues and good progress has been made toward the country's Millennium Development Goals (see Appendix II and Table 1).

2. Political context. Political tensions and associated nationwide strikes (*hartals*) have intensified since February 2013 in the lead up to national elections, which are due by January 2014. Protests were further spurred by war crimes verdicts against leaders of two main opposition parties and by political gridlock over establishing a transitional government to oversee the election period.

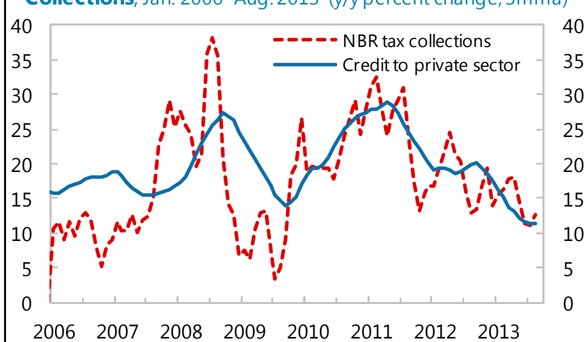
3. Program performance. All performance criteria and most indicative targets for end-June 2013 (this review's test date) were met (Figure 1 and Table 1 in the accompanying Memorandum of Economic and Financial Policies, MEFP). All 10 structural benchmarks scheduled between June and September 2013 were completed, with passage of the Bank Companies Act amendments in July a major legislative milestone.

MACROECONOMIC DEVELOPMENTS

4. Developments (Figures 2–5).

- ***Growth.*** Political uncertainty and nationwide strikes are taking a toll on economic activity, with private investment most affected. Real GDP growth moderated in FY13 (July 2012–June 2013) to 6 percent (FY12: 6.2 percent) (Table 2). Recent data on private credit and tax collections suggest economic activity continues to slow.

Bangladesh: Credit To the Private Sector and Tax Collections, Jan. 2006–Aug. 2013 (y/y percent change, 3mma)



Sources: Bangladesh authorities; and IMF staff calculations.

- ***Inflation.*** Average consumer inflation moderated to about 7 percent (y/y) in FY13, from 8.7 percent in FY12. Although supply disruptions drove up food inflation in recent months, nonfood inflation (a better indicator of underlying pressures) has declined

Box 1. Bangladesh: Achievements Under the ECF-Supported Program at Midpoint

Strong macroeconomic stabilization gains, while raising space for development and social spending.

- Over two years, GDP growth averaged 6.1 percent, per capita GDP (U.S. dollar) rose 6.5 percent.
- International reserves doubled since late 2011, now second highest in South Asia (after India).
- Nonfood (core) inflation has steadily declined.
- Tax revenue increased by 0.4 percentage points of GDP over two years.
- Poorly targeted energy subsidies were curbed, creating space to execute development and social spending, while still reducing public debt levels.
- World Bank (Poverty Assessment 2013) sees share of population living in poverty falling from 31.5 percent (2010) to 26.5 percent by 2015 (with 5.8 percent average GDP growth).

	Apr. 2012 (ECF Approval)	Sep. 2013
Gross international reserves		
(In billions of U.S. dollar)	9.5	16.0
(In months of prospective imports)	2.4	4.3
CPI (2005-06=100, percent; y/y)	6.2	7.1
Nonfood CPI (percent; y/y)	11.7	5.9
(Percent of GDP)	FY11	FY13
Tax revenue collections	9.6	10.0
Annual Development Program	4.2	4.8
Execution rate 1/	87.0	90.9
Social spending	4.3	4.5
Government debt	44.2	39.3

1/ Percent of budgeted amounts.

Substantial delivery on a broad-ranging structural reform agenda, laying the foundations for future growth.

- By end-September 2013, a total of 27 structural benchmarks and prior actions (including for program approval) had been completed under the ECF-supported program in a range of areas (see table).
- Major laws passed during program period:

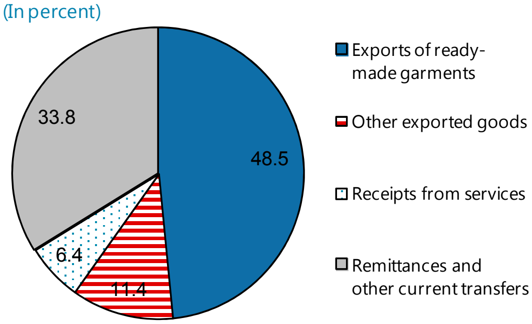
1. Value Added Tax Law, 2012
2. Bank Companies Act, 2013 (amendments)
3. (Stock Exchanges) Demutualization Act, 2013

Bangladesh ECF: Structural Reform Areas (Completed Actions)
Revenue measures (including tax policy reforms)
Revenue administration, including customs
Expenditure measures
Expenditure auditing, accounting, and financial controls
Public enterprise reform and pricing (nonfinancial)
Financial sector legal reforms, regulation, and supervision
Exchange systems and restrictions (current and capital accounts)
Debt management
Government financing operations
Central bank operations and related reforms

steadily and is continuing to trend lower as a result of tighter policies, a slowing economy, and currency appreciation.[1]

- ***Balance of payments.*** Export performance remained favorable in FY13, while import growth declined as private investment weakened. Remittance growth—while slowing over the course of the fiscal year—provided further support. As a result, the current account posted a record surplus of 2 percent of GDP in FY13 (Table 3). However, after adjusting for the cyclical position of the economy, the current account appears in line with fundamentals (Box 2). Bolstered further by high aid disbursements, gross international reserves have doubled since end-2011 to US$17.2 billion by end-October 2013 (4.6 months of imports) and appear broadly adequate for precautionary purposes.

Bangladesh: Total Gross Receipts under the Current Account, FY13
(In percent)



Sources: Bangladesh authorities; and IMF staff calculations.

- ***Exchange rate.*** The bilateral taka/U.S. dollar exchange rate appreciated by 8 percent from its low at end-January 2012 through end-May 2013, but has remained stable thereafter.[2] Despite appreciating since the last Article IV consultation, the real effective exchange rate is assessed to be close to equilibrium (Box 2), with the garment sector (which accounts for over 80 percent of exports) remaining highly competitive (Appendix III).

- ***Monetary.*** Private credit growth continued to slow in 2013 as political uncertainties curbed the demand for investment, contributing to ample systemic liquidity.[3] Bangladesh Bank (BB) has stepped up its sterilization operations and met the indicative target on reserve money at end-June 2013 (Table 4). Since then, the central bank has taken advantage of the strong balance of payments position to build reserves.

- ***Fiscal.*** *Hartal*-related disruptions and weak imports over the year led to weaknesses in VAT, supplementary duties, and other trade-related taxes, with total tax revenue falling short of the program's indicative target for June 2013 by about ½ percent of GDP. This, however, was offset by better control of nonessential expenditures and lower-than-expected subsidy

[1] The Bangladesh Bureau of Statistics phased out the 1995/96 Consumer Price Index (CPI) base in August 2013. The figures in this report are based on the 2005/06 CPI base. Under the revised CPI, the basket of commodities has been updated and expanded, with slightly lower weights for rural areas, and for food and energy and rent-related items.

[2] Bangladesh's *de jure* exchange rate arrangement is "floating," and the *de facto* exchange rate arrangement is "other managed."

[3] The slowdown in credit by domestic banks has been partially offset, however, by an increase (though from a low base) in term external borrowing by the local private sector.

Box 2. Bangladesh: External Sector Assessment

The underlying current account (CA) is broadly consistent with fundamentals. While the CA registered a historically large surplus in FY13, driven by temporarily subdued imports, its underlying medium-term value—as proxied by staff projections for FY18—is deemed to be much lower (-0.8 percent of GDP), reflecting Bangladesh's significant investment needs and favorable financing profile. This value is well within the range of estimates for the CA norm provided by quantitative methodologies based on the Consultative Group on Exchange Rate Issues (CGER), and it is also within the confidence interval for the macroeconomic balance approach.

Bangladesh: Estimate of the Current Account Norm
Macroeconomic Balance Approach

	Variables	Coefficients	Impact
Constant		-0.75	-0.75
Remittances, % of GDP	8.80	0.66	5.82
Oil balance, % of GDP	-3.70	1.38	-5.10
Lagged net foreign assets, % of GDP	-27.99	-0.12	3.24
Foreign aid, % of GDP	1.16	-1.59	-1.84
Relative income, %	-31.11	0.04	-1.19
Fiscal balance (rel. to trading partners), % of GDP	-0.21	-0.51	0.11
Current account norm, % of GDP			**0.30**

Source: IMF staff estimates.

The real effective exchange rate (REER) is broadly in line with fundamentals. More than undoing the depreciation in previous years, the REER appreciated significantly in late 2012 and the first half of 2013, supported by a strong CA, large capital inflows, and faster price increases than in competing countries. The CGER's equilibrium exchange rate approach suggests that the exchange rate, at projected medium-term values for the fundamentals, is well within confidence bounds around equilibrium. The external sustainability and macro-balance approaches also indicate that the REER is around its fair value.

Bangladesh: Exchange Rate Assessment

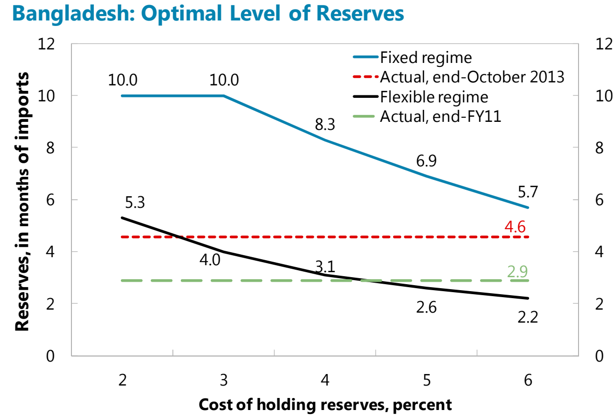
Approach	Current Account: Underlying Balance (in percent of GDP)	Current Account: Norm (in percent of GDP)	REER Overvaluation (+)/ Undervaluation (-) (in percent)
External sustainability 1/	-0.8	-1.8	-3
Macro balance (remittance adjusted) 1/	-0.8	0.3	4
Equilibrium exchange rate			3

Source: IMF staff estimates.
1/ The elasticity of the current account balance with respect to the REER is estimated at 0.29, drawing on work by Stephen Tokarick, IMF Working Paper WP/10/180.

The current and projected structure of external financing does not raise external vulnerability concerns. Public sector borrowing, mostly on concessional terms, and foreign direct investment are the main sources of external financing, ranging between 1–1½ percent of GDP in recent years. They are projected to increase gradually to more than 3 percent of GDP over the long term. The overall net foreign asset position was -23 percent of GDP at end-FY11, with total foreign liabilities at 35 percent of GDP, of which debt-creating foreign liabilities at 28 percent of GDP.

The international reserve position is approaching adequacy. Bangladesh Bank has intervened extensively to slow the appreciation of the taka, with official reserves growing significantly as a result. Reserve cover is currently at about 4.6 months of projected imports, and about 5.8 months excluding inputs for the ready-made garment (RMG) sector (which would fall in parallel with any shock to RMG exports, thereby ameliorating the need to draw on reserves to address current account pressures). Assuming that the long-term opportunity cost of holding reserves is about 5 percent,[1] this level of reserve cover exceeds the Fund metric for reserve adequacy for a flexible exchange rate regime. In light of Bangladesh's historic tendency to intervene extensively to stabilize the taka, a further moderate increase in the reserve cover over the medium term may be warranted to provide an enhanced cushion.

Bangladesh: Optimal Level of Reserves



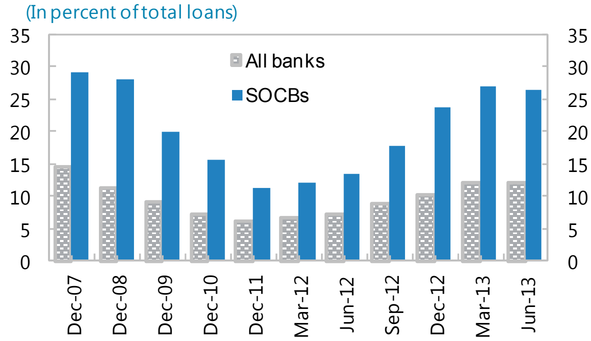
Source: IMF staff estimates.

[1] Estimated as the difference between short-term U.S. dollar-denominated borrowing to finance oil imports and BB's return on reserve assets (proxied by U.S. Treasury bills). Sterilization costs net of returns on reserve assets (the "cost of carry") are also estimated at 5–6 percent.

costs. Annual Development Program (ADP) project implementation improved noticeably, executing 91 percent of the initial budget allocations (FY12: 79 percent). Overall, the budget deficit (excluding grants) is estimated at 4.5 percent of GDP (Table 5), in line with the ECF program.[4]

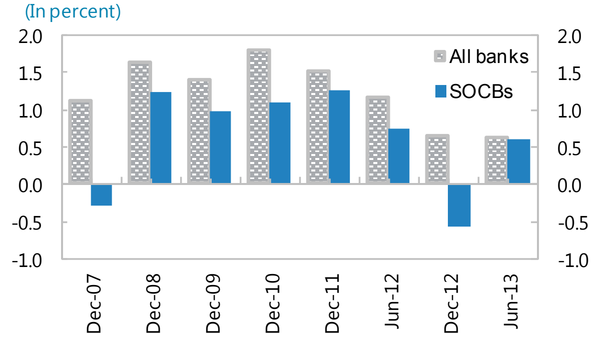
- ***Financial sector.*** The financial position of the four state-owned commercial banks (SOCBs), which account for a quarter of banking system assets and include the country's largest bank, deteriorated in 2012 but appeared to stabilize between March and June 2013 (Table 6). Nonperforming loan ratios at SOCBs were driven up by poor credit decisions, bank frauds, slower economic activity, and the end-2012 tightening of loan classification standards. Performance at the state-owned specialized banks (about 5 percent of system assets) has also deteriorated. Over the past few months, stock market performance and turnover have been subdued as political uncertainties have dampened investor appetite. Recent volatility in emerging markets has had no visible impact on Bangladesh, however, reflecting its relatively closed capital account.

Bangladesh: Nonperforming Loans (NPL), Dec. 07 - Jun. 13 1/
(In percent of total loans)



Source: Bangladesh Bank.
1/ New and stricter NPL rules became effective December 2012.

Bangladesh: Return on Assets (ROA), Dec. 07 - Jun. 13 1/
(In percent)



Source: Bangladesh Bank.
1/ Bangladesh Bank defines ROA as the ratio of net income after provision and taxes to total assets.

OUTLOOK AND RISKS

5. Challenges ahead. Over the next few years, the Bangladesh economy will face two sets of challenges. Most immediately there are the disruptions and uncertainty associated with the forthcoming elections. Over a longer horizon, Bangladesh will need to manage a transition in the flagship ready-made garment (RMG) industry. Minimum wages are being increased, and following a string of accidents (notably two factory fires and a building collapse), as well as the withdrawal of the Generalized System of Preferences (GSP) by the U.S. in June 2013,[5] the Bangladesh government, business and workers organizations, and international stakeholders have put in place several initiatives to improve working conditions and factory safety standards in the RMG industry

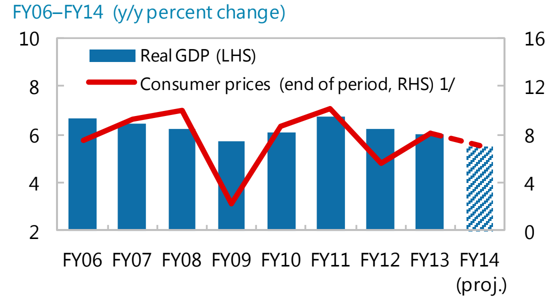
[4] This includes ½ percent of GDP in special bonds programmed for settlement of past subsidy commitments.

[5] The direct impact of this is expected to be limited, as the privileges exclude RMG and only cover about 0.6 percent of Bangladesh's exports. However, the decision, based on labor rights concerns, carries an important message.

(Appendix III). As a result of these changes, the RMG industry will face higher operating costs. It may also face some moderate displacement of external demand as some buyers shift in response to the industrial accidents. The short-term outlook will reflect the interplay of these two challenges.

6. Near-term outlook. In FY14, with continued uncertainty and possible disruptions in the pre-election period, GDP growth is projected to slow to 5½ percent. The drivers of growth are also expected to shift from net exports to domestic absorption. Export growth is expected to moderate, reflecting supply disruptions and some modest decline in external demand for RMG exports following the recent industrial accidents. Remittance growth has been falling and turned negative in August 2013 as the outflow of workers continued to decline due to migration restrictions in some Gulf countries.[6] Remittances are expected to remain weak in FY14 and the current account is projected to narrow but remain in surplus in FY14. Private capital outflows are expected to increase with political uncertainty. Overall, these developments are expected to lead to a slower pace of net international reserve accumulation in FY14 compared to both FY13 and what had been previously programmed (but with reserves starting at much higher level). Following the dissipation of political uncertainty after the elections, a recovery in investment is expected as RMG factories upgrade machinery and public infrastructure is expanded. This should create a rebound in imports. Notwithstanding slower remittances, consumption in FY14 should be supported by higher minimum wages (a decision is expected by November 2013) and a rise in civil servants' allowances of about 20 percent (about 0.3 percent of GDP).[7] Year-on-year inflation is expected to continue to ease on restrained macro policies and a slowing economy, but there are upside risks from supply disruptions and wage increases.

Bangladesh: Real GDP and Consumer Prices
FY06–FY14 (y/y percent change)



Sources: Bangladesh Bureau of Statistics; and IMF staff projections.
1/ Based on CPI (1995-96=100) up to FY11 and CPI (2005-06=100) afterward.

7. Medium-term outlook (Table 7).

- **Growth and inflation.** From FY15, growth is expected to strengthen gradually, peaking at 7 percent and then returning to a long-run growth rate of 6.5 percent after FY19. This trajectory is supported by the demand and supply-side effects of strong public investment to address infrastructural bottlenecks, favorable demographics, and reforms to enhance the investment climate and improve education and skills. Assuming a continued sound policy framework and a gradual easing of supply constraints, inflation should decline to below 6 percent.

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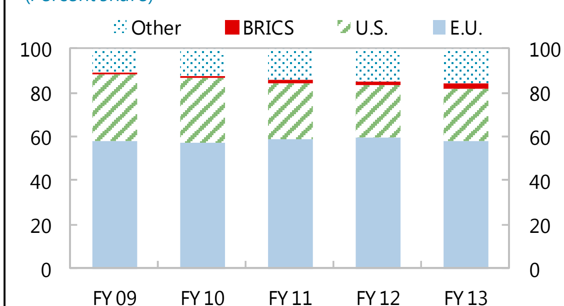
[6] The decline in official remittance data may also be masking some capital flight ahead of the elections, as funds are diverted from formal banking channels to informal channels. This phenomenon is typical in election years, and is expected to normalize once political conditions settle.

[7] Nominal salaries and allowances for civil servants were last adjusted in 2009.

- **Balance of payments.** Over the next few years, the RMG industry is expected to consolidate, with smaller noncompliant factories closing or being acquired by larger companies that have greater financial capacity to upgrade their premises and absorb the increase in operating costs.[8] As a result of these adjustments, export growth may still remain somewhat subdued into FY15, but recover thereafter as export supply is boosted by factory upgrading, improved power and transport infrastructure, and an enhanced investment climate. Remittances are expected to normalize from FY15, as demand for migrant labor improves, driven by expected infrastructure investments in the Gulf countries. High investment demand in Bangladesh is likely to drive import growth, returning the current account to a modest deficit from FY15. International reserves are forecasted to continue to rise, albeit at a more moderate pace than that seen over the past two years, underpinned by foreign direct investment and public external borrowing for infrastructure.

8. Risks. The principal near-term risk is an intensification of election-related uncertainty, economic disruptions and violence, which would affect investment and growth, directly and through confidence effects (Box 3). Balance of payments pressures could also reemerge if the disruption led to a loss in exports and more abrupt capital outflows. A further deterioration in SOCB finances poses fiscal and financial stability risks. Risks from the external environment could stem from a growth downturn in Europe, or from the withdrawal of preferential market access under the EU's GSP (a tail risk that could be triggered by a perceived lack of progress in strengthening labor standards and worker safety conditions). A loss of market access would have significant downsides for the external position and inclusive growth, potentially stalling important gains in poverty reduction (Box 4). An abrupt US fiscal shock would have some effect through trade channels, but the impact would likely be limited as Bangladesh's exports are mainly in low cost, basic garments with lower income elasticity of demand (as was evident in the 2008–09 global crisis).

Bangladesh: Readymade Garment Exports by Destinations, FY09–13
(Percent share)



Sources: Bangladesh Garment Manufacturers and Exporters Association and IMF staff calculations.

9. Spillovers from India (Box 5). The recent growth slowdown and currency market volatility in India is expected to have relatively modest spillovers to Bangladesh in the near term. Export exposure to India is very low and financial linkages are limited. Domestic inflation could actually decline as a result of the depreciation of the rupee reducing the cost of imports from India.

[8] Industry estimates suggest that up to 60 percent of Bangladesh's garment factories (accounting for up to two-fifths of total production) are housed in shared or converted buildings, rather than in purpose-built factories. These would likely be the focus for compliance initiatives.

Box 3. Bangladesh: Risk Assessment Matrix 1/

Shock	Likelihood	Vulnerabilities	Potential Impact	Policy Response
Intensification of politically motivated uncertainty and tensions.	Medium-High	Escalating violence and uncertainty would affect investment and growth.	High: Growth prospects could be further dampened by a loss of confidence and a slump in investment and consumption. Balance of payments (BOP) pressures could emerge from lost export production.	Automatic fiscal stabilizers should be allowed to operate, and assuming the turbulence is temporary, reserve buffers should be used to cushion the shock and smooth exchange rate volatility, while sterilizing any intervention to prevent excessive monetary tightening.
Further deterioration in the state-owned bank finances (state-owned commercial and specialized banks).	Medium	The financial health of the state banks deteriorated significantly since 2012, with nearly all still under-capitalized as of June 2013.	Medium: Assuming failure to recover all nonperforming loans (worst case) and measuring capital on a tangible basis (most conservative), the potential additional recapitalization needs of state-owned banks are estimated to be up to 2½ percent of GDP above and beyond what is already in the baseline.	The undercapitalized banks should be held strictly accountable to the latest revised memoranda of understanding (MOUs) agreed with Bangladesh Bank (BB) aimed at improving their financial performance. Stricter controls over their lending activities and more aggressive recovery of bad loans would be needed, backed by recapitalization tied to a clear strategy and business plans to improve longer-term viability.
Euro area financial stresses re-emerge (leading to a growth downturn).	Medium	Half of total exports and two-thirds of garment exports go to the EU.	Medium: Activity would be affected in the garment export sector, with a negative impact on the BOP.	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.
Withdrawal by European Union of Generalized System of Preferences (GSP) for Bangladesh, related to delays in implementing agreed worker rights and safety accords.	Low	See the preceding. Vulnerabilities would be amplified, as this country-specific shock would affect Bangladesh directly. Access to EU GSP in January 2011 has driven large market share gains.	High: GDP growth could decline by up to 1¾ percentage points in the first year of the shock, as activity would be severely affected in the garment sector, which accounts for 80 percent of exports and directly employs about four million workers, mainly women. BOP pressures could intensify as exports slump, destabilizing the exchange rate and pressuring reserves. (See Box 4 for details)	Similar macro-policy response as in the preceding. While seeking preferential trade reinstatement, structural policies to diversify to new garment markets should be encouraged, in conjunction with an acceleration of steps to establish minimum labor rights and worker safety standards.
Global oil price shock triggered by geopolitical events.	Low	Petroleum imports (in U.S. dollars) have more than doubled since FY10, driven by increased reliance on liquid fuel-fired power generation.	Medium: A higher import bill would cause renewed BOP pressure. A partial offset could come from higher remittances if higher oil prices improve economic conditions in the Gulf countries, the source of nearly two-thirds of remittance inflows. Fuel-related subsidies could destabilize the fiscal stance.	Timely adjustments to retail fuel prices guided by the government's existing formula (based on ad-hoc adjustments to keep prices on average within Tk 10 per liter of international prices) 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 most likely scenario to materialize in view of IMF staff). The relative likelihood of risks listed is staff's subjective assessment of the risks surrounding the baseline. The RAM reflects staff views on sources of risk and overall level of concerns at the time of discussions with authorities.

Box 4. Bangladesh: Exploring a Tail Risk Event: Trade Shock from the European Union

This box estimates the impact of a trade shock coming from the European Union (EU), Bangladesh's largest export destination. *To explore a worst case shock, we consider a tail risk event in the form of loss of preferential access to the EU market through the Generalized System of Preferences (GSP). This shock could have a sizable impact on economic growth through lower RMG exports. Overall, there may be a loss in real output of about 1¾ percentage points in the first year after the shock.*

Bangladesh: Scenario Analysis of EU Trade Shock

(Changes relative to the baseline scenario)

	Year 1	Year 2	Years 3-5
Real GDP growth (percentage points)	-1.8	-0.6	0.0
Exports of goods (percentage points of GDP)	-2.2	-2.1	-2.2
Current account balance (percentage points of GDP)	-1.1	-1.1	-1.0
Gross official reserves (months of import coverage)	-0.2	-0.5	-1.1

Source: IMF staff estimates.

- In estimating the potential impact relative to the baseline scenario, a shock was calibrated based on the estimated decline in exports. The latter assumes a reversal of the RMG market share gains made by Bangladesh in the EU following the January 2011 relaxation of the GSP's rules of origin in favor of Bangladesh (Figure 2). The shock is estimated at about 2¼ percent of FY14 GDP worth of RMG exports or about 16 percent of FY14 RMG export earnings.[1]
- The effect of this shock on the external position is expected to be sizable, with both the current account and reserve cover noticeably weaker than in the baseline scenario (although the impact on the current account is dampened by the substantial import content of RMG exports).
- The attendant loss of income from the export sector is also expected to curb private consumption and private investment, the latter with a lag.[2,3] The impact on real GDP, computed through expected changes in net exports, household income and private investment, is estimated at 1¾ percent the first year and an additional ½ percentage point in year 2.[4]
- Notwithstanding this, only a levels effect on GDP is expected by the medium term, with export growth expected to recover as Bangladesh maintains its significant cost advantage and with GDP growth returning to the same fundamental path.
- Under this scenario, Bangladesh's external debt distress rating remains unchanged (low risk).

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[1] The rule change in EU's GSP in 2011 favoring Bangladesh is estimated to have increased Bangladesh's share in EU's RMG imports by 2.5 percentage points by end-FY2013 relative to the underlying trend prevailing before the change. This translates to about 2.2 percent of FY14 GDP worth of RMG exports.

[2] A national marginal propensity to consume (MPC) was derived from Ghosh, Badal Kumar (2010): Rural-Urban Consumption Patterns in Bangladesh, *International Review of Business Research Papers*, Vol. 6, No. 4, September 2010 (available at: http://www.bizresearchpapers.com/3.%20Badal.pdf), by aggregating urban and rural MPCs as a weighted average of rural-urban expenditure shares from the 1995–96 Household Income and Expenditure Survey.

[3] Reviewing six episodes of export-growth slowdowns since FY2003, it was found that private investment growth slowed down about one year after the export growth slowdown, with an average elasticity of 0.2.

[4] Possible additional effects on output (for instance from the exchange rate or spillovers to the banking sector) are not considered.

Box 5. Bangladesh: Spillovers from Recent Developments in India

Slowing growth and sharp currency depreciation in India have raised questions about possible spillovers to the Bangladesh economy. Preliminary analysis suggests that the net impact may be positive in the short term, but competitive effects may intensify over the medium term in the absence of other structural changes.

In the near term, Bangladesh is expected to benefit from developments in India through an improved trade balance and lower inflation. The key transmission mechanisms are (see also table below):

- **Trade.** Bangladesh runs a sizable trade deficit with India: while exports to its neighbor are almost negligible, India is its second largest source of imports. These imports are predominantly raw materials for the garment sector (mainly cotton), food and other consumer goods. Therefore, a sharp depreciation in India lowers input costs for Bangladesh's RMG sector and reduces the cost of imported consumer goods for households. In the near term, imports are curbed because of the "J-curve" effect (quantities adjust slowly). Given the bulk of imports from India are not locally produced, substitution effects should be marginal. Further, direct competition in third markets is moderate, as Bangladesh's exports to advanced economies are almost entirely in apparels (about 97 percent), while India retains a large share of exports in textiles. Given the costs associated with changing suppliers, the impact on Bangladesh's apparel exports should be limited, at least in the short term.
- **Other BOP flows.** Official data suggest that remittances from India accounted for no more than 3½ percent of total remittances on average over the past five years (though remittances from India sent through informal channels, and thus not captured in these data, may be significant). As Bangladesh has a relatively closed capital account dominated by official aid flows, private capital outflows are not a significant vulnerability. Official flows from India are unlikely to be affected by recent developments and are relatively small anyway, with the most significant being a US$1 billion bilateral credit line signed in October 2010, out of which US$200 million was converted to a grant in 2012, with the bulk of the remaining amount yet to be disbursed.
- **Domestic inflation.** Based on the share of goods from India in Bangladesh's consumption basket, it is estimated that a 20 percent appreciation of the Taka/rupee exchange rate could reduce inflation by about 0.5 percentage points.[1]

Over the medium term, if currency trends persist, India could emerge as a formidable competitor for Bangladesh's garment exports. While Bangladesh today still enjoys a substantial wage cost advantage versus India (see Appendix III), India enjoys advantages in having local cotton supplies, a sizable labor force, and relatively better infrastructure. If the weakness in the Indian rupee is prolonged, India's garment export competitiveness can add pressure to the gains Bangladesh has made so far. This reinforces the priorities for Bangladesh to raise worker productivity levels and strengthen important power and transport infrastructure that are critical for the manufacturing sector to sustain medium-term competitiveness.

Bangladesh: Selected Indicators of Linkages with India

	Percent share in total aggregate	US$ million	Percent of GDP
Trade balance with India (FY13)	35.9	-3,709	-2.9
Exports to India	4.3	1,031	0.8
Of which: top 3 items (Raw jute and products, fish, RMG)	3.4	589	0.5
Imports from India	13.9	4,741	3.7
Of which: top 3 items (cotton & fabrics, food items, vehicles)	25.3	2,598	2.0
Bilateral grants and official loans (net) from India (FY13 estimate)	23.9	172	0.1
Stock of bilateral debt with India (FY13 estimate)	2.8	83	0.1

Sources: Bangladesh authorities and IMF staff estimates.

[1] Assuming a sustained one-year depreciation. The CPI impact was estimated using composition of household expenditure based on 1995-96 Household Income and Expenditure Survey.

Authorities' Views

10. The outlook. The authorities agreed that economic growth was slowing although viewed staff projections as conservative. They also shared staff's views on the prospect for weak remittances in FY14. The authorities were more sanguine on exports, pointing to still-strong performance through September (although they concurred that the full effects of recent industrial disasters had yet to be felt given long garment order lead times), and anticipated a stronger recovery in imports following the elections, leading to slower reserve accumulation from 2014. The authorities agreed on the growth consequences of the ongoing adjustment of the RMG industry but were prepared to provide policy support, particularly to small and medium enterprises. They also emphasized the need to sustain competitiveness in this sector through productivity and education reforms.

11. Risks. The authorities acknowledged that the risk of election-related disturbances was the foremost concern. However, policymakers remained cautiously hopeful that a way forward would be found and calm would soon return. They reiterated their commitment to address weaknesses at the SOCBs and felt that disruptions from the banking sector were less of a risk to the economy. The authorities were cognizant of the importance of moving ahead with agreed labor and safety action plans, but also called for an appreciation of the scale and complexity of the garment sector reforms required within a short timeframe. They also underlined the importance of the garment industry in boosting inclusive growth and poverty reduction. The authorities agreed with staff's analysis on the nature of spillovers from recent developments in India.

MACROECONOMIC POLICIES

12. Monetary and exchange rate policy. Program indicative targets keep reserve money growth at around 16 percent in 2014, remaining relatively restrained while providing some room for a recovery in private credit growth to finance the expected increase in private domestic investment. With international reserves approaching adequate levels, BB has room to scale back foreign exchange (FX) intervention in the coming months but will need to maintain its sterilization operations to achieve program targets.

13. Fiscal policy. The fiscal deficit (excluding grants) should adhere to the program target of 4.3 percent of GDP in FY14. This would allow for a continued rise in ADP spending but necessitate continued restraint on less productive non-ADP capital spending and stronger tax collection efforts.[9] Over the medium term, a moderate consolidation path (anchored by reducing the deficit, including grants, to under 3 percent of GDP by FY18 and keeping public debt on a smooth downward path) should continue to be pursued, while still increasing ADP spending.

14. Policy responses for downside risks (Box 3). In case of temporary shocks, such as an intensification of election-related turbulence, reserve buffers could be used through sterilized

[9] The FY14 Budget allocated Tk 68 billion (about 0.6 percent of GDP) for the Padma Bridge project. However, the project has experienced significant delays and only a fraction of the allocation is likely to be executed in FY14.

intervention to finance the shock, smooth currency volatility, and avoid a sharp monetary tightening. In case of adverse shocks of a more prolonged nature, such as a sustained trade shock, the exchange rate should be allowed to adjust, and BB should be prepared to tighten monetary policy to support the currency and contain pass-through effects from exchange depreciation to domestic inflation, while ensuring an adequate supply of liquidity to the markets. These policies should be complemented with moderate fiscal easing, including the expansion of well-targeted safety net schemes to protect the most vulnerable.

15. Authorities' views. The authorities agreed with staff's views on the needed policy settings under the baseline (MEFP ¶3, 9), and the program's quantitative targets through December 2014 (MEFP Table 1) are consistent with these objectives. Proposed modifications to December 2013 targets were designed to lock-in higher international reserves and further reinforce external buffers.

STRUCTURAL REFORMS

There has been strong performance on the structural reform agenda, which has helped to lessen vulnerabilities and lay the foundations for sustainable high growth.

A. Safeguarding Fiscal Sustainability

16. Revenue reforms. A slowing economy amidst *hartal*-related disruptions and political uncertainty contributed to lower-than-programmed tax revenue outturns for FY13. With these influences expected to unwind only gradually, and with somewhat more cautious assumptions about near-term gains from revenue administration reforms, program projections for tax revenues have been revised downward in relation to GDP. Thus, the tax-to-GDP ratio is projected to remain flat at about 10½ percent of GDP between FY12 and FY14, with a decline of revenue from import-related taxes of 0.4 percent of GDP offset by gains in income taxes, boosted by automation. The revenue ratio is projected to increase slightly in FY15 and then more decisively beyond the program period with the launch of the VAT. The revenue reform program is centered on the following elements:

- **Strengthened revenue administration.** The National Board of Revenue (NBR) successfully launched the automated issuance of taxpayer identification numbers (TIN) linked with the national identification database (a June 2013 benchmark). As of end-September 2013, more than 530,000 taxpayers have obtained TIN registration, including over 90 thousand new taxpayers, helping to boost income tax collection. To further strengthen tax collections in the future, the authorities need to press ahead with the automation process, including through online re-registration of current VAT taxpayers, supported by increased staffing levels (MEFP, ¶5).

- **Maintain steady progress in VAT implementation.** To secure a medium-term improvement in the tax-to-GDP ratio, the authorities acknowledged it critical to move forward on the implementation of the new VAT, which is running behind the plan approved by the Minister of Finance in March 2013. In particular, the process for inclusion of the VAT implementation project in the ADP took longer than envisaged, but was completed in October (a prior action). The immediate priorities ahead are to issue the tender for the VAT software vendor (a new

December 2013 benchmark) and to then select the vendor (a rescheduled June 2014 benchmark). The NBR will also continue public consultations on the draft regulations for the new VAT, issued in September 2013 (MEFP, ¶4).

17. State-owned enterprises (SOEs) (MEFP, ¶6). Efficiency audits of the three large subsidy-related SOEs, namely the Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board and Bangladesh Chemical Industries Corporation (June 2013 benchmark) identified significant operational and financial deficiencies. The authorities now plan to focus their efforts first on strengthening BPC, the largest nonfinancial corporation in the country. Professional staff will be hired for financial management of BPC by March 2014 and automated financial reporting software will be adopted by December 2014. A global audit firm, in association with a local firm, will also be appointed to complete a financial audit of BPC by September 2014 (a new benchmark).

18. Public financial management (PFM) (MEFP, ¶7). To further strengthen treasury cash management and expenditure controls in line with Fund technical assistance recommendations, the authorities committed to institutionalize cash flow forecasting, establish a system of quarterly fund releases, and develop monthly cash plans consistent with those releases by March 2014. To reinforce PFM discipline, the high-level Cash and Debt Management Committee issued a decision in October (a prior action) to limit the amount of government borrowing from BB through the overdraft facility. This will become effective in April 2014.

19. Public debt management (MEFP, ¶8). To improve the oversight of nonconcessional borrowing (NCB), the authorities revised the terms of reference for the Cabinet's Standing Committee on Non-Concessional Borrowing (SCNCB) (June 2013 benchmark).[10] The SCNCB is supported by its technical committee, which coordinates information gathering on the non-concessional borrowing pipeline across agencies. The authorities also requested a Debt Management Performance Assessment (DeMPA) from the World Bank. Its report, expected by end-2013, will help inform further measures to strengthen debt management.

20. Debt ceilings. The government has identified a revised pipeline of high priority investment projects in power, transportation, telecommunications, and other infrastructure for which concessional financing is not available (MEFP, ¶8, also text table below). This pipeline entails NCB for the period between July 2013 and December 2014 of about US$3 billion. Staff supports this borrowing program, which remains consistent with maintaining Bangladesh's current low risk of external debt distress.[11] Continued close tracking of the infrastructure program, combined with the steps taken to strengthen debt management practices, are expected to focus NCB on high value-added projects. Consistent with the updated borrowing program, the ceiling on new,

[10] The revision aims at ensuring that the SCNCB, previously called Hard-Term Loan Committee, oversees all nonconcessional borrowing contracts and determines nonconcessionality based on the grant element of the credit. For more details, see Second ECF Review Staff Report, IMF Country Report No. 13/157 (June 2013).

[11] See the accompanying Debt Sustainability Analysis (DSA) Update. The authorities had been considering issuing a sovereign bond of between US$500 million and US$1 billion, but a decision on this has been postponed until after the elections. A hypothetical issuance of US$1 billion in FY15 is reflected in the DSA's alternative scenario.

nonconcessional external debt (maturing in more than one year) for end-June 2014 would be raised to US$5.75 billion (from US$4.5 billion), while setting a new ceiling for end-December 2014 (US$6 billion).[12]

Bangladesh: Projected Public and Publicly Guaranteed Nonconcessional External Borrowing (July 2013 - December 2014)

Sector	Percent share of pipeline	
Power	70	
Transportation	11	
Information and communication technology	11	
Irrigation	4	
Education	3	
Other	2	
Sub-total (US$ millions)		3,032
Loans and guarantees signed between end-December 2011 and end-June 2013 (US$ millions)		2,860
Total of all loans and guarantees (US$ millions)		**5,892**

Source: Bangladesh authorities.

21. Greater scrutiny of fiscal risks (see Appendix IV).[13] Quasi-fiscal expenditures (for instance subsidy costs incurred by SOEs) should be brought fully on budget through timely transfers, while contingent liabilities (for instance from loan guarantees, the state-owned banks, and the pension system) should be reflected in the medium-term budget framework. Liabilities to the General Provident Fund (GPF) should be fully recognized as debt, and plans laid out for funding the GPF in the future. The authorities agreed to work on these issues, with Fund technical assistance as needed.

B. Strengthening the Financial Sector

22. State-owned commercial banks (MEFP, ¶12).[14] The special diagnostic examinations of the SOCBs (a June 2013 structural benchmark) identified significant weaknesses in asset quality, liquidity management, and internal audit and control (Box 6). To address these deficiencies, the memoranda of understanding (MOUs) between BB and the SOCBS have been strengthened (September 2013 benchmark), following IMF technical assistance. Going forward, the authorities committed to restoring the SOCBs to financial viability through:

- Enforcement of the provisions in the revised MOUs, including: (i) adoption of a stronger credit policy and credit risk management policy by November 2013; (ii) formulation of an internal control and compliance policy for each bank by December 2013 (a new benchmark); (iii) prudent

[12] The latter corresponds to cumulative NCB of 3¾ percent of GDP in the three years to end-2014.

[13] For more details see Medina (2014), IMF working paper (forthcoming).

[14] To address the weakening performance of the smaller and nonsystemic specialized development banks, the authorities have signed a memorandum of understanding (MOU) with the second largest of these banks, affected by a large fraud. The MOU aims at improving controls and credit risk management. The authorities also plan to recapitalize these institutions.

credit growth ceilings (an indicative target under the program), differentiated according to each bank's performance and financial soundness, to remain in place while SOCB corporate governance and credit risk management are improved. The revised MOUs also designate strengthened sanctions for noncompliance.

Box 6. Bangladesh: Main Findings from the Diagnostic Examinations of the State-Owned Commercial Banks

Bangladesh Bank completed special diagnostic examinations at the four state-owned commercial banks (SOCBs) in June 2013. Against the backdrop of a deterioration in financial performance at all the SOCBs in 2012 and the unearthing of some large lending frauds, the diagnostic examinations revealed significant weaknesses in asset quality, liquidity management, and internal audit and control.

The examinations concluded that these deficiencies were caused mainly by significant governance shortfalls (mostly related to oversight by bank boards and senior management):

Deficiencies related to asset quality:

- Credit policies not comprehensive, not reviewed regularly, and often not followed;
- No strategic planning for the credit portfolio;
- Loans extended without appropriate credit analysis or proper documentation;
- Problem loans not receiving enough attention; and
- Insufficient control over lending activities at the branches, exacerbated by an underdeveloped management information system.

Deficiencies related to liquidity management:

- Boards not driving the development or implementation of liquidity management policies;
- Ineffective daily monitoring of liquidity situation; and
- Lack of contingency liquidity planning.

Deficiencies related to internal audit and control:

- Inadequate internal controls and absence of an independent internal audit system;
- Delay or absence of disciplinary actions for major irregularities;
- Non-compliance with certain regulatory requirements; and
- Inadequate qualifications for key responsibilities.

- Recapitalization to restore the capital position of SOCBs in line with regulatory standards, conditional on actions agreed under the revised MOUs and clear business plans approved by the SOCB boards.

- Automation to reduce operational and financial reporting risks at the SOCBs, with a detailed action plan for SOCB automation to be completed by the Ministry of Finance, in consultation with BB, by March 2014 (a new benchmark).

- Reduced exposure to SOEs, with net lending from SOCBs to the three largest SOEs capped at zero by a program indicative target. The stock of these loans has been reduced to Tk 24 billion in September 2013 from Tk 92 billion at program approval.

23. Contingency planning framework (MEFP, ¶13). To further strengthen the regulatory framework for the financial sector, the BB Board adopted a bank intervention and resolution plan, as well as a lender of last resort policy (September 2013 benchmark).

24. Securities market reforms (MEFP, ¶14). Based on the newly amended Bank Companies Act, BB issued an order in September limiting banks' capital market exposure to 25 percent of their capital (a delayed June 2013 benchmark). Following passage of the Demutualization Act in April 2013, the Bangladesh Securities and Exchange Commission approved demutualization models and plans for both the Dhaka and Chittagong stock exchanges in September 2013 (a delayed June 2013 benchmark), to strengthen equity market governance.

C. Boosting Inclusive Growth

25. Critical infrastructure. Promoting high, sustained growth in Bangladesh will require steps to remove bottlenecks in essential infrastructure, particularly in power, transport and telecommunications.[15] This calls for cooperation with development partners and the private sector to boost public and private investment in these areas. The authorities agreed to keep public external borrowing, particularly if nonconcessional, focused on high-priority areas (MEFP, ¶8).

26. Trade and investment climate (MEFP, ¶17–18). The authorities intend to reform the trade regime, which includes a complex system of multiple taxes and levies. Also, following IMF TA, they approved a strategy paper to review the 1947 Foreign Exchange Regulations Act, laying out a roadmap towards gradual liberalization of exchange regulations with a view to improve the business environment and attract foreign investment (September 2013 benchmark). In accordance with the roadmap, BB is committed to reviewing and adopting the necessary amendments to all foreign exchange regulations and reporting routines for current account transactions by December 2014 (a new benchmark).

27. Labor and safety standards (MEFP, ¶15). The authorities are putting in place a number of measures to strengthen working conditions, particularly in the RMG industry. They formed a wage board to revise the minimum wage for the garment industry (last revised in 2010), with a final decision expected by November 2013. The Labor Act was amended in July to improve safety standards and workers' collective bargaining rights. Also, a high-level inter-Ministerial Committee was formed, with worker participation, to examine working conditions and safety in the RMG industry. With support from the International Labor Organization, development partners, and international retailers, the authorities are strengthening the labor inspection system, including through the recruitment of 200 additional inspectors by end-2013 and through safety assessments of all active ready-made garment factories.

28. Social spending (MEFP, ¶16). The June 2013 indicative target floor on social related spending, which includes social transfers and education, was comfortably met. The authorities aim

[15] See Appendix III on the impact of power and transport infrastructure deficiencies on the garment industry. See also Appendix I in IMF Country Report 11/314 for details on critical infrastructure needs in Bangladesh.

to continue increasing budget allocations for well-targeted social safety net programs, and strengthen the efficiency and transparency of all such programs. Steady progress on the World Bank-supported program to enhance the targeting of social safety nets will be critical.[16]

MISCELLANEOUS ISSUES

29. Financing assurances. The program remains fully financed (Tables 8 and 9), underpinned by a strong balance of payments position and sound policies.

30. Safeguards recommendations. In line with Fund recommendations from the July 2011 safeguards assessment, BB is on track to complete a full external audit of its FY13 financial statements by a global audit firm (December 2013 benchmark), having received an unqualified report from the auditors in August. Following from this, the BB Board will appoint a certified chartered accountant as an advisor to the Audit Committee of the BB Board (a new March 2014 benchmark), until the committee is reconstituted to include such an expert. The authorities also plan to engage a global firm to audit BB's financial statements on an annual basis.[17]

31. Request for modification of performance criteria. To lock in over-performance so far in reserve accumulation, staff proposes to modify the targets for December 2013 for the performance criteria on net international reserves (to set a higher floor) and net domestic assets of BB (to set a lower ceiling).

32. Exchange restriction. The exchange restriction on the transferability of proceeds of current international transactions through nonresident taka accounts still remains. While the authorities have a roadmap for reviewing exchange regulations (MEFP, ¶17), it does not provide a clear and specific timetable for the removal of this restriction. Therefore staff does not recommend its approval at this stage.

STAFF APPRAISAL

33. Program achievements. Bangladesh has made commendable progress in macroeconomic stabilization and structural reforms, supported by the ECF program.

- The economy is in a better position to withstand adverse external shocks, with international reserve levels now double the lows in late 2011.

- Underlying inflation pressures have receded.

[16] The World Bank approved in June 2013 a US$500 million credit in order to: (i) develop a poverty database; (ii) provide support to key Ministry of Disaster Management and Relief (MoDMR) safety net programs; and (iii) strengthen MoDMR administration and transparency.

[17] For more details on their actions and plans on this, see the Informational Annex.

- Poorly targeted energy subsidies have been curbed, creating fiscal space to execute priority development and social spending, while keeping public debt on a downward trajectory.
- Revenue administration reforms and the new VAT law, which has moved into the implementation phase, are expected to modernize the tax system and generate additional resources over the medium term to further raise development spending, in support of growth and poverty reduction.
- Recent banking law amendments strengthen governance in the banking system and enhance the supervisory powers of BB to safeguard financial stability.

34. Outlook and risks ahead. However, the Bangladesh authorities need to remain vigilant. The balance of risks to growth is to the downside, with domestic factors predominating. The economy is slowing as election-related uncertainty lowers investment demand and an intensification of political tensions around elections poses the most immediate risk. An upcoming transition in the flagship garment sector to higher costs and upgraded labor and safety standards will create further headwinds.

35. Macroeconomic policies. Persevering to strengthen policy anchors and build policy buffers in the run-up to elections and beyond will prove essential to navigate the challenges ahead. The fiscal policy stance remains prudent and the authorities' targets provide the space to raise public investment and social-related spending. Restrained monetary policy since late 2011 has curbed inflationary pressures and supported reserve accumulation. Reserves are approaching adequate levels and the BB should scale back its FX intervention but continue its sterilization efforts to meet its monetary targets.

36. Fiscal structural reforms. Decisive revenue administration efforts are needed to improve performance against the program's indicative revenue targets, which have been adjusted to reflect the more challenging near-term tax revenue outlook. Given that significant gains in tax revenues relative to GDP are now expected only in the post-program period following VAT implementation, preparations for the latter need to advance without further delays. Procurement of a VAT automation system is now the foremost priority. The successful launch of the TIN automation and the improved execution of priority capital spending are important developments. Improving treasury cash management and cash flow forecasting is a priority. The efficiency audits at the three large SOEs stress the need to strengthen financial reporting and professional management, particularly at BPC. The planned external audit will be an important step in this regard.

37. Debt management and fiscal risks. The recent strengthening of debt management practices is a good step in reinforcing debt sustainability and the forthcoming DeMPA assessment should usefully inform further reforms. The authorities should continue to seek maximum concessionality in external financing and all nonconcessional borrowing needs to be focused on high-impact projects, supported by improved investment selection processes. Such borrowing should continue to be closely scrutinized and monitored to ensure full transparency and sound governance. The authorities should carefully follow and report on potential fiscal risks, including from quasi-fiscal expenditures and contingent liabilities.

38. **Central bank governance.** The external and independent audit of the BB strengthens controls at the central bank and should be undertaken on an annual basis, in conjunction with reforms to strengthen BB board's audit committee, improve the risk-based audit approach, and continue to enhance the skills and qualifications of BB's staff.

39. **Financial sector.** The passage of the Bank Companies Act amendments in July is an important milestone. Bangladesh Bank should fully utilize the enhanced powers it now has to strengthen oversight and implement regulatory reforms that address vulnerabilities in the banking system. The deterioration in the financial position of the SOCBs requires immediate attention. The findings of the recent special diagnostic examinations point to significant weaknesses in asset quality, risk management and internal audit and controls. The latest revisions to their MOUs with BB provide a clear program of action and strengthened sanctions for noncompliance. Strict enforcement of these MOUs, complemented by recapitalization, will be needed to strengthen governance at the SOCBs and restore them to financial viability.

40. **Inclusive growth.** Removing critical infrastructure bottlenecks is a necessary condition for sustained high growth. Further streamlining of the trade regime and regulations, including on foreign exchange, is also needed to improve the business climate. The imminent revision in garment sector minimum wages and initiatives to strengthen labor and factory safety conditions are welcome. Progress here would avert the risk of a potential withdrawal of trade preferences by major trading partners. Reforms to review and better target social safety nets programs should move ahead, with the support of development partners.

41. **Staff recommendations.** All end-June 2013 (this review's test date) PCs were met. All structural benchmarks for June and September 2013 were also completed. On this basis, staff recommends completion of the third review under the ECF arrangement and the approval of the request to modify end-December 2013 performance criteria. As no specific timetable exists for the removal of the remaining exchange restriction on the transferability of funds in nonresident taka accounts, staff does not recommend its approval by the Executive Board.

42. It is proposed that the next Article IV consultation take place within 24 months, subject to the decision on consultation cycles (Decision No. 14747–(10/96), September 28, 2010).

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

	Base 1990–95	2005–10	2011	Target 2015	Status
Goal 1: Eradicate extreme poverty and hunger	**Possible to achieve if some changes are made**				
Target 1: Halve by 2015 the proportion of people living below the poverty line					
Poverty headcount ratio	59	32	...	29	On Track
Poverty gap ratio	17	7	...	8	Achieved
Income share held by lowest 20 percent	9	9	...	...	Needs Attention
Target 2: Halve by 2015 the proportion of people who suffer from hunger					
Prevalence of child malnutrition (percent of children under 5)	68	45	36	33	On Track
Population below minimum level of dietary energy consumption (percent)	28	20	17	14	On Track
Goal 2: Achieve universal primary education	**On track, very likely to be achieved**				
Target 3: Ensure that all boys and girls complete a full course of primary schooling					
Net enrollment ratio in primary education	61	91	...	100	On Track
Proportion of pupils starting grade 1 who reach grade 5, percent	43	66	...	100	Needs Attention
Adult literacy rate of 15–24 years old population (percent)	37	75	...	100	Needs Attention
Goal 3: Promote gender equality and empower women	**On track, very likely to be achieved**				
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and at all levels by 2015					
Ratio of girls to boys in primary and secondary education (percent)	77	106	...	100	Achieved
Ratio of girls to boys in tertiary education (percent)	37	61	...	100	Needs Attention
Ratio of literate females to males (percent of ages 15–24)	65	104	...	100	Achieved
Share of women employed in the nonagricultural sector (percent)	19	20	...	50	Needs Attention
Proportion of seats held by women in national parliament (percent)	13	19	20	33	Needs Attention
Goal 4: Reduce child mortality	**Possible to achieve if some changes are made**				
Target 5: Reduce by two thirds by 2015 the under 5 mortality rate					
Under 5 mortality rate (per 1,000)	146	48	46	48	Achieved
Infant mortality rate (per 1,000 live births)	92	38	37	31	On Track
Immunization, measles (percent of children under 12 months)	54	94	96	100	On Track
Goal 5: Improve maternal health	**Possible to achieve if some changes are made**				
Target 6: Reduce by three quarters, by 2015, the maternal mortality ratio					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	574	194	...	144	On Track
Births attended by skilled health staff (percent of total)	5	27	32	50	Needs Attention
Goal 6: Combat HIV/AIDS, malaria, and other diseases	**Possible to achieve if some changes are made**				
Target 7: Have halted by 2015 and begin to reverse the spread of HIV/AIDS					
Contraceptive prevalence rate (percent of women ages 15–49)	40	60	61	72	Needs Attention
HIV prevalence among population (per 100,000 population)	0	0.3	0	Halting	On Track
Target 8: Have halted by 2015 and begin to reverse the incidence of malaria and other major diseases					
Prevalence of malaria (per 100,000 people)	1.4	0.4	...	0.0	On Track
Incidence of tuberculosis (per 100,000 people)	264	225	225	Halting	On Track
Tuberculosis treatment success rate under DOTS (percent)	21	74	...	75	On Track
Goal 7: Ensure environmental sustainability	**Possible to achieve if some changes are made**				
Target 9: Integrate the principles of sustainable development into country policies and reverse the loss of environmental resources					
CO2 emissions (metric tons per capita)	0.1	0.3	...	...	Needs Attention
Terrestrial protected areas (percent of total surface area)	1.6	1.8	...	5	Needs Attention
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and sanitation					
Improved water source (percent of population with access)	93	81	...	100	Needs Attention
Improved sanitation facilities (percent of population with access)	15	56	...	60	On Track
Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers					
Slum population as percentage of urban (percent)	...	61.6	...	...	Needs Attention
Goal 8: Develop a global partnership for development	**Insufficient information**				
Target 12: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system					
Net ODA received per capita (current U.S. dollars)	20	10	10	...	Needs Attention
Target 13: Make available the benefits of new technologies, especially information and communication					
Fixed line and mobile telephones (per 100 people)	0.2	46.8	56.7	50	Achieved
Internet users (per 100 people)	0.0	3.7	5	...	Needs Attention
General indicators					
Population (in millions)	115.6	150.5	150	...	
Gross national income (in billions of U.S. dollars)	39.2	116.4	122	...	
GNI per capita, Atlas method (current, in U.S. dollars)	330	770	780	...	
Total fertility rate (births per woman)	3.4	2.2	2.2	...	
Life expectancy at birth (years)	58.0	68.6	68.9	70	

Sources: United Nations Development Program; and World Bank, *World Development Indicators*.

1/ In some cases, the data are for earlier or later years than those stated.

Table 2. Bangladesh: Selected Economic Indicators, FY2011–15 1/

I. Social and Demographic Indicators

Population (FY13, millions)	153.6	Infant mortality (2011, per thousand live births)	36.7
GDP per capita (FY13, U.S. dollars)	845.4	Life expectancy at birth (2011, years)	68.9
Labor force participation rate (FY10, percent)	59.3	Adult literacy (2010, percent of people)	56.8
Poverty headcount ratio (2010, national measure, percent)	31.5	Population dependency ratio (2011, percent)	54.6

II. Macroeconomic Indicators

	FY11	FY12	FY13		FY14	FY15
			Prog.	Prel.	Prog.	Proj.
National income and prices (annual percent change)						
Real GDP (1995-96 base)	6.7	6.2	5.4	6.0	5.5	6.5
GDP deflator	7.5	8.5	7.7	6.6	7.6	6.7
CPI inflation (annual average; 2005-06 base)	…	8.7	…	6.8	7.2	6.5
CPI inflation (end of period; 2005-06 base)	…	5.5	…	8.0	7.0	6.0
Nonfood CPI inflation (end of period; 2005-06 base)	…	10.2	…	7.7	6.1	5.5
Central government operations (percent of GDP)						
Total revenue and grants	11.9	12.9	13.7	12.9	13.2	13.4
Total revenue	11.7	12.4	13.2	12.4	12.6	12.9
Tax	10.0	10.4	10.9	10.4	10.5	10.7
Nontax	1.7	2.0	2.3	2.1	2.1	2.2
Grants	0.3	0.5	0.5	0.5	0.5	0.5
Total expenditure	16.0	16.3	17.8	16.9	16.9	17.0
Current expenditure	9.7	9.6	9.9	9.6	9.5	9.4
Annual Development Program (ADP)	4.2	4.0	4.8	4.8	5.0	5.3
Other expenditures 2/	2.1	2.8	3.1	2.5	2.4	2.2
Overall balance (including grants)	-4.1	-3.4	-4.0	-4.0	-3.7	-3.6
(Excluding grants)	-4.4	-4.0	-4.5	-4.5	-4.3	-4.1
Primary balance (excluding grants)	-2.4	-1.7	-2.3	-2.2	-2.1	-2.1
Total central government debt (percent of GDP)	42.4	41.3	39.5	38.8	38.2	38.3
Money and credit (end of fiscal year; percent change)						
Credit to private sector by the banking system	25.8	19.7	15.8	10.8	16.0	…
Reserve money	21.1	9.0	16.4	15.0	16.3	…
Broad money (M2)	21.4	17.4	17.6	16.7	17.0	…
Balance of payments (in billions of U.S. dollars)						
Exports, f.o.b.	22.6	24.0	25.7	26.6	28.2	29.8
(Annual percent change)	39.1	6.2	7.2	10.7	6.0	6.0
Imports, f.o.b.	-32.5	-33.3	-33.9	-33.6	-36.8	-41.0
(Annual percent change)	52.1	2.4	1.9	0.8	9.5	11.6
Current account balance 3/	-2.2	-0.4	1.5	2.5	0.2	-2.1
(Percent of GDP)	-2.0	-0.4	1.2	1.9	0.2	-1.2
Capital and financial account balance	1.9	2.1	1.8	3.7	1.0	3.9
Of which : Foreign direct investment	0.8	1.2	1.3	1.3	1.3	1.6
Overall balance	-1.0	0.5	3.4	5.3	1.3	1.8
Gross official reserves (in billions of U.S. dollars) 4/	9.6	10.1	13.6	15.1	16.7	18.9
In months of prospective imports of goods and services	3.0	3.1	3.6	4.2	4.2	4.3
Exchange rate (taka per U.S. dollar; period average)	71.2	79.1	…	79.9	…	…
Exchange rate (taka per U.S. dollar; end-period)	74.2	81.8	…	77.8	…	…
Nominal effective rate (2005=100; period average)	82.8	74.8	…	75.4	…	…
Real effective rate (2005=100; period average)	108.5	104.9	…	111.4	…	…
Terms of trade (percent change)	-6.7	0.1	…	…	…	…
Memorandum item:						
Nominal GDP (in billions of taka)	7,967	9,181	10,378	10,380	11,783	13,386

Sources: Bangladesh authorities; World Bank, *World Development Indicators* ; 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/ Imports are based on customs 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 3. Bangladesh: Balance of Payments, FY2011–19 1/

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

	FY11	FY12	FY13		FY14	FY15	FY16	FY17	FY18	FY19
			Prog.	Prel.	Prog.			Proj.		
Current account balance 2/	-2,227	-447	1,538	2,525	246	-2,053	-1,515	-1,624	-1,749	-1,813
Trade balance	-9,935	-9,320	-8,221	-7,010	-8,604	-11,165	-10,898	-11,252	-11,543	-11,792
Exports (f.o.b.)	22,592	23,989	25,719	26,566	28,160	29,850	34,313	38,128	42,376	47,092
Of which : Ready-made garment sector	17,914	19,089	20,571	21,516	22,488	23,431	27,090	29,974	33,166	36,697
Imports (f.o.b.) 2/	-32,527	-33,309	-33,940	-33,576	-36,764	-41,014	-45,211	-49,380	-53,918	-58,884
Of which : Crude oil and petroleum products	-4,109	-5,453	-6,170	-6,170	-6,639	-6,876	-6,977	-7,550	-8,176	-8,863
Services	-3,290	-3,001	-3,802	-3,159	-3,291	-3,887	-4,469	-5,032	-5,615	-6,261
Income	-1,454	-1,549	-1,616	-2,315	-3,027	-3,359	-3,792	-4,279	-4,830	-5,393
Transfers	12,452	13,423	15,177	15,009	15,169	16,359	17,644	18,939	20,239	21,633
Official current transfers 3/	103	106	110	64	50	50	50	50	50	54
Private transfers	12,349	13,317	15,067	14,945	15,119	16,309	17,594	18,889	20,189	21,579
Of which : Workers' remittances	11,650	12,734	14,718	14,338	14,481	15,640	16,891	18,158	19,429	20,789
Capital and financial account balance 4/	1,853	2,094	1,723	3,735	1,042	3,853	4,635	4,616	4,957	5,591
Capital account	642	482	550	588	750	750	750	750	750	750
Financial account	1,211	1,612	1,173	3,147	292	3,103	3,885	3,866	4,207	4,841
Foreign direct investment	775	1,191	1,250	1,300	1,300	1,583	1,826	2,009	2,208	2,750
Portfolio investment	-28	240	150	287	150	250	288	317	349	434
Medium- and long-term loans, net	211	1,005	1,322	1,362	1,125	2,801	3,361	3,212	3,139	3,256
Government, net	312	926	1,159	1,507	1,155	1,949	2,423	2,175	1,992	1,879
Disbursements	1,051	1,696	2,059	2,426	2,262	2,983	3,443	3,191	3,159	3,350
Amortization	-739	-770	-901	-919	-1,107	-1,034	-1,020	-1,016	-1,167	-1,471
Other long-term loans, net	-101	79	163	-145	-31	852	938	1,037	1,147	1,377
Other capital	253	-823	-1,548	198	-2,282	-1,531	-1,591	-1,672	-1,489	-1,600
Short-term loans and trade credits, net 4/	1,074	-875	-358	108	-203	68	20	85	427	492
Of which: Short-term oil import credit, net	…	960	-212	-155	-509	-270	-350	-322	-20	0
Commercial banks, net	-160	52	-230	90	-350	-350	-150	-150	-150	-150
Other items, net	-661	0	-960	0	-1,730	-1,249	-1,461	-1,607	-1,767	-1,942
Errors and omissions	-593	-1,126	0	-994	0	0	0	0	0	0
Overall balance	-967	522	3,261	5,266	1,288	1,800	3,120	2,992	3,208	3,778
Prospective official financing	…	…	200	…	100	150	0	0	0	0
Financing items	967	-522	-3,461	-5,266	-1,388	-1,950	-3,120	-2,992	-3,208	-3,778
Change in gross international reserves (GIR) (+ = increase)										
Contribution from financing	-967	522	3,461	5,266	1,388	1,950	3,120	2,992	3,208	3,778
Net use of IMF resources	-57	-55	81	80	196	218	-41	-5	-41	-97
Change in GIR excluding valuation changes	-1,024	467	3,541	5,346	1,584	2,168	3,079	2,987	3,166	3,681
Valuation changes	258	166	…	…	…	…	…	…	…	…
Total change in GIR (excluding Asian Clearing Union liabilities)	-766	632	3,541	5,015	1,584	2,168	3,079	2,987	3,166	3,681
Memorandum items:										
Current account balance (percent of GDP)	-2.0	-0.4	1.2	1.9	0.2	-1.2	-0.8	-0.8	-0.8	-0.7
Exports (annual percent change)	39.1	6.2	7.2	10.7	6.0	6.0	15.0	11.1	11.1	11.1
Imports (annual percent change)	52.1	2.4	1.9	0.8	9.5	11.6	10.2	9.2	9.2	9.2
Remittances (annual percent change)	6.0	9.3	14.6	12.6	1.0	8.0	8.0	7.5	7.0	7.0
Foreign direct investment (percent of GDP)	0.7	1.0	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.1
Medium- and long-term external public debt	22,256	21,509	22,928	22,952	24,784	27,462	30,481	33,599	36,592	39,521
(Percent of GDP)	19.9	18.5	17.7	17.7	16.4	16.5	16.7	16.7	16.6	16.3
Gross official reserves 5/	9,608	10,070	13,612	15,136	16,720	18,888	21,967	24,954	28,120	31,802
(In months of imports of goods and services)	3.0	3.1	3.6	4.2	4.2	4.3	4.5	4.7	4.9	4.9
Gross official reserves (excluding Asian Clearing Union liabilities) 5/	8,770	9,403	12,944	14,418	16,002	18,170	21,249	24,236	27,402	31,084
(In months of imports of goods and services)	2.7	2.9	3.4	4.0	4.0	4.1	4.4	4.6	4.7	4.8
Net international reserves 5/	6,299	6,796	10,257	11,915	13,497	15,447	18,567	21,559	24,767	28,545

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

1/ Fiscal year begins July 1.

2/ Imports are based on customs data.

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

4/ Data on trade credits include service fees related to exports until FY11. 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 4. Bangladesh: Monetary Accounts, June 2011–December 2014 1/

	2011		2012		2013				2014			
	Jun.	Dec.	Jun.	Dec.	Jun.		Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
					Prog.	Prel.	Proj.			Prog.		
Bangladesh Bank balance sheet	(End of period; in billions of taka)											
Net foreign assets	526	480	541	729	792	931	1003	1009	1018	1033	1073	1106
Net domestic assets	369	442	435	338	344	190	134	207	223	271	245	301
Net credit to central government	307	399	352	317	367	281	250	270	278	280	265	270
Credit to other nonfinancial public sector	1	1	1	1	1	1	1	1	1	1	1	1
Credit to deposit money banks	96	101	67	67	67	63	63	63	63	63	63	63
Other items, net	-35	-58	15	-47	-91	-154	-180	-127	-118	-73	-83	-33
Of which : Repos with commercial banks	82	59	152	87	84	7	11	58	45	77	42	82
Reserve money	895	922	976	1,067	1135	1122	1137	1216	1242	1304	1319	1407
Currency	605	639	649	725	759	754	767	826	847	882	890	958
Reserves 2/	290	284	327	342	376	368	370	390	394	422	429	449
	(Contribution to reserve money growth)											
Net foreign assets	-0.3	-12.1	1.6	27.0	25.7	40.0	39.1	26.2	16.9	9.1	6.2	8.0
Net domestic assets	21.4	24.8	7.3	-11.3	-9.3	-25.0	-25.0	-12.2	-1.8	7.2	9.8	7.7
Of which : Net credit to central government	15.4	26.4	5.0	-8.8	1.5	-7.3	-8.6	-4.4	-0.2	-0.1	1.3	0.0
Reserve money (year-on-year percentage change)	21.1	12.7	9.0	15.7	16.4	15.0	14.0	14.0	15.1	16.3	16.0	15.7
Monetary survey	(End of period; in billions of taka)											
Net foreign assets	696	614	724	926	992	1,109	1,187	1,200	1,216	1,237	1,283	1,323
Bangladesh Bank	526	480	541	729	792	931	1,003	1,009	1,018	1,033	1,073	1,106
Commercial banks	170	134	183	197	200	177	184	191	197	203	210	216
Net domestic assets	3,707	4,138	4,445	4,730	5,085	4,923	5,079	5,418	5,564	5,820	6,062	6,421
Domestic credit	4,302	4772	5,132	5,454	6,019	5,764	6,004	6,342	6,472	6,728	7,011	7,405
Net credit to central government	701	867	869	910	1,132	1,041	1,066	1,141	1,208	1,283	1,308	1,383
Credit to other nonfinancial public sector	146	140	126	139	83	58	58	58	58	58	58	58
Credit to nonbank financial institutions	48	53	58	77	79	143	143	143	143	143	143	143
Credit to private sector	3,407	3712	4,079	4,329	4,725	4,522	4,737	5,000	5,063	5,244	5,502	5,821
Other items, net	-595	-634	-687	-724	-934	-840	-924	-924	-908	-908	-949	-984
Broad money (M2)	4,403	4752	5,169	5,656	6,077	6,032	6,267	6,618	6,779	7,056	7,345	7,743
	(Year-on-year percent change)											
Net foreign assets	7.0	-12.4	4.0	50.9	37.0	53.1	44.8	29.5	17.3	11.5	8.1	10.3
Net domestic assets	24.5	19.4	19.9	14.3	14.4	10.8	11.9	14.5	17.1	18.2	19.3	18.5
Domestic credit	28.2	19.2	19.3	14.3	17.3	12.3	14.4	16.3	16.8	16.7	16.8	16.8
Of which : Net credit to central government	41.3	54.5	23.9	4.9	30.3	19.9	22.6	25.4	30.6	23.2	22.7	21.2
Credit to private sector	25.8	14.6	19.7	16.6	15.8	10.8	12.8	15.5	16.0	16.0	16.2	16.4
Broad money (M2)	21.4	14.0	17.4	19.0	17.6	16.7	17.0	17.0	17.1	17.0	17.2	17.0
Memorandum items:												
Required domestic cash reserves (in billions of taka)	252	273	296	316	354	338	352	373	382	397	412	433
Excess domestic cash reserves (in billions of taka)	38	11	31	26	22	30	18	17	13	25	17	16
Broad money multiplier	4.9	5.2	5.3	5.3	5.4	5.4	5.5	5.4	5.5	5.4	5.6	5.5
Broad money velocity	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.6

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

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

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

Table 5a. Bangladesh: Central Government Operations, FY2011–15 1/

	FY11	FY12	FY13		FY14		FY15
			Prog.	Prel.	Budget	Prog.	Proj.
	(In billions of taka)						
Total revenue and grants	949	1,187	1,425	1,340	1,740	1,551	1,790
Total revenue	928	1,138	1,372	1,288	1,674	1,489	1,725
Tax revenue	796	952	1,134	1,075	1,411	1,238	1,433
National Board of Revenue (NBR) taxes	764	916	1,088	1,033	1,360	1,191	1,380
Of which : VAT and supplementary duties	426	503	572	550	707	626	726
Taxes on income and profits	221	281	359	344	483	411	476
Customs and excise duties	112	126	151	126	160	138	161
Non-NBR taxes	32	36	46	41	51	47	53
Nontax revenue	132	186	238	214	262	251	293
Foreign grants	21	49	53	52	67	62	64
Total expenditure	1,278	1,501	1,843	1,752	2,225	1,990	2,272
Current expenditure	773	884	1,025	997	1,135	1,122	1,263
Pay and allowances	199	209	229	217	249	280	318
Goods and services	101	108	130	131	158	155	180
Interest payments	156	203	231	240	277	254	268
Subsidies and transfers 2/	314	363	427	407	431	427	489
Block allocations	3	2	7	2	19	6	8
Annual Development Program (ADP)	335	363	493	500	659	585	713
Non-ADP capital spending	78	101	127	89	274	169	187
Net lending 3/	73	141	194	170	155	112	102
Other expenditures 4/	20	12	4	-4	3	3	7
Overall balance (including grants)	-329	-314	-418	-412	-485	-439	-482
(Excluding grants)	-349	-363	-471	-463	-551	-501	-547
Net financing	329	314	418	412	485	439	482
External	28	73	109	120	144	90	169
Disbursements	81	134	181	194	237	176	252
Amortization	-53	-61	-72	-73	-93	-86	-83
Domestic	300	219	309	231	341	349	314
Banks 3/	245	196	263	205	261	242	220
Of which : Bangladesh Bank	114	45	14	-71	…	…	…
Nonbanks	55	23	46	27	80	107	94
Cash float and discrepancy	1	22	0	60	0	0	0

(continued)

Table 5a. Bangladesh: Central Government Operations, FY2011–15 1/ (concluded)

	FY11	FY12	FY13		FY14		FY15
			Prog.	Prel.	Budget	Prog.	Proj.
			(In percent of GDP)				
Total revenue and grants	11.9	12.9	13.7	12.9	14.8	13.2	13.4
Total revenue	11.7	12.4	13.2	12.4	14.2	12.6	12.9
Tax revenue	10.0	10.4	10.9	10.4	12.0	10.5	10.7
NBR taxes	9.6	10.0	10.5	10.0	11.5	10.1	10.3
Of which : VAT and supplementary duties	5.4	5.5	5.5	5.3	6.0	5.3	5.4
Taxes on income and profits	2.8	3.1	3.5	3.3	4.1	3.5	3.6
Customs and excise duties	1.4	1.4	1.5	1.2	1.4	1.2	1.2
Non-NBR taxes	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Nontax revenue	1.7	2.0	2.3	2.1	2.2	2.1	2.2
Foreign grants	0.3	0.5	0.5	0.5	0.6	0.5	0.5
Total expenditure	16.0	16.3	17.8	16.9	18.9	16.9	17.0
Current expenditure	9.7	9.6	9.9	9.6	9.6	9.5	9.4
Pay and allowances	2.5	2.3	2.2	2.1	2.1	2.4	2.4
Goods and services	1.3	1.2	1.3	1.3	1.3	1.3	1.3
Interest payments	2.0	2.2	2.2	2.3	2.4	2.2	2.0
Subsidies and transfers 2/	3.9	3.9	4.1	3.9	3.7	3.6	3.7
Block allocations	0.0	0.0	0.1	0.0	0.2	0.1	0.1
Annual Development Program (ADP)	4.2	4.0	4.8	4.8	5.6	5.0	5.3
Non-ADP capital spending	1.0	1.1	1.2	0.9	2.3	1.4	1.4
Net lending 3/	0.9	1.5	1.9	1.6	1.3	1.0	0.8
Other expenditures 4/	0.2	0.1	0.0	0.0	0.0	0.0	0.1
Overall balance (including grants)	-4.1	-3.4	-4.0	-4.0	-4.1	-3.7	-3.6
(Excluding grants)	-4.4	-4.0	-4.5	-4.5	-4.7	-4.3	-4.1
Primary balance (including grants)	-2.2	-1.2	-1.8	-1.7	-1.8	-1.6	-1.6
(Excluding grants)	-2.4	-1.7	-2.3	-2.2	-2.3	-2.1	-2.1
Net financing	4.1	3.4	4.0	4.0	4.1	3.7	3.6
External	0.4	0.8	1.0	1.2	1.2	0.8	1.3
Disbursements	1.0	1.5	1.7	1.9	2.0	1.5	1.9
Amortization	-0.7	-0.7	-0.7	-0.7	-0.8	-0.7	-0.6
Domestic	3.8	2.4	3.0	2.2	2.9	3.0	2.3
Banks 3/	3.1	2.1	2.5	2.0	2.2	2.1	1.6
Of which : Bangladesh Bank	1.4	0.5	0.1	-0.7	…	…	…
Nonbanks	0.7	0.2	0.4	0.3	0.7	0.9	0.7
Cash float and discrepancy	0.0	0.2	0.0	0.6	0.0	0.0	0.0
Memorandum items:							
Subsidy costs (percent of GDP) 3/ 5/	2.2	2.9	3.6	3.1	3.1	2.2	2.0
Of which : Energy-related subsidies	1.0	1.6	1.9	1.7	1.1	1.0	0.8
Nominal GDP (in billions of taka)	7,967	9,181	10,378	10,380	11,783	11,783	13,386

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 (programmed) in FY13 (actual: Tk 59.35 billion) 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 5b. Bangladesh: Central Government Operations, GFSM 2001 Classification, FY2011–14 1/
(In billions of taka)

	FY11	FY12	FY13	FY14	
			Prel.	Budget	Prog.
1. Central government accounts					
Revenue	949	1,187	1,340	1,740	1,551
Taxes	796	952	1,075	1,411	1,238
Grants	21	49	52	67	62
Other revenue	132	186	214	262	251
Expenditure	865	1,037	1,170	1,292	1,237
Compensation of employees	199	209	217	249	280
Purchases of goods and services	101	108	131	158	155
Interest	156	203	240	277	254
Subsidies 2/	161	256	322	309	256
Grants	170	182	193	209	204
Other payments	79	79	67	90	88
Gross operating balance	84	150	170	448	314
Net acquisition of nonfinancial assets	412	464	589	933	753
Fixed assets	335	363	500	659	585
Nonproduced assets	78	101	89	274	169
Net lending (+)/net borrowing (-) 3/	-329	-314	-420	-485	-439
Net financial transactions	-288	-225	-351	-485	-439
Net acquisition of financial assets (+ increase)	47	67	57	...	...
Domestic	47	67	57	...	...
Deposits	47	67	57	...	...
Net incurrence of liabilities (+ increase)	336	292	351	485	439
Domestic	308	219	231	341	349
Debt securities and loans and advances	282	219	231	341	349
Other accounts payable	26	0	0	0	0
Foreign	28	73	120	144	90
Statistical discrepancy (net borrowing less net financial transaction)	-40	-89	-68	0	0
2. Financial balance sheet					
Net financial worth					
Stock of financial assets	249	316	373	...	...
Domestic	249	316	373	...	...
Deposits	249	316	373	...	...
Foreign	0	0	0	...	...
Stock of liabilities	3,329	3,656	3,913	...	4,405
Domestic	1,677	1,896	2,128	...	2,478
Debt securities and loans and advances	1,677	1,896	2,127	...	2,476
Foreign	1,652	1,760	1,785	...	1,927

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 6. Bangladesh: Financial Soundness Indicators of Banks, 2006–13

(In percent, end-of-period unless otherwise mentioned)

	2006	2007	2008	2009	2010	2011	2012	2013 (prov.)	
								Mar.	Jun.
Capital adequacy									
Regulatory capital to risk-weighted assets (adjusted) 1/	5.6	4.0	6.5	8.8	7.6	10.1	9.5	7.8	8.2
State-owned commercial banks (adjusted) 1/	-2.1	-21.6	-15.1	-7.6	-0.1	5.3	3.1	-5.1	-4.4
Regulatory capital to risk-weighted assets (unadjusted)	5.6	9.3	10.4	11.7	9.3	11.3	10.5	8.8	9.1
State-owned commercial banks	-2.1	7.3	7.9	9.0	8.9	11.7	8.1	0.6	1.2
Specialized development banks	-4.5	-5.0	-3.3	0.4	-7.3	-4.5	-7.8	-7.9	-8.7
Private commercial banks	9.0	10.4	11.2	12.1	10.1	11.5	11.4	11.2	11.5
Foreign commercial banks	24.5	22.8	23.8	28.1	15.6	21.0	20.6	20.1	20.3
Regulatory capital to assets (adjusted) 1/	3.2	2.4	4.0	5.3	6.9	8.0	7.0	...	5.9
Regulatory capital to assets (unadjusted)	3.2	5.6	6.5	7.1	8.5	9.0	7.7	...	6.6
Nonperforming loans to regulatory capital (adjusted) 1/ 2/	280.1	411.8	193.1	109.9	69.0	48.1	87.4	125.3	118.0
Nonperforming loans to regulatory capital (unadjusted) 2/	280.1	168.5	115.5	80.2	55.1	42.2	78.5	110.3	104.9
Asset quality 2/									
Nonperforming loans to total loans	12.8	14.5	11.2	9.0	7.3	6.1	10.0	11.9	11.9
State-owned commercial banks	22.8	29.0	28.0	20.1	15.7	11.3	23.9	27.1	26.4
Specialized development banks	14.3	13.5	11.7	24.1	24.1	24.6	26.8	27.2	26.2
Private commercial banks	4.9	5.4	5.1	4.0	3.1	2.9	4.6	6.2	6.6
Foreign commercial banks	2.8	2.9	3.7	2.2	3.0	3.0	3.5	4.6	4.7
Loan provisions to total nonperforming loans	45.2	43.0	50.1	61.2	62.7	67.4	44.4	41.1	52.4
Loan provisions to total loans	5.8	6.2	5.6	5.5	4.6	4.1	4.5	4.9	6.2
Profitability									
Return on equity 3/	-64.0	19.8	25.0	19.5	21.0	16.8	8.2	...	9.7
State-owned commercial banks	1,262.5	-9.4	35.6	24.9	18.4	18.5	-11.9	...	94.8
Specialized development banks	24.7	16.6	21.0	-199.0	-3.2	-0.9	-1.1	...	-8.6
Private commercial banks	24.8	26.7	24.3	18.9	20.9	15.7	10.2	...	5.0
Foreign commercial banks	21.5	20.6	18.5	18.9	17.0	16.6	17.3	...	18.5
Return on assets 4/	-2.1	1.1	1.6	1.4	1.8	1.5	0.6	...	0.6
State-owned commercial banks	-9.2	-0.3	1.2	1.0	1.1	1.3	-0.6	...	0.6
Specialized development banks	-0.9	-0.6	-0.6	-0.6	0.2	0.0	0.1	...	-0.5
Private commercial banks	1.5	1.9	1.9	1.6	2.1	1.6	0.9	...	0.4
Foreign commercial banks	3.3	3.2	2.9	3.2	2.9	3.2	3.3	...	3.4
Composition of credit (in percent of total, excluding working capital)									
Agriculture, forestry, and fishing	10.4	9.0	8.2	7.3	6.7	6.5	5.6	6.2	6.2
Industry	24.6	26.1	25.5	25.7	24.3	24.3	23.6	23.3	24.4
Construction	8.5	7.9	7.8	8.1	8.2	9.5	10.5	10.6	10.5
Transport and communication	1.7	2.3	2.0	1.7	1.7	2.4	2.6	2.5	2.5
Trade	42.3	41.8	42.3	43.7	44.9	43.5	44.6	44.0	43.3
Other	12.4	12.9	14.1	13.4	14.1	13.0	13.2	13.4	13.0
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	26.1	...	26.7
Specialized development banks	7.9	7.0	6.6	6.5	6.1	5.5	5.5	...	5.6
Private commercial banks	50.5	51.1	55.2	57.2	58.8	60.0	62.2	...	61.5
Foreign commercial banks	8.3	8.4	8.3	7.4	6.6	6.4	6.3	...	6.1

Sources: Bangladesh Bank; and IMF staff calculations.

1/ From 2007, an adjustment is made to exclude special accounts set up in state-owned commercial banks' balance sheets, which contain the accumulated losses arising from the difference in market and book value of assets. These amounts are deducted from state-owned commercial banks' assets and 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. State-owned commercial banks' ROE in June 2013 reflect a combination of operating profit and lower capital base relative to end-2012.
4/ Bangladesh Bank defines return on assets (ROA) as the ratio of net income after provision and taxes to total assets.

Table 7. Bangladesh: Near and Medium-Term Outlook, FY2011–19 1/

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
			Prel.	Projections					
	(Annual percent change)								
National income and prices									
Real GDP (1995-96 base)	6.7	6.2	6.0	5.5	6.5	6.5	7.0	7.0	7.0
Private consumption expenditure	6.0	4.5	5.2	5.1	6.2	6.0	6.0	6.0	6.0
Public consumption expenditure	8.3	4.1	3.9	17.5	7.7	6.4	6.9	5.7	8.6
Private investment	7.1	7.8	-1.2	6.6	12.0	9.9	8.5	8.5	8.5
Public investment	19.0	22.8	26.7	11.7	16.2	19.4	17.2	11.2	13.4
Exports of goods and services	29.3	7.8	3.5	0.3	5.9	13.7	9.8	9.7	9.7
Imports of goods and services	29.2	7.5	1.3	4.6	13.2	11.4	9.8	9.4	9.2
GDP deflator	7.5	8.5	6.6	7.6	6.7	5.9	5.6	5.6	5.6
CPI inflation (annual average; 2005-06 base)	...	8.7	6.8	7.2	6.5	5.8	5.5	5.5	5.5
	(In percent of GDP)								
Gross national savings	23.2	26.2	28.8	27.0	26.6	28.2	29.3	29.8	30.5
Public national savings	2.2	3.3	3.3	3.6	3.9	4.2	5.0	5.7	6.1
Private national savings	21.0	22.9	25.5	23.4	22.7	24.0	24.2	24.1	24.4
Gross investment	25.2	26.5	26.8	26.9	27.8	29.0	30.1	30.5	31.3
Public investment	5.6	6.5	7.9	8.1	8.6	9.5	10.3	10.5	11.1
Private investment	19.5	20.0	19.0	18.8	19.2	19.5	19.8	20.0	20.2
Net exports of goods and services	-8.7	-9.0	-8.1	-7.9	-9.0	-8.4	-8.1	-7.8	-7.4
Exports of goods and services	22.9	23.2	22.8	20.7	20.0	20.8	20.9	21.0	21.2
Of which : Exports of goods	20.2	20.7	20.5	18.6	17.9	18.8	19.0	19.2	19.4
Imports of goods and services	31.6	32.1	31.0	28.6	29.0	29.2	29.0	28.8	28.6
Of which : Imports of goods	29.1	28.7	25.9	24.3	24.6	24.8	24.6	24.4	24.3
Current account balance	-2.0	-0.4	1.9	0.2	-1.2	-0.8	-0.8	-0.8	-0.7
Central government operations									
Total revenue and grants	11.9	12.9	12.9	13.2	13.4	13.5	14.3	15.0	15.5
Of which : Tax revenue	10.0	10.4	10.4	10.5	10.7	10.9	11.8	12.4	12.9
Total expenditure	16.0	16.3	16.9	16.9	17.0	16.6	16.9	17.1	17.4
Of which : Annual Development Program (ADP)	4.2	4.0	4.8	5.0	5.3	5.9	6.4	6.5	6.9
Overall balance (including grants)	-4.1	-3.4	-4.0	-3.7	-3.6	-3.1	-2.6	-2.1	-2.0
(excluding grants)	-4.4	-4.0	-4.5	-4.3	-4.1	-3.6	-3.0	-2.4	-2.3
Primary balance (excluding grants)	-2.4	-1.7	-2.2	-2.1	-2.1	-1.7	-1.2	-0.7	-0.6
Public sector total debt 2/	44.2	42.6	39.3	38.7	38.8	38.2	37.3	36.0	34.9
Of which : central government debt	42.4	41.3	38.8	38.2	38.3	37.7	36.8	35.6	34.4
Public sector external debt	21.4	20.6	18.3	17.2	17.5	17.4	17.3	17.2	17.0
Memorandum item:									
Nominal GDP (in billions of taka)	7,967	9,181	10,380	11,783	13,386	15,099	17,067	19,286	21,785

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

1/ Fiscal year begins July 1.

2/ Includes central government's gross debt, including debt owed to the IMF, plus doemstic bank borrowing by nonfinancial public sector and public enterprises' external borrowing supported by government guarantees, including short-term oil-related suppliers' credits.

Table 8. Bangladesh: External Financing Requirements and Sources, FY2011–19 1/

(In millions of U.S. dollars)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
				Projections					
Gross financing requirements	2,971	4,710	4,824	4,329	5,723	5,957	5,945	6,446	7,285
External current account deficit (+)	2,227	447	-2,525	-246	2,053	1,515	1,624	1,749	1,813
Amortization of medium- and long-term debt	739	770	919	1,107	1,034	1,020	1,016	1,167	1,471
Gross reserves accumulation (+ = increase)	-766	632	5,015	1,584	2,168	3,079	2,987	3,166	3,681
IMF repayments	57	197	198	81	58	41	5	41	97
Other net capital outflows	714	2,664	1,217	1,804	410	303	313	322	223
Available financing	2,971	4,568	4,446	3,953	5,296	5,957	5,945	6,446	7,285
Capital grants	642	482	588	750	750	750	750	750	750
Loan disbursements to the central government	1,051	1,696	2,426	2,262	2,983	3,443	3,191	3,159	3,350
Portfolio investment, net	-28	240	287	150	250	288	317	349	434
Foreign direct investment, net	775	1,191	1,300	1,300	1,583	1,826	2,009	2,208	2,750
Short-term oil import credit, net	531	960	-155	-509	-270	-350	-322	-20	0
Exceptional financing	…	142	378	376	426	0	0	0	0
IMF: ECF arrangement	…	142	278	276	276	0	0	0	0
Asian Development Bank	…	…	…	0	150	0	0	0	0
World Bank	…	…	…	0	0	0	0	0	0
India	…	…	100	100	0	0	0	0	0

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

1/ Fiscal year begins July 1.

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

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
	Est.			Projections											
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	130.4	53.5	39.3	28.6	5.0	29.0	65.5	101.9	129.1	128.8	101.0	64.2	27.5
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	602.9	795.3	1,013.4	972.7	967.6	926.2	829.4	677.4	483.8	290.3	138.3	41.5	0.0
In percent of gross international reserves	6.1	5.3	4.0	4.8	5.4	4.4	3.9	3.3	2.6	1.9	1.2	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	2.1	1.8	1.6	1.4	1.1	0.9	0.6	0.3	0.1	0.0	0.0
In percent of debt service 3/	61.4	42.0	46.1	55.5	72.7	66.3	62.7	50.3	36.1	25.9	15.8	8.1	3.6	1.0	0.0
In percent of GDP	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.4	0.3	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
Obligations to IMF 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	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations to IMF 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	0.4	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 to IMF based on existing and prospective credit															
In millions of SDRs	38.2	128.1	130.4	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	198.3	81.0	59.4	43.2	7.5	43.9	99.1	154.1	195.2	194.8	152.8	97.1	41.6
In percent of gross international reserves	0.6	2.0	1.3	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	5.7	4.3	2.9	0.5	2.4	4.3	5.9	6.4	5.5	4.0	2.4	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
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	111.9	116.0	129.9	151.5	166.7	182.6	200.9	220.8	242.7	266.6	291.4	318.5	348.2	380.7	416.2
Exports of goods and services and remittances (in billions of U.S. dollars)	36.8	39.4	43.7	45.9	48.9	54.8	60.1	65.8	72.1	79.3	87.2	96.0	105.7	116.4	128.9
Gross international reserves (in billions of U.S. dollars)	9.6	10.1	15.1	16.7	18.9	22.0	25.0	28.1	31.8	35.9	39.1	42.8	47.4	53.0	58.9
Debt service (in billions of U.S. dollars) 3/	1.0	1.3	1.3	1.4	1.4	1.5	1.5	1.8	2.3	2.6	3.1	3.6	3.8	4.1	4.3
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 10. Bangladesh: Proposed Schedule of Disbursements and Timing of ECF Arrangement Reviews

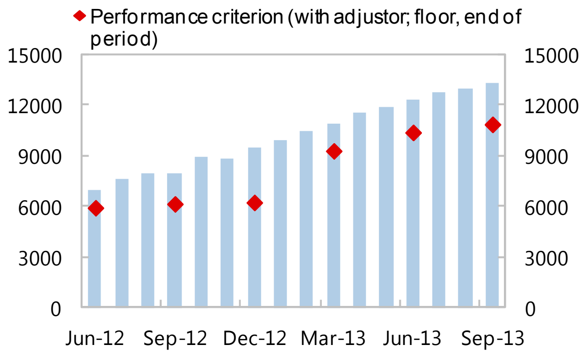
Availability Date	Disbursement (In percent of Quota)	Disbursement (In SDRs)	Conditions for Disbursement
April 11, 2012	17.1	91,423,000	Board approval of the arrangement
November 15, 2012	17.1	91,423,000	Board completion of first review based on observance of performance criteria for end-June 2012
May 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.

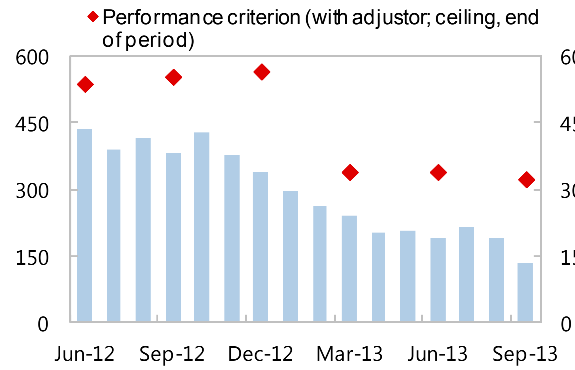
Figure 1. Bangladesh: Selected Performance Criteria and Indicative Targets 1/

Performance Criteria

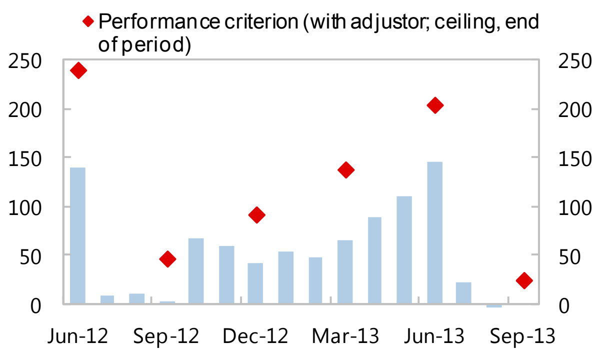
Bangladesh: Net International Reserves of Bangladesh Bank, Jun. 2012–Sep. 2013
(End of period, stock; in millions of U.S. dollars)



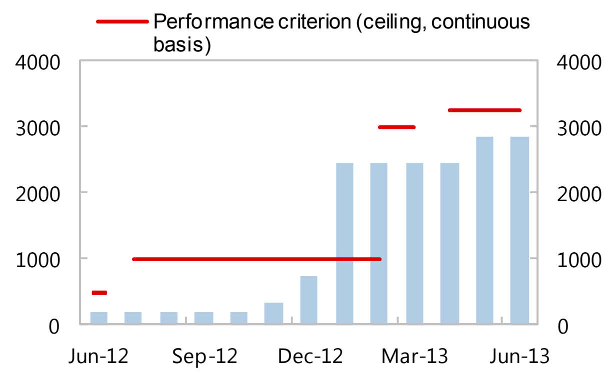
Bangladesh: Net Domestic Assets of Bangladesh Bank, Jun. 2012–Sep. 2013
(End of period stock; in billions of Taka)



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

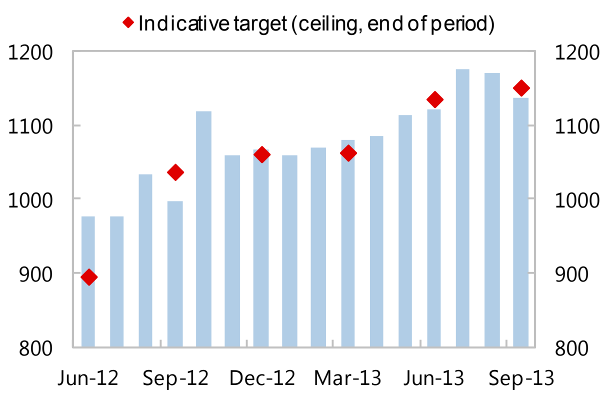


Bangladesh: New Nonconcessional External Debt 2/
Jun. 2012–Jun. 2013
(Stock since December 31, 2011; in millions of U.S. dollars)

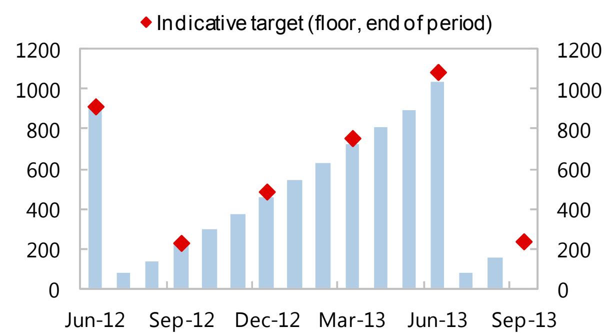


Indicative Targets

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



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



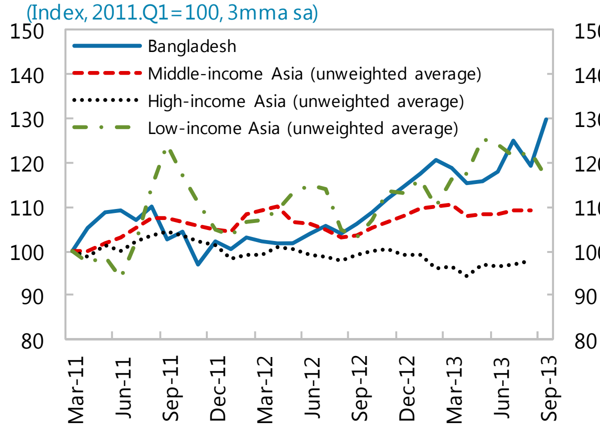
Sources: Bangladesh authorities; and IMF staff calculations.
1/ Estimates after June 2013 are preliminary.
2/ Maturing in more than one year and contracted by the public sector and/or guaranteed by the central government or Bangladesh Bank.

Figure 2. Bangladesh: Exports and Remittances

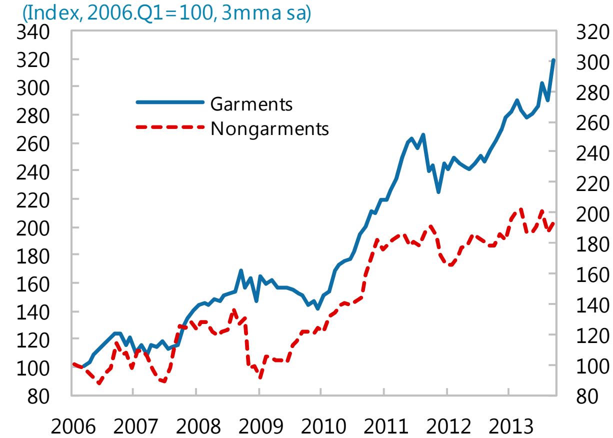
Export performance is holding up reasonably well compared to other parts of the region...

...driven by ready-made garments.

Export Performance in Asia, Mar. 2011–Sep. 2013
(Index, 2011.Q1=100, 3mma sa)



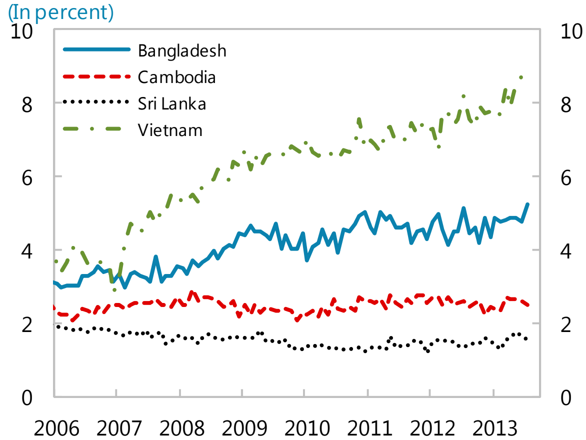
Exports of Bangladesh, Mar. 2006–Sep. 2013
(Index, 2006.Q1=100, 3mma sa)



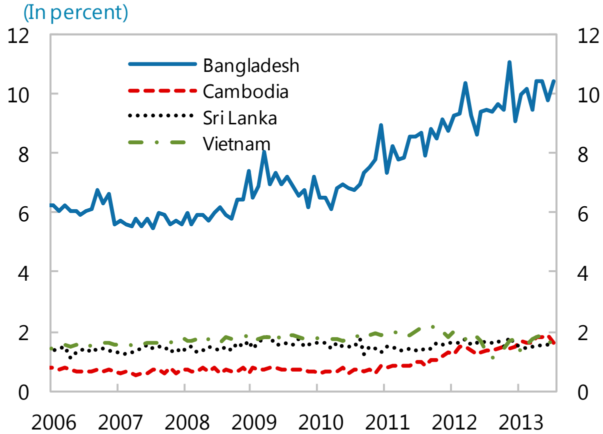
While market shares for garment exports to the U.S. have remained stable over the last few years...

...those in the European Union have trended up, owing in part to accession to the EU's GSP privileges beginning January 2011.

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



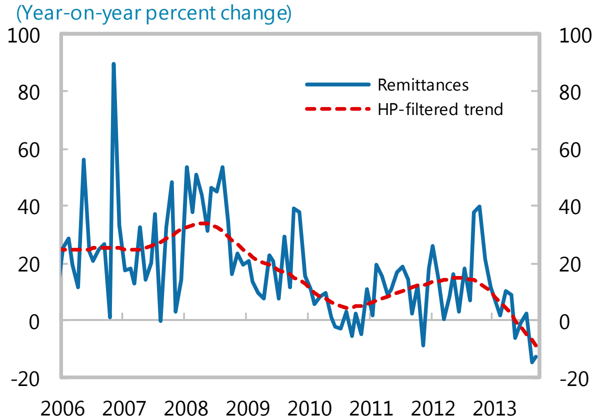
Shares in E.U. Garment Market, Jan. 2006–Jul. 2013
(In percent)



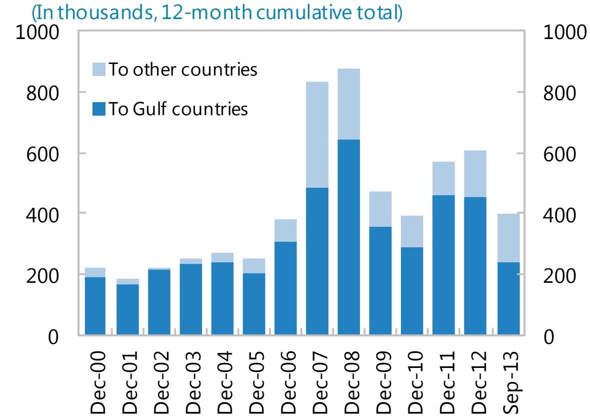
Remittance growth has turned negative recently...

...reflecting mainly lower worker outflows to the Gulf countries arising from visa restrictions introduced in 2012.

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



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

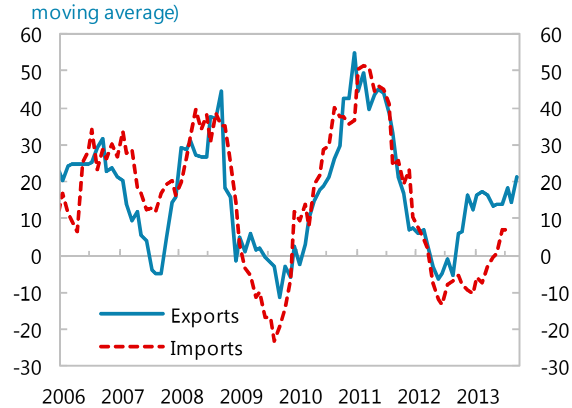


Sources: Bangladesh authorities; CEIC Data Company Ltd.; Eurostat; U.S. Department of Commerce; and IMF staff estimates.

Figure 3. Bangladesh: Real and External Sector Developments

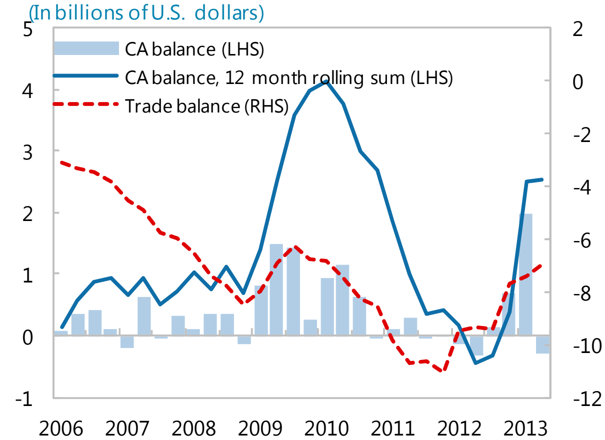
While imports have recovered in recent months, they remain subdued, suggesting weak domestic economic activity.

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



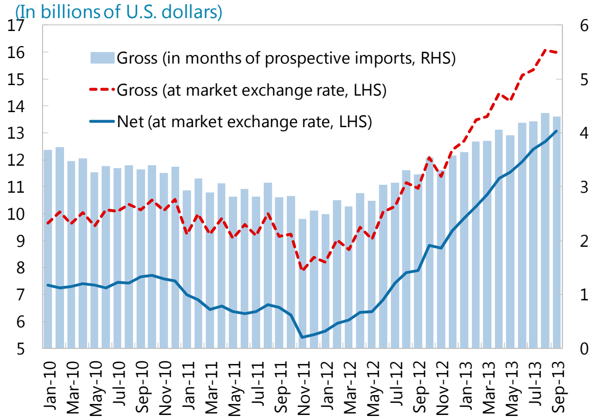
With a much narrower trade deficit, the current account has swung into a sizeable surplus.

Current Account (CA) Balance, 2006.Q1–2013.Q2
(In billions of U.S. dollars)



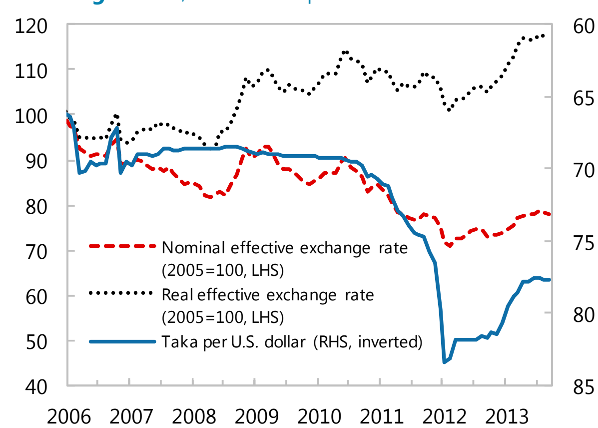
Against this backdrop, BB has built up its reserve buffer, comfortably exceeding program targets.

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



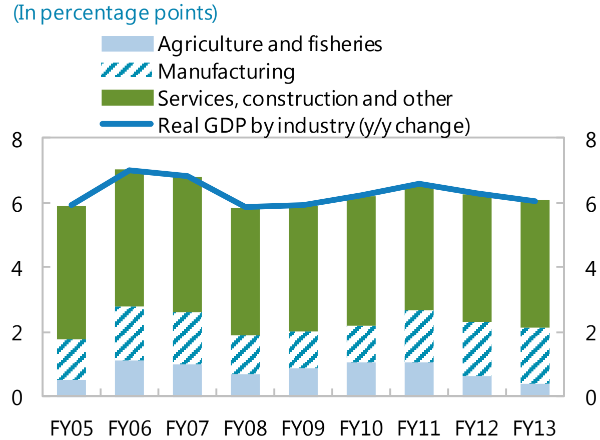
Nominal and real exchange rates have also strengthened, reflecting in part the more favorable current account.

Exchange Rates, Jan. 2006–Sep. 2013



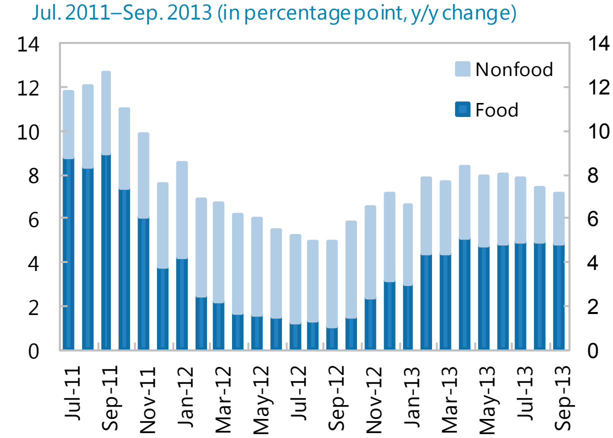
Despite the recent economic slowdown, manufacturing, including the flagship garment industry, has remained resilient.

Contributions to Real GDP Growth by Industry
(In percentage points)



While food inflation has increased, reflecting in part supply disruptions, nonfood inflation (a better gauge of underlying pressures) has steadily abated.

Contributions to Headline Inflation
Jul. 2011–Sep. 2013 (in percentage point, y/y change)

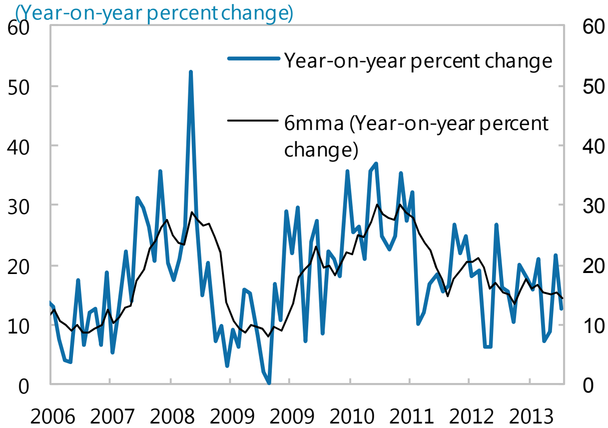


Sources: Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff estimates.

Figure 4. Bangladesh: Fiscal Developments

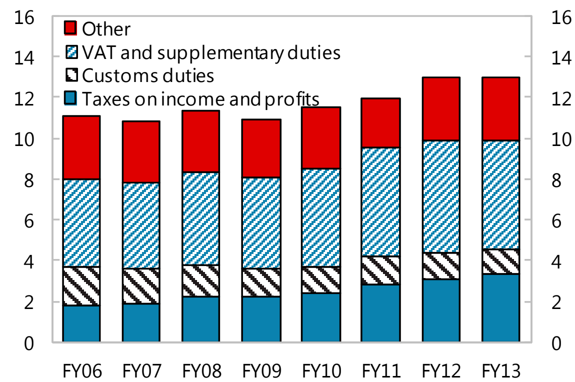
Administrative improvements drove up tax revenues between 2009 and 2011, but revenue growth has slowed more recently…

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



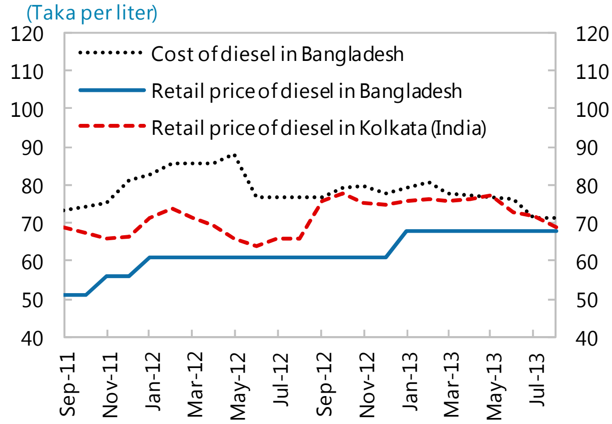
…driven in part by slower VAT, supplementary duty and import duty collections. The revenue-to-GDP ratio has stabilized.

Central Government Revenue, FY06–FY13
(In percent of GDP)



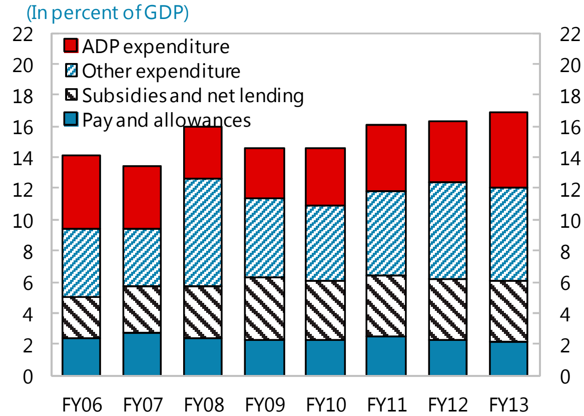
Retail fuel price increases and a moderation of international prices have helped narrow the wedge between them.

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



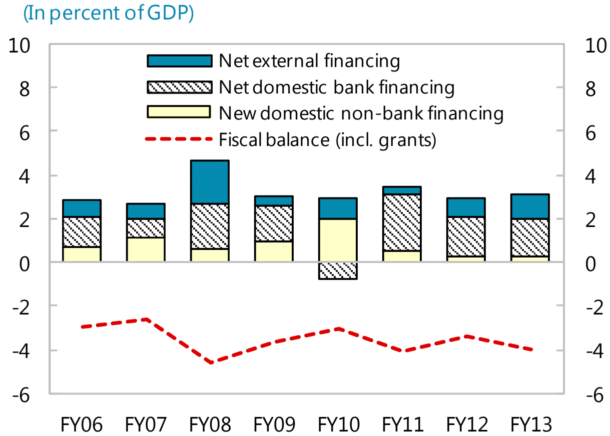
As a result, the fuel subsidy bill has moderated, while overall government expenditure rose slightly as a share of GDP, boosted mainly by ADP increases.

Central Government Expenditure, FY06–FY13
(In percent of GDP)



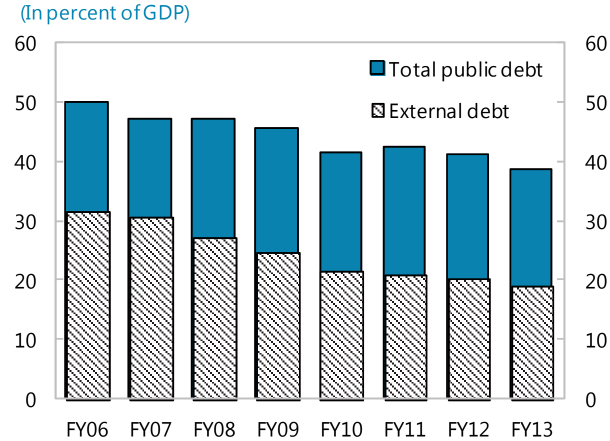
The fiscal deficit therefore increased slightly, with the financing mix now showing greater weight for external sources.

Fiscal Balance and Sources of Financing, FY06–FY13
(In percent of GDP)



The public- debt-to-GDP ratio is on a gradual downward path, with the share of external debt declining to about one half.

Public Debt, FY06–FY13
(In percent of GDP)

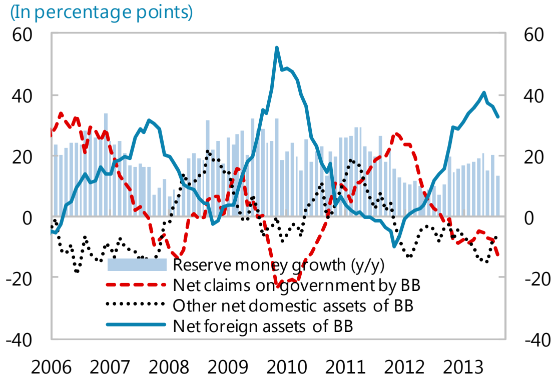


Sources: Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff estimates.

Figure 5. Bangladesh: Monetary and Financial Market Developments

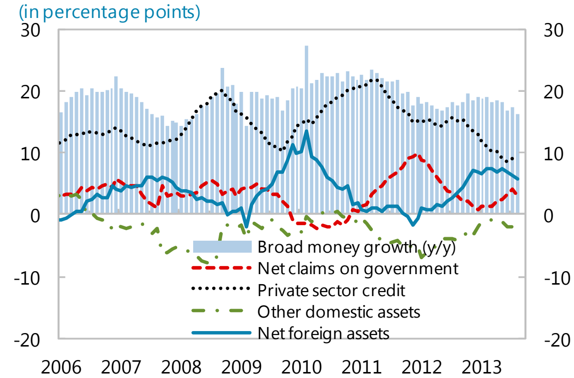
Reserve money growth, which slowed in 2012, had been driven up in early 2013 by BB's large, and not fully sterilized, foreign exchange purchases. Since then, sterilization has stepped up.

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



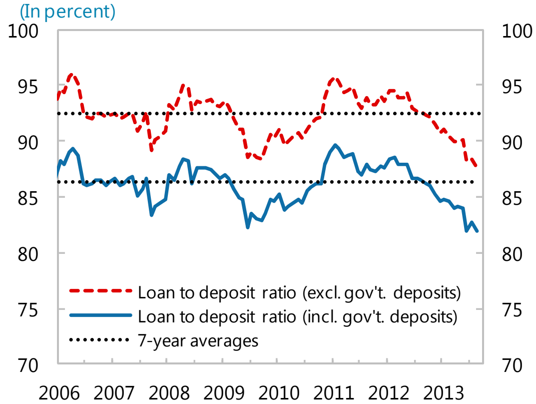
Broad money growth is slowing, reflecting mainly a moderation in private sector credit.

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



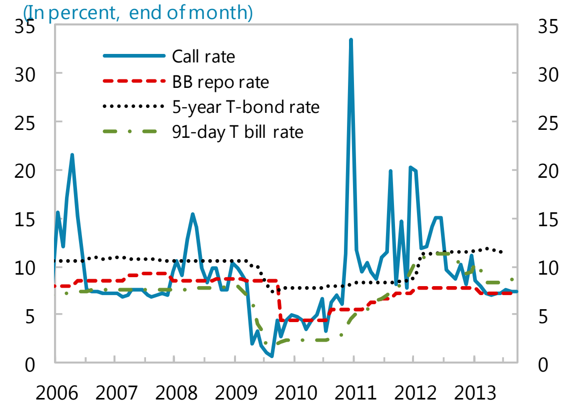
With a slowing credit uptake, loan-to-deposit ratios have fallen, and are now below historical norms.

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



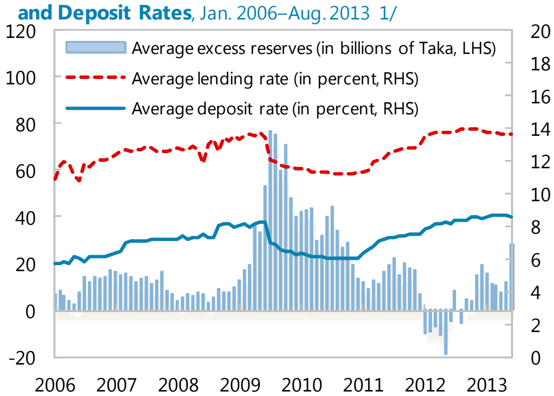
As balance of payments pressures eased and systemic liquidity is ample, money market and Treasury rates have come off.

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



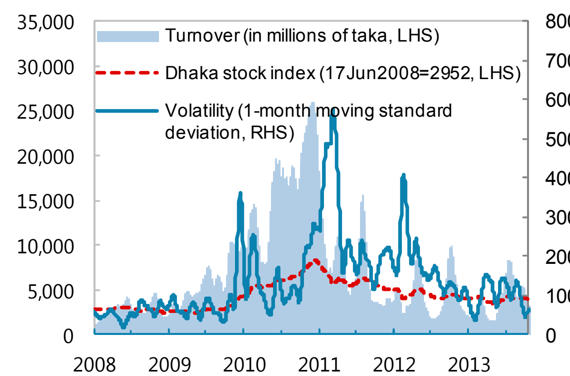
After a period of increases, deposit and lending rates have stabilized and are now gradually declining.

Commercial Banks' Excess Reserves and Lending and Deposit Rates, Jan. 2006–Aug. 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. 2008–Oct. 2013
(1-month moving average)



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

Appendix I. Bangladesh—Letter of Intent

November 05, 2013

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

Dear Ms. Lagarde:

The macro-economic environment in Bangladesh has improved considerably over the past two years. We are now entering a period of national elections with the net international reserve buffer at its historical peak. Despite a challenging global environment, exports have remained resilient and underlying inflation pressures have continued to ease. While revenue collection has fallen short of expectations, government borrowing remains restrained, and the overall fiscal deficit is on target. Moreover, we have increased the execution rate of capital spending under our Annual Development Program (ADP), and have protected social-related spending.

Our Extended Credit Facility (ECF)-supported program is firmly on track. We met all the quantitative performance criteria (PC) and all but one of the indicative targets for end-June 2013. Preliminary data indicate that we are on track for most end-September 2013 indicative targets as well. We have also completed all ten structural benchmarks due between end-June 2013 and end-September 2013, and confirm completion of all the prior actions under the third review of the ECF arrangement.

We are moving forward with the implementation of the new value-added tax (VAT) law. The VAT implementation project has now been included in the ADP, and the procurement process for automation software and related consultancies has begun, albeit somewhat behind schedule. In addition, rules and regulations for the new VAT law have been drafted and are now in public consultation. With Bangladesh Bank's financial regulatory and supervisory powers broadened under the newly approved amendments to the Bank Companies Act, we are now focusing on strengthening the governance, internal audit and controls, and risk management practices of state-owned commercial banks. 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-December 2014.

To protect our international reserve buffer amid global and domestic uncertainties, we are requesting an increase in the end-December 2013 PC on net international reserves of Bangladesh Bank (BB), and a corresponding reduction of the PC on BB's net domestic assets.

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 third review under the ECF arrangement and access to the fourth 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

November 05, 2013

This memorandum updates the May 13, 2013 Memorandum of Economic and Financial Policies (MEFP) under the Government of Bangladesh's three-year Extended Credit Facility (ECF) arrangement. The memorandum extends quantitative targets, structural benchmarks, and other reform commitments to end-December 2014.

I. RECENT DEVELOPMENTS

1. **Macroeconomic performance.** International reserves have continued to rise while inflation pressures have been abating steadily in recent months, supported by our restrained fiscal and monetary policies. However, political events and uncertainty in the run-up to elections are affecting economic activity by curbing investment appetite, slowing private credit growth and imports. While the external position remains strong, remittance growth is slowing, reflecting lower outflows of manpower. To ensure a smooth transition through the election period, our policies will remain prudent, safeguarding the macroeconomic stabilization gains achieved so far.

II. FISCAL POLICY AND PUBLIC FINANCIAL MANAGEMENT

2. **Fiscal performance in FY13.** We met our FY13 fiscal target, with the overall budget deficit (excluding grants) closing at an estimated 4.5 percent of GDP. We also met our performance criterion (PC) on net credit to the central government (NCCG) by the banking system at end-June 2013—the third test date of the ECF arrangement. This was no easy task, as tax revenue has fallen short of program indicative targets (ITs) by 0.5 percent of GDP, led by weaknesses in VAT, supplementary duties and other taxes on imports. Therefore, to maintain fiscal policy on track, expenditures were kept under strict control. While implementation of investment spending under the Annual Development Program (ADP) improved significantly, we kept subsidy costs and non-ADP capital spending contained.

3. **Policy objectives.** We maintain our commitment to a budget deficit (excluding grants) target of 4.3 percent of GDP in FY14, anchored by restricting NCCG to Tk 242 billion over FY14. To underpin revenue collection despite slowing economic activity, we will strengthen our tax enforcement capacity by recruiting new staff; continue with progress in customs automation and modernization and on-going reforms to boost taxpayer registration. In addition, we will keep expenditures contained so as to achieve the overall deficit target. This notwithstanding, we will continue to strengthen ADP implementation—including by utilizing the pipeline of committed donor funding—and social-related expenditure (see paragraph 16 below). Over the medium term, fiscal policy will be centered on the objective of putting public debt on a smooth downward path.

4. Tax reforms. We have made further progress in VAT implementation by drafting rules and regulations for the new VAT law, and commencing public consultation on them. However, it has taken more time than expected to have the VAT implementation project included in the ADP budget. This has caused delays in the process toward selecting a vendor for a VAT automation system (a December 2013 benchmark, now rescheduled for June 2014), which will imply falling behind the implementation schedule approved by the Minister of Finance in March 2013. To minimize further delays, we expedited inclusion of the project for VAT implementation in the ADP. The corresponding Development Project Proposal was approved by the Executive Committee of the National Economic Council in October 2013 (a completed a prior action). The publication of the tender for the selection of the automation software vendor will be completed by December 2013 (a new structural benchmark).

5. Revenue administration. We remain committed to further progress in modernizing the tax administration system. To this end, we automated issuance of taxpayer identification numbers (TIN) linked with the national identification database (a June 2013 benchmark), with more than 530 thousand taxpayers having obtained TIN registration by end-September 2013, including over 90 thousand new taxpayers. We will launch an online platform for re-registration of VAT taxpayers, by December 2014.

6. Subsidies and state-owned enterprise (SOE) reforms. We will continue to contain fuel and electricity subsidies. In particular, we remain committed to keeping domestic average fuel prices within Tk 10 per liter of international prices, and will adjust prices as needed to keep to that target. We will continue making regular budgetary transfers to Bangladesh Petroleum Corporation (BPC) to cover subsidy costs, as well as reducing its short term external borrowing needs (an IT). Efficiency audits of BPC, Power Development Board (BPDB), and Chemical Industries Corporation (BCIC), completed in June 2013 (a structural benchmark), revealed significant operational and financial inefficiencies. We will focus our efforts first on strengthening BPC, the largest non-financial corporation in the country. We will hire professional staff for financial management of BPC by March 2014 and adopt automated financial reporting software for BPC by December 2014. We will also appoint a global firm, in association with a local firm, to conduct a financial audit for BPC for FY13, to be completed by September 2014, (a new structural benchmark).

7. Public financial management (PFM). The central government has continued to fully fund, through timely transfers, the subsidy costs incurred by BPC, BPDB, and BCIC. In addition, we have settled BPC's past-due subsidy-related loans held by the SOCBs through the issuance of special bonds for Tk 59 billion in June 2013. As a result, we met the IT for June on state-owned commercial bank (SOCB) loans to these SOEs. To further strengthen cash and expenditure controls, we will institutionalize cash flow forecasting, establishing a system of quarterly fund releases and developing monthly cash plans consistent with those releases by March 2014. In addition, the Cash and Debt Management Committee (CDMC) decided in September 2013 that any government borrowing from Bangladesh Bank (BB) through the overdraft facility has to be settled within 30 days. Building on this, and following the introduction of monthly cash flow forecasting plans, the CDMC issued in October 2013 a decision (prior action) to place limits, effective from April 2014, on the amount of government borrowing from BB through the overdraft facility.

8. Public debt management. We will continue to strengthen public debt management by:

- Focusing our external borrowing, including the contracting and guaranteeing of nonconcessional external debt, on projects with a high development impact for which concessional financing is not available, in order to meet our critical development needs. In particular, projects in power, transportation, telecommunications, and other infrastructures will receive the highest priority.

- Streamlining debt management processes. In this regard, we revised the terms of reference (TOR) for the Cabinet's Hard-Term Loan Committee (a June 2013 benchmark), now called Standing Committee on Non-Concessional Borrowing (SCNCB). The Technical Committee on Nonconcessional Borrowing (TCNCB) also continues its work supporting SCNCB by coordinating information gathering on the non-concessional borrowing pipeline across agencies. We will strengthen reporting procedures further to keep the TCNCB informed and engaged in ongoing and prospective negotiations for external borrowing. We requested a Debt Management Performance Assessment (DeMPA) from the World Bank, whose report is expected by November 2013. In addition, we will finalize our medium-term debt management strategy, with approval by the Minister of Finance by March 2014.

III. MONETARY POLICY AND CENTRAL BANK OPERATIONS

9. Monetary and exchange rate policy. As set out in our July 2013 Monetary Policy Statement, we will continue to maintain a restrained monetary policy stance, anchored on a reserve money target, to safeguard macroeconomic stability and keep inflation in check, while allowing adequate space for private credit growth. We have continued to build up net international reserves, meeting our end-June 2013 target by a comfortable margin. Going forward, BB will adjust foreign exchange intervention to market conditions, while keeping up sterilization operations to adhere to program targets.

10. Central bank operations. A full external audit of BB by a global audit firm will be completed before the December 2013 benchmark. Following up on the findings from this audit, the BB Board will appoint a certified chartered accountant as an advisor to the Audit Committee of the BB Board by March 2014 (a new structural benchmark), until the Audit Committee is reconstituted to include such an expert. We will also continue to engage a global firm to audit BB's financial statements on an annual basis.

IV. FINANCIAL SECTOR REFORMS

11. Banking system supervision. As a centerpiece of our efforts to strengthen the banking system, amendments to the Bank Companies Act (BCA) were approved by Parliament in July 2013. Following this, BB issued an order in September 2013 limiting banks' capital market exposure to 25 percent of their capital, as set out in the newly amended BCA (a June 2013 benchmark, delayed due to lagged passage of the amendments).

12. Strengthening the SOCBs. A key focus of our financial sector policies will be the strengthening of the governance, credit risk management, and balance sheets of the SOCBs. To this end, several measures are being undertaken:

- Revised MOUs. BB completed special diagnostic examinations of the SOCBs in June 2013 (a structural benchmark), which identified significant weaknesses in asset quality, liquidity management, and internal audit and control. To address these deficiencies, we have revised the memoranda of understanding (MOUs) between BB and the SOCBS (a September 2013 benchmark). The revised MOUs provide for the bank boards to adopt, among others, a stronger credit policy and credit risk management policy by November 2013 (in line with BB's credit risk management guidelines) and independent internal audit programs. The boards of the SOCBs will formulate an internal control and compliance policy for these banks by December 2013 (a new structural benchmark). Prudent credit growth ceilings, differentiated according to each bank's performance and financial soundness, will remain while their corporate governance and credit risk management are improved. We are committed to imposing the strengthened range of sanctions provided for in the revised MOUs in case of noncompliance.

- Recapitalization. We intend to gradually restore the capital position of SOCBs in line with regulatory capital adequacy standards, conditional on progress on actions agreed under the revised MOUs and clearly laid out new business plans approved by the SOCB boards.

- Automation. To reduce operational and financial reporting risks, we will initiate an automation plan for SOCB branches. A detailed action plan for automation will be completed by the Ministry of Finance, in consultation with BB, by March 2014 (a new structural benchmark).

13. Contingency planning. To strengthen the financial sector framework, the BB Board adopted a bank intervention and resolution plan, as well as a lender of last resort policy (September 2013 benchmark). These papers set out detailed roadmaps for full-fledged implementation of these policies by December 2014.

14. Securities markets reforms. Following passage of the Demutualization Act in April 2013, the Bangladesh Securities and Exchange Commission approved demutualization models and plans for both Dhaka and Chittagong stock exchanges in September 2013 (a June 2013 benchmark).

V. REFORMS TO BOOST GROWTH AND INCLUSION

15. Labor and safety standards. We have formed a minimum wage board to revise the minimum wage for the garment industry, with a final decision expected by November 2013. In response to the Rana Plaza tragedy, we formed a high-level inter-Ministerial Committee, with worker participation, to examine working conditions and safety in the ready-made garment industry. In line with commitments set out in a joint statement signed in May, including employers' and workers' organizations, we have amended the Labor Act (in July) to improve safety standards and workers' collective bargaining rights. With support from the International Labour Organization, development partners, and international retailers, we are also strengthening the labor inspection system, including through the recruitment of 200 additional inspectors by end-2013 and through safety assessments of all active ready-made garment factories.

16. Social safety nets. We comfortably met the IT for June 2013 on social-related spending. Under the ECF, we will continue to increase budget allocations for well targeted social safety net programs, and strengthen the efficiency and transparency of all social safety net programs, with support from the World Bank and other development partners.

17. Reforms to foreign exchange regulations. With a view to facilitating business operations and attract foreign investment, we have prepared a strategy paper laying out the roadmap towards gradual liberalization of exchange regulations on current and capital account. As a significant step in this direction, BB will review and adopt the necessary amendments to all foreign exchange regulations and reporting routines for current account transactions by December 2014 (a new structural benchmark).

18. Trade and investment climate reforms. In line with our commitment to strengthen the trade and investment climate, we will give special attention to the trade regime, which includes a complex system of multiple taxes and levies. Our future trade liberalization program will focus on reducing the dispersion and average level of protection; streamlining customs and border procedures; and introducing a more efficient duty drawback system.

VI. PROGRAM MONITORING

19. 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 December 2013 and for March, June, September, and December 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 fourth and fifth reviews are expected to take place on or after May 1, 2014 and November 1, 2014.

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

	6/30/12		12/31/12		3/31/13				6/30/13				9/30/13	12/31/13	3/31/14	6/30/14	9/30/14	12/31/14
	PC with adjustors	Est.	PC with adjustors	Est.	IT	IT with adjustors	Est.		Prog. PC	PC with adjustors	Est.		IT	Prog. PC	IT	Prog. PC	IT	IT
Performance criteria applicable on a periodic basis 2/ 3/																		
Net international reserves (NIR) of Bangladesh Bank (BB) (floor, end of period (eop) stock, in millions of U.S. dollars)	6,097	6,984	6,356	9,435	9,304	9,404	10,887	Met	10,400	10,450	12,357	Met	10,877	13,402	13,526	13,729	14,270	14,714
Net domestic assets (NDA) of BB (ceiling, eop stock, in billions of taka)	538	435	566	338	350	340	243	Met	344	340	190	Met	324	207	223	271	245	301
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) 4/	240	139	92	41	138	128	66	Met	208	204	145	Met	25	100	167	242	25	100
	4/1/12 – 6/30/12		10/1/12 – 2/19/13		2/20/13 – 3/31/13				4/1/13 – 6/30/13				7/1/13 – 9/30/13	10/1/13 – 12/31/13	1/1/14 – 3/31/14	4/1/14 – 6/30/14	7/1/14 – 9/30/14	10/1/14 onward
	Prog. PC	Rev. Est.	Prog. PC	Est.	Prog. PC		Est.		Prog. PC		Est.		Prog. PC	Prog. PC	Prog. PC	Prog. PC	Prog. PC	Prog. PC
Performance criteria applicable on a continuous basis 5/																		
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)	500	0	1,000	2,436	3,000		2,436	Met	3,250		2,860	Met	4,000	4,250	5,000	5,750	6,000	6,000
New nonconcessional external debt maturing in one year or less, contracted by the public sector and/or guaranteed by the central government or BB (ceiling, stock since December 31, 2011, in millions of U.S. dollars)	0	0	0	0	0		0	Met	0		0	Met	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)	0	0	0	0	0		0	Met	0		0	Met	0	0	0	0	0	0
	6/30/12		12/31/12		3/31/13				6/30/13				9/30/13	12/31/13	3/31/14	6/30/14	9/30/14	12/31/14
	IT	Est.	IT	Est.	IT		Est.		IT		Est.		IT	IT	IT	IT	IT	IT
Indicative targets																		
Reserve money (ceiling, eop stock, in billions of taka)	1,014	976	1,061	1,067	1,063		1,079	Not Met	1,135		1,122	Met	1,151	1,216	1,242	1,304	1,319	1,407
Tax revenue of central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka) 6/	924	916	489	456	757		723	Not Met	1,088		1,033	Not Met	240	495	783	1,191	274	569
Social-related spending by central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka)	400	421	161	174	276		237	Not Met	455		464	Met	78	177	317	519	95	215
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	1,250	985	1,250		1,286	Not Met	1,125		805	Met	1,125	1,125	975	775	750	600
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) 7/	0	-10	0	11	0		6	Not Met	0		-61	Met	0	0	0	0	0	0
Net loans extended by four largest state-owned commercial banks (ceiling, eop stock, in billions of taka) 8/	...	...	...	...	702		695	Met	731		704	Met	748	705	711	719	736	752
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	50	150	100	100	200		200		250		50	100	100	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	...	...	...	...	55	55	55		55		56		...	...	...	...	...	...
Budgetary transfers for recapitalizing the four largest state-owned commercial banks in FY14 (July 2013-June 2014) (cumulative change from the beginning of the fiscal year, in billions of taka), program level 8/	...	...	...	...	...	...	...		...		...		...	41	41	50	...	...

1/ Fiscal year begins July 1.
2/ Evaluated at the program exchange rate.
3/ The adjustors are specified in the Technical Memorandum of Understanding.
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 (actual Tk 59.35 billion) 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 the BPC prior to FY12 to cover shortfalls in government budgetary transfers for fuel-related subsidy costs incurred by the BPC.
5/ These performance criteria are applicable on a continuous basis, i.e.the targets are monitored continuously during each period.
6/ Collections by the National Board of Revenue only, as recorded by the Controller General of Accounts.
7/ Outstanding funded loans of Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, and BASIC Bank to BPC, BPDB, and BCIC.
8/ Comprising Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank.

Table 2. Bangladesh: Structural Benchmarks (Existing and Proposed) for the Third ECF Review

Actions	Date	Macroeconomic Criticality	Status
Prior Actions:			
Final approval by the Executive Committee of National Economic Council (ECNEC) of the Development Project Proposal (DPP) for the VAT implementation project.		To strengthen tax revenue administration	Completed.
Cash and Debt Management Committee (CDMC) decision to place limits on the amount of government borrowing from BB through the current overdraft facility.		To strengthen public financial management	Completed.
Structural Benchmarks:			
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.
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	Met.
Complete special diagnostic examinations by Bangladesh Bank (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	Met.
Issue notification for revised terms of reference for the Cabinet's Hard Term Loan Committee	June 2013	To strengthen external public debt management	Met.
Automate taxpayer identification number issuance, including links to the national identification number system.	June 2013	To increase tax revenue	Met.
Issue a BB order, consistent with the amended Bank Companies Act (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 by the deadline. BB issued the order in September 2013 following a delayed passage of the amended BCA in July 2013.
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	Not met by the deadline. The demutualization model and plan were approved in September 2013 following passage of the Demutualization Act in April 2013, which allowed a maximum of five months for the approval process.
Finalize a bank resolution framework, comprising a contingency plan and lender of last resort policy at BB.	September 2013	To reduce systemic risks	Met.
Complete a review of the Foreign Exchange Regulation Act.	September 2013	To strengthen the trade and investment climate	Met.
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	Met.
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	
Publication of the tender for the selection of the VAT automation software vendor.	December 2013	To strengthen tax revenue administration	New benchmark under the third review of the program.
An internal control and compliance policy to be approved by each of the boards of the four largest state-owned commercial banks.	December 2013	To strengthen the banking system	New benchmark under the third review of the program.
Appointment of a certified chartered accountant as an advisor to the Audit Committee of the BB Board.	March 2014	To strengthen internal operations and controls	New benchmark under the third review of the program.
A detailed action plan for automation at the state-owned commercial banks to be approved by the Ministry of Finance.	March 2014	To strengthen the banking system	New benchmark under the third review of the program.
Selection of a vendor for a tax automation system for VAT.	June 2014	To strengthen tax revenue administration	Rescheduled from December 2013 in view of delays in the inclusion of a funding allocation for the VAT implementation project in the Annual Development Program.
Complete a full external audit for the financial year 2012-13 of the Bangladesh Petroleum Corporation by a global audit firm in association with a local firm.	September 2014	To strengthen financial management at the largest state-owned enterprise	New benchmark under the third review of the program.
Review and adopt the amendments to foreign exchange regulations and reporting routines for all current account transactions, guided by the September 2013 roadmap adopted by BB and the Ministry of Finance.	December 2014	To strengthen the trade and investment climate	New benchmark under the third review of the program.

Attachment 2. Bangladesh—Technical Memorandum of Understanding

November 05, 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-December 2013 and end-June 2014 and quarterly indicative targets for end-March 2014, end-September 2014, and end-December 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., FY14 is July 1, 2013–June 30, 2014).

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;
- Floor on social-related spending by central government, calculated cumulatively from the beginning of the fiscal year; and
- 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) suppliers' credit and other short-term financing for oil imports, calculated cumulatively from end-June 2011; (iii) budgetary transfers in FY14, calculated cumulatively from the beginning of the fiscal year, for recapitalizing the four largest SOCBs—Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank (this adjustor will be introduced from December 2013); and (iv) budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 (this adjustor will be removed from September 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, calculated cumulatively since end-June 2011, in excess of the programmed level and by the amount of net lending by the central government to the BPC and the BPDB short of the programmed level. The ceiling on NCCG by the banking system excludes special bonds issued by the central government to the 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. 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. This ceiling will be removed from September 2013. From December 2013, the ceiling on NCCG by the banking system will be adjusted upward (downward) by the amount of budgetary transfers in FY14, calculated cumulatively from the beginning of the fiscal year, for

recapitalizing the four largest SOCBs—Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank—in excess (short of) the programmed level.

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 Board 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 and Family Welfare; and all expenditures on social safety net programs in the budget project/program 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 rate used for this purpose is 5 percent.

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
Bank deposits of Bangladesh Petroleum Corporation, Meghna Petroleum Limited, Padma Oil Company Limited, and Jamuna Oil Company Limited	BB	Monthly, within six weeks of the end of each month,
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
Fiscal outturn, excluding railways and Controller General, and defense finance	MOF(FD)/CGA	Monthly, within three 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

Table 1. Bangladesh: Data Reporting Requirements (continued)

Item	Reporting agency	Periodicity
Disbursements of program and project grants by donor	MOF (ERD)	Monthly, within four weeks of the end of each month
Domestic financing, comprising (i) borrowing from and repayment to BB, DMBs, and nonbanks; (ii) changes in deposits held in BB, DMBs, and other deposit-taking institutions (see Table 2)	MOF(FD)/CGA/BB	Monthly, within six weeks of the end of each month
Balancing items reported by the CGA	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
III. State-owned enterprise data	**MOF**	
See Table 3 on key financial indicators for Bangladesh Power Development Board (BPDB), Bangladesh Petroleum Corporation (BPC), and Bangladesh Chemical Industries Corporation (BCIC).	MOF (FD/SOE Monitoring Unit)/BPC	Quarterly, within six weeks of the end of each quarter
IV. Debt data	**MOF/BB/National Savings Directorate (NSD)**	
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	Monthly, within six weeks of the end of each month
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

Table 1. Bangladesh: Data Reporting Requirements (concluded)		
Item	**Reporting agency**	**Periodicity**
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
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	Ministry of Disaster Management and Relief	0001
10	Block Allocation for Disaster Management	Ministry of Disaster Management and Relief	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
(A.2) Cash Transfer (Special) Program			
(A.2.1) Social Empowerment			
1	Housing Support	Ministry of Disaster Management and Relief	0001
2	Agriculture Rehabilitation	Ministry of Agriculture	0012
(B) Food Security Programs: Social Protection			
1	Open Market Sales (OMS)	Ministry of Food	0005
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	Ministry of Food	0001
5	Gratuitous Relief (GR) - Food	Ministry of Food	8209
6	Food Assistance in Chittagong Hill Tracts Area	Ministry of Chittagong Hill Tracts Affairs	0003
7	Food For Work (FFW)	Ministry of Disaster Management and Relief	5060

Table 4. Bangladesh: Safety Net Programs (continued)

	Programs	Name of Ministry	Code
(C.1) Micro-Credit Programs: Social Empowerment			
1	Fund for Micro-Credit through PKSF	Ministry of Finance	3912
2	Social Development Foundation	Ministry of Finance	3946
(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	Ministry of Finance	3996
3	Swanirvar Training Program	Ministry of Finance	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	Ministry of Finance	3108
3	Block Allocation for Various Program	Ministry of Finance	0000
4	Employment Generation Program for the Ultra Poor	Ministry of Disaster Management and Relief	0006
5	National Service	Ministry of Youth and Sports	4729
6	Child Development Center	Ministry of Social Welfare	3489
7	Service and Assistance Center for Disabled	Ministry of Social Welfare	3490
(C.4) New Fund: Social Protection			
1	Rehabilitation and Creation of Alternative Employment for People Engaged in Begging Profession	Ministry of Social Welfare	3495
2	Universal Pension Insurance Scheme	Ministry of Local Government, Rural Development and Cooperatives	4009
(D) Development Sector Programs: Social Empowerment			
(D.1) Running Development Programs			
1	"Ashrayan" (Housing)	Prime Minister's Office	6520
2	Economic Empowerment of the Poor	Ministry of Local Government, Rural Development and Cooperatives	8162
3	Employment for Ultra-Poor in Northern Region	Ministry of Local Government, Rural Development and Cooperatives	7000
4	Participatory Rural Development (2nd Phase)	Ministry of Local Government, Rural Development and Cooperatives	8090
5	"Gucchagram" (Climate Victims Rehabilitation Project)	Ministry of Land	5120
6	Rural Employment and Rural Maintenance Program	Ministry of Local Government, Rural Development and Cooperatives	8112
7	Preliminary Education for Development of Children	Ministry of Women and Children Affairs	5011
8	Disaster Risk Mitigation and Reduction	Ministry of Disaster Management and Relief	5010

Table 4. Bangladesh: Safety Net Programs (continued)

	Programs	Name of Ministry	Code
9	Regional Fisheries and Livestock Development	Ministry of Fisheries and Livestock	5300
10	Projects Undertaken for Fisheries Development	Ministry of Fisheries and Livestock	7050
11	Jatka (Fish)Protection and Alternative Employment for Fishermen	Ministry of Fisheries and Livestock	5390
12	One Household One Farm	Ministry of Local Government, Rural Development and Cooperatives	7310
13	Sisimpur Outreach Project	Ministry of Women and Children Affairs	7021
14	National Sanitation Project	Ministry of Local Government, Rural Development and Cooperatives	5140
15	Pulse and Oil Seed Project	Ministry of Agriculture	7450
16	Community Based Adaptation to Climate Change through Coastal Aforestation in Bangladesh	Ministry of Environment and Forest	5360
17	Comprehensive Village Development	Ministry of Local Government, Rural Development and Cooperatives	8167
18	Comprehensive Disaster Management Program	Ministry of Disaster Management and Relief	5041
19	Urban Public Environment Health Development Program	Ministry of Local Government, Rural Development and Cooperatives	7479
20	Poverty Eradication and Ensuring Livelihood for the People Living in Economically Backward Areas.	Ministry of Fisheries and Livestock	7010
21	Poverty Eradication through Social Aforestation.	Ministry of Environment and Forest	8881
22	Improvement and Quality Seed Production of Rice, Wheat and Maize.	Ministry of Agriculture	8882
23	Ashrayan – 2 project	Prime Minister's Office	6530
24	Rehabilitation of AILA Affected Rural Infrastructure	Ministry of Local Government, Rural Development and Cooperatives	5016
25	Mujibnagar Integrated Agricultural Development Project	Ministry of Agriculture	8912
26	Greater Comilla Rural Infrastructure Development Project	Ministry of Local Government, Rural Development and Cooperatives	5680
27	Support Service for Vulnerable Group (01/12/2011-30/06/2013) Approved	Ministry of Social Affairs	5560
28	Food and Livelihood Security (FLS)	Ministry of Social Affairs	5260
29	Creation of Employment and Self Employment Opportunities for Unemployed Youths in 7 District of North Bengal	Ministry of Youth and Sports	5160
30	Poverty Reduction Through Minor Crops Production, Preservation, Processing & Marketing Programm-2nd Phase (01/07/11-30/06/14)	Ministry of Agriculture	7200
31	Integrated Rural Employment Support Project for the Poor Women (IRESPPW)	Ministry of Local Government, Rural Development and Cooperatives	7260
32	Create Employment Opportunities of Char Dwellers in Greater Rangpur Districts Through Sugarcane Cultivation	Ministry of Agriculture	5180

Table 4. Bangladesh: Safety Net Programs (concluded)

	Programs	Name of Ministry	Code
33	Food Security through Enhanced Agricultural Production, Diversified sources of Income, Value Addition and Marketing in Bangladesh (Mymensingh/Sherpur) (FSMSP)	Ministry of Agriculture	5031
34	Integrated Fisheries & Livestock Development Project in Flood Control, Drainage and Irrigation	Ministry of Fisheries and Livestock	5030
35	Integrated Fisheries Livelihood Project Bangladesh (Preparatory phase) (Sep'2011-Aug'2012)	Ministry of Fisheries and Livestock	8202
36	Establishment of Regional Duck Breeding Farm along with Hatchery (3rd Phase)	Ministry of Fisheries and Livestock	5150
(D.2) New Development Programs			
1	Child Sensitive Social Protection	Ministry of Social Welfare	5019
2	Urban Primary Health Care Services Delivery Project	Ministry of Local Government, Rural Development and Cooperatives	5019
3	Extension of Palli Daridra Binochon Foundation (PDBF) Activities for Poverty Alleviation and Self Employment	Ministry of Local Government, Rural Development and Cooperatives	5028
4	Integrated Support to Poverty and Inequality Reduction through Enterprise Development	Ministry of Industries	5014

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

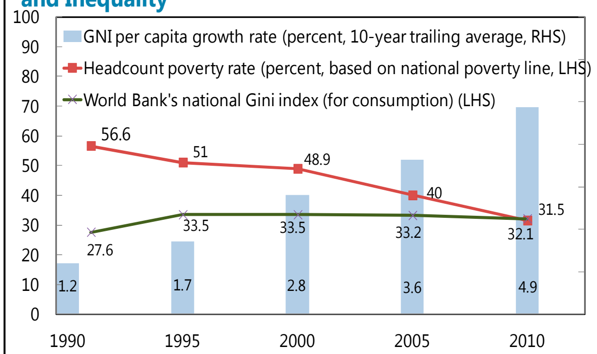
(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the 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.

Appendix II. Bangladesh: On the Road of Inclusive Growth[1]

The experience of Bangladesh illustrates the linkages between growth, poverty, and inequality in a populous, low-income frontier Asian economy. Despite being dubbed a test case of development at its independence and prone to political upheavals and natural disasters, Bangladesh nonetheless achieved steady poverty reduction over the past two decades. From as high as 57 percent at the beginning of the 1990s, the poverty headcount rate[2] declined to 31.5 percent by 2010, keeping Bangladesh well on track to reach Millennium Development Goal 1 to halve the proportion of people living below the poverty line by 2015 (Figure 1). Reinforcing the pro-poor nature of growth, inequality (as measured by the Gini coefficient of consumption) remained broadly stable during 2000–2010, a decade when Bangladesh experienced accelerating growth. All this was achieved in conjunction with improvements in a number of social indicators (Table 1), with Bangladesh standing out on several fronts when compared to the averages in the South Asia region and low-income countries.

Figure 1. Bangladesh: Indicators of Growth, Poverty, and Inequality



Source: World Bank.

Table 1. Bangladesh: Selected Socio-Development Indicators

(Most recent available estimate, 2005-2011)

	Bangladesh	South Asia	Low-Income Countries
Gross national income per capita (Atlas method, U.S. dollar)	780	1,176	528
Population growth rate (percent)	1.3	1.4	2.1
Total fertility rate (births per woman)	2.3	2.7	4.1
Life expectancy at birth (years)	68.9	65	59
Infant mortality (per 1,000 live births)	36.7	52	70
Child malnutrition (percent of children under 5)	36	33	23
Adult literacy, male (percent of ages 15 and older)	61	73	69
Adult literacy, female (percent of ages 15 and older)	52	50	54
Net primary school enrolment, male (percent of age group)	83	89	81
Net primary school enrolment, female (percent of age group)	90	84	78
Access to an improved water source (percent of population)	83.2	90	65
Access to an improved sanitation (percent of population)	54.7	38	37

Source: World Bank.

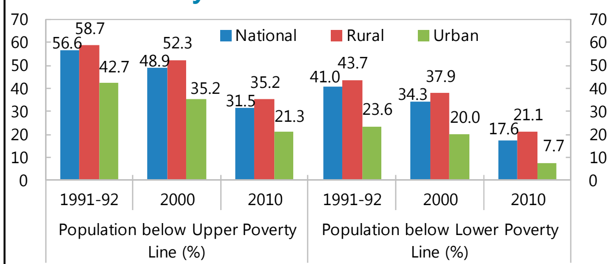
[1] Prepared by Seng Guan Toh.

[2] This poverty headcount rate is based on Bangladesh's national poverty line (also known as upper poverty line), defined in monetary terms as the income needed to provide for sufficient caloric intake based on the 2010 Household Income and Expenditure Survey, and was about US$1.11 per day. The poverty headcount rate using the World Bank's US$1.25 per day (PPP-2005) showed a broadly similar declining trend over the past two decades, from almost 70 percent of the population in the early 1990s to 43.3 percent by 2010.

Several factors have contributed to Bangladesh's strong performance on poverty reduction over the past two decades.

- First, Bangladesh has broadly seen sustained economic growth over the period, albeit not as rapid as the fastest growing frontier Asian economies. Part of the growth in incomes was supported by rising worker remittances (with over 8 million Bangladeshis working abroad) which now account for over 11 percent of GDP, with attendant poverty-reducing benefits. Economic growth was also translated into substantial improvements in rural income per capita, with a key mechanism here being the Green Revolution, which meant two crops (instead of one) a year could be grown. Since the highest incidence of the poor and the most extreme poverty tends to be rural (Figure 2), this helped make growth more pro-poor and inclusive, notwithstanding also impressive poverty reduction in urban areas.[3] Gains from rural poverty reduction were particularly evident during 2005–2010, driven in part by enhanced policy focus on agriculture and rural development, the effects from the exogenous commodity food price increase that raised real wages in the predominantly agricultural western regions, and in-migration from the western to the eastern divisions (thus reducing surplus rural labor supply).

Figure 2. Bangladesh: Rural-urban Poverty and Extreme Poverty Trends



Source: Bangladesh Bureau of Statistics HIES 1991-92, 2000, and 2010.

Note: Upper poverty line defined in monetary terms as an income less than will provide for 2,212 calories per day. Lower poverty line similarly defined to provide for 1,800 calories per day (also taken as a threshold for extreme poverty).

- Second, over this period Bangladesh has seen significant improvements in the condition of women. For this, policies have helped, including through the development of microcredit (Grameen Bank's loans, for instance, are targeted mainly at women) and family-planning programs introduced after Bangladesh's independence, which reduced fertility rates and raised the status of women within the household by increasing their influence over household size. The rise of the labor-intensive textile and garment industry, which has created almost 4 million unskilled and low-skilled jobs, with about 80 percent of workers being women, has also been a reinforcing factor.

- Third, the government has maintained basic social spending programs that have endured, working in coordination with international and domestic development partners including nongovernmental organizations (NGOs). Relative to other South Asian countries, social safety net (SSN) spending as a share of GDP in Bangladesh[4] is comparable to India, but higher than

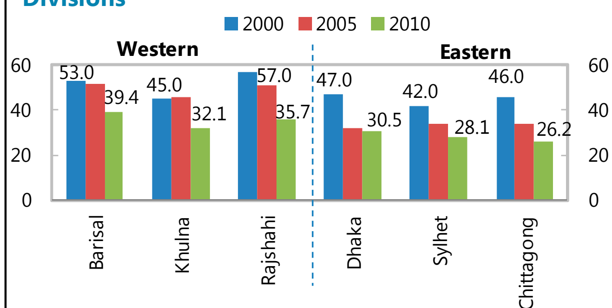
[3] While urbanization has increased over the past two decades, Bangladesh remains largely rural, with about 72 percent of the population in rural areas in 2010 (1990: 80 percent).

[4] Social safety net expenditures in the South Asia region ranged from about 0.8 percent of GDP in Sri Lanka to about 2 percent of GDP in Bangladesh and India (based on 2010–11 estimates).

Nepal, Pakistan, and Sri Lanka (International Monetary Fund, 2012). These SSN programs address poverty from a multifaceted perspective, including through education, health, nutrition, employment, and disaster response, and were estimated to have reached almost 40 percent of the poorest quintile based on Bangladesh's 2010 Household Income and Expenditure Survey (HIES). A major portion of the support has gone to food assistance covered through direct feeding programs, followed by cash transfer programs (including the flagship Employment Generation Program for the Poorest that was set up in response to the 2008 food price crisis). The work of home-grown NGOs in Bangladesh has been another influential factor in poverty reduction, with a number of them (e.g., BRAC, now the largest NGO in the world) able to scale up operations since Bangladesh's independence and work successfully in partnership with the government.

While favorable economic growth helped reduce poverty systematically, overall inequality rose till the mid-1990s as the country started to industrialize and urbanize, but has since broadly stabilized, with internal regional inequality now a focus. Overall inequality trends have broadly stabilized, driven by some decline in urban inequality following rapid growth in the services sector where many of the urban poor were employed (Paci and Sasin, 2008). Notwithstanding this, inequality remains a pressing government concern, as underlying the national poverty story are significant differences between geographical regions, a phenomenon known as the "East-West divide" (World Bank, 2008). Dhaka, Chittagong and Sylhet divisions in the eastern part of the country experienced rapid poverty reduction between 2000 and 2005 (Figure 3), but the gains were much smaller for Rajshahi in the west and almost nonexistent for Barisal and Khulna in the southwest. This pattern was partly reversed over 2005–2010 as factors favoring rural incomes emerged, as noted above. Addressing regional disparities remains a key thrust of Bangladesh's Sixth Five Year Plan (FY2011–15) and reinforces the need for greater infrastructure connectivity for the economically isolated southwest divisions (exemplified by the government's centerpiece project for a bridge across the river Padma, which would connect those divisions with the economic heartland in the east, reducing transport costs).

Figure 3. Bangladesh: Poverty Headcount Rate of Divisions



Source: Bangladesh Bureau of Statistics, HIES 2000, 2005, and 2010.

Notwithstanding its progress, Bangladesh remains a poor country–with almost 45 million people in poverty in 2010. Looking ahead, the challenge for continued poverty reduction would be to achieve sustained high economic growth and preserve the characteristics that have supported inclusiveness while more effectively reaching the poor by further improving the targeting of SSNs, with the World Bank's work on developing a poverty database a key step toward this goal.

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Appendix III. Bangladesh: Opportunities and Challenges for the Ready-Made Garment Sector[1]

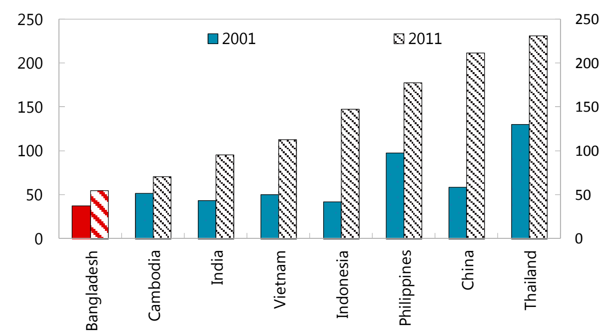
The ready-made garment (RMG) industry is of strategic importance to Bangladesh, providing about 4 million jobs directly and millions of additional jobs indirectly. The industry is crucial for the empowerment of women and economically disadvantaged households, with over 80 percent of its workers being low-skilled women. The RMG industry started to expand as a result of European and US apparel buyers moving their sourcing activities to low-cost countries in Asia, including Bangladesh. From a humble beginning 30 years ago, the RMG industry has become the real backbone of the Bangladesh economy. While there are several reasons favoring a continued expansion, key challenges need to be resolved to maintain the strong growth momentum.

A. Opportunities

Bangladesh has two key advantages—cost and capacity.

- **Cost.** Compared to key competing countries, wages in Bangladesh's RMG sector are the most competitive and have been growing more slowly during the last ten years. At the same time, comparative studies suggest that there is a productivity gap relative to China, the world's largest garment exporter, though estimates vary. A report by McKinsey & Company based on 2009 data put Bangladesh's labor productivity at close to 80 percent that of China. Combined, wage and productivity data imply that unit labor costs in Bangladesh were about one third those in China in 2011, while unit labor costs in India and Cambodia were one half.

Garment Workers' Monthly Wages, 2001 and 2011
(In U.S. dollars)



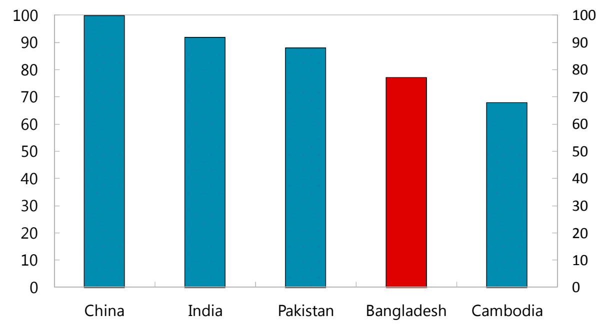
Source: "*Global Wage Trends for Apparel Workers, 2001-2011*", Worker Rights Consortium, July 2013, Center for American Progress. (www.americanprogress.org)

- **Capacity.** Leading apparel buyers in Europe and the US are now in the process of moving some of their sourcing away from China because of labor shortages and increasing wages. Profiting from its cost advantages, Bangladesh has the potential capacity to take over a significant share of export markets vacated by China. China's exports of RMG are more than five times as large as exports from Bangladesh. Production of RMG in Bangladesh could, thus, more than double if Bangladesh took over 20 percent of China's current RMG export. Among low-cost producers, Bangladesh and India have higher current production capacity than other low-cost RMG suppliers in Asia and more room to expand production further. While Bangladesh still has, like

[1] Prepared by Lars Engstrom.

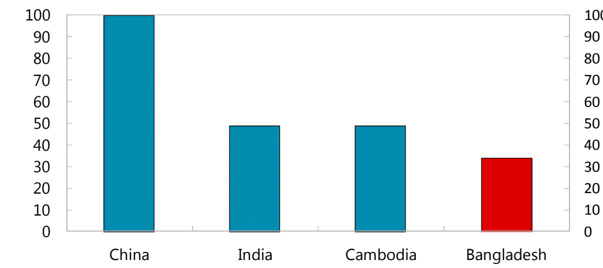
other countries in Asia, relatively low shares of the population working in the RMG industry (though higher than India's), it has more RMG factories (slightly more than 5,000) in operation than Vietnam (about 3,000) and Cambodia (less than 500).

Labor Productivity Across Slected Countries, 2009
(Percent of labor productivity in China)



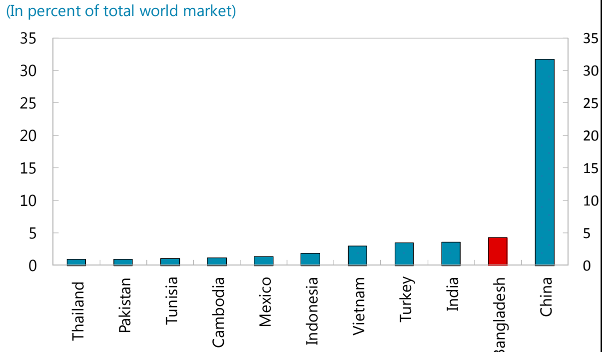
Source: McKinsey & Company's "*Bangladesh's ready-made garments landscape: The challenge of growth*", November 2011.

Unit Labor Costs Across Selected Countries, 2011
(Percent of unil labor costs in China)



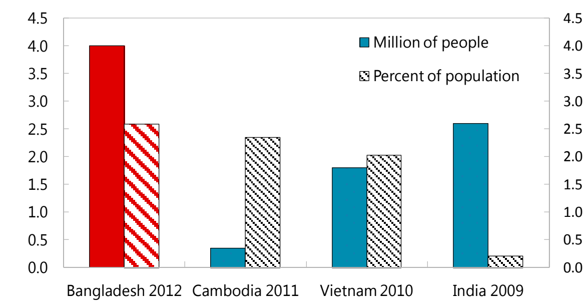
Sources: Staff estimates based on (i) productivity data for 2009 published in "*Bangladesh's ready-made garments landscape: The challenge of growth*", McKinsey & Company, November 2011 and (ii) wage data for 2011 published in "*Global Wage Trends for Apparel Workers, 2001-2011*", Worker Rights Consortium, July 2013, Center for American Progress. (www.americanprogress.org).

Market Share of Top Garment Exporters, 2009
(In percent of total world market)



Source: The World Bank's "*Consolidating and Accelerating Exports in Bangladesh*", Bangladesh Development Seriers, Paper No. 29, June 2012.

Employment in the RMG Industry Across Selected Countries



Sources: (i) Employment data: Bangladesh, Bangladesh Garment Exporters & Manufacturers Association; Cambodia, Better Works (www.betterworks.org); and Vietnam and India, UNIDO Industrial Statistics Data Base and (ii) population data: World Development Indicators, the World Bank.

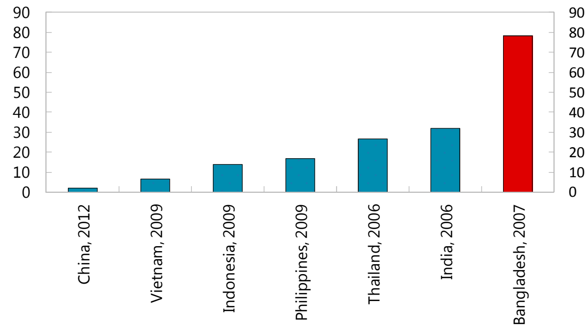
B. Challenges

Some critical factors hamper productivity in the RMG sector and create hurdles for the potential expansion of the industry: (i) inadequate infrastructure (electricity and transport); (ii) poor compliance with international labor and environmental standards in many factories; and (iii) shortage of skilled workers in general and middle-management in particular. Addressing these challenges is essential for the industry to remain competitive, despite emerging pressures from the sharp currency depreciations in neighboring countries, all while boosting real wages and improving labor conditions.

Infrastructure

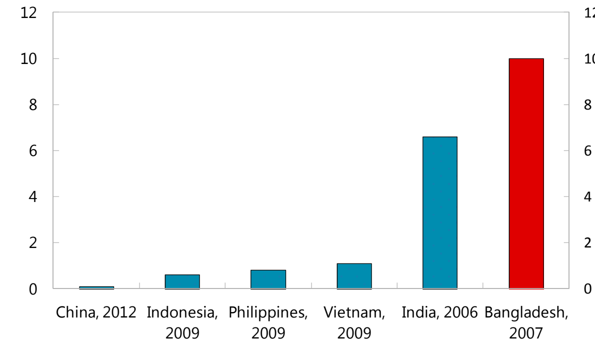
Power outages are a key reason for Bangladesh's productivity gap. The World Bank's Cost of Doing Business Survey is ranking Bangladesh last among all countries in "Getting electricity" when combining the effect of the number of required procedures (9), time (404 days), and cost. Likewise, about four out of five respondents to the World Bank's 2007 Enterprise Survey quoted electricity as a major constraint for their business and the average respondent estimated the loss from electrical outages to about 10 percent of annual sales. Solving the electricity problem should boost productivity in the sector. Electricity shortages seem likely to be significantly alleviated within the next few years, as several new power projects are under construction. In the meantime, many RMG factories have invested in their own generators to reduce reliance on public energy supply.

Percent of Firms Identifying Electricity as a Major Constraint



Source: The World Bank, Enterprise Surveys (http://www.enterprisesurveys.org).

Losses Due to Electrical Outages
(In percent of annual sales)



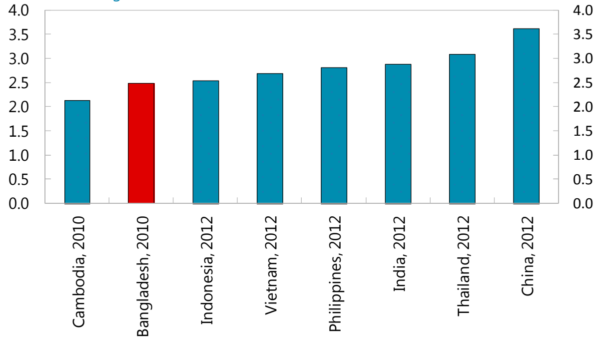
Source: The World Bank's *Enterprise Surveys* (http://www.enterprisesurveys.org).

Inadequate transport infrastructure is also a growing impediment to the RMG sector. Congested roads, limited inland transport alternatives, and lack of a deep-sea harbor add inefficiencies to garment delivery times. With growing volumes, the transport network needs investment to avoid a future collapse. According to the World Bank's Logistics Performance Index, Bangladesh scored a low 2.49 on quality of trade and transport-related infrastructure. Among key competing RMG exporters, only Cambodia had a lower score. Bangladesh is unlikely to become a producer of more fashionable, shorter lead time items unless it can offer reliable and fast transport.

In particular, a key constraint increasing export (and import) costs is the poor performance of the Chittagong-Dhaka corridor. This corridor, connecting the industrial districts around Dhaka with Chittagong, the country's main port, is currently unsuitable for efficient operation of trucks loaded with large containers. Most goods are, therefore, transported between the RMG factories and Chittagong as loose cargo in 5-10 ton trucks. The stripping and loading of containers create congestion in the port and 14 private off-dock container yards operated by local companies have been established to reduce clogging. Loose cargo shipments from the factories are packed in containers at the container yards. To resolve this bottleneck, it is crucial to increase the capacity to move containers by rail, inland waterways, and road.

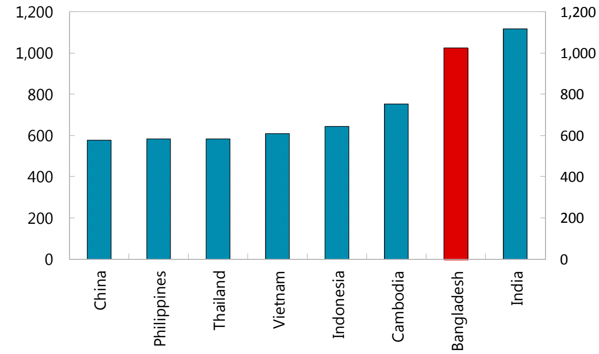
As a result of transport and bureaucratic hurdles, the cost to export is the second highest among key competing RMG exporters. The World Bank's Cost of Doing Business Survey estimates the cost to export at $1,025 per container in Bangladesh, compared with $600 per container in many other RMG-exporting countries. This survey measures the cost of exporting a 20-foot container and it includes all fees associated with completing the export procedures, including costs for documents, administrative fees for customs clearance and inspections, customs broker fees, port-related charges, and inland transport costs. The cost does not include customs tariffs and duties, costs related to sea transport, or potential bribes.

Logistics Performance Index: Quality of Trade and Transport-Related Infrastructure
(1=low to 5=high)



Source: The World Bank's *World Development Indicators*.

Cost to Export
(In U.S. dollars per container)



Source: The World Bank's *Doing Business 2013*.

Compliance

Strikes due to labor unrest and political tensions have plagued the RMG industry repeatedly in recent years. One of the reasons for labor unrest is legal and institutional failures to ensure labor rights. The most common reasons of labor unrest are disputes over wage rates and unpaid wages. Nationwide strikes (hartals) for political reasons also often trigger violence at the factories.

Following the Rana Plaza factory collapse earlier this year, compliance with international standards on factory safety and labor conditions is getting more attention from consumers, nongovernmental organizations, and apparel buyers. [2] International buyers are demanding compliance with their "code of conduct" before placing any garment orders. Despite progress in recent years, considerable gaps have remained in compliance between good factories and weaker performers. Many RMG factories are housed in buildings that were not constructed to accommodate factories and subsequent accidents have proven that several factories have no minimum safety measures.

In response, the government has taken several measures to address existing deficiencies. The government formed a high-level inter-ministerial committee, with worker participation, to monitor working conditions and welfare in the RMG industry. A Joint Statement signed in May by the government and employers' and workers' organizations set out a six-point response agenda aiming to: (i) amend the labor law to improve safety standards and workers' collective bargaining rights (and the amended law was passed in July); (ii) strengthen the labor inspection system, including by recruiting 200 additional inspectors by end-2013; (iii) start safety assessments of all active RMG factories; (iv) provide education and training to workers and supervisors on health and safety

[2] In total, 1,129 workers died when the eight-storey Rana Plaza factory collapsed in April, 2013.

measures; (v) compensate victims of the Rana Plaza tragedy; and (vi) audit factory compliance with international standards. Together with the International Labour Organization and the European Union, the government launched a "compact" to improve labor rights, working conditions, and factory safety in the RMG industry. International retailers organized either through the Accord on Fire and Building Safety (99 mainly European retailers) or the Alliance for Bangladesh Worker Safety (22 mainly North American retailers) are providing active support to the RMG factory safety assessment. The government has also set up a wage board to revise the minimum wage in the RMG industry, with a decision expected in November 2013.

Compliance with higher wages and more stringent international standards will entail higher operating costs and is likely to trigger a process of consolidation. About half of Bangladesh's RMG factories, mainly small and medium-sized, would need significant investment for complying with international standards. These firms typically rely on sub-contracting from larger RMG factories, operate with smaller profit margins, and lack the necessary financial resources to upgrade buildings and management. Many of the small noncompliant factories are therefore likely to close or be absorbed by larger RMG companies.

Skills and education

Skills are emerging as a major constraint for the RMG industry. One out of four respondents to the World Bank's 2007 Enterprise Survey quoted an inadequately educated workforce as a major constraint. In particular lack of skilled middle management is a key factor limiting improvements in productivity and working conditions. Poor relationships between workers and first line supervisors are a common source of labor conflict. For jobs where higher skills are needed on entry, such as supervisors and machine operators, there are insufficient training opportunities. Supervisors need more rigorous training on industrial relations, human resource management, factory management, occupational hazard management, and disaster management. Currently the RMG industry employs less than 6,000 staff (about 0.2 percent of total employment in the sector) having relevant diplomas, degrees, or higher qualification, and it is highly dependent on expatriate technicians and supervisors.

Poor education makes skill acquisition and on the job training more difficult. Compared to other Asian countries, Bangladesh has a low level of literacy and few average years of schooling. Over 40 percent of the adult population is illiterate. Considering that about one fifth of young people (15–24 years) still remain illiterate at this time, it may take many years before Bangladesh approaches average Asian literacy rates.

C. Policy Implications

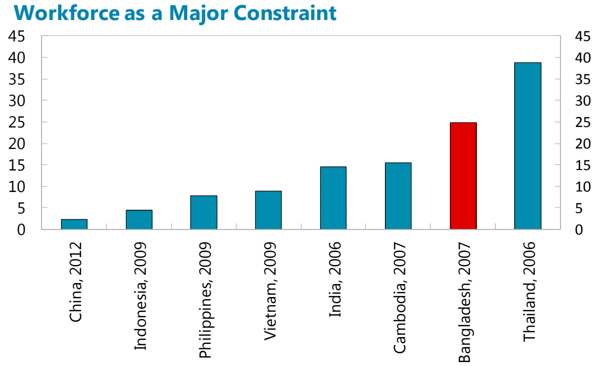
The government, suppliers, buyers, workers, and Bangladesh's development partners need to join forces and work together to deal with Bangladesh's challenges:

- Infrastructure needs require that the government reinforces efforts to boost investment in critical infrastructure in power generation and transport. Against a background of limited financial resources and implementation capacity, prioritization and transparency in project selection and implementation are critical.

- Compliance requires investing in new factories and upgrading of existing factories and management by suppliers, and monitoring and enforcement of international standards by the government and buyers. In addition, Bangladesh's development partners could support compliance by providing financing at favorable terms to small and medium-sized RMG factories.

- Lack of skills and education require close cooperation between the government, suppliers, and workers. The government needs to establish facilities that provide the education and training that meet the RMG industry requirements. Suppliers need to improve the human resource skills of their top and middle management, provide more training for their workers, and create incentives for workers to develop their skills.

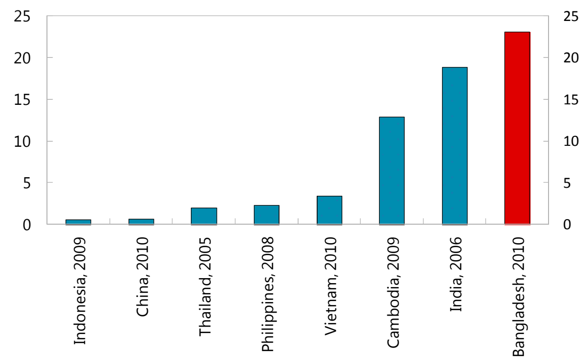
Percent of Firms Identifying an Inadequately-Educated Workforce as a Major Constraint



Source: The World Bank's *Enterprise Surveys* (http://www.enterprisesurveys.org).

Illiteracy Rate, Youth Total

(In percent of people ages 15-24)



Source: The World Bank's *World Development Indicators*.

Avoiding nationwide strikes (*hartals*) is also essential. Persistent strikes slow down economic activity, affecting most industries, and discourage new investment. Suppliers have faced cancelled orders and deferred payments as a result of repeated strikes in 2013. Ultimately, many people from economically-disadvantaged households would lose their jobs if the existence of Bangladesh's RMG industry is put at risk.

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Appendix IV. Assessing Fiscal Risks in Bangladesh[1]

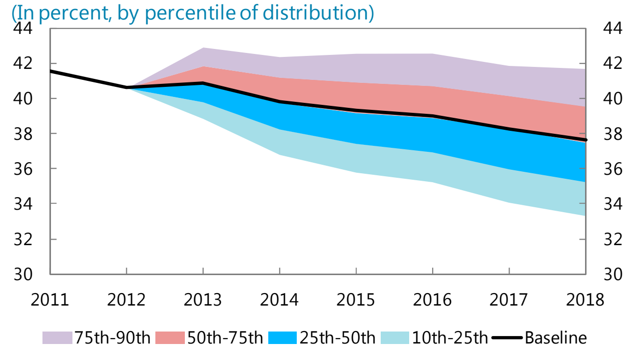
Bangladesh faces a number of fiscal risks that could add pressure to the fiscal balance. These include shocks to macroeconomic variables (such as growth, commodity prices, or interest rates), and calls on explicit or implicit liabilities based on moral or expected obligations for the government. Preliminary analysis suggests these risks are broadly manageable, and many of them are already being addressed in the authorities' policy framework.

Macroeconomic Shocks

- **Sensitivity analysis:** Shocks to GDP growth (a two percentage point decline), interest rates (a 200 basis points increase), and commodity prices (30 percent increase in oil and urea prices), treated separately, would lower the overall fiscal balance by between 0.4 and 0.7 percentage points of GDP, with the debt stock increasing from 1.7 to 2.3 percentage points of GDP between FY13 and FY18.[2]

- **Fan charts:** Using the historical joint distribution of key variables to project the risks around the baseline stemming from typical macroeconomic fluctuations, a fan chart analysis suggests that the public debt ratio is likely to remain between 34 and 42 percent of GDP over the next 5 years (total public debt was about 40 percent of GDP at end-FY13). These levels are within the range of debt profiles that would maintain Bangladesh at low risk of debt distress.

Debt-to-GDP Probability Distribution
(In percent, by percentile of distribution)



Source: IMF staff estimates.

Specific Risks

- **Government loan guarantees** against loans negotiated by state-owned financial and non-financial enterprises. Recent increases, from around 2.6 percent of GDP in FY11 to 5.7 percent of GDP in FY13, are mainly related to external guarantees for high priority energy related projects. These external guarantees are regularly monitored and projected to be contained under the authorities' policy framework.

[1] Based on Medina (2014), "Assessing Fiscal Risks in Bangladesh," (forthcoming).

[2] Shocks, defined as deviations from the baseline, are expected to impact the economy in FY14. The shocks to growth and interest rate are assumed to last five years, while shocks to commodity prices last one year.

- **State-owned banks:** Eight banks representing over 32 percent of banking system's assets, characterized by low capital and high nonperforming loan ratios. Their weak balance sheets represent a tangible fiscal risk (potential recapitalization needs of between 1 and 3½ percentage points of GDP as of June 2013, depending on assumptions). Recapitalization for the state-owned commercial banks is being addressed by the authorities, tied to a comprehensive reform program for these banks.

- **The pension system:** The government provides civil servants with a non-contributory, defined-benefit pension with survivor benefits. The system is unfunded and outlays are included in the budget. Around 1.2 million government employees; 30,000 to 40,000 retire every year. Pension spending is projected to increase from 0.5 percent of GDP in 2013 to roughly 2 percent of GDP in 2050. These increases are reflected in staff's baseline scenario. While this issue is not creating pressing fiscal pressures given Bangladesh's favorable demographics, the authorities should consider fully funding the current pension system for government employees. Over the medium to long term, the authorities could also explore options for a government-funded universal pension system to provide a minimum source of income for the elderly poor.

- **Institutional limitations: (a) Deviations from budget.** Significant deviations from budget have been observed, with a systematic overestimation of both revenues and expenditures. The risk that revenues do not materialize could affect spending commitments or lead to fiscal slippages. **(b) Data reporting.** The uncertainty arising from lags and inconsistencies in data reporting also creates risks. For instance, there is a significant discrepancy between revenues reported by the Controller General of Accounts and the National Board of Revenue. The authorities are working on these areas through IMF technical assistance on public financial management and public financial statistics, and a World Bank-led multi-donor trust fund that supports strengthening public expenditure management.

INTERNATIONAL MONETARY FUND

BANGLADESH

November 11, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS UPDATE

Approved By
Nigel Chalk and Peter Allum (IMF)
Ernesto May and Jeffrey Lewis (IDA)

Prepared by
International Monetary Fund
International Development Association

This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from May 14, 2013, reflecting the most recent macroeconomic developments and borrowing needs.[1] *The results indicate that Bangladesh remains at a low risk of debt distress.*[2] *The authorities agreed with the assessment.*

1. At end-FY13 (i.e., end-June 2013), the components of Bangladesh's public debt stock for DSA purposes were as follows:

- Public and publicly guaranteed external debt, with a face value equivalent to about 18 percent of GDP, about 81 percent of which is owed to multilateral creditors; and

- Domestic debt, which amounted to 21 percent of GDP, comprising Treasury bonds and bills (60 percent), National Savings Instruments (29 percent), and government overdrafts at the central bank (10 percent).

Bangladesh: Public and Publicly Guaranteed External Debt
(At end-June 2013)

	In Millions of U.S. Dollars	In Percent of Total External Debt
Multilateral debt	19,837	81.2
World Bank	11,329	46.4
Asian Development Bank	7,288	29.8
International Monetary Fund	596	2.4
International Fund for Agricultural Development	320	1.3
Islamic Development Bank	199	0.8
Other	107	0.4
Bilateral debt	2,965	12.1
Japan	1,950	8.0
China	288	1.2
Korea, Republic of	269	1.1
Kuwait	144	0.6
India	96	0.4
United States	69	0.3
Other	147	0.6
Guarantees provided to external borrowing by state-owned enterprises	143	0.6
Short-term debt	1,471	6.0
Total	24,416	100.0
(Percent of GDP)	18.3	

Sources: Bangladesh authorities; and IMF staff estimates.

[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, and 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.

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

Bangladesh: Public Domestic Debt
(At end-June 2013)

	In Billions of Taka	In Percent of Total Domestic Debt
Treasury bonds	1,013	46.3
National saving directorate instrument	644	29.4
Treasury bills	294	13.4
Overdraft	219	10.0
Ways and means advance	20	0.9
Total	2,190	
(Percent of GDP)	21.0	
General Provident Fund	244	

Sources: Bangladesh authorities; and IMF staff estimates.

- **Real growth and nominal GDP.** Long-term real GDP growth for the FY25–34 period has been increased slightly to an annual average of 6½ percent (compared to 6 percent in the previous DSA), on the assumption that investment in infrastructure and structural reforms will increase potential long-term growth. 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. Foreign direct investment is projected to remain at about 1 percent of GDP over the medium term and then to increase to about 2 percent of GDP by FY24 and 2½ percent of GDP by FY34 as a result of the improving business climate and further liberalization of the capital account. Because of revised projections of real growth, and other minor revisions to near-term inflation, nominal GDP measured in U.S. dollars is now 9 percent higher by FY18 and 29 percent higher by FY33.

- **Discount rate.** The Executive Boards of the IMF and the World Bank approved in October a decision to revise up the discount rate used for DSA calculations to 5 percent, from 3 percent. This DSA update reflects the new discount rate.

- **Grant element of new borrowing.** The average grant element of new borrowing has increased as a result of using a higher discount rate. However, this DSA update assumes a steeper decline in the projected grant element of new borrowing (it declines from about 22 percent in FY19 to 10 percent in FY34, Figure 1.a), reflecting a gradual shift toward more nonconcessional borrowing.

- **Remittances.** Earnings from remittances have been revised downward, on the assumption that domestic labor demand will be higher and migrant outflows consequently lower. Remittances are now projected at just below 6 percent of GDP by the end of the forecast period, compared to 9 percent of GDP in the previous DSA.

- **Primary fiscal deficit.** The primary fiscal deficit is higher than in the previous DSA by about ¼ percent of GDP a year over the long term, mainly reflecting an increase in social-related expenses as well as a demographics-driven rise in pension outlays to civil servants.

[3] IMF Country Report No. 13/157 (June 2013).

BASELINE SCENARIO

3. External debt. The present value (PV) of public and publicly guaranteed (PPG) external debt is expected to fall slightly over the long run to 9 percent of GDP plus remittances by FY34 (from 10 percent in FY14). All external debt indicators remain well below the policy-dependent debt burden thresholds (adjusted for remittances) under the baseline scenario and all bound tests (see Table 3).

4. Public sector debt. The PV of the public sector debt-to-GDP ratio is projected to fall gradually to about 27 percent of GDP by FY34 (from 33 percent in FY13).

ALTERNATIVE SCENARIOS

5. Alternative assumptions and outcome. This DSA update considers two alternative scenarios:

- The first scenario (Figures 3 and 4) assumes a combination of shocks to PPG debt: (i) issuance of a US$1.0 billion (0.6 percent of GDP) sovereign bond (with 10-year maturity) in FY15; (ii) new nonconcessional borrowing of US$6 billion (2.5 percent of GDP in FY19) to construct two 1,000 megawatt nuclear reactors during FY17–21;[4] and (iii) beyond what is already considered in the baseline, an additional recapitalization of state-owned banks of about 2.2 percent of GDP over FY14 and FY15 (split evenly in the two years).[5] Under this scenario, the present value of PPG external debt as a share of GDP plus remittances increases over the medium term, peaks at 14 percent in FY21, and then declines to 9 percent by FY34. The present value of total public debt rises very slightly as a share of GDP over the first two years, and then declines over the medium term. The risk of external debt distress remains low in this scenario.[6]

- The second scenario (Figures 5 and 6) is a robustness test on the sensitivity of the baseline results to permanently slower growth. GDP growth in Bangladesh has averaged 6.2 percent over the past 10 years, with a standard deviation of 0.3 percent. Given the relative stability of growth in recent years, a temporary or even a permanent growth shock of one or two standard deviations would have little impact on overall outcomes. This scenario considers a much larger growth shock of 2 percentage points (more than six times the standard deviation) starting in FY14 and throughout the entire projection horizon. The accumulation of new external debt is assumed to be identical to the baseline. Even though there would be a considerable increase in debt ratios, the risk of external debt distress remains low in this scenario.

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[4] While current cost estimates cited in Bangladesh are in the range of US$4–8 billion, these figures remain to be verified by feasibility studies.

[5] The baseline scenario includes recapitalization costs of state-owned commercial and specialized banks of Tk 70 billion in FY14, and assumes a further Tk 75 billion in FY15. This alternative scenario assumes a full write-off of all nonperforming loans (NPLs) as well as of fraudulent loans that have not yet been classified as NPLs, and the additional recapitalization needs are estimated on the basis of what is needed to restore state-owned banks' tangible capital to the regulatory minimum.

[6] If the sovereign bond and the external financing for the construction of the nuclear power plant were rolled over at the time of maturity, external debt accumulation would increase but external debt ratios would still remain well below the relevant thresholds.

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

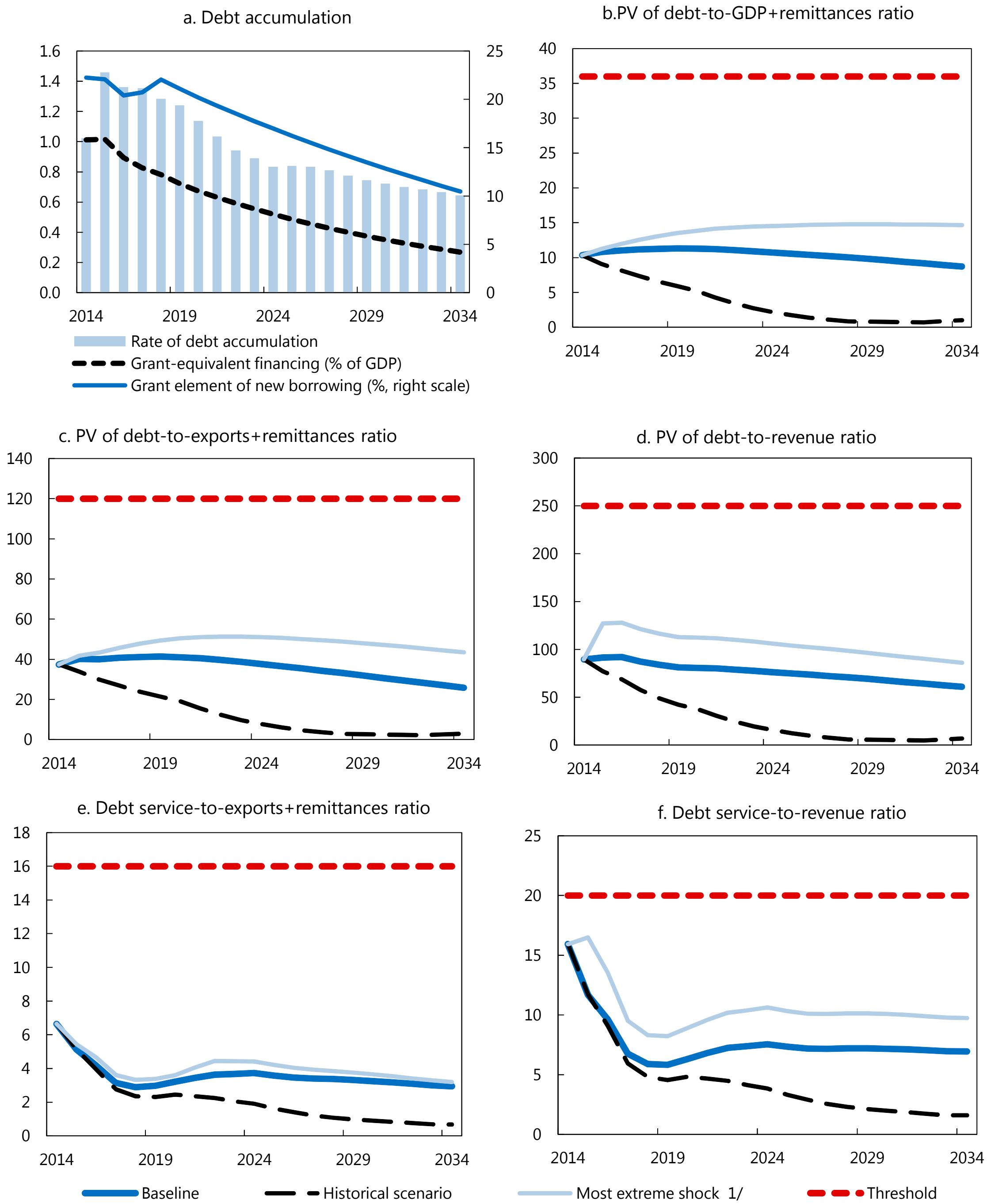
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024	2029	2034
	(Percent of GDP, unless otherwise indicated)											
Nominal GDP (US$ billions)	112	116	130	152	167	183	201	221	243	381	594	928
Real GDP (percentage change)	6.7	6.2	6.0	5.5	6.5	6.5	7.0	7.0	7.0	6.5	6.5	6.5
GDP deflator (percentage change)	7.5	8.5	6.6	7.6	6.7	5.9	5.6	5.6	5.6	4.5	4.5	4.5
Fiscal (central government)												
Total revenue and grants	11.9	12.9	12.9	13.2	13.4	13.5	14.3	15.0	15.5	15.4	15.3	15.2
Foreign grants	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.2	0.2	0.1
Total expenditure	16.0	16.3	16.9	16.9	17.0	16.6	16.9	17.1	17.4	17.5	17.5	17.5
Interest payments	2.0	2.2	2.3	2.2	2.0	1.8	1.8	1.8	1.7	1.5	1.5	1.6
Overall balance	-4.1	-3.4	-4.0	-3.7	-3.6	-3.1	-2.6	-2.1	-2.0	-2.1	-2.2	-2.3
Primary balance	-2.2	-1.2	-1.7	-1.6	-1.6	-1.3	-0.8	-0.3	-0.3	-0.6	-0.6	-0.7
Net domestic financing	3.8	2.4	2.2	3.0	2.3	1.8	1.5	1.2	1.2	1.7	1.9	2.1
Net external financing	0.4	0.8	1.2	0.8	1.3	1.3	1.1	0.9	0.8	0.5	0.3	0.2
Balance of payments												
Exports of goods and services	22.5	23.0	22.6	20.7	20.0	20.8	20.9	21.0	21.2	23.1	26.2	29.9
Imports of goods and services	34.3	33.6	30.5	28.6	29.0	29.2	29.0	28.8	28.6	30.2	32.1	35.2
Workers' remittances	10.4	11.0	11.0	9.6	9.4	9.3	9.0	8.8	8.6	7.5	6.6	5.8
Current account, including official transfers	-2.0	-0.4	1.9	0.2	-1.2	-0.8	-0.8	-0.8	-0.7	-1.6	-1.6	-1.6
Foreign direct investment	0.7	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.1	2.0	2.1	2.5
External borrowing												
Central government	0.9	1.5	1.9	1.5	1.9	1.9	1.6	1.4	1.4	1.2	1.0	0.9
Public enterprises with guarantee	0.0	0.0	0.0	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Gross official reserves	3.0	3.1	4.2	4.2	4.3	4.5	4.7	4.9	4.9	5.0	5.0	5.0
(Months of imports of goods and services)												

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

1/ Data on a fiscal year basis, with 2014 corresponding to July 2013–June 2014.

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt under Different Assumptions, 2014–34 1/

(In percent)

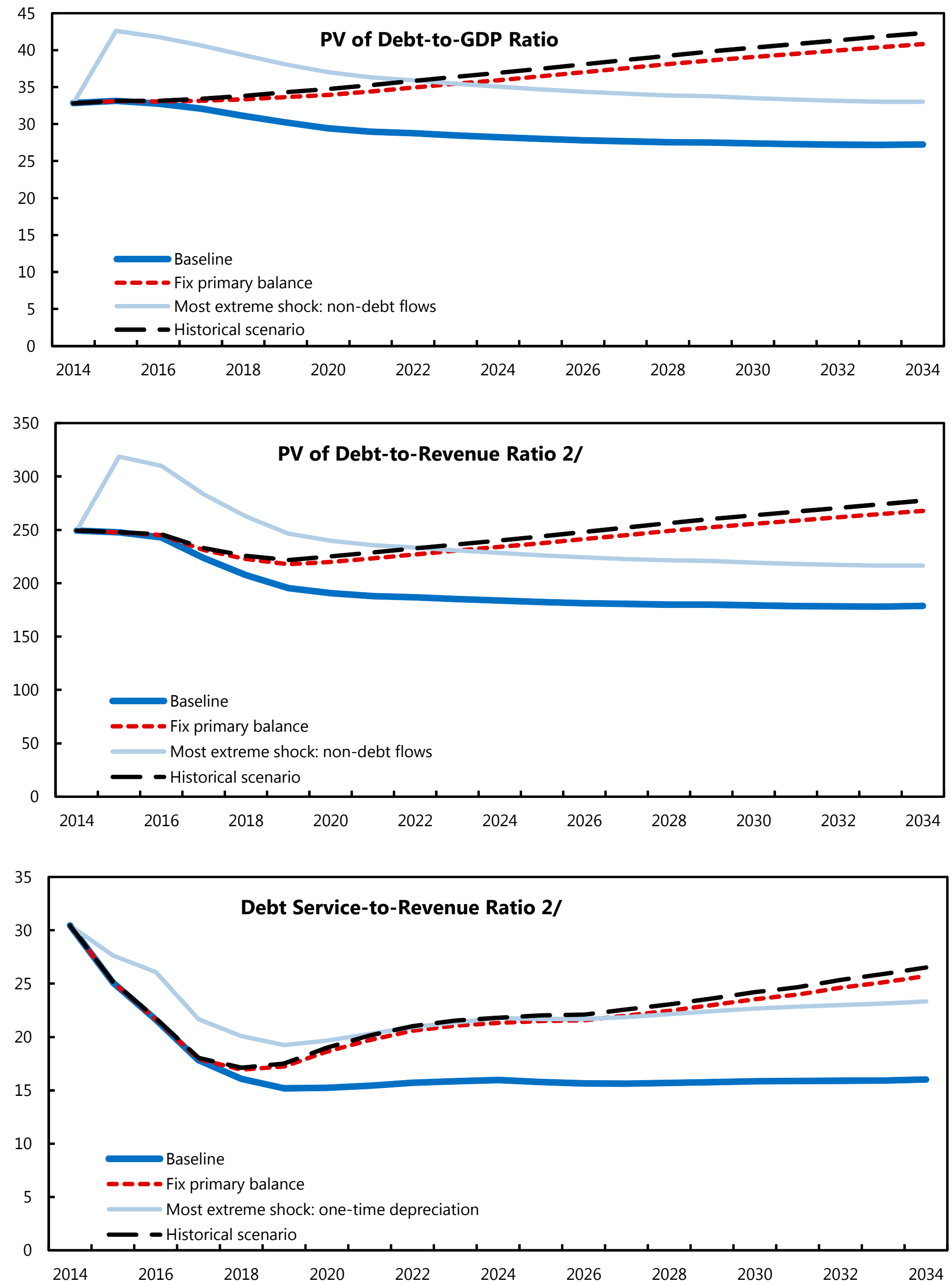


Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2024. In figure b. it corresponds to a terms 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, 2014–34 1/

(In percent)



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

1/ The most extreme stress test is the test that yields the highest ratio in 2024.

2/ Revenues are defined inclusive of grants.

Table 2. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, 2011–34

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [1/]	Standard [1/]	Projections									
				Average	Deviation							2014–2019			2020–2034
	2011	2012	2013			2014	2015	2016	2017	2018	2019	Average	2024	2034	Average
External debt (nominal) 2/	**22.7**	**22.0**	**19.6**			**18.3**	**18.6**	**18.5**	**18.3**	**18.1**	**18.0**		**17.0**	**14.2**	
Of which: Public and publicly guaranteed (PPG)	21.4	20.6	18.3			17.2	17.5	17.4	17.3	17.2	17.0		15.4	11.8	
Change in external debt	0.3	-0.7	-2.4			-1.3	0.2	-0.1	-0.1	-0.2	-0.2		-0.2	-0.3	
Identified net debt-creating flows	-1.0	-1.4	-5.3			-2.0	-0.8	-1.3	-1.4	-1.4	-1.5		-1.4	-1.7	
Non-interest current account deficit	**1.8**	**0.1**	**-2.2**	**-1.0**	**1.6**	**-0.5**	**0.9**	**0.4**	**0.4**	**0.3**	**0.3**		**1.0**	**1.0**	1.0
Deficit in balance of goods and services	11.8	10.6	7.8			7.9	9.0	8.4	8.1	7.8	7.4		7.1	5.3	
Exports	22.5	23.0	22.6			20.7	20.0	20.8	20.9	21.0	21.2		23.1	29.9	
Imports	34.3	33.6	30.5			28.6	29.0	29.2	29.0	28.8	28.6		30.2	35.2	
Net current transfers (negative = inflow)	-11.1	-11.6	-11.6	-10.0	1.9	-10.0	-9.8	-9.7	-9.4	-9.2	-8.9		-7.8	-5.9	-7.2
Of which: Official	-0.1	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	1.1	1.0	1.5			1.6	1.6	1.7	1.7	1.7	1.8		1.7	1.7	
Net FDI (negative = inflow)	**-0.7**	**-1.0**	**-1.0**	**-1.0**	**0.2**	**-0.9**	**-1.0**	**-1.0**	**-1.0**	**-1.0**	**-1.1**		**-2.0**	**-2.5**	-2.1
Endogenous debt dynamics 3/	**-2.1**	**-0.5**	**-2.1**			**-0.6**	**-0.7**	**-0.7**	**-0.8**	**-0.7**	**-0.7**		**-0.5**	**-0.3**	
Contribution from nominal interest rate	0.2	0.3	0.3			0.3	0.4	0.4	0.4	0.5	0.5		0.6	0.6	
Contribution from real GDP growth	-1.3	-1.4	-1.2			-0.9	-1.1	-1.1	-1.2	-1.2	-1.2		-1.0	-0.9	
Contribution from price and exchange rate changes	-1.0	0.6	-1.2			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**1.3**	**0.8**	**2.9**			**0.7**	**1.0**	**1.2**	**1.2**	**1.2**	**1.4**		**1.2**	**1.4**	
Of which: Exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	13.1			12.5	12.9	13.0	13.2	13.2	13.2		13.2	11.6	
In percent of exports	...	...	58.0			60.1	64.5	62.8	63.1	62.9	62.6		57.0	39.0	
PV of PPG external debt	**...**	**...**	**11.9**			**11.3**	**11.8**	**12.0**	**12.2**	**12.3**	**12.3**		**11.5**	**9.2**	
In percent of exports	**...**	**...**	**52.4**			**54.6**	**59.1**	**57.9**	**58.4**	**58.4**	**58.1**		**49.8**	**30.8**	
In percent of government revenues	**...**	**...**	**95.6**			**89.6**	**91.5**	**92.1**	**87.3**	**83.9**	**81.2**		**76.2**	**61.0**	
Debt service-to-exports ratio (in percent)	**4.1**	**5.7**	**5.9**			**11.1**	**8.9**	**7.3**	**5.7**	**5.2**	**5.3**		**6.5**	**5.5**	
PPG debt service-to-exports ratio (in percent)	**3.8**	**4.8**	**4.4**			**9.7**	**7.5**	**6.0**	**4.5**	**4.1**	**4.2**		**4.9**	**3.5**	
PPG debt service-to-revenue ratio (in percent)	**7.4**	**8.8**	**8.1**			**15.9**	**11.7**	**9.6**	**6.8**	**5.9**	**5.8**		**7.5**	**6.9**	
Total gross financing need (billions of U.S. dollars)	2.4	1.1	-0.8			2.9	3.8	2.5	1.6	1.1	0.7		2.2	1.9	
Non-interest current account deficit that stabilizes debt ratio	1.5	0.7	0.2			0.7	0.6	0.5	0.5	0.5	0.5		1.3	1.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.7	6.2	6.0	6.2	0.3	5.5	6.5	6.5	7.0	7.0	7.0	6.6	6.5	6.5	6.5
GDP deflator in U.S. dollar terms (change in percent)	4.5	-2.4	5.5	3.3	4.1	10.6	3.3	2.9	2.8	2.8	2.7	4.2	2.6	2.6	2.6
Effective interest rate (percent) 6/	0.9	1.5	1.4	1.1	0.2	2.1	2.2	2.4	2.5	2.7	2.9	2.5	3.6	4.6	3.9
Growth of exports of G&S (U.S. dollar terms, in percent)	34.5	6.0	10.2	15.1	8.3	6.9	5.9	13.9	10.5	10.7	10.7	9.8	11.4	12.2	11.9
Growth of imports of G&S (U.S. dollar terms, in percent)	50.0	1.6	1.4	15.2	14.9	9.5	11.6	10.2	9.2	9.2	9.2	9.8	10.0	11.3	10.9
Grant element of new public sector borrowing (in percent) 7/	...	...	...	...	...	22.3	22.1	20.4	20.7	22.1	21.1	21.4	17.0	10.5	15.0
Government revenues (excluding grants, in percent of GDP)	11.7	12.4	12.4			12.6	12.9	13.0	13.9	14.6	15.1		15.1	15.1	15.1
Aid flows (in billions of U.S. dollars) 8/	1.3	2.3	3.1			1.6	1.7	1.7	1.7	1.8	1.8		2.0	2.6	
Of which: Grants	0.3	0.6	0.6			0.8	0.8	0.8	0.8	0.8	0.8		0.9	1.2	
Of which: Concessional loans	1.1	1.7	2.4			0.8	0.9	0.9	0.9	1.0	1.0		1.1	1.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.0	1.0	0.9	0.8	0.8	0.7		0.5	0.3	0.4
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			37.4	34.9	33.5	33.6	34.5	33.1		27.4	18.2	24.7
Memorandum items:															
Nominal GDP (billions of U.S. dollars)	111.9	116.0	129.9			151.5	166.7	182.6	200.9	220.8	242.7		380.7	927.9	
Nominal dollar GDP growth	11.5	3.7	11.9			16.7	10.0	9.6	10.0	9.9	9.9	11.0	9.3	9.3	9.4
PV of PPG external debt (in billions of U.S. dollars)			15.8			17.2	19.4	21.6	24.1	26.7	29.4		43.4	86.0	
(PVt-PVt-1)/GDPt-1 (in percent)						1.0	1.5	1.4	1.4	1.3	1.2	1.3	0.8	0.6	0.8
Gross workers' remittances (billions of U.S. dollars)	11.7	12.7	14.3			14.5	15.6	16.9	18.2	19.4	20.8		28.5	53.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.7			10.3	10.8	11.0	11.2	11.3	11.3		10.7	8.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	35.2			37.4	40.2	40.0	40.7	41.1	41.3		37.7	25.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.0			6.6	5.1	4.2	3.2	2.9	3.0		3.7	2.9	

Sources: 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 refer to fiscal years. For example, 2014 refers to July 2013-June 2014.

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, 2014–34

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to-GDP+remittances ratio								
Baseline	10	11	11	11	11	11	**11**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	10	9	8	7	7	6	**2**	1
A2. New public sector loans on less favorable terms in 2014-2034 2/	10	11	12	13	13	14	**15**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	10	11	11	11	11	11	**11**	9
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	10	10	12	12	12	12	**11**	9
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2015-2016	10	11	12	12	12	12	**11**	9
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2015-2016 4/	10	12	14	14	14	14	**12**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	10	11	12	12	12	12	**11**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	10	14	15	15	15	15	**15**	12
PV of debt-to-exports+remittances ratio								
Baseline	37	40	40	41	41	41	**38**	26
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	37	34	30	27	24	21	**8**	3
A2. New public sector loans on less favorable terms in 2014-2034 2/	37	42	43	46	48	49	**51**	43
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	37	40	39	40	41	41	**37**	26
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	37	39	44	45	45	45	**41**	28
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2015-2016	37	40	39	40	41	41	**37**	26
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2015-2016 4/	37	48	54	51	51	51	**43**	27
B5. Combination of B1-B4 using one-half standard deviation shocks	37	40	43	42	42	42	**38**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	37	40	39	40	41	41	**37**	26
PV of debt-to-revenue ratio								
Baseline	90	92	92	87	84	81	**76**	61
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	90	77	69	58	49	42	**16**	7
A2. New public sector loans on less favorable terms in 2014-2034 2/	90	95	100	98	97	97	**103**	102
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	90	91	92	87	84	81	**76**	62
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	90	89	98	92	88	85	**79**	62
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2015-2016	90	94	98	93	89	87	**81**	66
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2015-2016 4/	90	104	117	109	104	100	**88**	64
B5. Combination of B1-B4 using one-half standard deviation shocks	90	94	102	96	92	89	**82**	65
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	90	127	128	121	116	113	**106**	86

(continued)

Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-34 (concluded)

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
Debt service-to-exports+remittances ratio								
Baseline	7	5	4	3	3	3	**4**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	7	5	4	3	2	2	**2**	1
A2. New public sector loans on less favorable terms in 2014-2034 2/	7	5	4	3	3	3	**4**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	7	5	4	3	3	3	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	7	5	4	3	3	3	**4**	3
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2015-2016	7	5	4	3	3	3	**4**	3
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2015-2016 4/	7	5	5	4	3	3	**4**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	7	5	4	3	3	3	**4**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	7	5	4	3	3	3	**4**	3
Debt service-to-revenue ratio								
Baseline	16	12	10	7	6	6	**8**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	16	12	9	6	5	5	**4**	2
A2. New public sector loans on less favorable terms in 2014-2034 2/	16	12	9	7	6	6	**8**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	16	12	10	7	6	6	**8**	7
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	16	12	10	7	6	6	**8**	7
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2015-2016	16	12	10	7	6	6	**8**	7
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2015-2016 4/	16	12	10	8	7	7	**9**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	16	12	10	7	6	6	**8**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	16	16	14	10	8	8	**11**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	8	8	8	8	8	8	**8**	8

Sources: Bangladesh 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/ Export 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, 2011–34

(In percent of GDP, unless otherwise indicated)

	Actual		Estimate			Projections									
	2011	2012	2013	Average 1/	Standard Deviation 1/	2014	2015	2016	2017	2018	2019	2014–19 Average	2024	2034	2020–34 Average
Public sector debt 2/	44.2	42.6	39.3			38.7	38.8	38.2	37.3	36.0	34.9		32.1	29.8	
Of which: domestic borrowing by nonfinancial public enterprises	1.8	1.4	0.6			0.5	0.5	0.5	0.5	0.5	0.5		0.5	0.5	
Of which: foreign-currency denominated	21.4	20.6	18.3			17.2	17.5	17.4	17.3	17.2	17.0		15.4	11.8	
Of which: guarantee-supported external borrowing	...	...	0.1			0.6	1.1	1.6	2.0	2.3	2.7		3.8	5.7	
Change in public sector debt	1.3	-1.6	-3.3			-0.7	0.1	-0.6	-0.9	-1.2	-1.1		-0.4	0.0	
Identified debt-creating flows	-0.1	-0.5	-1.7			-0.4	0.2	-0.4	-0.9	-1.3	-1.3		-0.4	-0.1	
Primary deficit	2.2	1.1	1.6	1.4	0.5	1.5	1.5	1.1	0.6	0.2	0.1	0.8	0.4	0.5	0.3
Revenue and grants	11.9	12.9	12.9			13.2	13.4	13.5	14.3	15.0	15.5		15.4	15.2	
Of which: Grants	0.3	0.5	0.5			0.5	0.5	0.4	0.4	0.4	0.3		0.2	0.1	
Primary (noninterest) expenditure	14.1	14.1	14.5			14.6	14.8	14.6	15.0	15.1	15.5		15.8	15.7	
Automatic debt dynamics	-2.3	-1.7	-3.5			-2.4	-1.8	-2.0	-2.0	-1.9	-1.9		-1.3	-1.1	
Contribution from interest rate/growth differential	-2.6	-2.4	-1.7			-1.4	-1.8	-1.8	-1.9	-1.8	-1.7		-1.2	-0.9	
of which: Contribution from average real interest rate	0.1	0.2	0.7			0.6	0.6	0.5	0.6	0.6	0.7		0.8	0.9	
of which: Contribution from real GDP growth	-2.7	-2.6	-2.4			-2.1	-2.4	-2.4	-2.5	-2.4	-2.4		-2.0	-1.8	
Contribution from real exchange rate depreciation	0.2	0.7	-1.8			-1.0	0.0	-0.2	-0.1	-0.1	-0.2		...	...	
Other identified debt-creating flows	0.0	0.0	0.1			0.5	0.5	0.5	0.5	0.5	0.5		0.5	0.5	
Guarantee-supported external borrowing	0.0	0.0	0.1			0.5	0.5	0.5	0.5	0.5	0.5		0.5	0.5	
Residual, including asset changes	1.4	-1.1	-1.5			-0.3	-0.1	-0.3	0.0	0.1	0.2		0.0	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	32.9			32.8	33.1	32.8	32.1	31.1	30.2		28.2	27.3	
Of which: Foreign-currency demoninated	...	...	11.9			11.3	11.8	12.0	12.2	12.3	12.3		11.5	9.2	
Of which: External	...	...	11.9			11.3	11.8	12.0	12.2	12.3	12.3		11.5	9.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	6.3	6.4	7.3			6.9	5.8	4.9	3.8	3.0	2.9		3.3	3.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	254.9			249.4	247.8	243.0	223.7	207.7	195.5		183.9	178.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	265.2			259.8	257.0	251.2	230.1	212.9	199.8		186.8	180.3	
Of which: External 4/	...	...	95.6			89.6	91.5	92.1	87.3	83.9	81.2		76.2	61.0	
Debt service-to-revenue and grants ratio (in percent) 5/	22.1	24.3	24.6			30.5	25.1	21.6	17.8	16.1	15.2		16.0	16.0	
Debt service-to-revenue ratio (in percent) 5/	22.6	25.3	25.6			31.7	26.0	22.3	18.3	16.5	15.5		16.2	16.1	
Primary deficit that stabilizes the debt-to-GDP ratio	0.9	2.7	4.9			2.1	1.3	1.8	1.6	1.4	1.2		0.8	0.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.7	6.2	6.0	6.2	0.3	5.5	6.5	6.5	7.0	7.0	7.0	6.6	6.5	6.5	6.5
Average nominal interest rate on forex debt (in percent)	0.9	1.2	1.0	1.0	0.1	1.7	1.8	2.0	2.1	2.3	2.5	2.1	3.1	3.8	3.3
Average real interest rate on domestic debt (in percent)	1.7	1.7	4.2	3.3	1.2	2.9	2.9	2.7	3.0	3.0	3.0	2.9	4.1	4.1	4.0
Real exchange rate depreciation (in percent, + indicates depreciation)	1.2	3.7	-9.4	-1.0	5.4	-5.8	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	7.5	8.5	6.6	6.6	1.5	7.6	6.7	5.9	5.6	5.6	5.6	6.2	4.5	4.5	4.6
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent) 6/	...	...	...	...	...	22.3	22.1	20.4	20.7	22.1	21.1	21.4	17.0	10.5	15.0

Sources: 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 refer to fiscal years. For example, 2014 refers to July 2013–June 2014.

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 starting in 2014 as a result of increasing nonconcessional borrowing including issuance of a sovereign bond.

Table 5. Bangladesh: Sensitivity Analysis for Key Indicators of Public Debt 2014–34

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of Debt-to-GDP Ratio								
Baseline	33	33	33	32	31	30	**28**	27
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	33	33	33	33	34	34	**37**	42
A2. Primary balance is unchanged from 2014	33	33	33	33	33	34	**36**	41
A3. Permanently lower GDP growth 1/	33	33	33	32	31	30	**29**	29
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2015–2016	33	33	33	33	32	31	**30**	30
B2. Primary balance is at historical average minus one standard deviation in 2015–2016	33	34	34	33	32	31	**29**	28
B3. Combination of B1-B2 using one-half standard deviation shocks	33	33	34	33	32	31	**30**	29
B4. One-time 30 percent real depreciation in 2015	33	38	37	36	35	34	**32**	31
B5. 10 percent of GDP increase in other debt-creating flows in 2015	33	43	42	41	39	38	**35**	33
PV of Debt-to-Revenue Ratio 2/								
Baseline	249	248	243	224	208	196	**184**	179
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	249	248	246	233	226	222	**240**	277
A2. Primary balance is unchanged from 2014	249	248	245	231	223	218	**234**	268
A3. Permanently lower GDP growth 1/	249	248	243	224	209	197	**188**	190
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2015–2016	249	249	247	228	213	201	**194**	194
B2. Primary balance is at historical average minus one standard deviation in 2015–2016	249	251	252	231	215	202	**189**	182
B3. Combination of B1-B2 using one-half standard deviation shocks	249	250	250	231	215	203	**193**	191
B4. One-time 30 percent real depreciation in 2015	249	284	276	253	234	220	**207**	206
B5. 10 percent of GDP increase in other debt-creating flows in 2015	249	319	310	283	263	247	**228**	217
Debt Service-to-Revenue Ratio 2/								
Baseline	30	25	22	18	16	15	**16**	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	30	25	22	18	17	18	**22**	27
A2. Primary balance is unchanged from 2014	30	25	22	18	17	17	**21**	26
A3. Permanently lower GDP growth 1/	30	25	22	18	16	15	**16**	17
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2015–2016	30	25	22	18	17	16	**17**	18
B2. Primary balance is at historical average minus one standard deviation in 2015–2016	30	25	22	19	18	16	**16**	17
B3. Combination of B1-B2 using one-half standard deviation shocks	30	25	22	19	17	16	**17**	17
B4. One-time 30 percent real depreciation in 2015	30	28	26	22	20	19	**22**	23
B5. 10 percent of GDP increase in other debt-creating flows in 2015	30	25	27	36	24	23	**21**	24

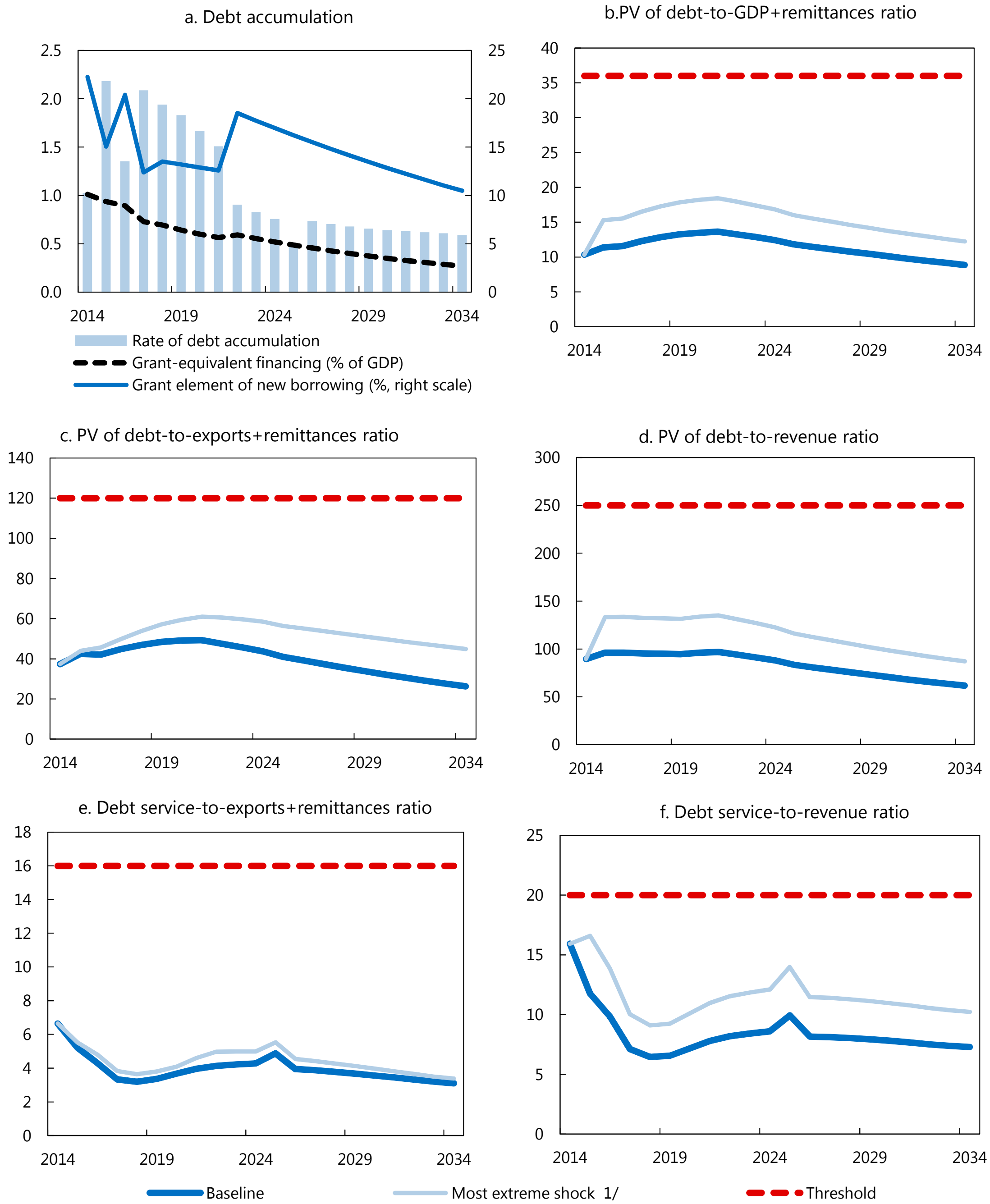
Sources: Bangladesh authorities; and IMF staff estimates and projections.

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 I — Indicators of Public and Publicly Guaranteed External Debt under Different Assumptions, 2014–34 1/

(In percent)

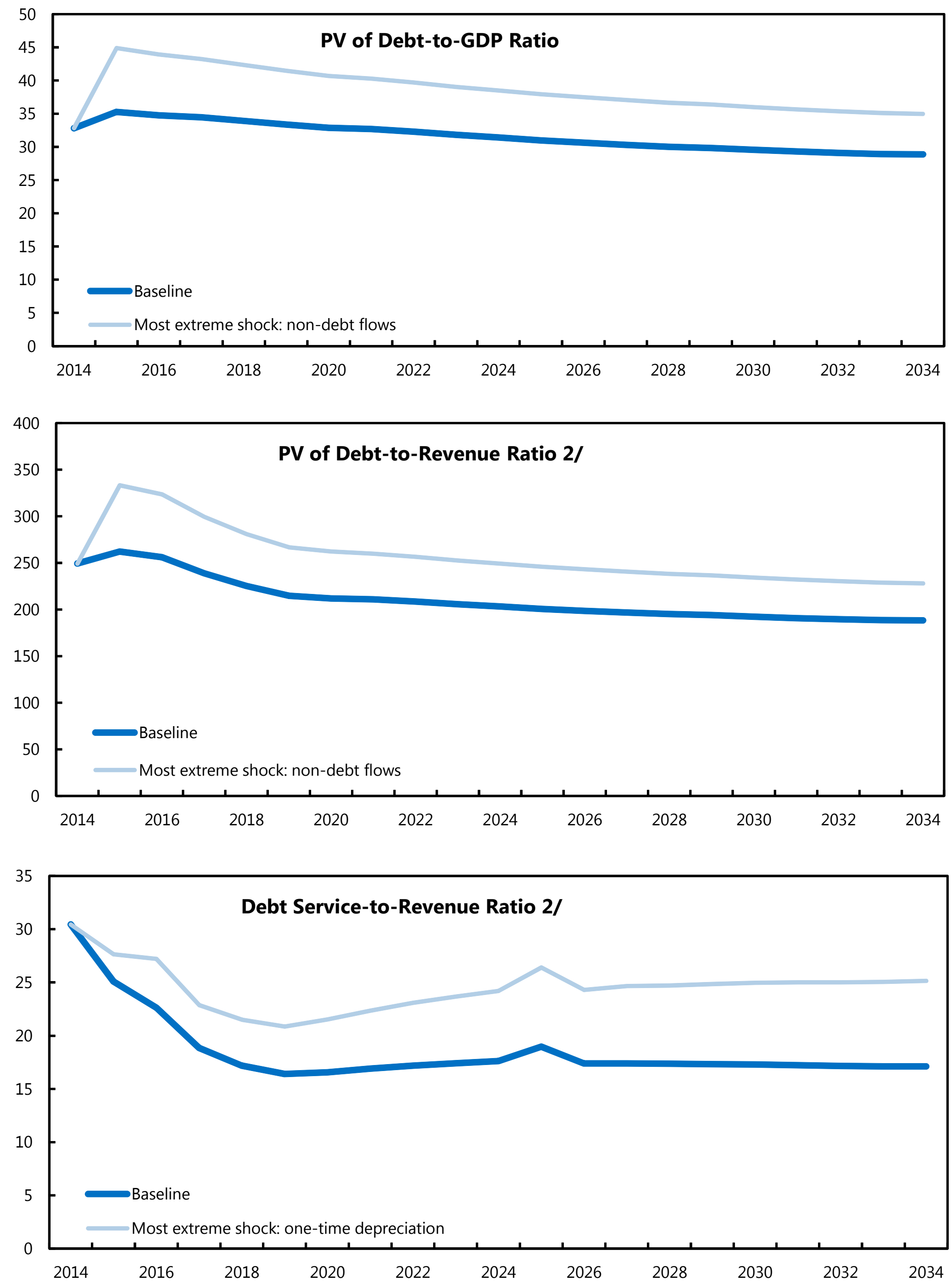


Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2024. 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 4. Bangladesh: Alternative Scenario I — Indicators of Public Debt under Different Assumptions, 2014–34 1/

(In percent)



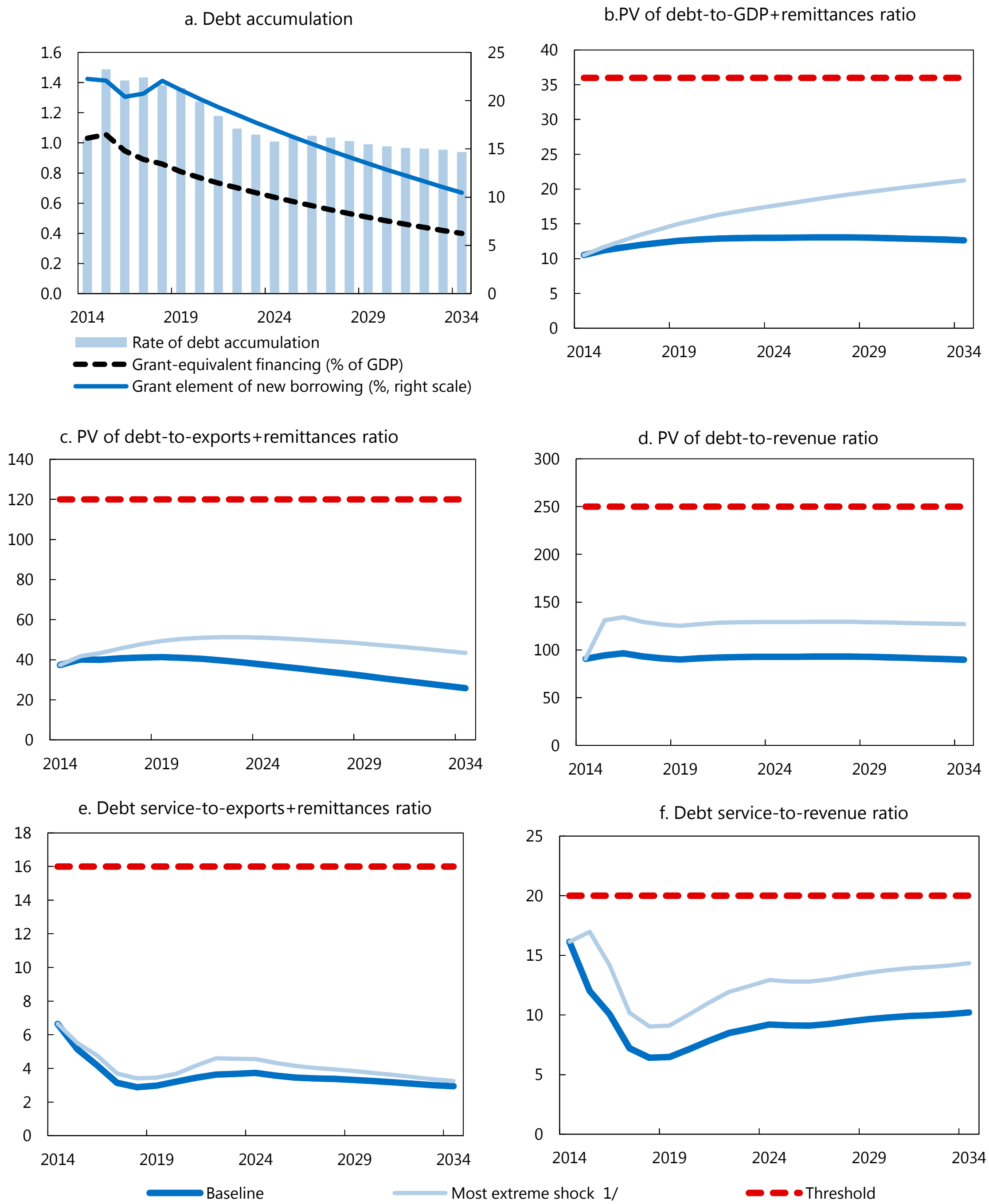
Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2024.

2/ Revenues are defined inclusive of grants.

Figure 5. Bangladesh: Alternative Scenario II — Indicators of Public and Publicly Guaranteed External Debt under Different Assumptions, 2014–34 1/

(In percent)

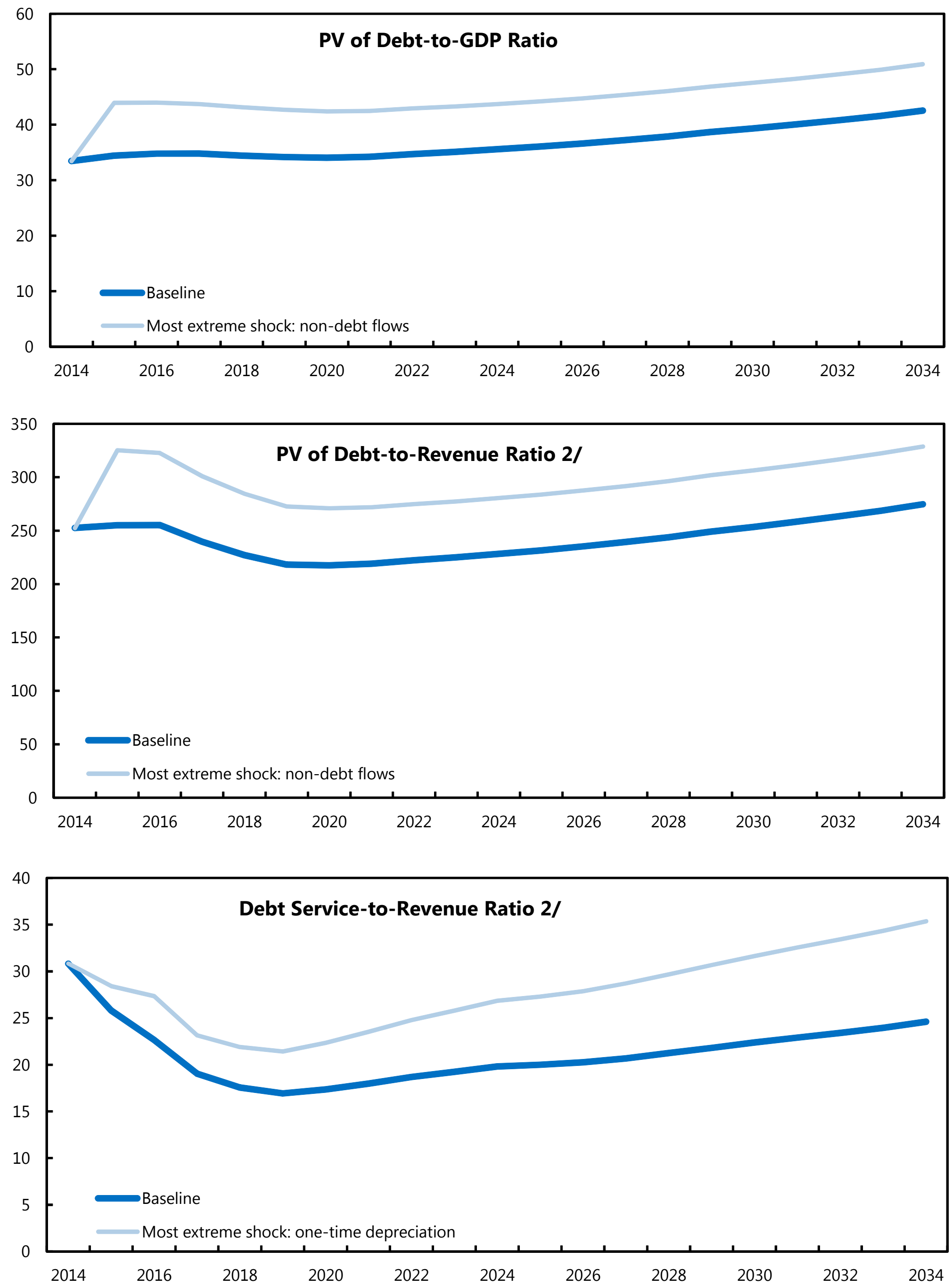


Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2024. In figure b. it corresponds to a terms 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 6. Bangladesh: Alternative Scenario II — Indicators of Public Debt under Different Assumptions, 2014–34 1/

(In percent)



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

1/ The most extreme stress test is the test that yields the highest ratio in 2024.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

BANGLADESH

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

November 11, 2013

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of October 31, 2013)

Membership Status

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

General Resources Account

	SDR Million	Percent Quota
Quota	533.30	100.00
Fund holdings of currency (exchange rate)	532.82	99.91
Reserve tranche position	0.49	0.09

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	510.40	100.00
Holdings	550.92	107.94

Outstanding Purchases and Loans

	SDR Million	Percent Quota
ECF arrangements	373.24	69.99

Latest Financial Arrangements

(In millions of SDRs)

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
ECF	Apr. 11, 2012	Apr. 10, 2015	639.96	274.27
ECF[1]	Jun. 20, 2003	Jun. 19, 2007	400.33	316.73
ECF[1]	Aug. 10, 1990	Sep. 13, 1993	345.00	330.00

[1] Extended Credit Facility (ECF), formerly PRGF.

Projected Payments to the Fund[2]

(In millions of SDRs (based on existing use of resources and present holdings of SDRs))

	2013	2014	2015	2016	2017
Principal	3.37	48.50	33.65	13.46	9.14
Charges/Interest		0.00	0.75	0.70	0.68
Total	3.37	48.50	34.40	14.16	9.83

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Article IV Consultation

The previous Article IV consultation was concluded on October 28, 2011 (IMF Country Report No. 11/314).

Safeguards Assessment

- A safeguards assessment of Bangladesh Bank (BB) was concluded in July 2011. Since then, BB has implemented a number of recommendations, including approval for incorporation of the Security Printing Corporation (Bangladesh) Limited, a subsidiary of BB, in the audit plan of BB's internal audit department; and approval of Reserve Management Guidelines by the BB Board and monitoring of investment of foreign exchange reserves by a committee headed by a Deputy Governor. Most recently, BB received an unqualified audit report on its FY13 financial accounts from a global audit firm.

- Going forward, the authorities expressed their commitment to continue to engage a global firm to audit BB's financial statements on an annual basis. Further, by March 2014, the BB Board will appoint a certified chartered accountant as an advisor to the Audit Committee of the BB Board, until the committee is reconstituted to include such an expert. To further strengthen BB's internal audit function, the authorities are committed to improve the risk-based audit approach; develop procedure manuals; establish a viable information technology (IT) audit; and recruit qualified staff and skill enhancement of the existing staff. Bangladesh Bank is also in the process of completing the integration of its dual IT platform for the financial management information system. The safeguards assessment also recommended that the legal framework of the BB be strengthened.

Exchange Arrangement

- **Exchange regime.** The *de jure* exchange rate regime is a managed float. Effective December 19, 2011, the *de facto* regime was reclassified from crawl-like to other managed.
- **Exchange restriction.** At the last Article IV consultation, the Executive Board urged the authorities to adopt a timetable to remove the remaining exchange restriction on the convertibility and transferability of proceeds of current international transactions in nonresident taka accounts. In September 2013, a strategy paper to review the 1947 Foreign Exchange Regulations Act was approved, laying out a roadmap toward gradual liberalization of exchange regulations. In accordance with the roadmap, BB is committed to reviewing and adopting the necessary amendments to all foreign exchange regulations and reporting routines for current account transactions by December 2014.

Resident Representative

The resident representative office was established in 1972. Ms. Eteri Kvintradze has been the Resident Representative since February 2010.

Bangladesh: Technical Assistance, 2012–13

Department	Topic	Timing
LEG	Amendments to the Bank Companies Act	2012: April and November
MCM	Central bank accounting/ internal audit	2012: April, July, and October. 2013: January and April
	Banking supervision	May 2011–present (resident advisor) 2012: October and November 2013: January
	Restructuring state-owned commercial banks	2013: July
	Bank resolution framework and lender of last resort facility	2013: July
	Exchange control and capital account liberalization	2013: August
FAD	VAT administration and implementation of the new VAT law	2012: December 2013: January, April, and November February 2013–present (resident advisor)
	Budget and accounting classification system (BACS)	2013: August and October
	Automatic fuel pricing mechanism	2012: September
	Transfer pricing	2012: October 2013: August
	Public financial management (PFM)	2013: March
STA	National accounts statistics	2012: March and November 2013: resident advisor on real sector statistics from November
	Consumer price index	2012: July 2013: March and October
	External sector statistics	2013: March
	Government finance statistics	2012: July and November

IMF-WORLD BANK COLLABORATION

(October 2013)

1. The IMF and World Bank Group (both International Development Association (IDA) and International Finance Corporation (IFC) teams) work together to promote policies and critical reforms that are essential for maintaining macroeconomic and financial stability and for sustained high growth and poverty reduction in Bangladesh.

- The Fund's priorities for macroeconomic policies and structural reforms are anchored by the US$1 billion, three-year Extended Credit Facility (ECF) arrangement, approved in April 2012. The program aims to safeguard macroeconomic stability; create fiscal space, through revenue enhancement and spending reforms, to boost development spending; improve public financial and debt management; strengthen the financial sector, including financial supervision; and enhance the trade and investment regime.

- The Bank's strategy is reflected in the Country Assistance Strategy (CAS) for FY11–14, approved in July 2010. The strategy, which proposed a financial support of about US$6 billion, focuses on increasing transformative investments to accelerate growth; reducing vulnerability to climate change and natural disasters; improving social services delivery; and strengthening accountability and inclusion.

2. The teams note that collaboration between the Fund and the Bank is strong, both at headquarters and in the field (through the IMF Resident Representative's Office and the World Bank's Country Office). For instance:

- There are frequent formal and informal exchanges of information on each other's activities and on assessments of developments, the outlook, and key policy issues.

- The teams invite each other to participate in critical internal discussions, share key documents, and seek comments on them. For instance, the Fund invites the Bank to its policy consultation meetings and requests comments on the draft policy notes. The Bank invites the Fund to concept note review meetings and to decision meetings, and also seeks Fund's staff views on the corresponding documents ahead of these meetings.

- Staffs are also invited to relevant Board meetings.

- The teams regularly discuss the division of labor between the two institutions, and collaborate on joint papers, such as the Joint Staff Assessment Notes (JSAN) and the Debt Sustainability Analysis (DSA).

3. The teams agreed that the two institutions should remain focused on the following reform areas, and based on the following division of labor:

- **Tax policy and administration.** Higher public investment in critical infrastructure is needed for Bangladesh to accelerate economic growth. To create the necessary fiscal space to achieve this, improved revenue generation is necessary. Development of a modern tax regime and a strengthening of tax administration at the National Board of Revenue (NBR) are essential. At present, the centerpiece of the government's tax reform program is the introduction of a new value-added tax (VAT), for which a law was passed in November 2012. Efforts to boost the capacity of NBR focus on automation and recruitment. *Division of labor*: The new VAT law and the VAT implementation plan received significant technical assistance (TA) from the Fund, and the Fund assigned a resident advisor to assist NBR in VAT implementation. IDA has agreed to finance most of the costs for acquiring and operating the new VAT computer system and for designing organizational reforms and new administrative processes, which are urgent priorities. The IFC will provide consultancy support for automation and other targeted implementation tasks.

- **Public financial management (PFM).** Sound PFM is important for maintaining fiscal discipline and improving the quality of public expenditure. *Division of labor*: IDA is providing assistance through its administration of the Strengthening Public Expenditure Management Program (SPEMP), supported by a multi-donor trust fund. SPEMP focuses on core PFM issues in the executive branch of government, as well as strengthening public expenditure oversight functions in parliament and audit institutions. IDA is also taking the lead on public procurement reform and capacity building. The IMF is providing support through several TA missions on cash flow forecasting and management, and on budget and accounting classification.

- **Debt management.** There has been significant progress on strengthening debt management practices under the ECF, but more needs to be done. *Division of labor*: The IMF and IDA will continue working jointly in this area, including on the DSA, with the IMF coordinating views on main macroeconomic assumptions and outlook and supporting structural reforms on debt management through ECF conditionality, and IDA providing technical support on debt management capacity through the SPEMP as well as a Debt Management Performance Assessment (DeMPA).

- **Monetary and exchange rate policies.** The IMF will take the lead in this area. IDA will play a complementary role through operations to strengthen payments systems at Bangladesh Bank (BB).

- **Financial sector reform.** A sound and viable financial sector will remain critical for creating an improved environment for private sector investment. Ensuring steady sector growth and institutional development and sound prudential oversight and risk management will require considerable technical cooperation in the coming years. Strengthening the central bank's regulatory and supervisory framework and internal accounting and controls underpins this work. *Division of labor*: IDA/IFC and IMF are both engaged in this area, with the former taking the lead on financial market development and governance and institutional strengthening of BB, and the latter on bank supervision and oversight, supported by a resident advisor in BB.

- **Energy sector reform.** Under the Fund-supported program, the government has initiated a subsidy reform, raising retail and bulk tariffs to reduce overall subsidies and create fiscal space for more pressing spending needs. Further such adjustments are needed. Reducing financial and operational inefficiencies in state-owned enterprises in the energy sector is also critical. Severe power shortages constrain growth in Bangladesh. Selection of sponsors through transparent and competitive processes will send the right signal to the market, and help in financial closure of power projects. Finally, shortage of primary fuel supply for power generation remains a key constraint. Proper incentives are needed for stepped-up private investment in the sector. *Division of labor*: IDA will lead on policy dialogue and investment in this area, with the IMF focused on policies to address fiscal implications.

- **Social protection.** Bangladesh has a large number of mostly inadequately targeted social safety net (SSN) programs. Consolidation and improvement in the targeting and implementation of SSNs is necessary to enhance their efficiency and poverty-reduction impact, and provide support as universal subsidy schemes are phased out. *Division of labor*: IDA is taking the lead in this area through support to the development of the Bangladesh Poverty Database and improved management and administration of SSNs, with the Fund-supported program tracking social-related expenditure to ensure that fiscal targets under the program protect social spending.

- **Trade and investment climate reform.** To boost productivity and investment, it is vital to create a level playing field for all sectors and reduce the cost of doing business. *Division of labor*: IDA has the leadership of a Diagnostic Trade Integration Study that is close to being finalized and IFC is targeting incremental reforms with the aim of improving legal and administrative procedures. The IMF is providing support on the review of foreign exchange regulations.

- **Statistical policy.** Improvements in statistics are critical to formulating sound policies and monitoring their outcomes. Both IDA and the IMF have sustained engagement in this area and will ramp it up further in the future. *Division of labor*: IDA on poverty, social, and development statistics and the IMF on macroeconomic and financial statistics.

- **Other structural policies.** The World Bank keeps the IMF informed about its work on governance and anti-corruption, local government and decentralization, and private sector development. Upstream sharing allows the IMF to comment on such work before it is finalized.

4. The teams agree to continue to keep each other informed of their respective activities, coordinate financial and technical support, and share key documents.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK[1]

(October 2013)

Lending and Technical Assistance Operations

Bangladesh had cumulative public sector borrowing from the Asian Development Bank (AsDB) of US$14.1 billion (234 loans) as of December 31, 2012, and technical assistance (TA) grants of US$221.7 million (389 projects). The country is one of the largest borrowers of concessional Asian Development Fund (ADF) resources. The loans and TA have supported all key sectors, including energy and transport, social infrastructure, and agriculture and natural resources. The AsDB has also supported twelve private sector projects worth US$297.2 million, including the Meghnaghat Power Project—the first build-own-operate power project in the country—and GrameenPhone, which substantially expanded rural access to mobile phone services.

In 2012, the AsDB approved a total amount of US$1.07 billion in loans. This included loans for (i) Power System Expansion and Efficiency Improvement Investment Program Multitranche Financing Facility (Tranche 1) (US$185 million OCR); (ii) Coastal Climate-Resilient Infrastructure Project (US$20 million ADF); (iii) Second Teaching Quality Improvement in Secondary Education Project (US$70 million ADF); (iv) Urban Primary Healthcare Services Delivery Project (US$50 million ADF); (v) Second Capital Market Development Program (US$300 million, of which US$205 million is from ADF); (vi) Financing Brick Kiln Efficiency Improvement Project (US$50 million, of which US$20 million is from ADF); (vii) SASEC Road Connectivity Project (US$198 million ADF); (viii) Dhaka-Chittagong Expressway Public-Private Partnership Design TA Loan (US$10 million ADF); (ix) Greater Dhaka Sustainable Urban Transport Project (US$160 million, of which US$60 million is from ADF); (x) Coastal Towns Infrastructure Improvement Project (project design advance) (US$3.5 million), and (xi) South Asia Subregional Economic Cooperation Trade Facilitation Program (US$21 million ADF). In 2013 (calendar year), planned AsDB disbursements are about US$603 million (see table below).

AsDB Loan Disbursement to Bangladesh, 2011–2013

(In millions of U.S. dollars)

	2011	2012	2013 (Proj.)
Project loans	367	440	558
Power sector	86	132	114
Gas transmission and development	17	25	111
Emergency assistance	2	0	0
Other	262	283	333
Program loans	45	171	45
Good governance program	0	0	45
Countercyclical support	0	0	0
Public expenditure support	0	151	0
Other	45	20	0
Total loans	412	611	603

Source: Asian Development Bank.

[1] Bangladesh joined the Asian Development Bank (AsDB) in 1973.

Country Partnership Strategy

The Country Partnership Strategy (CPS) 2006–10 lapsed in December 2010. The CPS 2011–2015, approved on October 27, 2011, focuses on six sectors: energy, transport, urban development, education, agriculture and natural resources, and finance. The CPS is closely aligned with the government's Sixth Five-Year Plan priorities and aims to contribute to more inclusive and greener growth. Under the CPS, the total indicative resources for public sector lending during 2011–2015 included US$2.4 billion in ADF and US$2.1 billion in OCR. AsDB's OCR financing would be used for major revenue-generating infrastructure projects. An average of US$9.6 million per annum in TA resources was included, of which 35 percent would be allocated for project design.

The CPS prioritizes the thematic drivers of environmental sustainability and climate resilience, regional cooperation, knowledge solutions, partnerships, good governance and capacity development, gender equity, and private sector development. Country Operations Business Plan (2014–2016), under the current CPS, was approved in July 2013.

Over a five-year cumulative period from 2007–2011, Bangladesh leveraged the highest amount of cofinancing among AsDB's developing member countries at US$3 billion. By the end of 2012, cumulative direct value-added official cofinancing for Bangladesh amounted to US$4.37 billion for 42 investment projects and US$72.3 million for 90 technical assistance projects. In 2012, four projects received loan cofinancing: (i) from Agence Française de Développement for Greater Dhaka Sustainable Urban Transportation Project (US$45 million); (ii) from the International Fund for Agricultural Development (US$59 million) and Strategic Climate Fund—Pilot Program for Climate Resilience (US$20 million) for Coastal Climate—Resilient Infrastructure Project; (iii) from the Abu Dhabi Fund for Development (US$30 million) and OPEC Fund for International Development (US$30 million) for South Asia Subregional Economic Cooperation Road Connectivity Project; and (iv) from European Investment Bank (US$91 million) and IsDB (US$85 million) for Power System Expansion and Efficiency Improvement Investment Program (Tranche 1).

Economic and Sector Work Program

Each year, the AsDB publishes its *Asian Development Outlook* and *Asian Development Outlook Update*, in which it assesses macroeconomic performance. The AsDB's Bangladesh resident mission (BRM) also publishes the *Bangladesh Quarterly Economic Update*. A bimonthly *Economic Indicators Update* is also prepared. BRM also commissions studies on economic and thematic areas.

STATISTICAL ISSUES

(October 2013)

Assessment of Data Adequacy for Surveillance

General. Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected areas are national accounts, fiscal, and external sector statistics.

National accounts. The paucity of source data remains the main impediment to improving national accounts statistics. It adversely affects the ability of the Bangladesh Bureau of Statistics (BBS) to absorb technical assistance (TA) aimed at improving compilation techniques. The BBS does not conduct an annual national accounts survey of business enterprises. Source data are primarily from benchmark surveys and a biennial census of manufacturing establishments and household expenditure survey. Many of the benchmark surveys were conducted over five years ago and are based on outdated sample frames. The shortcomings in the data also affect compilation practices. In addition, a system of price indices for estimating national accounts at constant prices needs to be developed. Technical assistance missions, conducted between 2009 and 2012, developed and agreed a detailed work program with the BBS for undertaking the exercise of updating the base year from 1995/96 to 2005/06 and creating a comprehensive benchmark estimate and new series with the new base year. In September 2013, BBS announced the introduction of a new GDP series with base year 2005/06, details for which are awaited at this time. Revisions to national accounts data are done annually, reported data often have large statistical discrepancies, and currently there are no quarterly national accounts statistics available. A Fund resident advisor on real sector statistics is expected to be in place at the BBS by November 2013.

Price statistics. In July 2012, BBS introduced a new CPI series (base year 2005/06) with updated weights and coverage and, from August 2013, it discontinued publication of the old CPI series (base year 1995/96). With support from Fund TA, BBS is currently working on further improving and updating the CPI weights, including incorporating the recent household survey and the Classification of Individual Consumption According to Purpose (COICOP). The producer price index (base year 1988/89) continues to suffer from outdated weights.

Government finance statistics. A 2008 STA multisector mission recommended additional actions to strengthen the analytical usefulness of fiscal data, including to: (i) improve the integration of debt stocks and related financial flows; (ii) sensitize donors to the need to promptly provide complete data on direct project assistance; and (iii) establish an inter-agency committee to prepare a migration plan to the GFSM 2001. STA-assisted missions in 2012 and 2013 found some progress in migration toward the GFSM 2001 system, including the launch of a new accounting and budget classification system. Remaining priorities here for the authorities include to disseminate stock data on financial assets and liabilities, and to broaden the coverage to general government.

Monetary and financial statistics. Bangladesh Bank compiles monetary data using the standardized report forms (SRFs) framework. The SRFs are reported electronically to the IMF on a regular basis. As a result, a consistent time series based on SRF data is available from December 2001.

External sector statistics. Pressing issues need to be addressed in balance of payments and international investment position statistics, mainly in trade in goods, trade credits, and related financing. In the area of goods transactions, data are collected from different data sources: exports are based on information from customs declarations, while imports used to be reported on the basis of settlement of payments. Efforts are underway by the authorities to unify the source data based on customs declarations only, in line with STA's recommendations, and import data from FY11 onward are now being reported on this basis. This should help resolve inconsistencies with the national accounts, where customs trade data are used in compiling net exports of goods and services. Bangladesh Bank, the institution in change of external sector statistics, also needs to employ additional data sources, apart from the settlement data, for the financial account, including for trade credits and external borrowing by private and public entities, and should discontinue some adjustments to the financial account that are deemed to be unsound. International investment position data remain weak.

Data Standards and Quality

Bangladesh has participated in the GDDS since March 2001. The Data Module of the ROSC was published in December 2005.

Bangladesh: Table of Common Indicators Required for Surveillance
(As of October 31, 2013)

	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	10/31/13	10/31/13	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	10/30/13	10/30/13	D	D	D
Reserve/Base Money	10/30/13	10/30/13	D	D	D
Broad Money	Aug. 2013	Oct. 2013	M	M	M
Central Bank Balance Sheet	Jun. 2013	Sep. 2013	M	M	M
Consolidated Balance Sheet of the Banking System	Jun. 2013	Sep. 2013	M	M	M
Interest Rates[3]	10/30/13	10/30/13	W	W	D
Consumer Price Index	Sep. 2013	Oct. 2013	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	n/a	n/a	n/a	n/a	n/a
Revenue, Expenditure, Balance and Composition of Financing[4] —Central Government	Jul. 2013	Sep. 2013	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Jun. 2013	Sep. 2013	M	M	M
External Current Account Balance	Jul. 2013	Oct. 2013	M	M	M
Exports and Imports of Goods and Services	Jun. 2013	Aug. 2013	M	M	M
GDP/GNP	FY2013	Jun. 2013	A	A	A
Gross External Debt	FY2013	Aug. 2013	A	A/M	A
International Investment Position[7]	End-2012	Jun. 2013	Q	Q	A

[1] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. Data for the general government are currently not being compiled due to capacity limitations.
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by the Staff Representative on Bangladesh
November 27, 2013

The information below has become available following the issuance of the staff report. It does not alter the thrust of the staff appraisal.

1. All quantitative targets for end-September for which preliminary data are available appear to have been met. The publication of the tender for the selection of the value-added tax automation software vendor (a December 2013 benchmark) has been completed.

2. The Election Commission has yet to announce a date for the national elections, although they are widely expected to take place in early January 2014. On November 18, Prime Minister Hasina formed an interim cabinet for the pre-election period. The appointment follows resignations from all cabinet ministers, at the request of the Prime Minister. The ruling Awami League has a majority in this interim cabinet, along with some appointments from other political parties. Some ministers were retained in key portfolios, including the Finance Minister. The main opposition party has so far refused to participate in the interim government and has asked Prime Minister Hasina to resign and hand power to a nonpartisan caretaker government formed by prominent citizens. The situation, however, remains fluid, with several stakeholders trying to broker an agreement between the two main parties. In the meantime, strikes and disruptions are likely to continue with detrimental effects on the economy.

3. Recent data releases have evolved broadly in line with staff's expectations.

- Exports were volatile but overall strong in the first three months of fiscal year 2014 (FY14, July 2013 to June 2014), but fell by 4 percent (y/y) in October, hampered by frequent shutdowns and political uncertainty.

- Remittances contracted 15 percent (y/y) in October, reflecting continued weak outflows of migrant workers.

- Private sector credit growth has continued to trend down from an average of almost 16 percent (y/y) in FY13 to 11 percent in September.

- Headline inflation eased further to 7 percent (y/y) in October with slower nonfood inflation offsetting higher food inflation (which is being affected by supply disruptions).

4. There have been several developments in the garment industry.

- After a period of consultations, the Minimum Wage Board recommended on November 21 raising the minimum wages for the garment industry. For entry-level workers, the recommended minimum wage will be Tk 5,300 (US$68) per month, a 77 percent rise from the current Tk 3,000 per month. This wage rate was last revised in 2010 (by 81 percent), and before that in 2006 (by 78 percent). The recommendation needs to be approved by the Ministry of Labor and Employment, and is expected to go into effect in December 2013.

- The Alliance for Bangladesh Worker Safety (a group of U.S. garment retailers) and the Accord on Fire and Building Safety (a European group), which were set up in response to the Rana Plaza building tragedy, announced on November 20 a comprehensive set of common fire and safety standards for Bangladesh garment factories, based on which thorough inspections are planned to take place in the coming months.

- Higher wages, in conjunction with strengthened safety standards, are likely to lead to a period of adjustment and consolidation in the garment industry (as explained in the staff report), and will necessitate offsetting improvements in productivity to avoid some erosion in the sector's competitiveness. However, the proposed entry level minimum wage would still be lower than in other major garment-exporting countries.[1] Moreover, the impact on wages in other industries is expected to be contained as over four fifths of total employment in Bangladesh is informal, with limited bargaining power. Staff analysis based on past episodes of minimum wage increases suggests that the pass through to consumer prices is likely to be moderate.

[1] According to a recent ILO report, the lowest applicable wage in the garment industry is US$71 in India and US$73 in Sri Lanka, rising to $78 in Vietnam, US$79 in Pakistan, and $80 in Cambodia. Based on limited available information on productivity differentials, the proposed minimum wage in Bangladesh would likely lead to roughly comparable unit labor costs vis-à-vis some of these comparator countries.

Press Release No.13/493
FOR IMMEDIATE RELEASE
December 5, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Concludes Article IV Consultation with Bangladesh

On November 27, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Bangladesh. On the same day the Executive Board also completed the third review under the Extended Credit Facility Arrangement (ECF) with Bangladesh, and approved US$140.4 million disbursement (Press Release No. 13/479).

Over the past two years, the Bangladesh economy has shown significant economic stabilization and progress in structural reforms, underpinned by the Fund-supported program. In that period, real GDP growth has averaged above 6 percent, while sustained garment exports, increasing public investment, and strong workers' remittance inflows have supported demand and activity. Meanwhile, Bangladesh's two-decade trend of poverty reduction has continued, with steady progress toward the country's Millennium Development Goals.

Since early 2013, however, political events and uncertainty in the run up to national elections have affected economic activity and curbed investment appetite, thereby slowing private credit growth and imports. Looking ahead, a slowdown in growth associated with unrest and political uncertainty, as well as an expected transition in the garment sector to higher costs and upgraded labor and safety standards, pose important challenges.

Real GDP growth moderated in fiscal year 2013 (FY13, July 2012-June 2013) to 6 percent and is projected to further slow down to 5½ percent in FY14 before strengthening to 7 percent in FY15, with drivers of growth shifting from net exports to domestic consumption. The current account reached a record surplus of 2 percent of GDP in FY13 and is forecasted to narrow, but remain in surplus in FY14. The balance of payments has been further supported by aid flows and sustained public sector external borrowing for infrastructure. As a

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

result of the strong external position, international reserves have more than doubled since late 2011, and the nominal and real exchange rates have also appreciated over this period. Underlying (nonfood) inflation eased to under 8 percent in FY13 and is expected to continue to fall in the near term as a result of tighter policies, a slowing economy, and currency appreciation, but with upside risks from higher wages and supply disruptions.

The central government deficit was 4½ percent of GDP in FY13, in line with the ECF program targets. Revenue shortfalls resulting from the slowing economy were offset by better controlled nonessential expenditures and lower subsidy costs, allowing for a higher execution of investment spending under the Annual Development Program. The monetary policy stance, guided by Bangladesh Bank's Monetary Policy Statement in July 2013, has been restrained while allowing sufficient space for private credit activity. However, credit growth has slowed in line with weaker investment demand, contributing to ample liquidity in the banking system.

Executive Board Assessment[2]

Executive Directors commended the authorities for the significant progress made in macroeconomic stabilization and structural reforms, underpinned by the Fund-supported program. International reserves have increased, underlying inflation pressures have receded, and public debt has declined. The trend of poverty reduction has also continued. Nevertheless, the economy faces challenges arising mainly from the uncertain political environment, social unrest, and the transition in the garment industry. To safeguard stabilization gains and to further boost inclusive growth, Directors called for vigilance and continued implementation of sound policies.

Directors underscored that fiscal policy should remain prudent, while providing space to raise public investment and social spending. They encouraged further reforms to modernize the tax system and generate additional resources over the medium term. Decisive revenue administration reforms are needed to improve tax collections, while advancing implementation of the new value-added tax without further delays. Improving treasury cash management and cash flow forecasting is also a priority, as is strengthening financial reporting and management at state-owned enterprises. Directors encouraged the authorities to continue to strengthen debt management practices and to ensure that all nonconcessional borrowing is focused on high-impact projects.

Directors noted that restrained monetary policy has curbed inflationary pressures and supported reserve accumulation. With reserves approaching adequate levels, the central

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

bank's foreign exchange intervention could be scaled back, while keeping up sterilization efforts to achieve program targets.

Directors encouraged Bangladesh Bank to fully utilize its enhanced regulatory and supervisory powers, following the amendments to the banking law, in order to address vulnerabilities in the banking system. The financial position of the state-owned commercial banks requires attention. Directors welcomed the latest revisions to the central bank's memoranda of understanding with these banks, which provide a clear program of action and strengthened sanctions for noncompliance. Strong implementation of these reforms, complemented by recapitalization, will be needed to improve governance and restore these banks' financial health. Directors supported the continuation of annual central bank audits by a global audit firm, as well as reforms to strengthen Bangladesh Bank board's audit committee and internal audit capacity.

Directors emphasized that removing critical infrastructure bottlenecks is necessary for sustained high growth. Further streamlining the trade regime and regulations, including on foreign exchange, is also needed to improve the business climate. They welcomed the revision in the garment sector's minimum wages, as well as initiatives to strengthen labor and factory safety conditions, and looked forward to continued progress in these areas in consultation with development partners and the private sector. Priority should also be given to better targeting social safety net programs. These reforms, together with prudent macroeconomic policies, will help lay the foundations for sustained strong growth and poverty reduction.

Table 1. Bangladesh: Selected Economic Indicators, FY2011–15 1/

I. Social and Demographic Indicators

Population (FY13, millions)	153.6	Infant mortality (2011, per thousand live births)	36.7
GDP per capita (FY13, U.S. dollars)	845.4	Life expectancy at birth (2011, years)	68.9
Labor force participation rate (FY10, percent)	59.3	Adult literacy (2010, percent of people)	56.8
Poverty headcount ratio (2010, national measure, percent)	31.5	Population dependency ratio (2011, percent)	54.6

II. Macroeconomic Indicators

	FY11	FY12	FY13		FY14	FY15
			Prog.	Prel.	Prog.	Proj.
National income and prices (annual percent change)						
Real GDP (1995-96 base)	6.7	6.2	5.4	6.0	5.5	6.5
GDP deflator	7.5	8.5	7.7	6.6	7.6	6.7
CPI inflation (annual average; 2005-06 base)	...	8.7	...	6.8	7.2	6.5
CPI inflation (end of period; 2005-06 base)	...	5.5	...	8.0	7.0	6.0
Nonfood CPI inflation (end of period; 2005-06 base)	...	10.2	...	7.7	6.1	5.5
Central government operations (percent of GDP)						
Total revenue and grants	11.9	12.9	13.7	12.9	13.2	13.4
Total revenue	11.7	12.4	13.2	12.4	12.6	12.9
Tax	10.0	10.4	10.9	10.4	10.5	10.7
Nontax	1.7	2.0	2.3	2.1	2.1	2.2
Grants	0.3	0.5	0.5	0.5	0.5	0.5
Total expenditure	16.0	16.3	17.8	16.9	16.9	17.0
Current expenditure	9.7	9.6	9.9	9.6	9.5	9.4
Annual Development Program (ADP)	4.2	4.0	4.8	4.8	5.0	5.3
Other expenditures 2/	2.1	2.8	3.1	2.5	2.4	2.2
Overall balance (including grants)	-4.1	-3.4	-4.0	-4.0	-3.7	-3.6
(Excluding grants)	-4.4	-4.0	-4.5	-4.5	-4.3	-4.1
Primary balance (excluding grants)	-2.4	-1.7	-2.3	-2.2	-2.1	-2.1
Total central government debt (percent of GDP)	42.4	41.3	39.5	38.8	38.2	38.3
Money and credit (end of fiscal year; percent change)						
Credit to private sector by the banking system	25.8	19.7	15.8	10.8	16.0	...
Reserve money	21.1	9.0	16.4	15.0	16.3	...
Broad money (M2)	21.4	17.4	17.6	16.7	17.0	...
Balance of payments (in billions of U.S. dollars)						
Exports, f.o.b.	22.6	24.0	25.7	26.6	28.2	29.8
(Annual percent change)	39.1	6.2	7.2	10.7	6.0	6.0
Imports, f.o.b.	-32.5	-33.3	-33.9	-33.6	-36.8	-41.0
(Annual percent change)	52.1	2.4	1.9	0.8	9.5	11.6
Current account balance 3/	-2.2	-0.4	1.5	2.5	0.2	-2.1
(Percent of GDP)	-2.0	-0.4	1.2	1.9	0.2	-1.2
Capital and financial account balance	1.9	2.1	1.8	3.7	1.0	3.9
Of which: Foreign direct investment	0.8	1.2	1.3	1.3	1.3	1.6
Overall balance	-1.0	0.5	3.4	5.3	1.3	1.8
Gross official reserves (in billions of U.S. dollars) 4/	9.6	10.1	13.6	15.1	16.7	18.9
In months of prospective imports of goods and services	3.0	3.1	3.6	4.2	4.2	4.3
Exchange rate (taka per U.S. dollar; period average)	71.2	79.1	...	79.9	...	...
Exchange rate (taka per U.S. dollar; end-period)	74.2	81.8	...	77.8	...	...
Nominal effective rate (2005=100; period average)	82.8	74.8	...	75.4	...	...
Real effective rate (2005=100; period average)	108.5	104.9	...	111.4	...	...
Terms of trade (percent change)	-6.7	0.1	...	...	...	...
Memorandum item:						
Nominal GDP (in billions of taka)	7,967	9,181	10,378	10,380	11,783	13,386

Sources: Bangladesh authorities; World Bank, *World Development Indicators*; 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/ Imports are based on customs 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.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 13/479
FOR IMMEDIATE RELEASE
December 1, 2013

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Completes Third Review under the Extended Credit Facility Arrangement with Bangladesh, and Approves US$140.4 Million Disbursement

On November 27, 2013, the Executive Board of the International Monetary Fund (IMF) completed the third review of Bangladesh's economic program under a three-year arrangement supported by the Extended Credit Facility (ECF). The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 91.423 million (about US$140.4 million) to Bangladesh. This would bring total disbursements under the arrangement to SDR 365.692 million (about US$561.4 million).

The three-year ECF arrangement for Bangladesh was approved by the Executive Board on April 11, 2012 (see Press Release No. 12/129) for a total amount equivalent to SDR 639.96 million (about US$982.5 million), or 120 percent of quota.

After the Board discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, said:

"Progress on macro-stabilization and structural reforms has been strong under Bangladesh's policy program, supported by the Extended Credit Facility. International reserves have risen and underlying inflation is moderating. Progress has also been made in lowering subsidies, raising development spending, improving public financial and debt management, and strengthening financial supervision. However, strikes and uncertainty associated with the upcoming elections, an attendant slowdown in growth, and an expected transition in the garment sector to higher costs and upgraded labor and safety standards, pose challenges ahead. To manage them, it is important to persevere with a strong policy framework in the run-up to national elections and beyond.

"Fiscal policy should remain prudent, while providing space to raise public investment and social-related spending. Further reforms to modernize the tax system and generate additional resources for development spending over the medium term are critical, with implementation of the new value added tax a priority. Public financial management needs strengthening, focused on treasury cash management, state-owned enterprise financial reporting, and debt management practices.

“Restrained monetary policy has curbed inflationary pressures and supported reserve accumulation. The stronger external position could allow scaling back foreign exchange intervention while continuing sterilization efforts.

“Bangladesh Bank should fully utilize its enhanced supervisory powers to bolster financial stability. The program for reforms at the state-owned commercial banks should be firmly advanced, backed by recapitalization.

“Reforms to achieve sustained and inclusive growth should aim at further removing critical infrastructure bottlenecks, while streamlining the trade regime and foreign exchange regulations to improve the business climate. Advancing initiatives to strengthen labor and garment factory safety conditions is also critical, while the targeting of social safety net programs needs to be further improved.”

Statement by Mr. Rakesh Mohan, Executive Director for Bangladesh and Mr. Koodathumuriyil Verghese Eapen, Senior Advisor
November 27, 2013

1. The Bangladesh authorities wish to thank the IMF Mission for their constructive engagement in the course of the Third Review mission during September/October 2013 for the Extended Credit Facility (ECF) arrangement. They appreciate the staff's recognition of the achievements made in the context of the macroeconomic stabilization and structural reforms supported by the ECF program. The authorities have outlined recent economic developments and programs as well as their targets under the ECF in the Letter of Intent (LOI) dated November 5th 2013, the Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU) attached to the staff report. They requested the completion of the third review under the ECF arrangement and access to the fourth disbursement in the amount of SDR 91.423 million under the program.

Progress under the ECF program

2. Bangladesh has made substantial progress in strengthening macroeconomic conditions and structural policies during the ECF arrangement, which has now successfully reached its midpoint. The ECF supported program is firmly on track. All the quantitative performance criteria (PC) and all but one of the indicative targets for end-June 2013 have been met. Preliminary data indicates that the progress is in step for most end-September 2013 indicative targets as well. Bangladesh has also completed all ten structural benchmarks due between end-June 2013 and end-September 2013 as well as all the prior actions under the third review of the ECF arrangement.

3. The authorities are moving forward with the implementation of the new value-added tax (VAT) law. The VAT implementation project has now been included in the Annual Development Program (ADP) and the procurement process for automation software and related consultancies has begun. In addition, rules and regulations for the new VAT law have been drafted and are now in public consultation. With Bangladesh Bank's financial, regulatory and supervisory powers broadened under the newly approved amendments to the Bank Companies Act, the authorities are now focusing on strengthening the governance, internal audit and controls and risk management practices of state-owned commercial banks.

4. To protect international reserve buffers amid global and domestic uncertainties, the authorities are requesting an increase in the end-December 2013 PC on net international reserves of Bangladesh Bank (BB) and a corresponding reduction of the PC on BB's net domestic assets. They believe that the commitments as outlined in the MEFP are adequate to achieve program objectives but may consider further measures, as appropriate, for this purpose.

Macroeconomic Outlook

5. The Bangladesh economy continues to exhibit robust real GDP growth (6.18 percent in FY13). The pace has recently been slightly less than anticipated due to depressed global growth and domestic political uncertainties, but has been supported by resilient domestic consumption and export performance so far. Given these factors, the authorities view staff

projections for FY14 as conservative. Further, they feel that the steps to remove supply side constraints by means of targeted investment in social and physical infrastructure and power and energy sector have bolstered growth prospects.

6. While the authorities do share staff's views on the prospects for weaker remittances in FY14, they are more optimistic on the export front. Export performance till September 2013 has been strong. The authorities also anticipate stronger recovery in imports following the elections, leading to slower reserve accumulation from 2014. The ongoing structural adjustment of the ready-made garment (RMG) industry might also have an impact on future growth; the authorities are committed to providing policy support, particularly to small and medium enterprises. The authorities are well aware that it is important to sustain competitiveness in this sector through productivity and education reforms.

7. Prudent fiscal policy coupled with moderate monetary tightening has helped keep inflation below the 8 percent mark. In particular, point to point non-food inflation has decelerated to 5 per cent in October 2013 from the double digit level in March 2012 (11.8 percent). The BB has been pursuing a moderately restrained monetary policy strategy to safeguard macroeconomic stability and keep inflation in check, while allowing adequate credit flows to the productive parts of the private sector.

8. The authorities are well aware of the importance to move ahead with requisite labor and safety action plans in the RMG sector; at the same time, there is need for an appreciation of the scale and complexity of the reforms that are required within a short timeframe. It is important to note that the success of the RMG - sector is often credited as the reason for improvement in the overall position of women in the country. It should also be noted that population growth and the fertility rate in Bangladesh are lower than South Asian averages.

Fiscal and Monetary Policies

9. Bangladesh has met the FY13 fiscal target with the overall budget deficit (excluding grants) at an estimated 4.5 percent of GDP. The authorities are committed to a budget deficit (excluding grants) target of 4.3 percent of GDP in FY14, anchored by restricting the net credit to the central government (NCCG) by the banking system to Tk. 242 billion over FY14. To underpin revenue collection despite slowing economic activity, they will strengthen the tax enforcement capacity by recruiting new staff and continue with progress in customs automation and modernization and on-going reforms to boost taxpayer registration. In addition, they will keep expenditures contained so as to achieve the overall deficit target. They will also continue to strengthen ADP implementation—including by utilizing the pipeline of committed donor funding—and increase social-related expenditure.

10. Over the medium term, fiscal policy will be centered on the objective of putting public debt on a smooth downward path. The authorities point out that the Debt Sustainability Analysis (DSA) update for the 2013 consultation indicates that Bangladesh remains at a low risk of debt distress. The authorities will also continue to strengthen public debt management by (i) focusing external borrowing, including the contracting and guaranteeing of non-concessional external debt, on projects with a high development impact for which concessional financing is not available and (ii) by further streamlining debt management processes.

11. The authorities will continue to contain fuel and electricity subsidies. In particular, they are committed to keeping domestic average fuel prices within Tk. 10 per liter of international prices and will adjust prices as needed to keep to that target. They will also continue making regular budgetary transfers to Bangladesh Petroleum Corporation (BPC) in order to cover subsidy costs as well as reducing its short term external borrowing needs. They will focus efforts on strengthening BPC, the largest non-financial corporation in the country. A global audit firm, in association with a local firm, will be appointed to conduct a financial audit of the BPC for FY13, to be completed by September 2014.

12. The Bangladesh Bank will continue to maintain a restrained monetary policy stance as set out in the July 2013 Monetary Policy Statement, anchored on a reserve money target, to safeguard macroeconomic stability and keep inflation in check, while allowing adequate space for private credit growth. Going forward, the BB will adjust foreign exchange intervention to market conditions, while keeping up sterilization operations to adhere to program targets. A full external audit of the BB by a global audit firm will be completed before the December 2013 benchmark. Following up on the findings from this audit, the BB Board will appoint a certified chartered accountant as an advisor to the Audit Committee of the BB Board by March 2014 until the Audit Committee is reconstituted to include such an expert. The BB will also continue to engage a global firm to audit its financial statements on an annual basis.

13. Bangladesh has also continued to build up net international reserves, meeting the end-June 2013 target by a comfortable margin. The current account balance continues to be in a surplus reflecting continued sizeable inflows of remittances and high aid disbursements coupled with sustained export expansion and subdued imports. This has also resulted in the recent gross international reserve build-up to US$17.2 billion by end October 2013.

Financial Sector Reforms

14. Amendments to the Bank Companies Act (BCA) were approved by Parliament in July 2013. Following this, the BB has issued an order in September 2013 limiting banks' capital market exposure to 25 percent of their capital as set out in the newly amended BCA. To strengthen the central bank's contingency planning framework, the BB Board has also adopted a bank intervention and resolution plan as well as a lender of last resort policy. The Bangladesh Securities and Exchange Commission has also approved demutualization models and plans for both Dhaka and Chittagong stock exchanges in September 2013 to strengthen market governance.

15. A key focus of financial sector policies going ahead will be the strengthening of the governance, credit risk management and balance sheets of the state-owned commercial banks (SOCBs). The BB has completed special diagnostic examinations of the SOCBs in June 2013, which identified significant weaknesses in asset quality, liquidity management and internal audit and control.

16. To this end, several measures are being undertaken including: (a) *Revised MOUs*. The authorities have revised the memoranda of understanding (MOUs) between BB and the SOCBs to address various deficiencies. The revised MOUs provide for the bank boards to adopt a stronger credit policy and credit risk management policy (in line with BB's credit risk

management guidelines) by November 2013 and independent internal audit programs. Further, the authorities are committed to imposing the strengthened range of sanctions provided for in the revised MOUs in case of noncompliance. (ii) *Recapitalization.* The authorities intend to gradually restore the capital position of SOCBs in line with regulatory capital adequacy standards, conditional on progress on actions agreed under the revised MOUs and clearly laid out new business plans approved by the SOCB boards. (iii) *Automation.* The authorities will initiate an automation plan for SOCB branches to reduce operational and financial reporting risks. A detailed action plan for automation will be completed by the Ministry of Finance in consultation with BB by March 2014.

Structural Policies

17. After the Rana Plaza building collapse in April 2013 in Savar on the outskirts of Dhaka the authorities have taken various steps to allay international and domestic concerns relating to labor and safety conditions in the RMG industry. A wage board has been formed to revise the minimum wage for the garment industry, which was last raised in 2010. The board has recommended an increased minimum wage. They also formed a high-level inter-Ministerial Committee, with worker participation, to examine working conditions and safety issues in the RMG industry. In line with commitments set out in a joint statement including employers' and workers' organizations signed in May 2013, they have amended the Labor Act (in July 2013) to improve safety standards and workers' collective bargaining rights. They are also strengthening the labor inspection system with support from the International Labor Organization (ILO), development partners, and international retailers. This is also being done through the recruitment of 200 additional inspectors by end-2013 and through safety assessments of all active RMG factories.

18. The authorities will continue to increase budget allocations for well-targeted social safety net programs and strengthen the efficiency and transparency of all social safety net programs with support from the World Bank and other development partners. The authorities have also prepared a strategy paper laying out the roadmap towards gradual liberalization of exchange regulations on the current and capital account with a view to facilitating business operations and attracting foreign investment. The BB will review and adopt necessary amendments to all foreign exchange regulations and reporting routines for current account transactions. The authorities recognize the importance to add momentum to the liberalization of the trade regime to strengthen the trade and investment climate. Their future trade liberalization program will focus on reducing the dispersion and average level of protection, streamlining customs and border procedures and introducing a more efficient duty drawback system.

Conclusion

19. The authorities will maintain close policy dialogue with the Fund to ensure continued strong performance under the ECF arrangement. They will also consider the recommendations arising from the 2013 Article IV Consultation. They will pursue technical assistance as necessary from the Fund and other development partners in support of the reform agenda.