



BANGLADESH

January 2026

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BANGLADESH

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Bangladesh, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 26, 2026 consideration of the Staff Report concluding the Article IV consultation with Bangladesh.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 26, 2026, following discussions that ended on November 13, 2025 with the officials of Bangladesh on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 6, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Bangladesh.

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IMF Executive Board Concludes 2025 Article IV Consultation with Bangladesh

FOR IMMEDIATE RELEASE

- *Following the recent economic slowdown, Bangladesh's GDP growth is expected to rebound to 4.7 percent in FY26 and FY27.*
- *The economy continues to face mounting macro-financial challenges from weak tax revenue and financial sector vulnerabilities, with significant downside risks stemming from delays in the implementation of bold fiscal and financial reforms.*
- *Policies should focus on safeguarding fiscal sustainability and strengthening macro-financial stability, while implementing comprehensive structural reforms over the medium-term to strengthen governance, create jobs, and promote economic diversification.*

Washington, DC – January 30, 2026: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Bangladesh on January 26, 2026.¹ The authorities have consented to the publication of the Staff Report prepared for this consultation. Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent.

Bangladesh's economic growth has slowed recently, while inflation has remained elevated.

GDP growth decelerated to 3.7 percent in FY25 from 4.2 percent in FY24 and 5.8 percent in FY23, reflecting production delays during the popular uprising, a tighter policy mix, and sluggish investment. Headline inflation fell from double-digit levels in early FY25 but remained elevated at 8.2 percent (y-o-y) in October. Tax revenue to GDP ratio fell sharply in FY25, although the fiscal deficit was contained due to under-execution of capital and social spending. Foreign exchange reserves have begun to rebuild, supported by improvements in the current account.

The economy is expected to recover gradually over the medium term. With implementation of policies to mobilize tax revenue and address financial sector vulnerabilities, growth is projected to rebound to 4.7 percent in FY26 and gradually accelerate to around 6 percent over the medium term. Inflation is projected to remain elevated at 8.9 percent in FY26 before subsiding to around 6 percent in FY27. Risks to the outlook are tilted to the downside, mainly from delayed or inadequate policy action and reversals of exchange rate reform and fiscal discipline.

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

Executive Board Assessment²

Executive Directors acknowledged the interim authorities' efforts to stabilize the economy following the 2024 uprising and in the run up to upcoming national elections. They, however, noted that Bangladesh faces mounting macroeconomic and financial challenges. Weak revenue mobilization, banking sector vulnerabilities, incomplete implementation of the new exchange rate framework, and elevated inflation are weighing on macroeconomic stability and growth prospects. Directors also observed an uneven program performance and emphasized that decisive and sustained policy actions and bold reforms are needed to restore macroeconomic and financial stability and support the country's long-term development goals. The new administration's full ownership of the program will be critical, supported by early and active engagement with staff and efforts to secure stakeholder buy-in.

Directors stressed the need for ambitious fiscal reforms. They encouraged the authorities to undertake bold tax policy reforms, simplify the tax system, and strengthen tax administration and compliance to mobilize revenue. Directors also underscored the importance of rationalizing subsidies, prioritizing growth-enhancing investments, enhancing social safety nets, and improving public financial and investment management to support inclusive development and growth. Strengthening the financial viability of energy SOEs will also be important.

Directors highlighted the urgent need for a credible banking sector reform strategy consistent with international standards to restore banking sector stability. Such a strategy should include estimates of undercapitalization, define fiscal support, and outline legally robust restructuring and resolution plans. They encouraged the authorities to conduct asset quality reviews for all systemic and state-owned banks, advance risk-based supervision, and strengthen governance and balance sheet transparency.

Directors concurred that maintaining a tight policy mix is necessary to keep rebuilding foreign reserves and reducing inflation. They stressed the importance of full and consistent implementation of the exchange rate reform and greater exchange rate flexibility and cautioned against unsecured liquidity injections into weak banks. Monetary policy should remain appropriately tight until inflation is firmly on a downward path. Modernization of the monetary policy framework should continue.

Directors underscored that comprehensive structural reforms are essential to unlock Bangladesh's economic potential and promote inclusive growth as Bangladesh is graduating from LDC status. They emphasized enhancing governance and transparency, strengthening anti-corruption and AML/CFT frameworks, and ensuring central bank autonomy. Directors supported policies for job creation, particularly for the youth, and export diversification and agreed that capacity development and improvements in macroeconomic statistics remain essential. Continued implementation of reforms under the RSF arrangement can help build climate resilience and mobilize climate finance.

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

Bangladesh: Selected Economic Indicators, FY2025–27 1/

	FY25	FY26	FY27
	Act.	Proj.	
Real GDP	3.7	4.7	4.7
Consumption			
Private	10.2	2.9	4.5
Public	-6.8	15.0	12.3
Gross Capital Formation	-8.0	8.2	4.9
Private	0.9	2.3	5.3
Public	-39.3	42.5	3.3
Trade			
Exports of goods and services	5.6	12.3	13.6
Imports of goods and services	3.3	11.7	13.2
Prices			
GDP deflator	6.1	8.7	6.1
CPI inflation (annual average)	10.0	8.9	6.0
CPI inflation (end of period)	8.5	8.7	5.5
Central government operations (in percent of GDP)			
Total revenue and grants	8.0	8.2	10.3
<i>Of which:</i> Tax revenue	6.9	7.2	9.3
Total expenditure	10.9	12.6	15.0
<i>Of which:</i> Annual Development Program (ADP)	2.3	3.4	3.4
Overall balance (including grants)	-2.9	-4.3	-4.7
(excluding grants)	-3.0	-4.4	-4.7
Primary balance (including grants)	-0.7	-2.0	-2.2
Public sector total debt 2/	42.1	42.4	43.4
<i>Of which:</i> External debt	19.5	19.2	18.8
Balance of Payments (in percent of GDP)			
Current account balance	0.0	-0.3	-0.6
Trade balance	-5.6	-5.5	-5.8
Capital account balance	0.1	0.1	0.1
Financial account balance	0.8	0.7	1.3
Foreign direct investment, net	0.4	0.3	0.5
Gross international reserves (billions of U.S. dollars)	26.8	30.9	35.8
in months of next year's imports	3.8	3.9	4.0
Monetary and Credit (in percent of GDP)			
Reserve money	7.5	7.7	8.1
Broad money (M2)	46.5	45.6	45.8
Credit to private sector	33.2	31.0	30.1
Credit to private sector (percent change)	5.6	6.1	7.9
Savings and Investment (in percent of GDP)			
Gross national savings	28.2	28.2	27.9
Public	-0.1	-0.1	1.6
Private	28.4	28.3	26.2
Gross investment	28.2	28.5	28.5
Public	4.1	5.5	5.4
Private	24.1	23.0	23.1
<i>Memorandum item:</i>			
Nominal GDP (in billions of taka)	55,029	62,637	69,533

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

1/ Fiscal year begins on July 1 and ends on June 30.

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



BANGLADESH

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

January 6, 2026

KEY ISSUES

Vision and Challenges. Achieving middle-income status will require Bangladesh to restore lasting macroeconomic and financial stability and implement bold reforms to strengthen institutions and foster job creation, especially for youth. Persistently low fiscal revenues, weaknesses in the banking sector, stubbornly high inflation, and slippages in exchange rate reform continue to pose major challenges.

Outlook and Risks. Economic growth is projected to rebound from the recent slowdown, while inflation is likely to stay elevated above the target range in the near term. The most significant downside risk stems from delays in the timely implementation of urgently needed financial and fiscal reforms.

Key Policy Recommendations.

- **Fiscal policy.** Bold fiscal reforms are needed to mobilize revenue, curb non-essential expenditure, and reduce subsidies. Creating fiscal space is essential for development spending to sustain job-friendly growth and support the banking sector cleanup.
- **Financial sector policy.** Banking sector restructuring should be anchored in a credible strategy with assessment of system-wide undercapitalization, defined fiscal support, and legally robust resolution plans. Delivering well-governed and solvent banks without reliance on regulatory forbearance is critical for addressing the near-term vulnerabilities and supporting financial stability.
- **Monetary and exchange rate policy.** Maintaining tight monetary policy and consistently implementing the new exchange rate regime are needed to address near-term macroeconomic vulnerabilities of high inflation and low foreign reserves.
- **Macro-structural policy.** Comprehensive structural reforms to strengthen governance, enhance transparency, and promote export diversification are prerequisites for attracting FDI and ensuring inclusive development. Legal and central bank governance reforms should be aligned with best international practices.
- **Climate change policy.** Building resilience to natural disasters remains a top priority. Continued policy and reform efforts are essential to advance climate-resilient infrastructure, effectively manage fiscal and financial risks associated with climate-related events, and accelerate climate finance.

Approved By
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and Jarkko Turunen
(SPR)

Discussions took place in Dhaka during October 29–November 13, 2025. The team included C. Papageorgiou (Head), I. Krznar (Deputy Head), H. Hoyle, M. Pranovich, R. Zhang (all APD), Q. Chen, S. Suphachalasai (both FAD), E. Karlsdottir (MCM), A. Said (SPR), M. Kryshko (Resident Representative) and T. Ilahi (local economist). A. Singh (OED) joined some of the meetings. The team met with Finance Advisor S. Ahmed, Bangladesh Bank Governor A. Mansur, Finance Secretary K. Mozumder, National Board of Revenue Chairman Md. A.R. Khan and other senior government and central bank officials, development partners, and representatives of the business community. A. Guansing, I. Luna, S. Abebe, P. Cifuentes, and P. Mahmud (all APD) contributed to the preparation of this report.

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Glossary

ADP	Annual Development Plan
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AQR	Asset Quality Review
BCA	Bank Company Act
BCBS	The Basel Committee on Banking Supervision
BCDP	Bangladesh Climate and Development Platform
BB	Bangladesh Bank
BOP	Balance of Payments
BPC	Bangladesh Petroleum Corporation
BRO	Bank Resolution Ordinance
CA	Current Account
CD	Capacity Development
CIT	Corporate Income Tax
DSA	Debt Sustainability Analysis
DPF	Deposit Protection Fund
ECF	Extended Credit Facility
EFF	Extended Fund Facility
ELA	Emergency Liquidity Assistance
E&Os	Errors and Omissions
FA	Financial Account
FDI	Foreign Direct Investment
FPAS	Forecasting and Policy Analysis System
FX	Foreign Exchange
FXI	Foreign Exchange Intervention
FY	Financial Year
GDP	Gross Domestic Product
GIR	Gross International Reserves
IFI	International Financial Institution
LDC	Least Developed Country
MLTRS	Medium- and Longer-term Revenue Strategy
MPC	Monetary Policy Committee
MTDS	Medium-Term Debt Management Strategy
NBFI	Non-Banking Financial Institution
NBR	National Board of Revenue
NIR	Net International Reserves
NPL	Non-Performing Loans
PFM	Public Financial Management
PIM	Public Investment Management
PIT	Personal Income Tax
PPP	Public Private Partnership
RBS	Risk-Based Supervision

RMG	Ready Made Garment
RSF	Resilience and Sustainability Fund
SOBs	State-owned Banks
SOCBs	State-owned Commercial Banks
SOE	State-Owned Enterprises
TA	Technical Assistance
VAT	Value-added Tax

CONTEXT

1. The summer 2024 uprising exposed deep-rooted structural and social weaknesses in Bangladesh’s remarkable economic transformation over the past two decades. Growth—driven by the garment industry—had significantly boosted employment, reduced poverty, and steadily raised per capita income. The country achieved notable progress in social indicators, nearly halving poverty since 1990, and making strong gains in life expectancy, child mortality, and access to basic services. Financial inclusion expanded beyond levels seen in most low-income countries. However, weak governance and institutions led to an uneven distribution of the benefits of growth and severely undermined the banking system. Mounting public dissatisfaction over inequality and exclusion culminated in the 2024 uprising. Since then, the interim government has faced the difficult task of stabilizing the economy and initiating reforms. While progress has been made on several fronts, the next administration taking office after the February 2026 elections will nonetheless confront pressing structural and policy challenges.

2. To restore high growth and advance toward middle-income status, Bangladesh needs bold reforms that drive structural transformation, enhance competitiveness and productivity and expand job creation. Priorities include creating fiscal space by boosting revenue and rationalizing expenditure, modernizing policy frameworks, and accelerating structural reforms to promote private sector development, economic diversification and job creation, especially for youth. Cleaning up the banking sector and deepening capital markets will be critical to channel savings into long-term investment and reduce resource misallocation.

3. Progress toward this ambitious reform agenda has been uneven since the last Article IV consultations (Annex I) and the near-term macroeconomic and financial vulnerabilities persist. To address external imbalances and inflation, the authorities tightened fiscal and monetary policies and introduced a crawling-peg-with-band regime as a step toward greater exchange rate flexibility. However, inflation remains above the target and foreign reserve buffers have yet to fully recover earlier losses. Revenue mobilization efforts have so far failed to generate results while delays in subsidy reforms have constrained fiscal space. Banking sector vulnerabilities have worsened amid widespread undercapitalization.

4. Performance under the 5th EFF/ECF/RSF review has been mixed, and discussions are expected to resume following the formation of the new government after the elections. The performance criterion on government revenue collection was missed by a wide margin. The authorities have yet to adopt a high-level reform strategy for restoring banking sector stability, as was agreed at the 3rd and 4th combined review. Bangladesh Bank needs to adjust its FX intervention practices to meet conditionality on the exchange rate arrangement. While the primary deficit target was met, this was achieved through significant cuts in capital and social spending. On the positive side, program conditions related to foreign reserves accumulation, reduction of external and subsidy payment arrears, and quasi-fiscal lending were met.

5. Bangladesh enters a pivotal phase where continued commitment to structural and macroeconomic reforms will be required to shape the country’s economic and institutional trajectory. Sustaining reform momentum after the elections will be essential to ensuring stability, strengthening institutions, and building on the hard-won gains in economic and social development. The

IMF-supported ECF/EFF/RSF program serves as the policy anchor to advance these reforms and provides a foundation for inclusive and sustainable growth as Bangladesh prepares to graduate from least-developed-country (LDC) status.

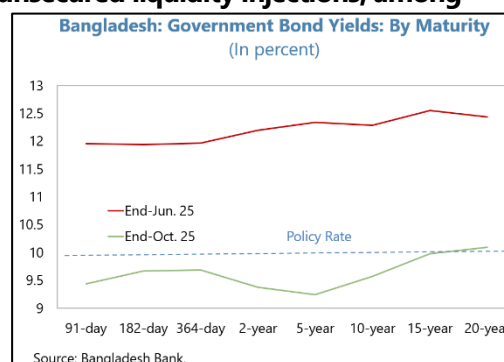
RECENT DEVELOPMENTS

6. Growth slowed further in FY25, while the downward trend in inflation was interrupted in July. Output growth in FY25 decelerated to 3.7 percent, from 4.2 percent in FY24 and 5.8 percent in FY23, reflecting production delays during the popular uprising, a tighter policy mix, and sluggish investment. Headline inflation fell to 8.2 percent (y-o-y) in October, from elevated levels earlier in the year, but the pace of decline has recently slowed amid rising non-food prices and renewed supply-side shocks to food prices.

7. A stronger current account supported foreign reserve accumulation. The balanced current account in FY25 was driven by stronger exports and remittances, subdued import growth, reflecting a slow recovery from import compression measures and lower petroleum prices. The financial account surplus fell to 0.7 percent of GDP in FY25, from 1 percent in FY24, as SOEs accelerated repayments of external arrears. Errors and omissions—likely linked to unrecorded capital outflows—fell significantly.¹ Meanwhile, the GIR increased to US\$26.7 billion (3.8 months of imports), compared to US\$ 21.7 billion (3.4 months) in FY24. Bangladesh's external position in FY25 is assessed as moderately weaker than the level implied by medium-term fundamentals and desirable policies (Annex III).

8. With the launch of a more flexible exchange rate arrangement in May 2025 and the support of donor disbursements, BB partially reversed earlier losses in FX reserves. In mid-May 2025, BB introduced the new crawling peg with the band regime, allowed freely quoted rates, and committed to auction-based FX interventions. Since July 2025, amid favorable market conditions, BB has purchased over US\$2 billion in the FX market. Exchange rate flexibility was, however, limited by deviations from agreed regime modalities, as BB used FX purchase operations to stabilize the exchange rate around a narrow price range. External (official) financing, alongside Fund financing also supported the reversal of reserve losses.

9. Tighter monetary policy has been undermined by unsecured liquidity injections, among other factors. Between September 2023 to October 2024, BB raised the policy rate by a cumulative 350 bps to 10 percent, keeping the rate unchanged thereafter. However, large injections of liquidity to support weak banks beginning in November 2024 contributed to weakened policy transmission to short-term interest rates. Against the backdrop of ample liquidity and weak credit demand, government bond yields fell by about 250 bps from June to October, despite an unchanged policy rate.



¹ At end-June 2025, errors and omissions recorded their lowest level in the last five years, reflecting lower outflows, and proper reporting of project-related imports and trade credit outflows.

10. The fiscal deficit was contained, despite a sharp fall in tax revenue. Tax collections fell from 7.4 percent of GDP in FY24 to 6.9 percent in FY25, reflecting weakened compliance, subdued public sector purchases, disruptions from public unrest, and staff strikes at the revenue authority². Current spending increased, largely due to higher subsidies to cover the widening electricity cost recovery gap and arrears clearance. However, under-execution of capital and social spending more than offset the revenue shortfall and current spending increase, keeping the primary deficit at 0.7 percent of GDP in FY25.

Bangladesh: Fiscal Outturns (percent of GDP)				
	FY22	FY23	FY24	FY25
Revenue	8.5	8.2	8.3	8.0
Tax Revenue	7.5	7.3	7.4	6.9
Non-tax revenue	0.9	0.9	0.8	1.0
Foreign grants	0.1	0.1	0.1	0.1
Expenditure	13.0	12.6	12.0	10.9
Current expenditure	7.8	8.0	7.8	8.1
of which:				
Interest payments	2.0	2.1	2.3	2.3
Subsidies	3.4	3.8	3.4	3.8
Capital expenditure	5.2	4.7	4.2	2.7
Fiscal Balance	-4.5	-4.4	-3.7	-2.9
Primary Balance	-2.5	-2.3	-1.4	-0.7
Note: IMF staff calculations				

11. Stress in the banking sector—rooted in unsuitable ownership, excessive related party lending, and weak supervision—remains elevated amid record-low credit growth. Systemwide NPLs rose sharply to 34 percent at end-June 2025, largely due to stricter asset classification and provisioning. Ongoing AQRs may reveal additional NPLs, but BB regulations allow immediate reclassification of restructured exposures, masking underlying asset quality. The reported regulatory capital ratio of 4.5 percent is overstated due to sizeable deferred loan loss provisions in 27 banks. Some weak banks remain dependent on BB's uncollateralized liquidity support (1 percent of GDP at end-June 2025) and deposit withdrawal restrictions. Private credit growth remains historically low at 7.6 percent y-o-y (-2 percent in real terms). The authorities have approved the nationalization and merger of five insolvent Islamic banks into a new bank with 7 percent of system deposits, around 70 percent NPL ratio, resolution funding amounting to ½ percent of GDP from government and DPF, and prolonged regulatory forbearance. They have declared that all customer deposits are protected,³ while burden-sharing options are being considered to mitigate fiscal costs.

CLOUDED OUTLOOK

12. Since the completion of the combined review in June 2025, the near-term growth outlook has deteriorated, and the pace of the decline in inflation is projected to slow. Tight policies, weak investment amid financial sector strains, election-related uncertainties, and higher US trade tariffs are expected to constrain FY26 growth to 4.7 percent. Annual average inflation is projected to remain elevated at 8.9 percent in FY26 before subsiding to around 6 percent in FY27, provided there is no premature policy easing or further supply-side disruptions.

13. The baseline scenario assumes that the authorities adopt critical and decisive measures to address interlinked fiscal and banking challenges. These include implementing tax revenue policies—such as VAT reform and increasing the minimum turnover tax rate—and cutting non-

² The public uprising in the summer of 2024 and the NBR staff strike in the summer of 2025 together accounted for about 20 percent of the total decline, according to staff estimates.

³ The declaration applies to banks as well as deposit-taking nonbank financial institutions (NBFIs). BB has announced that 9 out of 35 NBFIs will be liquidated.

productive spending, alongside decisive action on the banking front to resolve and restructure weak banks. This policy package is necessary for Bangladesh to ensure macro-financial stability, bolster robust medium-term growth, and safeguard debt sustainability.⁴ An alternative scenario illustrates the consequences of delayed or inadequate policy action in these areas (Box 1).

14. Rising spending pressures over the medium term are expected to be alleviated by revenue gains generated through tax reforms.

Revenue in FY26 is projected to recover only partially from the FY25 lows, as the additional measures adopted in January and July 2025 may underperform amid election-year uncertainty.⁵ Total expenditure is expected to increase in FY26, reflecting

Bangladesh: Fiscal Operations (In percent of GDP)						
	Baseline Projections					
	FY23	FY24	FY25	FY26	FY27	FY28
Total revenue and grants	8.2	8.3	8.0	8.2	10.3	11.0
Of which: tax revenue	7.3	7.4	6.9	7.2	9.3	9.9
Total expenditure	12.6	12.0	10.9	12.6	15.0	16.4
Overall balance	-4.4	-3.7	-2.9	-4.3	-4.7	-5.5
Primary balance	-2.3	-1.4	-0.7	-2.0	-2.2	-2.6

Source: IMF staff projections.

a rebound in capital spending from the subdued levels of FY25. While election-related pressures may add to current spending, the government remains committed to maintaining the primary deficit at 2 percent of GDP in FY26. From FY27 onward, tax reforms assumed under the baseline are expected to boost revenue by 2.1 percent of GDP (see ¶19 and ¶20 for potential measures). These reforms are projected to create fiscal space to increase priority spending in FY27 by 2.4 percent of GDP, including costs associated with the banking sector clean-up. Public debt remains sustainable over the medium-term, with moderate risk of debt distress. Risks, however, are increasing due to a rising projected ratio of domestic debt service to revenue and grants.

15. A comprehensive financial sector stabilization strategy is needed to address widespread undercapitalization.

In the baseline scenario, restructuring and resolution costs are financed through higher fiscal revenues, spending cuts and burden sharing options. All non-viable private banks are assumed to be resolved in a coordinated intervention, while recapitalization of state-owned banks (SOBs) is phased over several years. With non-viable banks exiting the system, BB would no longer be compelled to provide liquidity support to weak institutions, allowing it to preserve control over monetary conditions and inflation.

16. FX reserves are expected to increase gradually under the new exchange rate regime and tight policy mix.

Exports are projected to grow by 12 percent in FY26, as U.S. tariffs on Bangladesh have settled at levels that are lower than initially expected and also lower than some regional export market competitors. Imports are projected to rise by 12 percent, partly driven by higher RMG-related inputs and food products. Remittances are likely to remain strong at around 6 percent of GDP. All in all, the CA deficit is expected to widen to 0.3 percent of GDP in FY26. Meanwhile, the FA surplus is projected to

⁴ The primary deficit is kept unchanged from the combined 3rd and 4th review. If the primary deficit path is relaxed resulting in higher public debt levels, debt sustainability may be compromised.

⁵ In mid-July 2025, the NBR reversed the introduction of the advance income tax (AIT) on cotton imports—originally expected to yield BDT 9 billion. This reversal was offset by newly introduced measures, including a 1 percent AIT on soybeans and edible oils, as well as an increase in the tax deducted at source (TDS) on government securities income from 10 to 15 percent.

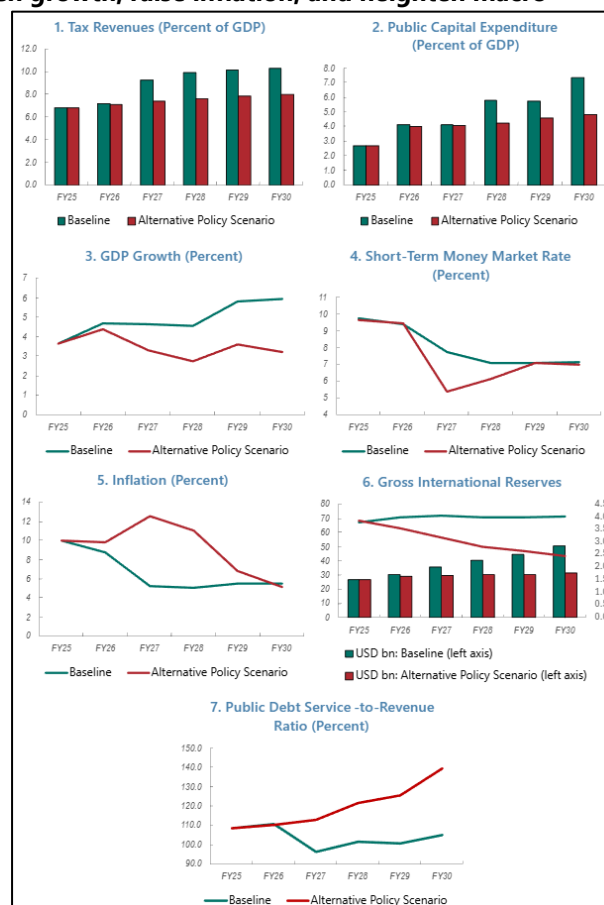
decline slightly to 0.7 percent of GDP, reflecting lower FDI. NIR is expected to reach US\$26 billion at end-June 2026 (US\$30.8 billion in GIR, covering 3.9 months of imports).

Box 1. Alternative Policy Scenario: Delayed Fiscal and Banking Reforms

Delaying fiscal and banking reforms would dampen growth, raise inflation, and heighten macro-financial instability.

Persistently weak revenue and large subsidies would squeeze public capital and social outlays, assuming the primary deficit path is maintained at the baseline path to protect debt sustainability (panel Figures 1 and 2).

Unresolved banking issues would restrict credit, suppress investment and dampen growth (Figure 3). Significant additional liquidity support to weak banks—assumed to avert a loss of confidence—would compress short-term interest rates (Figure 4), raise exchange rate risk premium and fuel capital outflows, triggering significant and rapid depreciation and inflation (Figure 5). Lower financial inflows—including reduced multilateral disbursements—would significantly limit foreign reserve accumulation (Figure 6). Banks' significant undercapitalization would affect their capacity to absorb increases in government debt, contributing to higher public debt costs. Negative feedback loops, eroded monetary policy credibility and weaker external buffers would further elevate risks to inflation and the exchange rate, weighing on growth and macro-financial stability. Higher public debt servicing vulnerabilities would also raise the risk of sovereign debt distress (Figure 7), underscoring the need for a subsequent tighter policy mix. Delays in other reforms assumed under the baseline scenario, unsustainable increases in public expenditure and reversal of the exchange rate reform would further heighten risks (¶17).



17. Risks to the outlook remain tilted to the downside, with domestic risks dominating (Annex II). The resolution of weak banks could be hampered by capacity constraints and limited resources, leading to adverse spillovers on credit, contingent fiscal liabilities and confidence. Slippages in revenue mobilization, unsustainable increases in public expenditure, and losses in nationalized banks would raise government financing risks through increased borrowing needs and weaken public investment and growth. A reversal of the exchange rate reform amid elevated depreciation pressures would jeopardize FX reserves and heighten risks of disorderly FX market. A loss of market share for RMG exports could worsen external imbalances. The disruption of development assistance for the Rohingya refugees may further exacerbate instability in the camps and surrounding communities and increase financial, social, and environmental costs. Additional risks include social unrest ahead of the upcoming elections, declining international aid, geopolitical tensions, and volatility in commodity markets. On the upside, trade and investment diversion to Bangladesh may occur as competitors face higher trade barriers.

Authorities' Views

18. The authorities broadly agreed with staff's assessment of risks and the need for critical reforms, but expressed greater optimism about the outlook. They expected a stronger rebound in economic activity reaching 5 percent in FY26, driven by continued stability, improved confidence, and investment demand after the national election. The authorities also anticipated that inflation would ease to around 7 percent by end-FY26. They agreed that future growth requires significant fiscal and financial sector reforms, which will require strong commitment from the new political leadership. Increasing fiscal revenues in the coming years would be driven by tax policy reforms and improvements in tax administration and compliance. Cleaning up the banking sector is a top priority and will be supported not only by fiscal resources but also by improvements in governance and regulation, which have already begun and contributed to restoring confidence.

POLICY DISCUSSIONS

Regaining job-creating growth momentum on the path to middle-income status will require bold reforms to boost both private and public investment and sustain competitiveness and productivity. Near-term priorities include implementing revenue-raising measures and addressing financial sector vulnerabilities. Maintaining tight fiscal and monetary policy remains critical to restoring near-term macroeconomic stability and bolstering external resilience. Over the medium term, key reforms areas include modernizing the monetary and exchange rate frameworks, strengthening and deepening the financial sector, promoting export diversification to foster youth employment, enhancing resilience to natural disasters, and implementing comprehensive governance reforms.

A. Maintaining Revenue-Based Fiscal Consolidation

19. Ensuring fiscal sustainability through revenue mobilization is paramount to avoid debt distress amid elevated expenditure needs. Maintaining a tight fiscal stance is critical to preserving macro-stability and fiscal sustainability and requires limiting the primary deficit to 2 and 2.2 percent of GDP in FY26 and FY27 respectively⁶, which is below its neutral level.⁷ At the same time, bank resolution will require fiscal resources, while subsidy pressures need to be contained and priority social and capital outlays safeguarded. Recent IMF TA on tax policy indicates scope to raise revenue by more than 2 percent of GDP in the short-term through: (i) unifying the VAT rate at 15 percent and narrowing VAT

⁶ Following the significant consolidation in FY25, a moderate loosening of the fiscal stance—reflected in the higher primary deficit in FY26—is warranted to support investment and other critical spending. Nevertheless, the overall fiscal stance remains relatively tight, as the primary deficit is still below neutral level (see footnote 8).

⁷ The neutral level of the primary deficit consistent with debt sustainability is equal to 2.6 percent of GDP. The output gap in FY25 is estimated at about -1 percent, indicating that the economy was operating below capacity. In FY26 and FY27 the gap is expected to persist at about the same level before gradually closing by FY30. Given the economic slack over FY25-27, the cyclically-adjusted primary deficits are below their actual values and below the neutral primary deficit, indicating tight fiscal stance.

exemptions; (ii) raising the minimum turnover tax rate to 2 percent and applying it to all companies;⁸ (iii) introducing a modern excise act for tobacco; and (iv) introducing excise taxes on imported motive fuels at the equivalent of US\$50 per ton of greenhouse gas emissions plus the pollution cost.

20. Tangible improvement in tax administration should support revenue mobilization.

Despite increases in the number of registered personal income taxpayers, the VAT e-collection platform and gradual adoption of risk-based audits, progress on the compliance improvement plan and income tax automation remains limited. The October 2025 IMF-World Bank assessment found tax administration weaker than in 2017.⁹ Weak compliance threatens to erode tax reform gains. Accelerating reforms in line with Medium-and-Long Term Revenue Strategy (MLTRS), a post TADAT response and action plan, and IFIs' recommendations is essential.¹⁰

21. Ensuring the viability of energy SOEs is crucial to containing fiscal risks. In FY24, five largest SOEs accounted for about 70 percent of the total losses, driven by increasing energy imports costs and inadequate end-user pricing, resulting in arrears along the value chain. The government supports SOEs through subsidies (1 percent of GDP in FY25) and guarantees.¹¹ The authorities should adopt a 3-year (FY27-29) electricity tariff reform roadmap, with key components including cost reduction plan, tariff adjustment schedule, and targeted social protection plan, to restore SOEs' finances and reduce subsidies. Protecting vulnerable households and transparent communication with public will help build consensus around the reform. The authorities should consistently apply the automatic fuel pricing mechanism to ensure economically justified price formation and maintain the sound financial position of the Bangladesh Petroleum Corporation (BPC).¹²

22. Rationalizing non-energy subsidies could help create fiscal space. With no premium between the official and the market exchange rates, the remittance subsidy (about 0.15 percent of GDP) is no longer necessary to encourage repatriation through official channels and should be phased out. A comprehensive strategy to optimize production capacity and adjust fertilizer prices would help reduce fertilizer subsidies, which reached 0.8 percent of GDP in FY25.

⁸ The current rate of 1 percent is applied on a narrow base and does not offset base erosion due to tax incentives, noncompliance and tax planning. Applying the minimum tax to all companies (including those benefiting from exemptions or operating in an Economic Processing Zone or Special Economic Zone) and increasing the rate to 2 percent should be combined with refundable credits for taxes deducted at source and a nonrefundable corporate income tax credit for the minimum tax paid.

⁹ The Tax Administration Diagnostic Assessment Tool (TADAT) Assessment in October 2025 shows that out of 9 areas and 32 high level critical indicators for tax administration, Bangladesh received 22 "D" (weak) ratings, 6 ratings were lower, while 3 ratings were slightly higher than in the previous assessment.

¹⁰ Including under the Joint Domestic Resource Mobilization Initiative (JDRMI) of IMF, World Bank and other partners.

¹¹ Each fiscal year, the government partially covers subsidies and repayment of arrears to Bangladesh Power Development Board and Petrobangla. The price differentiation among sectors creates cross-subsidization in favor of households. In FY25, out of 1 percent of GDP subsidies for BPDB, about 50 percent was for arrears clearance.

¹² The authorities adopted an automatic fuel pricing adjustment mechanism in February 2024, which helped BPC to generate profits and clear external arrears.

23. Enhancing targeted transfers while broadening the social safety net is vital to protecting the vulnerable. The authorities have consolidated social programs from 150 to 95 and improved beneficiary eligibility. However, the coverage of the poor population is low. The recently started development of a dynamic social registry will support better targeting and coverage of social assistance. In the near-term, the government could use the poverty map to inform allocation of social transfers while rationalizing energy tariffs.

24. Improving efficiency and transparency in public financial and investment management should once again come to the forefront. The rollout of Treasury Single Account is in progress but its expansion should be accelerated to strengthen cash management. The use of Electronic Fund Transfer increased to about 50 percent of major government transactions and the public procurement legislation was adopted. The authorities should prioritize the largest and most productive public investment projects, particularly those nearing completion and strengthen project appraisal and feasibility analysis capacity.

Authorities' Views

25. The authorities agreed that increasing tax revenue has become a national priority. Increasing expenditure will depend on available revenue to ensure fiscal and debt sustainability. Larger fiscal resources are required to finance significant developmental and social needs. However, bold tax policy reforms and rationalization of public expenditure will require strong commitment from the new political government. The authorities highlighted a broad consensus among businesses in favor of simplifying the VAT system. They also broadly agreed that raising the minimum turnover tax can be considered, though companies may challenge the legal basis of such a measure, potentially requiring further IMF support in its design. In addition, the authorities agreed to consider excise tax reforms. They also confirmed their intentions to improve tax administration by separating it from the tax policy function, and by expanding digitalization. The decision on the electricity tariffs reform roadmap will have to be left to the newly elected government due to the political sensitivity of this reform.

B. Restoring Financial Sector Stability

26. The authorities are undertaking broad financial sector reforms, which should be anchored in a comprehensive, government-wide reform strategy aligned with international best practice. Ongoing efforts include legal and institutional reforms, improvements in bank governance, risk management, balance sheet transparency, and implementation of IFRS9 (by 2027) and risk-based supervision (RBS).¹³ A credible strategy should set BB and MoF's shared objectives for financial sector clean-up, estimate system-wide undercapitalization, define fiscal support, outline legally robust restructuring and resolution strategies that deliver well governed, viable institutions without prolonged regulatory forbearance, and include a timebound implementation plan that reflects capacity constraints. Bank diagnostics should be expanded to cover all systemically important and state-owned banks (SOBs), supported by governance reforms for SOB restructuring and

¹³ These efforts are supported by coordinated capacity development by Asian Development Bank (ADB), UK Foreign, Commonwealth & Development Office (FCDO), International Finance Corporation (IFC), IMF, World Bank, and other development partners.

recapitalization. BB should establish procedures for bank viability assessments and prepare contingency plans for liquidity pressures. Reputable local and international experts should support restructuring/resolution work, and strengthen operational capacity. Non-viable banks should not be merged before cleaning up their balance sheets and evaluating the cost of integrating banks and their systems. An asset management company (AMC) that does not prioritize loss recognition or provide market-based instruments for NPLs should not be considered.

27. Efforts to improve banks' governance, balance sheet transparency and BB's supervision should continue. To address irregularities and enhance confidence, BB replaced and/or appointed temporary administrators in 16 banks. Draft amendments to the Bank Company Act (BCA) should be better aligned with the Basel Core Principles, and clarify that the Bank Resolution Ordinance (BRO) takes precedence for bank merger and resolution. BB regulations on rescheduled, restructured and off-balance sheet exposures should require sustained repayments before reclassification as performing. To ensure an orderly exit of 27 banks from regulatory forbearance, BB should strengthen its framework for assessing capital restoration plans, and establish triggers for corrective actions when the plans lack credibility or implementation falters. A more unified RBS approach requires consolidating each bank's supervision under a single team, with decisions channelled through the forthcoming Financial Supervision Board.

28. Recovering distressed and stolen bank assets is critical for reducing the cost of financial sector cleanup and promoting accountability. A new Insolvency and Bankruptcy Act and Money Loan Court Act should be aligned with best international practice and courts' capacity improved to expedite debt resolution. This will reduce credit risk and create conditions for lower borrowing costs. A BB-led asset recovery task force is coordinating domestic efforts and cross-border cooperation to freeze, confiscate and recover stolen assets.

29. The authorities have strengthened the financial safety net and should further enhance operational preparedness. The BRO gives BB resolution powers broadly aligned with international best practice and the new Deposit Protection Ordinance should follow suit. To avoid conflicting objectives and conflicts of interest, the Bank Resolution Department (BRD) and Bank Supervision should report to different deputy governors. Recent regulations on bank resolution should be aligned with the BRO and BRD's resources enhanced. The authorities should establish fiscal backstop for the Deposit Protection Fund (DPF) and adopt a new Emergency Liquidity Assistance (ELA) framework with an Islamic window and provision for government indemnities. A Bank Restructuring and Resolution Fund (BRRF) could channel government and donors' contributions and levy banks but levies should not be introduced while banks are retaining earnings to exit regulatory forbearance. Moreover, any bank levies should first rebuild the DPF.¹⁴

Authorities' Views

30. The authorities reiterated their commitment to ongoing legal, institutional, and operational reforms but noted that key policy decisions await the new government. These reforms include strengthening the financial safety net and frameworks for recoveries of distressed

¹⁴ DPF will be significantly reduced following the ongoing five-bank merger.

and stolen assets and implementing a roadmap for RBS and IFRS9. The authorities reported progress in developing a comprehensive banking sector reform strategy but pointed out that it is not yet ready to be shared with staff. They expressed agreement with elements of the recommended approach but are, in the short run, addressing the five most problematic banks through nationalization and mergers. The authorities recognized the benefits of engaging reputable international and local consultants to review merger plans for viability and legal robustness. They also agreed on formalizing interagency coordination and preparing contingency plans for liquidity pressures. BB reported that 26 out of 27 capital restoration plans by banks enjoying regulatory forbearance are still under review. With assistance from development partners, the authorities aim to operationalize backup funding arrangements for the DPF and potential government indemnities for ELA by early 2026, and to prepare a SOB governance reform strategy by December 2026.

C. Reducing Inflation and Enhancing the Monetary Policy Framework

31. Maintaining tight monetary policy is needed to bring down inflation while sustaining the new exchange rate regime (Annex IV). Persistently high inflation risks de-anchoring inflation expectations and warrants maintaining tight monetary conditions until inflation returns to the 5-6 percent target range. The policy rate should remain at least at its current level of 10 percent until clear evidence that the recent re-acceleration in inflation has subsided, to avoid premature normalization. Monetary policy transmission to short-term money market interest rates should be carefully monitored and supported by liquidity-absorbing operations if needed. As unsecured liquidity injections to weak banks undermine policy transmission and risk the central bank's balance sheet, BB should not increase this lending except in periods of extreme financial instability and unless backed by explicit government guarantees. The new exchange rate regime should be implemented fully, by increasing flexibility and maintaining the rate within the band. BB's purchases during FX auctions should respect the pre-announced volumes and not target the cut-off rate.

32. Modernization of the monetary policy framework should continue. The forecasting and policy analysis system should be established to support policy deliberations in the context of transitioning to inflation-targeting, including necessary organizational reforms. Operations with Islamic banks should be conducted on equivalent terms to conventional banks and the core policy operations should be streamlined.

33. To improve effectiveness of monetary policy, BB should phase out non-standard monetary operations and reduce quasi-fiscal activities. Non-standard operations—90-day and 180-day repos at preferential terms—interfere with effective policy and should be discontinued. BB and the government should adopt a strategy to reduce and phase out quasi-fiscal lending.

Authorities' Views

34. The authorities underscored the importance of tackling inflation and modernizing the monetary policy framework. BB intends to maintain the key policy rate at 10 percent until inflation eases to 7 percent. Targeted liquidity support has been provided to banks under strict conditions and

only as needed to avert financial instability, accompanied by enhanced monitoring of borrowers. BB has made important progress in phasing out non-standard monetary operations, notably by terminating the 1-day assured liquidity support and the 28-day repo facilities. Quasi-fiscal lending activities on BB's balance sheet have been reduced faster than called for under the IMF-supported program. Since the launch of the new arrangement in May, the exchange rate has been fully market-determined, which has helped BB to add about US\$2 billion to FX reserves through interventions so far in FY26.

D. Unlocking Growth Potential and Job Creation Through Macro-Structural Reforms

35. Enhancing governance and combating corruption are critical to delivering inclusive and sustainable economic growth. Priorities include:¹⁵

- **BB's legal and governance reforms.** BB has made progress on the new draft of the BB Order and should proceed with the governance reform to better align the institution with modern central bank functions. The legal reform should aim at strengthening central bank's autonomy, improving decision-making arrangements and enhancing transparency and accountability, in alignment with international good practices.¹⁶
- **Fiscal governance.** To improve tax administration and digitalize government operations, the authorities adopted a project proposal to develop an e-return and e-payment framework for income tax, are preparing a departmental code of ethics and professional conduct and will require electronic filing of all tax-deducted at source payments and returns from July 2026. Further strengthening risk-based audits, establishing a unique tax identification number and improving internal information sharing will enhance tax compliance.
- **Anti-Corruption.** The authorities have made progress in expanding the operation of the Anti-Corruption Commission (ACC) to all districts and strengthening inter-agency cooperation to combat corruption. Continued anti-corruption reforms are critical to unlocking growth potential, and priorities include: (i) strengthening the independence, effectiveness, and capacity of the ACC; and (ii) implementing risk-based verification and public disclosure of asset declarations of high-risk public officials.
- **AML/CFT.** The Bangladesh Financial Intelligence Unit (BFIU) has strengthened its risk assessment tools and continued to conduct on-site examinations of high-risk banks. The BFIU should uphold a risk-based approach to AML/CFT supervision, with its independence and capacity strengthened to ensure effectiveness. The fourth mutual evaluation by the Asia/Pacific Group on Money Laundering (APG) is expected in 2027. The authorities should also

¹⁵ The IMF Governance Diagnostic Assessment could be considered to further identify macro-critical governance weaknesses and reform measures.

¹⁶ Several issues were discussed with BB and remain outstanding based on the draft BB Order reviewed by staff. To avoid undermining BB's autonomy, the legal reform has to ensure that: (i) BB Board includes no government representatives; (ii) BB's management term in office is longer than the political cycle (e.g., six years); (iii) the BB's mandate to establish funds to support its functions is limited to resolution and deposit insurance funds; and (iv) BB phases out quasi-fiscal operations and has no mandate to initiate new ones.

adopt a FATF-standard-aligned risk-based approach to fit and proper testing for those who own and control banks.

36. Fostering more inclusive job creation should address the pressing challenge of youth unemployment (Annex V). Bangladesh's youth unemployment—especially among the formally educated—is alarmingly high. Recent Labor Force Surveys suggest that rising human capital has not translated into more jobs in higher-productivity sectors, and education-occupation mismatch is particularly acute in the garment industry and among young workers. Policies to upgrade industrial structure and promoting diversification (¶137), bridge the education-to-employment gap, improve job-matching mechanisms, and enhance female labor force participation will be crucial to fostering inclusive job creation and harnessing Bangladesh's demographic dividend.

37. Export diversification is essential to unlocking broader growth potential and supporting the transition to middle-income status (Annex VI). Bangladesh's exports are dominated by the RMG sector (85 percent of total exports), leaving the economy vulnerable to global disruptions and price shocks. Trade tensions and the potential loss of benefits after the LDC graduation pose additional challenges. Diversifying into higher value-added sectors should support key policy priorities including broadening fiscal revenue base, unlocking growth potential, and absorbing highly skilled labor force. Policies should focus on improving trade taxation, and transportation and energy infrastructure, and attracting FDI in high-value sectors.

Authorities' Views

38. The authorities concurred with staff on the criticality of structural reforms to support job creation and inclusive growth. The work on amending the BB Order to ensure BB's autonomy and improve its governance continues. However, decisions on the BB reform should be deferred to the next political government. Regarding anti-corruption measures, the authorities highlighted progress in strengthening the institutional capacity of the ACC, plans to introduce risk-based verification, and phased publication of wealth declarations for public officials in high-risk categories. The BFIU has adopted a risk-based approach to AML/CFT supervision and is intensifying its supervisory actions in preparation for the APG mutual evaluation. The authorities are prioritizing collaboration between the government and the private sector to establish training programs and skill certification aimed at bridging youth skill gaps and addressing youth unemployment. Efforts to enhance worker protection are expected to help female labor participation. While acknowledging challenges in export and economic diversification, the authorities stand ready to negotiate bilateral trade agreements, upgrade infrastructure and develop a one-stop service portal to facilitate trade and FDI.

E. Enhancing Resilience to Climate Change

39. Bangladesh is among the most vulnerable countries to climate change and natural disasters, and the authorities have set ambitious goals to achieve resilient and green growth. Climate-related disasters hinder Bangladesh's poverty reduction efforts, disrupt economic activity,

destroy jobs, and strain reserves and public debt.¹⁷ Bangladesh has submitted its Nationally Determined Contribution 3.0 (NDC 3.0) that sets a robust emissions reduction target, with the majority of reduction expected from the energy sector.¹⁸ Embarking on a just energy transition will become a priority policy agenda, alongside building economic resilience.

40. Resilient green infrastructure is helping to foster sustainable economic growth. The authorities have continued to integrate climate considerations into the PFM and PIM. Recent actions include: (i) adopting an updated public-private partnership regulatory framework to better manage fiscal risks from climate change; and (ii) introducing selection criteria for infrastructure projects, consistent with the National Adaptation Plan (NAP) and the NDC. Significant progress is also being made on establishing a public asset register that captures climate vulnerability.¹⁹ These actions help limit fiscal and external costs from shocks and reduce post-disaster reconstruction needs.

41. Strengthening climate risk management enhances financial sector resilience, while scaling up climate finance is crucial going forward. The authorities have accelerated implementing climate risks disclosures and conducted climate stress testing (CST) for the banking sector.²⁰ They also plan to update the green taxonomy to align with the NAP priorities, though a delay is expected. These reforms will strengthen financial and external resilience to disasters and promote private sector investment in climate adaptation. The RSF has acted as a catalyst for additional climate finance, and the Bangladesh Climate Development Partnership (BCDP) has identified priority projects. However, climate finance needs remain large and urgent, requiring an all-hands-on-deck approach to mobilize additional resources.²¹

Authorities' Views

42. The authorities expressed their strong commitment to critical climate-related reforms and acknowledged the urgent need for climate finance mobilization. They emphasized the timely implementation of the RSF reform measures (RMs) thus far and are stepping up efforts to meet upcoming RMs. The reform agenda will continue beyond RM completion, focusing on mainstreaming climate and disaster risks into macro-fiscal planning and public investment management, as well as integrating climate risks into stress testing and risks disclosure for banks and financial institutions. The authorities also expressed the need for TA from the IMF and other development partners to further build capacity of government officials further. They noted good progress in implementing the NAP and that the NDC3.0 has raised the country's ambition to pursue

¹⁷ Between 2000 and 2023, natural disasters caused US\$13.6 billion in damage (EM-DAT), with climate-related events expected to increase in severity and frequency.

¹⁸ NDC 3.0 aims to achieve 20 percent of emissions reduction by 2035 relative to the business-as-usual scenario, with 6.4 percent being unconditional target (i.e. own contribution).

¹⁹ The coverage of asset register that is mapped to the Climate Vulnerability Index will be expanded from the existing Building module to also include Bridges and Roads infrastructure modules.

²⁰ BB has requested further support from IMF to deepen and sustain its CST exercise.

²¹ The total of US\$116 billion is estimated as resources need by 2035 to meet the NDC 3.0 objectives, while about US\$120-140 billion is needed to implement the NAP by 2035.

a green and just transition. The authorities view the BCDP as a key platform for coordinating climate finance mobilization going forward.

OTHER ISSUES

43. Article VIII and MCP. Bangladesh maintains the following exchange restrictions that are inconsistent with its obligations under Article VIII, Section (2): (i) a restriction on the convertibility and transferability of proceeds of current international transactions in non-resident Taka accounts; (ii) a restriction on future FX transactions for non-compliance with FX rules; (iii) a restriction on non-resident workers transfers of salaries arising from the requirement of mandatory deductions (including living expense) and providing a tax clearance certificate prior to salary transfers; (iv) a cash margin requirement on letters of credit for import payments in the absence of alternative unrestricted means of payments for such imports; and (v) requiring a foreign bank guarantee on advanced import payments. Bangladesh also maintains a multiple currency practice arising from a subsidy of 2.5 percent on inward FX remittances, introduced before the approval of the EFF/ECF arrangements. This subsidy should be phased out in the context of freely quoted exchange rate and limited fiscal space.

44. Capacity development. The Fund CD continues to prioritize reform implementation in the areas of the new exchange rate regime, forward-looking monetary policy formulation and implementation, BB legal and governance reforms, macroframework for fiscal authorities, revenue mobilization, public financial and investment management, banking supervision, capital markets, and macroeconomic statistics.

45. BB is making progress in implementing the recommendations of the 2022 safeguards assessment. With IMF technical assistance, work is underway on a comprehensive reform of the BB Order to strengthen governance, autonomy, transparency, and accountability (T135). BB has established a dedicated risk management function and initiated modernization of its internal audit in line with international standards. Further efforts are needed to implement other recommendations, including phasing out quasi-fiscal lending, assessing IT systems' vulnerabilities, and enhancing the transparency of financial statements.

46. Bangladesh's capacity to repay the Fund is adequate, though risks are elevated. Total Fund credit outstanding is projected to peak in FY26 at 1.1 percent of GDP and 12.7 percent of government revenue (Table 6). Total debt service obligations to the Fund will peak in FY32 at 0.1 percent of GDP and 11.5 percent of debt service. Risks to capacity to repay the Fund stem from reserves deviating from forecasts and limited FX liquidity, political uncertainties, the outlook for Fund engagement, and overall macroeconomic developments. These would be mitigated by the planned reform measures and the authorities' strong track record of servicing IMF debt.

47. Data issues (Annex VII). The data provided to the Fund are broadly adequate for surveillance. Authorities should aim at reducing delays in publishing National Accounts data, monthly government operations, and financial soundness indicators (FSI). They should also improve

data coverage for prices, and expand GFS coverage. Enhancing BB's responsibility for compiling trade statistics would improve the quality of BOP statistics.

Authorities' Views

48. The authorities appreciated the IMF's strong support in capacity development, agreed with staff's assessment of data issues, but presented an alternative position on MCP-related issues. They noted that CD support is essential to sustain reform momentum and strengthen policy. The authorities remain committed to enhancing the quality of macroeconomic statistics and highlighted progress in improving the consistency in BOP data. Regarding MCP issues they pointed out that while discontinuing the remittance subsidy is economically justified, it is also politically sensitive and will need to be considered by the new government.

STAFF APPRAISAL

49. Bangladesh faces mounting macro-financial challenges. Weak fiscal revenue mobilization and banking sector vulnerabilities pose immediate challenges for macroeconomic stability. Elevated inflation is eroding purchasing power, disproportionately affecting the poor. Slippages in implementation of the new exchange rate framework risk renewing external imbalances.

50. Performance under the fifth EFF/ECF/RSF review has been uneven. Government revenue collection fell significantly short of the quantitative performance criterion. The high-level reform strategy for bank restructuring remains pending, and FX intervention practices have not been consistently aligned with understandings under the program. The primary deficit target was met, but largely through substantial cuts in capital and social spending. Program conditions on foreign reserve accumulation, reduction of payment arrears, and limits on quasi-fiscal lending were met. Bangladesh's capacity to repay the Fund remains adequate, notwithstanding elevated risks.

51. Restoring higher growth and progressing toward middle-income status will require bold reforms. Credible restructuring of weak banks will restore confidence and ease credit constraints, while additional fiscal space will support social spending and public investment. Sustaining reform momentum after the elections is essential for delivering inclusive and robust growth as Bangladesh prepares for LDC graduation.

52. Making ambitious fiscal reform a national priority will help mobilize the resources to safeguard social spending, and support investment and financial stability. Priorities include implementing bold revenue-raising policies, simplifying the tax system, reducing compliance costs and strengthening tax administration. Rationalizing energy subsidies, enhancing social safety net and improving public investment management are critical for creating fiscal space, supporting social and infrastructure development, and financial sector reforms.

53. Comprehensive and appropriately funded banking sector restructuring is critical for financial stability. A credible government-wide strategy should guide financial sector reforms and include estimates of undercapitalization, defined fiscal support, and legally robust restructuring and

resolution plans that protect critical functions and safeguard small depositors. AQRs should be conducted for all systemic banks and SOBs. Ultimately, financial stability will depend on reforms delivering well-governed, solvent, liquid and profitable banks. Advancing BB's RBS and improving bank governance and balance sheet transparency remain important.

54. A tight policy mix is needed in the near-term to rebuild foreign reserves and ease inflation. Further reserve accumulation requires continued tight policy mix and exchange rate flexibility. BB's unsecured liquidity injections in weak banks jeopardize macroeconomic stabilization and should be discontinued. To keep inflation on a sustained downward trend, monetary policy should not be eased prematurely. The external position of Bangladesh in FY25 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.

55. Delaying reforms and inadequate policy mix could threaten growth and inflation. Capacity constraints or fiscal resource limitations could impede financial sector stabilization. Continued BB liquidity support to weak banks risks fueling inflation and FX instability. Revenue mobilization slippages could raise government financing risks, while a reversal of the exchange rate reform could increase external imbalances. In turn, delays banking and fiscal reforms would weaken growth, raise inflation, and increase macro-financial risks. Political and social unrest could place additional strain on economic activity.

56. Comprehensive structural reforms are required to unlock economic potential and achieve inclusive growth. Enhancing governance and transparency is a prerequisite for improving the investment climate and attracting FDI. Legal and governance reform of BB should adhere to best international standards to strengthen the institution and enhance macroeconomic resilience. The authorities should strengthen anti-corruption measures and the AML/CFT framework. Policies that foster job creation and promote export diversification would support Bangladesh's transition to a more resilient growth model. Continued capacity development and improvements in macroeconomic statistics would enhance policy making.

57. Building climate resilience and mobilizing climate finance remain top priorities. Reforms under the existing RSF arrangement provide a roadmap for advancing climate-resilient infrastructure and improving prudent management of fiscal and financial risks from climate change and natural disasters, while scaling up climate finance. The authorities should ensure continued implementation of these reforms and effective execution of the BCDP plan.

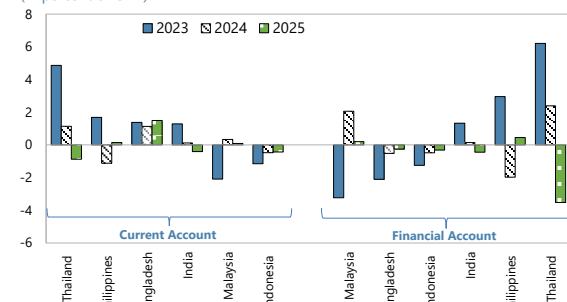
58. It is expected that the next Article IV consultation with Bangladesh will be held on the 24-month cycle in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 1. Bangladesh: Pressures from External Shocks

The current and financial accounts have adjusted notably amid a series of shocks...

Annual Changes of Current Account and Financial Account Balance in Selected Economies

(In percent of GDP)

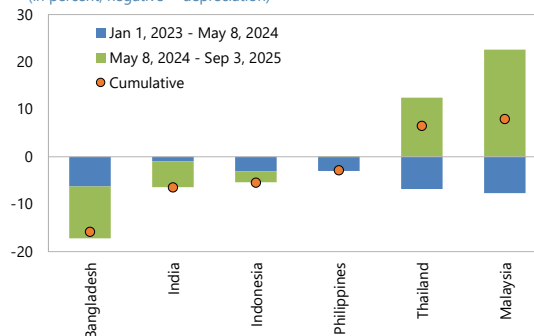


Note: Bangladesh and India data are reported for Fiscal Years 2023, 2024, and 2025.

...which has been accompanied by continued depreciation of the Taka.

Exchange Rate Movement Against USD in Selected Economies

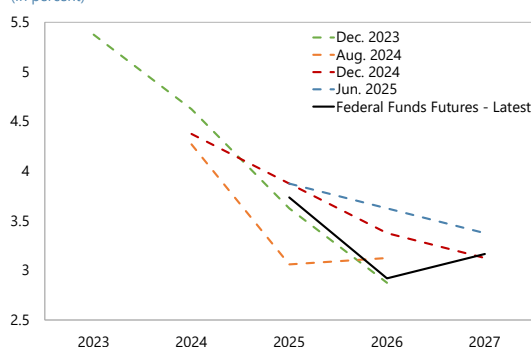
(in percent; negative = depreciation)



Global monetary policy conditions are set to become more accommodative.

Year-End Target of Fed Funds Rate

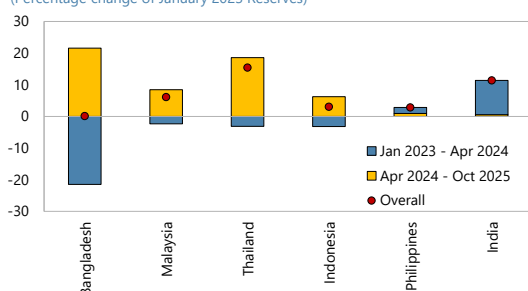
(In percent)



...while FX reserves have partially recovered following large declines in 2023 and early 2024.

Foreign Exchange Reserves Developments in Selected Economies

(Percentage change of January 2023 Reserves)

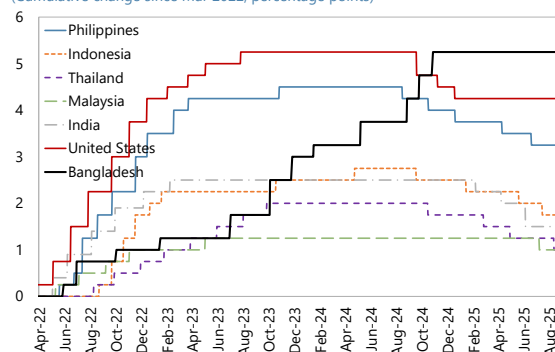


* Bangladesh figures as of Nov. 27, 2025. All other countries as of Oct. 31st, 2025.

Bangladesh Bank has tightened monetary policy...

Policy Rates

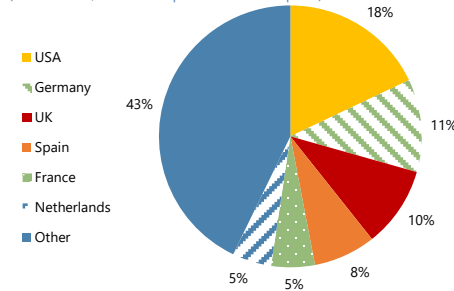
(Cumulative change since Mar 2022; percentage points)



While U.S. tariffs present an additional challenge, exports to the U.S. are less than 20 percent of total exports.

Main Export Partners

(based on H1, FY2025 - In percent of total exports)



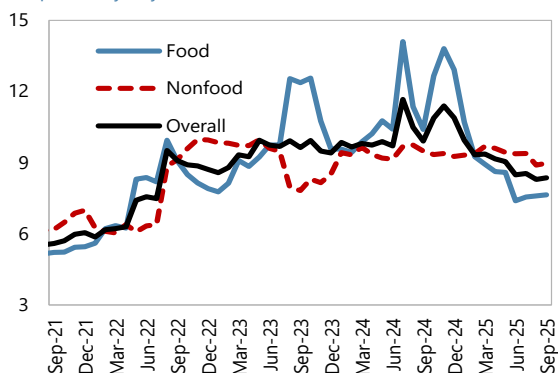
Sources: Bangladesh Bureau of Statistics; Bangladesh Bank; Bloomberg Finance L.P.; Haver Analytics; World Economic Outlook; and IMF staff calculations and estimates.

Figure 2. Bangladesh: Monetary and Financial Market Developments

Inflation remains elevated...

Inflation Rates

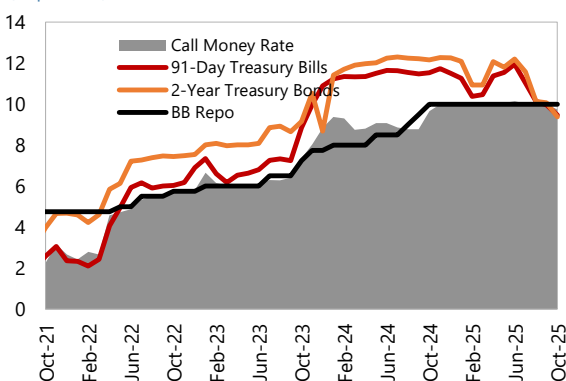
(In percent, y-o-y)



Market interest rates have compressed towards the policy rate following liquidity injections into weak banks...

Interest Rates

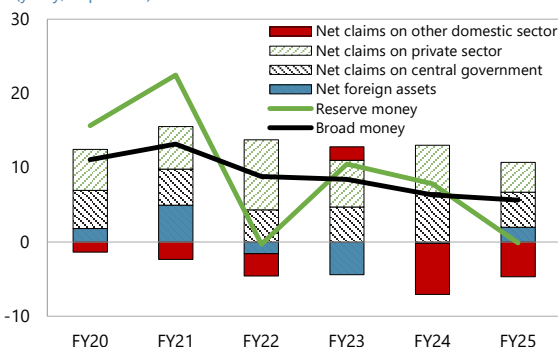
(In percent)



Broad money growth has continued to slow.

Contributions to Broad Money Growth

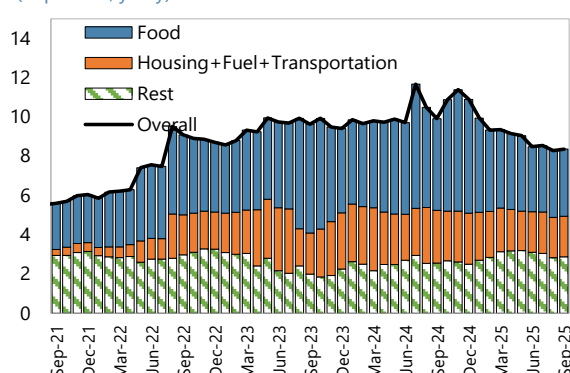
(y-o-y, in percent)



...driven by supply-side shocks primarily impacting food prices.

Contributions to Inflation

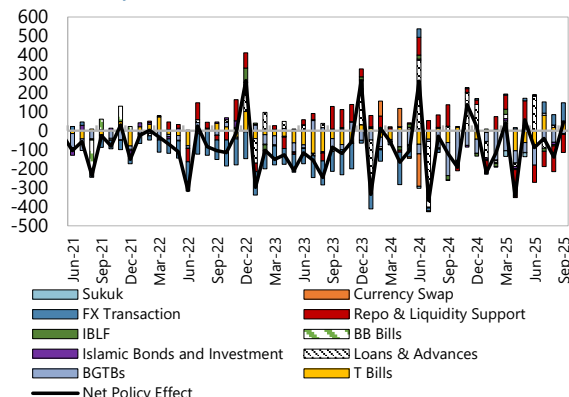
(In percent, y-o-y)



...even as systemic liquidity remained tight on average.

Liquidity Management Operations

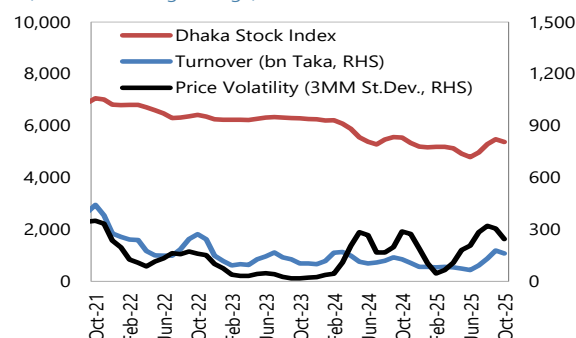
(Net effect by instrument, in billion Taka)



Stock prices have faced downward pressure.

Dhaka Stock Market Performance

(3 month moving average)



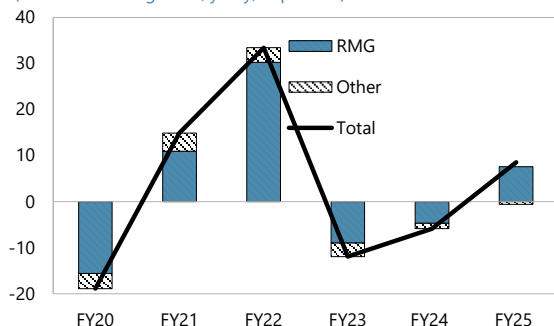
Sources: Bangladesh Bureau of Statistics; Bangladesh Bank; Bloomberg Finance L.P.; Haver Analytics; and IMF staff calculations.

Figure 3. Bangladesh: External Sector Developments

The decline in exports since FY23 has reversed, with exports showing a resilient recovery in FY25.

Exports by Commodity

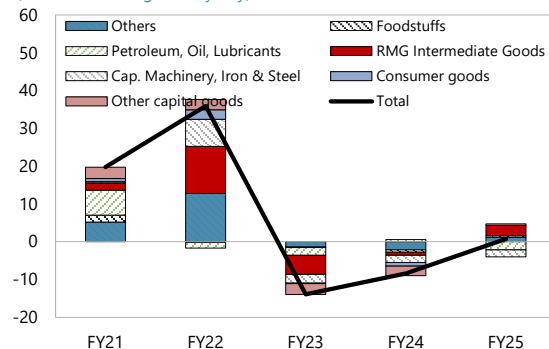
(Contribution to growth, y-o-y, in percent)



While subdued import growth has helped improve the trade balance.

Imports by Commodity

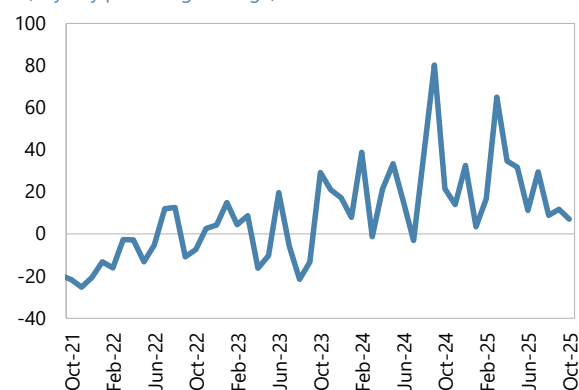
(Contribution to growth, y-o-y)



Workers' remittances continue to strengthen...

Workers' Remittances

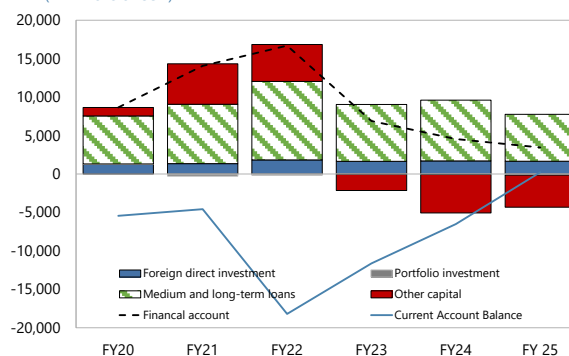
(In y-o-y percentage change)



... helping to balance the current account by FY25.

Current and Financial Account Balance

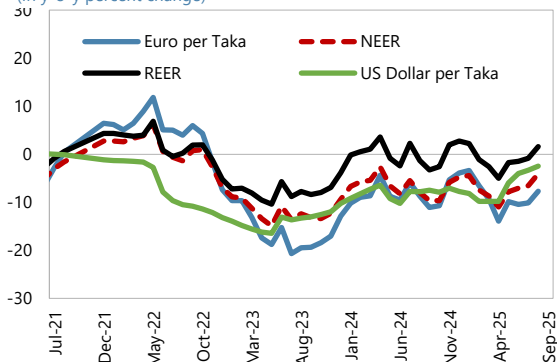
(In millions of USD)



Despite the exchange rate adjustment in May 2024, the Taka remained under pressure.

Exchange Rate Dynamics

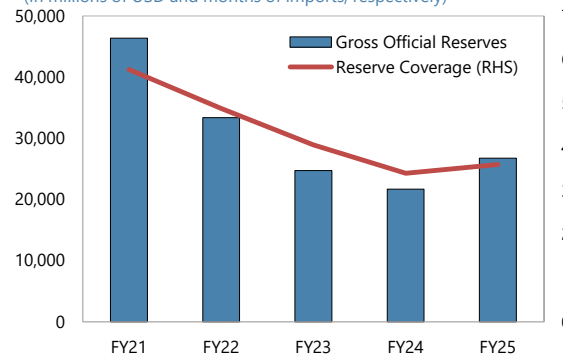
(In y-o-y percent change)



Remittances, donors' disbursements and reduced FX interventions halted the decline in FX reserves in FY25.

Gross Official Reserves and Reserve Coverage

(In millions of USD and months of imports, respectively)

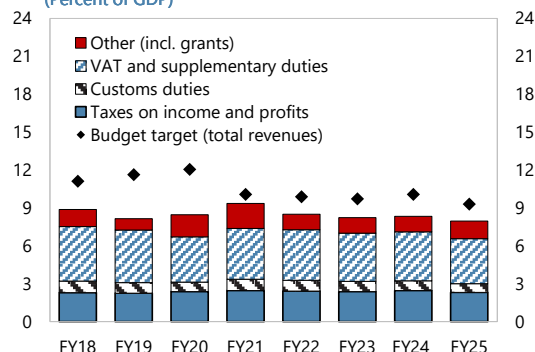


Sources: Bangladesh Bank; Haver Analytics; FRED; INS; and IMF staff calculations.

Figure 4. Bangladesh: Fiscal Developments

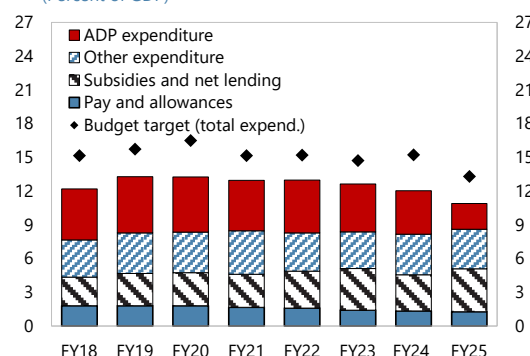
Revenue collection has consistently fallen short of targets.

Central Government Revenue
(Percent of GDP)



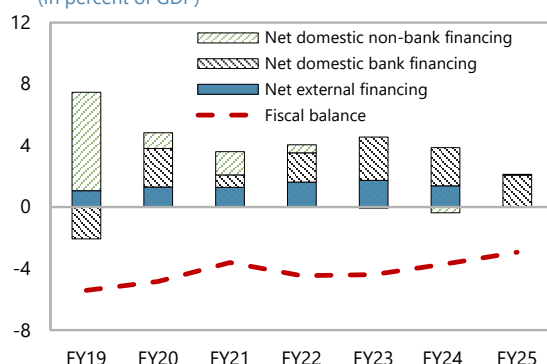
Limited revenue mobilization has constrained overall spending.

Central Government Expenditure
(Percent of GDP)



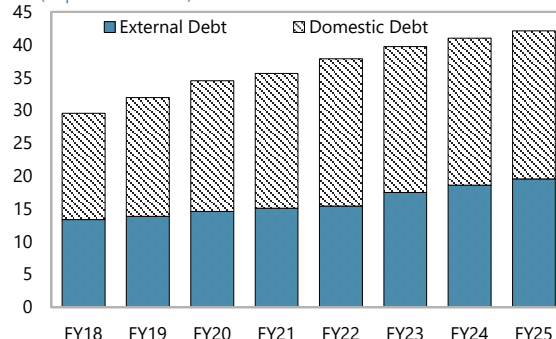
As a result, fiscal deficit has been kept in check.

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



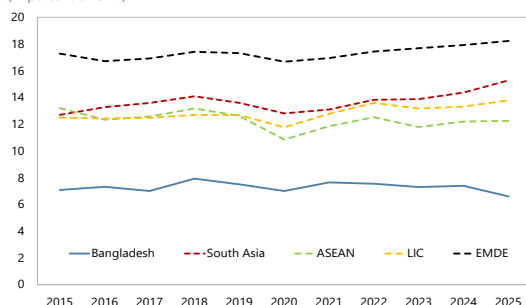
Public debt has been kept sustainable.

Total Public Debt
(In percent of GDP)



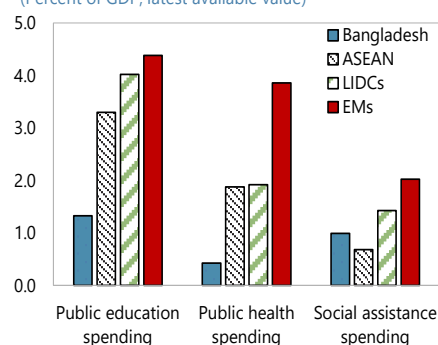
Revenue collection has remained persistently low, with a significant gap relative to peer countries.

Tax Revenue
(In percent of GDP)



This has constrained social and development spending.

Government Social Spending
(Percent of GDP, latest available value)

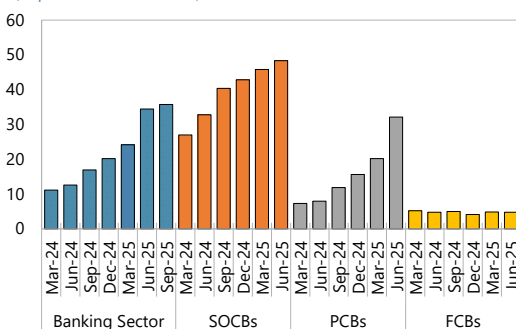


Sources: Bangladesh Ministry of Finance; World Economic Outlook; and IMF staff calculations.

Figure 5. Bangladesh: Banking Sector Developments

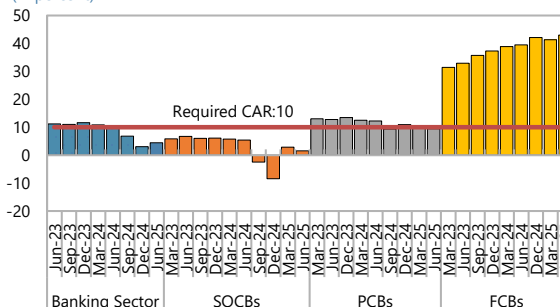
NPLs increased further in 2025, following strengthened regulation on loan classification ...

Non-Performing Loans
(In percent of total loans)



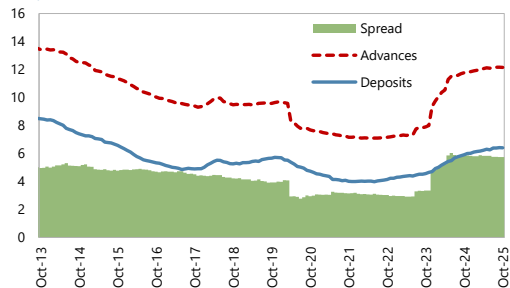
...pushing reported capital adequacy ratios below regulatory minimum levels, notwithstanding deferred loan loss provisions in 27 banks.

Capital Adequacy Ratio
(In percent)



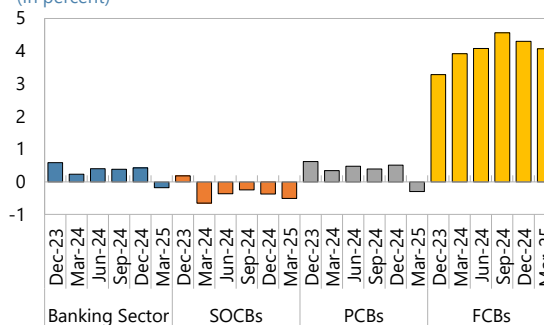
While interest margins have widened...

Weighted Average Nominal Interest Rates
(In percent)



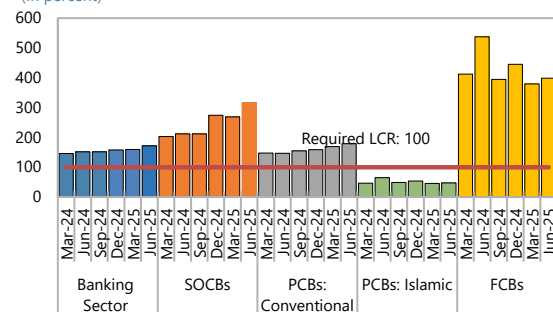
... profitability has deteriorated in domestic banks due to increased loan loss provisioning.

Return on Assets
(In percent)



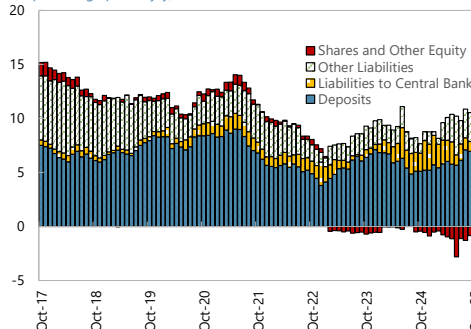
Systemwide liquidity buffers been relatively stable since 2023, with longstanding shortfalls in Islamic private commercial banks.

Liquidity Coverage Ratio
(In percent)



Central bank lending accounts for a growing share of total banking system funding.

Contribution to Banking Sector Equity and Liability Growth, by type
(In percentage points; y/y)



Sources: Bangladesh Bank Quarterly and Annual Reports. Capital and profitability is overstated due to regulatory forbearance in the form of "deferred provisions"; World Economic Outlook; CDMNext; and IMF staff calculations.

Note: SOCB=State-owned commercial bank. PCB=Private commercial bank. FCB=Foreign commercial bank

Table 1. Bangladesh: Selected Economic Indicators, FY23-30 1/
(In percent change(year-on-year), unless otherwise indicated)

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
				Proj.				
Real GDP	5.8	4.2	3.7	4.7	4.7	4.6	5.8	5.9
Consumption								
Private	2.0	6.0	10.2	2.9	4.5	1.2	5.8	2.7
Public	8.5	9.8	-6.8	15.0	12.3	12.8	5.7	6.1
Gross Capital Formation	2.2	3.3	-8.0	8.2	4.9	12.8	8.2	12.0
Private	2.9	4.3	0.9	2.3	5.3	5.8	10.3	5.6
Public	0.0	-0.2	-39.3	42.5	3.3	42.8	1.9	33.7
Trade								
Exports of goods and services	8.0	-17.1	5.6	12.3	13.6	9.9	10.9	6.0
Imports of goods and services	-9.8	-4.6	3.3	11.7	13.2	11.9	12.9	5.4
Prices								
GDP deflator	6.9	6.9	6.1	8.7	6.1	5.2	5.4	5.6
CPI inflation (annual average)	9.0	9.7	10.0	8.9	6.0	5.3	5.5	5.5
CPI inflation (end of period)	9.7	9.7	8.5	8.7	5.5	5.4	5.5	5.5
Central government operations (in percent of GDP)								
Total revenue and grants	8.2	8.3	8.0	8.2	10.3	11.0	11.3	11.5
Of which : Tax revenue	7.3	7.4	6.9	7.2	9.3	9.9	10.2	10.4
Total expenditure	12.6	12.0	10.9	12.6	15.0	16.4	16.9	17.2
Of which : Annual Development Program (ADP)	4.3	3.9	2.3	3.4	3.4	5.1	5.0	6.7
Overall balance (including grants)	-4.4	-3.7	-2.9	-4.3	-4.7	-5.5	-5.6	-5.7
(excluding grants)	-4.4	-3.8	-3.0	-4.4	-4.7	-5.5	-5.7	-5.8
Primary balance (including grants)	-2.3	-1.4	-0.7	-2.0	-2.2	-2.6	-2.6	-2.6
Public sector total debt 2/	39.7	41.0	42.1	42.4	43.4	45.3	46.5	47.7
Of which : External debt	17.5	18.6	19.5	19.2	18.8	18.5	17.9	17.3
Balance of Payments (in percent of GDP)								
Current account balance	-2.6	-1.4	0.0	-0.3	-0.6	-1.1	-1.6	-1.6
Trade balance	-4.7	-5.9	-5.6	-5.5	-5.8	-6.3	-6.8	-6.9
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	1.5	1.0	0.8	0.7	1.3	1.9	2.2	2.4
Foreign direct investment, net	0.4	0.4	0.4	0.3	0.5	0.7	1.0	1.3
Gross international reserves (billions of U.S. dollars)	24.8	21.7	26.7	30.8	35.8	40.4	44.7	50.7
in months of next year's imports	4.1	3.4	3.8	3.9	4.0	4.0	4.0	4.1
Monetary and Credit (in percent of GDP)								
Reserve money	8.5	8.2	7.5	7.7	8.1	8.2	8.4	8.6
Broad money (M2)	50.7	48.2	46.5	45.6	45.8	46.7	47.5	48.7
Credit to private sector	35.3	34.6	33.2	31.0	30.1	29.6	29.6	29.6
Credit to private sector (percent change)	9.1	9.1	5.6	6.1	7.9	8.1	11.6	12.0
Savings and Investment (in percent of GDP)								
Gross national savings	29.9	28.3	28.2	28.2	27.9	29.3	29.4	31.2
Public	0.3	0.5	-0.1	-0.1	1.6	1.9	2.2	2.4
Private	29.7	27.8	28.4	28.3	26.2	27.3	27.1	28.8
Gross investment	31.0	30.7	28.2	28.5	28.5	30.4	30.9	32.8
Public	6.8	6.7	4.1	5.5	5.4	7.3	7.0	8.8
Private	24.2	24.0	24.1	23.0	23.1	23.1	23.9	24.0
Memorandum item:								
Nominal GDP (in billions of taka)	44,908	50,027	55,029	62,637	69,533	76,496	85,348	95,464

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

1/ Fiscal year begins on July 1 and ends on June 30.

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

Table 2. Bangladesh: Balance of Payments, FY23-30 1/
(In millions of U.S. dollars, unless otherwise indicated)

	FY23	FY24	FY 25	FY26	FY27	FY28	FY29	FY30
						Proj.		
Current account balance 2/	-11,633	-6,512	206	-1,255	-3,210	-6,458	-9,654	-10,805
Trade balance	-30,515	-26,240	-25,738	-27,377	-30,636	-35,578	-42,096	-46,203
Exports (f.o.b.)	43,364	40,810	43,965	48,865	55,821	61,309	68,737	75,658
Of which: Ready-made garment sector	38,176	36,130	39,351	43,123	49,026	53,003	58,159	62,471
Imports (f.o.b.) 2/	-70,748	-63,242	-64,364	-73,187	-83,739	-93,883	-105,522	-116,663
Services	-3,131	-3,808	-5,339	-3,055	-2,718	-3,004	-5,311	-5,198
Income	-3,407	-4,817	-5,042	-5,497	-5,930	-6,241	-6,096	-6,604
Transfers	22,289	24,545	30,986	31,619	33,356	35,361	38,539	42,003
Official current transfers 3/	88	72	77	30	30	50	50	50
Private transfers	22,201	24,473	30,909	31,589	33,326	35,311	38,489	41,953
Of which: Workers' remittances	21,611	23,912	30,329	30,996	32,701	34,648	37,767	41,166
Capital and financial account balance 4/	7,365	5,099	3,819	4,202	7,781	11,224	14,109	17,329
Capital account	475	554	376	612	658	701	763	833
Financial account	6,890	4,545	3,443	3,590	7,123	10,523	13,345	16,495
Foreign direct investment	1,649	1,697	1,668	1,751	2,645	3,976	6,178	8,428
Portfolio investment	-30	-62	-138	321	430	470	618	1,054
Medium- and long-term loans, net	7,393	7,908	6,094	4,902	6,808	8,451	8,891	9,364
Government, net	6,959	7,659	6,460	4,600	6,518	6,764	7,384	8,037
Disbursements	8,704	9,680	9,013	7,800	10,013	10,849	11,336	12,147
Amortization	-1,745	-2,021	-2,553	-3,200	-3,495	-4,086	-3,952	-4,110
Others	-2,122	-4,998	-4,181	-3,384	-2,760	-2,373	-2,342	-2,351
of which: Short-term loans and trade credits, net	649	-3,336	-3,805	-3,456	-3,019	-2,730	-2,765	-2,837
Errors and omissions	-3,954	-2,888	-1,982	0	0	0	0	0
Overall balance	-8,222	-4,301	4,025	2,947	4,571	4,766	4,455	6,524
Financing items	8,222	4,301	-4,025	-2,947	-4,571	-4,766	-4,455	-6,524
Reserve assets (+ decrease; excl. RSF)	...	3,495	-4,610	-3,646	-4,923	-4,686	-4,215	-6,027
Financing gap	0	0	0	0	0	0	0	0
	(in percent of GDP)							
Current account balance	-2.6	-1.4	0.0	-0.3	-0.6	-1.1	-1.6	-1.6
Trade balance	-6.8	-5.8	-5.6	-5.5	-5.8	-6.3	-6.8	-6.9
Exports (f.o.b.)	9.6	9.1	9.6	9.8	10.6	10.8	11.1	11.2
Imports (f.o.b.)	-15.7	-14.0	-14.1	-14.6	-15.8	-16.5	-17.1	-17.3
Services	-0.7	-0.8	-1.2	-0.6	-0.5	-0.5	-0.9	-0.8
Income	-0.8	-1.1	-1.1	-1.1	-1.1	-1.1	-1.0	-1.0
Transfers	4.9	5.4	6.8	6.3	6.3	6.2	6.2	6.2
Of which: Workers' remittances	4.8	5.3	6.6	6.2	6.2	6.1	6.1	6.1
Capital account	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account	1.5	1.0	0.8	0.7	1.3	1.9	2.2	2.4
Foreign direct investment	0.4	0.4	0.4	0.3	0.5	0.7	1.0	1.3
Portfolio investment	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2
Medium- and long-term loans, net	1.6	1.8	1.3	1.0	1.3	1.5	1.4	1.4
Others	-0.5	-1.1	-0.9	-0.7	-0.5	-0.4	-0.4	-0.3
<i>Memorandum items:</i>								
Remittances (annual percent change)	2.8	10.6	26.8	2.2	5.5	6.0	9.0	9.0
Medium- and long-term external public debt	74,007	78,860	87,550	94,058	98,799	104,023	109,659	115,631
(Percent of GDP)	17.5	18.6	19.5	19.2	18.8	18.5	17.9	17.3
Gross official reserves (incl. RSF) 5/	24,754	21,685	26,742	30,836	35,758	40,444	44,660	50,687
(In months of imports of goods and services)	4.1	3.4	3.8	3.9	4.0	4.0	4.0	4.1
Net international reserves (incl. RSF) 5/	20,011	16,627	20,354	24,470	29,309	33,816	37,833	43,721
(In months of imports of goods and services)	3.3	2.6	2.9	3.1	3.3	3.3	3.4	3.5
Gross official reserves (excl. RSF)	...	21,259	26,295	30,388	...	...	...	...
Net international reserves (excl. RSF)	...	16,201	19,908	24,022	...	...	...	...
Nominal GDP	451,534	450,461	456,893	500,294	528,970	567,984	617,837	674,275

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

1/ Fiscal year begins July 1 and ends on June 30.

2/ Imports are based on customs data.

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

4/ Of identified amounts some are pending approval and some are to be disbursed in 2020 after June.

5/ Gross and net international reserves are per BPM6 definition and exclude valuation adjustments. Net international reserves are reported at market exchange rates, and is calculated as the gross reserves minus FX liabilities.

Table 3a. Bangladesh: Central Government Operations, FY23-30 1/
(In billions of takas, unless otherwise indicated)

	FY23	FY24	FY25		FY26		FY27	FY28	FY29	FY30
			Budget	Actual	Budget	Proj.	Proj.			
Total revenue and grants	3,699	4,171	5,224	4,382	5,690	5,161	7,169	8,391	9,647	10,961
Total revenue	3,672	4,121	5,180	4,346	5,640	5,125	7,146	8,376	9,578	10,891
Tax revenue	3,277	3,697	4,780	3,773	5,180	4,512	6,465	7,606	8,697	9,888
National Board of Revenue (NBR) taxes	3,187	3,620	4,635	3,697	4,990	4,422	6,361	7,488	8,561	9,733
Of which : VAT and supplementary duties	1,712	1,934	2,390	1,961	2,573	2,343	2,913	3,608	4,134	4,707
Taxes on income and profits	1,071	1,234	1,690	1,278	1,819	1,544	2,271	2,567	2,941	3,348
Customs and excise duties	388	427	555	436	598	508	590	666	763	869
Unidentified measures	..	..	..	..	..	0	556	612	683	764
Non-NBR taxes	90	78	145	76	190	90	105	118	135	154
Nontax revenue	395	424	400	573	460	613	680	769	881	1,003
Foreign grants	27	50	44	36	50	36	24	16	69	71
Total expenditure	5,670	6,020	7,440	5,999	7,900	7,864	10,442	12,579	14,419	16,405
Current expenditure	3,572	3,912	4,829	4,449	4,988	5,195	6,041	6,908	7,740	8,630
Pay and allowances	634	674	784	693	809	868	1,050	1,300	1,450	1,622
Goods and services	333	395	448	403	463	505	585	643	716	802
Interest payments	921	1,148	1,130	1,248	1,220	1,450	1,743	2,199	2,554	2,962
Subsidies and transfers 2/	1,685	1,696	2,467	2,105	2,496	2,372	2,663	2,766	3,021	3,244
Of which: Electricity subsidy	295	330	400	596	400	370	356	321	311	334
Of which: Fertilizer subsidy	260	243	170	280	170	270	354	226	225	242
Of which: Other subsidies and transfers	1,130	1,123	1,897	1,229	1,926	1,732	1,952	2,219	2,485	2,669
Annual Development Program (ADP)	1,912	1,935	2,160	1,258	2,300	2,154	2,378	3,910	4,295	6,357
Non-ADP capital spending	215	231	362	230	496	452	502	552	616	689
Extraordinary spending (including banking sector support)	...	...	...	...	...	0	1,460	1,147	1,707	668
Net lending 3/	-21	-85	26	-2	26	-2	-2	-2	-2	-3
Other expenditures 4/	-8	27	64	64	91	64	64	64	64	64
Overall balance (including grants)	-1,970	-1,849	-2,216	-1,618	-2,210	-2,703	-3,273	-4,188	-4,773	-5,444
(Excluding grants)	-1,998	-1,898	-2,260	-1,653	-2,260	-2,739	-3,297	-4,204	-4,842	-5,514
Primary balance (including grants)	-1,050	-701	-1,086	-370	-990	-1,253	-1,530	-1,989	-2,219	-2,482
(Excluding grants)	-1,077	-751	-1,130	-406	-1,040	-1,289	-1,553	-2,005	-2,288	-2,553
Net financing	2,010	1,755	2,216	1,744	2,210	2,703	3,273	4,188	4,773	5,444
External	782	696	1,046	569	960	574	715	865	972	1,001
Disbursements	958	936	1,381	913	1,350	1,048	1,250	1,488	1,635	1,748
Amortization	-175	-240	-335	-344	-390	-474	-535	-623	-663	-747
Domestic	1,228	1,058	1,170	1,175	1,250	2,129	2,558	3,323	3,801	4,442
Banks	1,262	1,238	990	1,142	1,040	2,147	2,578	3,345	3,825	4,470
Nonbanks 5/	-33	-180	180	33	210	-18	-20	-22	-25	-27
Of which: National Saving Certificate	-33	-180	140	33	125	-18	-20	-22	-25	-27

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

1/ Fiscal year begins July 1 and ends June 30. Cash basis, unless otherwise specified.

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

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

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

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

Table 3b. Bangladesh: Central Government Operations, FY23-30 1/
(In percent of GDP, unless otherwise indicated)

	FY23	FY24	FY25		FY26		FY27	FY28	FY29	FY30
			Budget	Actual	Budget	Proj.	Proj.			
Total revenue and grants	8.2	8.3	9.3	8.0	9.1	8.2	10.3	11.0	11.3	11.5
Total revenue	8.2	8.2	9.3	7.9	9.0	8.2	10.3	10.9	11.2	11.4
Tax revenue	7.3	7.4	8.5	6.9	8.3	7.2	9.3	9.9	10.2	10.4
National Board of Revenue (NBR) taxes	7.1	7.2	8.3	6.7	8.0	7.1	9.1	9.8	10.0	10.2
<i>Of which</i> : VAT and supplementary duties	3.8	3.9	4.3	3.6	4.1	3.7	4.2	4.7	4.8	4.9
Taxes on income and profits	2.4	2.5	3.0	2.3	2.9	2.5	3.3	3.4	3.4	3.5
Customs and excise duties	0.9	0.9	1.0	0.8	1.0	0.8	0.8	0.9	0.9	0.9
Unidentified measures	..	..	..	..	..	0.0	0.8	0.8	0.8	0.8
Non-NBR taxes	0.2	0.2	0.3	0.1	0.3	0.1	0.2	0.2	0.2	0.2
Nontax revenue	0.9	0.8	0.7	1.0	0.7	1.0	1.0	1.0	1.0	1.1
Foreign grants	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1
Total expenditure	12.6	12.0	13.3	10.9	12.7	12.6	15.0	16.4	16.9	17.2
Current expenditure	8.0	7.8	8.6	8.1	8.0	8.3	8.7	9.0	9.1	9.0
Pay and allowances	1.4	1.3	1.4	1.3	1.3	1.4	1.5	1.7	1.7	1.7
Goods and services	0.7	0.8	0.8	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Interest payments	2.1	2.3	2.2	2.3	2.0	2.3	2.5	2.9	3.0	3.1
Subsidies and transfers 2/	3.8	3.4	4.4	3.8	4.0	3.8	3.8	3.6	3.5	3.4
<i>Of which</i> : Electricity subsidy	0.7	0.7	0.7	1.1	0.6	0.6	0.5	0.4	0.4	0.3
<i>Of which</i> : Fertilizer subsidy	0.6	0.5	0.3	0.5	0.3	0.4	0.5	0.3	0.3	0.3
<i>Of which</i> : Other subsidies and transfers	2.5	2.2	3.4	2.2	3.1	2.8	2.8	2.9	2.9	2.8
Annual Development Program (ADP)	4.3	3.9	3.9	2.3	3.7	3.4	3.4	5.1	5.0	6.7
Non-ADP capital spending	0.5	0.5	0.6	0.4	0.8	0.7	0.7	0.7	0.7	0.7
Extraordinary spending (including banking sector support)	...	...	...	...	...	0.0	2.1	1.5	2.0	0.7
Net lending 3/	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenditures 4/	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall balance (including grants)	-4.4	-3.7	-4.0	-2.9	-3.5	-4.3	-4.7	-5.5	-5.6	-5.7
(Excluding grants)	-4.4	-3.8	-4.0	-3.0	-3.6	-4.4	-4.7	-5.5	-5.7	-5.8
Primary balance (including grants)	-2.3	-1.4	-1.9	-0.7	-1.6	-2.0	-2.2	-2.6	-2.6	-2.6
(Excluding grants)	-2.4	-1.5	-2.0	-0.7	-1.7	-2.1	-2.2	-2.6	-2.7	-2.7
Net financing	4.5	3.5	4.0	3.2	3.5	4.3	4.7	5.5	5.6	5.7
External	1.7	1.4	1.9	1.0	1.5	0.9	1.0	1.1	1.1	1.0
Disbursements	2.1	1.9	2.5	1.7	2.2	1.7	1.8	1.9	1.9	1.8
<i>Of which</i> : RSF financing	...	0.1	0.0	0.1	0.0	0.1	...	...	...	...
Amortization	-0.4	-0.5	-0.6	-0.6	-0.6	-0.8	-0.8	-0.8	-0.8	-0.8
Domestic	2.7	2.1	2.1	2.1	2.0	3.4	3.7	4.3	4.5	4.7
Banks	2.8	2.5	1.8	2.1	1.7	3.4	3.7	4.4	4.5	4.7
Nonbanks 5/	-0.1	-0.4	0.3	0.1	0.3	0.0	0.0	0.0	0.0	0.0
<i>Of which</i> : National Saving Certificate	-0.1	-0.4	0.3	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total central government debt (percent of GDP)	39.7	41.0	...	42.1	42.1	42.4	43.4	45.3	46.5	47.7
Nominal GDP (in billions of taka)	44,908	50,027	55,974	55,029	62,446	62,637	69,533	76,496	85,348	95,464

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

1/ Fiscal year begins July 1 and ends June 30. Cash basis, unless otherwise specified.

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

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

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

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

Table 4. Bangladesh: Monetary Accounts, FY2023-30 1/

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
						Proj.		
Bangladesh Bank (BB) balance sheet (End of period; in billions of taka)								
Net foreign assets	2,259	1,903	2,372	2,935	3,681	4,389	5,059	6,026
Net domestic assets	1,559	2,214	1,740	1,860	1,925	1,922	2,117	2,155
Net credit to central government 2/	1,440	1,346	743	1,455	1,342	1,342	1,342	1,342
Credit to other nonfinancial public sector	12	12	12	12	12	12	12	12
Credit to deposit money banks	1,259	2,225	2,685	1,268	1,268	1,268	1,268	1,268
Other items, net	-1,152	-1,369	-1,701	-874	-696	-700	-504	-467
Reserve money 3/	3,818	4,117	4,112	4,796	5,607	6,310	7,177	8,180
Currency	2,901	0	0	3,103	3,717	4,188	4,761	5,403
Reserves	917	4,117	4,112	1,693	1,890	2,122	2,416	2,777
(Contributions to reserve money growth)								
Reserve money (year-on-year percentage change)	10.5	7.8	-0.1	16.6	16.9	12.5	13.7	14.0
Net foreign assets	-34.6	-9.3	11.4	13.7	15.6	12.6	10.6	13.5
Net domestic assets	45.1	17.2	-11.5	2.9	1.4	-0.1	3.1	0.5
Of which: Net credit to central government	28.7	-2.5	-14.6	17.3	-2.4	0.0	0.0	0.0
Monetary survey (End of period; in billions of taka)								
Net foreign assets	2,099	1,955	2,295	3,049	3,764	4,425	5,038	5,934
Bangladesh Bank	2,259	1,903	2,372	2,935	3,681	4,389	5,059	6,026
Commercial banks	-161	51	-77	113	83	36	-22	-92
Net domestic assets	20,663	22,158	23,270	25,521	28,108	31,277	35,499	40,512
Domestic credit	23,865	25,545	27,134	32,138	36,268	41,332	47,807	55,334
Net credit to central government 2/	7,306	7,501	8,154	12,106	14,684	18,029	21,854	26,324
Credit to other nonfinancial public sector	349	389	365	334	353	370	392	415
Credit to nonbank financial institutions	342	336	329	302	302	298	295	291
Credit to private sector	15,869	17,319	18,286	19,396	20,930	22,634	25,266	28,304
Other items, net	-3,202	-3,387	-3,863	-6,617	-8,160	-10,054	-12,308	-14,822
Broad money (M2)	22,762	24,113	25,565	28,570	31,873	35,703	40,536	46,446
(Year-on-year percent change)								
Net foreign assets	-30.6	-6.9	17.4	32.9	23.5	17.6	13.8	17.8
Net domestic assets	15.0	7.2	5.0	9.7	10.1	11.3	13.5	14.1
Domestic credit	11.2	7.0	6.2	18.4	12.9	14.0	15.7	15.7
Of which: Net credit to central government	15.7	2.7	8.7	48.5	21.3	22.8	21.2	20.5
Credit to private sector	9.1	9.1	5.6	6.1	7.9	8.1	11.6	12.0
Broad money (M2)	8.4	5.9	6.0	11.8	11.6	12.0	13.5	14.6
Memorandum items: (In percent of GDP, unless otherwise indicated)								
Reserve money 3/	8.5	8.2	7.5	7.7	8.1	8.2	8.4	8.6
Broad money (M2)	50.7	48.2	46.5	45.6	45.8	46.7	47.5	48.7
Credit to private sector	35.3	34.6	33.2	31.0	30.1	29.6	29.6	29.6
Broad money multiplier (ratio)	6.0	5.9	6.2	6.0	5.7	5.7	5.6	5.7
Broad money velocity (ratio)	2.0	2.1	2.2	2.2	2.2	2.1	2.1	2.1

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

1/Fiscal year in Bangladesh begins July 1 and ends June 30.

2/ Includes special bonds issued to the commercial banks for the noncash issued to the state-owned securitization of past subsidy-related loans made to Bangladesh Petroleum Corporation. Excludes government lending fund and net credit to autonomous and semi-autonomous government bodies. Excluded items are included in "Other items, net."

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

Table 5. Bangladesh: Financial Soundness Indicators 1/
(In percent)

	FY19	FY20	FY21	FY22	FY23	FY24	FY25Q1	FY25Q2	FY25Q3
Capital adequacy									
Regulatory capital to risk-weighted assets	11.6	12.5	12.0	11.2	11.2	10.6	6.9	3.1	6.7
State-owned commercial banks	5.0	9.6	8.1	6.4	6.8	5.4	-2.5	-8.4	2.9
Private commercial banks	13.6	13.7	13.7	13.0	12.8	12.3	9.4	11.0	10.3
Foreign commercial banks	24.5	28.4	25.9	26.4	32.9	39.5	43.7	42.1	41.3
Asset quality									
Nonperforming loans to total loans	9.3	7.7	7.9	9.0	10.1	12.6	16.9	20.2	24.1
State-owned commercial banks	23.9	20.9	19.3	21.9	25.0	32.8	40.4	42.8	45.8
Private commercial banks	5.8	4.7	5.3	6.0	6.5	7.9	11.9	15.6	20.2
Foreign commercial banks	5.7	3.5	4.3	4.4	4.8	4.7	5.0	4.1	4.8
Management									
Expenditure-Income Ratio	78.0	79.2	77.0	78.3	81.1	80.2	.	.	.
State-owned commercial banks	84.9	83.2	86.1	82.3	81.9	89.2	.	.	.
Private commercial banks	77.6	79.6	75.3	76.3	81.0	79.1	.	.	.
Foreign commercial banks	48.8	46.2	43.9	35.2	35.0	32.4	.	.	.
Earnings									
Return on equity (BB) 2/	6.8	4.3	4.4	4.4	7.9	7.9	7.4	8.7	-4.0
State-owned commercial banks	-13.7	-29.6	-21.6	-21.6	2.3	-11.4	-7.2	-12.2	-18.8
Private commercial banks	11.2	10.2	9.3	9.3	7.7	8.8	7.2	9.4	-6.1
Foreign commercial banks	13.4	13.1	7.6	7.6	17.3	19.3	21.1	19.1	18.0
Return on assets (BB) 3/	0.4	0.3	0.3	0.5	0.4	0.4	0.4	0.4	-0.2
State-owned commercial banks	-0.6	-1.1	-0.7	0.2	0.1	-0.4	0.3	-0.4	-0.5
Private commercial banks	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.5	-0.3
Foreign commercial banks	2.3	2.1	1.2	2.6	3.1	4.1	4.6	4.3	4.1
Liquidity									
Liquidity Ratio	19.9	26.2	25.4	24.0	24.8	.	.	.	.
State-owned commercial banks	27.3	37.8	35.4	32.9	28.2	.	.	.	.
Private commercial banks	16.4	20.9	20.1	19.3	21.4	.	.	.	.
Foreign commercial banks	29.7	40.7	42.0	41.4	49.5	.	.	.	.

Source: Bangladesh Bank Quarterly and Annual Reports

1/Fiscal year in Bangladesh begins July 1 and ends June 30.

2/Data shown for FY24 is based on FY24Q3.

3/Data shown for FY24 is estimated using BB data.

Table 6. Indicators of Fund Credit, Baseline Scenario (GRA/PRGT and RSF Arrangements) 1/
(in millions of SDRs, unless otherwise indicated)

	FY25 2/	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40	FY41	FY42	FY43	FY44	FY45	FY46
Total Obligations Based on Existing and Prospective Credit																						
Millions of SDRs	260.1	128.2	138.4	199.3	329.4	454.9	544.5	605.6	604.6	508.1	367.1	277.5	160.5	127.7	124.1	120.6	116.9	113.4	109.8	97.8	69.7	34.2
Percent of government revenue		0.4	0.3	0.4	0.6	0.8	0.9	0.9	0.8	0.6	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.7	0.3	0.3	0.4	0.6	0.7	0.8	0.8	0.7	0.5	0.3	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Percent of debt service	8.1	3.5	3.3	4.2	7.3	9.7	11.2	11.5	10.7	8.3	5.8	4.1	2.2	1.6	1.4	1.3	1.1	1.0	0.9	0.7	0.5	0.2
Percent of GDP	0.076	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	1.3	0.6	0.5	0.7	1.0	1.2	1.3	1.3	1.1	0.7	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Percent of quota	24.4	12.0	13.0	18.7	30.9	42.7	51.0	56.8	56.7	47.6	34.4	26.0	15.0	12.0	11.6	11.3	11.0	10.6	10.3	9.2	6.5	3.2
Principal																						
GRA	0.0	0.0	0.0	58.7	156.6	228.9	319.2	337.3	337.3	278.6	180.7	108.4	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	214.3	53.8	35.6	35.6	70.8	129.5	137.3	191.5	202.4	167.1	108.4	65.1	10.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.3	33.3	66.7	100.0	100.0	100.0	100.0	100.0	100.0	100.0	91.7	66.7	33.3
Outstanding Fund Credit Based on Existing and Prospective Credit																						
Millions of SDRs	2,922.6	3,852.6	4,142.3	4,048.0	3,820.6	3,462.3	3,005.7	2,476.9	1,937.2	1,483.2	1,160.7	920.6	791.7	691.7	591.7	491.7	391.7	291.7	191.7	100.0	33.3	0.0
GRA	1,373.3	1,806.9	2,023.8	1,965.0	1,808.4	1,579.6	1,260.3	923.0	585.7	307.2	126.5	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	882.7	1,045.7	1,118.6	1,083.0	1,012.2	882.7	745.4	553.8	351.5	184.3	75.9	10.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	666.7	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	991.7	958.3	891.7	791.7	691.7	591.7	491.7	391.7	291.7	191.7	100.0	33.3	0.0
Percent of government revenue	12.7	10.4	8.9	7.5	6.1	4.8	3.5	2.5	1.7	1.2	0.9	0.7	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Percent of exports of goods and services	7.7	9.3	8.7	7.8	6.6	5.4	4.2	3.1	2.1	1.4	1.0	0.7	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Percent of debt service	90.5	104.5	99.8	86.3	84.6	73.5	62.0	46.9	34.3	24.3	18.2	13.5	10.8	8.6	6.8	5.2	3.7	2.5	1.5	0.7	0.2	0.0
Percent of GDP	0.9	1.1	1.1	1.0	0.8	0.7	0.6	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	14.6	17.0	15.8	13.7	11.7	9.4	7.4	5.2	3.4	2.1	1.3	0.9	0.6	0.5	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Percent of quota	274.0	361.2	388.4	379.5	358.2	324.6	281.8	232.2	181.6	139.1	108.8	86.3	74.2	64.8	55.5	46.1	36.7	27.3	18.0	9.4	3.1	0.0
GRA	128.8	169.4	189.7	184.2	169.6	148.1	118.2	86.5	54.9	28.8	11.9	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	82.8	98.0	104.9	101.5	94.9	82.8	69.9	51.9	33.0	17.3	7.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	62.5	93.8	93.8	93.8	93.8	93.8	93.8	93.8	93.8	93.0	89.8	83.6	74.2	64.8	55.5	46.1	36.7	27.3	18.0	9.4	3.1	0.0
Net Use of Fund Credit (millions of SDRs)																						
Disbursements and purchases	983.8	983.8	325.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	214.3	53.8	35.6	94.3	227.4	358.4	456.6	528.8	539.7	454.0	322.4	240.1	128.9	100.0	100.0	100.0	100.0	100.0	100.0	91.7	66.7	33.3
Memorandum Items:																						
Exports of goods and services (millions of U.S. dollars)	50,756	56,715	64,659	70,979	79,465	87,434	97,818	110,988	126,018	143,187	162,234	183,896	208,545	236,607	268,575	304,809	346,112	389,426	438,542	495,590	555,427	625,741
Debt service (millions of U.S. dollars)	4,299	5,026	5,663	6,413	6,183	6,468	6,669	7,263	7,762	8,394	8,762	9,363	10,072	11,061	11,998	13,065	14,373	15,829	17,439	19,201	21,164	23,327
Debt service-to-government revenue (percent)		12.2	10.4	10.3	8.9	8.4	7.8	7.6	7.2	7.0	6.6	6.4	6.2	6.1	5.9	5.8	5.8	5.7	5.7	5.7	5.6	5.6
Nominal GDP (millions of U.S. dollars)	456,893	500,294	528,970	567,984	617,837	674,275	737,474	814,557	902,382	999,677	1,107,462	1,226,868	1,359,149	1,505,692	1,668,035	1,847,882	2,047,120	2,267,840	2,512,359	2,783,240	3,083,329	3,415,773
Gross International Reserves (millions of U.S. dollars)	26,742	30,836	35,758	40,444	44,660	50,687	55,563	65,429	79,035	96,369	118,388	145,918	175,911	206,802	239,341	274,206	312,364	351,454	391,458	433,883	476,068	522,785
Quota (millions of SDRs)	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6	1,066.6

1/ Bangladesh is classified as a low-income country.

2/ Fiscal year in Bangladesh begins July 1 ends June 30.

Source: IMF staff calculations.

Annex I. Implementation of Previous Article IV Recommendations

Policy Recommendations	Implementation
Fiscal Policy	
Tighten near-term fiscal policy through revenue-based consolidation to support monetary tightening	The primary fiscal balance remained within the IMF-supported program target in FY24 and FY25. However, this outcome was achieved through spending cuts rather than revenue mobilization.
Raise tax revenue to create additional fiscal space for social spending and investment	The FY24 budget amended the Income Tax Law and introduced measures such as: (1) higher taxes on tobacco, land registration, foreign loans, and travel; (2) an environmental surcharge on multiple car ownership; (3) the removal of several VAT exemptions; and (4) increases in import duties. FY25 budget included: (1) reductions in CIT exemptions; (2) increases in truncated VAT rates; and (3) the introduction of an additional PIT bracket for high-income earners. In addition, the authorities adopted further revenue measures in January 2025—focused on removing tax exemptions—to offset revenue losses stemming from the public uprising in July–August 2025. Nonetheless, the tax-to-GDP ratio did not rise as anticipated, largely due to weak compliance, resulting in actual yields falling short of initial estimates.
Develop and implement plans to sustainably mobilize revenues over the medium term	In line with the ongoing IMF-supported program, the authorities: (1) formulated a medium- and long-term revenue strategy in April 2025; (2) adopted a tax compliance improvement plan for VAT and income tax in August 2024; and (3) issued tax expenditure reports for PIT, CIT, and VAT in 2024. Nonetheless, these plans were either implemented with delays or, once undertaken, were only partially completed.
Rationalize recurrent expenditure to contain near-term spending pressures and ultimately channel resources toward priority spending	Starting in March 2024, an automated fuel price adjustment mechanism for petroleum products was introduced to keep fuel subsidies at zero. The authorities also committed to developing a comprehensive strategy to reduce electricity subsidies to a fiscally sustainable level by September 2025. Nonetheless, subsidy spending as a share of GDP has continued to rise, and the electricity subsidy in FY25 exceeded the authorities' commitment under the IMF-supported program mainly due to the accelerated clearance of arrears, which is recorded above-the-line.
Strengthen PFM and PIM to improve fiscal governance	In line with the ongoing IMF-supported program, the authorities: (1) published a updated medium-term debt management for FY25–FY27 in June 2024; (2) carried out at least 50 percent of the value of central government transactions with a few exceptions via electronic funds transfer by June 2024; and (3) classified at least 120 SOEs in accordance with the GFSM2014 and published a SOE sector report to assess their financial position.
Monetary and Exchange Rate Policy	
Tighten monetary policy to contain inflation	From December 2023 to October 2024, BB has increased the key policy rate by a total of 225 bps to 10 percent and maintained the key rate flat since then. However, inflation remained significantly above the target range of 5–6 percent, including due to several supply side shocks, which hit food prices. Large unsecured liquidity injections into non-viable banks in 2024 and 2025 and foreign exchange purchases in 2025 have disrupted policy transmission: increased demand for government securities in July–August 2025 lowered the government yield by about 200 bps, even as the policy rate remained unchanged.
Modernize monetary policy framework to improve monetary policy transmission	Since December 2023 to now, BB has upgraded its operational framework by establishing the interest rate corridor, introducing and conducting the fixed-rate full allotment auctions at the policy rate to provide liquidity to the

Policy Recommendations	Implementation
	<p>system, establishing standing deposit and lending facilities with full access granted to all market dealers. 28-day REPOs have been discontinued but discontinuing 14-day REPO has not been implemented. To assist the system with smoothing the impact of daily liquidity shocks, the minimum daily CRR was lowered from 3.5 to 3 percent, while the average rate remained constant at 4 percent. BB has agreed to the indicative target for quasi-fiscal lending in Taka and reduced the outstanding amount in such financing schemes.</p> <p>Further modernization efforts are needed and include: (1) upgrading monetary operations with Islamic banks to ensure that they access BB's operations on the same terms as conventional banks; and (2) discontinuing operations that either overlap with or are conducted at preferential conditions compared to the main set of policy operations (including discontinuing 1-day ALS, 90- and 180-day REPOs).</p>
Undertake exchange rate framework reforms to restore external resilience	<p>In mid-May 2025, BB implemented the new crawling peg with the band regime, allowed for freely quoted rates and committed to auction-based FX interventions. However, the intervention parameters and the resulting market rate were not consistent with the program modalities in July-November 2025: BB either did not announce or did not respect the announced auction volumes, effectively targeting the exchange rate below the lower bound of the band.</p>
Financial Sector Policies	
Address financial sector vulnerabilities by strengthening loan classification, restructuring SoCBs, and enhancing the legal framework.	<p><i>Loan classification:</i> BB BRPD Circular No. 15 of November 2024 took effect in April 2025, better aligning loan classification and provisioning rules with the Basel Committee on Banking Supervision (BCBS) Guidelines. Further alignments are needed, including on the circulars on Debt Rescheduling and Restructuring (Master Circular No. 16/2022), and on Off-balance Sheet Exposures (BRDP circular No. 06/2023). Key amendments needed include requiring that repayments of rescheduled and restructured loans have been made over continuous periods (cure periods) before they can be recategorized as performing, i.e., a minimum of three months for exposures that were not previously forborne and a minimum of 12 months for exposures that were previously forborne. BB has introduced a plan for the banking sector to adopt IFRS9 by 2027, i.e., accounting rules for financial instruments, covering classification and measurement, impairment (expected credit losses), and hedge accounting.</p> <p><i>Restructuring SoCBs:</i> Under a new WB program (FSSP II), the authorities have committed to prepare a roadmap for SOB reforms, which will be guided by diagnostics.</p> <p><i>Enhancing the legal framework:</i> BB is preparing amendments to the BCA (see below on governance). A new Bank Resolution Ordinance, broadly aligned with international standards, was adopted in May 2025. A Deposit Protection Ordinance is being prepared, which would expand the Deposit Protection Fund's mandate to fund the transfer of insured deposits in resolution ("paybox plus"). A draft Insolvency and Bankruptcy Ordinance has undergone public consultation and will need to be better aligned with international best practice.</p>
Implement risk-based supervision to safeguard financial sector stability	<p>BB has completed pilot inspections of 20 banks (49 percent of system assets) based on the risk-based supervision approach (RBS). In January 2025, BB approved a new organigramme that will, by January 2026, consolidate the supervision of each bank under a single team, ensuring a more cohesive</p>

Policy Recommendations	Implementation
	and unified approach for risk-based supervision. A key component of a new WB program (FSSP II) aims at strengthening BB's supervisory information and technology systems and communication (ITC), which can greatly benefit RBS (including a PBC to restructure the ICT department and establish dedicated teams to manage IT investment).
Improve governance and regulatory framework to strengthen the financial sector	<p>Drafted with WB support, BRPD Circular no. 16/2024 improves the framework for <i>Identification of Ultimate Beneficial Owners (UBOs) and Disclosure of Ownership Structures of Banks</i>. The circular provides good guidance for identification and disclosure of UBOs but does not cover changes in significant ownership. The circular would thus need to be amended, or another complementary circular issued (in line with principle 5 of BCP for effective supervision).</p> <p>In August 2025, BB shared a list of proposed amendments to the BCA intended <i>inter alia</i> to improve banks' corporate governance; and better deal with defaulters. Staff's assessment is that the proposed amendments are too narrowly focused on resolving specific symptoms of poor governance and would need to be better aligned with international standards and best practices to ensure effectiveness. In their current form, the draft amendments risk creating new distortions.</p>
Develop capital markets to promote growth	In line with the ongoing IMF-supported program, the authorities: (1) introduced a new interest-rate setting mechanism for NSCs, which links interest rates to the comparable treasury bond market rate in January 2025; and (2) issued a guideline to reform the primary dealer system in June 2025.
Macro-Structural Policies	
Increase female economic participation to promote long-term growth	The Women's Affairs Reform Commission was established in November 2024 to advance women's economic and workforce inclusion. To date, the Commission has only been receiving proposals and has not yet issued any recommendations.
Advance governance reforms to enhance the business climate	The authorities have strengthened AML/CFT risk assessment framework, including through deploying the risk assessment tools for onsite examinations.
Enhance data quality and availability to support policy making	Work is underway for BB to assume full responsibility for compiling BOP statistics, which were previously divided between BB and the Export Promotion Bureau.
Climate Change	
Strengthen climate-responsive PFM and PIM to foster sustainable long-term growth	The authorities continue to integrate climate change considerations into the PFM and PIM system. Recent reforms include making public procurement, project appraisal and selection, PPP framework, and asset register responsive to climate-related risks.
Improve the management of climate-related risks to strengthen financial sector resilience and support the scaling up of climate finance	The authorities have begun the implementation of climate risks reporting and disclosures and have conducted climate stress testing for the banking sector and update stress testing guidelines to include climate risks. The BCDP is operational and has begun work to help scale up climate finance.

Annex II. Risk Assessment Matrix

Source of Risk	Relative Likelihood	Expected Impact	Main Impacts → Recommended Policy Actions
Global			
Decline in International Aid. A further sharp reduction in international financial assistance, including development aid and humanitarian support, could severely affect low-income and fragile countries. Such an additional aid withdrawal would strain public finances, worsen current accounts, increase debt vulnerabilities, and lead to a further deterioration in living conditions and food security.	H ST, MT	H	A sharp reduction in aid flows will limit budgetary resources, including for capital investment and social expenditure → Accelerate fiscal reforms to mobilize domestic revenue and maintain fiscal prudence, accelerate institutional reforms to stimulate domestic private investment and FDI; allow the exchange rate to adjust to support external balance and preserve foreign reserves.
Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge, especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	H ST, MT	L-M	Exports and economic activity may decline giving rise to the loss of foreign market share, external imbalances and declining employment → Accelerate reforms to diversify exports towards non-RMG and support FDIs, seek new trade agreements, allow the exchange rate to adjust to support external rebalancing.
Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	H ST	M-H	Increase in import prices for fuel supply and reduced food availability, with adverse effects on activity, current account and inflation. → Targeted support to the vulnerable within the available fiscal space; adjust the exchange rate and tighten monetary policy in case of second-round effects.
Commodity Price Volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	H ST	M-H	Increase in current account deficit and fiscal burden, pressures on exchange rate and reserves. → Targeted support to the poor; allow the automatic fuel pricing mechanism to function; allow exchange rate to adjust to preserve external sustainability; and tighten monetary policy if need be, to counter second-round effects.
Domestic			
Failure to effectively address the problems in the banking system.	H ST, MT	H	Delayed and/or poorly communicated financial sector reforms further reduce depositor confidence, elevating contagion risk. Elevated NPLs and low capital adequacy in Islamic banks and SOCBs increase fiscal contingency risks and hamper banks' ability to finance growth. → Ensure depositors' access to their funds within the insured limits, approve and implement a well sequenced and communicated financial sector reform strategy with recapitalization of viable and resolution of non-viable banks. Address structural weaknesses in governance, regulation, supervision, and legal systems.
Social unrest, driven by high inflation and declining real income, and uncertainty around the upcoming elections.	H ST	H	Disruption to economic activity and investment demand on elevated uncertainty, depreciation pressures and pass-through to higher inflation leading to stagflation. → Allow for the exchange rate adjustment, temporarily tighten monetary policy to calm the forex market and limit the pass-through from the exchange rate to inflation. Adopt a comprehensive program of economic reforms.
Higher frequency and severity of natural disasters related to climate change.	M-H MT	M-H	Extreme weather events may adversely impact infrastructure, agriculture, allied activities, and livelihoods. → Expand budgetary support for adaptation, implement reforms under RSF to address climate risks; and mobilize private green financing.
Failure to maintain exchange rate flexibility consistent with the new exchange rate regime to ensure clearing the foreign exchange market and support orderly external adjustment.	M ST	H	FX market imbalances may lead to losses in BB's foreign reserves and/or disorderly exchange rate adjustment followed by depreciation-inflation spiral. → Uphold the new regime, allow for flexibility and clearing of the FX market, tighten monetary policy if needed to sustain positive interest rate differential to counter speculations.
Disruption and shortages of development assistance for the Rohingya refugees.	L-M ST	M	The underfunding of Rohingya refugee crisis response exacerbates instability in refugee camps and surrounding communities, increasing financial, social, and environmental costs → Actively engage with the international community to secure international assistance. Increase fiscal space to contribute in assisting the refugees, while maintaining fiscal sustainability.
<p>1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("L" (low) is meant to indicate a probability below 10 percent, "M" (medium) a probability between 10 percent and 30 percent, and "H" (high) a probability of 30 percent or more). The RAM reflects staff views on the source of risks and the overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.</p>			

Annex III. External Sector Assessment

Overall Assessment: The external position of Bangladesh in FY25 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. Running moderate current account (CA) deficits is in line with Bangladesh's level of per capita income, growth prospects, and development needs. The current account was broadly balanced in FY25, supported by a recovery in exports, record-high remittances, and still subdued imports. Meanwhile, the financial account remained relatively stable, as slightly higher trade credit outflows and amortizations were offset by lower banking sector outflows. The stronger export performance as well as remittances, coupled with less capital outflows helped accumulate FX reserves in FY25. The free exchange rate quoting, which was allowed since May 2025 and reinvigorated the FX market, helped further accumulate FX reserves in the summer of 2025. In FY26, higher exports and relatively stable remittances should help keep the current account in check, while the proper implementation of the exchange rate regime and FX auctions should help address market imbalances, and the build-up of FX reserves.

Potential Policy Responses: The implementation of the new crawling peg with the band regime in May 2025, allowing freely quoted rates, and the commitment to auction-based FX interventions alongside continued monetary tightening has helped contain the still elevated inflationary pressures and alleviate imbalances in the FX market. Depletion of FX reserves has come to a halt as FX reserves started to increase in FY25. Allowing for greater flexibility and market determination of the exchange rate has been a critical priority to aid the authorities' efforts to stem reserve losses and strengthen external resilience. After several stepwise exchange rate adjustments in June–December 2024, BB launched the exchange rate reform in May–June 2025. Since July 2025, favorable FX market conditions and the new exchange rate arrangement allowed BB to intervene with FX purchases of over US\$2 billion. Yet, the conduct of the FX auctions remains inconsistent with the program conditionality as BB de facto targets a stable auction cut-off price. Corrective actions are needed to bring the implementation and frequency of FX interventions in line with agreed modalities, which will help to improve the flexibility of the exchange rate, safeguard foreign reserves, and smooth external adjustments. Fiscal policy needs to be calibrated to support monetary policy tightening. Delays in structural reforms to enhance trade and FDI could further weigh on Bangladesh's growth potential and exacerbate vulnerabilities, slowing its progression to upper middle-income status.

Foreign Assets and Liabilities: Position and Trajectory

Background. Bangladesh's NIIP at the end of FY25 stood at -20.6 percent of GDP, relative to -19.4 percent of GDP in FY24. For reference, NIIP stood at -10.6 percent of GDP at end-FY18. Gross foreign assets increased to 8 percent of GDP, up from 7.5 percent at the end of FY24. Gross liabilities increased to 28.7 percent of GDP relative to 26.8 percent of GDP at the end of FY24.

Assessment. The NIIP-to-GDP ratio continues to be driven by reserves, which increased in FY25, reversing the trend of the previous few years. The CA deficit is projected to stabilize at a slightly higher level in the medium term (around 1.5–2 percent of GDP), as import compression measures are removed and imports rebound. Stronger exports and remittances should continue to be supportive. Bangladesh's liabilities are mostly related to the public sector, reflecting a closed capital account, and continued engagement with multilateral and bilateral donors. This, coupled with stronger remittances and exports, as well as the proper implementation of the exchange rate reform, should support external sustainability.

FY2025 (% GDP)	NIIP: -20.6	Gross Assets: 8	Debt Assets: 2.5	Gross Liab.: 28.7	Debt Liab.: 25
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Current Account

Background. Bangladesh's CA is driven primarily by the trade balance and remittances dynamics, with remittances recently providing additional support. Nevertheless, the CA has experienced large fluctuations in recent years, due to the COVID-19 pandemic, post-pandemic recovery, external shocks, and data revisions. The CA has been in deficit since FY17, averaging -1.9 percent of GDP, registering a balance for the first time in FY25. For the second consecutive year, the CA narrowed sharply to register a balance, down from -1.4 percent of GDP in GDP, as higher exports, especially RMG, and remittances picked up and import growth remained subdued. In FY26, exports and remittances should remain supportive of the current account, but higher imports should slightly widen the current account deficit to 0.3 percent of GDP. Over the medium term, however, imports are projected to rebound gradually, and the CA deficit to reach around 1.5-2 percent of GDP.

Assessment. The cyclically adjusted CA balance stood at -0.1 percent of GDP in FY25. The EBA CA regression estimates a norm of -1.9 percent of GDP, with a standard error of 0.6 percent. An additional Bangladesh-specific adjustment of 0.2 percent of GDP was made for the migrant share contribution to the CA norm, given Bangladesh's very high share of migrant workers and large remittance inflows not captured in EBA methodology. This would adjust the EBA CA norm downward to -2.1 percent of GDP. Including these adjustments, the FY25 EBA CA model's CA gap midpoint is assessed at 2.1 percent of GDP. However, to address features not fully captured in the CA model (including import compression measures), the staff's bottom-line assessment draws on the REER model. With the assumed semi-elasticity of CA/GDP to REER at -0.15, the results of REER index and level models suggest a CA gap of -0.9 and -1.3 percent of GDP respectively. The situation in the FX market in FY2025 after the exchange rate realignment in May 2024, was characterized by stabilizing FX reserves as a result of the improvement in the current account, declining FX sale interventions and a premium of about 1-3 percent between the officially declared exchange rate and the rates in the parallel market, which narrowed to 0.5 percent right before May 2025. Against this backdrop and based on the REER level model the external position of Bangladesh in FY25 is assessed to have been moderately weaker than the level implied by medium-term fundamentals and desirable policies.

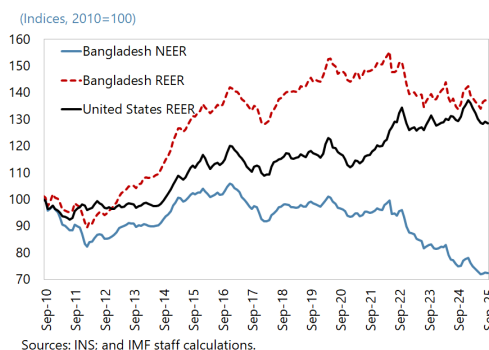
Model Estimates for FY25			
(In percent of GDP, unless otherwise indicated)			
	CA Model	REER Index Model	REER Level Model
CA-Actual	0.0		
Cyclical Contributions (from model) (-)	0.1		
COVID-19 adjustors (+) 1/	0.0		
Additional temporary factors	0.0		
Adjusted CA	-0.1		
CA Norm (from model) 2/	-1.9		
Adjustment to the norm	-0.2		
Adjusted CA Norm	-2.1		
CA Gap	2.1	-0.9	-1.3
o/w Policy gap	1.2		
Elasticity	-0.15		
REER Gap (in percent) 3/	-14.0	5.7	8.5
Source: IMF staff estimates.			
1/ Additional adjustment to account for the temporary impact of the COVID-19 pandemic has been phased out.			
2/ Cyclically adjusted, including multilateral consistency adjustments.			
3/ Positive REER gap implies nominal exchange rate overvaluation.			

Real Exchange Rate

Background. In end-FY25, REER depreciated by about 1.45 percent year-on-year with the Taka experiencing nominal depreciation of nearly 8.5 percent against the U.S. dollar. In the first three months of FY26 (July 2025–September 2025), the REER appreciated by roughly 2.1 percent.

Assessment. REER index and level model for FY25 estimates suggest that the Taka was overvalued by 5.7 percent and 8.5 percent, respectively, largely reflecting some FX market imbalances observed in FY25. Notably, in May 2024 BB adjusted the nominal exchange rate from 110 to 117 Taka per dollar; (ii) further to 122 by the end of December 2024, and implemented the crawling peg in May 2025, with no overshooting of the exchange rate in the aftermath of the implementation. A proper implementation of the exchange rate regime, going forward, and FX auctions should help address exchange rate misalignments and ensure smooth external adjustment.

Nominal and Real Effective Exchange Rates



Capital and Financial Accounts: Flows and Policy Measures

Background. The capital and financial account balance recorded an inflow of 0.9 percent of GDP in FY25, slightly lower than the 1.1 percent of GDP in FY24. The financial account surplus remained relatively stable, only narrowing by 0.1 percent of GDP, reaching 0.9 percent of GDP in FY25. This has been largely driven by slightly lower long-term loans, more amortizations, and trade credit outflows, while banking sector outflows were much less than the previous few years. Despite the political upheaval, FDI inflows remained relatively stable albeit at very low levels.

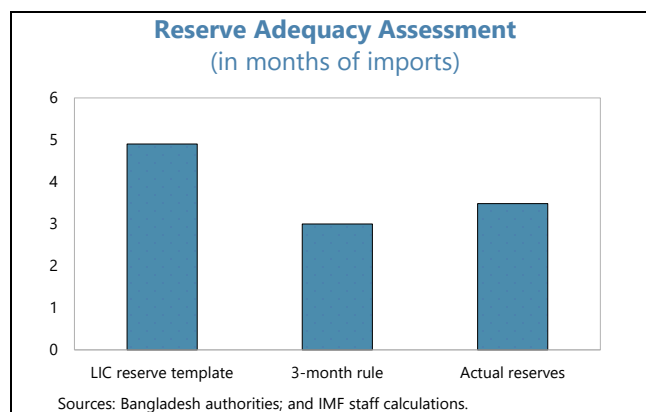
Assessment. FDI flows remain critically low compared to other low income and developing countries, and the recent uprising may limit any significant uptick in FDI inflows in the near term until elections take place. Structural reforms, including reduction of tariff barriers and improvements to the investment climate to promote FDI in export-oriented sectors, are expected to contribute to an increase in FDI inflows over the medium term. Targeted efforts to attract FDI, including through Export Processing Zones, have been ongoing, however, macroeconomic uncertainty and a weak overall investment climate have resulted in limited success. Nevertheless, authorities have expressed their intention to address investor concerns and diversify the export base away from the RMG sector. Continued liberalization of FX regulations, as macroeconomic conditions allow, and reducing the regulatory burden, will help attract FDI. Access to concessional financing remains critical and eliminating structural impediments to enhance absorptive capacity will play a significant role in fulfilling large development and climate adaptation needs.

FX Interventions and Reserves Level

Background. For the first time since FY21, gross FX reserves reversed their declining trend, increasing to USD 26.7 billion at end FY25, from US\$21.7 billion at end FY24 driven by the improvement of the current account, despite a slight decline in the financial account by 0.1 percent of GDP. Reserve losses have abated since the exchange rate adjustment of May 2024, and gross FX reserves stood at US\$26.6 billion at end-

September 2025 (equivalent to 3.6 months of imports). For context, gross FX reserves dropped by a staggering US\$25 billion since 2021 when reserve coverage stood at 5.9 months of imports. Over the two-year period prior to May 2024, FX interventions to stabilize the Taka/US\$ exchange rate remained relatively steady, with forex sales averaging around US\$ 1.2 billion. The stepwise adjustments of the exchange rate starting in May 2024 helped reverse BB's interventions from sales of forex from US\$1.5 billion in April 2024 to purchases of US\$92 million in April 2025. With the implementation of the new crawling peg with the band regime in May 2025, BB committed to auction-based FX interventions. In July–October 2025, and with the Taka's appreciation below the lower bound, BB intervened through the FX auctions and purchased about US\$2 billion, but frequency and parametrization of interventions were not consistent with the agreed regime modalities. BB has either not announced or not abided by the declared volume of auctions and targeted the exchange rate in such auctions. Insufficient frequency and the total amount of purchase interventions in August 2025, kept the market rate below the lower bound of the band throughout the month.

Assessment. The reserve coverage is deemed inadequate based on a safe threshold of 4.9 months of import cover. The reserve adequacy range varies between 4 and 6.2 months of imports depending on the assumed cost of reserves. The depletion of FX reserves and deterioration of import coverage since FY21 raised concerns about reserve adequacy, but the recent buildup of FX reserves in FY25 amidst more exchange rate flexibility and less FX interventions provides a temporary reprieve. Allowing a market-determined and more flexible exchange rate remains critical to rebuild FX reserves and should remain a near-term priority. Recent FX interventions have not been in line with agreed regime modalities despite the implementation of the crawling peg in May 2025. Nevertheless, gross FX reserves cover about 3.6 months of imports by end-FY25 and are projected to increase to cover over 4 months of imports by FY27 under the program, supported by greater exchange rate flexibility and FX intervention in line with agreed regime modalities. Over the medium term, policies to support further exchange rate flexibility, expand and diversify export earnings, and attract FDI inflows, should help in maintaining adequate reserves coverage. BB should ensure the proper implementation of the new exchange rate arrangement and continue reducing quasi-fiscal lending in foreign currency to ensure the sustainability of the build-up of FX reserves.



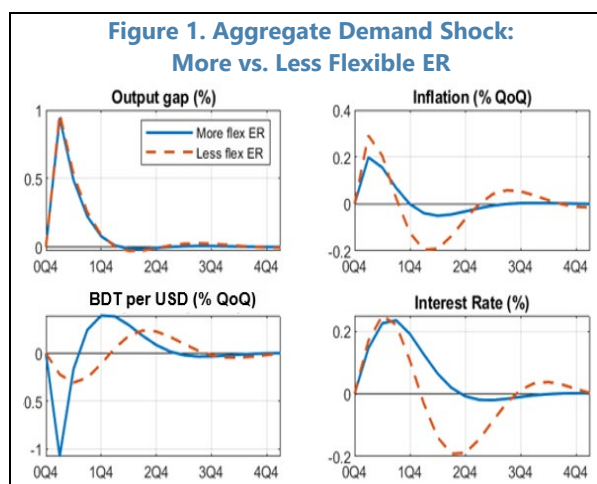
Annex IV. Facilitating Greater Exchange Rate Flexibility

1. At the inception of the IMF-supported program, the transition toward exchange rate flexibility and a modernized monetary policy framework was envisioned in two main stages. The first stage entailed moving from the previous fixed exchange rate to a more flexible crawling peg with a band arrangement. Simultaneously, the monetary policy framework would be upgraded to a forward-looking approach, with the inflation outlook serving as a key input for policy decisions. The final stage of modernization would feature both a flexible exchange rate and a flexible inflation targeting regime.

2. An immediate shift to a flexible exchange rate was deemed premature. For a significant period, Bangladesh's exchange rate was stabilized with occasional step adjustments, leading economic agents to focus excessively on the exchange rate as an indicator of internal macroeconomic stability. Similarly, Bangladesh Bank's (BB) monetary policy framework and communications placed disproportional emphasis on exchange rate stability, making it a de facto policy anchor. This hindered the transition to a forward-looking, inflation-oriented regime and delayed the development of financial instruments for hedging the exchange rate risk. Therefore, a gradual approach to increasing flexibility was intended to provide time to modernize the monetary policy framework and establish inflation outlook as an intermediate policy target. Achieving this required significant efforts to strengthen policy analysis and forecasting, decision-making, operations and communications.

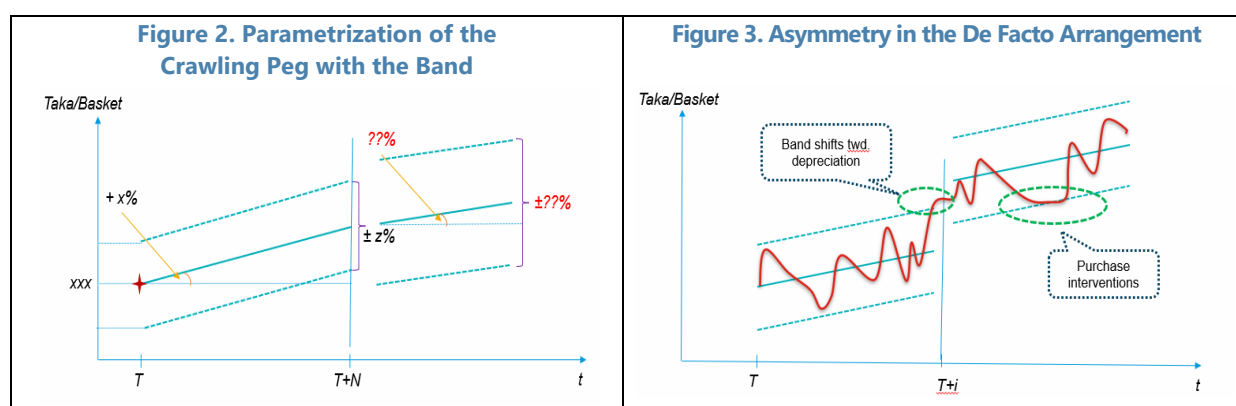
3. A gradual increase in exchange rate flexibility was seen as a more viable alternative for attaining an additional macro-economic stabilization mechanism. On one hand, a more flexible exchange rate would absorb shocks to foreign trade and facilitate smoother external adjustment; on the other, it would become more sensitive to changes in interest rates, making the exchange rate channel of monetary policy operational and helping restore internal macroeconomic balance. This can be illustrated with a stylized semi-structural QPM calibrated to feature: (i) a less flexible; and (ii) a more flexible ER arrangements under an aggregate demand shock.

Following the shock, inflation is less volatile and stabilizes faster under the more flexible exchange rate, since monetary policy tightening is accompanied by a more pronounced nominal appreciation, helping to curb domestic demand and inflation (Figure 1).



4. Bangladesh Bank's significantly limited foreign exchange reserves complicated the design of the transitional crawling peg with a band arrangement. The arrangement was set against a basket of major trading partners' currencies and, consistent with a standard approach, featured a no-intervention volatility band around the midpoint, which adjusted continuously consistent with the rate of crawl based on macroeconomic fundamentals, particularly inflation

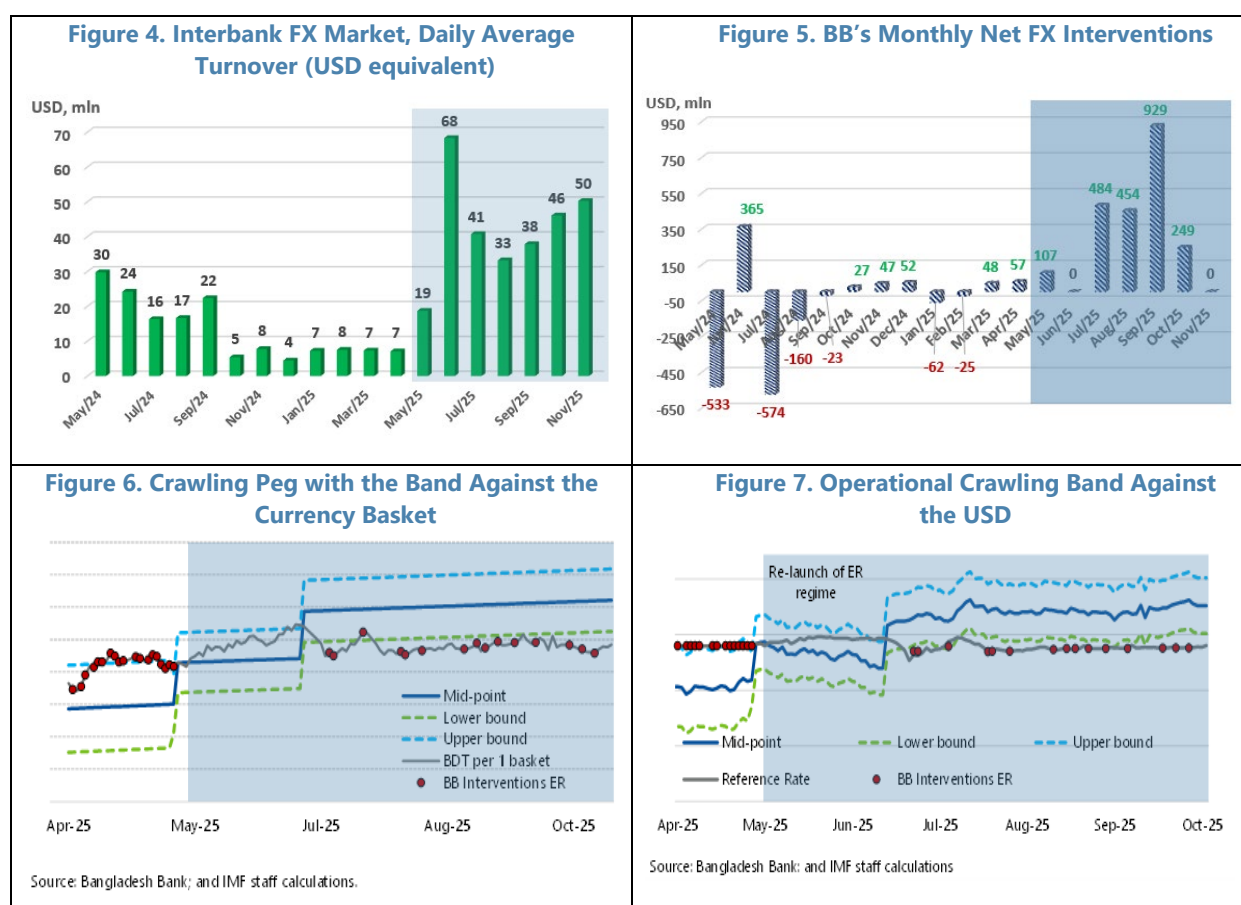
projections. The rate of crawl could therefore be revised periodically to account for changes in projected inflation. Gradual widening of the band over time was intended to facilitate transitioning to greater flexibility. At the launch, the midpoint would be set at the prevailing market rate, and banks would be allowed to quote rates freely, without regulatory constraints or moral suasion practices constraining the free quoting. According to the conventional setup, BB would intervene only when the exchange rate moved outside the band, continuing interventions until it returned within the band (Figure 2). However, BB's capacity to defend the upper bound – and resist depreciation – was limited by scarce foreign reserves. As a result, the de facto parametrization of the new arrangement was characterized by: (i) a limited intervention budget for the upper bound, (ii) frequent upward shifts of the exchange rate band in response to depreciation pressures, and (iii) active FX purchases at the lower bound with less adjustments toward appreciation. This created an asymmetry, with greater flexibility toward depreciation than in a classical crawling peg with a band, while enabling more aggressive reserve accumulation amid appreciation pressures (Figure 3).



5. The implementation of the new arrangement proved challenging. In May 2024, BB step-devalued the official exchange rate (from 110 to 117 Taka/USD) to align it with the market rate, temporarily reviving a transparent interbank FX market. However, the market soon became shallow again as the moral suasion by BB persisted, and free quoting or exchange rate flexibility within the band was not permitted. From May to July 2024, BB's FX sale interventions exceeded the agreed interventions budget, and the foreign reserves continued to decline. In December 2024, another attempt to launch the new regime saw the official exchange rate step-devalued to 122 Taka/USD, still 1-3 percent gap to the market rate. However, as before, the moral suasion continued to enforce the official rate, free quoting was absent, and the official rate remained flat. Thus, the new arrangement was not fully implemented, while BB significantly constrained FX interventions in either direction. Additionally, BB's requirement to hold and report market transactions at the declared official rate further squeezed FX liquidity in the interbank market, undermining smooth price discovery and adjustment. Market participants responded by bypassed the official rate through hidden transactions, backdated swaps and transacting in currencies other than the US dollar to settle the difference between the BB's "preferred" official rate and the market rate.

6. The May 2025 re-launch of the reform addressed several implementation shortcomings but remained incomplete. Market participants were allowed to freely quote the

exchange rate, and the official reference rate was set based on the actual market transactions, establishing the new mid-point of the exchange rate band at the launch. The rate was flexible within the band, which improved interbank market liquidity and price discovery through mid-May to June 2025 (Figure 4). Favorable market conditions led the nominal exchange rate to appreciate below the band's lower bound in July, prompting BB's purchase interventions of over US\$2 billion in July–November (Figure 5). However, FX intervention practices remained flawed: BB either failed to announce or did not adhere to the announced intervention volumes, instead deciding the actual purchases to target a preferred cut-off rate to the US dollar at a nearly flat level. As a result, the market exchange rate flexibility was constrained, with rates consistently below the band's lower bound guided by the intervention rates (Figures 6 and 7).

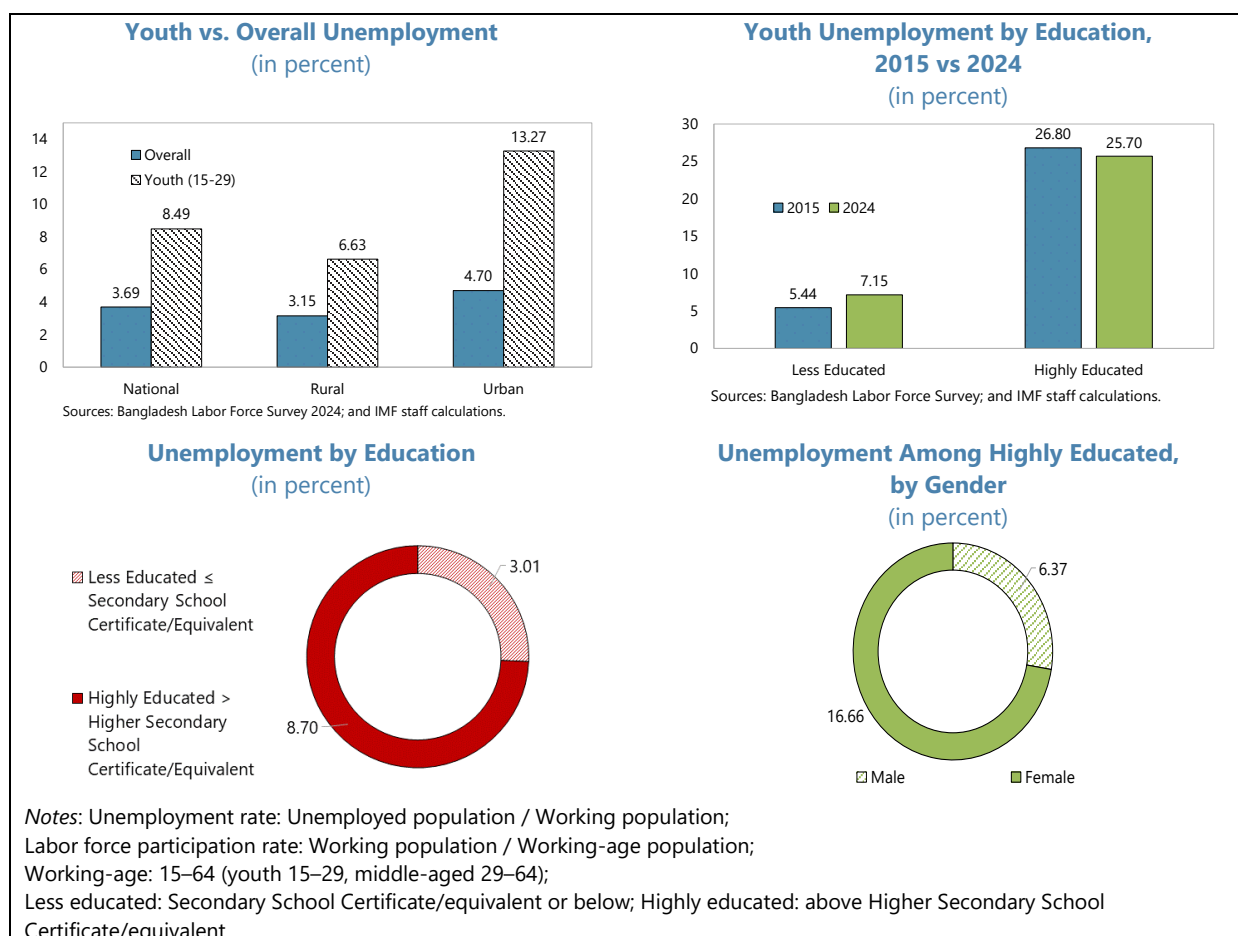


7. Promoting greater exchange rate flexibility remains essential and requires both improved FX intervention practices and a full implementation of the arrangement. Free quoting of the exchange rate should be maintained as it is paramount for flexibility and market-driven adjustment. Past reliance on moral suasion or regulatory measures to keep the rate at a “preferred” level disrupted market functioning and price discovery. The immediate task is to align FX interventions best practices and the arrangement agreed in the context of the IMF-supported program. Targeting and stabilizing the exchange rate reinforces the public focus on it as the key monetary policy objective. It may also mislead market participants into underestimating the exchange rate risk – especially amid benign market conditions – and may encourage excessive short

positions in foreign currency. If market conditions deteriorate and FX liquidity tightens, BB's commitment to flexibility may be tested, risking substantial foreign reserve losses if stability remains prioritized over adjustment.

Annex V. Job Creation and Structural Transformation¹

1. Unemployment and structural change. While Bangladesh has developed a robust manufacturing base led by the garment sector, which has engaged large segments of the population in productive activities and significantly reduced poverty, substantial labor market challenges remain. Rising educational attainment has outpaced job creation within the existing industrial structure, leaving too few high-quality employment opportunities for the expanding pool of highly educated workers, particularly among youth. This analysis draws on the Labor Force Survey (LFS)—a nationally representative survey sampling villages and cities across Bangladesh—to explore the structural factors shaping the country’s labor market outcomes.



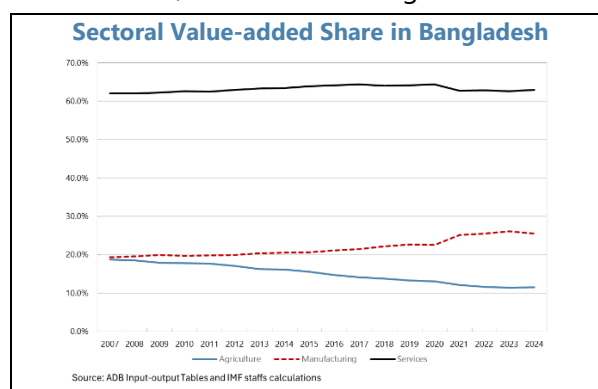
2. High unemployment among youth and the highly educated. In 2024, the overall unemployment stood at 3.69 percent; however, youth unemployment remained more than double the national rate, at 8.49 percent. This trend is consistent across both rural and urban areas, with urban youth hit hardest at 13.27 percent. When disaggregated by educational level, unemployment is notably more severe among the highly educated, at 8.7 percent, compared to 3.01 percent for the less educated. The situation is even more severe for women: highly educated women face more than double the

¹ Prepared by Haibo Li and Parsa Mahmud (both APD).

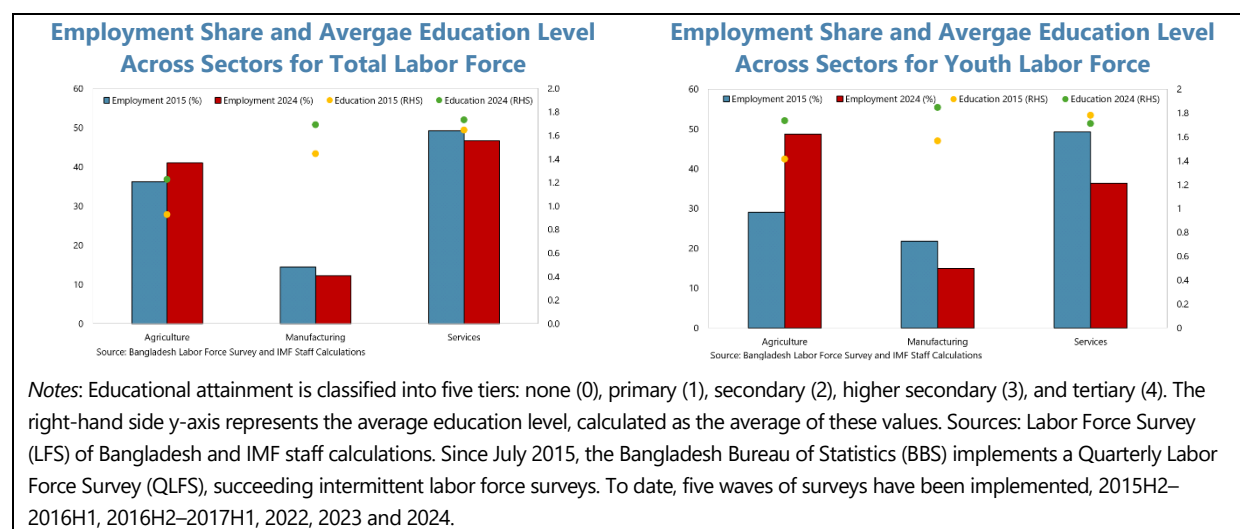
unemployment rate (16.66 percent) of their highly educated male counterpart (6.37 percent). Over the years, youth unemployment among the highly educated remained elevated. Comparing LFS data from 2015 to 2024 shows that youth unemployment for the highly educated has persistently stayed high for nearly a decade. By 2024, unemployment among highly educated youth stands at a staggering 25 percent—more than triple the rate of their less-educated peers. Existing overall employment figures clearly mask an alarmingly weakening labor market for youth and highly educated workers.

3. Structural stagnation in employment.

Using detailed LFS data, it is shown that Bangladesh’s labor market deterioration—particularly affecting educated and young workers—is driven by structural stagnation in employment. From a value-added perspective, Bangladesh has undergone a typical industrialization trajectory over the past 10 years which a declining share in agriculture and growing manufacturing. Between 2015 and 2024, the agricultural value-added share fell by 3.96 percentage points (pps), while manufacturing and services increased by 4.82 and 0.86 pps, respectively. However, this pattern of structural



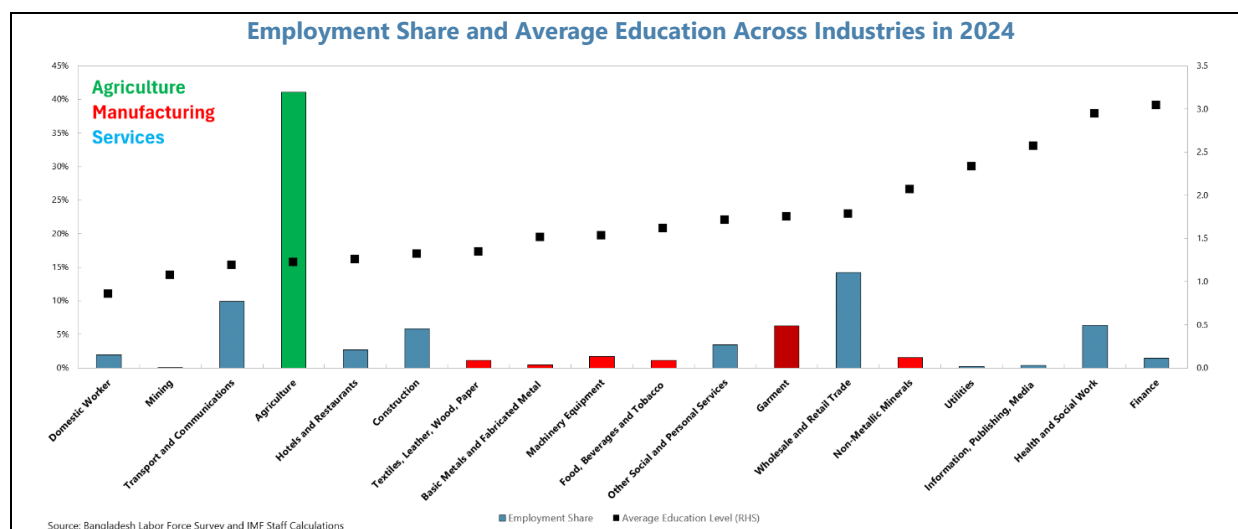
transformation is reversed when looking at employment. During the same period, average education levels rose across sectors (by 0.35 pp in agriculture, 0.27 in manufacturing, and 0.15 in services). Yet, employment trends moved in the opposite direction: agricultural employment increased by 4.8 pps, while employment in manufacturing and services declined by 2.2 and 2.6 pps, respectively. This reversal is even sharper among youth, whose employment shifted dramatically toward agriculture (+19.72 pps) and away from manufacturing (-6.89 pps) and services (-12.83 pps). The contradiction between rising education levels and the reversed pattern of employment structural transformation indicates that building human capital has not translated into movement toward higher-productivity sectors. This implies that labor-market frictions continue to impede reallocation and exacerbate employment outcomes.



4. Risk of job-light growth.

The contradiction between structural transformation in value added and employment reflects the risk of job-light growth. Two key issues stand out in

Bangladesh's industrial employment structure. First, the mismatch between agriculture's small value-added share (11.6 pps) and its large employment share (41.0 pps) indicates that the sector is acting as a buffer for unemployment, absorbing excess labor but at the cost of persistently low productivity. Second, industrial diversification remains limited: non-garment manufacturing continues to employ only a small portion of the workforce, and modern, skill-intensive industries that could productively absorb highly educated workers remain underdeveloped.



5. Educational misallocation. Within industries, Bangladesh exhibits a pronounced education-occupation mismatch in both agriculture and manufacturing, with conditions especially acute in the garment industry and among young workers. The measure of education-occupation mismatch, calculated as the share of workers whose education attainment is at least one standard deviation above their industry's average (data from LFS 2015), illustrates these distortions (see dots in the figure above). In an efficiently operating economy, this share would be closer to zero, reflecting well-matched skills and job requirements; higher values instead point to deeper underlying distortions in the labor market. The heatmap shows that the garment industry exhibits the highest degree of overeducation mismatch, consistent with the classic distortions of a single dominant industry. Youth outcomes are markedly worse than those of older workers, underscoring the limited capacity of the current industrial structure to absorb the growing share of highly educated graduates. While service sector displays a relatively lower mismatch, suggesting some absorption capacity for highly educated labor, this capacity remains insufficient.

Overeducated Mismatch Across Sectors and Age Groups		
	Youth (15-29)	Non-youth (30-64)
Agriculture	0.52	0.24
Manufacturing		
Manufacturing Exc. Garments	0.52	0.41
Garments	0.57	0.52
Services	0.21	0.22

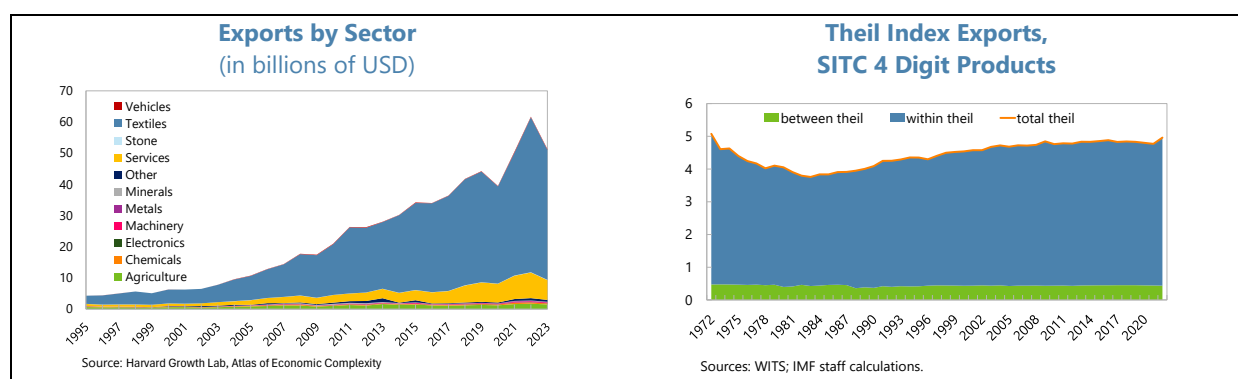
Notes: The heatmap shows the education-occupation mismatch across four sectors among youth and non-youth workers. The mismatch is measured as the share of workers whose education level is at least one standard deviation above the industry average. A higher value indicates a more severe over-educated mismatch in the industry. Sources: LFS and IMF staff calculations.

6. Main takeaways and policy recommendations. Despite significant progress in education, Bangladesh's stagnant industrial structure constrains the absorption of its growing pool of educated and

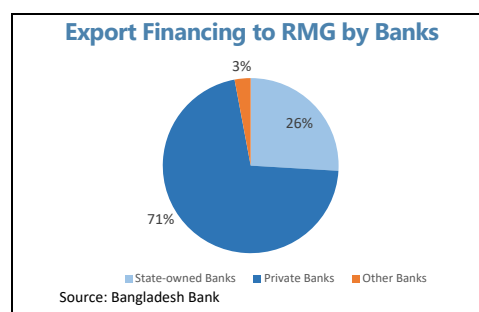
young workers. Overeducation and education–occupation mismatches are particularly pronounced in agriculture and manufacturing, with the garment industry and youth workers most affected. Gender disparities in unemployment remain significant. Advancing structural reforms and labor market policies will be critical to enhancing resilience, fully harnessing Bangladesh’s demographic dividend, and unlocking higher growth potential. Key priorities include upgrading the industrial structure, channeling investment toward high productivity sectors, and promoting diversification to expand high quality employment. At the same time, building stronger linkages between education institutions and industry is essential. Improved skill training, co-designed apprenticeship programs and STEM education can better align workforce abilities with evolving labor market needs. Complementary measures to address information frictions, mobility barriers, and search-matching costs, for both workers and firms, would further support employment. Providing affordable childcare services, promoting flexible working arrangements, and strengthening worker protections would help enhance female labor force participation. Finally, the role of FDI cannot be overstated. Currently, Bangladesh’s FDI inflows remain very low compared to other peer developing economies, limiting opportunities for technology transfer, industrial diversification, and job creation. Increasing FDI would bring new high-value markets into the economy and serve as a significant source of employment for youth, particularly in skill-intensive sectors.

Annex VI. Diversification Toward Higher-Quality and Knowledge-Based Sectors

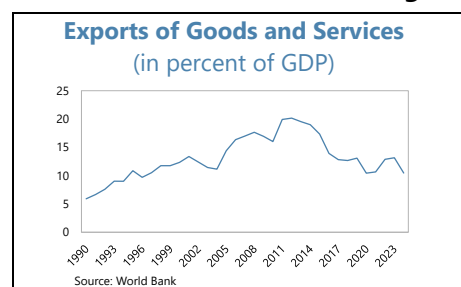
1. Bangladesh's exports have grown rapidly in the past decades and are dominated by the Ready-made Garments (RMG) sector. Bangladesh's RMG sector and exports started flourishing in late 1970s, when a Korean company's entry, in partnering with a Bangladeshi firm, provided training and introduced Bangladesh to global garment manufacturing. Today, Bangladesh is the world's second-largest garment exporter, employing millions of young women thereby significantly boosting female workforce participation. This sector's export value has surged dramatically from around US \$1 billion in 1990 to US \$40 billion in FY2024-25. Remarkably, the RMG sector has demonstrated resilience to shocks, including the recent pandemic and the public uprising in June 2024.



2. The resilience of Bangladesh's RMG sector reflects a combination of international and domestic factors. The Multifiber Arrangement (MFA) provided an early boost to Bangladesh's RMG sector by restricting imports from more established competitors to developed nations. After the end of the MFA, Bangladesh continues to enjoy preferential trade access to its major export markets as a Least Developed Country (LDC). Domestically, Bangladesh's low labor costs have been a major driver of its global competitiveness. RMG growth was also supported by government policies, including duty-free access to imported materials via bonded warehouses. By the mid-1980s, the government implemented a new industrial policy and began trade liberalization, moving away from import substitutions. The RMG sector has also benefited from export financing from banks.



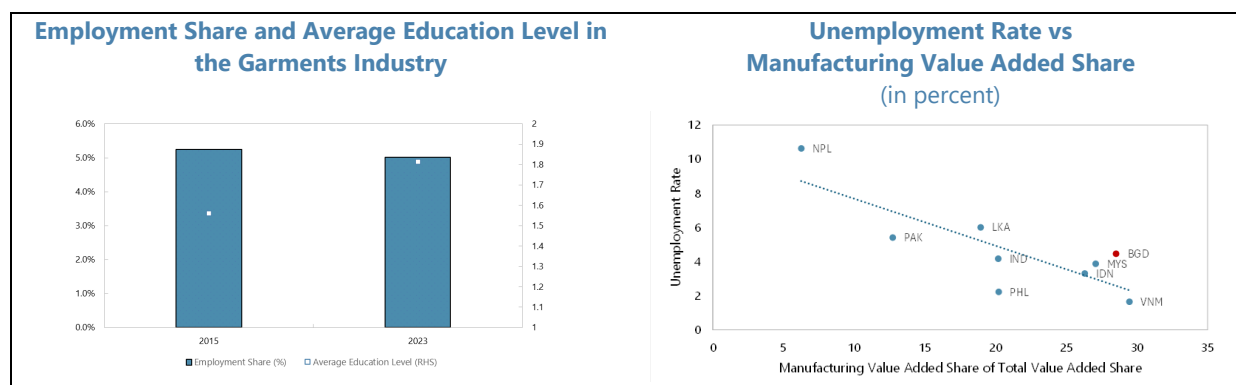
3. However, limited exports diversification creates economic vulnerabilities and hinders long-term growth. Economic diversification—especially in developing countries—is crucial for transitioning to a high-productivity, service-oriented economy and for strengthening resilience against global market fluctuations and external shocks. Consequently, diversification is essential for fostering sustainable growth and improving living standards. Various diversification indices for Bangladesh indicate that progress has been stagnant for decades



(top right figure). As a result, in recent years, Bangladesh's export growth has lagged behind GDP growth, and its export-to-GDP ratio remains below that of peer countries.

4. Enhancing economic and exports diversification is also required to create quality jobs particularly for educated youth. Enhancing export diversification into higher value-added sectors is crucial to boosting potential economic growth and creating employment opportunities that better align with the skills of formally educated workers. While the RMG sector has been a key driver of job creation, particularly empowering women with garment production skills, its capacity to absorb workers with formal education is limited. This sector primarily depends on technical and craft competencies rather than formal schooling credentials. Expanding into higher value-added industries would better utilize the talents of the educated workforce. Such diversification would promote innovation, raise productivity, and develop a more versatile and resilient labor market.

5. The anticipated graduation from LDC highlighted the urgency of export diversification. Bangladesh currently benefits from LDC-specific trade preferences in major export markets and is exempt from export subsidies such as fiscal incentives and tax rebates for export-oriented industries. Following its anticipated LDC graduation in 2026, Bangladesh is likely to face tariff increases as its preferential access to European and other markets will need to be renegotiated. The country will also need to reform its trade policies concerning export subsidies to ease this transition. Potential losses stemming from LDC graduation could pose significant challenges to the sustainability of Bangladesh's exports and may necessitate costly investments in automation. This underscores the urgency of diversifying exports to offset possible losses.

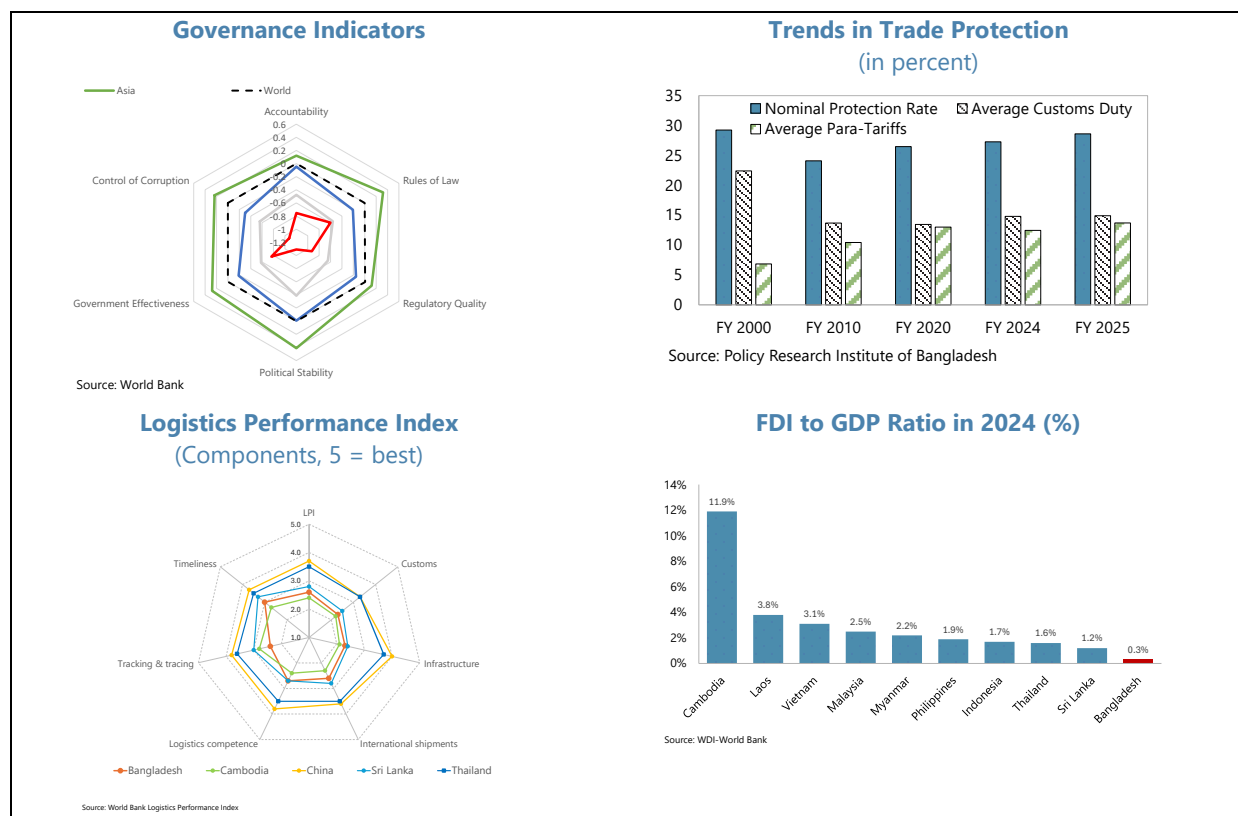


6. The Bangladesh government has formulated various plans to foster export diversification and identified priority sectors. Recognizing the importance of economic and export diversification, the government outlines diversification strategies in various planning and policy documents including its Eighth Five Year Plan 2020–25, Perspective Plan 2021–2041, and Export Policy 2024–2027. Within the RMG sector, diversification aims to expand into man-made fiber and high-value apparel segments, adding value to its product range and meeting global demand for premium textiles. Beyond the RMG sector, the government identified priority sectors such as agro-processing, pharmaceuticals, leather goods, lightening engineering, and ICT.

7. However, export diversification of Bangladesh continues to face significant obstacles. Success diversification requires various factors including macroeconomic stability, access to credit, the

quality of infrastructure, and workforce skills. The following factors appear to be the main obstacles to diversification in Bangladesh:

- **Weak macroeconomic policies and governance.** Low fiscal revenue limited the government's space to support much needed capital expenditure. High NPLs combined with under capitalization in the banking sector constrain banks' capacity to provide credit for private sector development. Governance indicators point to significant shortcomings in political stability, government effectiveness, the rule of law, and corruption control.
- **Trade protectionism.** One of the primary reasons for the limited export dynamism in non-garment sectors is the protectionist trade policy regime, which favors import-competing industries through high customs tariffs along with supplementary and regulatory duties approaching 30 percent. As a result, Bangladesh maintains one of the most protective trade regimes for import-competing industries (Policy Research Institute, 2024). Excessive protectionism leads to inefficient resources allocation and impacts Bangladesh's competitiveness.
- **Inadequate infrastructure.** Poor transportation networks and unreliable power transmission lead to higher costs and longer lead times, affecting export competitiveness. Based on the World Bank's Logistics Performance Index (LPI) 2023, Bangladesh was ranked 88th out of 139 countries and underperforms in logistics compared with main competitors in the region.
- **Limited foreign direct investment (FDI).** FDI can bring in capital, encourage technology transfer, and help Bangladesh better connect to international markets. However, Bangladesh's FDI-to-GDP ratio is significantly lower than regional peer countries, limiting the opportunities for Bangladesh for global supply chain integration non-RMG sectors and reinforcing its existing export concentration.



8. Recent IMF study suggests that successful diversification is often underpinned by broad-based policies and reforms.¹ While economic diversification in developing economies is likely to rely on the effectiveness of both horizontal and vertical policies, horizontal policies on human capital and infrastructure, improving government, trade liberalization and fostering competition are critical for successful diversification. Country experiences suggest that sector-specific mechanisms could play a supplemental role but should be used carefully. In particular, vertical policies should aim to tackle underlying bottlenecks and minimizing fiscal costs. Such measures need to be backed by a focus on enhancing governance, transparency, and implementation capacity.

9. The above analysis suggests the following policy priorities for Bangladesh:

i) Maintaining macroeconomic stability and improving governance. Implementing tax reforms, addressing banking sector issues, and tackling governance weaknesses can create a stable environment for private sector development and support investment; ii) facilitating international trade by negotiating bilateral trade agreements and improving trade taxation; iii) increasing public investment to improve infrastructure such as transportation and energy; and iv) boosting FDI in high-value sectors to promote industrial upgrading and technology development.

¹ *Economic diversification in developing countries: lessons from country experiences with broad-based and industrial policies*, IMF Departmental Paper, July 2024.

Annex VII. Data Issues

Table 1. Bangladesh: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts 4/	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	C	B	B	B		
Granularity 3/	B		B	B	B		
			B		B		
Consistency			B	C		B	
Frequency and Timeliness	C	A	C	A	C		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p> <p>4/ Given the impact of significant delays in releasing annual GDP data, a higher weight is applied to Frequency and Timeliness, thus resulting in an overall "C" rating for national accounts versus the "mechanical" "B" rating assigning the same weight to each sub-category.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. The data provided to the Fund have some shortcomings but are broadly adequate for surveillance. National Accounts. The authorities have made progress in collecting and publishing quarterly data on GDP and sectoral value added. While coverage and granularity are broadly adequate for surveillance, annual supply and use tables are not regularly compiled, with the latest available table dating back to 2015. Quarterly GDP data are available only for the production approach and not for the expenditure approach. GDP continues to be delivered with substantial delays (with a lag of 8 months for annual GDP and 4 months for quarterly GDP), impacting surveillance. Prices. The coverage of goods and services currently included in the CPI appears somewhat limited and may impact the assessment of inflationary pressures. GFS. The authorities submit annual GFS data for the budgetary central government (BCG) and provide public debt data. Monthly BCG operations data is published with significant delays (with a lag of about 3 months). Quarterly BCG GFS estimates need to be aligned with GFSM 2014. External. The authorities regularly publish BoP and submit IIP data. However, data revisions can affect staff's assessment on BoP, and there are notable errors and omissions. Monetary and Financial. The authorities compile monetary and financial data with good coverage, while data on NBFIs is not submitted. In addition, FSIs are submitted with delays. Published data on nonperforming assets, capital, and provisions have quality issues, reflecting relaxed rules on classification of rescheduled, restructured and off-balance sheet exposures and regulatory forbearance. The authorities shared additional information on regulatory forbearance with the team for surveillance.</p>							
<p>Changes since the last Article IV consultation. Time lags for some FSIs have increased from a typical lag of 3 months to over 6 months since the 2023 Article IV consultation. The authorities have revised data on exports and trade credits because of discrepancies between export shipments and export receipts in FY23 and FY24. Errors and omissions in FY25 were reduced by appropriately classifying project related imports.</p>							
<p>Corrective actions and capacity development priorities. Key areas for improvement include reducing the delays in publishing National Accounts data, monthly BCG operations, and FSIs; improving CPI statistics and export and import deflators; expanding GFS coverage to include extrabudgetary units and local governments and reporting government asset stock data; and implementing IMF methodology for compiling FSIs.</p> <p>CD from the Fund and development partners could support the authorities to address the data issues. Meeting the Structural Benchmark on BOP statistics so that the BB assumes full responsibility for compiling trade statistics would strengthen ownership and improve data quality. Bangladesh Bureau of Statistics has requested SARTTAC assistance to develop Supply and Use Tables, which will serve as an input for the next GDP rebasing exercise, and an STA TA mission national accounts is tentatively planned for April 2026. A TA mission on BOP statistics is planned for FY26H2. Ongoing Fund CD aimed at strengthening government oversight of SOEs would facilitate the reporting of government asset stock. The upcoming World Bank Financial Sector Support Project II focuses on addressing aging infrastructure and fragmented data management for financial statistics.</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.</p>							
<p>Other data gaps. Broadening the scope and increasing the frequency of publication of sectoral variables reflecting the level of economic activity would support more timely assessment of the business cycle. These indicators would include monthly retail sales, industrial production, construction, electricity and water consumption, etc.</p>							
Table 2. Bangladesh: Data Standards Initiatives							
Bangladesh participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since October 2017.							

Table 3. Bangladesh: Table of Common Indicators Required for Surveillance

As of November 26, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Bangladesh ⁸	Expected Timeliness ^{6,7}	Bangladesh ⁸
Exchange Rates	25-Nov-25	26-Nov-25	D	D	D	M	...	5D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	25-Nov-25	26-Nov-25	D	D	M	M	1M	2M
Reserve/Base Money	Oct-25	Nov-25	M	M	M	M	2M	2W
Broad Money	Sep-25	Oct-25	M	M	M	M	1Q	1M
Central Bank Balance Sheet	Oct-25	Nov-25	M	M	M	M	2M	2W
Consolidated Balance Sheet of the Banking System	Sep-25	Oct-25	M	M	M	M	1Q	1M
Interest Rates ²	Oct-25	Nov-25	M	M	M	M	...	1M
Consumer Price Index	Oct-25	Nov-25	M	M	M	M	2M	1M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	n/a	n/a	n/a	n/a	A	A	3Q	3Q
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Sep-25	Nov-25	M	M	Q	M	1Q	2M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Jun-25	Nov-25	Q	Q	Q	Q	2Q	45D
External Current Account Balance	Sep-25	Nov-25	M	M	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Sep-25	Nov-25	M	M	M	M	12W	6W
GDP/GNP	FY2025Q4	Oct-25	Q	Q	Q	A	1Q	8M
Gross External Debt	Jun-25	Oct-25	A	A	Q	Q	2Q	1Q
International Investment Position	Jun-25	Oct-25	Q	Q	A	Q	3Q	1Q
¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions. ² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds. ³ Foreign, domestic bank, and domestic nonbank financing. ⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. ⁵ Including currency and maturity composition. ⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than. ⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan. ⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".								



BANGLADESH

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

January 6, 2026

Prepared By

Asia and Pacific Department (In consultation with other
departments)

CONTENTS

FUND RELATIONS _____ 2

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS _____ 6

FUND RELATIONS

(As of November 30, 2025)

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

General Resources Account

	SDR Million	Percent Quota
Quota	1,066.60	100.00
Fund holdings of currency (exchange rate)	2,305.73	216.18
Reserve tranche position	134.15	12.58

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,532.69	100.00
Holdings	1,766.04	115.22

Outstanding Purchases and Loans

	SDR Million	Percent Quota
RSF Arrangements	666.68	62.51
Extended Arrangements	1,373.26	128.75
RCF Loans	177.77	16.67
ECF Arrangements	686.64	64.38

Latest Financial Commitments

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (In millions of SDRs)	Amount Drawn (In millions of SDRs)
RSF	Jan. 30, 2023	Jul. 29, 2026	1,000.00	666.68
ECF	Jan. 30, 2023	Jan. 29, 2027	1,011.89	686.64
EFF	Jan. 30, 2023	Jan. 29, 2027	2,023.76	1,373.26

Outright Loans¹:

Type	Date of Commitment	Date Drawn	Amount Approved (In millions of SDRs)	Amount Drawn (In millions of SDRs)
RCF	May 29, 2020	Jun. 02, 2020	177.77	177.77
RFI	May 29, 2020	Jun. 01, 2020	355.53	355.53

¹ Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e., Board approval date.

Overdue Obligations and Projected Payments to the Fund²

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

	2025	2026	2027	2028	2029
Principal	17.78	35.55	55.13	164.75	298.76
Charges/Interest		69.62	69.46	68.09	63.89
Total	17.78	105.17	124.59	232.84	362.66
² When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.					

Article IV Consultation

The previous Article IV consultation was concluded on December 12, 2023 (IMF Country Report No. 23/409).

Safeguards Assessment

An updated safeguards assessment was completed in 2022 in connection with the 2020 RCF/RFI disbursements. The 2021 update safeguards assessment found that BB had made limited progress in addressing recommendations from the 2011 assessment. In particular, BB needed to address capacity constraints in the internal audit and accounting functions and improve the quality of its financial statements and external audits. With assistance from the IMF TA, BB is developing a draft of the new BB order. Consultations on the draft order need to continue, to ensure that it duly supports BB's autonomy and sets the framework for improving BB's governance. In addition, BB needs to address elevated risks in currency operations and its IT systems, develop a strategy to phase out its involvement in quasi-fiscal lending activities, and strengthen foreign reserves management. The ECF/EFF program's third and fourth review introduced indicative targets guiding BB to gradually reduce its quasi-fiscal lending activity in both taka and foreign currency. BB has so far met these targets.

Exchange Arrangement

The *de jure* exchange rate regime is a float. The *de facto* exchange rate arrangement has been reclassified several times in recent years: (i) to "stabilized" from "crawl-like", effective December 4, 2023; (ii) back to "crawl-like", effective May 9, 2024; and then (iii) back to "stabilized", effective January 2, 2025.

Bangladesh is an Article VIII member and maintains the following exchange restrictions that are inconsistent with its obligations under Article VIII, Section (2): (i) a restriction on the convertibility and transferability of proceeds of current international transactions in non-resident Taka accounts; (ii) a restriction on future FX transactions for non-compliance with FX rules; (iii) a restriction on non-resident workers transfers of salaries arising from the requirement of mandatory deductions (including living expense) and providing a tax clearance certificate prior to salary transfers; (iv) a cash margin requirement on letters of credit for import payments in the absence of alternative unrestricted means of payments for such imports; and (v) requiring a foreign bank guarantee on advanced import payments. Bangladesh also maintains a multiple currency practice arising from a subsidy of 2.5 percent on inward FX remittances, introduced before the approval of the EFF/ECF arrangements. This subsidy should be phased out in the context of freely quoted exchange rate and limited fiscal space.

Resident Representative

The resident representative office was established in 1972. Mr. Maxym Kryshko has been the current Resident Representative since September 2025.

Capacity Development: Technical Assistance and Training

Bangladesh Capacity Development, December 2023– October 2025		
Department	Topic	Timing
FAD	SARTTAC Workshop on PIM in Planning Division	Jan/Feb-24
	FADCP TA on Disaster Risk Financing	Feb/March-24
	SARTTAC TA Mission on Fiscal Risk Statement	Mar-24
	SARTTAC Training on Budget Management Specialists	Mar-24
	FAD Tax Policy TA Mission	Mar-24
	SARTTAC TA on Revenue Administration	June-24
	SARTTAC TA Mission on Asset Registry	July-24
	SARTTAC TA on PIM in Planning Division	Oct-24
	Tax Policy Training and TA Mission	Oct/Nov-24
	SARTTAC TA on Enhancing Cash Management & TSA	Apr-25
	TA Mission on Energy Subsidy	June/July-25
	SARTTAC TADAT Training in NBR	Aug-25
	Customs Diagnostic TA Mission	Aug-25
	Tax Policy Strategy Mission	Aug/Sep-25
	SARTTAC TA Mission on Public Asset Registry	Oct-25
	FAD TADAT Assessment Mission in NBR	Oct-25
	TA Mission on VAT/Tax Policy	Nov/Dec-25
	TA Mission on Revenue Forecasting	Jan-26
STA	SARTTAC GFS TA Mission	Feb-24
	SARTTAC QGDP TA Mission	Mar-24
	TA Mission on Residential Property Prices	May-24
	TA/Training Mission on Climate Change Statistics	July-24
	TA Mission on External Sector Statistics (ESS)	Oct-24
	SARTTAC Training on Index of Service Production (ISP)	Jan-25
	SARTTAC TA Mission on National Accounts	Aug-25
	TA Mission on GFS	Nov-25
MCM	SARTTAC TA Mission on Financial Sector Supervision	Jan-24
	Medium Term Debt Strategy (MTDS) Training (WB & IMF)	Feb-24
	TA Mission on Exchange Rate Flexibility	Mar/Apr-24
	SARTTAC TA Mission on Risk-Based Supervision/ Financial Sector	Dec-24
	MCM Climate Mission	Jan-25
	LCBM Mission & hands on training (IMF & WB)	Jan-25

Department	Topic	Timing
ICD	SARTTAC TA Mission on Risk-Based Supervision/ Financial Sector	Feb-25
	Central Bank Independence Mission	May-25
	SARTTAC TA on Forex Reserve Management	May-25
	SARTTAC TA Mission on Risk-Based Bank Supervision/ Financial Sector	Sep/Oct-25
	TA Mission on Debt Management Office in BGD (IMF & WB)	Oct/Nov-25
	SARTTAC TA Mission on Establishing an ELA framework and operations with Islamic Banks	Dec-25
	Macroframework TA Mission	Jan/Feb-24
	FPAS TA Mission	Apr-24
	Macroframework Training/ TA Mission	Oct-24
	Forecasting & Policy Analysis System (FPAS) TA Mission	Jan-25
	SARTTAC Macroeconomics Foundation Course	Feb-25
	Macroframework Training/ TA Mission	Feb-25
	Macroframework Workshop/TA Mission	Sep-25
	Forecasting & Policy Analysis System (FPAS) TA Mission	Nov-25

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Information on the activities of other IFIs in Bangladesh can be found at:

- Work Bank: <https://www.worldbank.org/en/country/bangladesh>
- Asian Development Bank: <https://www.adb.org/countries/bangladesh/main>
- Asian Infrastructure Investment Bank: https://www.aiib.org/en/projects/list/year/All/member/Bangladesh/sector/All/financing_type/All/status/Approved
- Agence Française de Développement: [Bangladesh | AFD - Agence Française de Développement](#)



BANGLADESH

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION— DEBT SUSTAINABILITY ANALYSIS

January 6, 2026

Approved By

Sanjaya Panth and Jarkko Turunen (IMF) and Manuela Francisco and Sebastian Eckardt (IDA)

Prepared by the staff of International Monetary Fund and the International Development Association

Bangladesh: Joint Bank Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgement	No

Bangladesh remains at a moderate risk of external and overall debt distress, with limited space to absorb shocks. The change of risk from low in the June 2024 assessment to moderate was largely attributed to a substantial downward revision of export data for FY23 and FY24, which was carried forward over the projection period. Bangladesh's debt-carrying capacity remains assessed as medium, consistent with the previous debt sustainability analysis (DSA).¹ While external and overall debt indicators remain below their respective thresholds under the baseline scenario, the present value of debt-to-exports and debt service-to-exports ratios persistently breach their thresholds under a standard stress test, due to the downward revision of export data. Favorable debt dynamics in the medium term are expected to keep the public and publicly guaranteed (PPG) external debt-to-GDP ratio on a declining path, and space to absorb shocks would improve to "some space" from 2026 onwards.

However, the PV of overall public debt is projected to steadily increase, in light of the domestic debt accumulation to meet the rising gross financing needs, leading to further increases in the already elevated domestic debt-to-revenue ratio. Risks are tilted to the downside and include amplified vulnerabilities in the banking sector, renewed foreign exchange (FX) pressures, persistent inflation, increasing interest burden, revenue mobilization constraints, especially in light of the underperformance of revenue observed in FY25, slow implementation of macro-critical structural reforms, domestic political uncertainties, escalating geopolitical tensions, and climate related events.

¹ Bangladesh's Composite Index is estimated at 2.83 and is based on IMF's October 2025 WEO and World Bank's 2024 Country Policy and Institutional Assessment (CPIA).

DEBT COVERAGE

1. Debt coverage used for the analysis appropriately captures Bangladesh's debt vulnerabilities.³ The DSA covers the full stock of public debt issued by the central government, as well as debt issued by State-Owned Enterprises (SOEs) that is guaranteed by the central government. Non-guaranteed SOE debt—comprising only domestic liabilities—is excluded, as it does not pose a fiscal risk based on information provided by the authorities. However, there are three SOEs that accumulated arrears to external suppliers of about 0.3 percent of GDP at end FY24 and these arrears have been included in the debt coverage.⁴ IMF financial support is included in the public debt, which is provided to the Bangladesh Bank (BB) and then on-lent to the central government. Local governments are not allowed to borrow and are excluded from the analysis. The authorities are working to standardize the reporting of SOE debt to cover non-guaranteed debt, although non-guaranteed external debt held by SOEs is zero. This DSA is prepared on a currency basis. The difference relative to the residency basis should not materially affect the assessment.

Text Table 1. Bangladesh: Debt Coverage

Subsectors of the public sector	Sub-sectors covered
1 Central government	X
2 State and local government	
3 Other elements in the general government	
4 o/w: Social security fund	
5 o/w: Extra budgetary funds (EBFs)	
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	

1 The country's coverage of public debt	The central government, central bank, government-guaranteed debt	
	Default	Used for the analysis
2 Other elements of the general government not captured in 1.	0 percent of GDP	0.0
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0
4 PPP	35 percent of PPP stock	0.0
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0
Total (2+3+4+5) (in percent of GDP)		7.0

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

DEVELOPMENTS ON DEBT

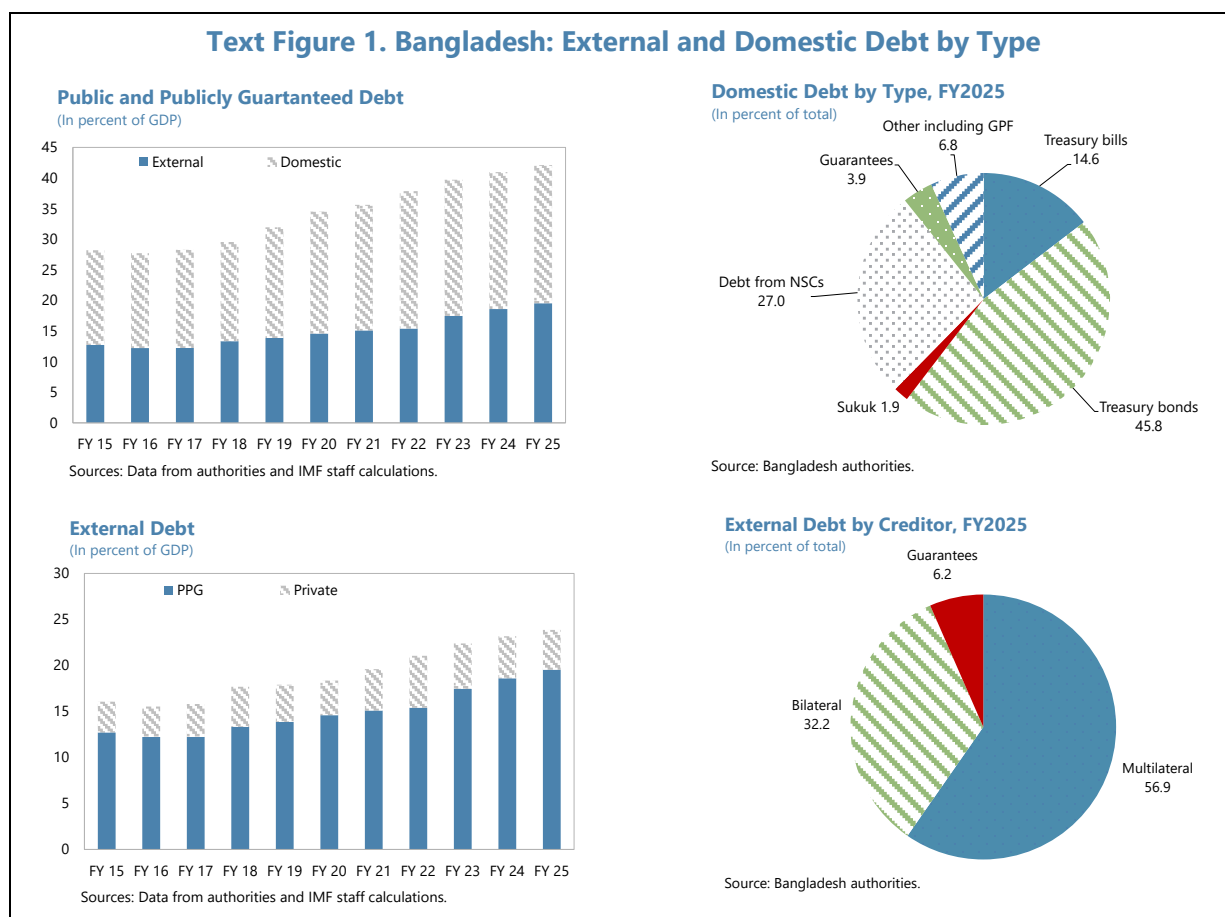
2. Total public and publicly guaranteed (PPG) debt in Bangladesh rose to 41 percent of GDP in FY25 (from 39 percent of GDP in FY24). (Text Table 2 and Text Figure 1).⁵ Total PPG debt at end-FY25 stood at US\$188.8 billion. Domestic debt, denominated in local currency, constitutes more than half (53.6 percent) of the total PPG debt stock and domestic debt service payments amounted to 4.2 percent of GDP in FY25. Meanwhile, external debt service payments remained

³ Based on the authorities' data, private non-guaranteed SOE debt (outside debt coverage) is assessed to be lower than 2 percent of GDP (informing the calibrations of the contingent liability shock) and does not represent a fiscal risk based on the information available. Similarly, the contingent liability from PPP is assumed to remain below 3 percent of GDP, posing no significant fiscal risk; therefore, the shock was not applied.

⁴ Three SOEs consist of Bangladesh Power Development Board, Petro Bangla, and Bangladesh Petroleum Corporation. Based on a report published by MoF in 2024, out of 101 SOEs, 28 entities were classified as high risk and 14 as very high risk.

⁵ Fiscal year 2025 in Bangladesh started in July 2024 and ended in June 2025.

relatively stable at 1.2 percent of GDP in FY25, of which 0.7 percent was paid to multilateral creditors and 0.3 percent of GDP to bilateral creditors (roughly evenly split between Paris Club and non-Paris Club creditors).



3. Treasury bonds and bills make up a growing share of domestic debt and are predominantly held by banks. The share of government securities (including Sukuk) in domestic debt increased to 62.3 percent in FY25 from 53.6 percent in FY24, driven mostly by the rise in treasury bills issuance—30.5 percent year-on-year—against a lower rate of growth of T-bonds and Sukuk issuance, 33.4 percent and 21.4 percent respectively. Meanwhile, the share of domestic debt held in national savings certificates (NSCs) dropped further to 27 percent, from 30.5 percent in FY24, with general provident fund (GPF), guarantees and others comprising the remainder. The banking sector continues to hold around two-thirds of government securities, whereas the share held by (BB) continued to decline to 10.32 percent from 15.7 percent in FY24, reflecting BB's discontinuation of devolvement of government securities in primary auctions,⁶ and less purchases of government securities on the secondary market. Non-banks, especially insurance companies, pension funds and corporations, own the remainder of government securities.

⁶ Devolvement of government securities is the purchase of government securities at below market-clearing interest rates, when primary dealers are unable to accept the rate offered by the BB.

Text Table 2. Bangladesh: Decomposition of Public Debt, FY25-FY27^{1,2}

	Debt Stock (end of period)			Debt Service					
	FY25			FY25	FY26	FY27	FY25	FY26	FY27
	(In US\$)	(Percent total debt)	(Percent GDP)	(In US\$)	(In US\$)	(In US\$)	(Percent GDP)	(Percent GDP)	(Percent GDP)
Total	188,789	100	41.3	7,467	30,585	33,843	1.6	6.1	6.4
External	87,550	46.4	19.2	5,565	5,174	5,626	1.2	1.0	1.1
Multilateral creditors ^{3,4}	49,775	26.4	10.9	3115	3407	3673	0.7	0.7	0.7
IMF	4,499	2.4	1.0	346	173	175	0.1	0.0	0.0
World Bank	22,691	12.0	5.0	963	1057	1225	0.2	0.2	0.2
ADB	17,715	9.4	3.9	1446	1656	1724	0.3	0.3	0.3
Other Multilaterals	4,870	2.6	1.1	359	522	549	0.1	0.1	0.1
o/w: AIIB	2,783	1.5	0.6	225	375	400	0.0	0.1	0.1
o/w: IFAD	625	0.3	0.1	24	27	29	0.0	0.0	0.0
Bilateral Creditors ³	32,004	17.0	7.0	1346	1767	1952	0.3	0.4	0.4
Paris Club	24,270	12.9	5.3	608	751	929	0.1	0.2	0.2
o/w: Japan	13,727	7.3	3.0	212	325	350	0.0	0.1	0.1
o/w: Russia	8,281	4.4	1.8	306	310	438	0.1	0.1	0.1
Non-Paris Club	7,734	4.1	1.7	738	1015	1024	0.2	0.2	0.2
o/w: China	5,785	3.1	1.3	581	759	771	0.1	0.2	0.1
o/w: India	1,609	0.9	0.4	123	227	223	0.0	0.0	0.0
SOE borrowing	5,457	2.9	1.2	1104	-	-	0.2	-	-
Others ⁷	315.0	0.2	0.1	0	-	-	-	-	-
Bonds	-	0.0	0.0	0	0	-	0	0	0
Commercial creditors	-	0.0	0.0	0	0	0	0	0	0
Domestic	101,239	53.6	22.2	19164	25411	28217	4.2	5.1	5.3
T-Bills	14,261	7.6	3.1	1902	-	-	0.0	-	-
Bonds	46,394	24.6	10.2	8005	-	-	1.8	-	-
Other	-	-	-	-	-	-	-	-	-
Loans: Central Bank Facilities	493	0.3	0.1	-	-	-	-	-	-
Sukuk	1,954.40	1.0	0.4	77	-	-	0.0	-	-
Debt from NSCs	27,287	14.5	6.0	9118	-	-	2.0	-	-
Guarantees	3,938	2.1	0.9	62	-	-	0.0	-	-
Others including GPF	6,911	3.7	1.5	-	-	-	-	-	-
Memo items:									
Collateralized debt ⁵	-	0.0	0.0	-	-	-	-	-	-
Contingent liabilities	7,876	4.2	1.7	-	-	-	-	-	-
o/w: Public guarantees	3,938	2.1	0.9	-	-	-	-	-	-
o/w: Other explicit contingent liabilities ⁶	5,457	0.0	0.0	-	-	-	-	-	-
Nominal GDP	456,893								

1/There are slight differences - owed to valuation effects - between the debt stock in this table versus those that go into the DSA calculations (average versus year-end exchange rates)

2/As reported by the country authorities, according to their creditor classification (official and commercial), debt coverage is the same as in the DSA, except for the external arrears owed by the three SOEs.

3/Some public debt is not shown in the table due to confidentiality clauses/capacity constraints.

4/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

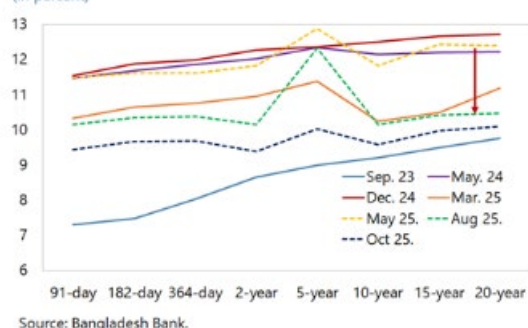
5/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral

6/Includes other one-off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

7/This represents the external arrears owed by the three SOEs (Bangladesh Power Development Board, Petro Bangla, and Bangladesh Petroleum Corporation.)

4. Yields on government securities fell in FY25 and two months of FY26, after increasing substantially in FY24 (Text Figure 2). In FY24,

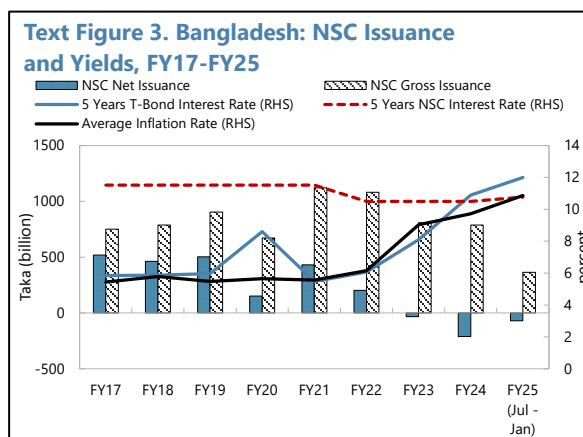
significant FX sales by BB – which were not fully sterilized by provisioning of domestic liquidity through standard BB domestic operations - contributed to tight liquidity conditions. In FY25, FX sales moderated significantly, while government bond yields remained elevated particularly in the first half of the year. Liquidity conditions have eased considerably in the first two quarters of FY26, reflecting ongoing unsterilized liquidity injections into non-viable banks since November 2024, large

Text Figure 2. Bangladesh: Government T-Bill and T-Bonds Rates (in percent)

FX purchases, weak credit demand, and lower supply of government securities. As a result, the government yield curve has fallen by about 200 bps, even as the policy rate remained unchanged.

5. Demand for National Savings Certificates (NSCs) has continued to decline.⁷ Net NSC

issuance remained negative FY24 and H1FY25, driven by a marked decline in gross issuance, resulting from a combination of reforms initiated since 2019⁸, reduced household savings amid high inflation, and higher domestic bond yields (Text Figure 3). NSC interest rates increased in January 2025 for the first time since September 2021 as part of a new interest-rate setting mechanism that links NSC yields to comparable bond market yields (either 2-year or 5-year bonds) via twice-yearly adjustments. While this reform may increase demand for NSCs in the short term, it is expected to ultimately move more savings into marketable securities and lower interest payments over the long term.



6. Amid increased financing costs, the government under-executed its FY25 borrowing plan and implemented substantial spending cuts. Reluctant to issue additional domestic debt at elevated bond yields, the authorities curtailed expenditure and the fiscal deficit was lower than expected at 2.9 percent of GDP, with the primary deficit at 0.7 percent of GDP. Since October 2024, the authorities have stopped issuing special treasury bonds at below-market rates.

7. External PPG debt increased in FY25, while private sector external debt continued to decline. External PPG debt stood at US\$87.6 billion, accounting for about 19.2 percent of GDP in FY25. External PPG debt edged up in FY25, from around US\$78.9 billion in FY24, and continues to be predominantly owed by the central government to multilateral and bilateral creditors, at about 57 percent and 37 percent of outstanding external PPG debt, respectively, while guaranteed SOE debt remains relatively small (US\$5.5 billion). As of end FY25, three SOEs reduced their stock of external arrears more rapidly than envisaged under the IMF-supported program, and the stock of external arrears at end-FY25 stood at USD 315 million, much lower than the US\$1.6 billion (0.3 percent of GDP) of external arrears at end FY24. This FY25 amount has been added to the external PG debt stock. External project financing disbursements in FY25 were in line with Staff's expectations. Continued inflationary pressures, and the sluggish pace of recovery of opening of letters of credits (LCs) due to FX shortages, further contributed to increased import costs and

⁷ NSCs were introduced in the subcontinent in 1944 by the National Savings Institute of the Ministry of Finance of India. The intent was to promote savings among the population and finance the government's budget deficit. Currently, the Department of National Savings under the Bangladesh Ministry of Finance issues NSCs in line with investors' demand up to pre-determined individual investor limits.

⁸ In FY2020, the government digitized the issuance of NSCs and linked it to the purchasers' tax identification number, facilitating better enforcement of existing caps, as well as increased the tax on interest income from 5 to 10 percent. This was followed by the introduction of a tiered interest rate system in September 2021 under which interest rates decline with the size of NSC holdings.

delayed project execution. Private sector external debt was 4.3 percent of GDP in FY25, declining for the third consecutive year from 4.6 percent in FY24 as the private sector repaid their obligations, and higher borrowing costs contributed to the reduction in new borrowing.

8. Domestic debt market development is progressing, albeit slowly. The investor base for government securities remains narrow, with over 80 percent of securities held by the banking sector (including BB), and the volume of secondary market transactions remains small (less than 3 percent of total outstanding stock). Average time to maturity of domestic debt stood at 4 years at end-FY24, with 29.7 percent of debt maturing within a year. The authorities' Medium-Term Debt Management Strategy (MTDS) FY25-FY27 envisions a shift in domestic debt composition towards longer maturity instruments as the availability of long-term concessional external financing is expected to decline over the medium term. To support deepening of the domestic debt market, reforms to the primary dealer system and further development of the secondary market are needed. An ongoing joint WB-IMF Local Currency Bond Market (LCBM) development technical assistance (TA) project and WB's Joint Capital Markets Program (JCAP) are supporting the Finance Ministry and BB in this area, and development of guidelines to reform the primary dealer system is underway.

MACROECONOMIC AND FINANCING ASSUMPTIONS

9. The macroeconomic assumptions underlying this DSA are as follows (Text Table 4):

- Growth.** Bangladesh continues to face macroeconomic challenges. The economy is expected to grow by 4.7 percent in FY26, up from 3.7 percent in FY25. This slow pace of recovery reflects the adverse impact of trade tariffs on exports and output, tight policies, and election-related uncertainty. The accumulated impact of low public and private investment also prevents a stronger recovery. Growth is expected to converge to its long-term potential of 6.5 percent in 2033, rather than in 2029, as assumed at the third and fourth review. This can be achieved through domestic resource mobilization and sustained structural reforms to improve the business environment, promote export diversification, and strengthen human capital development. Downside risks to growth could materialize in the form of continued FX pressures should the exchange rate reform be reversed, persistent inflation, domestic political uncertainties, revenue mobilization constraints, escalating geopolitical tensions, spillovers from banking sector stress, climate change, and slow implementation of macro-critical structural reforms. Meanwhile, upside risks include global disinflation, greater female labor force participation, more than expected investments—including FDI—on the back of expedited reforms as well as political stability, and more remittances which would help to limit FX pressures.
- Inflation.** Inflation stood at 10 percent in FY25 (on an average basis). Supply-side shocks in July 2025 impacted food prices and led to a re-acceleration in non-food inflation. As a result, inflation is expected to continue to decline only slightly in FY26, to 8.9 percent. Provided there is no further supply side disruptions and BB avoids premature policy easing, inflation is expected to decline to about 6 percent in FY27 and 5.5 percent in the long-term.

Text Table 4. Bangladesh: Macroeconomic Assumptions 1/

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	Long Term Avg. 2/
	Proj.								
Real GDP growth									
Current DSA	5.8	4.2	3.7	4.7	4.7	4.6	5.8	5.9	6.4
Previous DSA	5.8	4.2	3.8	5.4	6.2	6.2	7.9	6.8	6.6
Inflation									
Current	9.0	9.7	10.0	8.9	6.0	5.3	5.5	5.5	5.5
Previous DSA	9.0	9.7	9.9	6.2	6.3	5.6	5.6	5.6	5.5
Primary fiscal balance (in percent of GDP) 3/									
Current	-2.3	-1.4	-0.7	-2.0	-2.2	-2.6	-2.6	-2.6	-2.6
Previous DSA	-2.5	-1.5	-2.0	-2.0	-2.2	-2.6	-2.6	-2.6	-2.5
Revenue (in percent of GDP)									
Current	8.2	8.3	8.0	8.2	10.3	10.9	11.2	11.4	12.0
Previous DSA	8.2	8.3	8.7	9.5	10.0	10.0	10.1	10.2	10.4
Expenditure (in percent of GDP)									
Current	12.6	12.0	10.9	12.6	15.0	16.4	16.9	17.2	18.1
Previous DSA	12.7	12.1	12.8	13.5	14.5	15.0	15.1	15.3	15.9
Current account balance (in percent of GDP)									
Current	-2.6	-1.4	0.0	-0.3	-0.6	-1.1	-1.6	-1.6	0.0
Previous DSA	-2.6	-1.4	-1.0	-0.7	-0.9	-1.7	-2.0	-2.0	-0.9
Exports (in percent of GDP)									
Current	9.6	9.1	9.6	9.8	10.6	10.8	11.1	11.2	13.3
Previous DSA	9.6	9.0	9.5	10.5	11.4	11.2	11.2	11.1	12.6
Imports (in percent of GDP)									
Current	15.7	14.0	14.1	14.6	15.8	16.5	17.1	17.3	17.4
Previous DSA	15.4	14.0	14.4	15.1	16.1	16.6	16.7	16.7	16.7

1/ Previous DSA refers to the Joint DSA published in June 2025

2/ Long term average figure covers FY29-FY45.

3/ Primary fiscal balance includes the grants. The difference in historical data are caused by GDP rebasing.

- Fiscal Policy.** The FY25 fiscal deficit came in lower than expected, even though tax revenues once again fell short of target. Despite revenue measures in the FY25 budget and additional actions in January 2025, tax collections dropped sharply—from 7.4 percent of GDP in FY24 to 6.8 percent in FY25—owing to weak compliance given the lack of digitalization and limited capacity, disruptions from public unrest, and strikes by revenue authority staff. Revenue mobilization remains heavily reliant on indirect taxation and is constrained by structural weaknesses, including a narrow tax base, pervasive tax expenditures, low compliance rates, and systemic inefficiencies in tax administration. Current spending rose, driven by higher subsidies stemming from the widening gap between electricity tariffs and costs, and the clearance of domestic and external payment arrears. At the same time, tighter cash conditions—resulting from a sharp reduction in domestic borrowing, the government’s decision to spend more cautiously—contributed to significant under-execution of capital and social spending, more than offsetting the revenue shortfall.⁹ As a result, the primary fiscal deficit narrowed to 0.7 percent of GDP in FY25. Looking forward, revenue collection is expected to recover as one-off shocks—the public uprising and the NBR staff strike—fade. However, due to the sizable slippage on the tax revenue (0.8 percent of GDP), achieving the FY26 revenue target set in the previous review will be difficult, given the lack of a visible recovery in collections to date, even with additional measures in place. On the expenditure side, the FY26 budget aims to constrain the spending—particularly by cutting non-priority capital outlays—to offset any shortfall in revenue

⁹ Other factors that contributed to reduction in capital spending included the government’s policy to reevaluate and rationalize development projects and a shortage of qualified project directors.

mobilization. Spending pressures are set to rise due to: (i) the urgent need for fiscal resources to support banking-sector restructuring, (ii) subsidy burdens from delayed electricity tariff adjustments, and (iii) election-related expenditures. Based on the experience over the past two years, the interim government's plan to reduce domestic borrowing would keep the FY26 primary deficit at 2 percent of GDP. Under the World Bank supported Strengthening Institutions for Transparency and Accountability (SITA) project and IMF-WB Joint Domestic Resource Mobilization Initiative, revenues are projected to rise from FY27 onward, creating fiscal space for priority spending. The revenue-to-GDP ratio is expected to increase by about 2.4 percentage points over FY26–FY28 given the additional measures in place from FY26, with further gradual gains totaling around 1 percent of GDP through 2045. This robust increase in revenue collection in FY26–28 is required to safeguard social and capital outlays and support bank resolution, and will be contingent on the proper implementation of the bold tax policy reforms including (i) unifying the VAT rate at 15 percent and narrowing VAT exemptions; (ii) raising the minimum turnover tax rate to 2 percent and applying it to all companies; (iii) introducing a modern excise act for tobacco; and (iv) increasing taxes on all fossil fuels. Other ongoing reform initiatives (i.e., separation of the tax policy and tax administration, reducing tax expenditures, automation, among others) are expected to support revenue mobilization further. Insufficient implementation of these reforms would undermine Bangladesh's debt servicing capacity, whereas more ambitious effort on revenue mobilization in the medium and long term presents as an important upside risk to debt sustainability.

- **Climate Policy.** Climate policies for Bangladesh, supported by the RSF, are helping the authorities (1) implement climate-responsive PIM reforms to make infrastructure investment green and resilient and (2) better manage climate-related risks to enhance financial sector resilience. Meanwhile, multiple IDA projects are supporting adaptive debt management and climate resilience building.¹⁰ The baseline growth projections do not explicitly incorporate expected impacts of climate change. A gradual scaling up of climate investment of 0.3–0.8 percent of GDP annually is expected from FY25 onward, supported by RSF and other concessional financing catalyzed through development partners. This financing is expected to substitute for more expensive domestic financing, improving debt dynamics and reducing the balance of payments pressures from import-intensive climate investment. The authorities do not intend to undertake additional climate-related spending, beyond what is already included in the baseline DSA, that would jeopardize risks to public and publicly guaranteed debt sustainability.
- **Current Account (CA).** The current account deficit continued to narrow even further in FY25, registering a balance, after a deficit of 1.4 percent of GDP in FY24, as exports recovered after two years of decline in FY23 and FY24. Remittance inflows displayed resilience for the second consecutive year, defying expectations of more money entering the country through informal channels. The financial account (FA) surplus decreased to 0.7 percent of GDP in FY25, from 1 percent of GDP in FY24, as authorities accelerated repayments of external arrears owed by energy and fertilizer SOEs, despite the decline in unrecorded capital outflows, and donor

¹⁰ See, Bangladesh Country Climate and Development Report, for details. World Bank Group. 2022. Bangladesh Country Climate and Development Report. CCDD Series. World Bank Group, Washington, DC. © World Bank Group. <https://openknowledge.worldbank.org/handle/10986/38181> License: CC BY-NC-ND.

disbursements. The surplus in the balance of payments—the first since FY21—helped increase FX reserves, as the NIR increased roughly by US\$ 3 billion, reaching US\$19.1 billion in FY25. In the near-term, continued international financial institutions (IFI) disbursements and lower banking sector outflows should continue to provide support to FX reserves. The current account deficit is expected to stand at around 0.3 percent of GDP in FY26 as imports gradually recover. Beyond FY27, the CA deficit is expected to slightly increase, as FX pressures ease, thus helping normalize imports, and the non-ready-made garment exports gradually gain market share, due to structural reforms, trade facilitation, infrastructure development, skill enhancement, and contributions from remittances remain steady. The gradual pick-up of FDI inflows should help keep the financial account in surplus territory. Reserve coverage is expected to gradually rise in the medium term.

- Financial Sector.** Banking sector vulnerabilities have intensified in recent quarters. Responding to persistent liquidity stress in several commercial banks, underreported NPLs, and suspected fraudulent activities, BB has taken wide-ranging measures to improve banks' balance sheet transparency and address governance weaknesses. By end-March 2025, the NPL ratio rose to 24 percent and the system-wide capital adequacy ratio fell to 6.4 percent, though this figure is overstated due to sizeable deferred loan loss provisions in 27 banks. Insolvencies and undercapitalization largely concentrated in state-owned banks (SOBs), private Islamic commercial banks, and a handful of private non-Islamic commercial banks. These developments point to the likely materialization of fiscal costs, at the very least related to the recapitalization of SOBs, lost government deposits in private banks, materialization of BB's credit risk related to uncollateralized liquidity provisions to insolvent banks, and back up funding for the Deposit Protection Fund. Banking sector clean-up will be critical for supporting a return to rapid and sustainable economic growth over the medium-term, with costs assumed absorbed in the envisioned government spending path. The standard stress test for a financial market shock of 5 percent of GDP is also applied (see Text Table 1).
- Financing Assumptions.** Gross public financing needs are projected to increase from 9.3 percent of GDP in FY25 to 14.9 percent of GDP by FY35. Multilateral donor financing is projected to contribute to around 44 percent of total external financing in the near term, but will gradually decline to 38 percent by FY45. Other external financing is assumed to mostly come from bilateral donors. In line with the expected path of monetary policy tightening to contain inflationary pressures, nominal interest rates on new domestic debt are assumed to have peaked in FY25 at 10.2 percent for T-bills, 11.7 percent for domestic debt with maturity of 1–3 years, 12.13 percent for domestic debt with maturity above 3 years and up to 7 years, and 12.33 percent for domestic debt with maturity above 7 years in the near term. Over the longer term, as monetary policy normalizes, the cost of new domestic debt is expected to decline to 7.6 percent for T-bills, 9.1 percent for domestic debt with maturity of 1–3 years, 9.5 percent for domestic debt with maturity above 3 years and up to 7 years, and 9.7 percent for domestic debt with maturity above 7 years. Under the baseline, banking system funding to absorb domestic debt growth will largely come from new bank equity and other bank resolution funding, the migration of funds from maturing National Savings Certificates, and FX inflows. Lack of household savings and capital market development pose risks to a shortfall of additional

domestic debt absorption, requiring higher domestic interest rates or greater reliance on external debt. In FY26, authorities plan to borrow US\$9.3 billion.

Text Table 5. Bangladesh: Summary Table of Projected External Borrowing Program
July 1, 2025 to June 3, 2026

PPG external debt	Volume of new debt in 2025		PV of new debt in 2025 (program purposes)		PV of new debt in 2025 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	9328.1	100	4924.4	100	4924.4	100
<i>Concessional debt, of which</i>	4960.5	53	1682.1	34	1682.1	34
Multilateral debt	0.0	0	0.0	0	0.0	0
Bilateral debt	4960.5	53	1682.1	34	1682.1	34
Other	0.0	0	0.0	0	0.0	0
<i>Non-concessional debt, of which</i>	4367.6	47	3242.3	66	3242.3	66
Semi-concessional	4367.6	47	3242.3	66	3242.3	66
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	9328.1	100	4924.4	100	4924.4	100
Multilateral	3710.2	40	2763.9	56	2763.9	56
Bilateral - Paris Club	5047.8	54	1746.9	35	1746.9	35
Bilateral - Non-Paris Club	570.0	6	413.6	8	413.6	8
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	9328.1	100	4924.4	100	4924.4	100
Infrastructure	4741.2	51	1831.6	37	1831.6	37
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	550.0	6	446.6	9	446.6	9
Other	4036.9	43.3	2646.3	53.7	2646.3	53.7
Memo Items						
<i>Indicative projections</i>						
Year 2	0.0		0.0		0.0	
Year 3	0.0		0.0		0.0	

10. Projected debt dynamics are driven primarily by projected large fiscal deficits against strong GDP growth (Figures 3). Relative to historical factors, external debt dynamics are expected to benefit from favorable growth, over the medium and long-term, as well as the improvement in the current account. Overall debt is projected to continue to rise, albeit at a slower pace relative to the previous five years, as strong growth is insufficient to outweigh debt accumulation from fiscal deficits and positive real interest rates. Unexpected changes in debt are somewhat above the median of the distribution across low-income countries (LICs). Structural reforms to encourage greater FDI inflows and lift growth as well as smaller fiscal deficits would help improve Bangladesh's debt dynamics.

11. Realism tools suggest that the macroeconomic projections are consistent with the experience of LICs (Figure 4). Bangladesh's projected adjustment in the primary balance over FY26-FY28 points to the expansion of the deficit by 1.9 percent of GDP, as the short-term fiscal tightening measures are gradually relaxed. This is consistent with the median of the sample of 3-year fiscal adjustments for LICs since 1990 that were under an IMF supported programs. Real GDP growth projections under different fiscal multipliers are higher than in the baseline projections as the realism tool does not account for the disruptions to economic activity during FY25Q1.

Compared to the previous DSA, public investment has been revised lower in FY25 and for several years afterwards, reflecting lower tax revenues expected in FY26 and crowding out from bank clean-up costs thereafter. In the outer years of the forecast, public investment accelerates, as revenue mobilization policies provide fiscal space.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

12. The debt-carrying capacity (DCC) for Bangladesh remains rated as medium, with a Composite Index (CI) score of 2.82, based on the IMF's October 2025 World Economic Outlook (WEO) and the World Bank's 2024 Country Policy and Institutional Assessment (CPIA). The DCC classification did not change from the previous DSA despite the lower score (Text Table 6).

Text Table 6. Bangladesh: Country Classification			
Debt Carrying Capacity		Medium	
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.828	Medium 2.81	Medium 2.82

Note: Until the April 2019 WEO vintage is released, the two previous vintages ago classification and corresponding score are based solely on the CPIA per the previous framework.

Applicable Thresholds

APPLICABLE		APPLICABLE	
EXTERNAL debt burden thresholds		TOTAL public debt benchmark	
PV of debt in % of		PV of total public debt in	
Exports	180	percent of GDP	55
GDP	40		
Debt service in % of			
Exports	15		
Revenue	18		

13. The calibration of stress tests remains similar to the previous DSA. The calibrations of the contingent liability shock are based on the default values for the SOE debt (2 percent of GDP). The PPG debt stock covers explicitly guaranteed debts of SOEs (both external and domestic). SOEs do not hold any non-guaranteed external debt while data on non-guaranteed domestic SOE debt remains incomplete.¹¹ Domestic arrears of about 0.4 percent of GDP owed to Bangladesh Power Development Board, Bangladesh Agricultural Development Corporation, and Bangladesh Chemical Industries Corporation are not included in the debt stock, however, the above-the-line fiscal

¹¹ External payment arrears by SOEs in the energy sector, accounted for in the balance of payment projections, are included in the PPG debt stock. External payment arrears are closely linked to the domestic subsidy arrears owed by the central government to these same SOEs.

projections account for the clearance of these arrears over the next two years. A natural disaster stress test was also applied, calibrated at the default setting of a one-time 10 percent of GDP shock to the external debt-to-GDP ratio.¹²

EXTERNAL DEBT SUSTAINABILITY

14. The risk of external debt distress remains unchanged at moderate, compared to the previous review (Figure 1). External debt dynamics under the baseline are projected to remain favorable under the medium- to long-term growth rate of 6.5 percent. The external PPG debt-to-GDP ratio is expected to settle at around 8.2 percent by FY45. Under the baseline, all sustainability indicators remain in line with the previous DSA. However, under the most extreme shock scenario, the PV of external debt-to-exports ratio path remains above the threshold, reflecting the downward revision of exports in FY23 and FY24.¹³ The most extreme shock to the PV of external PPG debt-to-GDP ratio does not lead to a breach of the threshold. In contrast, the shock to exports causes the PV of external debt-to-exports to persistently breach the threshold. The breach is also observed in the PV of external debt-service to exports -- albeit to a lesser extent than the breach in the PV of external debt-to-exports (Figure 1). The elevated PV of the external debt-to-exports ratio in the near-term implies “limited space” to absorb shocks in FY26. However, from FY27 onwards, this improves to “some space” to absorb shocks (Figure 5).

PUBLIC DEBT SUSTAINABILITY

15. The overall risk of debt distress remains unchanged at moderate, compared to the previous review, in line with the risk of external debt distress (Figure 2). The PV of total public debt-to-GDP, rises above the indicative benchmark in the long term under the most extreme shock of a natural disaster, but remains below in the baseline scenario. The shock is kept at default calibrations and is equivalent to a one-time 10 percent of GDP. All public debt indicators are on a more prominent upward trend than in the previous DSA, reflecting higher financing costs and lower projected GDP growth. The debt service-to-revenue ratio declines in FY27 due to projected revenue gains from tax reform before climbing again and spiking above 110 percent of GDP in 2030 under the most extreme shock – again the natural disaster shock. The elevated debt service-to-revenue ratio including interest payments poses significant rollover risks over the medium term. This underscores the importance of raising the revenue-to-GDP ratio to help reduce the rising domestic debt vulnerabilities. Other mitigating factors that could support the overall public debt and debt service trajectory include increasing domestic financing via T-bonds, reducing the reliance on NSCs, smoothing the issuance of T-bonds across different maturities, and maintaining concessional external borrowing. Broader development of the domestic capital market should also help reduce refinancing risks, and broader debt vulnerabilities.

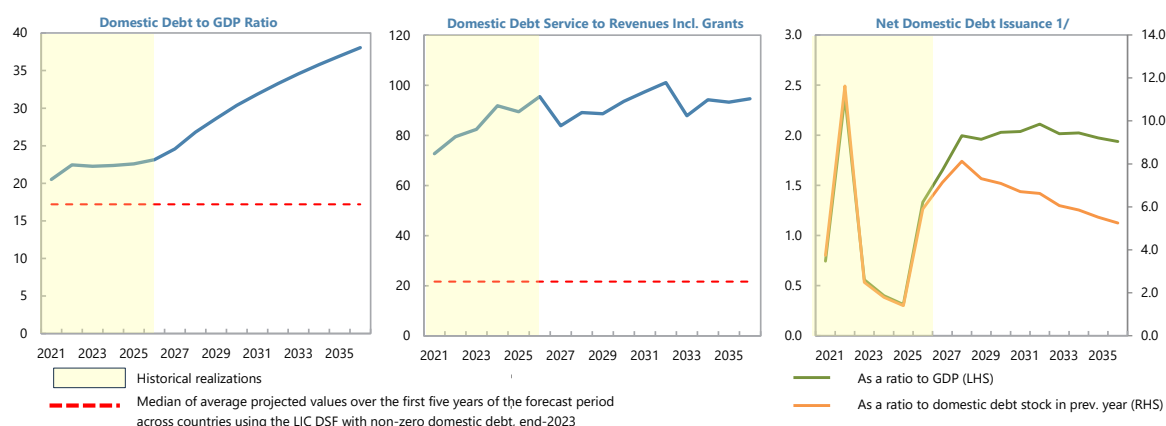
¹² A World Bank (2016) study, Bangladesh: Building Resilience to Climate Change, estimated that that with a per capita GDP of about US\$1,220, the economic losses in Bangladesh over the past 40 years were about US\$12 billion, depressing GDP annually by 0.5 to 1 percentage point.

¹³ The downward revision stemmed from discrepancies between export shipment data from the Export Promotion Bureau and the export receipts.

16. Bangladesh's low revenue-to-GDP ratio and shallow domestic debt markets create significant vulnerabilities in its debt servicing capacity. At 22.6 and 89.4 percent of GDP in FY25, Bangladesh's domestic debt-to-GDP ratio and domestic debt service-to-revenues ratio are significantly higher than the five-year projected corresponding median values in comparator countries with non-zero domestic debt (17 and 22 percent of GDP) and are expected to continue to rise (Text Figure 4). After reaching a low of 0.3 percent of GDP in FY25, net domestic debt issuance is projected to average at 2 percent of GDP over the forecast horizon, compared to a ten-year historical average of around 1 percent of GDP. The expected increased reliance on domestic financing, primarily from domestic banks, raises the risk of crowding out of the private sector credit and exceeding the sector's debt absorption capacity, which could raise government borrowing costs. These risks could be further exacerbated by insufficient development of the domestic debt market. This emphasizes the importance of diversifying the investor base for market-based government securities. In response, the authorities are working to develop domestic debt markets, including reforms to the primary dealer system. Meanwhile, overall risks to Bangladesh's debt servicing capacity are notable and rising. Economic activity in the near- and medium-term could be affected by delayed action to address banking sector problems or raise fiscal revenues to GDP, which is low and assumed to only gradually increase to 12.2 percent of GDP. In a scenario where authorities rely heavily on provisioning of central bank liquidity to insolvent banks to maintain financial stability, loss of control over short-term interest rates could trigger exchange rate depreciation and rebounding inflation, adverse macrofinancial feedback loops that would pose additional risk to growth, risk premiums on government borrowing, and increase the overall risk of debt sustainability. Additional efforts to raise the revenue-to-GDP ratio further, and hence reduce government borrowing needs, would significantly improve debt dynamics and the country's debt-carrying capacity, while development of a liability management framework is needed to address increasing debt rollover risks.

Text Figure 4. Bangladesh: Indicators of Domestic Public Debt, 2021-2035

(In Percent)



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	69%
Short-term	31%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	4.0%
Avg. maturity (incl. grace period)	4
Avg. grace period	3
Domestic short-term debt	
Avg. real interest rate	2.2%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

RISK RATING AND VULNERABILITY

17. Bangladesh's external and overall debt distress risks remain unchanged as moderate compared to the previous review. Similar to the previous DSA, the PV of debt-to-exports ratio and debt service-to-exports ratio persistently breach their corresponding thresholds under the most extreme shock, which is a shock to exports, in light of the sizeable (around 2 percent of GDP) downward revision of export data by the authorities in FY23 and FY24. The debt service-to-revenue ratio had a one-time breach in FY25, attributable to the concentrated paydown of external arrears of SOEs.

18. Continued reforms will be needed to contain debt vulnerabilities. Strong domestic resource mobilization measures, which feature in the baseline scenario, will be needed to provide additional fiscal space, while financial sector reform will be needed to improve the capacity of the financial sector to foster private sector led growth, helping to keep the PV of public debt-to-GDP ratio below its threshold while enabling investment in critical infrastructure and human development. The rise in the domestic debt service-to-revenue ratio above 100 percent over the forecast horizon signals a persistent increase in liquidity risk. Addressing such a risk and debt vulnerabilities more generally may require constraining the primary deficit even more, supported by further fiscal reforms to mobilize revenue and rationalize expenditure.

19. Resolving macroeconomic uncertainty remains important in the near term while structural reforms are needed to unlock Bangladesh's long-term growth potential. Efforts to stabilize the economy are crucial to increase confidence and return Bangladesh to its previous high growth path. At the same time, reforms to attract FDI, encourage private sector and export growth as well as diversification away from the RMG sector, and diversifying into different export markets, are crucial to help Bangladesh reach its growth potential. Improving governance, enhancing infrastructure, boosting the efficiency of public investment management, accumulating human capital, job creation, addressing mismatches in the labor market, consistent access to energy, building capacity for public private partnerships, developing the local capital market, and improving debt management are all essential to support long-term growth.

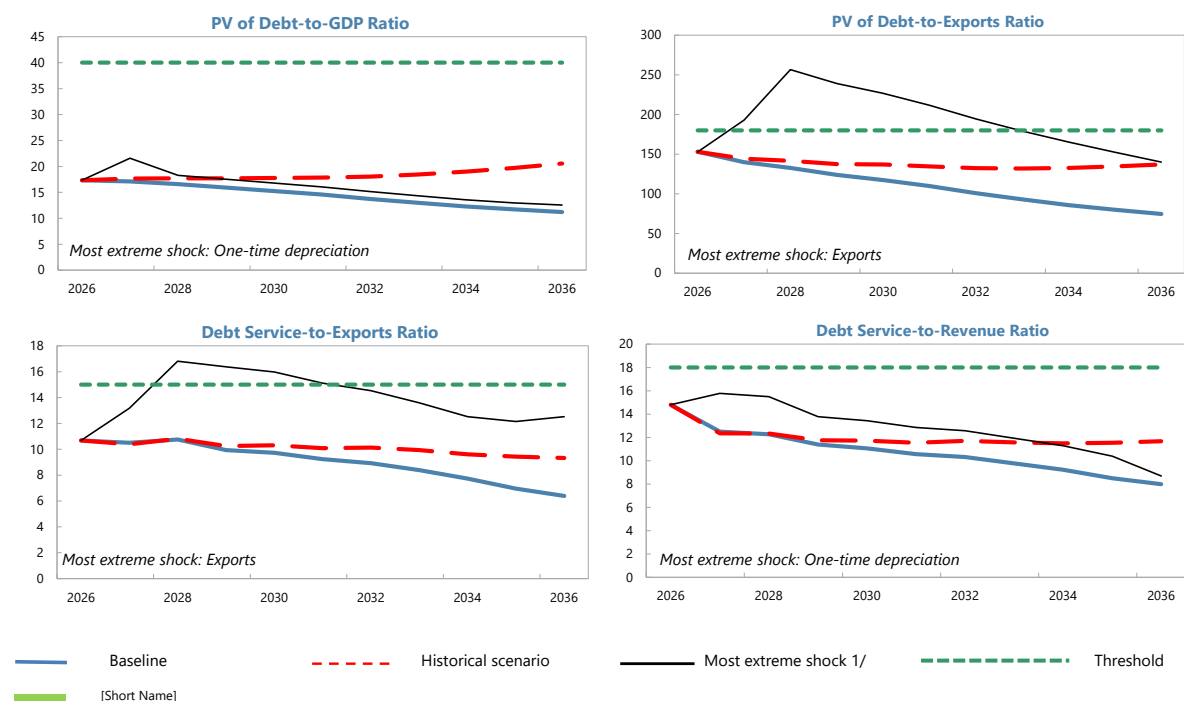
20. Building resilience to climate change is crucial to keeping debt on a sustainable path. Bangladesh is highly exposed to the effects of climate change and natural disasters, which threaten long-term productivity and can inflict large damages to physical and human capital, undermining debt sustainability. Persistent efforts are needed over the medium- and long term to build climate -resilient public infrastructure, improve disaster readiness and response, and help the population adapt to the effects of rising temperatures and sea levels.

AUTHORITIES VIEWS

21. The authorities agreed with the moderate risk assessment of external debt distress and with the overall assessment that debt remains sustainable. Low revenues, rising debt service costs, and slower growth may pose challenges in the coming years, especially in light of the vulnerabilities in the banking sector. The authorities emphasized that external arrears of SOEs' have been reduced more rapidly than envisaged under the IMF-supported program, and they aim to clear all arrears by the end of FY27. They reiterated commitment to ensuring fiscal and debt sustainability, and they acknowledged the urgent need to accelerate domestic revenue mobilization to address rising financing needs.

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt, FY26–FY36

(In percent, unless otherwise mentioned)

**Customization of Default Settings**

	Size	Interactions
Tailored Stress		
Combined CL	No	No
Natural disaster	No	No
Commodity price 2/	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*

	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	7	7

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

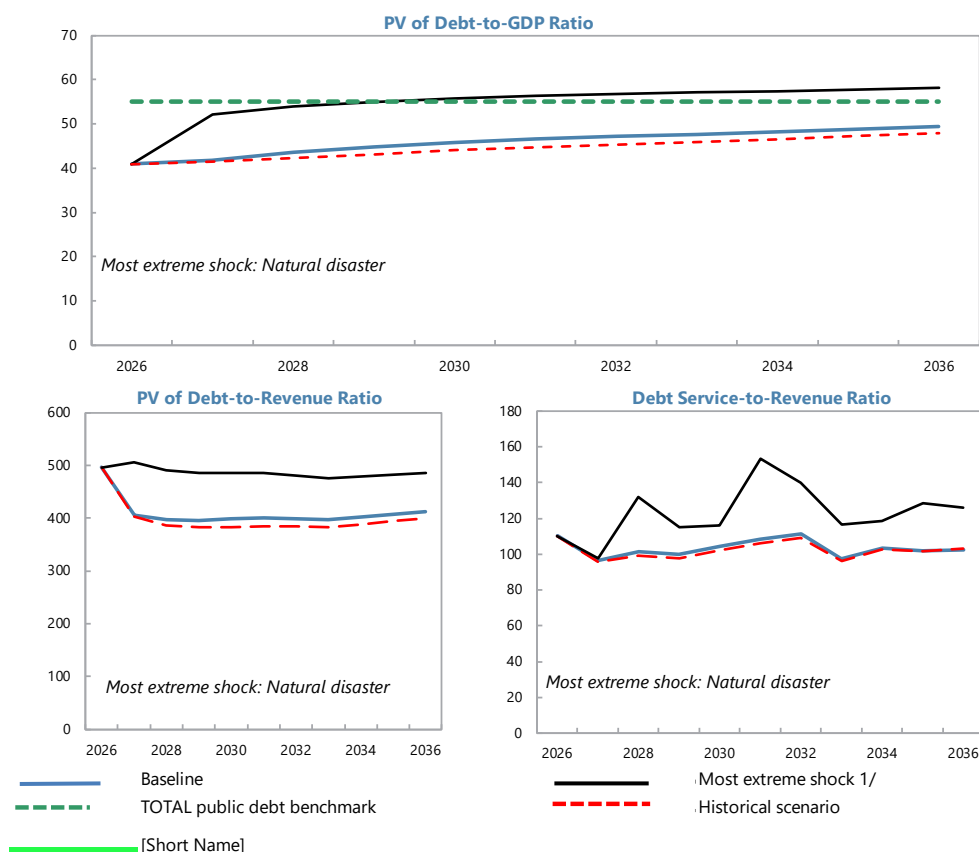
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2036. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Bangladesh: Indicators of Public Debt, FY26–FY36

(In percent)



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	13%	13%
Domestic medium and long-term	60%	60%
Domestic short-term	27%	27%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.0%	4.0%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	2.2%	2.2%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2036. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

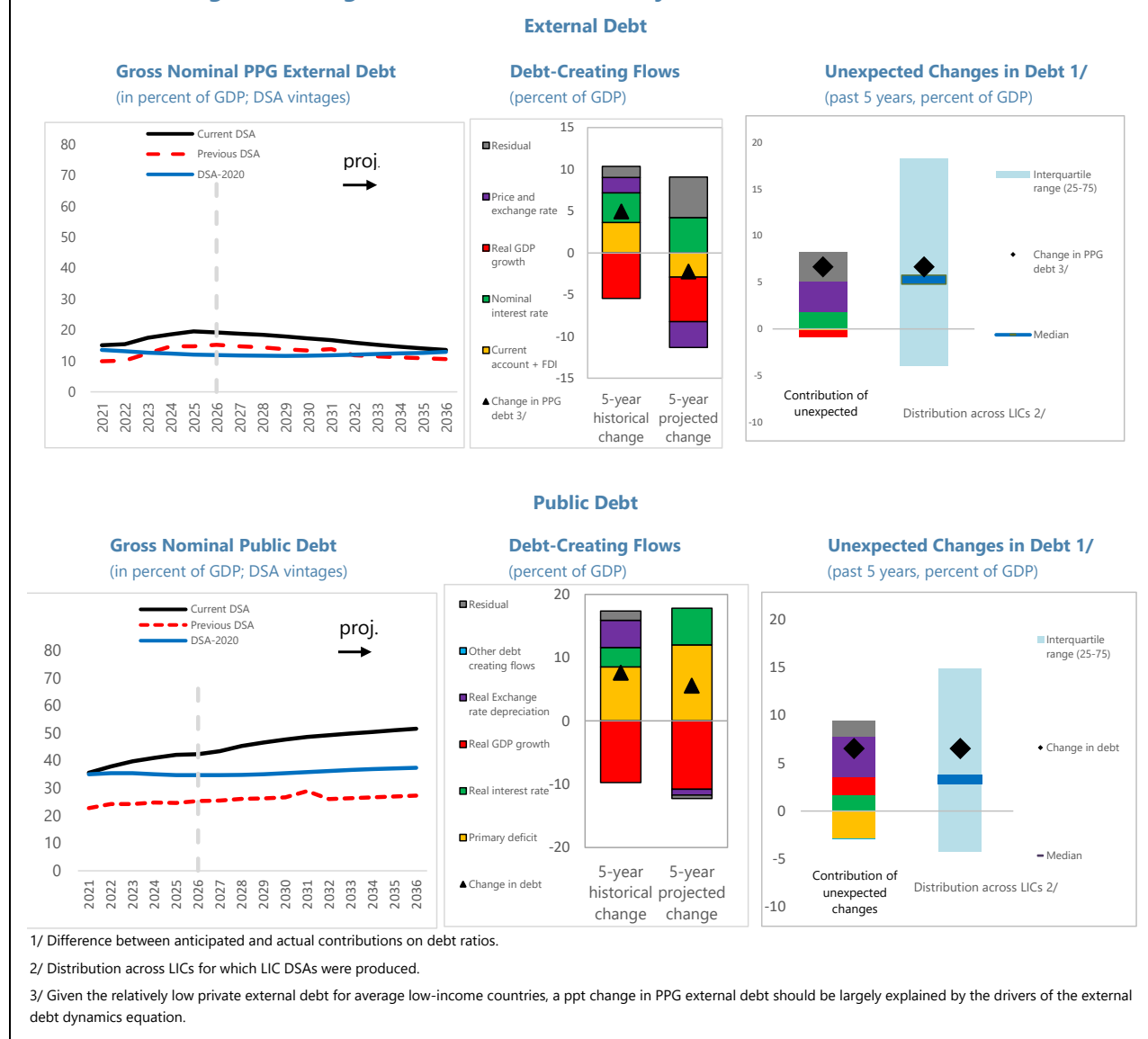
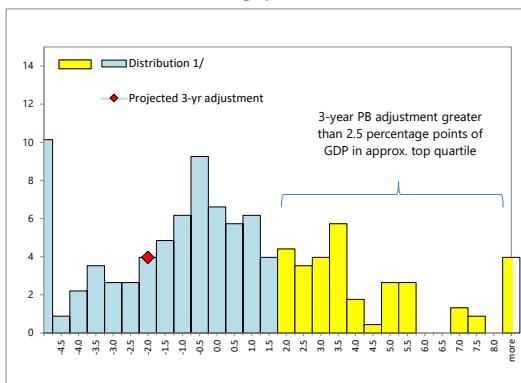
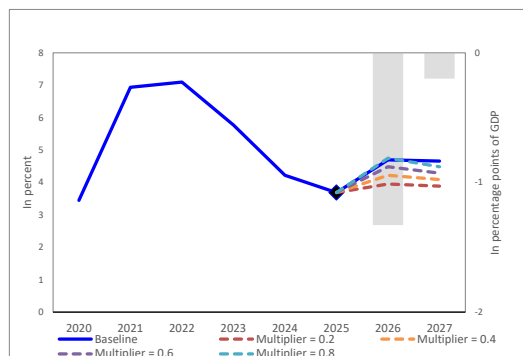
Figure 3. Bangladesh: Drivers of Debt Dynamics – Baseline Scenario

Figure 4. Bangladesh: Realism Tools

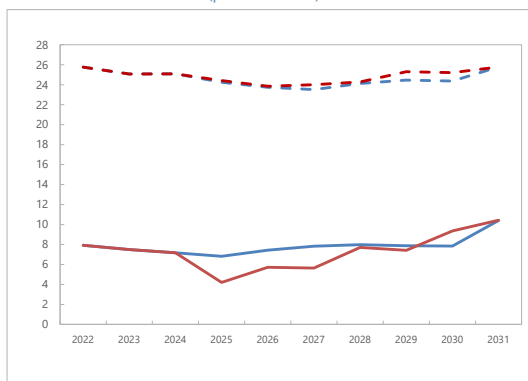
**3-Year Adjustment in Primary Balance
(Percentage points of GDP)**



Fiscal Adjustment and Possible Growth Paths 1/



**Public and Private Investment Rates
(percent of GDP)**



**Contribution to Real GDP Growth
(percent, 5-year average)**

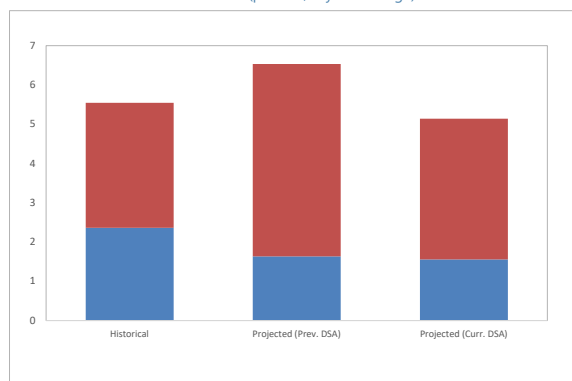


Figure 5. Bangladesh: Qualification of the Moderate Category, 2026-2036 1/

Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Table 1. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, FY23–FY46
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/ Historical Projections	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2036	2046	Historical	Projections
External debt (nominal) 1/	22.4	23.2	23.9	23.1	22.5	22.1	21.4	20.6	19.7	15.4	8.2	19.5	19.5
of which: public and publicly guaranteed (PPG)	17.5	18.6	19.5	19.2	18.8	18.5	17.9	17.3	16.7	13.6	8.2	15.2	16.5
Change in external debt	1.4	0.8	0.7	-0.7	-0.6	-0.4	-0.7	-0.8	-0.8	-0.7	-1.4		
Identified net debt-creating flows	2.6	1.1	-0.7	-1.1	-0.9	-0.5	-0.6	-0.8	-0.7	-1.9	-0.9	-0.2	-1.1
Non-interest current account deficit	1.7	0.6	-0.9	-0.6	-0.3	0.3	0.7	0.8	0.8	-0.3	0.0	0.8	0.2
Deficit in balance of goods and services	6.8	5.8	5.6	5.5	5.8	6.3	6.8	6.9	6.9	5.4	2.4	5.9	6.2
Exports	11.1	10.5	11.1	11.3	12.2	12.5	12.9	13.0	13.3	15.0	18.3		
Imports	17.9	16.3	16.7	16.8	18.0	18.8	19.7	19.8	20.2	20.4	20.8		
Net current transfers (negative = inflow)	-4.9	-5.4	-6.8	-6.3	-6.3	-6.2	-6.2	-6.2	-6.2	-5.7	-2.5	-5.3	-6.1
of which: official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	-0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.0	0.1	0.2	0.1
Net FDI (negative = inflow)	-0.4	-0.4	-0.4	-0.3	-0.5	-0.7	-1.0	-1.3	-1.2	-1.2	-0.5	-0.5	-1.0
Endogenous debt dynamics 2/	1.3	0.9	0.5	-0.2	-0.1	-0.1	-0.4	-0.4	-0.4	-0.4	-0.4		
Contribution from nominal interest rate	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.5	0.2		
Contribution from real GDP growth	-1.2	-0.9	-0.8	-1.0	-1.0	-1.0	-1.2	-1.2	-1.1	-0.9	-0.6		
Contribution from price and exchange rate changes	1.6	1.0	0.5	...	...	...	...	...	...	...	...
Residual 3/	-1.3	-0.3	1.4	0.4	0.3	0.1	-0.1	0.0	-0.1	1.2	-0.5	1.0	0.3
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		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	17.8	17.3	17.1	16.6	15.9	15.2	14.6	11.2	6.6		
PV of PPG external debt-to-exports ratio	...	...	160.2	153.0	139.9	132.8	123.8	117.5	109.8	74.8	35.8		
PPG debt service-to-exports ratio	7.3	9.4	13.2	10.7	10.5	10.8	9.9	9.7	9.2	6.4	3.3		
PPG debt service-to-revenue ratio	10.0	11.9	18.5	14.8	12.5	12.3	11.4	11.1	10.6	8.0	4.9		
Gross external financing need (Million of U.S. dollars)	34946.6	26408.5	17341.9	16589.7	17562.5	19600.2	20762.3	20072.1	20791.3	6444.7	2796.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.8	4.2	3.7	4.7	4.7	4.6	5.8	5.9	6.0	6.5	6.5	6.0	5.8
GDP deflator in US dollar terms (change in percent)	-7.2	-4.3	-2.2	4.6	1.0	2.7	2.8	3.0	3.1	4.0	4.0	1.0	3.4
Effective interest rate (percent) 4/	4.0	3.9	3.8	3.9	4.0	4.2	4.1	4.1	4.1	3.5	1.9	3.2	3.9
Growth of exports of G&S (US dollar terms, in percent)	-12.9	-6.4	7.8	11.7	14.0	9.8	12.0	10.0	11.9	13.4	12.7	5.0	12.4
Growth of imports of G&S (US dollar terms, in percent)	-14.9	-9.3	4.3	9.9	13.3	11.8	14.1	9.9	11.3	11.0	10.8	6.7	11.4
Grant element of new public sector borrowing (in percent)	...	...	...	27.5	30.6	30.5	30.5	30.2	30.0	29.6	0.0	...	29.8
Government revenues (excluding grants, in percent of GDP)	8.2	8.2	7.9	8.2	10.3	10.9	11.2	11.4	11.6	12.0	12.2	8.4	11.2
Aid flows (in Million of US dollars) 5/	8980	10129	9309	2646	1681	2117	2700	2400	1750	1750	60		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.6	0.6	0.6	0.7	0.6	0.5	0.5	...	...	0.6
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	29.5	31.9	31.3	33.3	32.9	30.3	29.7	...	...	30.8
Nominal GDP (Million of US dollars)	451,534	450,461	456,893	500,294	528,970	567,984	617,837	674,275	737,474	1,226,868	3,415,773		
Nominal dollar GDP growth	-1.9	-0.2	1.4	9.5	5.7	7.4	8.8	9.1	9.4	10.8	10.8	7.1	9.4
Memorandum items:													
PV of external debt 7/	...	...	22.1	21.3	20.8	20.2	19.4	18.5	17.6	13.0	6.6		
In percent of exports	...	...	199.2	187.6	169.9	161.7	150.8	142.8	132.6	86.8	35.8		
Total external debt service-to-exports ratio	53.2	49.2	45.7	37.6	33.5	31.1	28.2	26.4	24.0	13.6	3.3		
PV of PPG external debt (in Million of US dollars)	...	...	81324	86767	90465	94259	98405	102722	107424	137473	223805		
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...	1.2	0.7	0.7	0.7	0.7	0.7	0.7	-0.3		
Non-interest current account deficit that stabilizes debt ratio	0.4	-0.2	-1.6	0.1	0.4	0.7	1.4	1.6	1.7	0.4	1.3		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g)] / (1+g+p+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = 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/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No

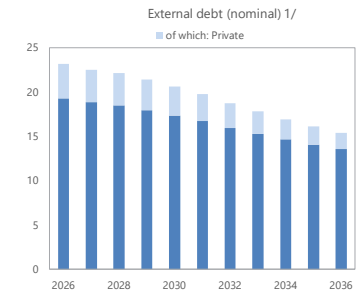
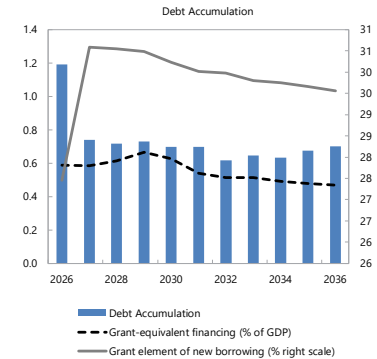


Table 2. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, FY23–FY46

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 6/		
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2036	2046	Historical	Projections
Public sector debt 1/ of which: external debt	39.7 17.5	41.0 18.6	42.1 19.5	42.4 19.2	43.4 18.8	45.3 18.5	46.5 17.9	47.7 17.3	48.6 16.7	51.6 13.6	57.5 8.2	34.8 15.2	47.8 16.5
Change in public sector debt	1.9	1.2	1.2	0.2	1.1	1.9	1.2	1.1	0.9	0.6	0.6		
Identified debt-creating flows	1.9	1.5	0.0	0.4	1.3	2.2	1.6	1.5	1.2	0.9	0.8	1.5	1.2
Primary deficit	2.3	1.4	0.7	2.0	2.2	2.6	2.6	2.6	2.6	2.6	2.6	2.2	2.5
Revenue and grants	8.2	8.3	8.0	8.2	10.3	11.0	11.3	11.5	11.6	12.0	12.2	8.4	11.2
of which: grants	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0		
Primary (noninterest) expenditure	10.6	9.7	8.6	10.2	12.5	13.6	13.9	14.1	14.2	14.6	14.7	10.6	13.7
Automatic debt dynamics	-0.4	0.1	-0.7	-1.6	-0.9	-0.4	-1.0	-1.1	-1.4	-1.6	-1.8		
Contribution from interest rate/growth differential	-2.1	-1.1	-0.8	-1.6	-0.9	-0.4	-1.0	-1.1	-1.4	-1.6	-1.8		
of which: contribution from average real interest rate	0.0	0.5	0.7	0.3	1.0	1.5	1.5	1.5	1.3	1.5	1.7		
of which: contribution from real GDP growth	-2.1	-1.6	-1.5	-1.9	-1.9	-1.9	-2.5	-2.6	-2.7	-3.1	-3.5		
Contribution from real exchange rate depreciation	1.7	1.2	0.1	--	--	--	--	--	--	--	--		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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 contingent liabilities (e.g., bank recapitalization)	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 debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-0.1	-0.3	1.2	-0.2	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3	-0.2	-0.1	-0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	---	---	40.7	40.9	41.8	43.6	44.7	45.7	46.5	49.3	55.9		
PV of public debt-to-revenue and grants ratio	---	---	511.6	496.1	405.8	397.2	395.4	398.4	401.1	411.5	460.3		
Debt service-to-revenue and grants ratio 3/	92.3	103.6	107.8	110.2	96.3	101.4	100.0	104.6	108.5	102.6	102.6		
Gross financing need 4/	10.4	10.6	9.3	11.1	12.1	13.7	13.9	14.6	15.2	14.9	15.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.8	4.2	3.7	4.7	4.7	4.6	5.8	5.9	6.0	6.5	6.5	6.0	5.8
Average nominal interest rate on external debt (in percent)	2.0	2.3	2.4	2.6	2.9	3.0	3.0	3.0	3.0	2.6	1.9	1.3	2.9
Average real interest rate on domestic debt (in percent)	2.2	2.9	3.3	1.0	3.8	5.5	5.2	4.9	4.1	4.1	3.8	4.6	4.1
Real exchange rate depreciation (in percent, + indicates depreciation)	12.1	7.1	0.5	--	--	--	--	--	--	--	--	2.2	--
Inflation rate (GDP deflator, in percent)	6.9	6.9	6.1	8.7	6.1	5.2	5.4	5.6	5.6	5.6	5.6	5.4	5.9
Growth of real primary spending (deflated by GDP deflator, in percent)	1.5	-4.0	-8.1	24.2	27.9	13.4	8.4	7.3	7.0	6.5	6.5	4.9	11.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.5	0.2	-0.5	1.8	1.1	0.7	1.4	1.5	1.7	1.9	2.0	0.0	1.6
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (t-); a primary surplus, which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

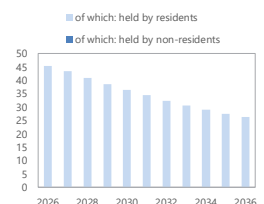
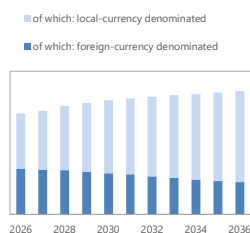


Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, FY26–FY36

(In percent)

	Projections 1/										
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
PV of Debt-to-GDP Ratio											
Baseline	17	17	17	16	15	15	14	13	12	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	17	18	18	18	18	18	18	18	19	20	21
A2. Alternative Scenario :[Customize, enter title]	17	17	17	16	15	15	14	13	12	12	11
B. Bound Tests											
B1. Real GDP growth	17	18	17	17	16	15	14	14	13	12	12
B2. Primary balance	17	17	17	16	15	15	14	13	13	12	12
B3. Exports	17	19	21	21	20	19	18	17	16	15	14
B4. Other flows 3/	17	18	19	18	18	17	16	15	14	13	13
B5. Depreciation	17	22	18	18	17	16	15	14	14	13	13
B6. Combination of B1-B5	17	20	20	20	19	18	17	16	15	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	17	18	17	17	16	16	15	14	14	13	13
C2. Natural disaster	17	18	18	17	17	16	16	15	14	14	13
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of Debt-to-Exports Ratio											
Baseline	153	140	133	124	117	110	101	93	86	80	75
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	153	144	142	138	137	135	132	132	133	135	137
A2. Alternative Scenario :[Customize, enter title]	153	140	133	124	118	110	101	93	86	80	75
B. Bound Tests											
B1. Real GDP growth	153	140	133	124	117	110	101	93	86	80	75
B2. Primary balance	153	141	134	125	119	112	103	95	88	82	77
B3. Exports	153	193	257	239	227	212	195	179	165	153	140
B4. Other flows 3/	153	151	154	144	136	127	117	108	99	92	85
B5. Depreciation	153	140	116	108	103	96	88	81	75	70	66
B6. Combination of B1-B5	153	185	155	188	178	167	153	141	130	120	111
C. Tailored Tests											
C1. Combined contingent liabilities	153	145	139	130	124	118	110	102	94	89	84
C2. Natural disaster	153	152	146	137	131	126	118	110	102	97	92
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt Service-to-Exports Ratio											
Baseline	11	11	11	10	10	9	9	8	8	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	11	10	11	10	10	10	10	10	10	9	9
A2. Alternative Scenario :[Customize, enter title]	11	11	11	10	10	9	9	8	8	7	6
B. Bound Tests											
B1. Real GDP growth	11	11	11	10	10	9	9	8	8	7	6
B2. Primary balance	11	11	11	10	10	9	9	8	8	7	6
B3. Exports	11	13	17	16	16	15	15	14	13	12	13
B4. Other flows 3/	11	11	11	10	10	10	9	9	8	8	7
B5. Depreciation	11	11	11	10	9	9	9	8	7	7	6
B6. Combination of B1-B5	11	12	15	14	13	13	12	11	10	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	11	11	11	10	10	9	9	9	8	7	7
C2. Natural disaster	11	11	11	10	10	10	9	9	8	7	7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt Service-to-Revenue Ratio											
Baseline	15	12	12	11	11	11	10	10	9	9	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	15	12	12	12	12	12	12	12	11	12	12
A2. Alternative Scenario :[Customize, enter title]	15	12	12	11	11	11	10	10	9	9	8
B. Bound Tests											
B1. Real GDP growth	15	13	13	12	12	11	11	10	10	9	8
B2. Primary balance	15	12	12	11	11	11	10	10	9	9	8
B3. Exports	15	13	13	13	12	12	11	11	10	10	10
B4. Other flows 3/	15	12	13	12	12	11	11	10	10	9	9
B5. Depreciation	15	16	15	14	13	13	13	12	11	10	9
B6. Combination of B1-B5	15	13	14	13	12	12	11	11	10	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	15	12	12	12	11	11	11	10	9	9	8
C2. Natural disaster	15	12	12	12	11	11	11	10	10	9	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Bangladesh: Sensitivity Analysis for Key Indicators for Public Debt, FY26–FY36
(In percent)

	Projections 1/										
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
PV of Debt-to-GDP Ratio											
Baseline	41	42	44	45	46	47	47	48	48	49	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	41	42	42	43	44	45	45	46	47	47	48
A2. Alternative Scenario :[Customize, enter title]	41	42	44	45	46	47	47	48	48	49	49
B. Bound Tests											
B1. Real GDP growth	41	43	47	48	50	51	52	53	54	55	56
B2. Primary balance	41	43	45	46	47	48	49	49	50	50	51
B3. Exports	41	44	48	49	50	51	51	51	52	52	52
B4. Other flows 3/	41	43	46	47	48	49	49	50	50	51	51
B5. Depreciation	41	44	44	45	45	45	44	44	44	44	44
B6. Combination of B1-B5	41	41	43	43	44	45	46	46	47	47	48
C. Tailored Tests											
C1. Combined contingent liabilities	41	49	50	51	52	52	53	53	53	54	54
C2. Natural disaster	41	52	54	55	56	56	57	57	57	58	58
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	496	406	397	395	398	401	400	397	402	407	411
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	496	403	386	382	383	385	384	383	388	394	400
A2. Alternative Scenario :[Customize, enter title]	496	406	397	396	398	401	400	398	402	407	412
B. Bound Tests											
B1. Real GDP growth	496	418	425	427	435	442	444	445	454	462	471
B2. Primary balance	496	414	412	410	412	414	412	409	413	417	422
B3. Exports	496	422	439	435	435	436	432	427	430	432	434
B4. Other flows 3/	496	419	422	418	420	421	418	415	418	421	424
B5. Depreciation	496	427	406	395	389	384	375	367	365	363	363
B6. Combination of B1-B5	496	397	391	383	385	388	387	384	389	393	398
C. Tailored Tests											
C1. Combined contingent liabilities	496	471	457	452	452	452	447	442	445	448	451
C2. Natural disaster	496	506	491	485	486	486	481	476	479	482	485
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	110	96	101	100	105	109	111	98	103	102	103
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	110	96	99	98	102	106	109	96	103	102	103
A2. Alternative Scenario :[Customize, enter title]	110	96	102	100	105	109	111	98	104	102	103
B. Bound Tests											
B1. Real GDP growth	110	99	107	107	113	118	123	110	117	116	118
B2. Primary balance	110	96	104	104	107	113	117	101	106	105	106
B3. Exports	110	96	102	101	106	109	112	98	104	103	105
B4. Other flows 3/	110	96	102	101	105	109	112	98	104	103	104
B5. Depreciation	110	91	98	95	100	103	104	93	98	96	96
B6. Combination of B1-B5	110	93	99	97	102	106	109	95	101	99	100
C. Tailored Tests											
C1. Combined contingent liabilities	110	96	122	109	111	138	129	108	112	118	116
C2. Natural disaster	110	98	132	115	116	154	140	116	119	128	126
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

**Statement by Urjit R. Patel, Executive Director for Bangladesh and Dirghau Raut, Advisor to
Executive Director
January 28, 2026**

On behalf of the Bangladeshi authorities, we thank Mr. Chris Papageorgiou and his team for their analytical reports and the constructive engagement during the Article IV consultations. Our authorities broadly concur with the staff's assessment and policy recommendations enumerated in the report, including the need to enhance tax revenue, restore financial stability, contain inflation, and advance structural reforms. Our remarks focus on recent macroeconomic developments and key institutional and policy reforms undertaken by the authorities.

I. Macroeconomic Situation

The Bangladesh economy recorded GDP growth of 3.97 per cent in FY2024–25. While industrial activity accelerated - supported by a recovery in large-scale manufacturing and export-oriented industries such as ready-made garments (RMG), overall growth was moderated by weaker agricultural performance due to flooding and a slowdown in services sector activity. In FY2025–26, the authorities expect growth to strengthen, driven by a sustained momentum in the industrial sector, a rebound in services, and improved agricultural activity. The government has set a GDP growth target of 5 per cent for FY2025–26, while projections by international organizations, including the IMF, World Bank, and ADB, range between 4.9 per cent and 5.4 per cent. This anticipated recovery is underpinned by improving political and macroeconomic stability, which is expected to foster a more predictable and supportive environment for investment.

In the first quarter of FY2025–26, GDP growth reached 4.5 per cent, on the back of a stronger agricultural and industrial output. In the coming quarters, private consumption and investment are expected to benefit from easing inflation and robust remittance inflows. However, downside risks remain, including global uncertainties affecting supply chains critical to Bangladesh's economy and persistent weaknesses in the financial sector.

Annual average headline inflation rose to 10 per cent in FY2024–25, driven primarily by elevated food prices. However, food inflation moderated to 7.4 per cent by June 2025, reflecting bumper production of vegetables and fruits, as well as the containment of demand pressures through coordinated monetary and fiscal measures. As a result, headline inflation declined to below 9 per cent by June 2025. During FY2024–25, the Bangladesh Bank raised the policy rate by a cumulative 150 basis points to 10 per cent, and monetary tightening is expected to continue until the real policy rate reaches 3 per cent. Concurrently, a range of supply-side measures, including trade facilitation, tariff rationalization, and enhanced market oversight, were undertaken to mitigate food inflation.

Despite headwinds from global trade policy uncertainty, Bangladesh's external sector position improved in FY2024–25. Greater exchange rate flexibility, tight monetary policy, and fiscal consolidation supported external stability. The balance of payments recorded a current account surplus, reinforced by robust exports and strong remittance inflows, which grew by 26.8 per cent to reach a record US\$30.3 billion in FY2024–25. Gross international reserves and import cover increased during the year. In FY2025–26 (July–November), merchandise exports declined amid weak global demand, while remittance inflows rose by 17 per cent year-on-year, providing a

cushion to the current account. Gross foreign exchange reserves (BPM6) increased further to around US\$28 billion by the third week of January 2026.

While revenue mobilization remained challenging—largely due to weakened tax compliance following the public uprising—the decline in both the overall and primary deficits in FY2024–25 was achieved through expenditure rationalization. To address rising deficit and debt levels, the Revised Budget for FY2025–26 projects a lower overall fiscal deficit of 3.3 per cent of GDP, compared with 3.6 per cent in the original budget estimate. According to the revised budget, around 70 per cent of the deficit is proposed to be financed through domestic sources.

II. Major Policy Initiatives

The authorities have undertaken a range of policy initiatives in recent months to restore macroeconomic stability and, concomitantly, improve investment sentiment to unlock the economy's growth potential.

Banking sector reform has emerged as a top priority under the interim government. To guide these efforts, the Bangladesh Bank (BB) has constituted three specialized task forces, with the Banking Sector Reforms Task Force (BSR-TF) leading initiatives to strengthen the regulatory framework, improve asset quality, and establish a structured and effective bank resolution mechanism.

To restore discipline in the banking and financial sector, the Bank Resolution Ordinance 2025 was issued in May 2025, empowering the BB to initiate resolution processes. The process began with the resolution of 5 troubled Islamic Banks and the creation of a new Islamic Bank. To restore depositor confidence, the BB has rolled out risk-based supervision, a more rigorous supervisory regime, enabling earlier identification of vulnerabilities and more decisive responses, and has enhanced the deposit insurance coverage from BDT100,000 to BDT200,000. Banks have been directed to reduce default loans by December 2025, shorten the write-off period from three to two years, and establish dedicated Write-off Loan Recovery Units under senior management oversight.

The recent rise in non-performing assets (NPAs) largely reflects the implementation of stricter loan classification guidelines effective from 30 September 2024. Comprehensive loan classification and provisioning standards aligned with international best practices came into force on 1 April 2025. The BB expects that the effective implementation of these measures, together with resolution strategies for distressed banks based on asset quality review (AQR) findings, will help restore good governance and bolster confidence in the banking system. To further enhance resilience, the BB has announced a roadmap to introduce expected credit loss (ECL)-based provisioning by 2027 in line with IFRS 9 and is developing an Emergency Liquidity Assistance (ELA) framework to address potential liquidity shortfalls.

In response to persistently high inflation, the BB increased the policy rate to 10 per cent in October 2024 and has maintained a tight monetary stance to contain inflation and anchor expectations. The BB has committed to keeping the policy rate unchanged until inflation declines below 7 per cent. To ease liquidity pressures, measures included unsterilized liquidity support to stressed banks and a reduction in the cash reserve requirement (CRR) from 3.5 per cent to 3.0 per cent during the second half of FY2024–25.

In mid-May 2025, the BB introduced a fully market-based exchange rate regime to enhance foreign exchange market functioning and ensure flexibility. It has begun publishing benchmark reference exchange rates based on market transactions and adopted a new foreign exchange intervention strategy to support the regime and facilitate a transition toward full exchange rate flexibility.

On the fiscal front, the authorities are working to create space for higher social sector spending. The newly unveiled Medium- and Long-Term Revenue Strategy (MLTRS) aims to raise the tax-to-GDP ratio to 10.5 per cent by FY2034–35. As part of this effort, the Revenue Policy and Revenue Management Ordinance 2025 was enacted, separating the National Board of Revenue into Revenue Policy and Revenue Management divisions to enhance transparency, efficiency, and accountability. Ongoing initiatives include automation of revenue administration and the introduction of direct VAT and income tax refunds to taxpayers' bank accounts.

The authorities have intensified efforts to combat corruption and money laundering. The Bangladesh Financial Intelligence Unit (BFIU) has established Joint Investigation Teams led by the Anti-Corruption Commission (ACC) to investigate 11 nationally significant money laundering cases. The Anti-Corruption Commission Ordinance 2025 will empower the ACC to investigate corruption involving Bangladeshi citizens domestically and abroad. Special investigation teams have been formed for high-priority cases, and collaboration with international law and litigation firms is underway to facilitate asset recovery. Amendments to the Money Laundering Prevention Act 2012 and the related Rules of 2019 are planned to further strengthen the legal and institutional framework.

Given its high vulnerability to climate risks, Bangladesh continues to prioritize mitigation and adaptation efforts. The National Adaptation Plan (2023–2050) aligns climate action with development priorities, including water management, agriculture, and urban planning. Bangladesh is widely recognized for its community-based, volunteer-driven early warning systems that reduce cyclone-related losses. Efforts are underway to strengthen these systems through a national roadmap to make alerts more inclusive and effective. Major planning documents emphasize environmental sustainability through the promotion of sustainable agriculture, renewable energy, and climate-resilient infrastructure.

III. Concluding Remarks

Regarding program performance, only one quantitative performance criterion (QPC)—the floor on tax revenue introduced during the last review—was missed. Revenue mobilization proved challenging amid slower-than-expected growth; however, the authorities have demonstrated commitment to strengthening revenue by undertaking corrective measures and policies stemming from IMF technical assistance on tax policy. Despite revenue shortfalls, the fiscal deficit was contained, and the quantitative performance criterion on the primary balance was met. Exchange rate reforms contributed to stability in the foreign exchange market, resulting in a net international reserves position that comfortably exceeded the program QPC-threshold.

The authorities remain committed to implementing the remaining program commitments and restoring macroeconomic stability with continued support from the Fund. They also acknowledge the Fund's high-quality capacity development (CD) assistance, which has supported policy implementation and improvements in macroeconomic statistics. Continued CD support in macroeconomic analysis, tax policy, revenue forecasting, energy subsidies, and debt management will further strengthen institutional capacity and support ongoing reforms.