HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

BANGLADESH

Technical Assistance on Developing a Forecasting and Policy Analysis System (FPAS) at the Bangladesh Bank

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High-Level Summary Technical Assistance Report
Institute for Capacity Development (ICD)

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The Bangladesh Bank (BB), with IMF support, has made significant progress in developing a modern Forecasting and Policy Analysis System (FPAS). During 2021–25, Phase I of the technical assistance (TA) project focused on building staff capacity and establishing core analytical tools, including a Bangladesh-tailored Quarterly Projection Model (QPM), alongside initial steps toward integrating these tools into policy processes. Phase I successfully laid the technical foundations for forward-looking monetary policy analysis. Further progress will require strengthening institutional arrangements to fully embed FPAS into decision-making, including reinforcing the Forecasting Team, implementing regular forecast cycles, and enhancing the use of model-based narratives in policy deliberations and communication.

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Background

The technical assistance project was initiated at the request of Bangladesh Bank in January 2021, reflecting the authorities' commitment to strengthening the analytical foundations of monetary policy. This effort is closely aligned with broader reforms, including the transition toward an interest rate–based operational framework and greater exchange rate flexibility. In this context, developing a Forecasting and Policy Analysis System (FPAS) supports forward-looking monetary policy by integrating data, models, and economic narratives into policy analysis and communication.

The FPAS TA project was structured in two phases. Phase I, completed in November 2025, focused on establishing the technical building blocks—data infrastructure, nowcasting and near-term forecasting tools, and a structural Quarterly Projection Model—while building staff capacity. To achieve a fully functioning FPAS, a second phase would focus on embedding these tools into regular policy processes and external communication, thereby institutionalizing forecasting practices.

Summary of Findings

At the outset of the project, Bangladesh Bank's forecasting and policy analysis capacity was at an early stage of development. Economic projections relied primarily on time-series models and point forecasts, with limited use of structural frameworks to support medium-term economic narratives or policy trade-offs. Forecasting responsibilities were distributed across units without a formal forecasting cycle to facilitate regular interaction between technical staff and decision-makers. External communication focused mainly on recent developments, with scope to further strengthen forward-looking policy narratives.

Phase I of the project made significant progress in establishing the technical foundations of an FPAS. A centralized and well-documented database was created to support consistent analysis. Nowcasting and near-term forecasting tools were developed to improve the quality of short-term projections. A Bangladesh-specific Quarterly Projection Model (BB-QPM) was introduced and applied to policy-relevant scenarios, including exchange rate regime transitions and natural disaster shocks. Staff capacity was strengthened through hands-on training, fostering a gradual shift toward narrative-based analysis.

At the same time, the TA identified implementation challenges that could affect the sustainability of these gains. Staffing constraints and turnover within the Forecasting Team pose risks to continuity. Key institutional processes—such as a formal forecast calendar and structured engagement with senior management—are still being developed. External communications should further evolve toward a more forward-looking, narrative-based approach linked to policy objectives.

Summary of Recommendations

To consolidate Phase I achievements and transition to a fully functioning FPAS, further progress is needed along three key dimensions.

First, strengthening staffing arrangements is essential. The Forecasting Team would benefit from dedicated full-time staff, with clearly defined roles assigned for sustained periods. Overlapping tenures, peer learning, and continued participation in IMF online and regional training courses can help mitigate turnover risks and support capacity retention.

Second, institutionalizing forecasting processes should be given highest priority. Implementing a regular forecast calendar aligned with data releases and Monetary Policy Committee meetings would anchor a structured forecasting cycle. This should include clearly defined stages, from data updates to model-based projections and policy discussions, as well as regular feedback between staff and senior management.

Third, enhancing external communication will strengthen policy effectiveness. Consolidating existing publications into a flagship quarterly Monetary Policy Report would support clearer and more forward-looking communication. Emphasizing the medium-term inflation outlook, risks, and policy rationale—supported by narrative-based analysis—would improve transparency and help anchor expectations.

These measures would help establish a durable and policy-relevant forecasting and policy analysis function, strengthening the effectiveness and credibility of monetary policy.