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BANGLADESH

June 2014

FOURTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—STAFF REPORT; DEBT SUSTAINABILITY ANALYSIS UPDATE; AND PRESS RELEASE

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

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on April 2, 2014, with the officials of Bangladesh on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 13, 2014.
- A **Debt Sustainability Analysis Update** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** summarizing the staff report.

The following documents have been or will be separately released.

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

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

BANGLADESH

May 13, 2014

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

KEY ISSUES

Context: Economic activity was disrupted by political unrest and uncertainty in the run-up to the January 2014 general elections. However, macroeconomic stability was maintained and international reserve buffers have been built up further. As calm returns following the elections and activity normalizes, growth is expected to recover in the second half of fiscal year 2014 (FY14, July 2013–June 2014) and in FY15, supported by domestic demand. Exports, on the other hand, face headwinds as the garment industry adjusts to higher costs from increased minimum wages and stricter labor and safety standards. A resurgence of political violence poses the main risk to the outlook.

Program: The program, supported by a three-year Extended Credit Facility (ECF) arrangement for SDR 639.96 million (120 percent of quota) approved in April 2012, remains on track. All performance criteria at end-December 2013 (the test date for the fourth review) were met and all structural benchmarks have been completed.

Policy framework: Fiscal and monetary policies are set to retain a prudent stance to safeguard macroeconomic stability. The structural reform agenda remains centered on: (i) strengthening fiscal revenue and tax administration capacity, including through steady implementation of the new value-added tax (VAT); (ii) enhancing public financial management, particularly debt management, cash flow forecasting, and financial reporting in state-owned enterprises; (iii) reforming the state-owned commercial banks through improved governance, credit risk management and internal controls, along with recapitalization; and (iv) boosting inclusive growth through a revamped and well-prioritized public investment plan, enhanced social safety nets, streamlined trade and foreign exchange regulations, and improved labor and safety standards.

Staff recommendation: Based on strong program performance to date and the policy framework going forward, staff recommends completion of the review, as well as modification of performance criteria for end-June 2014 on account of reserve over-performance. The authorities have consented to publication of the staff report and the Letter of Intent and attachments.

Approved By
Markus Rodlauer and Peter Allum

The fourth ECF review mission was held in Dhaka during March 19–April 2, 2014. The mission met with the Minister of Finance, Minister of Planning, Governor of Bangladesh Bank, other senior government officials, development partners, representatives of the garment industry, and think tanks. The staff team comprised Rodrigo Cubero (mission chief), Souvik Gupta, Sohrab Rafiq, and Eteri Kvintradze (Resident Representative) (all APD); Leandro Medina (FAD); and Lynge Nielsen (SPR). Rakesh Mohan and Manoj Govil (OED) joined the closing discussions. To-Nhu Dao and Ranee Sirihorachai (APD) assisted in preparing this report.

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GLOSSARY

ADP	Annual Development Program
BB	Bangladesh Bank
BCA	Bank Companies Act
BOP	balance of payments
BPC	Bangladesh Petroleum Corporation
BPDB	Bangladesh Power Development Board
DeMPA	Debt Management Performance Assessment
ECF	Extended Credit Facility
EU	the European Union
FX	foreign exchange
FY	fiscal year
GDP	gross domestic product
GSP	Generalized System of Preferences
GWh	gigawatt hour
ILO	International Labor Organization
IT	indicative target
KWh	kilowatt hour
LC	letters of credit
MEFP	Memorandum of Economic and Financial Policies
MoLE	Ministry of Labor and Employment
MoU	memorandum of understanding
MW	megawatt
NBR	National Board of Revenue
NCEB	nonconcessional external borrowing
NDA	net domestic assets
NPL	nonperforming loan
PC	performance criterion
RAM	risk assessment matrix
RMG	readymade garment
ROA	return on assets
RPP	rental power plant
SB	structural benchmark
SOCB	state-owned commercial bank
SOE	state-owned enterprise
y/y	year-on-year
US	the United States
VAT	value-added tax

CONTEXT

1. **Backdrop.** Blockades, violence, and uncertainty marked the run-up to the January 2014 parliamentary elections, taking a toll on the economy. With the main opposition alliance boycotting the elections, the ruling Awami League won by a landslide against low turnout. The opposition continues to call for fresh parliamentary elections under a neutral, caretaker government, and has vowed to resort to nationwide strikes later in the year if its demands are not met. However, demonstrations have stopped for now, the opposition participated in local elections in recent months, and a modicum of calm and stability has been restored.

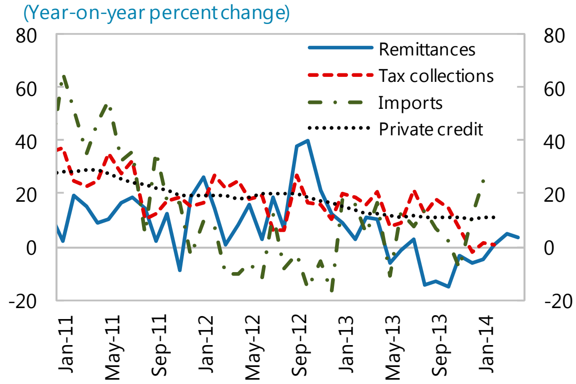
2. **Program performance.** As the program enters its third and final year, policy implementation has remained broadly in line with commitments. Despite the intensification of political unrest in the latter part of 2013, macroeconomic stability has been maintained, with underlying inflation abating and international reserves rising, supported by restrained fiscal and monetary policies. All performance criteria (PCs) for December 2013 (the test date for this review) were met, while all indicative targets (ITs) were either met or narrowly missed (Figure 1). Moreover, all five structural benchmarks (SBs) scheduled between December 2013 and March 2014 were completed, though one of them with a slight delay.

ECONOMIC DEVELOPMENTS AND OUTLOOK

3. **Recent macroeconomic developments and near-term outlook**.

Several indicators point to an economic slowdown in the first half of FY14, followed by a nascent recovery more recently…

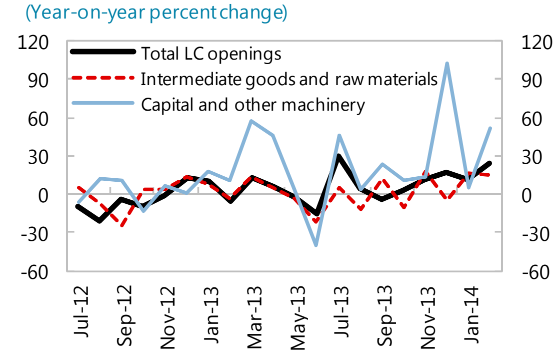
Bangladesh: Selected Indicators, Jan. 2011–Mar. 2014
(Year-on-year percent change)



Sources: Bangladesh authorities; and IMF staff calculations.

…confirmed by strengthening LC openings for imports, a leading indicator for actual imports and demand.

Bangladesh: Letter of Credit (LC) Openings for Imports, Jul. 2012 – Feb. 2014
(Year-on-year percent change)



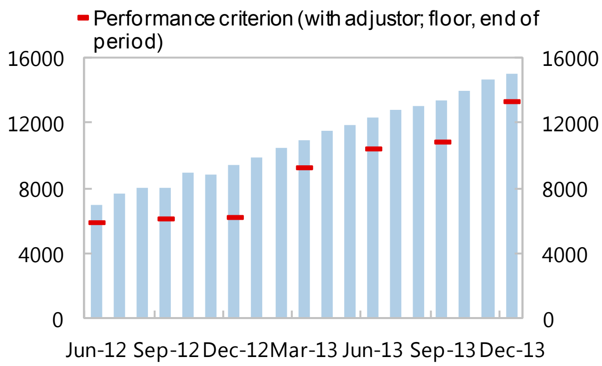
Sources: Bangladesh Bank; and IMF staff calculations.

- ***Growth.*** During the first six months of FY14, political turmoil and uncertainty disrupted economic activity and led to a decline in domestic demand, as evidenced by slower growth rates for tax collections, imports, and private sector credit during that period. As economic activity normalizes, domestic demand should recover in the second half of this fiscal year. Recent indicators, particularly for imports, suggest that such recovery in demand may be

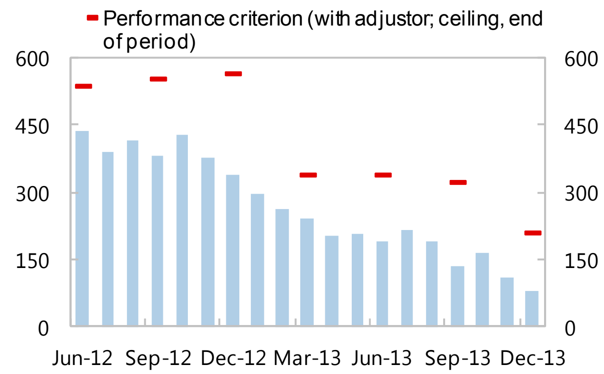
Figure 1. Bangladesh: Selected Performance Criteria and Indicative Targets

Performance Criteria

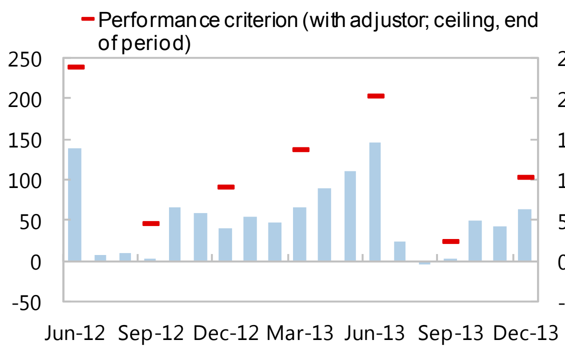
Bangladesh: Net International Reserves of Bangladesh Bank, Jun. 2012–Dec. 2013
(End of period, stock; in millions of U.S. dollars)



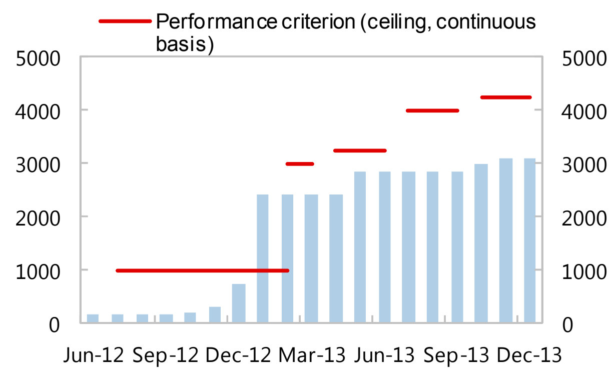
Bangladesh: Net Domestic Assets of Bangladesh Bank, Jun. 2012–Dec. 2013
(End of period stock; in billions of Taka)



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

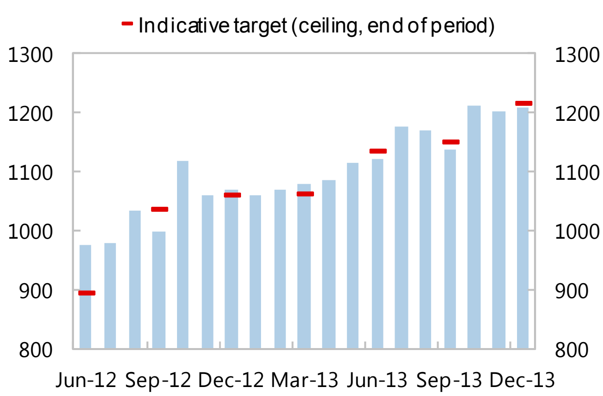


Bangladesh: New Nonconcessional External Debt 1/
Jun. 2012–Dec. 2013
(Stock since December 31, 2011; in millions of U.S. dollars)

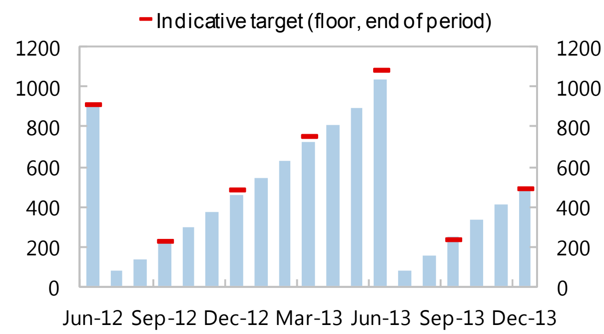


Indicative Targets

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



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

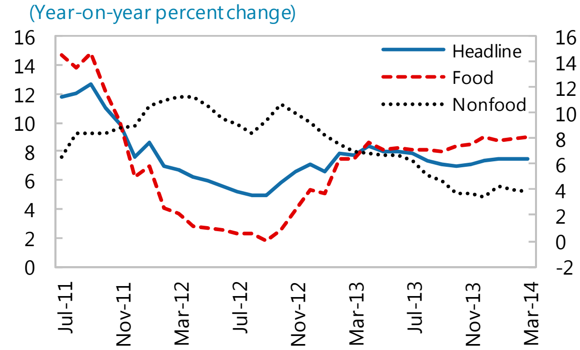


Sources: Bangladesh authorities; and IMF staff calculations.
1/ Maturing in more than one year and contracted by the public sector and/or guaranteed by the central government or Bangladesh Bank.

underway. Overall, GDP growth is forecast at 5½ percent for FY14 as a whole (FY13: 6 percent, Table 1).[1]

- ***Inflation.*** While nonfood inflation has been moderating on account of restrained policies and weaker domestic demand, unrest-related supply disruptions kept food inflation elevated. With prices underpinned by the domestic demand recovery, average inflation is projected to inch up slightly to 7½ percent in FY14 (from 6¾ percent in FY13, Table 1).

Bangladesh: Consumer Price Index, Jul. 2011–Mar. 2014
(Year-on-year percent change)

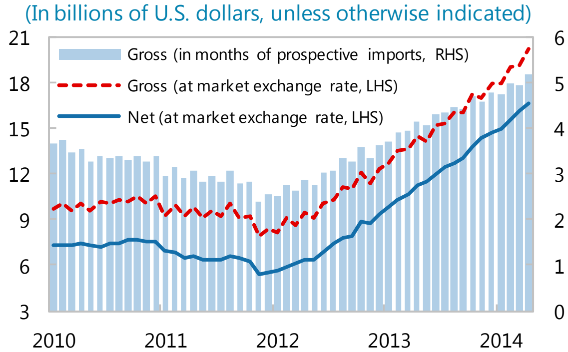


Source: Bangladesh Bureau of Statistics.

- ***Balance of payments*** (Figure 2). Export growth remained resilient through the period of political turmoil, but has slowed down more recently. By contrast, import growth declined in the first half of FY14 on the back of slowing demand, but is now picking up. Remittance growth also fell in the first half of FY14 as restrictions in major host countries have led to continued weakness in migrant worker outflows. Overall, the FY14 current account surplus is forecast at 1.3 percent of GDP, below the FY13 ratio but well above the previous review's projections, with the improved trade balance more than offsetting weaker remittance inflows (Table 2). Gross reserves have continued to build up well above program targets, while the nominal taka/U.S. dollar exchange rate has remained stable.

BB has built up its reserve buffer and comfortably exceeded program targets.

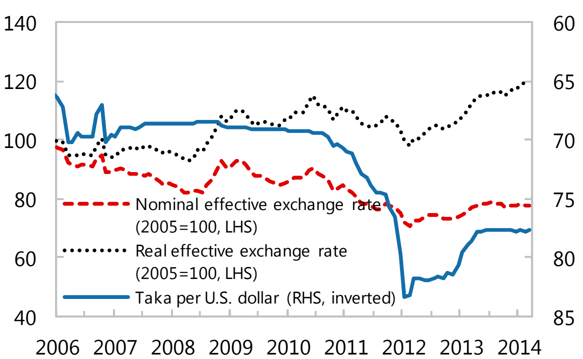
Bangladesh: International Reserves
Jan. 2010–Apr. 2014
(In billions of U.S. dollars, unless otherwise indicated)



Sources: Bangladesh Bank; and IMF staff calculations.

While active FX intervention has kept the nominal exchange rate stable, the real exchange rate has appreciated further.

Bangladesh: Exchange Rates, Jan. 2006–Apr. 2014



Sources: Bangladesh Bank; and IMF staff calculations.

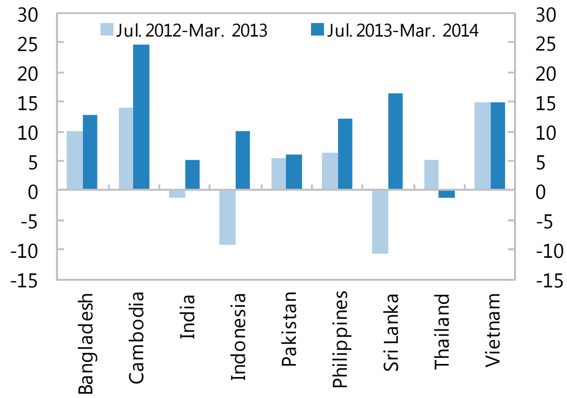
- ***Monetary*** (Table 3 and Figure 3). Despite fast reserve accumulation over the past year, Bangladesh Bank (BB) met the reserve money target for December 2013, and preliminary data

[1] The Bangladesh Bureau of Statistics has produced a national accounts series with FY06 as base year. In the rebased series, nominal GDP increases by 14½ percent in FY13 compared to the current (FY96) base. The authorities have not officially switched to the new base yet.

Figure 2. Bangladesh: External Sector Developments

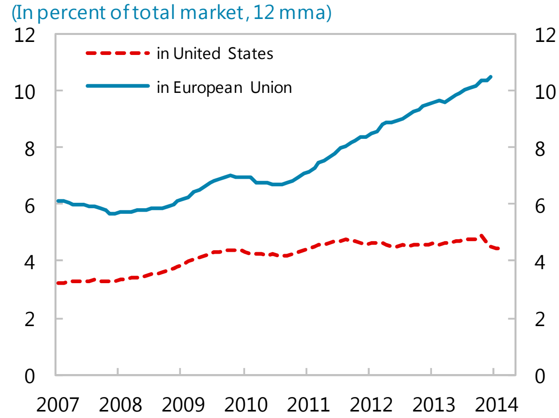
Despite the political turmoil, exports held up reasonably well in the first half of FY14 compared to other parts of the region…

Exports of Goods 1/
(Year-on-year percent change)



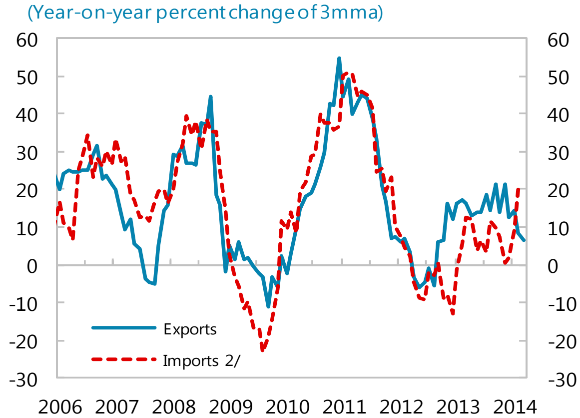
…with the share of Bangladesh's garment exports in the main markets holding steady or rising.

Shares in Garments Markets, Jan. 2007–Feb. 2014
(In percent of total market, 12 mma)



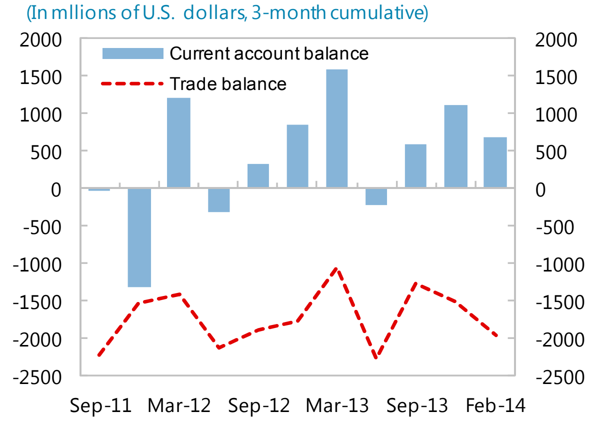
Export growth has weakened more recently, while imports are picking up…

Exports and Imports, Jan. 2006–Mar. 2014
(Year-on-year percent change of 3mma)



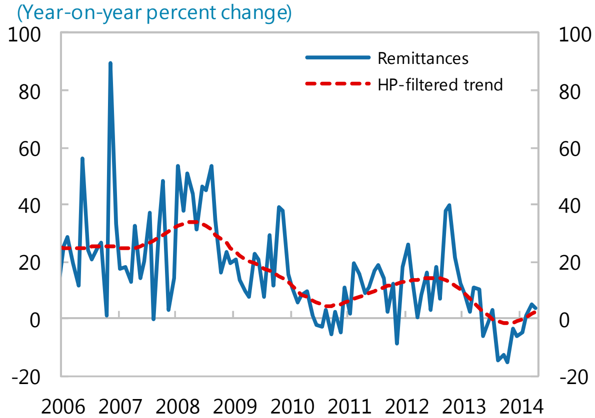
…leading to a widening of the trade deficit, though the current account has remained in surplus.

Current Account Balance, Sep. 2011–Feb. 2014
(In mllions of U.S. dollars, 3-month cumulative)



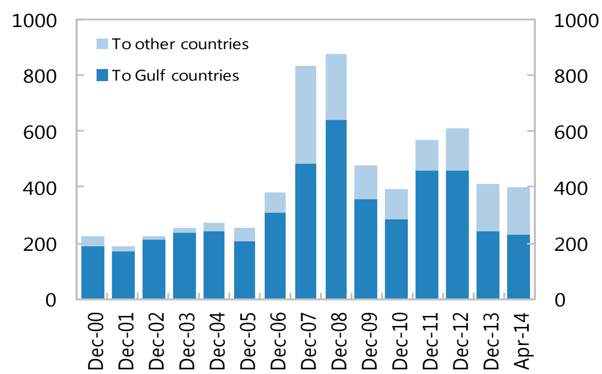
After weakening during 2013, remittance growth has improved in recent months…

Workers' Remittances, Jan. 2006– Apr. 2014
(Year-on-year percent change)



…as worker outflows to the Gulf countries stabilize, following a prolonged decline after visa restrictions were introduced in 2012.

Workers Moving Abroad, Dec. 2000–Apr. 2014
(In thousands, 12-month cumulative total)

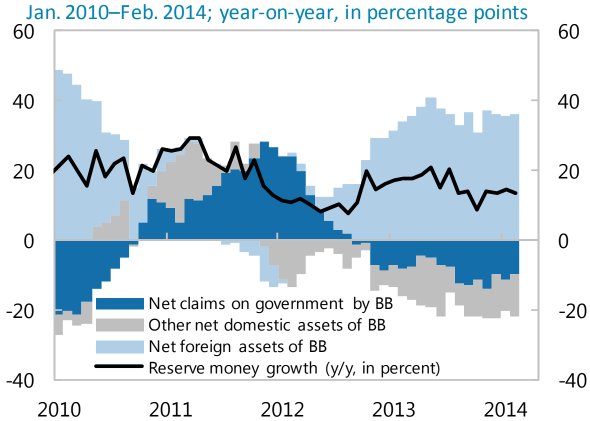


Sources: Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff calculations.
1/ Exports data for the Philippines and Sri Lanka are up to February 2014.
2/ Import growth is based on payments data up to June 2012 and customs data (f.o.b.) thereafter.

Figure 3. Bangladesh: Monetary and Financial Market Developments

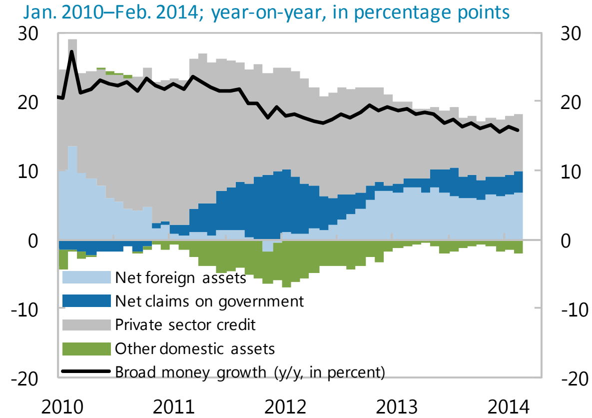
Reserve money growth has been kept restrained by sterilization of foreign exchange purchases and the reduction in the outstanding stock of net BB credit to the government.

Contributions to Reserve Money Growth
Jan. 2010–Feb. 2014; year-on-year, in percentage points



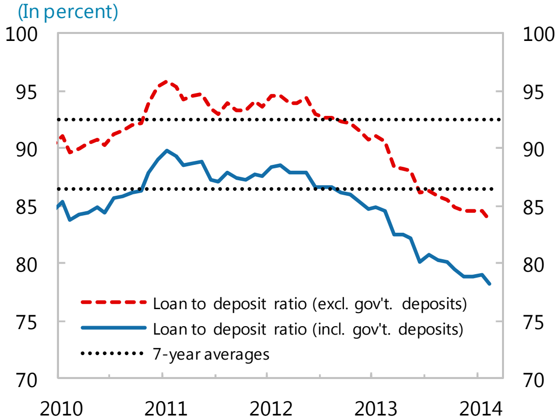
Broad money growth is slowing, reflecting mainly a moderation in private sector credit, which in part reflects the impact of political uncertainty on credit demand.

Contributions to Broad Money (M2) Growth
Jan. 2010–Feb. 2014; year-on-year, in percentage points



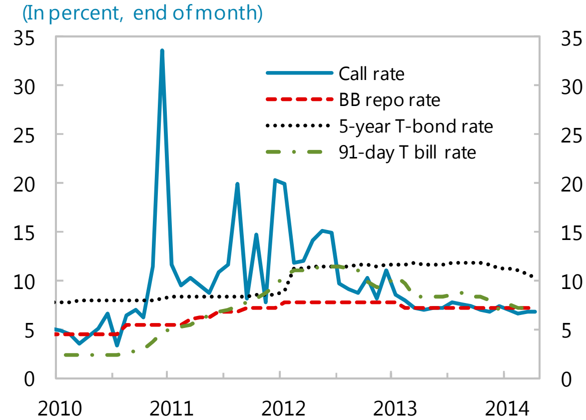
With credit uptake remaining subdued, loan-to-deposit ratios continue to fall farther below historical norms, leading to ample liquidity.

Loan-to-Deposit Ratio, Jan. 2010–Feb. 2014
(In percent)



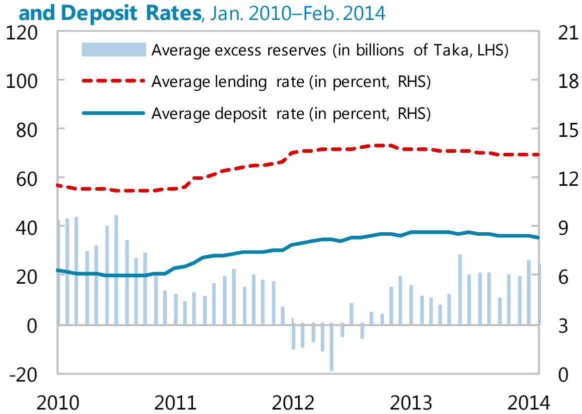
As balance of payments pressures eased and with ample systemic liquidity, money market and Treasury rates have come off.

Interest Rates, Jan. 2010–Apr. 2014
(In percent, end of month)



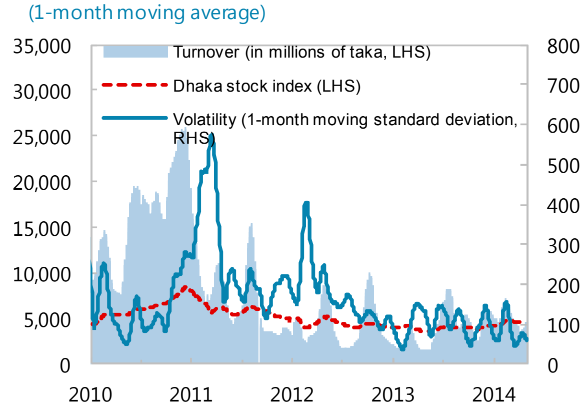
Similarly, deposit and lending rates have seen a smooth declining trend in recent months.

Commercial Banks' Excess Reserves and Lending and Deposit Rates, Jan. 2010–Feb. 2014



The Dhaka stock exchange remained relatively impervious to recent political turmoil.

Stock Market Performance, Jan. 2010–Apr. 2014
(1-month moving average)



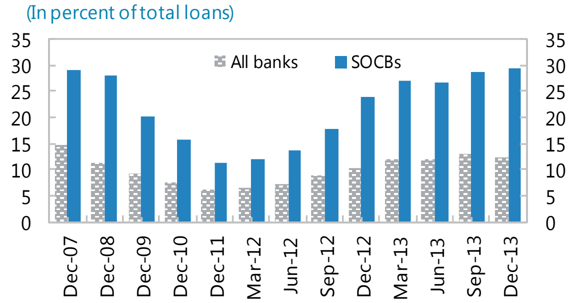
Sources: Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff calculations.

suggest the target was met for March 2014 as well. This has required a stepping up of sterilization operations, which has correspondingly driven down BB's net domestic assets (NDA) well below the target ceilings. Private sector credit growth, on the other hand, has remained subdued, which, combined with healthy broad money growth, has led to ample liquidity in the banking system. Slow credit growth reflects both supply and demand factors: while political uncertainty may have reduced private investment and thus credit demand, the recent increase in nonperforming loans (NPLs) may have made banks somewhat reluctant to lend.

- ***Fiscal performance*** (Figure 4). With weaker imports and slowing economic activity in the first half of FY14, tax collections narrowly underperformed against the December 2013 program target. However, political unrest and uncertainty also led to delays in the implementation of public investment projects. There was also restraint on current expenditures while social expenditure has been protected (the relevant indicative target was met in December 2013, though narrowly missed in September). Overall, the fiscal deficit has been kept in check, with central government borrowing from the banking system well below the PC target for December 2013.

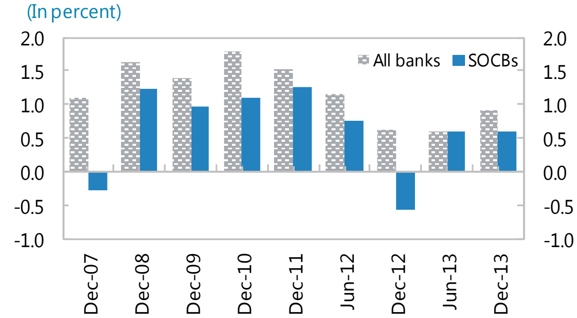
- ***Financial sector.*** Asset quality at the four state-owned commercial banks (SOCBs) continued to deteriorate in the first half of FY14 (Table 4), reflecting both the impact of unrest-related economic disruptions as well as the legacy of poor lending decisions in the past.[2] Their stock of lending has, in aggregate terms, also declined (as has their share in banking system assets). SOCB liquidity, however, is not a concern as deposits have continued to grow at a healthy rate, while capital was buttressed by the government's injection, in December 2013, of Tk 41 billion (about 0.4 percent of GDP) to recapitalize partially the four SOCBs. Episodes of emerging market volatility have so far had a negligible impact on Bangladesh's financial markets, with continued strong performance in the stock market (Figure 5).

Bangladesh: Banks' Nonperforming Loans (NPL), Dec. 2007 – Dec. 2013 1/
(In percent of total loans)



Sources: Bangladesh Bank; and IMF staff estimates.
1/ New and stricter NPL rules became effective December 2012. NPL ratios for December 2013 adjusted away the estimated impact of a temporary relaxation in loan rescheduling rules.

Bangladesh: Banks' Return on Assets (ROA), Dec. 2007 – Dec. 2013 1/
(In percent)



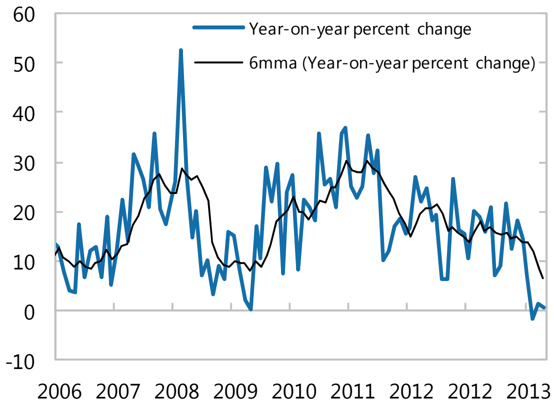
Source: Bangladesh Bank.
1/ Bangladesh Bank defines ROA as the ratio of net income after provision and taxes to total assets.

[2] A temporary relaxation of loan rescheduling rules (paragraph 14) led to a reclassification of NPLs, leading to an artificial decline in NPLs and a corresponding improvement in reported capital. To help maintain the integrity of financial soundness data, staff has adjusted away the impact of this policy relaxation on the reported asset quality and capital adequacy indicators (Table 4).

Figure 4. Bangladesh: Fiscal Developments

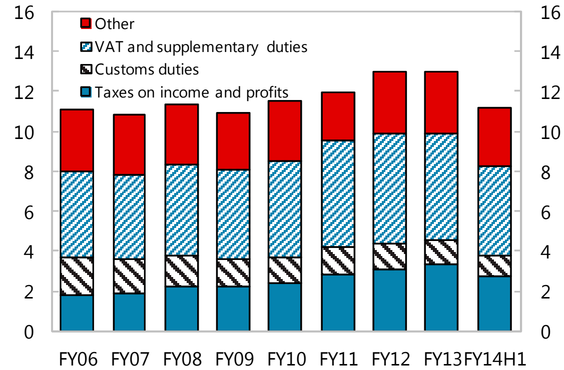
Administrative improvements drove up tax revenues between 2009 and 2011, but revenue growth has slowed since…

National Board of Revenue (NBR) Revenue Collections
Jul. 2006–Feb. 2014, (y/y percent change)



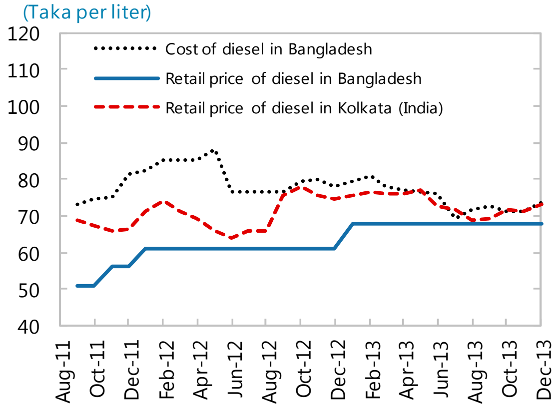
…driven in part by slower collections in import-related taxes, including VAT.

Central Government Revenue, FY06–FY14 1/
(In percent of GDP)



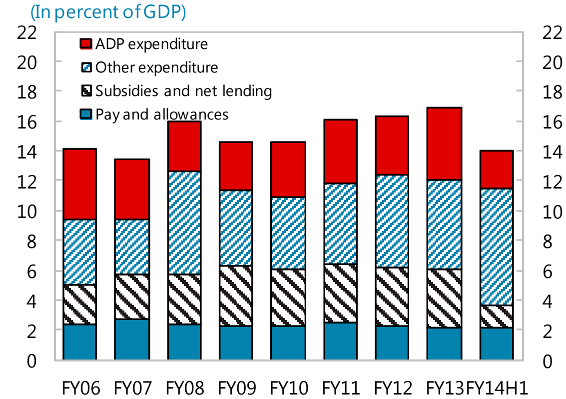
A moderation of international fuel prices has helped keep the wedge with domestic retail fuel prices contained.

Diesel Prices, Aug. 2011– Mar. 2014
(Taka per liter)



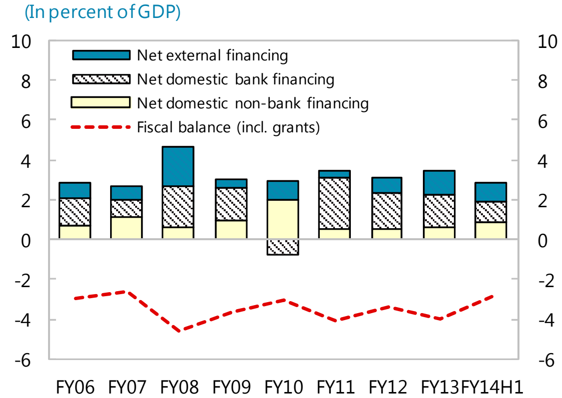
As a result, the fuel subsidy bill has moderated. More recently, political uncertainty has led to significant delays in capital (ADP) expenditure and thus a decline in total government spending.

Central Government Expenditure, FY06–FY14 1/
(In percent of GDP)



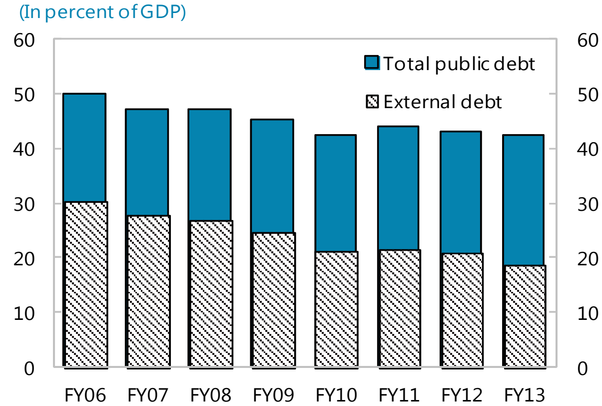
Overall, the fiscal deficit has narrowed, while the share of non-bank financing of the deficit has increased.

Fiscal Balance and Sources of Financing, FY06–FY14 1/
(In percent of GDP)



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

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

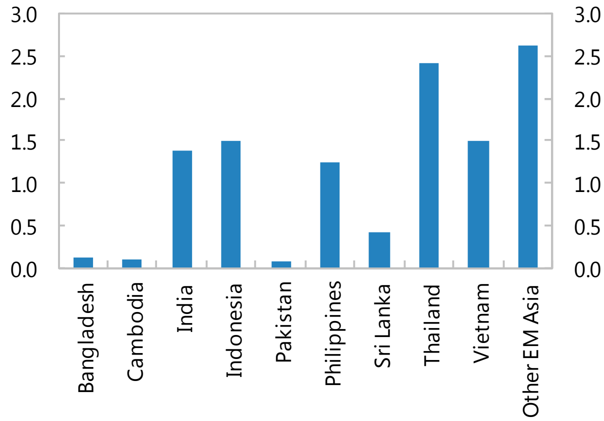


Sources: Bangladesh authorities; CEIC Data Company Ltd.; and IMF staff calculations.
1/ FY14H1 data are annualized.

Figure 5. Bangladesh: Resilience to Global Financial Volatility 1/

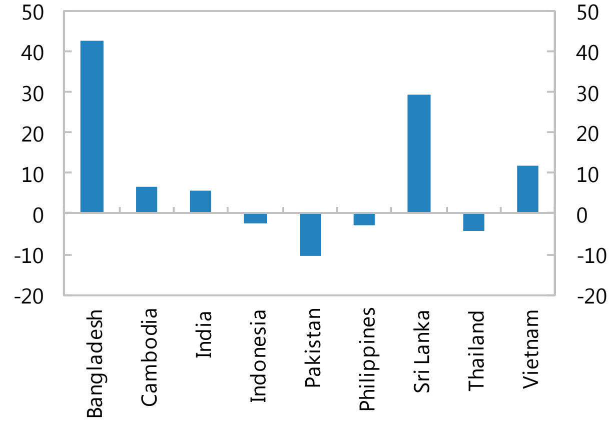
Bangladesh has not been affected by recent volatility in global financial markets, given its low exposure to capital flows.

Gross Portfolio Liability Flows 2/
(In percent of GDP, average 2010-12)



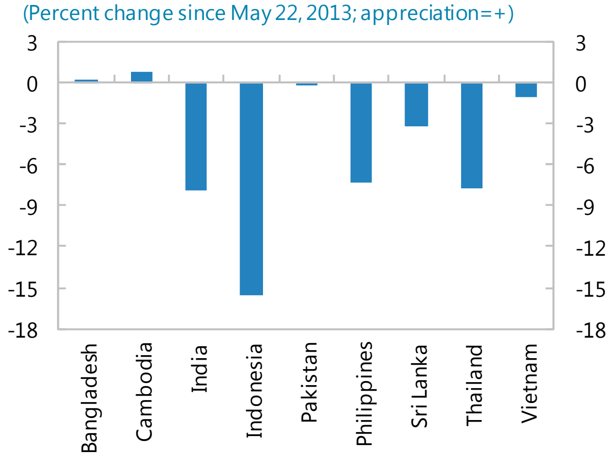
Indeed, a current-account driven FX surplus allowed BB to continue to build reserves…

Foreign Reserves
(Percent change, since end-May 2013) 3/



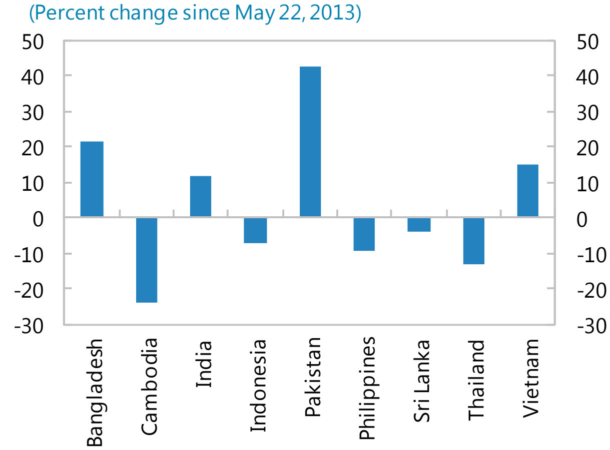
…and to keep the bilateral exchange rate against the US$ broadly unchanged since the US taper talk of May 2013…

Exchange Rates
(Percent change since May 22, 2013; appreciation=+)



…while the stock market has been one of the best performers in the region.

Stock Indices
(Percent change since May 22, 2013)



Sources: Country authorities; Bloomberg L.P.; CEIC Data Company Ltd.; Haver Analytics; and IMF staff calculations.
1/ Data as of end-April 2014 unless otherwise mentioned.
2/ Other EM Asia includes China, Hong Kong SAR, Korea, Malaysia, Singapore, and Taiwan Province of China.
3/ Data as of March 2014 for India, Indonesia, Pakistan, the Philippines, and Thailand; and as of February 2014 for Vietnam.

4. **Outlook for FY15.** Growth in FY15 is projected to increase to 6¼ percent on continued strength in domestic demand, mainly driven by a ramping up of public infrastructure investment, with private consumption supported by higher wages in the garment industry. Private investment is also expected to recover, partly driven by adjustment in the garment sector, although it may be dampened by lingering political uncertainty. Underlying inflationary pressures, as reflected in nonfood inflation, are expected to remain on a downward trend in FY15 on continued policy restraint, with the rebound in domestic demand expected to be met mainly from existing supply capacity. But higher wages and adjustment in administered prices pose upside risks to inflation. Export growth is likely to moderate as the garment industry absorbs higher wages and operational

costs from improved labor rights and safety standards and as factories undergo a process of retrofitting and modernization.[3] Imports should recover on stronger domestic demand, while remittance growth is expected to remain subdued, driving the current account down to a moderate deficit. Reserves, however, are expected to accumulate further in FY15, supported by a strong pipeline of foreign-funded projects.

5. Risks to the outlook (Table 5). The principal risk for the near term is a resurgence of political unrest, which would lower growth, push up inflation, and potentially put pressure on reserves. Further deterioration in the state banks' financial health could challenge fiscal sustainability and constrain the availability of resources for investment. Lack of firm progress in upgrading labor and safety standards in garment factories could trigger loss of preferential access to the European Union (EU), a high-impact risk.[4] A protracted slowdown in advanced economies would affect exports, but the low-impact elasticity of demand for garments would help mitigate the impact. Surges in global financial volatility should continue to have a negligible impact in the near term given Bangladesh's relatively closed capital account, but a sustained depreciation of the Indian rupee could add to garment export competitiveness strains.[5]

POLICY DISCUSSIONS

Discussions centered on consolidating macroeconomic stability while pressing ahead with further fiscal, financial sector, and foreign exchange regulations reforms. The authorities' policy framework and reform agenda is described in the accompanying Memorandum of Economic and Financial Policies (MEFP).

A. Macroeconomic Policies: Helping Anchor Stability

6. Fiscal policy objectives (MEFP, ¶2–3). The authorities remain committed to fiscal deficit targets (excluding grants) of 4.3 percent of GDP in FY14 and 4.1 percent of GDP in FY15, consistent with keeping the public debt-to-GDP ratio on a smooth downward trajectory (Tables 6a and 6b). In line with the authorities' plans, these targets build in an increase of 0.4 percent of GDP in public investment under the Annual Development Plan (ADP) in FY15, with further sizeable increases projected over the medium term.[6] The authorities also remain committed to boosting social-related expenditure and enhancing its efficiency. While they are facing pressures to provide tax benefits and cash subsidies to sectors hit by the recent unrest (and have granted a temporary cut, through June 2015, in the export tax rate, at a cost of about 0.15 percent of GDP), they intend to absorb these costs within the agreed fiscal deficit targets. Keeping to those targets is important not just in order to maintain fiscal sustainability, but also (combined with external concessional financing) to

[3] Appendix III in IMF Country Report No. 13/357.

[4] Box 4 in IMF Country Report No. 13/357.

[5] Box 5 in IMF Country Report No. 13/357.

[6] This includes the Padma bridge. Financing details for this project are still being firmed up.

limit the risk of excessive exposure of banks to the sovereign and of financial crowding out of the private sector (Box 1).

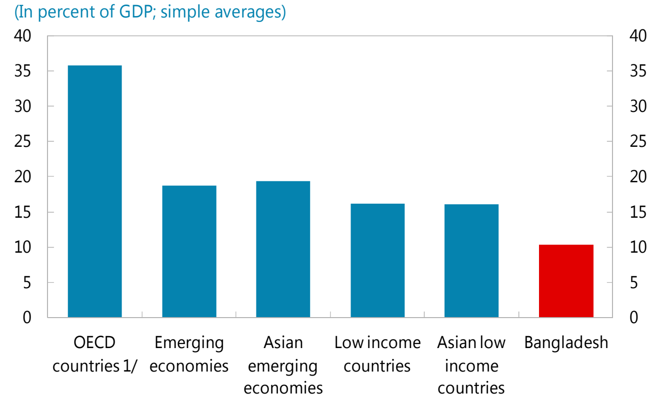
7. **Monetary policy stance** (MEFP, ¶8). The January 2014 issue of BB's biannual Monetary Policy Statement set targets for reserve money growth (about 16 percent y/y for June 2014) that are consistent with the program. These targets are adequately restrained while allowing sufficient space for a recovery in private credit growth. With risks to inflation tilted to the upside, the authorities agreed to carefully monitor nonfood inflation and tighten reserve money in case it rises steadily. Currency appreciation could also help contain any inflationary pressures.

8. **Foreign exchange intervention** (MEFP, ¶8). Reserves have increased much faster than expected and, at nearly 5 months of imports (about 6½ months of nonexport-related imports), are now broadly adequate. The authorities agreed that intervention should thus aim at preserving reserve adequacy and mitigating excessive currency volatility. Staff proposes to revise up the PC target (floor) on net international reserves for end-June 2014, to make this and subsequent targets consistent with a reserve cover of about 4½ months of imports (sufficient for prudential purposes). The PC (ceiling) on BB's NDA for end-June 2014 is proposed to be lowered accordingly.

B. Structural Fiscal Reforms: Building Fiscal Space and Enhancing Financial Management

Government Tax Revenue, 2012

(In percent of GDP; simple averages)



Sources: OECD.Stat; and IMF, *World Economic Outlook* database and staff calculations.
1/ Excludes emerging OECD economies.

9. **Revenue reforms** (MEFP, ¶4). The expected pick-up in imports and economic activity should help boost revenues in the second half of FY14 and in FY15. These gains will, however, be partially offset by the temporary tax benefits granted to exporters, and so the authorities should identify revenue-enhancing tax policy measures in the FY15 Budget. Beyond the cyclical recovery in revenue, continued efforts are needed to raise on a permanent basis the tax-to-GDP ratio (very low, even when compared to other low-income countries) in order to create space for increased priority spending. These efforts should focus on:

- ***Steady implementation of the new VAT.*** Implementation has proceeded apace, with Fund and other donors' support. The immediate priorities are now to move ahead expeditiously with the selection of a VAT software provider (a structural benchmark for June 2014) and with the tendering process for an external management consultancy for the implementation of the VAT project.

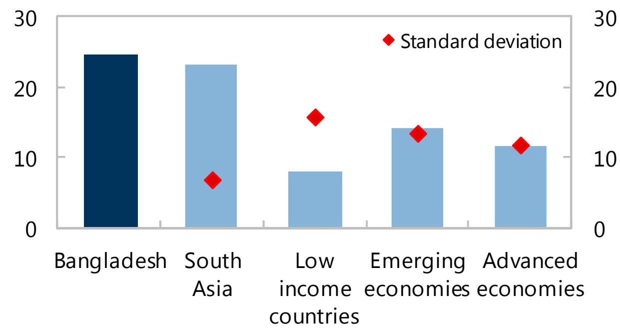
Box 1. Bangladesh: Commercial Banks' Financing of the Central Government

The asset structure of Bangladesh's commercial banks is highly exposed to the government. The share of banks' net credit to the central government in total bank assets, while similar to the average for the South Asian region, is much higher (about three times) than the average for low-income countries, and also considerably higher than the ratios prevailing in the emerging and advanced economies (first chart). This leads to a concentration risk: too high a share of assets exposed to a single borrower.[1]

Moreover, increases in banks' exposure to the government have historically been associated with declines in private sector credit growth—a possible indication of financial crowding out (as the second chart suggests) in an environment where banks are often forced to purchase government securities ("devolvement"). As the chart also shows, banks' exposure to the sovereign has been expanding rapidly since 2013, reversing a trend decline that started in 2007. Keeping the fiscal deficit in check is therefore crucial to allow for an increase in private sector credit and, with it, an increase in private investment and growth.

Net Credit to Central Government by Commercial Banks

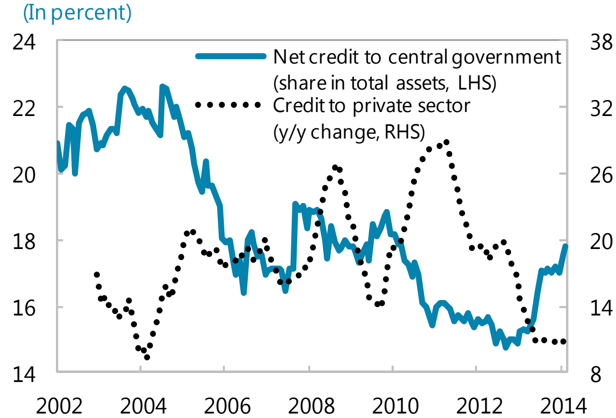
(In percent of net domestic assets; simple averages)



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

Bangladesh: Net Credit by Commercial Banks

(In percent)



Sources: IMF. *Integrated Monetary Database*; and staff calculations.

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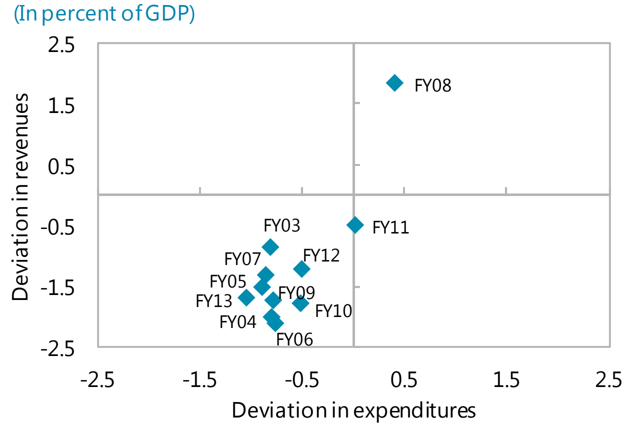
[1] By contrast, their overall exposure to state-owned enterprises is negligible: less than 1 percent of commercial bank assets as of end-2013.

- ***Stronger revenue administration.*** The authorities should press ahead with further automation of the tax administration, including the ongoing online taxpayer registration, and increased staffing levels and training at the National Board of Revenue (NBR). In addition, NBR should be held more directly accountable for tax revenue performance. This also involves setting realistic revenue targets that are agreed upon by NBR.

10. Subsidies and state-owned enterprises (SOEs) (MEFP, ¶5). The authorities have been successful in bringing down the cost of energy subsidies, and remain committed to continuing this trend. Pressing ahead with implementation of cost-saving power projects is needed for the gradual phasing out of costly rental power plants (Box 2). In the meantime, contracts with these plants should be subject to greater scrutiny and tighter conditions. To increase transparency on the fiscal cost of subsidies, and reduce the need for subsidy-related SOEs to borrow from SOCBs or externally (the two corresponding ITs were narrowly missed in December 2013), the authorities have stressed their commitment to make regular budgetary transfers to these SOEs to cover subsidy costs, and to improve financial reporting by them. In the case of Bangladesh Petroleum Corporation (BPC), the authorities are moving to recruit professional financial managers, engage an external auditor for BPC's FY12 financial accounts (a September 2014 benchmark), and adopt financial reporting software by December 2014. They should continue to work with BPC to develop accurate monthly cashflow projections, building on ongoing efforts to reconcile data with BB.

11. Public financial management (MEFP, ¶6). The authorities should move expeditiously to finalize and institutionalize monthly government cashflow forecasts, which will have to be reported regularly under the program from July 2014. Regular cashflow forecasting will help financial planning and reduce the need to tap the overdraft facility at BB, a limit on which came into effect in April 2014. The authorities should also reconsider the repeated practice of overstating both revenue and expenditures in the budget relative to expected outcomes, which risks generating excessive spending pressures from line ministries.[7]

Bangladesh: Fiscal Outturns relative to Budgets
(In percent of GDP)



Sources: Bangladesh authorities; and IMF staff calculations.

12. Public debt management (MEFP, ¶7). The authorities have tightened procedures and controls over nonconcessional external borrowing (NCEB), including through improved inter-agency coordination, following reforms agreed in previous reviews. They have also prepared a draft medium-term debt strategy, expected to be finally approved by June 2014 after consultations. The authorities are finalizing a Debt Management Performance Assessment (DeMPA) with the World Bank. Following on one of its recommendations, the authorities will adopt guidelines for the approval and issuance of loan guarantees provided by the government (a proposed new structural benchmark for July 2014).

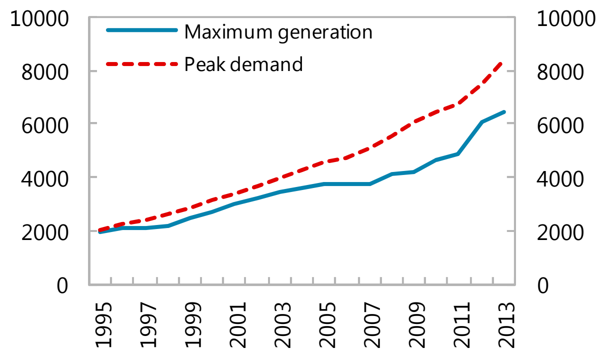
[7] See Medina (2014), "Assessing Fiscal Risks in Bangladesh," IMF Working Paper, forthcoming.

Box 2. Bangladesh: Developments in the Power Sector During FY13

Implementation of power projects in FY13 was much slower than expected: while the *FY12 Bangladesh Power Development Board (BPDB) Annual Report* projected an addition of 2,650 MW in installed capacity in FY13 from 21 new projects, the actual capacity increase was 1,138 MW from five projects. This led to two outcomes:

- First, supply grew more slowly than demand, leading to a widening of the supply gap, after three years of narrowing (see chart). This, in turn, has caused longer and more frequent outages.
- Second, generation has continued to rely on rental power plants (RPPs), which still account for 26 percent of total generation (see table), despite the authorities' original plan to retire them gradually. The cost per generated KWh at these plants is much higher, particularly in the case of diesel-based ones, leading to a sharp increase in total generation costs.

Bangladesh: Maximum Generation of and Peak Demand for Electricity
(In megawatts)



Source: Bangladesh Power Development Board.

Despite this, the cost of electricity subsidies (in the form of transfers to BPDB by the government) went down in FY13, as the authorities raised in September 2012 the bulk tariffs paid by distributors to BPDB. Retail tariffs were also raised in September 2012. Increases in retail tariffs boost the profit margins of distributors, but do not reduce subsidy costs for the government.

Bangladesh: Electricity Generation and Costs of Generation

	Generation (GWh)		Cost (Tk per KWh)	
	FY12	FY13	FY12	FY13
BPDB's own generating plants	10,226	12,379	3.7	3.8
Purchases from (by power plants)				
Public 1/	5,185	5,482	1.9	2.0
Independent	9,493	9,211	3.7	4.1
Rental (RPPs)	8,683	9,409	10.2	11.0
Memorandum items:				
Generation by RPPs (in percent of total generation)	26	26	--	--
Cost of generation in diesel plants (Tk per KWh)	--	--	14.6	27.2
Total generation cost (Tk billion)	--	--	170.3	198.9

Source: Bangladesh Power Development Board Annual Reports.

1/ Public generation includes the Rural Electrification Board.

13. External debt ceilings (MEFP, ¶7). The proposed program limits on contracting of NCEB remain unchanged from the previous review.[8] The authorities reiterated their commitment to focus NCEB on projects with a high-development impact, particularly in power and transport infrastructure. Bangladesh's external debt indicators remain well below relevant thresholds for debt distress (Annex 1, Debt Sustainability Analysis Update).

C. Strengthening the Financial Sector

14. Financial supervision (MEFP, ¶10). As part of its implementation of new provisions under the amended Bank Companies Act (BCA), BB has issued circulars on related lending and on banks' stock market exposures. It is also taking steps to implement the plans (approved in September 2013) to strengthen the bank resolution and lender of last resort frameworks. To help mitigate the impact of political unrest on borrowers' cashflow, BB temporarily relaxed loan rescheduling guidelines between December 2013 and June 2014, but is taking measures to reduce the risks associated with this relaxation (as detailed in the MEFP).

15. Reforming the SOCBs (MEFP, ¶11). Reforms to strengthen the SOCBs continue to focus on the following areas:

- ***Improving governance.*** Under the revised Memoranda of Understanding (MoU) with BB, each SOCB board approved several new policies to develop credit and liquidity risk management and strengthen internal control and compliance (a December 2013 benchmark). BB will undertake, by December 2014, a review of SOCBs' conformity with their new internal control and compliance policies (a proposed new benchmark).

- ***Gradual recapitalization.*** The authorities remain committed to further gradual capital injections to the SOCBs, conditional on progress on actions to improve governance.

- ***Maintaining prudent credit growth limits.*** This policy, a stop-gap measure while governance at SOCBs is improved and their capital positions are strengthened, is underpinned by a program ceiling (an IT) on overall SOCB credit, as well as by specific credit growth limits established in the MoUs. While the program target was met in December 2013, one SOCB has systematically breached the credit growth limit established in its MoU. As a result, BB imposed a significant pecuniary penalty on the noncompliant bank.

- ***Automation.*** The authorities have completed an action plan, approved by the Ministry of Finance, to automate financial reporting in the SOCB branches (a March 2014 benchmark).

[8] The authorities have over the past few years been considering issuing a sovereign bond, but there are no concrete plans for an issuance in the near future.

D. Promoting Growth and Inclusion

16. Trade and investment reforms (MEFP, ¶14–15). The authorities have been moving forward with gradual liberalization of exchange regulations on current and capital account transactions, based on the roadmap approved in September 2013.[9] They have also revised the draft amendments to the Foreign Exchange Regulations Act in line with recommendations from IMF technical assistance, and will engage in consultations with the aim of submitting them to parliament by end-2014. They also remain committed to streamlining import procedures and tariffs (by reducing their dispersion and average level), and to broadening the tariff base. Together with a planned ramp-up of public investment targeted at removing major supply constraints, these measures should help boost domestic and foreign investment.

17. Labor and factory safety standards (MEFP, ¶12). The authorities are taking a number of measures to improve working conditions in the garment industry, including a significant increase in minimum wages as well as steps to strengthen labor standards and assess factory structural and fire safety conditions (Box 3).

18. Social safety nets (MEFP, ¶13). The authorities remain committed to boosting the magnitude, transparency, and efficiency of spending on social safety nets. As part of these efforts, they are developing, in cooperation with the World Bank, a comprehensive poverty database.

OTHER PROGRAM ISSUES

19. Financing assurances. The ECF-supported program remains fully financed (Tables 7–8), underpinned by the strength of the policy framework and of the external position.

20. Safeguards recommendations (MEFP, ¶9). The BB Board approved the external audit of its FY13 accounts in January 2014 (a December 2013 benchmark), and received an unqualified audit opinion. The authorities have engaged the same global audit firm to conduct an external audit of BB's FY14 financial statements, and have appointed a certified chartered accountant as an advisor to the BB Board's Audit Committee (a March 2014 benchmark). BB is also taking steps to strengthen its internal audit and control environment, with Fund technical assistance.

21. Request for modification of performance criteria. Staff proposes to modify the PC targets for end-June 2014 for net international reserves (to set a higher floor) and net domestic assets of BB (to set a lower ceiling).

[9] Among other measures, the authorities have eased some of the regulatory restrictions on the carrying of currency for foreign travel, advance payments on imports, money transfers abroad, and external and domestic borrowing by foreign firms.

Box 3: Bangladesh: Progress on Improving Working Conditions in the Readymade Garment Industry

After two large disasters in the readymade garment (RMG) industry—the 2012 Tazreen factory fire and the 2013 Rana Plaza building collapse—the government has implemented several measures to improve working conditions in the industry, in cooperation with employers' and workers' organizations, the International Labor Organization (ILO), development partners, and major international retailers:

- *Labor rights*. The 2006 Labor Act was amended in July 2013, facilitating the formation of trade unions in the industry: about 100 new enterprise-based unions had registered with the Ministry of Labor and Employment (MoLE) by early 2014, taking their total to 222 unions.

- *Minimum wages*. Minimum wages for the RMG industry were increased in December 2013, with increases ranging from 40 percent for highest-grade workers to 77 percent for entry-level workers, whose monthly minimum wage is now Tk 5,300 (about US$68). Compliance remains incomplete, but issues are largely concentrated in smaller firms and subcontractors.

- *Factory inspections*. The MoLE is conducting factory inspections on labor-related issues (including minimum wages and fire and other safety regulations), although its end-2013 goal of hiring 200 new inspectors has not yet been achieved. The MoLE will also coordinate an assessment of the structural integrity of all active RMG factories, expected to be completed by end-2014. At the same time, two groups of international retailers—the Alliance group and the Accord group—are also conducting structural and safety inspections for factories supplying their retailers, in collaboration with the government and the ILO. To increase transparency, the MoLE has created an online database to share findings from completed inspections as well as a hotline for complaints.

STAFF APPRAISAL

22. Overview. Bangladesh has continued to strengthen macroeconomic stability and structural policies under the ECF-supported program. In spite of a prolonged period of political turmoil and a resulting economic slowdown, international reserves have continued to increase, public debt as a share of GDP is on a downward path, and underlying inflation has been easing. There has also been progress on structural reforms: implementation of the new VAT law has continued, several steps have been taken to strengthen public financial and debt management, and the authorities are working to strengthen financial supervision and the state-owned commercial banks.

23. Outlook and risks. With calm returning, activity and domestic demand are expected to pick up in the remainder of this fiscal year and in FY15. Lingering political uncertainty may dampen private investment, and exports will likely slow while the flagship garment industry adjusts to higher wages and stricter labor and safety standards. Overall, though, economic growth is expected to recover. The main risk for growth and stability is a resurgence of violence and unrest. Also, insufficient progress in improving working conditions could lead to trade sanctions or the loss of orders from international garment retailers.

24. **Monetary and exchange rate policies.** Monetary policy has remained prudent, with reserve money growth appropriately calibrated to keep a lid on inflationary pressures while providing adequate liquidity to the banking system and sufficient room for private sector credit growth to recover as domestic demand strengthens. With inflation risks clearly tilted to the upside, however, policy needs to remain vigilant. In case nonfood inflation rises steadily, the authorities should be prepared to tighten policy. Official international reserves are now at adequate levels, and intervention going forward should focus mainly on preserving reserve cover and mitigating any excessive currency volatility.

25. **Fiscal policy.** The fiscal policy stance has also remained restrained. The authorities' fiscal targets under the program are consistent with a moderate fiscal consolidation and a continued gradual reduction of the public debt-to-GDP ratio, while allowing for increased public investment and social spending. However, the authorities need to resist pressures to provide tax benefits and cash subsidies that undermine fiscal discipline and run counter to their efforts to strengthen fiscal revenues under the program. Continued fiscal prudence is also important to give room for credit growth to finance a recovery in private investment. The authorities remain committed to containing energy subsidies and adjusting domestic prices accordingly. Subsidies should be gradually replaced with well-targeted social transfers. In addition, to reduce energy costs, rental power plants should be subject to tighter pricing rules and gradually replaced with base-power plants.

26. **Revenue reforms.** Bangladesh has one of the lowest tax-to-GDP ratios in the world. It is critical to strengthen revenues in relation to GDP so as to broaden fiscal space for priority spending. VAT implementation remains the foremost priority. Steady efforts in recent months have mitigated initial delays. Going forward, it is essential to continue to press ahead expeditiously with the implementation plan in order to remain on track for the July 2015 launch date. The next milestone, selection of the software vendor, should be completed by end-June 2014. At the same time, it is important to continue to strengthen revenue administration. Further progress on automation is needed, as well as increased staffing and capacity. Moreover, while tax receipts have been affected by the recent economic slowdown, more decisive collection efforts are required to improve performance against program targets. The authorities need to hold the NBR accountable for its performance.

27. **Public financial management.** To improve treasury cash management, a system of monthly cash flow forecasts needs to be set up. This, in turn, requires strengthening financial reporting by the largest SOEs, particularly BPC. The authorities' commitment to engage a global firm to conduct an external audit of BPC's accounts, hire professional financial management, and upgrade the financial reporting software at BPC are important steps in this direction. Tighter financial information flows at the central government and SOEs will support domestic debt programming. The authorities have also strengthened external borrowing processes. They should continue to seek concessional terms in external financing and limit non-concessional borrowing to projects with the highest development impact. To further improve debt management, the

authorities should carefully consider the recommendations in the DeMPA assessment. Their decision to adopt guidelines for the approval and issuance of government guarantees is welcome.

28. Financial sector reforms. The authorities should press ahead with efforts to strengthen financial supervision. Their steps to tighten regulations on related lending and closely monitor banks' stock market exposures are welcome, while regulatory forbearance, as in the recent temporary relaxation of loan rescheduling guidelines, should be avoided. The strengthening of SOCBs remains a key focus of financial reforms. The authorities' three-track approach, with improvements in SOCB governance and credit policies (advanced mainly through bilateral MoUs) complemented by temporary credit growth limits and gradual recapitalization, is appropriate to restore the SOCBs' financial position. For the success of this approach, though, it is critical that MoU commitments be strictly enforced. In this regard, BB's strict penalty on a bank for systematically breaching its MoU sets a positive precedent.

29. Central bank safeguards. The completion of BB's full external audit by a global audit firm, the auditor's unqualified opinion, and the authorities' decision to engage the audit firm again this year, are all welcome, as are reforms to strengthen BB board's audit committee. To continue to tighten financial reporting and controls at the central bank, an external and independent audit of BB should be undertaken on an annual basis, and BB's internal audit function should be strengthened. The authorities should also consider measures to increase the autonomy of the central bank.

30. Reforms to boost growth and inclusion. The authorities are moving ahead with their plan for gradual liberalization of foreign exchange regulations. To further improve the business climate, these efforts should be complemented with a streamlining of trade tariffs and regulations. The authorities have taken significant steps to improve working conditions in the garment industry, including through a sizeable increase in the minimum wage. Further progress in this area is necessary in its own right and also to avert a potential withdrawal of trade preferences or a loss of orders. In addition to increasing the total budget allocations for social spending, the authorities should continue to improve the targeting and efficiency of social safety net programs. Together, all of these measures should contribute to promoting high, sustained, and inclusive growth.

31. Staff recommendations. All end-December 2013 (this review's test date) performance criteria were met, indicative targets were also met or only narrowly missed, and all structural benchmarks for December 2013 and March 2014 were completed. On this basis, staff recommends completion of the fourth review under the ECF arrangement and the approval of the request to modify the end-June 2014 performance criteria.

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

I. Social and Demographic Indicators

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

II. Macroeconomic Indicators

	FY11	FY12	FY13	FY14	FY15
			Est.	Prog.	Proj.
National income and prices (annual percent change)					
Real GDP (1995-96 base)	6.7	6.2	6.0	5.5	6.3
GDP deflator	7.5	8.5	6.6	8.7	7.5
CPI inflation (annual average; 2005-06 base)	...	8.7	6.8	7.5	7.0
CPI inflation (end of period; 2005-06 base)	...	5.5	8.1	7.5	6.6
Nonfood CPI inflation (end of period; 2005-06 base)	...	10.2	7.7	6.1	5.6
Central government operations (percent of GDP)					
Total revenue and grants	11.9	12.9	12.9	13.0	13.2
Total revenue	11.7	12.4	12.4	12.5	12.7
Tax	10.0	10.4	10.4	10.4	10.7
Nontax	1.7	2.0	2.1	2.1	2.1
Grants	0.3	0.5	0.5	0.5	0.5
Total expenditure	16.0	16.3	16.9	16.8	16.9
Current expenditure	9.7	9.6	9.6	9.4	9.3
Annual Development Program (ADP)	4.2	4.0	4.8	4.9	5.3
Other expenditures 2/	2.1	2.8	2.5	2.4	2.2
Overall balance (including grants)	-4.1	-3.4	-4.0	-3.7	-3.7
(Excluding grants)	-4.4	-4.0	-4.5	-4.3	-4.1
Primary balance (excluding grants)	-2.4	-1.7	-2.2	-2.1	-2.0
Total central government debt (percent of GDP)	41.5	40.3	40.6	39.8	38.9
Money and credit (end of fiscal year; percent change)					
Credit to private sector by the banking system	25.8	19.7	10.8	13.4	16.3
Reserve money 3/	21.1	9.0	15.0	16.3	15.7
Broad money (M2)	21.4	17.4	16.7	16.5	17.0
Balance of payments (in billions of U.S. dollars)					
Exports, f.o.b.	22.6	24.0	26.6	29.5	31.3
(Annual percent change)	39.1	6.2	10.7	11.0	6.0
Imports, f.o.b.	-32.5	-33.3	-33.6	-35.8	-40.5
(Annual percent change)	52.1	2.4	0.8	6.5	13.2
Current account balance 4/	-2.2	-0.4	2.5	2.0	-1.1
(Percent of GDP)	-2.0	-0.4	1.9	1.3	-0.6
Capital and financial account balance	1.9	2.1	4.2	1.8	3.5
Of which : Foreign direct investment	0.8	1.2	1.7	1.5	1.7
Overall balance	-1.0	0.5	5.7	3.8	2.4
Gross official reserves (in billions of U.S. dollars) 5/	9.6	10.1	15.1	19.2	21.9
In months of prospective imports of goods and services	3.0	3.1	4.3	4.8	5.0
Exchange rate (taka per U.S. dollar; period average)	71.2	79.1	79.9	...	...
Exchange rate (taka per U.S. dollar; end-period)	74.2	81.8	77.8	...	...
Nominal effective rate (2005=100; period average)	82.8	74.8	75.4	...	...
Real effective rate (2005=100; period average)	108.5	104.9	109.5	...	...
Terms of trade (percent change)	-6.7	0.1	...	...	...
Memorandum item:					
Nominal GDP (in billions of taka)	7,967	9,181	10,380	11,898	13,599

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.
new expenditure measures in FY13 equivalent to about 0.2 percent of GDP .

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 Bangladesh Bank to domestic banks.

Table 2. Bangladesh: Balance of Payments, FY2011–19 1/

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

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
			Est.			Proj.			
Current account balance 2/	-2,227	-447	2,525	2,026	-1,060	-1,414	-1,749	-2,038	-2,301
Trade balance	-9,935	-9,320	-7,010	-6,284	-9,225	-9,412	-9,670	-9,847	-9,987
Exports (f.o.b.)	22,592	23,989	26,566	29,489	31,268	35,653	39,562	43,911	48,739
Of which : Ready-made garment sector	17,914	19,089	21,516	23,817	24,849	28,430	31,408	34,701	38,344
Imports (f.o.b.) 2/	-32,527	-33,309	-33,576	-35,773	-40,493	-45,066	-49,231	-53,758	-58,726
Of which : Crude oil and petroleum products	-4,109	-5,453	-6,170	-6,639	-7,066	-7,343	-7,650	-8,285	-8,981
Services	-3,290	-3,001	-3,159	-3,114	-3,800	-4,444	-5,007	-5,588	-6,235
Income	-1,454	-1,549	-2,315	-3,027	-3,359	-3,776	-4,246	-4,790	-5,344
Transfers	12,452	13,423	15,009	14,452	15,325	16,218	17,175	18,187	19,264
Official current transfers 3/	103	106	64	50	65	50	50	50	54
Private transfers	12,349	13,317	14,945	14,402	15,260	16,168	17,125	18,137	19,210
Of which : Workers' remittances	11,650	12,734	14,338	13,764	14,590	15,466	16,394	17,377	18,420
Capital and financial account balance 4/	1,853	2,094	4,165	1,757	3,456	4,159	4,602	4,730	5,304
Capital account	642	482	588	750	750	800	800	800	800
Financial account	1,211	1,612	3,577	1,007	2,706	3,359	3,802	3,930	4,504
Foreign direct investment	775	1,191	1,730	1,530	1,749	1,918	2,332	2,570	2,841
Portfolio investment	-28	240	287	350	400	439	533	588	650
Medium- and long-term loans, net	211	1,005	1,362	1,603	2,654	3,201	3,335	3,151	3,304
Government, net	312	926	1,507	1,155	1,949	2,423	2,471	2,192	2,112
Disbursements	1,051	1,696	2,426	2,262	2,983	3,443	3,480	3,331	3,533
Amortization	-739	-770	-919	-1,107	-1,034	-1,020	-1,010	-1,140	-1,420
Other long-term loans, net	-101	79	-145	447	705	777	865	959	1,191
Other capital	253	-823	198	-2,476	-2,096	-2,198	-2,398	-2,380	-2,290
Short-term loans and trade credits, net 4/	1,074	-875	108	-167	514	238	279	323	423
Of which: Short-term oil import credit, net	…	960	-155	-477	160	-150	-150	-150	-100
Commercial banks, net	-160	52	90	-150	-350	-150	-150	-150	-150
Other items, net	-661	0	0	-2,159	-2,260	-2,287	-2,528	-2,553	-2,563
Errors and omissions	-593	-1,126	-994	0	0	0	0	0	0
Overall balance	-967	522	5,696	3,784	2,397	2,744	2,853	2,691	3,003
Prospective official financing	…	…	…	50	150	0	0	0	0
Financing items	967	-522	-5,696	-3,834	-2,547	-2,744	-2,853	-2,691	-3,003
Change in gross international reserves (GIR) (+ = increase)									
Contribution from financing	-967	522	5,696	3,834	2,547	2,744	2,853	2,691	3,003
Net use of IMF resources	-57	-55	80	198	221	-41	-5	-42	-98
Change in GIR excluding valuation changes	-1,024	467	5,776	4,032	2,768	2,703	2,848	2,649	2,905
Valuation changes	258	166	-761	…	…	…	…	…	…
Total change in GIR (excluding Asian Clearing Union liabilities)	-766	632	5,015	4,032	2,768	2,703	2,848	2,649	2,905
Memorandum items:									
Current account balance (percent of GDP)	-2.0	-0.4	1.9	1.3	-0.6	-0.7	-0.8	-0.9	-0.9
Exports (annual percent change)	39.1	6.2	10.7	11.0	6.0	14.0	11.0	11.0	11.0
Imports (annual percent change)	52.1	2.4	0.8	6.5	13.2	11.3	9.2	9.2	9.2
Remittances (annual percent change)	6.0	9.3	12.6	-4.0	6.0	6.0	6.0	6.0	6.0
Foreign direct investment (percent of GDP)	0.7	1.0	1.3	1.0	1.0	1.0	1.1	1.1	1.1
Medium- and long-term external public debt	22,256	21,509	22,953	24,836	27,366	30,225	33,396	36,400	39,359
(Percent of GDP)	19.9	18.5	17.7	16.2	15.6	15.8	15.8	15.6	15.2
Gross official reserves 5/	9,608	10,070	15,136	19,168	21,936	24,639	27,486	30,136	33,041
(In months of imports of goods and services)	3.0	3.1	4.3	4.8	5.0	5.1	5.2	5.2	5.2
Gross official reserves (excluding Asian Clearing Union liabilities) 5/	8,770	9,403	14,418	18,450	21,218	23,921	26,769	29,418	32,323
(In months of imports of goods and services)	2.7	2.9	4.1	4.6	4.8	4.9	5.1	5.1	5.1
Net international reserves 5/	6,299	6,796	11,915	16,092	18,638	21,383	24,236	26,927	29,930

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

1/ Fiscal year begins July 1.

2/ Imports are based on customs data.

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

4/ Data on trade credits include service fees related to exports until FY11. To adjust for this inconsistency, an amount equal to 3 percent of exports is deducted from reported trade credits and added to current account service payments. The net effect is a decrease in the current account, while the overall BOP balance remains unchanged.

5/ Gross and net international reserves for the projection period do not include valuation adjustments. Net international reserves (NIR) are reported at market exchange rates. Excluded from NIR are deposits held in offshore accounts of resident financial institutions, noninvestment grade sovereign bonds, and foreign exchange overdrafts provided by Bangladesh Bank to domestic banks.

Table 3. Bangladesh: Monetary Accounts, June 2012–December 2014 1/

	2012		2013			2014			
	Jun.	Dec.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
						Proj.			
Bangladesh Bank (BB) balance sheet	(End of period; in billions of taka)								
Net foreign assets	541	720	923	995	1,129	1,232	1,226	1,277	1,333
Net domestic assets	435	347	199	142	79	-19	78	36	63
Net credit to central government	352	317	281	202	208	176	201	201	201
Credit to other nonfinancial public sector	1	1	1	1	1	1	1	1	1
Credit to deposit money banks	67	67	63	58	59	56	56	56	56
Other items, net 2/	15	-38	-145	-119	-189	-252	-180	-222	-194
Reserve money	976	1,067	1,122	1,137	1,208	1,213	1,304	1,313	1,396
Currency	649	725	754	769	827	808	886	882	950
Reserves	327	342	368	367	382	405	418	431	446
	(Contribution to reserve money growth)								
Net foreign assets	1.6	26.0	39.1	38.2	38.3	37.6	27.1	24.8	16.8
Net domestic assets	7.3	-10.4	-24.1	-24.2	-25.1	-25.1	-10.8	-9.3	-1.3
Of which : Net credit to central government	5.0	-8.8	-7.3	-13.4	-10.2	-9.7	-7.2	-0.1	-0.6
Reserve money (year-on-year percentage change)	9.0	15.7	15.0	14.0	13.2	12.5	16.3	15.5	15.5
Monetary survey	(End of period; in billions of taka)								
Net foreign assets	724	918	1,100	1,172	1,299	1,419	1,414	1,472	1,534
Bangladesh Bank	541	720	923	995	1,129	1,232	1,226	1,277	1,333
Commercial banks	183	197	177	177	169	186	188	195	201
Net domestic assets	4,445	4,739	4,932	5,092	5,237	5,295	5,613	5,870	6,113
Domestic credit	5,132	5,454	5,657	5,813	5,992	6,186	6,533	6,800	7,053
Net credit to central government	869	910	1,041	1,049	1,081	1,208	1,283	1,308	1,383
Credit to other nonfinancial public sector	126	139	58	64	75	75	75	75	75
Credit to nonbank financial institutions	58	77	37	41	48	48	48	48	48
Credit to private sector	4,079	4,329	4,522	4,658	4,788	4,854	5,127	5,369	5,547
Other items, net	-687	-715	-725	-720	-755	-890	-920	-930	-940
Broad money (M2)	5,169	5,656	6,032	6,264	6,536	6,714	7,027	7,341	7,647
	(Year-on-year percent change)								
Net foreign assets	4.0	49.5	51.9	42.9	41.5	38.1	28.6	25.6	18.2
Net domestic assets	19.9	14.5	11.0	12.2	10.5	11.2	13.8	15.3	16.7
Domestic credit	19.3	14.3	10.2	10.7	9.9	13.3	15.5	17.0	17.7
Of which : Net credit to central government	23.9	4.9	19.9	20.6	18.8	30.5	23.2	24.7	28.0
Credit to private sector	19.7	16.6	10.8	10.9	10.6	11.2	13.4	15.3	15.9
Broad money (M2)	17.4	19.0	16.7	16.9	15.6	16.0	16.5	17.2	17.0
Memorandum items:									
Required domestic cash reserves (in billions of taka)	295	316	338	352	366	378	395	412	428
Excess domestic cash reserves (in billions of taka)	31	26	30	15	15	27	23	19	18
Broad money multiplier	5.3	5.3	5.4	5.5	5.4	5.5	5.4	5.6	5.5
Broad money velocity	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7

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."

Table 4. Bangladesh: Financial Soundness Indicators of Scheduled Banks, 2007–13

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

	2007	2008	2009	2010	2011	2012	2013 (prov.)	
							Jun.	Dec.
Capital adequacy								
Regulatory capital to risk-weighted assets (adjusted) 1/	4.0	6.5	8.8	7.6	10.1	9.5	8.2	8.8
State-owned commercial banks (adjusted) 1/	-21.6	-15.1	-7.6	-0.1	5.3	3.1	-4.4	-0.1
Regulatory capital to risk-weighted assets (unadjusted)	9.3	10.4	11.7	9.3	11.3	10.5	9.1	11.5
State-owned commercial banks	7.3	7.9	9.0	8.9	11.7	8.1	1.2	10.8
Specialized development banks	-5.0	-3.3	0.4	-7.3	-4.5	-7.8	-8.7	-9.7
Private commercial banks	10.4	11.2	12.1	10.1	11.5	11.4	11.5	12.5
Foreign commercial banks	22.8	23.8	28.1	15.6	21.0	20.6	20.3	20.3
Regulatory capital to assets (adjusted) 1/	2.4	4.0	5.3	6.9	8.0	7.0	5.9	6.2
Regulatory capital to assets (unadjusted)	5.6	6.5	7.1	8.5	9.0	7.7	6.6	8.1
Nonperforming loans to regulatory capital (adjusted) 1/ 2/	411.8	193.1	109.9	69.0	48.1	87.4	118.0	112.1
Nonperforming loans to regulatory capital (unadjusted) 2/	168.5	115.5	80.2	55.1	42.2	78.5	104.9	62.3
Asset quality 2/								
Nonperforming loans to total loans (adjusted) 3/						...	...	12.2
State-owned commercial banks (adjusted) 3/						...	...	29.2
Nonperforming loans to total loans (unadjusted)	14.5	11.2	9.0	7.3	6.1	10.0	11.9	8.9
State-owned commercial banks	29.0	28.0	20.1	15.7	11.3	23.9	26.4	19.8
Specialized development banks	13.5	11.7	24.1	24.1	24.6	26.8	26.2	26.8
Private commercial banks	5.4	5.1	4.0	3.1	2.9	4.6	6.6	4.5
Foreign commercial banks	2.9	3.7	2.2	3.0	3.0	3.5	4.7	5.5
Loan provisions to total nonperforming loans (unadjusted)	43.0	50.1	61.2	62.7	67.4	44.4	52.4	61.6
Loan provisions to total loans (unadjusted)	6.2	5.6	5.5	4.6	4.1	4.5	6.2	5.5
Profitability (unadjusted)								
Return on equity 4/	19.8	25.0	19.5	21.0	16.8	8.2	9.7	11.1
State-owned commercial banks	-9.4	35.6	24.9	18.4	18.5	-11.9	94.8	10.9
Specialized development banks	16.6	21.0	-199.0	-3.2	-0.9	-1.1	-8.6	-5.8
Private commercial banks	26.7	24.3	18.9	20.9	15.7	10.2	5.0	9.8
Foreign commercial banks	20.6	18.5	18.9	17.0	16.6	17.3	18.5	16.9
Return on assets 5/	1.1	1.6	1.4	1.8	1.5	0.6	0.6	0.9
State-owned commercial banks	-0.3	1.2	1.0	1.1	1.3	-0.6	0.6	0.6
Specialized development banks	-0.6	-0.6	-0.6	0.2	0.0	0.1	-0.5	-0.4
Private commercial banks	1.9	1.9	1.6	2.1	1.6	0.9	0.4	1.0
Foreign commercial banks	3.2	2.9	3.2	2.9	3.2	3.3	3.4	3.0
Composition of credit (in percent of total, excluding working capital)								
Agriculture, forestry, and fishing	9.0	8.2	7.3	6.7	6.5	5.6	6.2	...
Industry	26.1	25.5	25.7	24.3	24.3	23.6	24.4	...
Construction	7.9	7.8	8.1	8.2	9.5	10.5	10.5	...
Transport and communication	2.3	2.0	1.7	1.7	2.4	2.6	2.5	...
Trade	41.8	42.3	43.7	44.9	43.5	44.6	43.3	...
Other	12.9	14.1	13.4	14.1	13.0	13.2	13.0	...
Memorandum items:								
Share of assets (as a percent of total banking system assets)								
State-owned commercial banks	33.5	29.8	28.8	28.5	28.0	26.1	26.7	26.4
Specialized development banks	7.0	6.6	6.5	6.1	5.5	5.5	5.6	5.7
Private commercial banks	51.1	55.2	57.2	58.8	60.0	62.2	61.5	61.9
Foreign commercial banks	8.4	8.3	7.4	6.6	6.4	6.3	6.1	6.1

Sources: Bangladesh Bank; and IMF staff calculations.

1/ From 2007, an adjustment is made to exclude special accounts set up in state-owned commercial banks' balance sheets, which contain the accumulated losses arising from the difference in market and book value of assets. These amounts are deducted from state-owned commercial banks' assets and regulatory capital. In December 2013, additional adjustment to regulatory capital is made for banks that availed themselves to the temporary relaxation in loan rescheduling rules.

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

3/ In December 2013, nonperforming loans are adjusted for the temporary relaxation in loan rescheduling rules.

4/ Bangladesh Bank defines return on equity (ROE) as the ratio of net income after provision and taxes to regulatory capital. State-owned commercial banks' ROE in June 2013 reflect a combination of operating profit and lower capital base relative to end-2012.

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

Table 5. Bangladesh: Risk Assessment Matrix 1/				
Shock	**Likelihood**	**Vulnerabilities**	**Potential Impact**	**Policy Response**
Resurgence of politically motivated tensions.	Medium	Further violence and uncertainty would affect investment and growth.	High: Growth prospects could be affected by a loss of confidence and a slump in investment and consumption. Pressures on balance of payments (BOP) could emerge from lost export production. Fiscal consolidation could be at risk.	Automatic fiscal stabilizers should be allowed to operate, and assuming the turbulence is temporary, reserve buffers could be used to cushion the shock and smooth exchange rate volatility, while sterilizing any intervention to prevent excessive monetary tightening.
Withdrawal of preferential access to the European Union (EU) for lack of progress in upgrading labor and factory safety standards in the garment industry.	Low to medium	Half of total exports and two-thirds of garment exports go to the EU. Vulnerabilities would be amplified compared to a scenario of protracted slow advanced-economy growth (see below), as this country-specific shock would affect Bangladesh directly.	High: GDP growth could decline by up to 1¾ percentage points in the first year of the shock, as the garment sector (which accounts for 80 percent of total exports and directly employs about four million workers, mainly women) would be severely affected. Pressures on BOP would intensify, destabilizing the exchange rate and putting pressure on reserves. 2/	Greater exchange rate flexibility coupled with moderate fiscal easing, as modest automatic stabilizers kick in, with possible budgetary provisions needed to top-up existing safety net schemes. While seeking reinstatement of preferential access, structural policies to diversify to new garment markets should be encouraged, in conjunction with an acceleration of steps to establish minimum labor rights and worker safety standards.
Further deterioration in the state-owned bank finances (state-owned commercial and specialized banks).	Medium	The financial health of the state banks has deteriorated significantly since 2012.	Medium: Assuming failure to recover all nonperforming loans (worst case), adjusting away the impact of the relaxation of loan rescheduling rules, and measuring capital on a tangible basis (most conservative), the potential additional recapitalization needs of state-owned banks at end-December 2013 are estimated at 1.3 percent of FY15 GDP above and beyond what is already in the baseline.	The undercapitalized banks should be held strictly accountable to the memoranda of understanding agreed with Bangladesh Bank, aimed at improving their financial performance. Stricter controls over their lending activities and more aggressive recovery of bad loans would be needed, backed by recapitalization tied to agreed reforms to improve longer-term viability.
Protracted period of slower growth in advanced economies.	High	About two-thirds of exports go to advanced economies. A slowdown may affect commodity prices and thus remittances from the Middle East.	Low to medium: Activity would be affected, particularly in the garment export sector, with a negative impact on the BOP. However, the relatively low-income elasticity of demand for garment exports (evidenced during the global financial crisis) and Bangladesh's significant cost competitiveness would act as mitigating factors.	Greater exchange rate flexibility would need to be coupled with moderate fiscal easing, as modest automatic stabilizers kick in, with possible budgetary provisions needed to top-up existing safety net schemes. Stronger emphasis on improving factory and labor safety standards, infrastructure, and productivity would also be needed to maintain export competitiveness.
Surges in global financial market volatility, triggered by geopolitical tensions or revised market expectations on unconventional monetary policy exit or emerging market fundamentals.	High	Bangladesh's international financial linkages are limited and trade linkages with emerging markets are weak.	Low: Direct impact would be negligible, but could be more tangible if protracted financial volatility in India makes garment exports less competitive for a prolonged period. 3/	Same as above.

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

2/ Box 4 in IMF Country Repot No. 13/357 for a detailed assessment of withdrawal of preferential access to the EU.

3/ Box 5 in IMF Country Report No. 13/357 for a discussion on spillover from India.

Table 6a. Bangladesh: Central Government Operations, FY2011–15 1/

	FY11	FY12	FY13	FY14		FY15
			Est.	Budget	Prog.	Proj.
	(In billions of taka)					
Total revenue and grants	949	1,187	1,340	1,740	1,551	1,794
Total revenue	928	1,138	1,288	1,674	1,488	1,731
Tax revenue	796	952	1,075	1,411	1,237	1,449
National Board of Revenue (NBR) taxes	764	916	1,033	1,360	1,191	1,396
Of which : VAT and supplementary duties	426	503	550	707	626	725
Taxes on income and profits	221	281	344	483	411	480
Customs and excise duties	112	126	126	160	138	157
Non-NBR taxes	32	36	41	51	47	53
Nontax revenue	132	186	214	262	251	282
Foreign grants	21	49	52	67	62	63
Total expenditure	1,278	1,501	1,752	2,225	1,997	2,292
Current expenditure	773	884	997	1,135	1,122	1,271
Pay and allowances	199	209	217	249	273	312
Goods and services	101	108	131	158	154	179
Interest payments	156	203	240	277	262	284
Subsidies and transfers 2/	314	363	407	431	427	487
Block allocations	3	2	2	19	6	8
Annual Development Program (ADP)	335	363	500	659	585	721
Non-ADP capital spending	78	101	89	274	176	188
Net lending 3/	73	141	170	155	112	104
Other expenditures 4/	20	12	-4	3	3	7
Overall balance (including grants)	-329	-314	-412	-485	-446	-498
(Excluding grants)	-349	-363	-463	-551	-508	-561
Net financing	329	314	412	485	446	498
External	28	73	120	144	98	163
Disbursements	81	134	194	237	184	244
Amortization	-53	-61	-73	-93	-86	-80
Domestic	300	239	261	341	349	334
Banks 3/	245	196	205	261	242	223
Of which : Bangladesh Bank	114	45	-71	…	…	…
Nonbanks	55	43	57	80	107	111
Cash float and discrepancy	1	2	30	0	0	0

(continued)

Table 6a. Bangladesh: Central Government Operations, FY2011–15 1/ (concluded)

	FY11	FY12	FY13	FY14		FY15
			Est.	Budget	Prog.	Proj.
			(In percent of GDP)			
Total revenue and grants	11.9	12.9	12.9	14.6	13.0	13.2
Total revenue	11.7	12.4	12.4	14.1	12.5	12.7
Tax revenue	10.0	10.4	10.4	11.9	10.4	10.7
NBR taxes	9.6	10.0	10.0	11.4	10.0	10.3
Of which : VAT and supplementary duties	5.4	5.5	5.3	5.9	5.3	5.3
Taxes on income and profits	2.8	3.1	3.3	4.1	3.5	3.5
Customs and excise duties	1.4	1.4	1.2	1.3	1.2	1.2
Non-NBR taxes	0.4	0.4	0.4	0.4	0.4	0.4
Nontax revenue	1.7	2.0	2.1	2.2	2.1	2.1
Foreign grants	0.3	0.5	0.5	0.6	0.5	0.5
Total expenditure	16.0	16.3	16.9	18.7	16.8	16.9
Current expenditure	9.7	9.6	9.6	9.5	9.4	9.3
Pay and allowances	2.5	2.3	2.1	2.1	2.3	2.3
Goods and services	1.3	1.2	1.3	1.3	1.3	1.3
Interest payments	2.0	2.2	2.3	2.3	2.2	2.1
Subsidies and transfers 2/	3.9	3.9	3.9	3.6	3.6	3.6
Block allocations	0.0	0.0	0.0	0.2	0.1	0.1
Annual Development Program (ADP)	4.2	4.0	4.8	5.5	4.9	5.3
Non-ADP capital spending	1.0	1.1	0.9	2.3	1.5	1.4
Net lending 3/	0.9	1.5	1.6	1.3	0.9	0.8
Other expenditures 4/	0.2	0.1	0.0	0.0	0.0	0.1
Overall balance (including grants)	-4.1	-3.4	-4.0	-4.1	-3.7	-3.7
(Excluding grants)	-4.4	-4.0	-4.5	-4.6	-4.3	-4.1
Primary balance (including grants)	-2.2	-1.2	-1.7	-1.7	-1.5	-1.6
(Excluding grants)	-2.4	-1.7	-2.2	-2.3	-2.1	-2.0
Net financing	4.1	3.4	4.0	4.1	3.8	3.7
External	0.4	0.8	1.2	1.2	0.8	1.2
Disbursements	1.0	1.5	1.9	2.0	1.5	1.8
Amortization	-0.7	-0.7	-0.7	-0.8	-0.7	-0.6
Domestic	3.8	2.6	2.5	2.9	2.9	2.5
Banks 3/	3.1	2.1	2.0	2.2	2.0	1.6
Of which : Bangladesh Bank	1.4	0.5	-0.7	…	…	…
Nonbanks	0.7	0.5	0.5	0.7	0.9	0.8
Cash float and discrepancy	0.0	0.0	0.3	0.0	0.0	0.0
Memorandum items:						
Subsidy costs (percent of GDP) 3/ 5/	2.2	2.9	3.1	3.1	2.2	2.0
Of which : Energy-related subsidies	1.0	1.6	1.7	1.1	1.0	0.8
Total central government debt (percent of GDP)	41.5	40.3	40.6	…	39.8	38.9
Nominal GDP (in billions of taka)	7,967	9,181	10,380	11,898	11,898	13,599

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

1/ Fiscal year begins July 1. Cash basis, unless otherwise specified.

2/ Comprise budget allocations for safety net programs and other social-related spending, pensions and gratuities, and direct subsidies for food and to the agriculture and export sectors. Other subsidy-related costs (i.e., lending to large energy-related state-owned enterprises (SOEs)) are included in net lending.

3/ Includes Tk 27.0 billion in FY12 and Tk 55.2 billion (programmed) in FY13 (actual: Tk 59.35 billion) in special bonds issued to the state-owned commercial banks for the noncash securitization of past subsidy-related loans made to Bangladesh Petroleum Corporation, consistent with the earlier treatment in the fiscal accounts of similar operations. Bank financing excludes advances and deposits of semi-autonomous and autonomous bodies.

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

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

Table 6b. Bangladesh: Central Government Operations, GFSM 2001 Classification, FY2011–15 1/
(In billions of taka)

	FY11	FY12	FY13	FY14		FY15
			Est.	Budget	Prog.	Proj.
1. Central government accounts						
Revenue	949	1,187	1,340	1,740	1,551	1,794
Taxes	796	952	1,075	1,411	1,237	1,449
Grants	21	49	52	67	62	63
Other revenue	132	186	214	262	251	282
Expenditure	865	1,037	1,170	1,292	1,237	1,382
Compensation of employees	199	209	217	249	273	312
Purchases of goods and services	101	108	131	158	154	179
Interest	156	203	240	277	262	284
Subsidies 2/	161	256	322	309	256	272
Grants	170	182	193	209	203	237
Other payments	79	79	67	90	89	98
Gross operating balance	84	150	170	448	314	412
Net acquisition of nonfinancial assets	412	464	589	933	760	910
Fixed assets	335	363	500	659	585	721
Nonproduced assets	78	101	89	274	176	188
Net lending (+)/net borrowing (-) 3/	-329	-314	-420	-485	-446	-498
Net financial transactions	-288	-245	-381	-485	-446	-498
Net acquisition of financial assets (+ increase)	47	67	57	...	...	...
Domestic	47	67	57	...	...	...
Deposits	47	67	57	...	...	...
Net incurrence of liabilities (+ increase)	335	312	381	485	446	498
Domestic	307	239	261	341	349	334
Debt securities and loans and advances	281	239	261	341	349	334
Other accounts payable	26	0	0	0	0	0
Foreign	28	73	120	144	98	163
Statistical discrepancy (net borrowing less net financial transaction)	-41	-69	-38	0	0	0
2. Financial balance sheet						
Net financial worth						
Stock of financial assets	249	316	373	...	...	...
Domestic	249	316	373	...	...	...
Deposits	249	316	373	...	...	
Foreign	0	0	0	...	...	...
Stock of liabilities	3,310	3,702	4,218	...	4,714	5,246
Domestic	1,658	1,942	2,433	...	2,783	3,118
Debt securities and loans and advances	1,658	1,942	2,432	...	2,781	3,115
Foreign	1,652	1,760	1,785	...	1,931	2,128

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

1/ Fiscal year begins July 1.
2/ Includes transfers to Bangladesh Petroleum Corporation and Bangladesh Power Development Board.
3/ Includes statistical discrepancy.

Table 7. Bangladesh: External Financing Requirements and Sources, FY2011–19 1/

(In millions of U.S. dollars)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
				Projections					
Gross financing requirements	2,971	4,710	5,404	4,796	6,472	6,449	6,995	7,139	7,723
External current account deficit (+)	2,227	447	-2,525	-2,026	1,060	1,414	1,749	2,038	2,301
Amortization of medium- and long-term debt	739	770	919	1,107	1,034	1,020	1,010	1,140	1,420
Gross reserves accumulation (+ = increase)	-766	632	5,015	4,032	2,768	2,703	2,848	2,649	2,905
IMF repayments	57	197	198	82	59	41	5	42	98
Other net capital outflows	714	2,664	1,797	1,602	1,552	1,271	1,384	1,270	999
Available financing	2,971	4,568	4,876	4,415	6,042	6,449	6,995	7,139	7,723
Capital grants	642	482	588	750	750	800	800	800	800
Loan disbursements to the central government	1,051	1,696	2,426	2,262	2,983	3,443	3,480	3,331	3,533
Portfolio investment, net	-28	240	287	350	400	439	533	588	650
Foreign direct investment, net	775	1,191	1,730	1,530	1,749	1,918	2,332	2,570	2,841
Short-term oil import credit, net	531	960	-155	-477	160	-150	-150	-150	-100
Exceptional financing	...	142	528	380	430	0	0	0	0
IMF: ECF arrangement	...	142	278	280	280	0	0	0	0
Asian Development Bank	...	...	150	0	150	0	0	0	0
World Bank	...	...	...	0	0	0	0	0	0
India	...	...	100	100	0	0	0	0	0

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

1/ Fiscal year begins July 1.

Table 8. Bangladesh: Indicators of the Capacity to Repay the IMF, FY2011–25 1/ 2/

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
				Projections											
Net use of IMF credit (in millions of SDRs)															
Disbursements	0.0	91.4	182.8	182.8	182.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	38.2	128.0	130.4	53.4	39.3	28.6	5.0	29.0	65.5	101.9	129.1	128.8	101.0	64.2	27.5
Outstanding IMF credit															
In millions of SDRs	379.0	343.8	396.6	526.0	670.2	643.3	640.0	612.5	548.5	448.0	320.0	192.0	91.5	27.5	0.0
In millions of U.S. dollars	590.4	534.9	603.1	805.9	1,026.9	985.7	980.5	938.5	840.5	686.4	490.3	294.2	140.1	42.1	0.1
In percent of gross international reserves	6.1	5.3	4.0	4.2	4.7	4.0	3.6	3.1	2.5	1.9	1.3	0.7	0.3	0.1	0.0
In percent of exports of goods and services and remittances	1.6	1.4	1.4	1.7	2.1	1.8	1.6	1.4	1.2	0.9	0.6	0.3	0.1	0.0	0.0
In percent of debt service 3/	61.4	42.0	46.2	56.2	73.6	67.5	64.5	52.3	37.7	27.3	16.7	8.6	3.9	1.1	0.0
In percent of GDP	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.4	0.3	0.2	0.2	0.1	0.0	0.0	0.0
In percent of quota	71.1	64.5	74.4	98.6	125.7	120.6	120.0	114.9	102.9	84.0	60.0	36.0	17.1	5.1	0.0
Obligations to IMF based on existing credit prior to current ECF arrangement (in millions of SDRs)															
Principal	36.4	126.6	130.0	53.4	38.6	26.9	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	1.8	1.4	0.4	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations to IMF based on existing and prospective credit (in millions of SDRs)															
Principal	36.4	126.6	130.0	53.4	38.6	26.9	3.4	27.4	64.0	100.6	128.0	128.0	100.6	64.0	27.4
Charges and interest	1.8	1.4	0.4	0.0	0.7	1.6	1.6	1.6	1.5	1.4	1.1	0.8	0.5	0.2	0.1
Total obligations to IMF based on existing and prospective credit															
In millions of SDRs	38.2	128.0	130.4	53.4	39.3	28.6	5.0	29.0	65.5	101.9	129.1	128.8	101.0	64.2	27.5
In millions of U.S. dollars	59.6	199.2	198.3	81.9	60.1	43.8	7.6	44.5	100.4	156.2	197.8	197.3	154.8	98.4	42.1
In percent of gross international reserves	0.6	2.0	1.3	0.4	0.3	0.2	0.0	0.1	0.3	0.4	0.5	0.5	0.3	0.2	0.1
In percent of exports of goods and services and remittances	0.2	0.5	0.5	0.2	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0
In percent of debt service 3/	6.2	15.7	15.2	5.7	4.3	3.0	0.5	2.5	4.5	6.2	6.7	5.8	4.3	2.5	1.0
In percent of GDP	0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
In percent of quota	7.2	24.0	24.5	10.0	7.4	5.4	0.9	5.4	12.3	19.1	24.2	24.1	18.9	12.0	5.2
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	111.9	116.0	129.9	153.0	174.9	191.8	212.0	233.7	258.3	284.5	312.2	342.6	375.9	412.5	452.6
Exports of goods and services and remittances (in billions of U.S. dollars)	36.8	39.4	43.7	46.5	49.3	54.7	59.7	65.3	71.4	78.6	86.6	95.5	105.3	116.2	128.8
Gross international reserves (in billions of U.S. dollars)	9.6	10.1	15.1	19.2	21.9	24.6	27.5	30.1	33.0	36.0	38.9	42.4	46.5	51.3	56.5
Debt service (in billions of U.S. dollars) 3/	1.0	1.3	1.3	1.4	1.4	1.5	1.5	1.8	2.2	2.5	2.9	3.4	3.6	3.9	4.1
Quota (in millions of SDRs)	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3	533.3

Source: IMF staff estimates and projections.

1/ Fiscal year begins July 1.

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

3/ Total public debt service, including IMF repayments.

Table 9. Bangladesh: Proposed Schedule of Disbursements and Timing of ECF Arrangement Reviews

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

Source: IMF.

Appendix I. Bangladesh—Letter of Intent

May 11, 2014

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

Dear Ms. Lagarde:

The economy of Bangladesh went through a turbulent period ahead of national parliamentary elections in January 2014. Unrest and uncertainty affected activity and demand, slowing tax collections, imports, credit to private sector, and public investment, while headline inflation edged up on supply disruptions. Despite these challenges, we have maintained macroeconomic stability. Government borrowing has been kept within targeted levels and we have continued to build up reserves. Non-food inflation has been trending down, while exports have remained resilient.

Meanwhile our Extended Credit Facility (ECF)-supported program remains firmly on track. The quantitative performance criteria (PC) for end-December 2013 were met, and the indicative targets for September and December 2013 were either met or narrowly missed. Preliminary data indicate that the country is on track for most end-March 2014 quantitative targets as well. All structural benchmarks due in December 2013 and March 2014 have also been completed.

Our reform priorities remain focused on stepping up revenue collections, strengthening the state-owned commercial banks (SOCBs) and state-owned enterprises, and improving public financial management. Steady progress is being made on the implementation of the new value added tax (VAT), with the international tendering process for the automation software already completed and on track for final selection of the software provider by end-June 2014. To address continued weaknesses in asset quality and profitability of the SOCBs, Bangladesh Bank (BB) is regularly monitoring progress against plans to strengthen governance, risk management and internal control at these banks, and is moving to enforce sanctions in case of noncompliance. These and other details of our policy program are set out in the attached Memorandum of Economic and Financial Policies (MEFP).

We are requesting an increase in the end-June 2014 PC on net international reserves of BB, and a corresponding reduction of the PC on BB's net domestic assets.

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

To ensure strong performance under the ECF arrangement, we will continue to maintain a close policy dialogue with IMF staff and pursue technical assistance, as necessary, from the IMF and other development partners in support of our reform agenda. We shall remain in close consultation with the IMF on the adoption of measures and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such matters. Moreover, in respect of implementing the policies and achieving the objectives of the program, the IMF will be kept informed. We also authorize publication of this Letter of Intent and its attachments, as well as the accompanying staff report.

Sincerely yours,

/s/

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

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

Attachment 1. Bangladesh—Memorandum of Economic and Financial Policies

MAY 11, 2014

This memorandum updates the November 5, 2013 Memorandum of Economic and Financial Policies (MEFP) under the Government of Bangladesh's three-year Extended Credit Facility (ECF) arrangement.

I. BACKGROUND

1. **Macroeconomic performance and outlook.** Economic activity was affected in the first half of FY14 by unrest and uncertainty in the run-up to the January 2014 general elections. The impact was reflected in slower credit growth, private and public investment, imports, and tax collections, while supply disruptions pushed up food inflation. Growth in worker remittances has also weakened along with manpower exports. Despite these challenges, Bangladesh's external position remains strong: exports have been resilient, and we have been able to continue to build up international reserves. Moreover, non-food inflation has continued to abate, and the overall fiscal balance remains on track against our targets. As normalcy returns, we expect domestic demand and economic activity to rebound in the remainder of FY14 and in FY15.

II. FISCAL POLICY AND PUBLIC FINANCIAL MANAGEMENT

2. **Fiscal performance.** Subdued economic activity and weak imports in the first half of FY14 had a negative impact on tax revenues, which fell just below the program indicative target (IT) at end-December 2013, the fourth test date of the ECF arrangement. At the same time, political uncertainty and unrest led to delays in the implementation of the Annual Development Program (ADP). We have kept other fiscal expenditures under tight control, while protecting social-related spending. As a result, we met our performance criterion (PC) on net credit to the central government (NCCG) by the banking system at end-December 2013, and are on track to meet the NCCG target for end-June 2014 as well as the target for the overall fiscal deficit (excluding grants) of 4.3 percent of GDP for FY14 as a whole.

3. **Fiscal policy objectives for FY15.** We will continue to pursue a prudent fiscal policy in the coming fiscal year, anchored by a budget deficit (excluding grants) target of 4.1 percent of GDP. In line with this, we will aim to keep NCCG below a cumulative ceiling of Tk 100 billion in the six months to December 2014. Within this envelope, we will increase priority fiscal spending. In public investment, top priority will be given to high-quality projects with a strong impact on growth, particularly in energy and transport infrastructure. In line with the government circular issued in January 2012 to line ministries, shortfalls in externally funded ADP projects shall not be substituted with domestic funding. We will also prioritize spending on social protection (see paragraph 13 below).

4. Revenue measures. To strengthen government revenue and increase fiscal space for priority spending going forward, we will take the following measures:

- ***Implementation of the new value added tax (VAT).*** We have continued to make steady progress on VAT implementation. We published the tender for the selection of the automation software vendor in November 2013 (ahead of the target). The tender evaluation process has been completed, and will be approved expeditiously by the Cabinet Committee on Government Purchases so as to ensure final selection of the software provider by the end-June 2014 deadline (a structural benchmark). We have also taken steps recently to expedite the tendering process to appoint an external management consultancy for VAT implementation, as well as the release of domestic funding for the project.
- ***Other tax reforms.*** To help relieve the export sector from the impact of the recent political unrest and ongoing restructuring costs, we granted a temporary reduction in export tax rates (from 0.8 percent to 0.3 percent for ready-made garments (RMG) exports, and from 0.8 percent to 0.6 percent for all other exports), effective from April 23, 2014 through June 2015. The cost is estimated at about Tk 20 billion in foregone revenue in FY14 and FY15. To offset this, we will undertake revenue-enhancing tax policy measures in the FY15 Budget and improve tax compliance through administrative measures. Over the medium term, we will continue to rationalize import tariff structures (reducing the level and dispersion of tariff rates), and will work on a plan to overhaul the corporate income tax by gradually reducing the rate while broadening the base, with the aim of increasing overall corporate income tax collections.
- ***Revenue administration.*** Tax revenue is expected to improve along with the recovery in domestic activity and imports. To further support revenue collections, we will continue to modernize the tax administration system. Registrations for the online tax identification number (e-TIN) have proceeded at a rapid pace: up to March 2014, over 1.1 million taxpayers registered for e-TIN, and of these 23 percent correspond to new taxpayers.

5. Subsidies and state-owned enterprise (SOE) reforms. Our policies continue to be oriented to containing energy subsidies. We remain committed to keeping domestic average fuel prices within Tk 10 per liter of international prices, and price will be adjusted as needed to keep to that target. The IT on short-term external borrowing for oil imports by Bangladesh Petroleum Corporation (BPC) was narrowly missed in December 2013. To avoid similar breaches in the future, and strengthen the transparency of subsidy policies, we will make regular budgetary transfers, at least on a quarterly basis, to BPC, the Power Development Board (BPDB), and Chemical Industries Corporation (BCIC) to cover subsidy costs. To strengthen BPC's financial management, we had planned to hire professional staff by March 2014; appoint a global firm to audit BPC's financial statements for FY13, in association with a local firm (a September 2014 structural benchmark); and adopt an automated financial reporting software by December 2014. There have been some delays in hiring professional staff in BPC, but the process is expected to be completed by June 2014. The other planned actions are on track.

6. Public financial management. We have developed a preliminary framework for cashflow forecasting, which will be validated in coming weeks and be fully operational by end-May 2014. We will report, from July 2014, the resulting monthly cash flow forecasts as part of the reporting requirements under the accompanying Technical Memorandum of Understanding. As a prior action for the previous ECF review, the Cash and Debt Management Committee (CDMC) placed a limit of Tk 40 billion on the amount of government borrowing from Bangladesh Bank (BB) through the overdraft (OD) facility, which became effective from April 2014, and a standstill on further increases in the Ways and Means Advances (WMA) facility. To build buffers in preparation for this policy, the government has been drawing down the balances in both the OD and WMA facilities through pre-financing via treasury bills and bonds.

7. Public debt management. We have prepared a draft medium-term debt strategy, which was circulated for wider consultation in April 2014. The final strategy will be approved by the Minister of Finance in June 2014. We will follow up on the recommendations of the ongoing Debt Management Performance Assessment (DeMPA) by the World Bank. Based on one of its recommendations, we will adopt, by July 2014, guidelines for the approval and issuance of loan guarantees provided by the government (a new structural benchmark). As a result of the several measures adopted in recent months to strengthen external borrowing procedures, inter-agency coordination in this area has significantly improved. Going forward, our external borrowing, particularly on nonconcessional terms, will continue to center on projects in power, transportation, telecommunications, and other infrastructures to help meet our critical development needs.

III. MONETARY POLICY AND CENTRAL BANK OPERATIONS

8. Monetary and exchange rate policy. Our monetary policy will be anchored on a reserve money target aimed at containing inflation while allowing adequate expansion of private sector credit growth. As indicated in our January 2014 Monetary Policy Statement, there are upside risks to inflation stemming from higher wages and the rebound in aggregate demand. Should inflation steadily rise above projections, the reserve money target will be tightened, and the exchange rate may also be allowed to appreciate. International reserves have continued to rise, exceeding our end-December 2013 PC target. BB will continue to intervene in foreign exchange markets to further build up reserves in order to preserve reserve adequacy, sterilizing as required to meet our reserve money targets.

9. Central bank operations. We have taken several measures to strengthen BB's financial reporting. The final approval by BB Board of the management letter for the external audit of BB's FY13 financial accounts by a global audit firm took place in January 2014, a slight delay relative to the benchmark. Based on the satisfactory experience with this external audit, we have initiated the process to engage a global firm to audit BB's FY14 financial statements. The BB Board has appointed a certified chartered accountant as an advisor to its Audit Committee (a structural benchmark for March 2014).

IV. FINANCIAL SECTOR REFORMS

10. Banking system supervision. We issued a circular in December 2013 temporarily relaxing loan rescheduling guidelines until June 2014 to help private sector borrowers in the face of severe disruptions in economic activities during the last three months of 2013. This relaxation will not be extended beyond June 2014. In order to ensure the proper utilization of this temporary policy relaxation and to prevent the possibility of misuse, we are taking the following measures: (i) we will order the banks to issue quarterly status reports on the restructured loans and BB will monitor these reports; (ii) BB will verify the rescheduled loan accounts and inspect them on a case-by-case basis to ensure compliance with BB's approval conditions; and (iii) if any restructured loan is defaulted on, BB will instruct that it be classified adversely and the required provision be made. BB has continued to implement provisions under the amended Bank Companies Act (BCA), including through issuance of circulars on related lending and stock market exposure for banks. For banks currently with stock market exposure above the permissible limit, BB will strictly monitor that the current exposures in nominal taka terms will not be increased and strictly enforce a steady reduction in their investments within the three-year period allowed in the BCA. BB remains committed to implementing a stronger bank resolution and lender of last resort framework, along the lines of the roadmaps approved last September 2013.

11. Strengthening the state-owned commercial banks (SOCBs). We will continue to focus on strengthening the governance, credit risk management, and balance sheets of the SOCBs. To this end, several measures are being undertaken:

- ***Governance.*** In accordance with the memoranda of understanding (MOUs) with BB, the Boards of the SOCBs adopted business plans and approved several policies to improve their operations, develop credit and risk management, and strengthen internal control and compliance (a December 2013 benchmark). By December 2014, BB will assess conformity of the SOCBs with their recently approved internal control and compliance policies (a new structural benchmark).

- ***Prudent credit policies.*** We will impose strong sanctions provided for in the MOUs in case of noncompliance, particularly regarding areas which are directly under the control of banks, such as credit growth ceilings and limits on single borrower exposures and related lending. In this regard, as a sanction against an SOCB that has systematically breached the credit growth ceiling, BB has ordered it to deposit, as unremunerated reserves at the central bank, the entire excess amount lent over the credit limit.

- ***Strengthening SOCB balance sheets.*** As envisaged in our previous MEFP, in December 2013 we injected Tk 41 billion into the four SOCBs to partially recapitalize them. We intend to continue to strengthen the SOCB's capital position in line with regulatory capital adequacy standards, conditional on progress on actions agreed under the MOUs and in the business plans approved by the SOCBs. BB will continuously monitor loan recovery practices by SOCBs, and explore alternative ways of recovering bad loans.

- ***Automation.*** In consultation with the SOCBs, we have completed an action plan to fully automate financial reporting in SOCB branches (a structural benchmark for March 2014), whereby by 2016 around 96 percent of the branches of the SOCBs will have been automated through implementation of the "Core Banking System" software.

V. REFORMS TO BOOST GROWTH AND INCLUSION

12. Labor and safety standards. In November 2013 the Wage Board approved an increase in the minimum wage for the RMG industry. We are also working, in alliance with development partners and international retailers, on improving factory safety standards in the RMG sector, including through enhanced inspections.

13. Social safety nets. We met the IT for December 2013 on social-related spending. To continue to protect social spending while enhancing its efficiency, we intend to increase budget allocations for well targeted social safety net programs. We remain committed to strengthening the efficiency and transparency of social safety net programs, along with developing a comprehensive poverty database.

14. Reforms to foreign exchange regulations. To help facilitate business transactions, deepen local capital markets, and attract foreign direct investment, we will continue to make progress towards a gradual liberalization of exchange regulations on current and capital account in accordance with the roadmap approved in September 2013. We will review and adopt the necessary amendments to foreign exchange regulations and reporting routines for current account transactions by December 2014 (a structural benchmark). In addition, we will draft the necessary amendments to the Foreign Exchange Regulations Act, with submission to Parliament by December 2014.

15. Trade and investment reforms. We will continue our efforts to rationalize our trade policies by reducing the dispersion and average level of protection, as well as the incidence of waivers and exemptions. We will also expand public investments in areas with high expected social returns, in particular those that reduce supply bottlenecks and the cost of doing business.

VI. PROGRAM MONITORING

16. Progress under our program will continue to be monitored through PCs and ITs, structural benchmarks, and other necessary measures, with semi-annual program reviews. Quantitative PCs and ITs for March, June, September, and December 2014 are set out in Table 1, and structural benchmarks are set out in Table 2. They are guided by the attached Technical Memorandum of Understanding, as amended. The fifth and sixth reviews are expected to take place on or after November 1, 2014 and April 1, 2015, respectively.

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

	6/30/12		12/31/12		6/30/13		9/30/13			12/31/13				3/31/14	6/30/14		9/30/14	12/31/14
	PC with adjustors	Est.	PC with adjustors	Est.	PC with adjustors	Est.	IT	Est.		Prog. PC	PC with adjustors	Est.		IT	Prog. PC	Modified PC	IT	Prog. PC
Performance criteria applicable on a periodic basis 2/ 3/																		
Net international reserves (NIR) of Bangladesh Bank (BB) (floor, end of period (eop) stock, in millions of U.S. dollars)	6,097	6,984	6,356	9,435	10,450	12,357	10,877	13,326	Met	13,402	13,352	15,024	Met	13,526	13,729	15,290	15,760	16,230
Net domestic assets (NDA) of BB (ceiling, eop stock, in billions of taka)	538	435	566	338	340	190	324	133	Met	207	211	79	Met	223	271	155	129	177
Net credit to the central government (NCCG) by the banking system (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka) 4/	240	139	92	41	204	145	25	2	Met	100	104	63	Met	167	242	242	25	100
	4/1/12 – 6/30/12		10/1/12 – 2/19/13		4/1/13 – 6/30/13		7/1/13 – 9/30/13			10/1/2013 – 12/31/13				1/1/14 – 3/31/14	4/1/14 – 6/30/14		7/1/14 – 9/30/14	10/1/14 – onward
	Prog. PC	Est.	Prog. PC	Est.	Prog. PC	Est.	Prog. PC	Est.		Prog. PC		Est.		Prog. PC	Prog. PC	Prog. PC	Prog. PC	Prog. PC
Performance criteria applicable on a continuous basis 5/																		
New nonconcessional external debt maturing in more than one year, contracted by the public sector and/or guaranteed by the central government or BB (ceiling, stock since December 31, 2011, in millions of U.S. dollars)	500	0	1,000	2,436	3,250	2,860	4,000	2,860	Met	4,250		3,107	Met	5,000	5,750	5,750	6,000	6,000
New nonconcessional external debt maturing in one year or less, contracted by the public sector and/or guaranteed by the central government or BB (ceiling, stock since December 31, 2011, in millions of U.S. dollars)	0	0	0	0	0	0	0	0	Met	0		0	Met	0	0	0	0	0
Accumulation of new external payment arrears by the public sector (ceiling, stock since December 31, 2011, in millions of U.S. dollars)	0	0	0	0	0	0	0	0	Met	0		0	Met	0	0	0	0	0
	6/30/12		12/31/12		6/30/13		9/30/13			12/31/13				3/31/14	6/30/14		9/30/14	12/31/14
	IT	Est.	IT	Est.	IT	Est.	IT	Est.		IT		Est.		IT	IT	IT	IT	IT
Indicative targets																		
Reserve money (ceiling, eop stock, in billions of taka)	1,014	976	1,061	1,067	1,135	1,122	1,151	1,137	Met	1,216		1,208	Met	1,242	1,304	1,304	1,313	1,396
Tax revenue of central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka) 6/	924	916	489	456	1,088	1,033	240	248	Met	495		493	Not Met	783	1,191	1,191	274	569
Social-related spending by central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka)	400	421	161	174	455	464	78	73	Not Met	177		186	Met	317	519	519	95	215
Net suppliers' credit and other short-term financing for oil imports (ceiling, cumulative change from end-FY11, in millions of U.S. dollars), program level	1,000	1,160	1,250	985	1,125	805	1,125	978	Met	1,125		1,126	Not Met	975	775	775	750	600
State-owned banks funded loans to Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB), and Bangladesh Chemical Industries Corporation (BCIC) (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka) 7/	0	-10	0	11	0	-61	0	0	Met	0		10	Not Met	0	0	0	0	0
Net loans extended by four largest state-owned commercial banks (ceiling, eop stock, in billions of taka) 8/	...	...	...	...	731	704	748	705	Met	705		691	Met	711	719	719	736	752
Memorandum items:																		
Budget support from bilateral and multilateral donors agencies (cumulative change from the beginning of the fiscal year, in millions of U.S. dollars), program level	0	0	50	150	200	250	50	50		100	...	50		100	100	100	150	150
Budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 (July 2011-June 2012) (cumulative change from the beginning of the fiscal year, in billions of taka), program level	...	...	...	...	55	56	...	...		...	...	...		...	...	...	...	...
Budgetary transfers for recapitalizing the four largest state-owned commercial banks (cumulative change from the beginning of the fiscal year, in billions of taka), program level 9/	...	...	...	...	...	...	...	...		41	...	41		41	50	50	...	15

1/ Fiscal year begins July 1. Cells marked by "..." indicate data not yet available or that the cell is not applicable for that particular date.

2/ Evaluated at the program exchange rate.

3/ The adjustors are specified in the Technical Memorandum of Understanding.

4/ The ceiling on NCCG by the banking system excludes special bonds, Tk 27.0 billion issued in FY12 (July 2011-June 2012) and Tk 55.2 billion programmed (actual Tk 59.35 billion) in FY13 (July 2012-June 2013), by the central government to the state-owned commercial banks for the securitization of loans made by these banks to the BPC prior to FY12 to cover shortfalls in government budgetary transfers for fuel-related subsidy costs incurred by the BPC.

5/ These performance criteria are applicable on a continuous basis, i.e., the targets are monitored continuously during each period.

6/ Collections by the National Board of Revenue only, as recorded by the Controller General of Accounts.

7/ Outstanding funded loans of Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, and BASIC Bank to BPC, BPDB, and BCIC.

8/ Comprising Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank. Program IT from December 2013 reflect change in definition of net loans.

9/ Comprising Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank.

Table 2. Bangladesh: Structural Benchmarks (Existing and Proposed)

Actions	Date	Macroeconomic Criticality	Status
Engage and complete a full external audit for the financial year of 2012-13 of Bangladesh Bank (BB) by a global audit firm.	December 2013	To strengthen internal operations and controls	Not met by the deadline. Completed on January 19, 2014.
Publication of the tender for the selection of the value-added tax (VAT) automation software vendor.	December 2013	To strengthen tax revenue administration	Met.
An internal control and compliance policy to be approved by each of the boards of the four largest state-owned commercial banks (SOCBs).	December 2013	To strengthen the banking system	Met.
Appointment of a certified chartered accountant as an advisor to the Audit Committee of the BB Board.	March 2014	To strengthen internal operations and controls	Met.
A detailed action plan for automation at the SOCBs to be approved by the Ministry of Finance.	March 2014	To strengthen the banking system	Met.
Selection of a vendor for a tax automation system for VAT.	June 2014	To strengthen tax revenue administration	
Adopt guidelines for the credit risk assessment, approval and issuance of loan guarantees provided by the central government.	July 2014	To strengthen public debt management	New benchmark.
Complete a full external audit for the financial year 2012-13 of the Bangladesh Petroleum Corporation by a global audit firm in association with a local firm.	September 2014	To strengthen financial management at the largest state-owned enterprise	
Review and adopt the amendments to foreign exchange regulations and reporting routines for all current account transactions, guided by the September 2013 roadmap adopted by BB and the Ministry of Finance.	December 2014	To strengthen the trade and investment climate	
An assessment by BB of compliance by the SOCBs with the Internal Control and Compliance policies approved in December 2013.	December 2014	To further improve governance at the SOCBs	New benchmark.

Attachment 2. Bangladesh—Technical Memorandum of Understanding

May 11, 2014

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative performance criteria and indicative targets under the Extended Credit Facility (ECF) arrangement, as specified in the Memorandum of Economic and Financial Policies (MEFP). It also describes the methods to be used to assess program performance and information requirements to ensure adequate monitoring of the targets.

2. Under the ECF arrangement, the program exchange rate is Bangladesh taka (Tk) 74.23 per U.S. dollar, as agreed at the time of approval of the ECF arrangement in April 2012. Foreign currency accounts denominated in currencies other than the U.S. dollar and monetary gold will first be valued in U.S. dollars as at the exchange rates and gold prices prevailing on June 30, 2011, and then be converted to Bangladesh taka.

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

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

4. Quantitative performance criteria for end-June 2014 and end-December 2014 and quarterly indicative targets for end-June 2014, end-September 2014, and end-December 2014 are set out in Table 1 of the Memorandum of Economic and Financial Policies. The continuous performance criteria for each specific period are also set out in this table, and will be monitored continuously during these periods.

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

- Floor on the level of net international reserves of Bangladesh Bank (BB), calculated as an end-of-period stock;
- Ceiling on the level of net domestic assets of BB, calculated as an end-of-period stock; and
- Ceiling on the change in net credit to the central government from the banking system, calculated as a cumulative flow from the beginning of the fiscal year (FY) (e.g., FY14 is July 1, 2013–June 30, 2014).

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

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

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

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

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

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

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

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

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

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

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

8. Adjustors to the measurement of performance criteria are (i) budget support to the central government from bilateral and multilateral agencies, calculated cumulatively from the beginning of the fiscal year; (ii) suppliers' credit and other short-term financing for oil imports, calculated cumulatively from end-June 2011; and (iii) budgetary transfers, calculated cumulatively from the beginning of the fiscal year, for recapitalizing the four largest SOCBs—Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank.

II. INSTITUTIONAL DEFINITIONS

9. The central government is defined as all budgetary units of the government of Bangladesh. It captures balances in the Treasury accounts and for special projects outside the Treasury accounts (as will be measured by government lending funds reported in the monetary accounts).

10. The public sector is defined as the central government, BB, nonfinancial public enterprises, departments, and autonomous and semi-autonomous bodies of all ministries and divisions.

11. Deposit money banks (DMBs) include commercial banks (state-owned, Islamic, private, and foreign-owned) and specialized banks, on which BB compiles data for the monthly monetary survey.

12. Nonbank claims on the central government represent the sum of cash receipts from sales of National Savings Certificates (reported by the National Savings Directorate), Treasury bill and bond holdings outside BB and the DMBs (reported by BB's Debt Management Department), and net flows to the General Provident Fund (reported by the Controller General of Accounts).

III. MONETARY AGGREGATES

A. Reserve Money

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

B. Net International Reserves of Bangladesh Bank

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

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

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

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

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

Excluded from the definition of GIR are:

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

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

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

C. Net Domestic Assets of Bangladesh Bank

18. A ceiling applies to the level of net domestic assets (NDA) of BB. The ceiling on NDA of BB will be adjusted downward (upward) by the amount of budget support from bilateral and

multilateral agencies in excess (short) of the programmed level. The ceiling on NDA of BB will be adjusted downward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level.

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

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

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

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

20. A ceiling applies on the change in net credit to the central government (NCCG) by the banking system measured cumulatively from the beginning of the fiscal year. The ceiling on NCCG by the banking system will be adjusted upward (downward) by the amount of budget support from bilateral and multilateral agencies short of (in excess of) the programmed level. The ceiling on NCCG by the banking system will be adjusted downward by the amount of suppliers' credit and other short-term financing for oil imports, calculated cumulatively since end-June 2011, in excess of the programmed level and by the amount of net lending by the central government to the BPC and the BPDB short of the programmed level. The ceiling on NCCG by the banking system excludes special bonds issued by the central government to the SOCBs for the securitization of loans made by these banks to the BPC prior to FY12 to cover shortfalls in government budgetary transfers for fuel subsidy-related costs incurred by the BPC. The ceiling on NCCG by the banking system will be adjusted upward (downward) by the amount of budgetary transfers, calculated cumulatively from the beginning of the fiscal year, for recapitalizing the four largest SOCBs—Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank——in excess (short) of the programmed level.

21. For program monitoring purposes, NCCG by the banking system is defined as the sum of net claims of BB and DMBs on the central government. For program monitoring purposes, NCCG by the banking system is defined to exclude deposits of and credit to autonomous and semi-autonomous bodies of the government (Table 2 of the TMU).

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

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

IV. FISCAL AGGREGATES

F. Tax Revenue

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

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

G. Social-Related Spending

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

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

V. EXTERNAL DEBT

A. Medium- and Long-Term External Debt

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

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

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

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

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

31. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the nominal value of debt and its net present value (NPV), expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

B. Short-Term External Debt

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

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

34. Excluded from the ceiling are (i) debts classified as international reserve liabilities of BB; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt; (iii) taka-denominated treasury bills and BB bills held by

nonresidents; (iv) concessional debts; (v) normal import financing; (vi) suppliers' credit and other short-term financing for oil imports from the Islamic Development Bank (IsDB) and other official entities; and (vii) forward contracts, foreign currency swaps, other futures market contracts, and short-term liabilities of the banking system. A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

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

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

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

VI. EXTERNAL PAYMENT ARREARS

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

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

Table 1. Bangladesh: Data Reporting Requirements

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

Table 1. Bangladesh: Data Reporting Requirements (continued)

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

Table 1. Bangladesh: Data Reporting Requirements (continued)

Item	**Reporting agency**	**Periodicity**
Disbursements of program and project grants by donor	MOF (ERD)	Monthly, within four weeks of the end of each month
Domestic financing, comprising (i) borrowing from and repayment to BB, DMBs, and nonbanks; (ii) changes in deposits held in BB, DMBs, and other deposit-taking institutions (see Table 2)	MOF(FD)/CGA/BB	Monthly, within six weeks of the end of each month
Balancing items reported by the CGA	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Treasury cashflow forecasts	MOF (FD)	Monthly, two weeks in advance of the beginning of each month
III. State-owned enterprise data	**MOF**	
See Table 3 on key financial indicators for Bangladesh Power Development Board (BPDB), Bangladesh Petroleum Corporation (BPC), and Bangladesh Chemical Industries Corporation (BCIC).	MOF (FD/SOE Monitoring Unit)/BPC	Quarterly, within six weeks of the end of each quarter
Cashflow statement for BPC (as shown under "Additional items" in Table 3)	BPC	Monthly, within two weeks of the end of each month
IV. Debt data	**MOF/BB/National Savings Directorate (NSD)**	
New external debt obligations contracted and/or guaranteed (concessional and nonconcessional) by the government of Bangladesh, BB, nonfinancial public enterprises, departments and autonomous and semi-autonomous bodies of all ministries and divisions (i.e. the public sector), including details on the amounts, terms, and conditions of each new obligation	MOF (ERD)/BB	Monthly, within six weeks of the end of each month
Total amount disbursed for each loan and guarantee included under the ceiling on nonconcessional external debt	MOF (FD)	Quarterly, within six weeks of the end of each quarter
Stock of outstanding external debt (short-term and medium- and long-term obligations) of the public sector, by creditor (in original currency and U.S. dollars)	MOF (ERD)/BB	Quarterly, within eight weeks of the end of the quarter
Stock of arrears on external debt contracted or guaranteed by the public sector by creditor (in original currency and U.S. dollars)	MOF (ERD)/BB	Monthly, within six weeks of the end of each month
Stock of domestic debt, including the outstanding balance of Treasury bills, Treasury bonds, as well as breakdown of National Savings Certificates	MOF (FD)/BB/NSD	Monthly, within six weeks of the end of each month
Projections of daily individual oil-related payments by commercial banks.	BB	Monthly, two weeks in advance of the beginning of each month
Actual and six-month projections on short-term external financing and repayment	BPC	Monthly, two weeks in advance of the beginning of each month
Actual and six-month projections on deferred payments for oil imports	BPC/BB (FRTMD)	Monthly, two weeks in advance of the beginning of each month
Syndicated loans by BPC from commercial banks	BPC/BB (FRTMD)	Monthly, two weeks in advance of the beginning of each month
V. Financial data	**BB**	
Financial soundness indicators of DMBs	BB (Department of Off-Site Supervision (DOS))	Quarterly, within eight weeks of the end of the quarter
Bank-by-bank data for the DMBs on credit to the private sector, as reported to BB for the purpose of compiling the monetary survey	BB	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (concluded)		
Item	**Reporting agency**	**Periodicity**
Bank-by-bank data for the DMBs on deposit and advance position	BB	Weekly data reported on a monthly basis, within two weeks of the end of each month
Compliance of state-owned commercial banks (SOCBs) with memoranda of understanding	BB (DOS)	Quarterly, within six weeks of the end of the quarter
Net loans and advances and components for each of the four largest SOCBs (Agrani Bank, Janata Bank, Rupali Bank, and Sonali Bank).	BB	Monthly, within six weeks of the end of each month
External borrowing in foreign currency by each SOCB from nonresident institutions	BB	Within a week from the date of approval by BB
Total capital market exposure and total share holding (as per section 26A(1) of the amended Bank Companies Act) of DMBs, and their exposures via subsidiaries	BB (DOS)	Monthly, within six weeks of the end of each month
Risk-weighted capital asset ratios and asset quality indicators of DMBs	BB (DOS)	Quarterly, within six weeks of the end of each month
Stock of loans extended to SOEs (BPC, BPDB, BCIC) by SOCBs (Sonali Bank, Agrani Bank, Janata Bank, and Rupali Bank) and BASIC bank, both funded and unfunded loans	BB (DOS)	Monthly, within four weeks of the end of each month
VI. External data	**BB/Other agencies**	
Detailed balance of payments	BB	Monthly, within six weeks of the end of each month
Export data by goods	Export Promotion Bureau	Monthly, within four weeks of the end of each month
Import letters of credit (settlement, opening, and outstanding)	BB	Monthly, within four weeks of the end of each month
Remittances and manpower exports	BB/Bureau Manpower, Employment, and Training	Monthly, within two weeks of the end of each month
VII. Other data	**Bangladesh Bureau of Statistics (BBS)**	
National accounts, by expenditure and by production, in nominal and real terms	BBS	Annual, within three months of the end of each year
Overall consumer price index	BBS	Monthly, within six weeks of the end of each month
Industrial production statistics	BBS	Monthly, within eight weeks of the end of each month

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

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

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

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

Table 4. Bangladesh: Safety Net Programs

	Programs	Name of Ministry	Code
(A.1) Cash Transfer (Allowances) Programs & Other Activities:			
(A.1.1) Social Protection			
1	Old Age Allowance	Ministry of Social Welfare	3960
2	Allowances for the Widow, Deserted and Destitute Women	Ministry of Social Welfare	3965
3	Allowances for the Financially Insolvent Disabled	Ministry of Social Welfare	3970
4	Maternity Allowance Program for the Poor Lactating Mothers	Ministry of Social Welfare	4715
5	Honorarium for Insolvent Freedom Fighters	Ministry of Social Welfare	3587
6	Honorarium & Medical Allowances for Injured Freedom Fighters	Ministry of Social Welfare	3585
7	Grants for Residents in Government Orphanages and Other Institutions	Ministry of Social Welfare	0000
8	Capitation Grants for Orphan Students in Non-government Orphanages	Ministry of Social Welfare	3451
9	General Relief Activities	Ministry of Disaster Management and Relief	0001
10	Block Allocation for Disaster Management	Ministry of Disaster Management and Relief	0003
11	Non-Bengali Rehabilitation	Ministry of Social Welfare	0015
12	Allowances for Distressed Cultural Personalities/ Activists	Ministry of Cultural Affairs	0001
13	Pension for Retired Government Employees and their Families	All Ministries	
14	Ration for Shaheed Family and Injured Freedom Fighters	Ministry of Liberation War Affairs	0001
(A.1.2) Social Empowerment			
1	Stipend for Disabled Students	Ministry of Social Welfare	4711
(A.2) Cash Transfer (Special) Program			
(A.2.1) Social Empowerment			
1	Housing Support	Ministry of Disaster Management and Relief	0001
2	Agriculture Rehabilitation	Ministry of Agriculture	0012
(B) Food Security Programs: Social Protection			
1	Open Market Sales (OMS)	Ministry of Food	0005
2	Vulnerable Group Development (VGD)	Ministry of Women and Children Affairs	0005
3	Vulnerable Group Feeding (VGF)	Ministry of Women and Children Affairs	0007
4	Test Relief (TR) Food	Ministry of Food	0001
5	Gratuitous Relief (GR) - Food	Ministry of Food	8209
6	Food Assistance in Chittagong Hill Tracts Area	Ministry of Chittagong Hill Tracts Affairs	0003
7	Food For Work (FFW)	Ministry of Disaster Management and Relief	5060

Table 4. Bangladesh: Safety Net Programs (continued)			
	Programs	**Name of Ministry**	**Code**
(C.1) Micro-Credit Programs: Social Empowerment			
1	Fund for Micro-Credit through PKSF	Ministry of Finance	3912
2	Social Development Foundation	Ministry of Finance	3946
(C.2) Miscellaneous Funds: Social Empowerment			
1	Fund for the Welfare of Acid Burnt and Disabled	Ministry of Social Welfare	3967
2	Fund for Assistance to the Small Farmer and Poultry Farms	Ministry of Finance	3996
3	Swanirvar Training Program	Ministry of Finance	3961
4	Shamaj Kallyan Parishad	Ministry of Social Welfare	3091
(C.3) Miscellaneous Funds: Social Protection			
1	Fund for Climate Change	Ministry of Environment and Forest	0002
2	Allowances for Urban Low-income Lactating Mothers	Ministry of Finance	3108
3	Block Allocation for Various Program	Ministry of Finance	0000
4	Employment Generation Program for the Ultra Poor	Ministry of Disaster Management and Relief	0006
5	National Service	Ministry of Youth and Sports	4729
6	Child Development Center	Ministry of Social Welfare	3489
7	Service and Assistance Center for Disabled	Ministry of Social Welfare	3490
(C.4) New Fund: Social Protection			
1	Rehabilitation and Creation of Alternative Employment for People Engaged in Begging Profession	Ministry of Social Welfare	3495
2	Universal Pension Insurance Scheme	Ministry of Local Government, Rural Development and Cooperatives	4009
(D) Development Sector Programs: Social Empowerment			
(D.1) Running Development Programs			
1	"Ashrayan" (Housing)	Prime Minister's Office	6520
2	Economic Empowerment of the Poor	Ministry of Local Government, Rural Development and Cooperatives	8162
3	Employment for Ultra-Poor in Northern Region	Ministry of Local Government, Rural Development and Cooperatives	7000
4	Participatory Rural Development (2nd Phase)	Ministry of Local Government, Rural Development and Cooperatives	8090
5	"Gucchagram" (Climate Victims Rehabilitation Project)	Ministry of Land	5120
6	Rural Employment and Rural Maintenance Program	Ministry of Local Government, Rural Development and Cooperatives	8112
7	Preliminary Education for Development of Children	Ministry of Women and Children Affairs	5011
8	Disaster Risk Mitigation and Reduction	Ministry of Disaster Management and Relief	5010

Table 4. Bangladesh: Safety Net Programs (continued)

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

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

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

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

BANGLADESH

May 13, 2014

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

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Risk of external debt distress	Low
Augmented by significant risks stemming from domestic public and/or private external debt?	No

This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA Update from November 11, 2013.[1] The results indicate that Bangladesh remains at a low risk of external public debt distress, and with no significant vulnerabilities related to domestic debt or private external debt.[2]

A. Underlying Assumptions

There are two major changes in the assumptions relative to the last update to the DSA:

- First, nominal GDP in U.S. dollars grows slightly faster from FY17 onward.[3] This reflects the impact of higher US inflation (from the revised *World Economic Outlook* projections) on domestic inflation and the GDP deflator. In consequence, nominal GDP in FY34 is now estimated to be about 8 percent higher.

[1] Based on the end-June 2011 stock of debt, the last full DSA was prepared in late 2011 (SM/11/278, Supplement 1 and IDA/SEC/65557). 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 3.35 during 2010–12. This DSA update uses the indicative thresholds for countries for this category.

[3] Data are on a fiscal year basis unless otherwise noted; FY17 is the fiscal year July 2016–June 2017.

- Second, the balance in the General Provident Fund (GPF)—equivalent to about 2 percent of GDP at end-FY13—is now included in the DSA as government debt. The GPF holds no assets, and participants' net contributions are a source of financing for the central government (reflected in the fiscal table under nonbank financing). They therefore represent a government liability.

B. External DSA

Under the baseline scenario, Bangladesh's public and publicly guaranteed (PPG) external debt is projected to trend down slightly. All associated PPG indicators remain well within the respective policy-dependent solvency thresholds under the baseline scenario and all associated standard bound tests.

C. Public DSA

The present value (PV) of public debt is projected to remain well below the respective benchmark. This result continues to hold under all standard bounds tests.

D. Alternative Scenario

The alternative scenario—similar to the one discussed in the November 2013 DSA update—assumes the following combination of shocks to the baseline: (1) issuance of a US$1 billion (0.6 percent of GDP) 10-year sovereign bond in FY15, to be rolled over in FY25; (2) new nonconcessional borrowing of US$6 billion (2.3 percent of GDP in FY19) to construct two 1,000 megawatt nuclear reactors during FY17–21, repayment of which is assumed to be financed by additional sovereign bond issuances starting in FY24; and (3) an additional recapitalization of the state-owned banks of 1.3 percent of FY15 GDP, beyond what is already considered in the baseline. This additional recapitalization would restore the banks' tangible capital to the regulatory minimum after deducting the estimated impact on capital positions arising from the temporary relaxation in loan rescheduling rules in December 2013 and also assuming a full write-off of all nonperforming loans (NPLs) and fraudulent loans not yet classified as NPLs. This is clearly a worst-case scenario.

Under this alternative scenario, no policy-dependent sustainability thresholds are breached even when key variables are subjected to standard bound tests. Thus, the risk of external debt distress remains low also in the alternative scenario. Similarly, the PV of public debt remains below the respective solvency and liquidity thresholds.

E. Conclusion

The macroeconomic framework is broadly unchanged from the November 2013 DSA update. With no major changes to prospective borrowing assumptions (volumes and costs), the debt sustainability assessment remains unchanged and the risk of external and public debt distress continues to be classified as low.

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

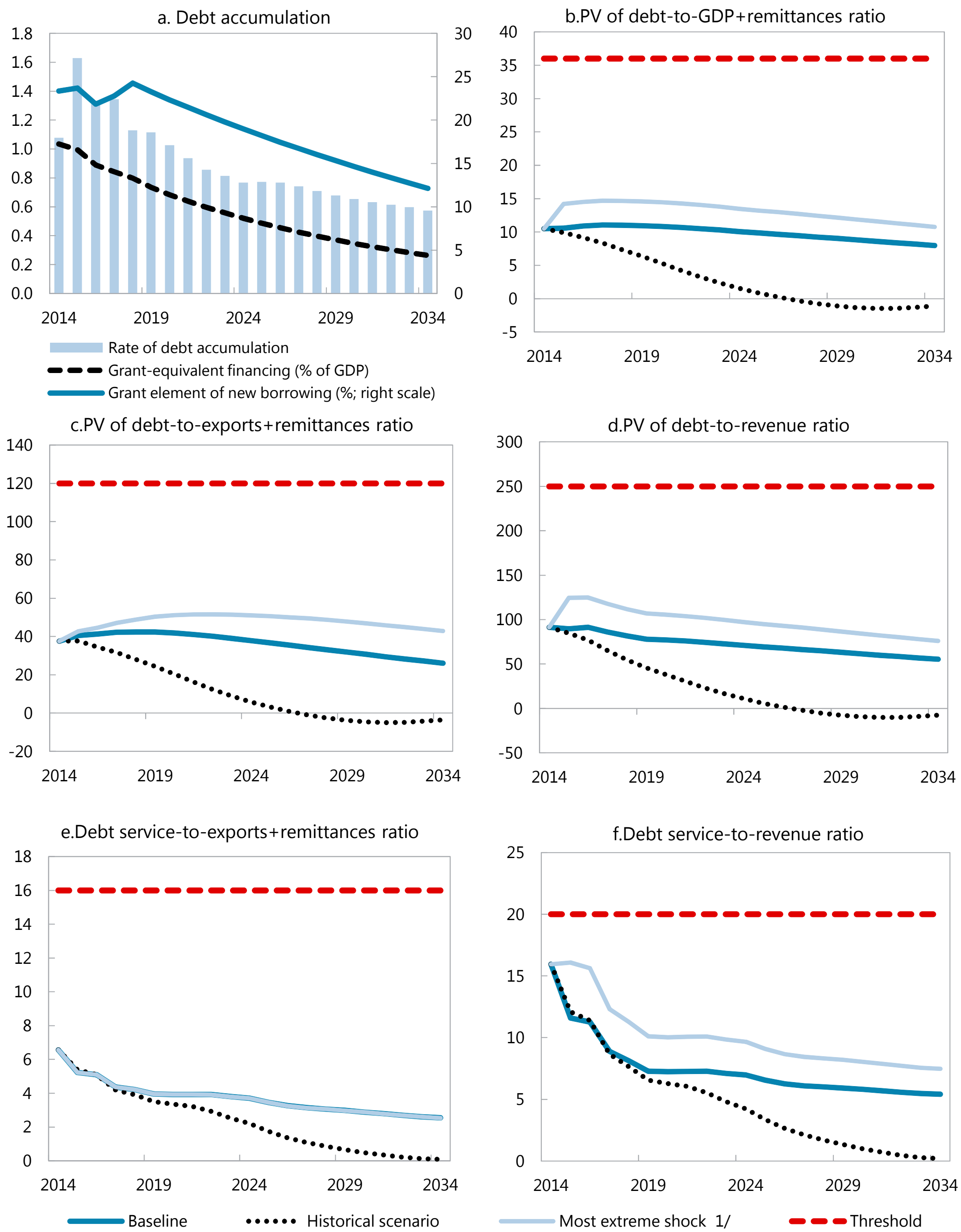
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024	2029	2034
	(Percent of GDP, unless otherwise indicated)											
Nominal GDP (US$ billions)	112	116	130	153	175	192	212	234	258	412	656	1044
Real GDP (percentage change)	6.7	6.2	6.0	5.5	6.3	6.5	7.0	7.0	7.0	6.5	6.5	6.5
GDP deflator (percentage change)	7.5	8.5	6.6	8.7	7.5	6.4	6.2	5.9	6.1	5.2	4.5	4.5
Fiscal (central government)												
Total revenue and grants	11.9	12.9	12.9	13.0	13.2	13.4	14.2	14.9	15.3	15.2	15.2	15.1
Foreign grants	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.2	0.2	0.1
Total expenditure	16.0	16.3	16.9	16.8	16.9	17.1	17.5	17.7	17.8	18.1	18.1	18.3
Interest payments	2.0	2.2	2.3	2.2	2.1	2.0	2.0	2.0	1.9	1.8	1.9	2.1
Overall balance	-4.1	-3.4	-4.0	-3.7	-3.7	-3.7	-3.3	-2.8	-2.5	-2.9	-3.0	-3.2
Primary balance	-2.2	-1.2	-1.7	-1.5	-1.6	-1.7	-1.3	-0.8	-0.6	-1.1	-1.0	-1.1
Net domestic financing	3.8	2.6	2.5	2.9	2.5	2.4	2.1	1.9	1.7	2.4	2.6	3.0
Net external financing	0.4	0.8	1.2	0.8	1.2	1.3	1.2	0.9	0.8	0.6	0.4	0.2
Balance of payments												
Exports of goods and services	22.5	23.0	22.6	21.4	19.8	20.5	20.4	20.5	20.5	22.2	24.7	27.7
Imports of goods and services	34.3	33.6	30.5	27.5	27.3	27.7	27.4	27.1	26.8	27.6	29.5	31.5
Workers' remittances	10.4	11.0	11.0	9.0	8.3	8.1	7.7	7.4	7.1	6.0	5.0	4.2
Current account, including official transfers	-2.0	-0.4	1.9	1.3	-0.6	-0.7	-0.8	-0.9	-0.9	-1.3	-1.7	-1.6
Foreign direct investment	0.7	1.0	1.3	1.0	1.0	1.0	1.1	1.1	1.1	1.6	2.1	2.5
External borrowing												
Central government	0.9	1.5	1.9	1.5	1.8	1.8	1.6	1.4	1.4	1.1	1.0	0.8
Public enterprises with guarantee	0.0	0.0	0.0	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Gross official reserves	3.0	3.1	4.3	4.8	5.0	5.1	5.2	5.2	5.2	4.9	4.7	4.9
(Months of imports of goods and services)												

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

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

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt under Different Assumptions, 2014-2034 1/

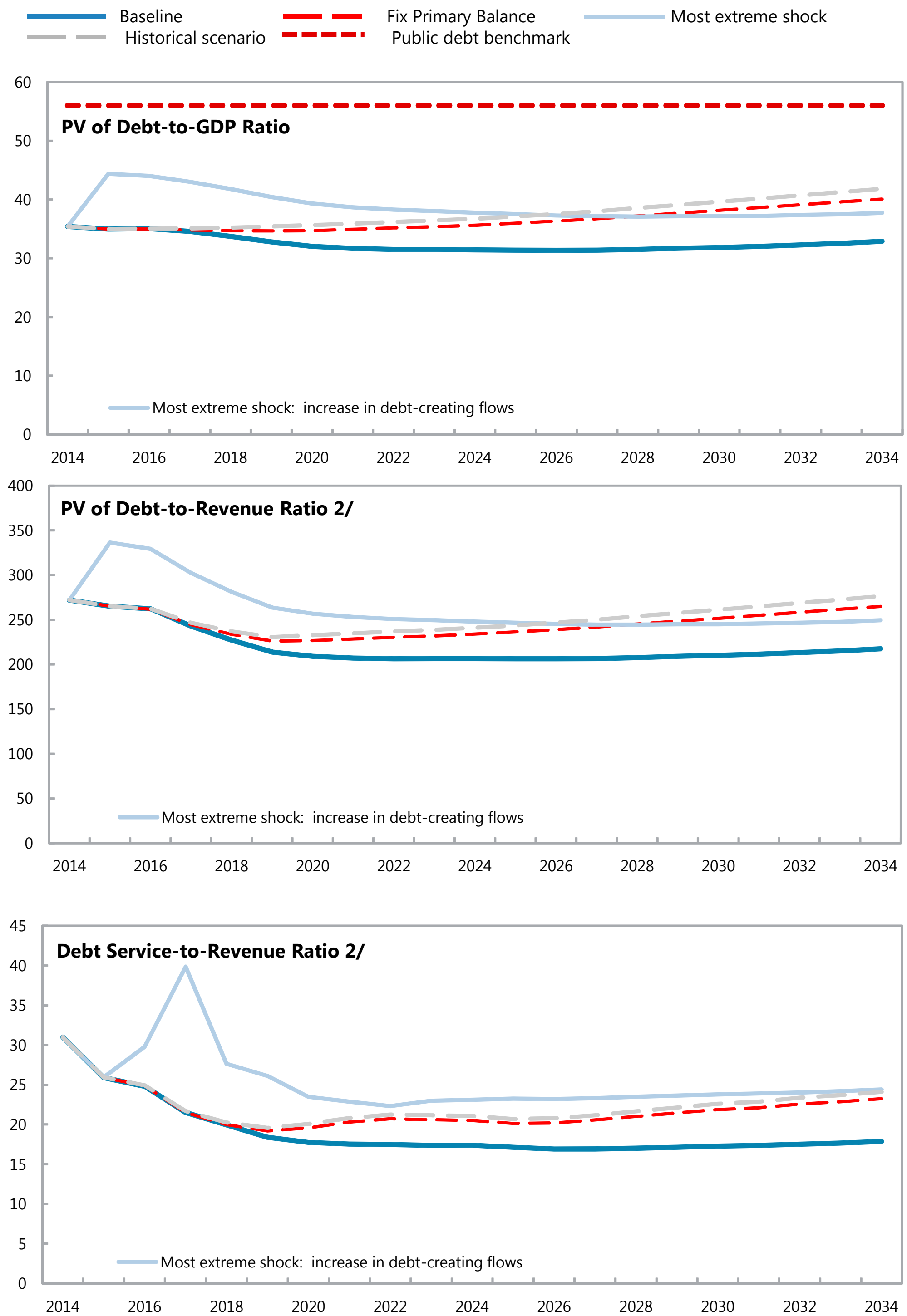
(In percent)



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

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a one-time depreciation shock; in c. to a terms shock; in d. to a one-time depreciation shock; in e. to a growth shock and in figure f. to a one-time depreciation shock.

Figure 2. Bangladesh: Indicators of Public Debt under Different Assumptions, 2014-2034 1/
(In percent)



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

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table 2. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, 2014–2034 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**22.7**	**22.0**	**19.6**			**18.2**	**17.7**	**17.8**	**17.6**	**17.3**	**17.0**		**15.8**	**13.0**	
of which: public and publicly guaranteed (PPG)	21.4	20.6	18.3			17.1	16.6	16.8	16.7	16.4	16.1		14.2	10.6	
Change in external debt	0.3	-0.7	-2.4			-1.4	-0.5	0.1	-0.2	-0.3	-0.3		-0.2	-0.3	
Identified net debt-creating flows	-1.0	-1.4	-5.6			-3.2	-1.4	-1.3	-1.4	-1.3	-1.3		-1.2	-1.7	
Non-interest current account deficit	**1.8**	**0.1**	**-2.2**	**-1.0**	**1.6**	**-1.7**	**0.2**	**0.3**	**0.4**	**0.4**	**0.5**		**0.8**	**1.0**	1.0
Deficit in balance of goods and services	11.8	10.6	7.8			6.1	7.4	7.2	6.9	6.6	6.3		5.4	3.8	
Exports	22.5	23.0	22.6			21.4	19.8	20.5	20.4	20.5	20.5		22.2	27.7	
Imports	34.3	33.6	30.5			27.5	27.3	27.7	27.4	27.1	26.8		27.6	31.5	
Net current transfers (negative = inflow)	-11.1	-11.6	-11.6	-10.0	1.9	-9.4	-8.8	-8.5	-8.1	-7.8	-7.5		-6.2	-4.4	-5.7
of which: official	-0.1	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	1.1	1.0	1.5			1.6	1.5	1.6	1.6	1.6	1.6		1.6	1.6	
Net FDI (negative = inflow)	**-0.7**	**-1.0**	**-1.3**	**-1.0**	**0.3**	**-1.0**	**-1.0**	**-1.0**	**-1.1**	**-1.1**	**-1.1**		**-1.6**	**-2.5**	-1.9
Endogenous debt dynamics 2/	**-2.1**	**-0.5**	**-2.1**			**-0.6**	**-0.6**	**-0.7**	**-0.7**	**-0.7**	**-0.7**		**-0.4**	**-0.2**	
Contribution from nominal interest rate	0.2	0.3	0.3			0.3	0.4	0.4	0.4	0.4	0.4		0.5	0.5	
Contribution from real GDP growth	-1.3	-1.4	-1.2			-0.9	-1.0	-1.0	-1.1	-1.1	-1.1		-1.0	-0.8	
Contribution from price and exchange rate changes	-1.0	0.6	-1.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.3**	**0.8**	**3.2**			**1.9**	**0.9**	**1.5**	**1.2**	**1.0**	**1.0**		**1.0**	**1.4**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	13.3			12.6	12.5	12.8	12.8	12.7	12.6		12.3	10.7	
In percent of exports	...	...	58.9			58.7	62.8	62.4	62.8	62.1	61.5		55.2	38.5	
PV of PPG external debt	**...**	**...**	**12.1**			**11.4**	**11.4**	**11.8**	**11.9**	**11.8**	**11.7**		**10.7**	**8.3**	
In percent of exports	**...**	**...**	**53.3**			**53.4**	**57.6**	**57.6**	**58.2**	**57.7**	**57.1**		**48.0**	**30.0**	
In percent of government revenues	**...**	**...**	**97.2**			**91.4**	**89.8**	**91.3**	**86.1**	**81.6**	**78.1**		**71.0**	**55.4**	
Debt service-to-exports ratio (in percent)	**4.1**	**5.7**	**5.9**			**10.7**	**8.8**	**8.3**	**7.2**	**6.9**	**6.4**		**6.3**	**5.0**	
PPG debt service-to-exports ratio (in percent)	**3.8**	**4.8**	**4.4**			**9.3**	**7.4**	**7.1**	**6.0**	**5.7**	**5.3**		**4.7**	**2.9**	
PPG debt service-to-revenue ratio (in percent)	**7.4**	**8.8**	**8.1**			**15.9**	**11.6**	**11.3**	**8.9**	**8.1**	**7.3**		**7.0**	**5.4**	
Total gross financing need (Billions of U.S. dollars)	2.4	1.1	-1.2			0.9	2.7	3.2	2.7	2.7	2.5		2.9	-1.6	
Non-interest current account deficit that stabilizes debt ratio	1.5	0.7	0.2			-0.3	0.8	0.2	0.6	0.8	0.8		1.1	1.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.7	6.2	6.0	6.2	0.3	5.5	6.3	6.5	7.0	7.0	7.0	6.6	6.5	6.5	6.5
GDP deflator in US dollar terms (change in percent)	4.5	-2.4	5.5	3.3	4.1	11.7	7.5	2.9	3.3	3.0	3.3	5.3	3.0	3.0	3.0
Effective interest rate (percent) 5/	0.9	1.5	1.4	1.1	0.2	2.1	2.3	2.5	2.6	2.7	2.8	2.5	3.5	4.5	3.8
Growth of exports of G&S (US dollar terms, in percent)	34.5	6.0	10.2	15.1	8.3	11.4	5.9	13.1	10.4	10.6	10.6	10.3	11.6	12.3	12.0
Growth of imports of G&S (US dollar terms, in percent)	50.0	1.6	1.4	15.2	14.9	6.5	13.2	11.3	9.2	9.2	9.2	9.8	10.5	11.2	11.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	23.4	23.7	21.8	22.8	24.3	23.3	23.2	19.0	12.1	16.9
Government revenues (excluding grants, in percent of GDP)	11.7	12.4	12.4			12.5	12.7	12.9	13.8	14.5	15.0		15.0	15.0	15.0
Aid flows (in Billions of US dollars) 7/	1.3	2.3	3.1			1.6	1.7	1.7	1.8	1.9	1.9		2.2	2.7	
of which: Grants	0.3	0.6	0.6			0.8	0.8	0.9	0.9	0.9	0.9		1.0	1.2	
of which: Concessional loans	1.1	1.7	2.4			0.8	0.9	0.9	1.0	1.1	1.1		1.2	1.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.0	1.0	0.9	0.8	0.8	0.7		0.5	0.3	0.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			38.1	36.9	35.8	36.0	37.0	35.6		29.8	20.2	26.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	111.9	116.0	129.9			153.0	174.9	191.8	212.0	233.7	258.3		412.5	1044.3	
Nominal dollar GDP growth	11.5	3.7	11.9			17.8	14.3	9.6	10.5	10.2	10.5	12.2	9.7	9.7	9.8
PV of PPG external debt (in Billions of US dollars)			16.1			17.5	20.0	22.3	24.9	27.3	29.9		43.5	86.1	
(PVt-PVt-1)/GDPt-1 (in percent)						1.1	1.6	1.3	1.3	1.1	1.1	1.3	0.8	0.6	0.7
Gross workers' remittances (Billions of US dollars)	11.7	12.7	14.3			13.8	14.6	15.5	16.4	17.4	18.4		24.7	44.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.9			10.5	10.6	10.9	11.1	11.0	10.9		10.1	8.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	35.8			37.6	40.6	41.4	42.3	42.3	42.4		37.8	26.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.0			6.6	5.2	5.1	4.4	4.2	4.0		3.7	2.5	

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

1/ Central government gross debt, including debt owed to the IMF, plus external borrowing by public enterprises that is supported by central government guarantees, including short-term oil-related suppliers' credits. The years in the table refer to fiscal years. For example, 2014 refers to July 2013-June 2014.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

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 of Public and Publicly Guaranteed External Debt, 2014–2034

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to-GDP+remittances ratio								
Baseline	10	11	11	11	11	11	**10**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	10	10	9	8	7	6	**2**	-1
A2. New public sector loans on less favorable terms in 2014-2034 2	10	11	12	12	13	13	**14**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	10	11	11	11	11	11	**10**	8
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	10	10	11	12	11	11	**10**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	10	11	12	12	12	12	**11**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	10	11	12	12	12	12	**11**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	10	11	11	11	11	11	**10**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	10	14	15	15	15	15	**13**	11
PV of debt-to-exports+remittances ratio								
Baseline	38	41	41	42	42	42	**38**	26
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	38	38	34	32	28	24	**6**	-4
A2. New public sector loans on less favorable terms in 2014-2034 2	38	43	44	47	49	50	**51**	43
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	38	41	41	42	42	42	**37**	26
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	38	40	45	46	46	46	**41**	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	38	41	41	42	42	42	**37**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	38	45	46	46	46	46	**40**	26
B5. Combination of B1-B4 using one-half standard deviation shocks	38	37	37	38	38	38	**35**	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	38	41	41	42	42	42	**37**	26
PV of debt-to-revenue ratio								
Baseline	91	90	91	86	82	78	**71**	55
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	91	85	77	65	55	46	**11**	-8
A2. New public sector loans on less favorable terms in 2014-2034 2	91	95	98	96	94	93	**96**	91
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	91	90	91	86	81	78	**71**	55
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	91	89	96	90	85	81	**73**	56
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	91	97	101	96	91	87	**79**	62
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	91	96	101	94	89	85	**75**	56
B5. Combination of B1-B4 using one-half standard deviation shocks	91	92	93	88	84	80	**74**	59
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	91	125	125	118	112	107	**97**	76

Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–2034 (continued)

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
Debt service-to-exports+remittances ratio								
Baseline	7	5	5	4	4	4	**4**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	7	5	5	4	4	4	**2**	0
A2. New public sector loans on less favorable terms in 2014-2034 2	7	5	5	4	4	4	**4**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	7	5	5	4	4	4	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	7	5	5	5	4	4	**4**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	7	5	5	4	4	4	**4**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	7	5	5	5	4	4	**4**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	7	5	5	4	4	4	**3**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	7	5	5	4	4	4	**4**	3
Debt service-to-revenue ratio								
Baseline	16	12	11	9	8	7	**7**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	16	12	11	9	8	7	**4**	0
A2. New public sector loans on less favorable terms in 2014-2034 2	16	12	11	9	8	7	**7**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	16	12	11	9	8	7	**7**	5
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	16	12	11	9	8	7	**7**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	16	13	13	10	9	8	**8**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	16	12	12	9	8	8	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	16	12	12	9	9	8	**7**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	16	16	16	12	11	10	**10**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	11	11	11	11	11	11	**11**	11

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

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

Table 4. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–2034

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	44.0	43.1	42.3			41.1	40.2	40.1	39.4	38.3	37.2		35.0	35.2	
of which: domestic borrowing by nonfinancial public enterprises	1.8	1.4	0.6			0.6	0.6	0.6	0.6	0.6	0.6		0.6	0.6	
of which: foreign-currency denominated	21.4	20.6	18.3			17.1	16.6	16.8	16.7	16.4	16.1		14.2	10.6	
of which: guarantee-supported external borrowing	...	...	0.1			0.6	1.0	1.3	1.6	1.9	2.1		3.0	4.5	
Change in public sector debt	1.4	-0.9	-0.9			-1.2	-0.9	-0.1	-0.7	-1.0	-1.2		-0.2	0.3	
Identified debt-creating flows	-0.1	-0.5	-1.8			-1.1	-1.1	0.1	-0.7	-1.0	-1.3		-0.2	0.2	
Primary deficit	2.2	1.1	1.6	1.4	0.5	1.4	1.4	1.5	1.1	0.7	0.4	1.1	0.9	1.0	0.8
Revenue and grants	11.9	12.9	12.9			13.0	13.2	13.4	14.2	14.9	15.3		15.2	15.1	
of which: grants	0.3	0.5	0.5			0.5	0.5	0.4	0.4	0.4	0.3		0.2	0.1	
Primary (noninterest) expenditure	14.1	14.1	14.5			14.5	14.6	14.9	15.3	15.5	15.7		16.2	16.1	
Automatic debt dynamics	-2.3	-1.6	-3.6			-3.1	-2.9	-1.8	-2.2	-2.1	-2.1		-1.5	-1.2	
Contribution from interest rate/growth differential	-2.5	-2.3	-1.7			-1.9	-2.1	-1.9	-2.0	-1.9	-1.8		-1.3	-1.0	
of which: contribution from average real interest rate	0.2	0.2	0.7			0.3	0.4	0.6	0.6	0.7	0.7		0.8	1.1	
of which: contribution from real GDP growth	-2.7	-2.6	-2.5			-2.2	-2.4	-2.5	-2.6	-2.6	-2.5		-2.2	-2.1	
Contribution from real exchange rate depreciation	0.2	0.7	-1.8			-1.2	-0.8	0.1	-0.2	-0.2	-0.3		...	...	
Other identified debt-creating flows	0.0	0.0	0.1			0.5	0.4	0.4	0.4	0.4	0.4		0.4	0.4	
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	0.1			0.5	0.4	0.4	0.4	0.4	0.4		0.4	0.4	
Residual, including asset changes	1.6	-0.3	1.0			-0.1	0.2	-0.1	0.0	0.0	0.1		0.0	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	36.0			35.4	35.0	35.1	34.6	33.8	32.8		31.5	32.9	
of which: foreign-currency denominated	...	...	12.1			11.4	11.4	11.8	11.9	11.8	11.7		10.7	8.3	
of which: external	...	...	12.1			11.4	11.4	11.8	11.9	11.8	11.7		10.7	8.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.3	6.4	7.3			6.9	6.0	6.0	5.2	4.6	4.1		4.2	4.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	279.2			271.9	265.1	262.3	242.9	227.2	213.9		206.4	217.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	290.4			283.3	274.8	271.3	250.0	232.9	218.6		209.7	219.3	
of which: external 3/	...	...	97.2			91.4	89.8	91.3	86.1	81.6	78.1		71.0	55.4	
Debt service-to-revenue and grants ratio (in percent) 4/	22.1	24.3	24.6			31.0	25.9	24.8	21.5	20.0	18.4		17.4	17.9	
Debt service-to-revenue ratio (in percent) 4/	22.6	25.3	25.6			32.3	26.9	25.7	22.1	20.5	18.8		17.7	18.0	
Primary deficit that stabilizes the debt-to-GDP ratio	0.7	2.0	2.5			2.7	2.3	1.6	1.8	1.7	1.6		1.1	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.7	6.2	6.0	6.2	0.3	5.5	6.3	6.5	7.0	7.0	7.0	6.6	6.5	6.5	6.5
Average nominal interest rate on forex debt (in percent)	0.9	1.2	1.0	1.0	0.1	1.7	2.0	2.1	2.3	2.4	2.5	2.2	2.9	3.5	3.1
Average real interest rate on domestic debt (in percent)	1.8	1.8	4.0	3.3	1.2	1.0	1.6	2.4	2.6	2.8	2.7	2.2	3.4	4.1	3.7
Real exchange rate depreciation (in percent, + indicates depreciation)	1.1	3.5	-9.4	-1.2	5.5	-6.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	7.5	8.5	6.6	6.6	1.5	8.7	7.5	6.4	6.2	5.9	6.1	6.8	5.2	4.5	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	21.0	6.1	9.7	3.7	6.9	5.0	7.4	8.4	10.3	8.3	8.5	8.0	5.8	7.2	6.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	23.4	23.7	21.8	22.8	24.3	23.3	23.2	19.0	12.1	...

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, 2014 refers to July 2013-June 2014.

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, 2014–2034

(In percent)

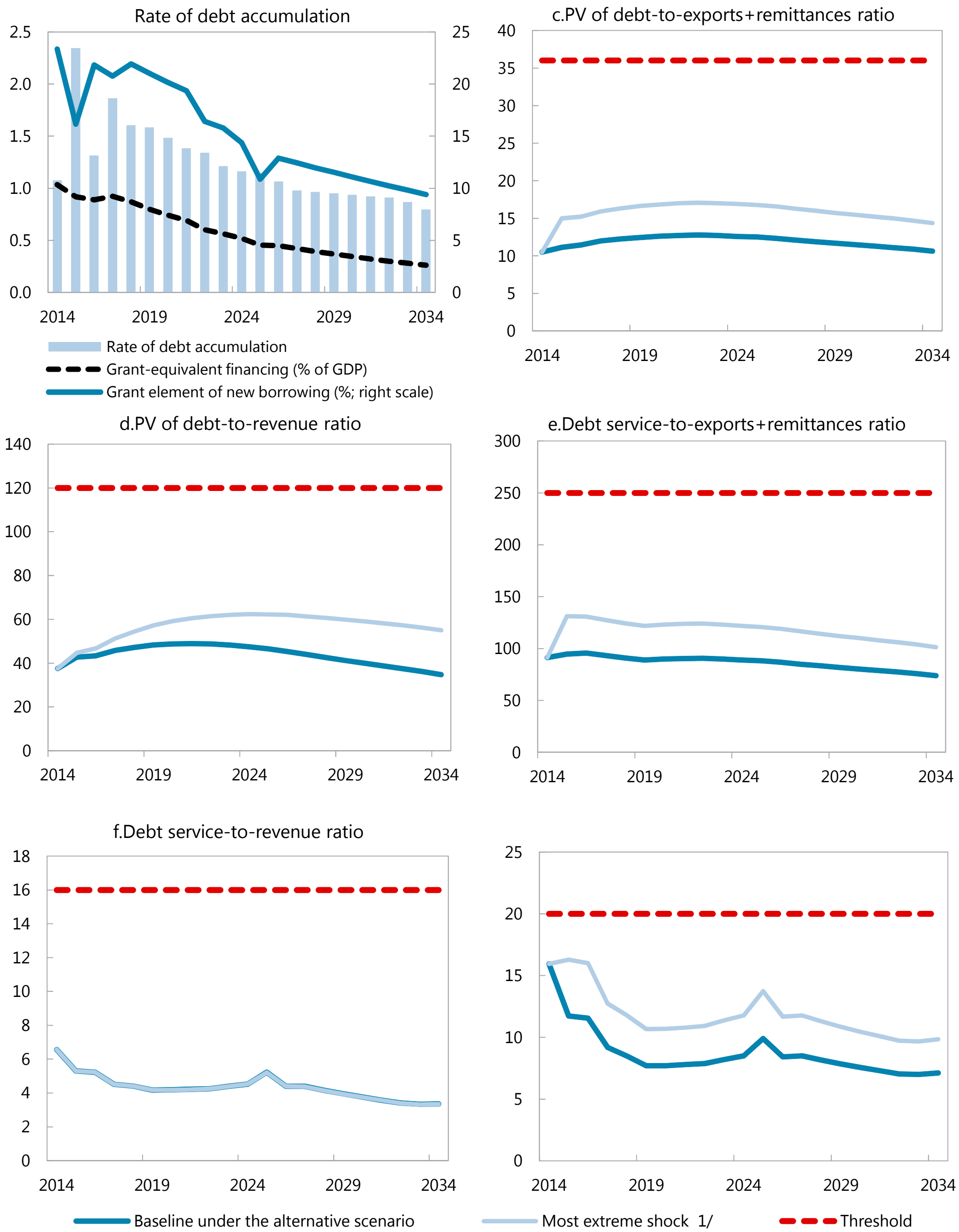
	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of Debt-to-GDP Ratio								
Baseline	35	35	35	35	34	33	**31**	33
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	35	35	35	35	35	35	**37**	42
A2. Primary balance is unchanged from 2014	35	35	35	35	35	35	**36**	40
A3. Permanently lower GDP growth 1/	35	35	35	35	34	33	**32**	35
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	35	35	36	35	34	34	**33**	35
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	35	35	36	35	34	33	**32**	33
B3. Combination of B1-B2 using one half standard deviation shocks	35	35	36	35	34	34	**32**	34
B4. One-time 30 percent real depreciation in 2015	35	39	39	38	37	36	**35**	36
B5. 10 percent of GDP increase in other debt-creating flows in 2015	35	44	44	43	42	40	**38**	38
PV of Debt-to-Revenue Ratio 2/								
Baseline	272	265	262	243	227	214	**206**	218
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	272	265	262	247	237	231	**241**	276
A2. Primary balance is unchanged from 2014	272	265	262	245	234	226	**234**	265
A3. Permanently lower GDP growth 1/	272	265	263	243	228	215	**210**	229
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	272	266	266	247	231	219	**214**	230
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	272	269	269	248	232	218	**210**	220
B3. Combination of B1-B2 using one half standard deviation shocks	272	267	266	247	232	219	**213**	227
B4. One-time 30 percent real depreciation in 2015	272	298	293	269	251	236	**227**	240
B5. 10 percent of GDP increase in other debt-creating flows in 2015	272	336	329	302	281	264	**248**	250
Debt Service-to-Revenue Ratio 2/								
Baseline	31	26	25	22	20	18	**17**	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	31	26	25	22	20	20	**21**	24
A2. Primary balance is unchanged from 2014	31	26	25	22	20	19	**21**	23
A3. Permanently lower GDP growth 1/	31	26	25	22	20	18	**18**	19
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	31	26	25	22	20	19	**18**	19
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	31	26	25	23	21	19	**18**	18
B3. Combination of B1-B2 using one half standard deviation shocks	31	26	25	22	21	19	**18**	19
B4. One-time 30 percent real depreciation in 2015	31	28	30	26	25	23	**23**	24
B5. 10 percent of GDP increase in other debt-creating flows in 2015	31	26	30	40	28	26	**23**	24

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

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

Figure 3. Bangladesh: Alternative Scenario — Indicators of Public and Publicly Guaranteed External Debt under Different Assumptions, 2014-2034 1/

(In percent)

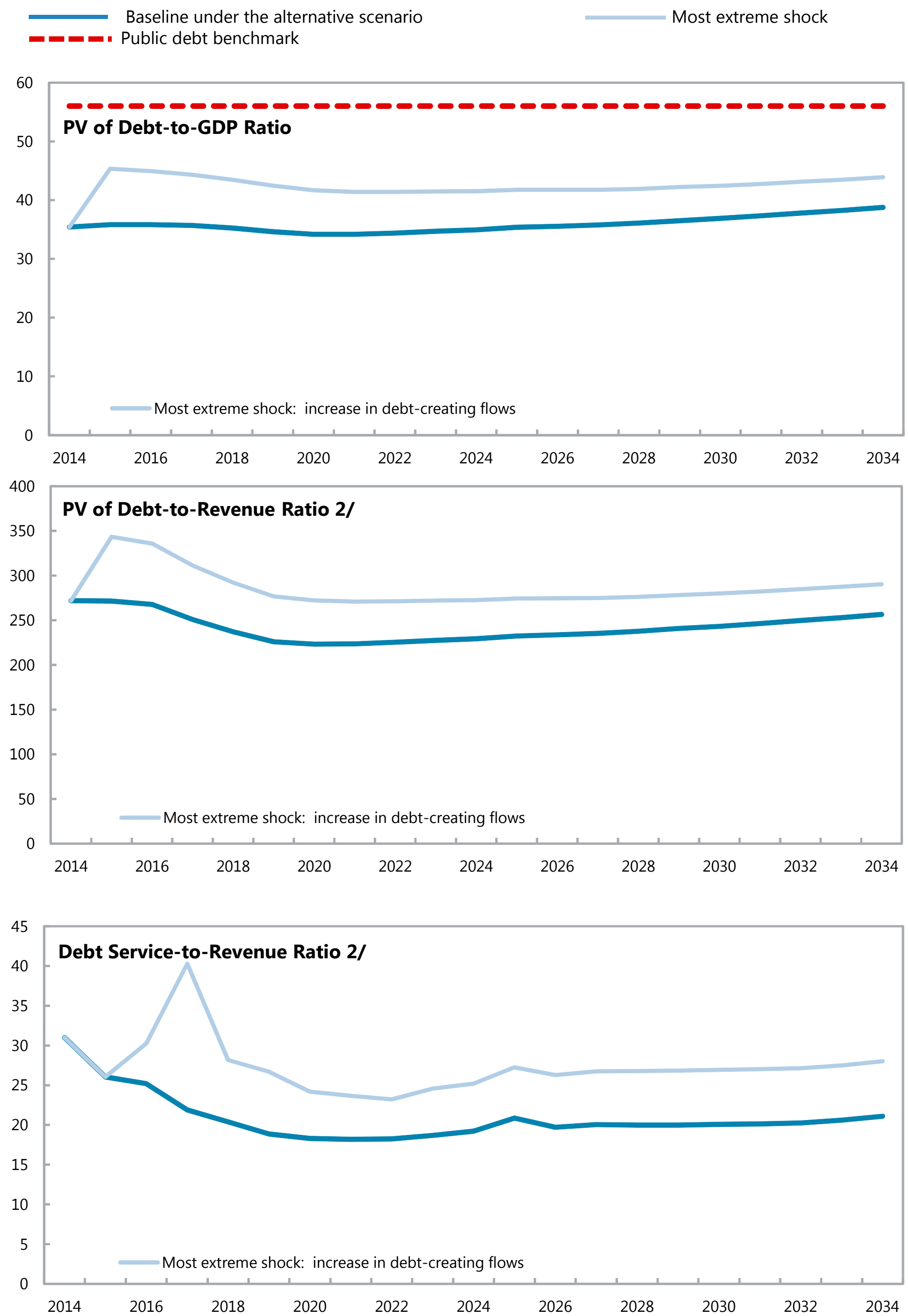


Sources: Bangladesh authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a one-time depreciation shock; in c. to a terms shock; in d. to a one-time depreciation shock; in e. to a growth shock and in figure f. to a one-time depreciation shock.

Figure 4. Bangladesh: Alternative Scenario — Indicators of Public Debt under Different Assumptions, 2014-2034 1/

(In percent)



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

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under the Extended Credit Facility Arrangement for Bangladesh and Approves US$ 140.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Bangladesh's economic program under a three-year arrangement supported by the Extended Credit Facility (ECF). The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 91.423 million (about US$ 140.9 million) to Bangladesh. This would bring total disbursements under the arrangement to SDR 457.115 million (about US$ 704.3 million). The decision was taken without a formal Board meeting.[1]

The three-year ECF arrangement for Bangladesh was approved by the Executive Board on April 11, 2012 (Press Release No. 12/129) for a total amount equivalent to SDR 639.96 million (about US$ 986 million), or 120 percent of quota.

Bangladesh has made further progress in strengthening macroeconomic stability under the ECF-supported program. While economic activity was affected by unrest and uncertainty in the run-up to the January 2014 general elections, international reserves have continued to increase, the ratio of public debt to GDP is on a downward path, and underlying inflation has been easing. All performance criteria under the ECF arrangement for end-December 2013 were met. There has also been progress on structural reforms, and all structural benchmarks for this review were completed.

Looking ahead, with greater calm after the elections, domestic demand is expected to recover, and real GDP growth is projected to increase to 6¼ percent in Fiscal Year (FY)15 (July 2014–June 2015). The main risk for growth would be a resurgence of unrest. Inflation is expected to decline in FY15 on continued policy restraint, though higher wages and adjustments in administered prices pose upside risks. The current account of the balance of payments is projected at a surplus of 1.3 percent of GDP in FY14, and is expected to move into a moderate deficit in FY15.

[1] The Executive Board takes decisions without a meeting (based on lapse-of-time procedures) when it is agreed by the Board that a proposal can be considered without convening formal discussions.

Macroeconomic policies under the authorities' program are set to remain focused on safeguarding stability and building policy buffers. With inflation risks tilted to the upside in the near term, monetary policy should remain prudent. Fiscal policy will be anchored on a continued gradual reduction of the public debt-to-GDP ratio, while allowing for increased public investment and social spending. Continued fiscal prudence will also help provide greater room for credit growth to finance a recovery in private investment.

Bangladesh has one of the lowest tax-to-GDP ratios in the world, and it is critical to strengthen revenues so as to broaden fiscal space for priority development spending, while resisting pressures to provide further tax benefits. Implementation of the new VAT remains the foremost priority, complemented by reforms to strengthen revenue administration.
The program also embodies reforms to improve public financial management, including by formalizing monthly treasury cashflow forecasts, strengthening financial reporting by state-owned enterprises, and tightening debt management procedures.

Bangladesh Bank is expected to continue strengthening financial supervision, while avoiding regulatory forbearance. Its steps to tighten regulations on related lending and closely monitor banks' stock market exposures are welcome. Strengthening the state-owned commercial banks remains another focus of financial reforms, centered on improving governance, automating financial reporting, and recapitalizing these banks.

The authorities are moving ahead with their plan for gradual liberalization of foreign exchange regulations, complemented by a streamlining of trade tariffs and regulations. Steps have also been taken to improve working conditions in the garment industry, including through a sizeable increase in the minimum wage, and to strengthen the targeting and efficiency of social safety net programs. Continued progress on these fronts should contribute to promoting high, sustained, and inclusive growth.