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Bangladesh: First Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Waiver of Nonobservance of a Performance Criterion—Staff Report, Staff Statements and Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Bangladesh

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

- The staff report for the first review under the three-year arrangement under the Extended Credit Facility and request for waiver of nonobservance of a performance criterion, prepared by a staff team of the IMF, following discussions that ended on December 6, 2012, with the officials of Bangladesh on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 30, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Joint Debt Sustainability Analysis Update prepared by the staffs of the IMF and the World Bank.

- Staff statements updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its February 20, 2013 discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for Bangladesh.

The documents listed below have been separately released.

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

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

BANGLADESH

January 30, 2013

FIRST REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION

KEY ISSUES

Focus: Discussions during the first review under the Extended Credit Facility (ECF) arrangement focused on program performance to date and agreement on commitments through end-2013. The main objectives of the government's ECF-supported reform program remain focused on restoring macroeconomic stability, strengthening the external position, and engendering higher, more inclusive growth, in support of poverty reduction. Program targets in 2013 are anchored by continued fiscal and monetary restraint, building on initial stabilization gains and locking in reserves outperformance. Structural measures aim to modernize the tax regime, bolster fiscal controls, strengthen financial sector oversight, and improve the trade and investment climate in order to reduce vulnerabilities and achieve development priorities, as laid out in Bangladesh's Sixth Five-Year Plan (FY2011–15).

Risks: Main risks are to the downside in the near term, stemming externally from an intensification of the euro area crisis and global commodity price spikes, and domestically from a further deterioration in state bank finances and escalation of pre-election tensions. If any of these risks were to materialize, further policy adjustments might be necessary, with program targets recalibrated accordingly, factoring in the impact of shocks on the most vulnerable in Bangladesh. On the upside, remittances still have room to surprise, helping build the reserve buffer and boost domestic demand.

Program: The Executive Board approved a three-year ECF arrangement on April 11, 2012 in the amount of SDR 639.96 million (120 percent of quota). Policy undertakings have been broadly in keeping with program commitments under the ECF. All performance criteria were met at the end-June 2012 (first) test date and indicative targets for end-June and end-September 2012 are also largely on track. While preliminary indicators for select quantitative targets show that they, too, were met at the end-December 2012, the continuous performance criterion on new nonconcessional external debt maturing in more than one year was not observed because of new borrowing in January 2013. Likewise a number of structural benchmarks were not met, either due to delays in completion or the need for more time to make legislative changes or reach internal policy consensus.

Staff views: Staff recommend completion of the review and support the authorities' request for a waiver of the continuous performance criterion on new nonconcessional external debt. The authorities have consented to publication of the staff report and the Letter of Intent and attachments.

Approved By
Masahiko Takeda and Peter Allum

First ECF review missions were held in Dhaka September 12–26, 2012 and November 27–December 6, 2012. The staff team comprised Messrs. Cowen (head), Toh, and Gupta, and Ms. Kvintradze (resident representative) (all APD); Ms. Kaendera (FAD); and Mr. Engstrom (SPR). Ms. Addo Awadzi (LEG) participated in the November mission. Mr. Eapen (OED) joined policy discussion during the second mission. Mss. Dao, Sirihorachai, and Lee (all APD) assisted in preparing this report.

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APPENDIX

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

1. Under the three-year Extended Credit Facility (ECF) arrangement approved by the IMF's Executive Board in April 2012, performance has been broadly in keeping with commitments. All performance criteria (PC) were met at the end-June 2012 (first) test date, with notable outperformance in reserve accumulation (MEFP Table 1). Most end-June and end-September 2012 indicative targets (IT) were also met. Preliminary indicators for select quantitative targets show that they, too, were met at end-December 2012. A number of structural benchmarks were completed with delays or have required more time to build internal consensus (MEFP Table 2), notably on a new value added tax (VAT) law and implementation plan and banking law amendments,.

2. Similarly, recent macroeconomic developments have been mainly as envisaged, but with external imbalances narrowing more rapidly than expected (Figures 1–5). Macroeconomic pressures have eased, allowing a faster-than-programmed reserve buildup. However, the ongoing impact of the euro area crisis on European Union-bound exports (50 percent of total) has raised the risk of a fairly significant growth slowdown if current conditions worsen.

- ***Growth and inflation.*** Provisional estimates show real GDP growth slowed to 6.3 percent in FY12 (July 2011-June 2012) from 6.7 percent in the previous year (Tables 1 and 2), with weaker net exports and lower investment growth the main factors. Underpinned by moderating macro-pressures and food prices, headline inflation receded to 7.7 percent (y/y) in December 2012 after reaching a decade-high 12.0 percent in September 2011. However, nonfood inflation remains above the headline rate, but has also moderated.[1]

- ***Balance of payments (BOP).*** Despite slower-than-expected export growth, the BOP reversed to a small surplus in FY12 from a moderate deficit in FY11 (Table 3). The improvement was due primarily to a narrowing of the current account deficit to an estimated 0.5 percent of GDP in FY12 compared to 2.0 percent the previous year.[2] Import growth was restrained by policy tightening and lower oil prices in the second half of FY12, as well as by slowing export growth, given the heavy import content of ready-made garments exports. On the other hand, remittances growth picked up in FY12, stemming from an earlier

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[1] Inflation data provided in this report use the 1995/96 base. The Bangladesh Bureau of Statistics intends to phase out this index in 2013 and replace it with a 2005/06 base.

[2] The current account balance for FY11 was previously reported as a surplus of around US$0.3 billion (see IMF Country Report No. 12/94). It has been revised recently by Bangladesh Bank to a deficit of US$2.2 billion. The change is due mainly to the use starting in FY11 of customs rather than settlements data to record imports in the BOP, based on earlier IMF technical assistance recommendations. The adjustment has no bearing on the overall balance, as the difference between customs and settlements is correspondingly offset in the trade credits (net), as reported in the financial account.

uptick in worker flows to the Middle East and Southeast Asia. The capital and financial accounts provided further support through oil import-related credits and aid disbursements.

- ***Exchange rate and reserves.*** Since early 2012, the taka/U.S. dollar exchange rate has stabilized, in part due to BOP conditions, allowing stepped-up purchases of foreign exchange (FX) by Bangladesh Bank (BB) to rebuild its reserve buffer. As a result, gross foreign reserves (GIR) were US$12.5 billion at end-December 2012 (3.4 months of imports), up by nearly US$4.0 billion from late 2011 lows. The PC and IT on net international reserves (NIR) were also met comfortably at end-June and end-September 2012. Commercial banks fully settled FX overdrafts with BB (a June 2012 benchmark).

3. **Fiscal performance in 2012 has been broadly in line with program targets.** The overall budget deficit (excluding grants) is estimated at 4.0 percent of GDP in FY12 (Tables 4 and 5), excluding fertilizer subsidy overruns to be settled in FY13 (around 0.5 percent of GDP). Government domestic borrowing has been restrained since the second half of FY12—a clear reversal from the first half, with the PC and IT on net credit to the central government by the banking system (ceiling) met at end-June and end-September 2012 (even factoring in fertilizer subsidy commitments). Underpinning this were further revenue gains, although lower-than-expected import tax collections led to modest misses in ITs (floor) on tax revenue at end-June and end-September 2012. Fuel and electricity subsidies were largely contained, as lower international oil prices and administered price increases narrowed losses at energy-related state-owned enterprises (SOEs). The effect of these price adjustments on vulnerable groups was mitigated in part by higher social-related spending (IT), although delays in executing some programs resulted in a modest miss in the September 2012 target. Annual Development Program (ADP) expenditure fell short of programmed levels in FY12, but closer engagement with spending ministries and development partners has led to modestly improved performance in FY13. Continuous PCs on nonconcessional debt and external arrears were met, except the nonobservance in early 2013 of the one on new nonconcessional external debt maturing in more than one year, for which the authorities are seeking a waiver.[3] The end-June IT (ceiling) on short-term oil import financing was also marginally exceeded due to higher-than-expected petroleum demand arising from efforts to limit electricity shortages.

4. **Monetary conditions further tightened in 2012, as programmed.** Money market rates and Treasury yields rose, in line with earlier repo rate hikes by BB, and are now positive in real terms. The stock of reserve money (IT) remained within the program ceiling both at end-June and end-September 2012, restrained by net domestic assets of BB (PC) and limits on government borrowing from BB—the main operating targets (Table 6). Credit growth slowed to around 17½ percent (y/y) in November 2012 from a peak of nearly 30 percent in mid-2011. On its part, BB continued to limit

[3] In January 2013, Bangladesh contracted two new nonconcessional loan agreements with the Russian Federation. Under separate deals, the Russian Federation will provide nonconcessional loans to assess the technical feasibility and overall viability of nuclear power in Bangladesh (US$500 million) and to make defense-related purchases (US$1.0 billion). Staff assume the first loan is disbursed during FY14–16 and the second loan during FY14–17. As a result, the PC on new nonconcessional external debt was not met (see MEFP Table 1).

directed liquidity support to primary dealer (PD) banks and meet discretionary repo needs at the higher (300 bps) penalty rate, supported by more stable conditions in the interbank repo and call money markets. Other liquidity was injected primarily through FX purchases, against the backdrop of strong remittance flows, but partially sterilized by the reactivation of auctions of 30-day central bank bills from November 2012.

MACROECONOMIC OUTLOOK AND RISKS

5. **Despite improvements in the external position, the growth outlook for FY13 is uncertain, due mainly to global factors.** Under the baseline, real GDP growth is projected to moderate further to 5.8 percent in FY13 on subdued exports and private consumption, the latter due mainly to the impact of lower domestic rice prices during the Aman (winter) harvest on rural incomes. Medium-term growth prospects remain broadly as envisaged at the time of program approval, but with downside risks. Inflation is expected to be around 8 percent (y/y) in June 2013, but decline over the medium term, as better infrastructure eases supply constraints. Notwithstanding a further slowing in export growth and expected pick up in oil imports in the second half of the fiscal year, the current account is expected to be roughly in balance in FY13, supported by an additional rise in remittances growth, with GIR projected to hold firm at around US$12.4 billion at end-June 2013.

6. **The medium term growth outlook is predicated on a timely resolution of the Padma Bridge controversy.** The World Bank terminated its US$1.2 billion bridge credit in late June 2012, citing a lack of sufficient action in addressing evidence of corruption related to the construction consultancy contract for the US$2.9 billion project.[4] However, subsequently, in view of the measures taken by the authorities and the engagement of an external panel of experts to assess the investigation of Bangladesh's Anti-Corruption Commission (ACC), the World Bank has agreed to engage in a dialogue anew on the possible financing of this transformative investment, assuming a full and fair investigation of the corruption charges as determined by the panel. The investigation is underway.

7. **The balance of risks is to the downside in the near term, potentially putting pressure on growth and inflation and undermining financial stability** (Box 1 and Text Figure 1). Main external risks stem from an intensification of the euro area crisis, given export concentration, and from global commodity price shocks. Exports could also be affected by a backlash from the garment factory fire tragedy near Dhaka in November 2012. If these risks materialize, policy adjustments might be necessary, primarily through exchange rate and fiscal channels, with monetary policy remaining appropriately restrained to contain inflation and protect reserves. In the event, the current resource envelope is adequate assuming the shocks are transitory. On the other hand, remittances still have room to surprise on the upside, which could help build the reserve buffer and boost

[4] Other major financers are the Asian Development Bank (US$0.6 billion) and Japan Agency for International Cooperation (US$0.4 billion). The Islamic Development Bank has also committed US$0.2 billion to the project, with the rest of the cost expected to be covered by the government. Under the IMF's current baseline, assuming conditions with project financers are met, the project would be undertaken during FY14–17.

Box 1. Bangladesh: Risk Assessment Matrix 1/

Likelihood	Shock	Vulnerabilities	Potential Impact	Policy Response
Medium	Strong intensification of the euro area crisis	About half of exports go to the European Union (EU), predominantly in the flagship garment sector where a doubling of total E.U. market share over the past five years spurred earlier growth.	High: Activity would be severely affected in the garment export sector, accounting for 80 percent of exports and employing about 4 million workers, mainly women. Balance of payments (BOP) pressures could intensify on a deeper export slump, destabilizing the exchange rate and pressuring reserves.	Greater exchange rate flexibility would need to be coupled with moderate fiscal easing, as modest automatic stabilizers kick in, with possible budgetary provisions needed to top-up existing safety net schemes.
Medium	Further deterioration in state-owned commercial bank (SOCB) finances	Two of the four SOCBs fail to meet minimum risk-weighted capital requirements, with another at risk.	High: Potential recapitalization needs, even excluding recent financial frauds, are around 1½–2 percent of GDP (see Box 5).	The SOCBs should be held strictly accountable to MOUs agreed with Bangladesh Bank (BB) aimed at improving their financial performance. Stricter macro-prudential controls over their lending activities and more aggressive recovery of bad loans would be needed, backed by a broader strategy to improve their longer-term viability.
Medium	Intensification of pre-election political pressures	Escalating violence and lack of fiscal restraint ahead of likely end-2013 elections	Medium: Growth prospects could be dampened by a loss in confidence and inflation and BOP pressures could reemerge, undermining stability. Fiscal slippages resulting in higher bank borrowings could increase the devolvement burden on the banking sector (see Box 4) and/or government's reliance on BB financing, with spillovers to monetary policy.	At this stage, election-related costs are expected to be contained within current program targets, given past performance. In the event of major slippages, in addition to fiscal tightening measures, monetary targets would also need to be adjusted and greater interest rate flexibility would need to be allowed to ensure a stable macroeconomic environment.
Low	World oil price shock	Petroleum imports (in U.S. dollars) have more than doubled since FY10, driven by increased reliance on liquid fuel-based power generation.	Medium: The BOP would come under renewed pressure, while fuel-related subsidies could destabilize the fiscal stance.	An automatic fuel price adjustment mechanism could contain subsidies, temper demand, and protect reserves, backstopped by greater exchange rate flexibility.
Low	World food price shock	With food accounting for over two-thirds of the consumption basket, the poor would be hard hit.	Medium: Higher inflation, with pressures to expand fiscal subsidies, while more costly food imports could affect the BOP.	Additional monetary tightening could help mitigate second-round effects and offset possible fiscal easing associated with more expansive food imports and safety net operations.

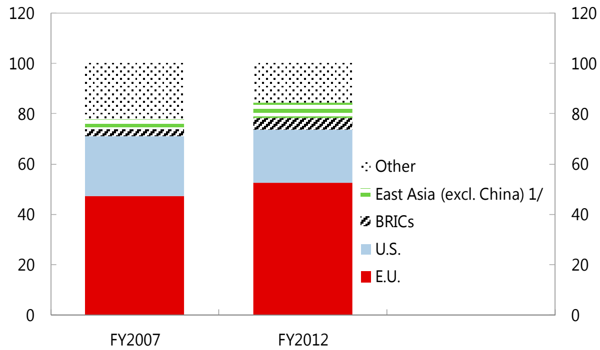
1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. The RAM reflects staff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

Text Figure 1. Bangladesh: Vulnerability to Near-Term External Shocks

In the event of a major slowdown in the advanced economies, Bangladesh's external position would be adversely affected, given heavy export concentration in E.U. and U.S. markets.

Exports by Destination

(In percent of total exports receipts)

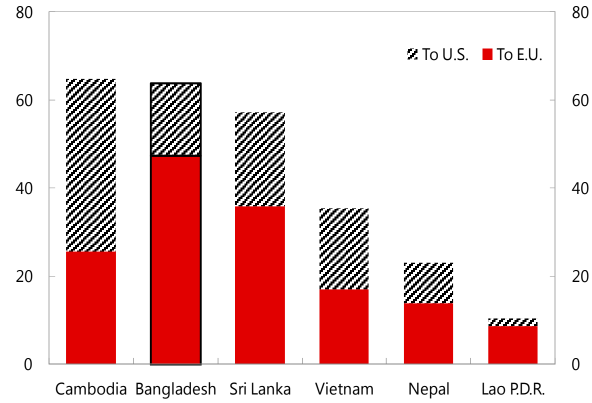


1/ East Asia (excluding China) includes members of ASEAN, Hong Kong SAR, Japan, Korea, and Mongolia.

Unlike most of its regional peers, comparatively undiversified export markets could make Bangladesh more vulnerable, particularly to Europe.

Exports to the European Union and the United States

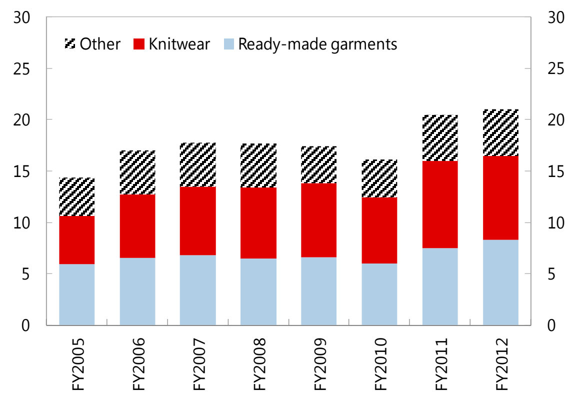
(In percent of total export receipts; 2011)



Weaker exports would disproportionately affect the garment sector, which dominates exports earnings, also leading to lower FDI inflows and knock-on effects on the rest of the economy.

Exports by Commodities

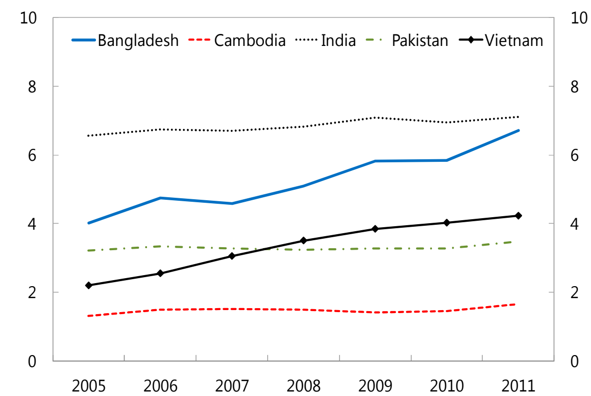
(In percent of GDP)



In the near term, to reduce the impact on exports, access to new markets needs to be pursued aggressively while consolidating the gains made in E.U and U.S. markets.

Textile and Apparel Exports to the E.U. and U.S.

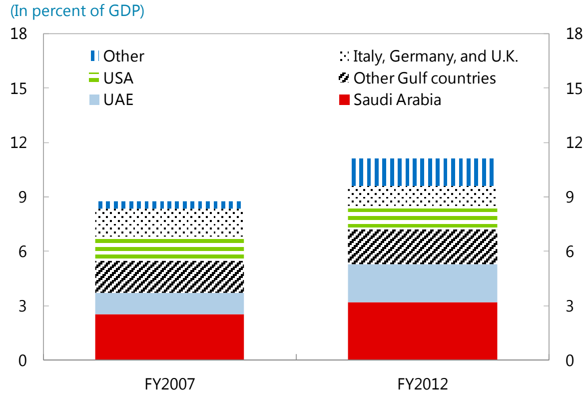
(Market share, in percent)



Remittance inflows are expected to continue to provide a cushion, but with two-thirds originating from the Gulf countries, Bangladesh is also vulnerable to shocks from this region.

Workers' Remittances by Source Countries

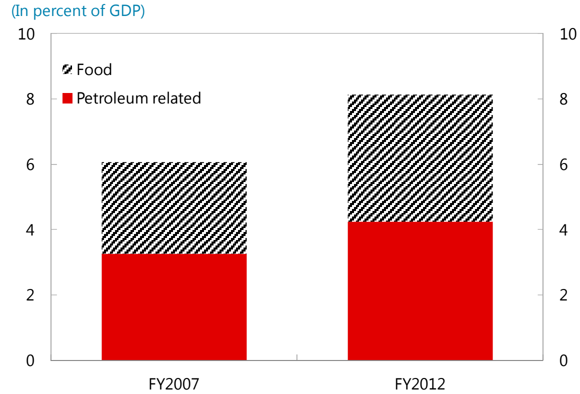
(In percent of GDP)



A spike in global commodity prices, while not currently a major risk, could put pressure on foreign reserves, as oil and food imports have risen substantially in recent years.

Food and Oil Imports

(In percent of GDP)



Sources: Data provided by the Bangladesh authorities; CEIC Data Company Ltd.; and IMF, *Direction of Trade Statistics* and IMF staff calculations.

domestic demand. Turning to the domestic front, a further escalation of pre-election tensions and deterioration in the financial condition of the state-owned commercial banks (SOCBs) pose the greatest risk, possibly affecting growth prospects and public finances and necessitating stronger economic governance and tighter financial controls to avoid undermining public debt sustainability.

POLICY DISCUSSIONS AND COMMITMENTS

8. Policy discussion centered on agreement on program commitments through end-2013 aimed at consolidating stabilization gains and advancing growth-critical reforms. In view of heightened risks, program targets seek to bolster external and fiscal buffers in order to manage adverse spillovers, mainly those emanating from the euro area. A Memorandum of Economic and Financial Policies (MEFP) was agreed (Appendix 1), encapsulating new program commitments, extending quantitative targets through end-2013 (MEFP Table 1), and adding new benchmarks (MEFP Table 2). The MEFP provides assurances aimed at stepping up the implementation of structural benchmarks, in view of lags so far observed under the first year of the ECF arrangement in meeting several key program commitments, notably in tax policy and administration and banking sector reforms.

A. Fiscal Policy and Debt Management: Securing Fiscal Space

9. Overview. The government's ECF-supported program intends to carry forward key structural fiscal reforms aimed at generating higher tax revenues and increasing priority spending, while consolidating fiscal and debt sustainability. So far, progress on structural fiscal reforms has been slower than envisaged at the time of program approval. Recent passage of a landmark VAT law (a prior action), with a single 15 percent rate, could add momentum, providing a solid anchor for the government's tax modernization strategy (Box 2).[5] The nonobservance of the PC on new nonconcessional external debt reinforces the need to strengthen debt management practices to ensure that nonconcessional borrowing is carefully managed, reflected in the government's annual borrowing plan, and guided by Bangladesh's medium-term fiscal and debt sustainability objectives.

10. Current policy stance. The fiscal deficit in FY13 (excluding grants) is targeted at 4.5 percent of GDP, lower than the budgeted target of 5.0 percent of GDP, with ADP spending now better aligned with implementation capacity. The authorities remained optimistic that programmed revenue targets could be achieved based on additional revenue measures (0.6 percent of GDP)

[5] The law was submitted to the National Parliament in early July (June 2012 benchmark). It was passed by Parliament in November, following consultations with and revisions by the Parliament's Standing Committee on Finance to ensure consistency with National Board of Revenue's tax modernization plans and medium-term revenue targets.

Box 2. Bangladesh: New Value Added Tax Law[1]

A new value added tax (VAT) law was passed by the National Parliament in late November 2012 aimed at increasing revenue, facilitating business, and promoting compliance. The law, which was submitted to Parliament in early July (a June 2012 benchmark), underwent extensive consultation with stakeholders and careful review by the Cabinet and the Parliament's Standing Committee on Finance to ensure consistency with the National Board of Revenue's (NBR) tax modernization plans and medium-term revenue targets. Substantial IMF technical assistance (TA) was provided over the preceding 18 months in legal drafting and consultative processes.

The law provides for three taxes, anchored by a creditable 15 percent VAT that is chargeable by businesses with taxable annual sales in excess of Tk 8 million a year (approximately US$100,000). It also has a noncreditable 3 percent turnover tax that applies to businesses with taxable sales in the range of Tk 2.4–8.0 million, and a supplementary duty of varying rates that is chargeable on sales of a specific but streamlined set of goods and services. In addition, the new law stipulates a second, lower threshold (Tk 2.4 million) below which small businesses are completely exempted from registering for and charging both the VAT and turnover tax. While the turnover tax and supplementary duties will continue to operate in much the same way as under the current law, the VAT will undergo major changes, as discussed below.

Revenue increases will come by considerably broadening the tax base, as the main VAT rate is unchanged. Under the new law, all economic sectors (imports, manufacturing, and services) will be brought within the scope of the VAT, with tax paid on the basis of *actual transactions values* instead of highly compressed and arbitrarily *negotiated approved values* embedded in the rate schedules (for manufactures) and on truncated bases (for imports and services) under the existing law. In addition, the VAT base will be expanded by reducing the long list of exempt goods and services. Previous IMF reports estimated that these changes could increase the tax collections by nearly two percentage points of GDP a year once the new VAT is fully implemented.

In contrast to the current law, the new law allows registered taxpayers to claim a credit for VAT paid on virtually all of their inputs and clarifies the conditions under which taxpayers may claim a refund. The amount of VAT due in each reporting period is based on the invoice-credit method, where tax to be paid equals VAT charged on sales (and other positive adjustments) minus VAT paid on inputs (and other negative adjustments). Many burdensome features in the existing VAT have also been removed, namely by abolishing the requirements for taxpayers to receive price approvals from tax officers, to deposit VAT in the government treasury in advance of making supplies, and to attach to the VAT return the copies of individual VAT invoices and payment confirmations. Explicit rules are also provided for carrying forward and refunding excess VAT credits. Taken together, these and other changes should greatly reduce the tax burden and compliance costs faced by individual taxpayers and, thereby, create an environment that is more business-friendly and conducive to economic growth.

Several important provisions have been added to the new law that should strengthen the NBR's powers to detect and deal with noncompliant taxpayers. The powers of VAT officers to request information from taxpayers have been enhanced and clarified. The collection enforcement powers for the NBR have also been bolstered, giving it the authority to freeze a tax debtor's bank accounts, impose a lien on the property of a tax debtor, and recover tax arrears from company directors. Under the new VAT law, taxpayers will be able to access the Alternative Dispute Resolution system. However, they will be required to pay 10 percent of a disputed tax before being entitled to file a formal appeal, reducing frivolous delays in settling obligations.

Achieving the above goals will require the existing VAT administration be completely modernized. To this end, a VAT Steering Committee was appointed in January 2013, with the immediate task of finalizing cost estimates for the VAT's implementation and securing funding commitments from internal and external resources. Besides getting ministerial approval of a VAT implementation plan and timetable (a March 2013 benchmark), the authorities will need to take upfront decisions on the design and acquisition of VAT information systems, staffing and responsibilities of a core implementation team, and the terms of reference for the Steering Committee.

[1] This box draws from observations made by an IMF Fiscal Affairs Department mission in December 2012 (headed by Mr. Brondolo), which assisted the Bangladesh authorities with the preparation of a draft VAT implementation plan and timetable.

introduced in the FY13 budget.[6] Over the medium term, a moderate consolidation path will continue to be pursued by increasing tax revenue and containing subsidy costs, providing ample space to increase ADP spending, but also assuming fiscal risks remain in check.

11. Program commitments.

- ***Pressing ahead on tax and revenue administration reforms*** (MEFP, ¶7-8). The authorities agreed that steady implementation of the new VAT law coupled with stepped-up efforts to modernize the tax regime were essential to raising revenues. Due to delays in passing the law, ministerial approval of a VAT implementation plan and timetable (a September 2012 benchmark) has been rescheduled to March 2013, with IMF technical assistance (TA) helping guide the process. A VAT steering committee was established in January 2013 to ensure a smooth VAT roll-out by FY16, coordinating necessary technical and financial support. Meanwhile, a delay in project tendering necessitated rescheduling the completion of the automation of taxpayer identification number issuance (a December 2012 benchmark) to June 2013. The authorities, while pressing ahead with a new direct tax code, agreed that more work was needed to rationalize the law before seeking Cabinet approval.

- ***Strengthening public financial management (PFM) and expenditure control*** (MEFP, ¶9). While improvements have been made in cash and debt management and budget integration (Box 3), the authorities agreed to the need to build more capacity in these areas. The process of setting up budget management wings/branches in all line ministries was completed and a circular was issued (with some delay) establishing uniform budget implementation and reporting standards (a June 2012 benchmark). New guidelines and procedures on budget monitoring and reporting will be issued by June 2013 (a new benchmark), with support from the Strengthening Public Expenditure Management Program.

- ***Contain subsidy costs*** (MEFP, ¶10–11 and 13). The authorities agreed to keep the total subsidy bill at around 3½ percent of GDP in FY13, factoring in government capitalization of all earlier subsidy-related loan losses at the SOCBs (equivalent to 0.5 percent of GDP), with no new accumulation of these debts (IT). To this end, electricity tariffs were further raised by about 16 percent in September 2012 and fuel prices by up to 11 percent in January 2013. However, the authorities did not put in place an automatic fuel price mechanism (a December 2012 benchmark), but indicated that they would continue to adjust prices to limit

[6] About half of this came from the removal of tax concessions and exemptions, falling short of programmed 0.5 percent of GDP in added revenues from this source (a June 2012 benchmark). The rest came from new fees and rates.

Box 3. Bangladesh: Cash and Debt Management Reforms

Recent progress in strengthening cash and debt management has been slow and uneven. Reforms are being guided by the government's 2006 Financial Management Reform Strategy and Medium-Term Rolling Action Plan. The 2011 Public Expenditure and Financial Accountability (PEFA) assessment also showed prevalent weaknesses in cash and debt management, highlighting deficiencies in expenditure controls, internal audit and reporting, and budgetary oversight, as well as sub-national transfers. Currently, development partners are actively supporting the government's reform efforts through the Strengthening Public Expenditure Management Program (SPEMP)—a multi-donor trust fund that is administered by the World Bank.

Institutional, procedural, and capacity constraints still give rise to inefficient cash and debt management and heighten operational risks, undermining fiscal and monetary policy formulation and execution, complicating domestic debt operations, and ultimately leading to higher borrowing costs. Main weaknesses center on:

- *Weak and irregular cash-flow forecasting*: Predicting changes in revenue and spending patterns remains a challenge, limiting the flexibility to tailor budget transactions to cash-flow estimates and to match borrowing instruments and requirements to cash needs.
- *Insufficient cash management procedures*: While most central government transactions take place through either the Treasury Single Account (TSA) at the central bank or donor-sanctioned accounts, line ministry accounts in commercial banks hold substantial balances associated with unspent capital project funds. Currently, no legislation or rule exists to claw back unexpended funds into the TSA.
- *Weak accounting and payments systems and lack of awareness of cash management procedures:* These problems are compounded by limited information sharing between the Ministry of Finance (MoF) and line ministries, where capacity remains low. In addition, no linkages exist between National Board of Revenue collections and the cash management system, leading to discrepancies.
- *Dispersed debt management responsibilities across several agencies*: Debt management functions are performed based on the type of debt issued, with no overarching responsibility for managing total public sector debt. Improvements are needed in recording and analysis capabilities, identification of risks associated with the debt portfolio, institutional coordination to enhance debt management, management of contingent risks, development of the secondary government bond market, strengthening the legal and regulatory framework for debt management, and training of debt management personnel.

Measures have been put in place to address some of the shortfalls, but significant challenges remain. They focus on:

- *Strengthening cash forecasting and management*: Steps are being taken to computerize cash flow systems (including forecasting), mainly by automating interfaces with banks and establishing connectivity with the sub-district accounting offices. The central bank is also consolidating daily transactions at bank branches and reporting the daily cash position to the government, although this process is hampered by reporting lags in agent banks. A cash and debt management committee (CDMC), headed by the Finance Secretary, and a technical committee to assist the CDMC have been instituted. At the same time, spending ministries have provided to the MoF monthly spending and procurement plans for FY13 as inputs for preparing cash plans. To support this work, a new cash flow forecasting framework is expected to be in place by June 2013, with the support of IMF technical assistance.
- *Improving debt management and the payments system*: A debt management unit, established in 2011 in the MoF, is strengthening the compilation of debt data, with domestic debt also being integrated into the debt recording system. Under the SPEMP, a draft debt management strategy was prepared in August 2012. Installation of UNCTAD's Debt Management and Financial Analysis System (DMFAS.6) is expected to be completed by end-FY13. On payments, a World Bank-supported project is already being piloted with six ministries to deposit salaries directly into civil servants' bank accounts. It holds the promise to enhance payment efficiencies when rolled out to all ministries and other levels of government.

the wedge with international prices and stay within budgeted limits on fuel subsidies.[7] To further contain subsidy costs and related transfers to SOEs, the Auditor General's office will complete efficiency audits of the operations of Bangladesh Petroleum Corporation, Bangladesh Power Development Board, and Bangladesh Chemical Industries Corporation by June 2013 (a new benchmark). In addition, staff urged that government contracts with rental power plants be closely scrutinized, given the disproportionate amount of subsidies required to run these plants and the slow pace of bringing new base power plants on stream. More efforts were also seen necessary to contain ballooning fertilizer subsidies through better targeting, stricter monitoring, and price adjustments. While noting the need to continue to support agricultural production, the authorities agreed to put in place better controls by forming an inter-agency committee in October 2012 tasked with monitoring fertilizer subsidy-related commitments and payments (a prior action), with subsidy cost capped at Tk 60 billion in FY13.[8]

- ***Strengthening safety nets and reinforcing priority social spending*** (MEFP, ¶12).Work to develop better-targeted subsidy schemes focused on safeguarding the poor is ongoing, with a national poverty registry being developed with World Bank assistance to guide the formulation of conditional transfers and assistance-for-work programs.[9] In the interim, staff noted that scope exists to top up existing safety nets. The authorities reiterated their commitment to protect space for social spending over near to medium term, consistent with the current fiscal framework, and adhere to program-related targets in this area.

- ***Ensuring sound debt management*** (MEFP, ¶14–15). The government's debt management policy will be anchored by a continued reliance on concessional borrowing and agreed limits on nonconcessional borrowing and guarantees, with program debt ceilings set accordingly. Staff urged that projects utilizing nonconcessional resources be closely vetted, properly evaluated, and carefully monitored to ensure sound governance and oversight in the use of these funds, including guarantees.[10] In addition, the need for regular reporting to Parliament on these matters was emphasized, in accordance with efforts to promote fiscal transparency under the existing Public Money and Budget Management Act. On their part, the authorities

[7] The authorities set retail petroleum prices with a view of keeping them within Tk 10 per liter of the total landed costs (including selling and distribution margins). There is also some cross-subsidization of products, with profits made on petrol and octane partly offsetting losses on diesel and kerosene. With the latest fuel price change, the weighted-average difference between international and domestic prices was less than Tk 10 per liter. For now, the authorities will continue to monitor this difference in guiding their decision-making on future discrete price adjustments.

[8] The committee will monitor commitments with fertilizer importers and producers and recommend price adjustments, as needed, to stay within budgetary limits for fertilizer subsidies, and also work to ensure adequate safeguards are in place to better target the intended beneficiaries of this support.

[9] See Annex 1 in IMF Country Report No. 12/94 for a detailed discussion on current safety nets in Bangladesh.

[10] The debt ceiling includes US$143 million in guarantees for Biman Bangladesh Airlines for delivery and pre-delivery payments of new aircraft orders. The authorities agreed to avoid extending any further guarantees to Biman until it prepares a five-year strategic plan ensuring its financial viability (MEFP, ¶13).

regretted the nonobservance of program limit on new nonconcessional external debt by the recent nonconcessional borrowing and underscored their commitment to take steps to strengthen debt management practices to better ensure compliance with new program limits. In keeping with this, they committed to full transparency to ensure a proper accounting within their medium-term fiscal and debt sustainability frameworks.

12. Nonconcessional borrowing and debt sustainability (MEFP, ¶15). Under the program, the limit on new nonconcessional external debt maturing in more than one year will set at a cumulative US$3.75 billion at end-2013. This includes borrowing of about US$0.9 billion through end-2012, new borrowing of US$1.5 billion in January 2013 (see footnote 3), and further loans and guarantees of up to US$1.35 billion, predominantly for planned base power projects, for the remainder of the year. The authorities set up a technical committee in January 2013 to begin finalizing arrangements on a debut issue of a sovereign bond. While no firm decision has been made on timing or the amount of the issue, they agreed to keep staff informed and ensure any such borrowing fell within program debt ceilings, with proceeds from this and other nonconcessional borrowing focused on high-impact infrastructure projects, notably in power generation, in keeping with commitments made in the original MEFP and the maintenance of overall debt sustainability.[11] The authorities also see a sovereign bond as providing a benchmark for more private external borrowing, with limits on such expected to be eased over time, reflecting a move towards a more open investment climate. The Debt Sustainability Analysis (DSA) update indicates that, with the programmed borrowing, Bangladesh would remain at low risk of external debt distress.[12]

B. Monetary and Exchange Rate Policy: Further Strengthening Buffers

13. Overview. Under the program, monetary and exchange rate policy aims to contain aggregate demand pressures, further bringing down inflation and building a reserve buffer, supported by greater exchange rate flexibility and market-determined interest rates.

14. Current policy stance. Consistent with its latest monetary policy statement, BB agreed to maintain a relatively restrained monetary policy until nonfood inflation was firmly entrenched in the single digits, while at the same time providing sufficient space for private credit growth. In this context, staff and the authorities agreed that current levels of policy rates were broadly appropriate. Consistent with meeting NIR targets, BB will accumulate reserves through FX purchases as market conditions allow and to lock in outperformance on NIR in 2012.[13] At the same time, the central bank indicated it would avoid pegging the exchange rate at risk of stifling market trading, letting the exchange rate absorb external pressures and sterilizing FX market interventions, as necessary, in order to protect monetary targets.

[11] Currently, the program debt ceilings and DSA update do not build in any proceeds from the issuance of a sovereign bond.

[12] The previous DSA was reported in IMF Country Report No. 11/314 (November 2011).

[13] With improved FX market conditions, banks have recently been selling FX to stay within relatively tight net open position limits.

15. Program commitments.

- ***Broadening monetary instruments*** (MEFP, ¶17). Bangladesh Bank intends to increase its reliance on indirect instruments for conducting monetary operations, allowing price signals to gain traction in a more liberalized interest rate regime. To strengthen its liquidity forecasting framework, BB, along with the Ministry of Finance (MoF), agreed to develop better tools for forecasting the Treasury Single Account.

- ***Reducing devolvement*** (MEFP, ¶17). Further steps will be taken by BB to reduce devolvement of Treasury bills and bonds, following forced actions on PD and non-PD banks in mid-2012 (Box 4). Bangladesh Bank intends to develop new auction mechanisms and take further measures to activate the secondary market for government securities. To increase market liquidity BB adjusted the mix of Treasury issues at auction towards shorter-dated instruments, raising the minimum share of bills (versus bonds) issued at primary auctions to 50 percent from 20 percent in the quarter from October 2012 (a prior action).

C. Financial Sector Reforms: Bolstering Stability

16. Overview. Program commitments in the financial sector center on strengthening governance and controls to better manage risks and support growth. To enable reforms, the authorities are committed to establishing clear oversight responsibilities among regulators and strong risk-based supervision. Focus will continue to be placed on the SOCBs, with efforts made to ensure their activities do not pose systemic or fiscal risks.

17. Recent developments. Reforms are in train under the program, but weakening financial performance at the SOCBs highlights the need to speed up reforms and put in place safeguards to minimize potential recapitalization costs (Box 5), in the face of continued weak controls and political interference at these banks. Financial soundness indicators (Table 7) point to some back-sliding in asset quality in the first nine months of 2012 across most types of banks, also likely related to stricter oversight by BB and the export slowdown. As a safeguard, new loan classification and provisioning standards in line with international best practices were introduced (a June 2012 benchmark).[14] However, a recent large fraud perpetrated at one SOCB underscores the need to strengthen head office controls and expand supervision over bank branches.[15] Equity markets remain volatile, with the main Dhaka index down by half from its December 2010 all-time high, despite recouping some earlier losses.

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[14] The new standards, announced in June 2012, require earlier recognition of, higher provisioning for, and stricter rescheduling limits on non-performing loans. Most are now being enforced well ahead of the June 2014 deadline, with the main exception being a planned phase in of the new classification standards on fixed-term loans up to Tk 1 million.

[15] The largest scam so far uncovered by BB and now being investigated by the ACC was at the state-owned Sonali Bank, with funds swindled by one group of local companies reported at Tk 26 billion (about 0.3 percent of GDP). To enhance its fraud monitoring, BB has directed all commercial banks to submit quarterly reports on their self-assessment of anti-fraud internal controls and has launched an online system to monitor banks' FX transactions and purchases of inland and foreign bills for letters of credit, which have been a source of these recent frauds.

Box 4. Bangladesh: Toward Reforming the Primary Dealer System

The primary dealer (PD) system for Treasury securities in Bangladesh suffers from a number of problems, lacking elements seen in well-functioning systems elsewhere. [1] The policy of forced subscriptions (i.e., devolvement) routinely exercised in Treasury auctions results in disincentives for banks to participate. Auction rates are effectively set by an auction committee at the central bank, with the low bids of state-owned commercial banks typically accepted as the cut-off yield. This practice results in lower-than-market clearing rates, which hinders the ability of PDs to sell the securities to other investors without losses and limits secondary market development. With no cost or penalty either to Bangladesh Bank (BB) or the government for devolvement, the practice can lead to financial repression through yield suppression. Expanded Treasury issuance in the past few years has added to liquidity pressures facing the PD banks and affected their profitability as well, with average yields on their holdings typically below funding costs. It has also aggravated banks' asset-liability mismatches through the devolvement of long-dated bonds. By blunting the transmission of monetary conditions to the Treasury yield curve, these practices have also hamstrung the use of indirect instruments of monetary policy.

The devolvement-heavy approach in Bangladesh contrasts with international experience, where issuers typically incentivize PD participation or at least require "best efforts." In India, which shares similarities in several other respects, PDs participate in an underwriting auction prior to the main primary auction, indicating the bid price and the fee they would charge for that insurance. In the Netherlands, PDs share in a fixed commission based on the share of bids they bring to an issue through the Dutch direct auction system, which is in effect a syndicated book-build issue for new issues, not a pure auction. In Belgium, a fee is paid to PDs at the end of the year on the basis of their auction take up.

The PD system in Bangladesh risks being undermined further by a recent policy change to expand devolvement to the entire banking system. Beginning in August 2012, BB adopted a policy of devolving Treasury securities left unsubscribed after auctions to the 12 PD banks as well as the 25 non-PD banks in a 60:40 ratio, guided broadly by the size of each bank's balance sheet. This policy, introduced ostensibly to create a "level playing field" for the PD and non-PD banks with respect to the burden of government borrowing, has resulted in a sharp pullback in subscription by PDs at the most recent Treasury bond auctions, despite improving their liquidity positions, as PDs seek to minimize their take-up of long-dated securities.

To restore the integrity of the PD system, several concrete actions are necessary. At a minimum, BB should in principle accept all bids received at auction and only use the devolvement mechanism *in extremis*, reserving the right to reject "off-market prices" through a predetermined criterion. Alternatively, BB could remove the devolvement obligation entirely and adopt a more normal auction approach, while encouraging competition through paying "success" fees to PDs who participate actively. Other steps should be taken to reduce risks facing the government and banks at auction. The sizes of individual auctions could be reduced and their frequencies increased, which could limit execution risk and also enhance price discovery in the absence of secondary market activity. To improve market liquidity and reduce duration risk, changes in the Treasury bill-bond ratio implemented in October 2012, which favor shorter maturities, should help limit the emergence of a very steep yield curve that banks might demand to compensate for asset-liability mismatches. Notwithstanding, secondary market development also requires more efforts be made to encourage insurance and pension sector participation in the Treasury market.

Bangladesh: Treasury Bill and Bond Auctions (July-December 2012)

Amounts in taka billion	2012											
	July		August		September		Ocotber		November		December	
	Auction Amount	Percent of Total	Auction Amount	Percent of Total	Auction Amount	Percent of Total	Auction Amount	Percent of Total	Auction Amount	Percent of Total	Auction Amount	Percent of Total
Treasury Bills Issued	38	100	32	100	48	100	45	100	45	100	57	100
Accepted	15	39	3	10	35	74	45	100	45	100	39	69
Devolved on PD	14	36	15	46	8	16	0	0	0	0	11	19
Devolved on non-PDs	0	0	11	35	5	10	0	0	0	0	7	13
Devolved on BB	10	25	3	10	0	0	0	0	0	0	0	0
Treasury Bonds Issued	20	100	16	100	20	100	16	100	17	100	17	100
Accepted	5	28	1	8	4	22	4	29	7	44	3	20
Devolved on PD	7	34	5	34	8	41	7	43	6	33	8	48
Devolved on non-PDs	0	0	5	31	6	31	4	28	4	22	5	32
Devolved on BB	7	38	4	28	1	5	0	0	0	0	0	0
Treasury Bills (in percent of total primary issuance)		66		67		71		74		73		77

[1] Necessary conditions include a medium-term Treasury issuance strategy, liberalized interest rates with market-determined auctions, benchmark securities, secondary market development, efficient auction design, and sufficient investors and volumes for profitability. See *Primary Dealers in Government Securities: Policy Issues and Selected Countries' Experience*, Arnone and Iden (2003), IMF WP/03/45.

Box 5. Bangladesh: Recent Financial Performance at the State-Owned Commercial Banks

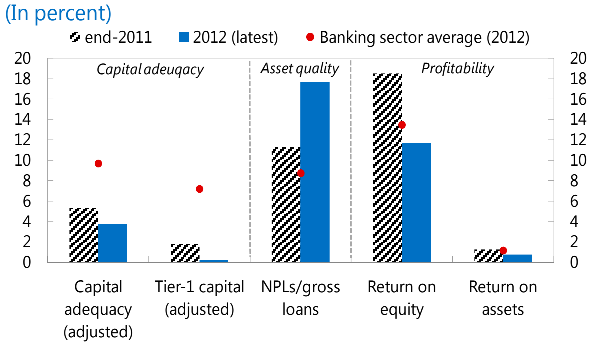
Bangladesh's state-owned commercial banks (SOCBs) have come under renewed stress in 2012. The four largest SOCBs account for about a quarter of the banking assets and about two-fifth of all bank branches. A slowdown in economic activity, competition from other banks, and a weakening in internal governance are weighing on these banks, following earlier corporatization efforts, which initially yielded some improvements in their financial performance. Recent financial frauds also point to the need for stronger oversight, internal controls, and risk management.

Profitability indicators for the SOCBs are weak. Net income before provisions and taxes (NIBPT) increased by about 3½ percent (y/y) as of June 2012, as compared to average increases of 9 percent in the private commercial banks and 24 percent in the foreign banks in Bangladesh. The main factor behind weak profit growth at the SOCBs has been a compression of their net interest margin. As a result, returns on both equity and assets have suffered. Moreover, the number of loss-making branches has increased, following earlier declines.

Asset quality at the SOCBs also deteriorated in the first nine months of 2012, reversing improvements made in 2011. Nonperforming loans (NPLs) accounted for nearly a fifth of outstanding gross loans, double the banking sector average. Recovery of problem loans remains low and loan provisioning for NPLs is inadequate. Asset quality at the SOCBs is expected to worsen considerably once the new and tighter classification and provisioning standards come into full effect and fraud related loans are classified.

Performance against the key numerical targets set in the annual memoranda of understanding (MOU) with Bangladesh Bank (BB) has been poor. As of September 2012, growth in net loans and advances was above the annual limit at two banks. Cash recoveries against loan defaulters, particularly those from the top 20 defaulters, were considerably below target at each SOCB, although one bank has performed significantly better than the rest. Finally, operating expenses in one bank were nearly at the annual limit for 2012.

SOCBs: Recent Financial Indicators 1/
(In percent)



Sources: Country authorities; and Fund staff calculations.
1/ 2012 data are as of end-September, except for profitability indicators, which are based on annualized net income after provision and taxes as of end-June .

Liquidity pressures and capital shortfalls remain a serious concern, although conditions vary among the SOCBs. Adjusting capital adequacy ratio (CAR) (i.e. , for past losses on these banks' books or "amortized valuation adjustments"), the average CAR was around 4 percent as of end-September 2012, with a negative core (Tier-1) capital ratio at two of the banks. On the other hand, the unadjusted CAR, which includes aforementioned valuation adjustments, still yielded a capital shortfall at two of the SOCBs as of end-September. Using the adjusted CAR, the combined recapitalization need at the four SOCBs is estimated to be around 1½–2 percent of GDP in FY12.[1] These needs could be even higher once inadequate provisioning for NPLs and impact of recent fraud-related loans are taken into account. In addition, liquidity pressures at these banks are on the rise given weaker growth in deposit mobilization, the pick-up in NPLs, and continued low recovery of bad loans.

Despite all these weaknesses in their balance sheets, SOCBs' lending to risky activities continues to grow faster than other banks. These banks' capital market exposure has risen by about 50 percent in nominal terms since end-2011, while it fell in most other banks. Measured against their adjusted capital base, SOCBs' exposure was significantly above the banking sector average, making their net worth highly vulnerable to fluctuations in the capital market. The SOCBs also accounted for the majority of the lending to state-owned enterprises, primarily to the large loss-making ones.

[1] Based on (i) raising the adjusted CAR at each SOCB to the regulatory norm of 10 percent, (ii) accounting for the impact of new loan classification and provisioning standards, and (iii) assuming legacy loans to the Bangladesh Petroleum Corporation to cover earlier fuel subsidy-related losses are capitalized in FY13.

18. Program commitments.

- ***Strengthening bank governance and oversight*** (MEFP, ¶20). The authorities look to anchor reforms in this area with amendments to the Banking Companies Act (BCA). An inter-agency drafting committee finalized an initial set of amendments in June 2012. Staff, with the support of IMF TA, found that more work was needed to strengthen BB's supervisory mandate and independence and broaden its enforcement powers, notably over the SOCBs, in line with program commitments. The authorities noted resistance to giving BB control over the dismissal of SOCB board members, but indicated a willingness to extend this power over the removal of these banks' chief executive officers. They also agreed to incorporate current fit and proper guidelines into the BCA. In view of time already taken to reach consensus between BB and the MoF, the submission of an amended act to Parliament (a September 2012 benchmark) has been rescheduled to March 2013. Bangladesh Bank will also ensure that newly licensed banks expected to open in 2013 are financially and operationally sound by conducting pre-opening inspections.

- ***Improving BB's supervisory capacity and enforcement*** (MEFP, ¶21).To support the strengthening of prudential controls and increase the effectiveness of supervision, BB adopted a new organizational structure in May 2012 aimed at consolidating management of on-site and off-site supervision activities. Training of on-site examiners in critical skills is also being accelerated, supported by ongoing IMF TA. To reinforce these efforts, BB will strengthen its bank resolution framework by September 2013 (a new benchmark), finalizing a contingency plan and a lender of last resort policy. Staff also recommended full codification of a bank resolution regime in the BCA.

- ***Managing risks posed by state banks*** (MEFP, ¶22). In view of capital shortfalls, liquidity pressures, and weak governance, BB agreed to complete special diagnostic examinations at the four largest SOCBs by June 2013, focusing on asset quality, liquidity management, and internal audit and controls (a new benchmark). In addition, the authorities indicated they would ensure that new board appointments at the SOCBs would be made in consultation with BB and follow fit and proper criteria.[16] Staff also urged BB to undertake aggressive actions on fraud recoveries and more firmly enforce memoranda of understanding (MOUs) with the SOCBs. To this end, the authorities agreed to introduce a new IT (ceiling) on aggregate net credit extended by the SOCBs to keep new lending in check.

- ***Containing risks arising from a volatile equity markets*** (MEFP, ¶23). In the context of amending the BCA, BB will issue guidelines limiting a commercial bank's exposure to the stock market to 25 percent of regulatory capital (a September 2012 benchmark), also rescheduled to March 2013 in view of delays in finalizing amendments to the BCA.

[16] In December 2012, government appointed board members in the SOCBs and specialized banks, with vetting by BB, after leaving posts vacant for several months. The board of the fraud-hit Sonali Bank was reconstituted with a new chairman and board of directors.

Separately, the preparation of demutualization plans for the Dhaka and Chittagong stock exchanges (a December 2012 benchmark), supported by the Asian Development Bank (AsDB), has been rescheduled to June 2013, as the legal basis for this work requires passage first of a new Demutualization Act, now expected in early 2013.

D. Investment Climate: Easing Controls

19. Background and commitments. Restrictive exchange controls, rooted in the archaic 1947 Foreign Exchange Regulation Act (FERA), continue to limit trade and investment in Bangladesh, as noted in recent *Doing Business* and global competitiveness surveys. The authorities have committed to completing a review of the FERA and its associated rules by September 2013 (a new benchmark), with the initial aim of better facilitating foreign direct investment (FDI) and portfolio inflows (MEFP, ¶25). They also plan to submit a private-public partnership law to Parliament by June 2013, setting up a legal structure under which formal rules guiding PPPs can be framed (MEFP, ¶24).

OTHER PROGRAM ISSUES

20. Financing assurances and schedule of disbursements. The program remains fully financed (Tables 8, 9, and 10), aided by a moderately stronger BOP position than at the time of program approval. In December 2012, the AsDB disbursed the first half of its US$300 million budget support operation approved in November 2012, which is tied to capital market reforms.

21. Poverty Reduction Strategy Paper (PRSP). World Bank and IMF staffs have prepared a Joint Staff Advisory Note on the Bangladesh's Sixth Five-Year Plan (SFYP) (FY2011–15), which has been issued to the IMF's Executive Board. Staffs noted that poverty and development indicators have continued to improve in line with achieving most Millennium Development Goals by 2015 (Table 11). Compared to the previous PRSP, the comprehensive scope of the SFYP against the backdrop of resource and capacity constraints necessitates even more that plan targets be well prioritized and sequenced.

22. Safeguards recommendations and central bank operations (MEFP, ¶18).[17] An external audit of BB's end-June 2012 accounts was completed in August 2012. While the audit opinions, issued in September, noted no major deficiencies, the foreign firms contracted to conduct the audits fell short of the program commitment to use large internationally-affiliated auditors. Going forward, the authorities have committed to an external audit of BB's end-June 2013 accounts by a global audit firm for finalization by December 2013 (a new benchmark). In other safeguard areas, oversight by BB's Audit Committee and internal audit capacity need to be strengthened.

23. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). In order to address the strategic AML/CFT deficiencies identified by the Financial Action Task Force, the Bangladesh Financial Intelligence Unit issued instructions on compliance with sanctions under

[17] An IMF safeguards assessment was concluded in July 2011, updating the 2005 assessment.

Chapter VII of the United Nations Charter (October 2012) and on compliance with domestic AML/CFT laws by capital market intermediaries and institutions carrying out wire transfers of funds (December 2012).

24. Statistical policy. A new Statistics Law was approved by Cabinet and submitted to Parliament in July 2012. The Bangladesh Bureau of Statistics (BBS), working with the World Bank, is expected to finalize a National Strategy for the Development of Statistics by mid-2013, which will anchor TA and capacity building needs going forward. With IMF TA, the BBS began publishing consumer price indices using an updated 2005/06 base in July 2012.

STAFF APPRAISAL

25. Program achievements. The ECF arrangement is off to good start based on performance to date, following considerable groundwork by the authorities ahead of program approval to reinvigorate reforms. Macroeconomic policy implementation has been supportive of stability and growth, with quantitative targets under the authorities' ECF-supported program largely met. As a result, the current account deficit has narrowed, reserves have increased significantly, and headline inflation is now in the single digits. While the global economic situation remains fragile, Bangladesh's economy continues to show its resilience, with growth in FY13 expected to slow only moderately. In structural areas, performance has been more uneven due to the pace of legislative processes and need to build internal consensus. However, the significance of a new VAT law is potentially enormous, if it helps modernize the tax system and generate more internal resources to raise development spending, in support of Bangladesh's poverty reduction efforts.

26. Challenges and risks. The global economic slowdown coupled with election year uncertainty in Bangladesh poses the most immediate challenge to policymakers. While spillovers from the slowdown appear manageable so far, the authorities should take pre-emptive moves to build external and fiscal buffers against the risk of an intensification of the euro area crisis. These same buffers could also mitigate the effects of domestic strife ahead of upcoming elections. Strong policy anchors, as sought under the ECF arrangement, will need to be backed by firm resolve from the authorities to meet program commitments, at risk otherwise of signaling to investors—inside and outside Bangladesh—that the government is not wholly committed to growth-enhancing reforms.

27. Fiscal policy and debt management. The overall fiscal stance remains prudent, but tax revenue misses, while modest, and still-elevated subsidy costs bear close watch. On revenues, in the short run, more aggressive tax enforcement could buttress collections. Over the medium term, VAT implementation, coupled with income tax reforms, could form the base for a modern tax regime, with technical, financial, and strategic support essential for success. On expenditures, following a series of price adjustments over the past 18 months, containment of electricity and fuel subsidies now pivots to better cost controls. For fertilizer, both cost management and price adjustments remain necessary. Better targeting of all subsidies is also essential to avoid crowding out other spending, with Bangladesh's array of safety nets needing further refinements to protect the most vulnerable. Debt management should focus on utilizing concessional financing, complemented with selective nonconcessional borrowing to keep total debt levels manageable. The nonobservance of the continuous program ceiling on nonconcessional external debt underscores the need to strengthen debt management practices, with the authorities' commitment welcomed in this regard. For all projects and activities that utilize nonconcessional borrowing, the government should take clear steps to ensure full transparency and sound governance in the allocation and use of these resources, with regular monitoring and reporting.

28. Monetary and exchange rate policy and central bank operations. The restrained monetary stance, backed by limits on government borrowing from banks, is broadly appropriate. At the same time, BB needs to exercise monetary control through freely transmitted price signals, with recent measures to reduce devolvement and re-introduce central bank bills steps in the right direction. On the exchange rate, BB's desire to ensure stable FX market conditions will need to continue to be balanced against its ability to properly sterilize market interventions. To ensure the central bank's internal controls are adequate, the commitment by the authorities to conduct an external audit at the BB for FY13 by a global audit firm is welcomed.

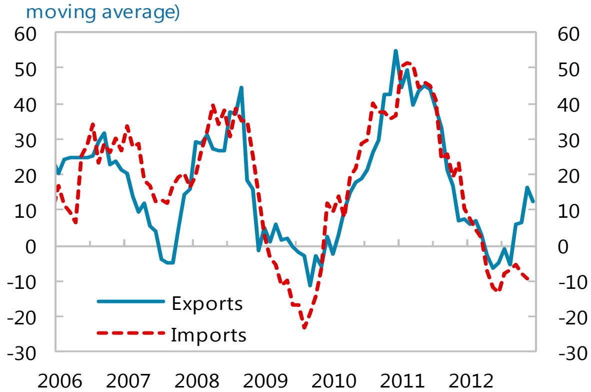
29. Financial sector and investment reforms. Progress on financial sector reforms should be accelerated. The financial performance of the SOCBs, even before factoring in recent frauds, points to the need to minimize systemic and fiscal risks. To safeguard the banking system, contain recapitalization costs, and improve internal governance, strict enforcement of BB's MOUs with the SOCBs, aggressive pursuit of loan recoveries, and a broader strategy to reinvigorate SOCBs' operations are all needed. These moves should be backed by a strong set of amendments to the BCA when it goes to Parliament in 2013. Bangladesh Bank must fully embrace its role as chief banking regulator, backed by further reforms to its regulatory and supervisory tool kit. For BB, early enforcement of new loan classification and provisioning standards and greater oversight of the SOCBs will better ensure financial stability. In support of boosting investor confidence, a review of foreign exchange regulations should form the basis for a strategy to open Bangladesh to more FDI and portfolio inflows.

30. Staff recommendation. Overall, performance against quantitative targets has been good, highlighted by the reserves build-up. However, implementation of structural benchmarks has lagged, necessitating sharper focus and greater ownership by the authorities. Staff expect that the program will continue to be successfully implemented and support the authorities' request for a waiver of the continuous PC on new nonconcessional external debt for completion of the review, on the strength of the authorities' program and the corrective measures being taken to ensure compliance with debt limits in the future. The authorities remain committed to taking necessary steps to ensure timely completion of the next review. Staff therefore recommend completion of the first review under the ECF arrangement.

Figure 1. Bangladesh: Response to External Pressures

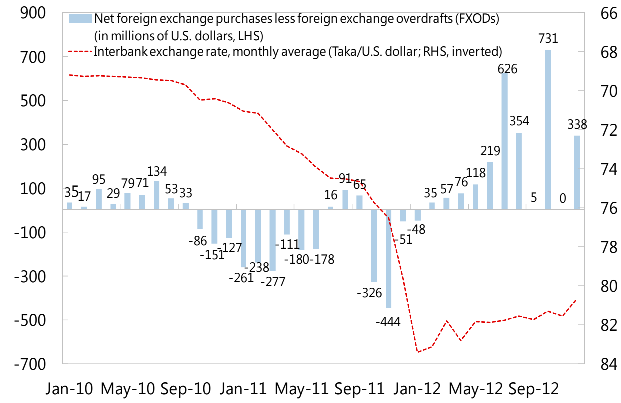
Notwithstanding the weaker global environment, export growth has picked up lately, while imports continue to contract.

Exports and Imports, Jan. 2006–Dec. 2012
(Year-on-year percent change of three-month moving average)



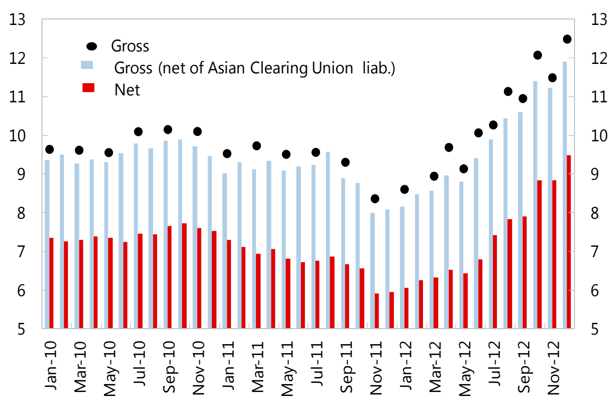
With external pressures easing, Bangladesh Bank (BB) has taken advantage of these conditions to step up foreign exchange (FX) purchases, helping stabilize the exchange rate.

Exchange Rate and Intervention
Jan. 2010–Dec. 2012



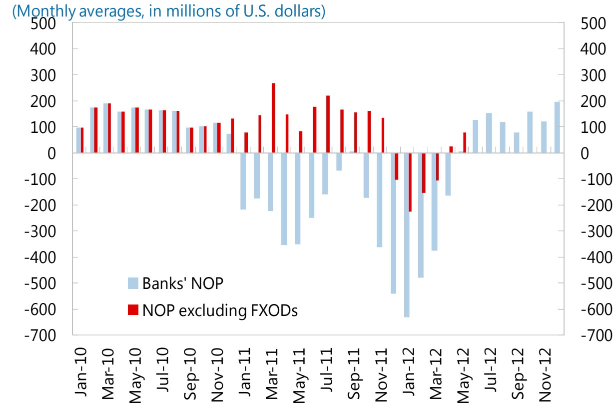
As a result, BB has built up its reserve buffer and exceeded the program target on net international reserves at end-June 2012 by more than US$850 million, with a continued increase since then.

International Reserves, Jan. 2010–Dec. 2012 1/
(In billions of U.S. dollars)



Commercial banks, as a whole, are now net long on foreign exchange, suggesting conditions will remain supportive of a stable exchange rate, at least in the near term.

Commercial Banks' Net Open Position (NOP)
Jan. 2010–Dec. 2012
(Monthly averages, in millions of U.S. dollars)

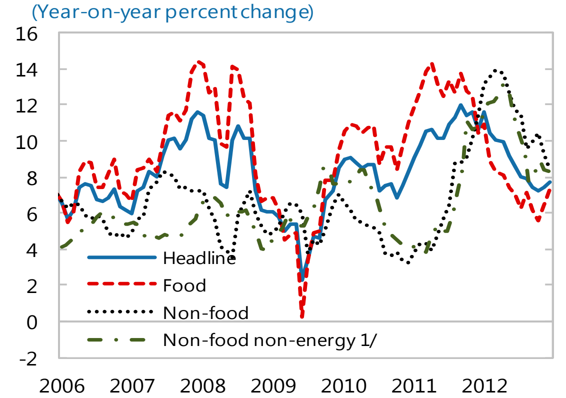


Sources: Data provided by the Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff estimates.
1/ Excludes foreign exchange overdrafts (FXOD) from Bangladesh Bank (BB), which ceased in June 2012, and BB's nonreserve foreign assets.

Figure 2. Bangladesh: Real and External Sector Developments

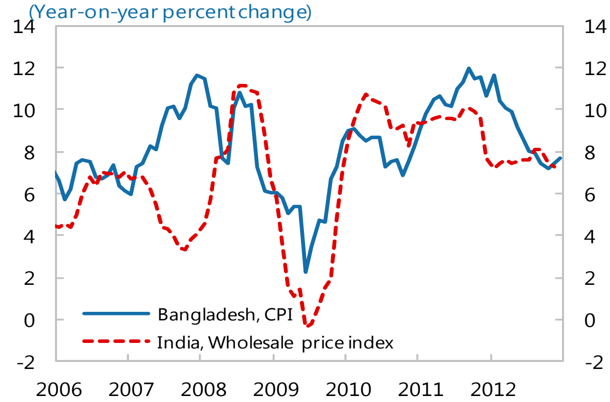
Headline inflation has moderated since early 2012, led mainly by food prices, while relatively elevated nonfood inflation suggests that demand-side pressures continue to be an issue.

Consumer Price Index (CPI), Jan. 2006–Dec. 2012
(Year-on-year percent change)



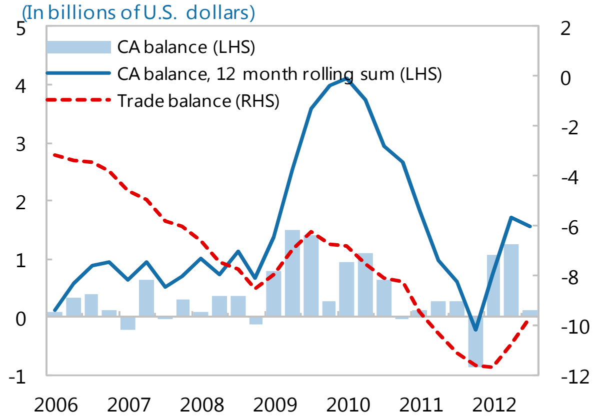
Trends in inflation remain broadly similar to India, especially as nonfood price inflation converges.

Regional Headline Inflation, Jan. 2006–Dec. 2012
(Year-on-year percent change)



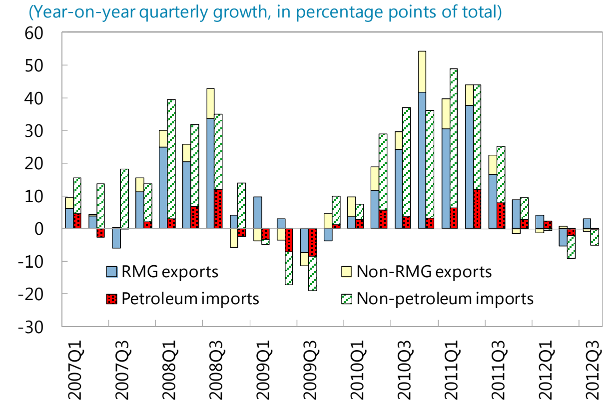
In view of lower import growth and still supportive remittances, pressures on the current account have eased, with a surplus emerging in recent quarters.

Current Account (CA) Balance, 2006.Q1–2012.Q3
(In billions of U.S. dollars)



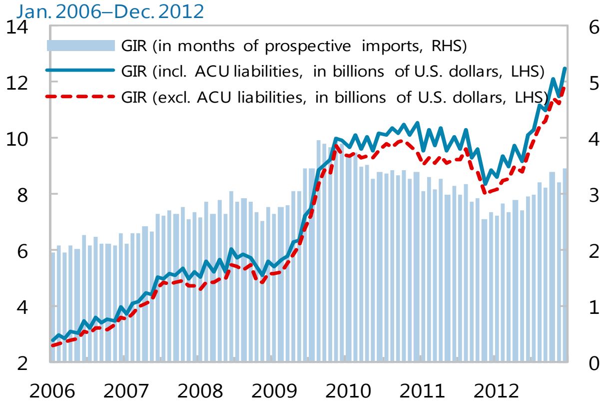
Garment export growth has slowed significantly, but petroleum import growth has also eased, keeping the trade deficit from further widening.

Exports and Imports, 2007.Q1–2012.Q3
(Year-on-year quarterly growth, in percentage points of total)



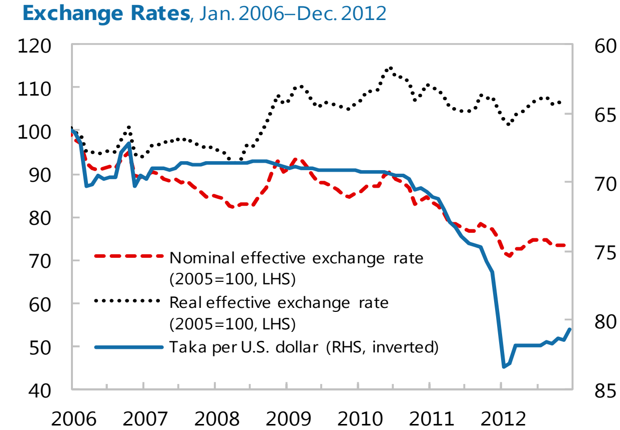
As a result, reserve losses have reversed since early 2012, with gross reserves rising to record levels lately.

Gross International Reserves (GIR) 2/
Jan. 2006–Dec. 2012



Nominal and effective exchange rates have also stabilized owing to a more favorable current account.

Exchange Rates, Jan. 2006–Dec. 2012

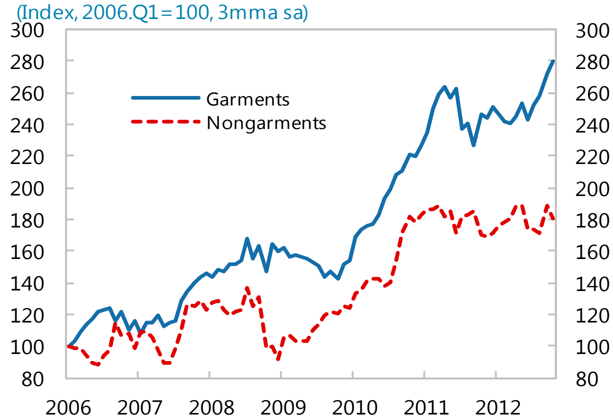


Sources: Data provided by the Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff estimates.
1/ Energy-related CPI components proxied by gross rent, fuel and lighting, and transport and communications.
2/ ACU: Asian Currency Union.

Figure 3. Bangladesh: Exports and Remittances Performance

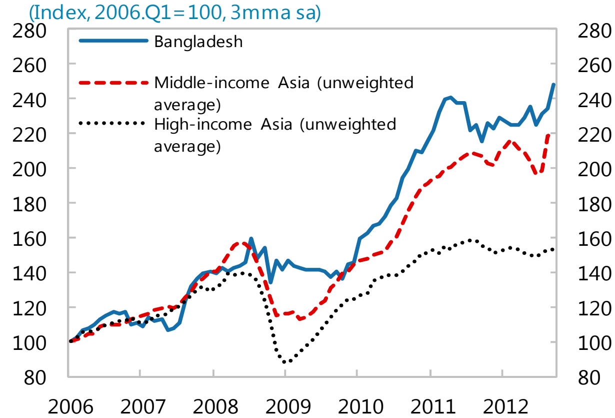
Export performance continues to be driven by ready-made garments, notwithstanding the current slowdown.

Exports of Bangladesh, Mar. 2006–Dec. 2012
(Index, 2006.Q1=100, 3mma sa)



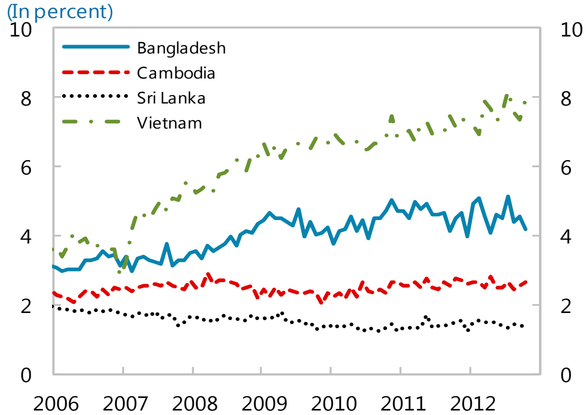
In general, export performance is holding up reasonably well compared to other parts of the region.

Export Performance in Asia, Mar. 2006–Nov. 2012
(Index, 2006.Q1=100, 3mma sa)



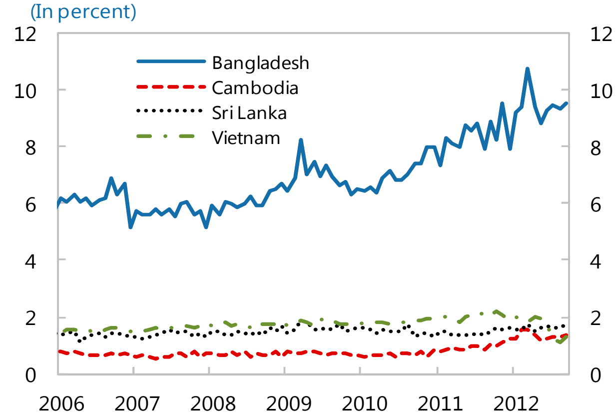
However, increases in market share for garment exports to both the U.S. and Europe, which reflected shifts in supplier sourcing to Bangladesh…

Shares in U.S. Garment Market, Jan. 2006–Oct. 2012
(In percent)



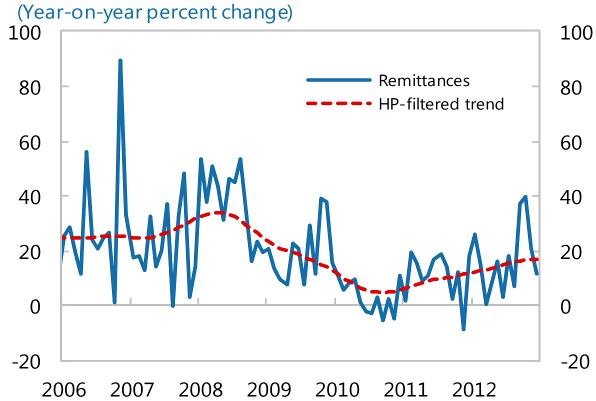
…now appear to be coming under pressure, more so of late for exports destined for the European Union.

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



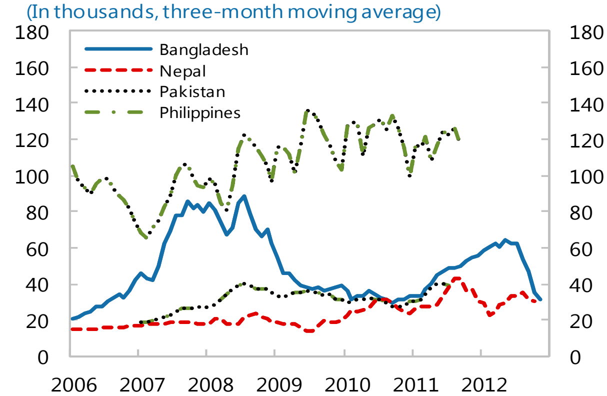
The general performance for remittances has been reasonably supportive…

Workers' Remittances, Jan. 2006– Dec. 2012
(Year-on-year percent change)



…buoyed by an earlier pick up in the pace of Bangladeshi workers going abroad, although recent informal visa restrictions in some Gulf countries are showing their effect.

Workers Moving Abroad, Jan. 2006–Nov. 2012
(In thousands, three-month moving average)

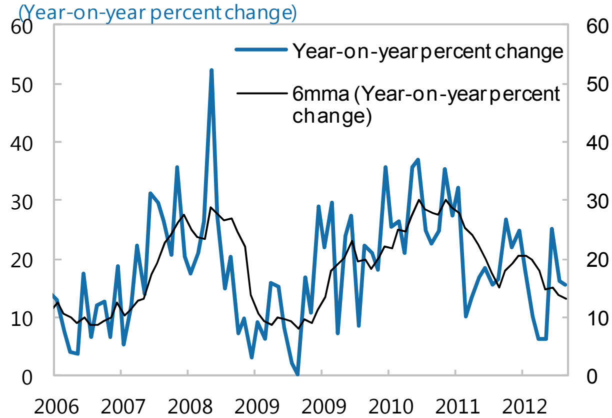


Sources: Data provided by the Bangladesh authorities; CEIC Data Company Ltd.; Eurostat; U.S. Department of Commerce; and IMF staff estimates.

Figure 4. Bangladesh: Fiscal Developments

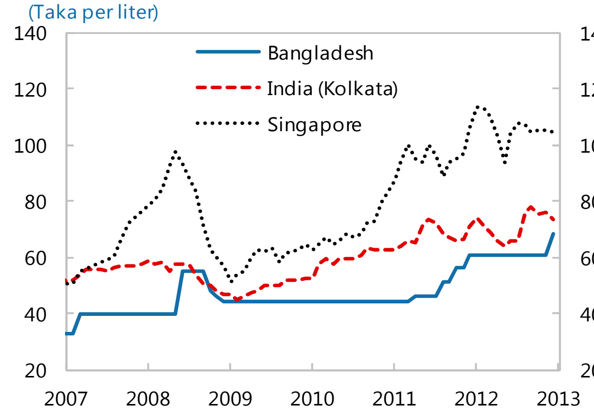
National Board of Revenue (NBR) data point to a slowing in tax revenue growth in FY13, notwithstanding good income tax performance.

NBR Revenue, July 2006–Nov. 2012
(Year-on-year percent change)



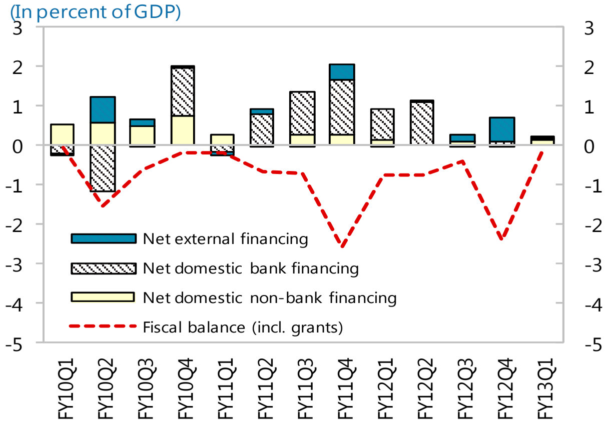
The wedge between administered diesel prices in Bangladesh and global prices remains, with a gap re-opening with India on recent price adjustments there and some rupee strengthening.

Regional Retail Diesel Prices, Jan. 2007– Jan. 2013
(Taka per liter)



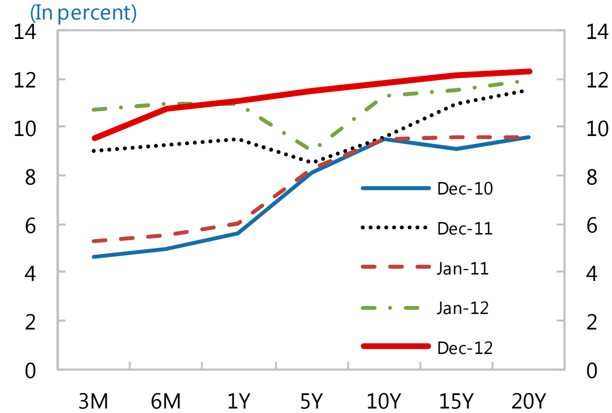
Following the surge in bank borrowing in FY12 H1, the fiscal deficit has seen a more balanced mix of financing, as external disbursements picked up.

Fiscal Balance and Sources of Financing
(In percent of GDP)



Interest rates on Treasury bills and bonds have been allowed to rise to better reflect demand for government bank borrowing, and are now positive in real terms.

Yield Curve on Treasury Bonds and Bills
(In percent)

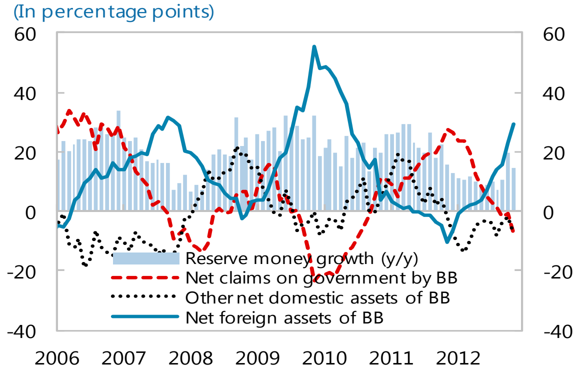


Sources: Data provided by the Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff estimates.

Figure 5. Bangladesh: Monetary and Financial Market Developments

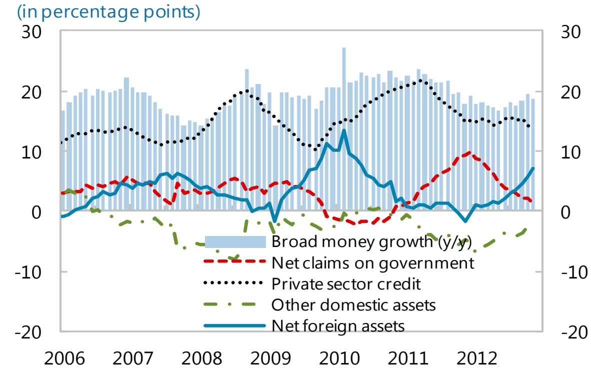
Reserve money growth has slowed as a result of higher policy rates, with unsterilized intervention from BB's large foreign exchange purchases now the main driver.

Contribution to Reserve Money Growth
Jan. 2006–Nov. 2012
(In percentage points)



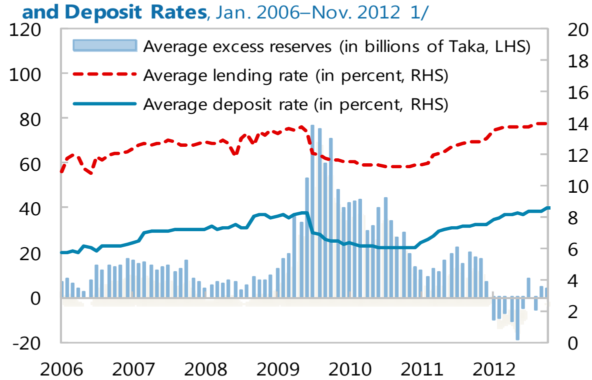
Broad money growth has also moderated as the pace of government and private sector borrowing eases off.

Contribution to Broad Money Growth
Jan. 2006–Nov. 2012
(in percentage points)



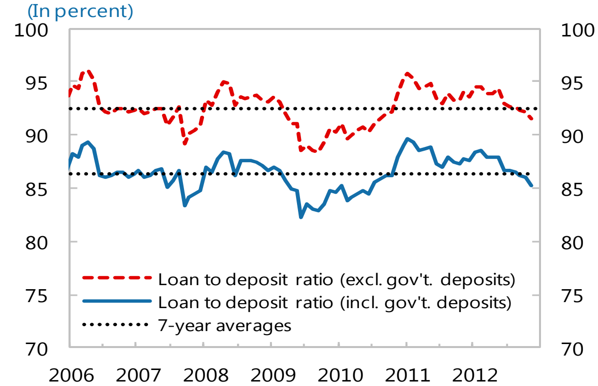
Deposit and lending rates at commercial banks have firmed.

Commercial Banks' Excess Reserves and Lending and Deposit Rates, Jan. 2006–Nov. 2012 1/



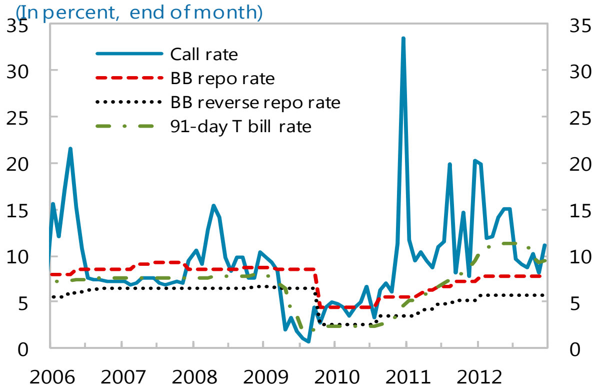
Loan-to-deposit ratios have returned closer to historical averages, suggesting that monetary conditions are normalizing.

Loan-to-Deposit Ratio, Jan. 2006–Nov. 2012
(In percent)



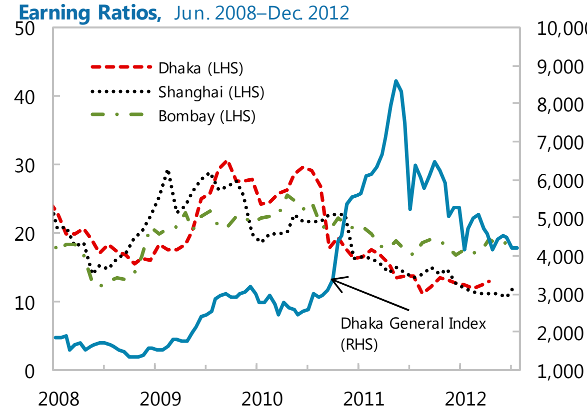
Monetary tightening, in response to earlier external, fiscal, and inflation pressures, drove up money market and Treasury rates, but they have stabilized as pressures ease.

Interest Rates, Jan. 2006–Dec. 2012
(In percent, end of month)



The Dhaka Stock Exchange is well off its December 2010 peak, but volatility has eased with tighter oversight of market activity.

Stock Market: Recent Performance and Price-Earning Ratios, Jun. 2008–Dec 2012



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

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

	FY10	FY11	FY12		FY13		FY13	FY14	FY15
			Prog.	Est.	Latest		Projections		
National income and prices (percent change)									
Real GDP	6.1	6.7	5.5	6.3	...		5.8	6.4	7.0
GDP deflator	6.5	7.5	10.6	8.0	...		7.5	6.2	6.2
CPI inflation (annual average)	7.3	8.8	11.2	10.6	8.7	Dec. 2012	7.2	6.2	6.1
CPI inflation (end of period)	8.7	10.2	11.7	8.6	7.7	Dec. 2012	8.0	6.5	5.9
Nonfood CPI inflation (end of period)	5.2	5.7	13.6	11.7	8.4	Dec. 2012	9.5	6.4	5.8
Investment and savings (percent of GDP)									
Gross investment	24.4	25.2	24.9	25.4	...		26.9	28.1	29.2
Private	19.4	19.5	19.3	19.1	...		19.5	19.8	20.2
Public	5.0	5.6	5.6	6.3	...		7.4	8.3	9.0
National savings	27.6	23.2	23.8	25.0	...		27.0	27.2	28.3
Private	25.6	21.0	20.5	21.6	...		22.9	22.8	23.8
Public	2.0	2.2	3.4	3.3	...		4.1	4.3	4.5
Central government operations (percent of GDP)									
Total revenue and grants	11.5	11.9	13.1	13.0	3.3	Jul.-Sep.2012	13.8	14.4	15.0
Total revenue	10.9	11.7	12.5	12.4	3.3	Jul.-Sep.2012	13.3	13.9	14.5
Tax	9.0	10.0	10.5	10.4	2.3	Jul.-Sep.2012	11.0	11.5	12.0
Nontax	1.9	1.7	2.0	2.0	1.0	Jul.-Sep.2012	2.3	2.4	2.4
Grants	0.6	0.3	0.6	0.5	0.0	Jul.-Sep.2012	0.5	0.5	0.5
Total expenditure	14.6	16.0	17.0	16.4	3.4	Jul.-Sep.2012	17.7	18.2	18.4
Current expenditure	9.5	9.7	9.8	9.7	1.8	Jul.-Sep.2012	9.7	10.1	10.4
Annual Development Program (ADP)	3.7	4.2	4.2	4.0	0.5	Jul.-Sep.2012	4.7	5.4	5.9
Other expenditures 2/	1.4	2.1	3.0	2.8	1.1	Jul.-Sep.2012	3.3	2.7	2.1
Overall balance (including grants)	-3.1	-4.1	-3.9	-3.4	-0.1	Jul.-Sep.2012	-3.9	-3.8	-3.5
(Excluding grants)	-3.7	-4.4	-4.5	-4.0	-0.1	Jul.-Sep.2012	-4.5	-4.3	-3.9
Primary balance (excluding grants)	-1.6	-2.4	-2.3	-1.7	0.4	Jul.-Sep.2012	-2.2	-2.2	-1.9
Financing (net)	3.1	4.1	3.9	3.9	0.1	Jul.-Sep.2012	3.9	3.8	3.5
Of which : External (net)	0.9	0.4	0.5	0.8	0.0	Jul.-Sep.2012	1.0	1.4	1.5
Total central government debt (percent of GDP) 3/	41.4	42.4	43.9	41.4	...		40.5	41.0	40.8
Money and credit (end of fiscal year; percent change)									
Credit to private sector by the banking system	24.2	25.8	15.9	19.7	17.4	Nov. 2012	16.2	...	...
Reserve money	18.1	21.1	13.0	9.0	14.3	Nov. 2012	16.4	...	...
Broad money (M2)	22.4	21.4	15.5	17.4	18.6	Nov. 2012	17.6	...	...
Balance of payments (in billions of U.S. dollars)									
Exports, f.o.b.	16.2	22.6	25.4	24.0	12.6	Jul.-Dec. 2012	25.2	27.5	31.2
(Annual percent change)	4.2	39.1	10.3	6.2	7.0	Jul.-Dec. 2012	5.0	9.0	13.5
Imports, f.o.b.	-21.4	-32.5	-34.7	-33.3	-13.5	Jul.-Nov. 2012	-35.0	-39.3	-43.8
(Annual percent change)	5.4	52.1	14.3	2.4	-4.3	Jul.-Nov. 2012	5.2	12.3	11.3
Current account balance 4/	3.2	-2.2	-1.2	-0.6	0.0	Jul.-Nov. 2012	0.2	-1.3	-1.3
(Percent of GDP)	3.2	-2.0	-1.1	-0.5	0.0	Jul.-Nov. 2012	0.1	-1.0	-0.9
Capital and financial account balance	0.4	1.9	0.4	2.2	1.7	Jul.-Nov. 2012	1.8	3.2	3.9
Overall balance	2.9	-1.0	-0.8	0.5	1.8	Jul.-Nov. 2012	2.0	1.9	2.6
Gross official reserves (in billions of U.S. dollars) 5/	10.1	10.0	9.2	10.1	12.5	end-Dec. 2012	12.4	14.6	17.6
In months of imports of goods and services	3.2	3.1	2.4	2.9	...		3.2	3.4	3.7
Exchange rate (taka per U.S. dollar; period average)	69.2	71.2	79.8	79.1	81.1	Jul. 1, 2012 – Jan. 29, 2013	...	...	...
Exchange rate (taka per U.S. dollar; end-period)	69.5	74.2	85.0	81.8	79.3	Jan. 29, 2013	...	...	...
Nominal effective rate (2000=100; period average)	87.0	83.0	...	74.9	...		...	...	...
Real effective rate (2000=100; period average)	108.2	108.7	...	105.1	...		...	...	...
Terms of trade (percent change)	-4.6	-6.7	...	0.1	...		...	...	...
Memorandum item:									
Nominal GDP (in billions of taka)	6,943	7,967	9,192	9,148	...		10,404	11,757	13,359

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

1/ Fiscal year begins July 1.
2/ Includes non-ADP capital spending, net lending, food account surplus (-)/deficit (+), and extraordinary expenditures.
3/ Includes central government's gross debt, including debt owed to the IMF, plus public enterprises' external borrowing supported by government guarantees, including short-term oil-related suppliers' credits.
4/ Import numbers are based on payment settlements data up to FY10 and customs data starting in FY11, except FY12 program figures, which are based on payment settlements data.
5/ Excludes deposits held in offshore accounts of resident financial institutions, noninvestment grade sovereign bonds, and foreign exchange overdrafts provided by Bangladesh Bank to domestic banks.

Table 2. Bangladesh: Medium-Term Outlook, FY2010–17 1/

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
			Est.	Projections				
	(In percent of GDP)							
Gross national savings	27.6	23.2	25.0	27.0	27.2	28.3	29.7	31.4
Public national savings	2.0	2.2	3.3	4.1	4.3	4.5	5.2	5.4
Private national savings	25.6	21.0	21.6	22.9	22.8	23.8	24.5	26.1
Gross investment	24.4	25.2	25.4	26.9	28.1	29.2	30.2	31.5
Public investment	5.0	5.6	6.3	7.4	8.3	9.0	9.7	10.7
Private investment	19.4	19.5	19.1	19.5	19.8	20.2	20.5	20.8
Net exports of goods and services	-6.6	-8.7	-10.3	-10.4	-11.6	-11.6	-11.3	-10.9
Exports of goods and services	18.4	22.9	25.0	21.9	21.9	22.6	23.1	23.7
Of which: Exports of goods	16.2	20.2	20.8	19.7	19.8	20.6	21.2	21.9
Imports of goods and services	25.0	31.6	35.3	32.3	33.5	34.2	34.3	34.6
Of which: Imports of goods	21.3	29.1	28.8	27.3	28.3	29.0	29.1	29.3
Current account balance	3.2	-2.0	-0.5	0.1	-1.0	-0.9	-0.5	-0.1
Gross domestic savings	20.1	19.3	19.4	20.2	19.5	19.4	19.1	19.0
Public domestic savings	1.4	2.0	2.8	3.5	3.8	4.0	5.2	5.4
Private domestic savings	18.7	17.3	16.6	16.7	15.7	15.4	13.9	13.6
Consumption	79.9	80.7	80.6	79.8	80.5	80.6	80.9	81.0
Public consumption 2/	5.4	5.8	5.7	5.8	6.7	6.8	6.9	6.9
Private consumption	74.5	74.9	75.0	74.0	73.8	73.8	74.0	74.1
	(Annual percentage change)							
Real GDP	6.1	6.7	6.3	5.8	6.4	7.0	7.1	7.2
Real GNI	6.5	6.3	6.8	6.3	6.5	7.1	7.1	7.2
Real public consumption	8.9	8.3	5.6	8.2	22.8	9.2	9.3	7.6
Real private consumption	5.1	6.0	3.5	4.7	6.1	7.0	7.6	8.2
Real public investment	15.1	19.0	19.1	28.1	21.4	16.6	17.5	19.8
Real private investment	6.2	7.1	4.1	11.3	9.4	10.5	10.1	10.0
ICOR (investment to GDP ratio/real GDP growth)	4.0	3.7	4.0	4.6	4.4	4.2	4.3	4.4

Source: IMF staff estimates and projections.

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

Table 3. Bangladesh: Balance of Payments, FY2010–17 1/

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

	FY10	FY11	FY12		FY13	FY14	FY15	FY16	FY17
			Prog.	Est.	Projections				
Current account balance 2/	3,240	-2,227	-1,228	-569	161	-1,348	-1,337	-889	-151
Trade balance	-5,152	-9,935	-9,292	-9,317	-9,850	-11,889	-12,618	-13,073	-13,322
Exports (f.o.b.)	16,236	22,592	25,379	23,992	25,192	27,459	31,166	34,906	39,443
Of which: RMG sector	12,497	17,914	19,813	19,089	20,043	21,847	24,797	27,772	31,383
Imports (f.o.b.) 2/	-21,388	-32,527	-34,671	-33,309	-35,042	-39,348	-43,784	-47,979	-52,766
Of which: Crude oil and petroleum products	-2,556	-4,109	-6,046	-5,453	-6,192	-6,476	-6,880	-6,960	-7,530
Services	-1,720	-3,290	-3,785	-3,443	-3,481	-4,163	-4,857	-5,500	-6,206
Income	-1,484	-1,454	-1,510	-1,508	-1,597	-1,647	-1,818	-2,025	-2,270
Transfers	11,596	12,452	13,359	13,699	15,090	16,351	17,957	19,710	21,647
Official current transfers 3/	127	103	117	105	110	110	110	98	98
Private transfers	11,469	12,349	13,242	13,594	14,980	16,241	17,847	19,612	21,549
Of which: Workers' remittances	10,987	11,650	12,932	12,843	14,631	15,875	17,462	19,208	21,129
Capital and financial account balance 4/	377	1,853	439	2,200	1,819	3,205	3,902	4,243	3,830
Capital account	512	642	598	469	580	600	600	600	600
Financial account	-135	1,211	-160	1,731	1,239	2,605	3,302	3,643	3,230
Foreign direct investment	913	775	845	1,163	1,200	1,350	1,519	1,709	1,922
Portfolio investment	-117	-28	55	198	65	81	102	127	159
Medium- and long-term loans, net	782	211	428	869	1,210	2,457	2,971	3,369	2,806
Government, net	933	312	528	926	1,038	1,700	2,059	2,552	1,909
Disbursements	1,604	1,051	1,328	1,696	1,939	2,760	3,024	3,471	2,931
Amortization	-671	-739	-800	-770	-901	-1,059	-965	-919	-1,022
Public enterprises' nonconcessional borrowing 5/	…	…	…	…	124	701	848	741	809
Other long-term loans, net	-151	-101	-100	-57	47	55	65	76	89
Other capital	-1,713	253	-1,487	-499	-1,235	-1,283	-1,290	-1,562	-1,657
Short-term loans and trade credits, net 4/	-496	1,074	-99	1,055	-113	-112	-108	-205	-272
Of which: Short-term oil import credit, net	…	…	812	960	-217	-350	-350	-350	-322
Commercial banks, net	-315	-160	100	52	-100	0	0	0	0
Other items, net	-902	-661	-1,488	-1,606	-1,022	-1,171	-1,182	-1,358	-1,385
Errors and omissions	-752	-593	0	-1,109	0	0	0	0	0
Overall balance	2,865	-967	-789	523	1,980	1,857	2,565	3,354	3,679
Prospective official financing	…	…	0	0	250	200	200	100	0
Financing items	-2,865	967	789	-523	-2,230	-2,057	-2,765	-3,454	-3,679
Change in gross international reserves (GIR) (+ = increase)									
Contribution from financing	2,865	-967	-789	523	2,230	2,057	2,765	3,454	3,679
Net use of IMF resources	-38	-57	-55	-55	81	198	221	-41	-5
Change in GIR excluding valuation changes (+ = increase)	2,827	-1,024	-844	468	2,311	2,255	2,985	3,413	3,673
Valuation changes (+ = increase)	-267	685	0	-263	…	…	…	…	…
Total change in GIR (excluding Asian Clearing Union liabilities) (+ = increase)	2,560	-339	-844	205	2,311	2,255	2,985	3,413	3,673
Memorandum items:									
Current account balance (percent of GDP)	3.2	-2.0	-1.1	-0.5	0.1	-1.0	-0.9	-0.5	-0.1
Exports (annual percent change)	4.2	39.1	10.3	6.2	5.0	9.0	13.5	12.0	13.0
Imports (annual percent change)	5.4	52.1	14.3	2.4	5.2	12.3	11.3	9.6	10.0
Remittances (annual percent change)	13.4	6.0	11.0	10.2	13.9	8.5	10.0	10.0	10.0
Medium- and long-term external public debt	20,907	22,256	22,574	21,509	22,865	25,384	28,430	31,782	34,493
(Percent of GDP)	20.8	19.9	19.6	18.6	17.8	18.3	18.8	19.3	19.2
Gross official reserves 6/	10,140	10,035	9,190	10,070	12,381	14,636	17,621	21,034	24,708
(In months of imports of goods and services)	3.2	3.1	2.4	2.9	3.2	3.4	3.7	4.1	4.3
Gross official reserves (excluding Asian Clearing Union liabilities) 6/	9,536	9,197	8,353	9,403	11,714	13,969	16,954	20,367	24,040
(In months of imports of goods and services)	3.0	2.8	2.1	2.7	3.0	3.2	3.6	3.9	4.2
Net international reserves 6/	7,249	6,726	5,937	6,796	9,026	11,083	13,848	17,302	20,980

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

1/ Fiscal year begins July 1. In this table, medium- and long-term loans (net) now comprise loans to government (net), as well as public enterprises' nonconcessional borrowing and other long-term loans (net). In Country Report No. 12/94 (April 16, 2012), medium- and long-term loans were reported as loans to government (net) only. The other components were reported under other capital as part of other items (net).

2/ Import numbers are based on payment settlements data up to FY10 and customs data starting in FY11, except FY12 program figures which are based on payment settlements data. Use of customs data does not change the overall balance because the difference between customs and settlements data is offset by a corresponding revision of trade credits (net), as reported in the financial account.

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

4/ Data on trade credits include service fees related to exports until FY12. To adjust for this inconsistency, an amount equal to 3 percent of exports is deducted from reported trade credits and added to current account service payments. The net effect is a decrease in the current account, while the overall BOP balance remains unchanged.

5/ Nonconcessional borrowing by public enterprises supported by government guarantees.

6/ 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: Central Government Operations, FY2010–16 1/

	FY10	FY11	FY12		FY13		FY14	FY15	FY16
		Est.	Prog.	Est.	Budget	Prog.	Projections		
	(In billions of taka)								
Total revenue and grants	799	949	1,206	1,187	1,457	1,435	1,694	1,997	2,329
Total revenue	757	928	1,149	1,138	1,397	1,379	1,634	1,935	2,265
Tax revenue	625	796	963	952	1,168	1,141	1,356	1,610	1,896
National Board of Revenue (NBR) taxes	598	764	924	916	1,123	1,095	1,304	1,551	1,829
Of which: VAT and supplementary duties	339	426	505	503	604	578	678	798	935
Taxes on income and profits	162	221	282	281	353	360	444	539	652
Customs and excise duties	89	112	129	126	155	151	176	206	233
Non-NBR taxes	27	32	39	36	46	46	52	59	66
Nontax revenue	132	132	186	186	228	238	279	325	369
Foreign grants	42	21	57	49	60	56	60	63	64
Total expenditure	1,013	1,278	1,562	1,501	1,917	1,843	2,138	2,460	2,835
Current expenditure	659	773	898	884	995	1,011	1,184	1,395	1,547
Pay and allowances	161	199	210	209	229	229	269	306	347
Goods and services	86	101	113	108	130	130	178	214	255
Interest payments	148	156	203	203	233	235	241	276	283
Subsidies and transfers 2/	261	314	362	363	386	407	461	562	619
Block allocations	4	3	10	2	16	9	34	38	43
Annual Development Program (ADP)	256	335	390	363	550	493	636	790	986
Non-ADP capital spending	86	78	115	101	173	125	152	173	196
Net lending 3/	9	73	152	141	196	211	164	98	103
Other expenditures 4/	2	20	7	12	4	4	4	4	4
Overall balance (including grants)	-214	-329	-356	-314	-460	-408	-444	-462	-507
(Excluding grants)	-256	-349	-413	-363	-521	-464	-504	-525	-571
Net financing	214	329	356	314	460	408	444	462	507
External	65	28	42	73	125	105	161	199	244
Disbursements	111	81	106	134	204	178	251	285	328
Amortization	-46	-53	-64	-61	-79	-73	-90	-85	-84
Domestic	89	300	314	218	335	304	283	263	263
Banks 3/	-52	245	279	195	230	256	239	203	186
Of which: Bangladesh Bank	-77	114	158	45	...	45	...	...	...
Nonbanks	141	55	35	24	105	47	44	59	77
Cash float and discrepancy	60	1	0	23	0	0	0	0	0

Table 4. Bangladesh: Central Government Operations, FY2010–16 1/ (concluded)

	FY10	FY11	FY12		FY13		FY14	FY15	FY16
		Est.	Prog.	Est.	Budget	Prog.	Projections		
	(In percent of GDP)								
Total revenue and grants	11.5	11.9	13.1	13.0	14.0	13.8	14.4	15.0	15.4
Total revenue	10.9	11.7	12.5	12.4	13.4	13.3	13.9	14.5	14.9
Tax revenue	9.0	10.0	10.5	10.4	11.2	11.0	11.5	12.0	12.5
NBR taxes	8.6	9.6	10.1	10.0	10.8	10.5	11.1	11.6	12.1
Of which: VAT and supplementary duties	4.9	5.4	5.5	5.5	5.8	5.6	5.8	6.0	6.2
Taxes on income and profits	2.3	2.8	3.1	3.1	3.4	3.5	3.8	4.0	4.3
Customs and excise duties	1.3	1.4	1.4	1.4	1.5	1.4	1.5	1.5	1.5
Non-NBR taxes	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Nontax revenue	1.9	1.7	2.0	2.0	2.2	2.3	2.4	2.4	2.4
Foreign grants	0.6	0.3	0.6	0.5	0.6	0.5	0.5	0.5	0.4
Total expenditure	14.6	16.0	17.0	16.4	18.4	17.7	18.2	18.4	18.7
Current expenditure	9.5	9.7	9.8	9.7	9.6	9.7	10.1	10.4	10.2
Pay and allowances	2.3	2.5	2.3	2.3	2.2	2.2	2.3	2.3	2.3
Goods and services	1.2	1.3	1.2	1.2	1.3	1.3	1.5	1.6	1.7
Interest payments	2.1	2.0	2.2	2.2	2.2	2.3	2.1	2.1	1.9
Subsidies and transfers 2/	3.8	3.9	3.9	4.0	3.7	3.9	3.9	4.2	4.1
Block allocations	0.1	0.0	0.1	0.0	0.2	0.1	0.3	0.3	0.3
ADP	3.7	4.2	4.2	4.0	5.3	4.7	5.4	5.9	6.5
Non-ADP capital spending	1.2	1.0	1.3	1.1	1.7	1.2	1.3	1.3	1.3
Net lending 3/	0.1	0.9	1.7	1.5	1.9	2.0	1.4	0.7	0.7
Other expenditures 4/	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (including grants)	-3.1	-4.1	-3.9	-3.4	-4.4	-3.9	-3.8	-3.5	-3.3
(Excluding grants)	-3.7	-4.4	-4.5	-4.0	-5.0	-4.5	-4.3	-3.9	-3.8
Primary balance (including grants)	-0.9	-2.2	-1.7	-1.2	-1.7	-1.7	-1.7	-1.4	-1.5
(Excluding grants)	-1.6	-2.4	-2.3	-1.7	-2.2	-2.2	-2.2	-1.9	-1.9
Net financing	3.1	4.1	3.9	3.4	4.4	3.9	3.8	3.5	3.3
External	0.9	0.4	0.5	0.8	1.2	1.0	1.4	1.5	1.6
Disbursements	1.6	1.0	1.2	1.5	2.0	1.7	2.1	2.1	2.2
Amortization	-0.7	-0.7	-0.7	-0.7	-0.8	-0.7	-0.8	-0.6	-0.6
Domestic	1.3	3.8	3.4	2.4	3.2	2.9	2.4	2.0	1.7
Banks 3/	-0.8	3.1	3.0	2.1	2.2	2.5	2.0	1.5	1.2
Of which: Bangladesh Bank	-1.1	1.4	1.7	0.5	…	0.4	…	…	…
Nonbanks	2.0	0.7	0.4	0.3	1.0	0.5	0.4	0.4	0.5
Cash float and discrepancy	0.9	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Subsidy costs (percent of GDP) 3/ 5/	1.3	2.2	2.9	2.9	3.7	3.7	3.0	2.4	2.3
Of which: Energy-related subsidies	0.1	0.9	1.7	1.5	1.9	2.0	1.4	0.7	0.7
Defense-related spending	1.3	1.4	…	1.3	1.2	…	…	…	…
Nominal GDP (in billions of taka)	6,943	7,967	9,192	9,148	10,404	10,404	11,757	13,359	15,149

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

1/ Fiscal year begins July 1. Cash basis, unless otherwise specified.
2/ Comprise budget allocations for safety net programs and other social-related spending, pensions and gratuities, and direct subsidies for food and to the agriculture and export sectors. Other subsidy-related costs (i.e., lending to large energy-related state-owned enterprises (SOEs)) are included in net lending.
3/ Includes Tk 27.0 billion in FY12 and Tk 55.2 billion projected in FY13 in special bonds issued to the state-owned commercial banks for the noncash securitization of past subsidy-related loans made to Bangladesh Petroleum Corporation, consistent with the earlier treatment in the fiscal accounts of similar operations. Bank financing excludes advances and deposits of semi-autonomous and autonomous bodies.
4/ Includes food account surplus (-)/deficit (+) and extraordinary expenditures.
5/ Comprise food and agriculture and export sector subsidies, as well as subsidy-based lending to large energy-related SOEs and payment of unsettled fertilzer subsidy commitments incurred in FY12 (equivalent to 0.5 percent of GDP).

Table 5. Bangladesh: Central Government Operations, GFSM 2001 Classification, FY2009–13 1/

(In billions of taka)

	FY09	FY10	FY11	FY12 Prel.	FY13 Proj.
1. Central government accounts					
Revenue	667	799	949	1,187	1,435
Taxes	529	625	796	952	1,141
Grants	21	42	21	49	56
Other revenue	117	132	132	186	238
Expenditure	643	671	865	1,037	1,225
Compensation of employees	139	161	199	209	229
Purchases of goods and services	82	86	101	108	130
Interest	154	148	156	203	235
Subsidies 2/	88	81	161	256	375
Grants	140	142	170	182	197
Other payments	40	53	79	79	59
Gross operating balance	24	129	84	150	210
Net acquisition of nonfinancial assets	250	342	412	464	618
Fixed assets	194	256	335	363	493
Nonproduced assets	56	86	78	101	125
Net lending (+)/net borrowing (-) 3/	-226	-214	-329	-314	-408
Net financial transactions	-185	-152	-288	-291	-408
Net acquisition of financial assets (+ increase)	26	19	47	0	0
Domestic	26	19	47	0	0
Deposits	26	19	47	0	0
Net incurrence of liabilities (+ increase)	211	170	336	291	408
Domestic	185	106	308	218	304
Debt securities and loans and advances	185	106	282	218	304
Other accounts payable	0	0	26	0	0
Foreign	26	65	28	73	105
Statistical discrepancy (net borrowing less net financial transaction)	-41	-62	-40	-23	0
2. Financial balance sheet					
Net financial worth					
Stock of financial assets	183	202	249	316	316
Domestic	183	202	249	316	316
Foreign	0	0	0	0	0
Stock of liabilities	2,793	2,864	3,329	3,655	4,075
Domestic	1,305	1,410	1,677	1,895	2,200
Debt securities and loans and advances	1,305	1,410	1,677	1,895	2,199
Foreign	1,488	1,453	1,652	1,760	1,875

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: Monetary Accounts, December 2011–December 2013

	2011	2012									2013			
	Dec.	Mar.	Jun.			Sep.			Dec.		Mar.	Jun.	Sep.	Dec.
	Est.	Est.	Est.	Prog.	Est. 1/	Est.	Prog.	Est. 1/	Prog.	Proj. 1/	Program 1/			
Bangladesh Bank balance sheet	(End of period; in billions of taka)													
Net foreign assets 2/	518	548	588	464	541	676	481	614	488	669	713	707	729	754
Net domestic assets 2/	405	369	387	550	435	321	556	383	573	392	350	429	419	462
Net credit to central government	399	352	352	465	352	335	484	335	504	349	358	397	392	443
Credit to other nonfinancial public sector	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Credit to deposit money banks	101	87	67	101	67	66	101	66	101	72	72	72	72	72
Other items, net 2/	-96	-71	-32	-18	15	-81	-30	-19	-33	-29	-81	-40	-46	-53
Of which: Repos with commercial banks	59	104	152	102	152	87	90	87	87	86	56	97	92	84
Reserve money	922	917	976	1,014	976	997	1,037	997	1,061	1,061	1,063	1,135	1,148	1,216
Currency	639	637	649	678	649	682	715	682	721	721	720	759	771	829
Reserves 3/	284	280	327	336	327	314	322	314	340	340	343	376	377	387
	(Contribution to reserve money growth)													
Net foreign assets	-6.3	2.3	6.9	-6.9	1.6	15.9	-4.1	10.6	0.8	20.4	23.3	17.0	11.5	8.0
Net domestic assets	19.0	9.5	2.1	20.2	7.3	-5.4	19.1	-0.1	14.2	-5.4	-7.5	-0.6	3.6	6.6
Of which: Net credit to central government	26.4	19.4	5.0	17.7	5.0	-1.9	14.7	-1.9	11.4	-5.4	39.1	4.6	5.8	8.9
Reserve money (year-on-year percentage change)	12.7	11.8	9.0	13.2	9.0	10.5	15.0	10.5	15.0	15.0	15.9	16.4	15.2	14.6
Monetary survey	(End of period; in billions of taka)													
Net foreign assets 2/	665	716	790	627	724	903	644	820	650	855	902	897	919	944
Bangladesh Bank	518	548	588	464	541	676	481	614	488	669	713	707	729	754
Commercial banks	147	167	202	163	183	227	163	206	163	187	189	190	190	190
Net domestic assets 2/	4,087	4,185	4,379	4,457	4,445	4,455	4,590	4,538	4,839	4,776	4,901	5,180	5,356	5,618
Domestic credit	4,772	4,916	5,131	5,145	5,131	5,249	5,287	5,249	5,556	5,517	5,682	5,996	6,182	6,439
Net credit to central government	867	861	868	980	868	868	1,029	868	1,079	959	1,033	1,124	1,149	1,217
Credit to other nonfinancial public sector	140	129	126	161	126	120	161	120	161	126	98	70	70	70
Credit to nonbank financial institutions	53	54	58	53	58	60	54	60	55	60	61	62	63	64
Credit to private sector	3,712	3,871	4,079	3,950	4,079	4,200	4,043	4,200	4,261	4,372	4,490	4,739	4,898	5,087
Other items, net 2/	-685	-731	-752	-687	-686	-794	-697	-711	-717	-741	-781	-816	-826	-821
Broad money (M2)	4,752	4,901	5,169	5,084	5,169	5,358	5,233	5,358	5,489	5,631	5,803	6,077	6,275	6,562
	(Year-on-year percent change)													
Net foreign assets	-2.9	5.8	13.4	-10.0	4.0	28.9	-5.9	19.9	5.9	39.3	38.5	23.9	12.1	10.4
Net domestic assets	23.6	19.9	18.1	20.2	19.9	16.3	19.3	18.0	16.9	15.4	15.3	16.5	18.0	17.6
Domestic credit	26.4	22.8	19.3	19.6	19.3	17.6	18.5	17.6	16.4	15.6	15.6	16.9	17.8	16.7
Of which: Net credit to central government	82.4	53.5	23.7	39.7	23.7	12.9	33.7	12.9	24.4	10.6	19.9	29.5	32.4	27.0
Credit to private sector	19.4	19.5	19.7	15.9	19.7	19.9	15.4	19.9	14.8	17.8	16.0	16.2	16.6	16.3
Broad money (M2)	19.1	17.6	17.4	15.5	17.4	18.3	15.5	18.3	15.5	18.5	18.4	17.6	17.1	16.5
Memorandum items:														
Required domestic cash reserves (in billions of taka)	273	281	301	289	296	311	296	306	311	319	329	345	355	368
Excess domestic cash reserves (in billions of taka)	11	-1	25	47	31	4	26	8	29	21	14	31	22	19
Broad money multiplier	5.2	5.3	5.3	5.0	5.3	5.4	5.0	5.4	5.2	5.3	5.5	5.4	5.5	5.4
Broad money velocity	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7
Exchange rate, end of period (taka/U.S. dollar)	81.9	81.8	81.8	74.2	74.2	81.6	74.2	74.2	74.2	74.2	74.2	74.2	74.2	74.2

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

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

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

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

Table 7. Bangladesh: Financial Soundness Indicators, 2006–12

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

	2006	2007	2008	2009	2010	2011	2012 1/ Latest Prov.
Capital adequacy							
Regulatory capital to risk-weighted assets (adjusted) 2/	5.6	4.0	6.5	8.8	7.6	10.1	9.7
State-owned commercial banks (adjusted) 2/	-2.1	-21.6	-15.1	-7.6	-0.1	5.3	3.7
Regulatory capital to risk-weighted assets (unadjusted)	5.6	9.3	10.4	11.7	9.3	11.3	10.9
State-owned commercial banks	-2.1	7.3	7.9	9.0	8.9	11.7	9.7
Specialized development banks	-4.5	-5.0	-3.3	0.4	-7.3	-4.5	-6.2
Private commercial banks	9.0	10.4	11.2	12.1	10.1	11.5	11.3
Foreign commercial banks	24.5	22.8	23.8	28.1	15.6	21.0	21.8
Regulatory capital to assets (adjusted) 2/	3.2	2.4	4.0	5.3	6.9	8.0	7.7
Regulatory capital to assets (unadjusted)	3.2	5.6	6.5	7.1	8.5	9.0	8.6
Nonperforming loans to regulatory capital (adjusted) 2/	280.1	411.8	193.1	109.9	69.0	48.1	74.3
Nonperforming loans to regulatory capital (unadjusted)	280.1	168.5	115.5	80.2	55.1	42.2	65.6
Asset quality							
Nonperforming loans to total loans	12.8	14.5	11.2	9.0	7.3	6.1	8.8
State-owned commercial banks	22.8	29.0	28.0	20.1	15.7	11.3	17.7
Specialized development banks	14.3	13.5	11.7	24.1	24.1	24.6	24.1
Private commercial banks	4.9	5.4	5.1	4.0	3.1	2.9	4.9
Foreign commercial banks	2.8	2.9	3.7	2.2	3.0	3.0	3.2
Loan provisions to total nonperforming loans	45.2	43.0	50.1	61.2	62.7	67.4	51.5
Loan provisions to total loans	5.8	6.2	5.6	5.5	4.6	4.1	4.5
Profitability							
Return on equity 3/	-64.0	19.8	25.0	19.5	21.0	16.8	13.5
State-owned commercial banks	1,262.5	-9.4	35.6	24.9	18.4	18.5	11.7
Specialized development banks	24.7	16.6	21.0	-199.0	-3.2	-0.9	1.4
Private commercial banks	24.8	26.7	24.3	18.9	20.9	15.7	12.4
Foreign commercial banks	21.5	20.6	18.5	18.9	17.0	16.6	19.4
Return on assets 4/	-2.1	1.1	1.6	1.4	1.8	1.5	1.2
State-owned commercial banks	-9.2	-0.3	1.2	1.0	1.1	1.3	0.7
Specialized development banks	-0.9	-0.6	-0.6	-0.6	0.2	0.0	0.0
Private commercial banks	1.5	1.9	1.9	1.6	2.1	1.6	1.2
Foreign commercial banks	3.3	3.2	2.9	3.2	2.9	3.2	3.8
Composition of credit (in percent of total)							
Agriculture, forestry, and fishing	8.4	7.3	6.9	6.2	5.7	5.6	5.3
Industry (other than working capital financing)	19.9	21.4	21.3	21.6	20.7	20.9	19.4
Working capital financing	19.3	18.0	16.7	15.8	15.1	14.1	14.0
Construction	6.9	6.5	6.5	6.9	7.0	8.1	8.5
Transport and communication	1.4	1.9	1.7	1.5	1.5	2.0	2.4
Trade	34.1	34.3	35.3	36.8	38.1	37.3	38.6
Other	10.0	10.6	11.7	11.3	12.0	11.2	11.8
Memorandum items:							
Share of assets (as a percent of total banking system assets)							
State-owned commercial banks	33.3	33.5	29.8	28.8	28.5	28.0	27.2
Specialized development banks	7.9	7.0	6.6	6.5	6.1	5.5	5.7
Private commercial banks	50.5	51.1	55.2	57.2	58.8	60.0	60.8
Foreign commercial banks	8.3	8.4	8.3	7.4	6.6	6.4	6.4

Sources: Bangladesh Bank; and IMF staff estimates.

1/ 2012 indicators on capital adequacy (excluding regulatory capital to assets), asset quality, and the composition of credit are as of end-September. Other indicators (including regulatory capital to assets) are as of end-June.

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

3/ Bangladesh Bank defines return on equity (ROE) as the ratio of net income after provision and taxes to regulatory capital. The 2012 ROEs are based on annualized half-yearly net income after provision and taxes.

4/ Bangladesh Bank defines return on assets (ROA) as the ratio of net income after provision and taxes to total assets. The 2012 ROAs are based on annualized half-yearly net income after provision and taxes.

Table 8. Bangladesh: External Financing Requirements and Sources, FY2010–17 1/

(In millions of U.S. dollars)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
				Projections				
Gross financing requirements	2,974	2,971	4,627	4,097	4,921	5,374	5,657	5,390
External current account deficit (+)	-3,240	2,227	569	-161	1,348	1,337	889	151
Amortization of medium- and long-term debt	671	739	770	901	1,059	965	919	1,022
Gross reserves accumulation (+ = increase)	2,560	-339	205	2,311	2,255	2,985	3,413	3,673
IMF repayments	38	57	197	199	82	59	41	5
Other net capital outflows	2,945	287	2,886	847	176	28	395	537
Available financing	2,224	2,971	4,485	3,567	4,441	4,895	5,557	5,290
Capital grants	512	642	469	580	600	600	600	600
Loan disbursements to the public sector	854	1,051	1,696	1,939	2,760	3,024	3,471	2,931
Portfolio investment, net	-117	-28	198	65	81	102	127	159
Foreign direct investment, net	913	775	1,163	1,200	1,350	1,519	1,709	1,922
Short-term oil import credit, net	62	531	960	-217	-350	-350	-350	-322
Exceptional financing	750	…	142	530	480	480	100	100
IMF: ECF arrangement	…	…	142	280	280	280	0	0
Asian Development Bank	750	…	…	150	150	200	100	100
World Bank	…	…	…	0	0	0	0	0
Other development partners	…	…	…	100	50	0	0	0

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

1/ Fiscal year begins July 1.

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

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
	Est.		Projections												
IMF obligations based on existing credit (in millions of SDRs)															
Principal	36.4	126.7	130.0	53.5	38.6	26.9	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	1.8	1.5	0.5	0.2	0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
IMF obligations based on existing and prospective credit (in millions of SDRs)															
Principal	36.4	126.7	130.0	53.5	38.6	26.9	3.4	27.4	64.0	100.6	128.0	128.0	100.6	64.0	27.4
Charges and interest	1.8	1.5	0.5	0.7	1.6	1.7	1.7	1.7	1.6	1.4	1.1	0.8	0.5	0.2	0.1
Total obligations based on existing and prospective credit															
In millions of SDRs	38.2	128.1	130.5	54.1	40.2	28.7	5.1	29.1	65.5	101.9	129.1	128.8	101.0	64.2	27.5
In millions of U.S. dollars	59.6	199.4	199.6	82.8	61.4	43.8	7.7	44.5	100.2	155.9	197.4	196.9	154.5	98.2	42.1
In percent of gross international reserves	0.6	2.0	1.6	0.6	0.3	0.2	0.0	0.2	0.3	0.4	0.5	0.4	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	15.0	5.9	4.6	3.2	0.5	2.4	4.5	6.2	6.9	6.2	4.5	2.8	1.1
In percent of GDP	0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
In percent of quota	7.2	24.0	24.5	10.2	7.5	5.4	0.9	5.5	12.3	19.1	24.2	24.1	18.9	12.0	5.2
Outstanding IMF credit															
In millions of SDRs	379.0	343.7	396.6	526.0	670.2	643.3	639.9	612.5	548.5	447.9	319.9	191.9	91.4	27.4	0.0
In millions of U.S. dollars	590.4	534.9	606.4	804.2	1,024.8	983.6	978.4	936.5	838.6	684.9	489.2	293.5	139.7	41.9	-0.1
In percent of gross international reserves	5.9	5.3	4.9	5.5	5.8	4.7	4.0	3.3	2.5	1.8	1.2	0.6	0.3	0.1	0.0
In percent of exports of goods and services and remittances	1.6	1.4	1.4	1.7	2.0	1.7	1.5	1.3	1.1	0.8	0.5	0.3	0.1	0.0	0.0
In percent of debt service 3/	61.4	42.0	45.6	57.6	76.6	72.5	64.9	49.6	37.7	27.4	17.1	9.2	4.0	1.2	0.0
In percent of GDP	0.5	0.5	0.5	0.6	0.7	0.6	0.5	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0
In percent of quota	71.1	64.5	74.4	98.6	125.7	120.6	120.0	114.8	102.8	84.0	60.0	36.0	17.1	5.1	0.0
Net use of IMF credit (in millions of SDRs)															
Disbursements	0.0	91.4	182.8	182.8	182.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	38.2	128.1	130.5	54.1	40.2	28.7	5.1	29.1	65.5	101.9	129.1	128.8	101.0	64.2	27.5
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	111.9	115.6	128.2	138.8	151.3	165.0	180.1	196.5	214.4	234.2	254.9	276.6	299.6	323.6	348.5
Exports of goods and services and remittances (in billions of U.S. dollars)	36.8	39.5	42.7	46.3	51.7	57.3	63.9	70.5	77.8	85.8	94.4	103.3	113.2	124.0	135.9
Gross international reserves (in billions of U.S. dollars)	10.0	10.1	12.4	14.6	17.6	21.0	24.7	28.8	32.9	37.2	41.4	45.4	49.5	53.6	58.2
Debt service (in billions of U.S. dollars) 3/	1.0	1.3	1.3	1.4	1.3	1.4	1.5	1.9	2.2	2.5	2.9	3.2	3.5	3.6	3.7
Quota (in millions of SDRs)	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3

Source: IMF staff estimates and projections.

1/ Fiscal year begins July 1.

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

3/ Total public debt service, including IMF repayments.

Table 10. Bangladesh: 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.

Table 11. Bangladesh: Millennium Development Goals, 1990–2015 1/

	Base 1990–95	Current 2005–10	Target 2015	Status
Goal 1: Eradicate extreme poverty and hunger	**Goal will probably be met**			
Target 1: Halve by 2015 the proportion of people living below the poverty line				
Poverty headcount ratio	59	32	29	On Track
Poverty gap ratio	17	7	8	Goal Met
Income share held by lowest 20 percent	9	9	...	Needs Attention
Target 2: Halve by 2015 the proportion of people who suffer from hunger				
Prevalence of child malnutrition (percent of children under 5)	68	45	33	Off Track
Population below minimum level of dietary energy consumption (percent)	28	20	14	On Track
Goal 2: Achieve universal primary education	**Goal will probably be met**			
Target 3: Ensure that all boys and girls complete a full course of primary schooling				
Net enrollment ratio in primary education	61	91	100	On Track
Proportion of pupils starting grade 1 who reach grade 5, percent	43	66	100	Needs Attention
Adult literacy rate of 15–24 years old population (percent)	37	75	---	Needs Attention
Goal 3: Promote gender equality and empower women	**Goal will probably be met**			
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and at all levels by 2015				
Ratio of girls to boys in primary and secondary education (percent)	77	106	100	Achieved
Ratio of girls to boys in tertiary education (percent)	37	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	25	50	Needs Attention
Proportion of seats held by women in national parliament (percent)	13	19	33	Needs Attention
Goal 4: Reduce child mortality	**Goal will probably be met**			
Target 5: Reduce by two thirds by 2015 the under 5 mortality rate				
Under 5 mortality rate (per 1,000)	146	48	48	On Track
Infant mortality rate (per 1,000 live births)	92	38	31	On Track
Immunization, measles (percent of children under 12 months)	54	94	100	On Track
Goal 5: Improve maternal health	**Goal will probably be met**			
Target 6: Reduce by three quarters, by 2015, the maternal mortality ratio				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	574	194	144	On Track
Births attended by skilled health staff (percent of total)	5	27	50	Needs Attention
Goal 6: Combat HIV/AIDS, malaria, and other diseases	**Goal will potentially be met**			
Target 7: Have halted by 2015 and begin to reverse the spread of HIV/AIDS				
Contraceptive prevalence rate (percent of women ages 15–49)	40	60	72	Needs Attention
HIV prevalence among population (per 100,000 population)	0	0.3	Halting	On Track
Target 8: Have halted by 2015 and begin to reverse the incidence of malaria and other major diseases				
Prevalence of malaria (per 100,000 people)	1.4	0.4	0.0	Needs Attention
Incidence of tuberculosis (per 100,000 people)	264	225	Halting	Needs Attention
Tuberculosis treatment success rate under DOTS (percent)	21	74	75	On Track
Goal 7: Ensure environmental sustainability	**Goal will potentially be met**			
Target 9: Integrate the principles of sustainable development into country policies and reverse the loss of environmental resources				
Productive forest area (%) (70 % tree density)	9.0	13.0	20	Needs Attention
CO2 emissions (metric tons per capita)	0.1	0.3	...	Needs Attention
Terrestrial protected areas (percent of total surface area)	1.6	1.8	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)	...	7.8	...	Insufficient Data
Goal 8: Develop a global partnership for development	**Goal will potentially be met**			
Target 12: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system				
Net ODA received per capita (current U.S. dollars)	20	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	50	On Track
Internet users (per 100 people)	0.0	3.7	...	Insufficient Data
General indicators				
Population (in millions)	115.6	150.5	...	
Gross national income (in billions of U.S. dollars)	39.2	116.4	...	
GNI per capita, Atlas method (current, in U.S. dollars)	330	770	...	
Total fertility rate (births per woman)	3.4	2.2	...	
Life expectancy at birth (years)	58.0	68.6	70	

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

Appendix I. Bangladesh—Letter of Intent

10 February 2013

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

Dear Ms. Lagarde:

Bangladesh's economy continues to show resilience to the global economic slowdown. Through adjustments to our macroeconomic and financial policies and with the support of the three-year arrangement under the IMF's Extended Credit Facility (ECF) approved in April 2012, we have withstood external pressures, with our economy growing by 6.3 percent in the last fiscal year (July 2011–June 2012). Headline inflation moderated from about 11½ percent in January 2012 to about 7¾ percent in December 2012 and our exchange rate has stabilized. While growth in exports remains sluggish, growth in imports has also slowed. At the same time, remittance inflows remain supportive, helping to rebuild our foreign reserves buffer in 2012. Gross reserves, by the program's definition, stood at a record US$12.5 billion as of end-December 2012.

Under our ECF-supported program, we met all the quantitative performance criteria as of end-June 2012 and most of the indicative targets as of end-June and end-September 2012, with the major exception of tax revenues, which have been affected by a sharper-than-expected slowdown in import growth. However, we have not met the continuous performance criterion (PC) on new nonconcessional external debt maturing in more than one year that is contracted or guaranteed by the public sector, as a result of new loans contracted and a new guarantee provided in January 2013. We are committed to monitoring nonconcessional loans and guarantees closely to ensure well-governed decisions are made on their use and to avoid crowding out growth-critical social and development spending. In addition, we are taking steps to strengthen our debt management practices and the rules governing the granting of guarantees, which are described in detail in the attached Memorandum of Economic and Financial Policies (MEFP). On the basis of these remedial steps, we are requesting a waiver of the nonobservance of this PC.

In support of program objectives, we have also met a number of our structural benchmarks. At the same time, some measures have required more time to build internal policy consensus. In this respect, I would like to inform you that the National Parliament passed a landmark VAT law on November 27, 2012, which is expected to anchor our tax reform efforts and usher in a modern tax regime over the next few years as the new law is being implemented. It will greatly assist our efforts to generate more internal resources to meet Bangladesh's development priorities, in our ascent to becoming a middle-income country in the next decade. Building on this momentum, we can also confirm the completion of all the prior actions under the first review of the ECF arrangement.

The MEFP supplements the previous one dated March 27, 2012. It provides an update on achievements under our reform program so far and also sets out our commitments to end-2013. We reiterate our readiness to take further measures, if necessary, in consultation with the IMF in achieving the objectives under our reform program. In this context, the Government of the People's Republic of Bangladesh is requesting completion of the first review under the ECF arrangement and access to the second disbursement in the amount of SDR 91.423 million.

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. 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. In keeping with this, we will consult with the IMF on the adoption of measures and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such matters. Moreover, we will provide the IMF with information in connection with our progress in implementing the policies and achieving the objectives of the program. We also authorize publication of this Letter of Intent and its attachments, as well as the accompanying staff report.

Sincerely yours,

/s/

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

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

Attachment 1. Bangladesh—Memorandum of Economic and Financial Policies

February 10, 2013

This Memorandum of Economic and Financial Policies (MEFP) supplements and modifies the original MEFP dated March 27, 2012 under the Government of Bangladesh's three-year Extended Credit Facility (ECF) arrangement. It reports on progress so far and sets out reform commitments to end-2013. Program targets and objectives remain centered on undertaking policy adjustments and structural reforms in order to preserve macroeconomic stability, strengthen the external position, and enhance overall competitiveness in support of higher, more inclusive growth and further poverty reduction. The main reform pillars continue to be built around strengthening government finances, monetary operations, financial sector stability, and the trade and investment climate, with sound economic governance at the core of each of these areas.

I. Recent Developments And Outlook

1. Recent macroeconomic performance. Macroeconomic performance under our ECF-supported program has been broadly in line with agreed targets. Despite global headwinds, Bangladesh's economy expanded by 6.3 percent in FY12 (July 2011–June 2012), based on our preliminary estimate, with private domestic demand and still-solid remittances providing support. Inflation pressures have also eased, given moderate monetary tightening and lower food price inflation, with the headline rate at 7.7 percent (y/y) in December 2012. Notwithstanding heightened risks, we have managed external pressures well, with policy adjustments and remittance flows offsetting the impact of slowing export growth, driven principally by ready-made garments. As a result, foreign reserves have risen steadily since early 2012, reaching US$12.5 billion in gross terms at end-December 2012 (by program definition). In strengthening our external buffer, we exceeded comfortably the performance criterion (PC) at end-June 2012 and indicative target (IT) at end-September (floor) on net international reserves (NIR) set out under the ECF arrangement.

2. Fiscal performance and debt management. We also met our overall fiscal target in FY12, with the budget deficit (excluding grants) estimated at 4.0 percent of GDP. Government borrowing from the banking system was more restrained in the second half of FY12—a clear reversal from the first half—allowing us to stay under the end-June 2012 PC (ceiling) on net credit to the central government (NCCG) by the banking system, even factoring in unsettled commitments, mainly associated with fertilizer subsidies (around 0.5 percent of GDP). Similar restraint continued in the first quarter of FY13 consistent with meeting our end-September IT on domestic borrowing. Underpinning this was strong revenue collection efforts, notwithstanding a modest miss in our end-June and end-September 2012 ITs (floor) on tax revenue, due mainly to lower-than-expected import demand and related taxes. Expenditure control was exercised through containment of fuel and electricity subsidies, as administered price increases helped narrow losses by energy-related state-owned enterprises (SOEs). This action helped safeguard space for key social and development outlays. To this end, we met the IT (floor) on social-related spending for end-June, but fell short at end-September 2012 because of the lumpiness of food aid utilization. While Annual Development Program (ADP) expenditure still lagged in FY12, performance so far in FY13 has improved, owing to better planning, procurement, and land acquisition processes. We missed the PC (continuous ceiling) on new nonconcessional external debt contracted by the public sector and/or guaranteed by the central government or BB maturing in more than one year, as a result of new loans the government contracted in January 2013 for energy and security needs. At the same time, we stayed within program PCs (continuous ceilings) on new non-concessional external debt maturing in one year or less and external arrears, but exceeded the end-June 2012 IT (ceiling) on net suppliers' credit and other short-term financing for oil imports, as demand for petroleum products was higher than expected on account of efforts to limit electricity shortages. However, we have since brought down this borrowing, meeting our end-September 2012 IT.

3. Monetary and exchange rate conditions. Monetary conditions began to tighten in early 2012, in line with objectives set forth in Bangladesh Bank's (BB) semi-annual Monetary Policy Statement (MPS) and reflected in program targets. Following earlier policy rate hikes, greater interest rate flexibility, and other tightening measures, reserve money expanded by only 9 percent (y/y) in FY12, falling well under the end-June 2012 IT (ceiling). Its subdued growth was mainly due to net domestic assets of BB—a PC (ceiling), as the central bank's lending to government and liquidity support to banks were appropriately restrained. Growth in reserve money picked up in the first quarter of FY13, given only partial sterilization by BB of sizable foreign exchange (FX) purchases, but still remained well below the end-September 2012 IT. To bring private credit growth more in line with BB's current MPS and restrain core inflation, the central bank began issuing its own bills in November to mop up excess liquidity in the banking system. The taka strengthened in early 2012 and has since remained broadly stable, with greater policy confidence and an improving external position mitigating the earlier weakening vis-à-vis the U.S. dollar.

4. Macroeconomic outlook. We recognize that near-term risks point to the downside, largely in view of the external environment. The government is also mindful of the need to preserve hard-won stabilization gains going into national elections in the next fiscal year. To this end, our macroeconomic policy stance under the ECF arrangement will balance the need to provide policy support and meet our stability objectives. In this light, we recognize achieving growth in FY13 in line with last year's outturn will speak of Bangladesh's economic resilience, in the face of weakening external demand so far this year. We also aim to keep inflation below 8 percent in FY13 and bring it down further in FY14 through sound aggregate demand management and seek further reductions over the medium term also by easing supply constraints. To reduce external vulnerability, aggregate demand policies will be geared toward locking in the recent reserves build-up, supported by continued exchange rate flexibility and prudent debt management.

II. FISCAL POLICY

5. Policy objectives. As the anchor to our macroeconomic stabilization efforts, the government will continue to maintain a sound fiscal stance. To this end, we will pursue further tax policy, revenue administration, and public financial management reforms; continue to execute a sound debt management policy (DMP); and limit contingent liabilities and associated fiscal risks. Generating more internal resources and better prioritizing expenditures will also be crucial to achieving the government's growth and poverty reduction objectives, as articulated in our Sixth Five-Year Plan (FY11–15).

6. FY13 budget. Our current budget builds in a large increase in ADP spending, which hinges on upfront improvements in implementation capacity and a sizable unleashing of already committed external resources. Taking account of these factors and available financing, we aim to contain our fiscal deficit (excluding grants) to 4.5 percent of GDP in FY13. Consistent with this, NCCG from the banking system, as defined in the Technical Memorandum of Understanding (TMU), will be limited to Tk 201 billion in FY13. In support of achieving these targets, we have introduced additional revenue measures in the FY13 budget, which are expected to yield 0.6 percent of GDP in FY13, around half of which encompass the removal of tax concessions and exemptions (a June 2012 benchmark). We will continue to contain subsidy costs by making timely adjustments of fuel, electricity, and fertilizer prices, with necessary social safeguards, to avoid crowding out priority spending and pushing up domestic borrowing. Turning to FY14, we will adopt an overall deficit target that further restrains domestic borrowing, consistent with unleashing external commitments, maintaining prudent debt levels, and avoiding crowding out the private sector.

7. Tax reforms. We remain committed to further progress in modernizing our tax codes, broadening the tax base, and putting in place a sound administrative framework, ultimately with an aim of increasing tax revenues to 12.5 percent of GDP by FY16. As a centerpiece of these efforts, the National Parliament approved a landmark value added tax (VAT) law in November 2012 (a prior action). This achievement followed submission of the draft law to Parliament in early July (a June 2012 benchmark). The law has a single 15 percent rate, with limited discretionary powers and exemptions, no truncated bases and clear valuation rules, and established provisions for input tax credits and adjustments. In view of additional time needed to pass the law, we will prepare a VAT implementation plan and timetable and a new organizational structure at the National Board of Revenue (NBR) for ministerial approval by March 2013 (a rescheduled benchmark), which will help frame VAT rules and regulations and a registration plan with IMF technical assistance (TA). As an interim step, we drafted a strategic issues paper in September 2012, with IMF support, aimed at focusing decisions needed to draw up the implementation plan. We are also refocusing our strategy for reforming the income tax, providing a clear course for rationalizing rates, exemptions, and thresholds, which will be embraced in a Direct Tax Code under preparation.

8. Revenue administration. Further progress will be made in improving revenue administration, as guided by the NBR's outline of a modernization plan (2011–2016) published in mid-2011. The NBR will coordinate closely with the Ministry of Finance (MOF), other relevant agencies, and development partners (DPs) to ensure the necessary technical and financial resources are available to support reforms in a timely manner. In keeping with this, a steering committee was set up in January 2013 to guide implementation of the new VAT law. The NBR is expected to shape tax automation around a central information technology unit with appropriately qualified professionals. Following delays in project tendering, we will now begin automating the issuance of taxpayer identification numbers (TIN) and linking them to national identification and business identification numbers, completing these processes in our main tax offices by June 2013 (a rescheduled benchmark). Furthermore, pre-shipment inspections will be fully phased out by June 2013—later than originally planned, but to give the NBR's customs wing more time to put in place new valuation modalities. To strengthen customs administration, the Automated System of Customs Data (ASYCUDA) ++ used at major ports will be replaced by the ASYCUDA World version, including installing the same at major land customs stations, by December 2013. An alternative dispute resolution mechanism was launched on a pilot basis in March 2012 and further rolled out to all jurisdictions in July 2012, with a number of taxpayers already availing this mechanism.

9. Public financial management and expenditure control. We are taking further steps to improve cash and expenditure controls, budget integration and accounting, and ADP implementation in keeping with targets and objectives set out under the government's medium-term budget framework. For the FY13 budget, we have set quarterly limits on the issuance of new payment orders by line ministries. With new budget management wings/branches established in all line ministries (a June 2012 benchmark), we will prepare and issue guidelines and procedures on budget monitoring and reporting in accordance with the Public Money and Budget Management Act (PMBMA) by June 2013 (a new benchmark) and extend the integrated budgeting and accounting framework to all line ministries by June 2013. To improve project formulation and implementation and better align project selections with national priorities, the Ministry of Planning (MOP) will issue a formal project formulation and appraisal technical manual describing all key steps for bringing forward projects under the ADP by March 2013. The MOP, with the support of the MOF, is also meeting regularly the 10 largest line ministries responsible for ADP implementation (around 80 percent) to monitor project implementation against approvals.

10. Energy subsidies. We have steadily adjusted fuel and electricity prices since 2011 in order to safeguard our overall fiscal position and protect high-impact spending. Our aim is to settle subsidy-related costs on-budget in FY13 and beyond. In support, we will continue to limit new subsidy-related loans from the state-owned commercial banks (SOCBs) to Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB), and Bangladesh Chemical Industries Corporation (BCIC) to zero on a net basis in 2013 (an IT). In addition, we intend to settle BPC's past-due subsidy-related loans held by the SOCBs through the issuance of special bonds in FY13, subject to the findings of an audit conducted by the Office of the Auditor General (OAG) to be completed by June 2013. For BPC, net short-term external borrowing will continue to be limited in 2013 (an IT), consistent with bringing cost on-budget. While an automatic fuel price adjustment mechanism (a December 2012 benchmark) has yet to be adopted, we remain committed to adjusting domestic fuel prices, as necessary, as done in January 2013, in order to keep them well aligned with international prices and limit budgeted subsidies. To help contain subsidy costs, rental power units will be phased out as quickly as possible, substituting them with lower-cost base power plants.

11. Fertilizer subsidies. To avoid excessive fiscal pressures and crowding out more pressing spending needs, we have capped fertilizer subsidies at Tk 60 billion in FY13, as budgeted. We will also verify and settle by March 2013 the outstanding payments due arising from fertilizer subsidies in FY12. To ensure adequate resources for and improve oversight and control of these subsidies, we have established a technical committee comprising officials from the Ministries of Finance and Agriculture, BCIC, and other agencies, to monitor commitments and payments (a prior action). The committee's work will be guided by a proper set of metrics for determining margins for importers, producers, and distributors in order to contain costs, recommending adjustments to fertilizer prices, as needed, to stay within budgetary limits, with adequate safeguards put in place to better target the intended beneficiaries of these subsidies, foremost small and subsistence farmers.

12. Social safety nets and social spending. We are working with DPs to improve the equity, efficiency, and transparency of key safety net programs through better targeting and strengthened administration. In support of this work, Bangladesh Bureau of Statistics is developing a National Household Poverty Registry with the assistance of the World Bank to improve the targeting of safety nets. Under our program, we will continue to maintain an IT (floor) on social-related spending by the central government, with a view to focusing this monitoring on key safety nets aimed at mitigating the impact of adjustment on the most vulnerable. We also reiterate our commitment to protect space for social spending over the near to medium term, consistent with the current fiscal framework and reflected in rising budgetary allocations here under our program.

13. State-owned enterprises. To contain subsidy costs and related transfers to SOEs, we will ensure clear monitoring of and reporting by the MOF of performance contracts with the BPC and BPDB. In addition, the OAG will complete efficiency audits of the operations of BPC, BPDB, and BCIC by June 2013 (a new benchmark) to contain budgetary transfers. We will also seek a five-year strategic plan from Biman Bangladesh Airlines by June 2013 to assess its financial viability in view of longstanding operating losses and as a pre-condition to any future government guarantees tied to new aircraft purchases, in order to minimize fiscal risk.

14. Debt management. We remain committed to strengthening our debt management capacity. With the support of our multi-donor Strengthening Public Expenditure Management Project, we prepared a draft debt management strategy (DMS) in August 2012, in part aimed at improving our own capacity to monitor debt sustainability. It will provide an anchor for a medium-term debt strategy expected to be completed by December 2013, which will lay out our borrowing priorities. Building on progress in recent years in recording external debt flows, we expect to complete the installation of UNCTAD's Debt Management and Financial Analysis System (DMFAS.6) by June 2013. Focusing on domestic debt, the MOF will prepare a diagnostic study on the Government Provident Fund (GPF) by June 2013, giving guidance on making contingencies for settling unfunded liabilities in future budgets. The MOF and National Savings Directorate will also increase the attractiveness of National Savings Certificates (NSCs) by benchmarking yields to market-based rates. In addition, subject to a government committee's recommendations, we will bring the taxation of interest on NSCs in line with other government debt instruments in the FY14

Finance Bill. In this process, we intend to explore revamping savings schemes aimed at non-resident Bangladeshis (NRBs) to attract more external inflows.

15. Debt ceilings. In keeping with our current DMP, we will continue to seek most external borrowing on concessional terms. To this end, we will adhere to limits on new nonconcessional external debt maturing in more than one year (a continuous PC), focusing such borrowing on properly evaluated projects in key infrastructure sectors, notably base power generation, and following approval procedures used by the Executive Committee of the National Economic Council for larger development projects. We did not observe this PC as a result in January 2013 of (i) new loans contracted with the Russian Federation related to assistance to assess the technical feasibility and overall viability of nuclear power development and to fund defense-related purchases, and (ii) a new guarantee issued for a combined cycle power plant. The loans are expected to be disbursed gradually over the next three to four years and will be accommodated in annual government budgets without crowding out other development priorities. The guarantee arises from early contracting on a project in our Power and Energy Sector Roadmap. Notwithstanding the rise in new nonconcessional borrowing, our risk of external debt distress remains low. Looking ahead, we are taking steps to strengthen our debt management practices by improving official projections of loans and guarantees through regular consultation with recently established budget wings in line ministries to ensure new commitments are fully included in the government's annual borrowing plan and adequately guide the setting of program debt ceiling limits. In addition, we are strengthening rules governing the granting of guarantees in the context of the June 2013 benchmark on issuing guidelines and procedures on budget monitoring and reporting in accordance with the PMBMA. On the basis of these remedial steps, we are requesting a waiver of the nonobservance of this PC on new nonconcessional external debt. In addition, we will ensure full transparency in all external borrowing, including nonconcessional loans and guarantees, through proper monitoring and accounting in our medium-term fiscal and debt sustainability frameworks. Our program's debt ceilings will also encapsulate any external borrowing associated with the possible issuance of a sovereign bond. On this matter, a committee was formed in January 2013 to agree on the modalities, timing, and amount of a future issue, with a view to also ensuring its recommendations are consistent with maintaining debt sustainability. Furthermore, we will maintain zero ceilings on nonconcessional external debt maturing in one year or less and on new accumulation of external payment arrears by the public sector (continuous PCs).

III. MONETARY AND EXCHANGE RATE POLICY

16. Policy objectives. We are committed to maintaining a restrained monetary policy until nonfood inflation is firmly entrenched in the single digits, backed by an appropriately tight fiscal policy. Bangladesh Bank will increasingly rely on indirect instruments for conducting monetary operations, allowing price signals to gain traction with the support of a more liberalized interest rate regime. In view of current external vulnerabilities, our NIR targets in 2013 build on the strong performance so far under our program, with BB expected to continue opportunistically accumulating reserves, as market conditions allow. At the same time, we will avoid pegging the exchange rate at risk of stifling market trading and will sterilize the impact of FX intervention, as necessary, to protect program targets. The SOCBs will also continue to be encouraged to procure FX for oil, food, and fertilizer imports through the interbank market, aided by proper planning and forecasting of their FX needs.

17. Monetary management. Our efforts remain focused on strengthening BB's liquidity forecasting framework (LFF), the market's role in determining interest rates, and ultimately the monetary transmission mechanism, in order to improve the effectiveness of monetary policy in preserving macroeconomic stability. To guide the joint BB-MOF Cash and Debt Management Committee (CDMC), we will further strengthen the LFF by improving our cash flow projections for the Treasury Single Account, putting in place a new forecasting process by June 2013, with IMF TA. This effort is also expected to help guide Treasury debt issuance. Bangladesh Bank will take further steps to reduce the devolvement of Treasury bills and bonds to all banks. To this end, we will develop new auction mechanisms and incentivize both primary and non-primary dealers by moving towards shorter-dated instruments and reviewing every quarter the bond to bill issuance ratio in the CDMC. As a start, we have changed the Treasury bill versus bond ratio for primary issues to 50:50 (a prior action). Other steps are being taken to activate trading in the secondary market for government securities and develop the market-making infrastructure, with BB initiating an electronic trading platform in December 2012 and planning to reissue past-dated securities by June 2013. As part of these market-deepening efforts, the MOF will approve amendments to the government's Islami bond (Sukuk) rule (2004) in 2013, bringing returns more in line with other government bonds.

18. Central bank operations. Bangladesh Bank remains committed to strengthening its financial operations and controls, taking necessary steps to address significant vulnerabilities identified by IMF's Safeguards Assessment in 2011. An external audit of BB's June 2012 accounts was undertaken in August 2012 by audit firms outside Bangladesh and their local affiliates. In order to strengthen the auditing process, the central bank will undergo an external audit of its end-June 2013 accounts by a global audit firm in collaboration with a local audit firm, consistent with the President's Order No. 2 (1973) and with the IMF kept regularly informed of the selection process for the external auditors, all for completion by December 2013 (a new benchmark). Bangladesh Bank has also integrated the main modules of the Enterprise Resource Planning and Core Banking systems, with automated financial statements prepared in parallel to the existing manual system, which was fully phased out in December 2012.

IV. FINANCIAL SECTOR REFORMS

19. Policy objectives. We remain firmly committed to strengthening financial sector governance and oversight, focusing on necessary legal and prudential reforms to reinforce BB's supervisory mandate and enhance its capacity, some of which are already in train. New loan classification and provisioning standards have been adopted by BB (a June 2012 benchmark), with most brought into full effect in 2012—well ahead of the end-June 2014 phase-in deadline. While compliance with these standards may lead to some deterioration in banks' profits and asset quality in the near term, the ultimate aim is to put all banks on sounder financial footing and reduce systemic risks. The recent case of lending fraud uncovered at one SOCB and malfeasance at other banks highlight the immediate need for better management and controls, to which we are firmly committed.

20. Banking system governance. As a centerpiece to our efforts, we will submit amendments to our Banking Companies Act (BCA) to Parliament by March 2013 (a rescheduled benchmark). Through these amendments, we will limit government's involvement in bank supervision and regulation consistent with its role as a shareholder in the SOCBs. The draft amendments will be finalized in consultation with the IMF. They are expected to consolidate BB's supervisory and regulatory powers and limit most special treatment and exemptions given to SOCBs and specialized banks. Bangladesh Bank will be authorized to remove these banks' chief executive officers. The amendments will also provide that banks' directors and senior management meet fit and proper criteria and are fully accountable for internal controls and risk management. In addition, the amendments will limit banks' exposure to the stock market to 25 percent of regulatory capital to mitigate risks to the financial system, with BB guidelines on this to be issued by March 2013 (a rescheduled benchmark). Bangladesh Bank will also ensure that potential new bank licensees are financially and operationally sound through pre-opening inspections of all new banks.

21. Financial supervision and enforcement. In line with changes to the BCA, further steps are being taken to strengthen bank supervision, regulatory enforcement, and resolution procedures. In support, BB adopted a new organizational structure in May 2012 aimed at consolidating management over on-site and off-site supervision activities. Amongst the changes, it has established a new Financial Stability Department tasked with conducting macro-prudential analysis of the financial system, assessing financial sector risks and vulnerabilities, and making policy recommendations for safeguarding financial stability. In addition, a new Financial Integrity and Customer Service Department has been set up, charged with conducting special inspections of banks, focused on operational risks. Bangladesh Bank also published the second edition of its annual Financial Stability Report in October 2012, deepening its coverage of financial soundness indicators. In addition, it is examining current policies and procedures with a view to developing a new enforcement regime by June 2013 aimed at prescribing corrective actions for scheduled banks rather than relying on the current system of financial penalties. Furthermore, BB will strengthen its bank resolution framework by September 2013 (a new benchmark), with necessary policies and instruments to undertake prompt corrective actions and orderly resolution of troubled banks. A key component of this framework will be funding mechanisms for these banks, including the finalization of a lender of last resort policy by the BB under appropriate safeguards, strengthening of the existing deposit insurance scheme, and allocation of funding risks among stakeholders.

22. State-owned commercial banks. In keeping with our commitments, we continue to pursue measures aimed at strengthening the SOCBs' financial performance and increasing their operational independence in order to safeguard the banking system and minimize fiscal risks. Rising non-performing loans, inadequate capital bases, and increased capital market exposure, all coupled with weak risk management and controls, reinforce need to put these banks under enhanced supervision. Bangladesh Bank will commence special diagnostic examinations at the four largest ones focused on asset quality, liquidity management, and internal audit and control in early 2013, with examination reports considered by BB's board by June 2013 (a new benchmark). Ahead of this, we will follow a process ensuring all board members appointed to SOCBs meet the existing fit and proper criteria set by BB. We will also contain lending by the SOCBs in line with their memoranda of understanding (MOUs) with BB by introducing an IT (ceiling) on aggregate net credit extended by the SOCBs. On top of this, BB will begin publishing a set of quarterly performance indicators on these banks in January 2013. In addition, the central bank will take forceful actions to recover scammed funds at one SOCB, overseen by a new board and management at the bank, in order to limit fiscal and systemic risks. Finally, the SOCBs will amortize valuation adjustments made to their balance sheets to cover earlier losses, as per agreed schedules. At the same time, any further injection of new capital into these banks by the government will be fully budgeted and guided by a BB-approved restructuring plan.

23. Securities market. We continue to develop a transparent regulatory framework for the Bangladesh Securities and Exchange Commission (SEC). Comprehensive revisions are now expected to be completed by May 2013, with support of the Asian Development Bank (AsDB). Our immediate priority is to pass the Demutualization Act by early 2013, which will outline key elements of the demutualization model for the stock exchanges. In support of this reform, the SEC Act and Ordinance were also amended in November 2012 to strengthen the institutional set-up. With the Demutualization Act in place, the SEC will approve demutualization models and plans for both Dhaka and Chittagong stock exchanges by June 2013 (a rescheduled benchmark). In line with BB's objective to bring all bank subsidiaries under its supervision by mid-2013, BB, the SEC, and other regulators have set up a coordination committee, chaired by the central bank governor.

V. TRADE AND INVESTMENT CLIMATE REFORMS

24. Public-private partnerships. Our Private-Public Partnership (PPP) office is now fully operational, with professional managers initially focused on bringing forward small-scale projects with a view to establishing a successful track record in this area. In support, a set of manuals has been finalized, with AsDB assistance, covering screening, development, and tendering processes for prospective PPP projects, as well as environmental and social safeguards. We plan to submit a PPP Law to Parliament by June 2013 aimed at establishing a structure under which formal rules guiding PPPs can be framed, with a view to delineating clearly the project approvals process.

25. Exchange market liberalization and trade reforms. We will complete a review of the Foreign Exchange Regulation Act by September 2013 (a new benchmark), with a focus on repatriation rules governing inward FDI and portfolio investment flows, as well as investments by NRBs. These steps will be important complements to a possible sovereign issue and greater private external borrowing. We will also work with the World Bank to complete a Diagnostic Trade Integration Study, now expected in mid-2013, to inform measures needed to support import facilitation for promising export-oriented sectors.

VI. PROGRAM MONITORING

26. Program monitoring. Progress under our program will continue to be monitored through performance criteria and indicative targets, structural benchmarks, and other necessary measures, in order to complete semi-annual program reviews. Quantitative performance criteria and indicative targets for March 2013, June 2013, September 2013, and December 2013 are set out in Table 1 and structural benchmarks are set out in Table 2. They are guided by the TMU, as amended. The second and third reviews are expected to take place on or after May 1, 2013 and November 1, 2013.

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

	12/31/11		3/31/12		6/30/12				9/30/12				12/31/12		3/31/13	6/30/13	9/30/13	12/31/13
	Est.	Rev. Est.	IT	Est.	Prog. PC	PC with adjustors	Est.		IT	IT with adjustors	Est.		Prog. PC	Prel. Est.	IT	Prog. PC	IT	IT
Performance criteria 2/																		
Net international reserves (NIR) of Bangladesh Bank (BB) (floor, end of period (eop) stock, in millions of U.S. dollars) 3/	6,154	6,152	5,977	6,405	5,937	6,097	6,984	Met	6,165	6,193	7,968	Met	6,256	9,554	9,304	9,215	9,516	9,849
Net domestic assets (NDA) of BB (ceiling, eop stock, in billions of taka) 3/	444	442	483	418	550	538	435	Met	556	554	383	Met	573	338	350	429	419	462
Net credit to the central government (NCCG) by the banking system (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka) 3/ 4/	139	139	174	133	252	240	139	Met	49	47	1	Met	99	...	138	201	25	93
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, eop stock since December 31, 2011, in millions of U.S. dollars) 5/ 6/	...	...	500	300	500	500	330	Met	1,000	1,000	330	Met	1,000	893	3,000	3,250	3,500	3,750
New nonconcessional external debt maturing in one year or less, contracted by the public sector and/or guaranteed by the central government or BB (ceiling, eop stock since December 31, 2011, in millions of U.S. dollars) 5/	...	...	0	0	0	0	0	Met	0	0	0	Met	0	...	0	0	0	0
Accumulation of new external payment arrears by the public sector (ceiling, eop stock since December 31, 2011, in millions of U.S. dollars) 5/	...	...	0	0	0	0	0	Met	0	0	0	Met	0	...	0	0	0	0
Indicative targets																		
Reserve money (ceiling, eop stock, in billions of taka)	925	922	950	917	1,014	1,014	976	Met	1,037	1,037	997	Met	1,061	1,067	1,063	1,135	1,148	1,216
Tax revenue of central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka) 7/	394	394	627	633	924	924	916	Not met	232	232	228	Not met	489	...	757	1,095	244	535
Social-related spending by central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka)	...	139	248	248	400	400	421	Met	81	81	73	Not met	161	...	276	455	85	177
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	-55	-49	750	525	1,000	1,000	1,160	Not met	1,125	1,125	1,096	Met	1,250	...	1,250	1,125	1,125	1,125
State-owned banks funded loans to Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB), and Bangladesh Chemical Industries Corporation (BCIC) (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka) 8/	2	2	15	-2	0	0	-10	Met	0	0	-2	Met	0	...	0	0	0	0
Net loans extended by four largest state-owned commercial banks (ceiling, eop stock, in billions of taka) 9/	...	...	...	...	...	...	...		...	...	...		...	...	702	727	752	778
Memorandum items:																		
Budget support from bilateral and multilateral donors agencies (cumulative change from the beginning of the fiscal year, in millions of U.S. dollars), program level	...	...	0	0	0	0	0		0	0	27		50	...	100	250	50	100
Budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 (July 2011-June 2012) (cumulative change from the beginning of the fiscal year, in billions of taka), program level	...	...	...	...	...	...	...		...	...	12		...	...	55	55	0	0

1/ Fiscal year begins July 1.
2/ Evaluated at the program exchange rate.
3/ The adjustors are specified in the Technical Memorandum of Understanding. Accordingly, the floor on NIR of BB will be adjusted upward (downward) and the ceiling on NCCG by the banking system and the ceiling on NDA of BB will be adjusted downward (upward) by the amount of budget support received from bilateral and multilateral donors in excess (short) of the programmed level. The floor on NIR of BB will be adjusted upward and the ceiling on NCCG by the banking system and the ceiling on NDA of BB will be adjusted downward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level. From March 2013, the ceiling on NCCG by the banking system will be adjusted downward by the amount of budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 short of the programmed level.
4/ The ceiling on NCCG by the banking system in FY12 excludes Tk 27.0 billion and in FY13 (July 2012-June 2013) excludes Tk 55.2 billion of special bonds issued 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.
6/ As of February 10, 2013, this continuous PC was not met, with total new nonconcessional external debt maturing in more than one year, contracted by total the public sector and/or guaranteed by the central government or BB at US$2,586 million since the start of the ECF arrangement, against a ceiling of US$1,000 million.
7/ Collections by the National Board of Revenue only.
8/ Outstanding funded loans of Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, and BASIC Bank to BPC, BPDB, and BCIC.
9/ Comprising Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank.

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

Actions	Date: Original	Date: Rescheduled	Macroeconomic Criticality	Status
Prior Actions:				
Passage of a new value added tax (VAT) law by the National Parliament consistent with tax modernization plans and medium-term revenue targets.			To increase tax revenue	Completed.
Establish a technical committee comprising officials from the Ministries of Finance and Agriculture, Bangladesh Chemical Industries Corporation, and other agencies, as necessary, to monitor commitments and payments.			To strengthen governance and reduce fiscal risks	Completed.
Rationalize primary issuances by raising Treasury bill-bond ratio at auction to 50:50.			To reduce financial repression	Completed.
Structural Benchmarks:				
Reduce the outstanding balances of foreign exchange overdrafts provided by Bangladesh Bank (BB) to zero.	June 2012		To increase transparency and safeguard foreign reserves	Met.
Submit a new VAT law to the National Parliament consistent with tax modernization plans and medium-term revenue targets.	June 2012		To increase tax revenue	Not met. Law submitted on July 8, but required further revisions in line with program commitments.
Remove tax concessions and exemptions in the FY13 Finance Bill equivalent to at least 0.5 percent of GDP in FY13.	June 2012		To increase tax revenue	Not met. An estimated 0.3 percent of GDP were removed.
Establish budget management wings/branches in all line ministries and issue a circular to ensure uniform budget implementation and reporting standards.	June 2012		To strengthen budget monitoring and controls	Not met. Budget management wings/branches were established by June 2012, but circular issued on August 2, 2012.
Issue new BB regulations on loan classification and loan-loss provisioning in line with international best practices, to take full effect by June 2014.	June 2012		To strengthen the financial sector	Met.
Approval by the Minister of Finance of a VAT implementation plan and timetable and a new organizational structure of the National Board of Revenue (NBR).	September 2012	March 2013	To increase tax revenue	Not met. Rescheduled for completion because of delays in passage of the new VAT law. Draft plan prepared (with IMF technical assistance) in December 2012.
Submit amendments to the Bank Companies Act (BCA) to the National Parliament, giving BB the sole legal supervisory and regulatory authority over commercial banks and expanding fit and proper criteria for all commercial banks to all major shareholders, board members, and executive officers.	September 2012	March 2013	To strengthen risk management and improve bank governance	Not met. Rescheduled for completion, with additional time needed by BB and the Ministry of Finance to finalize a set of amendments consistent with program commitments.

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

Actions	Date: Original	Date: Rescheduled	Macroeconomic Criticality	Status
Structural Benchmarks (continued):				
Issue a BB order, consistent with the amended BCA, establishing a limit on a commercial bank's shareholdings in the stock market to 25 percent of its total regulatory capital.	September 2012	March 2013	To strengthen banks' financial position	Not met. Rescheduled because of delays in finalizing amendments to the BCA.
Automate taxpayer identification number issuance, including links to the national identification number system.	December 2012	June 2013	To increase tax revenue	Not met. Rescheduled because of delays in the project tendering process and the need to ensure consistency with the tax modernization strategy.
Adopt an automatic adjustment mechanism for retail petroleum prices to ensure full pass-through of international prices.	December 2012		To reduce operating losses of Bangladesh Petroleum Corporation and overall subsidy costs	Not met. Price adjustments will continue to be made, as necessary, to ensure the wedge between domestic and international prices is consistent with containing fuel subsidies.
Approval by the Bangladesh Securities and Exchange Commission of a demutualization model and plan for the Dhaka and Chittagong stock exchanges.	December 2012	June 2013	To strengthen the financial sector	Not met. Rescheduled because of legal need for prior passage of a new Demutualization Act.
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	New benchmark
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	New benchmark
Complete special diagnostic examinations by BB at the four largest state-owned commercial banks focused on asset quality, liquidity management, and internal audit and controls.	June 2013		To strengthen financial sector soundness	New benchmark
Finalize a bank resolution framework, comprising a contingency plan and lender of last resort policy at BB.	September 2013		To reduce systemic risks	New benchmark
Complete a review of the Foreign Exchange Regulation Act.	September 2013		To strengthen the trade and investment climate	New benchmark
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	New benchmark

Attachment 2. Bangladesh—Technical Memorandum of Understanding

February 10, 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 first year of the ECF arrangement, the program exchange rate is Bangladesh taka (Tk) 74.23 per U.S. dollar, or the average interbank rate prevailing on June 30, 2011. Foreign currency accounts denominated in currencies other than the U.S. dollar and monetary gold will first be valued in U.S. dollars as at the exchange rates and gold prices prevailing on June 30, 2011, and then be converted to Bangladesh taka.

3. The data listed in Table 1 will be provided for monitoring performance under the program based on data templates agreed with IMF staff. Under each section, reporting responsibilities are indicated. The best available data will be submitted, so that any subsequent data revisions will not lead to a breach of quantitative performance criteria or benchmarks. All revisions to data will be promptly reported to IMF staff.

VII. Quantitative Performance Criteria and Indicative Targets

4. Quantitative performance criteria remain in place for end-December 2012, as established at the time of approval of the request for a three-year arrangement under the ECF. Quantitative performance criteria will also be set for end-June 2013, while indicative targets will be set for end-March 2013, end-September 2013, and end-December 2013.

5. Performance criteria under the ECF arrangement have been established with respect to a:

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

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

to a:

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

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

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

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

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

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

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

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

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

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

8. Adjustors to the measurement of performance criteria are (i) budget support to the central government from bilateral and multilateral agencies, calculated cumulatively from the beginning of the fiscal year; (ii) net lending by the government to the BPC and BPDB calculated cumulatively from the beginning of the fiscal year (this adjustor will be removed from March 2013); (iii) suppliers' credit and other short-term financing for oil imports; and (iv) budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 (this adjustor will be introduced from March 2013).

VIII. 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.

IX. MONETARY AGGREGATES

A. Reserve Money

13. A ceiling applies on the level of reserve money, which comprises currency issued by BB (excluding BB holdings of currency) plus deposits of DMBs held at BB. Reserve money excludes DMBs' foreign currency clearing accounts at BB and nonbank deposits at BB.

B. Net International Reserves of Bangladesh Bank

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

15. For program monitoring purposes, NIR of BB is defined as gross international reserves (GIR) less international reserve liabilities. For program monitoring purposes, the stock of foreign assets and foreign liabilities of BB shall be valued at the program exchange rate in U.S. dollars, as described in paragraph 2.

16. Gross international reserves of BB are defined as the sum of:

- Foreign currency assets in convertible currencies held abroad and as vault cash that are under the direct and effective control of BB, readily available for intervention in the foreign exchange market or the direct financing of balance of payments imbalances, and of investment grade (i.e., a rating of at least Baa (Moody's) or BBB- (Standard & Poors and Fitch)) or held with an investment-grade institution;

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

Excluded from the definition of GIR are:

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

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

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

C. Net Domestic Assets of Bangladesh Bank

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

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

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

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

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

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

20. A ceiling applies on the change in net credit to the central government (NCCG) by the banking system measured cumulatively from the beginning of the fiscal year. The ceiling on NCCG by the banking system will be adjusted upward (downward) by the amount of budget support from bilateral and multilateral agencies short of (in excess of) the programmed level. The ceiling on NCCG by the banking system will be adjusted downward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level and by the amount of net lending by the central government to the BPC and the BPDB short of the programmed level. From March 2013, the adjustor on NCCG on the amount of net lending by the central government to the BPC and BPDB short of the programmed level will be removed. In addition, from March 2013, the ceiling on NCCG by the banking system will be adjusted downward by the amount of budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 short of the programmed level. The ceiling on NCCG by the banking system excludes special bonds issued by the central government to the SOCBs for the securitization of loans made by these banks to the BPC prior to FY12 to cover shortfalls in government budgetary transfers for fuel subsidy-related costs incurred by the BPC.

21. For program monitoring purposes, NCCG by the banking system is defined as the sum of net claims of BB and DMBs on the central government. For program monitoring purposes, from March 2013, NCCG by the banking system will be defined to exclude deposits of and credit to autonomous and semi-autonomous bodies of the government (see 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).

X. FISCAL AGGREGATES

A. Tax Revenue

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

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

B. Social-Related Spending

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

26. For program monitoring purposes, social spending comprises all spending categories of the Ministry of Primary and Mass Education; Ministry of Education; Ministry of Health, Family, and Welfare; and all expenditures on social safety net programs in the budget economic codes listed in Table 4. Safety net programs hosted in one of these ministries already included in this definition will be deducted from the total to avoid double counting.

XI. EXTERNAL DEBT

A. Medium- and Long-Term External Debt

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

28. For program monitoring purposes, the definition of debt is set out in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangement Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09-91), effective December 1, 2009 (see Annex I). External debt is defined by the residency of the creditor, excluding any taka-denominated treasury bonds and any U.S. dollar-

denominated bonds issued by the central government's Directorate of National Savings that are held by nonresidents (see TMU paragraph 29).

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

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

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

B. Short-Term External Debt

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

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

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

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

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

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

XII. EXTERNAL PAYMENT ARREARS

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

38. For program monitoring purposes, external payments arrears comprise external debt and debt-service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements. However, for program purposes, overdue debt and debt-service obligations that are in dispute will not be considered as external payment arrears.

Table 1. Bangladesh: Data Reporting Requirements

Item	Reporting agency	Periodicity
I. Monetary, exchange rate, and interest rate data	**Bangladesh Bank (BB)**	
Daily exchange rates (taka per U.S. dollar)—weighted-average, open market (buy and sell rates), interbank (high and low rates), and BAFEDA member rates.	BB	Daily, next working day
Daily foreign exchange interbank market trading spot, forward, and swap volume	BB	Daily, next working day
Net open position of deposit money banks	BB	Daily, next working day
Stock of gross international reserves (GIR), Asian Currency Unit liabilities, Foreign Exchange Clearing Account balances, Foreign exchange overdraft balance (FXOD) and exchange rate valuation changes to GIR.	BB	Daily, next working day
Detailed data on the composition of GIR, including currency composition	BB	Daily, next working day
Stock of GIR, net international reserves (NIR), NFA including subcomponents, both at program and market exchange rates.	BB	Daily, next working day
Stock of noninvestment grade bonds by name of issuer, investment rating, and currency composition	BB	Monthly, within two weeks of the end of each month
Sales and purchases of foreign exchange by BB	BB	Daily, next working day
Daily bank and call money market rates	BB	Daily, next working day
Daily BB repo and reverse repo rates and interbank repo and reverse repo rates (weighted average yields)	BB	Daily, next working day
Daily BB repo and reverse repo and interbank repo and reverse repo trading volumes (billions of taka)	BB	Daily, next working day
Daily volume of open market operations (sales and purchases) by BB (billions of taka)	BB	Daily, next working day
Stock of reserve money and its components	BB	Daily, next working day
Excesses/shortfalls of DMBs' reserves	BB	Daily, next working day
Bangladesh Bank's balance sheet and off-balance items by currency representation	BB	Monthly, within two weeks of the end of each month
Treasury bill and bond auction reports, including range of bids submitted by primary dealers	BB	Weekly, within one week of the end of each week
Weekly retirement of government securities and outstanding balances of Treasury bills and bonds	BB	Weekly, within one week of the end of each week
Bangladesh Bank bills and auction reports	BB	Weekly, within one week of the end of each week
Balance sheet of BB (form 10 G)	BB	Monthly, within six weeks of the end of each month
Balance sheet (aggregate) of commercial banks (form 20 G)	BB	Monthly, within six weeks of the end of each month
Monetary survey (form 30 G)	BB	Monthly, within six weeks of the end of each month
Foreign assets and liabilities of BB	BB	Monthly, within six weeks of the end of each month
Foreign exchange cash flow of BB	BB (Foreign Reserve and Treasury Management Department)	Monthly, within five working days of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (continued)		
Item	**Reporting agency**	**Periodicity**
II. Fiscal data	**Ministry of Finance(MOF)**	
Fiscal outturn, including financing of the overall fiscal balance	MOF (Finance Division (FD))/ Controller General of Accounts (CGA)	Monthly, within six weeks of the end of each month
Revenue, by type of tax and nontax revenues (with main subheadings)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Privatization receipts	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
National Bureau of Revenue collections (by type of tax and subheadings)	NBR	Monthly, within six weeks of the end of each month
Recurrent expenditure, including spending on pay and allowances, goods and services, interest payments (domestic and foreign), subsidies, transfers, and block allocations (with main subheadings)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Breakdown of subsidies by main categories (agriculture, fertilizer, food, exports, and others)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Outstanding payments due to settle commitments arising from fertilizer subsidies	MOF(FD)/CGA)	Monthly, within six weeks of the end of each month
Fertilizer subsidy commitments in FY13, both actual and projections, by regularly monitoring the trade gap between import costs and sales revenue as per the monitoring framework.	MOF (FD)	Monthly, within six weeks of the end of each month
Social spending (see Table 4)	MOF (FD)/CGA	Quarterly, within six weeks of the end of each quarter
Food account surplus/deficit	MOF (FD)/CGA	Monthly, within six weeks of the end of each month (quarterly for detailed data)
Annual Development Program (ADP) expenditure funded by (i) the central government and (ii) foreign grants and loans, included in the budget, including separately for Padma Bridge (domestically and externally funded)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month (quarterly for detailed data)
Non-ADP capital spending (including main subheadings) and net lending (including by receipts and payments, including a breakdown by state-owned enterprises (SOEs))	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Extraordinary expenditures (by type)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Foreign financing, comprising (i) disbursements and amortization of program and project loans; and (ii) changes in external debt arrears, classified into principal and interest arrears	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Disbursements of program and project grants	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Foreign financing, comprising (i) disbursements and amortization of program and project loans; and (ii) changes in external debt arrears, classified into principal and interest arrears	MOF (Economic Relations Division (ERD))	Monthly, within four weeks of the end of each month
Disbursements of program and project grants by donor	MOF (ERD)	Monthly, within four weeks of the end of each month
Domestic financing, comprising (i) borrowing from and repayment to BB, DMBs, and nonbanks; (ii) changes in deposits held in BB, DMBs, and other deposit-taking institutions (see Table 2)	MOF(FD)/CGA/BB	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (continued)		
Item	**Reporting agency**	**Periodicity**
Balancing items reported by the CGA	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
III. State-owned enterprise data	**MOF**	
See Table 3 on key financial indicators for Bangladesh Power Development Board (BPDB), Bangladesh Petroleum Corporation (BPC), and Bangladesh Chemical Industries Corporation (BCIC).	MOF (FD/SOE Monitoring Unit)/BPC	Quarterly, within six weeks of the end of each quarter
IV. Debt data	**MOF/BB/National Savings Directorate (NSD)**	
New external debt obligations contracted and/or guaranteed (concessional and nonconcessional) by the government of Bangladesh, BB, nonfinancial public enterprises, departments and autonomous and semi-autonomous bodies of all ministries and divisions (i.e. the public sector) , including details on the amounts, terms, and conditions of each new obligation	MOF (ERD)/BB	Monthly, within six weeks of the end of each month
Total amount disbursed for each loan and guarantee included under the ceiling on nonconcessional external debt	MOF (FD)	Quarterly, within six weeks of the end of each quarter
Stock of outstanding external debt (short-term and medium- and long-term obligations) of the public sector, by creditor (in original currency and U.S. dollars)	MOF (ERD)/BB	Quarterly, within eight weeks of the end of the quarter
Stock of arrears on external debt contracted or guaranteed by the public sector by creditor (in original currency and U.S. dollars)	MOF (ERD)/BB	Monthly, within six weeks of the end of each month
Stock of domestic debt, including the outstanding balance of Treasury bills, Treasury bonds, as well as breakdown of instruments of the National Savings Directorate (i.e. National Savings Certificates)	MOF (FD)/BB/NSD	Monthly, within six weeks of the end of each month
Projections of daily individual oil-related payments by commercial banks.	BB	Monthly, two weeks in advance of the beginning of each month
V. Financial data	**BB**	
Financial soundness indicators of DMBs	BB (Department of Off-Site Supervision (DOS))	Quarterly, within eight weeks of the end of the quarter
Bank-by-bank data for the DMBs on credit to the private sector, as reported to BB for the purpose of compiling the monetary survey	BB	Monthly, within six weeks of the end of each month
Bank-by-bank data for the DMBs on deposit and advance position	BB	Weekly data reported on a monthly basis, within two weeks of the end of each month
Compliance of state-owned commercial banks (SOCBs) with memoranda of understanding	BB (DOS)	Quarterly, within six weeks of the end of the quarter
Net loans and advances and components for each of the four largest SOCBs (Agrani, Janata, Rupali, and Sonali).	BB	Quarterly, within six weeks of the end of each quarter
External borrowing in foreign currency by each SOCB from nonresident institutions	BB	Within a week from the date of approval by BB
Total capital market exposure and total share holding (in percent of total liabilities) of DMBs, and their exposures via subsidiaries	BB (DOS)	Monthly, within six weeks of the end of each month
Risk-weighted capital asset ratios and asset quality indicators of DMBs	BB (DOS)	Quarterly, within six weeks of the end of each month
Stock of loans extended to SOEs (BPC, BPDB, BCIC) by SOCBs (Sonali, Agrani, Janata, Rupali) and BASIC bank, both funded and unfunded loans	BB (DOS)	Monthly, within four weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (concluded)		
Item	**Reporting agency**	**Periodicity**
VI. External data	**BB/Other agencies**	
Detailed balance of payments	BB	Monthly, within six weeks of the end of each month
Export data by goods	Export Promotion Bureau	Monthly, within four weeks of the end of each month
Import letters of credit (settlement, opening, and outstanding)	BB	Monthly, within four weeks of the end of each month
Remittances and manpower exports	BB/Bureau Manpower, Employment, and Training	Monthly, within two weeks of the end of each month
VII. Other data	**Bangladesh Bureau of Statistics (BBS)**	
National accounts, by expenditure and by production, in nominal and real terms	BBS	Annual, within three months of the end of each year
Overall consumer price index	BBS	Monthly, within six weeks of the end of each month
Industrial production statistics	BBS	Monthly, within eight weeks of the end of each month

Table 2. Bangladesh: Components of Domestic Bank Financing of the Central Government

A new data reporting format is being established, as follows:

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

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

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

Table 4. Bangladesh: Safety Net Programs			
	Programs	**Name of Ministry**	**Code**
(A.1) Cash Transfer (Allowances) Programs & Other Activities:			
(A.1.1) Social Protection			
1	Old Age Allowance	Ministry of Social Welfare	3960
2	Allowances for the Widow, Deserted and Destitute Women	Ministry of Social Welfare	3965
3	Allowances for the Financially Insolvent Disabled	Ministry of Social Welfare	3970
4	Maternity Allowance Program for the Poor Lactating Mothers	Ministry of Social Welfare	4715
5	Honorarium for Insolvent Freedom Fighters	Ministry of Social Welfare	3587
6	Honorarium & Medical Allowances for Injured Freedom Fighters	Ministry of Social Welfare	3585
7	Grants for Residents in Government Orphanages and Other Institutions	Ministry of Social Welfare	0000
8	Capitation Grants for Orphan Students in Non-government Orphanages	Ministry of Social Welfare	3451
9	General Relief Activities	Disaster Management & Relief Division	0001
10	Block Allocation for Disaster Management	Disaster Management & Relief Division	0003
11	Non-Bengali Rehabilitation	Ministry of Social Welfare	0015
12	Allowances for Distressed Cultural Personalities/ Activists	Ministry of Cultural Affairs	0001
13	Pension for Retired Government Employees and their Families	All Ministries	
14	Ration for Shaheed Family and Injured Freedom Fighters	Ministry of Liberation War Affairs	0001
(A.1.2) Social Empowerment			
1	Stipend for Disabled Students	Ministry of Social Welfare	4711
2	Grants for the Schools for the Disabled	Ministry of Social Welfare	0001
(A.2) Cash Transfer (Special) Program			
(A.2.1) Social Empowerment			
1	Housing Support	Disaster Management & Relief Division	0001
2	Agriculture Rehabilitation	Ministry of Agriculture	0012
(B) Food Security Programs: Social Protection			
1	Open Market Sales (OMS)		
2	Vulnerable Group Development (VGD)	Ministry of Women & Children Affairs	0005
3	Vulnerable Group Feeding (VGF)	Ministry of Women & Children Affairs	0007
4	Test Relief (TR) Food	Food Division	0001
5	Gratuitous Relief (GR)- Food	Food Division	0001
6	Food Assistance in CTG-Hill Tracts Area	Ministry of Chittagong Hill Tracts	0003
7	Food For Work (FFW)	Disaster Management & Relief Division	5010

Table 4. Bangladesh: Safety Net Programs (continued)

	Programs	Name of Ministry	Code
(C.1) Micro-Credit Programs: Social Empowerment			
1	Micro-credit for Women Self-employment	Ministry of Women & Children Affairs	3092
2	Fund for Micro-Credit through PKSF	Finance Division	3912
3	Social Development Foundation	Finance Division	3946
4	NGO Foundation	Finance Division	2829
(C.2) Miscellaneous Funds: Social Empowerment			
1	Fund for the Welfare of Acid Burnt and Disabled	Ministry of Social Welfare	3967
2	Fund for Assistance to the Small Farmer and Poultry Farms	Finance Division	3996
3	Swanirvar Training Program	Finance Division	3961
4	Shamaj Kallyan Parishad	Ministry of Social Welfare	3091
(C.3) Miscellaneous Funds: Social Protection			
1	Fund for Climate Change	Ministry of Environment & Forest	0002
2	Allowances for Urban Low-income Lactating Mothers	Finance Division	4005
3	Block Allocation for Various Program	Finance Division	0000
4	Employment Generation Program for the Ultra Poor	Disaster Management & Relief Division	0006
5	National Service	Ministry of Youth and Sports	4729
6	Special Program for Irrigation and Water Logging	Ministry of Agriculture	4837
7	Skill Development Fund for Expatriate Returnees and New Entrants to Labor market	Ministry of Expatriates Welfare & Overseas Employment	0010
8	Child Development Center	Ministry of Social Welfare	3489
9	Service and Assistance Center for Disabled	Ministry of Social Welfare	3490
10	Ghare Fera Program (Returning Home)	Banking Division	0014
(C.4) New Fund: Social Protection			
1	Rehabilitation and Creation of Alternative Employment for People Engaged in Begging Profession	Ministry of Social Welfare	3495
(D) Development Sector Programs: Social Empowerment			
(D.1) Running Development Programs			
1	Stipend for Primary Students	Ministry of Primary & Mass Education	6020
2	School Feeding Program	Ministry of Primary & Mass Education	5150
3	Stipend for Dropout Students	Ministry of Primary & Mass Education	5960
4	Char Livelihood	Rural Development & Cooperatives Division	6980
5	"Ashrayan" (Housing)	Prime Minister's Office	6520
6	Stipend and Access Increase for Secondary and Higher Secondary Level Students (including Secondary Education Stipend Project)	Ministry of Education	5620

Table 4. Bangladesh: Safety Net Programs (continued)

	Programs	Name of Ministry	Code
7	Maternal Health Voucher Scheme	Ministry of Health & Family Welfare	8540
8	National Nutrition Program	Ministry of Health & Family Welfare	8320
9	Protection of Children at Risk	Ministry of Social Welfare	7011
10	Economic Empowerment of the Poor	Rural Development & Cooperatives Division	8162
11	Fundamental Education for Urban Working Children	Ministry of Primary & Mass Education	5964
12	Employment for Ultra-Poor in Northern Region	Rural Development & Cooperatives Division	7000
13	Participatory Rural Development (2nd Phase)	Rural Development & Cooperative Division	8090
14	Rural Employment Opportunity for Public Asset	Local Government Division	6030
15	"Gucchagram" (Climate victims rehabilitation project)	Ministry of Land	5010
16	Rural Employment and Rural Maintenance Program	Local Government Division	8112
17	Preliminary Education for Development of Children	Ministry of Women & Children Affairs	5011
18	Vulnerable Group Development for Ultra Poor (Women)	Ministry of Women & Children Affairs	5100
19	Reconstruction of Houses of SIDR affected landless people	Food Division	5160
20	Construction of Flood-Shelter in Flood Prone and River-Erosion Areas	Food Division	5381
21	Disaster Risk Mitigation and Reduction	Disaster Management & Relief Division	5010
22	Small Farmers Development Foundation	Rural Development & Cooperatives Division	7250
23	Regional Fisheries and Livestock Development	Ministry of Fishery & Animal Division	5300
24	Projects Undertaken for Fisheries Development	Ministry of Fishery & Animal Division	7050
25	Jatka (Fish)Protection and Alternative Employment for Fishermen	Ministry of Fishery & Animal Division	5390
26	Micro-Nutrient Supplementation	Ministry of Health & Family Welfare	8340
27	Post Literacy Education Project for Human Resource Development	Ministry of Primary & Mass Education	5960
28	One Household One Farm	Rural Development & Cooperatives Division	7310
29	Revitalization of Community Health Care Initiative in Bangladesh	Ministry of Health & Family Welfare	5450
30	Sisimpur Outreach Project	Ministry of Women & Children Affairs	7021
31	National Sanitation Project	Local Government Division	5140
32	Pulse and Oil Seed Project	Ministry of Agriculture	7450
33	Community Based Adaptation to Climate Change through Coastal Aforestation in Bangladesh	Ministry of Environment & Forest	5360

Table 4. Bangladesh: Safety Net Programs (concluded)

	Programs	Name of Ministry	Code
34	Comprehensive Village Development	Rural Development & Cooperatives Division	8167
35	Comprehensive Disaster Management Program	Disaster Management & Relief Division	5041
36	Urban Public Environment Health Development Program	Local Government Division	7479
(D.2) New Development Programs			
1	Poverty Eradication and Ensuring Livelihood for the People Living in Economically Backward Areas.	Ministry of Fishery & Animal Division	6463
2	Poverty Eradication through Social Aforestation.	Ministry of Environment & Forest	7396
3	Improvement and Quality Seed Production of Rice, Wheat and Maize.	Ministry of Agriculture	8881

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

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

BANGLADESH

January 30, 2013

FIRST REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION—DEBT SUSTAINABILITY ANALYSIS UPDATE

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Prepared by
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This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from October 14, 2011, reflecting the most recent macroeconomic developments and borrowing needs.[1] *While this DSA includes new external borrowing on nonconcessional terms envisaged over the near and medium term, its results indicate that Bangladesh remains at a low risk of debt distress, consistent with the previous DSA. Further improvements in debt management and project planning capacity will be key to using nonconcessional resources productively.*[2]

1. **At end-FY12 (i.e., end-June 2012), Bangladesh's debt stock comprised of:**

- Public and publicly-guaranteed external debt with a face value equivalent to 21 percent of GDP, about 82 percent of which is owed to multilateral creditors; and

- Domestic debt, which amounted to 21 percent of GDP, comprising Treasury bonds and bills (53 percent), National Savings Certificates (34 percent), and government overdrafts at the central bank (14 percent).

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

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

2. Main changes in assumptions. Since the previous DSA in the staff report for the 2011 Article IV Consultation, key updates are:[3]

- **A slightly revised macroeconomic framework.** Over the near and medium term, real GDP growth has been marked down to an average of 6.4 percent during FY13–15 (compared to 6.7 percent in the previous DSA) given global uncertainties, reflected primarily in lower export growth as a result of the euro area crisis. All growth assumptions are based on the government's maintenance of macroeconomic stability, pursuit of broad-ranging structural reforms, and strengthening of its trade and investment climate, as necessary to put Bangladesh's economy on a higher growth trajectory. However, weak governance, policy indecision, and capacity constraints could dampen the growth outlook if not dealt with upfront.

Bangladesh: Public and Publicly Guaranteed External Debt
(At end-June 2012)

	In Millions of U.S. Dollars	In Percent of Total External Debt
Multilateral debt	**18,977**	**81.8**
World Bank	10,646	45.9
Asian Development Bank	7,196	31.0
International Monetary Fund	535	2.3
International Fund for Agricultural Development	311	1.3
Islamic Development Bank	200	0.9
Other	88	0.4
Bilateral debt	**2,532**	**10.9**
Japan	1,935	8.3
Korea, Republic of	202	0.9
Kuwait	163	0.7
United States	91	0.4
Other	142	0.6
Short-term debt	**1,680**	**7.2**
Total	**23,189**	**100.0**
(Percent of GDP)	20.7	

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

- **Primary fiscal deficit.** Over the medium term, the primary deficit is smaller than in the previous DSA mainly as a result of fiscal policy commitments under the Extended Credit Facility (ECF) arrangement with the IMF to: (i) accelerate tax policy and revenue administration reforms; (ii) contain subsidy-related costs and improve public financial management; and (iii) strengthen debt management.

- **Higher external borrowing.** Bangladesh has large investment needs in power generation and other basic infrastructure. Compared to the previous DSA, the external borrowing by the central government is assumed to increase by about 0.4 percentage points of GDP a year over the medium term and by 0.2 percentage points of GDP a year over the long term to meet these needs. In addition, the current DSA assumes higher nonconcessional borrowing by the public sector (including state-owned enterprises) than in the previous DSA, mainly for high-impact infrastructure projects.[4] It also includes US$1.5 billion in new nonconcessional

[3] See IMF Country Report No. 11/314.

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

external borrowing recently contracted with the Russian Federation.[5] Relative to the previous DSA, private sector borrowing is assumed to increase by about 0.2 percentage points of GDP a year over the medium term and 0.4 percentage points of GDP a year over the long term, in line with envisaged improvements in the business climate and access to external resources.

- **Lower domestic borrowing.** In line with the authorities' fiscal policy commitments, central government domestic debt is projected to remain constant at about 20 percent of GDP over the medium term and then decrease to 17 percent of GDP by the end of the projection period. The previous DSA projected a gradual increase in domestic debt to 28 percent of GDP by the end of the projection period.

BASELINE SCENAIRO

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

4. **The public sector DSA,** in its baseline, sees the present value (PV) of public sector debt-to-GDP ratio fall gradually to 29 percent of GDP in FY33. That said, at least two pertinent risks exist in addition to those tested in the scenario analysis that could raise the debt service-to-revenue ratio: (i) underperforming tax collections could call for a scaling back of fiscal spending, with possible negative growth effects; and (ii) large operating losses in energy- and fertilizer-related state-owned enterprises (SOEs) could create contingent fiscal liabilities and crowd out more growth-critical fiscal spending.

ALTERNATIVE SCENARIO

5. **Alternative assumptions and outcome.** The alternative scenario (see Figure 4 and Table 6) assumes that Bangladesh proceeds with new nonconcessional borrowing of US$6.0 billion to construct two 1,000MW nuclear reactors during FY17–21. Within the range of current cost estimates

[5] Under separate agreements signed in January 2013 between Bangladesh and the Russian Federation, the latter will provide nonconcessional loans to assess the technical feasibility and overall viability of nuclear power in Bangladesh (US$500 million) and for defense-related purchases (US$1.0 billion). However, the baseline scenario excludes actual construction costs for the nuclear power plant, as feasibility studies are expected to inform the analysis whether construction will be pursued in the future, including possible funding arrangements. Staffs assume the nuclear-related loan is disbursed during FY14–16 and the defense-related loan during FY14–17.

cited in Bangladesh (US$4–8 billion), the risk of external debt distress remains low, but the total cost of construction remains to be verified by feasibility studies. The introduction of nuclear power would create health, safety, and environmental challenges especially given the high population density in Bangladesh, which are likely to require ample investment in technical expertise and regulatory capacity. Feasibility studies need to ascertain such costs to make sure that sufficient fiscal resources are set aside for proper risk mitigation. In this context, staffs would encourage Bangladesh to continue to pursue a full range of alternatives in developing the power sector and evaluate the potential investment in nuclear power in the context of least-cost options for generating electricity. Staffs would also encourage Bangladesh to establish fiscal contingencies to ensure adequate safeguards are in place, in the event the government proceeds with constructing the new reactors. On the upside, nuclear power will expand the electricity supply—a major growth constraint in Bangladesh, and possibly increase growth over the long run.

6. Nonconcessional borrowing in Bangladesh reinforces the need to protect the overall quality of public expenditure and keep debt levels manageable. In view of the relatively high cost of nonconcessional resources, all projects tied to this type of borrowing should be closely vetted, properly evaluated, and carefully monitored to ensure sound governance and oversight in the contracting and use of these funds. Staffs urge the government to continue to avail the large pool of existing commitments (mainly concessional) and undertake additional external borrowing mainly on concessional terms, consistent with Bangladesh's debt management capacity.

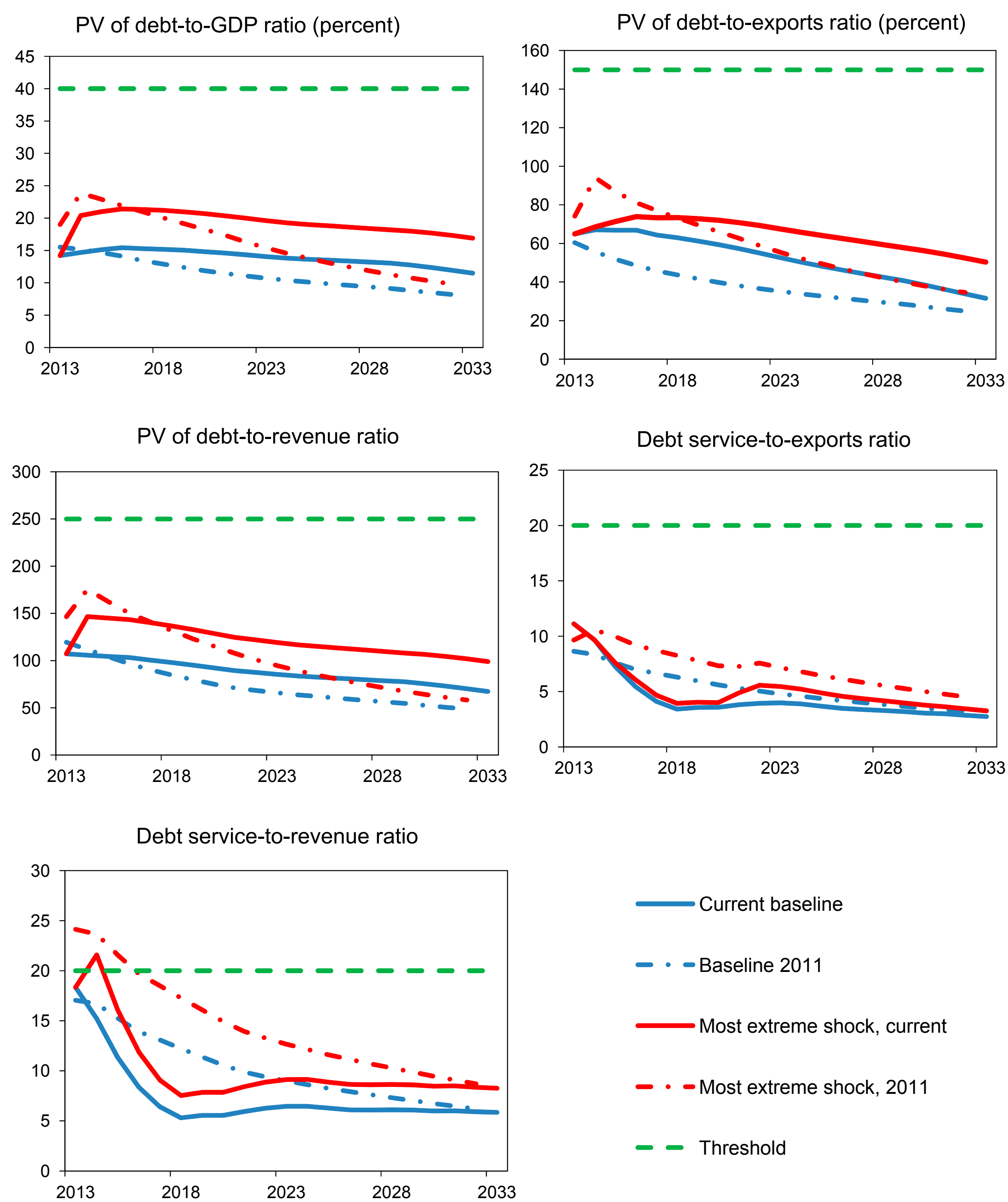
Appendix Table 1. DSA Update: Key Variables 1/

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023	2028	2033
	(Percent of GDP, unless otherwise indicated)											
Nominal GDP (US$ billions)	100	112	116	128	139	151	165	180	196	300	435	631
Real GDP (percentage change)	6.1	6.7	6.3	5.8	6.4	7.0	7.1	7.2	7.3	6.6	6.0	6.0
GDP deflator (percentage change)	6.5	7.5	8.0	7.5	6.2	6.2	5.9	5.7	4.6	4.5	4.5	4.5
Fiscal (central government)												
Total revenue and grants	11.5	11.9	13.0	13.8	14.4	15.0	15.4	15.6	15.9	16.7	17.0	17.3
Foreign grants	0.6	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.2	0.2
Total expenditure	14.6	16.0	16.4	17.7	18.2	18.4	18.7	19.0	19.1	19.3	19.1	18.6
Interest payments	2.1	2.0	2.2	2.3	2.1	2.1	1.9	1.8	1.9	1.9	1.9	1.7
Overall balance	-3.1	-4.1	-3.4	-3.9	-3.8	-3.5	-3.3	-3.4	-3.2	-2.6	-2.1	-1.3
Primary balance	-0.9	-2.2	-1.2	-1.7	-1.7	-1.4	-1.5	-1.5	-1.3	-0.7	-0.2	0.4
Net domestic financing	1.3	3.8	2.4	2.9	2.4	2.0	1.7	2.3	2.4	2.1	1.6	1.1
Net external financing	0.9	0.4	0.8	1.0	1.4	1.5	1.6	1.1	0.8	0.5	0.5	0.2
Balance of payments												
Exports of goods and services	18.6	22.5	23.1	21.9	21.9	22.6	23.1	23.7	24.1	26.7	31.1	36.3
Imports of goods and services	25.5	34.3	34.1	32.3	33.5	34.2	34.3	34.6	35.0	38.1	41.6	45.3
Workers' remittances	10.9	10.4	11.1	11.4	11.4	11.5	11.6	11.7	11.7	11.1	10.2	9.4
Current account, including official transfers	3.2	-2.0	-0.5	0.1	-1.0	-0.9	-0.5	-0.1	-0.1	-1.4	-1.4	-0.7
Foreign direct investment	0.9	0.7	1.0	0.9	1.0	1.0	1.0	1.1	1.2	1.8	2.1	2.5
External borrowing												
Central government	1.6	0.9	1.5	1.7	2.1	2.1	2.2	1.6	1.5	1.3	1.3	1.0
Public enterprises with guarantee	0.0	0.0	0.0	0.1	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Debt service by public enterprises	...	...	...	0.0	0.0	0.0	0.1	0.2	0.2	0.4	0.4	0.4
Gross official reserves	3.2	3.1	2.9	3.2	3.4	3.7	4.1	4.3	4.5	4.7	4.6	5.0
(Months of imports of goods and services)												

Sources: Bangladesh authorities; and staff estimates and projections.

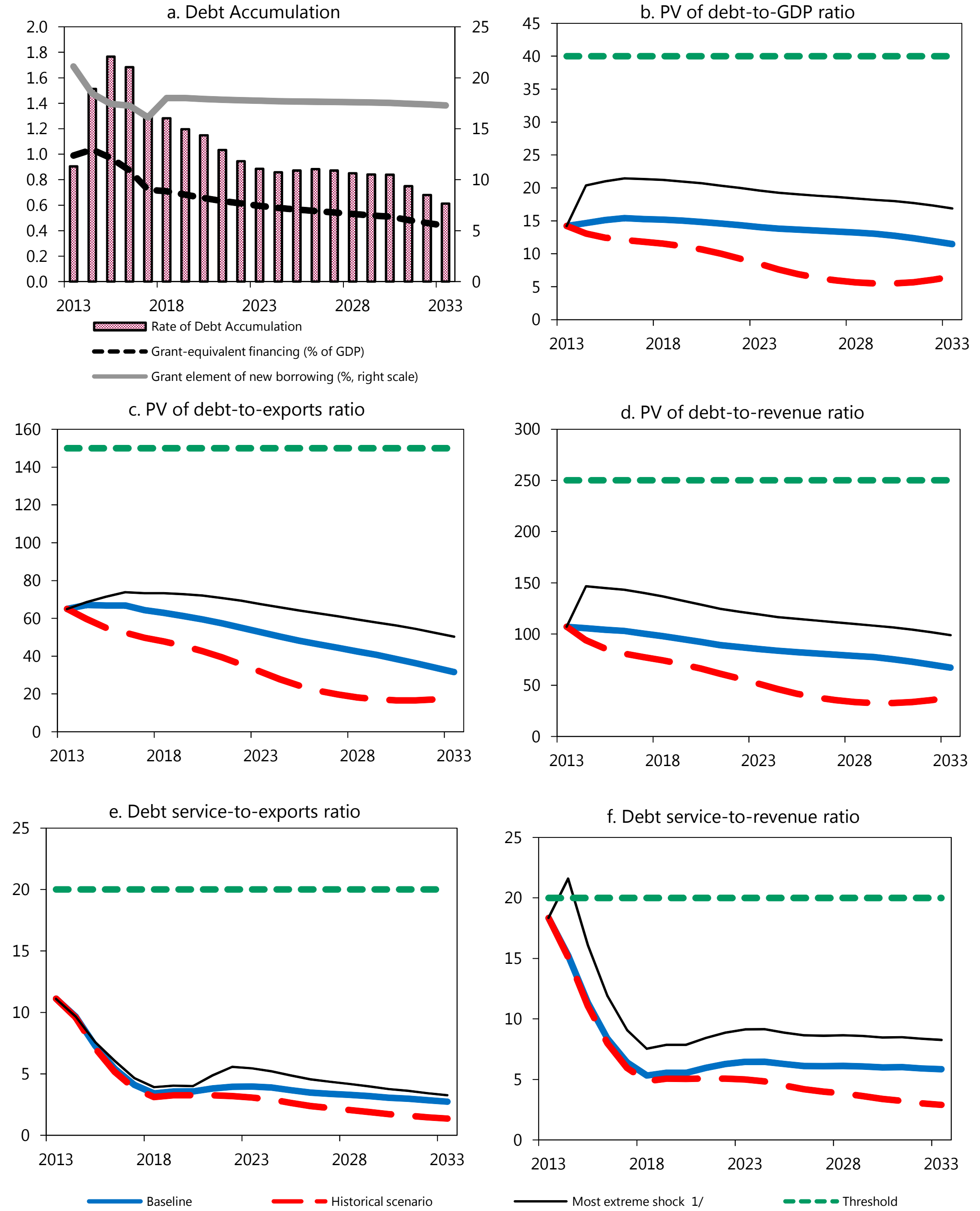
1/ Data on a fiscal year basis, with 2010 corresponding to July 2009–June 2010.

Appendix Figure 1. Bangladesh: Current Projections of External DSA Indicators Compared with Estimates Made in 2011



Sources: Bangladesh authorities; and staff estimates and projections.

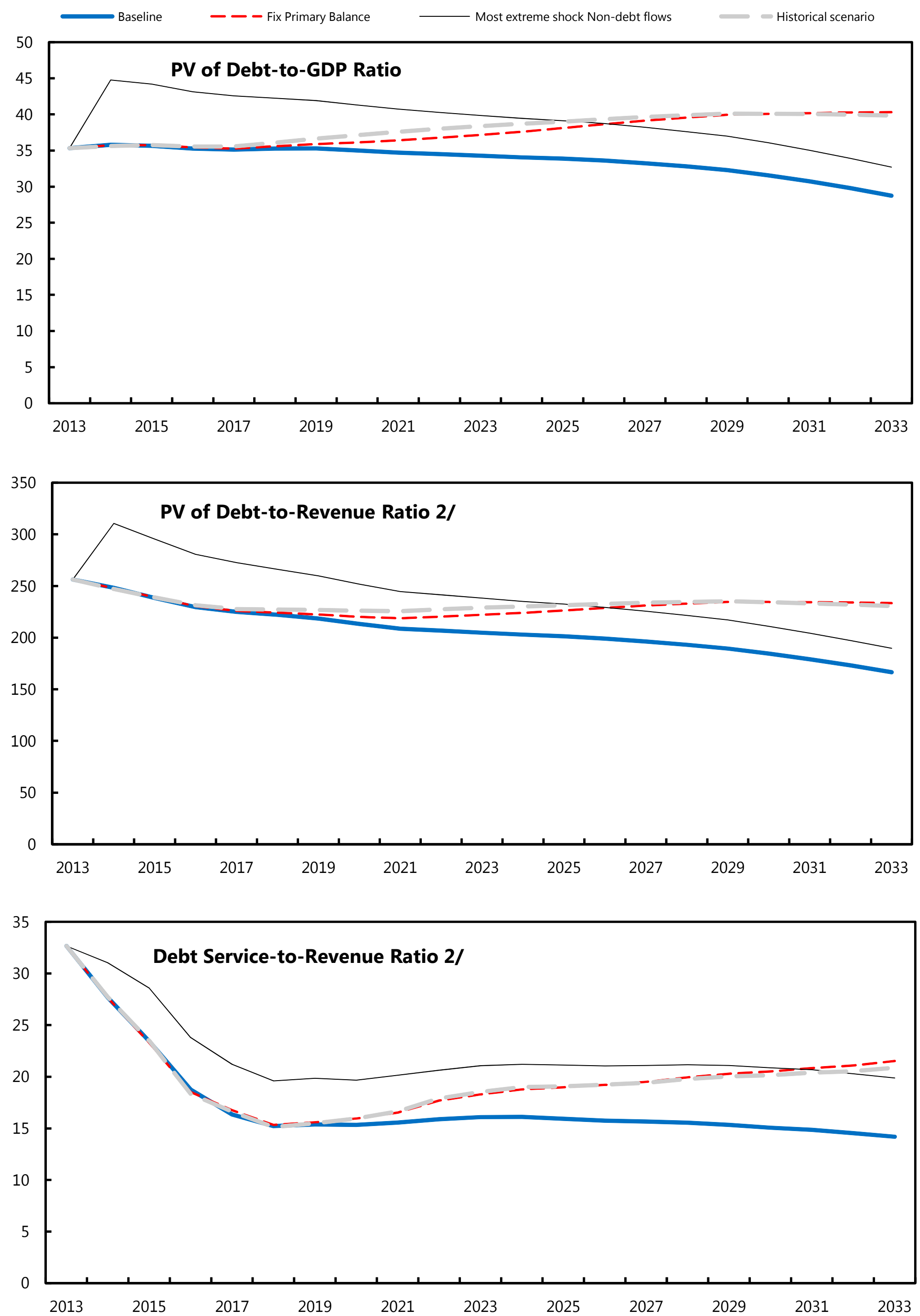
Appendix Figure 2. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt under Different Scenarios, 2013–33 1/



Sources: Bangladesh authorities; and staff estimates and projections.

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

Appendix Figure 3. Bangladesh: Indicators of Public Debt under Different Scenarios, 2013–33 1/



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

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

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 1/	Standard 1/	Projections									
				Average	Deviation							2013–2018			2019–2033
	2010	2011	2012			2013	2014	2015	2016	2017	2018	Average	2023	2033	Average
External debt (nominal) 2/	**22.3**	**22.7**	**22.2**			**20.7**	**21.2**	**21.5**	**21.6**	**21.1**	**20.8**		**19.3**	**16.5**	
Of which: Public and publicly guaranteed (PPG)	21.1	21.4	20.7			19.4	19.9	20.2	20.4	20.0	19.7		17.8	14.4	
Change in external debt	-3.3	0.3	-0.5			-1.4	0.5	0.3	0.1	-0.4	-0.3		-0.3	-0.5	
Identified net debt-creating flows	-7.0	-1.0	-1.2			-2.2	-1.2	-1.5	-1.9	-2.4	-2.4		-1.6	-2.7	
Non-interest current account deficit	**-3.5**	**1.8**	**0.2**	**-0.8**	**1.5**	**-0.5**	**0.6**	**0.5**	**0.2**	**-0.3**	**-0.2**		**1.0**	**0.3**	0.7
Deficit in balance of goods and services	6.8	11.8	11.0			10.4	11.6	11.5	11.3	10.8	10.9		11.4	9.0	
Exports	18.6	22.5	23.1			21.9	21.9	22.6	23.1	23.7	24.1		26.7	36.3	
Imports	25.5	34.3	34.1			32.3	33.5	34.2	34.3	34.6	35.0		38.1	45.3	
Net current transfers (negative = inflow)	-11.6	-11.1	-11.8	-9.5	2.1	-11.8	-11.8	-11.9	-11.9	-12.0	-12.0		-11.3	-9.6	-10.8
Of which: Official	-0.1	-0.1	-0.1			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
Other current account flows (negative = net inflow)	1.2	1.1	1.0			0.8	0.8	0.8	0.9	0.9	0.9		0.9	0.9	
Net FDI (negative = inflow)	**-0.9**	**-0.7**	**-1.0**	**-0.9**	**0.2**	**-0.9**	**-1.0**	**-1.0**	**-1.0**	**-1.1**	**-1.2**		**-1.8**	**-2.5**	-1.9
Endogenous debt dynamics 3/	**-2.6**	**-2.1**	**-0.4**			**-0.7**	**-0.8**	**-1.0**	**-1.0**	**-1.1**	**-1.0**		**-0.8**	**-0.6**	
Contribution from nominal interest rate	0.2	0.2	0.3			0.4	0.4	0.4	0.4	0.4	0.4		0.4	0.4	
Contribution from real GDP growth	-1.4	-1.3	-1.4			-1.2	-1.2	-1.4	-1.4	-1.4	-1.4		-1.2	-0.9	
Contribution from price and exchange rate changes	-1.4	-1.0	0.7			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**3.6**	**1.3**	**0.7**			**0.8**	**1.7**	**1.8**	**2.0**	**2.0**	**2.1**		**1.3**	**2.2**	
Of which: Exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	16.7			15.6	16.0	16.4	16.6	16.4	16.3		15.6	13.6	
In percent of exports	...	...	72.2			71.2	73.0	72.3	72.0	69.2	67.5		58.3	37.5	
PV of PPG external debt	**...**	**...**	**15.2**			**14.2**	**14.7**	**15.1**	**15.4**	**15.3**	**15.2**		**14.1**	**11.5**	
In percent of exports	**...**	**...**	**65.8**			**65.0**	**67.1**	**66.8**	**66.8**	**64.3**	**62.9**		**52.7**	**31.6**	
In percent of government revenues	**...**	**...**	**122.1**			**107.2**	**105.7**	**104.3**	**103.1**	**100.4**	**98.0**		**85.4**	**67.3**	
Debt service-to-exports ratio (in percent)	**5.5**	**4.1**	**5.7**			**12.7**	**11.2**	**8.7**	**6.8**	**5.3**	**4.6**		**5.3**	**4.2**	
PPG debt service-to-exports ratio (in percent)	**5.2**	**3.8**	**4.8**			**11.1**	**9.7**	**7.3**	**5.4**	**4.1**	**3.4**		**4.0**	**2.7**	
PPG debt service-to-revenue ratio (in percent)	**8.8**	**7.4**	**8.8**			**18.3**	**15.2**	**11.3**	**8.4**	**6.4**	**5.3**		**6.5**	**5.8**	
Total gross financing need (Billions of U.S. dollars)	-3.3	2.4	1.3			3.3	4.3	3.3	1.9	0.3	-0.4		2.0	-3.9	
Non-interest current account deficit that stabilizes debt ratio	-0.1	1.5	0.7			0.9	0.1	0.2	0.0	0.2	0.1		1.3	0.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.1	6.7	6.3	6.2	0.4	5.8	6.4	7.0	7.1	7.2	7.3	6.8	6.6	6.0	6.4
GDP deflator in US dollar terms (change in percent)	5.9	4.5	-2.8	3.0	4.1	4.8	1.8	1.8	1.8	1.8	1.7	2.3	1.6	1.6	1.6
Effective interest rate (percent) 6/	1.1	0.9	1.5	1.1	0.2	2.2	2.1	2.0	1.9	1.8	1.9	2.0	2.1	2.4	2.2
Growth of exports of G&S (U.S. dollar terms, in percent)	7.5	34.5	6.0	14.9	8.5	5.1	8.4	12.5	11.3	12.3	11.0	10.1	11.0	11.2	11.1
Growth of imports of G&S (U.S. dollar terms, in percent)	5.7	50.0	2.7	16.5	14.0	4.9	12.3	11.3	9.6	10.0	10.4	9.7	10.2	9.6	10.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	21.1	18.5	17.4	17.3	16.1	18.0	18.1	17.7	17.3	17.7
Government revenues (excluding grants, in percent of GDP)	10.9	11.7	12.4			13.3	13.9	14.5	14.9	15.2	15.5		16.5	17.1	16.6
Aid flows (in Billions of U.S. dollars) 7/	2.2	1.3	2.3			1.3	1.6	1.6	1.6	1.3	1.3		1.7	2.9	
Of which: Grants	0.6	0.3	0.6			0.7	0.7	0.7	0.7	0.7	0.7		0.8	1.2	
Of which: Concessional loans	1.6	1.1	1.7			0.6	0.9	0.9	0.9	0.6	0.6		0.9	1.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.0	1.0	1.0	0.9	0.7	0.7		0.6	0.4	0.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			37.0	30.9	29.0	28.8	29.3	31.2		28.8	26.5	27.9
Memorandum items:															
Nominal GDP (Billions of U.S. dollars)	100.4	111.9	115.6			128.2	138.8	151.3	165.0	180.1	196.5		299.6	631.2	
Nominal dollar GDP growth	12.3	11.5	3.3			10.9	8.3	9.0	9.1	9.1	9.1	9.2	8.3	7.7	8.1
PV of PPG external debt (in Billions of U.S. dollars)			17.0			18.0	20.0	22.4	25.0	27.1	29.4		41.5	75.4	
(PVt-PVt-1)/GDPt-1 (in percent)						0.9	1.5	1.8	1.7	1.3	1.3	1.4	0.9	0.6	0.9
Gross workers' remittances (Billions of U.S. dollars)	11.0	11.7	12.8			14.6	15.9	17.5	19.2	21.1	23.0		33.2	59.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.7			12.8	13.2	13.5	13.8	13.7	13.6		12.7	10.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	44.4			42.7	44.1	44.3	44.4	43.1	42.4		37.2	25.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.2			7.3	6.4	4.8	3.6	2.7	2.3		2.8	2.2	

Sources: Bangladesh authorities; and staff estimates and projections.

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

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

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	14	15	15	15	15	15	**14**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	14	13	12	12	12	12	**8**	7
A2. New public sector loans on less favorable terms in 2013–2033 2/	14	15	16	17	17	18	**18**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	14	14	15	15	15	15	**14**	12
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	14	15	17	17	17	16	**15**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014–2015	14	15	16	16	16	16	**15**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	14	18	23	23	22	22	**18**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	14	17	21	21	21	20	**17**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	14	20	21	21	21	21	**20**	17
PV of debt-to-exports ratio								
Baseline	65	67	67	67	64	63	**53**	32
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	65	60	55	52	50	48	**32**	18
A2. New public sector loans on less favorable terms in 2013–2033 2/	65	69	71	74	73	73	**68**	50
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	65	66	65	66	63	62	**52**	33
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	65	68	79	78	75	73	**59**	36
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014–2015	65	66	65	66	63	62	**52**	33
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	65	84	100	98	93	89	**67**	35
B5. Combination of B1-B4 using one-half standard deviation shocks	65	76	91	89	85	82	**63**	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	65	66	65	66	63	62	**52**	33
PV of debt-to-revenue ratio								
Baseline	107	106	104	103	100	98	**85**	67
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	107	94	86	81	78	75	**51**	38
A2. New public sector loans on less favorable terms in 2013–2033 2/	107	108	111	114	114	114	**110**	107
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	107	104	104	103	101	98	**86**	71
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	107	106	114	112	109	106	**90**	71
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014–2015	107	106	108	107	105	102	**89**	74
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	107	132	157	151	145	139	**109**	74
B5. Combination of B1-B4 using one-half standard deviation shocks	107	124	147	142	137	132	**106**	75
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	107	147	145	143	140	137	**119**	99

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

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
Debt service-to-exports ratio								
Baseline	11	10	7	5	4	3	**4**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	11	10	7	5	4	3	**3**	1
A2. New public sector loans on less favorable terms in 2013–2033 2/	11	10	7	6	4	4	**4**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	11	10	7	5	4	3	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	11	10	8	6	5	4	**5**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014–2015	11	10	7	5	4	3	**4**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	11	10	8	6	5	4	**5**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	11	9	7	6	5	4	**5**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	11	10	7	5	4	3	**4**	3
Debt service-to-revenue ratio								
Baseline	18	15	11	8	6	5	**6**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	18	15	11	8	6	5	**5**	3
A2. New public sector loans on less favorable terms in 2013–2033 2/	18	15	11	9	7	6	**7**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	18	15	12	9	7	5	**7**	6
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	18	15	11	9	7	5	**7**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014–2015	18	16	12	9	7	6	**7**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	18	15	12	9	7	6	**9**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	18	15	12	9	7	6	**8**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	18	22	16	12	9	8	**9**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	14	14	14	14	14	14	**14**	14

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 value 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.

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

(In percent of GDP, unless otherwise indicated)

	Actual		Estimate			Projections									
	2010	2011	2012	Average 1/	Standard Deviation 1/	2013	2014	2015	2016	2017	2018	2013–18 Average	2023	2033	2019–33 Average
Public sector debt 2/	41.4	42.4	41.4			40.5	41.0	40.8	40.2	39.8	39.8		38.0	31.6	
Of which: foreign-currency demonimated	21.1	21.4	20.7			19.4	19.9	20.2	20.4	20.0	19.7		17.8	14.4	
Of which: guarantee-supported external borrowing	...	...	...			0.1	0.6	1.2	1.6	2.0	2.3		3.4	5.0	
Change in public sector debt	-4.1	1.0	-1.0			-0.9	0.5	-0.2	-0.5	-0.4	-0.1		-0.3	-1.2	
Identified debt-creating flows	-2.0	0.1	-0.1			-0.9	0.6	-0.2	-0.3	-0.3	-0.2		-0.4	-1.2	
Primary deficit	0.9	2.2	1.1	1.3	0.5	1.5	1.6	1.3	1.5	1.5	1.3	1.5	0.7	-0.3	0.4
Revenue and grants	11.5	11.9	13.0			13.8	14.4	15.0	15.4	15.6	15.9		16.7	17.3	
Of which: Grants	0.6	0.3	0.5			0.5	0.5	0.5	0.4	0.4	0.4		0.3	0.2	
Primary (noninterest) expenditure	12.4	14.1	14.1			15.3	16.0	16.3	16.8	17.1	17.2		17.5	16.9	
Automatic debt dynamics	-2.9	-2.1	-1.3			-2.6	-1.5	-2.1	-2.2	-2.3	-2.0		-1.6	-1.3	
Contribution from interest rate/growth differential	-1.8	-2.3	-2.1			-1.5	-1.7	-2.0	-2.2	-2.2	-2.0		-1.6	-1.1	
of which: Contribution from average real interest rate	0.8	0.3	0.4			0.8	0.8	0.7	0.5	0.5	0.8		0.8	0.7	
of which: Contribution from real GDP growth	-2.6	-2.6	-2.5			-2.3	-2.4	-2.7	-2.7	-2.7	-2.7		-2.4	-1.9	
Contribution from real exchange rate depreciation	-1.1	0.2	0.8			-1.1	0.1	-0.1	-0.1	-0.1	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.1	0.5	0.6	0.4	0.4	0.4		0.4	0.4	
Guarantee-supported external borrowing	0.0	0.0	0.0			0.1	0.5	0.6	0.4	0.4	0.4		0.4	0.4	
Residual, including asset changes	-2.1	1.0	-0.9			0.0	-0.1	-0.1	-0.2	-0.1	0.1		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	35.9			35.3	35.8	35.7	35.3	35.1	35.3		34.3	28.7	
Of which: F oreign-currency demonated	...	...	15.2			14.2	14.7	15.1	15.4	15.3	15.2		14.1	11.5	
Of which: External	...	...	15.2			14.2	14.7	15.1	15.4	15.3	15.2		14.1	11.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	3.9	4.9	4.9			7.3	6.6	5.5	4.8	4.3	3.8		3.4	2.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	276.8			256.2	248.4	238.5	229.5	225.0	222.1		204.8	166.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	288.7			266.6	257.5	246.2	236.0	230.7	227.3		208.3	168.3	
Of which: External 4/	...	...	122.1			107.2	105.7	104.3	103.1	100.4	98.0		85.4	67.3	
Debt service-to-revenue and grants ratio (in percent) 5/	25.2	22.1	24.3			32.7	27.7	23.4	18.8	16.4	15.2		16.1	14.2	
Debt service-to-revenue ratio (in percent) 5/	26.6	22.6	25.3			34.0	28.7	24.2	19.3	16.8	15.6		16.4	14.3	
Primary deficit that stabilizes the debt-to-GDP ratio	5.0	1.1	2.1			2.5	1.1	1.6	2.0	1.9	1.4		1.1	0.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.1	6.7	6.3	6.2	0.4	5.8	6.4	7.0	7.1	7.2	7.3	6.8	6.6	6.0	6.4
Average nominal interest rate on forex debt (in percent)	1.1	0.9	1.2	1.0	0.1	1.8	1.7	1.6	1.5	1.4	1.5	1.6	1.5	1.6	1.5
Average real interest rate on domestic debt (in percent)	3.6	2.3	3.0	3.5	1.0	3.6	3.6	3.6	2.9	3.1	4.2	3.5	4.3	4.3	4.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.9	1.2	4.1	-0.3	4.7	-5.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.5	7.5	8.0	6.3	1.5	7.5	6.2	6.2	5.9	5.7	4.6	6.0	4.5	4.5	4.5
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	21.1	18.5	17.4	17.3	16.1	18.0	18.1	17.7	17.3	17.7

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

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

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

3/ 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.

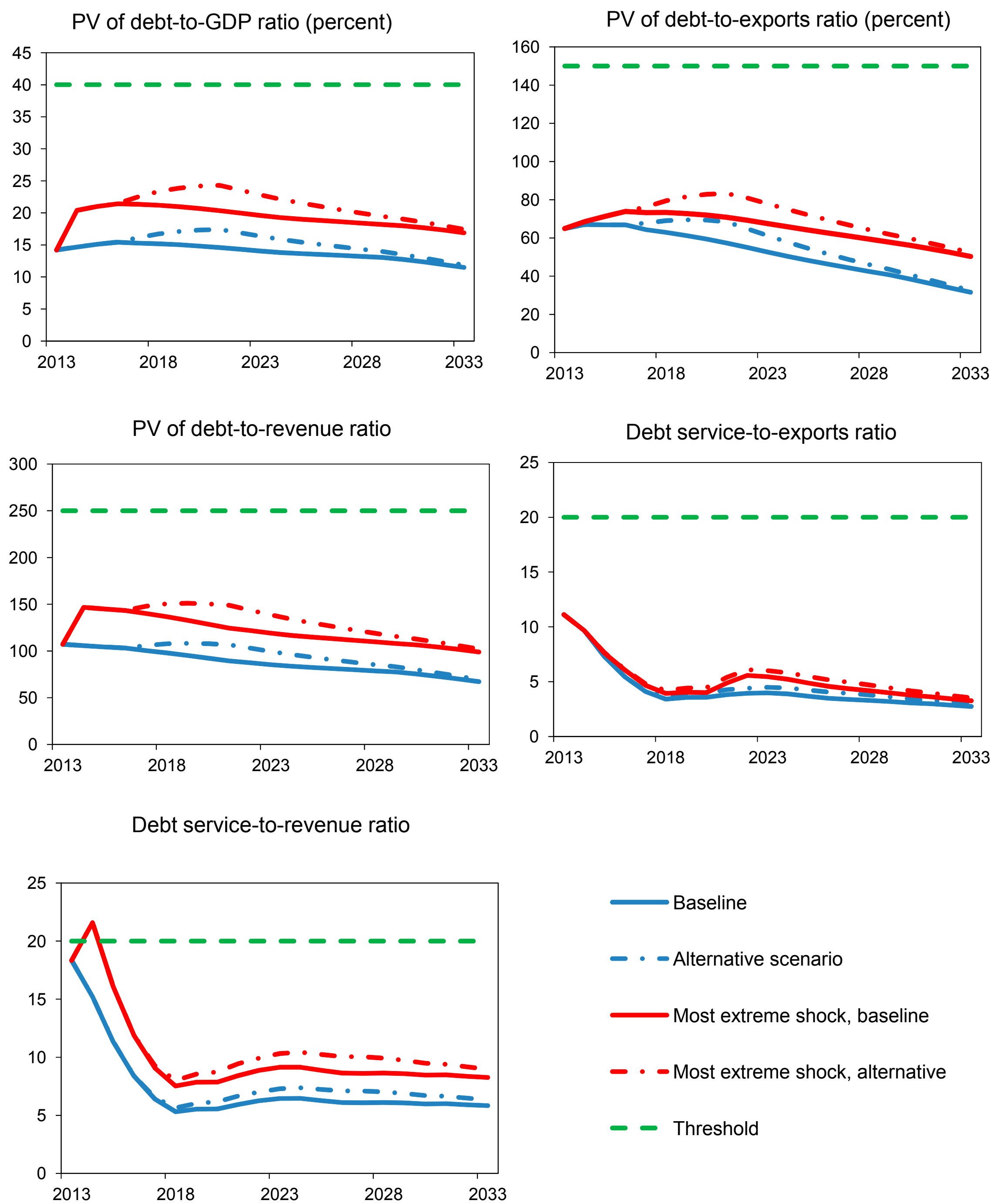
5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

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

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	35	36	36	35	35	35	34	29
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	35	36	36	36	36	36	38	40
A2. Primary balance is unchanged from 2013	35	36	36	35	35	36	37	40
A3. Permanently lower GDP growth 1/	35	36	36	35	35	36	35	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	35	36	37	36	37	37	37	33
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	35	36	36	36	36	36	35	29
B3. Combination of B1-B2 using one half standard deviation shocks	35	36	36	36	36	36	36	32
B4. One-time 30 percent real depreciation in 2014	35	42	41	40	40	40	38	32
B5. 10 percent of GDP increase in other debt-creating flows in 2014	35	45	44	43	43	42	40	33
PV of Debt-to-Revenue Ratio 2/								
Baseline	256	248	238	229	225	222	205	166
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	256	247	239	231	228	227	229	231
A2. Primary balance is unchanged from 2013	256	248	239	231	226	224	222	233
A3. Permanently lower GDP growth 1/	256	249	239	230	226	224	210	181
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	256	250	245	237	234	232	220	189
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	256	250	243	234	229	226	207	168
B3. Combination of B1-B2 using one half standard deviation shocks	256	249	243	235	232	230	216	184
B4. One-time 30 percent real depreciation in 2014	256	291	276	263	256	251	227	186
B5. 10 percent of GDP increase in other debt-creating flows in 2014	256	311	296	281	273	266	238	190
Debt Service-to-Revenue Ratio 2/								
Baseline	33	28	23	19	16	15	16	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	33	28	23	18	17	15	19	21
A2. Primary balance is unchanged from 2013	33	28	23	19	17	15	18	22
A3. Permanently lower GDP growth 1/	33	28	23	19	16	15	17	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	33	28	24	19	17	16	18	17
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	33	28	23	19	18	16	16	14
B3. Combination of B1-B2 using one half standard deviation shocks	33	28	24	19	17	16	17	16
B4. One-time 30 percent real depreciation in 2014	33	31	29	24	21	20	21	20
B5. 10 percent of GDP increase in other debt-creating flows in 2014	33	28	27	43	21	25	19	21

Sources: Bangladesh authorities; and 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.

Appendix Figure 4. Bangladesh: Comparison of External DSA Indicators in Baseline and Alternative Scenario, 2013–33 1/



Sources: Bangladesh authorities; and staff estimates and projections.

1/ The alternative scenario assumes new nonconcessional borrowing of US$6.0 billion to construct two 1,000MW nuclear reactors during FY17–21.

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

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [1/]	Standard [1/]	Projections									
				Average	Deviation							2013–2018			2019–2033
	2010	2011	2012			2013	2014	2015	2016	2017	2018	Average	2023	2033	Average
External debt (nominal) 2/	**22.3**	**22.7**	**22.2**			**20.7**	**21.2**	**21.5**	**21.6**	**21.9**	**22.1**		**21.4**	**16.9**	
Of which: Public and publicly guaranteed (PPG)	21.1	21.4	20.7			19.4	19.9	20.2	20.4	20.7	21.0		19.9	14.7	
Change in external debt	-3.3	0.3	-0.5			-1.4	0.5	0.3	0.1	0.2	0.3		-0.5	-0.6	
Identified net debt-creating flows	-7.0	-1.0	-1.2			-2.2	-1.2	-1.5	-1.9	-1.6	-1.7		-1.7	-2.7	
Non-interest current account deficit	**-3.5**	**1.8**	**0.2**	**-0.8**	**1.5**	**-0.5**	**0.6**	**0.5**	**0.2**	**0.5**	**0.5**		**1.0**	**0.3**	0.9
Deficit in balance of goods and services	6.8	11.8	11.0			10.4	11.6	11.6	11.3	11.7	11.7		11.4	9.1	
Exports	18.6	22.5	23.1			21.9	21.9	22.6	23.1	23.8	24.2		26.7	36.3	
Imports	25.5	34.3	34.1			32.3	33.5	34.2	34.4	35.5	35.8		38.1	45.4	
Net current transfers (negative = inflow)	-11.6	-11.1	-11.8	-9.5	2.1	-11.8	-11.8	-11.9	-12.0	-12.0	-12.0		-11.3	-9.6	-10.8
Of which: Official	-0.1	-0.1	-0.1			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
Other current account flows (negative = net inflow)	1.2	1.1	1.0			0.8	0.8	0.8	0.9	0.9	0.9		0.9	0.9	
Net FDI (negative = inflow)	**-0.9**	**-0.7**	**-1.0**	**-0.9**	**0.2**	**-0.9**	**-1.0**	**-1.0**	**-1.0**	**-1.1**	**-1.2**		**-1.8**	**-2.5**	-1.9
Endogenous debt dynamics 3/	**-2.6**	**-2.1**	**-0.4**			**-0.7**	**-0.8**	**-1.0**	**-1.0**	**-1.0**	**-1.0**		**-0.8**	**-0.6**	
Contribution from nominal interest rate	0.2	0.2	0.3			0.4	0.4	0.4	0.4	0.4	0.4		0.5	0.4	
Contribution from real GDP growth	-1.4	-1.3	-1.4			-1.2	-1.2	-1.4	-1.4	-1.4	-1.5		-1.3	-1.0	
Contribution from price and exchange rate changes	-1.4	-1.0	0.7			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**3.6**	**1.3**	**0.7**			**0.8**	**1.7**	**1.8**	**2.0**	**1.8**	**1.9**		**1.2**	**2.1**	
Of which: Exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	16.7			15.6	16.0	16.4	16.6	17.3	17.8		17.9	14.0	
In percent of exports	...	...	72.2			71.2	73.0	72.3	72.0	72.6	73.7		66.9	38.5	
PV of PPG external debt	**...**	**...**	**15.2**			**14.2**	**14.7**	**15.1**	**15.4**	**16.1**	**16.7**		**16.4**	**11.9**	
In percent of exports	**...**	**...**	**65.8**			**65.0**	**67.1**	**66.8**	**66.8**	**67.8**	**69.1**		**61.2**	**32.6**	
In percent of government revenues	**...**	**...**	**122.1**			**107.2**	**105.7**	**104.4**	**103.2**	**105.9**	**107.8**		**99.4**	**69.4**	
Debt service-to-exports ratio (in percent)	**5.5**	**4.1**	**5.7**			**12.7**	**11.2**	**8.7**	**6.8**	**5.4**	**4.8**		**5.8**	**4.4**	
PPG debt service-to-exports ratio (in percent)	**5.2**	**3.8**	**4.8**			**11.1**	**9.7**	**7.3**	**5.4**	**4.2**	**3.6**		**4.5**	**3.0**	
PPG debt service-to-revenue ratio (in percent)	**8.8**	**7.4**	**8.8**			**18.3**	**15.2**	**11.4**	**8.4**	**6.5**	**5.7**		**7.3**	**6.4**	
Total gross financing need (Billions of U.S. dollars)	-3.3	2.4	1.3			3.3	4.3	3.3	1.9	1.8	1.2		2.3	-3.1	
Non-interest current account deficit that stabilizes debt ratio	-0.1	1.5	0.7			0.9	0.1	0.2	0.0	0.3	0.3		1.5	1.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.1	6.7	6.3	6.2	0.4	5.8	6.4	7.0	7.1	7.2	7.3	6.8	6.6	6.0	6.4
GDP deflator in U.S. dollar terms (change in percent)	5.9	4.5	-2.8	3.0	4.1	4.8	1.8	1.8	1.8	1.8	1.7	2.3	1.6	1.6	1.6
Effective interest rate (percent) 6/	1.1	0.9	1.5	1.1	0.2	2.2	2.1	2.0	1.9	1.9	2.1	2.0	2.4	2.5	2.4
Growth of exports of G&S (U.S. dollar terms, in percent)	7.5	34.5	6.0	14.9	8.5	5.1	8.4	12.5	11.3	12.3	10.9	10.1	11.0	11.1	11.1
Growth of imports of G&S (U.S. dollar terms, in percent)	5.7	50.0	2.7	16.5	14.0	4.9	12.3	11.3	9.6	12.7	10.2	10.1	10.2	9.6	9.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	21.1	18.5	17.4	17.3	6.3	7.8	14.7	17.7	17.3	15.8
Government revenues (excluding grants, in percent of GDP)	10.9	11.7	12.4			13.3	13.9	14.5	15.0	15.2	15.5		16.5	17.1	16.6
Aid flows (in Billions of U.S. dollars) 7/	2.2	1.3	2.3			1.3	1.6	1.6	1.6	1.3	1.3		1.7	2.9	
Of which: Grants	0.6	0.3	0.6			0.7	0.7	0.7	0.7	0.7	0.7		0.8	1.2	
Of which: Concessional loans	1.6	1.1	1.7			0.6	0.9	0.9	0.9	0.6	0.6		0.9	1.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.0	1.0	1.0	0.9	0.6	0.6		0.6	0.4	0.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			37.0	30.9	29.0	28.8	17.9	19.5		28.8	26.5	25.9
Memorandum items:															
Nominal GDP (Billions of U.S. dollars)	100.4	111.9	115.6			128.2	138.8	151.2	164.8	179.8	196.1		299.1	630.1	
Nominal dollar GDP growth	12.3	11.5	3.3			10.9	8.3	8.9	9.0	9.1	9.1	9.2	8.3	7.7	8.1
PV of PPG external debt (in Billions of U.S. dollars)			17.0			18.0	20.0	22.4	25.0	28.6	32.3		48.3	77.6	
(PVt-PVt-1)/GDPt-1 (in percent)						0.9	1.5	1.8	1.7	2.2	2.1	1.7	0.8	0.5	0.9
Gross workers' remittances (Billions of U.S. dollars)	11.0	11.7	12.8			14.6	15.9	17.5	19.2	21.1	23.0		33.2	59.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.7			12.8	13.2	13.6	13.8	14.4	15.0		14.7	10.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	44.4			42.7	44.1	44.3	44.4	45.4	46.5		43.3	25.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.2			7.3	6.4	4.8	3.6	2.8	2.4		3.2	2.4	

Sources: Bangladesh authorities; and staff estimates and projections.

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

Statement by the Staff Representative on Bangladesh
February 11, 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. Budget performance through November 2012 was broadly in line with the programmed fiscal outlook for FY13 (July 2012–June 2013), with the overall deficit (excluding grants) estimated at 0.9 percent of GDP in the first five months of FY13. However, preliminary estimates show National Board of Revenue tax collections to December 2012 fell short of the indicative target under the Extended Credit Facility (ECF) arrangement by about 0.2 percentage points of GDP, on slower growth in value added and trade-related taxes, although income taxes continued to perform well.

2. Bangladesh Bank (BB) announced a 50 basis point cut to its repo rates in its half-yearly (January–June 2013) monetary policy statement (MPS) released on January 31. On February 3, the regular repo rate was reduced to 7.25 percent, the reverse repo rate to 5.25 percent, and the special (penalty) repo rate to 10.25 percent. Notwithstanding lingering inflation risk, the MPS justified the rate cut—the first since late 2009—against the backdrop of heightened global uncertainty and decelerating private credit growth, with BB's real GDP growth forecast in FY13 in the range of 6.1–6.4 percent compared to the government's target of 7.2 percent. Nonetheless, BB's monetary targets remain aligned with achieving those set out under the ECF arrangement.

3. On January 31, 2013, the Bangladesh authorities formally notified the World Bank that the government of Bangladesh was withdrawing its request for renewed funding of the Padma Multi-Purpose Bridge project, citing different timeframes for project implementation. The World Bank's US$1.2 billion IDA credit for the bridge was terminated in June 2012 following citation by the Bank of a lack of sufficient action in addressing corruption related to the project. With the government's notification, two other major co-financers—the Asian Development Bank and Japan International Cooperation Agency—have also cancelled their credits. Staff had assumed that the project would be implemented over a four-year period starting in the second half of 2013 (i.e., in FY14), including in the baseline scenario of the joint IMF-World Bank Debt Sustainability Analysis Update. The authorities have indicated that they remain committed to building the bridge and are exploring alternative technical and financing arrangements, with a view to commencing construction in FY13 by initially reallocating expenditures. At the same time, they expect to continue their own investigation of corruption allegations. Absent the project, the immediate impact would be a modest reduction in medium-term growth. Assessing the full impact of the government's decision on fiscal, external, and debt sustainability will require further information on new financing modalities on bridge construction, which staff will raise during the second program review. However, the authorities have given their assurances that any budgetary and financing impact in 2013 will be contained within quantitative performance criteria and indicative targets agreed under the ECF arrangement.

Statement by the Staff Representative on Bangladesh
Executive Board Meeting
February 20, 2013

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

1. In addition to the loans contracted by the authorities described in the staff report, the nonobservance of the continuous performance criterion (PC) on nonconcessional external debt maturing in more than one year was also caused by the issuance of a guarantee in the amount of US$193 million in January 2013 for external borrowing by a public sector entity for a combined cycle power plant. The guarantee was included in the baseline scenario of the joint IMF-World Bank Debt Sustainability Update prepared for the current review. The authorities are taking remedial steps to strengthen their debt management practices and the rules governing the granting of guarantees as specified in the Letter of Intent and Memorandum of Economic and Financial Policies (¶15). Given these corrective actions, staff continue to support the authorities' request for a waiver of the continuous PC.

Press Release No. 13/57
FOR IMMEDIATE RELEASE
February 20, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the ECF Arrangement for Bangladesh and Approves US$139.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Bangladesh's economic program under a three-year arrangement supported by the Extended Credit Facility (ECF). The completion of the review enables an immediate disbursement of an amount equivalent to SDR 91.423 million (about US$139.4 million), bringing the total amount disbursed equivalent to SDR 182.846 million (about US$278.8 million).

In completing the review, the Executive Board approved the request for a waiver for nonobservance of the performance criterion on new nonconcessional external debt maturing in more than one year.

The Executive Board approved a three-year ECF arrangement for Bangladesh on April 11, 2012 (see Press Release No. 12/129) for a total amount equivalent to SDR 639.96 million (about US$975.9 million), or 120 percent of quota.

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

"Macroeconomic pressures have eased in Bangladesh, aided by stabilization measures aimed at containing government borrowing, reducing the inflation rate, and building foreign reserves. While the global economic situation remains fragile, Bangladesh's economy continues to show resilience, with growth this fiscal year expected to slow only moderately. However, risks remain to the downside, mainly arising from a slowdown of exports to mature markets, spike in world commodity prices, further deterioration in state bank finances, and election-year uncertainty. Going forward, firm implementation of the ECF-supported program is necessary to consolidate gains made thus far, maintain fiscal and debt sustainability, reduce vulnerabilities, and achieve higher and sustainable growth.

"Fiscal policy has remained broadly on track, but underperforming tax collections, related mainly to the trade slowdown, require upfront actions to broaden the tax base and strengthen enforcement. Over the medium term, the new value added tax is expected to increase revenues and guide tax modernization. Subsidy costs still weigh large on public finances. "Continued vigilance is needed to contain energy and fertilizer related outlays, while improving the reach of safety nets, all with a view to creating more space for growth-critical development spending. The government's debt management strategy should focus on utilizing concessional and selective non-concessional borrowing to ensure debt sustainability.

"Bangladesh Bank's monetary policy has helped reduce credit growth and inflationary pressures, but recent easing, while modest, should proceed further only when macroeconomic and financial stability is firmly established. Policy effectiveness will be enhanced by continued exchange rate and interest rate flexibility

"Structural reforms have moved forward. However, greater coordination is required in reaching internal policy consensus to avoid delays. The new VAT law is a landmark, but its timely implementation will require careful planning and support, foremost in tax automation. Banking law amendments, aimed at strengthening financial sector governance, should also move forward to keep risks in check, especially those arising from the state-owned banks. Other envisaged reforms in revenue administration, public financial management, and foreign exchange controls are all aimed at boosting public and private investment, in order to accelerate growth and further reduce poverty.

"Looking ahead, achieving a stable, growth-supportive environment and mitigating risk factors necessitate a further strengthening of policy buffers in 2013, supported by strong economic governance and manageable debt levels. Timely actions will allow Bangladesh to reap full gains from a global recovery."

Statement by Mr. Rakesh Mohan, Executive Director for Bangladesh and Mr. Koodathumuriyil Verghese Eapen, Senior Advisor February 11, 2013

1. The Bangladesh authorities wish to thank the IMF for approving a three year Extended Credit Facility (ECF) for a total of SDR 639.96 million and for enabling access to the first disbursement for assisting their program to preserve macroeconomic stability, support external balances and stimulate inclusive growth. The authorities would like to convey their thanks to the IMF Mission for their positive engagement during their visits to review the ECF program. The authorities would like to emphasize the following to supplement their request to complete the first review and to access the second disbursement in the amount of SDR 91.423 million under the ECF program.

Recent Macroeconomic Developments

2. The Bangladesh economy continues to achieve robust real GDP growth despite the global economic slowdown. Preliminary estimates show that the economy expanded by 6.3 percent in FY12 supported by strong domestic demand and impressive remittance inflows. Moreover, ongoing measures to reduce supply bottlenecks in power, energy, and communication sectors have appeared to encourage private investment and promote real economic growth. In particular, since the present government took power, an additional 3,900 MW of electricity has been added to the national grid till December 2012.

3. Adjustments in macroeconomic and financial policies together with the assistance under the IMF's Extended Credit Facility (ECF) have helped ease external pressures. Further, timely fiscal consolidation and moderate monetary tightening have eased inflationary pressures in the second half of FY12. Point to point inflation has decreased to about 7.7 percent in December 2012 from the double digit level in March 2012. The exchange rate remains market-based and its volatility is lower now than in 2011. High remittance inflows have compensated the impact of sluggish export growth. Accordingly, foreign exchange reserves have gradually increased and amount to around four months of import cover.

4. With strong revenue collection efforts and expenditure restraint, the overall budget deficit (excluding grants) is estimated to be around 4 percent of GDP in FY12. Fuel and electricity subsidies have been contained by adjusting administered prices. Government borrowing from the banking system in FY12 remained within budgetary parameters and did not crowd out private sector credit growth. A similarly prudent fiscal stance has been sustained in the first seven months of FY13.

5. Restrained monetary policy ensured that major monetary aggregates were close to program targets in FY12. In recent months, high remittance inflows, which are not fully sterilized, has led to minor over-shooting of broad money; however, key program targets for Net Domestic Assets of Bangladesh Bank and reserve money growth are on track. The new monetary policy stance, even after a half a percentage point reduction in repo rates announced in late January 2013, is essentially a continuation of the restrained stance.

6. The authorities aim to uphold this policy stance under the ECF program to achieve sustained growth, keep inflation below 8 percent and preserve external stability in FY13. Meanwhile, the authorities have met all the quantitative performance criteria under the ECF supported program as of end-June 2012 and most of the indicative targets as of end-June and end-September 2012. The authorities have also met a number of structural benchmarks so far and they are committed to pursue reforms to strengthen the fiscal position and monetary management and operations. They are also committed to improve financial sector stability, as well as the trade and investment environment, as outlined in the Memorandum of Economic and Financial Policies (MEFP).

Fiscal Policy

7. In order to maintain a sound fiscal policy position in FY13 and beyond, the authorities envisage pursuing additional tax reforms, strengthening revenue administration, improving public financial management, containing energy and fertilizer subsidies, increasing efficiency and transparency of key social safety net programs, enhancing debt management capacity and limiting contingent liabilities and related fiscal risks. These continuous reform programs are expected to generate additional domestic revenues, make government spending more efficient and thus improve debt sustainability.

8. The authorities plan to increase tax revenue by 0.6-0.8 percent of GDP every year for providing adequate resources for their social and physical infrastructure projects in the medium term. The National Parliament approved a milestone piece of legislation on the value added tax (VAT) in November 2012. This law is expected to bring in a modern tax regime over the next few years. In this connection, the authorities aim to prepare a VAT implementation plan with a schedule, and will also frame VAT rules and regulations. Besides this, the modernization plan (2011-2016) of the National Board of Revenue (NBR) includes reform programs for improving revenue administration including further automation, upgrading customs software and rolling out alternative dispute resolution mechanisms (ADR) to all jurisdictions.

9. The authorities have already fixed quarterly limits on the issuance of new payment orders by line ministries with a view to improving cash management and expenditure controls. They also aim to encompass all line ministries within the integrated budgeting and accounting framework in FY13. The Annual Development Program (ADP) projects under the ten largest line ministries are being monitored regularly to enhance the pace of their implementation. The authorities also plan to issue a formal project formulation and appraisal technical manual in FY13. Fuel and electricity prices have been adjusted several times since 2011 to contain energy and fertilizer subsidies and to increase space for social spending. Moreover, a technical committee has been established to monitor the commitments and payments for fertilizer subsidies. The authorities are committed to contain subsidy costs by adjusting domestic fuel prices, capping fertilizer subsidies, and replacing rental power plants with lower cost base power plants within the shortest possible time.

10. A draft debt management strategy (DMS) has been prepared in August 2012 for strengthening capacity to monitor debt sustainability. The authorities aim to complete the installation of UNCTAD's Debt Management and Financial Analysis System for efficient recording of external debt flows in FY13. Other intended reform measures in this area include preparing a diagnostic study on the Government Provident Fund (GPF), aligning yields of National Savings Certificates (NSCs) with market-based rates, aligning taxation of interest on NSCs with other government debt instruments and revamping diaspora bonds.

11. With a view to containing fiscal risks associated with contingent liabilities, the authorities aim to keep limits on new non-concessional external debt maturing in more than one year, while emphasizing such borrowing to be on adequately assessed projects in major infrastructure sectors. However, as they could not observe the performance criteria (PC) following a new loan contract associated with nuclear power development and defense related purchases with the Russian Federation, the authorities request a waiver of the continuous performance criteria on new concessional external debt maturing in more than one year contracted or guaranteed by the public sector. In this context, the authorities are taking remedial steps to strengthen debt management practices by improving official projections of loans and guarantees through regular consultation with recently established budget wings in line ministries to ensure that new commitments are fully included in the government's annual borrowing plan and adequately guide the setting of program debt ceiling limits. In addition, the authorities are steadfast about ensuring transparency in all external borrowing, through proper monitoring and accounting in the medium-term fiscal and debt sustainability frameworks.

12. The authorities are actively contemplating various options of a new financing framework for construction of the Padma Bridge following the recent withdrawal of their funding request to the World Bank. The authorities will formulate alternative financing arrangements, including with other development partners, while ensuring that the near-term resource needs for the construction of the bridge fall within the quantitative performance criteria and indicative targets. The Government has also formed a technical committee to report on the modalities, timing and amount of a future sovereign bond issue that could be used to fund high-impact infrastructure projects like the Padma Bridge. The objective would be to encapsulate this type of borrowing under future program debt ceilings. The authorities would like to assure the Executive Board that they remain committed to meeting quantitative targets and policy commitments and will consider various financing options for large infrastructure projects carefully in order to ensure consistency with macroeconomic stability and debt sustainability objectives as set out in the MEFP.

Monetary and Exchange Rate Policy

13. The authorities intend to maintain a moderately restrained monetary policy approach to contain inflation and to support growth. Bangladesh Bank (BB) will accumulate reserves depending on market conditions and will avoid pegging the exchange rate keeping in view the strong performance in the net international reserves (NIR) in recent months. Improving the monetary transmission mechanism through strengthening the secondary market for government securities remains an ongoing objective. Recent measures taken towards this end

include enhancing shorter dated instruments of bills/bonds issues and launching an electronic trading platform on the BB's window.

Financial Sector Reforms

14. The authorities recognize that strengthening financial sector governance and oversight, and bringing necessary legal and prudential reforms would reduce risks in the financial sector and improve monetary management. In this connection, the authorities have already taken some measures; others will be implemented in due course. Recent measures taken include: the issuance of new loan classification and provisioning standards by the BB to help banks' gain sound financial position and reduce systemic risks; initiation of online reporting requirements for financial transactions; and strengthening onsite and offsite vigilance. The authorities also intend to submit amendments to the Banking Companies Act (BCA) to improve governance, particularly of state-owned commercial banks (SOCBs), and to enhance the BB's supervisory and regulatory role. The BB will also initiate special diagnostic examinations of the four SOCBs in early 2013. For the securities market, the authorities' priority is to pass the Demutualization Act, which will shape major elements of the demutualization models for the stock exchanges.

Trade and Investment Climate Reforms

15. The authorities are aware that creating an appropriate environment for public private partnerships and trade reforms is essential for improving the trade and investment climate. To this end, the Public-Private Partnership (PPP) office is now fully operational and a set of manuals for its support has already been completed. The authorities also plan to submit the PPP law to the Parliament in FY13. Other measures in the pipeline include reviewing the Foreign Exchange Regulation Act (FERA) and completing a Diagnostic Trade Integration study.

Access to the second disbursement under the ECF program

16. The authorities believe that the policies and programs being implemented will further strengthen their efforts to maintain macroeconomic stability and meet growth targets as set out in the Vision 2021 document aiming to elevate the country to middle-income status in the next decade.

17. In this context, the Bangladesh authorities request the completion of the first review and access to the second disbursement in the amount of SDR 91.423 million to maintain the strong external position and to support the ongoing reform agenda. They also take the opportunity to confirm that they are committed to implementing the policies as outlined in the MEFP. They will continue to maintain a close policy dialogue with the IMF and also pursue technical assistance from the IMF and other development partners in support of the reform agenda. They are also prepared to consult with the IMF in advance of revisions to the policies contained in the MEFP. They also authorize publication of the Letter of Intent and its attachments.