



BANGLADESH

January 2016

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BANGLADESH

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with Bangladesh, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 20, 2016 consideration of the staff report that concluded the Article IV consultation with Bangladesh.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 20, 2016, following discussions that ended on November 17, 2016, 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 5, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Bangladesh.

The documents listed below will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2015 Article IV Consultation with Bangladesh

On January 20, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the 2015 Article IV consultation with Bangladesh.¹

Despite global headwinds and episodes of domestic unrest, Bangladesh has had a strong macroeconomic performance in the two years since the last Article IV consultation, supported by prudent policies under the recently-completed Extended Credit Facility (ECF) arrangement with the IMF.

Real GDP growth has remained above 6 percent, a notable performance in the current global context. Headline inflation has eased, international reserves have risen further, and the public debt-to-GDP ratio has remained largely stable at a moderate level. However, tax revenue performance has been weak, with revenues increasing more slowly than GDP. Also, private domestic demand, particularly private investment, has been subdued, partly contributing to a slowdown in credit to the private sector. Various economic activity indicators suggest a slower-than-expected start to the current fiscal year (FY16, July 2015–June 2016).

Provided calm prevails, prudent policies remain in place, and structural reforms are implemented as envisaged, the medium-term economic outlook should be positive and marked by continued stability and high growth. In FY16, real GDP growth is projected at 6.3 percent, supported by higher public sector wages and public investment. Growth is projected to accelerate gradually to 7 percent over the medium term, as public investment is further ramped up and constraints on investment ease, with private investment also supporting a recovery in private sector credit. Headline inflation is forecast to remain broadly stable in FY16 and edge up slightly next fiscal year owing to temporary effects from higher public sector wages and the introduction of the new VAT. Against investment-led growth, the current account balance is projected to remain in a

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the presence of an IMF arrangement, such as the Extended Credit Facility arrangement that Bangladesh had with the IMF between April 2012 and October 2015, Article IV consultations take place every two years. As part of the consultation, a staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

moderate deficit, averaging 1.5 percent of GDP, while international reserves should continue to rise.

Executive Board Assessment²

Executive Directors commended the Bangladesh authorities for the strong macroeconomic performance over the past few years, including under the recently completed Extended Credit Facility arrangement. Growth has been robust, external reserves have risen, inflation has abated, the public debt-to-GDP ratio has remained stable at a moderate level, and social indicators have improved. Directors noted that the outlook is broadly positive, provided the authorities continue to implement prudent policies and structural reforms to create fiscal space for development needs, strengthen the banking system, enhance resilience against shocks, including from climate change, and promote diversification and inclusion.

With inflation risks tilted to the upside, Directors recommended continued vigilance and prudent adjustment of reserve money growth. They also encouraged the authorities to continue sterilized foreign exchange intervention and to consider adopting a basket of trading partners' currencies to guide foreign exchange intervention policy going forward.

Directors agreed that mobilizing domestic revenue should be a foremost policy priority to create fiscal space for increasing public investment in critical infrastructure and strengthening social safety nets, while keeping the debt-to-GDP ratio broadly stable. To achieve these goals, Directors called for timely implementation of the new VAT supported by an effective communication strategy. They also emphasized the importance of continued efforts to strengthen tax administration, particularly through automation, and reforms to expand income tax bases.

Directors stressed the need to improve budget formulation and execution, and to strengthen the selection of public investment projects by subjecting them to strict cost-benefit analysis, particularly projects financed by nonconcessional external borrowing. They also encouraged the authorities to improve public financial reporting and management at state-owned enterprises, and to move toward a market-based fuel price regime.

To boost private sector credit, and thereby further promote investment and growth, Directors called on the authorities to press ahead with reforms to strengthen banking sector supervision, and avoid regulatory forbearance. They also encouraged continued progress in improving corporate governance, credit policies and asset quality at state-owned banks, and aligning the national savings certificates interest rates with market rates.

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

Directors commended the authorities' efforts to promote financial inclusion. They called for wide-ranging reforms to improve public infrastructure and the investment climate, and to diversify exports. Directors welcomed the priority that the authorities are giving to adapting to climate change, and looked forward to sustained efforts in this area, including through improved coordination and oversight of climate change-related spending.

Bangladesh: Selected Economic Indicators, FY2013–17 1/

I. Social and Demographic Indicators					
Population (FY14, millions; estimate)	156	Infant mortality (2013, per thousand live births)	33		
GDP per capita (FY14, U.S. dollars)	1110	Life expectancy at birth (2012, years)	70		
Labor force participation rate (FY10, percent; national measure)	59	Adult literacy (2012, percent of people)	59		
Poverty headcount ratio (2010, national measure, percent)	32	Population dependency ratio (2013, percent)	53		
Gini index (World Bank estimate)	32	Population growth (FY14, y/y, percent; estimate)	1.4		
II. Macroeconomic Indicators					
		FY14	FY15	FY16	FY17
			Prel./Staff est.	Staff proj.	
National income and prices (annual percent change)					
Real GDP	6.0	6.1	6.5	6.3	6.8
GDP deflator	7.2	5.7	5.8	6.8	7.4
CPI inflation (annual average)	6.8	7.3	6.4	6.5	7.0
CPI inflation (end of period)	8.1	7.0	6.2	6.7	7.3
Nonfood CPI inflation (end of period)	7.7	5.4	6.2	6.8	7.7
Central government operations (percent of GDP)					
Total revenue and grants	11.2	10.9	9.9	10.5	11.6
Total revenue	10.7	10.4	9.6	10.3	11.3
Tax	9.0	8.6	8.5	8.7	9.6
Nontax	1.8	1.8	1.1	1.5	1.7
Grants	0.5	0.5	0.3	0.3	0.3
Total expenditure	14.6	14.0	13.8	14.9	15.8
Current expenditure	8.3	8.2	7.9	8.9	9.5
Annual Development Program (ADP)	4.2	4.1	4.3	4.8	5.2
Other expenditures 2/	2.1	1.7	1.7	1.2	1.2
Overall balance (including grants)	-3.4	-3.1	-3.9	-4.4	-4.3
(Excluding grants)	-3.9	-3.5	-4.2	-4.7	-4.6
Primary balance (excluding grants)	-1.9	-1.5	-2.1	-2.6	-2.3
Total central government debt (percent of GDP)	34.5	33.9	34.0	34.3	34.2
Money and credit (end of fiscal year; percent change)					
Credit to private sector by the banking system	10.8	12.3	13.2	14.7	15.9
Reserve money 3/	15.0	15.4	14.3	13.5	14.7
Broad money (M2)	16.7	16.1	12.4	13.5	14.7
Balance of payments (billions of U.S. dollars)					
Exports, f.o.b.	26.6	29.8	30.8	32.6	35.7
(Annual percent change)	10.7	12.1	3.3	6.0	9.5
Imports, f.o.b.	-33.6	-36.6	-40.7	-43.3	-47.2
(Annual percent change)	0.8	8.9	11.2	6.3	9.2
Current account balance 4/	2.4	1.4	-1.6	-2.7	-3.4
(Percent of GDP)	1.6	0.8	-0.8	-1.3	-1.4
Capital and financial account balance	3.5	3.4	5.6	4.7	5.4
Of which: Foreign direct investment	1.7	1.4	1.7	1.9	2.4
Overall balance	5.1	5.5	4.4	2.0	2.0
Gross official reserves (billions of U.S. dollars) 5/					
In months of prospective imports of goods and services	4.1	5.3	5.8	5.8	5.7
Exchange rate (taka per U.S. dollar; period average)	79.9	77.6	77.7	...	...
Exchange rate (taka per U.S. dollar; end-period)	77.8	77.6	77.8	...	...
Nominal effective rate (2010=100; period average)	86.9	89.7	95.4	...	...
Real effective rate (2010=100; period average)	99.3	107.8	120.5	...	...
<i>Memorandum item:</i>					
Nominal GDP (billions of taka)	11,989	13,437	15,136	17,180	19,704

Sources: Bangladesh authorities; World Bank, *World Development Indicators*; and IMF staff estimates and projections.

1/ Fiscal year begins July 1.

2/ Includes non-ADP capital spending, net lending, food account surplus (-)/deficit (+), and extraordinary expenditures.

3/ Reserve money excludes liabilities arising from banks' foreign currency clearing accounts at Bangladesh Bank (BB) and nonbank deposits at BB.

4/ Imports are based on customs data.

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



BANGLADESH

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

January 5, 2016

KEY ISSUES

Context. Since the last Article IV Consultation in November 2013, macroeconomic stability has been maintained, supported by prudent policies under the recently-concluded Extended Credit Facility arrangement. However, private domestic demand and credit growth have been tepid, and export growth has slowed, as it has in other Asian countries. The real effective exchange rate has appreciated strongly, but the external position is broadly in line with fundamentals and desirable policies.

Outlook and risks. Provided that political calm prevails, public investment is ramped up, and constraints on private investment are eased, growth is projected to accelerate gradually to 7 percent over the medium term. Lingering political uncertainty, low fiscal revenues, and weaknesses in state banks' balance sheets are the main challenges to the medium-term outlook.

Policies. The policy priorities are to:

- **Safeguard stability** by anchoring fiscal policy on a broadly stable public debt-to-GDP ratio and monetary policy on continued prudent reserve money growth; building resilience in the financial sector by enhancing regulation and supervision and strengthening state-owned banks; and developing a medium-term fiscal framework for climate change adaptation.
- **Boost private investment**, including through better public infrastructure, an easier investment climate, and a more supportive financial system.
- **Strengthen inclusion**, by improving the progressivity of public spending and the tax system, and furthering financial inclusion.
- **Create fiscal space** for growth-enhancing and inclusive spending, by mobilizing domestic revenue, particularly through the implementation of the new VAT; further reducing regressive energy subsidies; and strengthening public financial management.

Approved By
**Markus Rodlauer and
 Catherine Anne Maria
 Pattillo**

Discussions took place in Dhaka during November 4–17, 2015. The mission met with the Minister of Finance, the Governor of Bangladesh Bank, other senior government officials, as well as representatives of the business and banking sectors, microfinance institutions, labor unions and nongovernmental organizations, think tanks, and international development partners. The staff team comprised Rodrigo Cubero (mission chief), Souvik Gupta, Jayendu De, and Stella Kaendera (Resident Representative) (all APD); Andrew Hodge (FAD); and Lynge Nielsen (SPR). Indu Chaturvedi (OED) joined the closing policy discussions. Qianqian Zhang and Sharlin George (APD) assisted in preparing this report.

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Glossary

ADP	Annual Development Program
AML	Anti-money laundering
ATM	Automated teller machines
BB	Bangladesh Bank
BOP	Balance of payments
BPC	Bangladesh Petroleum Corporation
CAB	Current account balance
CFT	Combating the financing of terrorism
DSA	Debt Sustainability Analysis
EBA	External Balance Assessment
ECF	Extended Credit Facility
EM	Emerging markets
FDI	Foreign direct investment
FX	Foreign exchange
FY	Fiscal year
GDP	Gross domestic product
LIDC	Low-income developing countries
NIIP	Net international investment position
NPL	Nonperforming loan
NSC	National savings certificates
PER	Public Expenditure Review
PPP	Public private partnership
PSC	Production sharing contract
RAM	Risk Assessment Matrix
REER	Real Effective Exchange Rate
SB	State-owned banks
US	United States, The
TPP	Trans-Pacific Partnership
VAT	Value added tax
y/y	year-on-year

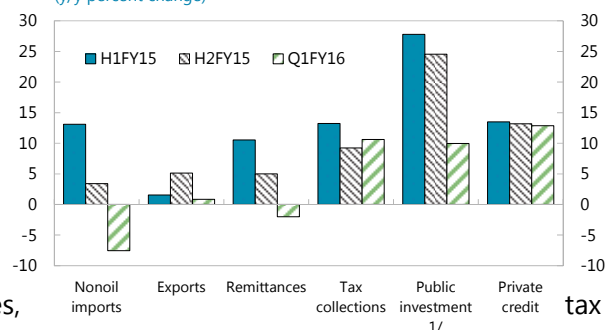
CONTEXT

- 1. The Bangladesh economy has undergone a major transformation in the past two decades** (Figure 1). GDP growth has been strong and largely stable since the mid-1990s (average: 5.8 percent), allowing real per capita income to double over the period. The shares of manufacturing and services in GDP rose, spearheaded by the emergence of the garment industry. Poverty has declined steadily, while inequality has remained broadly stable. In addition, Bangladesh has made major strides on social indicators, and compares favorably to other low-income countries (Figure 2).
- 2. In the two years since the last Article IV consultation, prudent policies have underpinned a generally strong macroeconomic performance** (Figure 3), supported by the recently-completed Extended Credit Facility (ECF) arrangement with the IMF (Appendix I). Real GDP growth has been robust; headline inflation has eased; international reserves have risen further; and the public debt-to-GDP ratio has remained stable at a moderate level. However, tax revenues have underperformed, and economic activity has been tepid more recently.
- 3. Political calm has returned, but tensions remain.** Disputes between the main political parties, particularly over the legitimacy of the January 2014 general elections and the conviction of key opposition leaders by an ongoing war crimes tribunal, have led to episodes of violence over the past two years. Widespread violence has subsided since the elections, except for a brief resurgence in early 2015. However, underlying tensions remain, leading to lingering uncertainty.

MACROECONOMIC DEVELOPMENTS

- 4. Against global headwinds and episodes of domestic unrest, domestic demand and activity have weakened.** The share of private consumption in GDP has steadily declined since fiscal year 2011 (FY11, July 2010–June 2011), while private investment has remained largely unchanged as a share of GDP since FY12 after steadily increasing since the mid-1990s (though it is still higher than for the median low-income country). Moreover, demand and several indicators of activity weakened markedly in the second half of FY15. Exports also performed poorly in FY15, reflecting a restructuring in the garment industry and subdued external demand. Against this background, the preliminary official growth estimate of 6½ percent for FY15 (FY14: 6.1 percent) appears somewhat high.¹ Available indicators (exports, imports, remittances, revenue, and public investment) also suggest a slow start in FY16.

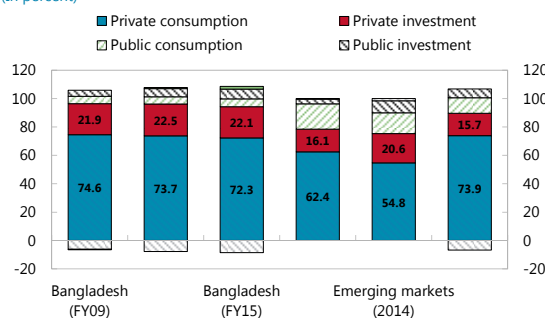
Bangladesh: Selected Economic Indicators
(y/y percent change)



Sources: Bangladesh authorities; and IMF staff calculations.
1/ Public investment represents spending on the Annual Development Program by the central government.

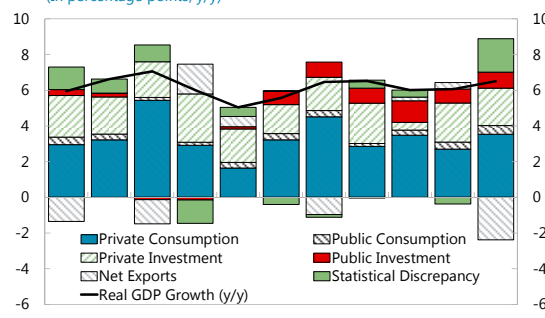
¹ The Bangladesh Bureau of Statistics publishes national accounts data once a year in May. The release includes a preliminary estimate for the ongoing fiscal year (a projection based on data mainly from the first half of the year) and final estimates for the previous fiscal years.

Composition of GDP 1/
(In percent)



Sources: IMF, *World Economic Outlook* database; and staff calculations.
1/ Country groupings are based on weighted averages, using GDP at purchasing power

Bangladesh: Contributions to Real GDP Growth
(In percentage points, y/y)

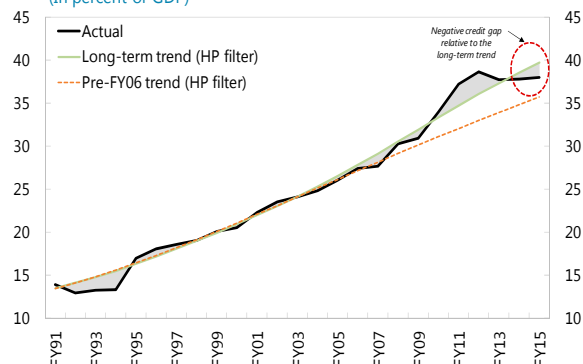


Sources: Bangladesh authorities; and IMF staff calculations.

5. Several factors may have weighed on private investment and growth (although the absence of adequate and timely data, particularly on private sector balance sheets, prevents a full quantification):

- *Crippling regulations and continued bottlenecks in critical infrastructure*, particularly in energy and transport, which may have become more binding in recent years as the economy modernizes and becomes more market-oriented. These constraints stem in part from low public investment and inadequate infrastructure maintenance.
- *Political turmoil and uncertainty*. Episodes of violence have affected economic activity both directly and via uncertainty.
- *Subdued private sector credit growth*. Credit slowed since mid-2013, with the private credit-to-GDP ratio below trend (a negative credit gap). However, causality also runs from weak domestic demand to slower credit, and the credit slowdown is partly a correction after a credit boom in FY09–12.

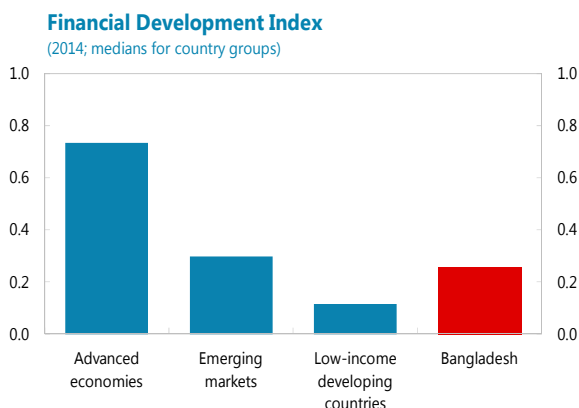
Bangladesh: Bank Credit to Private Sector
(In percent of GDP)



Sources: Bangladesh authorities; and IMF staff calculations.

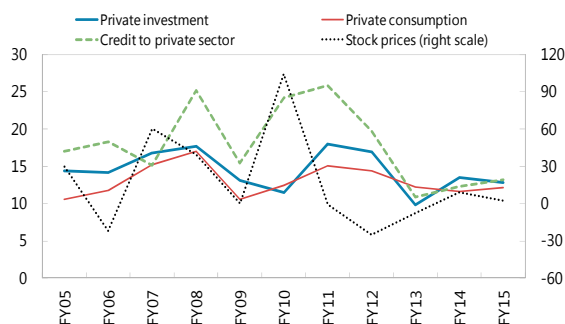
6. Financial sector weaknesses also hamper credit, investment, and growth (macro-financial linkages flow chart below, and Figures 4–6). Bangladesh does better than other low-income countries in a broad measure of financial development.² However, asset quality, profitability and capital adequacy have declined in the banking sector since end-2012, particularly in state-owned banks (SBs), beset by poor governance and scams. Weak bank balance sheets and governance issues reduce lending capacity, take credit away from productive investment, and, in the case of SBs, can lead to fiscal recapitalization costs (Box 2 and paragraph 23). High levels of non-performing loans and the high rates on national savings certificates (NSCs, a government deposit-like financing instrument), increase banks’ operating and funding costs, putting upward pressure on interest rates

² The index combines indicators on depth, access, and efficiency. See *IMF Staff Discussion Note 15/08*, May 2015.



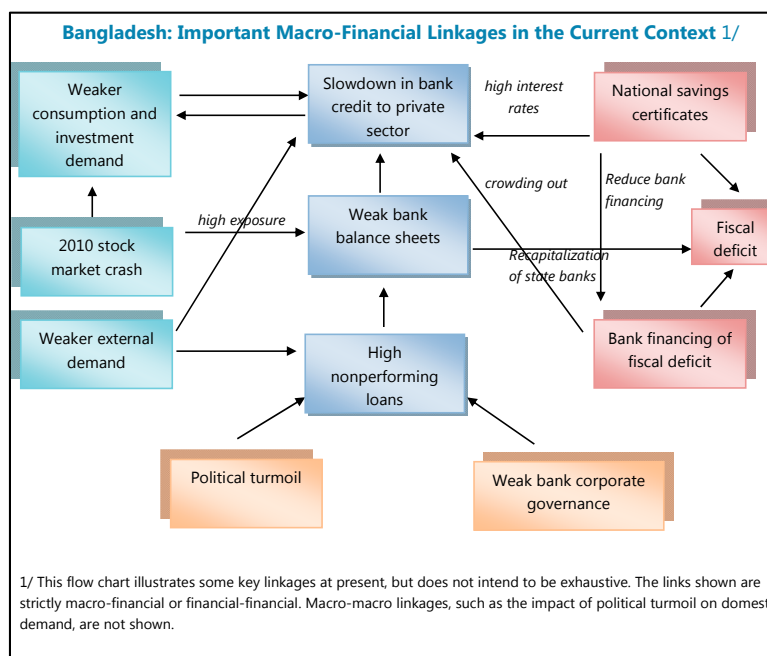
Source: IMF, Financial Development Index database.

Bangladesh: Private Investment, Private Consumption, Private Credit, and Stock Prices
(y/y percent change; in nominal terms)



Sources: Bangladesh authorities; and IMF staff calculations.

(see Selected Issues Papers, Chapter I).³ Rising (albeit still small) corporate borrowing from abroad has also reduced reliance on domestic credit. Finally, the 2010–12 stock market crash (which anecdotal evidence indicates was accompanied by a real estate price decline) had some impact on private demand. It also hit the banks, which were significantly exposed to the stock market, potentially affecting credit.



7. Slower bank credit to the public and private sectors has contributed to high liquidity in the banking system (Figure 7). As a result, inter-bank (call) interest rates have fallen steeply, much more than deposit and lending rates. Also, slower credit has led to weaker broad money growth.

³ The rates on NSCs were cut by 1½ – 2 percentage points in May 2015, but the wedge vs. bank deposit rates has widened again since.

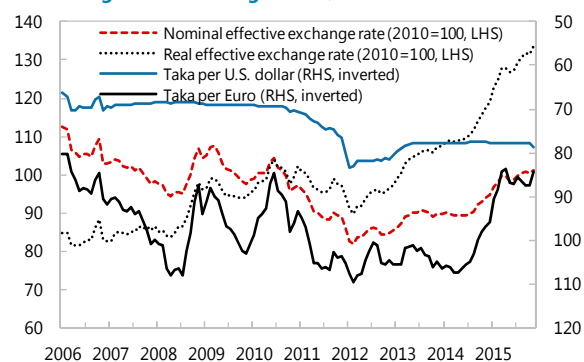
8. Headline inflation has eased, but nonfood inflation is up. On the back of a good rice harvest in 2014 and declining global prices, food price inflation decelerated, helping headline inflation ease from 7.4 percent (y/y) in December 2013 to 6 percent (y/y) in November 2015. However, nonfood inflation has picked up by nearly 2 percentage points during this period to 6.6 percent (y/y). Against general signs of tepid demand, this uptick likely reflects one-off factors, including higher minimum wages in the garment industry and recent electricity and gas tariff hikes. Despite lower global oil prices, domestic retail fuel prices have not been reduced.

9. Tax collections significantly underperformed in the past two years. Subdued activity and imports have contributed, but are not the only factors: revenues have grown more slowly than output. Thus, already one of the lowest in the world, the tax-to-GDP ratio fell in FY14 and FY15, pointing to persistent weaknesses in tax policy and administration. Moreover, nontax revenues declined significantly in FY15, in part due to lower profit transfers from public sector agencies to the government. While current expenditures remained restrained, helped in part by lower fuel subsidies, and the capital budget was under-executed, this was not sufficient to offset weak revenue performance. As a result, the fiscal deficit (excluding grants) is estimated to have risen to 4.2 percent of GDP in FY15 (FY14: 3.5 percent of GDP).⁴

10. The external position is broadly consistent with fundamentals and desirable policies

(Box 1 and Figure 8). After two years of surpluses, the current account balance (CAB) swung into a moderate deficit (0.8 percent of GDP) in FY15 on account of subdued exports, though the CAB returned to a surplus in the first quarter of FY16 as imports fell. The overall BOP, however, continued to record a sizeable surplus, supported by medium-to long-term capital inflows. Despite sterilized foreign exchange (FX) interventions by Bangladesh Bank (BB), which kept the taka/US\$ rate stable and reserve money growth restrained, the real effective exchange rate (REER) has appreciated by 24 percent since the last Article IV consultation. Nevertheless, staff assesses the external position to be broadly in line with economic fundamentals and desirable policies (Box 1). International reserves are adequate at close to 6 months of prospective imports.

Bangladesh: Exchange Rates, Jan. 2006–Nov. 2015



Sources: Bangladesh authorities; and IMF Information Notice System and staff calculations.

11. There are, however, important structural weaknesses in the external sector. In particular, exports remain concentrated in garments, and foreign direct investment (FDI) inflows remain much lower, as a share of GDP, than in most low-income countries (Box 1), mainly due to the constraints on investment highlighted above.

⁴ The authorities' preliminary estimate of the FY15 deficit is 3.8 percent of GDP, but is expected to be revised up. Staff's higher estimate is based on average historical revisions to preliminary data.

Box 1. Bangladesh: External Sector Assessment

The external position is broadly consistent with fundamentals and desirable policies. External sector policies should seek to improve the investment climate to attract larger FDI inflows and diversify export supply.

Foreign asset and liability position

Background: Bangladesh had a net international investment position (NIIP) of -11 percent of GDP in 2014 (2013: -13 percent of GDP), consisting of foreign assets of 16 percent of GDP and foreign liabilities equivalent to 27 percent of GDP. About 80 percent of all assets are accounted for by Bangladesh Bank (BB)'s gross international reserves and over half of all liabilities stem from public sector debt obligations. The commercial banking system's net foreign asset position is positive.

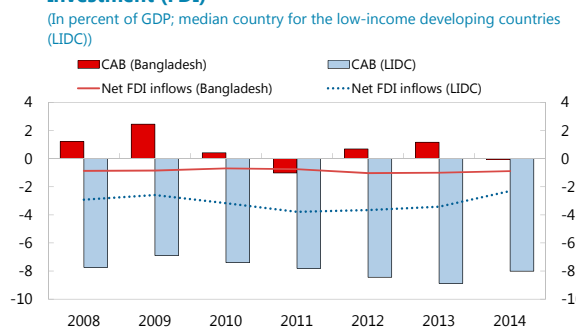
Assessment: The structure of the external balance sheet, dominated by low-risk liquid assets and public sector liabilities, implies low vulnerabilities.

Current account

Background: The current account swung from a surplus of 1.2 percent of GDP in 2013 to a deficit of 0.1 percent of GDP in 2014, mainly on subdued exports. The deficit is projected to widen to 0.9 percent of GDP in 2015.

Assessment: The current account equation from the extended External Balance Assessment (EBA-lite) methodology¹ suggests that the current account balance should be lower (that is, the current account deficit larger) than the underlying one, with a current account norm of -4.4 percent of GDP. However, the fitted equation systematically under-estimates the actual current account, suggesting that the model does not capture well country-specific factors that push up the balance compared to the average country in the EBA-lite sample, including: (i) a domestic natural gas sector that substitutes for oil imports; (ii) a large, non-capital-intensive garment export industry with significant profit margins; (iii) credit constraints that prevent households from consuming today against expected future income from young demographics; (iv) relatively lower foreign direct investment (FDI) inflows; and (v) a high (about 1/3) propensity to save out of remittances in Bangladesh, likely reflecting the short term nature of most employment contracts in the Gulf countries. Adjusting for these factors would make the current account norm higher than estimated by about 3½ percent of GDP, of which remittances is estimated to contribute about 2½ percent of GDP (compared to the typical EBA-lite country). Staff assesses that the current account gap ranges between -1 percent and +1 percent of GDP.

Current Account Balance (CAB) and Foreign Direct Investment (FDI)
(In percent of GDP; median country for the low-income developing countries (LIDC))



Source: IMF, World Economic Outlook database.

CA Norm—With adjustments	
(In percent of GDP)	
Actual CA	-0.9
Cyclically adjusted CA (removing all temporary factors)	-1.0
CA norm (from EBA-lite model)	-4.4
Adjusted CA norm	-1.0
Of which: cyclical contribution from the model	0.1
Of which: adjustment for structural country-specific factors	-3.5
CA gap	0.0
o/w global fiscal policy gap	-0.5

Box 1. Bangladesh: External Sector Assessment (Continued)

Real exchange rate

Background: After remaining broadly constant for about two decades, the real effective exchange rate (REER) has appreciated steadily for the past three years. Since the last Article IV Consultation, the REER has appreciated by about 24 percent. Nominal effective appreciation and relatively higher domestic inflation contributed about equally to this appreciation.

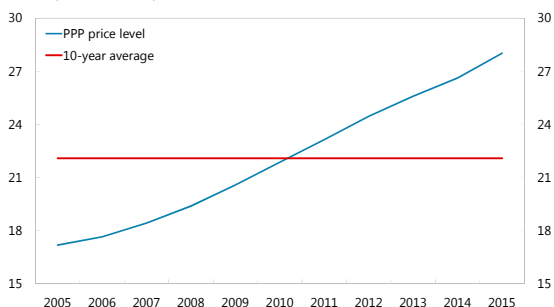
Assessment: Despite the strong recent REER appreciation, there is no clear evidence of misalignment or lack of competitiveness: while export growth has been tepid over the past two years, export market shares have remained strong, and there is no import boom. Furthermore, the cost of Bangladesh’s consumption basket (in purchasing power parity terms) is lower than predicted by the country’s per capita income. Based on the EBA-lite CA regression, staff assesses the REER gap to be -3 percent to +3 percent.

Bangladesh: Real Effective Exchange Rate (REER)
Oct. 1995–Sep. 2015; (Index; 2010=100)



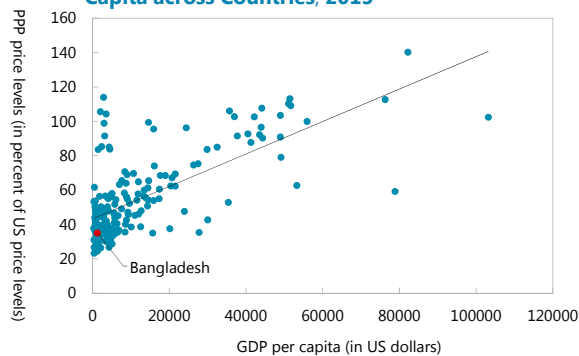
Source: IMF, Information Notice System database.

Bangladesh: Purchasing Power Parity Price Level
(In percent of U.S. price level)



Source: IMF, World Economic Outlook database.

Purchasing Power Parity Price Levels and GDP per Capita across Countries, 2015



Source: IMF, World Economic Outlook database.

Capital and financial accounts

Background: The capital and financial accounts have registered strong surpluses in recent years, reaching 2½ percent of GDP in 2014. Capital inflows are dominated by official development assistance and medium-term loans to the public sector. Inflows to the private sector (particularly FDI and portfolio investments) have been small (around 1 percent of GDP) and largely offset by private sector outflows.

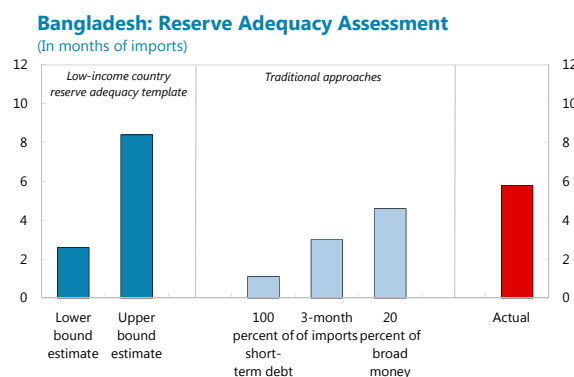
Assessment: The capital and financial accounts are relatively stable. Vulnerabilities are limited by the highly concessional nature of inflows as well as high reserve buffers.

Box 1. Bangladesh: External Sector Assessment (Concluded)

FX intervention and reserve adequacy

Background: The *de jure* exchange rate arrangement is classified as floating, but BB intervenes in the foreign exchange market to keep the exchange rate relatively stable against the US dollar. As a result of this intervention, gross international reserves increased from 4.7 months of imports as of end-2013 to 5.8 months at end-November 2015.

Assessment: Staff's reserve adequacy framework suggests that the optimum level of reserves for Bangladesh would range from 2.6 (for a flexible exchange rate regime) to 8.4 months of imports (for a fixed exchange rate regime), assuming a net cost of holding reserves of 5 percent.² Since Bangladesh has a *de facto* stabilized exchange rate regime, a reserve adequacy figure closer to the top of this range would seem appropriate. Traditional rules of thumb for gauging reserve adequacy—a reserve cover of 3 months of imports, 20 percent of broad money, or 100 percent of short-term debt—put reserve adequacy at a lower range of 1 to 4.5 months of import cover. Against these estimates, staff considers that the current level of reserves in Bangladesh is adequate.



Source: IMF staff estimates.

¹ EBA-lite applies a slightly modified EBA methodology to a much larger country sample (149 countries, compared with 49 in the case of EBA).

² For Bangladesh, this is estimated using: (i) the marginal cost on sterilization instruments; and (ii) the cost of short-term external borrowing for oil imports. In both cases the cost, net of returns on investment assets, is about 5 percent.

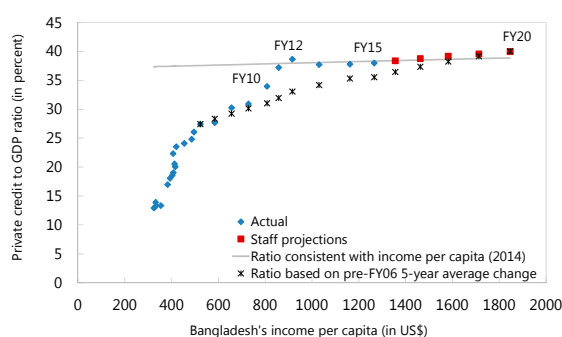
OUTLOOK AND RISKS

12. Staff projects real GDP growth at 6.3 percent in FY16, supported by higher public sector wages and public investment. This is slightly lower than in staff's previous projections, reflecting weaker economic indicators in the first few months of FY16 (paragraph 4).⁵

13. The medium-term outlook is positive, provided that policies remain prudent, tax revenues are strengthened, and calm prevails:

- Growth is projected to accelerate to 7 percent by FY20 on the back of: (i) a ramp-up in public investment, which assumes tax revenues will be boosted by the launch of the new value added tax (VAT) in July 2016; and (ii) a recovery in private investment, as regulatory and infrastructure bottlenecks are eased and the financial sector strengthens. Despite the recent REER appreciation, Bangladesh retains a sizeable labor cost advantage (expected to be supported in the future by very favorable demographics), which should make it an attractive source country as competing producers move up the value chain. Beyond FY20, once the demand-side impact from increased investment subsidies, growth is expected to converge back to a potential rate of about 6.5 percent.
- Inflation is expected to edge up in FY16–18 on account of higher public sector wages and a one-off effect from the introduction of the new VAT. Headline inflation should fall gradually toward 6 percent by FY20 assuming monetary policy remains prudent and supply bottlenecks are eased.
- Private sector credit growth is expected to average around 15½ percent over the medium term, with its share in GDP increasing by 2 percentage points to 40 percent by FY20. This is consistent with the envisaged investment and GDP growth paths, and also with pre-credit-boom trends (prior to FY06) and cross-country patterns of financial deepening.
- On the back of investment-led growth, the current account deficit is projected to widen to about 2 percent of GDP over the medium term, with international reserves remaining adequate.

Bangladesh: Bank Credit to Private Sector, FY91 - FY20



Sources: Bangladesh authorities; and IMF staff calculations and estimations.

⁵ Staff's figures and projections in this report are on a fiscal-year basis, and not directly comparable with those in the *World Economic Outlook*, which are on a calendar-year basis.















Bangladesh: Medium-Term Outlook 1/						
	FY15	FY16	FY17	FY18	FY19	FY20
	Prel.	Staff proj.				
	(Annual percent change)					
Real GDP	6.5	6.3	6.8	7.0	7.0	7.0
CPI inflation (annual average)	6.4	6.5	7.0	6.7	6.4	6.1
Credit to private sector (end of period)	13.2	14.7	15.9	15.7	15.3	15.4
	(In percent of GDP)					
Current account balance	-0.8	-1.3	-1.4	-1.6	-1.8	-2.0
Overall fiscal balance (excluding grants)	-4.2	-4.7	-4.6	-4.5	-4.4	-4.3
Central government debt	34.0	34.3	34.2	34.0	33.9	33.6

Source: IMF staff projections.
1/ Fiscal year begins July 1.

14. Political and financial-fiscal shocks are the main risks to the outlook (Box 2). A resumption of political violence or heightened uncertainty would adversely impact investment, growth, and inflation. Continued weakness in the banking sector, in particular at the SBs, could undermine credit and growth prospects and affect fiscal sustainability, as would a failure to launch the new VAT (see the Debt Sustainability Analysis, DSA). On the external side, a protracted slowdown in the European Union (Bangladesh's main export destination) could hurt exports. Implementation of the Trans-Pacific Partnership (TPP), of which Bangladesh is not a member, could also erode the competitiveness of exports to TPP member countries (which account for around one-fourth of Bangladesh's exports), though the impact is likely to be mitigated by Bangladesh's significant cost and scale advantages.⁶ Moreover, the outlook for remittances (a major driver of consumption) is uncertain: while worker outflows have recovered, persistent low oil prices could eventually affect investment and employment in key host countries. From a broader perspective, natural disasters and global climate change pose major risks for Bangladesh (paragraph 24). Linkages with large emerging market economies and international financial markets remain limited, cushioning against potential shocks from these sources.

⁶ The main impact is likely to be on garment exports to the United States (20 percent of Bangladesh's garment exports), on account of increased competition from Vietnam. Bangladesh's garment exports to the US are currently subject to a 15.6 percent tariff; Vietnam's are subject to an 8.4 percent duty, which will go down to zero after full implementation of TPP. However, Bangladesh has a much higher population than Vietnam (156 million compared to 90 million) and more favorable demographics (Vietnam's workforce is estimated to have peaked in 2015, whereas Bangladesh's is projected to peak in 2030). Bangladesh also maintains duty-free access to the European Union (61 percent of garment exports and 55 percent of total exports), where it has been steadily gaining market share for several years.

Box 2. Bangladesh: Risk Assessment Matrix (RAM) 1/

Shocks and Likelihood <i>(Red= high likelihood; green = low likelihood)</i>		Potential Impact <i>(Red= high; green=low)</i>	Policy Response			
			Fiscal	Monetary/ex- change rate	Financial	Other
Domestic	 Resumption of intense political turmoil.	 Growth prospects could be affected by a loss of confidence and a slump in investment and consumption. Balance of payments (BOP) pressures could emerge from lost export production. Fiscal consolidation efforts could slip and inflation could go up.	√	√		
	 Further deterioration in the financial health of state-owned banks (SBs).	 SBs have high NPLs, low profitability, and sizeable capital shortfalls (but do not face liquidity pressures). Further deterioration in SB balance sheets would potentially have a negative impact on credit, economic growth, and the fiscal balance. Under a conservative scenario that assumes full write-off of existing NPLs and rescheduled loans, the SB recapitalization needs above recapitalization provisions already in staff's baseline are estimated to be about 2¼ percent of GDP (as of June	√		√	
	 Large revenue shortfalls relative to projections.	 Continued revenue underperformance would compromise spending on growth-critical investment projects and social safety nets. Failure to launch the new VAT, in particular, would jeopardize debt sustainability (DSA's alternative scenario). The larger deficits would also stress financing and potentially crowd out private sector credit.	√			
External	 Structurally weak growth in key advanced and emerging economies (EMs).	 The European Union accounts for 55 percent of Bangladesh's exports. Exports to EMs are small, but growing. Activity would be affected largely in the garment industry, with a negative impact on BOP. However, the relatively low-income elasticity of demand for garment exports and Bangladesh's cost competitiveness would act as mitigating factors.	√	√		
	 Significant China slowdown.					
	 Significant slowdown in other large EMs/frontier economies.					
	 Surge in the U.S. dollar	 If the taka/US\$ rate is kept stable and the US\$ continues to appreciate against the euro, Bangladesh's cost advantage in the European market would be eroded and pressures on the BOP could emerge.		√		
 Persistently lower energy prices.	 As a net oil importer, Bangladesh benefits from lower oil prices. However, low oil prices could weaken job prospects for Bangladeshi workers in Gulf countries (from which about two-thirds of remittances originate), and thereby affect remittances. This, in turn, would have a negative impact on domestic demand and the BOP. This impact could potentially outweigh the positive income shock from lower oil prices, as remittances are about four times larger than oil imports.	√	√			

Source: IMF staff.

1/ The 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 is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Nonmutually exclusive risks may interact and materialize jointly.

15. Credit shocks are the main risk for the banking system.⁷ Poor lending decisions are a major concern in the SBs and some private banks. Main credit exposures are to services sectors and to large single borrowers (exposures to households and real estate are small). While banks' direct currency risks are low, rising external borrowing by corporations poses an indirect risk.

Bangladesh: Selected Banks' Aggregate Exposure to Large Loans 1/ 2/		
(Share in percent; as of end-2014)		
	Loans and advances	Capital (unadjusted)
Among the sample banks (asset-weighted)	26.4	193.7
Relative to the banking sector	14.0	105.7

Sources: Bangladesh Bank; sample banks' balance sheets; and IMF staff calculations.
 1/ Large loans are defined as exposures exceeding 10 percent of capital.
 2/ Sample includes 16 of the large banks by asset size, accounting for 61 percent of the total banking sector assets. For some of these banks, data include off-balance sheet claims.

Authorities' views

16. Outlook. The authorities agreed on the drivers of FY16 growth, but viewed staff's projections as conservative. They believed that, amid slow external demand and domestic investment, growth would likely be lower than the official forecast of 7 percent, but should still be in the 6.5–6.8 percent range. They also forecast FY16 inflation at 6.2 percent, slightly lower than staff's, while Bangladesh Bank's FY16 BOP projections are broadly similar to staff's. Over the medium term, under the Seventh Five Year Plan (FY16–20), the authorities expected growth to reach 8 percent, backed by prudent policies and higher investment. They agreed with staff that the impact of TPP implementation on Bangladesh's exports would likely be limited given Bangladesh's significant cost and scale advantages, supported by favorable demographics.

17. Risks. The authorities believed that political violence is highly unlikely and does not pose a risk to the outlook. On tax collections, the authorities noted that revenues had continued to grow in nominal terms and stressed their efforts to boost collections. They agreed with staff's external sector assessment.

POLICY DISCUSSIONS

Discussions focused on policies to safeguard macroeconomic stability; enhance resilience against shocks, including from climate change; mobilize domestic revenues for development; and promote diversification and inclusion.

A. Safeguarding stability and strengthening resilience

18. Macroeconomic policies. With GDP growth broadly stable, the focus of aggregate macroeconomic policies in the near-term should be to safeguard stability. However, in the event

⁷ Bangladesh Bank: *Financial Stability Report* (June 2015).

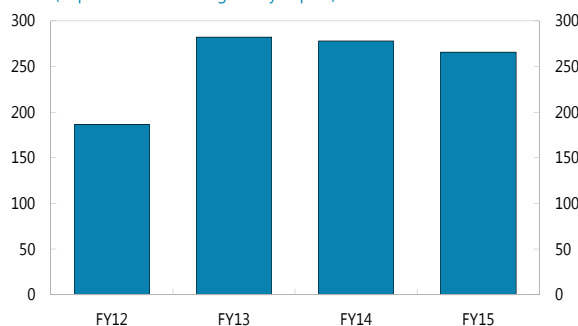
that the economy is hit by large temporary shocks, counter-cyclical policy responses would be called for in the form of fiscal easing (including through automatic stabilizers and increased transfers to the poor) and the use of reserve buffers. If the shocks are protracted, the exchange rate should be allowed to depreciate and fiscal policy adjusted to keep it broadly in line with the fiscal anchor (Box 2).

19. Fiscal policy stance and debt sustainability. The overall fiscal deficit (excluding grants) is expected to widen to 4.7 percent of GDP in FY16, as a public sector pay hike, the first in six years, is implemented. Over the medium term, staff projects the increase in pay (1 percent of GDP) and in public investment (2 percent of GDP) to be partly offset by lower energy-related subsidies and higher revenue from the new VAT. The debt-to-GDP ratio would remain broadly stable as a share of GDP, which is a reasonable anchor for medium-term fiscal policy: while public debt is moderate, its trajectory is highly vulnerable to revenue shocks given the low revenue base and high debt service burden (see DSA). Over the longer term, the debt-to-GDP ratio is projected to increase slightly and then stabilize as concessional external financing declines and interest costs consequently rise, and as pension liabilities increase with aging. Throughout the projection horizon, debt remains sustainable on the key assumption that the new VAT is implemented as planned (see DSA).

20. Deficit financing. The authorities should reconsider the need to use NSCs as a financing vehicle: they compete with bank deposits, potentially leading to disintermediation, set an artificial floor on bank rates, and reduce fiscal space for critical spending. If NSCs are kept, their rates should be systematically aligned with market rates. Over the medium term, domestic financing of the fiscal deficit should be gradually reduced given the high exposure of banks to the sovereign and the potential crowding out of private investment. Forced subscription of treasuries by banks (“devolvement”), seldom used recently amid high liquidity in the banking system, should be eliminated. Instead, there is scope to switch to more external financing for the given fiscal deficit, in light of the relatively low level of external debt, strong reserve position, and manageable currency risks (see DSA).

Bangladesh: Deposit Money Banks' Holding of Government Securities

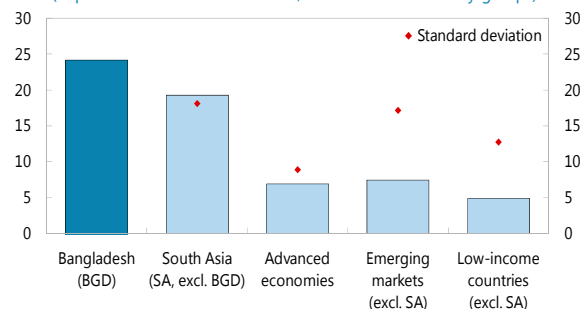
(In percent of tier-1 regulatory capital)



Sources: Bangladesh authorities; and IMF staff calculations.

Net Credit to Central Government by Deposit Money Banks, 2014

(In percent of net domestic credit; median for the country groups)



Sources: CEIC Data Company Ltd.; and IMF, *Integrated Monetary* database and staff calculations.

21. Monetary policy stance. With upside risks to nonfood inflation from higher public wages, reserve money growth in FY16 should remain at about the current pace. Over the medium term, bringing reserve money growth below the baseline projection, while protecting private sector credit

by shifting deficit financing to more external sources, would help inflation ease faster than projected (Figure 9). Looser policy, on the other hand, could stoke inflation and stock prices, risking instability.⁸

22. Exchange rate policy. With the REER having appreciated considerably in recent years and amid uncertainty about the impact this may have on export competitiveness, continued sterilized FX intervention is warranted in the near term. By undermining competitiveness, further significant REER appreciation could eventually impact growth, tax revenue, and bank asset quality. The authorities should monitor FX market developments and export performance, and adjust intervention policy as needed. They should also consider using a basket of trading partners' currencies as a benchmark for FX intervention, instead of implicitly pegging to the U.S. dollar. Given the importance of the euro area as an export market, this would provide a better reference for monetary and exchange rate policy.

23. Financial sector policies. To boost financial sector resilience, policy priorities include:

- *Enhancing financial sector regulation and supervision*, by strictly enforcing existing rules and avoiding regulatory forbearance; and completing implementation of risk-based supervision, contingency planning, and lender of last resort policies. Loan rescheduling and restructuring policies should be revised to reflect the costs of such adjustments on bank balance sheets. The authorities should consider the adoption of a coherent macro-prudential framework to mitigate risks and shore up financial sector resilience. Loan-to-value ratio limits exist for home and auto loans, but the authorities are also exploring the use of other instruments, such as counter-cyclical capital buffers. Debt-to-income ratio caps could also be adopted.
- *Addressing risks from concentration and macro-fiscal linkages*. In particular, reduce banks' exposure to: (i) the sovereign (and reform the NSCs; paragraph 20); (ii) the capital market, in line with the limit set in the law by the July 2016 deadline; and (iii) large single borrowers. In addition to generating risks, these exposures potentially deviate credit from productive investment.
- *Strengthening the SBs*, advancing the three-pillar agenda adopted during the ECF arrangement: (i) improving governance (particularly by appointing independent, accountable boards and enhancing internal control and compliance, under strict BB oversight); (ii) shoring up SB balance sheets through recapitalization, improved loan recovery, and temporary credit growth limits;⁹ and (iii) completion of branch automation by 2016, to strengthen financial reporting and efficiency.
- *Improving the legal and financial framework for loan recovery*. Difficulties in realizing collateral and lengthy dispute resolution processes have weakened banks' ability to bring

⁸ See S. Rafiq, [Monetary Policy Transmission and Financial Stability in a LIC: The Case of Bangladesh](#), IMF Working Paper, 15/231.

⁹ Starting in June 2015, as part of the phased implementation of Basel III capital adequacy standards, BB excluded from regulatory capital past due loans, which were earlier recorded as "intangible assets" on the balance sheets of state-owned commercial banks. This is a welcome step that will more accurately reflect SBs' capital positions.

down non-performing loans. The authorities should consider promoting simpler court procedures, alternative dispute resolution procedures, and asset management companies.

24. Addressing long-term vulnerabilities: climate change. Bangladesh is one of the world's most vulnerable countries to the impact of climate change, particularly in the form of flooding from rising sea levels and tropical cyclones, with potentially devastating effects on the most vulnerable (see Selected Issues Papers, Chapter II). To build resilience in this area, the authorities should:

- Identify, and cost, priority projects for adaptation, including protection against flooding.
- Strengthen the fiscal framework for climate change, ensuring that spending plans are adequately financed and reflected in the annual budget and medium-term fiscal plans.
- Strengthen coordination of climate change initiatives by centralizing policymaking under one agency and allowing all spending and financing to be reflected in the budget.
- Contain greenhouse gas emissions, including through: (i) carbon taxation and further energy subsidy reforms; and (ii) a review of natural gas pricing policies: the financial terms in production sharing contracts (PSCs) are deemed unattractive by prospective investors, discouraging exploration and production of this cleaner energy source. Also, low prices for end users, while encouraging consumption, induce waste.

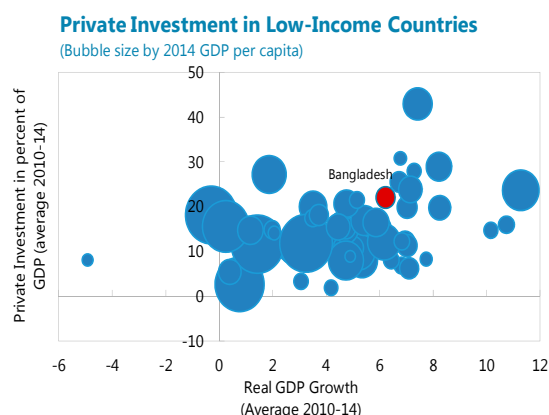
25. Authorities' views. The authorities broadly shared staff's views. They did not support eliminating NSCs, which they saw as providing a safety net to women and the elderly, but were open to reviewing NSC rates regularly to reduce the gap with market rates. The authorities will consider the costs and benefits of a shift to more external financing of the fiscal deficit over the medium term. They broadly agreed with staff's recommendations on exchange rate policy. On monetary policy, BB was initially envisaging somewhat higher reserve money growth in FY16 than recommended by staff, but intends to reassess reserve money targets in the next Monetary Policy Statement. Furthermore, the authorities reiterated their commitment to reforming the SBs, and are exploring options to improve loan recovery. The authorities concurred on the need for coordinated action to adapt to the challenges from climate change, but viewed the financial terms for exploration and production of natural gas as sufficiently attractive.

B. Promoting inclusive growth

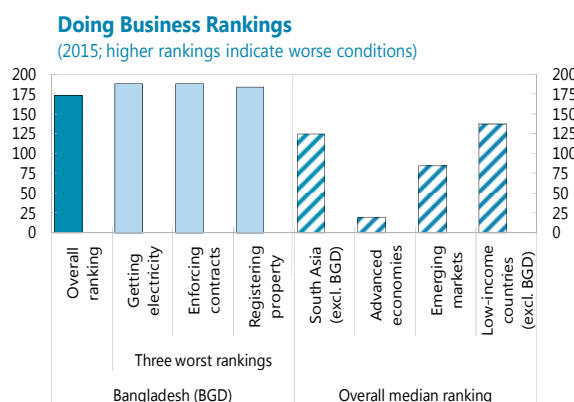
26. Boosting private investment and diversification. To sustain high growth rates against weakening external demand, increase productivity, and allow Bangladesh to take full advantage of its young population and low labor costs, private investment (including foreign) needs to increase and exports should be diversified into new, higher value-added goods and services. This requires:

- *Better public infrastructure.* Efforts should focus on increased public investment on high-priority and cost-effective projects in power and transport infrastructure and fostering private participation through public-private partnerships (PPP), taking advantage of the PPP Act passed in September 2015.

- *Easier investment climate*, including through continued liberalization of FX regulations, as well as reforms to increase land availability, enhance transparency, and simplify tax and customs procedures. Reviewing the financial terms for natural gas PSCs and allowing international firms to bid for onshore gas wells would boost investment in the gas sector.
- *More supportive financial system*. Continued improvements in financial regulation and supervision, strengthening the SBs, containing bank financing of the fiscal deficit, and aligning NSC rates with market rates should make more credit available to finance productive investment.



Source: IMF, *World Economic Outlook* database.



Source: World Bank, *Doing Business* database.

27. Strengthening inclusion. Poverty has declined and income inequality has remained relatively low and stable over the last two decades. However, the poverty-reducing impact of growth could be further raised by:

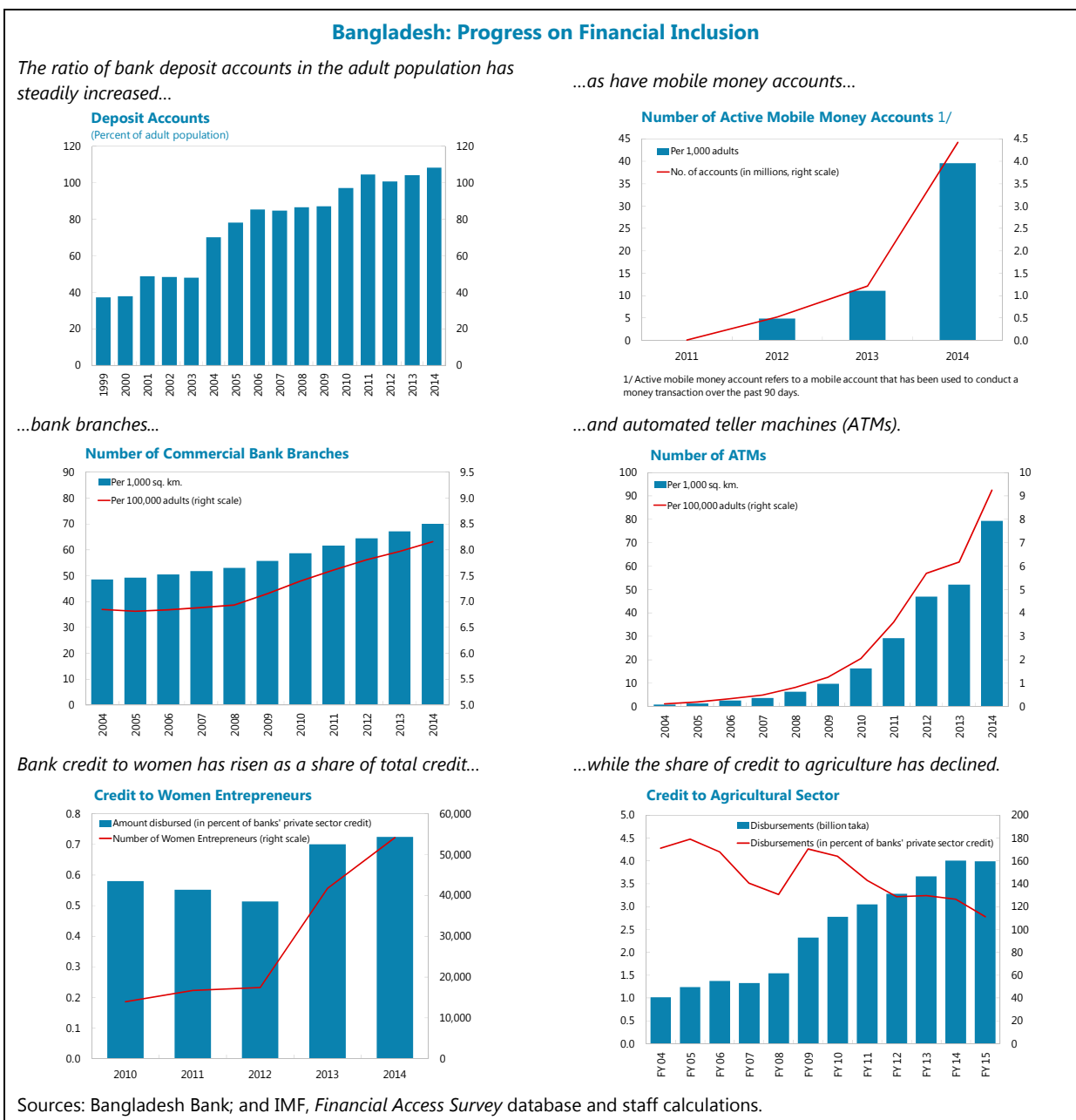
- *Improving the progressivity of public spending*, by containing expenditure on regressive universal subsidies and unfunded pension systems for civil servants, and increasing spending on well-targeted social safety nets.
- *Improving the progressivity of the tax system*, by implementing the new VAT with its regressivity-reducing features, broadening income tax bases, and strengthening property taxation.
- *Continuing to promote financial inclusion*. Bangladesh has made steady progress in this area (Box 3 and Selected Issues Papers, Chapter III). Successful schemes, such as those using mobile phones for domestic remittances, or facilitating women’s access to finance, should be expanded.

28. Authorities’ views. The authorities shared staff’s assessment of subdued private investment and highlighted the need for increased investment to attain the government’s growth targets under the Seventh Five Year Plan. They broadly agreed with staff’s policy recommendations on inclusion, and suggested bearing in mind the challenges posed by Bangladesh’s unique features, including high population density.

Box 3. Financial Inclusion in Bangladesh: A Stocktaking

Policies. Bangladesh has adopted a number of policies to enhance access to and usage of financial services by those who would otherwise be excluded from them, including promoting mobile financial services, requiring banks to open at least fifty percent of their branches in rural areas, introducing agent-based banking, establishing floors on credit to agricultural and rural sectors backed by credit refinancing lines on concessional terms, prioritizing support to small businesses and women, schemes aimed at rehabilitating slum dwellers, and developing no frill accounts (including the 10 Taka accounts).

Progress over time. Bangladesh has seen steady progress on financial inclusion over the last decade and a half across a broad range of indicators.



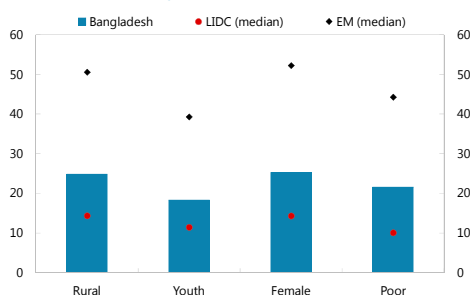
Box 3. Financial Inclusion in Bangladesh: A Stocktaking (Concluded)

Cross-country analysis. Bangladesh compares favorably with other low-income developing countries (LIDCs) on two key indicators of access to formal finance – accounts held at and credit from a financial institution – across different population groups. However, the use of credit and debit cards is minimal, and the prevalence of informal finance is still high.

Bangladesh: Cross-Country Analysis for Selected Financial Inclusion Indicators

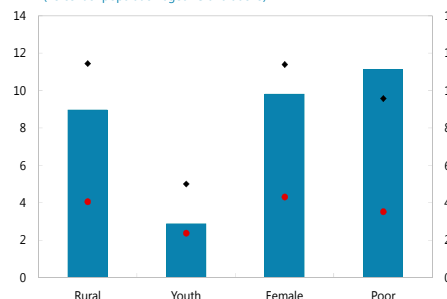
Bangladesh scores better than other LIDCs in terms of population with an account at a financial institution (and this is true for different vulnerable groups)...

Account at a Financial Institution
(Percent of population aged 15 and above)



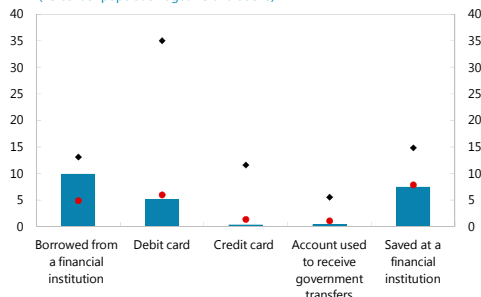
...and it also does well in providing formal credit to these groups.

Borrowed from a Financial Institution
(Percent of population aged 15 and above)



The use of other forms of formal finance is however still low...

Access to Formal Finance
(Percent of population aged 15 and above)



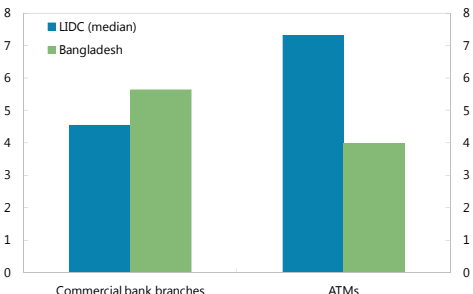
...and the preference to use informal finance is still high, particularly regarding store credit.

Access to Informal Finance
(Percent of adult population aged 15 and above)



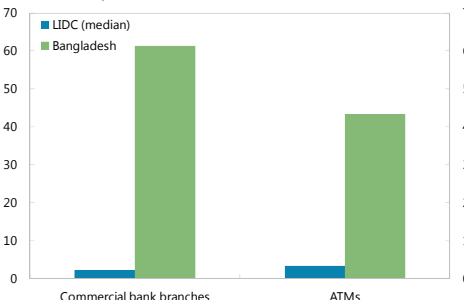
While the number of bank branches and ATMs per 100,000 adults is pulled down by Bangladesh's high population density...

Commercial Bank Branches and ATMs
(Per 100,000 adults)



...access to branches and ATMs is much better when measured on a per 1,000 square kilometer basis.

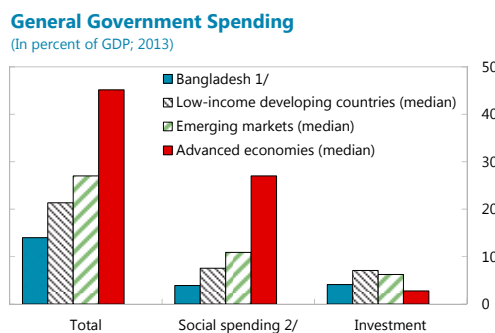
Commercial Bank Branches and ATMs
(Per 1,000 sq. km.)



Sources: Bangladesh Bank; World Bank, *Findex* database; and IMF, *Financial Access Survey* database and staff calculations.

C. Creating fiscal space for growth-enhancing and inclusive spending

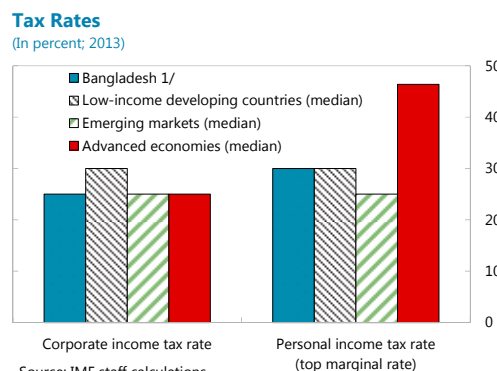
29. The case for additional fiscal space. To boost inclusive growth, Bangladesh needs to ramp up public investment in critical infrastructure and strengthen the targeting of social spending. Bangladesh has one of the world’s lowest ratios of public spending to GDP in these areas (Box 4). Staff’s baseline assumes that capital spending under ADP will increase by 2 percentage points of GDP between FY15 and FY20, with social spending remaining stable as a share of GDP. To accommodate this additional spending within a fiscally sustainable envelope, the authorities need to strengthen tax revenue and improve the allocation of spending.



Source: IMF staff calculations.
 1/ Data for Bangladesh are based on FY14 outturns for the central government.
 2/ Includes health, education, and social protection spending.

30. Boosting tax revenue. Progress is needed on several fronts:

- VAT implementation.* The new VAT is the authorities’ main reform to expand revenue in coming years. Initially scheduled to be completed in July 2015, the implementation process suffered major setbacks and delays in 2014 as well as strong opposition from the business community. However, progress has been made this year and the authorities are working towards full implementation in July 2016.¹⁰ The timeline is tight, and will require focused, concerted efforts. Priority actions requiring top-level attention include completing necessary procurements; developing refund procedures; finalizing the VAT rules and regulations and prescribing the exempt items; and developing a transition strategy from the existing to the new VAT. The VAT is designed to protect the poor and small businesses, and to reduce taxpayer harassment and compliance costs. Conducting an effective communication campaign highlighting these features will be critical for the reform’s success



Source: IMF staff calculations.
 1/ Tax rates for Bangladesh are those applicable in FY16.

- Direct tax reforms.* The draft for a modern Direct Tax Code should be finalized. In addition, while the rates for corporate and personal income taxes are in line with those of countries at similar income levels, their bases should be broadened, and property taxation expanded.

¹⁰ See IMF Country Report No. 15/304 for more details.

Box 4. Bangladesh: World Bank's 2015 Public Expenditure Review (PER) Update - Main Findings¹

The PER Update finds that capital and social spending have increased recently, but project selection and implementation is weak, infrastructure remains poor, and public services are limited, while the share of interest costs is very high.

- **Total central government (CG) spending.** Bangladesh has among the world's lowest ratios of CG expenditure to GDP (about 14 per cent). This results in very limited public services (for instance, Bangladesh spends less on health care per capita—around US\$95 in 2013—than most countries in the world) and poor infrastructure (ranked 130th out of 144 countries in the Global Competitiveness Report 2014–15), particularly for transport.
- **Remuneration** has declined as a share of noninterest current expenditure (to 30 percent) in FY14. With pay increases taking place every five years, allowances have tended to increase in intervening years.
- **Social spending.** Current spending on education, health, and welfare has risen in real terms and as a share of noninterest current expenditure over the past ten years, but remains low.
- The sustainability of **pension spending** has been aided by an increase in the retirement age for government employees (from 57 to 59 years of age). However, inflows to the unfunded General Provident Fund, currently positive and used to finance the deficit, are expected to turn negative in the longer term.
- **Subsidies** are sizeable (over 1 per cent of GDP for fertilizer and electricity in FY14) and not well targeted or efficient.
- **Interest costs** have almost doubled since FY11 and are very high, accounting for around one quarter of current expenditure in FY14, similar to what is spent on education or on health and welfare. This has been driven mainly by growth in domestic interest payments.
- Reflecting its higher priority, **development (capital) spending** has grown faster than current spending on average over FY10–14, and accounted for around 40 per cent of total CG spending in FY14. Transport, communication, energy, health and education have received the largest shares of allocated spending under the Annual Development Program (ADP), in line with the government's development strategy. However, delayed execution and cost over-runs of development projects are common, resulting in lower returns to investment. Significant intra-year revisions to the ADP suggest poor planning and budget practices. Fragmented institutional arrangements undermine project selection and implementation.
- Spending on **infrastructure maintenance**, however, has been stagnant in real terms.

1/ World Bank (2015): [Bangladesh-Public Expenditure Review Update: An Update of Fiscal Trends Based on the 2010 Public Expenditure Review](#).

- *Administrative reforms.* The focus should be on enhancing transparency, reducing discretion, and simplifying compliance. Continued progress on automation is crucial to achieve these goals.

31. Improving spending allocation. Spending on infrastructure, infrastructure maintenance (which has stagnated and could compromise the growth benefits of scaled-up public investment), and social spending targeted to the poor should be raised. Despite policy measures to lower inefficient and regressive energy subsidies, including the recent hike in electricity and gas prices, subsidy costs remain significant. These should be gradually reduced, including by renegotiating contracts with costly rental power plants and building new plants operated by cheaper fuels. In addition, over the medium term domestic fuel prices should be aligned with international prices through a formula mechanism. The authorities should also reform the civil servants' unfunded pension system to reduce future liabilities.

32. Strengthen public financial management. Despite recent improvements, particularly in public debt management, further progress is needed:

- Budget planning, formulation, and execution need to be strengthened. Unrealistic revenue assumptions and reliance on budget revisions make planning difficult and stretch resources. Treasury cash flow forecasting should be further calibrated.
- Nonconcessional external borrowing should be used strictly for growth-critical, cost-efficient projects, following rigorous cost-benefit analysis.
- Financial reporting in state-owned enterprises should be strengthened, particularly in Bangladesh Petroleum Corporation (BPC), where the authorities should press ahead with an external audit by a reputed global firm.

33. Authorities' views. The authorities reaffirmed their commitment to launching the new VAT by July 2016. They also noted the progress so far in VAT implementation, and agreed on the need for an effective communication strategy. The authorities welcomed staff's views on improving the budget formulation process, prioritization of government spending, and rigorous monitoring of nonconcessional external borrowing. They agreed on the need for improving financial management in BPC and mentioned that amendments to its charter are currently under consideration of parliament, including one on allowing external audit by international firms. They preferred domestic fuel price stability over an automatic adjustment formula.

OTHER ISSUES

34. Safeguards recommendations. A number of safeguards recommendations remain outstanding, including strengthening BB's internal audit function and legal framework, and regularly appointing globally-reputed firms to audit BB's annual financial statements (see Informational Annex). Two globally-affiliated local firms audited BB's FY15 financial statements and issued unqualified opinions.

35. Exchange rate regime. The *de jure* exchange rate regime is a float. Effective February 2013, the *de facto* regime was reclassified from “other managed” to a “stabilized arrangement”. Bangladesh is an Article VIII member and maintains an unapproved exchange restriction on the convertibility and transferability of proceeds of current international transactions in non-resident taka accounts. Since the last Article IV consultation the authorities have relaxed the restriction by allowing certain debits to balances in such accounts for outward remittances, but they do not have a specific timetable for the complete removal of the restriction.

STAFF APPRAISAL

36. Overview. Macroeconomic performance has been strong over the past two years, underpinned by prudent policies. However, private domestic demand has weakened; nonfood inflation has edged up; and tax collections have underperformed.

37. Outlook and risks. Real GDP growth is expected to remain flat in FY16 but should accelerate gradually over the medium term, backed by higher public and private investment, provided that policies remain prudent, tax collections are strengthened, and calm prevails. Headline inflation will likely go up in FY17 on higher wages and as the new VAT comes into effect, but is expected to fall thereafter on prudent policies and eased supply bottlenecks. The current account deficit should widen slightly as investment takes off.

38. Macroeconomic policy stance. The overarching objective of near-term macroeconomic policies should be to safeguard stability and strengthen resilience. However, there is room for a counter-cyclical response to temporary growth shocks.

39. Monetary policy. Given upside risks to nonfood inflation, reserve money growth in FY16 should be maintained around 13 percent. Over the medium term, bringing down reserve money growth slightly would help inflation fall faster, while private sector credit would be protected by shifting to greater external financing of the fiscal deficit.

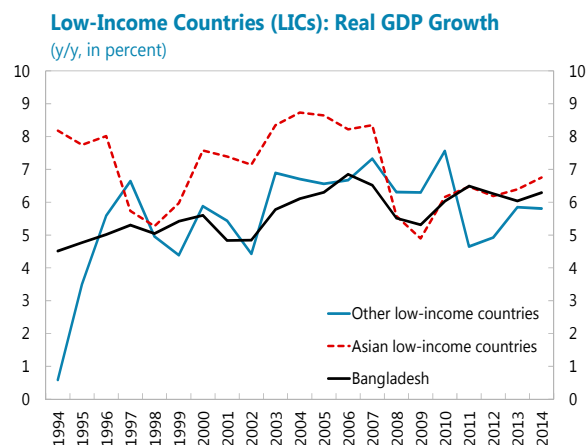
40. Exchange rate policy. The REER has steadily appreciated over the past three years, but is broadly in line with fundamentals. While Bangladesh still maintains its labor cost advantage, continued sterilized FX intervention is warranted in the near term. The authorities should also consider using a basket of trading partners’ currencies as a benchmark for FX intervention, instead of keeping a close link to the U.S. dollar.

41. Fiscal policy. The fiscal deficit (excluding grants) is expected to widen in FY16 as a public sector pay increase comes into effect. Over the medium term, fiscal policy should be anchored on keeping the public debt-to-GDP ratio broadly stable around its current level. This will require an increase in the tax revenue-to-GDP ratio as public pay and investment rise. To contain government’s interest expenses, and also to reduce financial disintermediation, the authorities should discontinue the NSCs or align their rates with market rates on a permanent basis. Over the medium term, a moderate shift toward more external financing could be considered.

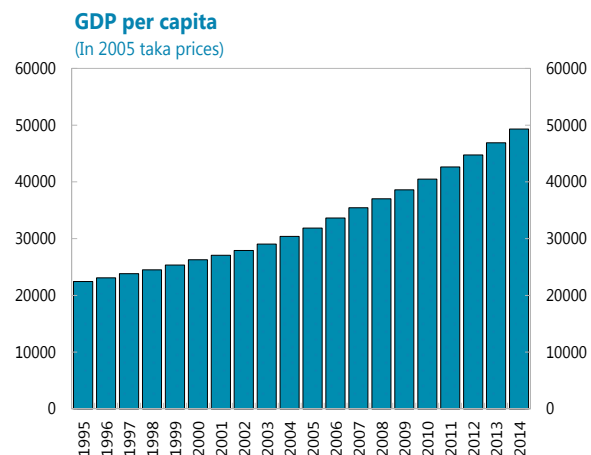
- 42. Mobilizing domestic revenue.** Under current spending plans, full and timely implementation of the new VAT is critical for fiscal sustainability. However, the timeline is tight and requires focused, concerted efforts by all stakeholders. A well-designed communications strategy will be essential to highlight the tax's features and benefits. Moreover, the base for taxation should be broadened, and property taxation expanded. Administrative reforms should be expedited.
- 43. Improving spending allocation.** Public expenditure should focus on improving growth-critical infrastructure and well-targeted social safety net programs. This should be complemented by a reduction in regressive energy subsidies.
- 44. Strengthening public financial management.** Important priorities in this area are improving budget formulation (including more realistic revenue forecasts) and execution; subjecting nonconcessional external borrowing to rigorous cost-benefit analyses; and strengthening financial management and reporting at state-owned enterprises, including through an external audit of BPC by a globally-reputed firm.
- 45. Promoting further inclusion.** Improved spending allocation, combined with a more progressive tax system and further gains in financial inclusion, should help boost growth and make it more inclusive, allowing poverty to fall faster.
- 46. Financial sector reforms.** The authorities should continue to strengthen risk-based supervision and avoid regulatory forbearance. Banks should comply with the legal limit on their exposure to the stock market by the July 2016 deadline. Further progress is needed in improving governance, capital position, and asset quality in SBs. Staff recommends developing a strong macro-prudential framework and adopting reforms to facilitate loan recovery.
- 47. Promoting private investment and diversification.** Achieving higher growth will require policies to boost private investment, including foreign direct investment, and to diversify exports to higher value-added goods and services. These policies should be complemented by better public infrastructure; an easier investment climate (including for gas exploration and production); and a more supportive financial system.
- 48. Adapting to climate change.** To minimize the impact of climate change, the authorities should identify top priority projects for adaptation; include their costs in the medium-term fiscal framework; and improve coordination and oversight of climate change-related spending. The authorities should also consider taxing carbon and reviewing the pricing of natural gas.
- 49. Staff recommendations.** Given the absence of a specific timetable for its removal, staff does not recommend approval of the existing exchange restriction. It is recommended that the next Article IV consultation with Bangladesh take place on the standard 12-month cycle.

Figure 1. Bangladesh: Ongoing Structural Transformation

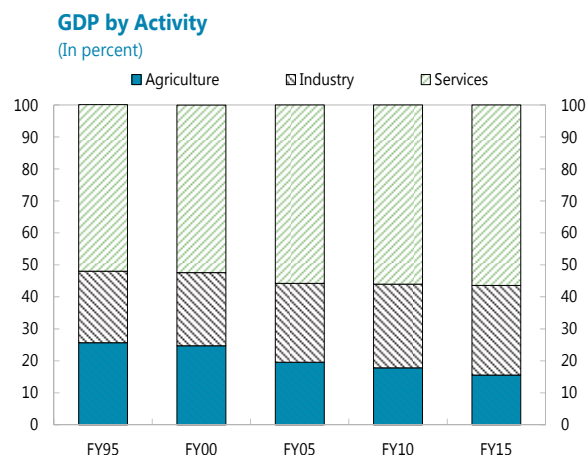
Growth in Bangladesh has been robust and stable...



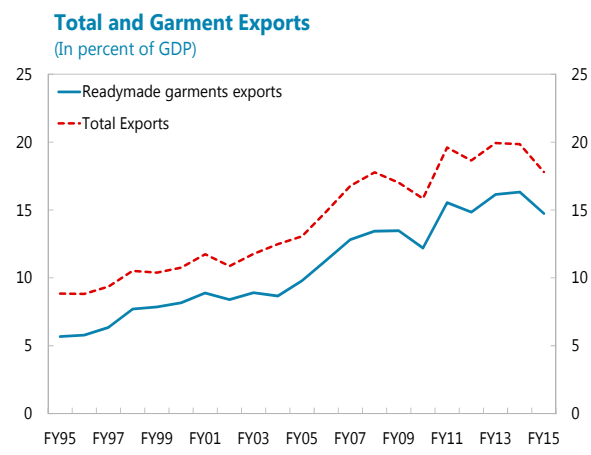
...with per capita income more than doubling (in real terms) since the mid-1990s.



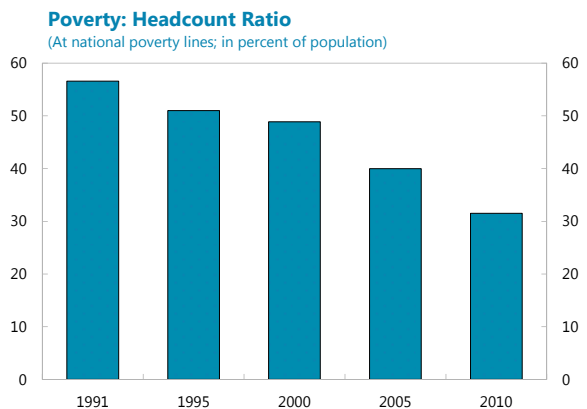
Along this process, agriculture's share in GDP has shrunk and manufacturing's and services' expanded...



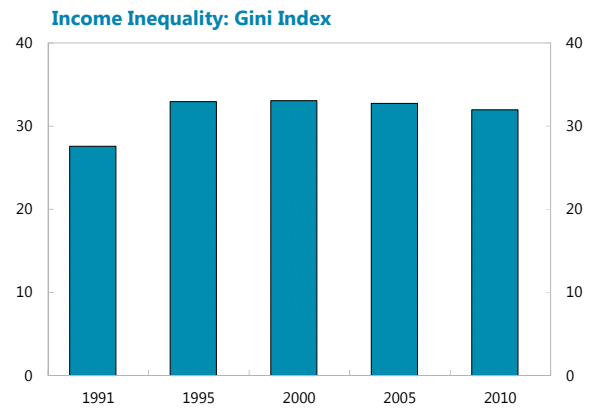
...spearheaded by the rapid growth of the garment industry.



Poverty has nearly halved in the last two decades...



...while income inequality has remained broadly stable.

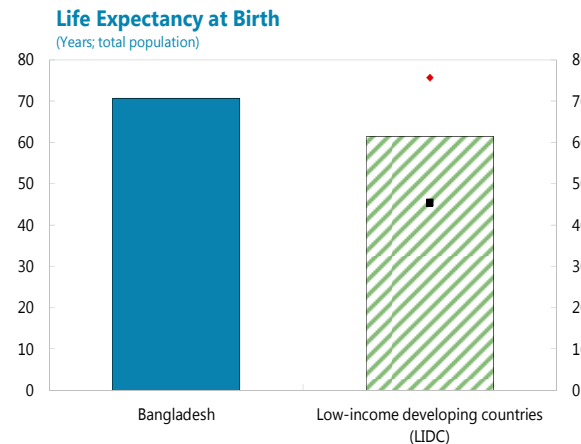
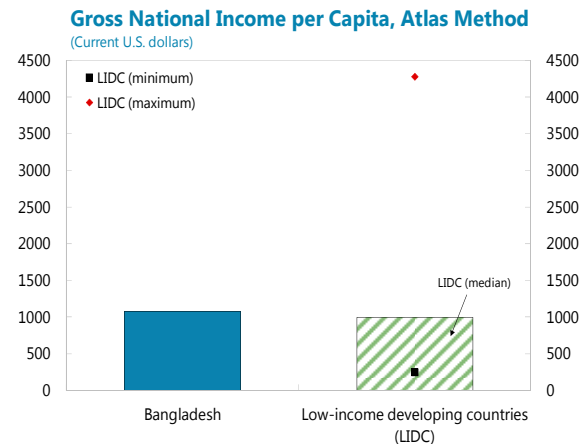


Sources: Bangladesh authorities; World Bank, *World Development Indicators* database; and IMF, *World Economic Outlook* database and staff calculations.

Figure 2. Bangladesh: Selected Social Indicators

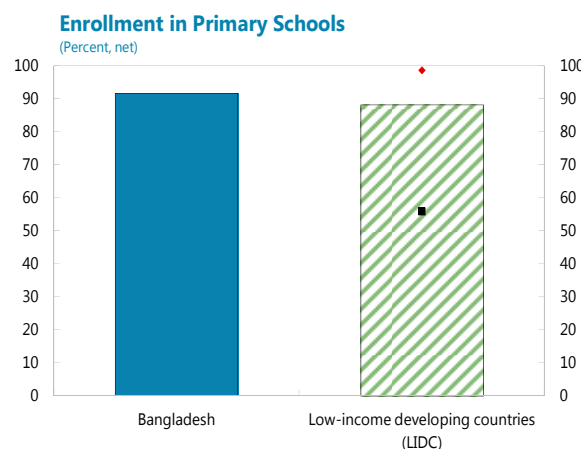
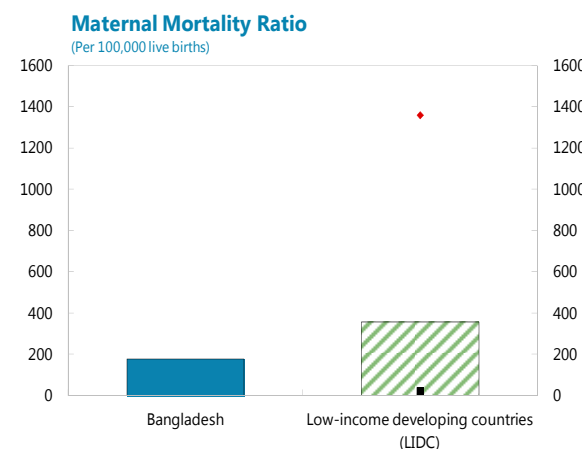
While Bangladesh's income per capita is in line with the median for low-income developing countries (LIDCs)...

...the country does better than the median on a broad range of key social indicators, including life expectancy at birth...



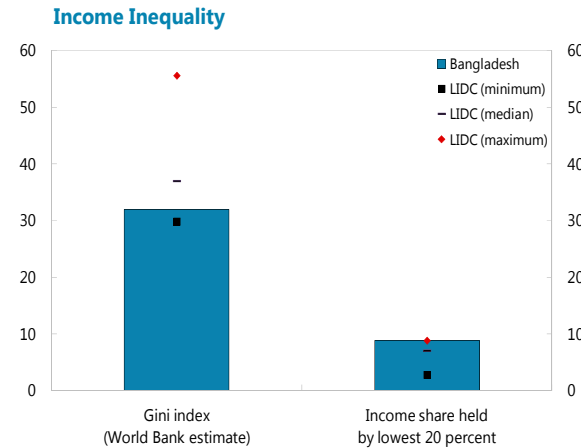
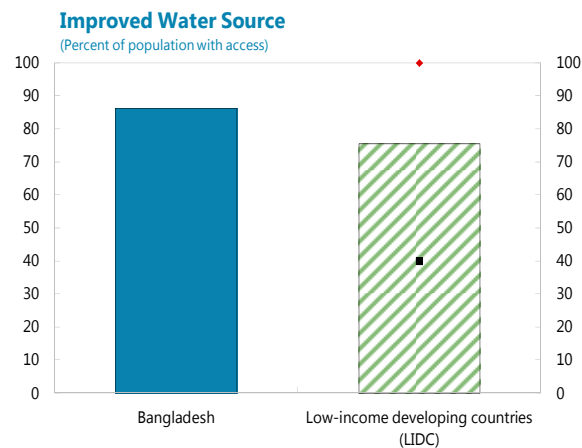
...maternal mortality...

... primary school enrollment...



...and access to water.

Moreover, Bangladesh's income inequality is one of the lowest among LIDCs, whether measured by the Gini index or the income share of the bottom quintile.

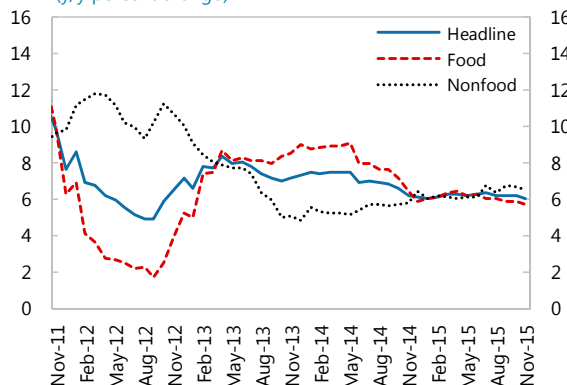


Source: World Bank, World Development Indicators database.

Figure 3. Bangladesh: Recent Macroeconomic Developments

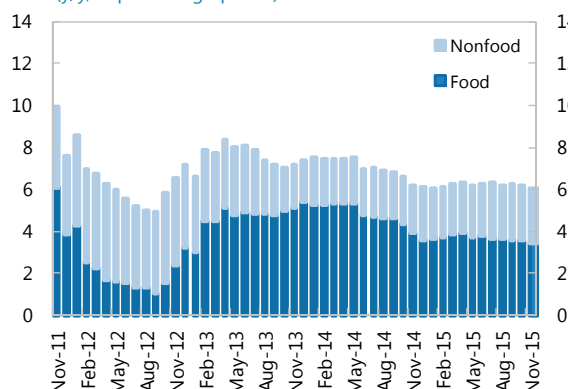
Headline inflation has remained stable since end-2014....

Consumer Price Index
(y/y percent change)



...but nonfood inflation is on a slight upward trend.

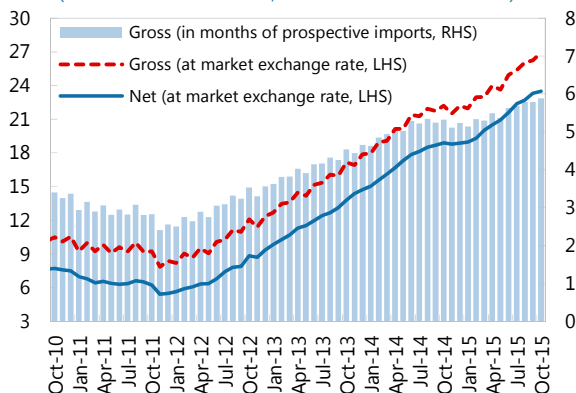
Contributions to Headline Inflation
(y/y, in percentage points)



Foreign exchange reserves have more than tripled since 2011 and cover almost six months of prospective imports.

International Reserves

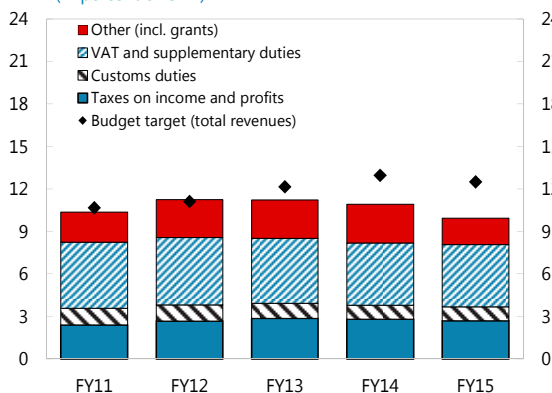
(In billions of U.S. dollars, unless otherwise indicated)



Fiscal revenues have declined as a share of GDP over the past three years, falling well short of expectations.

Central Government Revenue

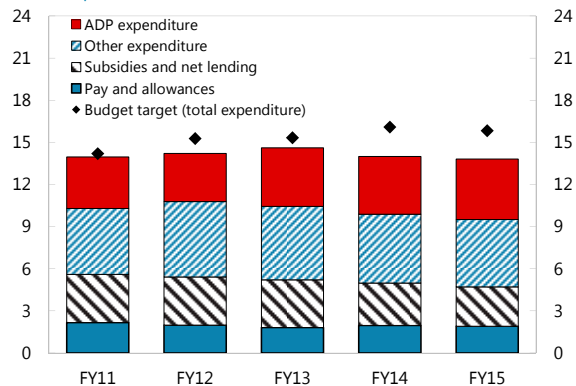
(In percent of GDP)



But current expenditure has been restrained, helped by lower subsidies from the decline in global oil prices.

Central Government Expenditure

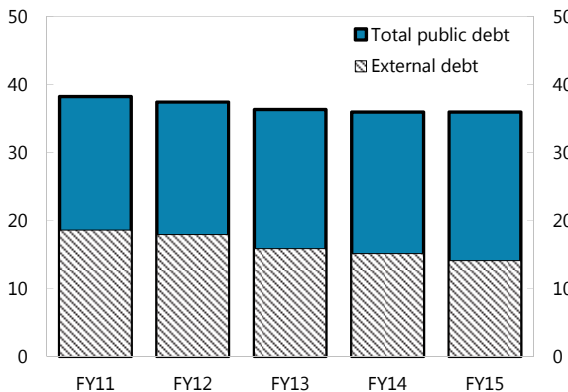
(In percent of GDP)



The public debt/GDP ratio has remained stable at a moderate level in recent years.

Public Debt

(In percent of GDP)

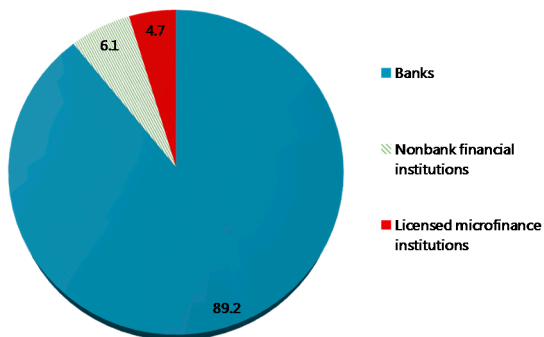


Sources: Bangladesh authorities; and IMF staff calculations.

Figure 4. Bangladesh: Credit to the Private Sector

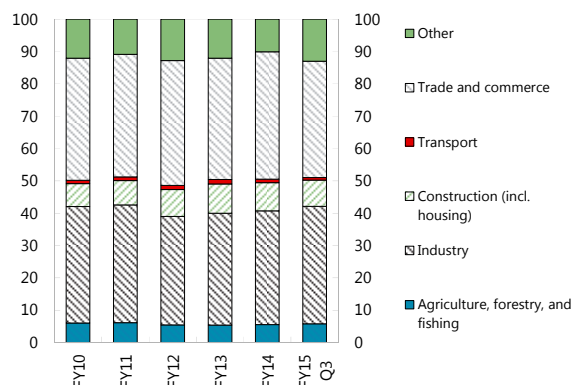
The bulk of outstanding credit is provided by banks...

Share in Loans and Advances, 2014
(In percent of total)



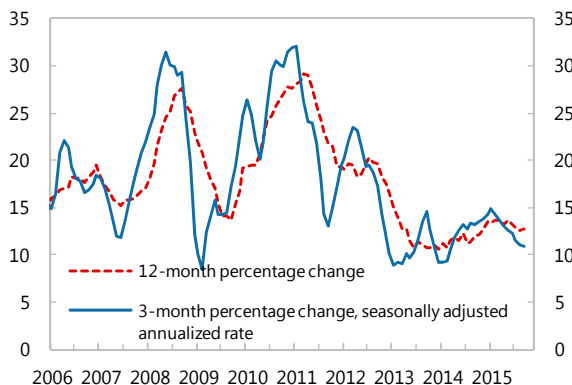
...and goes to manufacturing and services.

Share in Bank Advances by Economic Purposes
(In percent)



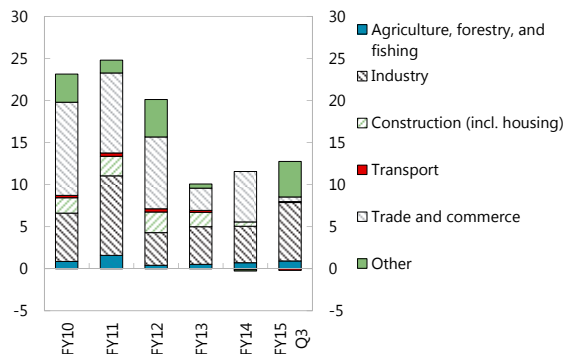
Over the past four years bank credit to the private sector has slowed...

Bank Credit to Private Sector, Jan. 2006–Sep. 2015
(Percent change)



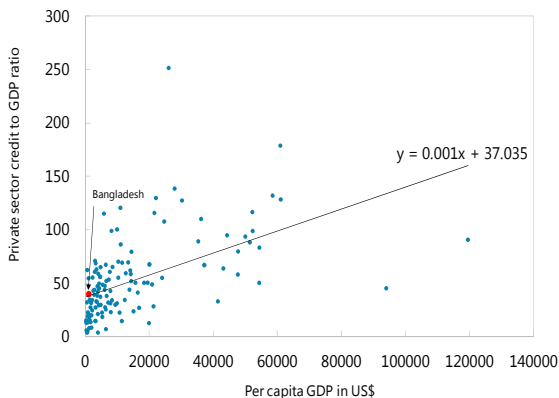
The slowdown in credit has been observed across most sectors, particularly manufacturing and services.

Contribution to Growth in Bank Advances by Economic Purposes
(In percentage points; y/y)



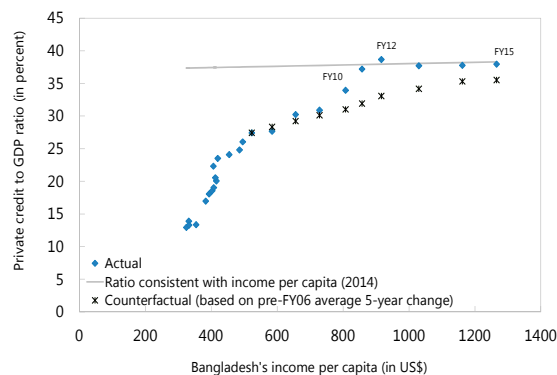
However, when compared with other countries, Bangladesh's private credit/GDP ratio appears consistent with its per capita income.

Credit to Private Sector, 2014



The recent slowdown in credit has also brought the credit/GDP ratio in line with the trend observed prior to the FY09–12 credit boom.

Bangladesh: Bank Credit to Private Sector, FY91 - FY15

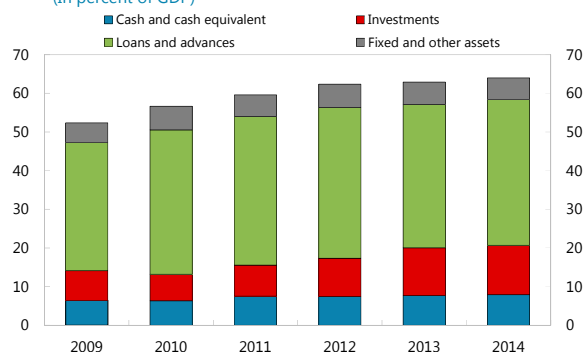


Sources: Bangladesh authorities; and IMF, *World Economic Outlook* and *International Financial Statistics* databases; and staff calculations.

Figure 5. Bangladesh: Selected Indicators for the Banking Sector

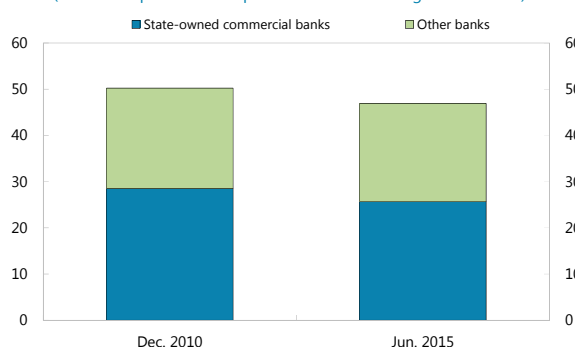
Banks' assets have increased faster than GDP in recent years, but the share of loans and advances has fallen since 2012.

Banking Sector Assets
(In percent of GDP)



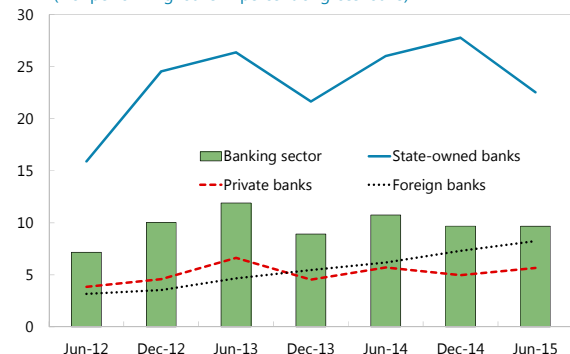
With the four largest state-owned commercial banks losing market shares and nine new banks entering, asset concentration has decreased slightly since end-2010.

Concentration of Banking Sector Assets
(Share of top 10 banks in percent of total banking sector assets)



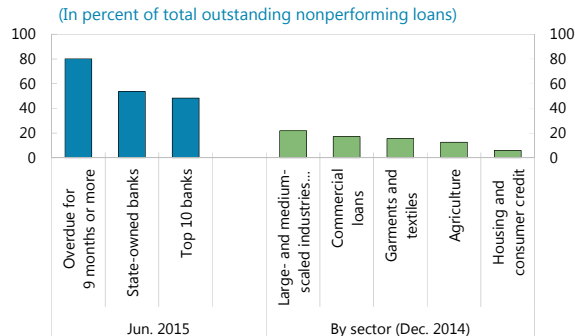
NPLs have remained elevated, particularly since the introduction of stricter NPL accounting standards at the end of 2012.

Banks' Asset Quality
(Nonperforming loans in percent of gross loans)



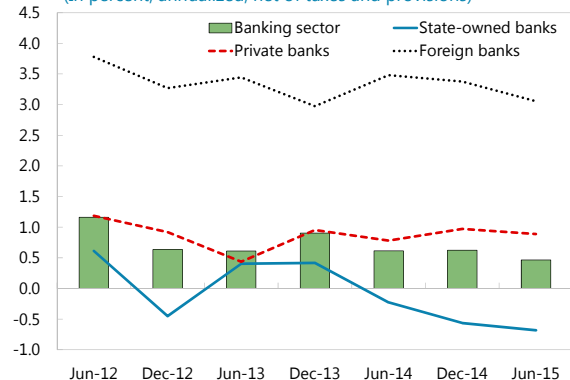
Most NPLs are long overdue and concentrated in a handful of state-owned banks. By sector, industrial loans (including garments and textiles) account for the majority of NPLs.

Concentration of Banking Sector Nonperforming Loans
(In percent of total outstanding nonperforming loans)



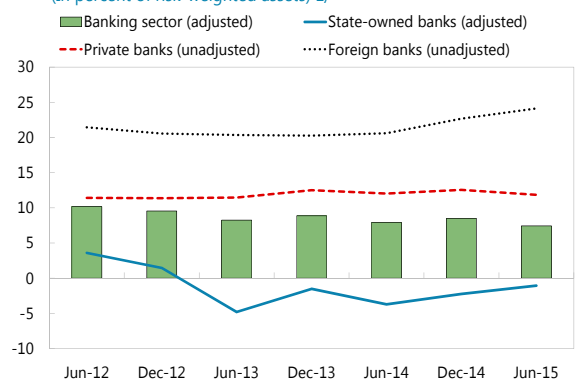
Poor asset quality has led to a worsening of banks' profitability, but private and foreign banks are considerably more profitable than state banks.

Banks' Return on Assets
(In percent; annualized; net of taxes and provisions)



As a result, banks' capital adequacy has worsened, with all the state-owned banks below the regulatory minimum.

Banks' Capital Adequacy
(In percent of risk-weighted assets) 1/



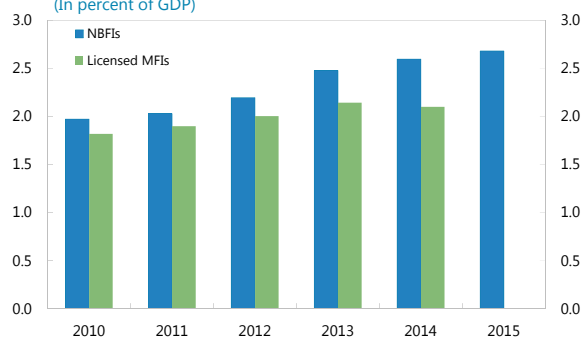
Sources: Bangladesh authorities; and IMF staff calculations.

1/ Adjusted for intangible "goodwill" assets and relaxation in loan rescheduling rules in December 2013

Figure 6. Bangladesh: Selected Indicators for the Nonbank Financial Sector 1/

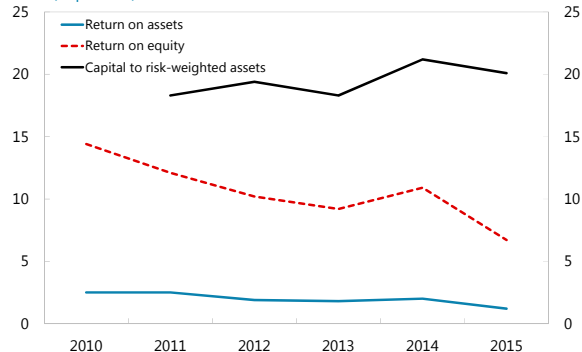
Nonbank financial institutions (NBFIs, 31 in total) and licensed microfinance institutions (MFIs, about 700 in total) are much smaller as a whole than the banking sector.

Loans by Nonbank Financial Institutions (NBFIs) and Licensed Microfinance Institutions (MFIs)
(In percent of GDP)



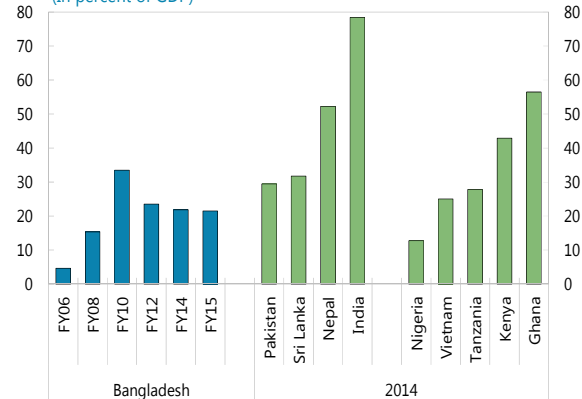
NBFIs are adequately capitalized, but their profitability has been on a down trend.

NBFIs: Selected Financial Soundness Indicators
(in percent)



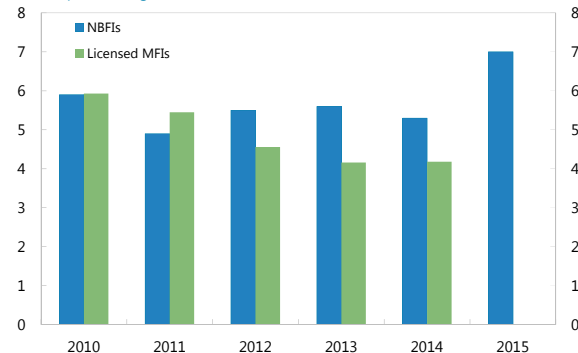
Market capitalization is lower than that in other South Asian countries and some of the large low-income economies.

Stock Market Capitalization
(In percent of GDP)



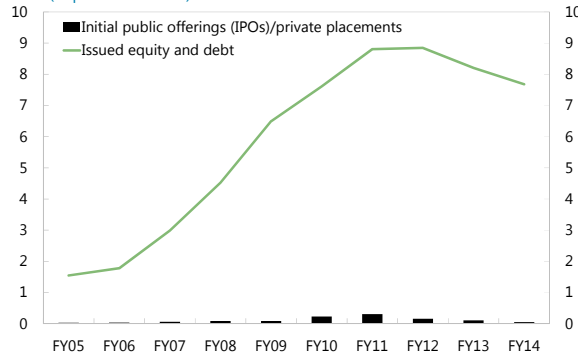
NPLs in the nonbank sector are lower than for banks, but rose in the first quarter of 2015 for the NBFIs.

Nonperforming Loans: NBFIs and Licensed MFIs
(in percent of gross loans)



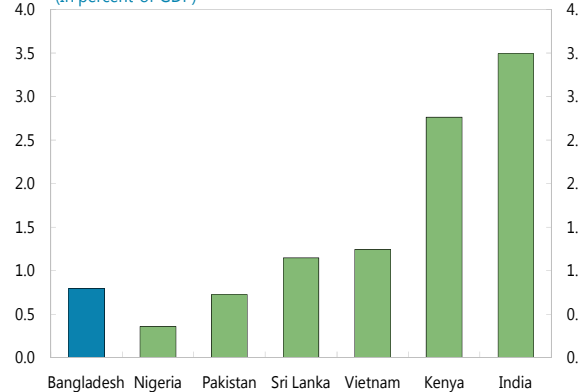
Financing through equity and capital market debt has tapered off recently and remains small compared to the size of bank credit.

Dhaka Stock Exchange: Issued Equity and Debt
(in percent of GDP)



The penetration of the insurance industry is also low when compared with countries at a similar stage of development.

Insurance Premia Written
(In percent of GDP)

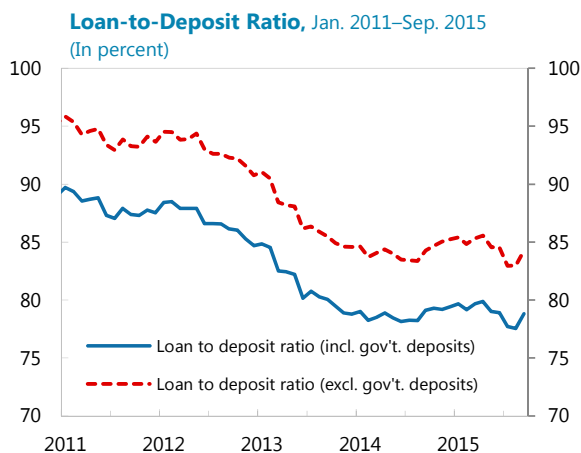


Sources: Country authorities; CEIC Data Company Ltd.; Haver Analytics; Insurance Information Institute; and IMF staff calculations.

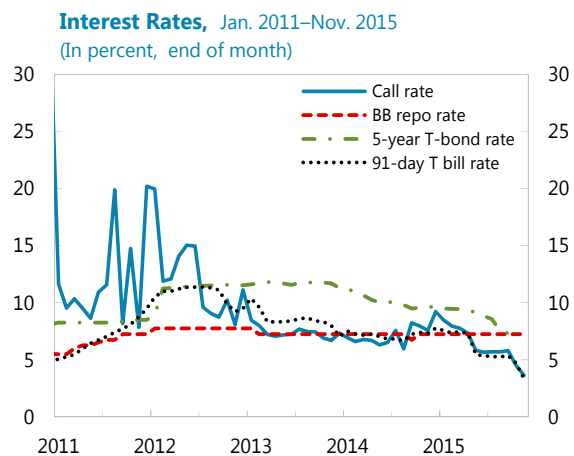
1/ Data for NBFIs are on calendar year basis, and for licensed MFIs on fiscal year basis. 2015 data for NBFIs are as of end-March.

Figure 7. Bangladesh: Banking Sector Liquidity Conditions

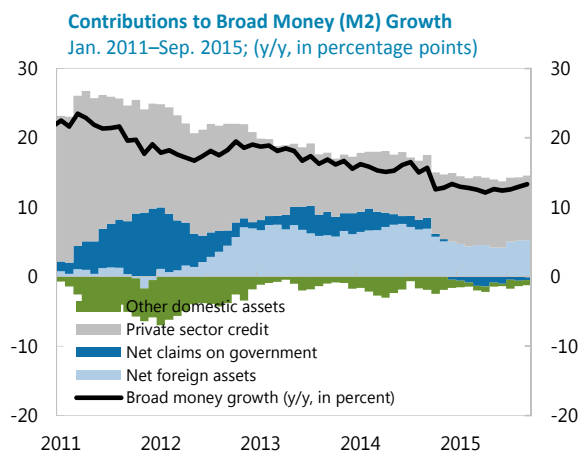
Weak credit growth has contributed to a decline in banks' loan/deposit ratio.



...lower market rates...

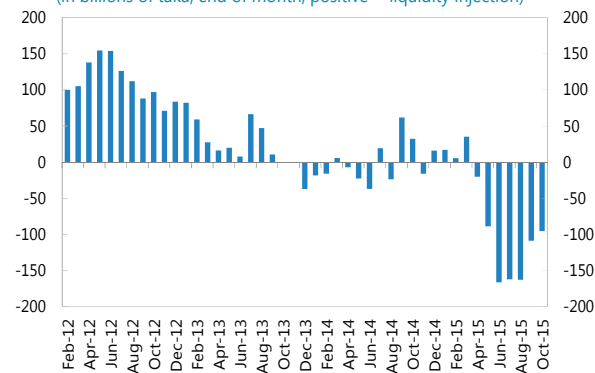


Slower credit expansion has also led to slower growth in broad money.



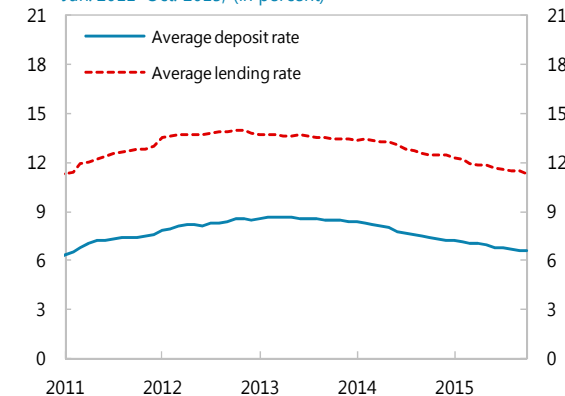
This has resulted in comfortable liquidity, which in turn has led to lower demand for liquidity support from the central bank...

Bangladesh Bank's Liquidity Support to Deposit Money Banks: Net Repurchase (Repo) Transactions
(in billions of taka; end of month; positive = liquidity injection)



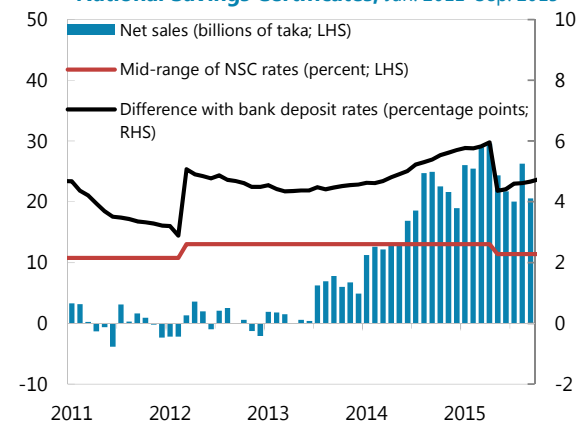
...and somewhat lower bank deposit and lending rates.

Commercial Banks' Lending and Deposit Rates
Jan. 2011–Oct. 2015; (in percent)



Meanwhile, on the back of falling bank deposit rates, subscriptions to national savings certificates have risen.

National Savings Certificates, Jan. 2011–Sep. 2015

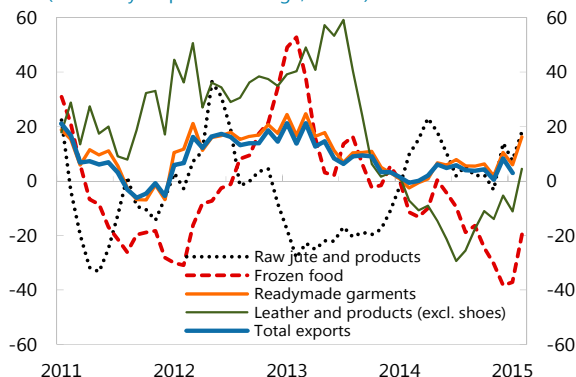


Sources: Bangladesh authorities; and IMF staff calculations.

Figure 8. Bangladesh: External Sector Developments

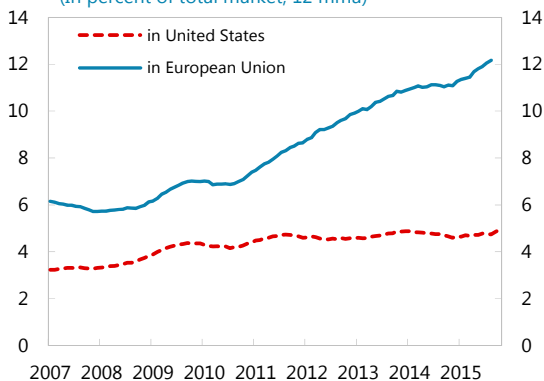
Export growth has slowed, reflecting in part adjustments in the garment industry.

Exports by Main Commodities, Sep. 2011–Oct. 2015
(Year-on-year percent change, 3mma)



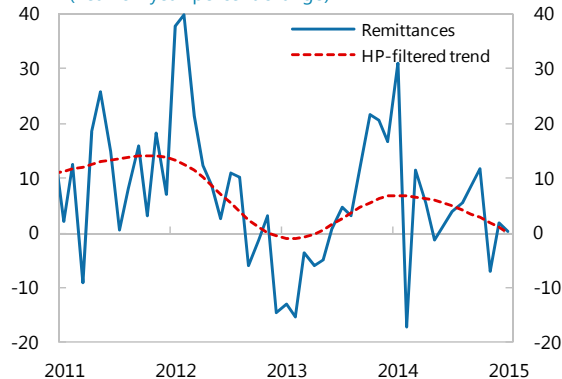
Despite this, Bangladesh garment exports' share in the European Union and U.S. markets remained strong.

Shares in Garments Markets, Jan. 2007–Oct. 2015
(In percent of total market, 12 mma)



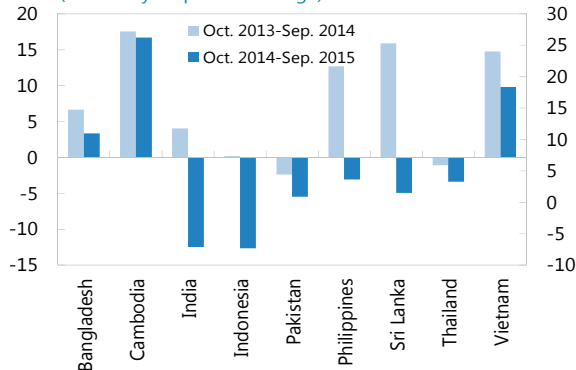
Inbound remittances recovered in FY15, but have weakened in the first five months of FY16.

Workers' Remittances, Sep. 2011– Nov. 2015
(Year-on-year percent change)



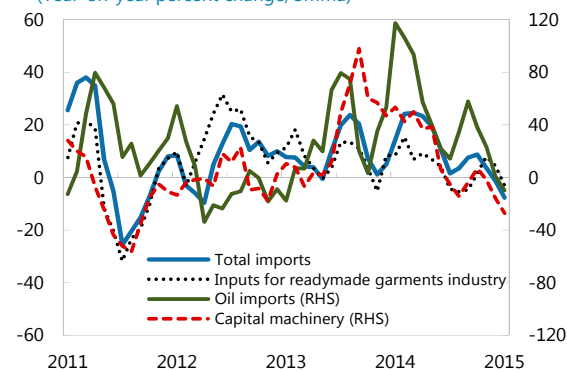
But exports have also weakened in Bangladesh's regional competitors, suggesting slower external demand could have played a role.

Selected Asia: Exports of Goods
(Year-on-year percent change)



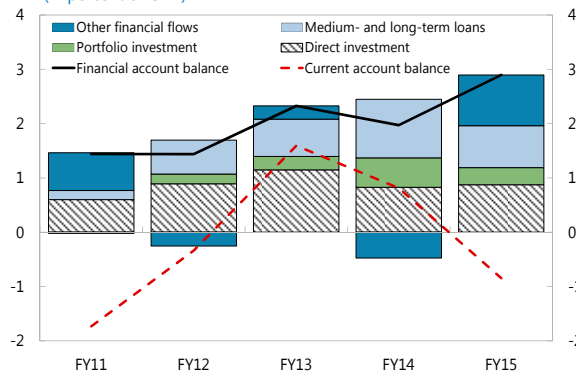
Imports recovered strongly after the January 2014 elections, but weakened since early 2015 in part reflecting slower activity and the decline in global oil prices.

Imports by Selected Categories, Sep. 2011–Sep. 2015
(Year-on-year percent change, 3mma)



The current account balance was in a moderate deficit in FY15, but the overall balance of payments remained in surplus, backed by medium- and long-term inflows.

Current and Financial Account Balances
(In percent of GDP)

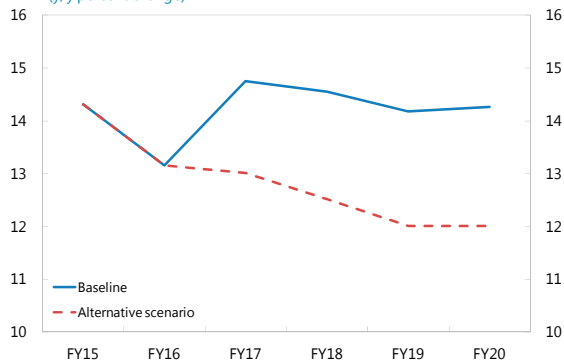


Sources: Bangladesh authorities; and IMF staff calculations.

Figure 9. Bangladesh: Alternative Scenario: Slower Money Growth

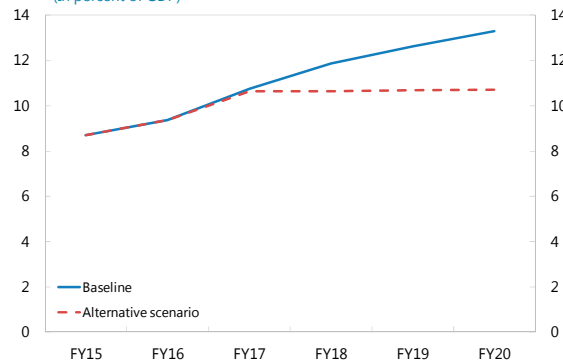
If the authorities targeted slower reserve money growth than currently projected...

Reserve Money
(y/y percent change)



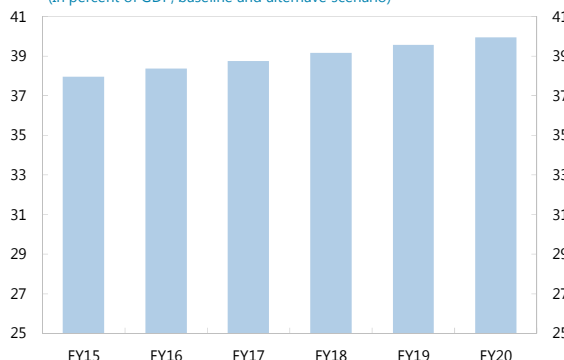
...and the government shifted to slightly higher external financing for a given deficit...

Net Credit to the Central Government
(In percent of GDP)



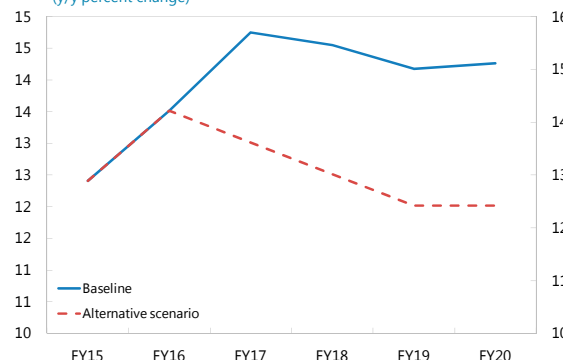
...this would allow to keep private sector credit's share to GDP in line with the baseline...

Credit to Private Sector
(In percent of GDP; baseline and alternative scenario)



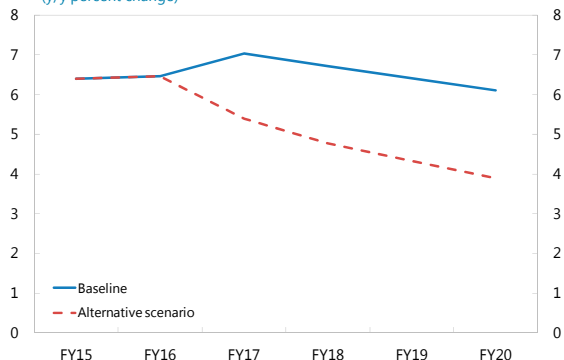
... while helping bring down broad money growth.

Broad Money
(y/y percent change)



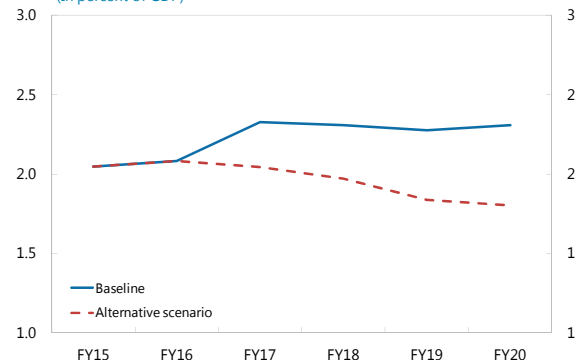
As a result, headline inflation would come down faster over the medium term.

Consumer Price Index
(y/y percent change)



The change in the deficit financing mix could also help the central government reduce interest expenses.

Central Government's Interest Expenses
(In percent of GDP)



Source: IMF staff estimates.

Table 1. Bangladesh: Millennium Development Goals, 1990–2013 1/

	Base 1990–95	2005–10	2011–13	Target 2015	Status
Goal 1: Eradicate extreme poverty and hunger	Possible to achieve if some changes are made				
Target 1: Halve by 2015 the proportion of people living below the poverty line					
Poverty headcount ratio	57	32	n.a.	29	
Poverty gap ratio	17	7	n.a.	8	Achieved
Income share held by lowest 20 percent	10	9	n.a.	...	Needs attention
Target 2: Halve by 2015 the proportion of people who suffer from hunger					
Prevalence of child malnutrition (percent of children under 5)	58	41	37	33	On track
Population below minimum level of dietary energy consumption (percent)	37	15	16	14	On track
Goal 2: Achieve universal primary education	On track, very likely to be achieved				
Target 3: Ensure that all boys and girls complete a full course of primary schooling					
Net enrollment ratio in primary education	61	96	97	100	On track
Proportion of pupils starting grade 1 who reach grade 5, percent	43	67	81	100	Needs attention
Adult literacy rate of 15–24 years old population (percent)	37	54	59	100	Needs attention
Goal 3: Promote gender equality and empower women	On track, very likely to be achieved				
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and at all levels by 2015					
Ratio of girls to boys in primary and secondary education (percent)	76	109	110	100	Achieved
Ratio of girls to boys in tertiary education (percent)	20	60	73	100	Needs attention
Ratio of literate females to males (percent of ages 15–24)	73	90	105	100	Achieved
Share of women employed in the nonagricultural sector (percent)	20	18	n.a.	50	Needs attention
Proportion of seats held by women in national parliament (percent)	10	19	20	33	Needs attention
Goal 4: Reduce child mortality	Possible to achieve if some changes are made				
Target 5: Reduce by two thirds by 2015 the under 5 mortality rate					
Under 5 mortality rate (per 1,000)	114	49	41	48	Achieved
Infant mortality rate (per 1,000 live births)	81	39	33	31	On track
Immunization, measles (percent of children under 12 months)	79	88	93	100	On track
Goal 5: Improve maternal health	Possible to achieve if some changes are made				
Target 6: Reduce by three quarters, by 2015, the maternal mortality ratio					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	440	200	170	143	Needs attention
Births attended by skilled health staff (percent of total)	10	27	32	50	Needs attention
Goal 6: Combat HIV/AIDS, malaria, and other diseases	Possible to achieve if some changes are made				
Target 7: Have halted by 2015 and begin to reverse the spread of HIV/AIDS					
Contraceptive prevalence rate (percent of women ages 15–49)	45	53	61	72	Needs attention
HIV prevalence among population (per 100,000 population)	0	0	0	Halting	On track
Target 8: Have halted by 2015 and begin to reverse the incidence of malaria and other major diseases					
Deaths from malaria (per 100,000 people)	1.4	0.4	0.1	0.6	Achieved
Incidence of tuberculosis (per 100,000 people)	225	225	224	Halting	On track
Tuberculosis treatment success rate under DOTS (percent)	71	91	92	Sustain>90	Achieved
Goal 7: Ensure environmental sustainability	Possible to achieve if some changes are made				
Target 9: Integrate the principles of sustainable development into country policies and reverse the loss of environmental resources					
CO2 emissions (metric tons per capita)	0	0	n.a.	...	...
Terrestrial protected areas (percent of total surface area)	2	5	5	5	Achieved
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)	72	83	85	100	Needs attention
Improved sanitation facilities (percent of population with access)	39	55	56	100	Needs attention
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)	...	62	...	...	Insufficient data
Goal 8: Develop a global partnership for development	Insufficient information				
Target 12: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system					
Net ODA received per capita (current U.S. dollars)	11	9	14	...	
Target 13: Make available the benefits of new technologies, especially information and communication					
Fixed line and mobile telephones (per 100 people)	0.2	46	75	50	Achieved
Internet users (per 100 people)	0	4	7	...	Gradually increasing
General indicators					
Population (in millions)	120	151	157	...	
Gross national income (in billions of U.S. dollars)	39	125	162	...	
GNI per capita, Atlas method (current, in U.S. dollars)	330	780	1010	...	
Total fertility rate (births per woman)	3.7	2.3	2.2	...	
Life expectancy at birth (years)	62.7	69.5	70.3	70	Achieved

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

1/ Latest available data are reported for each time period.

Table 2. Bangladesh: Selected Economic Indicators, FY2013–17 1/

I. Social and Demographic Indicators					
Population (FY14, millions; estimate)	156	Infant mortality (2013, per thousand live births)	33		
GDP per capita (FY14, U.S. dollars)	1110	Life expectancy at birth (2012, years)	70		
Labor force participation rate (FY10, percent; national measure)	59	Adult literacy (2012, percent of people)	59		
Poverty headcount ratio (2010, national measure, percent)	32	Population dependency ratio (2013, percent)	53		
Gini index (World Bank estimate)	32	Population growth (FY14, y/y, percent; estimate)	1.4		
II. Macroeconomic Indicators					
	FY13	FY14	FY15	FY16	FY17
			Prel./Staff est.	Staff proj.	
National income and prices (annual percent change)					
Real GDP	6.0	6.1	6.5	6.3	6.8
GDP deflator	7.2	5.7	5.8	6.8	7.4
CPI inflation (annual average)	6.8	7.3	6.4	6.5	7.0
CPI inflation (end of period)	8.1	7.0	6.2	6.7	7.3
Nonfood CPI inflation (end of period)	7.7	5.4	6.2	6.8	7.7
Central government operations (percent of GDP)					
Total revenue and grants	11.2	10.9	9.9	10.5	11.6
Total revenue	10.7	10.4	9.6	10.3	11.3
Tax	9.0	8.6	8.5	8.7	9.6
Nontax	1.8	1.8	1.1	1.5	1.7
Grants	0.5	0.5	0.3	0.3	0.3
Total expenditure	14.6	14.0	13.8	14.9	15.8
Current expenditure	8.3	8.2	7.9	8.9	9.5
Annual Development Program (ADP)	4.2	4.1	4.3	4.8	5.2
Other expenditures 2/	2.1	1.7	1.7	1.2	1.2
Overall balance (including grants)	-3.4	-3.1	-3.9	-4.4	-4.3
(Excluding grants)	-3.9	-3.5	-4.2	-4.7	-4.6
Primary balance (excluding grants)	-1.9	-1.5	-2.1	-2.6	-2.3
Total central government debt (percent of GDP)	34.5	33.9	34.0	34.3	34.2
Money and credit (end of fiscal year, percent change)					
Credit to private sector by the banking system	10.8	12.3	13.2	14.7	15.9
Reserve money 3/	15.0	15.4	14.3	13.5	14.7
Broad money (M2)	16.7	16.1	12.4	13.5	14.7
Balance of payments (billions of U.S. dollars)					
Exports, f.o.b.	26.6	29.8	30.8	32.6	35.7
(Annual percent change)	10.7	12.1	3.3	6.0	9.5
Imports, f.o.b.	-33.6	-36.6	-40.7	-43.3	-47.2
(Annual percent change)	0.8	8.9	11.2	6.3	9.2
Current account balance 4/	2.4	1.4	-1.6	-2.7	-3.4
(Percent of GDP)	1.6	0.8	-0.8	-1.3	-1.4
Capital and financial account balance	3.5	3.4	5.6	4.7	5.4
Of which: Foreign direct investment	1.7	1.4	1.7	1.9	2.4
Overall balance	5.1	5.5	4.4	2.0	2.0
Gross official reserves (billions of U.S. dollars) 5/					
In months of prospective imports of goods and services	4.1	5.3	5.8	5.8	5.7
Exchange rate (taka per U.S. dollar; period average)					
	79.9	77.6	77.7	...	...
Exchange rate (taka per U.S. dollar; end-period)					
	77.8	77.6	77.8	...	...
Nominal effective rate (2010=100; period average)					
	86.9	89.7	95.4	...	...
Real effective rate (2010=100; period average)					
	99.3	107.8	120.5	...	...
<i>Memorandum item:</i>					
Nominal GDP (billions of taka)	11,989	13,437	15,136	17,180	19,704

Sources: Bangladesh authorities; World Bank, *World Development Indicators*; and IMF staff estimates and projections.

1/ Fiscal year begins July 1.

2/ Includes non-ADP capital spending, net lending, food account surplus (-)/deficit (+), and extraordinary expenditures.

3/ Reserve money excludes liabilities arising from banks' foreign currency clearing accounts at Bangladesh Bank (BB) and nonbank deposits at BB.

4/ Imports are based on customs data.

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

Table 3. Bangladesh: Near and Medium-Term Indicators, FY2013–20 1/

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
			Prel.			Staff proj.		
	(Annual percent change)							
Real GDP	6.0	6.1	6.5	6.3	6.8	7.0	7.0	7.0
GDP deflator	7.2	5.7	5.8	6.8	7.4	7.0	6.7	6.7
CPI inflation (annual average)	6.8	7.3	6.4	6.5	7.0	6.7	6.4	6.1
CPI inflation (end of period)	8.0	6.9	5.9	7.0	7.0	6.4	6.4	5.8
Credit to private sector (end of period)	10.8	12.3	13.2	14.7	15.9	15.7	15.3	15.4
	(In percent of GDP)							
Gross national savings	30.5	29.2	29.1	27.7	29.2	31.1	31.6	31.8
Public national savings	2.9	2.7	2.1	1.6	2.1	2.8	3.3	3.5
Private national savings	27.6	26.5	27.0	26.1	27.1	28.4	28.4	28.3
Gross investment	28.4	28.6	29.0	29.0	30.6	32.8	33.5	33.8
Public investment	6.6	6.5	6.9	7.7	8.8	9.7	10.3	10.3
Private investment	21.7	22.0	22.1	21.2	21.8	23.1	23.2	23.5
Net exports of goods and services	-7.2	-6.5	-8.6	-7.3	-7.3	-7.2	-7.2	-7.2
Exports of goods and services	19.5	19.0	17.2	16.6	16.8	16.8	16.9	17.0
Imports of goods and services	26.8	25.5	25.8	23.9	24.0	24.1	24.1	24.2
Current account balance	1.6	0.8	-0.8	-1.3	-1.4	-1.6	-1.8	-2.0
Central government operations								
Total revenue and grants	11.2	10.9	9.9	10.5	11.6	12.2	12.6	12.9
<i>Of which</i> : Tax revenue	9.0	8.6	8.5	8.7	9.6	10.2	10.6	10.9
Total expenditure	14.6	14.0	13.8	14.9	15.8	16.3	16.7	16.9
<i>Of which</i> : Annual Development Program (ADP)	4.2	4.1	4.3	4.8	5.2	5.8	6.2	6.3
Overall balance (including grants)	-3.4	-3.1	-3.9	-4.4	-4.3	-4.1	-4.1	-4.0
(excluding grants)	-3.9	-3.5	-4.2	-4.7	-4.6	-4.5	-4.4	-4.3
Primary balance (excluding grants)	-1.9	-1.5	-2.1	-2.6	-2.3	-2.2	-2.1	-2.0
Public sector total debt 2/	36.3	35.9	35.9	37.2	37.1	37.0	36.9	36.7
<i>Of which</i> : central government debt	34.5	33.9	34.0	34.3	34.2	34.0	33.9	33.6
Public sector external debt	15.8	15.1	14.1	14.5	14.2	14.1	14.1	14.0
<i>Memorandum item:</i>								
Nominal GDP (in billions of taka)	11,989	13,437	15,136	17,180	19,704	22,562	25,750	29,407

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

1/ Fiscal year begins July 1.

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

Table 4. Bangladesh: Balance of Payments, FY2013–20 1/
(In millions of U.S. dollars, unless otherwise indicated)

	FY13	FY14	FY15 Prel.	FY16	FY17	FY18 Staff proj.	FY19	FY20
Current account balance 2/	2,388	1,406	-1,645	-2,707	-3,395	-4,195	-5,091	-6,088
Trade balance	-7,009	-6,794	-9,917	-10,637	-11,524	-12,484	-13,521	-14,638
Exports (f.o.b.)	26,567	29,777	30,768	32,629	35,723	39,109	42,819	46,885
Of which : Ready-made garment sector	21,516	24,492	25,491	27,359	29,926	32,704	35,708	38,957
Imports (f.o.b.) 2/	-33,576	-36,571	-40,685	-43,266	-47,246	-51,593	-56,340	-61,523
Of which : Crude oil and petroleum products	-4,270	-3,100	-4,553	-3,600	-4,167	-4,850	-5,253	-5,575
Services	-3,162	-4,099	-4,628	-5,100	-5,595	-6,138	-6,732	-7,383
Income	-2,369	-2,635	-2,995	-3,343	-3,628	-3,964	-4,329	-4,724
Transfers	14,928	14,934	15,895	16,373	17,352	18,391	19,491	20,657
Official current transfers 3/	97	83	75	50	50	50	50	50
Private transfers	14,831	14,851	15,820	16,323	17,302	18,341	19,441	20,607
Of which : Workers' remittances	14,338	14,116	15,170	15,630	16,568	17,562	18,616	19,733
Capital and financial account balance 4/	3,492	3,411	5,641	4,713	5,421	6,247	7,363	8,261
Capital account	629	598	491	497	684	750	819	894
Financial account	2,863	2,813	5,150	4,216	4,737	5,497	6,544	7,368
Foreign direct investment	1,726	1,432	1,700	1,908	2,356	2,574	3,092	3,374
Portfolio investment	368	937	618	578	337	368	442	482
Medium- and long-term loans, net	1,029	1,863	1,501	2,215	2,664	3,282	3,962	4,198
Government, net	1,179	1,386	1,534	2,111	2,241	2,539	2,942	2,955
Disbursements	2,085	2,404	2,444	3,058	3,212	3,555	4,000	4,000
Amortization	-906	-1,018	-910	-947	-971	-1,016	-1,058	-1,045
Other long-term loans, net	-150	477	-33	103	423	743	1,020	1,243
Other capital	-260	-1,419	1,331	-485	-620	-726	-952	-687
Short-term loans and trade credits, net	-405	-507	77	-405	94	193	-220	-166
Commercial banks, net	90	-241	39	-300	-300	-300	-300	-300
Other items, net	55	-671	1,215	221	-414	-619	-431	-221
Errors and omissions	-752	666	377	0	0	0	0	0
Overall balance	5,128	5,483	4,373	2,006	2,026	2,052	2,272	2,174
Financing items	-5,128	-5,483	-4,373	-2,006	-2,026	-2,052	-2,272	-2,174
Change in gross international reserves (GIR) (+ = increase)								
Contribution from financing	5,128	5,483	4,373	2,006	2,026	2,052	2,272	2,174
Net use of IMF resources	80	199	-56	226	-5	-26	-93	-132
Change in GIR excluding valuation changes	5,208	5,682	4,317	2,232	2,021	2,026	2,179	2,041
Valuation changes	-193	318	-692	...	...	...	...	...
Total change in GIR (excluding Asian Clearing Union liabilities)	5,015	5,999	3,625	2,232	2,021	2,026	2,179	2,041
<i>Memorandum items:</i>								
Current account balance (percent of GDP)	1.6	0.8	-0.8	-1.3	-1.4	-1.6	-1.8	-2.0
Exports (annual percent change)	10.7	12.1	3.3	6.0	9.5	9.5	9.5	9.5
Imports (annual percent change)	0.8	8.9	11.2	6.3	9.2	9.2	9.2	9.2
Remittances (annual percent change)	12.6	-1.5	7.5	3.0	6.0	6.0	6.0	6.0
Foreign direct investment (percent of GDP)	1.2	0.8	0.9	0.9	1.0	1.0	1.1	1.1
Medium- and long-term external public debt (Percent of GDP)	15.3	14.4	13.1	12.9	13.0	13.1	13.4	13.6
Gross official reserves 4/ (In months of imports of goods and services)	15,136	21,385	24,946	27,177	29,199	31,224	33,403	35,445
Gross official reserves (excluding Asian Clearing Union liabilities) 4/ (In months of imports of goods and services)	4.1	5.3	5.8	5.8	5.7	5.5	5.4	5.3
Net international reserves 4/	14,418	20,417	24,043	26,274	28,295	30,321	32,500	34,542
Nominal GDP	11,966	17,846	21,618	23,624	25,650	27,702	29,974	32,148
Nominal GDP	150,026	172,887	194,763	216,437	235,577	257,371	281,089	306,733

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

1/ Fiscal year begins July 1.

2/ Imports are based on customs data.

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

4/ Gross and net international reserves for the projection period do not include valuation adjustments. Net international reserves are reported at market exchange rates.

Table 5a. Bangladesh: Central Government Operations, FY2013–17 1/

	FY13	FY14	FY15			FY16		FY17
			Budget	Prel. est. 1/	Staff est.	Budget	Staff proj.	
(In billions of taka)								
Total revenue and grants	1,346	1,467	1,892	1,482	1,504	2,142	1,808	2,284
Total revenue	1,288	1,404	1,830	1,460	1,460	2,084	1,765	2,223
Tax revenue	1,075	1,160	1,553	1,288	1,288	1,822	1,503	1,883
National Board of Revenue (NBR) taxes	1,033	1,114	1,497	1,240	1,240	1,764	1,448	1,821
<i>Of which</i> : VAT and supplementary duties	550	590	763	664	665	901	767	1,007
Taxes on income and profits	344	378	561	407	407	650	476	579
Customs and excise duties	126	139	159	149	158	200	179	206
Non-NBR taxes	41	46	56	48	48	58	55	63
Nontax revenue	214	243	277	172	172	262	262	339
Foreign grants	58	64	62	22	44	58	43	61
Total expenditure	1,752	1,881	2,505	2,036	2,091	2,951	2,566	3,122
Current expenditure	997	1,106	1,282	1,190	1,190	1,646	1,533	1,871
Pay and allowances	217	263	287	288	288	452	444	582
Goods and services	131	151	164	165	165	178	172	187
Interest payments	240	282	310	310	310	351	354	453
Subsidies and transfers 2/	407	407	502	425	424	642	559	644
Block allocations	2	2	19	2	2	23	5	6
Annual Development Program (ADP)	500	552	803	596	651	970	821	1,024
Non-ADP capital spending	89	143	320	139	139	255	151	157
Net lending 3/	170	77	96	90	90	78	57	67
Other expenditures 4/	-4	3	3	21	21	2	4	4
Overall balance (including grants)	-405	-413	-613	-555	-588	-809	-758	-838
(Excluding grants)	-463	-477	-675	-577	-632	-867	-801	-899
Primary balance (including grants)	-165	-131	-303	-245	-278	-458	-404	-385
(Excluding grants)	-223	-195	-365	-267	-322	-516	-448	-446
Net financing	405	413	613	555	588	809	758	838
External	97	90	181	44	116	243	168	187
Disbursements	170	176	265	115	190	322	243	269
Amortization	-73	-87	-85	-71	-74	-79	-75	-81
Domestic	261	283	433	291	359	566	590	651
Banks 3/	205	99	312	4	-23	391	276	502
<i>Of which</i> : Bangladesh Bank	-71	-179	...	...	-18	...	-15	-15
Nonbanks 4/	57	184	121	287	383	175	315	149
Cash float and discrepancy	47	41	0	220	113	0	0	0

(continued)

Table 5a. Bangladesh: Central Government Operations, FY2013–17 1/ (concluded)

	FY13	FY14	FY15			FY16		FY17
			Budget	Prel. est. 1/	Staff est.	Budget	Staff proj.	Staff proj.
(In percent of GDP)								
Total revenue and grants	11.2	10.9	12.5	9.8	9.9	12.5	10.5	11.6
Total revenue	10.7	10.4	12.1	9.6	9.6	12.1	10.3	11.3
Tax revenue	9.0	8.6	10.3	8.5	8.5	10.6	8.7	9.6
NBR taxes	8.6	8.3	9.9	8.2	8.2	10.3	8.4	9.2
<i>Of which</i> : VAT and supplementary duties	4.6	4.4	5.0	4.4	4.4	5.2	4.5	5.1
Taxes on income and profits	2.9	2.8	3.7	2.7	2.7	3.8	2.8	2.9
Customs and excise duties	1.1	1.0	1.0	1.0	1.0	1.2	1.0	1.0
Non-NBR taxes	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Nontax revenue	1.8	1.8	1.8	1.1	1.1	1.5	1.5	1.7
Foreign grants	0.5	0.5	0.4	0.1	0.3	0.3	0.3	0.3
Total expenditure	14.6	14.0	16.5	13.5	13.8	17.2	14.9	15.8
Current expenditure	8.3	8.2	8.5	7.9	7.9	9.6	8.9	9.5
Pay and allowances	1.8	2.0	1.9	1.9	1.9	2.6	2.6	3.0
Goods and services	1.1	1.1	1.1	1.1	1.1	1.0	1.0	0.9
Interest payments	2.0	2.1	2.1	2.0	2.0	2.0	2.1	2.3
Subsidies and transfers 2/	3.4	3.0	3.3	2.8	2.8	3.7	3.3	3.3
Block allocations	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0
Annual Development Program (ADP)	4.2	4.1	5.3	3.9	4.3	5.6	4.8	5.2
Non-ADP capital spending	0.7	1.1	2.1	0.9	0.9	1.5	0.9	0.8
Net lending 3/	1.4	0.6	0.6	0.6	0.6	0.5	0.3	0.3
Other expenditures 5/	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Overall balance (including grants)	-3.4	-3.1	-4.1	-3.7	-3.9	-4.7	-4.4	-4.3
(Excluding grants)	-3.9	-3.5	-4.5	-3.8	-4.2	-5.0	-4.7	-4.6
Primary balance (including grants)	-1.4	-1.0	-2.0	-1.6	-1.8	-2.7	-2.4	-2.0
(Excluding grants)	-1.9	-1.5	-2.4	-1.8	-2.1	-3.0	-2.6	-2.3
Net financing	3.4	3.1	4.1	3.7	3.9	4.7	4.4	4.3
External	0.8	0.7	1.2	0.3	0.8	1.4	1.0	1.0
Disbursements	1.4	1.3	1.8	0.8	1.3	1.9	1.4	1.4
Amortization	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4	-0.4
Domestic	2.2	2.1	2.9	1.9	2.4	3.3	3.4	3.3
Banks 3/	1.7	0.7	2.1	0.0	-0.2	2.3	1.6	2.5
<i>Of which</i> : Bangladesh Bank	-0.6	-1.3	...	...	-0.1	...	-0.1	-0.1
Nonbanks 4/	0.5	1.4	0.8	1.9	2.5	1.0	1.8	0.8
Cash float and discrepancy	0.4	0.3	0.0	1.5	0.7	0.0	0.0	0.0
<i>Memorandum items:</i>								
Subsidy costs (percent of GDP) 3/ 6/	2.7	1.6	1.8	1.4	1.4	1.5	1.3	1.1
<i>Of which</i> : Energy-related subsidies	1.5	0.6	0.6	0.6	0.5	0.5	0.3	0.4
Total central government debt (percent of GDP)	34.5	33.9	...	33.7	34.0	...	34.3	34.2

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/ Excludes net financing of autonomous and semi-autonomous government bodies, and government lending funds. Includes special bonds issued to the commercial banks for the noncash issued to the state-owned securitization of past subsidy-related loans made to Bangladesh Petroleum Corporation, consistent with the earlier treatment in the fiscal accounts of similar operations.

4/ Includes National Savings Certificates, net purchase of Treasury securities by nonbank entities, and financing through the General Provident Fund.

5/ Includes food account surplus (+)/deficit (-) and extraordinary expenditures.

6/ Comprise food and agriculture and export sector subsidies, as well as subsidy-based lending to large energy-related SOEs.

**Table 5b. Bangladesh: Central Government Operations,
GFSM 2001 Classification, FY2013–17 1/
(In billions of taka)**

	FY13	FY14	FY15		FY16		FY17
			Budget	Staff est.	Budget	Staff Proj.	Staff Proj.
1. Central government accounts							
Revenue	1,346	1,467	1,892	1,504	2,142	1,808	2,284
Taxes	1,075	1,160	1,553	1,288	1,822	1,503	1,883
Grants	58	64	62	44	58	43	61
Other revenue	214	243	277	172	262	262	339
Expenditure	1,162	1,186	1,381	1,301	1,726	1,594	1,942
Compensation of employees	217	263	287	288	452	444	582
Purchases of goods and services	131	151	164	165	178	172	187
Interest	240	282	310	310	351	354	453
Subsidies 2/	322	211	263	215	235	180	208
Grants	193	219	250	227	368	313	359
Other payments	59	60	108	96	142	132	153
Gross operating balance	184	281	510	202	416	214	343
Net acquisition of nonfinancial assets	589	695	1,124	790	1,225	972	1,181
Fixed assets	500	552	803	651	970	821	1,024
Nonproduced assets	89	143	320	139	255	151	157
Net lending (+)/net borrowing (-) 3/	-405	-413	-613	-588	-809	-758	-838
Net financial transactions	-358	-372	-613	-475	-809	-758	-838
Net acquisition of financial assets (+ increase)	22	41	...	-13	...	...	...
Domestic	22	41	...	-13	...	...	...
Deposits	22	41	...	-13	...	...	...
Net incurrence of liabilities (+ increase)	380	372	613	475	809	758	838
Domestic	283	283	433	359	566	590	651
Debt securities and loans and advances	283	283	433	359	566	590	651
Other accounts payable	0	0	0	0	0	0	0
Foreign	97	90	181	116	243	168	187
Statistical discrepancy (net borrowing less net financial transaction)	-47	-41	0	-113	0	0	0
2. Financial balance sheet							
Net financial worth							
Stock of financial assets	150	190	...	178	...	...	...
Domestic	150	190	...	178	...	...	...
Deposits 4/	150	190	...	178	...	...	...
Foreign	0	0	...	0	...	0	0
Stock of liabilities	4,132	4,551	...	5,139	...	5,897	6,735
Domestic	2,395	2,725	...	3,197	...	3,787	4,438
Debt securities and loans and advances	2,395	2,725	...	3,197	...	3,787	4,438
Foreign	1,737	1,826	...	1,942	...	2,109	2,297

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.

3/ Includes statistical discrepancy.

4/ Excludes deposits of autonomous and semi-autonomous bodies.

Table 6. Bangladesh: Monetary Accounts, June 2013–June 2016 1/

	2013		2014			2015		2016	
	Jun.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Jun. Staff proj.
Bangladesh Bank (BB) balance sheet									
	(End of period; in billions of taka)								
Net foreign assets	935	1,133	1,236	1,353	1,434	1,461	1,564	1,677	1,826
Net domestic assets	186	75	-23	-58	-2	-74	-171	-197	-146
Net credit to central government 3/	281	208	123	102	63	-3	-43	83	68
Credit to other nonfinancial public sector	1	1	1	1	1	12	12	12	12
Credit to deposit money banks	63	59	56	55	56	57	56	48	48
Other items, net 2/	-158	-193	-203	-215	-122	-140	-196	-341	-275
Reserve money	1,122	1,208	1,213	1,295	1,432	1,387	1,394	1,480	1,680
Currency	754	827	808	855	971	905	919	982	1,140
Reserves	368	382	405	440	461	482	475	498	540
	(Contribution to reserve money growth)								
Net foreign assets	40.4	37.9	37.1	37.2	37.5	27.1	27.0	25.1	10.1
Net domestic assets	-25.4	-24.6	-24.6	-21.8	-11.6	-12.3	-12.2	-10.8	3.5
Of which: Net credit to central government	-7.3	-10.2	-14.6	-16.0	-12.3	-17.4	-13.7	-1.4	-1.0
Reserve money (year-on-year percentage change)	15.0	13.2	12.5	15.4	26.0	14.8	14.9	14.3	13.5
Monetary survey									
	(End of period; in billions of taka)								
Net foreign assets	1,113	1,302	1,428	1,544	1,622	1,641	1,762	1,865	2,037
Bangladesh Bank	935	1,133	1,236	1,353	1,434	1,461	1,564	1,677	1,826
Commercial banks	177	169	192	192	188	180	197	188	210
Net domestic assets	4,919	5,234	5,245	5,458	5,623	5,767	5,747	6,006	6,898
Domestic credit	5,856	6,214	6,293	6,544	6,747	6,927	6,948	7,230	8,359
Net credit to central government 3/	1,240	1,303	1,296	1,340	1,378	1,311	1,242	1,317	1,593
Credit to other nonfinancial public sector	58	75	81	72	90	122	124	111	120
Credit to nonbank financial institutions	37	48	51	55	56	60	55	56	56
Credit to private sector	4,522	4,788	4,864	5,076	5,224	5,434	5,527	5,746	6,591
Other items, net	-937	-981	-1,048	-1,086	-1,124	-1,160	-1,201	-1,224	-1,461
Broad money (M2)	6,032	6,536	6,673	7,002	7,246	7,408	7,509	7,871	8,934
	(Year-on-year percent change)								
Net foreign assets	53.7	40.5	37.9	38.8	37.0	26.0	23.3	20.8	9.2
Net domestic assets	10.7	10.7	10.4	10.9	10.7	10.2	9.6	10.0	14.9
Domestic credit	10.5	10.5	15.3	11.7	12.3	11.5	10.4	10.5	15.6
Of which: Net credit to central government	19.8	20.9	40.0	8.1	10.8	0.6	-4.2	-1.7	20.9
Credit to private sector	10.8	10.6	11.5	12.3	12.2	13.5	13.6	13.2	14.7
Broad money (M2)	16.7	15.6	15.3	16.1	15.7	13.3	12.5	12.4	13.5
Memorandum items:									
Required domestic cash reserves (in billions of taka)	338	366	379	429	437	447	462	471	516
Excess domestic cash reserves (in billions of taka)	30	15	26	11	24	35	13	28	24
Broad money multiplier	5.4	5.4	5.5	5.4	5.1	5.3	5.4	5.3	5.3
Broad money velocity	2.0	1.9	2.0	1.9	1.9	1.9	2.0	1.9	1.9

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

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

2/ Liabilities arising from banks' foreign currency clearing accounts at BB and nonbank deposits at BB are included in "Other items, net."

3/ Net credit to the central government by the banking system is reported following the definition adopted under the Extended Credit Facility arrangement.

Table 7. Bangladesh: Financial Soundness Indicators of Scheduled Banks, 2012–15 1/
(In percent, end-of-period unless otherwise mentioned)

	2012		2013		2014		2015
	Jun.	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.
<i>Capital adequacy</i>							
Regulatory capital to risk-weighted assets (adjusted) 2/	10.2	9.6	8.3	8.9	7.9	8.5	7.5
State-owned commercial banks (adjusted) 2/	5.3	3.4	-4.0	0.3	-1.7	0.8	2.3
Regulatory capital to risk-weighted assets (unadjusted)	11.3	10.5	9.1	11.5	10.7	11.4	10.2
State-owned commercial banks	11.2	8.1	1.2	10.8	8.7	10.0	3.8
Specialized development banks	-4.3	-7.8	-8.7	-9.7	-13.7	-16.4	-17.2
Private commercial banks	11.4	11.4	11.5	12.5	12.1	12.5	11.8
Foreign commercial banks	21.5	20.6	20.3	20.3	20.6	22.7	24.1
Regulatory capital to assets (adjusted) 2/	7.7	7.1	6.0	6.3	5.4	5.9	5.1
Regulatory capital to assets (unadjusted)	8.6	7.7	6.6	8.1	7.4	7.8	7.0
Nonperforming loans to regulatory capital (adjusted) 2/ 3/ 4/	58.1	86.8	117.1	110.1	148.9	136.5	152.6
Nonperforming loans to regulatory capital (unadjusted) 3/	51.6	78.5	104.9	62.3	80.6	69.9	77.0
<i>Asset quality 3/</i>							
Nonperforming loans to total loans (adjusted) 4/	...	...	...	12.2	14.6	14.1	13.9
State-owned commercial banks (adjusted) 4/	...	...	...	29.2	32.7	28.0	29.0
Nonperforming loans to total loans (unadjusted)	7.2	10.0	11.9	8.9	10.8	9.7	9.7
State-owned commercial banks	13.5	23.9	26.4	19.8	23.2	18.2	19.4
Specialized development banks	23.8	26.8	26.2	26.8	33.1	40.0	31.7
Private commercial banks	3.8	4.6	6.6	4.5	5.7	5.0	5.7
Foreign commercial banks	3.2	3.5	4.7	5.5	6.2	7.3	8.3
Loan provisions to total nonperforming loans (unadjusted)	57.8	44.4	52.4	61.6	50.7	56.2	52.5
Loan provisions to total loans (unadjusted)	4.1	4.5	6.2	5.5	5.5	5.4	5.1
<i>Profitability (unadjusted)</i>							
Return on equity 5/	13.5	8.2	9.7	11.1	8.4	8.0	6.6
State-owned commercial banks	11.7	-11.9	94.8	10.9	-2.3	11.3	-16.9
Specialized development banks	1.4	-1.1	-8.6	-5.8	-9.5	57.1	12.5
Private commercial banks	12.4	10.2	5.0	9.8	8.4	10.1	9.7
Foreign commercial banks	19.4	17.3	18.5	16.9	20.1	17.7	15.7
Return on assets 6/	1.2	0.6	0.6	0.9	0.6	0.6	0.5
State-owned commercial banks	0.7	-0.6	0.6	0.6	-0.1	0.6	-0.5
Specialized development banks	0.0	0.1	-0.5	-0.4	-0.9	-5.8	-1.4
Private commercial banks	1.2	0.9	0.4	1.0	0.8	1.0	0.9
Foreign commercial banks	3.8	3.3	3.4	3.0	3.5	3.4	3.1
Interest margin to gross income 7/	67.1	67.8	67.2	67.9	67.0	68.9	70.4
Noninterest expense to gross income 7/	40.6	42.0	47.9	47.1	47.2	46.5	50.2
Personnel expense to noninterest expense	50.9	53.9	56.8	55.4	58.3	54.1	56.2
<i>Composition of credit (in percent of total, excluding working capital)</i>							
Agriculture, forestry, and fishing	6.2	5.6	6.2	6.7	6.8	6.2	6.7
Industry	23.7	23.6	24.4	20.6	20.7	19.4	21.8
Construction	9.5	10.5	10.5	10.7	10.6	10.7	10.1
Transportation	1.5	1.6	1.6	1.4	1.4	1.3	0.9
Trade	44.4	44.6	43.3	47.0	48.2	47.9	44.7
Other	14.7	14.2	13.9	13.7	12.3	14.4	15.7
<i>Memorandum items:</i>							
Share of assets (as a percent of total banking system assets)							
State-owned commercial banks	27.2	26.1	26.7	26.4	26.5	25.7	26.0
Specialized development banks	5.7	5.5	5.6	5.7	5.4	5.5	5.4
Private commercial banks	60.8	62.2	61.5	61.9	62.3	63.3	63.2
Foreign commercial banks	6.4	6.3	6.1	6.1	5.8	5.5	5.3

Sources: Bangladesh Bank; and IMF staff calculations.

1/ Official data are reported as "unadjusted", while staff adjustments (see footnotes below) are reported as "adjusted". "..." indicates data not available. State-owned commercial banks are Agrani Bank, Janata Bank, Rupali Bank, and Sonali Bank. BASIC Bank is included under specialized development banks.

2/ An adjustment is made to exclude special accounts set up in state-owned commercial banks' balance sheets, which contain the accumulated losses arising from the difference in market and book value of assets. These amounts are deducted from state-owned commercial banks' assets and regulatory capital. From June 2015, Bangladesh Bank started adjusting away these accumulated losses from banks' capital position, which staff was doing earlier. Additional adjustments to capital is made by staff (based on information from Bangladesh Bank) for banks that availed themselves to the temporary relaxation in loan rescheduling rules between December 2013 and June 2014.

3/ New loan classification and provisioning regulations became effective with the financial statement for end-December 2012.

4/ From December 2013 nonperforming loans are adjusted for the staff estimated impact (based on information from Bangladesh Bank) of temporary relaxation in loan rescheduling rules.

5/ Bangladesh Bank defines return on equity (ROE) as the ratio of net income after provision and taxes to regulatory capital. Discrete jumps in ROE of state-owned banks reflect a combination of movements in operating profits and capital positions.

6/ Bangladesh Bank defines return on assets (ROA) as the ratio of net income after provision and taxes to total assets.

7/ Gross income defined as operational income before provisions and taxes.

Appendix I. Bangladesh: Implementation of Policy Advice since the 2013 Article IV Consultation

In the last two years policy discussions took place in the context of the Extended Credit Facility (ECF) arrangement, approved in April 2012 and completed in October 2015. The arrangement, put in place after external shocks and accommodative domestic policies in 2010–11 led to higher inflation and international reserve losses, aimed to restore macroeconomic stability, shore up the external position, create fiscal space to boost social and development-related spending (including in power and transport infrastructure), strengthen the financial sector, and stimulate investment.

Recommendations	Policy Actions
Macroeconomic policies	
<p><i>Monetary policy: Keep reserve money growth restrained while providing room for a recovery in private credit growth. Foreign exchange interventions could be scaled back, given reserve adequacy, but targets need to be achieved through sterilized interventions.</i></p>	<p>Monetary policy has been prudent. The targets on net international reserves (floor) and net domestic assets (ceiling) of Bangladesh Bank (BB) were met comfortably, while the reserve money target (ceiling) was met most of the time.</p>
<p><i>Fiscal policy: Allow for a moderate fiscal consolidation and a continued gradual reduction of the public debt-to-GDP ratio, by boosting tax revenues while lowering subsidies to make room for increased public investment and social spending.</i></p>	<p>Fiscal policy has been generally prudent and restrained, but marked by revenue underperformance. Under the program, the target on bank financing of the fiscal deficit (ceiling) was systematically met. Energy subsidies came down as a result of domestic price hikes and a decision not to adjust domestic fuel prices in the face of lower global oil prices. Also, social spending was protected. However, capital spending as a share of GDP has been largely unchanged since FY13 on weak implementation capacity. Moreover, there have been significant shortfalls in tax revenues relative to targets. As a result, no significant public consolidation has occurred and the public debt-to-GDP ratio remained largely flat between FY13 and FY15.</p>
Financial sector policies	
<p><i>Strengthen the state-owned commercial banks (SOCBs). Improve the governance, credit risk management, and balance sheets of the SOCBs. Strict compliance with memoranda of understanding (MOU) with BB should be ensured; all branches should be automated by 2016; and gradual recapitalization should take place while replacing the bank boards with competent directors after scrutiny by BB.</i></p>	<p>Bank boards have been reconstituted and partial recapitalizations have taken place since December 2013. Branch automation is making steady progress. However, compliance with the MOUs has been mixed, and there has been slow progress in reforming corporate governance and internal control and compliance practices.</p>

Recommendations	Policy Actions
<i>Improve BB's supervisory capacity and enforcement, including through expanding risk-based supervision. Improve central bank safeguards and appoint globally-reputed audit firms to conduct external audit of BB's accounts.</i>	Using powers given to BB under the amended Banking Companies Act (BCA), 2013, the central bank has taken strong actions against bank malpractice or misbehavior. The central bank has also appointed observers to the large SOCBs. Risk-based supervision is being implemented along with implementation of contingency planning and lender of last resort policies. But there have been repeated instances of regulatory forbearance on loan rescheduling and restructuring. Internal audit and safeguards are being improved at BB. A chartered accountant has been appointed to the Audit Committee of BB Board and automation of BB's internal processes is ongoing. The authorities appointed a globally-reputed firm to audit BB's FY13 and FY14 accounts, but appointed local firms (affiliated with global firms) to audit FY15 accounts.
<i>Limit banks' exposure to stock market to 25 percent of capital.</i>	The amended BCA allowed banks to bring down their exposure to the capital market to 25 percent of eligible capital by July 2016. Bangladesh Bank is currently monitoring the progress on a bank-by-bank basis.
Structural reforms	
<i>Boost tax collections.</i>	Tax collections fell as a share of GDP between FY13 and FY15 and the authorities missed most of the quarterly revenue targets under the program. A new VAT (which staff estimates will boost revenue by about 2 percentage points of GDP by FY20) is being implemented, but the implementation process has suffered delays and the launch, initially planned for July 2015, has been postponed to July 2016. Administrative reforms and modernization of the Direct Tax Code are ongoing.
<i>Strengthen public financial management.</i>	External borrowing processes have been strengthened and the limits on new nonconcessional external debts were observed. However, there are still significant weaknesses in budget formulation and implementation, and treasury cash flow forecasting is still at a pilot stage. There has been little progress in improving financial management and reporting at Bangladesh Petroleum Corporation (BPC). A professional financial analyst has been appointed in BPC, but little progress has been made on conducting an external audit of its accounts by a globally-reputed audit firm.
<i>Ease foreign exchange (FX) regulations and reporting requirements to facilitate investment.</i>	The authorities have eased a large number of FX regulations and reporting requirements. They also amended the Foreign Exchange Regulations Act, approved in September 2015.
<i>Boost inclusive growth.</i>	The authorities have increased public investment in critical infrastructure. They have also made progress in improving labor and factory safety standards in the garment industry and revised the minimum wages in that sector. Trade tariffs are being gradually streamlined. The targeting and efficiency of social safety net programs needs further attention.



BANGLADESH

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 5, 2016

Prepared By

Asia and Pacific Department
(With inputs from other departments, the World Bank, and
the Asian Development Bank)

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FUND RELATIONS

(As of November 30, 2015)

Membership Status

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

General Resources Account

	SDR Million	Percent Quota
Quota	533.30	100.00
Fund holdings of currency (exchange rate)	532.73	99.89
Reserve tranche position	0.57	0.11

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	510.40	100.00
Holdings	881.30	172.67

Outstanding Purchases and Loans

	SDR Million	Percent Quota
ECF arrangements	653.42	122.52

Latest Financial Arrangements

(In millions of SDRs)

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
ECF	Apr. 11, 2012	Oct. 29, 2015	639.96	639.96
ECF ¹	Jun. 20, 2003	Jun. 19, 2007	400.33	316.73
ECF ¹	Aug. 10, 1990	Sep. 13, 1993	345.00	330.00

¹ Extended Credit Facility (ECF), formerly PRGF.

Projected Payments to the Fund²

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

	2015	2016	2017	2018	2019
Principal		13.46	9.14	36.57	82.28
Charges/Interest		0.01	0.01	0.01	1.42
Total		13.47	9.15	36.58	83.70

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

Article IV Consultation

The previous Article IV consultation was concluded on November 27, 2013 (IMF Country Report No. 13/357), jointly with the third review under the Extended Credit Facility arrangement.

Safeguards Assessment

- A safeguards assessment of Bangladesh Bank (BB) was concluded in July 2011. Since then, BB has implemented a number of recommendations, including approval for incorporation of the Security Printing Corporation (Bangladesh) Limited, a subsidiary of BB, in the audit plan of BB's internal audit department (IAD); and approval of Reserve Management Guidelines by the BB Board and monitoring of investment of foreign exchange reserves by a committee headed by a Deputy Governor. A certified chartered accountant was appointed in March 2014 as an advisor to the Audit Committee of the BB Board. After engaging a globally-reputed firm for two consecutive years (FY13 and FY14), the authorities appointed local audit firms, affiliated with global firms, to audit BB's FY15 financial accounts. On all three occasions, BB received unqualified audit reports. The authorities have also implemented most of the recommendations made in the management letters for the FY13 and FY14 audits.
- Going forward, staff recommended appointing a globally-reputed audit firm to conduct the external audit of BB's financial statements on an annual basis. To further strengthen BB's internal audit function, the authorities are working toward improving risk management in key departments; developing risk rating reports; integrating different information technology platforms; and reviewing their operational risks. Staff capacity in the IAD needs attention. The safeguards assessment also recommended that the legal framework of the BB be strengthened.

Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)

- Bangladesh has graduated from monitoring by the Financial Action Task Force of compliance with AML/CFT processes and has become a member of the Egmont Group of Financial Intelligence Units. The Asia Pacific Group assessed the country's AML/CFT framework in October 2015 and will publish a report after its July 2016 plenary. A national strategy for AML/CFT for 2015-17 has been prepared and several MOUs have been signed with financial intelligence units around the world.

Exchange Arrangement

- **Exchange regime.** The *de jure* exchange rate regime is a float. Effective February 7, 2013, the *de facto* regime was reclassified from other managed to a stabilized arrangement.
- **Exchange restriction.** The Executive Board had urged the authorities to adopt a timetable to remove the remaining exchange restriction on the convertibility and transferability of proceeds of current international transactions in nonresident taka accounts. In September 2013, a strategy paper laid out a roadmap toward gradual liberalization of exchange regulations. Since then, BB has eased several foreign exchange regulations and reporting routines. These include easing of restrictions on certain debits for current transactions purposes from the nonresident taka

accounts, though a prior approval is required. In September 2015, amendments to the 1947 Foreign Exchange Regulations Act were approved in parliament, also easing existing regulations.

Resident Representative

The resident representative office was established in 1972. Ms. Stella Kaendera is the current Resident Representative since July 2014.

Bangladesh: Technical Assistance, 2014–15		
Department	Topic	Timing
MCM	Banking supervision	May 2011–November 2014: Resident advisor
	Central bank financial reporting	2014: April
FAD	VAT administration and implementation of the new VAT law	February 2013–April 2014; and June 2014–November 2014: Resident advisor
		2014: January 2015: October
	Budget and accounting classification system (BACS)	2014: March 2015: August
	Developing cash flow forecasts	2015: August/September
	Strengthening the budget formulation process	2015: August
STA	National accounts statistics	January 2014–October 2015: Resident advisor
		2015: September
	External sector statistics	2014: April and October 2015: April and October
	Government finance statistics	2014: October
	Financial Soundness Indicator	2014: February/March
	Special Data Dissemination Standard (SDDS)	2015: June/July

IMF-WORLD BANK COLLABORATION

(December 2015)

1. The IMF and World Bank Group (both International Development Association (IDA) and International Finance Corporation (IFC) teams) work together to promote policies and critical reforms that are essential for maintaining macroeconomic and financial stability and for sustained high growth and poverty reduction in Bangladesh.
 - Over the last three years, the IMF's priorities for macroeconomic policies and structural reforms were anchored by the Extended Credit Facility (ECF) arrangement, approved in April 2012 and completed in October 2015. With support from this arrangement, the authorities restored macroeconomic stability and undertook reforms in the areas of domestic revenue mobilization, notably enacting a new Value Added Tax Act in 2012; tax revenue administration; fiscal expenditure allocation, including the reduction in regressive energy subsidies and strengthening of social safety nets; public financial management, including strengthening the external debt management; banking supervision and regulation, including amending the Banking Companies Act in 2013; addressing weaknesses in the state-owned commercial banks; improving central bank operations; and liberalizing foreign exchange regulations. The priorities for macroeconomic policies and reforms going forward are identified in the main text of this report.
 - The Bank's strategy is reflected in the forthcoming Country Partnership Framework (CPF) for FY16-20, to be delivered in 2016. The CPF, which is aligned with the Government's Seventh Five Year Plan, is anchored in the Bangladesh Systematic Country Diagnostic (SCD), which was completed in 2015. The SCD identifies five transformational investments needed for Bangladesh to create more and better jobs and to accelerate poverty reduction. These are in the areas of energy; inland connectivity and logistics; regional and global integration; urbanization; and adaptive delta management. In addition, the SCD identifies three foundational priorities which represent important prerequisites for growth and where policy attention must be sustained: macroeconomic stability; human development; and institutions and business environment.
2. The teams note that collaboration between the IMF and the World Bank Group is strong, both at headquarters and in the field (through the IMF Resident Representative's Office and the World Bank's Country Office). For instance:
 - There are frequent formal and informal exchanges of information on each other's activities and on assessments of developments, the outlook, and key policy issues.
 - The teams invite each other to participate in critical internal discussions, share key documents, and seek comments on them.

- Staffs are also invited to relevant Board meetings.
 - The teams regularly discuss the division of labor between the two institutions, and collaborate on the Debt Sustainability Analysis (DSA).
3. The teams agree that the two institutions should remain focused on the following reform areas, and based on the following division of labor:
- **Tax policy and administration.** Bangladesh has one of the lowest tax-to-GDP ratios in the world. To boost growth, higher public investment in critical infrastructure is needed and for that purpose it is necessary to improve revenue generation. Under the ECF arrangement, the authorities enacted a new Value Added Tax (VAT) Act, 2012, which is now being implemented for a launch in July 2016. The new VAT is currently the authorities' main tool to boost tax collections over the medium term. Efforts to boost the capacity of the National Board of Revenue and modernize the Direct Tax Code are ongoing. *Division of labor:* The new VAT law and the VAT implementation plan continue to receive technical assistance (TA) from the IMF. A resident advisor was in place until late 2014 to help with VAT implementation. IDA will provide financial support for several aspects of implementation, including designing organizational reforms and new administrative processes, which are urgent priorities. Both institutions are currently providing TA to the implementation process.
 - **Public financial management (PFM).** Sound PFM is important for maintaining fiscal discipline and improving the quality of public expenditure. *Division of labor:* IDA has provided assistance through its administration of the Strengthening Public Expenditure Management Program (SPEMP), supported by a multi-donor trust fund. SPEMP focused on core PFM issues in the executive branch of government, as well as strengthening public expenditure oversight functions in parliament and audit institutions. IDA is also taking the lead on public procurement reform and capacity building. The IMF is providing support through several TA missions on cash flow forecasting and management, on budget and accounting classification, and on the budget formulation process.
 - **Debt management.** There has been significant progress on strengthening debt management practices under the ECF, but more needs to be done. *Division of labor:* The IMF and IDA will continue working jointly in this area, including on the DSA, with the IMF coordinating views on main macroeconomic assumptions and outlook and supporting structural reforms on debt management through Article-IV consultations, and IDA providing technical support on debt management capacity through the Public Expenditure and Revenue Analysis (PERA) work, Analytical Support Activity on Public Financial Management (PFM) reforms as well as a Debt Management Performance Assessment (DeMPA).
 - **Monetary and exchange rate policies.** The IMF takes the lead in this area. IDA will play a complementary role through operations to strengthen payments systems at Bangladesh Bank (BB).

- **Financial sector reforms.** A sound and viable financial sector will remain critical for creating an improved environment for private sector investment. The IMF has provided TA on banking supervision, including through a resident advisor until late 2014, and on strengthening the state-owned commercial banks (SOCBs). The IMF will continue to support banking sector reforms through the Article-IV consultations. IDA will provide support to improve the regulatory and oversight capacity of BB and help strengthen the SOCBs through automation/improved management systems and business process reengineering, including potential governance reforms, and laying the foundation for a well-functioning insurance and pension sector.
- **Energy sector reform.** Over the last three years, spending on subsidies, particularly on energy, has come down as a share of GDP, initially through domestic price adjustments and more recently with help from a decline in the international oil prices. Further price adjustments are needed, including through adoption of systematic adjustments to domestic fuel prices in line with international price movements. Reducing financial and operational inefficiencies in state-owned enterprises in the energy sector is also critical. Bangladesh ranks poorly among the low-income countries in terms of availability of electricity. Finally, going forward, power generation should rely less on expensive liquid fuel. Proper incentives are needed for stepped-up private investment in the energy sector. Institutionalization of transparent and competitive procurement processes will send the right signal to the market and help attract qualified sponsors. *Division of labor:* IDA will lead on policy dialogue and investment in this area, with the IMF focused on policies to address fiscal implications.
- **Social protection.** Under the ECF arrangement social spending as a share of GDP was protected. However, further improvement is needed, particularly through improved targeting, and consolidation of a large number of programs. Rationalization of regressive fuel subsidies will also help provide additional room for enhanced spending on social safety programs. *Division of labor:* IDA is taking the lead in this area through support to the development of the National Household Database to be used for objective beneficiary selection and for improved management and administration of SSNs.
- **Trade and investment climate reform.** To boost productivity and investment, it is vital to create a level playing field for all sectors and reduce the cost of doing business. *Division of labor:* IDA has the leadership of a Diagnostic Trade Integration Study that has been completed, and IFC is targeting incremental reforms with the aim of improving legal and administrative procedures. Trade & Competitiveness global practice, a joint IDA-IFC unit, will address institutional and policy reforms (including those addressed in the Diagnostic Trade Integration Study) to boost trade and sectoral competitiveness and will provide IDA financing for development of special economic zones. The IMF provided support in reviewing the foreign exchange regulations.
- **Statistical policy.** Improvements in statistics are critical to formulating sound policies and monitoring their outcomes. Both IDA and the IMF have sustained engagement in this area and will ramp it up further in the future as needed. *Division of labor:* IDA on poverty, social, development statistics, and statistical infrastructure including IT needs and the IMF on macroeconomic and financial statistics.

- **Other structural policies.** The World Bank keeps the IMF informed about its work on governance and anti-corruption, local government and decentralization, and private sector development. Upstream sharing allows the IMF to comment on such work before it is finalized.
4. The teams agree to continue to keep each other informed of their respective activities, coordinate financial and technical support, and share key documents.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK¹

(December 2015)

Lending and Technical Assistance Operations

5. Bangladesh had cumulative public sector borrowing from the Asian Development Bank (AsDB) of US\$16.1 billion (248 loans) as of December 31, 2014, and technical assistance (TA) grants of US\$240.6 million (409 projects). The country is one of the largest borrowers of concessional Asian Development Fund (ADF) resources. The loans and TA have supported all key sectors, including energy and transport, social infrastructure, and agriculture and natural resources. The AsDB has also supported eleven private sector projects worth US\$372.3 million, including the Bibiyana II Gas Power Project which involves design, engineering, construction, and operation of a 341 megawatt (MW) combined-cycle, gas-fired power plant—and PRAN Agribusiness Project which supports development of new agribusiness production facilities by PRAN, the largest food and agribusiness group in Bangladesh.
6. In 2014, the AsDB approved a total amount of US\$1.09 billion in loans. This included loans for (i) Skills for Employment Investment Program (Tranche 1) (US\$100 million ADF); (ii) Coastal Towns Environmental Infrastructure Project (US\$52 million ADF); (iii) Irrigation Management Improvement Project (US\$46 million ADF); (iv) Flood and Riverbank Erosion Risk Management Investment Program- Project 1 (US\$65 million ADF); (v) South Asia Subregional Economic Cooperation Railway Connectivity: Akhaura-Laksam Double Track (US\$505 million, of which US\$105 million is from ADF); and (vi) Third Urban Governance and Infrastructure Improvement Project (Sector) (US\$125 million ADF).

Country Partnership Strategy

7. The Country Partnership Strategy (CPS) 2011–15, approved on October 27, 2011, focuses on six sectors: energy, transport, urban development, education, agriculture and natural resources, and finance. The CPS is closely aligned with the government's Sixth Five-Year Plan priorities and aims to contribute to more inclusive and greener growth. Under the CPS, the total indicative resources for public sector lending during 2011–15 included US\$2.4 billion in ADF and US\$2.1 billion in Ordinary Capital Resources (OCR). AsDB's OCR financing would be used for major revenue-generating infrastructure projects. An average of US\$9.6 million per annum in TA resources was included, of which 35 percent would be allocated for project design.
8. The CPS prioritizes the thematic drivers of environmental sustainability and climate resilience, regional cooperation, knowledge solutions, partnerships, good governance and

¹ Bangladesh joined the Asian Development Bank in 1973.

capacity development, gender equity, and private sector development. Country Operations Business Plan (2016–18), under the current CPS, was approved in October 2015.

9. Over a five-year cumulative period from 2010–14, Bangladesh leveraged US\$4.4 billion of co-financing. By the end of 2014, cumulative direct value-added official cofinancing for Bangladesh amounted to US\$5.54 billion for 52 investment projects and US\$79.0 million for 94 technical assistance projects. In 2014, five projects received cofinancing: (i) from European Investment Bank for South Asia Subregional Economic Cooperation Railway Connectivity: Akhaura-Laksam Double Track (US\$175 million); (ii) from the OPEC Fund for Third Urban Governance and Infrastructure Improvement Project (Sector) (US\$40 million); (iii) from Swiss Development Cooperation for Skills for Employment Investment Program (Tranche 1) (US\$10 million); (iv) from the Government of Netherlands for Flood and Riverbank Erosion Risk Management Investment Program- Project 1 (US\$15.3 million); and (v) from the Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility, and the Strategic Climate Fund for Coastal Towns Environmental Infrastructure (US\$42 million).

Economic and Sector Work Program

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

STATISTICAL ISSUES

(December 2015)

Assessment of Data Adequacy for Surveillance

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

National Accounts. Bangladesh's annual GDP time series has a base year of 2005/06 based on a comprehensive benchmark compiled and published by the Bangladesh Bureau of Statistics (BBS) in 2013. There is a material statistical discrepancy in subsequent time periods as minimal source data is available – estimates are predominately derived from a biennial census of manufacturing establishments or extrapolations from the 2005/06 benchmark. The BBS has been provided with technical assistance to use value-added tax (VAT) data from the National Board of Revenue (NBR) to compile contemporary estimates and construct a contemporary statistical business register to increase the scope and coverage of economic statistics. The BBS is also implementing recommendations provided by the resident advisor to: (a) improve compilation procedures used to construct GDP; and (b) enhance institutional arrangements and address concerns raised by users. Quarterly GDP is currently not compiled.

Price Statistics. A new CPI series with base year 2005/06 was introduced in July 2012 and improved coverage. The CPI series is currently undergoing further improvements, including incorporating the recent household survey and Classification of Individual Consumption According to Purpose (COICOP). The IMF provided technical assistance (TA) in these areas. The producer price index has an outdated base year (1988/89) and requires urgent attention.

Government Finance Statistics. The Ministry of Finance (MoF) is currently revising the Budget and Accounting Classification System (BACS) to follow the latest international standard (GFSM 2014) and integrate the accounting and reporting systems for the budgetary central government. The new BACS is expected to be incorporated into the FY18 Budget. The coverage of units outside central government is inadequate and is an area for future attention. No data are published on the assets and liabilities of the general government.

Monetary and Financial Statistics. Bangladesh Bank (BB) compiles monetary data using the standardized report forms (SRFs) framework. The SRFs are reported electronically to the IMF on a regular basis. As a result, a consistent time series based on SRF data is available from December 2001. A survey of Other Financial Corporations (OFCs) is not yet available.

Financial Soundness Indicators. Bangladesh has started reporting 10 core and 9 encouraged Financial Soundness Indicators (FSIs) since August 2014.

External Sector Statistics. A quarterly BPM6 compliant time series covering the period 2005 to 2014 inclusive has been published by BB and reflects improved coverage of goods and trade credits made during recent years. Nonetheless, inconsistencies between the Balance of Payments (BOP), International Investment Position (IIP), and other macroeconomic statistics remain and should be continuously addressed. Published IIP estimates remain weak.

Data Standards and Quality

Bangladesh has participated in the General Data Dissemination System (GDDS) since March 2001. The Data Module of the ROSC was published in December 2005.

Bangladesh: Table of Common Indicators Required for Surveillance

(As of December 1, 2015)

	Date of latest Observation	Date Received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of Publication ¹
Exchange Rates	11/30/15	11/30/15	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	11/30/15	11/30/15	D	D	D
Reserve/Base Money	11/30/15	11/30/15	D	D	D
Broad Money	Sep. 2015	Nov. 2015	M	M	M
Central Bank Balance Sheet	Sep. 2015	Nov. 2015	M	M	M
Consolidated Balance Sheet of the Banking System	Sep. 2015	Nov. 2015	M	M	M
Interest Rates ³	11/30/15	11/30/15	W	W	D
Consumer Price Index	Oct. 2015	Nov. 2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ —General Government ⁵	n/a	n/a	n/a	n/a	n/a
Revenue, Expenditure, Balance and Composition of Financing ⁴ —Central Government	Sep. 2015	Nov. 2015	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	Jun. 2015	Nov. 2015	Q/M	Q/M	Q/M
External Current Account Balance	Sep. 2015	Nov. 2015	M	M	M
Exports and Imports of Goods and Services	Sep. 2015	Nov. 2015	M	M	M
GDP/GNP	FY2015	Jun. 2015	A	A	A
Gross External Debt	FY2015	Nov. 2015	A	A	A
International Investment Position ⁷	2015Q2	Jul. 2015	Q	Q	A

¹ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).

² Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

³ Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.

⁴ Foreign, domestic bank, and domestic nonbank financing.

⁵ The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. Data for the general government are currently not being compiled due to capacity limitations.

⁶ Currency and/or maturity composition may not be available for the most recent data.

⁷ Includes external gross financial asset and liability positions vis-à-vis nonresidents.



BANGLADESH

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS UPDATE

January 5, 2016

Approved By

Markus Rodlauer and Catherine Anne Maria Pattillo (IMF) and Satu Kahkonen (IDA)

Prepared by

International Monetary Fund
International Development Association

This debt sustainability analysis (DSA) updates the joint IMF/IDA full DSA from October 5, 2015.¹ The results indicate that Bangladesh remains at a low risk of external public debt distress. Total public debt is also on a sustainable path assuming that the new value added tax (VAT) comes into effect in full.² In the absence of a permanent boost to revenues, the public debt trajectory would become unsustainable.

A. Background

This Debt Sustainability Analysis (DSA) update presents staffs' macroeconomic outlook and assumptions about the public sector's external and domestic borrowing paths. The DSA incorporates the authorities' estimates of the stock of public external and domestic debt and private external debt as of end-FY15 (fiscal year 2015, July 2014–June 2015) and analyzes the likely trajectories of standard debt sustainability (solvency and liquidity) ratios through FY36.

As of end-FY15, total public sector and public sector-guaranteed external nominal debt amounted to US\$26 billion (13 percent of GDP or 77 percent of exports of goods and services). The World Bank and the Asian Development Bank are—by far—the two largest

¹ Based on the end-June 2014 stock of debt, the last full DSA was prepared in October 2015 (IMF Country Report No. 15/304). In line with the *Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries* (SM/13/292, IDA/SEC/82566), a full DSA is expected to be prepared once every three years for PRGT-eligible, IDA-only countries. In between short updates are expected to be produced unless macroeconomic conditions since the last full DSA have significantly changed.

² For the purposes of this DSA, the public sector comprises the central government and nonfinancial public enterprises. This analysis is based on the joint Fund-Bank debt sustainability framework for conducting debt sustainability analysis in low-income countries. Under IDA's Country Policy and Institutional Assessment (CPIA), Bangladesh is assessed to be a medium performer, with an average rating of 3.31 during 2012–14. This DSA update uses the indicative thresholds for countries for this category.

creditors, with outstanding loans of US\$12 and US\$7 billion, respectively. The largest bilateral creditor is Japan, with outstanding loans of US\$2 billion (text table).

Bangladesh: Public and Publicly Guaranteed External Debt		
(At end-June 2015)		
	In millions of U.S. dollars	In percent of total external debt
Multilateral debt	20,507	78.5
World Bank	11,596	44.4
Asian Development Bank	7,402	28.3
International Monetary Fund	705	2.7
Islamic Development Bank	406	1.6
International Fund for Agricultural Development	339	1.3
Other	58	0.2
Bilateral debt	3,993	15.3
Japan	2,066	7.9
China	917	3.5
Korea, Republic of	353	1.3
India	207	0.8
Kuwait	121	0.5
Other	329	1.3
Guarantees provided to external borrowing by state-owned enterprises	941	3.6
Short-term debt	691	2.6
Total	26,131	100.0
(Percent of GDP)	13.4	

Sources: Bangladesh authorities; and IMF staff estimates.

Total public sector domestic debt as of end-FY15 amounted to 20 percent of GDP (or 208 percent of central government revenues, including grants). Domestic debt comprises mostly commercial banks' holdings of treasury instruments and non-banks' holdings of national savings certificates.³ It also includes net credit by Bangladesh Bank and the outstanding liabilities of state-owned enterprises to the banking system (text table).

³ High exposure of commercial banks to the central government remains a concern (see Box 1 in IMF Country Report No. 14/149 for a discussion). Development of an active secondary market and a funded pension system could help weaken the bank-sovereign link.

Bangladesh: Public Domestic Debt (At end-June 2015)		
	In billions of taka	In percent of total domestic debt
Central government	2,928	96.3
Overdraft at Bangladesh Bank (BB)	0	0.0
Ways and means advances from BB	24	0.8
Treasury bills	331	10.9
Treasury bonds	1,148	37.8
Checks issued but not cashed	113	3.7
Directorate of National Savings instruments	1,048	34.5
General Provident Fund	264	8.7
State-owned enterprises		
Net liabilities to the banking system	111	3.7
Total	3,039	100.0
(Percent of GDP)	20.1	

Sources: Bangladesh authorities; and IMF staff estimates.

B. Underlying Assumptions

The main changes to the macroeconomic assumptions relative to the full DSA in October 2015 are described below, primarily reflecting the impact of revisions to FY16 projections (based on data outturns for the first three months of FY16):

- Growth in FY16 and FY17 has been marked down by 0.2 percentage points of GDP.
- Average annual export and import growth in FY16–FY20 has been marked down by 0.7 and 0.3 percentage points respectively.
- The real bilateral taka-dollar exchange rate is assumed to appreciate by 3 percent in FY16 instead of remaining constant.

C. External DSA

Under the baseline scenario, Bangladesh's public and publicly guaranteed (PPG) external debt to GDP ratio is projected to increase from 13 percent of GDP in FY15 to 15 percent in FY21, mostly reflecting higher externally-financed public investment. It is projected to peak at approximately 17 percent in the late 2020s before trending down to 15 percent of GDP by FY36. All associated PPG indicators also trend up initially (reflecting the on-take of new debt at a declining grant element), but remain well within the respective policy-dependent solvency thresholds under the baseline scenario and all associated stress tests (Figure 1 and Tables 2–3). The stress tests with the larger impact on debt indicators are those involving a large nominal depreciation or borrowing on less favorable terms.

D. Public DSA

The present value (PV) of public debt to GDP ratio is projected to increase from 29½ per cent in FY15 to 34 per cent in FY21 as the impact of higher public investment on debt is mostly offset by an expected increase in tax revenue from the new VAT. The public debt-to-GDP ratio rises slightly further in the long term, reflecting a gradual increase in real interest rates as the concessionality of debt is assumed to decline steadily. By FY36 the debt-to-GDP ratio will be about 41 percent of GDP as compared with 35 percent of GDP in FY15. As in the case of the external DSA, all associated total PPG debt indicators remain well within the benchmark value under the baseline and for all standard stress tests (Figure 2 and Tables 4-5). Debt indicators drift upwards if primary deficits (as a share of GDP) remain fixed over the entire forecast period at their projected peak in FY16, highlighting the critical importance, as public investment is scaled up, of the assumed improvement in tax revenue from implementation of the VAT. The stress test with the larger impact on public debt indicators is the one involving materialization of contingent liabilities, following which debt indicators increase over the medium term but then stabilize.

E. Alternative Scenario

An alternative scenario considers the consequences of failing to introduce the new VAT. In that case, the tax revenue to GDP ratio would be lower by about 2 percentage points relative to the baseline. With no consolidation in expenditure assumed, the fiscal deficit would widen, leading to higher domestic borrowing costs.⁴ As a result, there would be a significant deterioration in all standard public debt sustainability indicators, and the debt trajectory would become clearly unsustainable (Figure 4). This implies that in the absence of a boost to tax revenues through the introduction of the new VAT, to keep public debt on a sustainable path, a significant cut in public expenditure would eventually be needed with knock-on effects on economic growth and poverty reduction.

F. Conclusion

The macroeconomic framework is broadly unchanged from the last full DSA. The debt sustainability assessment remains unchanged and the risk of external and public debt distress continues to be classified as low. However, in the absence of a permanent boost to revenues, including for instance from a failure to implement the VAT, and with no fiscal consolidation, there would be a significant deterioration in all standard debt sustainability indicators, and the debt trajectory would become unsustainable. The authorities agreed with the main conclusions of this DSA Update.

⁴ The alternative scenario assumes the same future profile for public investment and external financing as the baseline, and that domestic financing is used to meet the revenue shortfall from the failure to implement the new VAT.

Table 1. Bangladesh: DSA Key Variables 1/

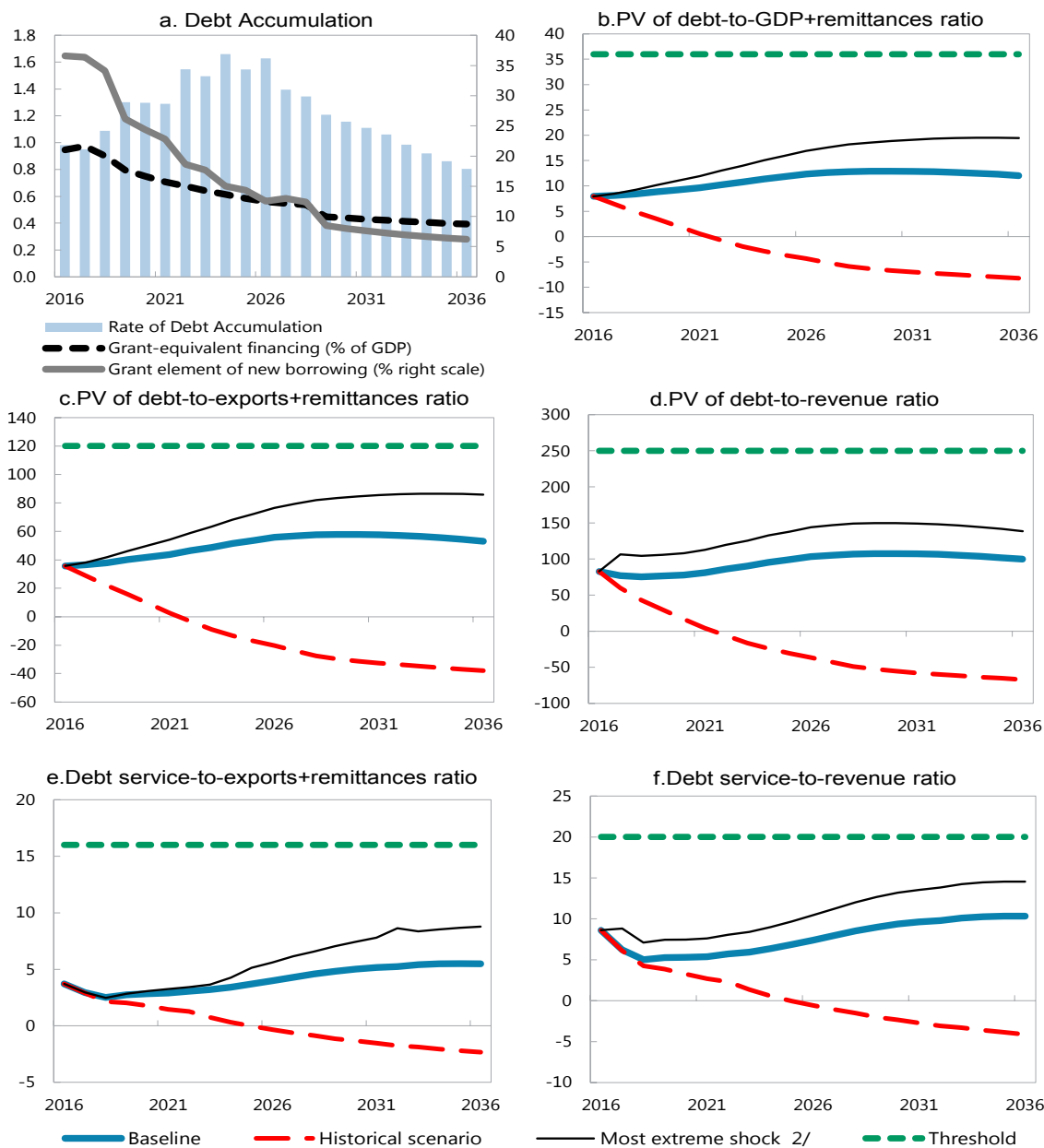
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026	2031	2036
	(In percent of GDP, unless otherwise mentioned)											
Nominal GDP (in billions of U.S. dollars)	150	173	195	216	236	257	281	307	333	504	762	1,153
Real GDP (percentage change)	6.0	6.1	6.5	6.3	6.8	7.0	7.0	7.0	6.5	6.5	6.5	6.5
GDP deflator (percentage change)	7.2	5.7	5.8	6.8	7.4	7.0	6.7	6.7	5.7	5.2	4.7	4.7
GDP deflator (percentage change in US\$)	6.2	8.7	5.8	4.5	1.9	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Gross national savings	30.0	29.4	28.1	27.7	29.2	31.1	31.6	31.8	31.8	31.4	31.0	30.9
Public national savings	2.9	2.7	2.1	1.6	2.1	2.8	3.3	3.5	3.6	3.4	3.3	3.0
Private national savings	27.1	26.7	26.0	26.1	27.1	28.4	28.4	28.3	28.2	28.0	27.7	27.8
Gross investment	28.4	28.6	29.0	29.0	30.6	32.8	33.5	33.8	33.9	33.8	33.6	33.4
Public investment	6.6	6.5	6.9	7.7	8.8	9.7	10.3	10.3	10.3	10.2	9.9	9.7
Private investment	21.7	22.0	22.1	21.2	21.8	23.1	23.2	23.5	23.6	23.7	23.7	23.7
Fiscal (central government)												
Total revenue and grants	11.2	10.9	9.9	10.5	11.6	12.2	12.6	12.9	12.9	12.9	12.9	12.9
Foreign grants	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total expenditure	14.6	14.0	13.8	14.9	15.8	16.3	16.7	16.9	16.7	16.8	16.6	16.6
Interest payments	2.0	2.1	2.0	2.1	2.3	2.3	2.2	2.3	2.1	2.1	2.1	2.2
Overall balance	-3.4	-3.1	-3.9	-4.4	-4.3	-4.1	-4.1	-4.0	-3.8	-3.9	-3.7	-3.8
Primary balance	-1.4	-1.0	-1.8	-2.4	-2.0	-1.9	-1.8	-1.7	-1.7	-1.8	-1.6	-1.6
Net domestic financing	2.2	2.1	3.1	3.4	3.3	3.2	3.0	3.0	2.9	2.9	2.8	2.8
Net external financing	0.8	0.7	0.8	1.0	1.0	1.0	1.0	1.0	0.9	1.0	0.9	1.0
Balance of payments												
Exports of goods and services	19.6	19.0	17.3	16.6	16.8	16.8	16.9	17.0	17.1	17.8	18.5	19.3
Imports of goods and services	26.4	25.3	24.8	23.9	24.0	24.1	24.1	24.2	24.2	24.3	24.3	24.4
Workers' remittances	9.6	8.2	7.8	7.2	7.0	6.8	6.6	6.4	6.3	5.6	4.9	4.3
Other current account items (net)	-1.2	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.3	-1.7	-1.8	-1.8
Current account, including official transfers	1.6	0.8	-0.8	-1.3	-1.4	-1.6	-1.8	-2.0	-2.1	-2.5	-2.7	-2.6
Foreign direct investment	1.2	0.8	0.9	0.9	1.0	1.0	1.1	1.1	1.1	1.5	2.0	2.0
External borrowing (net)	0.8	0.8	0.9	1.0	1.2	1.4	1.6	1.6	1.5	1.6	0.9	1.0
Central government	0.8	0.8	0.8	1.0	1.0	1.0	1.0	1.0	0.9	1.0	0.9	1.0
Public enterprises with guarantee	0.0	0.0	0.1	0.0	0.3	0.4	0.5	0.6	0.6	0.6	0.0	0.0
Gross official reserves	10.1	12.4	12.8	12.6	12.5	12.4	12.3	12.1	12.0	11.4	11.2	11.1
(months of prospective imports of goods and services)	4.1	5.3	5.8	5.8	5.7	5.6	5.6	5.5	5.5	5.2	5.1	5.0

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

1/ Data on a fiscal year basis; e.g., 2015 corresponds to July 2014–June 2015.

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt, 2016–2036 1/

(In percent, unless otherwise mentioned)

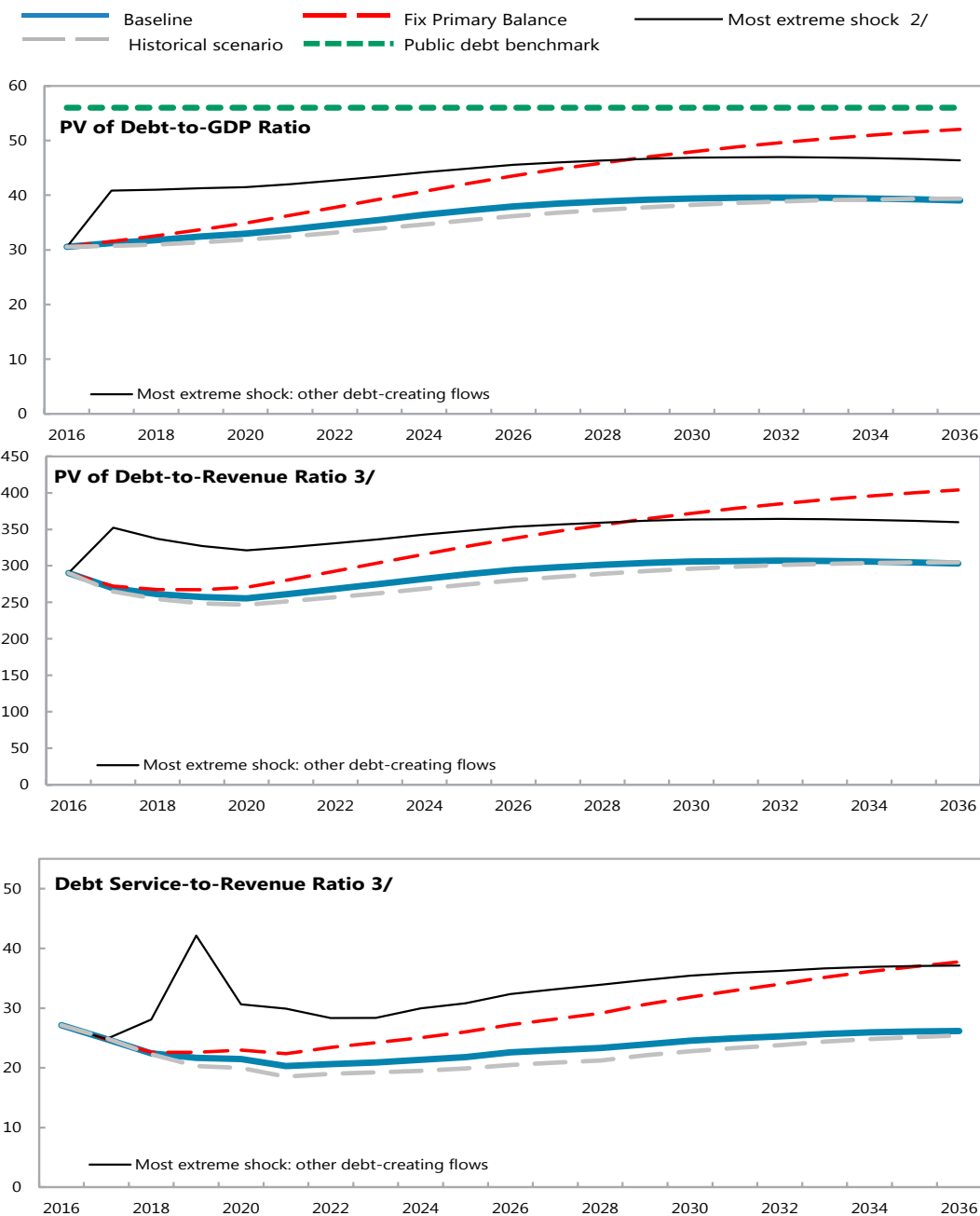


Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Data on a fiscal year basis; e.g., 2015 corresponds to July 2014–June 2015.

2/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a terms shock; in c. to a terms shock; in d. to a one-time depreciation shock; in e. to a terms shock; and in figure f. to a one-time depreciation shock.

Figure 2. Bangladesh: Indicators of Public Debt, 2016–2036 1/
(In percent)



Sources: Bangladesh authorities; and IMF staff estimates and projections.
 1/ Data on a fiscal year basis; e.g., 2015 corresponds to July 2014–June 2015.
 2/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
 3/ Revenues are defined inclusive of grants.

Table 2. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, 2013–2036 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average ^{6/}	Standard Deviation ^{6/}	Projections						2016-2021		2022-2036		
	2013	2014	2015			2016	2017	2018	2019	2020	2021	Average	2026	2036	Average	
External debt (nominal) 1/	16.9	17.6	16.7			16.8	16.7	16.4	16.4	16.3	16.5					
<i>of which: public and publicly guaranteed (PPG)</i>	15.8	15.0	13.4			13.7	13.9	14.1	14.4	14.7	15.0			17.0	14.9	
Change in external debt	-2.2	0.7	-0.9			0.0	-0.1	-0.2	-0.1	-0.1	0.2			0.1	-0.5	
Identified net debt-creating flows	-4.9	-3.9	-2.0			-0.6	-0.6	-0.4	-0.3	-0.2	0.0			0.0	-0.4	
Non-interest current account deficit	-1.8	-1.1	0.4	-0.9	1.3	0.9	1.0	1.2	1.4	1.6	1.6			2.0	1.9	2.0
Deficit in balance of goods and services	6.8	6.3	7.5			7.3	7.3	7.2	7.2	7.2	7.1			6.4	5.1	
Exports	19.6	19.0	17.3			16.6	16.8	16.8	16.9	17.0	17.1			17.8	19.3	
Imports	26.4	25.3	24.8			23.9	24.0	24.1	24.1	24.2	24.2			24.3	24.4	
Net current transfers (negative = inflow)	-10.0	-8.6	-8.2	-9.2	1.0	-7.6	-7.4	-7.1	-6.9	-6.7	-6.6			-5.8	-4.5	-5.4
<i>of which: official</i>	-0.1	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	
Other current account flows (negative = net inflow)	1.3	1.3	1.1			1.2	1.1	1.1	1.1	1.1	1.2			1.4	1.3	
Net FDI (negative = inflow)	-1.2	-0.8	-0.9	-0.9	0.1	-0.9	-1.0	-1.0	-1.1	-1.1	-1.1			-1.5	-2.0	-1.7
Endogenous debt dynamics 2/	-1.9	-2.0	-1.5			-0.6	-0.6	-0.7	-0.6	-0.6	-0.5			-0.5	-0.3	
Contribution from nominal interest rate	0.2	0.3	0.4			0.3	0.4	0.4	0.4	0.4	0.5			0.5	0.7	
Contribution from real GDP growth	-1.0	-0.9	-1.0			-0.9	-1.0	-1.1	-1.1	-1.0	-1.0			-1.0	-1.0	
Contribution from price and exchange rate changes	-1.1	-1.3	-1.0			...	...	...	...	...	...			...	...
Residual (3-4) 3/	2.7	4.6	1.1			0.6	0.5	0.2	0.2	0.1	0.2			0.2	0.0	
<i>of which: exceptional financing</i>	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 4/	...	...	11.5			11.5	11.5	11.3	11.3	11.4	11.8			13.8	13.5	
In percent of exports	...	...	66.5			69.4	68.4	67.2	67.1	67.3	68.7			77.2	70.2	
PV of PPG external debt	...	...	8.2			8.5	8.7	9.0	9.4	9.8	10.2			13.0	12.6	
In percent of exports	...	...	47.5			51.2	51.9	53.3	55.8	57.8	59.8			73.2	65.1	
In percent of government revenues	...	...	85.4			82.9	77.1	75.6	76.6	77.9	81.3			103.5	99.8	
Debt service-to-exports ratio (in percent)	5.9	5.3	7.7			9.9	9.0	7.5	6.9	6.3	6.1			6.1	8.5	
PPG debt service-to-exports ratio (in percent)	4.4	3.7	4.1			5.3	4.2	3.5	3.8	3.9	4.0			5.2	6.7	
PPG debt service-to-revenue ratio (in percent)	8.1	6.8	7.3			8.6	6.2	5.0	5.3	5.3	5.4			7.4	10.3	
Total gross financing need (Billions of U.S. dollars)	-1.1	0.0	5.0			7.2	6.8	7.1	7.6	7.9	8.3			11.2	20.5	
Non-interest current account deficit that stabilizes debt ratio	0.4	-1.7	1.3			0.9	1.1	1.5	1.5	1.6	1.4			1.9	2.3	
Key macroeconomic assumptions																
Real GDP growth (in percent)	6.0	6.1	6.5	6.2	0.6	6.3	6.8	7.0	7.0	7.0	6.5			6.8	6.5	6.5
GDP deflator in US dollar terms (change in percent)	6.2	8.7	5.8	4.4	4.3	4.5	1.9	2.1	2.1	2.0	2.0			2.4	2.0	2.0
Effective interest rate (percent) 5/	1.4	1.7	2.8	1.3	0.6	2.2	2.7	2.7	2.8	2.9	3.1			2.7	3.3	4.5
Growth of exports of G&S (US dollar terms, in percent)	10.2	11.9	2.7	13.6	9.2	6.5	9.7	9.7	9.7	9.7	9.5			9.1	9.5	9.5
Growth of imports of G&S (US dollar terms, in percent)	1.4	10.7	10.4	14.0	14.9	7.0	9.4	9.4	9.4	9.4	8.7			8.9	8.7	8.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	36.6	36.4	34.1	26.2	24.4	22.8			30.1	12.5	6.2
Government revenues (excluding grants, in percent of GDP)	10.7	10.4	9.6	...	...	10.3	11.3	11.9	12.3	12.6	12.6			12.6	12.6	12.6
Aid flows (in Billions of US dollars) 7/	2.8	3.2	3.0	...	...	3.6	3.9	4.4	4.9	4.9	5.0			8.5	18.4	
<i>of which: Grants</i>	0.7	0.8	0.6	...	...	0.5	0.7	0.8	0.9	0.9	1.0			1.5	3.4	
<i>of which: Concessional loans</i>	2.1	2.4	2.4	...	...	3.1	3.2	3.6	4.0	4.0	4.0			7.0	15.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	0.9	1.0	0.9	0.8	0.7	0.7			0.6	0.4	0.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	44.1	45.7	44.2	36.7	35.4	34.3			23.6	21.2	23.5
Memorandum items:																
Nominal GDP (Billions of US dollars)	150.0	172.9	194.8			216.4	235.6	257.4	281.1	306.7	333.2			504.0	1153.3	
Nominal dollar GDP growth	12.5	15.2	12.7			11.1	8.8	9.3	9.2	9.1	8.6			9.4	8.6	8.6
PV of PPG external debt (in Billions of US dollars)	...	...	16.0			17.9	20.0	22.6	25.9	29.6	33.5			64.8	143.1	
(Pvt-Pvt-1)/GDpt-1 (in percent)	...	...	...			1.0	1.0	1.1	1.3	1.3	1.3			1.2	1.6	0.8
Gross workers' remittances (Billions of US dollars)	14.3	14.1	15.2			15.6	16.6	17.6	18.6	19.7	20.9			28.0	50.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	7.6			7.9	8.1	8.4	8.8	9.2	9.6			12.3	12.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	32.8			35.7	36.6	37.9	40.1	41.9	43.7			55.8	53.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.8			3.7	3.0	2.5	2.8	2.8	2.9			4.0	5.5	

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

1/ Includes both public and private sector external debt. Data on a fiscal year basis; e.g., 2015 corresponds to July 2014-June 2015.

2/ Derived as $[r - g - \rho(1+g)] / (1+g+\rho+gp)$ 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.

3/ 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.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

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

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).

Table 3. Bangladesh: Sensitivity Analysis for Key Indicators for Public and Publicly Guaranteed External Debt, 2016–2036
(In percent)

	Projections							2036
	2016	2017	2018	2019	2020	2021	2026	
PV of debt-to-GDP+remittances ratio								
Baseline	8	8	8	9	9	10	12	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 2/	8	6	5	3	2	1	-4	-8
A2. New public sector loans on less favorable terms in 2016-2036 3/	8	8	9	10	11	12	17	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	8	8	8	9	9	10	12	12
B2. Export value growth at historical average minus one standard deviation in 2017-2018 4/	8	9	10	11	11	11	13	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	8	8	8	9	9	10	13	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 5/	8	7	7	8	8	8	11	12
B5. Combination of B1-B4 using one-half standard deviation shocks	8	7	7	7	8	8	11	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 6/	8	11	11	12	12	13	17	16
PV of debt-to-exports+remittances ratio								
Baseline	36	37	38	40	42	44	56	53
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 2/	36	29	22	16	9	3	-20	-38
A2. New public sector loans on less favorable terms in 2016-2036 3/	36	38	42	46	50	54	76	86
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	36	36	37	39	41	43	55	52
B2. Export value growth at historical average minus one standard deviation in 2017-2018 4/	36	40	50	52	53	55	65	58
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	36	36	37	39	41	43	55	52
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 5/	36	32	30	34	36	38	52	51
B5. Combination of B1-B4 using one-half standard deviation shocks	36	30	28	32	34	36	51	51
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 6/	36	36	37	39	41	43	55	52
PV of debt-to-revenue ratio								
Baseline	83	77	76	77	78	81	104	100
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 2/	83	60	43	30	17	5	-36	-67
A2. New public sector loans on less favorable terms in 2016-2036 3/	83	80	83	88	93	101	142	161
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	83	76	76	77	78	82	104	100
B2. Export value growth at historical average minus one standard deviation in 2017-2018 4/	83	82	93	92	93	95	112	101
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	83	77	77	78	79	83	105	102
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 5/	83	70	63	65	67	71	96	96
B5. Combination of B1-B4 using one-half standard deviation shocks	83	68	60	62	64	68	94	97
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 6/	83	107	105	106	108	113	144	139

Table 3. Bangladesh: Sensitivity Analysis for Key Indicators for Public and Publicly Guaranteed External Debt, 2016–2036 (Concluded)
(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
Debt service-to-exports+remittances ratio								
Baseline	4	3	3	3	3	3	4	5.5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 2/	4	3	2	2	2	1	0	-2
A2. New public sector loans on less favorable terms in 2016-2036 3/	4	3	2	3	3	3	6	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	4	3	3	3	3	3	4	5
B2. Export value growth at historical average minus one standard deviation in 2017-2018 4/	4	3	3	3	3	4	5	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	4	3	3	3	3	3	4	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 5/	4	3	2	3	3	3	4	5
B5. Combination of B1-B4 using one-half standard deviation shocks	4	3	2	2	3	3	3	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 6/	4	3	3	3	3	3	4	5
Debt service-to-revenue ratio								
Baseline	9	6	5	5	5	5	7	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 2/	9	6	4	4	3	3	-1	-4
A2. New public sector loans on less favorable terms in 2016-2036 3/	9	6	5	5	6	6	10	16
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	9	6	5	5	5	6	8	11
B2. Export value growth at historical average minus one standard deviation in 2017-2018 4/	9	6	5	6	6	6	9	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	9	6	5	5	5	6	8	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 5/	9	6	5	5	5	5	7	10
B5. Combination of B1-B4 using one-half standard deviation shocks	9	6	5	5	5	5	7	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 6/	9	9	7	7	7	8	10	15
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 7/	7	7	7	7	7	7	7	7

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

1/ Data on a fiscal year basis; e.g., 2015 corresponds to July 2014–June 2015.

2/ 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.

3/ 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.

4/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (an offsetting adjustment in import levels).

5/ Includes official and private transfers and FDI.

6/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

7/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013–2036
(In percent of GDP, unless otherwise indicated)

	Actual		Est.	Average	s/	Standard Deviation	s/	Projections								
	2013	2014	2015					2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	35.8	35.3	34.6					35.8	36.4	36.9	37.5	37.8	38.5		41.9	41.4
<i>of which: foreign-currency denominated</i>	15.8	15.0	13.4					13.7	13.9	14.1	14.4	14.7	15.0		17.0	14.9
Change in public sector debt	-0.4	-0.5	-0.7					1.2	0.6	0.5	0.5	0.4	0.6		0.6	-0.3
Identified debt-creating flows	-1.8	-0.8	0.0					1.0	0.5	0.4	0.5	0.3	0.6		0.6	0.1
Primary deficit	1.4	1.0	1.7	1.2		0.5		2.3	2.0	1.8	1.8	1.6	1.6	1.8	1.5	1.1
Revenue and grants	11.2	10.9	9.9					10.5	11.6	12.2	12.6	12.9	12.9		12.9	12.9
<i>of which: grants</i>	0.5	0.5	0.3					0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.3
Primary (noninterest) expenditure	12.6	11.9	11.7					12.8	13.5	14.0	14.4	14.5	14.5		14.4	14.0
Automatic debt dynamics	-3.1	-1.8	-1.8					-1.4	-1.7	-1.8	-1.7	-1.8	-1.5		-1.5	-1.3
Contribution from interest rate/growth differential	-1.4	-1.2	-1.2					-1.3	-1.6	-1.7	-1.6	-1.6	-1.4		-1.4	-1.2
<i>of which: contribution from average real interest rate</i>	0.6	0.9	1.0					0.7	0.6	0.7	0.8	0.8	0.9		1.1	1.3
<i>of which: contribution from real GDP growth</i>	-2.1	-2.0	-2.2					-2.0	-2.3	-2.4	-2.4	-2.5	-2.3		-2.5	-2.5
Contribution from real exchange rate depreciation	-1.7	-0.6	-0.6					-0.1	0.0	0.0	-0.1	-0.1	-0.1		...	...
Other identified debt-creating flows	0.0	0.0	0.0					0.1	0.2	0.3	0.4	0.5	0.6		0.7	0.3
Privatization receipts (negative)	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0					0.1	0.2	0.3	0.4	0.5	0.6		0.7	0.3
Residual, including asset changes	1.4	0.3	-0.7					0.2	0.1	0.0	0.0	0.0	0.0		0.0	-0.4
Other Sustainability Indicators																
PV of public sector debt	...	...	29.4					30.6	31.2	31.8	32.5	33.0	33.7		38.0	39.1
<i>of which: foreign-currency denominated</i>	...	...	8.2					8.5	8.7	9.0	9.4	9.8	10.2		13.0	12.6
<i>of which: external</i>	...	...	8.2					8.5	8.7	9.0	9.4	9.8	10.2		13.0	12.6
PV of contingent liabilities (not included in public sector debt)	...	...	...					...	...	...	...	...	...		...	...
Gross financing need 2/	5.2	4.5	4.9					5.5	5.0	4.6	4.6	4.4	4.2		4.4	4.5
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	295.5					290.3	269.3	261.2	257.1	255.6	261.6		294.5	303.1
PV of public sector debt-to-revenue ratio (in percent)	...	...	304.5					297.5	276.7	268.1	263.6	261.8	268.0		301.5	310.2
<i>of which: external 3/</i>	...	...	85.4					82.9	77.1	75.6	76.6	77.9	81.3		103.5	99.8
Debt service-to-revenue and grants ratio (in percent) 4/	24.5	24.6	26.6					27.1	24.8	22.4	21.6	21.5	20.3		22.6	26.2
Debt service-to-revenue ratio (in percent) 4/	25.6	25.7	27.4					27.8	25.5	23.0	22.2	22.0	20.8		23.1	26.8
Primary deficit that stabilizes the debt-to-GDP ratio	1.8	1.5	2.5					1.1	1.3	1.4	1.2	1.2	0.9		0.9	1.4
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	6.0	6.1	6.5	6.2		0.6		6.3	6.8	7.0	7.0	7.0	6.5	6.8	6.5	6.5
Average nominal interest rate on forex debt (in percent)	1.0	0.9	1.6	1.0		0.2		1.1	1.0	1.3	1.7	2.1	2.3	1.6	3.1	4.1
Average real interest rate on domestic debt (in percent)	4.2	5.1	4.8	3.8		1.1		3.6	3.7	3.6	3.5	3.5	3.5	3.6	3.6	3.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.9	-4.1	-4.1	-2.6		5.1		-0.9	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	7.2	5.7	5.8	6.8		1.0		6.8	7.4	7.0	6.7	6.7	5.7	6.7	5.2	4.7
Growth of real primary spending (deflated by GDP deflator, in percent)	9.1	0.2	4.4	1.4		3.0		17.0	12.7	10.7	9.9	7.7	6.3	10.7	6.3	6.4
Grant element of new external borrowing (in percent)	...	...	...	...		...		36.6	36.4	34.1	26.2	24.4	22.8	30.1	12.5	6.2

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

1/ Central government gross debt including debt owed to the IMF, plus domestic bank borrowing by the nonfinancial public sector and external borrowing by public enterprises that is supported by central government guarantees, including short-term oil related suppliers' credits. The years in the table refer to fiscal years. For example, 2015 refers to July 2014-June 2015.

2/ 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.

3/ Revenues excluding grants.

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

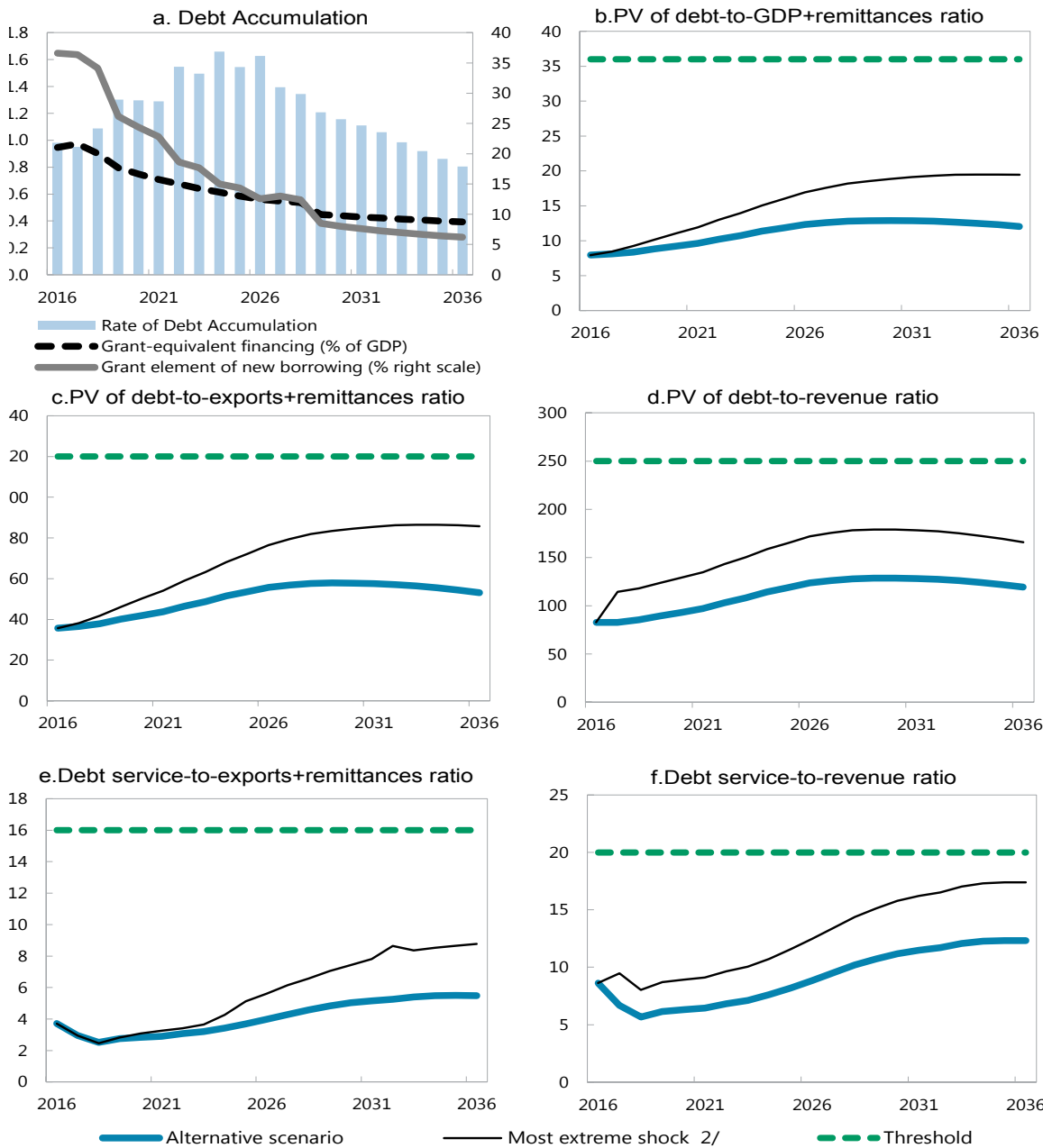
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 5. Bangladesh: Sensitivity Analysis for Key Indicators of Public Debt, 2016–2036
(In percent)

	Projections							2026	2036
	2016	2017	2018	2019	2020	2021			
PV of Debt-to-GDP Ratio									
Baseline	31	31	32	32	33	34	38	39	
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	31	31	31	31	32	32	36	39	
A2. Primary balance is unchanged from 2016	31	32	33	34	35	36	44	52	
A3. Permanently lower GDP growth 2/	31	31	32	33	33	34	39	42	
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	31	32	33	34	35	36	41	44	
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	31	31	31	32	33	33	38	39	
B3. Combination of B1-B2 using one half standard deviation shocks	31	31	32	32	33	34	40	42	
B4. One-time 30 percent real depreciation in 2017	31	35	35	35	36	36	41	44	
B5. 10 percent of GDP increase in other debt-creating flows in 2017	31	41	41	41	41	42	46	46	
PV of Debt-to-Revenue Ratio 3/									
Baseline	290	269	261	257	256	262	294	303	
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	290	265	254	248	247	252	280	305	
A2. Primary balance is unchanged from 2016	290	272	268	267	270	281	338	404	
A3. Permanently lower GDP growth 2/	290	270	262	259	258	265	303	329	
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	290	273	271	269	269	277	320	343	
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	290	267	258	254	253	259	292	302	
B3. Combination of B1-B2 using one half standard deviation shocks	290	267	259	257	258	266	308	329	
B4. One-time 30 percent real depreciation in 2017	290	299	287	280	277	282	318	343	
B5. 10 percent of GDP increase in other debt-creating flows in 2017	290	352	337	327	321	326	353	360	
Debt Service-to-Revenue Ratio 3/									
Baseline	27	25	22	22	21	20	23	26	
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	27	25	22	20	20	19	20	25	
A2. Primary balance is unchanged from 2016	27	25	23	23	23	22	27	38	
A3. Permanently lower GDP growth 2/	27	25	22	22	22	21	23	29	
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	27	25	23	23	23	22	25	31	
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	27	25	22	21	21	20	22	26	
B3. Combination of B1-B2 using one half standard deviation shocks	27	25	23	21	21	21	24	29	
B4. One-time 30 percent real depreciation in 2017	27	26	25	24	25	24	28	36	
B5. 10 percent of GDP increase in other debt-creating flows in 2017	27	25	28	42	31	30	32	37	

Sources: Bangladesh authorities; and IMF staff estimates and projections.
1/ Data on a fiscal year basis; e.g., 2015 corresponds to July 2014–June 2015.
2/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
3/ Revenues are defined inclusive of grants.

Figure 3. Bangladesh: Alternative Scenario — Indicators for Public and Publicly Guaranteed External Debt, 2016–2036 1/
(In percent, unless otherwise mentioned)

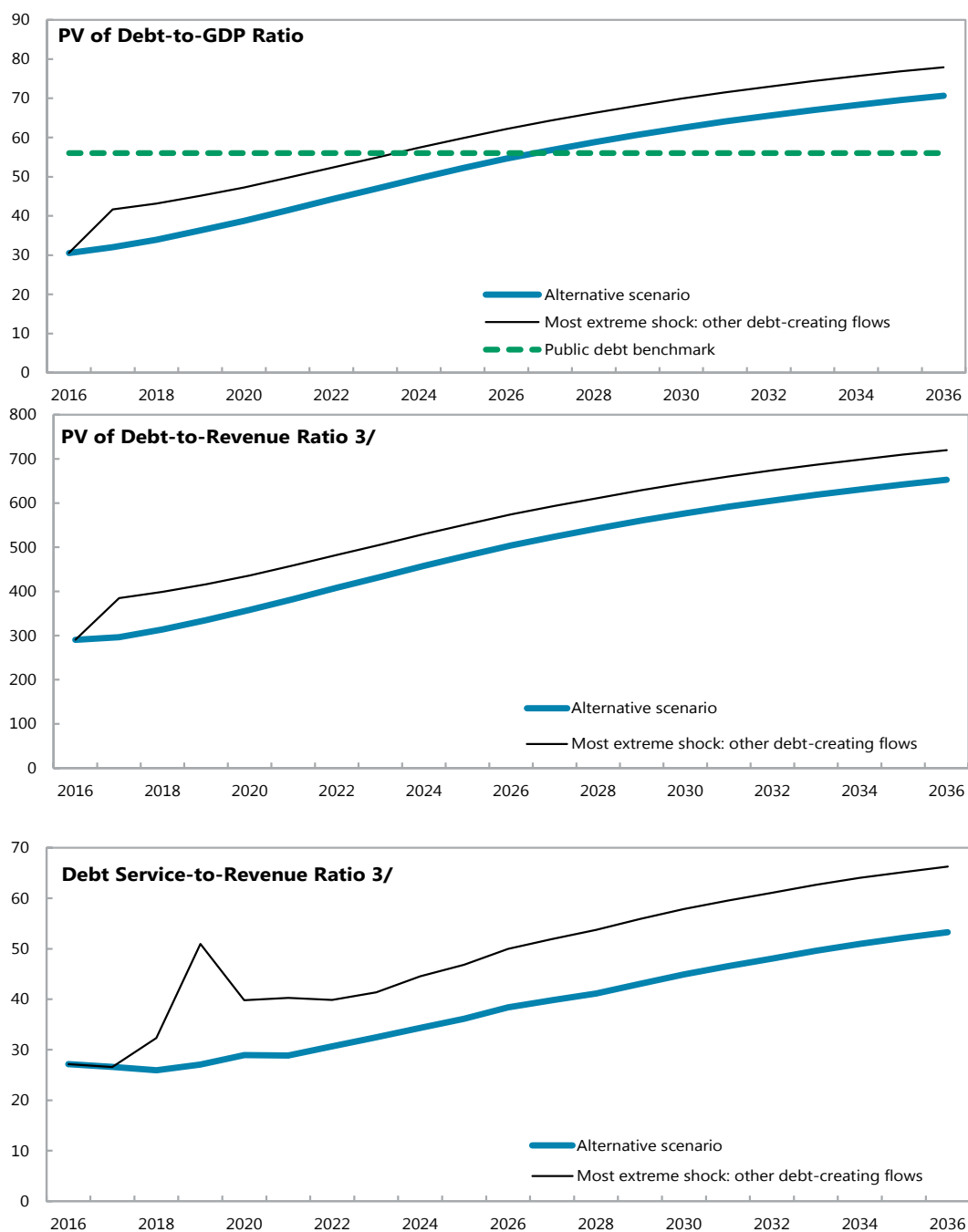


Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ Data on a fiscal year basis; e.g., 2015 corresponds to July 2014–June 2015.

2/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a terms shock; in c. to a terms shock; in d. to a one-time depreciation shock; in e. to a terms shock; and in figure f. to a one-time depreciation shock.

Figure 4. Bangladesh: Alternative Scenario — Indicators for Public Debt, 2016–2036 1/2/
(In percent)



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

1/ Data on a fiscal year basis; e.g., 2015 corresponds to July 2014–June 2015.

2/ The most extreme stress test is the test that yields the highest ratio on or before 2026.

3/ Revenues are defined inclusive of grants.

**Statement by Mr. Subir Vithal Gokarn, Executive Director and
Mr. Indu Shekhar Chaturvedi, Senior Advisor to the Executive Director
January 20, 2016**

1. The year 2015 was particularly good for Bangladesh's engagement with the Fund. It saw the first ever successful culmination of a Fund supported program in the country. Our authorities look forward to continuing this deep engagement, especially through Fund technical assistance.

2. The staff report on the 2015 Article IV consultation for Bangladesh comes only three months after the report on the combined fifth and sixth reviews under the Extended Credit Facility (ECF) arrangement for the country. We had noted at the time of Board consideration of the combined fifth and sixth reviews that the economy had shown good performance during about three and half years of the ECF arrangement, with the only exception being the area of revenue mobilization. We had also stated that Bangladesh had an impressive record of growth and development over the last decade. The government of Bangladesh is committed on building on these achievements in the time to come.

3. Our authorities are in broad agreement with staff's assessment and recommendations in the 2015 Article IV consultation report, though there are some areas of difference.

4. As noted in the report, growth has been strong since the mid-1990s leading to a doubling of per capita income. The authorities are confident that this strong performance will continue over the medium term. They view staff's projection of FY16 growth at 6.3 percent as a slight under-assessment. They are also confident of achieving medium growth higher than staff's projection of about 7 percent. Achieving these targets would require an increase in both public and private investment. Public spending on infrastructure projects is expected to increase substantially over the next five years. The authorities will also take measures in several areas to enable private investment to go up.

5. While the authorities broadly agree with staff's assessment of risks to the outlook, they do not see the likelihood of economic activity in the country getting disrupted by political violence. They also believe that the impact of political unrest on economic activity has been somewhat overstated in the past. In fact, the incidents of political violence have remained contained over the last several months.

6. The authorities recognize the urgent need for increasing government revenues, and raising the tax-to-GDP ratio from its current low level. Their commitment to implement the new VAT has been steadfast, despite difficulties on the way. A number of measures have been taken in preparation for launching the new VAT on July 1, 2016. The new VAT familiarization program, under the VAT Online Project (VOP), has reached about 130000 VAT payers and several thousand VAT officers. The registration

module is under preparation and is expected to be launched in early April 2016. The return submission module, to be launched subsequently, is also under preparation. Draft rules have been prepared and orders laying down the transition strategy and prescribing the exempt items are expected to be notified soon.

7. Staff's recommendations on direct tax reforms, strengthening tax administration, improving the budget formulation process, prioritization of spending and rigorous monitoring of non-concessional external borrowing have been carefully noted and efforts will be made for graded improvements in these areas. The authorities have also taken note of the concerns staff has expressed about the use of NSCs for financing government expenditure. They do not view NSCs simply as a means to borrow, but also as a means to support the underprivileged and disadvantaged sections of society. Therefore, they do not consider the elimination of NSCs advisable. The NSC rates were reduced by up to 2 percentage points in May 2015 to reduce the gap with market rates. The authorities also point out that devolvement has not been resorted to in the last two years.

8. Our authorities recognize the possible adverse impacts of further REER appreciation and will carefully monitor developments in this regard. Bangladesh continues to enjoy significant cost advantage vis-à-vis other countries in garment exports and the authorities are confident of an improved export performance going forward.

9. In our Buff statement at the time of Board consideration in October 2015 of the combined fifth and sixth reviews under the ECF arrangement, we had mentioned that the authorities were committed to enhancing banking supervision and taking strict action in cases of financial misconduct in banks. We had also mentioned that Basel III would be implemented by 2019. Reform of the state-owned banks continues to be a priority for the government. These banks are being recapitalized in a phased manner. The progress in automation of their branches in 2015 has been encouraging. The compliance of state-owned banks with their MOUs with Bangladesh bank is being closely monitored.

10. To boost private investment and potential growth over the medium term and make the growth processes more inclusive, Bangladesh needs wide-ranging structural reforms. These include reducing the deficit in public infrastructure and improving the business-climate. The PPP Act passed in September 2015 should enable private participation in public infrastructure projects, particularly in the power and transport sectors. The authorities have noted staff's recommendations for enhancing private investment and diversification and will take action to ease the business and investment climate. Bangladesh's record in financial inclusion compares favorably with peers. However the authorities recognize that more needs to be done and will continue making efforts for greater financial inclusion. As mentioned in our October Buff statement, the government's oil subsidy bill has reduced, electricity and gas prices were raised a few months back, and labor safety standards are being improved.

11. Our authorities are fully cognizant of the fact that dealing with the impact of climate challenge poses a serious challenge for Bangladesh. Staff's *Selected Issues* paper acknowledges the early action that Bangladesh has taken to be able to meet this challenge. A comprehensive institutional architecture, including the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) of 2009, Climate Change Trust Act of 2010, BCCTF and BCCRF, has been put in place for concerted efforts in this area. In addition, several routine programs focus on measures to tackle the challenge. The authorities also recognize that it is necessary to significantly add to the steps that have already been taken, particularly for ensuring the availability of the required funds and building institutional capacity in managing climate change related projects. Staff's recommendations will be kept in view as further progress is made in this area.