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June 2025

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND THE ARRANGEMENT UNDER EXTENDED FUND FACILITY, REQUESTS FOR EXTENSION OF THE ARRANGEMENTS, AUGMENTATION AND REPHASING OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND THIRD AND FOURTH REVIEWS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BANGLADESH

In the context of the Third and Fourth Reviews Under the Extended Credit Facility Arrangement and the Arrangement Under Extended Fund Facility, Requests for Extension of the Arrangements, Augmentation and Rephasing of Access, Modification of Performance Criteria, Waiver of Nonobservance of Performance Criterion, and Third and Fourth Reviews Under the Resilience and Sustainability Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 23, 2025, following discussions that ended on April 17, 2025, with the officials of Bangladesh on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility, Extended Credit Facility, and Resilience and Sustainability Facility. Based on information available at the time of these discussions, the staff report was completed on June 10, 2025.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **World Bank Assessment Letter** for the Resilience and Sustainability Facility.
- A **Supplementary Information** prepared by a staff of the IMF.
- A **Statement by the Executive Director** for Bangladesh.

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR25/213

IMF Executive Board Concludes Bangladesh Combined Third and Fourth Reviews under the Extended Credit Facility, Extended Fund Facility, and Resilience and Sustainability Facility

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded the combined third and fourth reviews of Bangladesh's arrangements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) and approved an extension, augmentation and rephasing of access. This decision provides Bangladesh with immediate access to about US$884 million.
- The IMF Executive Board also concluded the combined Third and Fourth Reviews of Bangladesh's arrangement under the Resilience and Sustainability Facility (RSF), making available about US$453 million to support the Bangladesh economy's resilience to climate change.
- Bangladesh's program performance has been broadly satisfactory despite the difficult political and economic context and increased downside risks. Advancing the reform agenda is critical to restoring economic stability, protecting the vulnerable, and supporting inclusive and environmentally sustainable growth.

Washington, DC – **June 23, 2025:** The Executive Board of the International Monetary Fund completed the combined Third and Fourth Reviews of Bangladesh's arrangements under the Extended Credit Facility (ECF), the Extended Fund Facility (EFF), and the Resilience and Sustainability Facility (RSF). The Executive Board also approved an augmentation of SDR 567.19 million (53.2 percent of quota) for the ECF/EFF arrangements and a six-month extension. Completion of these reviews allows the authorities to immediately withdraw SDR 650.5 million (about US$884 million) under the ECF/EFF, and SDR 333.3 million (about US$453 million) under the RSF.[1]

Further, the IMF Executive Board approved a modification of performance criteria and granted a waiver for the non-observance of the performance criterion related to the non-imposition and non-intensification of exchange restrictions, based on the temporary nature of the non-observance and the implementation of corrective measures.

Bangladesh's arrangements under the ECF/EFF/RSF were approved on January 30, 2023, in an amount equivalent to SDR 2.5 billion (154.3 percent of quota or about US$3.3 billion) under the ECF/EFF and SDR 1 billion (93.8 percent of quota or about US$1.4 billion) under the RSF (PR no. 23/25)

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[1] SDR figures for the disbursed are converted at the market rate of U.S. dollar per SDR on the day of the Board approval.

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USA

The augmentation approved by the Executive Board today brings the total financial assistance under the ECF and EFF arrangements to SDR 3,035.65 million (about US$ 4.1billion), alongside concurrent RSF arrangements of SDR 1 billion (about US$1.4 billion). The enlarged enhanced ECF/EFF is aimed at restoring macroeconomic stability, promoting inclusive growth, and protecting the vulnerable. The RSF arrangement has secured fiscal space needed to build resilience against climate risks.

Bangladesh's macroeconomic challenges have increased since the popular uprising in the summer of 2024, which led to the ouster of the previous government. The timely formation of an interim government has helped stabilize political and security conditions, fostering a gradual return to economic stability. However, the economic outlook has worsened due to persistent political uncertainty, continuation of tighter policy mix, rising trade barriers, and increasing stress in the banking sector.

Program performance for the third and fourth reviews remains broadly satisfactory despite the difficult political and economic context. The authorities are fully committed to implementing necessary policies under the program and have recently pressed forward with critical reforms to increase exchange rate flexibility and boost tax revenues.

The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Executive Board Assessment[3]

Following the Executive Board's discussion, Mr. Nigel Clarke, Deputy Managing Director, and Acting Chair, made the following statement:

"Bangladesh's economy continues to navigate multiple macroeconomic challenges. Despite a difficult environment, program performance has remained broadly on track, and the authorities are committed to implementing necessary policy actions and reforms. The IMF-supported programs are helping safeguard macroeconomic stability and protect the most vulnerable, while accelerating reforms to support resilient and inclusive growth.

"Near-term policies should prioritize rebuilding external resilience and reducing inflation. The authorities' recent steps to implement a new exchange rate regime and include revenue-enhancing measures in the FY2026 budget are welcome. A balanced policy mix—anchored in maintaining a tight monetary policy stance, greater exchange rate flexibility, and revenue-based fiscal consolidation—will support efforts to restore both external and internal balances.

"Efforts to raise tax revenues and rationalize expenditures—including through subsidy reduction—are critical for creating the fiscal space needed to strengthen social, development, and climate initiatives. Sustained progress in reducing government subsidies to a fiscally

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[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/bangladesh page.

[3] 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.

sustainable level, along with enhanced public financial management, is essential to improving spending efficiency and mitigating fiscal risks.

“Financial sector policy should prioritize safeguarding stability and addressing rising vulnerabilities. Developing a comprehensive, sequenced strategy to guide reforms is an immediate priority, followed by the swift implementation of the new legal frameworks to enable orderly bank restructuring while protecting small depositors.

“Sustained structural reforms are essential for Bangladesh to achieve its goal of attaining upper middle-income status. Key priorities include diversifying exports, attracting greater foreign direct investment, strengthening governance, and enhancing data quality.

“Building resilience to natural disasters is essential for achieving high and inclusive growth. The RSF’s focus on strengthening institutions and policy coordination as well as on enhancing the efficiency of climate-related spending remains critical, including in helping mobilize climate finance.”

Bangladesh: Selected Economic Indicators, FY2022-27 1/

	FY22	FY23	FY24	FY25	FY26	FY27
				Projections		
Real GDP	7.1	5.8	4.2	3.8	5.4	6.2
Consumption						
Private	7.5	2.0	6.0	6.0	5.4	5.4
Public	6.2	8.5	9.8	4.1	-4.3	16.1
Gross Capital Formation	11.7	2.2	3.3	-0.1	5.8	6.8
Private	11.8	2.9	4.3	0.3	3.3	5.2
Public	11.1	0.0	-0.2	-1.3	14.9	11.9
Trade						
Exports of goods and services	29.4	8.0	-17.1	5.2	19.8	12.7
Imports of goods and services	31.2	-9.8	-4.6	5.8	11.6	11.9
Prices						
GDP deflator	5.0	6.9	6.9	10.3	6.2	6.5
CPI inflation (annual average)	6.1	9.0	9.7	9.9	6.2	6.3
CPI inflation (end of period)	7.6	9.7	9.7	8.3	6.5	5.9
Central government operations (in percent of GDP)						
Total revenue and grants	8.9	8.2	8.3	8.7	9.5	10.0
Of which: Tax revenue	8.0	7.3	7.4	7.7	8.6	9.2
Total expenditure	13.0	12.7	12.1	12.8	13.5	14.5
Of which: Annual Development Program (ADP)				4.7	4.3	3.8
Overall balance (including grants)	-4.1	-4.5	-3.8	-4.2	-4.1	-4.5
(excluding grants)	-4.2	-4.6	-3.9	-4.3	-4.1	-4.6
Primary balance (including grants)	-2.1	-2.5	-1.5	-2.0	-2.0	-2.2
Public sector total debt 2/	37.9	39.7	41.0	40.7	41.8	42.1
Of which: External debt	15.4	17.5	18.6	18.6	19.2	18.6
Balance of Payments (in percent of GDP)						
Current account balance	-4.0	-2.6	-1.4	-1.0	-0.7	-0.9
Trade balance	-8.0	-4.7	-5.9	-5.9	-5.1	-5.3
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	3.6	1.5	1.0	1.1	1.4	1.7
Foreign direct investment, net	0.4	0.4	0.4	0.2	0.5	0.6
Gross international reserves (billions of U.S. dollars)		33.4	24.8	21.7	23.6	29.0
in months of next year's imports	5.0	4.1	3.3	3.2	3.5	3.7
Monetary and Credit (in percent of GDP)						
Reserve money	8.7	8.5	8.2	8.2	8.9	9.1
Broad money (M2)	52.9	50.7	48.4	45.0	45.5	46.4
Credit to private sector	36.6	35.3	34.5	32.0	31.7	32.2
Credit to private sector (percent change)	13.7	9.1	8.8	6.2	10.7	14.8
Savings and Investment (in percent of GDP)						
Gross national savings	29.3	29.9	28.3	28.7	28.8	28.8
Public	1.2	0.3	0.5	0.3	1.4	1.5
Private	28.2	29.7	27.9	28.4	27.4	27.2
Gross investment	32.0	31.0	30.7	29.6	29.5	29.7
Public	7.5	6.8	6.7	6.4	7.0	7.3
Private	24.5	24.2	24.0	23.2	22.5	22.4
Memorandum item:						
Nominal GDP (in billions of taka)	39,717	44,908	50,027	57,246	64,116	72,509

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.

INTERNATIONAL MONETARY FUND

BANGLADESH

June 10, 2025

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND THE ARRANGEMENT UNDER EXTENDED FUND FACILITY, REQUESTS FOR EXTENSION OF THE ARRANGEMENTS, AUGMENTATION AND REPHASING OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND THIRD AND FOURTH REVIEWS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context. The summer 2024 uprising has significantly disrupted the IMF-supported program, necessitating a recalibration. Massive protests led to the ousting of the previous government, the formation of an interim cabinet, and the replacement of Bangladesh Bank's Governor. While some stability has returned, political tensions, especially around the timing of the upcoming elections, persist. Amid rising trade barriers and heightened global uncertainties, the economic outlook has worsened, with an emerging financing gap and increasing stress in the banking sector. Against this backdrop, the authorities have requested augmentation of access and extension of the Fund-supported program.

Program status. The 42-month Extended Fund Facility/Extended Credit Facility (ECF/EFF) and Resilience and Sustainability Facility (RSF) arrangements for Bangladesh were approved by the IMF Executive Board in January 2023 totaling SDR 2,468.46 million (231.4 percent of quota) under the ECF/EFF and SDR 1 billion (93.8 percent of quota) under the RSF. To address significant macroeconomic challenges, the authorities have requested an augmentation of SDR 567.19 million (53.2 percent of quota) under the ECF/EFF arrangements along with a six-month extension. The completion of the third and fourth reviews will enable disbursements equivalent to SDR 650.5 million under the ECF/EFF, and SDR 333.3 million under the RSF.

Program performance. All end-June 2024 and end-December 2024 quantitative performance criteria (QPCs) were met. However, the indicative targets (ITs) on tax revenue floors have been repeatedly missed. Until June 2024, most structural benchmarks (SBs) had been largely implemented, with a few exceptions. Since July 2024, however, progress on several SBs has slowed considerably, requiring additional time for completion. The standard continuous PC of not imposing or intensifying exchange restrictions was not observed. However, non-observance was temporary, and the authorities implemented corrective actions. Regarding the RSF, all four RMs were successfully implemented.

Policy Recommendations:

- **Fiscal policy**. Fiscal consolidation should prioritize the rapid implementation of additional revenue measures, while curbing non-essential expenditures. The country's low tax-to-GDP ratio underscores the urgent need for tax reforms to create a fairer and more transparent system and sustainably increase revenue by rationalizing exemptions, enhancing compliance, and separating tax policy from administration. At the same time, a comprehensive strategy is essential to reduce subsidy spending and address payment arrears.

- **Monetary and exchange rate policy**. Monetary policy stance needs to remain tight in the near-term to tame inflation. It should remain data-driven and avoid premature normalization. The steadfast implementation of the crawling peg with the band exchange rate regime is crucial for transition to full flexibility. The market-based adjustment of the rate should be used to ensure orderly FX market functioning and to reduce the external imbalances.

- **Financial sector policy**. A government-wide strategy is needed for ensuring banking sector stability and should include preliminary assessment of systemwide undercapitalization, full asset quality reviews for all large systemic and state-owned banks, and options and funding sources to deal with distressed banks. The authorities must move quickly to operationalize new legal frameworks that enable orderly bank restructuring while protecting small depositors. The strengthening of Bangladesh Bank's (BB's) independence and governance will be critical for effective implementation of financial sector reforms.

- **Macro-structural policy**. Enhancing governance, along with greater transparency, is critical to improving the investment climate, attracting foreign direct investment, and diversifying exports beyond the ready-made garment sector. Accelerating BB's legal reform, strengthening BB's independence and fiscal governance, facilitating AML/CFT risk assessment, and enhancing data quality are critical in this regard.

- **Climate change policy**. Policy efforts and the mobilization of financial resources should focus on building resilience to climate change and natural disasters to mitigate macroeconomic risks. The authorities should prioritize climate-responsive fiscal reforms and channel investments into sustainable, climate-resilient infrastructure. In addition, effective management of climate-related risks will help boost fiscal resilience and safeguard financial sector stability. To this end, the RSF plays a crucial role in implementing these reforms and strengthening long-term balance of payments (BoP) stability against climate risks.

- **Request and staff's views**. Staff supports the authorities' request for: (i) the completion of the combined third and fourth reviews under the ECF/EFF and RSF arrangements; (ii) an augmentation of access under the GRA and PRGT resources; (iii) a six-month extension of the ECF/EFF; (iv) modification of performance criteria; and (iv) a waiver for the non-observance of the continuous standard PC on non-imposition and non-intensification of exchange restrictions.

Approved By
Sanjaya Panth (APD) and Jarkko Turunen (SPR)

Discussions were held in Dhaka during December 3–18, 2024 and April 6-17, 2025, and in Washington, DC April 21-25,2025. The team included C. Papageorgiou (Head), I. Krznar (Deputy Head), H. Hoyle, M. Pranovich, S. Yoon (all APD), Q. Chen, S. Suphachalasai, G. Zinabou (all FAD), E. Karlsdottir (MCM), A. Said (SPR), F. Khatun (STA), J. De (Resident Representative) and T. Ilahi (local economist). S. Panth (APD) joined the concluding meetings in December. K. Subramanian and R. Jain (both OED) joined some of the meetings. The team met with Finance Advisor S. Ahmed, Bangladesh Bank Governor A. Mansur, Finance Secretary K. Mozumder, Chairman National Board of Revenue Md. A.R. Khan and other senior government and central bank officials, development partners, and representatives of the business community. A. Guansing and P. Mahmud (both APD) contributed to the preparation of this report.

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Acronyms

ADP	Annual Development Plan
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AQR	Asset Quality Review
BADC	Bangladesh Agriculture Development Corporation
BCBS	The Basel Committee on Banking Supervision
BCIC	Bangladesh Chemical Industries Corporation
BCDP	Bangladesh Climate and Development Platform
BB	Bangladesh Bank
BOP	Balance of Payments
BPC	Bangladesh Petroleum Corporation
BPDB	Bangladesh Power Development Board
CA	Current Account
CRR	Cash Reserve Ratio
CD	Capacity Development
CIT	Corporate Income Tax
DSA	Debt Sustainability Analysis
ELA	Emergency Liquidity Assistance
FA	Financial Account
FPAS	Forecasting and Policy Analysis System
FX	Foreign Exchange
FXI	Foreign Exchange Intervention
GIR	Gross International Reserves
IFI	International Financial Institution
MLTRS	Medium- and Longer-term Revenue Strategy
MPC	Monetary Policy Committee
MTDS	Medium-Term Debt Management Strategy
NIR	Net International Reserves
NPA	Non-Performing Assets
NPL	Non-Performing Loans
NSC	National Savings Certificate
PCCB	Private Commercial Conventional Banks
PCIB	Private Commercial Islamic Banks
PFM	Public Financial Management
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PIT	Personal Income Tax
PPP	Public Private Partnership
RBS	Risk-Based Supervision
SDF	Standing Deposit Facility
SLF	Standing Lending Facility
SME	Small and Medium Enterprise
SOCBs	State-owned Commercial Banks
SODBs	State-owned Development Banks
SOE	State-Owned Enterprises
TA	Technical Assistance
VAT	Value-Added tax

CONTEXT

1. Since the completion of the second review in June 2024, Bangladesh's economy has been adversely affected by both domestic and external shocks. Last summer, massive protests led to the former Prime Minister, Sheikh Hasina, fleeing the country, the formation of an interim government, and the replacement of the Bangladesh Bank (BB) Governor. This period of intense turbulence disrupted economic activity and heightened investor uncertainty exacerbating tax revenues collection and spending pressures. The situation has stabilized somewhat; however, political tensions—particularly around the timing of upcoming elections—continue to linger. The economic outlook has worsened since the second review, with an emerging balance of payments (BOP) financing gap. Aggravating these challenges, the worst floods in five years caused widespread destruction, leaving nearly 3 million people stranded. Amid heightened global instability, the evolving developments around the recent external trade policy shock are compounding these challenges and injecting significant uncertainty into the outlook.

2. These developments have significantly impacted the IMF-supported program, necessitating a recalibration. Despite mounting BOP pressures, nominal exchange rate adjustments have not fully adhered to the intended design of the crawling peg regime. Concurrently, external payment arrears have surfaced, notably within the power sector's state-owned enterprises (SOEs), driven by limited foreign exchange availability and outstanding domestic subsidy arrears owed by the central government to the SOEs.[1] To address the BOP financing gap, the authorities have tightened policies and requested additional financial assistance from the IMF. Meanwhile, newly exposed vulnerabilities in the banking sector highlight the urgency for swift and decisive action. Given these circumstances, the program—whose second review was completed in June 2024 just prior to the public uprising—requires careful recalibration. This should include a series of sequenced reforms, an extension of the program timeline, and augmentation of access under the Extended Credit Facility (ECF)/Extended Fund Facility (EFF) arrangements.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

A. Recent Developments

3. Growth has slowed markedly, while inflation remains elevated. GDP growth decelerated to 3.3 percent (y-o-y) in H1FY25 (July-December 2024), down from 5.1 percent H1FY24, largely due to disruptions in production during the popular uprising, the impact of a tighter policy mix, and elevated uncertainty suppressing investment.[2] After reaching a decade-high of 11.7 percent in July 2024, headline inflation declined to 9.2 percent (y-o-y) in April 2025 but remains above BB's target

[1] Under the current Technical Memorandum of Understanding (TMU), monitoring of external arrears is limited to the central government and Bangladesh Bank. SOE arrears do not breach the continuous quantitative performance criterion (QPC) on non-accumulation of external arrears.

[2] The fiscal year in Bangladesh runs from July through June.

range of 5-6 percent. Food inflation peaked at 14.1 percent in July before slowing to 8.6 percent in December. The elevated inflation reflects supply-chain disruptions associated with the popular uprising and floods in early FY25.

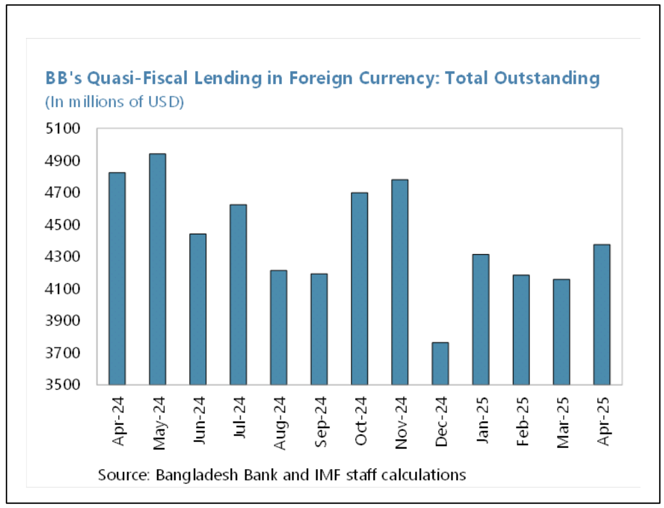
4. Improvements in the current account were offset by large unrecorded outflows, hindering the recovery of FX reserves. In H1FY25, exports displayed resilience, increasing by 11 percent (y-o-y) and reversing the declining trend observed in FY23 and FY24.[3] Remittances also remained robust, surging by nearly 28 percent (y-o-y) during the same period, compared to 11 percent in FY24. Import growth stayed subdued at 3.5 percent (y-o-y) in H1FY25, reflecting sluggish foreign direct investment (FDI) related imports and continued government-imposed compression measures. Consequently, the current account (CA) moved close to balance in H1FY25, compared to a deficit of 0.8 percent of GDP in the same period a year earlier. The financial account (FA) surplus rose to 0.6 percent of GDP in H1FY25, up from 0.3 percent of GDP in the same period last year, primarily reflecting reduced trade credit outflows and increased donor disbursements.[4] However, errors and omissions (E&Os)—likely reflecting unrecorded financial outflows, primarily from the banking sector and the repayment of external arrears—amounted to approximately US$2 billion in H1FY25. As a result, NIR remained at US$16.2 billion at end-December 2024, the same level as at end FY24, but down from US$19.5 billion at end FY23. Meanwhile, the GIR stood at US$21.4 billion (equivalent to 2.6 months of imports) at end-December 2024, remaining broadly unchanged from the previous year.[5] Against this background, the FY25 BOP financing gap is estimated at approximately US$3.8 billion for FY25. The external position of Bangladesh in FY24 is assessed to have been moderately weaker than the level implied by medium-term fundamentals and desirable policies (see Annex I: External Sector Assessment).

5. Monetary policy has been tightened and FX sale interventions have been reduced significantly. To respond to inflationary pressures, BB maintained the policy rate at 10 percent after a 50-basis point (bps) increase in October 2024, marking a cumulative increase of 150 bps since the second review. However, unsterilized liquidity injections into troubled banks in late 2024 (see ¶8) weakened the transmission of the tighter policy, increasing demand for domestic government debt. Consequently, the yield curve shifted downward by an average 170 bps between December 2024 and February 2025, even as the policy rate remained unchanged. By April 2025 yields increased again as liquidity tightened but remained below the December 2024 level by about 20 bps. BB devalued the Taka through stepwise adjustments from 110 to 117 per dollar in May 2024, and again to 122 per dollar in December 2024. BB's FX monthly net sale interventions declined sharply from US$1.6 billion in April 2024 to US$25 million in February 2025, followed by FX purchases of about

[3] Export growth data for both FY23 (-11.9 percent) and FY24 (-5.9 percent) include a revision of about 2 percent of GDP each year, which also contributed to a downward revision of the trade credit in the financial account for FY24. The downward revision stemmed from discrepancies between export shipment data from the Export Promotion Bureau and the actual export receipts.

[4] The FY24 financial account surplus was 0.5 percent lower than FY23 on the back of outflows in short-term loans and flows from financial institutions due to depreciation expectations ahead of the step devaluation in May 2024 and political tensions around elections in January 2024.

[5] NIR is measured at the program exchange rate, while GIR is based on the market exchange rate.



US$100 million in March-April. However, a more tangible accumulation of BB's forex reserves through purchases did not materialize due to incomplete implementation of the new exchange rate regime and substantial FX demand pressures. These pressures stemmed from heightened settlement of overdue external arrears, BB's unsterilized liquidity injections in ailing banks, and deposit withdrawals. Moreover, the rebuilding of foreign reserves has been limited by BB's domestic lending in FX. Between July and mid-November 2024, the amount of such operations has expanded by US$0.4 billion to about US$4.8 billion. To meet the NIR target, BB has subsequently reduced lending in FX to US$3.8 billion by end-December 2024; however, in April 2025, this rose again.

6. **Bangladesh Bank announced full implementation of the exchange rate reform in mid-May 2025**. Before May 2025, nominal exchange rate adjustments were not aligned with the design of the new crawling peg with the band exchange rate regime, and banks have not been allowed to freely quote rates. In this context, BB's FX sale interventions in May and July 2024 depleted reserves by more than US$1 billion. These interventions were rationed, not conducted through auctions, and often took place within or at the wrong end of the band. Due to the low level of foreign reserves, BB nearly ceased FX sales since September 2024, while still relying on moral suasion to deter banks from quoting rates freely.[6] Consequently, banks avoided transacting at the declared rate, which led to a sharp decline in interbank USD trading volume. BB announced the implementation of the exchange rate reform on May 14, 2025, in line with the prior action (PA) requirements, and publicly communicated that banks are now allowed to quote the exchange rate freely. BB has committed to implementing the new crawling peg with the band exchange rate regime, refraining from moral suasion. It has also rescinded the earlier circular which had limited free quoting and committed to conducting FX interventions only through auctions. In the two weeks following the announcement of the exchange rate reform, the reference exchange rate calculated based on the transactions in the client and interbank FX market has depreciated by 0.4 percent alleviating authorities' concerns regarding a possible initial overshooting depreciation.

[6] In December 2024 and early January 2025, BB instructed banks to keep the quoted exchange rates constant throughout the day for all transaction amounts and counterparts, to limit the bid-ask spread to 1 Taka, and to not quote the exchange rate above 122 BDT/USD.

7. Despite lower tax revenue collection, the FY24 and H1FY25 fiscal balances remained within the program targets, largely by cutting expenditures. Lower tax collections in FY24 continued into H1FY25, on the back of slower growth, ongoing import compression measures, and the public uprising, which significantly undermined tax compliance.[7] Cash constraints, stemming from a significant reduction in domestic borrowing, led to substantial under-execution of spending—more than offsetting the revenue shortfall. Consequently, the primary fiscal deficit narrowed to 1.5 percent of GDP in FY24, well below the program target of 2.8 percent of GDP, and shifted to a surplus of 0.6 percent of GDP in H1FY25. The stock of domestic arrears declined to 1.1 percent of GDP by end-FY24, with the downward trend continuing in H1FY25.

Bangladesh: Fiscal Aggregates
(In percent of GDP)

	FY23		FY24		FY25
		H1FY23		H1FY24	H1FY25
Total Revenue	8.1	3.6	8.3	3.8	3.4
of which tax revenue	7.3	3.2	7.4	3.2	2.9
Total Expenditure	12.7	4.4	12.1	3.9	4.0
Primary Balance	-2.5	0.3	-1.5	0.8	0.6

Source: IMF staff calculations

8. Stress in the banking sector has intensified, underscoring the need for containment measures and comprehensive banking sector reforms. Amid concerns of excessive cash withdrawals in early August 2024, shortly after the uprising, BB imposed temporary systemwide deposit withdrawal restrictions. While these were lifted a month later, reports of excessive related-party exposures and potential fraud led to the intensification of longstanding liquidity shortages at several private banks (representing nearly 30 percent of system assets). To prevent further deterioration in these banks, BB replaced their boards of directors and took measures to bolster their liquidity and funding, including by guaranteeing interbank loans to these banks and providing them with largely unsterilized liquidity injections, backed with only promissory notes as collateral. Totaling 1 percent of GDP at end-April 2025 (40 percent of BB capital), these measures helped ease funding pressures at some banks but carry the risk of credit losses for BB and exacerbating inflation and exchange rate pressures. The reported systemwide capital adequacy ratio fell to around 3 percent by end--December 2024—well below the minimum of 10 percent. The decline largely reflects strengthened regulations for loan classification and forbearance, which unveiled significant amounts of legacy nonperforming loans (NPLs), as well as worsening financial weaknesses in several large conglomerates. Longstanding regulatory forbearance and shortcomings in the bank resolution regime impede swift bank restructuring and resolution. Newly formed Financial Sector Taskforces are developing and overseeing comprehensive banking sector reforms.

B. Outlook and Risks

9. The near-term outlook has deteriorated since the completion of the second review. Growth is expected to slow to 3.8 percent in FY25, driven by disruptions from the popular uprising, subdued investment, and the implementation of a tighter policy mix. Under the baseline scenario,

[7] In H1FY25, the authorities temporarily reduced import duties on eight essential commodities—rice, oil, sugar, onions, potatoes, eggs, pesticides, and dates—until the end of Ramadan, resulting in an estimated revenue loss of 0.1 percent of GDP.

output growth is expected to recover only modestly, growing by 5.3 percent in FY26. Domestic conditions—including continuation of the tighter policy mix and ongoing election uncertainties—are projected to drag on investment and hinder a more robust recovery. The baseline scenario also incorporates deteriorating external demand, due to newly imposed U.S. tariffs of 37 percent—temporarily reduced to 10 percent for 90 days on April 9—which are expected to adversely affect the critically important apparel industry. Inflation is projected to remain high at around 10 percent (average, y-o-y) in FY25, reflecting supply-side shocks earlier in the year. However, there are encouraging signs that inflation is decelerating in H2FY25, with expectations that it will slow to around 8.3 percent (y-o-y) by June 2025. By end-FY26, inflation is projected to decelerate further to around 6.5 percent. Nonetheless, cost pressures—partly stemming from nominal depreciation following the U.S. tariffs—are expected to keep inflation above the target range, which in turn, will require maintaining the current elevated level of the policy rate for an extended period.

10. The implementation of the exchange rate reform is expected to support a gradual buildup of FX reserves, supported by continued donor disbursements. Exports are expected to grow by 7 percent (y-o-y) in H2FY25, primarily driven by demand from Europe, while imports are projected to rise by 9 percent (y-o-y) in H2FY25, supported by increases in ready-made garment (RMG) and food-related imports. Despite strong export performance and steady remittance inflows, the gradual recovery of imports is expected to lead to a CA deficit of 1 percent of GDP in FY25. The FA surplus is projected to stabilize at 1.1 percent of GDP, reflecting official disbursements and reduced banking sector outflows, partially offset by external arrears payments (text table). Consequently, NIR is expected to reach US$18.7 billion at end-June 2025 (corresponding to US$23.5 billion in GIR, covering 3.2 months of imports). In FY26, baseline projections suggest that the authorities' policy adjustments—including exchange rate adjustment following the critical reform in May 2025—and lower global oil prices stemming from the expected global slowdown triggered by higher U.S. tariffs, will initially offset the adverse impact of the export tariff shock. As a result, the CA deficit is expected to narrow to 0.7 percent of GDP. NIR is expected to reach US$24.1 billion at end-June 2026, with corresponding GIR covering 3.5 months of imports. Remittances are forecast to decline by 2.3 percent (y-o-y) in FY26 reflecting lower oil prices and the decline in overseas employment observed in H1FY25. Export growth in FY26 is expected to be 3 percentage points lower due to the tariff shock, relative to the pre-shock baseline. The FA surplus is projected to improve by 0.3 percent of GDP in FY26, bolstered by official disbursements and reduced trade credit outflows. Over the forecasting horizon in the baseline scenario, the U.S. tariffs have a permanent adverse impact on export receipts and, subsequently, reserve accumulation.[8]

Bangladesh: SOEs' External Payment Arrears
(In millions of US dollars)

	Jun-23	Jun-24	Dec-24
BPDB	208	755	732
Petro Bangla	593	562	504
BPC	167	247	38
Total	**969**	**1,565**	**1,274**
(in percent of GDP)	**(0.2)**	**(0.3)**	**(0.3)**

Source: Bangladesh authorities.

[8] While the direct trade effect on U.S. exports in FY26 is substantial, its effect on total exports is expected to be more moderate, as Bangladesh's exports to the U.S. represent approximately 18 percent of total exports (see Figure 1).

11. The fiscal deficit is expected to be lower than the authorities' commitment in the second review for FY25. Achieving the FY25 revenue target has become challenging due to lower growth and the adverse impact of the uprising on tax collection in H1FY25. To compensate for the revenue shortfall, the authorities adopted revenue measures in January 2025, expected to yield 0.2 percent of GDP in H2FY25. At the same time, spending pressures have risen due to the need to address critical infrastructure repairs following the public unrest and floods, provide emergency assistance to affected populations, and manage the subsidy burden stemming from delayed electricity price adjustments and the urgent need to clear domestic arrears.[9] The authorities plan to aggressively reduce capital spending on non-priority projects and rationalize expenditures on goods and services to more than offset these pressures, as part of fiscal adjustment needed to address the external financing gap. As a result, the FY25 primary fiscal deficit is projected to be contained at 2 percent of GDP—below the 2.2 percent of GDP target agreed during the second review. In FY26, spending pressures are anticipated to rise due to the upcoming elections. Nonetheless, these spending pressures are expected to be offset by additional revenue measures, keeping the primary deficit steady at 2 percent of GDP in FY26. Public debt remains sustainable; however, the debt distress risk assessment has deteriorated from low to moderate reflecting the downward revision of export data for FY23 and FY24. Domestic debt vulnerabilities have risen, with the domestic debt service-to-revenue ratio reaching around 90 percent in FY24 (see Debt Sustainability Analysis).

Bangladesh: List of Measures Adopted in January 2025

Measures	Yield (BDT million)
1. Lower VAT registration threshold to BDT5 million	**12**
2. Remove VAT exemptions	**68**
of which	
(1) Increase VAT rates on 28 goods and 13 services	43
(2) Raise VAT on procurement providers from 7.5 to 10%	25
3. Increase supplementary duties (SDs) and excise taxes	**40**
of which	
(1) Raise retail price and SDs for cigarette	30
(2) Impose 10 percent SD on lime stone (from zero)	5
4. Total (4=1+2+3)	**120**

Note: IMF staff estimates.

12. Fast-evolving global trade policy arrangements add significant uncertainty around the baseline forecast. A key downside scenario is one where major competitors in the RMG export market negotiate more favorable rates than Bangladeshi after the 90-day tariff pause, leading to significant trade diversion and a sharp decline in Bangladesh's exports. The negative shock to export competitiveness would be larger than in the baseline due to losses in U.S. export market share, further reducing exports and thus FX reserve accumulation over the forecast horizon. This would also have more sizable impacts on net exports and require a stronger Taka depreciation, taking advantage of the new exchange rate regime's improved capacity to facilitate adjustment and mitigate downside risks. In response, tighter monetary and fiscal policy mix would be needed to keep inflation declining toward the target range and to meet FX reserve targets under the program, further weighing on economic growth. Further fiscal consolidation—focused mainly on cutting non-priority spending—would also be necessary to safeguard debt sustainability. These adjustment pressures could be further exacerbated if lower tariffs boost global growth and push oil prices back

[9] The baseline projection includes 0.5 percent of GDP in domestic arrears clearance in FY25, corresponding to roughly half the outstanding stock of arrears. This is deemed necessary to allow SOEs' to repay external payment arrears.

to end-March 2025 levels. In the event that tariffs remain at 10 percent after the April 9 tariff pause but oil prices remain below end-March 2025 levels—e.g. due to continued uncertainty about U.S.-China trade barriers—net exports would see a modest boost relative to the baseline. The smaller permanent export competitiveness shock would support higher reserve accumulation and require less exchange rate depreciation than under the baseline, allowing for marginally looser monetary and fiscal policy settings, supporting economic growth.

13. Risks to the outlook have shifted further to the downside, with both domestic and external factors elevated (Annex I). On the domestic side, slippages in implementation of the new exchange rate arrangement would amplify the economy's exposure to external imbalances. If moral suasion and regulatory measures limiting exchange rate flexibility reemerge, it will undermine lasting FX market stabilization and lead to limited FX availability for external payments. In such circumstances pressures will reappear on BB to resume large-scale FX sale interventions, jeopardizing the program objective of rebuilding reserve buffers. Such declines in reserves will raise the risk premium for holding Taka-denominated assets, prompting BOP outflows and withdrawals of Taka deposits from banks, further destabilizing the distressed banking system and FX market. Unsterilized central bank's liquidity support to troubled banks is likely to exacerbate inflation and FX market pressures while undermining efforts to improve bank governance. Delays in addressing banking sector weaknesses risk tightening credit conditions, negatively impacting economic growth and raising contingent fiscal liabilities from banking sector clean-up. Increasing domestic debt rollover needs against low domestic revenues, possibly due to slippages in implementation of the tax measures, raises government financing risks. Risks of further social unrest, driven by high inflation and declining real income, and uncertainty around the timing of the new elections, present further challenges. Global risks arising from geopolitical conflicts, geoeconomic fragmentation, trade barriers and supply disruptions, may create additional fiscal pressures, hinder growth, raise inflation, and further strain FX reserves.

PROGRAM PERFORMANCE

14. Performance on quantitative performance criteria (QPCs) was strong, while the performance of indicative targets (ITs) was mixed. All end-June 2024 and end-December 2024 QPCs were met. The ITs on reserve money and priority social spending were met and the IT on capital spending, which had been missed at end-June 2024, was met at end-December 2024. However, the IT on tax revenue floors has been repeatedly missed, partly due to the impact of the public uprising last summer. Similarly, all end-September 2024 ITs were met with the exception of those related to tax revenue and priority social spending floors.

15. The standard continuous PC on non-imposition and non-intensification of exchange restrictions was not observed after the second review was completed in June 2024.[10] With the

[10] The PC was not observed because the authorities used moral suasion in controlling the FX rate and were involved in FX prioritizing and rationing to address demand in priority sectors, which resulted in FX shortage for other current international transactions not considered as priority.

recent increase in FX liquidity enabling commercial banks to meet the FX demands for current international transactions, the FX shortage arising from the authorities' action was temporary. The authorities have also implemented the prior action on the exchange rate reform system as a corrective action[11]. Given that the nonobservance was temporary, and the corrective action has been implemented, the authorities have requested a waiver of the nonobservance of the PC.

16. Performance on several structural benchmarks (SBs) deteriorated significantly following the public uprising while performance on reform measures (RMs) remained strong. Until June 2024, most SBs had been largely implemented, with a few exceptions. Since July 2024, however, progress on many SBs has slowed considerably, requiring additional time for completion. All four RMs were implemented as planned.

Text Table 1. Bangladesh: Program Implementation

A. Program Targets Under the ECF/EFF Arrangement

(In billions of Taka, unless otherwise indicated)

	June 2024 (PC)			September 2024 (IT)			December 2024 (PC)		
	Targets	Actual	Status	Targets	Actual	Status	Targets	Actual	Status
Quantitative performance criteria:									
Floor on NIR (US$ millions)	14,786	16,208	Met	14,902	15.084	Met	15,317	16,196	Met
Floor on primary balance	-1,383.6	-746.3	Met	-903.5	461.9	Met	-899.1	326.3	Met
Ceiling on accumulation of external arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Indicative targets:									
Ceiling on reserve money	4,257.7	4,130.7	Met	3,971.9	3734.0	Met	4,165.0	3,805.0	Met
Floor on tax revenue	3,945.3	3,697.5	Missed	956.1	763.7	Missed	2,151.2	1,637.9	Missed
Floor on priority social spending	1,449.5	1,542.3	Met	247.7	220.6	Missed	578.0	596.2	Met
Floor on capital investment undertaken	1,445.4	1,254.8	Missed	132.8	367.3	Met	398.5	564.7	Met

B. Program Targets Under the ECF/EFF Arrangement

Measure	Target Date	Status
MoF reports tax expenditures for PIT, CIT and VAT as part of the FY25 budget	End-June 2024	Met
NBR adopts a tax compliance improvement plan covering VAT and IT	End-June 2024	Not Met (Implemented with delay)
MoF publishes an updated Medium Term Debt Management Strategy covering FY25-FY27	End-June 2024	Met
BB streamlines open market operations (OMOs), reserves averaging provisions, and reserve maintenance period in line with recommendations from IMF TA	End-June 2024	Met
BB completes implementation of high-priority recommendations in the first stage of modernization of the monetary policy framework in line with recommendations of the IMF TA	End-September 2024	Not Met (Reset to June 2025)
NBR finalizes a Medium- and Long-term Revenue Strategy covering indirect and direct tax and an accompanying implementation framework	End-December 2024	Not Met (Implemented with delay)
Ministry of Planning formulates Sector Strategy Papers/Sector Action Plans and Multi-Year Public Investment Programmes for a total of five sectors	End-December 2024	Met
BB simplifies organigramme related to risk-based supervision (RBS) functions	End-December 2024	Not Met (Implemented with delay)

[11] Implementation of the exchange rate reform will be monitored, including through the proposed continuous structural benchmark.

BB issues an updated regulation to align definition of non-performing exposures and forbearance in line with the Basel BCBS guidelines: 'Prudential treatment of problem assets - definitions of non-performing exposures and forbearance'	End-December 2024	Not Met (Reset to end-October 2025)
RBS pilot expanded to cover 20 banks	End-March 2025	Met

C. Reforms Under the RSF Arrangement

Reform Measures	Target Date	Status
RM4: Government to adopt a national disaster risk financing strategy while integrating social assistance measures. **RM5:** MoF to adopt and implement a methodology for embedding climate change in the medium-term macro framework, through analyzing macro-fiscal risks from climate change and publishing it in the Medium-Term Macroeconomic Policy Statement (MTMPS)	End-June 2024	Met
RM6: Government to issue a circular on an update to the Green Book[1/] to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors **RM7:** BB to conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations	End-December 2024	Met

Sources: Bangladesh's authorities; and IMF staff estimates.

POLICY DISCUSSION

In response to mounting pressures from an emerging external financing gap along with persistently high inflation, maintaining both fiscal and monetary policy tight will be necessary in the near term. At the same time, structural reforms should prioritize the full implementation of the new exchange rate regime and address the shortfall in domestic revenue mobilization. Financial sector policy should focus on well-sequenced measures to safeguard financial stability.

A. Ensuring Fiscal Sustainability

17. Fiscal policy warrants tightening in light of the continuing BOP financing gap with the aim of addressing the chronic structural revenue shortfall. With interest rates already elevated, an insufficient fiscal effort would severely crowd out the private sector if adjustment relied solely on monetary policy. At the same time, revenue mobilization continues to fall short of the program objective, while spending pressures are expected to persist and intensify with the upcoming elections, underscoring the continued need for enhanced revenue mobilization. To this end, the authorities have identified additional revenue measures amounting to 0.7 percent of GDP for FY26 (see ¶18), building on the measures introduced in January 2025, including lowering the VAT registration threshold, and removing truncated VAT rates, which are expected to yield 0.2 percent of GDP in

Bangladesh: Fiscal Operations
(In percent of GDP)

	FY22	FY23	FY24	FY25 2nd Rev	FY25 Now	FY26 2nd Rev	FY26 Now	FY27
Total revenue and grants	8.9	8.2	8.3	9.3	8.6	9.9	9.4	10.0
Of which: tax revenue	8.0	7.3	7.4	8.4	7.7	9.1	8.6	9.2
Total expenditure	13.0	12.7	12.1	13.3	12.8	14.7	13.2	14.4
Overall balance	-4.1	-4.5	-3.8	-4.0	-4.1	-4.8	-4.0	-4.4
Primary balance	-2.1	-2.5	-1.5	-2.2	-2.0	-2.4	-2.0	-2.2

Source: IMF staff projections.

FY26. Concurrently, spending restraint—focused on non-priority capital expenditures and goods and services—will remain in place. With these measures, the authorities have committed to targeting a primary deficit of 2 percent of GDP in both FY25 and FY26. They also agreed to the revenue and expenditure projections, including the detailed measures, outlined below. However, the FY26 budget to be submitted to the Council of Advisors in early June contains somewhat different revenue and expenditure figures.[12]

18. Ambitious reforms are needed to sustainably raise Bangladesh's tax-to-GDP ratio. The authorities plan to further streamline tax preferential treatment in VAT, customs and income tax, which is expected to yield additional BDT300 billion (0.5 percent of GDP) in FY26 (Prior Action, text table). This will be supported by enhanced compliance efforts, projected to boost tax revenue by a further 0.2 percent of GDP. To this end, the authorities are committed to introducing e-invoice system, expanding the electronic return-filing and payment requirement in the income tax, and enhancing risk-based auditing to reduce tax evasion (MEFP ¶12). To advance tax reforms in a more systematic manner, the authorities published a Medium- and Long-Term Revenue Strategy (MLTRS) in May 2025 and legalized the separation of tax policy making from tax administration (MEFP ¶14)—a significant step toward more strategic and holistic policy making[13]. Other ongoing efforts to improve fiscal governance and revenue mobilization include: adopting a formal code of ethics and professional conduct for the National Board of Revenue (NBR) (new end-September 2025 SB); approving a development project proposal (DPP) for the digital transformation of tax administration including e-return and e-payment framework (end-June 2025 SB); mapping taxpayers with multiple tax identification numbers (new end-December 2025 SB), and mandating all tax-deducted at source (TDS) payments and returns to be filed and paid electronically starting in FY27 (new end-June 2026 SB) (MEFP ¶14).

[12] The state budget in Bangladesh is largely aspirational, with the fiscal program under the IMF-supported arrangement differing from the budget formally approved by Parliament.

[13] The MLTRS aims at increasing the tax-to-GDP ratio to 10.5 percent by FY35. It identifies major issues in the current tax system, including low tax compliance, limited institutional capacity, lack of automation process, and wide tax gaps due to various tax expenditures and small tax bases. It establishes a concrete implementation plan with detailed timelines. To support authorities' efforts, the IMF and other IFIs will provide technical assistance under the Joint Domestic Revenue Mobilization Initiative.

Bangladesh: New Revenue Measures in the FY26 Budget to Fulfill the Revenue Prior Action		
	BDT billion	% of GDP
Policy Measures	305	0.5%
VAT	155	0.3%
Increase in VAT rates for construction and commercial importer from 7.5% and 5% to 10% and 7.5% respectively	85	
Removal of exemptions through repealing or phasing-out of 12 SROs	65	
Increase in minimum import reference values for 24 items	5	
Income tax	150	0.2%
Removal of exemptions through repealing 4 SROs and phasing out exemptions in the Income Tax Act 2023	45	
Increase in tax rates of tax-deducted at source on govt securities, tobacco, consulting services, and rental income	41	
Unification of the minimum domestic tax rate for all sectors excluding tobacco, telecom and beverage sectors to 1%	35	
Increase in the advanced income tax (AIT) rate from zero to 2% for 152 items	22	
Introduction of a new provision that mandating the tower sharing companies to deduct 20 percent tax at source	5	
Increase in tax rates on commercially operated vehicles	2	

Source: IMF staff estimates based on information from National Board of Revenue

19. Electricity sector reform that would reduce subsidies, accompanied by the strengthening of social safety nets, is urgently needed to contain fiscal risks. Budget expenditure on electricity and fertilizer subsidies reached 1.1 percent of GDP in FY24 and are expected to remain elevated at 1 percent of GDP in FY25, excluding domestic arrears repayment. The authorities are committed to preparing a comprehensive strategy for FY26-FY28 to reduce the large gap between electricity supply cost and tariffs—driven by rising costs in recent years against limited tariff adjustment (text table)—and to reduce electricity subsidies to a fiscally sustainable level (new end-September 2025 SB), supported by IMF TA. This strategy will be based on a realistic three-year forecast of electricity supply costs and will outline a clear roadmap for tariff adjustments over this period, while detailing accompanying measures to protect the most vulnerable segments of the population. In the interim, the authorities have taken concrete steps to reduce production cost and cap electricity subsidies at BDT374 billion (0.6 percent of GDP), while ensuring no further accumulation of domestic and external payment arrears.[14] Rationalizing other non-priority subsidies—such as phasing out the remittance subsidy (MEFP ¶16) and transitioning toward a more targeted fertilizer subsidy system (e.g., excluding commercial agricultural farmers)—would also help create fiscal space for more productive spending over the medium term.

20. Improving the efficiency and coverage of social safety net remains a priority. The government has continued to protect the social spending and consistently met social spending targets under the program. In response to persistently high food inflation, the authorities have significantly expanded food support distribution programs, increasing the FY25 budget allocation by 70 percent compared to FY24 (MEFP ¶18). They are also working closely with the World Bank (WB) and Asia Development Bank (ADB) to develop a dynamic social registry system and consolidate fragmented programs to enhance targeting and improve overall efficiency (MEFP ¶15).

[14] Total electricity subsidies spending in FY25 is estimated at BDT 596 billion, reflecting the continued repayment of accumulated domestic electricity subsidy arrears from FY24.

21. Clearing domestic arrears is critical to safeguarding energy and food security and enabling key SOEs to settle their external arrears. The authorities plan to utilize savings from lower capital spending execution to clear approximately half of the accumulated domestic arrears owed to Bangladesh Power Development Board (BPDB) and public and private fertilizer suppliers within FY25 (around 0.5 percent of GDP), with the remainder to be cleared during FY26 and FY27 (MEFP ¶16). This is expected to enable BPDB, Petrobangla and fertilizer SOEs to settle their external arrears and ensure uninterrupted and timely imports of energy and fertilizer. [15]

Bangladesh: Bulk Electricity Tariff vs. Cost
(Taka/kWh)

	FY21	FY22	FY23	FY24	FY25 proj.
(A) Average bulk electricity supply cost	6.81	8.96	11.52	12.15	12.31
(B) Bulk electricity tariff	5.17	5.08	6.20	7.04	7.04
(B)-(A) Loss per kWh	**(1.64)**	**(3.88)**	**(5.32)**	**(5.11)**	**(5.27)**

Note: IMF staff estimates and projections.

22. Enhanced debt and cash management, improved fiscal risk reporting, and stronger oversight of SOEs will support more efficient use of budgetary resources. A new Medium-Term Debt Strategy (MTDS) for FY25-FY27 and a fiscal risk statement that assesses the impact of major macroeconomic risks and risks from selected SOEs as well as climate-related risks were published in June 2024, in line with program commitments. Implementation of the MTDS will be supported by the adoption of a liability management operations framework as well as the reform of the primary dealer system for government securities (MEFP ¶19). To further strengthen SOE oversight, the government has undertaken a statistical reclassification exercise for existing SOEs and autonomous bodies (ABs) and published an SOE sector report covering the 40 largest SOEs in early 2025 (end-June 2025 SB). In addition, the authorities have established an integrated SOE database, currently covering 71 out of 120 SOEs. Efforts to expand the treasury single account (TSA) are ongoing, and greater use of electronic funds transfer for central government transactions is expected to reduce leakages and improve spending efficiency (end-June 2025 SB) (MEFP ¶20).

23. Public investment management reforms will help direct spending toward priority projects. To enhance strategic project selection, the authorities have expanded coverage of Sector Action Plans and Multi-Year Public Investment Program (MYPIPs) tools across an increasing number of sectors, with five sectors successfully completed by end-December 2024 (end-December 2024 SB). MYPIPs are expected to inform medium-term development expenditure projections in the Medium-Term Budget Framework (MTBF), thereby strengthening the integration between the MTBF and the Annual Development Program (ADP) and improving medium-term budget management. Additional reforms are underway to digitize the preparation of Development Project Proposals (DPPs) (MEFP ¶18). Strengthening staff capacity in project appraisal, project management and assessment of contingent liabilities risks from public private partnerships (PPP) will further support improved project selection and implementation.

[15] Bangladesh Chemical Industries Corporation (BCIC) and Bangladesh Agricultural Development Corporation (BADC).

B. Cautiously Calibrating Monetary Stance and Embracing the Exchange Rate Reform

24. The uncertainty surrounding inflation, external imbalances, and FX market pressures call for a cautious approach to unwinding the tighter monetary policy stance and for a higher degree of exchange rate flexibility. Normalizing inflation to the target range will become more protracted, if the Taka depreciates in response to the impact of U.S. tariffs on the external trade balance. Given the inflationary impact of a weaker currency on the cost of imported goods and services, along with sensitivity of inflation expectations to depreciation, it will be necessary to maintain the policy rate at 10 percent through mid-FY26 (MEFP ¶23). Thereafter, monetary policy should remain data-driven, and BB should cautiously commence the easing cycle based on solid evidence that current and projected inflation is declining to the target range of 5-6 percent. For effective policy transmission, it is critical that retail interest rates continue to be set by banks freely, based on risk-return considerations, and that BB avoids unsterilized liquidity injections into weak banks that lead to excessive softening of government debt yields and, potentially, of broader financing conditions. Additionally, in the context of greater exchange rate flexibility after the relaunch of the new exchange rate regime in May 2025, BB should stand ready to tighten monetary policy to increase the interest rate differential if significant overshooting of the exchange rate occurs amid shallow FX liquidity.

25. The new crawling peg with a band exchange rate regime should be continuously implemented in line with the framework agreed upon in the second review and detailed in the Technical Memorandum of Understanding (PA, new continuous SB and MEFP ¶24). Comprehensive and continuous implementation of the new exchange rate regime remains a crucial transitional step towards full exchange rate flexibility. It is essential for facilitating smooth external adjustment, preserving foreign reserves, and improving the functioning and liquidity of the FX market. The regime's parameters should be set based on macro-fundamentals relative to a basket of currencies, with a daily operational exchange rate band set against the U.S. dollar. Banks should be permitted to quote freely in the FX market to facilitate a market-based exchange rate. To achieve this, BB must refrain from moral suasion of banks and avoid regulatory measures that restrict the free quoting. FX interventions must be auction-based, allowing access to all authorized dealers, with the exchange rates in bids/offers serving as the only criterion for allotment and with no constraints imposed on the range or level of exchange rates in bids/offers. A transaction-based reference exchange rate for client and interbank markets needs to be published continuously. Maintaining exchange rate flexibility within the band, together with shifting the band when warranted, should help mitigate the risk of building excessive depreciation expectations and limit the need for interventions. Sale interventions may be deployed by BB in response to significant exchange rate overshooting during episodes of shallow FX market liquidity. Coupled with a positive interest rate differential, this exchange rate framework will help reduce and reverse short-term credit and financial sector outflows in the BOP, and support closing the financing gap while rebuilding foreign reserves over the remaining program period.

26. Steady progress in modernizing the monetary policy framework remains critical to ensure the transition to a forward-looking monetary policy. A two-staged transition to a fully flexible exchange rate system and an interest-rate-based flexible inflation targeting framework is a priority. The first stage should focus on increasing exchange rate flexibility and deemphasizing its policy objective role. To support the transition, the BB's legal framework, governance, analytical and decision-making capacity, operations, and communications must continue to be upgraded. The final stage should culminate in adopting an inflation targeting framework and a fully flexible exchange rate. This approach requires bold reforms across several critical dimensions.

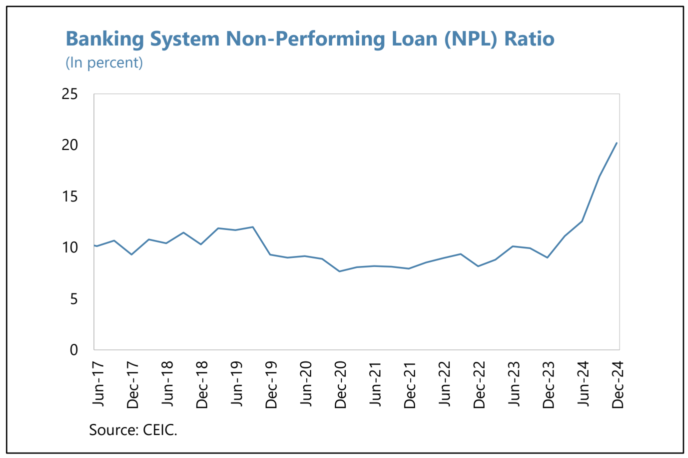
- *Governance structure, policy formulation, decision-making, and communications.* With IMF TA, BB's governance framework should be upgraded with an emphasis on simplifying the departmental structure, eliminating overlaps in responsibilities of various departments and managerial roles, and aligning the framework with the main tasks of a modern central bank of maintaining price and financial stability. Monetary Policy Committee (MPC) meetings should serve as the main forum for monetary policy deliberations and should be held according to the schedule, which BB has committed to publishing in advance, starting in FY25 and continuing thereafter. Macroeconomic and policy projections work should be strengthened, and capacity further developed with support from IMF TA, to establish a forecasting and policy analysis system (FPAS). The system—with a forecasting process that leads to staff's presentation on macroeconomic outlook and policy recommendations to the MPC, and communication of the macroeconomic and policy outlook in regular BB policy publications—should be deployed to support policy deliberations and facilitate the transition to inflation targeting (new end-January 2026 SB, MEFP ¶27). Bangladesh bank autonomy and strong accountability mechanisms should be ensured as the cornerstones of effective monetary policy decision-making (¶33, MEFP ¶39). BB's communication practices need to be enhanced to emphasize the low and stable inflation as an overarching policy objective, and to strengthen the transparency and credibility of the policy framework.

- *Quasi-fiscal operations.* While supporting some economic sectors may be amongst the government's policy priorities, assigning such tasks to BB is not consistent with good international practices. It exposes the central bank's balance sheet to credit risk and undermines the effectiveness of monetary policy. BB has committed to not creating new quasi-fiscal lending schemes and to reducing, and ultimately eliminating, the existing lending schemes in both domestic and foreign currency (new IT, MEFP ¶26).

- *Monetary policy implementation framework.* BB should complete implementation of high-priority IMF TA recommendations in the first stage of modernizing the interest-rate-based operational framework (rephased end-June 2025 SB, MEFP ¶27). To increase the effectiveness of monetary policy transmission and streamline the liquidity management system, BB has committed to: (i) discontinuing the 1-day Assured Liquidity Support at the policy rate, the 180-day Assured REPO at the policy rate and the 90-day REPO for investment in capital market at a rate below the policy rate, and (ii) upgrading operations with Islamic banks to ensure their access to BB instruments on terms equivalent to those for conventional banks. BB will also introduce the intraday liquidity operations and consider decreasing further the minimum daily cash reserve ratio (CRR) to 2.5 percent, while maintaining the average CRR norm. With support from the IMF TA, these reforms will simplify the policy implementation framework, eliminate overlapping operations, improve banks' capacity to absorb short-term liquidity shocks, and ultimately strengthen the role of the policy rate as an operating target.

C. Safeguarding Financial Sector Stability

27. Ongoing efforts to improve banks' balance sheet transparency and governance are welcome and should be continued. Unsuitable bank ownership, poor risk management, and inadequate supervision over many years contributed to banking sector vulnerabilities. To prevent further deterioration in weak banks' balance sheets and address governance failures more broadly, BB has replaced the boards of 14 banks which are now subject to intensified supervision. In addition, BB has dissolved the board of one small bank, which was placed under BB administration. Special audits and investigations of these banks have uncovered excessive related party exposures and identified suspected fraudulent activities, which hinder NPL recoveries in these banks. To strengthen bank governance going forward, the relevant sections of the Bank Company Act will critically need to be amended, and BB will need to take a more proactive approach to ensuring the suitability of banks' beneficial owners, appointment of independent directors, and fitness and propriety bank of bank management (MEFP ¶29). Asset classification and provisioning rules need to be further strengthened to align them with Basel guidelines, including by requiring periods of continuous performance before reclassifying rescheduled and restructured exposures to more favorable categories (rephased end-October SB; MEFP ¶30).



28. A government-wide strategy is needed for ensuring banking sector stability while pursuing fiscal sustainability and macroeconomic stability (MEFP ¶35; new end-June 2025 SB). The strategy should articulate the policies, high-level objectives, and guiding principles jointly agreed upon by BB and MoF. This should include the objective of restoring the viability of banks; maintaining continuity of key financial services; and minimizing fiscal costs of banking sector restructuring. Guided by a preliminary assessment of systemwide undercapitalization, the strategy should clarify the scope and modalities of fiscal support in line with international best practice. This includes prioritizing loss allocation to shareholders and burden-sharing with unsecured and uninsured creditors, as appropriate to ensure financial stability. The strategy should also elaborate on the range of options to deal with distressed banks in a way that safeguards financial stability and supports depositor confidence, and the associated funding sources. To improve banks' recovery efforts, the strategy should promote the strengthening of legal and institutional frameworks for debt recovery and corporate insolvency (MEFP ¶36). Any asset management company (AMC) solution that does not prioritize banks' timely loss recognition and does not involve receipt of liquid instruments by the banks in return for transferred NPLs should not be considered.[16] Any AMC instruments used to pay for assets should carry market rates and have similar characteristics to tradable government debt.

29. Asset quality reviews (AQRs) by international consultants are underway and will help assess the need for bank restructuring and resolution, while bolstering confidence in stronger banks. The first of several rounds of AQRs was completed in May 2025, with the final round expected by March 2026 (MEFP ¶32). The AQRs are conducted based on Terms of Reference (TOR) agreed with staff and aligned with new regulations on asset classification and provisioning. To ensure adequate restructuring and recapitalization plans and to avoid recurrent capital shortfalls, it will be critical that all large systemic banks and all state-owned banks undergo a full AQR, including an assessment of capital adequacy over a three-year horizon under both baseline and adverse macroeconomic scenarios. The AQR results provide critical input for BB to evaluate banks' viability, and quickly develop and execute restructuring and resolution plans that aim to protect small depositors, minimize fiscal cost and preserve confidence in viable banks.

30. A key near-term priority is to support viable banks' orderly exit from regulatory forbearance. Full implementation of the new asset classification and provisioning regulations are generating a sizable impact on banks' regulatory capital. To avoid procyclicality, BB is offering temporary regulatory forbearance to viable banks in the form of "deferred provisions", contingent on capital restoration plans and a prohibition on dividend payments. To ensure an orderly and timely exit from regulatory forbearance by end-2028, it is critical for BB to establish a framework for rigorously evaluating and monitoring these restoration plans. BB should also stand ready to initiate further corrective actions if the plans are deemed non-credible or their implementation falters (MEFP ¶31). To this end, BB is urged to leverage its existing requirement for all banks to prepare recovery plans based on the Financial Stability Board's (FSB) guidelines, while significantly strengthening its capacity to assess feasibility and implementation of these plans. This should include horizontal reviews by BB supervision; written reports from and regular interactions with bank boards; and regular updates to the BB board, which should remain closely engaged in monitoring the overall situation. To avoid contagion risks, BB should refrain from encouraging strong banks to provide interbank loans to weak banks.

31. The authorities have taken significant steps to strengthen the financial safety net, and now need to enhance operational preparedness (MEFP ¶34). A new Bank Resolution Ordinance (BRO) provides BB with resolution powers and tools broadly aligned with international best practices. The BRO grants powers to BB to pursue claims and recovery from related parties and persons who fraudulently used or misused bank resources, a key aspect of resolution ensuring responsible parties are accountable for their actions. Efforts to align the Deposit Protection Ordinance (DPO) with best international practices remain ongoing. Key regulations, guidelines and

[16] *The Case for (and Against) Asset management Companies in Banking Crisis*, IMF (2024), pg. vii.

procedures need to be adopted to implement these ordinances, including on viability assessments, governance of resolution, deposit insurance payout, the use of the Deposit Protection Fund (DPF) to support resolution, and a fiscal backstop for the DPF. To ensure the independence of BB's resolution function, the newly established resolution unit should operate independently from BB's supervisory function (including from enforcement under the Prompt Corrective Actions framework), and MoF should limit its rulemaking to circumstances requiring government funding. Importantly, restructuring and resolution plans should be developed for all distressed banks. The BB is also developing an Emergency Liquidity Assistance (ELA) framework, which should be fully aligned with international best practice and include a window that is compatible with Sharī`ah principles. In the meantime, any further liquidity support provided by BB to weak banks should be limited and subject to robust safeguards to protect its balance sheet, including explicit government indemnification in situations where the recipient's solvency is in doubt. To further facilitate interagency coordination, the authorities should establish a Banking Sector Crisis Management Council (BCMC) as envisaged under the BRO.

32. Steps are underway to strengthen banking supervision and develop domestic capital markets. The BB has completed pilot bank inspections using a risk-based approach (end-March 2025 SB; MEFP ¶32). Additionally, BB has adopted a new organigram for its planned transition to risk-based supervision (RBS) (end-December 2024 SB, implemented with delay; MEFP ¶33), which is set to become fully operational by January 2026. A plan has been drafted for the adoption of IFRS9 by the banking sector by 2027 (end-June 2025 SB; MEFP ¶33), to be complemented with prudential backstops for provisioning. Improving bank supervision, corporate governance and eliminating political pressures will critically depend on aligning the BB Act with international best practice (MEFP ¶38). SOCBs should be brought under the same supervisory framework as private banks, with additional tailored prudential requirements implemented for Islamic banks. To support the development of domestic capital markets, BB is well advanced with drafting a guideline for reforming the primary dealer system (end-June 2025 SB; MEFP ¶21). As part of broader efforts to promote accountability and deter corruption going forward, the authorities have established an inter-agency asset recovery task force to coordinate and expedite domestic and global efforts to freeze, confiscate and recover funds lost to corruption (MEFP ¶37).

D. Strengthening Governance and Transparency

33. An ambitious institutional reform of BB and fiscal governance reform remain a priority (MEFP ¶38). Authorities are making progress toward implementing the recommendations of the 2022 Safeguards Assessment. BB has committed to gradually reducing and phasing out its quasi-fiscal lending schemes in both foreign and local currencies, as well as discontinuing liquidity support to banks outside of standard monetary operations and emergency lending assistance (MEFP ¶27 and ¶38). Strengthening BB's governance framework will require aligning its mandate with the modern principles of central banking, enhancing autonomy and accountability arrangements, and facilitating effective decision-making. Based on IMF TA and in line with the findings from the 2022 Safeguards Assessment, progress has been made with updating the BB Order (new end-September and end-December 2025 SB) and developing BB's organizational transformation plan. These efforts should further facilitate the implementation of the remaining safeguards recommendations, including the modernization of the internal audit function, the establishment of a risk management framework, and the enhancement of cybersecurity practices. Fiscal governance will focus on designing institutions to prevent corruption in revenue administration (see ¶15).

34. Progress in strengthening AML/CFT risk assessment remains on track and must be maintained. Onsite examinations have been conducted in eleven high-risk banks, as identified by the IMF-developed AML/CFT risk assessment tools for offsite supervision (end-June 2025 SB; MEFP ¶40).

35. Enhancing data quality will support evidence-based policy making. The substantial revisions to export data for FY23 and FY24 have revealed several institutional weaknesses in the collection and compilation of data. In consultation with an STA TA mission, the mission recommended that BB assumes full responsibility for trade statistics (new end-December 2025 SB).

E. Enhancing the Economy's Resilience to Climate Change

36. Bangladesh is among the most vulnerable countries to climate change and natural disasters—the RSF helps strengthen prospective BoP stability. Between 2000-2023, natural hazards affected 130 million people and caused US$13.6 billion in total damage.[17] Disasters are impediments to Bangladesh's poverty reduction and development objectives, while climate change is expected to make extreme events more severe and frequent. The projected damage from tropical cyclones in Bangladesh is estimated at between 1.5 and 6 percent of GDP by 2050.[18] Slow onset climate change is forecast to result in total economic costs of 2 percent of annual GDP by 2050 under a business-as-usual scenario and up to 9.4 percent in 2100.[19] These climate-related events could disrupt economic activity and cause substantial long-term damage to the economy, putting pressures on the currency, reserves, and public debt, with the effects disproportionately felt by the poor and vulnerable groups. The existing RSF arrangement plays a crucial role in helping Bangladesh reduce long-term BoP risks associated with climate change (Table 11).

37. Continued efforts to strengthen the overall climate policy framework are critical to building long-term resilience. The authorities intend to submit a new NDC which will raise policy ambition and include targets for 2035 ahead of the 30th Conference of the Parties (MEFP ¶42). At the same time, the implementation of the National Adaptation Plan (NAP) and the Climate Fiscal Framework is progressing well, while initiatives to green the financial sector and scale up private climate investment have gained momentum in recent years. Despite these efforts, Bangladesh faces a substantial climate financing gap, highlighting the need to accelerate policy efforts to leverage

[17] Based on EM-DAT database.

[18] Based on the World Bank's CCDR, the range estimate of impact by 2050 under the Representative Concentration Pathway 4.5 and 8.5 scenarios.

[19] Ahmed and Suphachalasai. 2014. Assessing the Costs of Climate Change and Adaptation in South Asia. Asian Development Bank. This estimate is used in the Climate Fiscal Framework.

various sources of climate finance. The successful implementation of the RSF reform measures (RMs) also plays an important role in this context.[20]

38. **Key policy reforms have been fully implemented in a timely manner**. To integrate climate-related risks into fiscal planning, the authorities have conducted and published an in-depth analysis of macro-fiscal risks from climate change and natural disasters, supported by IMF TA. This analysis is included in the Medium-Term Macroeconomic Policy Statement for FY25-FY27 (RM4),[21] and the authorities plan to update this assessment on a regular basis. To effectively implement the National Plan for Disaster Management and strengthen the country's disaster response readiness, the authorities have developed and adopted a comprehensive National Disaster Risk Financing Strategy (NDRFS), which incorporates shock-responsive social assistance measures (RM5).[22]

39. **The authorities continue to implement reforms that enhance financial sector resilience to climate shocks and integrate climate considerations into public investment management**. BB has completed and published a climate stress test (CST) for the banking system and updated the Guidelines on Stress Testing (GST) for banks and financial institutions to consider climate-related risks (RM7).[23] The CST framework has benefitted from IMF TA since 2023, including the latest support provided in January 2025. BB is committed to align the GST and its template with the next phase of CST exercise, as it moves toward a more granular/robust approach consistent with IMF TA recommendations (MEFP ¶46). Moreover, the authorities have issued a circular to guide the inclusion of climate change considerations in the appraisal of major infrastructure projects (RM6), with the help of IMF TA.

40. **The Bangladesh Climate Development Platform (BCDP), established to scale up climate finance, is currently in its inception phase as of early 2025**. The RSF has acted as a catalyst for

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[20] The authorities continue the implementation of past RMs including RM1-3 with strong progress. RM1 implementation is supported by the World Bank. RM2 has been followed-through by the authorities since March 2024, while BB has a strong ownership on RM3 agenda and is on schedule for full mandatory reporting by 2027.

[21] http://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/d7b58d61_ebaf_4e65_a923_b631e61bae6e/MTMPS_English%20Approved.pdf. The analysis finds that climate-related risks are likely to have visible macroeconomic impacts in the long-term, while recurring disaster risks exacerbate the fiscal position and compound the long-term risks.

[22] https://modmr.portal.gov.bd/sites/default/files/files/modmr.portal.gov.bd/notices/610c095c_4efb_4c50_9116_0629604a092c/NDRFS-compressed.pdf. The document outlines a risk-layering approach consolidating options to improve fiscal mechanisms (e.g. right-sizing fiscal buffers, disaster-responsive public procurement, public asset insurance), make social programs more shock-responsive, as well as consider new instruments (e.g. ex-ante contingent lines of credit, disaster-related insurance products, and post-disaster credit access through microfinance institutions).

[23] https://www.bb.org.bd/pub/special/climate_stress_testing.pdf.

additional climate finance,[24] while RMs remain critical to closing the climate financing gap.[25] Going forward, the BCDP is expected to play a central role in mobilizing additional public and private climate finance in Bangladesh. Four committees, headed by relevant Secretaries, have been established under the BCDP to focus on specific areas: (i) mobilizing domestic climate finance, led by the Finance Division; (ii) external climate finance, led by the Economic Relations Division; (iii) project pipeline development and monitoring, led by the Planning Commission; and (iv) knowledge and capacity building, led by the Ministry of Environment, Forest, and Climate Change. The Board of BCDP has been formed and the inception workshop has been conducted. The authorities intend to hold the first Board meeting in May 2025 and will establish a secretariat to support the work of BCDP.

PROGRAM MODALITIES AND OTHER PROGRAM ISSUES

41. **A blended augmentation and rephasing, along with a six-month extension of ECF/EFF, is essential to close the residual BOP gap and allow for critical reforms to take place**. In response to the financing gap, the authorities are requesting an extension of ECF/EFF and an augmentation and a rephasing of access under ECF/EFF. The reversal in net capital inflows appears to be the key driver of the financing gap. Despite improvements in the current account in H1FY25, the emergence of external payment arrears by SOEs, a substantial decline in FDI inflows, and unrecorded capital outflows are expected to significantly widen the external financing gap in FY25 to around US$ 3.8 billion, compared to the second review projections (text table). The financing gap for FY26-FY27 is also expected to remain substantial; however, capital outflows are projected to gradually decline over the program period, which will help narrow the financing gap in outer years. This gap will be mitigated by reduced accumulation of reserves and increased financing commitments from IFIs and bilateral donors. To bridge the remaining gap in FY25-FY27 and to support the implementation of the critical exchange rate reform and ambitious revenue mobilization efforts, an augmentation of SDR567.19 million (approximately US$ 760 million, 53.2 percent of quota) is proposed. This augmentation blends GRA resources at a 2:1 ratio with PRGT resources, comprising SDR378.12 million for the EFF and SDR189.07 million for the ECF. As a result, the total disbursement under the ECF/EFF will rise to SDR3,035.65 million (284.6 percent of quota). In view of the extension and to ensure implementation of agreed-upon reforms, the bulk of the augmentation will be backloaded to the final review. Meanwhile the total disbursement, including the current commitment, will be evenly phased over the remaining program period.

[24] The RSF has crowded in significant official climate finance from AFD, ADB, Asian Infrastructure Development Bank, Japan International Cooperation Agency, and World Bank. The total climate financing commitment from these organizations pledged in FY24-FY25 amounts to US$5.7 billion. The BCDP is expected to catalyze additional public and private climate finance.

[25] The current annual climate related government spending stands below 1 percent of GDP compared to the need of 3-4 percent of GDP over the next 15 years (World Bank Group. 2022. Bangladesh Country Climate and Development Report).

Bangladesh: Comparison of External Financing Requirements (In millions of U.S. dollars)	FY25		FY26		FY27	
	2nd Rev.	Now	2nd Rev.	Now	2nd Rev.	Now
Gross Financing Requirements	**14,740**	**7,277**	**18,067**	**6,492**	**...**	**8,113**
Current account deficit excluding grants	11,870	4,465	14,757	3,362	...	4,972
Identified Financing Sources	**12,763**	**3,510**	**16,051**	**4,018**	**...**	**6,348**
Public sector loan disbursements	8,208	6,548	8,079	7,227	...	8,422
Other capital flows (net)	2,885	-3,563	9,018	-2,007	...	-1,524
Change in reserves (+ decrease; excl. RSF)	-3,859	-1,440	-8,453	-4,991	...	-5,068
Financing Gap	**1,976**	**3,767**	**2,016**	**2,474**	**...**	**1,765**
Prospective Financing 1/	**1,976**	**3,767**	**2,016**	**2,474**	**...**	**1,765**
World Bank	500	1,000	500	500	...	500
Asian Development Bank	600	900	600	400	...	600
Other multilateral and bilateral 2/	200	996	240	700	...	240
Financing from IMF (ECF/EFF disbursement)	676	871	676	874	...	425
o/w Augmentation (SDR million)		121		121		325

Sources: IMF staff projections

1/Of the prospective financing amounts some are pending approval.

2/Includes AFD, AIIB, JICA, and OFID.

42. Program conditionality is set to ensure the implementation of critical reforms:

- Prior actions are set to: (1) adopt tax revenue measures to compensate the fall in tax-to-GDP ratios and support fiscal adjustment in FY26; and (2) implement the exchange rate reform as agreed during the second review and in line with staff recommendations.

- New PCs are proposed to reduce: (1) the government's domestic payment arrears to SOEs in the power and fertilizer sectors; and (2) the external payment arrears of those SOEs. Additionally, staff propose that the QPC on zero external payment arrears accumulation is modified to also cover relevant non-financial SOEs, and an IT on zero domestic payment arrears of the central government will be added. Further, staff propose that the IT on tax revenue, which has been not observed repeatedly, is upgraded to a PC. Also, an IT on the PV of new external borrowing is proposed, given moderate risk of debt distress.

- Consequently, new quantitative targets (Table 7), including the modification of the end-June 2025 ITs into the end-June 2025 PCs, and SBs (Table 10) are set for the next 12 months. The RSF-supported reform measures remain unchanged (Table 11).

43. Article VIII issues.

- **Newly identified longstanding exchange restrictions**. A recent jurisdictional mission found five new longstanding exchange restrictions inconsistent with Bangladesh's obligations under the Article VIII, Section (2) These restrictions arise from: (i) the requirement to provide a tax clearance certificate —covering taxes unrelated to the underlying transactions—prior to obtaining FX for making payments and transfers for certain current international transactions; (ii) a restriction on accessing FX for future, unrelated payments for current international transactions for non-compliance with certain FX rules; (iii) placing an absolute limit on the amount of FX foreign nationals working in Bangladesh could remit abroad as family remittances; (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. These are longstanding measures that were in place before the approval of the EFF/ECF Arrangements and have no program implications under the standard continuous PCs. Staff recommends eliminating the aforementioned exchange restrictions.

- **Previously identified exchange restriction and an MCP**. Bangladesh is also maintaining a longstanding exchange restriction on the convertibility and transferability of proceeds of current international transactions in non-resident Taka accounts and a MCP arising from an exchange rate subsidy of 2.5 percent on remittances introduced before the approval of the EFF/ECF arrangements. The authorities are urged to reduce the exchange rate subsidy on remittances below 2 percent, with an aim to phasing it out entirely.

- **Non-observance of the continuous PC not to impose or intensify exchange restrictions.** Before the implementation of the exchange rate reform, BB used moral suasion to control the FX rate and was involved in FX rationing and prioritization by: (i) informally guiding exchange houses to sell FX to certain state-owned banks for the import of certain priority items, including fuel, LNG, fertilizer, food, medicine and power; and (ii) issuing circulars for authorized dealers to give priority to letters of credit for food and fertilizer. The priority allocation of FX for certain goods has restricted FX supply for other current international transactions (e.g., non-priority goods). Earmarking of FX allocation is considered as segmenting the FX market between priority and non-priority importers. These measures have led to FX shortages and a breach of a standard continuous PC regarding the imposition or intensification of exchange restrictions. Although the authorities have implemented the exchange rate reform system as the main corrective action, close monitoring of FX demand-supply conditions is required to ensure that no shortages arise which could result in breaching the continuous PC.

44. Financing assurances. The EFF/ECF arrangements are fully financed, with firm commitments over the next twelve months and good prospects for the remainder of the program (Table 8). In addition to support from the IMF, Bangladesh's financing needs will be met by other IFIs and bilateral donors. Program financing is stronger than projected at the second review, mainly due to prospective upsizing of budget support from IFIs alongside the proposed augmentation of Fund financing. The catalytic effect of Fund augmentation is likely to help the authorities secure additional budget support from bilateral donors.

45. Capacity to repay. Bangladesh's capacity to repay the Fund remains adequate, though risks have increased since the last program review. Total Fund credit outstanding is within the interquartile range for PRGT borrowing countries for most indicators (Annex III) and will peak in FY26 at 1 percent of GDP, 17.7 percent of GIR, and 8.4 percent of exports. Total debt service obligations to the Fund will peak in FY32 at 0.1 percent of GDP, 1.4 percent of GIR, and 0.6 percent of exports (Table 9). Key risks include incomplete exchange rate reform, adverse trade developments, capital outflows, political uncertainty, and overall program risks (see ¶45). These risks will be mitigated by reform measures under the program, notably increased exchange rate flexibility, as well as the authorities' strong track record of servicing IMF debt, and additional measures to support program implementation (see below).

46. Risks to program implementation. Key risks to the program include renewed socio-political tensions around elections that could disrupt authorities' commitments; limited scope to relax fiscal or monetary policy in the event of adverse shocks; and weaknesses in implementation capacity. These risks will be mitigated through continued engagement, including the possibility of further policy adjustment and augmentation, and program conditionality, enhanced provision of TA, and close collaboration with other IFIs and bilateral donors.

47. Capacity Development. Aligned with program objectives, CD provisioning continues to prioritize reform implementation in the areas of operationalization of the new exchange rate regime, forward-looking monetary policy formulation and implementation, revenue mobilization, public financial management (PFM) and public investment management (PIM), banking supervision, capital markets, and macro statistics. New technical assistance has commenced in the BB legal and governance reforms.

STAFF APPRAISAL

48. Bangladesh has faced multifaceted challenges since the completion of the second review. The timely formation of an interim government has helped stabilize political and security conditions, fostering a gradual return to stability in the economy. However, economic growth has slowed significantly, while inflation remains high. The deteriorating balance of payments has exerted pressure on foreign exchange reserves. At the same time, tax revenues have declined, while spending pressures have risen. These challenges have been compounded by the recent external trade shock, evolving implications of the U.S. tariff announcement, and rising vulnerabilities in the financial sector.

49. Program performance for the combined third and fourth reviews remains broadly satisfactory. All end-June 2024 and end-December 2024 QPCs were met. However, the IT on tax revenue floors was repeatedly missed. Until June 2024, most SBs had been largely implemented, with a few exceptions. Since July 2024, however, progress on several SBs has slowed considerably, requiring additional time for completion. Nonetheless, all four RMs were successfully implemented.

50. The near-term outlook has deteriorated, with risks tilted toward downside. Disruptions to production, tighter policies and elevated uncertainty are expected to contribute to slower growth in FY25. Activity is expected to rebound in FY26 but will be constrained by the impact of higher tariffs on exports, continued tighter policy mix and uncertainties dragging on investment. Inflation is projected to remain high in FY25, reflecting mainly supply-side shocks. Cost pressures due to depreciation are projected to keep inflation above the target range in FY26. The risks to the outlook remain tilted to the downside, particularly due to heightened global uncertainty, and could materialize if policy slippages occur, key reforms are postponed and instabilities in the banking sector escalate.

51. To address the mounting pressures of an emerging external financing gap and persistently high inflation, near-term policy tightening is essential. Fiscal consolidation should focus on swiftly implementing additional revenue-raising measures, including the elimination of tax preferences and exemptions, while curbing increases in non-essential expenditure. Alongside maintaining the key monetary policy rate at a higher level, enhanced exchange rate flexibility and protecting FX reserve buffers will help shield the economy from external shocks. Against this backdrop, the authorities' announcement of the new exchange rate regime and their efforts to incorporate revenue-enhancing measures into the FY26 budget are commendable.

52. An appropriate policy mix will deliver stabilization of the domestic economy and external position. Absent further shocks, the current supply-side pressures on inflation are expected to subside. Maintaining tighter monetary and fiscal policies will constrain credit expansion and aggregate demand and ease depreciation pressures on the exchange rate, thereby helping to curb costs and contain inflation expectations. Inflation is projected to decelerate in the second half of FY25 and further in FY26. A tighter fiscal position, a positive interest rate differential relative to main reserve currencies, and enhanced exchange rate flexibility under the new crawling peg with a band regime is expected to stabilize the external position.

53. A multifaceted approach to revenue mobilization and expenditure reform is vital for expanding social spending and investment. Bangladesh's low tax-to-GDP ratio underscores the pressing need for tax reforms to establish a fairer, more transparent system, sustainably increase revenue, rationalize exemptions, enhance compliance, and separate tax policy from administration. At the same time, a comprehensive strategy is crucial to reduce subsidy spending and resolve payment arrears, particularly in the energy sector.

54. Comprehensive and well sequenced financial sector policies are critical to supporting financial stability. A government-wide strategy is needed to guide banking sector reforms. AQRs should cover all large systemic banks, and the new legal frameworks for bank resolution and deposit protection should be quickly operationalized to facilitate orderly bank restructuring and resolution, while protecting small depositors and preserving confidence in viable banks. Financial stability going forward will critically depend on the bank restructuring and resolution efforts delivering solvent banks with business plans that ensure structural profitability and liquidity, without reliance on protracted regulatory forbearance. Any asset transfers to AMCs, should be done at market value with AMC instruments received by banks carrying market rates. Continued efforts are also needed to advance BB's risk-based supervision and to improve banks' governance and balance sheet transparency.

55. Legal and governance reform of BB will strengthen the central bank institution and enhance macroeconomic resilience. Enhancing the autonomy and accountability of BB will safeguard it from political influence and set the groundwork for sustained macroeconomic and financial stability. Reforms aimed at improving policy formulation, decision-making and implementation will help improve the management of aggregate demand and inflation as well as enforce financial regulations.

56. Maintaining the reform momentum is critical to align with the authorities' goal of reaching upper middle-income country status. Enhancing governance, along with greater transparency, is essential for improving the investment climate, attracting foreign direct investment, and diversifying exports beyond the ready-made garment sector. Accelerating BB's legal reform, facilitating AML/CFT risk assessments, and enhancing data quality are critical in this regard.

57. Climate adaptation and building resilience against natural disasters remain top priorities. Bangladesh needs to focus its immediate policy efforts and financial resources on building resilience to climate change and natural disasters to mitigate macroeconomic risks. The authorities should prioritize climate-responsive fiscal reforms and channel investments into climate-resilient infrastructure, while strengthening institutional capacity and improving the efficiency of public spending. In addition, effective management of climate-related risks will help boost fiscal resilience and safeguard financial sector stability.

58. Based on Bangladesh's overall good performance and commitments under the program, staff recommends completion of the combined third and fourth reviews. Staff support the authorities' request for: (i) the completion of the combined third and fourth reviews under the ECF/EFF and RSF arrangements; (ii) an augmentation and rephasing of access under the GRA and PRGT resources; (iii) a six-month extension of the ECF/EFF; and (iv) modification of PCs. Also, staff support the authorities' request for a waiver of nonobservance of the continuous PC related to not imposing or intensifying exchange restrictions because the nonobservance was temporary and corrective actions were taken through the implementation of the exchange rate reform. Regarding the long-standing exchange restrictions and the MCP subject to Fund approval under Article VIII, the authorities have not requested, and staff does not recommend their approval. Staff urges the authorities to eliminate these measures.

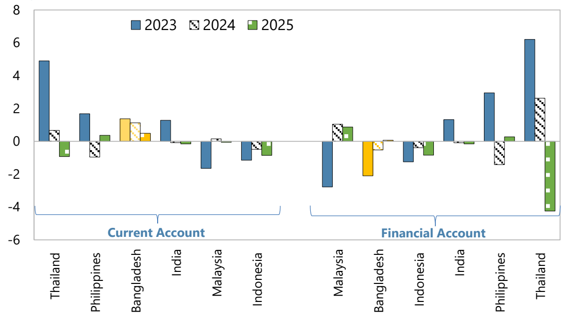
Figure 1. Bangladesh: Pressures from External Shocks

A series of shocks resulted in pressure on the current and financial accounts...

...and this led to continued depreciation of the Taka.

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

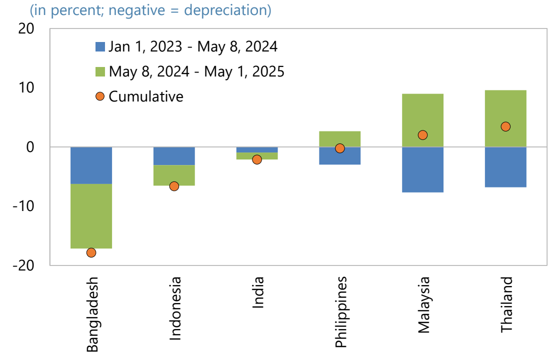
(In percent of GDP)



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

Exchange Rate Movement Against USD in Selected Economies

(in percent; negative = depreciation)

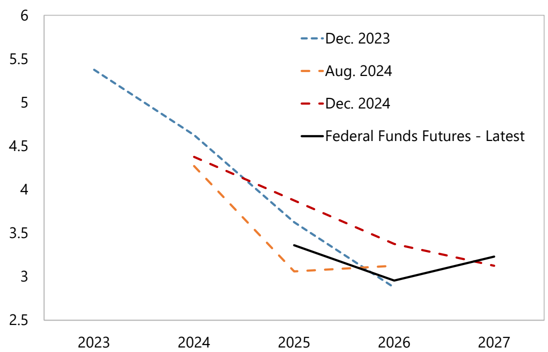


Global monetary policy conditions are set to become more accommodative.

Bangladesh Bank continued to tighten monetary policy...

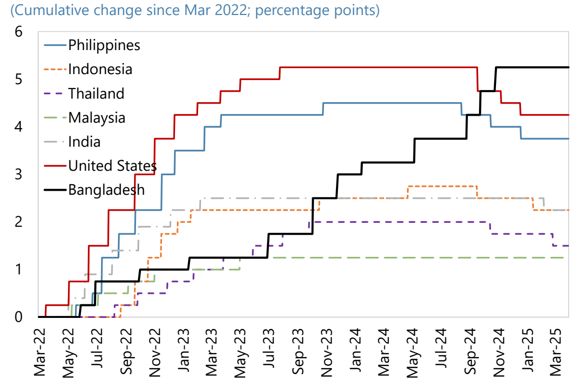
Year-End Target of Fed Funds Rate

(In percent)



Policy Rates

(Cumulative change since Mar 2022; percentage points)

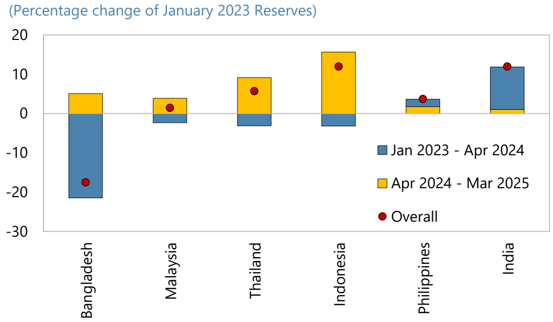


...while FX reserves have stabilized after large declines in 2023 and early 2024.

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

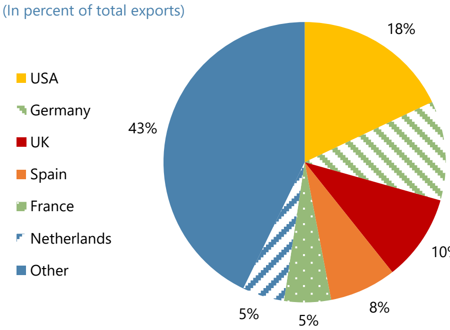
Foreign Exchange Reserves Developments in Selected Economies

(Percentage change of January 2023 Reserves)



Main Export Partners

(In percent of total exports)

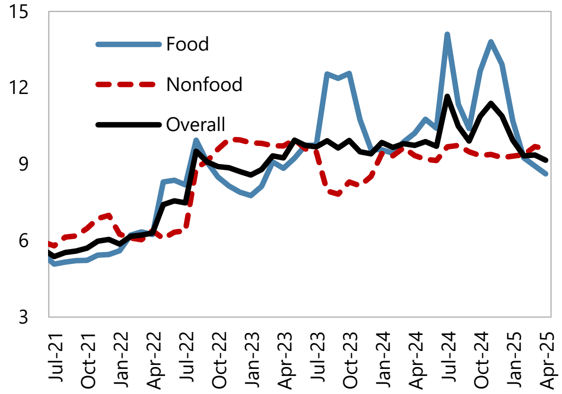


Sources: Bangladesh Bureau of Statistics; Bangladesh Bank; Bloomberg Finance L.P.; Haver Analytics; World Economic Outlook; and IMF staff calculations and estimates.

Figure 2. Bangladesh: Monetary and Financial Market Developments

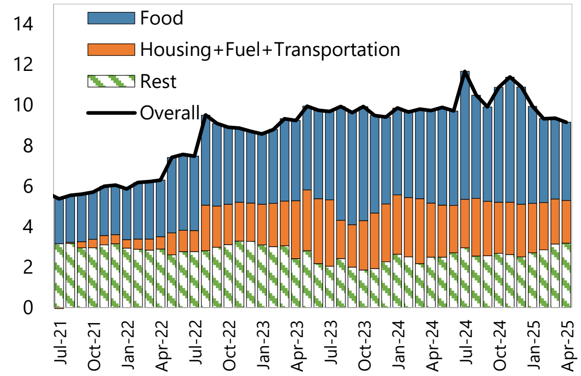
Inflation remains elevated…

Inflation Rates
(In percent, y-o-y)



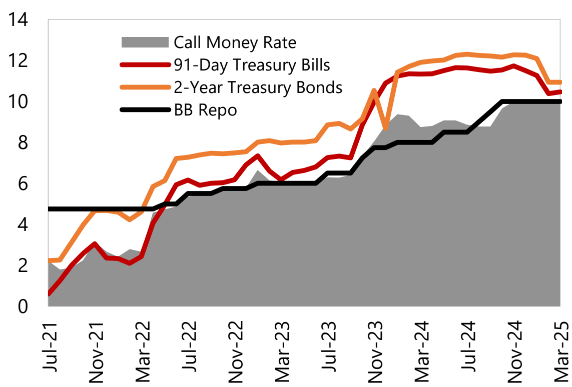
…driven by supply-side shocks primarily impacting food prices.

Contributions to Inflation
(In percent, y-o-y)



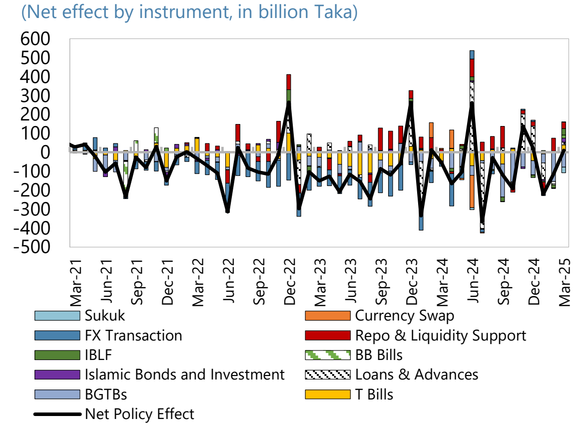
Market interest rates have continued to rise in response to policy tightening…

Interest Rates
(In percent)



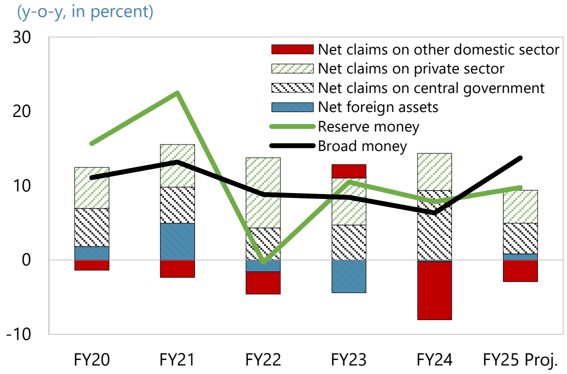
…and systemic liquidity remained tight on average.

Liquidity Management Operations
(Net effect by instrument, in billion Taka)



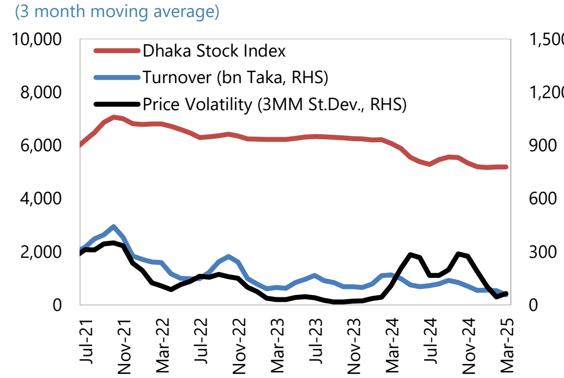
Broad money growth has continued to slow.

Contributions to Broad Money Growth
(y-o-y, in percent)



Stock prices faced downward pressure.

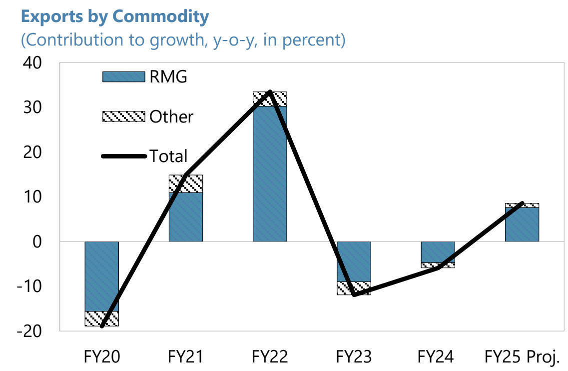
Dhaka Stock Market Performance
(3 month moving average)



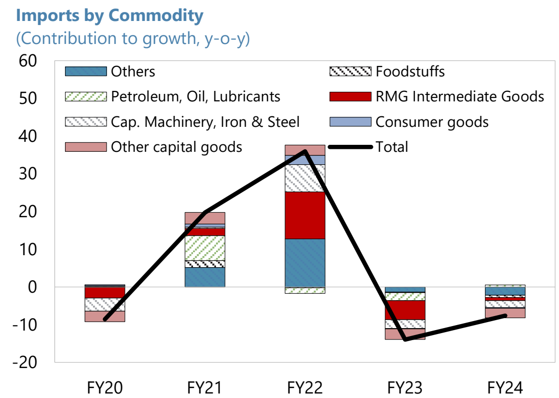
Sources: Bangladesh Bureau of Statistics; Bangladesh Bank; Bloomberg Finance L.P.; Haver Analytics; and IMF staff calculations.

Figure 3. Bangladesh: External Sector Developments

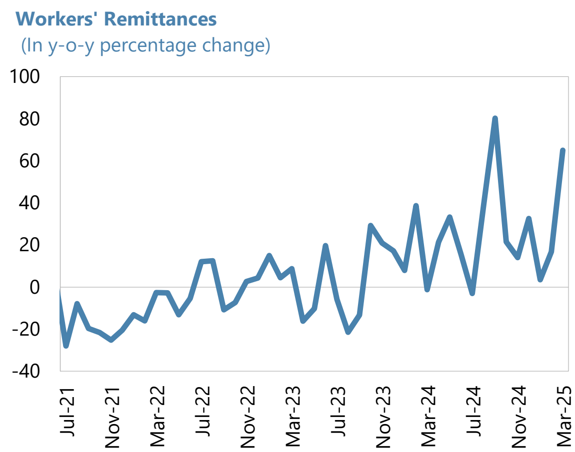
The decline in exports since FY23 has reversed



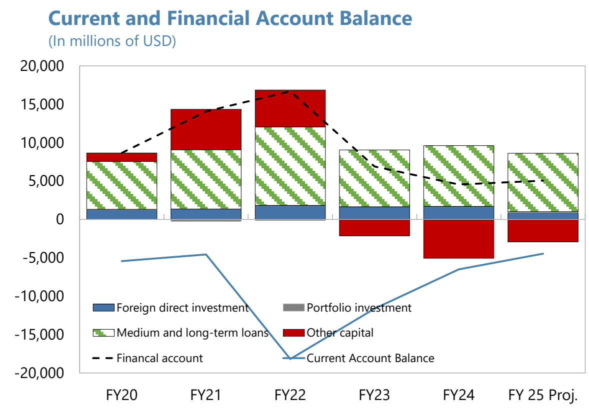
A sharp contraction in imports has helped offset the impact on the trade balance



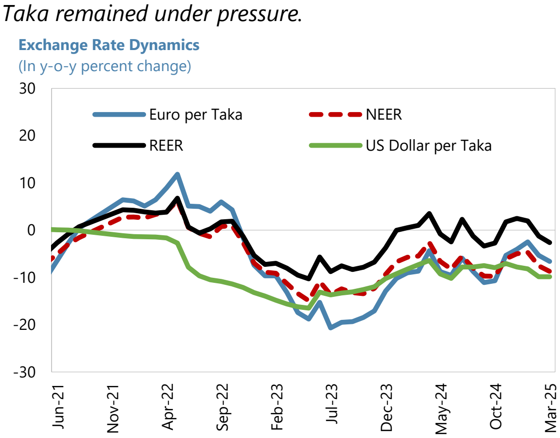
Workers' remittances have been recovering…



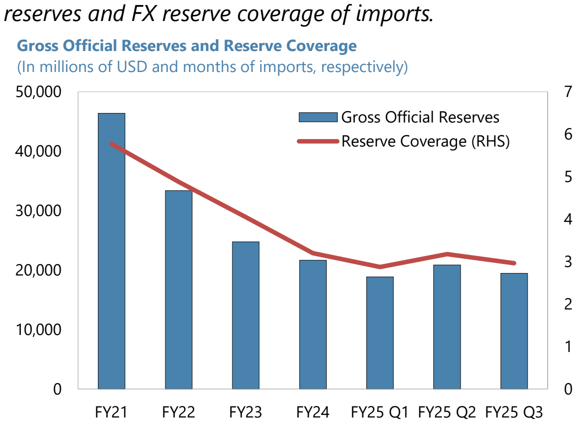
…which has helped narrow the current account deficit significantly



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



Reduced FX interventions helped stabilize the decline in FX reserves and FX reserve coverage of imports.

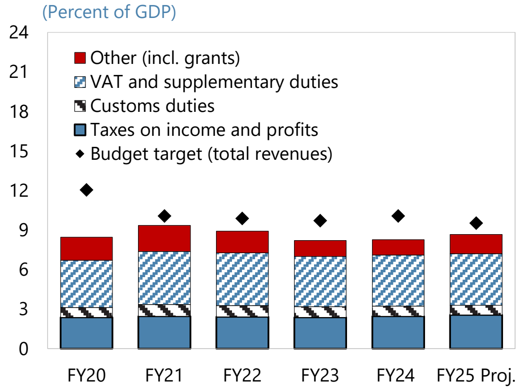


Sources: Bangladesh Bank; Haver Analytics; FRED; INS; and IMF staff calculations.

Figure 4. Bangladesh: Fiscal Developments

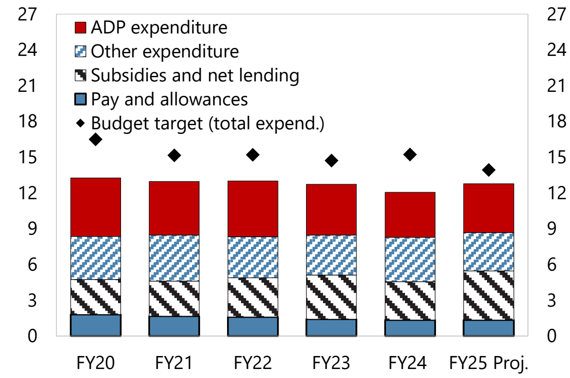
Revenue collection has yet to produce additional gains.

Central Government Revenue
(Percent of GDP)



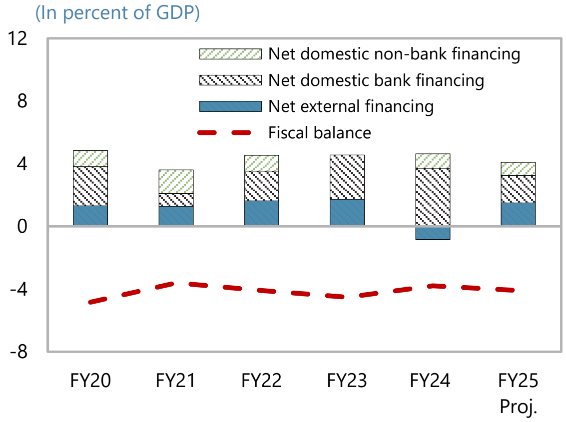
Spending has been contained to support monetary tightening.

Central Government Expenditure
(Percent of GDP)



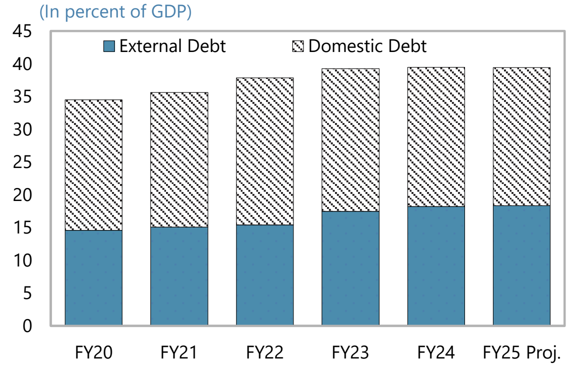
As a result, fiscal deficit has been kept in check.

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



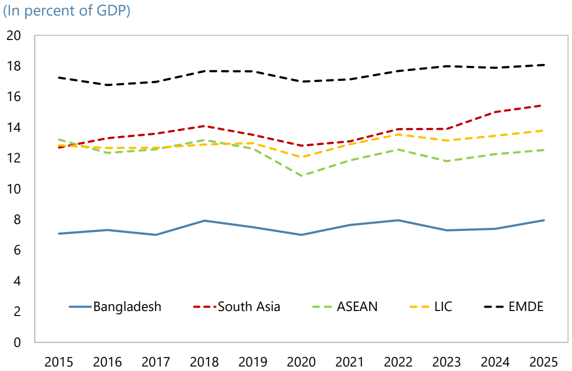
Public debt has been kept sustainable.

Total Public Debt
(In percent of GDP)



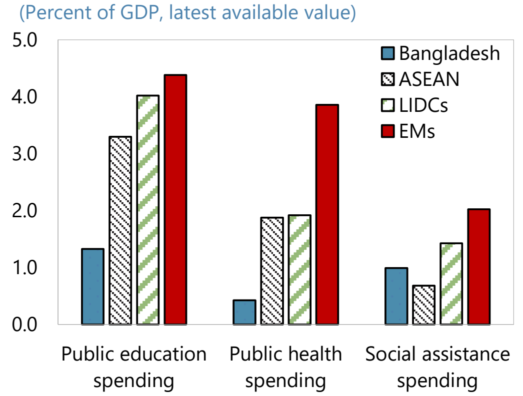
Revenue collection has been persistently low.

Tax Revenue
(In percent of GDP)



This has constrained social and development spending.

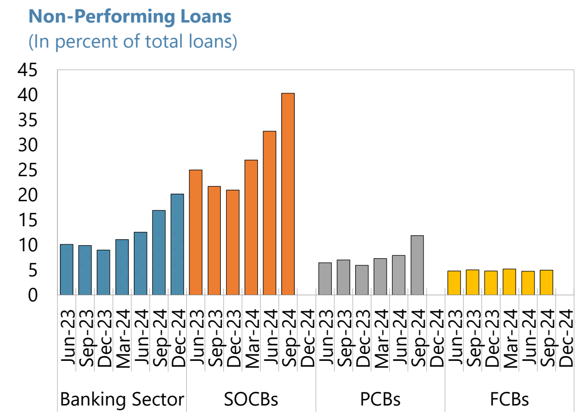
Government Social Spending
(Percent of GDP, latest available value)



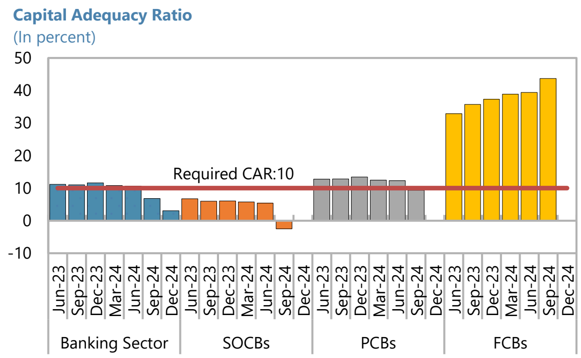
Sources: Bangladesh Ministry of Finance; World Economic Outlook; and IMF staff calculations.

Figure 5. Bangladesh: Banking Sector Developments

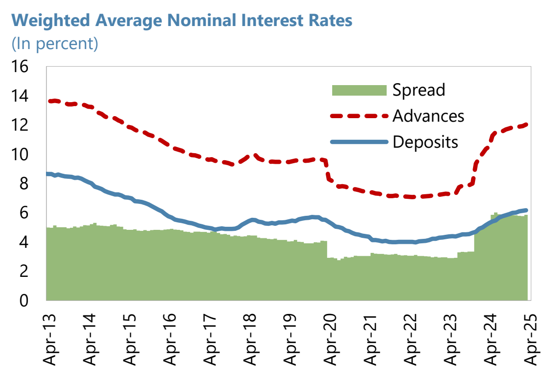
Elevated NPLs are expected to increase further in 2025, following strengthened regulation on loan classification and forbearance, and upcoming AQRs.



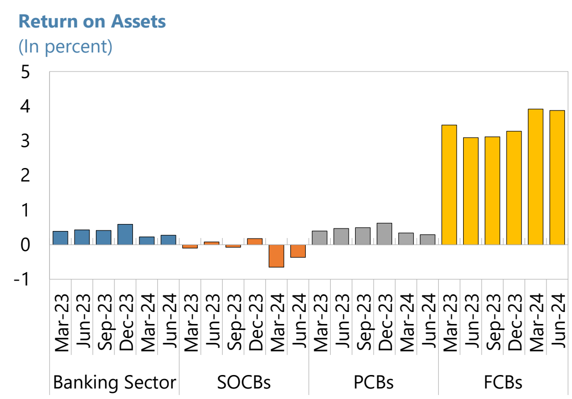
Capital adequacy ratios have fallen below regulatory minimum levels and may decline further as reported NPLs increase.



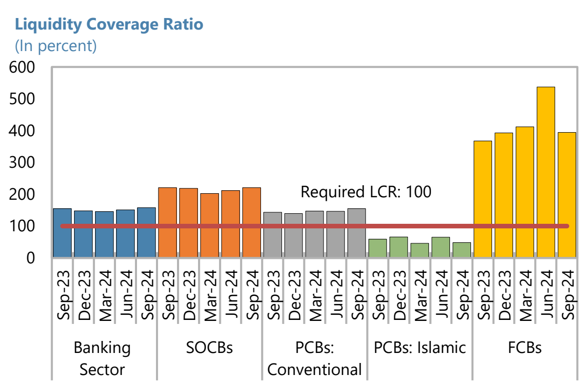
Interest margins have widened.



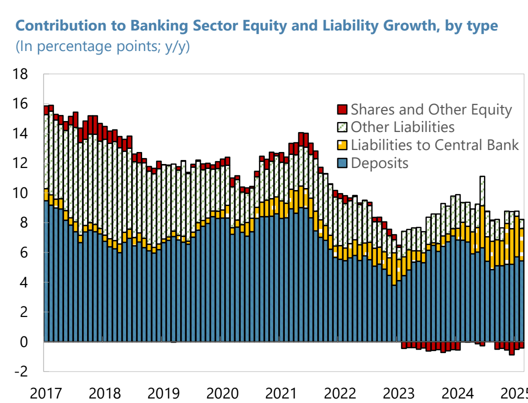
However, profitability has deteriorated in domestic banks due to increased loan loss provisioning.



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



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



Source: Bangladesh Bank; 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	3.8	5.4	6.2	6.2	7.9	6.8
Consumption								
Private	2.0	6.0	6.0	5.4	5.4	5.9	7.9	6.8
Public	8.5	9.8	4.1	-4.3	16.1	11.3	11.2	6.9
Gross Capital Formation	2.2	3.3	-0.1	5.8	6.8	8.8	8.7	6.5
Private	2.9	4.3	0.3	3.3	5.2	9.0	9.5	6.5
Public	0.0	-0.2	-1.3	14.9	11.9	8.2	6.5	6.5
Trade								
Exports of goods and services	8.0	-17.1	5.2	19.8	12.7	8.0	9.3	5.7
Imports of goods and services	-9.8	-4.6	5.8	11.6	11.9	12.4	11.2	5.6
Prices								
GDP deflator	6.9	6.9	10.3	6.2	6.5	5.4	5.5	5.7
CPI inflation (annual average)	9.0	9.7	9.9	6.2	6.3	5.6	5.6	5.6
CPI inflation (end of period)	9.7	9.7	8.3	6.5	5.9	5.7	5.4	5.6
Central government operations (in percent of GDP)								
Total revenue and grants	8.2	8.3	8.7	9.5	10.0	10.0	10.1	10.2
Of which : Tax revenue	7.3	7.4	7.7	8.6	9.2	9.2	9.3	9.3
Total expenditure	12.7	12.1	12.8	13.5	14.5	15.0	15.1	15.3
Of which : Annual Development Program (ADP)	4.3	3.8	4.2	4.3	5.0	5.2	5.2	5.1
Overall balance (including grants)	-4.5	-3.8	-4.2	-4.1	-4.5	-5.0	-5.0	-5.1
(excluding grants)	-4.6	-3.9	-4.3	-4.1	-4.6	-5.0	-5.0	-5.1
Primary balance (including grants)	-2.5	-1.5	-2.0	-2.0	-2.2	-2.6	-2.6	-2.6
Public sector total debt 2/	39.7	41.0	40.7	41.8	42.1	43.2	43.3	44.0
Of which : External debt	17.5	18.6	18.6	19.2	18.6	18.2	17.4	16.9
Balance of Payments (in percent of GDP)								
Current account balance	-2.6	-1.4	-1.0	-0.7	-0.9	-1.7	-2.0	-2.0
Trade balance	-4.7	-5.9	-5.9	-5.1	-5.3	-6.0	-6.3	-6.4
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	1.1	1.4	1.7	2.3	2.4	2.6
Foreign direct investment, net	0.4	0.4	0.2	0.5	0.6	0.9	1.0	1.2
Gross international reserves (billions of U.S. dollars)	24.8	21.7	23.6	29.0	34.1	38.1	41.1	44.2
in months of next year's imports	4.1	3.3	3.2	3.5	3.7	3.6	3.5	3.7
Monetary and Credit (in percent of GDP)								
Reserve money	8.5	8.2	8.2	8.9	9.1	9.2	9.2	9.2
Broad money (M2)	50.7	48.4	45.0	45.5	46.4	47.3	48.4	49.4
Credit to private sector	35.3	34.5	32.0	31.7	32.2	33.5	33.7	34.1
Credit to private sector (percent change)	9.1	8.8	6.2	10.7	14.8	16.4	14.7	14.0
Savings and Investment (in percent of GDP)								
Gross national savings	29.9	28.3	28.7	28.8	28.8	28.4	28.2	28.2
Public	0.3	0.5	0.3	1.4	1.5	1.3	1.2	1.1
Private	29.7	27.9	28.4	27.4	27.2	27.1	26.9	27.0
Gross investment	31.0	30.7	29.6	29.5	29.7	30.1	30.2	30.2
Public	6.8	6.7	6.4	7.0	7.3	7.4	7.3	7.3
Private	24.2	24.0	23.2	22.5	22.4	22.7	22.9	22.9
Memorandum item:								
Nominal GDP (in billions of taka)	44,908	50,027	57,246	64,116	72,509	81,154	92,389	104,307

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	-4,465	-3,362	-4,972	-10,155	-13,223	-14,675
Trade balance	-30,515	-26,240	-27,816	-25,728	-28,438	-35,335	-41,365	-45,932
Exports (f.o.b.)	43,364	40,810	44,303	52,960	60,532	65,747	72,851	80,135
Of which: Ready-made garment sector	38,176	36,130	39,218	46,738	53,164	56,839	61,640	66,168
Imports (f.o.b.) 2/	-70,748	-63,242	-67,324	-75,744	-85,844	-97,037	-109,173	-120,497
Services	-3,131	-3,808	-4,795	-2,944	-3,126	-4,045	-5,043	-5,569
Income	-3,407	-4,817	-4,507	-4,846	-5,240	-5,259	-5,336	-5,766
Transfers	22,289	24,545	27,858	27,212	28,706	30,439	33,479	37,022
Official current transfers 3/	88	72	50	30	30	50	50	50
Private transfers	22,201	24,473	27,808	27,182	28,676	30,389	33,429	36,972
Of which: Workers' remittances	21,611	23,912	27,359	26,743	28,213	29,898	32,888	36,375
Capital and financial account balance 4/	7,365	5,099	5,559	7,634	9,707	14,402	16,639	19,640
Capital account	475	554	515	615	663	724	806	891
Financial account	6,890	4,545	5,044	7,020	9,044	13,678	15,832	18,749
Foreign direct investment	1,649	1,697	881	2,304	3,316	5,430	6,719	8,911
Portfolio investment	-30	-62	122	422	539	642	672	891
Medium- and long-term loans, net	7,393	7,908	7,603	6,300	6,713	9,050	9,650	10,414
Government, net	6,959	7,659	7,653	5,998	6,423	7,363	8,143	9,087
Disbursements	8,704	9,680	10,465	9,128	9,813	10,924	11,713	12,657
Amortization	-1,745	-2,021	-2,812	-3,130	-3,390	-3,561	-3,570	-3,570
Others	-2,122	-4,998	-3,563	-2,007	-1,524	-1,443	-1,209	-1,467
of which: Short-term loans and trade credits, net	649	-3,336	-3,071	-2,006	-1,756	-1,806	-1,680	-1,857
Errors and omissions	-3,954	-2,888	-1,982	0	0	0	0	0
Overall balance	-8,222	-4,301	1,094	4,272	4,735	4,247	3,416	4,965
Financing items	8,222	3,833	-1,094	-4,272	-4,735	-4,247	-3,416	-4,965
Reserve assets (+ decrease; excl. RSF)	…	3,495	-1,440	-4,991	-5,068	-4,025	-2,995	-3,092
Financing gap	0	468	0	0	0	0	0	0
			(in percent of GDP)					
Current account balance	-2.6	-1.4	-1.0	-0.7	-0.9	-1.7	-2.0	-2.0
Trade balance	-6.8	-5.8	-5.9	-5.1	-5.3	-6.0	-6.3	-6.4
Exports (f.o.b.)	9.6	9.0	9.5	10.5	11.4	11.2	11.2	11.1
Imports (f.o.b.)	-15.7	-14.0	-14.4	-15.1	-16.1	-16.6	-16.7	-16.7
Services	-0.7	-0.8	-1.0	-0.6	-0.6	-0.7	-0.8	-0.8
Income	-0.8	-1.1	-1.0	-1.0	-1.0	-0.9	-0.8	-0.8
Transfers	4.9	5.4	6.0	5.4	5.4	5.2	5.1	5.1
Of which: Workers' remittances	4.8	5.3	5.8	5.3	5.3	5.1	5.0	5.0
Capital account	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account	1.5	1.0	1.1	1.4	1.7	2.3	2.4	2.6
Foreign direct investment	0.4	0.4	0.2	0.5	0.6	0.9	1.0	1.2
Portfolio investment	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Medium- and long-term loans, net	2.0	2.1	2.0	1.7	1.8	2.4	2.6	2.8
Other investment, net	-0.5	-1.1	-0.8	-0.4	-0.3	-0.2	-0.2	-0.2
Memorandum items:								
Remittances (annual percent change)	2.8	10.6	14.4	-2.3	5.5	6.0	10.0	10.6
Medium- and long-term external public debt	74,007	78,860	86,375	92,943	98,714	105,248	112,437	120,299
(Percent of GDP)	17.5	18.6	18.6	19.2	18.6	18.2	17.4	16.9
Gross official reserves (incl. RSF) 5/	24,754	21,685	23,571	29,011	34,078	38,104	41,098	44,190
(In months of imports of goods and services)	4.1	3.3	3.2	3.5	3.7	3.6	3.5	3.7
Net international reserves (incl. RSF) 5/	20,011	16,627	18,730	24,118	29,039	32,892	35,740	39,990
(In months of imports of goods and services)	3.3	2.5	2.6	2.9	3.1	3.1	3.1	3.4
Gross official reserves (excl. RSF)	…	21,259	23,125	28,563	…	…	…	…
Net international reserves (excl. RSF)	…	16,201	18,284	23,670	…	…	…	…
Nominal GDP	451,534	451,096	467,812	502,237	533,076	586,160	652,647	720,997

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 Taka, unless otherwise indicated)

	FY23	FY24		FY25		FY26	FY27	FY28	FY29	FY30
		Budget	Actual	Budget	Proj.			Proj.		
Total revenue and grants	3,686	4,815	4,140	5,454	4,966	6,083	7,263	8,117	9,352	10,589
Total revenue	3,659	4,780	4,090	5,410	4,904	6,033	7,223	8,084	9,345	10,582
Tax revenue	3,277	4,290	3,697	4,950	4,435	5,507	6,688	7,485	8,561	9,696
National Board of Revenue (NBR) taxes	3,195	4,100	3,613	4,800	4,264	5,293	6,446	7,215	8,252	9,348
Of which : VAT and supplementary duties	1,712	2,130	1,934	2,494	2,328	2,928	3,575	4,002	4,556	5,143
Of which: VAT on imports	456	553	502	647	604	760	928	1,039	1,183	1,336
Taxes on income and profits	1,071	1,409	1,234	1,650	1,412	1,790	2,206	2,469	2,815	3,182
Customs and excise duties	388	508	426	594	467	523	591	662	789	917
Non-NBR taxes	81	190	85	150	171	214	242	271	308	348
Nontax revenue	382	490	393	460	469	526	535	599	784	885
Foreign grants	27	35	50	44	61	50	40	32	7	7
Total expenditure	5,715	7,144	6,033	7,970	7,349	8,687	10,537	12,173	13,970	15,931
Current expenditure	3,572	4,341	3,912	4,690	4,789	5,177	6,143	7,081	8,209	9,396
Pay and allowances	634	757	674	840	771	863	1,025	1,147	1,371	1,548
Goods and services	333	429	395	478	453	381	510	657	746	844
Interest payments	921	1,053	1,148	1,130	1,215	1,296	1,679	1,947	2,216	2,629
Subsidies and transfers 2/	1,685	2,102	1,696	2,242	2,350	2,637	2,929	3,330	3,875	4,375
Of which: Electricity subsidy	295	350	330	400	596	390	392	306	306	345
Of which: Fertilizer subsidy	260	175	243	170	280	270	354	226	225	254
Of which: Other subsidies	293	293	293	460	364	690	681	1,065	1,287	1,453
Block allocations	0	0	0	0	0	0	0	0	0	0
Annual Development Program (ADP)	1,912	2,450	1,890	2,650	2,388	2,753	3,617	4,189	4,832	5,335
Non-ADP capital spending	260	342	264	544	114	641	653	771	785	1,043
Net lending 3/	-21	24	-85	85	6	64	73	81	92	104
Other expenditures 4/	-8	-12	52	1	52	52	52	52	52	52
Overall balance (including grants)	-2,028	-2,329	-1,893	-2,516	-2,383	-2,604	-3,274	-4,056	-4,618	-5,342
(Excluding grants)	-2,056	-2,364	-1,943	-2,560	-2,445	-2,654	-3,313	-4,089	-4,625	-5,349
Primary balance (including grants)	-1,104	-1,104	-746	-1,386	-1,168	-1,308	-1,595	-2,110	-2,402	-2,713
(Excluding grants)	-1,131	-1,131	-796	-1,430	-1,230	-1,358	-1,635	-2,142	-2,409	-2,720
Net financing	2,029	2,561	1,894	2,516	2,383	2,604	3,274	4,056	4,618	5,342
External	782	763	-421	907	758	670	785	905	1,018	1,144
Disbursements	958	1,027	-122	1,272	1,281	1,165	1,335	1,512	1,658	1,831
Of which: RSF financing	…		47		55	57	…	…	…	…
Amortization	-175	-264	-299	-365	-522	-496	-550	-608	-640	-687
Domestic	1,247	1,566	2,315	1,609	1,625	1,934	2,489	3,152	3,601	4,197
Banks	1,262	1,559	1,860	1,375	1,142	1,428	1,889	2,481	2,837	3,335
Of which: Bangladesh Bank-IMF Budget support	22		122		108	113	…	…	…	…
Nonbanks 5/	-14	7	455	234	483	506	599	671	764	862
Of which: National Saving Certificate	-33	-73	300	154	289	266	301	337	384	433

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	9.5	8.3	9.7	8.7	9.5	10.0	10.0	10.1	10.2
Total revenue	8.1	9.5	8.2	9.7	8.6	9.4	10.0	10.0	10.1	10.1
Tax revenue	7.3	8.5	7.4	8.8	7.7	8.6	9.2	9.2	9.3	9.3
National Board of Revenue (NBR) taxes	7.1	8.1	7.2	8.6	7.4	8.3	8.9	8.9	8.9	9.0
Of which : VAT and supplementary duties	3.8	4.2	3.9	4.5	4.1	4.6	4.9	4.9	4.9	4.9
Of which: VAT on imports	1.0	1.1	1.0	1.2	1.1	1.2	1.3	1.3	1.3	1.3
Taxes on income and profits	2.4	2.8	2.5	2.9	2.5	2.8	3.0	3.0	3.0	3.1
Customs and excise duties	0.9	1.0	0.9	1.1	0.8	0.8	0.8	0.8	0.9	0.9
Non-NBR taxes	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenue	0.9	1.0	0.8	0.8	0.8	0.8	0.7	0.7	0.8	0.8
Foreign grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Total expenditure	12.7	14.2	12.1	14.2	12.8	13.5	14.5	15.0	15.1	15.3
Current expenditure	8.0	8.6	7.8	8.4	8.4	8.1	8.5	8.7	8.9	9.0
Pay and allowances	1.4	1.5	1.3	1.5	1.3	1.3	1.4	1.4	1.5	1.5
Goods and services	0.7	0.8	0.8	0.9	0.8	0.6	0.7	0.8	0.8	0.8
Interest payments	2.1	2.1	2.3	2.0	2.1	2.0	2.3	2.4	2.4	2.5
Subsidies and transfers 2/	3.8	4.2	3.4	4.0	4.1	4.1	4.0	4.1	4.2	4.2
Of which: Electricity subsidy	0.7	0.7	0.7	0.7	1.0	0.6	0.5	0.4	0.3	0.3
Of which: Fertilizer subsidy	0.6	0.3	0.5	0.3	0.5	0.4	0.5	0.3	0.2	0.2
Of which: Other subsidies	0.7	0.6	0.6	0.8	0.6	1.1	0.9	1.3	1.4	1.4
Block allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Annual Development Program (ADP)	4.3	4.9	3.8	4.7	4.2	4.3	5.0	5.2	5.2	5.1
Non-ADP capital spending	0.6	0.7	0.5	1.0	0.2	1.0	0.9	1.0	0.9	1.0
Net lending 3/	0.0	0.0	-0.2	0.2	0.0	0.1	0.1	0.1	0.1	0.1
Other expenditures 4/	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Overall balance (including grants)	-4.5	-4.6	-3.8	-4.5	-4.2	-4.1	-4.5	-5.0	-5.0	-5.1
(Excluding grants)	-4.6	-4.7	-3.9	-4.6	-4.3	-4.1	-4.6	-5.0	-5.0	-5.1
Primary balance (including grants)	-2.5	-2.2	-1.5	-2.5	-2.0	-2.0	-2.2	-2.6	-2.6	-2.6
(Excluding grants)	-2.5	-2.2	-1.6	-2.6	-2.1	-2.1	-2.3	-2.6	-2.6	-2.6
Net financing	4.5	5.1	3.8	4.5	4.2	4.1	4.5	5.0	5.0	5.1
External	1.7	1.5	-0.8	1.6	1.3	1.0	1.1	1.1	1.1	1.1
Disbursements	2.1	2.0	-0.2	2.3	2.2	1.8	1.8	1.9	1.8	1.8
Of which: RSF financing	...	0.0	0.1	0.0	0.1	0.1	...	...	...	...
Amortization	-0.4	-0.5	-0.6	-0.7	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7
Domestic	2.8	3.1	4.6	2.9	2.8	3.0	3.4	3.9	3.9	4.0
Banks	2.8	3.1	3.7	2.5	2.0	2.2	2.6	3.1	3.1	3.2
Nonbanks 5/	0.0	0.0	0.9	0.4	0.8	0.8	0.8	0.8	0.8	0.8
Of which: National Saving Certificate	-0.1	-0.1	0.6	0.3	0.5	0.4	0.4	0.4	0.4	0.4
Memorandum items:										
Total central government debt (percent of GDP)	39.7	...	41.0	...	40.7	41.8	42.1	43.2	43.3	44.0
Nominal GDP (in billions of taka)	44,908	50,480	50,027	55,974	57,246	64,116	72,509	81,154	92,389	104,307

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, FY23-30 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	1,986	2,223	2,981	3,756	4,391	4,885	5,625
Net domestic assets	1,559	2,131	2,460	2,695	2,826	3,047	3,624	4,014
Net credit to central government 2/	1,440	1,471	1,450	1,459	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	1,268	1,268	1,268	1,268	1,268	1,268	1,268
Other items, net	-1,152	-620	-270	-44	205	426	1,002	1,393
Reserve money 3/	3,818	4,117	4,683	5,676	6,583	7,438	8,509	9,639
Currency	2,901	2,671	3,159	3,948	4,582	5,150	5,838	6,553
Reserves	917	1,446	1,524	1,728	2,001	2,288	2,670	3,086
	(Contributions to reserve money growth)							
Reserve money (year-on-year percentage change)	10.5	7.8	13.8	21.2	16.0	13.0	14.4	13.3
Net foreign assets	-34.6	-7.2	5.8	16.2	13.7	9.6	6.6	8.7
Net domestic assets	45.1	15.0	8.0	5.0	2.3	3.4	7.8	4.6
Of which : Net credit to central government	28.7	0.8	-0.5	0.2	-2.1	0.0	0.0	0.0
Monetary survey	(End of period; in billions of taka)							
Net foreign assets	2,099	2,046	2,255	2,980	3,715	4,305	4,747	5,426
Bangladesh Bank	2,259	1,986	2,223	2,981	3,756	4,391	4,885	5,625
Commercial banks	-161	60	32	-2	-41	-86	-138	-199
Net domestic assets	20,663	22,154	23,517	26,194	29,965	34,114	39,948	46,071
Domestic credit	23,865	27,287	29,530	32,952	37,876	44,211	51,075	58,807
Net credit to central government 2/	7,306	9,439	10,580	12,008	13,897	16,379	19,215	22,550
Credit to other nonfinancial public sector	349	298	319	338	361	382	409	435
Credit to nonbank financial institutions	342	283	292	302	302	298	295	291
Credit to private sector	15,869	17,268	18,339	20,303	23,317	27,152	31,156	35,531
Other items, net	-3,202	-5,133	-6,013	-6,758	-7,912	-10,097	-11,128	-12,736
Broad money (M2)	22,762	24,200	25,772	29,174	33,680	38,418	44,694	51,498
	(Year-on-year percent change)							
Net foreign assets	-30.6	-2.5	10.2	32.1	24.7	15.9	10.3	14.3
Net domestic assets	15.0	7.2	6.2	11.4	14.4	13.8	17.1	15.3
Domestic credit	11.2	14.3	8.2	11.6	14.9	16.7	15.5	15.1
Of which : Net credit to central government	15.7	29.2	12.1	13.5	15.7	17.9	17.3	17.4
Credit to private sector	9.1	8.8	6.2	10.7	14.8	16.4	14.7	14.0
Broad money (M2)	8.4	6.3	6.5	13.2	15.4	14.1	16.3	15.2
Memorandum items:	(In percent of GDP, unless otherwise indicated)							
Reserve money 3/	8.5	8.2	8.2	8.9	9.1	9.2	9.2	9.2
Broad money (M2)	50.7	48.4	45.0	45.5	46.4	47.3	48.4	49.4
Credit to private sector	35.3	34.5	32.0	31.7	32.2	33.5	33.7	34.1
Broad money multiplier (ratio)	6.0	5.9	5.5	5.1	5.1	5.2	5.3	5.3
Broad money velocity (ratio)	2.0	2.1	2.2	2.2	2.2	2.1	2.1	2.0

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)

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25Q1	FY25Q2
Capital adequacy									
Regulatory capital to risk-weighted assets	12.1	11.6	12.5	12.0	11.2	11.2	10.6	6.9	3.1
State-owned commercial banks	10.3	5.0	9.6	8.1	6.4	6.8	5.4	-2.5	.
Private commercial banks	12.8	13.6	13.7	13.7	13.0	12.8	12.3	9.4	.
Foreign commercial banks	25.9	24.5	28.4	25.9	26.4	32.9	39.5	43.7	.
Asset quality									
Nonperforming loans to total loans	10.3	9.3	7.7	7.9	9.0	10.1	12.6	16.9	20.2
State-owned commercial banks	30.0	23.9	20.9	19.3	21.9	25.0	32.8	40.4	.
Private commercial banks	5.5	5.8	4.7	5.3	6.0	6.5	7.9	11.9	.
Foreign commercial banks	6.5	5.7	3.5	4.3	4.4	4.8	4.7	5.0	.
Management									
Expenditure-Income Ratio	76.6	78.0	79.2	77.0	78.3	81.1	.	.	.
State-owned commercial banks	80.5	84.9	83.2	86.1	82.3	81.9	.	.	.
Private commercial banks	76.7	77.6	79.6	75.3	76.3	81.0	.	.	.
Foreign commercial banks	47.5	48.8	46.2	43.9	35.2	35.0	.	.	.
Earnings									
Return on equity (BB) 2/	3.9	6.8	4.3	4.4	4.4	7.9	4.3	.	.
State-owned commercial banks	-29.6	-13.7	-29.6	-21.6	-21.6	2.3	-19.1	.	.
Private commercial banks	11.0	11.2	10.2	9.3	9.3	7.7	5.9	.	.
Foreign commercial banks	12.4	13.4	13.1	7.6	7.6	17.3	19.9	.	.
Return on assets (BB) 3/	0.3	0.4	0.3	0.3	0.5	0.4	0.3	.	.
State-owned commercial banks	-1.3	-0.6	-1.1	-0.7	0.2	0.1	-0.4	.	.
Private commercial banks	0.8	0.8	0.7	0.6	0.6	0.5	0.3	.	.
Foreign commercial banks	2.2	2.3	2.1	1.2	2.6	3.1	3.9	.	.
Liquidity									
Liquidity Ratio	18.2	19.9	26.2	25.4	24.0	24.8	.	.	.
State-owned commercial banks	24.8	27.3	37.8	35.4	32.9	28.2	.	.	.
Private commercial banks	14.2	16.4	20.9	20.1	19.3	21.4	.	.	.
Foreign commercial banks	48.4	29.7	40.7	42.0	41.4	49.5	.	.	.

Source: Bangladesh Bank.

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 6a. Bangladesh: Proposed Schedule of Purchases and Disbursements for ECF/EFF Arrangements

	Amount of Disbursements						Conditions
	(million SDRs)			(Percent of Quota)			
Available on or after	Total	ECF	EFF	Total	ECF	EFF	
January 30, 2023	352.35	117.45	234.90	33.0	11.0	22.0	Board approval of the arrangement
November 1, 2023	352.35	117.45	234.90	33.0	11.0	22.0	Board completion of first review
May 1, 2024	704.70	234.90	469.80	66.1	22.0	44.0	Board completion of second review
November 1, 2024	325.25	108.42	216.83	30.5	10.2	20.3	Board completion of third review based on observance of end-June 2024 performance criteria.
May 1, 2025	325.25	108.42	216.83	30.5	10.2	20.3	Board completion of fourth review based on observance of end-December 2024 performance criteria.
October 31, 2025	325.25	108.42	216.83	30.5	10.2	20.3	Board completion of fifth review based on observance of end_June 2025 performance criteria.
May 1, 2026	325.25	108.41	216.84	30.5	10.2	20.3	Board completion of sixth review based on observance of performance criteria for end-December 2025
October 31, 2026	325.25	108.42	216.83	30.5	10.2	20.3	Board completion of seventh review based on observance of performance criteria for end-June 2026
Total	3,035.65	1,011.89	2,023.76	284.6	94.9	189.7	

Source: IMF.

Table 6b. Bangladesh: Schedule of Disbursements for RSF

Available on or after	Amount of Disbursements: million SDRs	Amount of Disbursements: Percent of Quota	Conditions
January 30, 2023	-	-	Board approval of the arrangement
November 1, 2023	166.67	15.8	Reform measure 1 implementation review
May 1, 2024	83.34	7.8	Reform measure 2 implementation review
May 1, 2024	83.34	7.8	Reform measure 3 implementation review
November 1, 2024	83.34	7.8	Reform measure 4 implementation review
November 1, 2024	83.33	7.8	Reform measure 5 implementation review
May 1, 2025	83.33	7.8	Reform measure 6 implementation review
May 1, 2025	83.33	7.8	Reform measure 7 implementation review
October 31, 2025	83.33	7.8	Reform measure 8 implementation review
October 31, 2025	83.33	7.8	Reform measure 9 implementation review
May 1, 2026	83.33	7.8	Reform measure 10 implementation review
May 1, 2026	83.33	7.8	Reform measure 11 implementation review
Total	1,000.00	93.8	

Source: IMF.

Table 7. Bangladesh: Quantitative Performance Criteria and Indicative Targets 1/2/

(In billions of Taka, unless otherwise indicated)

	FY23/24			FY24/25			FY24/25					FY25/26			
	End-Jun PC			End-Sep			End-Dec			End-Mar	End-Jun	End-Sep	End-Dec	End-Mar	End-Jun
	PC 3/	Actual	Status	IT	Actual	Status	PC	Actual	Status	IT	PC	IT	PC	IT	IT
Quantitative performance criteria:															
Floor on net international reserves (NIR, millions of US$) 4/	14,786	16,118	Met	14,902	15,084	Met	15,317	16,167	Met	16,701	17,401	18,653	19,904	21,156	22,407
Floor on primary balance (PB) 5/ 11/	-1,383.6	-746.3	Met	-903.5	461.9	Met	-899.1	326.3	Met	-830.0	-1,167.8	-987.2	-949.5	-839.2	-1,308.0
Floor on tax revenue											4,435.3	1,101.4	2,478.2	3,854.9	5,507.0
Ceiling on accumulation of external payments arrears 6/ 7/	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on stock of external payment arrears of SOEs in the energy and fertilizer sectors (millions of US$) 8/											870	716	562	408	254
Ceiling on central government's stock of domestic payments arrears to SOEs in the energy and fertilizer sectors 8/											280.7	210.7	140.7	70.7	0.0
Indicative targets:															
Ceiling on reserve money (RM)	4,257.7	4,117.4	Met	3,971.9	3,734.0	Met	4,165	3,805.0	Met	4,358.0	4,683.3	4,931.5	5,179.7	5,427.9	5,676.1
Celing on BB' stock of quasi-fiscal lending in foreign currency (millions of US$) 9/											4,013.3	3,989.9	3,865.8	3,818.0	3,770.4
Celing on BB's stock of quasi-fiscal lending in domestic currency 10/											362.1	349.1	332.1	312.1	297.1
PV of new external borrowing (US$)												1,917.5	3,338.9	4,335.8	8,437.3
Ceiling on accumulation of domestic payments arrears 7/ 11/											0.0	0.0	0.0	0.0	0.0
Floor on tax revenue	3,945.3	3,697.5	Missed	956.1	763.7	Missed	2,151.2	1,637.9	Missed	3,346.3	...	...	...	...	...
Floor on priority social spending of the Government of Bangladesh 12/ 14/	1,449.5	1,542.3	Met	247.7	220.6	Missed	578.0	596.2	Met	1,156.1	1,774.5	316.4	738.8	1,476.7	2,109.0
Floor on capital investment undertaken by the Government of Bangladesh 13/ 14/	1,445.4	1,254.8	Missed	132.8	367.3	Met	398.5	564.7	Met	531.3	1,545.5	156.9	396.9	627.6	1,620.0

Sources: Bangladesh's authorities; and IMF staff estimates/projections.

***In addition to QPCs enumerated in this table, the Standard Continuous Performance Criteria will also apply: (i) Not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions; (ii) Not to introduce new or intensify existing multiple currency practices; (iii) Not to conclude bilateral payments agreement that are inconsistent with the IMF's Articles of Agreement (Article III); and (iv) Not to impose new or intensify existing import restrictions for balance of payments reasons.

1/ Fiscal year starts in July and ends in June.

2/ The quantitative targets, indicative targets and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).

3/ Approved in June 2024

4/ Net international reserves are gross reserves (based on BPM6 definition) minus the central bank FX liabilities and reserves earmarked for quasi-fiscal activities.

5/ Including grants

6/ This covers the central government, Bangladesh Bank, and non-financial SOEs

7/ This quantitative target is applied on a continuous basis.

8/ SOEs in the energy and fertilizer sectors are defined in the TMU.

9/ The quasi-fiscal schemes in foreign currency include EDF, GTF, LTFF, SBFF and Deposit with ITFC

10/ The quasi-fiscal schemes in domestic currency included in calculating the IT is further identified in the Technical Memorandum of Understanding

11/ This covers the central government only.

12/ Social spending that is domestically financed.

13/ Capital investment from annual development program that is domestically finance

14/ Quarterly target is projected in line with historical quarterly outturns and seasonality patterns reflecting backloaded disbursements.

Table 8. Bangladesh: External Financing Requirements and Sources, FY25-27 1/

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

	FY25	FY26	FY27
Gross Financing Requirements	**7,276.8**	**6,492.3**	**8,113.3**
Current account deficit excluding grants	4,464.7	3,362.5	4,972.4
Public sector loan amortization	2,812.2	3,129.8	3,389.5
Of which: IMF	295.1	196.9	-248.6
Identified Financing Sources	**3,509.9**	**4,018.0**	**6,348.4**
Capital account balance	515.1	614.5	663.2
Net foreign direct investment	880.8	2,304.0	3,316.0
Porfolio inflows	122.3	422.4	538.9
Public sector loan disbursements	6,548.1	7,227.4	8,422.0
Other capital flows (net)	-3,562.5	-2,006.8	-1,524.1
Change in reserves (+ decrease; excl. RSF)	-1,440.2	-4,991.4	-5,067.5
Financing Gap	**3,766.9**	**2,474.2**	**1,764.9**
Prospective Financing 2/	**3,766.9**	**2,474.2**	**1,764.9**
World Bank	1,000.0	500.0	500.0
Asian Development Bank	900.0	400.0	600.0
Other multilateral and bilateral 3/	996.0	700.0	240.0
Financing from IMF (ECF/EFF disbursement)	870.9	874.2	424.9
Exceptional Financing/Residual Gap	**0.0**	**0.0**	**0.0**
RSF disbursement	446.3	447.9	0.0
Change in reserves (+ decrease; incl. RSF)	-1,886.5	-5,439.3	-5,067.5

Sources: Bangladesh's authorities; and IMF staff projections.

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

2/Of the prospective financing amounts some are pending approval.

3/Includes Agence Française de Développement, Asian Infrastructure Investment Bank, Japan International Cooperation Agency, and OPEC Fund for International Development.

Table 9. Bangladesh: Indicators of Fund Credit, 2025-2046 1/2/

	FY25	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	134.5	143.3	204.4	334.3	477.7	559.3	609.0	607.4	510.4	368.9	258.4	161.8	128.9	125.1	121.4	117.6	113.8	110.1	98.0	69.7	25.7
Percent of exports of goods and services	0.7	0.3	0.3	0.4	0.5	0.7	0.7	0.7	0.6	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	7.4	3.4	3.3	4.7	7.6	10.7	11.3	11.2	10.5	8.3	5.5	3.5	2.0	1.5	1.3	1.1	1.0	0.9	0.8	0.6	0.4	0.1
Percent of GDP	0.074	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	1.5	0.6	0.6	0.7	1.1	1.5	1.3	1.4	1.3	1.0	0.6	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Percent of quota	24.4	12.6	13.4	19.2	31.3	44.8	52.4	57.1	56.9	47.9	34.6	24.2	15.2	12.1	11.7	11.4	11.0	10.7	10.3	9.2	6.5	2.4
Principal																						
GRA	0.0	0.0	0.0	58.7	156.6	246.9	319.2	337.3	337.3	278.6	180.7	90.3	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	148.2	191.5	202.4	167.1	108.4	54.2	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	75.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	91.7	66.7	25.0
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	3,444.2	2,976.8	2,448.0	1,908.3	1,454.2	1,131.8	912.2	783.3	683.3	583.3	483.3	383.3	283.3	183.3	91.7	25.0	0.0
GRA	1,373.3	1,806.9	2,023.8	1,965.0	1,808.4	1,561.5	1,242.3	905.0	567.7	289.1	108.4	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	734.5	543.0	340.6	173.5	65.1	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	883.3	783.3	683.3	583.3	483.3	383.3	283.3	183.3	91.7	25.0	0.0
Percent of exports of goods and services	7.6	8.4	7.9	7.1	6.1	5.0	3.9	2.8	1.9	1.3	0.9	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Percent of debt service	83.2	98.5	96.3	93.6	86.9	77.0	60.2	45.2	33.1	23.7	16.9	12.3	9.7	7.7	6.0	4.5	3.2	2.2	1.3	0.6	0.1	0.0
Percent of GDP	0.8	1.0	1.0	0.9	0.8	0.6	0.5	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	16.4	17.7	16.3	14.2	12.5	10.5	6.8	5.5	4.1	2.9	1.9	1.3	0.9	0.7	0.5	0.3	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	322.9	279.1	229.5	178.9	136.3	106.1	85.5	73.4	64.1	54.7	45.3	35.9	26.6	17.2	8.6	2.3	0.0
GRA	128.8	169.4	189.7	184.2	169.6	146.4	116.5	84.8	53.2	27.1	10.2	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	68.9	50.9	31.9	16.3	6.1	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	82.8	73.4	64.1	54.7	45.3	35.9	26.6	17.2	8.6	2.3	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	376.5	467.4	528.8	539.7	454.0	322.4	219.6	128.9	100.0	100.0	100.0	100.0	100.0	100.0	91.7	66.7	25.0
Memorandum Items:																						
Exports of goods and services (millions of U.S. dollars)	50,940	61,500	70,179	76,332	84,637	93,164	103,223	117,055	132,829	150,834	170,816	193,529	219,358	248,745	282,202	320,095	363,261	408,417	459,577	518,899	588,103	669,377
Debt service (millions of U.S. dollars)	4,658	5,218	5,752	5,795	5,902	6,017	6,657	7,287	7,766	8,263	8,994	9,943	10,859	11,868	13,146	14,428	15,930	17,436	19,325	21,354	23,598	26,077
Nominal GDP (millions of U.S. dollars)	467,812	502,237	533,076	586,160	652,647	720,997	738,930	919,398	1,016,801	1,124,523	1,243,658	1,375,414	1,521,129	1,682,281	1,860,505	2,057,612	2,275,600	2,516,682	2,783,306	3,078,175	3,404,285	3,764,942
Gross International Reserves (millions of U.S. dollars)	23,571	29,011	34,078	38,104	41,098	44,190	58,952	59,963	62,668	68,620	78,210	92,291	111,984	138,279	169,512	206,907	251,931	302,628	360,153	427,560	618,727	459,538
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/ Fiscal year in Bangladesh begins July 1 ends June 30.
2/ Bangladesh is classified as a low-income country.
Source: IMF staff calculations.

Table 10. Bangladesh: Prior Actions and Structural Benchmarks

A. Prior Actions

Measure	Macro-criticality
The FY26 budget incorporates tax policy measures, such as reducing VAT and income tax exemptions, which are estimated to generate BDT300 billion (0.5 percent of GDP)	Urgent need to offset revenue shortfalls and to address the emerging BOP financing gap
Bangladesh Bank: • issues a circular to: a. confirm that FE circular No. 09 from December 31, 2024, guides the functioning of the exchange rate regime and the FX market, including: (i) allowing FX dealers to trade at freely negotiated rates; (ii) enacting the new FX interventions strategy; and (iii) introducing the Reference Exchange Rate (RR) b. rescind FE Circular No. 01 from January 2, 2025. • Communicates, as detailed in the Technical Memorandum (TM) underlying this PA and the MEFP, to authorized dealers that it will not engage in moral suasion practices and will implement the exchange rate reform. • Provides data to the IMF for assessment of the implementation of this PA for the observation period of at least five weeks from the beginning of implementation, as detailed in the TM and the MEFP	Urgent need to ensure implementation of the new exchange rate regime and to safeguard foreign reserves

B. Proposed Structural Benchmarks through June 2026

Measure	Target Date	Depth	Macro-criticality/Objectives
Revenue Mobilization			
Government approves a development project proposal for digital transformation of income tax administration including e-return and e-payment framework	End-June 2025	M	Increase revenue collection to cover priority spending
NBR reviews the taxpayer registry and identify taxpayers with multiple tax identification numbers as a first step to unify current disparate taxpayer IDs (new)	End-December 2025	M	Improve tax administration and revenue collection
NBR mandates that all tax payments and returns for a Tax Deducted at Source are filed and paid electronically (new)	End-March 2026	M	Improve tax administration and revenue collection
Public Financial Management			
At least 50 percent of the value of central government transactions, excluding interest payments, subsidies, loans, equity, and liabilities are carried out via electronic funds transfer (EFT)	End-June 2025	M	Improve budget execution and increase fiscal transparency
MoF (i) classifies at least 120 SOEs and/or autonomous bodies (ABs) into sectors in accordance with the GFSM 2014; and (ii) publishes an SOE sector report that provides detailed analysis on the financial position of at least 40 SOEs and/or ABs selected based on largest liabilities and/or grants and subsidies received from the government	End-June 2025	L	Increase fiscal transparency and strengthen fiscal risk management
Ministry of Power, Energy and Mineral Resources adopts and publicly communicates a three-year roadmap (covering FY26-FY28) to reduce the gap between generation cost and selling price of electricity to a fiscally sustainable level, which will include tariff adjustment and measures to shield the vulnerable population as needed. (new)	End-September 2025	M	Rationalize untargeted subsidies to create fiscal space

Table 10. Bangladesh: Prior Actions and Structural Benchmarks (Concluded)			
Measure	**Target Date**	**Depth**	**Macro-criticality/Objectives**
Monetary Policy			
BB completes implementation of high-priority recommendations in the first stage of modernization of the monetary policy framework in line with recommendations of the IMF TA (rephased)	End-June 2025	M	Strengthen monetary policy framework
Submit amendments to the BB Order, including in relation to the BB governance, autonomy, accountability and transparency, in line with IMF recommendations: (i) to the Cabinet; (ii) to Parliament for enactment or if not in session for approval by Presidential ordinance. (new)	End-September 2025 End-December 2025	H	Strengthen central bank governance and operational independence
BB fully implements the new exchange rate regime of a crawling peg with a band according to the principles agreed in the 2nd and confirmed in the 3rd IMF program review and detailed in the TMU (new)	Continuously	H	Support orderly external adjustment and rebuilding foreign reserves
BB incorporates a full-fledged medium term macroeconomic forecast in policy deliberations of the Monetary Policy Committee and the Monetary Policy Statement, in line with recommendations of the IMF TA. (new)	End-September 2025	H	Establish forecasting and policy analysis system to support forward-looking monetary policy deliberations
Financial sector			
BB issues updated regulations to align definition of non-performing exposures and forbearance in line with the Basel BCBS guidelines: 'Prudential treatment of problem assets - definitions of non-performing exposures and forbearance' (rephased)	End-October 2025	H	Improve transparency of banks' balance sheets and risk profile.
BB introduces a plan for the banking sector to adopt IFRS9 by 2027.	End-June 2025	L	Improve transparency of banks' balance sheets and risk profile.
MoF and BB issue guidelines to reform the primary dealer system for government securities with an active set of players, focused on market-making functions, and with a balance between privileges and obligations.	End-June 2025	L	Develop domestic capital markets
The MoF and BB jointly adopt a high-level strategy for restoring banking sector stability that provides for (i) high-level objectives, agreed policies and principles; (ii) banking sector diagnostics; (iii) a preliminary assessment of systemwide capital needs, as agreed with staff; (iv) the scope for fiscal support and the modalities for its use in line with international best practice; (v) the envisaged options for dealing with distressed banks; and (vi) a timebound implementation roadmap (new)	End-June 2025	L	Align fiscal and financial sector policies and clarify the scope for fiscal funding support for bank resolution.
Macro-Structural			
Conduct onsite examinations of at least five high-risk banks (in order of ML risks) – identified in the list obtained from the AML/CFT offsite risk assessment tool – using the examination procedures developed as part of the IMF technical assistance project.	End-June 2025	M	Improve AML/CFT
The government issues a circular that BB assumes full responsibility for compiling trade statistics (new)	End-December 2025	L	Improve quality of BOP statistics
NBR publishes a departmental code of ethics and professional conduct. (new)	End-September 2025	M	Strengthen governance

Table 11. Bangladesh: Board Approved Reform Measure Under the Resilience and Sustainability Facility

Reform Area	Reform Measures	Target Date	Status	Prospective BoP Risk Reduction
PFM and PIM	**RM1:** Government to adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions **RM6:** Government to issue a circular on an update to the Green Book[1/] to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors **RM8:** Government to adopt an updated PPP policy and framework that integrates climate-related risks and develop relevant guidelines **RM9:** Government to issue a circular on the adoption of an annex to the Green Book that specifies selection and prioritization criteria for major infrastructure projects that is aligned with the NDC and the NAP	End-September 2023 End-December 2024 End-June 2025 End-June 2025	Met Met	*Improved fiscal and external sustainability.* - Limits adverse impact of climate-related shocks, thus reducing fiscal costs and the subsequent need for external financing. - Reduces reconstruction needs and associated import demand. - Boosts investor confidence and contribute to attracting external capital inflows.
Financial sector	**RM3:** BB to adopt guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) **RM7:** BB to conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations **RM11:** BB to update the Policy on Green Bond Financing, particularly the annex on green taxonomy to be fully aligned with the NAP's strategic and investment priorities	End-December 2023 End-December 2024 End-December 2025	Met Met	*Financial sector resilience and investment promotion.* - Clarifies climate risk exposure and adaptation priorities, reducing uncertainty. - Reduces financial sector losses when climate risks materialize, thus lowering recapitalization needs for banks and attracting resilient investments. - Greater transparency on climate-related and resilient investments and lending activity can boost investor confidence and contribute to attracting external capital inflows.

Table 11. Bangladesh: Board Approved Reform Measure Under the Resilience and Sustainability Facility (Concluded)

Reform Area	Reform Measures	Target Date	Status	Prospective BoP Risk Reduction
Fuel prices	**RM2:** Government to adopt a periodic formula-based price adjustment mechanism for petroleum products	End-December 2023	Met	*Improved fiscal and external sustainability*. Reduces fiscal costs from subsidies and balance of payments pressures from imports of fossil fuels, whose prices are volatile.
DRM and fiscal risks	**RM4:** Government to adopt a national disaster risk financing strategy while integrating social assistance measures **RM5:** MoF to adopt and implement a methodology for embedding climate change in the MTMF, through analyzing macro-fiscal risks from climate change and publishing it in the Medium-Term Macroeconomic Policy Statement (MTMPS) **RM10:** Government to establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks and vulnerability of new public assets to the module	End-June 2024 End-June 2024 End-December 2025	Met Met	*Improved external, financial, and fiscal resilience to natural disasters.* - Minimizes natural disaster-related fiscal costs and contingent liabilities, facilitates rapid economic recovery, and subsequently reduces external and fiscal financing needs. - Improves fiscal risk management and reduces exposure to disaster risks, thus limiting potential fiscal and financial losses while supporting investor confidence and attracting new investments (including FDI). - Reduces reconstruction needs and associated import demand.

1/ Green Book refers to the Ministry of Planning, 2022, "Guidelines for Formulation, Processing Approval, and Revision of Development Projects in the Public Sector.

Annex I. Risk Assessment Matrix 1/

Source of Risk	Relative Likelihood	Expected Impact	Main Impacts → Recommended Policy Actions
Global			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	H ST	M – H	Higher trade barriers weaken exports, with adverse effects on economic activity, fiscal revenues, and the balance of payments → tighten primary fiscal balance, allow exchange rate depreciation, and tighten monetary policy in case of second-round inflationary effects
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	M 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. Supply and demand volatility (e.g., due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	M ST	M – H	Increase in current account deficit and fiscal burden, pressures on exchange rate and reserves. →Targeted support to the poor; adopt an automatic fuel pricing mechanism; allow exchange rate to adjust to preserve external sustainability; and tighten monetary policy to counter second-round effects.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	M ST	M	Tighter global financial conditions could intensify financial account reversal and put pressure on exchange rate and reserves. → Allow greater exchange rate flexibility; tighten monetary policy; and closely monitor financial stability risks.
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	H MT	M	Supply disruptions and weaker confidence adversely affect economic activity and external accounts. → Allow greater exchange rate flexibility to preserve reserve adequacy; and accelerate structural reforms to create conducive business environment for expanding trade and FDI.
Domestic			
Failure to maintain higher degree of exchange rate flexibility consistent with the new exchange rate regime, and to clear the foreign exchange market and support orderly external adjustment.	M ST	H	FX market imbalances and exhausted BB's foreign reserves may ignite disorderly adjustment with depreciation-inflation spiral. → Expedite implementation of the crawling peg with the band exchange rate regime, to allow for flexibility and clear the FX market, tighten monetary policy to sustain positive interest rate differential to counter speculations and support FX reserves
Failure to effectively address the problems in the banking system.	M ST, MT	H	Continued rationing of deposit withdrawals in several banks and delayed and/or poorly communicated financial sector reforms can further reduce depositor confidence, elevating contagion risk. Elevated NPLs and bank undercapitalization increase fiscal contingency risks and hamper banks' ability to finance growth. → Approve and implement a financial sector reform strategy with recapitalization of viable banks and resolution of non-viable banks, using all tools available under the recently amended financial sector safety net frameworks. Address structural weaknesses in governance, regulation, supervision, and legal systems.

Source of Risk	Relative Likelihood	Expected Impact	Main Impacts → Recommended Policy Actions
Risks of further social or political unrest in runup to upcoming elections	**M** **ST**	**M – H**	Economic activity slows due to heightened political uncertainty and disruptions to daily life; external balance weakens as foreign investment falls and capital outflows increase. → Allow exchange rate to flexibly adjust; tighten monetary policy in case of second-round inflationary effects; and closely monitor financial stability risks.
Failure to mobilize domestic resource.	**M** **ST**	**H**	Persistent low tax revenue could continue the reliance on domestic borrowing, resulting in high debt service and crowding out private sector investment and constraining development spending. → Implement the Medium-Long-Term Revenue Strategy, including removing tax exemptions and strengthening tax compliance.
Higher frequency and severity of natural disasters related to climate change.	**M– H** **MT**	**M – H**	Extreme weather events could adversely impact key infrastructure, agriculture, allied activities, and livelihoods. → Expand budgetary support for adaptation and mitigation to meet NDC targets, implement reforms under RSF to address climate risks; and mobilize private green financing.

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 overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. External Sector Assessment

***Overall Assessment**: The external position of Bangladesh in FY24 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 FY24 current account deficit narrowed on the back of import compression measures and higher remittances, which helped offset the negative impact of the significant downward revision of exports that occurred both in FY24 as well as in FY23 (by 2 percent of GDP). Meanwhile, the financial account registered a smaller-than-expected surplus on the back of capital outflows, which put pressure on FX reserves. More broadly, capital outflows, coupled with rigid exchange rates, and FX interventions have all led to ongoing decline in FX reserves in FY24. In FY25, higher remittances and exports should narrow the CA deficit to around 1 percent of GDP, despite the easing of import compression measures, and the proper implementation of the exchange rate reform should help address market imbalances, and the build-up of FX reserves.*

***Potential Policy Responses**: The announcement of the exchange rate realignment undertaken in May 2024 has warranted monetary policy tightening to contain the still elevated inflationary pressures and alleviate imbalances in the FX market. Realigning the exchange rate to the level implied by fundamentals and desirable policies and 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. Several stepwise exchange rate adjustments took place subsequently in June-December 2024 and FX interventions in the spot market declined significantly. However, the implementation of the new exchange rate regime remained incomplete. The BB announced the implementation of the exchange rate reform in line with the PA in May 2025. Moving forward, FX interventions should be consistent with the new exchange rate regime comprising a crawling peg with a band and in line with the framework agreed in the Second Review. The flexibility of the exchange rate as well as shifting the band, when warranted, should be utilized to mitigate the risk of building excessive depreciation expectations and to smooth external adjustment. Fiscal policy should be calibrated to balance the net budgetary impact from exchange rate changes and 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 FY24 stood at -18.6 percent of GDP, relative to -18.9 percent of GDP in FY23. For reference, NIIP stood at -10.6 percent of GDP at end-FY18. Gross foreign assets declined to 7.2 percent of GDP, down from 8 percent at the end of FY23. Gross liabilities also declined to 25.8 percent of GDP relative to 26.9 percent of GDP at the end of FY23. The decline in assets over the last fiscal year was driven by change in official reserves which form the bulk of total assets, similar to the trend observed in FY23. Meanwhile, liabilities continue to be largely composed of general government liabilities, which increased to 15 percent of GDP in FY 24 from 13.9 percent of GDP in FY23 during the same period.

Assessment. The NIIP-to-GDP ratio continues to be driven by reserves, which have been declining in FY24. The CA deficit is projected to stabilize at a slightly higher level in the medium term (around 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.

FY2024 (% GDP) [1]	NIIP: -18.58	Gross Assets: 7.23	Debt Assets: 3	Gross Liab.: 25.8	Debt Liab.: 22

[1] This incorporates valuation effects from exchange rate movements.

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. In FY24, the CA deficit narrowed sharply to 1.4 percent of GDP, down from -2.6 percent of GDP in the previous year, as import compression measures and large remittances offset the significant downward revision in exports (for FY23 and FY24). In H1FY25 (July- December 2024) data suggests continued muted import growth, with imports growing by 3.5 percent year-on-year, though food and RMG related imports started to show signs of a pick-up in December 2024. Muted import growth, coupled with stronger exports and remittances (11 percent and 27.6 percent respectively in H1 FY25) should help narrow the FY25 CA deficit even further to 1 percent of GDP, with upside risks should remittances continue to overshoot, particularly in the last quarter of FY25. Over the medium term, however, imports are projected to rebound gradually, and the CA deficit to reach around 2 percent of GDP.

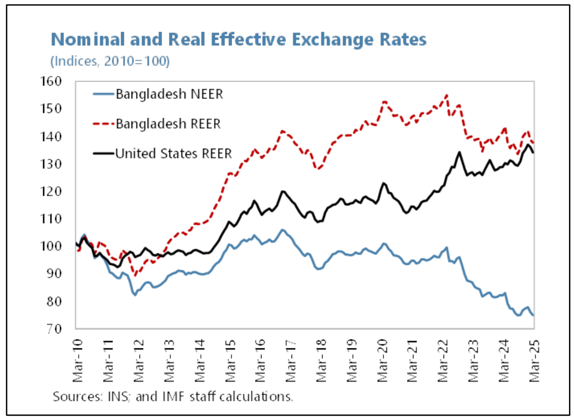
Assessment. The cyclically adjusted CA balance stood at -1.5 percent of GDP in FY24. The EBA CA regression estimates a norm of -2.2 percent of GDP, with a standard error of 0.6 percent. An additional Bangladesh-specific adjustment of 0.2 percent of GDP was made for the migrant share contribution to the 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 -2.4 percent of GDP. Including these adjustments, the FY24 EBA CA model's CA gap midpoint is assessed at 0.9 of GDP. However, to address features not fully captured in the CA model (including import compression measures), staff's bottom-line assessment draws on the REER model. With assumed semi-elasticity of CA/GDP to REER at - 0.15, the results of REER index and level models suggests a CA gap of -0.9 and -1.1 percent of GDP respectively. The situation in the FX market in FY2024 and especially before the official rate realignment in May 2024, was characterized by FX shortages, depleting BB's foreign reserves through active FX sale interventions and a premium of about 7 percent between the officially declared exchange rate and the rates in the parallel market. Against this backdrop, and based on the REER level model, the external position of Bangladesh in FY24 is assessed to have been moderately weaker than the level implied by medium-term fundamentals and desirable policies.

Bangladesh: Model Estimates for FY24
(In percent of GDP, unless otherwise indicated)

	CA Model	REER Index Model	REER Level Model
CA-Actual	**-1.4**		
Cyclical Contributions (from model) (-)	0.1		
COVID-19 adjustors (+) 1/	0.0		
Additional temporary factors	0.0		
Adjusted CA	**-1.5**		
CA Norm (from model) 2/	**-2.2**		
Adjustment to the norm	-0.2		
Adjusted CA Norm	**-2.4**		
CA Gap	**0.9**	**-0.9**	**-1.1**
o/w Policy gap	1.2		
Elasticity	-0.15		
REER Gap (in percent) 3/	**-6.0**	**6.2**	**7**

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 impiles nominal exchange rate overvaluation.

Real Exchange Rate



Background. In end-FY24, REER depreciated by about 2.5 percent year-on-year with the Taka experiencing nominal depreciation of nearly 9 percent against the U.S. dollar. In the first nine months of FY25 (July 2024-March 2025), the REER appreciated by roughly 1.5 percent.

Assessment. REER index and level model for FY24 estimates suggest that the Taka was overvalued by 6.2 percent and 7 percent, respectively, largely reflecting the FX market imbalances observed in FY24. Notably, in May 2024 BB have adjusted the nominal exchange rate from 110 to 117 Taka per dollar and (ii) further to 122 by the end of December 2024. The proper implementation of the exchange rate reform should help address FX misalignments.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital and financial account balance recorded an inflow of 1.1 percent of GDP in FY24, down from 1.6 percent of GDP in FY23. The downward revision in exports for both FY23 and FY24 was coupled with a downward revision of trade credit outflows. The financial account surplus narrowed by 0.5 percent of GDP, reaching 1 percent of GDP in FY24. This has been largely driven by net outflows of about 0.7 percent of GDP in short-term loans, trade credits, and flows from financial institutions. Outflows were mostly driven by depreciation expectations ahead of the introduction of the crawling peg with a band regime in May 2024 and political tensions around elections in January 2024. In H1FY25, the surplus in the financial account (FA) moderated to 0.6 percent of GDP, primarily due to lower trade credit outflows and donor disbursements, despite weak FDI inflows.

Assessment. FDI flows remain critically low compared to other low income and developing countries, and the recent uprising may hamper 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

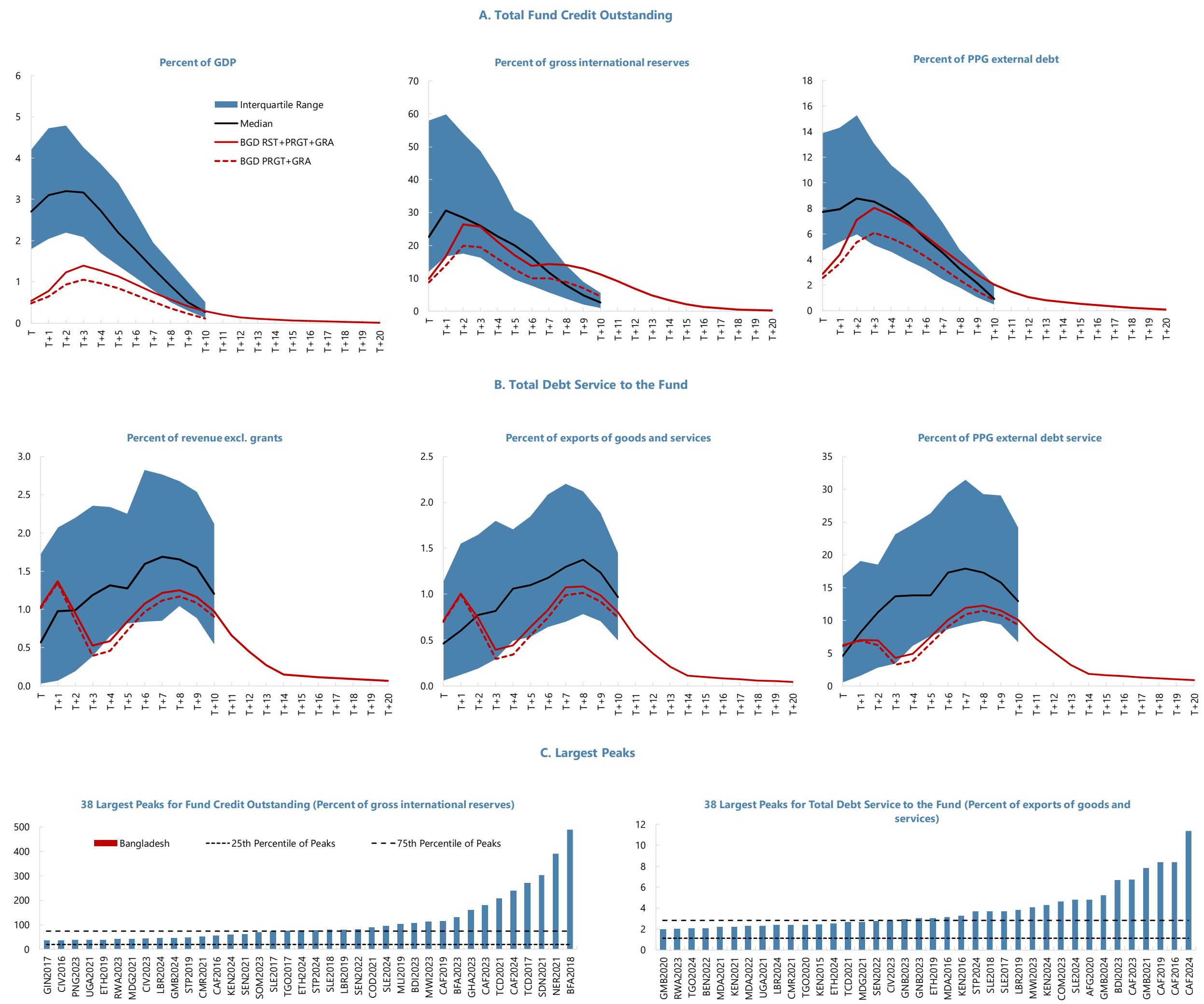
Background. Gross FX reserves continued to decline in FY24, dropping from US$24.8 billion at end-FY23 to US$21.7 billion at end-FY24 driven by the deterioration of the financial account, despite a sharp narrowing of the CA deficit. Reserve losses have abated amid the recent exchange rate adjustment in 2024, and gross FX reserves stood at US$21.4 billion at end-December 2024 (equivalent to 2.6 months of imports). For context, gross FX reserves dropped by a staggering US$25 billion since 2021 with a reserve coverage of 5.9 months of imports in FY21. Over the two-year period prior to May 2024, FX interventions to stabilize the Take/US$ exchange rate remained relatively steady, with forex sales averaging around US$ 1.2 billion. The stepwise adjustments of the exchange since May 2024 helped reverse BB's interventions from sales of forex from US$1.5 billion in April 2024 to purchases of US$52 million in December 2024.

Assessment. The depletion of FX reserves and deterioration of import coverage over the last few years raised concerns about reserve adequacy. However, allowing for a market-determined and more flexible exchange rate remains critical to rebuild FX reserves, and should remain a near-term priority. Despite the announcement of the crawling peg with a band regime in May 2024, FX interventions have not been based on auctions and have been conducted within or at the wrong end of the band. Additionally, the band has not been shifted during periods of elevated FX demand and pressure on reserves. Nevertheless, according to our estimates, gross FX reserves are expected to cover about 3.2 months of imports by end-FY25 and are projected to increase to cover 3.6 months of imports by FY27 under the program, supported by greater exchange rate flexibility provided the exchange rate reform is properly implemented. 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.

Annex III. Capacity to Repay Indicators Compared to UCT Arrangement for PRGT Countries[1]

(In percent of the indicated variable)

Figure 1. Bangladesh: Capacity to Repay Indicators



Notes:

1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect arrangements (including blends) approved for PRGT countries between 2014 and 2024.
4) The comparator group "All PRGT" excludes arrangements that never had a UCT between 2014 and 2024.
5) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
6) Comparator series is for PRGT arrangements only and runs up to T+10.
7) Debt service obligations to the Fund reflect prospective payments, including for the current year.
8) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.
9) For Panel C., Bangladesh is not shown because it is not among the 38 largest peaks for Fund Credit Outstanding or Total Debt Service to the Fund.

[1] UCT: Upper Credit Tranche, and PRGT: Poverty Reduction and Growth Trust.

Appendix I. Letter of Intent

June 8, 2025

Dhaka

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva:

This Letter of Intent (LOI), along with the attached update to the Memorandum of Economic and Financial Policies (MEFP), outlines our continued commitments to the policies and objectives of the economic program supported by the Extended Credit Facility (ECF)/Extended Fund Facility (EFF) arrangement and the Resilience and Sustainability Facility (RSF) arrangement. In the face of ongoing macroeconomic challenges, the IMF-supported program is pivotal in ensuring macroeconomic stability, facilitating a sustained economic recovery, and promoting stronger, greener, and more inclusive growth over the medium and long term.

In response to a series of economic shocks since the inception of the IMF-supported program, we have implemented several measures, including adjusting the exchange rate to a more depreciated level, tightening monetary policy, and maintaining fiscal discipline. These efforts had shown early signs of progress in restoring external balances. However, the public uprising in the summer of 2024, followed by a change in government, severely impacted economic activity and created investor uncertainty. While the situation has since stabilized, the economic outlook has shifted markedly, characterized by an emerging external financing gap and newly exposed vulnerabilities in the banking sector. The introduction of the new U.S. tariff regime may bring a steep increase in tariffs on our exports, posing a serious new challenge to the country's economic recovery. Furthermore, the disruption of development assistance for the Rohingya refugees is exacerbating instability in the camps and surrounding communities.

Despite this difficult environment, our program implementation has been broadly on track. For the completion of the third and fourth reviews under the ECF/EFF and the RSF, we have successfully met all end-June 2024 and end-December 2024 quantitative performance criteria (QPCs) and achieved two of the four indicative targets (ITs) at end-June 2024 and three of the four at end-December 2024. The ITs on tax revenue collection at both end-June 2024 and end-December 2024, as well as capital spending at end-June 2024, were missed due to weaker-than-expected economic activity and fiscal austerity measures introduced to support monetary tightening amid elevated inflationary pressures. We have also made progress on structural reforms completing four of the nine structural benchmarks (SBs) under the ECF/EFF. The tax compliance improvement plan, originally due in June 2024, was finalized in September 2024, while the completion of a medium- and long-term revenue strategy was delayed from December 2024 to May 2025. The plan to simplify Bangladesh Bank's (BB's) organogram related to risk-based supervision, initially scheduled for December 2024, was adopted in February 2025. The implementation of high-priority recommendations from the first stage of the monetary policy framework modernization, originally due in September 2024, is underway. The regulatory update to align definition of non-performing exposures and forbearance, in line with the Basel guidelines, initially due in December 2024, is partly implemented and is expected be finalized by end-September 2025. Additionally, all four reform measures (RMs) for end-June 2024 and end-December 2024 under the RSF have been fully implemented.

In response to mounting pressures from an emerging external financing gap and persistently high inflation, we remain committed to near-term policy tightening. We will also intensify our efforts to implement critical structural reforms. Specifically, we will prioritize the full implementation of the new exchange rate regime and take decisive steps to address the shortfall in domestic revenue mobilization. At the same time, we pledge to establish a healthy and competitive financial sector that is regulated and supervised in line with the best international practice.

Bangladesh stands at a delicate juncture, facing the urgent need to chart a path toward restoring macroeconomic stability. To support our efforts in addressing these challenges, we request an augmentation of access amounting to SDR567.19 million (53.2 percent of quota), of which SDR378.12 million (35.5 percent of quota) under the GRA resources, and SDR189.07 million (17.7 percent of quota) under the PRGT resources. We also request a six-month extension of the ECF/EFF until January 29, 2027, which would provide the much-needed additional time for strengthening our external policy buffers. The ongoing 42-month arrangement was approved by the Executive Board of the IMF on January 30, 2023, and is currently due to expire on July 29, 2026.

In view of good progress under the program, prompt recalibration of policy measures, and our strong commitment to program objectives, we request the completion of the third and fourth reviews under the ECF/EFF and the RSF. Upon completion of this combined review, we request the disbursement of SDR983.83 million (92.2 percent of quota), of which SDR216.84 million (20.3 percent of quota) under the ECF, SDR433.66 million (40.7 percent of quota) under the EFF, and SDR333.3 million (31.2 percent of quota) under the RSF. The proposed disbursements will help mitigate near-term pressures on the balance of payments and on the budget; support the adversely affected groups due to fiscal adjustment; and provide a buffer against shocks until our policy adjustments and reform measures take hold. The Fund's financial assistance is also expected to catalyze support from other development partners to meet our overall financing needs. In addition, we request a modification of performance criteria that underpin our policy commitment.

The attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) updates the version dated June 4, 2024, and sets out economic objectives of the authorities' reform program for the remaining program period FY25-FY27. Considering persistently difficult external conditions, the updated program reaffirms our commitment to step up our efforts to: (1) raise revenues to enable higher development and social spending and enhance fiscal governance; (2) modernize the monetary policy framework; (3) further increase exchange rate flexibility; (4) reduce financial sector vulnerabilities and develop capital markets; (5) improve the investment climate and boost productivity; and (6) establish an enabling environment to better adapt to climate change.

We believe that our commitments, as outlined in the MEFP, are adequate to achieve program objectives, but we are prepared to take additional measures, as appropriate, for this purpose. This includes commitments not to impose or intensify restrictions on the making of payments and transfers for current international transactions, introduce or modify multiple currency practices, conclude bilateral agreements which are inconsistent with Article VIII, or impose or intensify import restrictions for balance of payments reasons. In this regard, we note the standard continuous PC not to impose or intensify exchange restrictions was not observed, and we request a waiver on the grounds that the nonobservance was temporary and corrective action has been taken through the implementation of the FX prior action.

To ensure strong performance under the ECF/EFF and RSF arrangements, we will maintain a close policy dialogue with the IMF and seek capacity development, as necessary, from the IMF and other development partners in support of our reform agenda. In keeping with this, we will consult with the IMF on the adoption of measures and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such matters. Moreover, we will provide the IMF with information in connection with our progress in implementing the policies and achieving program objectives.

Since part of the Fund's resources will be lent to the Treasury, the Ministry of Finance and Bangladesh Bank have signed a Memorandum of Understanding on their respective responsibilities for servicing financial obligations to the Fund. In keeping with our policy of transparency, we authorize publication of this Letter of Intent and its attachments, as well as the accompanying staff report.

Sincerely yours,

/s/	/s/
Ahsan H. Mansur	Salehuddin Ahmed
Governor, Bangladesh Bank	Finance Advisor

Attachments

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. Context

1. This memorandum lays out the reform program of the government of the People's Republic of Bangladesh under the IMF's Extended Credit Facility (ECF)/Extended Fund Facility (EFF) arrangement and a concurrent Resilience and Sustainability Facility (RSF) arrangement. This memorandum lays out the objectives, policy adjustments and structural reforms needed to restore macroeconomic stability, and tackle climate change challenges under the IMF's ECF/EFF and the RSF arrangements. Our aim is to lay a strong foundation to reach high-income status by 2041.[1]

II. Recent Macroeconomic Developments

2. Growth has slowed markedly, while inflation remains elevated. GDP growth fell to 3.3 percent (y-o-y) in H1FY25 (July-December 2024), down from 5.1 percent in H1FY24. This decline was driven by economic disruptions caused by the popular uprising, a tighter policy mix, and heightened uncertainty that hindered investment. After reaching a decade-high of 11.7 percent in July 2024, headline inflation declined to 9.2 percent (y-o-y) in April 2025 but remains above Bangladesh Bank's (BB) target range of 5-6 percent. Food inflation surged to 14.1 percent in July 2024 before slowing to 8.6 percent in April 2025. The persistently high inflation is indicative of supply-chain disruptions associated with the popular uprising and major floods in early FY25.

3. While improvements in the balance of payments were observed, FX reserve accumulation has yet to materialize. Exports and remittances witnessed remarkable growth in H1FY25 growing by 11 percent (y-o-y) and 28 percent (y-o-y) respectively, while import growth remained muted, helping balance the current account in H1FY25. The financial account also showed improvement, supported by donor disbursements and reduced trade credit outflows, which helped offset weaker FDI inflows. However, these gains were fully offset by nearly US$2 billion in unrecorded financial outflows. As a result, net international reserves (NIR) stabilized at US$16.1 billion at end-December 2024, the same level observed at end-June 2024.

4. Bangladesh Bank increased the key policy rate in October 2024 and adjusted the exchange rate. BB tightened monetary policy by 50 basis points (bps) to 10 percent in late October 2024, marking a cumulative increase of 525 bps since May 2022. BB also devalued the currency from BDT117 against the dollar to BDT122 in December through stepwise adjustments. BB significantly reduced FX monthly sale interventions from US$1.5 billion in April 2024, just before the exchange rate realignment, and intervened with net FX purchases in a number of months in FY25. However elevated demand pressures—including from settlement of overdue external arrear payments—remain and prevent a more decisive accumulation of foreign reserves through purchases.

[1] The fiscal year in Bangladesh runs from July to June. H1 and H2 refer to the period July through December and January to June, respectively.

5. We kept the fiscal deficit in check. In response to the emerging financing gap and persistently high inflation, we have maintained the fiscal balance well below the program target, achieving a surplus of 0.6 percent of GDP in H1FY25. However, slower-than-expected economic activity—exacerbated by the public unrest—resulted in revenue shortfalls relative to the program target. Nonetheless, our extensive expenditure control efforts, including cuts to non-priority spending, have more than offset the revenue shortfall. Consistent with our program commitment, we have continued to reduce the stock of domestic arrears from BDT604 billion at end-June 2023 to BDT469 billion at end-December 2024.

6. Stress in the banking sector has become more pronounced. During the public uprising, eleven private banks (holding 28 percent of system assets) experienced acute liquidity shortages, prompting BB to place the banks under intensified supervision and impose temporary systemwide deposit withdrawal limits (lifted in early September 2024). BB also suspended illiquid banks' access to uncollateralized BB loans (0.35 percent of GDP) and replaced their boards of directors. BB sought to stabilize banks' liabilities, doubling the deposit insurance coverage limit, and promoting interbank loans to ailing banks, backed by BB guarantees (0.14 percent of GDP), and in November 2024 and March 2025, BB provided further liquidity assistance against demand promissory notes to these private banks (0.54 percent of GDP). While some of the banks continue to ration deposit withdrawals, pressures have eased in remaining banks. Underreported non-performing assets, excessive related-party exposures, and instances of fraud in several of our banks remain significant. We have replaced the board of directors in 14 banks and dissolved the board of directors in one bank and appointed an administrator for this bank. The new boards of directors and the administrator have been advised to prepare recovery plans, focusing on re-establishing good governance and ensuring proper management of their institutions. Longstanding regulatory forbearance and deficiencies in our bank resolution framework have hindered the timely resolution of problem banks.

III. Program Performance

7. Despite challenges surrounding the economy, program implementation has been broadly on track.

- **Performance Criteria (PC) and Indicative Targets (IT)**. We have met all end-June 2024 and end-December 2024 QPCs and achieved two of the four ITs at end-June 2024 and three of the four at end-December 2024. The ITs on tax revenue collection at both end-June 2024 and end-December 2024, as well as capital spending at end-June 2024, were missed due to weaker-than-expected economic activity and fiscal austerity measures introduced to support monetary tightening amid elevated inflationary pressures.

- **The standard continuous PC of not imposing or intensifying exchange restrictions was not observed after the second review completed in June 2024**. The FX shortage caused by the actions proved temporary, as the recent improvement in FX liquidity has allowed commercial banks to meet the demand for current international transactions.

- **Structural benchmarks (SBs)**. We have implemented four of the nine SBs under the ECF/EFF. The tax compliance improvement plan, originally due in June 2024, was finalized in September 2024, while the completion of a medium- and long-term revenue strategy was delayed from December 2024 to May 2025. The simplification of BB's organogram related to risk-based supervision, initially scheduled for December 2024, was completed in February 2025. The implementation of high-priority recommendations from the first stage of the monetary policy framework modernization, originally due in September 2024, is underway. The regulatory update to align definition of non-performing exposures and forbearance in line with the Basel guidelines, initially due in December 2024, is partly implemented and is expected be finalized by end-September 2025.

- **RSF Reform Measures (RM)**. We have implemented both RMs required for the completion of the third review. First, we adopted a national disaster risk financing strategy that includes the integration of social assistance measures. Second, the government developed and implemented a methodology for incorporating climate change into the medium-term macroeconomic framework by analyzing macro-fiscal risks from climate change and publishing the findings in the Medium-Term Macroeconomic Policy Statement (MTMPS). Also, we have completed both RMs required for completion of the fourth review. First, the government issued a circular on an update to the Green Book to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors. Second, BB conducted and published climate stress testing for the overall financial system and update the guidelines on stress testing for banks and financial institutions to include climate change considerations.

IV. Outlook

8. **The near-term outlook has deteriorated considerably**. We anticipate that our economic growth will be about 5 percent in FY25 and will rebound further to about 5.5 percent in FY26 as capacity utilization continues to improve and the policy stance eases. We recognize that increasing trade tariffs will lead to lower demand for our exports and will adopt additional policy measures to mitigate such an impact. Although the inflationary environment remains challenging and the annual average inflation is expected at about 10 percent in FY25, there are some encouraging signs of inflation decelerating in H2FY25. We expect that by June 2025 inflation will ease to around 8 percent (point-to-point) and further to about 5.5 percent in FY26, based on careful calibration of our policy stance and dissipating supply side pressures.

9. **Continued strain on FX reserves in FY25, has resulted in a financing gap**. While imports are projected to rise in the remainder of FY25, the continued recovery in the exports of garments following the public uprising, coupled with strong remittances, are expected to help decrease the current account deficit to below 1 percent of GDP in FY25. The financial account is projected to show a surplus of about 1 percent of GDP despite payments toward external arrears of state-owned enterprises (SOEs) in the energy sector. As a result, a BOP financing gap of approximately US$3.05 billion is anticipated for FY25. For FY26, the current account deficit is expected to remain stable below 1 percent of GDP, supported by continued growth in exports and remittances, though

partially offset by the increase in U.S. tariffs. The financial account is also projected to improve on the back of FDI inflows, sustained donor disbursements, reduced payments of external arrears of SOEs and the cessation of banking sector outflows.

10. Despite challenges, the FY25 fiscal deficit is expected to be lower than the level committed to during the Second Review, supported by the additional revenue measures. Slowing economic activity prior to the events in August coupled with the turbulence brought by the public uprising, negatively impacted tax collection through H1FY25. In response, we implemented revenue measures designed to generate 0.2 percent of GDP in additional revenue (equivalent to BDT120 billion) in January 2025 (see paragraph 11). Concurrently, spending pressures have risen to address critical infrastructure repairs following the uprising, provide emergency assistance to affected populations from the worst flooding in over a decade, and manage the subsidy burden caused by delayed electricity price adjustments and the urgent need to begin clearing domestic arrears. To mitigate these spending increases, we plan to cut non-priority capital expenditures to keep the primary fiscal balance within 2 percent of GDP. In FY26, spending pressures are expected to increase due to the upcoming elections and the policy response needed to mitigate the potential impact of U.S. tariffs. However, these will be fully offset by additional revenue measures implemented as part of the prior action for the combined review. As a result, the primary fiscal deficit is projected to remain at 2 percent of GDP, the same level as in FY25.

V. Policy Framework

A. Fiscal Policy

11. Fiscal policy will aim for further adjustments to bridge the external financing gap, with a strong emphasis on addressing the persistent tax revenue shortfall and support monetary policy to combat inflation.

- In FY25, we implemented fiscal austerity measures totaling 1 percent of GDP to reduce the primary deficit to 2 percent of GDP in FY25. This was accomplished by implementing additional revenue-generating measures equivalent to 0.2 percent of GDP (see below paragraph 11) along with a reduction of non-priority current and capital expenditures by 0.8 percent of GDP. Spending cuts focused on politically driven capital projects in the Annual Development Plan that lacked proper cost-benefit analysis. If needed, we stand ready to implement further reductions, targeting non-priority goods and services purchases.

- In FY26, the revenue measures introduced in January 2025 are expected to continue generating 0.2 percent of GDP. Furthermore, we will implement additional measures to raise an additional 0.7 percent of GDP in revenue (see paragraph 12), bringing the total increase in tax revenues to 0.9 percent of GDP. These gains will be partially offset by projected increases in spending pressures, partly related to the upcoming elections. As a result, the primary deficit should remain at around 2 percent of GDP, close to the FY25 level.

12. To support fiscal consolidation, we took concrete measures to correct the shortfall in tax revenue collection in January 2025. The public uprising in July and August 2024 further disrupted tax collection during the first quarter of FY25. Considering high inflation, we temporarily reduced import duties and VAT on eight essential commodities (rice, oil, sugar, onions, potatoes, eggs, pesticides, and dates) in September/October 2024 until the end of Ramadan in March 2025. In January 2025, we broadened the VAT tax base, streamlined the truncated VAT rates, and adjusted supplementary duties to advance our tax reform plan, aiming to yield BDT 120 billion additional tax revenue, accounting for 0.2 percent of GDP by end-FY25. These measures include (1) reducing the VAT registration threshold from annual turnover of BDT 30 million to BDT 5 million; (2) streamlining truncated VAT rates for goods and services with a progressive distributional impact; and (3) raising supplementary duties. These efforts will complement the expected boost from tax measures adopted in the FY25 budget, notably the imposition of capital gains tax on capital gains exceeding BDT 5 million and increased capital gains tax rate on corporates' realized profit from 10 to 15 percent; removal of the depletion allowance for companies engaged in petroleum and mineral extraction; higher supplementary duties on cigarettes, sugar sweetened beverages, mobile voice and data services, and SIM cards; and the repeal of VAT exemptions on fourteen items. Given repeated shortfalls in achieving the IT on tax revenues, we have reaffirmed our commitment to revenue mobilization by upgrading the IT to a PC.

13. We will intensify our efforts in FY26 to significantly raise the tax-to-GDP ratio, in line with our program commitment. To fulfill the prior action for the completion of this combined review, we have adopted bold revenue measures in the FY26 budget, which are expected to generate at least BDT300 billion (0.5 percent of GDP) in additional revenues. The measures include: (1) reducing VAT and customs preferences by allowing already-legislated phase-outs to take effect and expanding the application of the standard 15 percent VAT rate by limiting the use of truncated rates; (2) curtailing income tax preferences through the amendment or repeal of tax relief in Statutory Regulatory Orders (SROs); (3) raising minimum import reference values for selected products; (4) applying 2 percent advanced income tax on 152 imported items; (5) unifying the minimum domestic tax rate at 1 percent for selected sectors; and (6) increasing tax deducted at source rates for selected sectors. In addition, we will also make strong efforts to improve tax administration, which could potentially yield about BDT100 billion (0.2 percent of GDP) additional revenues. We will enhance the monitoring of tax deducted at source, increase personal income tax return filing by non-filers, completing e-filing of personal income tax return, improving risk-based audit, and gradually implementing e-invoicing system for VAT (see paragraph 14) to support our broader tax reform efforts. We have published the Medium- and Long-Term Revenue Strategy (MLTRS), in line with the recommendations from the IMF and the World Bank. As a priority under the MLTRS, we will also establish a new tax expenditure policy framework that sets out clear rules and procedures for the approval, modification, and repeal of tax exemptions, and assign the ultimate decision-making authority to Parliament—or to appropriate authorities in its absence.

14. The Council of Advisers has already in principle approved the separation of tax policy function from administration. As a next step, enacting a new ordinance of this effect is in process. After enacting the new ordinance, a roadmap will be devised to implement the separation.

15. We are doubling down on our efforts to strengthen tax administration through greater digitalization, integration of data systems, and compliance risk management.

- With support from IMF TA, along with the World Bank, and the EU, we plan to transition towards fully electronic tax administration. To this end, we are on track to approve a development project proposal (DPP) for the digital transformation of income tax, customs and VAT administration including e-return and e-payment framework (**end-June 2025 SB**). Large corporations, managed by the Large Taxpayer Units, will be required to file and pay tax electronically for financial years starting July 1st, 2026. Under the DPP, we will plan to introduce e-invoice system for VAT, starting with large taxpayers in FY26.

- As part of end-to-end automation of tax administration, we will clean and integrate our taxpayer registries across VAT, income tax and customs which will enable us to have a single view of all taxpayer data and activities for integrated compliance risk management. Reflecting this, as a first step, we will map taxpayers with multiple tax identification numbers (**end-December 2025 SB**).

- We have noted that the current tax deducted at source (TDS) system requires reform to strengthen its compliance. Therefore, we plan to rationalize the existing mix of final and estimated TDSs to focus on core payments under the current DPP—including wages and salaries, interest, dividends, commission, works contract and payments to non-residents—and will design information returns for each TDS category. All TDS tax payments and TDS returns will be mandated to be filed and paid electronically starting from July 2026. (**new end-June 2026 SB**).

- Following the establishment of compliance risk management units (CRMUs) in the customs and VAT wings of the NBR, we are working to create a separate CRMU in the income tax wing. Automation of risk-based audits is under progress and will be completed by end-FY25. Once the automation of the audit process is fully tested and implemented, the permanent formation of the CRMU will be initiated. Until then, the tax inspection directorate and members of auditing intelligence wing of NBR will carry out the function of CRMU for income tax. End-to-end automation of NBR processes will facilitate seamless data sharing between all three CRMUs. With the help of IMF TA, we have also developed compliance improvement plans (CIPs) for four taxpayer segments—tobacco manufacturers, e-commerce firms, real estate, and private hospitals—as a pilot across VAT and income tax. These plans are now being implemented and will be further expanded to other sectors.

- Since April 2024, we have taken additional steps to increase taxpayer registration by making it mandatory to present proof of tax return submission to receive 45 services. This measure has helped increase the number of registered taxpayers by 0.55 million to 11.12 million in the second half of 2024. We plan to reach 11.25 million registered taxpayers by end-FY25. In addition, we will increase the number of tax return filers from 4mn to about 5mn by end-FY26.

- As of March 2025, we have installed 25,741 electronic fiscal devices (EFDs).

16. We are committed to reducing subsidy spending to safeguard priority spending. Despite several price increases for petroleum products, natural gas, electricity, and fertilizers since 2021, disruptions in coal supply due to foreign exchange shortage, domestic natural gas shortages, and other capacity constraints have significantly increased production costs and, in turn, subsidy claims in the electricity and fertilizer sectors. We are now devising a multi-pronged plan to reduce subsidy spending to a fiscally sustainable level over the next two years.

- We will adopt and publicly communicate a three-year roadmap (covering FY26-FY28) to reduce the gap between generation cost and selling price of electricity to a fiscally sustainable level, which will include tariff adjustments and measures to shield the vulnerable population as needed (end-September 2025 SB). IMF TA in June 2025 will support our efforts in this aspect.

- To contain subsidy spending pressures in FY25, we have taken several measures to bring down the cost of electricity generation, including increasing LNG imports to shift generation to gas-powered power plants and shutting down more expensive liquid-fuel based power plants. Electricity subsidies are expected to be controlled within the ceiling at BDT 374 billion (0.6 percent of GDP) agreed in December 2024. If the electricity subsidies' outturn is above the ceiling, we will revisit the existing electricity tariff only after other cost adjustment measures are not sufficient to reduce subsidies.

- Reflecting our efforts to improve the flexibility of our exchange rate framework, we are committed to phasing out the remittance subsidy entirely during the remainder of the program period.

- We have already lowered export incentives for the apparel, leather and jute sectors in the FY25 budget and plan to phase them out completely in FY26.

- In line with program commitments, we continue to implement our formula-based monthly price adjustment mechanism for diesel, kerosene, petrol, and octane, adopted in March 2024, which is expected to keep structural subsidies for petroleum products close to zero.

- We also plan to reduce subsidy in fertilizers through increasing the storage capacity so that we could avoid import fertilizer during peak season. In addition, we will strive to reduce other import-related costs while increasing sale prices.

17. We plan to clear domestic subsidy arrears by FY27 using budgetary resources. The stock of domestic subsidy arrears, owed primarily to Bangladesh Power Development Board (BPDB) and public and private fertilizer suppliers, stood at BDT543 billion (1.1 percent of GDP) at end-FY24. We plan to clear these by FY27 without the use of special treasury bonds. As a result, BPDB as well as Petrobangla (which has overdue accounts receivable by BPDB and Bangladesh Chemical Industries Corporation) will be able to clear their accumulated external arrears in a timely manner.

18. We are continuing our efforts to enhance the coverage and effectiveness of social safety nets and gradually increase priority social spending.

- Our updated Action Plan to Implement the FY21-FY26 National Social Security Strategy of Bangladesh spells out plans to strengthen and broaden the scope and coverage of our social safety nets. Our priorities include improving targeting, expanding coverage both in rural and urban areas, consolidating existing programs, expanding G2P systems, and expanding social insurance.

- To improve the targeting of beneficiaries, eliminate duplicate benefits, and verify beneficiaries' eligibility, we are developing a dynamic social registry system with support from the World Bank.

- As part of the FY25 budget, we have expanded the number of beneficiaries of the Mother and Child Benefit Program, Old Age Allowance, Widow and Destitute Women Allowance, and Disabled Allowance from 12.6 million in FY24 to 13.7 million in FY25. Twenty nine out of thirty-two cash transfer programs are now covered by the G2P system.

- In face of high food inflation, we have expanded our existing food support distribution programs—including open market sales, vulnerable group feeding, food-for-work initiatives, and food support for orphanages—by increasing budget expenditures from BDT77 billion in FY24 to BDT131 billion in FY25.

- The Universal Pension Scheme aims to improve the financial protection of our low-income population and is expected to replace various existing social safety programs over time. So far, we have launched four schemes targeted to the private sector including professionals, self-employed, expatriates and the economically disadvantaged. Participation remains voluntary and has reached approximately 373,500 (totaling BDT 16.8 billion) at end-March 2025.

19. We are taking steps to enhance the effectiveness of public investment to support the achievement of our development goals. We are undertaking a comprehensive review of existing projects in our Annual Development Programme, with the objective of retaining only projects that demonstrate sufficiently high value-for-money. Going forward, stronger project selection and better integration of the MTBF and ADP processes will be supported by the formulation of Sector Strategy Papers (SSPs) or Sector Action Plans (SAPs) and Multi-Year Public Investment Programmes (MYPIPs). So far, we have completed SSPs or SAPs and MYPIPs for five out of fifteen sectors (**end-December 2024 SB**) and are using the MYPIPs to inform development expenditure projections in the revised MTBF. Building on this positive initial experience, we plan to progressively roll out these tools to all fifteen sectors. In parallel, we are rolling out use of our new Project Processing, Appraisal and Management System to prepare DPPs, replacing previously manual processes. In view of our growing pipeline of Public Private Partnership (PPP) projects, we are also committed to strengthening the capacity of the PPP Unit in the MoF to independently assess the viability, affordability, and value-for-money of new proposed PPP projects and will seek IMF TA in this regard.

20. We are improving our debt management to reduce financing costs and support capital market development. Our third Medium-Term Debt Management Strategy (MTDS), covering FY25 to FY27, was published in June 2024. The strategy focuses on gradually reducing the reliance on T-bills and increasing issuance of T-bonds across different maturities, while maintaining external concessional borrowing through official bilateral and multilateral sources to the extent possible. With some short-term pick up in issuance of National Savings Certificates (NSCs) due to the recent reform, we expect it to remain below 25 percent of our net financing needs and decline further over the medium term. To foster development of the domestic debt market, we are finalizing guidelines to reform the primary dealer system for government securities (**end-June 2025 SB**). With the help of IMF TA, we also prepare a first buyback operation in FY26 to effectively manage upcoming maturing debt. Given the downgrade from low to moderate risk of debt distress in Debt Sustainability Analysis, and the request for augmentation and extension of the IMF-supported program, we may introduce a ceiling on new external borrowing in present value terms in line with the IMF's Debt Limits Policy.

21. We are working to optimize cash management.

- With continued modernization and digitalization, we aim to strengthen the treasury single account (TSA) system to improve cash management. In line with the Implementation Plan of the Policy Note on Integrating Government Banks Accounts with the TSA (issued in November 2023), we completed the stocktaking of government bank accounts of 90,000 government entities by June 2025. By June 2026, we will complete the interconnection between these accounts and iBAS++system so that we are able to integrate these accounts into the TSA system. By June-2026, we will issue a guideline to establish rules and procedures in terms of approval of new account opening and dormant account closures.

- We will strengthen the cash management of autonomous bodies and complete the personal ledger module for such extra-budget fund. Out of 232 extra-budget central government bodies, 151 have established their personal ledger account under the TSA, and we plan to include 30 more autonomous bodies in TSA in FY26. The government will also explore the feasibility to develop and roll out the Zero Balance Account system and will seek IMF TA in this regard.

- We are also continuing to expand the Automated Challan (A-Challan) system, with the goal of covering 80 percent of government revenue through A-Challan—linked to the TSA—by end_FY26.

- We are making progress in building the functionality of Integrated Budget and Accounting System (iBAS++) to facilitate on-line bill submission, integrate with e-CMS (contract management system), reconcile tax receipts and deductions, prepare budget at the spending unit level, and support electronic payments. Integration between iBAS++ and e-CMS has been achieved for about 200 spending units. Online bill submission has been launched in over 6,000 offices across all eight divisions. As of now, almost 6,000 spending units have prepared their budget in the iBAS++.

- We are progressively expanding the use of electronic fund transfer (EFT) to cover vendor payments and are targeting EFT coverage of central government transactions of at least 50 percent, in value terms (excluding interest payments, subsidies, loans, equity, and liabilities) by end-FY25 (**end-June 2025 SB**). This will enable efficient settlement of obligations and reduce leakages. Bills of goods and services as well as capital expenditures (for ADP and non-ADP) below BDT 500,000 and BDT 1.5 million, respectively, are now required to be paid by EFT. From April 16, 2025, all bills under economic code 32, 41 and 42 will be recorded to be paid by EFT only in all fifty chief account and finance offices.

- We aim to prepare a budget implementation plan to support improved cashflow forecasting by MoF's treasury and debt management wing by FY26 and will undertake IMF training to this end.

22. Efforts are underway to improve the quality of our fiscal forecasting and enhance fiscal data transparency.

- We are strengthening the role of the Medium-Term Macroeconomic Framework (MTMF) working group (comprising MoF, NBR, BB and Planning Commission) in preparing macroeconomic forecasts by holding meetings on a quarterly basis.

- We will publish quarterly budget execution reports for Q1-Q3 of FY25 by end-April 2025 and will publish the Q4 report of FY25 in September, 2025. Going forward, we will aim to publish quarterly reports on a regular basis, with a 45-day lag for the Q1 to Q3 reports and a 90-day lag for the Q4 report. We will also implement iBAS++ in all foreign missions, customs authority and other authority management, which would allow us to publish the budget execution data in a timelier manner.

- We plan to improve our revenue forecasting by pursuing training from the IMF and other development partners.

- We will continue to ensure that the government's annual financial statements are compliant with international public sector accounting standards (IPSAS) and are submitted for audit within six months of year-end. Accordingly, the FY24 financial statement was submitted to the Comptroller and Auditor General of Bangladesh in December 2024.

- We are taking steps to institute a modern internal audit function in the government, capable of implementing risk-based audits. Internal audit units in five high-spending departments have already been set up and risk-based internal audit execution activities are being conducted in four departments. Two departments have submitted their plans to resolve the findings from these internal audits. The audit reports were shared with government agencies to showcase the role of internal auditing in improving public financial management. We have also conducted audits and reviewed the implementation of the annual procurement plan on a quarterly basis and developed two databases (outsourcing and rate schedule) to facilitate transparent public procurement.

23. We are actively working to improve transparency and governance of state-owned enterprises (SOEs). Over 120 SOEs have now published their annual financial statements on their websites as well as the MoF's. We have also established an integrated database for SOEs, providing essential information to support improved monitoring and supervision of non-financial SOEs.

Currently, 71 SOEs have been included in the database, up from 49 SOEs in FY24. We have conducted an independent performance evaluation (IPE) of twenty SOEs which were selected based on the size of manpower, revenue, profits, return on assets, debt and liability etc. according to the IPE Guideline. Following the IPE report, we have developed Performance Improvement Strategies (PIS) for four SOEs. Based on this, we aim to gradually scale up IPE to cover 30 SOEs per year over the medium term. Through the development of PIS, we can assist the SOEs in evaluating the accounting practices, governance structures, and their financial stability, along with offering policy recommendations. We have also conducted an external audit of BPDB, Petrobangla, Bangladesh Petroleum Corporation (BPC), Bangladesh Chemical Industries Corporation (BCIC), and Bangladesh Agricultural Development Corporation (BADC) on accumulated external payment arrears as of end-June 2024. Building on this progress, we are finalizing the classification of at least 120 SOEs and/or autonomous bodies (ABs)—for which annual financial statements are available—into sectors in accordance with the GFSM 2014. We have also published an SOE sector report that covers 101 SOEs, which includes a detailed analysis on the financial position of at least 40 market-producing SOEs and/or ABs (**end-June 2025 SB**).

B. Monetary and Exchange Rate Policy

24. To contain inflation, we have repeatedly tightened the monetary policy stance and are committed to further policy adjustments that are data driven and based on inflation outlook. We have increased the policy rate by 525 basis points since the start of the tightening cycle in May 2022. Moving forward, we intend to maintain tighter policy conditions for as long as is needed to ensure that inflation decelerates and to avoid un-anchoring of inflation expectations and second-round effects materializing through, for example, wage pressures. Once current developments and outlook consistently indicate decelerating inflation, we will commence the gradual reduction of our policy rate. Should the data suggest that demand for our exports is substantially impacted by trade tariffs, and the growth outlook significantly deteriorates, and depreciation pressures emerge, we will accommodate the short-term impact of such a shock by calibrating the policy rate appropriately such that the shock does not jeopardize the objective of stabilizing inflation. Our intent is to put inflation on a declining path toward the medium-term target range of 5-6 percent by end-FY26. To support policy transmission consistent with the key policy rate and to avoid excessive and uncontrolled softening of financing conditions, BB will mop-up liquidity injected to support banks under special supervision. For effective policy transmission, we will maintain that retail interest rates are set by banks freely.

25. To enhance exchange rate flexibility, we fully implemented the new crawling peg with a band exchange rate framework as agreed upon during the second review, and further outlined in the technical memorandum of understanding (Prior Action, continuous SB and related TMU). Comprehensive implementation of the crawling peg exchange rate regime remains a crucial transitional arrangement towards achieving full exchange rate flexibility, essential for smoother adjustment of external imbalances, easing FX market pressures, and preserving foreign reserves. We recognize that allowing greater exchange rate flexibility is an important policy measure to compensate the impact of reduced demand on our exports amid elevating trade tariffs. We set the regime's parameters in relation to a basket of currencies with a daily operational exchange rate band derived relative to the US dollar. To allow free quoting of the exchange rate by authorized dealers trading foreign currencies against the Taka, we have reaffirmed to the dealers that FE circular No. 09 from December 31, 2024, guides the functioning of the exchange rate regime and the FX market. We rescinded earlier issued circulars and commit to not issuing new circulars that limit free quoting of the exchange rate. We commit to not engaging in informal guidance limiting authorized dealers' ability to quote the exchange rate freely and have communicated this to authorized dealers. We adopted transparent auction-based forex interventions accessible to all authorized FX dealers. The exchange rate band will be flexibly adjusted to ensure that interventions to keep the exchange rate within the band do not risk depleting foreign reserves. To assess the implementation of the new exchange rate regime, we collect necessary client and interbank markets transactions data and provide this data to the IMF. We have begun publishing a daily transaction-based reference exchange rate that reflects freely quoted rates in the FX market.

26. To support effectiveness of monetary policy, we remain committed to zero devolvement of government securities. To strengthen monetary transmission and effectiveness of monetary policy, we have ceased devolvement since August 2023 and kept it at zero for the remainder of FY24. We will not allow new devolvement of government debt on BB within the remaining program period. With support from IMF TA, we will fully phase out the devolvement practice, as recommended by the joint IMF-World Bank TA on the local currency bond market (LCBM) development.

27. We will gradually reduce BB's quasi-fiscal financing and refinancing schemes for economic sectors and banks beyond standard monetary operations and at below-market conditions. We have reviewed the scope of our existing quasi-fiscal lending schemes and provided the IMF with updated information on such schemes to facilitate transparency. We will set ceilings on the stocks of BB's quasi-fiscal financing, in both foreign and domestic currencies, and reduce such stocks gradually. Before end-September 2025 we shall review and inform the IMF about the amortization schedule of the quasi-fiscal lending schemes in domestic currency for the next 12 months to identify further inputs for setting the ceilings on the stock of such operations. Consistent with the IMF safeguard recommendations, to support unwinding of such schemes we will develop a strategy to finance developmental objectives and key economic sectors from the state budget and international donor resources. This financial support will be channeled through the commercial financial sector, thereby deploying its expertise in assessing viability of projects. We will not create new quasi-fiscal financing and refinancing schemes for economic sectors and banks, managed by BB.

28. We will continue to modernize the monetary policy framework and operations to facilitate transition to the interest-rate-based forward-looking monetary policy oriented at price stability. With support from IMF TA, we intend to transition to a flexible inflation targeting framework over the medium term, with the policy interest rate serving as an operating target. We have reached several important milestones toward this objective since January 2023 and remain committed to continued progress. In particular,

- Since May 2024, we have discontinued the SMART benchmark and remain committed to maintaining free risk- and market-based setting of the interest rates for loans and deposits by all commercial banks and non-banking financial institutions.

- We have transitioned to an interest rate corridor (IRC) system with standing facilities, allowed unrestricted access to such facilities (subject to meeting collateral requirements), adopted the policy interest rate as an operating target, transitioned to conducting main 7-day open market operations (OMOs) at weekly frequency with full liquidity allotment at the policy rate, introduced 1-day fine-tuning operations, reduced the daily minimum cash reserve requirement (CRR) from 3.5 to 3 percent and discontinued 28-days full allotment REPO auctions. In line with recommendations of IMF TA, we will complete implementation of high-priority recommendations in the first stage of modernization of the interest rate-based operational framework (**rephased, June-2025 SB**). To strengthen the role of the policy interest rate and to streamline the OMOs we will discontinue 14-days fixed-rate full-allotment operations (by end-June 2025). To improve financial system's capacity to absorb short-term liquidity shocks, we will introduce the intraday liquidity operations and further reduce the minimum daily CRR to 2.5 percent (by end-June-2025), while the average CRR norm will not be affected. We stand ready to reduce the minimum daily CRR further to minimize volatility in the money market and should the market data indicate such a need. With the help of IMF TA, we will consider designing and introducing longer-term OMOs conducted through fixed allotment and variable-rate auctions. We will continue to improve liquidity forecasting capacity.

- We will further increase effectiveness of BB's liquidity management system, by (i) upgrading, with the help from IMF TA, our operations with Islamic banks to ensure access to the central bank monetary policy instruments on terms equivalent to that for conventional banks, and (ii) discontinuing operations that are inconsistent with a modern monetary policy implementation framework and interfere with standard monetary operations. By end-June 2025, we will discontinue 1-day Assured Liquidity Support (ALS) at the policy rate and increase the interest rate for 90-day REPO for investment in capital market to the level of the rate for 91-day Treasury bills and the rate for 180-days to the rate of 182-day Treasury bill. By December-2025 we will discontinue 180-day Assured REPO (AR) at policy rate and 90-day REPO for investment in capital market.

- We will continue to upgrade BB's macroeconomic forecasting capacity, monetary policy formulation and communication functions. As part of this effort, we have reconstituted the Monetary Policy Committee (MPC). From May 2025, we will begin publishing an annual schedule of quarterly MPC meetings. We have continued strengthening analytical and forecasting capacities and establishing a model-based Forecasting and Policy Analysis System (FPAS). The system—with a forecasting process that leads to policy presentation to the MPC—will be deployed to support policy deliberations and transition to inflation targeting. Starting from May 2025, BB staff will prepare and deliver medium-term macroeconomic and policy projections to facilitate policy deliberations during MPC meetings and starting from January 2026 BB will publish the forecast in the Monetary Policy Statement to communicate outlook and monetary policy (**end-January 2026 SB**).

- We plan to further strengthen BB's communication and enhance monetary policy transparency in the medium term. During the IMF-supported program period we will develop and publish a coherent strategy that outlines the objectives and operational modalities of BB's communications. We aim to start publishing a quarterly monetary policy report.

C. Financial Sector Policy

29. We are committed to establishing a healthy and competitive financial sector that is regulated and supervised in line with best international practice. To this end, we are taking measures to improve the transparency of banks' balance sheets, strengthen their capitalization and governance, and enhance risk-based supervision. We have established three specialized taskforces within BB that focus on (i) comprehensive banking sector reforms, with emphasis on governance and risk management; (ii) BB reforms, including to boost operational capacity and strengthen enforcement of banking regulations (see paragraph 38); and (iii) recovering stolen assets and managing nonperforming assets of banks. Additionally, we recently formed a Legal Expert Team, comprising 15 legal counsels from BB, the Ministry of Law, the Law Commission and other agencies, to review and propose improvements to the existing legal frameworks pertaining to BB, banks, other financial institutions, and the asset recovery and enforcement infrastructure. Our efforts will be guided by an overarching banking sector reform strategy that is being developed by BB and MoF, in consultation with IMF staff (see paragraph 35).

30. We are improving corporate governance in banks and are committed to reversing previous amendments to the Bank Company Act, which relaxed good governance requirements. Since the intensified liquidity pressures in FY25Q1, BB has replaced the board of directors in fourteen private banks and dissolved the boards of directors in one bank, to which we have appointed an administrator, on the ground of preventing their affairs from being conducted against the interest of the respective banks and their depositors (Section 46 of the Bank Company Act). The banks were placed under intensified supervision and BB appointed independent boards of directors. Management in some of the banks was subsequently replaced. We have issued a new circular on identification and disclosure of ultimate beneficial ownership of banks, which we will incorporate into our supervisory assessments of bank governance and risk indicators. To support these efforts, we are preparing and will, by end-year 2025, submit changes to the Bank Companies Act that will inter alia ensure that ultimate beneficial ownership is subject to suitability requirements and board directors are fit and proper. To improve governance in state-owned commercial and development banks, MoF's Financial Institution Division is also reviewing internal policies for appointment of the board of directors, with the aim to strengthen by end-June 2025 their qualifications criteria and improve the process for their selection.

31. We are improving the transparency of banks' asset quality. We recognize that prolonged periods of regulatory forbearance can undermine credit discipline, misallocate scarce resources, and weaken banking sector resilience. In this context, we have strengthened our definitions of "overdue", "nonperforming assets" and "forbearance" in asset classification and have improved provisioning requirements.

- *Definition of "overdue" term loans.* BB BRPD Circular No. 9 of April 2024 repealed a 2019 circular, which had relaxed the definition of "overdue" for term loans from "the due date" to "the due date +90 days", effectively resulting in loans only being classified as NPLs after 180 days past the due date ("the due date +90 days +90 days"). To allow time for banks to adjust to the definition of "overdue" as "the first day after of missed payment", the regulation was phased in during September 2024 to March 2025. Largely as a result of reclassification, NPLs grew from 12.6 percent at end-June 2024 to 20.2 percent at end-December 2024.

- *Definition of nonperforming assets and forbearance*. 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. We are committed to further align our regulations with BCBS Guidelines (**reset structural benchmark, end-October 2025**), including the circulars on Debt Rescheduling and Restructuring (Master Circular No. 16/2022), and on Off-balance Sheet Exposures (BRDP circular No. 06/2023). This will 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. The new cure periods will be phased in over time, as agreed with Fund staff.

32. We are allowing banks time to gradually recognize new provisioning requirements, subject to credible capital restoration plans, which we will closely monitor. The full implementation of Circulars 9/2024 (March 2025) and 15/2024 (April 2025) will together result in a sizable increase in banks' required provisions, negatively affecting their regulatory capital. We are allowing banks to phase in the new provisions, with full compliance expected by end-2028, subject to the submission of credible time-bound capital restoration plans. These plans should demonstrate the viability of banks' business models on a forward-looking basis and full compliance with prudential capital requirements within a period that is agreed with BB. We are committed to rigorously evaluate these plans for credibility and feasibility and establish by end-July 2025 a monitoring process that will track their implementation. This process will include written reports from and regular interactions with banks' boards on the plans' implementation, and regular updates to the board of BB, which will remain closely engaged in monitoring the overall situation. Banks that make use of this flexibility are already restricted from dividend distributions (DOS Circular 1/2025) and we will also restrict their share buybacks, and discretionary performance related remuneration (festival bonuses are not restricted). We are committed to initiating further corrective actions, using all tools at our disposal, if capital restoration plans are not deemed credible or their implementation falters.

33. We are conducting comprehensive bank diagnostics and are committed to engage international reputable consultants to conduct full Asset Quality Reviews (AQRs) in all

systemically important banks. Several parallel and complementary diagnostic exercises support our reforms:

- *Special audits and investigations commissioned by BB-appointed boards of directors.* The fourteen banks with BB-appointed boards have hired local auditors to conduct special audits and investigations focusing on asset quality, related party transactions and suspected loan embezzlement. Special audits/investigations commissioned by eleven bank boards are already completed.

- *Donor supported AQR in private banks.* Conducted by international reputable consultants, a phased AQR is planned in 18 private domestic banks, accounting for 35 percent of system assets. The Terms of Reference (TOR) have been agreed with the IMF, WB and ADB, and seek to ascertain compliance with new regulations on asset classification and provisioning. AQRs in six private banks were completed in May 2025 (first phase), and the AQRs in remaining 12 private banks are expected to be completed by end-December 2025 (phases two and three). To reduce the cost of the AQRs, we have engaged a reputable international consultant to review the quality of several special audits/investigations already conducted by local audit firms and map their scope against the donor agreed TOR. The subsequent diagnostics will focus on the TOR tasks that were not already covered by the special audits/investigations as agreed with staff. To further support the AQRs' quality and credibility, we have established an AQR governance framework, with a project management office, and a technical working group. By end-July 2025 we also establish a high-level AQR oversight committee, with IFIs as observers.

- *Diagnostics in State-Owned Banks.* We are considering advising state-owned banks (25 percent of system assets) to conduct AQRs by reputable independent consultants. The AQRs are expected to be concluded by March 2026.

- *BB inspections.* In early 2025, BB conducted targeted offsite examination in all banks, focusing on their asset classification based on the new definition of "overdue loans". Several banks were subsequently instructed to adjust their asset classification for end-December 2024. Furthermore, in March 2025, BB completed pilot inspections of 20 banks (49 percent of system assets) based on the risk-based supervision approach (**end-March 2025 SB**). Reflecting our efforts to recover stolen assets and development of institution-specific recovery plans, BB is conducting special investigations parallel to the donor supported AQRs, including to verify banks' liabilities and to follow up on the special audits/investigations commissioned by the banks with BB-appointed boards of directors.

34. We continue to advance our agenda on risk-based supervision (RBS). In addition to completing the pilot inspections for 20 banks based on the RBS approach (see paragraph 32), we have approved a simplified organigramme that will, by January 2026, consolidate the supervision of each bank under a single team thus ensuring a more cohesive and unified approach for RBS supervision (**end-December 2024 SB**). We have also adopted a plan for the banking sector to adopt IFRS9 by 2027 (**end-June 2025 SB**), which is complemented with prudential backstops for provisioning.

35. We are strengthening the financial safety net to enable BB to take credible and decisive actions to safeguard financial stability and underpin depositor confidence. Two major Ordinances will strengthen our frameworks for resolution and deposit protection. We have established a bank resolution unit within BB, comprising 17 dedicated staff, which will be independent from BB's supervisory function. We will, by end-August2025, adopt key regulations, guidelines and procedures necessary to affect these legal frameworks. We will also add further resources, as needed, to support the resolution unit and deposit protection fund in operationalizing and executing their respective mandates. We are taking actions to develop and operationalize BB's lender of last resort function.

- *The new Bank Resolution Ordinance (BRO) —adopted in May 2025*—provides BB, as the resolution authority, with resolution powers and tools that are broadly aligned with FSB Key Attributes for Effective Resolution of Financial Institutions. Importantly, while the resolution authority is independent from the government, it is required to consult and agree with the government on any decisions that may require fiscal resources. In view of the role played by banks in the economy and our recognition that corporate insolvency laws are ill suited to deliver on our financial stability objective, the BRO provides for a special winding up regime for banks. In line with the Key Attributes, the BRO ensures that judicial actions cannot constrain the implementation of, or result in the reversal of, measures taken by the resolution authority in good faith and within its legal powers, with redress (where appropriate under a "no creditor worse off than in liquidation" safeguard) limited to monetary compensation. To operationalize the BRO, we have prepared a resolution handbook, and we will, by June 2025, issue necessary secondary instruments, including on viability assessments, and the governance of resolution decisions.

- *The Deposit Protection Ordinance (DPO)—to be adopted by end-July 2025*—transfers the Deposit Insurance Trust Fund (DITF) to a new Deposit Protection Fund (DPF), doubles the insurance coverage to TK 200,000, and expands the DPF's mandate to provide the option of funding bank resolution subject to safeguards (a "Pay Box Plus" mandate). The DPO also provides for a fiscal emergency funding arrangement, which we will operationalize through a Memorandum of Understanding between the DPF and government. To support the DPF mandate, we are improving our data collection from banks and preparing procedures for deposit payouts and for funding in resolution.

- *To operationalize BB's lender of last resort function*, we are committed to develop by end-December 2025 an emergency liquidity assistance (ELA) framework in line with international best practice and a roadmap for its operationalization. The ELA framework will include a window that is compatible with Sharī`ah principles and provide for robust safeguards that seek to protect BB's balance sheet—including but not limited to collateralization requirements and, as appropriate, government indemnities. To mitigate inflationary pressures, we will aim to immediately sterilize any liquidity assistance to solvent and viable banks through the issuance of BB instruments. To mitigate contagion risk, we gradually phase out guarantees on interbank loans to weak banks.

36. Going forward, we will develop a government-wide strategy for ensuring banking sector stability and sustainability (new structural benchmark, end-June 2025). The document will set out BB and MoF's agreed policies and high-level principles, together with a roadmap for reaching our overarching objectives of underpinning banks' viability; maintaining continuity of key financial services; and minimizing fiscal cost of banking sector restructuring. Guided by our preliminary assessment of systemwide undercapitalization—as agreed with Fund staff—the strategy will clarify the scope for fiscal support and modalities in line with international best practice, including loss allocation to shareholders and burden-sharing with unsecured and uninsured creditors, to the extent commensurate with financial stability considerations, before resorting to fiscal support. The document will also elaborate on the envisaged options at our disposal to deal with distressed banks and to safeguard financial stability and underpin depositor confidence and the associated funding sources. We are committed to ensure that our efforts will deliver solvent banks with sound business plans, without protracted reliance on regulatory forbearance. To further interagency coordination, we will establish the Banking Sector Crisis Management Council (BCMC) and its working groups, as envisaged under the BRO.

37. We recognize that strong legal and institutional frameworks for maximizing recoveries on distressed loans are essential to maintaining resilient and efficient credit markets. The recently established 15-member Legal Expert Team (see paragraph 28) has been tasked to recommend, by end-May 2025, actions to remove impediments to NPL resolution. We are committed to establishing a new Bankruptcy Act, which includes a corporate insolvency framework and the option of early restructuring of viable companies, and the Money Loan Court Act (both planned for enactment in FYQ1 2026). This will help underpin the formation of an NPL trading platform, which is envisioned through the draft Distressed Asset Management Act (DAMA) that aims at providing licensing and oversight for both domestic and foreign distressed asset management companies (AMCs) (planned for enactment in FY2025 Q4). We will not consider establishing a publicly funded AMC to buy NPLs from private banks, nor any AMC solution that does not prioritize banks' timely loss recognition and cash recovery on NPLs. BB will continue monitoring banks' implementation of existing roadmaps to reduce NPLs, including the strengthening of their legal departments to settle NPLs in and out of court, and will update these in FY2026 based on new NPL totals. While the new legal frameworks are being established, we will strengthen existing enforcement mechanisms by improving the staffing and resources of the Money Loan Court system.

38. Efforts to recover distressed and stolen assets remain our critical priority. Our estimates suggest that longstanding vulnerabilities due to lack of good governance have reached macro-relevant proportions, including embezzlement and fraud at banks. We have reconstituted an asset recovery task force, under the leadership of BB, to coordinate and expedite domestic and global efforts to freeze, confiscate and recover stolen assets, bringing together the Bangladesh Financial Integrity Unit (BFIU), the Anti-Corruption Commission, local and international law enforcement agencies, asset recovery organizations, and other government institutions. This task will be a critical part of our broader efforts to promote accountability going forward. While these efforts will proceed separately from short-term actions needed to strengthen the banking system, over the long-term, recovering funds would also be important to help offset the cost of banking system losses.

D. Governance and Transparency

39. **We intend to implement an ambitious institutional reform of Bangladesh Bank to enhance its governance framework and independence**. A task force has been established to prepare reform recommendations by December 2025. We intend to align BB's mandate with the modern principles of central banking, enhance its autonomy and accountability, and facilitate effective decision-making. Based on the IMF TA advice and consistent with best international practices, we will develop an organizational transformation plan for BB. We will pursue the legal reform and amend the BB Order Act (**end-September and end-December 2025 SB**), guided by the IMF safeguards assessment and IMF TA. Key measures will also include strengthening risk management at BB, gradually reducing and phasing out BB's quasi-fiscal lending schemes, restricting monetary financing of the government, and discontinuing liquidity provision to banks outside of standard monetary operations and emergency lending assistance.

40. **We will take several measures to enhance transparency and governance in tax administration**. NBR will adopt and publish a code of ethics and professional conduct with technical assistance from the IMF (**end-September 2025 SB**) and require all officers to affirm their awareness of and compliance with the code by end-December 2025. Staff will be required to attend ethics training every two to three years and affirm familiarity and compliance with this code annually. NBR plans to publicly report integrity statistics (actions taken against officials for misconduct, delinquency, corruption, etc.) within six months of the end of each fiscal year. We further plan to commission an independent third party to conduct a public survey of taxpayer perceptions, including of corruption in tax administration, and repeat this survey periodically (e.g., every two to three years) to gauge whether our reform efforts are successful in building taxpayers' trust and confidence in tax administration.

41. **We continue to make progress in strengthening our AML/CFT risk assessment framework**. We have already upgraded our offsite risk assessment tool and onsite examination procedures, in line with guidance from the IMF, and have been successfully deploying these tools in our AML/CFT efforts on a pilot basis. We have already conducted eleven examinations of high-risk banks selected through the offsite risk matrix tool, exceeding our program commitment to conduct at least five onsite examinations (**end-June 2025 SB**). We anticipate conducting further such inspections this year; however, we may need to reallocate staff resources from the BFIU to prioritize urgent investigations into corruption and stolen assets. Amendments to the Companies Act are underway to facilitate information collection to identify ultimate beneficiary ownership in the financial sector.

E. Climate Change Policy

42. **Addressing the significant adaptation and mitigation challenges along with mobilizing climate finance, remains a top priority**. With current annual climate-related government spending under 1 percent of GDP against the required 3 to 4 percent of GDP of financing over the next 15 years, Bangladesh has a significant financing need to meet climate change challenges. The 2022 National Adaptation Plan (NAP) outlines adaptation investment requirement of US$230 billion

between now and 2050. To this end, we will continue to implement reform measures that strengthen the policy environment and institutions to enable large-scale climate investments, particularly the priorities identified in the NAP and the Nationally Determined Contributions (NDC). Further, we will undertake reforms to mobilize climate finance including through public and private sources, as well as enhance financial sector resilience to climate-related risks. Over the years, we have made significant strides toward meeting our national climate mitigation and adaptation objectives and have put in place a range of policy tools, notably the Climate Fiscal Framework (CFF), climate budget tagging, sustainable finance policy, green bond policy and taxonomy. In addition, we have launched the Bangladesh Climate and Development Platform (BCDP) to explore options to scale-up climate finance in collaboration with International Financial Institutions, bilateral donors, and the private sector. The Board of BCDP has been formed and the inception workshop has been conducted. We intend to hold the first Board meeting in May 2025 and will establish a secretariat to support the work of BCDP.

43. Steps have been taken to accelerate the transition to a clean and low-carbon economy. The existing NDC, updated in August 2021, makes the commitment to reduce greenhouse gas (GHG) emissions by 6.7 percent below business-as-usual in 2030 and up to 21.9 percent if combined with international support. We intend to submit a new NDC which will raise policy ambition and include targets for 2035 ahead of the 30th Conference of the Parties (COP). We announced at COP26 the cancellation of 10 coal-fired power plant projects involving US$12 billion foreign investment. We also aim to produce at least 40 percent of total electricity from clean energy sources by 2041 and are revising the integrated energy and power sector master plan to support this goal. About 6,000 MW of renewable energy will be added by 2028, equivalent to 19 percent of the current total installed capacity. We are considering the imports of renewable-based electricity from neighboring countries which will further shift electricity generation away from fossil fuel sources. We remain committed not to increase subsidies on fossil-fuel-based electricity as percentage of GDP during the program period, through cost reduction measures and gradual adjustment of natural gas and electricity prices.

44. We are committed to building climate-resilient infrastructure. Making infrastructure investment green and resilient is key to achieving our climate and sustainable development objectives. We recognize that efficient, green, and resilient public investment has multiple benefits, as it creates jobs, spurs economic growth, and stimulates private sector investment and other innovative financing. We will enhance climate-informed public investment management (PIM) practices to support the prioritization and allocation of resources and scaling up of climate-smart investment as envisaged in the NAP. Building on the PIM reform measures, we have issued a circular to guide the integration of climate considerations in the appraisal of major infrastructure projects in the transport and communication, and the environment, climate change and water resources sectors. We are committed to develop a selection and prioritization criteria for major infrastructure projects that is aligned with the NDC and the NAP (**end-June 2025 RM**). To help leverage private sector climate finance and ensure that PPP projects support national climate goals, we will update the PPP regulatory framework to reflect climate risks and opportunities and develop accompanying guidelines for PPP project proponents and developers (**end-June 2025 RM**). Furthermore, we will establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks/damages and vulnerability of new public assets, focusing on major public infrastructure and government buildings (**end-December 2025 RM**), with the help of IMF TA.

45. We continue to strengthen our climate fiscal management. The implementation of our CFF is key to the success of Bangladesh's climate strategies and will lay foundation for sound and transparent climate-sensitive PFM processes. In the CFF, we set out an institutional framework for embedding climate change aspects in Bangladesh's PFM systems and the budget. Importantly, the CFF is among our main tools to facilitate the mobilization of both domestic and international sources of climate finance and help catalyze new climate finance. To support fiscal planning, we have conducted and published the analysis of macro-fiscal risks from climate change and natural disasters in the MTMPS for FY25-27 and will update the analysis on a regular basis. In the context of the National Plan for Disaster Management and strengthening preparedness for disaster response, we have developed a comprehensive National Disaster Risk Financing Strategy (NDRFS) that also integrates shock-responsive social assistance measures. In addition, we have adopted a sustainable public procurement policy and an associated action plan to integrate climate and green dimensions into the public procurement process.

46. We will further enhance financial sector resilience to climate shocks and boost private climate finance. Financial institutions play an important role in mobilizing private climate finance but face significant physical and transition risks. In this context, we have adopted guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the IFRS on sustainability and climate-related disclosures (IFRS S1 and S2, respectively). The implementation of these guidelines has commenced, and full requirements of risk disclosures are expected by 2027. To strengthen financial sector resilience to climate-related risks, we have published climate stress testing report for the banking sector, with support of IMF TA, and updated the Guidelines on Stress Testing (GST) for banks to include climate change considerations. Following the high-priority recommendations of IMF TA, we have formed a core team to work on macro stress testing and climate risk analysis, have initiated collaboration across relevant departments of the Bangladesh Bank to utilize common macro scenarios and data, and will continue to strengthen staff capacity and acquire necessary equipment/software. We consider the climate risk section of the updated GST as an initial and broad guidance and will refine the reporting template and methodology, when better climate risk exposure data become available. We are committed to align the GST and its template with the next phase of climate stress testing exercise, as we move toward a more granular or rubust approach consistent with IMF TA recommendations. To further promote the mobilization of climate finance and extend the framework to include climate adaptation, we will update the Policy on Green Bond Financing and the green taxonomy to be fully aligned with the NAP's strategic and investment priorities (**end-December 2025 RM**).

F. Statistics

47. BB will assume sole responsibility for the compilation of trade statistics. Considering the significant downward revisions in the export data for FY23 and FY24, as well as the findings of the IMF's Technical Assistance Mission on the need to revisit the published export data between

FY19 and FY22, BB is committed to taking full responsibility for compiling trade statistics (**end-September 2025 SB**). To ensure transparency and accuracy, we will establish and publicly communicate, a revision policy for international merchandize trade statistics, along with any revisions. Going forward, BB's publications will indicate that it serves as the official source for Bangladesh's international trade statistics.

G. Program Monitoring

48. Progress under our program will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks, in order to complete semi-annual program reviews, as summarized in Tables 1, 2, 3, and 4, and guided by the attached Technical Memorandum of Understanding. The fifth review will take place on or after October 31, 2025, based on end-June 2025 quantitative targets and the sixth review will take place on or after May 1, 2026, based on end-December 2025 quantitative targets.

Table 1. Bangladesh: Quantitative Performance Criteria and Indicative Targets 1/2/

(In billions of Taka, unless otherwise indicated)

	FY23/24			FY24/25			FY24/25					FY25/26			
	End-Jun PC			End-Sep			End-Dec			End-Mar	End-Jun	End-Sep	End-Dec	End-Mar	End-Jun
	PC 3/	Actual	Status	IT	Actual	Status	PC	Actual	Status	IT	PC	IT	PC	IT	IT
Quantitative performance criteria:															
Floor on net international reserves (NIR, millions of US$) 4/	14,786	16,118	Met	14,902	15,084	Met	15,317	16,167	Met	16,701	17,401	18,653	19,904	21,156	22,407
Floor on primary balance (PB) 5/ 11/	-1,383.6	-746.3	Met	-903.5	461.9	Met	-899.1	326.3	Met	-830.0	-1,167.8	-987.2	-949.5	-839.2	-1,308.0
Floor on tax revenue											4,435.3	1,101.4	2,478.2	3,854.9	5,507.0
Ceiling on accumulation of external payments arrears 6/ 7/	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on stock of external payment arrears of SOEs in the energy and fertilizer sectors (millions of US$) 8/											870	716	562	408	254
Ceiling on central government's stock of domestic payments arrears to SOEs in the energy and fertilizer sectors 8/											280.7	210.7	140.7	70.7	0.0
Indicative targets:															
Ceiling on reserve money (RM)	4,257.7	4,117.4	Met	3,971.9	3,734.0	Met	4,165	3,805.0	Met	4,358.0	4,683.3	4,931.5	5,179.7	5,427.9	5,676.1
Celing on BB' stock of quasi-fiscal lending in foreign currency (millions of US$) 9/											4,013.3	3,989.9	3,865.8	3,818.0	3,770.4
Celing on BB's stock of quasi-fiscal lending in domestic currency 10/											362.1	349.1	332.1	312.1	297.1
PV of new external borrowing (US$)												1,917.5	3,338.9	4,335.8	8,437.3
Ceiling on accumulation of domestic payments arrears 7/ 11/											0.0	0.0	0.0	0.0	0.0
Floor on tax revenue	3,945.3	3,697.5	Missed	956.1	763.7	Missed	2,151.2	1,637.9	Missed	3,346.3	...	...	...	...	...
Floor on priority social spending of the Government of Bangladesh 12/ 14/	1,449.5	1,542.3	Met	247.7	220.6	Missed	578.0	596.2	Met	1,156.1	1,774.5	316.4	738.8	1,476.7	2,109.0
Floor on capital investment undertaken by the Government of Bangladesh 13/ 14/	1,445.4	1,254.8	Missed	132.8	367.3	Met	398.5	564.7	Met	531.3	1,545.5	156.9	396.9	627.6	1,620.0

Sources: Bangladesh's authorities; and IMF staff estimates/projections.

***In addition to QPCs enumerated in this table, the Standard Continuous Performance Criteria will also apply: (i) Not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions; (ii) Not to introduce new or intensify existing multiple currency practices; (iii) Not to conclude bilateral payments agreement that are inconsistent with the IMF's Articles of Agreement (Article III); and (iv) Not to impose new or intensify existing import restrictions for balance of payments reasons.

1/ Fiscal year starts in July and ends in June.

2/ The quantitative targets, indicative targets and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).

3/ Approved in June 2024

4/ Net international reserves are gross reserves (based on BPM6 definition) minus the central bank FX liabilities and reserves earmarked for quasi-fiscal activities.

5/ Including grants

6/ This covers the central government, Bangladesh Bank, and non-financial SOEs

7/ This quantitative target is applied on a continuous basis.

8/ SOEs in the energy and fertilizer sectors are defined in the TMU.

9/ The quasi-fiscal schemes in foreign currency include EDF, GTF, LTFF, SBFF and Deposit with ITFC

10/ The quasi-fiscal schemes in domestic currency included in calculating the IT is further identified in the Technical Memorandum of Understanding

11/ This covers the central government only.

12/ Social spending that is domestically financed.

13/ Capital investment from annual development program that is domestically finance

14/ Quarterly target is projected in line with historical quarterly outturns and seasonality patterns reflecting backloaded disbursements.

Table 2. Bangladesh: Implementation of Structural Benchmarks Under the Extended Credit Facility and Extended Fund Facility

Measure	Target Date	Status
MoF reports tax expenditures for PIT, CIT, and VAT as part of the FY25 budget	End-June 2024	Met
NBR adopts a tax compliance improvement plan covering VAT and IT	End-June 2024	Not Met (Implemented with Delay)
MoF publishes an updated Medium Term Debt Management Strategy covering FY25-FY27	End-June 2024	Met
BB streamlines open market operations (OMOs), reserves averaging provisions, and reserve maintenance period in line with recommendations from IMF TA	End-June 2024	Met
BB completes implementation of high-priority recommendations in the first stage of modernization of the monetary policy framework in line with recommendations of the IMF TA	End-September 2024	Not Met
NBR finalizes a Medium- and Long-term Revenue Strategy covering indirect and direct tax and an accompanying implementation framework	End-December 2024	Not Met (Implemented with Delay)
Ministry of Planning formulates Sector Strategy Papers/Sector Action Plans and Multi-Year Public Investment Programmes for a total of five sectors	End-December 2024	Met
BB simplifies organigramme related to RBS functions	End-December 2024	Not Met (Implemented with delay)
BB issues an updated regulation to align definition of non-performing exposures and forbearance in line with the Basel BCBS guidelines	End-December 2024	Not Met

Table 3. Bangladesh: Implementation of Reform Measures Under the Resilience and Sustainability Facility

Reform Measures	Target Date	Status
RM4: Government to adopt a national disaster risk financing strategy while integrating social assistance measures.	End-June 2024	Met
RM5: MoF to adopt and implement a methodology for embedding climate change in the medium-term macro framework, through analyzing macro-fiscal risks from climate change and publishing it in the Medium-Term Macroeconomic Policy Statement (MTMPS)	End-June 2024	Met
RM6: Government to issue a circular on an update to the Green Book to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors	End-December 2024	Met
RM7: BB to conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations	End-December 2024	Met

Table 4. Bangladesh: Prior Actions and Structural Benchmarks

A. Prior Actions (PA)

Measure	What is required to consider this met
The FY26 budget incorporates revenue policy measures, such as reducing VAT and income tax exemptions, which are estimated to generate BDT300 billion (0.5 percent of GDP)	Relevant President Ordinances and NBR Circulars should be issued.
Bangladesh Bank: • issues a circular to: a. confirm that FE circular No. 38 from December 31, 2024 guides the functioning of the exchange rate regime and the FX market, including: (i) allowing FX dealers to trade at freely negotiated rates; (ii) enacting the new FX interventions strategy, (iii) introducing the Reference Exchange Rate (RR)	A BB circular is issued to reflect items a. and b.
b. rescind FE Circular No. 01 from January 2, 2025. • Communicates, as detailed in the Technical Memorandum of Understanding(TMU) underlying this PA and the MEFP, to authorized dealers that it will not engage in moral suasion practices and will implement the exchange rate reform.	A meeting is held by the Governor and official letters are sent to reaffirm to all authorized forex dealers that BB will not exercise informal guidance, that FE circular No. 38 guides the regime and FX market functioning and that FE Circular No. 01 is rescinded. Public communication (e.g., a press release) is issued by BB to highlight messages in the meeting and the circular.
• Provides data to the IMF for assessment of the implementation of this PA for the observation period of at least five weeks from the beginning of implementation, as detailed in the TMU and the MEFP.	Detailed data on the reference rate and all underlying forex transactions in the client and the interbank FX markets is provided to the IMF on a daily basis. Based on the FX market data and information from the authorized dealers, IMF staff establishes that the free exchange rate quoting is in place, BB does not engage in moral suasion practices and the exchange rate regime is implemented as is detailed in the TMU.

B. Structural Benchmarks

Measure	Target Date	What is required to consider this met
Revenue Mobilization		
Government approves a development project proposal for digital transformation of income tax administration including e-return and e-payment framework	End-June 2025	Approved DPP shared with IMF team
NBR reviews the taxpayer registry and identify taxpayers with multiple tax identification numbers as a first step to unify current disparate taxpayer IDs	End- December 2025	The NBR should send a screenshot of a random-selected taxpayer's profile with various tax identification numbers, which will be verified by the IMF tax administration experts.
NBR mandates that all tax payments and returns for a Tax Deducted at Source are filed and paid electronically.	End-March 2026	Circular shared with IMF team

Table 4. Bangladesh: Prior Actions and Structural Benchmarks (Continued)

Public Financial Management		
At least 50 percent of the value of central government transactions, excluding interest payments, subsidies, loans, equity, and liabilities are carried out via electronic funds transfer (EFT)	End-June 2025	Monthly time-series data shows percent of the value of central government transactions carried out via EFT at 50 percent or higher on average in FY2024-2025
MoF (i) classifies at least 120 SOEs and/or autonomous bodies (ABs) into sectors in accordance with the GFSM 2014; and (ii) publishes an SOE sector report that provides detailed analysis on the financial position of at least 40 SOEs and/or ABs selected based on largest liabilities and/or grants and subsidies received from the government	End-June 2025	Classification of SOEs and ABs with justification (based on financials statements as available) is shared with IMF, and SOE sector report is published. The remaining SOEs/ABs (without financial statements) may be classified on a qualitative basis, on a voluntary basis.
Ministry of Power, Energy and Mineral Resources adopts and publicly communicates a three-year roadmap (covering FY26-FY28) to reduce the gap between generation cost and selling price of electricity to a fiscally sustainable level, which will include tariff adjustment and measures to shield the vulnerable population as needed	End-September 2025	Plan is adopted by the Minister of Power, Energy and Mineral Resources and published
Monetary Policy Framework		
Submit amendments to the BB Order, including in relation to the BB governance, autonomy, accountability and transparency, in line with IMF recommendations: • to the Cabinet; • to Parliament for enactment or if not in session for approval by the Presidential ordinance;	 End-September 2025 End-December 2025	With assistance of the IMF TA, BB prepares a draft of the new BB Order, which is consistent with best international practices in the areas of central bank governance, autonomy, accountability and transparency. The new BB Order is approved by the Cabinet (by end-September 2025), and then by the Parliament or by the Presidential Ordinance (by end-December 2025).
BB fully implements the new exchange rate regime of a crawling peg with a band according to the principles agreed in the 2nd and confirmed in the 3rd and 4th combined IMF program review and detailed in the TMU	Continuously	BB continuously implements the exchange rate regime per modalities specified in the Technical Memorandum of Understanding, incl. regularly provides the FX market data on client and interbank transactions to the IMF and BB FX interventions conducted outside the exchange rate band; publishes RR reference rate, which reflects freely quoted rates in the FX market and consults and agrees with the IMF on all adjustments to the exchange rate regime.
BB completes implementation of high-priority recommendations in the first stage of modernization of the monetary policy framework in line with recommendations of the IMF TA	End-June 2025	BB issues circulars that specify adjustments to the system of monetary operations consistent with of high-priority recommendations in the first stage of modernization of the monetary policy framework.

Table 4. Bangladesh: Prior Actions and Structural Benchmarks (Continued)		
BB incorporates a full-fledged medium term macroeconomic forecast in policy deliberations of the Monetary Policy Committee and the Monetary Policy Statement, in line with recommendations of the IMF TA.	End-January 2026	Economic Modelling and Forecasting Wing, in cooperation with Monetary Policy Department, compile policy presentation, which features model-based staff's macroeconomic and policy outlook and provides policy recommendation. Such presentation is delivered to the Monetary Policy Committee (MPC) starting from May 2025 and the medium-term macroeconomic and policy forecast is incorporated in the Monetary Policy Statement starting from January 2026.
Financial Sector		
BB issues an updated regulation to align definition of non-performing exposures and forbearance in line with the Basel BCBS guidelines: 'Prudential treatment of problem assets - definitions of non-performing exposures and forbearance'	End-September 2025	Partly implemented end-December 2024 SB, reset. Further amendments needed to relevant Circulars to strengthen loan classification and provisioning rules and improve forbearance practices in line with the Basel Committee on Banking Supervision (BCBS) Guidelines "Prudential treatment of problem assets - definitions of non-performing exposures and forbearance". Amendments needed include to add criteria on continuous repayments before classifying rescheduled and restructured loans to more favorable categories. (cure periods) Circulars to be amended: - Asset Classification and provisioning (15/2024), - Debt Rescheduling/Restructuring (16/2022) - Off-balance sheet exposure (6/2023)
BB introduces a plan for the banking sector to adopt IFRS9 by 2027.	End-June 2025	Met.
MoF and BB issue guidelines to reform the primary dealer system for government securities with an active set of players, focused on market-making functions, and with a balance between privileges and obligations.	End-June 2025	A guideline should be issued
The MoF and BB jointly adopt a high-level strategy for restoring banking sector stability that provides for (i) high-level objectives, agreed policies and principles; (ii) banking sector diagnostics; (iii) a preliminary assessment of systemwide capital needs, as agreed with staff; (iv) the scope for fiscal support and the modalities for its use in line with international best practice; (v) the envisaged options for dealing with distressed banks; and (vi) a timebound implementation roadmap.	End-June 2025	A high-level strategy should be consulted and shared with the IMF.

Table 4. Bangladesh: Prior Actions and Structural Benchmarks (Concluded)

Governance		
Conduct onsite examinations of at least five high-risk banks (in order of ML risks) – identified in the list obtained from the AML/CFT offsite risk assessment tool – using the examination procedures developed as part of the IMF technical assistance project.	End-June 2025	BB has to introduce data for all banks in the RBS tool, generate a list of banks in order of ML/TF risk, and conduct onsite examinations of at least five high-risk banks (in line with IMF TA – Clive Scott).
The government issues a circular that BB assumes full responsibility for compiling trade statistics	End-December 2025	The relevant law should be amended to allow BB to have the sole responsibility to compile, check and publish trade statistics.
NBR adopts a formal code of ethics and professional conduct	End-September 2025	Code of ethics and professional conduct published

Table 5. Bangladesh: Reform Measure Under the Resilience and Sustainability Facility

Reform Area	Reform Measures	Target Date	Status	Prospective BoP Risk Reduction
PFM and PIM	**RM1:** Government to adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions **RM6:** Government to issue a circular on an update to the Green Book[1] to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors **RM8:** Government to adopt an updated PPP policy and framework that integrates climate-related risks and develop relevant guidelines **RM9:** Government to issue a circular on the adoption of an annex to the Green Book that specifies selection and prioritization criteria for major infrastructure projects that is aligned with the NDC and the NAP	End-September 2023 End-December 2024 End-June 2025 End-June 2025	Met Met	*Improved fiscal and external sustainability.* - Limits adverse impact of climate-related shocks, thus reducing fiscal costs and the subsequent need for external financing. - Reduces reconstruction needs and associated import demand. - Boosts investor confidence and contribute to attracting external capital inflows.
Financial Sector	**RM3:** BB to adopt guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) **RM7:** BB to conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations	End-December 2023 End-December 2024	Met Met	*Financial sector resilience and investment promotion.* - Clarifies climate risk exposure and adaptation priorities, reducing uncertainty. - Reduces financial sector losses when climate risks materialize, thus lowering recapitalization needs for banks and attracting resilient investments. - Greater transparency on climate-related and resilient investments and lending activity can boost investor

Table 5. Bangladesh: Reform Measure Under the Resilience and Sustainability Facility (Concluded)

Reform Area	Reform Measures	Target Date	Status	Prospective BoP Risk Reduction
	RM11: BB to update the Policy on Green Bond Financing, particularly the annex on green taxonomy to be fully aligned with the NAP's strategic and investment priorities	End-December 2025		confidence and contribute to attracting external capital inflows.
Fuel Prices	**RM2:** Government to adopt a periodic formula-based price adjustment mechanism for petroleum products	End-December 2023	Met	*Improved fiscal and external sustainability.* Reduces fiscal costs from subsidies and balance of payments pressures from imports of fossil fuels, whose prices are volatile.
DRM and Fiscal Risks	**RM4:** Government to adopt a national disaster risk financing strategy while integrating social assistance measures **RM5:** MoF to adopt and implement a methodology for embedding climate change in the MTMF, through analyzing macro-fiscal risks from climate change and publishing it in the Medium-Term Macroeconomic Policy Statement (MTMPS) **RM10:** Government to establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks and vulnerability of new public assets to the module	End-June 2024 End-June 2024 End-December 2025	Met Met	*Improved external, financial, and fiscal resilience to natural disasters.* - Minimizes natural disaster-related fiscal costs and contingent liabilities, facilitates rapid economic recovery, and subsequently reduces external and fiscal financing needs. - Improves fiscal risk management and reduces exposure to disaster risks, thus limiting potential fiscal and financial losses while supporting investor confidence and attracting new investments (including FDI). - Reduces reconstruction needs and associated import demand.

1/ Green Book refers to the Ministry of Planning, 2022, "Guidelines for Formulation, Processing Approval, and Revision of Development Projects in the Public Sector.

Attachment II. Technical Memorandum of Understanding

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

2. Under the arrangements, the program exchange rate is Bangladesh taka (Tk) 104.95 per U.S. dollar, as agreed at the time of approval of the ECF/EFF arrangements in January 2023. Foreign currency accounts denominated in currencies other than the U.S. dollar and monetary gold will first be valued in U.S. dollars as at the exchange rates and gold prices prevailing on October 24, 2022 (Text Table 1), and then be converted to Bangladesh taka.

Text Table 1. Bangladesh: Program Exchange Rates for ECF-EFF Arrangements

(as of October 24, 2022)

Exchange Rate	Program Rate
U.S. dollar/Taka	0.00953
U.S. dollar / Swiss franc	0.99930
U.S. dollar / Pounds sterling	1.13135
U.S. dollar / Japanese yen	0.00685
U.S. dollar / Australian dollar	0.63460
U.S. dollar / Canadian dollar	0.72876
U.S. dollar / Chinese renminbi	0.14039
U.S. dollar / Russian ruble	0.01634
U.S. dollar / Singapore dollar	0.70348
U.S. dollar / Swedish krona	0.08942
U.S. dollar / Euro	0.98740
U.S. dollar / Gold	1,649.78
U.S. dollar / SDR	1.27719

Sources: Haver Analytics; Bloomberg; and https://www.imf.org/external/np/fin/data/param_rms_mth.aspx.

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

Quantitative Performance Criteria and Indicative Targets

4. QPC for end-June 2025 and end-December 2025 and quarterly indicative targets for end-September 2025, end-March 2026, and end-June 2026 are set out in Table 1 of the Memorandum of

Economic and Financial Policies. The continuous performance criteria for each specific period are also set out in this table and will be monitored continuously during these periods.

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

- Floor on the level of net international reserves of Bangladesh Bank (BB), calculated as an end-of-period stock;
- Floor on primary balance, calculated cumulatively from the beginning of the fiscal year;
- Floor on tax revenue of the central government, calculated cumulatively from the beginning of the fiscal year;
- Ceiling on the stock of external payments arrears of state-owned enterprises (SOEs) in the energy and fertilizer sectors to reduce and eventually remove the existing stock; and
- Ceiling on the central government's stock of domestic payments arrears to SOEs in the energy and fertilizer sectors to reduce and eventually remove the existing stock.

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

- Ceiling on the accumulation of new external payment arrears by the central government, BB, and five SOEs in the energy and fertilizer sectors, calculated in cumulative terms from June 30, 2025.

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

- Ceiling on the level of reserve money of the BB, calculated as an end-of-period stock;
- Floor on priority social spending by the central government, calculated cumulatively from the beginning of the fiscal year;
- Floor on capital development spending undertaken by the central government, calculated cumulatively from the beginning of the fiscal year;
- Ceiling on accumulation of domestic payments arrears by the central government, calculated in cumulative terms from December 31, 2024 on a continuous basis;
- Ceiling on the present value of new external debt contracted or guaranteed by the Government;
- Ceiling on BB’s other foreign currency assets;
- Ceiling on BB’s stock of lending through financing and refinancing quasi-fiscal schemes in domestic currency.

Institutional Definitions

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

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

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

11. The definitions of "debt" and borrowing for the purposes of this TMU are set out in paragraph 8(a) of the Guidelines on Public Debt Limits in Fund-Supported Programs attached to the IMF Executive Board Decision No. 15688-(14/107) adopted on December 5, 2014. For purposes of these Guidelines, "debt" is understood to mean a direct, i.e., noncontingent, liability created under a contractual arrangement under which a value must be provided, in the form of assets (including monetary assets) or services, and under which the debtor also undertakes to make one or more payments in the form of assets (including monetary assets) or services, according to an established schedule. These payments will discharge the debtor from the principal and/or interest liabilities undertaken under the contract. In accordance with the foregoing definition of debt, any penalties or damages awarded by a court as a result of the nonpayment of a contractual obligation that constitutes debt are debt.

12. External debt, in the assessment of the relevant criteria, is defined as any borrowing or debt service in a currency other than the Bangladesh taka. The relevant performance criteria apply to external debt of the central government, BB, public enterprises that receive transfers from the central government, and other public entities in which the central government holds more than 50 percent of the capital stakes, or any other private debt for which the central government has provided a guarantee that should be considered to constitute a contingent liability. Guaranteed debt refers to any explicit legal obligation incumbent on the central government to reimburse a debt in the event of payment default by the debtor (whether the payments must be made in cash or in kind).

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

14. State-owned enterprises (SOEs) in the energy and fertilizer sectors refer to the following five (5) SOEs: (1) Bangladesh Power Development Board (BPDB); (2) Bangladesh Petroleum Corporation (BPC); (3) Petrobangla; (4) Bangladesh Chemical Industries Corporation (BCIC); and (5) Bangladesh Agricultural Development Corporation (BADC).

Monetary Aggregates

Reserve Money of the Bangladesh Bank—Indicative Target

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

Adjustment mechanism:

16. If any DMB fails to meet its legal reserve requirement, the ceiling on reserve money will be adjusted downward to the extent of any shortfall in compliance with the requirement.

17. Changes in required reserve regulations will modify the reserve money ceiling according to the formula:

$$\Delta RM = \Delta r \cdot B_0 + r_0 \cdot \Delta B + \Delta r \Delta B$$

where ΔRM denotes the change in reserve money; r_0 denotes the reserve requirement ratio prior to any change; B_0 denotes the reservable base in the period prior to any change; Δr denotes the change in the reserve requirement ratio; and ΔB denotes the immediate change in the reservable base resulting from changes to its definition.

Net International Reserves of Bangladesh Bank—Quantitative Performance Criterion

18. For program monitoring purposes, the Net International Reserves (NIR) of BB is defined as Gross International Reserves (GIR, as defined in paragraph 18) minus the reserve-related liabilities (as defined in paragraph 19). For program monitoring purposes, the stock of foreign assets and foreign liabilities of BB shall be valued at the program exchange rate in U.S. dollars, as described in paragraph 2.

19. GIR of BB are defined as the sum of:

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

- The reserve position of Bangladesh in the IMF;

- Holding of SDRs; and

- Monetary gold.

Excluded from the definition of GIR are:

- Foreign currency loans to local banks;
- Deposit with state-owned local banks;
- Deposits with the International Islamic Trade Finance Corporation (Islamic Development Bank Group);
- Fixed income securities below investment-grade;
- Reciprocal deposits acquired by the BB under the 2021 swap arrangement with the Central Bank of Sri Lanka
- Any other foreign currency assets in nonconvertible currencies and precious metals other than gold; and
- Any other foreign currency claims, which are not high-quality claims on non-residents readily available for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes.

20. Reserve-related liabilities of the BB are defined as the sum of the liabilities from SDR allocation; and all other outstanding liabilities of Bangladesh to the IMF with a maturity of less than one year; and foreign currency liabilities, with a maturity of less than one year, in convertible currencies to nonresidents, including liabilities to the Asian Clearing Union; the Japan Debt Relief Grant[1] (JDRG); the Foreign Currency Clearing Account (i.e., the total amount of Deposit Money Banks' foreign currency deposits held at BB);[2] and forward contracts, foreign currency swaps, and other futures market contracts.

21. A floor applies to the level of NIR of the BB. Should the actual disbursement of budget support from development partners be below the projections under the program, the NIR floor will be adjusted downward by the difference between the actual level and the projected level of disbursements under the program. This adjustment is calculated cumulatively from the beginning of the fiscal year.

- The end-June 2025 NIR target assumes the following planned budget support from development partners: US$1000 million from the World Bank; US$900 million from the Asian Development Bank (ADB); US$400 million from the Asian Infrastructure Investment Bank (AIIB); US$440 million from Japan International Cooperation Agency (JICA), US$100 million from the OPEC Fund for International Development (OFID), and Euro 57 million from Agence Fraincaise

[1] BB acts as agent on behalf of the Government of Bangladesh for managing the Japan Debt Relief Grant.

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

de Developpement (AFD). Should actual disbursements be different than projections, the end-June 2025 NIR target will be adjusted by the same amount.

Fiscal Aggregates

Primary Balance

22. A floor applies on the primary balance of the central government (including grants) measured cumulatively from the beginning of the fiscal year.

23. For program monitoring purposes, the primary balance is defined as the overall balance of the central government excluding interest payments and including foreign grants.

24. Should the actual disbursement of grants from development partners be below the projections under the program, the floor on the primary balance will be adjusted downward by the difference between the actual level and the projected level of disbursements under the program. This adjustment is calculated cumulatively from the beginning of the fiscal year.

Tax Revenue

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

26. For program monitoring purposes, tax revenue is defined as the sum of (i) tax revenue collected by the National Board of Revenue, (ii) tax revenue from narcotics and liquor duty, (iii) tax revenue from motor vehicles, (iv) land development tax, (v) tax revenue from sale of stamps, and (vi) tax revenue from surcharges.

Priority Social Spending

27. A floor applies on priority social spending financed by the Government of Bangladesh calculated cumulatively from the beginning of the fiscal year.

28. For program monitoring purposes, priority social spending comprises all expenditures on education, health, and social safety nets as listed in Text Table 2.

Text Table 2. Bangladesh: Composition of Priority Social Spending of the Government of Bangladesh

Component	Spending Ministry/Divisions	Data Source and Calculation
Education	Ministry of Primary and Mass Education	iBAS++, Total Spending
	Secondary and Higher Education Division	iBAS++, Total Spending
	Technical and Madrasa Education Division	iBAS++, Total Spending
Health	Health Services Division	iBAS++, Total Spending
	Medical Education and Family Welfare Division	iBAS++, Total Spending
Social Protection (Excluding Education and Health)	Concerned Ministries as documented by the Finance Division (FD)	IBAS++ and FSMU Program data of the social protection activities/programs as published in the budget document, excluding the program "Pension for Retired Government Employees and their Families" and "Agricultural Subsidy."

Development Capital Investment

29. A floor applies on development capital investment financed by the Government of Bangladesh, calculated cumulatively from the beginning of the fiscal year.

30. For program monitoring purposes, development capital investment comprises all Annual Development Program (ADP) expenditure in the budget.

Domestic Payment Arrears

31. A ceiling applies on the accumulation of domestic payment arrears by the central government as well as the stock of domestic payment arrears by the central government to the electricity and fertilizer sector.

32. For program monitoring purposes, domestic payment arrears comprise bills payable that have not been paid at the time they are due, as specified in the contractual agreements, taking into account all applicable grace periods.

External Payment Arrears

33. A continuous ceiling applies on the accumulation of new external payments arrears by the central government, BB, and five (5) SOEs in the energy and fertilizer sectors.

34. For program monitoring purposes, external payments arrears comprise external debt and debt-service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements, taking into account all applicable grace periods. However, nonpayment of external debt service will not give rise to arrears when the Central Government and Bangladesh Bank cannot pay or settle based on the contractual terms solely because of the transfer of funds being rejected owing to intermediary financial institutions' compliance policies, as long as the debt service payments have been paid into an escrow account by the contractual due date, taking into account any contractual grace period. Funds in such escrow accounts may be used only to satisfy the related external debt obligations, and their use or withdrawal for other purposes would constitute a breach of the QPC.

Ceiling on the Present Value of New External Debt

35. For the ceiling on the present value of new external debt contracted or Guaranteed by the Government, and for program purposes, the definition of external debt is set out in paragraph 12 of the TMU and includes any borrowing or debt service in a currency other than in Bangladesh Taka.

36. A continuous ceiling is applied to the present value (PV) of all new external debt contracted or guaranteed by the central government, including commitments contracted or guaranteed for which no value has been received. This IT does not apply to:

a. Normal import-related commercial debts having a maturity of less than one year;

b. Rescheduling agreements;

c. External borrowing which is for the sole purpose of refinancing existing public-sector external debt and which helps to improve the profile of the repayment schedule; and

d. IMF disbursements.

37. For program monitoring purposes, a debt is considered contracted when all conditions for its entrance into effect have been met, including approval by the Government of Bangladesh.

38. For program purposes, the value in U.S. dollars of new external debt is calculated using the program exchange rates.

39. The PV of new external debt is calculated by discounting all future debt service payments (principal and interest) based on a program discount rate of5 percent and taking account of all loan conditions, including the maturity, grace period, payment schedule, front-end fees and management fees. The PV is calculated using the IMF model for this type of calculation based on the amount of

the loan. A debt is considered concessional if on the date on which it is contracted the ratio of its present value to its face value is less than 65 percent (equivalent to a grant element of at least 35 percent). In the case of loans for which the grant element is zero or less than zero, the PV is set at an amount equal to the face value.

40. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract.

41. An adjustor of up to 10 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations from the QT/QPC on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

42. Reporting Requirement. The authorities will inform IMF staff of any planned external borrowing and the conditions on such borrowing before the loans are either contracted or guaranteed by the government.

Ceiling on BB's other foreign currency assets

43. A ceiling applies to the amount of other foreign currency assets of BB.

44. For program monitoring purposes, other foreign currency assets comprise the total stock of assets in the following funds:

a. Export Development Fund (EDF);

b. Green Transformation Fund (GTF);

c. Long Term Financing Facility (LTFF);

d. Sonali Bank Financing Facility (SBFF);

e. Deposit with ITFC.

45. Reporting Requirement. The authorities will inform IMF staff of the outstanding amounts of other foreign currency assets of BB on monthly basis, after the end of the end each calendar month.

Ceiling on BB's stock of lending through financing and refinancing quasi-fiscal schemes in domestic currency.

46. A ceiling applies to the total amount of BB's lending through financing and refinancing quasi-fiscal schemes.

47. For program monitoring purposes, BB's lending through financing and refinancing quasi-fiscal schemes comprise the following:

	Scheme	Interest /Profit rate Charged by BB to Banks, percent	Fund Size, Taka	Outstanding amount, Taka: as of 03-27-2025
1	Housing Refinance Investment	5	7,570,000,000	1,296,633,685
2	Refinance Scheme in Agricultural products processing Industry	3	14,000,000,000	9,554,679,087
3	Refinancing Scheme for Solar Energy and Bio-gas	Bank rate-1	10,000,000,000	7,993,284,480
4	Refinance Scheme - Small Enterprise-BD Bank	0.5	30,000,000,000	19,449,376,387
5	Refinance Scheme - Small Enterprise- Ext 2014	3		
6	Refinancing Scheme 10Tk Financial Inclusion Program	Bank rate	2,000,000,000	0
7	Refinancing Scheme for New Entrepreneur Cott Micro	3	1,000,000,000	323,997,322
8	Refinance for CMSME working cap facility to deal COVID	2	100,000,000,000	0
9	Refinance under Pre-Shipment Credit Scheme	0.5	50,000,000,000	29,336,631,000
10	Refinancing scheme for low-income ppl, farmers & mrginl sml bus	0.5	30,000,000,000	2,049,860,682
11	Refinancing scheme WC loan/inv facility lrg industrial & Services	4	150,000,000,000	0
12	Refinance Scheme for 10/50/100Tk A/C holders	1	7,500,000,000	5,405,490,940
13	Refinance Scheme Technology Development/Upgradation Fund	1	10,000,000,000	8,479,881,496
14	Refinance Scheme for Cinema Hall Development	2	10,000,000,000	153,928,571
15	Refinance Scheme for Digital Nano Loan	1	5,000,000,000	2,985,764,667
16	Refinance Scheme against Term Loans to CMSMEs	2	250,000,000,000	129,863,723,153
17	Prefinance Scheme against Term Loans to CMSMEs	2		
18	Export Facility Prefinance Fund EFPF, Islamic and Conventional	1.5	100,000,000,000	44,614,278,773
20	GTF-Finance and Refinance in Taka, Islamic and Conventional	1	50,000,000,000	16,169,700,961
21	Refinance Scheme for Jute Sector	Bank rate	3,000,000,000	1,489,050,000
22	Pre-finance to Probashi Kallyan Bank	4	10,000,000,000	10,000,000,000
23	Pre-finance to Probashi Kallyan Bank, phase 2	4	10,000,000,000	2,000,000,000
24	Tk 5000 Crore Food Security Refinance Scheme	1	50,000,000,000	25,866,483,041
25	Loan to Karmasangsthan Bank	4	10,000,000,000	7,500,000,000
26	Demand Loan – Others	n/a	30,000,000,000	30,000,000,000
27	Demand Loan Account-Karmasangsthan Bank	4	10,000,000,000	10,000,000,000
28	Demand Loan to Anser VDP Bank	4	10,000,000,000	7,500,000,000
29	Netherland Grant Grameen Bank Loan-H/L Project	n/a	44,283,298	44,283,298
30	BD Shilpa Bank FC Loan A/C	n/a	65,418	65,418
TOTAL			**960,114,348,716**	**372,077,112,959**

48. Reporting Requirement. The authorities will inform IMF staff of the outstanding amounts of lending through financing and refinancing quasi-fiscal schemes in domestic currency on monthly basis, after the end of each calendar month.

Prior Action and Continuous Structural Benchmark on the exchange rate reform: ensuring free quoting

49. This section outlines a set of actions to be undertaken by Bangladesh Bank to ensure the free quoting of exchange rate under the Prior Action (PA) and continuous Structural Benchmark (SB) on the exchange rate reform.

Issuing a BB circular (PA)

50. Consistent with the PA, Bangladesh Bank issues a circular to: (a) confirm that the FE circular No. 38 from December 31, 2024, guides the functioning of the existing exchange rate regime and the forex market and (b) rescind in full the FE circular No. 01 from January 2, 2025.

Communications with authorized dealers and the public (PA)

51. The Governor holds a meeting with all authorized forex dealers to:

i. instruct them to disregard Bangladesh Bank's past informal guidance, in all forms and manners, to maintain a certain level of (a cap on) the nominal exchange rates of Taka vis-à-vis foreign currencies and reaffirm that no such guidance practices will be exercised by BB in the future.

ii. confirm that the FE circular No. 38 from December 31, 2024, guides the functioning of the existing exchange rate regime and that the dealers are allowed to quote the exchange rate freely.

Following the meeting, Bangladesh Bank:

iii. sends official letters to the authorized dealers communicating in writing items (i) and (ii) above.

iv. issues public communication highlighting the messaging in the meeting per items (i) and (ii) above and rescinding of the FE circular No. 01 from January 2, 2025.

Assessment of free quoting and data provision to the IMF (PA)

52. To assess implementation of the PA and to confirm consistency of the exchange rate data with the framework and free quoting, the IMF staff will use the period of no less than 5 weeks and until the Board date.

53. Bangladesh Bank provides to the IMF on a daily basis the detailed data on the reference rate and all underlying forex transactions in the client and the interbank FX markets. The data should confirm that the exchange rate displays sufficient variation consistent with the free quoting and with the agreed framework of a crawling peg with a band.

54. The IMF staff will apply a criterion based on a standard deviation of daily changes over 5 consecutive business days in the exchange rate to establish that the exchange rate is sufficiently flexible through time. Such standard deviation is calculated separately for (a) the weighted average

banks' buy rates, (b) the weighted average banks' sell rates and (c) the reference rate, which is the weighted average of rates in all transactions.[3] An additional criterion is that the average sales exchange rate cannot stay at the upper bound of the band for longer than 2 consecutive days, before the exchange rate band is shifted by BB.

55. The IMF staff will analyze the average percentage difference between daily high and low transactions over the window of 5 consecutive business days to assess dispersion of exchange rate quotes in the cross-section of (a) banks' sales transactions and (b) banks' purchase transactions, which took place in client and interbank markets on each business day. This measure is applied separately to sales and to purchases transactions.[4]

56. If the actual values for standard deviation and dispersion remain below their benchmark values, the IMF staff will evaluate if the exchange rate flexibility was limited due to objective factors that are beyond the authorities' control – for example, temporarily benign FX market conditions with a more favorable supply-demand balance – or due to continued moral suasion by BB, which interfered with the free quoting. The IMF staff reserves the right to approach individual banks to inform this judgement.

Continued free quoting under Continuous SB

57. To facilitate free quoting of the exchange rate Bangladesh Bank will continue to avoid informal guidance, in all forms and manners, to maintain a certain level of (a cap on) the nominal exchange rates of Taka vis-à-vis foreign currencies, and formal regulation which interferes with the free quoting of the exchange rate.

58. After the completion of the combined 3rd and 4th review and during the remaining program period, the IMF staff will continue to monitor the free quoting of the exchange rate consistent with the approach described in paragraphs ¶53-¶56 of this TMU, and applied during the monitoring period for implementation of the PA.

59. Fund staff reserves the right to approach individual banks to confirm parameters of transactions. The provision of the data on market transactions will continue through the rest of the IMF program.

PA and Continuous SB on the exchange rate reform: implementation and monitoring of the new exchange rate regime

60. The functioning of the new exchange rate regime prior to the completion of the combined 3rd and 4th review is guided by the PA and for the remaining program period is guided by the

[3] This threshold is derived by calculating the average rolling five-day standard deviation of daily exchange rates returns for five Asian emerging market economies.

[4] This threshold is derived by calculating the average dispersion between daily high and low FX transactions for five Asian emerging market economies.

continuous Structural Benchmark (SB), with commitments spelled out in the MEFP and the mechanism described in this TMU.

Parametrization of the regime

61. BB will set the exchange rate regime parameters – including the central rate of the band, the upper and lower limits of the band, and the rate of crawl – vis-a-vis a basket of foreign currencies, including USD, EURO, GBP, CNY and INR. BB will define the weights of such currencies as the weights of respective Bangladesh's trading partners in foreign trade and remittance flows.

62. To set the central exchange rate vis-à-vis the basket, BB used the Reference Rate (RR) rate vis-à-vis the USD based on transactions on May 15, 2025, and the cross-exchange-rates of the basket currencies vis-à-vis the USD and prevailing in the international market before 12 pm on the same day.

63. Subsequently, to define the central exchange rate vis-à-vis the basket on daily basis, BB will apply the rate of exchange rate crawl to the previously set central exchange rate. The central exchange rate may be reset as a result of downward or upward shifts of the exchange rate band as is further elaborated below.

64. BB will initially set the width of the band around the central rate vis-à-vis the basket. The revision of the band width towards its further widening should be discussed in the BB's Monetary Policy Committee meetings and agreed in technical consultations with the IMF country team. The guiding principle should be to balance increasing exchange rate flexibility with the program objective of accumulating the foreign reserves. BB should not decrease the width of the band.

65. BB will define an operational band vis-a-vis USD on a daily basis, by applying the cross-exchange-rates of currencies included in the basket vis-à-vis the USD and prevailing in the international market at New York market closing on the previous business day.

66. BB will define the rate of exchange rate crawl of Taka vis-à-vis the basket $\Delta\bar{s}_{t,t+12}$ applied over the next 6 month based on inflation differential and estimated long-term rate of change in the real exchange rate according to the formula:

$$\Delta\bar{s}_{t,t+12} = E\{\pi_{t,t+12}\} - E\{\pi^*_{t,t+12}\} + \Delta\bar{z}$$

where $E\{\pi_{t,t+12}\}$ is the point-to-point headline inflation rate in Bangladesh projected for the next 12 months, $E\{\pi^*_{t,t+12}\}$ is the point-to-point weighted average headline inflation rate for trading partners included in the currency basket projected for the next 12 months, and $\Delta\bar{z}$ - the estimated long-term rate of change of the real effective exchange rate of the Taka to the vis-à-vis the basket of currencies.

BB will set $E\{\pi_{t,t+12}\}$ consistent with BB's staff projections of the point-to-point headline inflation rate in Bangladesh for the next 12 months.

67. BB will set $E\{\pi^*_{t,t+12}\}$ based on projections of the point-to-point headline inflation rate in Bangladesh's trading partners for the next 12 months. The information source for inflation forecasts for Euro zone, US, China, India and UK: World Economic Outlook Database, the most recent IMF projections of inflation (end of period consumer prices, percentage change) in World Economic Outlook Databases.

68. These parameters will be reassessed in bi-annual revisions and the rate of crawl will be reset for the next 6 month.

69. BB will communicate the inputs for calculations of the rate of crawl to the IMF country team and agree the rate of crawl intended for the next 6 months in technical consultations with the IMF country team. Should BB find it necessary to revise the parameters of the crawl before the 6-months cycle, then it should be agreed with the IMF team in technical consultations.

Restricting public communication of the regime parameters

70. BB will not announce and will not explicitly commit to the regime parameters, to minimize potential speculative attacks and to preserve a degree of flexibility to revise such parameters in consultations with the IMF. BB will not make advance announcements about the timing and the size of revisions of the parameters.

Publishing the Reference Exchange Rate

71. BB will continue publishing Bangladesh Foreign Exchange Market Spot Reference Exchange Rate (RR) according to the Guidelines agreed upon the 2nd program review and approved by the BB management in the FE circular No. 38 from December 31, 2024.

Conduct of auction-based FX interventions in the spot market

72. BB will conduct outright FX interventions in the spot market through auctions between BB and FX market intermediaries according to the Interventions Strategy approved by the BB management in the FE circular No. 38 from December 31, 2024, with amendments made during the combined 3rd and 4th IMF program review. BB's FX interventions conducted through auctions must ensure that (a) access to bid at the auction is granted to all authorized dealers in good standing, (b) the exchange rates in bids/offers is the only criterion used to determine allotment, and (c) no constraints are imposed on the range or level of the exchange rates that can be submitted in bids/offers. Interventions should not earmark FX for specific intermediaries or purposes to avoid market segmentation and risk violating MCP under Article VIII.

Regular interventions budget (Budget A) for FX sales interventions and upward shifts of the exchange rate band

73. The regular intervention budget (Budget A) may be deployed for sale interventions when depreciation pressures take the exchange rate above the upper bound of the exchange rate band as is indicated by RR. Regular FX sale interventions cannot be held within the exchange rate band. BB

will shift the exchange rate band to avoid excessive losses of foreign reserves through FX sale interventions given the need to meet the IMF-supported Program target – QPC on the NIR.

Setting the parameters of Budget A

(i) For the period till December 2025 the regular **monthly sale** interventions budget is set at the limits agreed during the 3rd and 4th combined IMF program review mission.

(ii) For the period after end-December 2025, the new parameters of the interventions budget will be agreed in technical consultations with the IMF country team and provided that the NIR target for the previous test date is met, the interventions budget for the following 6 months – that is, till the next test date for the NIR target will be estimated according to the formula:

$$IB_{t,t+6} = NIR_t + Inflows_{t,t+6} - Outflows_{t,t+6} - NIR_{t+6}^{Target}$$

where NIR_t is a current level of reserves, $Inflows_{t,t+6}$, $Outflows_{t,t+6}$ are predetermined inflows and outflows affecting the NIR between the recent test date at month *t* and the next test date at month t+*6*, and NIR_{t+6}^{Target} is the NIR target at the next test date at month t+*6*.

Prior to setting interventions budget, BB will communicate inputs for estimating interventions budget to the IMF, clearly specifying the predetermined inflows and outflows. As a general principle, if the interventions budget calculated per the formula in (ii) is $IB_{t,t+6}$ <0, then the budgets over the following 6 months will be set to "0".

(iii) If actual interventions amount in any of the periods falls below the interventions budget allocated for the same period, the amount of the unspent interventions budget should not be rolled over to future periods.

Upward (depreciation) shifts of the exchange rate band

- The size of the band shift will be assessed based on the RR rate. If the reference rate stays above the band and the interventions budget is exhausted, then the band is adjusted and the new level of the central rate is set higher than the last observed reference rate when the interventions budget got exhausted.

Regular FX purchase interventions and downward shifts of the exchange rate band

74. Consistent with the crawling peg with the band regime and to rebuild FX reserves, BB will conduct FX purchase interventions when Taka appreciates below the lower limit of the exchange rate band as is indicated by RR. The FX purchase interventions are conducted through auctions between BB and authorized dealers. Regular purchase interventions should not be held when the RR is within the exchange rate band.

Downward (appreciation) shifts of the exchange rate band

- Consideration of the downward shifts of the band will be informed by the developments of BB's NIR vis-à-vis the NIR target and will be discussed in technical consultations with the IMF.

Deploying emergency interventions budget (Budget B) to address excessive volatility

75. The intervention budget B is set at US$**500** million.

76. For the period starting May 14 until June 13, this budget is available to Bangladesh Bank to respond to "Lumpy" demand trigger: a client demand in a single transaction with an authorized dealer exceeding US$100 million. The amount of a single FX sale intervention to address "lumpy" demand as in (a) should not exceed 50 percent of the amount demanded in the "lumpy" transaction. BB should be notified by an authorized dealer about the transaction and that the dealer finds it difficult to satisfy this demand in the open market. BB will consider intervening in the FX market.

77. For the period starting May 14 and until end-December 2025, when the completion of the 5th program review is expected, this budget is available to Bangladesh Bank to respond to **overshooting of the exchange rate**.

78. Sale interventions and purchase interventions to replenish budget B are conducted through FX auctions between BB and authorized dealers as is described in FX interventions strategy document and in subsection "*Conduct of auction-based FX interventions in the spot market*" above. To replenish the amounts deployed in sale interventions from emergency Budget B, the FX purchase auctions may be held when the RR exchange rate remains within the exchange rate band.

79. If the overshooting trigger materializes, BB will consider increasing the policy interest rate to enhance the interest rate differential to tame the excessive volatility in the FX market.

80. After the intervening in response to the overshooting, BB will proceed with implementation of the new exchange rate regime identifying the parameters of the regime consistent with the design outlined in this TMU. In particular, the RR based on freely quoted exchange rates prevailing in the market after the intervention will define the central exchange rate of the band.

81. The FX sale interventions under such triggers should be considered as a last resort measure to address short-term FX liquidity shortages and overshooting, and priority should be given to allowing the market to clear through transactions among clients and dealers and through price discovery (exchange rate adjustment) in the absence of BB FX sale interventions.

82. Should BB use some of the interventions budget (Budget B) at end-June 2025, such an amount from the budget will be subtracted from the end-June 2025 NIR target.

83. For all other events that BB will consider as destabilizing and requiring FX sales interventions, BB is strongly advised to consult with the IMF staff to arrive to the common judgement that FX interventions are required.

84. BB will not announce the parameters of the intervention budget and the order of deployment of interventions.

85. In all other aspects the regime should function in line with the design described in this TMU.

Provision of Information to the Fund for monitoring purposes

86. BB will facilitate monitoring of the program conditionality related to implementation of the crawling peg with the band exchange rate regime by providing the following information on daily basis:

(i) The parameters of the exchange rate band vis-à-vis the basket and parameters of the operational exchange rate band vis-à-vis USD.

(ii) The Spot Reference Exchange Rate (RR), as defined in subsection "*Publishing the Reference Exchange Rate*" above and in related Bangladesh Foreign Exchange Market Spot Reference Exchange Rate (RR) Guideline.

(iii) The information on spot foreign exchange market transactions conducted by licensed ADs for currencies where the Taka is used as the counterpart currency in the transaction and includes transactions of banks and their clients (the client market) and among banks (the interbank market). Such information should clearly indicate (a) counterparts to each transaction, (b) the amount traded and (c) the exchange rate that was used in the transactions.

(iv) The information on FX Interventions conducted through auctions, including the total number of bids or offers received in the auction, total amount of FX which was sold or purchased in the FX auction and the exchange rate at which interventions were conducted.

(v) The information about "lumpy" transactions between authorized dealers and their clients that BB has been notified of and which led BB to consider FX sale intervention: including the date, the amount and the parties to such transactions.

87. To monitor the implementation of the new regime and that counterparts quote the exchange rate in such transactions freely, the IMF reserves the right to reach out to the counterparts in the transactions to verify if the information on transactions was provided correctly and is consistent with the free quoting of the exchange rate.

Concluding Remarks

88. Any changes to this document may be made after technical consultations with and agreement of the IMF.

Table 1. Bangladesh: Data Reporting Requirements		
Item	**Reporting agency**	**Periodicity**
I. Monetary, exchange rate, and interest rate data	**Bangladesh Bank (BB)**	
Daily exchange rates (taka per U.S. dollar)—weighted-average, open market (buy and sell rates), interbank (high and low rates), and BAFEDA member rates.	BB	Daily, next working day
Daily foreign exchange interbank market trading spot, forward, and swap volume	BB	Daily, next working day
The Spot Reference Exchange Rate (RR), as defined in Bangladesh Foreign Exchange Market Spot Reference Exchange Rate (RR) Guideline.	BB	Daily, next working day
Spot foreign exchange market transactions of licensed ADs (Banks) and their clients (the client market) where the Taka is used as the counterpart currency in the transaction, including: a. counterparts to each transaction, b. the amount traded in each transaction and c. the exchange rate that was used in each transaction.	BB	Daily, next working day
Spot foreign exchange interbank FX market transactions conducted among banks for currencies where the Taka is used as the counterpart currency, including: a. counterparts to each transaction, b. the amount traded in each transaction and c. the exchange rate that was used in each transaction.	BB	Daily, next working day
The parameters of the exchange rate band vis-à-vis the basket	BB	Daily, next working day
The parameters of the operational exchange rate band vis-à-vis USD	BB	Daily, next working day
The information on FX Interventions conducted through auctions, including: a. total amount of FX intervention, b. the total number of bids/offers received by BB, c. the range of exchange rates in received bids/offers, d. the exchange rate at which intervention was conducted.	BB	Next working day after the FX intervention
Net open position of deposit money banks	BB	Daily, next working day
Stock of gross international reserves (GIR), Asian Currency Unit liabilities, Foreign Exchange Clearing Account balances, Foreign exchange overdraft balance (FXOD), Export Development Fund, Green Transformation Fund, Long Term Financing Facility, Sonali bank Financing Facility, Deposits with ITFC, reciprocal deposits acquired by the BB under the 2021 swap arrangement with the Central Bank of Sri Lanka, and exchange rate valuation changes to GIR.	BB	Daily, next working day
Detailed data on the composition of GIR, including currency composition	BB	Daily, next working day
Stock of GIR, net international reserves (NIR), NFA including subcomponents, both at program and market exchange rates.	BB	Daily, next working day
Stock of noninvestment grade bonds by name of issuer, investment rating, and currency composition	BB	Monthly, within two weeks of the end of each month
Sales and purchases of foreign exchange by BB	BB	Daily, next working day
Daily bank and call money market rates	BB	Daily, next working day
Daily BB repo and reverse repo rates and interbank repo and reverse repo rates (weighted average yields)	BB	Daily, next working day

Table 1. Bangladesh: Data Reporting Requirements (Continued)		
Daily BB repo and reverse repo and interbank repo and reverse repo trading volumes (billions of taka)	BB	Daily, next working day
Daily volume of open market operations (sales and purchases) by BB (billions of taka)	BB	Daily, next working day
Stock of reserve money and its components	BB	Daily, next working day
Excesses/shortfalls of DMBs' reserves	BB	Daily, next working day
Bangladesh Bank's balance sheet and off-balance items by currency representation	BB	Monthly, within two weeks of the end of each month
Treasury bill and bond auction reports, including range of bids submitted by primary dealers	BB	Weekly, within one week of the end of each week
Weekly retirement of government securities and outstanding balances of Treasury bills and bonds	BB	Weekly, within one week of the end of each week
Bangladesh Bank bills and auction reports	BB	Weekly, within one week of the end of each week
Balance sheet of BB (form 10 G)	BB	Monthly, within six weeks of the end of each month
Balance sheet (aggregate) of commercial banks (form 20 G)	BB	Monthly, within six weeks of the end of each month
Monetary survey (form 30 G)	BB	Monthly, within six weeks of the end of each month
Bank deposits of Bangladesh Petroleum Corporation, Meghna Petroleum Limited, Padma Oil Company Limited, and Jamuna Oil Company Limited	BB	Monthly, within six weeks of the end of each month
Foreign assets and liabilities of BB	BB	Monthly, within six weeks of the end of each month
Foreign exchange cash flow of BB	BB (Foreign Reserve and Treasury Management Department (FRTMD))	Monthly, within five working days of the end of each month
Other foreign currency assets of BB, including EDF, GTF, LTFF, SBFF, ITFC	BB (Foreign Reserve and Treasury Management Department (FRTMD))	Monthly, within five working days of the end of each month
Stock of BB's lending through financing and refinancing quasi-fiscal schemes in domestic currency	BB	Monthly, within five working days of the end of each month
II. Fiscal data	**Ministry of Finance (MOF)**	
Fiscal outturn, including financing of the overall fiscal balance	MOF (Finance Division (FD))/ Controller General of Accounts (CGA)	Monthly, within six weeks of the end of each month
Revenue, by type of tax and nontax revenues (with main subheadings)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Privatization receipts	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
National Bureau of Revenue collections (by type of tax and subheadings)	NBR	Monthly, within six weeks of the end of each month
Recurrent expenditure, including spending on pay and allowances, goods and services, interest payments (domestic and foreign), subsidies, transfers, and block allocations (with main subheadings)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Breakdown of subsidies by main categories (agriculture, fertilizer, food, fuel, electricity, exports, and others)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (Continued)		
Fiscal outturn, excluding railways and Controller General, and defense finance	MOF(FD)/CGA	Monthly, within six weeks of the end of each month
Social spending	MOF (FD)/CGA	Quarterly, within six weeks of the end of each quarter
Annual Development Program (ADP) expenditure funded by (i) the central government and (ii) foreign grants and loans, included in the budget	MOF (FD)/CGA	Monthly, within six weeks of the end of each month (quarterly for detailed data)
Non-ADP capital spending (including main subheadings) and net lending (including by receipts and payments, including a breakdown by state-owned enterprises (SOEs))	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Extraordinary expenditures (by type)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Foreign financing, comprising (i) disbursements and amortization of program and project loans; and (ii) changes in external debt arrears, classified into principal and interest arrears	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Disbursements of program and project grants	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Foreign financing, comprising (i) disbursements and amortization of program and project loans; and (ii) changes in external debt arrears, classified into principal and interest arrears	MOF (Economic Relations Division (ERD))	Monthly, within six weeks of the end of each month
Disbursements of program and project grants by donor	MOF (ERD)	Monthly, within six weeks of the end of each month
Stock and flows of the government's domestic payment arrears to five SOEs in the energy and fertilizer sectors (BPDB, Petrobangla, BPC, BCIC and BADC)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Stock and flows of external payment arrears of five (5) SOEs in the fertilizer and energy sectors (BPDB, Petrobangla, BPC, BCIC and BADC)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Domestic financing, comprising (i) borrowing from and repayment to BB, DMBs, and nonbanks; (ii) changes in deposits held in BB, DMBs, and other deposit-taking institutions (see Table 2)	MOF(FD)/CGA/BB	Monthly, within six weeks of the end of each month
Balancing items reported by the CGA	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
III. Debt Data	**MOF/BB/National Savings Directorate (NSD)**	
New external debt obligations contracted and/or guaranteed (concessional and non-concessional) by the government of Bangladesh, BB, nonfinancial public enterprises, departments and autonomous and semi-autonomous bodies of all ministries and divisions (i.e. the central government and BB), including details on the amounts, terms, and conditions of each new obligation	MOF (ERD)/BB	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (Continued)		
Total amount disbursed for each loan and guarantee included under the ceiling on non-concessional external debt	MOF (FD)	Quarterly, within six weeks of the end of each quarter
Stock of outstanding external debt (short-term and medium- and long-term obligations) of the central government and BB, by creditor (in original currency and U.S. dollars)	MOF (ERD)/BB	Quarterly, within eight weeks of the end of the quarter
Stock of arrears on external debt contracted or guaranteed by the central government and BB by creditor (in original currency and U.S. dollars)	MOF (ERD)/BB	Monthly, within six weeks of the end of each month
Stock of domestic debt, including the outstanding balance of Treasury bills, Treasury bonds, as well as breakdown of National Savings Certificates	MOF (FD)/BB/NSD	Monthly, within six weeks of the end of each month
Stock of domestic expenditure arrears	MOF (FD)	Monthly, within six weeks of the end of each month
Projections of daily individual oil-related payments by commercial banks.	BB	Monthly, two weeks in advance of the beginning of each month
Actual and six-month projections on short-term external financing and repayment	BPC	Monthly, two weeks in advance of the beginning of each month
Actual and six-month projections on deferred payments for oil imports	BPC/BB (FRTMD)	Monthly, two weeks in advance of the beginning of each month
Syndicated loans by BPC from commercial banks	BPC/BB (FRTMD)	Monthly, two weeks in advance of the beginning of each month
IV. Financial data	**BB**	
Financial soundness indicators of the banking system.	BB	Quarterly, within eight weeks of the end of the quarter
Compliance of SOCBs and PCBs with memoranda of understanding (MOU).	BB (DOS)	Quarterly, within eight weeks of the end of the quarter
Bank-level data on letter of credit (LC) opening and settlement.	BB	Monthly, within six weeks of the end of each month
Deposits (excl. interbank deposits) at the individual bank level and on an aggregated basis for the overall banking system (excl. BB) and for the Main Groups of Banks (defined hereafter as State-Owned Commercial Banks, Private Commercial Banks (Conventional); Private Commercial Banks (Islamic); Foreign Commercial Banks; and Specialized Banks). For each bank and the Main Groups of Banks, deposits should be broken down by public sector, private sector, and government deposits, as well as by national and foreign currency;	BB	Weekly, within five working days from each Thursday
Regulatory liquidity ratios at the individual bank level, including all elements in the calculation of the numerator and denominator as available.	BB	Monthly, within eight weeks of the end of each month
Data for individual banks that benefit from BB nonstandard lending (including but not limited to overdrafts, interbank guarantees, and BB demand loans): outstanding liabilities to the BB or secured by BB interbank guarantees, broken out by lending instrument and counterparty; information from BB monitoring of banks' compliance with BB conditionality for nonstandard lending (e.g. restrictions on deposit and credit growth, transactions with related parties, etc.).	BB	Weekly, within two weeks from each Thursday
Matrix of interbank lending exposures	BB	Monthly, within six weeks of the end of each month

Table 1. Bangladesh: Data Reporting Requirements (Concluded)		
Calculation of individual banks' net open foreign exchange positions (including all elements in the calculation of the numerator and denominator) by individual banks.	BB	Monthly, within four weeks of the end of each month
Financial statements (balance sheets and income statements) for individual banks, the Main Groups of Banks, and for the overall banking system (exc. BB).	BB	Quarterly, within eight weeks of the end of the quarter
Loans at the individual bank level by classification (including standard, special mention account, substandard, doubtful, and bad/loss) and provisions.	BB	Quarterly, within eight weeks of the end of the quarter
Outstanding and total classified loans at the individual bank-level by economic sector and currency.	BB	Quarterly, within twelve weeks of the end of the quarter
Rescheduled loans at the individual bank level, including loans restructured in most recent quarter.	BB	Quarterly, within eight weeks of the end of the quarter
Capital adequacy data at the individual bank level, including common equity tier 1 capital, additional tier 1 capital, tier 2 capital, total capital, risk weighted assets by type, and all other components in the calculation of the numerator and denominator of capital adequacy ratios. Total assets at the individual bank level and other components for calculation of the leverage ratio.	BB	Quarterly, within eight weeks of the end of the quarter
V. External data	**BB/Other agencies**	
Detailed balance of payments	BB	Monthly, within six weeks of the end of each month
Export data by goods	BB/Export Promotion Bureau	Monthly, within four weeks of the end of each month
Import letters of credit (settlement, opening, and outstanding)	BB	Monthly, within four weeks of the end of each month
Remittances	BB	Monthly, within two weeks of the end of each month
Manpower exports	Bureau Manpower, Employment, and Training	Monthly, within six weeks of the end of each month
VI. Other data	**Bangladesh Bureau of Statistics (BBS)**	
National accounts, by expenditure and by production, in nominal and real terms	BBS	Annual, within three months of the end of each year; quarterly within 100 days of the end of each quarter from January 2024.
Overall consumer price index	BBS	Monthly, within six weeks of the end of each month
Industrial production statistics	BBS	Monthly, within eight weeks of the end of each month

Table 2. Bangladesh: Components of Domestic Bank Financing of the Central Government		
Item (in Tk millions)	**Reporting agency**	**Periodicity**
Bank financing	Bangladesh Bank	All quarterly
Bangladesh Bank		
Change in claims on government (excluding change in claims on autonomous and semi-autonomous bodies)		
Of which: Change in ways and means balance		
Change in overdraft		
Change in overdraft block		
Change in holdings of Treasury bills and bonds		
Change in government currency liabilities		
Change in accrued interest		
Change in government deposits and lending funds (excluding change in deposits of autonomous and semi-autonomous bodies)		
Change in government deposits		
Change in government lending funds		
Memorandum items:		
Change in credit to autonomous and semi-autonomous bodies		
Change in deposits of autonomous and semi-autonomous bodies		
Commercial banks		
Change in claims on government (excluding change in claims on autonomous and semi-autonomous bodies)		
Of which: change in holdings of Treasury bills and bonds		
Change in advances and bills to ministries (of food and others)		
Change in accrued interest		
Change in government deposits and lending funds (excl. change in deposits of autonomous and semi-autonomous bodies)		
Change in government deposits		
Change in government lending funds		
Memorandum items:		
Change in credit to autonomous and semi-autonomous bodies		
Change in deposits of autonomous and semi-autonomous bodies		

INTERNATIONAL MONETARY FUND

BANGLADESH

June 10, 2025

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND THE ARRANGEMENT UNDER EXTENDED FUND FACILITY, REQUESTS FOR EXTENSION OF THE ARRANGEMENTS, AUGMENTATION AND REPHASING OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND THIRD AND FOURTH REVIEWS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staffs 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 is 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 is largely attributed to a substantial downward revision of export data for FY23 and FY24, which carries 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.*

[1] Bangladesh's Composite Index is estimated at 2.82 and is based on IMF's October 2024 WEO and World Bank's 2023 Country Policy and Institutional Assessment (CPIA).

However, the PV of overall public debt is projected to steadily increase, because of domestic debt accumulation to fill 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 renewed foreign exchange (FX) pressures – notwithstanding the recent exchange rate realignment – persistent inflation, increasing interest burden, revenue mobilization constraints, slow implementation of macro-critical structural reforms, domestic political uncertainties, escalating geopolitical tensions, amplified vulnerabilities in the banking sector, and climate related events.

DEBT COVERAGE

1. Debt coverage used for the analysis appropriately captures Bangladesh's debt vulnerabilities.[2] The DSA covers the full stock of public debt issued by the central government, as well as debt issued by 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 have been included in the debt coverage.[3] 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	Check box
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 slightly rose to 38.5 percent of GDP in FY24 (from 36.9 percent of GDP in FY23). (Text Table 2 and Text Figure 1).[4] Total PPG debt at end-FY24 stood at US$173.7 billion. Domestic debt, denominated in local currency, constitutes more than half (54.6 percent) of the total PPG debt stock and domestic debt service payments amounted to 4.7 percent of GDP in FY24. Meanwhile, external debt service payments were 1.1 percent of GDP in FY24, of which 0.8 percent was paid to multilateral creditors

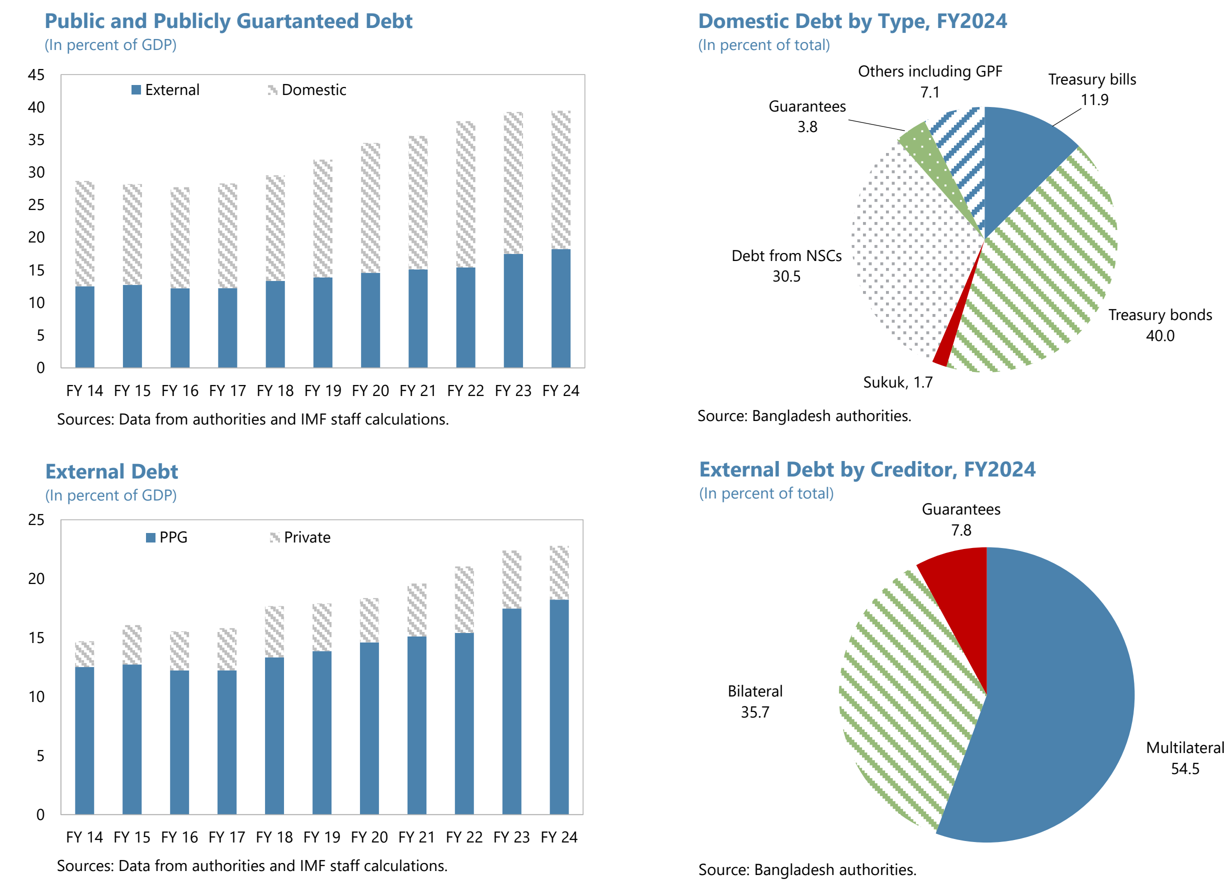
[2] Based on the authorities' data, private non-guaranteed SOE debt (outside debt coverage) is assessed to be lower than 2 percent of GDP (informing the calibrations of the contingent liability shock) and does not represent a fiscal risk based on the information available.

[3] Three SOEs consist of Bangladesh Power Development Board, Petro Bangla, and Bangladesh Petroleum Corporation.

[4] Fiscal year in Bangladesh starts in July and ends in June.

and 0.2 percent of GDP to bilateral creditors (roughly evenly split between Paris Club and non-Paris Club creditors). External debt service on SOE borrowing was 0.2 percent of GDP.

Text Figure 1. Bangladesh: External and Domestic Debt by Type



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 53.6 percent in FY24 from 50.7 percent in FY23, driven by a rise in treasury bond issuance against a broadly stable share of T-bills and Sukuk. Meanwhile, the share of domestic debt held in national savings certificates (NSCs) dropped to 30.5 percent, with general provident fund (GPF), guarantees and others comprising the remainder. Banks' demand for government securities remained strong in FY24 as private investment slowed and treasury yields increased significantly on the back of monetary tightening. As a result, the banking sector continues to hold around two-thirds of government securities, whereas the share held by (BB) declined to 15.7 percent from 17.4 percent in FY23, reflecting BB's discontinuation of devolvement of government securities in primary auctions.[5] Non-banks, especially insurance companies, pension funds and corporations, own the remainder of government securities.

[5] 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.

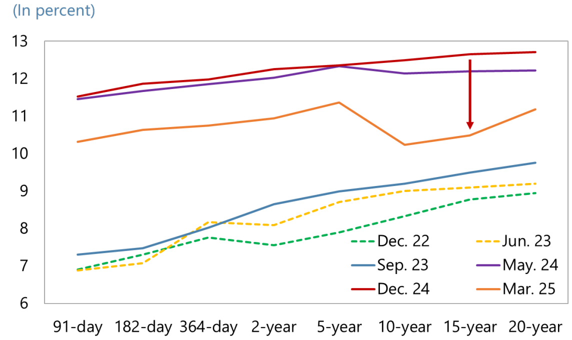
Text Table 2. Bangladesh: Decomposition of Public Debt, FY24

	Debt Stock			Debt Service		
	FY2024			FY2024		
	(In million of US$)	(Percent total debt)	(Percent GDP)	(In million of US$)	(Percent total debt service)	(Percent GDP)
Total[1]	173,700	100.0	38.5	26,268	100.0	5.8
External PPG	78,860	45.4	17.5	4,937	18.8	1.1
Medium-to-long term	78,860	45.4	17.5	3,833	14.6	0.8
Multilateral creditors[2]	42,990	24.7	9.5	2,876	10.9	0.6
IMF	2,885	1.7	0.6	461	1.8	0.1
World Bank	20,338	11.7	4.5	839	3.2	0.2
ADB	15,741	9.1	3.5	1,279	4.9	0.3
Other Multilaterals	4,026	2.3	0.9	296	1.1	0.1
o/w: AIIB	2,210	1.3	0.5	22	0.1	0.0
o/w: IFAD	604	0.3	0.1	-	0.0	0.0
Bilateral creditors	28,187	16.2	6.2	957	3.6	0.2
Paris Club	20,444	11.8	4.5	495	1.9	0.1
o/w: Japan	11,251	6.5	2.5	173	0.7	0.0
o/w: Russia	7,323	4.2	1.6	257	1.0	0.1
Non-Paris Club	7,743	4.5	1.7	462	1.8	0.1
o/w: China	5,837	3.4	1.3	338	1.3	0.1
o/w: India	1,547	0.9	0.3	89	0.3	0.0
SOE borrowing	6,118	3.5	1	1,104	4.2	0.2
Others[3]	1,565	0.9	0.3	-	0.0	0.0
Short-term	-	0.0	0.0	-	0.0	0.0
Domestic	94,840	54.6	21.0	21,331	81.2	4.7
Central Bank Facilities	4,809	2.8	1.1	-	0.0	0.0
Treasury bills	11,309	6.5	2.5	1,877	7.1	0.4
Treasury bonds	37,892	21.8	8.4	6,085	23.2	1.3
Sukuk	1,610	0.9	0.4	72	0.3	0.0
Debt from NSCs	28,910	16.6	6.4	12,392	47.2	2.7
Guarantees	3,595	2.1	0.8	62	0.2	0.0
Others including GPF	6,715	3.9	1.5	843	3.2	0.2
Memo items:						
Collateralized debt[4]	-	0.0	0.0			
Contingent liabilities	9,713	5.6	2.2			
o/w: Public guarantees	9,713	5.6	2.2			
o/w: Other explicit contingent liabilities[5]	-	0.0	0.0			
Nominal GDP[6]	451,096					

1/ As reported by Bangladesh authorities according to their classification of creditors. Percent GDP figures incorporates valuation effects from exchange rate movements.
2/ 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).
3/ This represents the external arrears owed by the three SOEs (Bangladesh Power Development Board, Petro Bangla, and Bangladesh Petroleum Corporation.)
4/ 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. 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
5/ 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).
6/ Nominal GDP reported in this table is based on end of the period exchange rate, 118 Taka per dollar.

4. **Yields on government securities have fallen in the first nine months of FY25 after increasing substantially in FY24**. Since September 2023, BB has tightened monetary policy by a cumulative increase of 350 basis points (bps), leading to an increase in government security yields by about 400 bps on short-term and 250 bps on long-term instruments. 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. However, during the first nine months of FY25, domestic liquidity provision increased as BB reduced net FX sale interventions and sterilized them through domestic liquidity allotment matching the demand for it. As a result, yields on government securities fell against a 150 bps policy rate increase, with larger decreases at the long end of the yield curve.

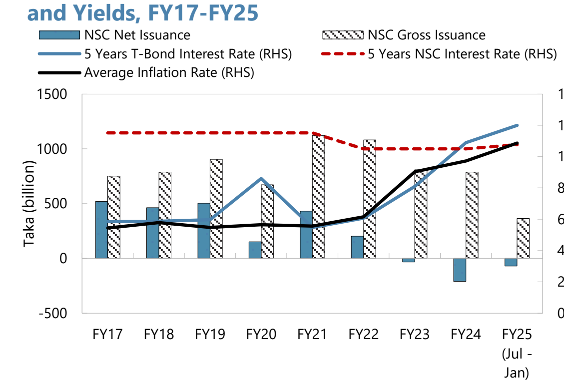
Text Figure 2. Bangladesh: Government T-Bill and T-Bonds Rates
(In percent)



Source: Bangladesh Bank.

5. Demand for National Savings Certificates (NSCs) has continued to decline.[6] Net NSC issuance turned negative in FY23 and remained so in FY24 and H1FY25, driven by a marked decline in gross issuance, resulting from a combination of reforms initiated since 2019[7], reduced household savings amid high inflation, and higher domestic bond yields (Text Figure 3). NSC interest rates were 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.

Text Figure 3. Bangladesh: NSC Issuance and Yields, FY17-FY25



6. Amid increased financing costs, the government under-executed its FY24 borrowing plan and resorted to issuing special treasury bonds at below-market rates to clear debts in the electricity and fertilizer sectors. Citing the high level of bond yields and despite consistent oversubscription in government securities auctions, the authorities were reluctant to issue more domestic debt and instead under-executed expenditure by 1.4 percent of GDP relative to program projections at the time of the second review. As a result, the fiscal deficit came in lower than expected, at 3.8 percent of GDP in FY24, with the primary deficit at 1.5 percent of GDP. Under-execution of expenditure has continued, which resulted in a primary fiscal surplus of 0.6 percent of GDP in H1FY25. Although domestic arrears declined in FY24, with the trend continuing in H1FY25, the government issued special treasury bonds worth 0.5 percent of GDP in FY24 to commercial banks at below-market interest rates to pay off outstanding debts of electricity and fertilizer companies in lieu of the overdue subsidy payments[8], which undermined the proper functioning of the domestic debt market.

7. External PPG debt remained broadly unchanged, while private sector external debt continued to decline. External PPG debt stood at US$78.9 billion, accounting for about 17.5 percent

[6] 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.

[7] 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.

[8] Two further issuances of the special treasury bonds, which carry interest rates equal to the repo rate and thus below prevailing market rates for treasury bonds of comparable maturity (8-10 years), took place in August and October 2024, totaling 0.2 percent of GDP. [9] FY24 External PPG debt was US$77.3 billion, and adding the stock of arrears of three energy SOEs raised it to US$78.9.

of GDP in FY24. External PPG debt edged up in FY24, from around US$74 billion in FY23, and continues to be predominantly owed by the central government to multilateral and bilateral creditors, at about 55 percent and 36percent of outstanding external PPG debt, respectively, while guaranteed SOE debt remains relatively small (US$6.1 billion). As of end FY24, three SOEs accumulated US$1.6 billion (0.3 percent of GDP) of external arrears, which has been added to the external PG debt stock. [9] External project financing disbursements in FY24 were slightly lower than projected previously. Continued inflationary pressures, and the inability of banks to open letters of credits (LCs) due to FX shortages, further contributed to increased import costs and delayed project execution. Private sector external debt was 4.6 percent of GDP in FY24, declining for the second consecutive year from 5 percent in FY23 as the private sector repaid their obligations, and higher borrowing costs contributed to the reduction in new borrowing. As of end-FY24, new debt contracted (external loan commitments) stood at around US$9.9 billion (2.2 percent of GDP), reaching US$10.1 (2.2 percent of GDP) billion in the first three quarters of FY25.

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 at less than 3 percent of total outstanding stock in FY24. Average time to maturity of domestic debt stood at 3.8 years at end-FY24, with 30.7 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, especially in light of the recent social unrest, catastrophic floods, and continued demand compression measures. Real GDP growth decelerated to 4.2 percent (y-o-y) in FY24 and is expected to slow further to 3.8 percent in FY25 before a rebound to 5.4 percent in FY26 as economy recovers from a lower base. This recovery is relatively slow and accounts for the possibility of an adverse impact of trade tariffs on exports and output. The slowdown in the current FY25 is due to disruptions to activity amidst the popular uprising, elevated uncertainty suppressing demand for investment and the tighter policy mix. Over the longer term, growth is expected to converge to its long-term potential of 6.5 percent, revised down from 7 percent assumed in the previous DSA mainly driven by productive capital accumulation and productivity improvement. Structural

[9] FY24 External PPG debt was US$77.3 billion, and adding the stock of arrears of three energy SOEs raised it to US$78.9.

reforms will be key to achieve and sustain such a growth rate, especially as Bangladesh seeks to graduate from LDC status. Downside risks to growth could materialize in the form of continued FX pressures should the exchange rate reform remains incomplete, persistent inflation, domestic political uncertainties, revenue mobilization constraints, escalating geopolitical tensions, Bangladesh's limited capacity to negotiate lower tariffs compared to its ready-made garment (RMG) competitors, 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, and more remittances/trade credit inflows which would help to limit FX pressures.

- **Inflation**. While inflation is gradually declining, it remains elevated, driven by food and energy price increases as well as Taka depreciation, and is projected to persist at close to 9.9 percent (annual average, y-o-y) in FY25, before moderating to about 6.2 percent in FY26, on the back of a tighter policy mix and subsiding supply-side pressures. A possible increase in U.S. trade tariffs will likely require some exchange rate adjustment[10], which will counteract faster deceleration of inflation. Over the longer term, inflation is expected to converge to 5 ½ percent within the central bank target range.

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	3.8	5.4	6.2	6.2	7.9	6.8	6.6
Previous DSA	5.8	5.4	6.6	7.6	7.3	7.0			7.0
Inflation									
Current	9.0	9.7	9.9	6.2	6.3	5.6	5.6	5.6	5.5
Previous DSA	9.0	9.4	7.2	5.9	5.5	5.5			5.5
Primary fiscal balance (in percent of GDP) 3/									
Current	-2.5	-1.5	-2.0	-2.0	-2.2	-2.6	-2.6	-2.6	-2.5
Previous DSA	-2.5	-2.8	-2.2	-2.4	-2.4	-2.5			-2.5
Revenue (in percent of GDP)									
Current	8.2	8.3	8.7	9.5	10.0	10.0	10.1	10.2	10.4
Previous DSA	8.1	8.7	9.2	9.9	10.0	10.2			10.4
Expenditure (in percent of GDP)									
Current	12.7	12.1	12.8	13.5	14.5	15.0	15.1	15.3	15.9
Previous DSA	12.8	13.5	13.3	14.7	14.9	15.1			15.4
Current account balance (in percent of GDP)									
Current	-2.6	-1.4	-1.0	-0.7	-0.9	-1.7	-2.0	-2.0	-0.9
Previous DSA	-0.7	-0.1	-2.5	-2.7	-3.0	-3.0			-2.6
Exports (in percent of GDP)									
Current	9.6	9.0	9.5	10.5	11.4	11.2	11.2	11.1	12.6
Previous DSA	11.6	12.2	12.7	12.3	12.1	12.3			14.8
Imports (in percent of GDP)									
Current	15.7	14.0	14.4	15.1	16.1	16.6	16.7	16.7	16.7
Previous DSA	15.4	15.5	18.0	17.5	17.5	17.7			19.4

1/ Previous DSA refers to the Joint DSA published in June 2024.
2/ Long term average figure covers FY29-FY45 for the current DSA and FY29-FY44 for the previous DSA.
3/ Primary fiscal balance includes the grants. The difference in historical data are caused by GDP rebasing.

[10] As a result of a decline in export flows and corresponding changes in supply-demand balance in the FX market

- **Fiscal policy**. The FY24 fiscal balance materialized better than expected on the back of substantial spending under-execution. In FY25, the primary deficit is expected to widen to 2 percent of GDP with an overall fiscal deficit of 4.1 percent of GDP, as fiscal tightening measures are offset by emergency spending needs to address the fallout from social unrest and flooding, stepped-up arrears clearance, and depressed revenue collections in H1FY25. Fiscal policy is expected to remain tight in FY26 with the primary fiscal deficit projected to be around 2 percent of GDP, supported by revenue-based consolidation and measures to contain spending pressures. In FY27, the primary deficit is projected to be around 2.2 percent of GDP, giving rise to an overall deficit of around 4.4 percent of GDP, gradually widening to 4.8 percent of GDP over FY28-FY29 and eventually reaching the long-term expected overall fiscal deficit of 5 percent of GDP in line with the authorities' target. Subsidy spending is expected to start declining from FY26 as arrears clearance slows and electricity sector reform takes hold. Under the IMF-supported program, as well as the new IMF-WB Joint Domestic Resource Mobilization Initiative, efforts to mobilize fiscal revenues (focused on rationalizing tax exemptions and modernizing tax administration) are expected to raise the revenue-to-GDP ratio by around 1.5 percentage points over FY25-FY27, with additional gradual increases totaling about 0.5 percent of GDP in revenues projected until 2045. Insufficient implementation of reforms to achieve the programmed tax revenue increases in the near term 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 polices 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.[11] RSF financing under the IMF-supported program is also helping to finance priorities identified in the Bangladesh Delta Plan (BDP2100) and the National Adaptation Plan (NAP). 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)**. Despite the 2 percent of GDP downward revision of exports, the CA deficit further narrowed in FY24 to an estimated 1.4 percent of GDP, relative to 2.6 percent of GDP in FY23. While exports declined by around 6 percent year-on year in FY24 – for the second consecutive year – this reduction was offset by an even larger reduction of imports (around 11 percent year-on-year) due to FX shortages and LC margin requirements on import payments,

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

while remittances remained resilient. Remittance inflows grew around 11 percent year-on-year in FY24, defying expectations of more money entering the country through informal channels. The revision of export data was matched by a corresponding downward adjustment in the financial account, attributed to potential trade credit outflows. This resulted in the financial account reporting a surplus of approximately 1 percent of GDP in FY24, down from a surplus of 1.5 percent of GDP in FY23.[12]). More broadly, global monetary tightening, uncertainty in the FX market, expectations of future depreciation, and FX interventions continued to exert significant pressures on the Taka and FX reserves. For H1FY25, exports and remittances continued to display resilience, while imports remained muted for the first five months of the year but started to display signs of growth as of December 2024 – percent year-on- year as food and RMG-related intermediate goods imports increased. For the remainder of FY25, exports and remittances should remain strong on the back of the recent exchange rate reforms and the formation of a new government, with CA deficit is expected to stand at 1 percent of GDP in FY25. In the near-term, international financial institutions (IFI) disbursements and lower banking sector outflows, coupled with the stability of the current account, should provide support to FX reserves. The current account deficit is expected to improve to 0.7 percent of GDP in FY26 as lower global oil prices should lower the import bill, partly offsetting the slowdown in export and remittance growth. 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, and skill enhancement, and as 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. As a result, by end-2024, the NPL ratio rose to 20 percent and the system-wide capital adequacy ratio fell to around 3 percent, indicating significant undercapitalization. These developments point to the likely materialization of fiscal costs, at the very least related to the recapitalization of "state-owned banks (SOBs). Given current uncertainties about the ultimate magnitude of these losses and the fiscal authorities' scope and timeline for providing fiscal support, these costs are not yet incorporated in the baseline. Instead, they are accounted for via the standard stress test for a financial market shock of 5 percent of GDP (see Text Table 1).

- **Financing assumptions**. Gross public financing needs are projected to increase from 10 percent of GDP in FY25 to 12.2 percent of GDP by FY35. The concessionality of debt increases in the short run reflecting additional disbursements. However, it is projected to decline over the medium term, as Bangladesh is expected to graduate from the LDC status and income levels

[12] Both FY23 and FY24 export and trade credits data were adjusted by around 2 percent of GDP each year. The resulting revision caused the financial account to be in surplus for the two years, rather than in a deficit as BB data previously showed. The downward revision stemmed from inconsistencies observed by BB between export shipment data from the Export Promotion Bureau and the actual export receipts.

rise. The share of external financing in gross public financing is expected to gradually decline from 19.3 percent in FY25 to 12.1 percent in FY35. Multilateral donor financing is projected to contribute to around 42 percent of total external financing in the near term, and gradually decline to 35 percent by FY45. The remainder of the external financing is assumed to mostly come from bilateral donors. Average nominal interest rate on external debt is assumed to be 2.8 percent in FY35. In line with the expected path of monetary policy tightening to contain inflationary pressures, nominal interest rates on new domestic debt are assumed to peak in FY25 at 11.2 percent for T-bills, 12 percent for domestic debt with maturity of 1–3 year, 12.1 percent for domestic debt with maturity above 3 years and up to 7 years, and 12.3 percent for domestic debt with maturity above 7 years in the near term. Over the longer term, as monetary policy normalizes, reliance on NSCs declines, and domestic bond markets deepen, the cost of new domestic debt is expected to decline to 7.4 percent for T-bills, 8.9 percent for domestic debt with maturity of 1–3 year, 9.3 percent for domestic debt with maturity above 3 years and up to 7 years, and 9.5 percent for domestic debt with maturity above 7 years, the same as in the previous DSA. The average real interest rate on domestic debt between FY25-FY45 is 3.3 percent. The debt is assumed to be skewed toward T-bonds, with the share of T-bonds issuance with 4-year and above maturity increasing from 40 percent in the medium-term to 75 percent by FY45. As a result, domestic debt service-to-GDP significantly increases over the projection period. Lack of household savings and capital market development pose risks to a shortfall of additional domestic debt absorption, requiring higher longer domestic interest rates or greater reliance on external debt. In FY26, authorities plan to borrow US$13.1 billion (Text Table 5).

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 FY26		PV of new debt in FY26 (program purposes)		PV of new debt in FY26 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**13062.3**	**100**	**7670.2**	**100**	**7670.2**	**100**
Concessional debt, of which	**6226.2**	**48**	**2534.9**	**33**	**2534.9**	**33**
Multilateral debt	200.0	2	139.1	2	139.1	2
Bilateral debt	6026.2	46	2395.8	31	2395.8	31
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**6836.1**	**52**	**5135.3**	**67**	**5135.3**	**67**
Semi-concessional	6836.1	52	5135.3	67	5135.3	67
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	**13062.3**	**100**	**7670.2**	**100**	**7670.2**	**100**
Multilateral	5364.3	41	4053.0	53	4053.0	53
Bilateral - Paris Club	6134.1	47	2480.2	32	2480.2	32
Bilateral - Non-Paris Club	1563.9	12	1137.1	15	1137.1	15
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**13062.3**	**100**	**7670.2**	**100**	**7670.2**	**100**
Infrastructure	5753.5	44	2506.6	33	2506.6	33
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	2367.5	18	1730.6	23	1730.6	23
Other	4941.3	37.8	3433.0	44.8	3433.0	44.8
Memo Items						
Indicative projections						
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, 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 3-year projected adjustment in the primary balance is at -0.5 percent of GDP for FY25-FY27, as the primary deficit is expected to marginally widen as 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 program. 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 is lower in FY24 and beyond, reflecting a downward revision in domestically financed public investment. This stems from weak revenue performance, leading to a lower revenue-to-GDP ratio in the long term and weakening the government's capacity for public investment.

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 2024 World Economic Outlook (WEO) and the World Bank's 2023 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 2.82	Medium 2.83	Medium 2.83

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

13. The calibration of stress tests is 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) and financial market component (5 percent of GDP) for bank recapitalization and resolution. 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.[13] Domestic arrears in the magnitude of 1.1 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 projections account for the clearance of these arrears over the next three years. Given current uncertainties about the financial sector's health, staff will revisit the financial sector shock included in the DSA as further information becomes available. 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.[14]

EXTERNAL DEBT SUSTAINABILITY

14. The risk of external debt distress has increased from low to moderate (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 9.5 percent by FY45. Under the baseline, all sustainability indicators improve compared to 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. The most extreme shock to the PV of external PPG debt-to-GDP ratio is an export shock; nonetheless, this does not lead to a breach of the threshold. In contrast, this same shock (to exports) causes the PV of external debt-to-exports to persistently breach the threshold. This breach is a direct result of the two years downward revision of exports[15], and 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 2025. However, from 2026 onwards, this improves to "some space" to absorb shocks (Figure 5). The external debt service-to-revenue ratio is on a declining trend and remains under the threshold under the most extreme shock of a one-time depreciation shock.

[13] 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.

[14] 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.

[15] The downward revision of exports for FY23 and FY24 essentially represented a structural break in exports data, which warranted carrying forward these revisions permanently. Our exports projections have been revised downwards as a result of this revision by authorities.

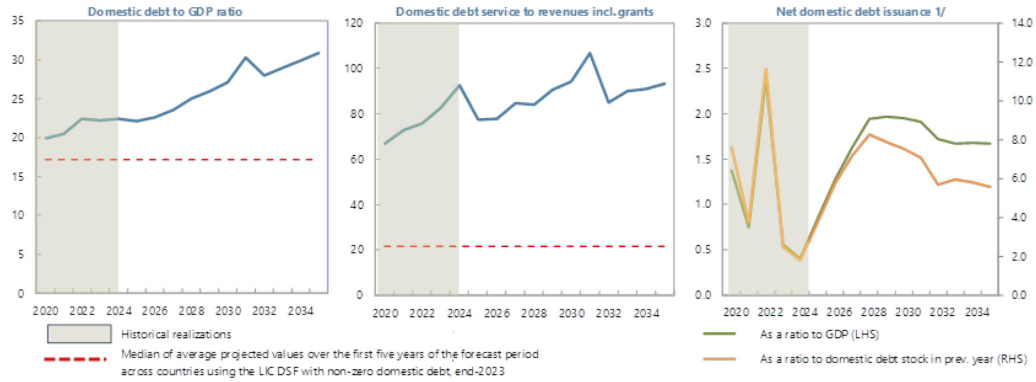
PUBLIC DEBT SUSTAINABILITY

15. The overall risk of debt distress has changed from low to moderate in line with the risk of external debt distress (Figure 2). The PV of total public debt-to-GDP, while on a steeper upward path compared to the previous DSA, remains below its indicative benchmark over the long term, even under the most extreme shock, which is a natural disaster. The shock is kept at default calibrations and is equivalent to a one-time 10 percent of GDP shock. All public debt indicators are on a stronger upward trend than in the previous DSA, reflecting higher financing costs and lower GDP growth. The debt service-to-revenue ratio reached 104.4 percent in FY24 but is projected to decline in FY25 due to lower NSC amortization before climbing again, exceeding 100 percent once more by FY29 and spiking above 120 percent of GDP in 2031 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 debt vulnerabilities. Other mitigating factors that could support the overall public debt and debt service trajectory include increasing domestic financing via T-bonds, reducing a 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.

16. Bangladesh's low revenue-to-GDP ratio and shallow domestic debt markets create significant vulnerabilities in its debt servicing capacity. At 22.4 and 92.5 percent of GDP in FY24, 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 0.4 percent of GDP in FY24, net domestic debt issuance is projected to average 1.7 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 and could be undermined 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, a persistently low revenue-to-GDP ratio (assumed to gradually increase to 10.4 percent of GDP by 2035 and remain relatively flat thereafter) poses notable risks to Bangladesh's debt servicing capacity. Additional effort to raise the revenue-to-GDP ratio would significantly improve debt dynamics and strengthen the country's debt-carrying capacity, while development of a liability management operations framework is needed to help to address increasing debt rollover risks.

Text Figure 4. Bangladesh: Indicators of Domestic Public Debt, 2020-2035

(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	3.3%
Avg. maturity (incl. grace period)	4
Avg. grace period	3
Domestic short-term debt	
Avg. real interest rate	1.6%

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 external and overall debt distress risks have deteriorated from low to moderate. Compared 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. While external debt is on a downward path in the baseline scenario, the PV of public debt-to-GDP is on a slight upward trajectory through FY35 that then accelerates to reach 47.6 percent of GDP by FY45, as concessional external financing is assumed to be replaced by domestic borrowing.

18. Reforms under the ongoing IMF program and WB budget support program will continue to contain debt vulnerabilities. Domestic resource mobilization is expected to provide additional fiscal space, while financial sector reform will improve the capacity of the financial sector to support and further 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.

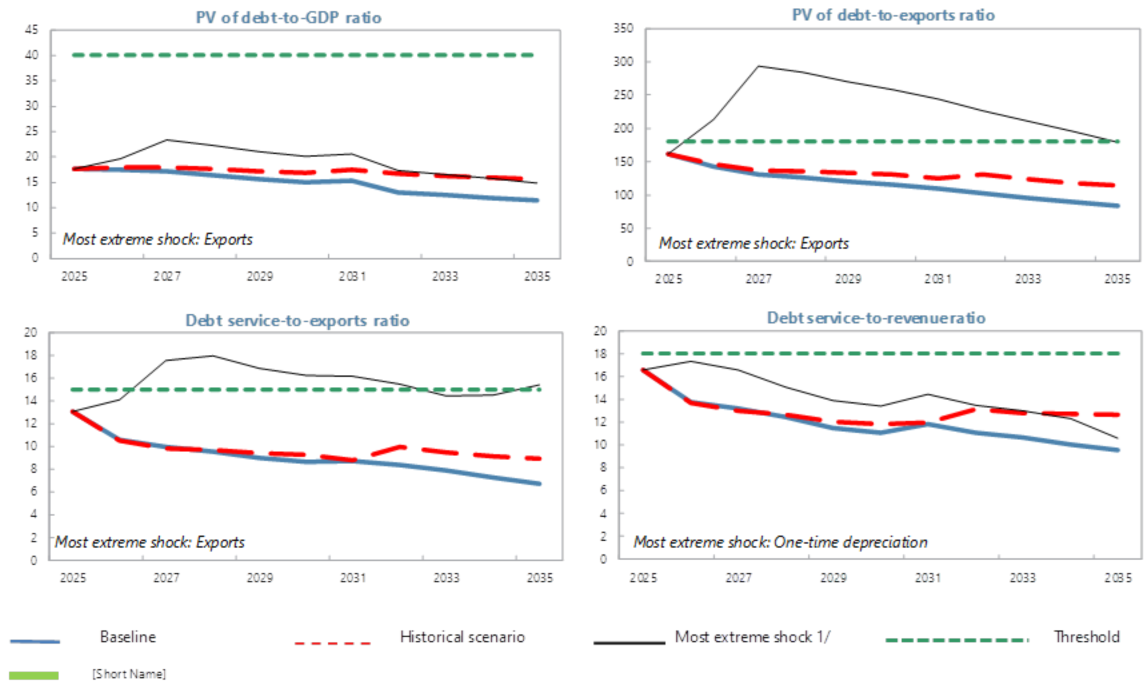
19. Resolving macroeconomic uncertainty remains important in the near term while structural reforms are needed to unlock Bangladesh's long-term growth potential. Efforts to stabilize the economy under the IMF-supported program and WB budget support programs are crucial to increase confidence and return 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. This is particularly important given the heightened global policy uncertainty following the US tariff announcements. Improving governance, enhancing infrastructure, increasing domestic revenue mobilization, boosting the efficiency of public investment management, accumulating human capital, job creation, addressing mismatches in the labor market, building capacity for public private partnerships, strengthening the financial sector (including banking sector vulnerabilities), 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 agree with the moderate risk of external debt distress and overall risk of debt distress assessment. The authorities agreed that lower exports, higher interest rates (both external and domestic), and rising debt service as a share of revenue will pose critical challenges in the coming years, especially in light of the vulnerabilities in the banking sector. With regards to the repayment of SOEs' external arrears, the authorities aim to fully clear all outstanding arrears on suppliers' credit by the end of the fiscal year 2027. They have reiterated their commitment to public debt management to enhance debt dynamics and ensure fiscal and debt sustainability. Additionally, they recognize the urgent need to accelerate domestic revenue mobilization to address rising financing needs.

Figure 1. Bangladesh: Indicators of Public and Publicly Guaranteed External Debt, FY25–FY35
(In percent, unless otherwise mentioned)



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	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.

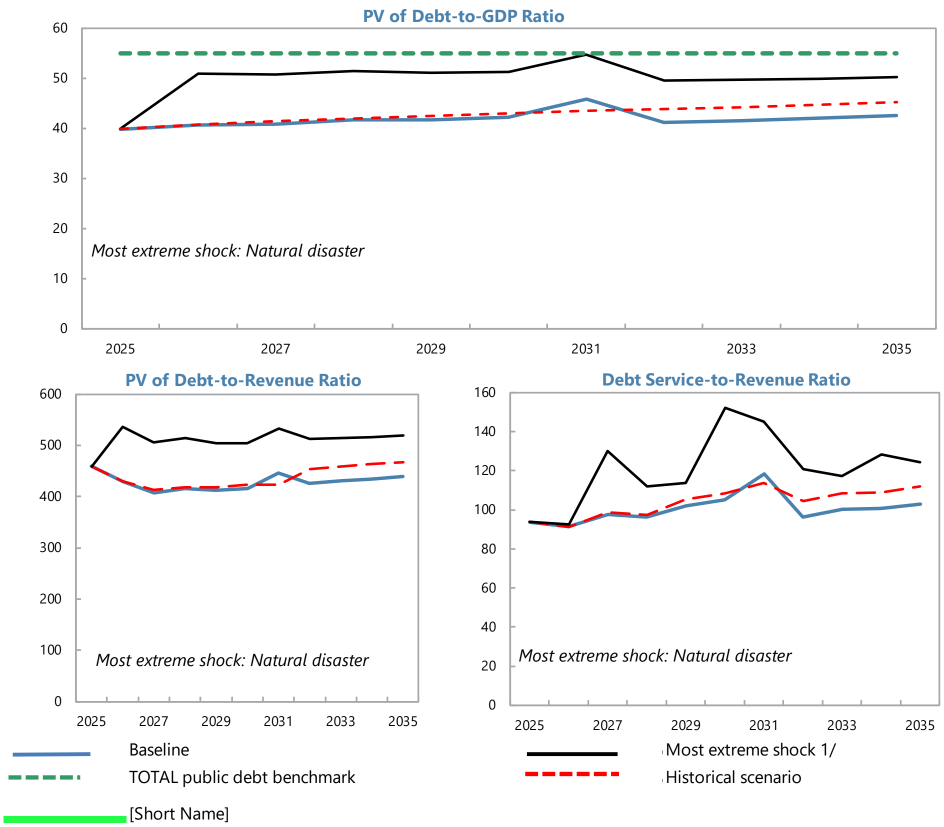
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace 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 2035. 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 exterme 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, FY25–FY35

(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	15%	15%
Domestic medium and long-term	59%	59%
Domestic short-term	26%	26%
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	3.3%	3.3%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	1.6%	1.6%

* 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.

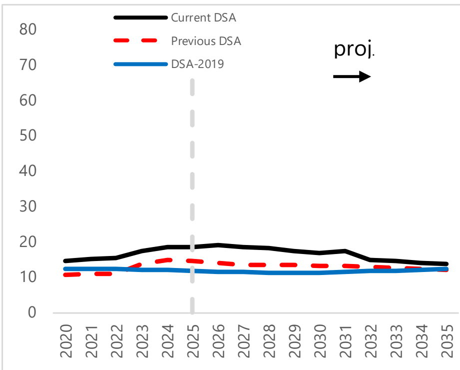
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. 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 exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

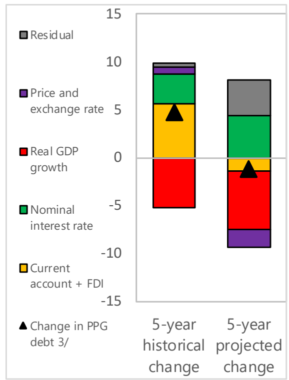
Figure 3. Bangladesh: Drivers of Debt Dynamics – Baseline Scenario

External Debt

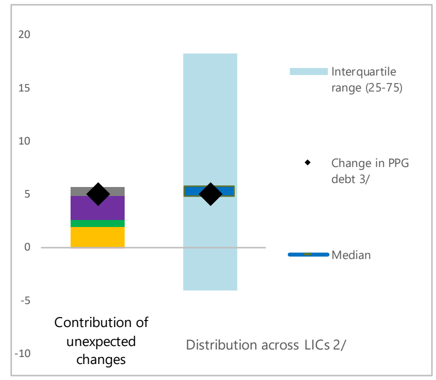
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)

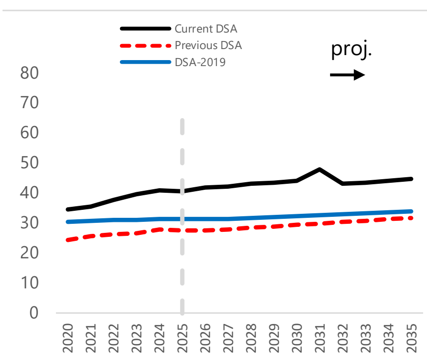


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

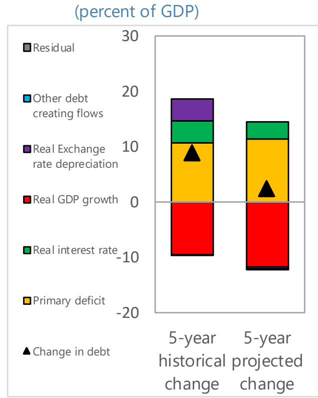


Public Debt

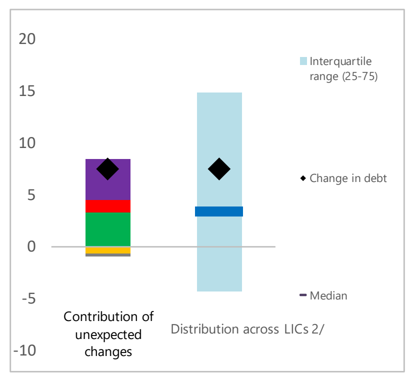
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



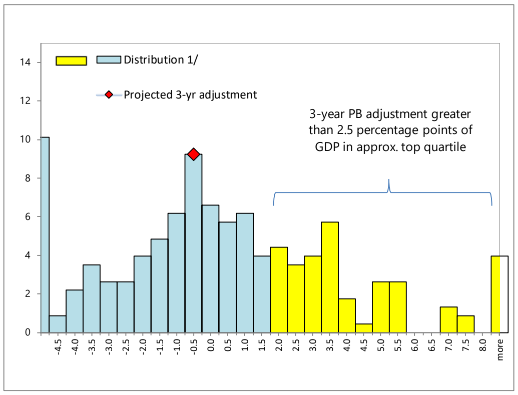
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

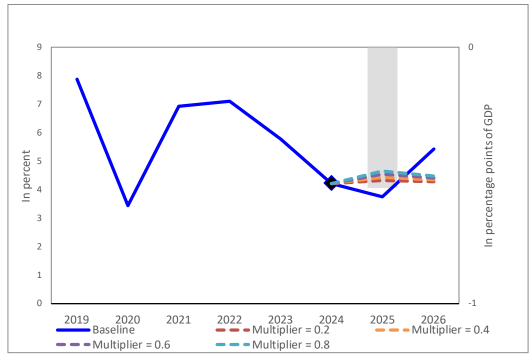
Figure 4. Bangladesh: Realism Tools

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



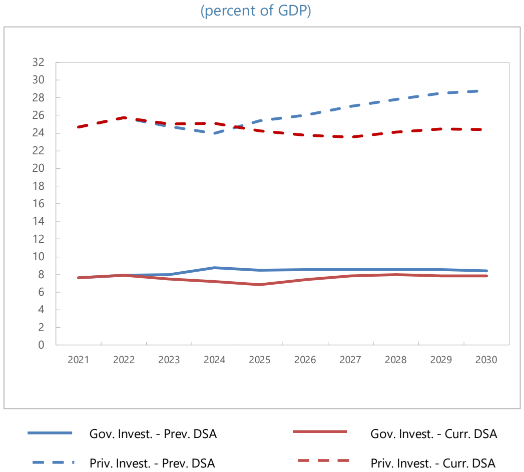
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



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

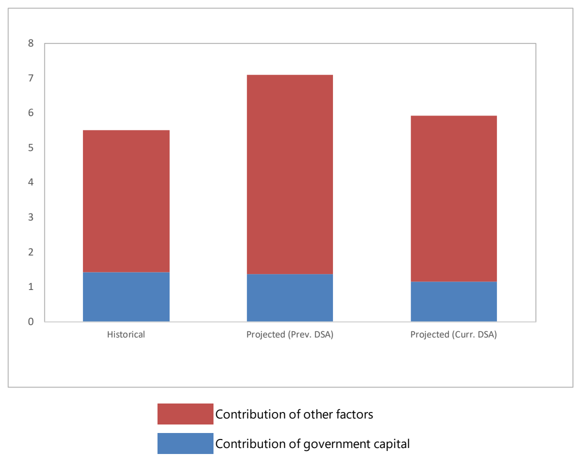


Figure 5. Bangladesh: Qualification of the Moderate Category, 2025-2035 1/

Sources: Country authorities; and staff estimates and projections.

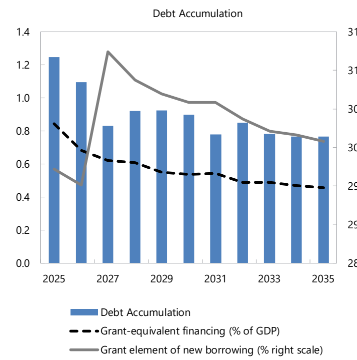
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

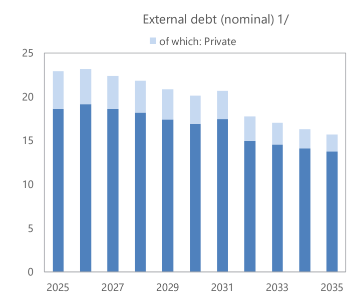
Table 1. Bangladesh: External Debt Sustainability Framework, Baseline Scenario, FY21–FY45

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
External debt (nominal) 1/	**21.0**	**22.4**	**23.2**	**22.9**	**23.2**	**22.4**	**21.8**	**20.8**	**20.1**	**15.7**	**9.6**	**18.8**	**19.9**
of which: public and publicly guaranteed (PPG)	**15.4**	**17.5**	**18.6**	**18.6**	**19.2**	**18.6**	**18.2**	**17.4**	**16.9**	**13.7**	**9.6**	**14.6**	**16.7**
Change in external debt	1.4	1.4	0.8	-0.3	0.3	-0.8	-0.6	-1.0	-0.7	-0.6	-2.1		
Identified net debt-creating flows	**1.7**	**2.6**	**1.1**	**-0.1**	**-0.9**	**-1.0**	**-0.5**	**-0.6**	**-0.5**	**-0.5**	**-5.3**	**-0.5**	**-0.5**
Non-interest current account deficit	**3.4**	**1.7**	**0.6**	**0.0**	**-0.3**	**0.0**	**0.9**	**1.2**	**1.3**	**1.1**	**-3.6**	**0.7**	**0.8**
Deficit in balance of goods and services	8.1	6.8	5.8	5.9	5.1	5.3	6.0	6.3	6.4	5.7	-0.6	**5.7**	**5.9**
Exports	12.6	11.1	10.4	10.9	12.2	13.2	13.0	13.0	12.9	13.7	17.3		
Imports	20.6	17.9	16.3	16.8	17.4	18.5	19.1	19.3	19.3	19.5	16.7		
Net current transfers (negative = inflow)	-4.7	-4.9	-5.4	-6.0	-5.4	-5.4	-5.2	-5.1	-5.1	-4.6	-3.0	**-5.3**	**-5.1**
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)	0.0	-0.1	0.2	0.0	0.0	0.1	0.1	0.0	0.0	-0.1	0.0	**0.3**	**0.0**
Net FDI (negative = inflow)	**-0.4**	**-0.4**	**-0.4**	**-0.2**	**-0.5**	**-0.6**	**-0.9**	**-1.0**	**-1.2**	**-1.2**	**-1.2**	**-0.5**	**-1.0**
dogenous debt dynamics 2/	**-1.3**	**1.3**	**0.9**	**0.1**	**-0.2**	**-0.4**	**-0.4**	**-0.8**	**-0.5**	**-0.4**	**-0.5**		
Contribution from nominal interest rate	0.6	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	-1.3	-1.2	-0.9	-0.8	-1.2	-1.4	-1.3	-1.6	-1.3	-1.0	-0.7		
Contribution from price and exchange rate changes	-0.6	1.6	1.0	...	...	...	...	...	...	...	...		
Residual 3/	**-0.2**	**-1.3**	**-0.3**	**-0.2**	**1.2**	**0.2**	**-0.1**	**-0.4**	**-0.2**	**-0.1**	**3.2**	**1.3**	**-0.1**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**17.0**	**17.6**	**17.4**	**17.2**	**16.5**	**15.6**	**14.9**	**11.5**	**7.6**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**162.7**	**161.5**	**142.1**	**130.4**	**126.4**	**120.4**	**115.6**	**83.8**	**43.9**		
PPG debt service-to-exports ratio	**5.3**	**7.3**	**9.4**	**13.0**	**10.6**	**10.0**	**9.5**	**9.0**	**8.7**	**6.7**	**3.7**		
PPG debt service-to-revenue ratio	**7.5**	**10.0**	**12.0**	**16.6**	**13.8**	**13.2**	**12.5**	**11.5**	**11.0**	**9.6**	**6.5**		
Gross external financing need (Million of U.S. dollars)	34840.2	34946.6	26408.5	22309.7	19089.2	19494.6	22614.8	24687.0	24282.2	26001.1	-140939.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	7.1	5.8	4.2	3.8	5.4	6.2	6.2	7.9	6.8	6.5	6.5	**6.3**	**6.3**
GDP deflator in US dollar terms (change in percent)	3.2	-7.2	-4.1	-0.1	1.8	-0.1	3.5	3.2	3.4	3.8	3.8	**1.8**	**3.3**
Effective interest rate (percent) 4/	3.4	4.0	3.9	4.2	4.3	4.3	4.1	4.1	4.1	3.7	1.8	**3.1**	**4.0**
Growth of exports of G&S (US dollar terms, in percent)	30.3	-12.9	-6.4	8.2	20.7	14.1	8.8	10.9	10.1	13.2	13.3	**4.5**	**12.5**
Growth of imports of G&S (US dollar terms, in percent)	33.6	-14.9	-9.3	7.4	10.8	13.1	13.2	12.8	10.4	10.8	-7.1	**6.3**	**11.6**
Grant element of new public sector borrowing (in percent)	...	...	...	29.2	29.0	30.7	30.4	30.2	30.1	29.6	0.0	**...**	**29.9**
ernment revenues (excluding grants, in percent of GDP)	8.9	8.1	8.2	8.6	9.4	10.0	10.0	10.1	10.1	9.7	9.8	**8.4**	**9.7**
lows (in Million of US dollars) 5/	10564	8980	10129	3453	2686	2143	2034	1750	1750	1750	58		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.8	0.7	0.6	0.6	0.5	0.5	0.5	...	**...**	**0.6**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	32.1	31.6	32.8	31.8	30.5	30.4	29.8	...	**...**	**30.8**
Nominal GDP (Million of US dollars)	460,201	451,534	451,096	467,812	502,237	533,076	586,160	652,647	720,997	1,243,658	3,404,285		
Nominal dollar GDP growth	10.6	-1.9	-0.1	3.7	7.4	6.1	10.0	11.3	10.5	10.6	10.6	**8.2**	**9.8**
Memorandum items:													
PV of external debt 7/	...	...	21.5	21.9	21.4	20.9	20.1	19.0	18.2	13.5	7.6		
In percent of exports	...	...	206.4	201.2	174.7	158.9	154.2	146.7	140.6	97.9	43.9		
Total external debt service-to-exports ratio	32.9	53.2	49.2	45.5	36.9	32.5	29.8	27.6	25.8	15.8	3.6		
PV of PPG external debt (in Million of US dollars)			76633	82253	87377	91546	96457	101868	107736	143195	258374		
-PVt-1)/GDPt-1 (in percent)				1.2	1.1	0.8	0.9	0.9	0.9	0.8	-0.3		
Non-interest current account deficit that stabilizes debt ratio	1.9	0.4	-0.2	0.3	-0.5	0.8	1.5	2.2	2.0	1.7	-1.5		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ 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.

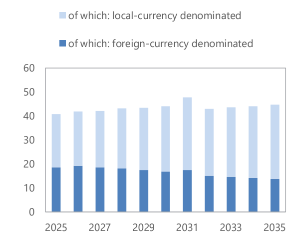
Table 2. Bangladesh: Public Sector Debt Sustainability Framework, Baseline Scenario, FY22–FY45

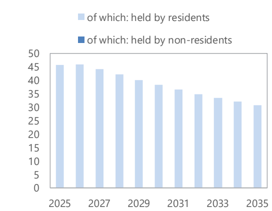
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public sector debt 1/	37.9	39.7	41.0	40.7	41.8	42.1	43.2	43.3	44.0	44.6	49.6	33.4	43.5
of which: external debt	15.4	17.5	18.6	18.6	19.2	18.6	18.2	17.4	16.9	13.7	9.6	14.6	16.7
Change in public sector debt	2.2	1.9	1.2	-0.3	1.1	0.3	1.0	0.2	0.7	0.5	0.4		
Identified debt-creating flows	1.6	2.1	1.6	0.4	0.5	0.5	1.1	0.3	0.8	0.8	0.6	1.5	0.6
Primary deficit	2.1	2.5	1.5	2.0	2.0	2.2	2.6	2.6	2.6	2.3	2.3	2.3	2.3
Revenue and grants	8.9	8.2	8.3	8.7	9.5	10.0	10.0	10.1	10.2	9.7	9.8	8.5	9.8
of which: grants	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	11.1	10.7	9.8	10.7	11.5	12.2	12.6	12.7	12.8	12.0	12.0	10.8	12.1
Automatic debt dynamics	-0.5	-0.4	0.1	-1.6	-1.6	-1.7	-1.5	-2.3	-1.8	-1.5	-1.7		
Contribution from interest rate/growth differential	-2.1	-2.1	-1.0	-1.6	-1.6	-1.7	-1.5	-2.3	-1.8	-1.5	-1.7		
of which: contribution from average real interest rate	0.3	0.0	0.6	-0.1	0.5	0.7	1.0	0.9	1.0	1.2	1.3		
of which: contribution from real GDP growth	-2.4	-2.1	-1.6	-1.5	-2.1	-2.5	-2.5	-3.2	-2.8	-2.7	-3.0		
Contribution from real exchange rate depreciation	1.6	1.7	1.2	...	...	...	...	...	...	...	...		
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	0.6	-0.2	-0.4	-0.7	0.6	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	40.4	39.8	40.7	40.8	41.6	41.7	42.2	42.5	47.6		
PV of public debt-to-revenue and grants ratio	...	...	488.7	459.2	428.6	407.2	416.3	412.0	416.0	439.2	487.5		
Debt service-to-revenue and grants ratio 3/	83.2	92.7	104.4	93.8	91.3	97.8	96.3	101.9	105.2	102.8	103.8		
Gross financing need 4/	10.0	10.5	10.7	10.0	10.6	12.0	12.2	12.9	13.3	12.2	12.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.1	5.8	4.2	3.8	5.4	6.2	6.2	7.9	6.8	6.5	6.5	6.3	6.3
Average nominal interest rate on external debt (in percent)	1.4	2.0	2.3	3.0	3.0	3.2	2.9	2.9	2.9	2.8	1.9	1.1	2.9
Average real interest rate on domestic debt (in percent)	4.8	2.2	2.9	-1.3	1.8	2.7	4.0	3.6	3.6	3.8	3.8	4.8	2.7
Real exchange rate depreciation (in percent, + indicates depreciation)	11.7	12.1	6.9	...	...	...	...	...	...	...	...	1.7	...
Inflation rate (GDP deflator, in percent)	5.0	6.9	6.9	10.3	6.2	6.5	5.4	5.5	5.7	5.4	5.4	5.4	6.6
Growth of real primary spending (deflated by GDP deflator, in percent)	7.9	2.1	-4.6	13.8	13.4	12.6	9.6	9.0	7.1	6.6	6.6	6.2	8.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.1	0.6	0.2	2.3	0.9	1.9	1.6	2.4	1.9	1.8	1.8	0.2	2.0
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		

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

Public sector debt 1/





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 ((-): a primary surplus), which would stabilizes 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.

Table 3. Bangladesh: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, FY25–FY35

(In percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of debt-to GDP ratio											
Baseline	18	17	17	16	16	15	15	13	12	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	18	18	18	18	17	17	17	17	16	16	16
A2. Alternative Scenario :[Customize, enter title]	18	17	17	17	16	15	15	13	13	12	12
B. Bound Tests											
B1. Real GDP growth	18	18	18	17	16	16	16	14	13	13	12
B2. Primary balance	18	18	17	17	16	15	16	13	13	12	12
B3. Exports	18	20	23	22	21	20	21	17	17	16	15
B4. Other flows 3/	18	18	19	18	17	16	17	14	13	13	12
B5. Depreciation	18	22	19	18	17	17	17	15	14	13	13
B6. Combination of B1-B5	18	20	20	19	18	17	18	15	15	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	18	18	18	17	17	16	17	14	14	13	13
C2. Natural disaster	18	19	19	18	17	17	18	15	15	14	14
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	161	142	130	126	120	116	110	102	95	89	84
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	161	146	136	135	133	131	125	131	124	118	114
A2. Alternative Scenario :[Customize, enter title]	162	142	131	127	121	116	110	103	96	90	84
B. Bound Tests											
B1. Real GDP growth	161	142	130	126	120	116	110	102	95	89	84
B2. Primary balance	161	143	132	128	123	118	113	105	98	92	87
B3. Exports	161	**213**	**294**	**284**	**270**	**258**	**245**	**227**	**211**	**195**	180
B4. Other flows 3/	161	148	141	136	130	125	118	110	103	95	89
B5. Depreciation	161	142	115	112	107	103	98	91	85	80	76
B6. Combination of B1-B5	161	**198**	145	**203**	**193**	**185**	176	163	152	141	132
C. Tailored Tests											
C1. Combined contingent liabilities	161	148	138	134	128	125	120	113	106	100	94
C2. Natural disaster	161	155	145	142	136	134	129	121	114	108	103
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	13	11	10	10	9	9	9	8	8	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	13	10	10	10	9	9	9	10	9	9	9
A2. Alternative Scenario :[Customize, enter title]	13	11	10	10	9	9	9	8	8	7	7
B. Bound Tests											
B1. Real GDP growth	13	11	10	10	9	9	9	8	8	7	7
B2. Primary balance	13	11	10	10	9	9	9	8	8	7	7
B3. Exports	13	14	**18**	**18**	**17**	**16**	**16**	**15**	14	14	**15**
B4. Other flows 3/	13	11	10	10	9	9	9	9	8	8	7
B5. Depreciation	13	11	10	9	9	8	8	8	8	7	6
B6. Combination of B1-B5	13	13	**15**	14	13	13	13	13	12	12	11
C. Tailored Tests											
C1. Combined contingent liabilities	13	11	10	10	9	9	9	9	8	7	7
C2. Natural disaster	13	11	10	10	10	9	9	9	8	8	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	17	14	13	12	11	11	12	11	11	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	17	14	13	13	12	12	12	13	13	13	13
A2. Alternative Scenario :[Customize, enter title]	17	14	13	12	12	11	12	11	11	10	10
B. Bound Tests											
B1. Real GDP growth	17	14	14	13	12	12	12	12	11	11	10
B2. Primary balance	17	14	13	13	12	11	12	11	11	10	10
B3. Exports	17	14	14	14	13	12	13	12	12	12	13
B4. Other flows 3/	17	14	13	13	12	11	12	11	11	11	10
B5. Depreciation	17	17	17	15	14	13	14	13	13	12	11
B6. Combination of B1-B5	17	14	15	14	13	12	13	12	12	12	11
C. Tailored Tests											
C1. Combined contingent liabilities	17	14	13	13	12	11	12	11	11	10	10
C2. Natural disaster	17	14	13	13	12	11	12	12	11	11	10
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, FY25–FY35

(In percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	40	41	41	42	42	42	46	41	42	42	42
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	40	41	41	42	42	43	43	44	44	45	45
A2. Alternative Scenario :[Customize, enter title]	40	41	41	42	42	42	46	41	42	42	43
B. Bound Tests											
B1. Real GDP growth	40	42	43	44	45	46	50	45	46	47	48
B2. Primary balance	40	42	42	43	43	44	47	42	43	43	44
B3. Exports	40	43	47	47	47	47	51	45	45	46	46
B4. Other flows 3/	40	41	42	43	43	43	47	42	42	43	43
B5. Depreciation	40	42	41	41	40	40	43	38	38	38	38
B6. Combination of B1-B5	40	40	40	41	40	41	44	40	40	40	41
C. Tailored Tests											
C1. Combined contingent liabilities	40	47	47	48	48	48	51	46	46	46	47
C2. Natural disaster	40	51	51	51	51	51	55	49	50	50	50
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	459	429	407	416	412	416	446	426	431	435	439
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	459	430	413	419	419	423	423	454	458	463	468
A2. Alternative Scenario :[Customize, enter title]	459	429	407	417	413	417	447	427	431	436	440
B. Bound Tests											
B1. Real GDP growth	459	440	431	445	444	452	487	470	478	485	492
B2. Primary balance	459	438	424	432	427	430	460	440	444	447	451
B3. Exports	459	452	465	472	463	464	495	470	471	472	472
B4. Other flows 3/	459	436	421	429	424	427	458	437	440	444	447
B5. Depreciation	459	446	413	413	400	396	418	393	390	389	388
B6. Combination of B1-B5	459	421	400	405	399	402	431	411	415	419	423
C. Tailored Tests											
C1. Combined contingent liabilities	459	499	471	478	469	470	498	477	479	481	483
C2. Natural disaster	459	536	506	513	505	505	533	513	515	516	518
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	94	91	98	96	102	105	118	96	100	101	103
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	94	91	99	97	105	109	114	104	108	109	112
A2. Alternative Scenario :[Customize, enter title]	94	92	98	97	103	106	119	97	101	102	103
B. Bound Tests											
B1. Real GDP growth	94	93	103	102	109	114	128	108	112	113	115
B2. Primary balance	94	91	101	100	105	111	124	101	104	105	107
B3. Exports	94	91	98	98	103	106	120	97	101	103	106
B4. Other flows 3/	94	91	98	97	102	105	119	96	101	101	104
B5. Depreciation	94	87	94	91	98	100	111	92	95	95	97
B6. Combination of B1-B5	94	88	95	95	100	102	117	94	98	98	100
C. Tailored Tests											
C1. Combined contingent liabilities	94	91	119	106	109	136	135	111	110	118	115
C2. Natural disaster	94	93	130	112	114	152	145	121	117	129	125
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.

BANGLADESH

May 10, 2025

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND THE ARRANGEMENT UNDER EXTENDED FUND FACILITY, REQUESTS FOR EXTENSION OF THE ARRANGEMENTS, AUGMENTATION AND REPHASING OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND THIRD AND FOURTH REVIEWS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—UPDATED WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

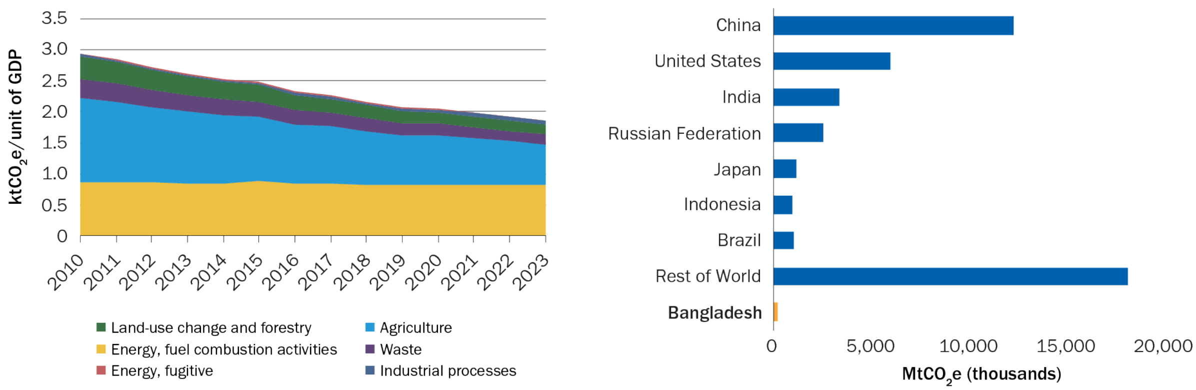
This note provides the World Bank's current assessment of Bangladesh's vulnerability to climate change as well as government policies and commitments for adaptation and mitigation. An updated assessment has been requested in relation to the Third and Fourth Review under the Resilience and Sustainability Facility arrangement for Bangladesh.

A. Country Vulnerability to Climate Change, Including Human, Social and Economic Costs

1. Despite being a modest contributor to global greenhouse gas (GHG) emission, Bangladesh faces several challenges due to climate change. Climate change and environmental degradation disproportionately affect vulnerable populations, particularly the poor and women, who rely on agriculture and climate-sensitive resources for their livelihoods. These groups are hit hardest by climate-related shocks, which lead to long-term effects like asset divestment and reduced investment in human capital, such as education and nutrition. Rural communities, especially those exposed to multiple hazards, see slower poverty reduction or even increasing poverty. Women, who make up most of Bangladesh's agricultural workforce, are particularly impacted by climate disasters and lack of equal control over resources. Female-headed households, which are growing due to male migration, face adaptation costs amounting to 30 percent of household expenses, compared to 15 percent for male-headed households. While Bangladesh contributes just 0.4 percent to global greenhouse gas emissions, its reliance on fossil fuels underscores the need for urgent transition measures. Emissions grew from 115 $MtCO_2e$ in 1990 to an estimated 247 $MtCO_2e$ in 2022, with the energy sector driving this increase. Energy consumption accounts for

70 percent of primary energy use, with energy responsible for 42.5 percent of emissions in 2022. Emission intensity has decreased as the economy has shifted away from agriculture.

Figure 1. Bangladesh: Greenhouse Gas Emission



Note: Emission data through 2018 from Climate Watch. World Bank staff forecast from 2019 to 2024. Sectoral decomposition based on emission intensity and share of GDP, holding emissions from land use constant, using real GDP in BDT millions.

B. Government Policies and Commitments – Adaptation and Priority Areas to Strengthen Resilience

2. **Bangladesh has a robust domestic climate policy framework that focuses on resilience, but implementation requires targeted actions in mobilizing the necessary financing and investment in priority areas**. The interim government, which assumed power on August 5, 2024, under the leadership of Nobel Laureate Professor Yunus, remains committed to Bangladesh's climate change agenda. This is reflected in the government's willingness to implement reforms under the World Bank's Green and Climate Resilient Development Policy Credit (DPC), as well as under the International Monetary Fund's (IMF) Resilience and Sustainability Facility (RSF) arrangement. These initiatives represent a continuation of Bangladesh's efforts over the past two decades to enhance its climate resilience. In 2005, the GoB launched its National Adaptation Programme of Action (NAPA) and tasked a new Climate Change Unit under the Ministry of Environment and Forests with mainstreaming climate change into national development planning. The Bangladesh Climate Change Strategy and Action Plan (BCCSAP), formulated in 2009, presents a vision of pro-poor climate management that centers on reducing disaster risk. The BCCSAP is currently in the process of being updated. The implementation of the Bangladesh Delta Plan 2100 (BDP2100) has been challenging in terms of project identification and prioritization, budget allocation, and timely execution. The Mujib Climate Prosperity Plan (MCPP), published in 2023, seeks to integrate these plans into an overarching framework for climate resilience and green energy transition. However, it remains uncertain whether the interim government will revise or completely rescind some of these plans. Also, these existing various climate related plans remain to be fully integrated into the country's five-year plans (FYPs), including the current 8th FYP. The interim government indicated that the existing 8th FYP may be revised. Implementation of FYPs and annual budget have been weak in the past (only 80.9 percent of the Annual Development Program was implemented in FY24). Coordination among different relevant

ministries remain a challenge. Climate change will need to be integrated throughout the recurrent and capital budgets and the next five-year plan to achieve national objectives, including investments in adaptation and mitigation. The World Bank's Green and Climate Resilient DPC is supporting the integration of the government's green and climate resilient goals in planning and budgeting process. Translating large-scale investment programs into action will require increased capacity in public investment management, domestic revenue mobilization, and financial sector intermediation – areas where the World Bank is currently active.

C. Government Policies and Commitments – Mitigation and Priority Areas to Reduce GHG Emissions

3. **Bangladesh has made mitigation commitments under the Paris Agreement**. Bangladesh's 2021 Nationally Determined Contributions (NDC) update outlined actions to address rising GHG emissions, and to remain below average per capita emissions for developing countries. The original NDC covered the power, industry, and transport sectors. The 2021 update expanded coverage to energy, industrial processes and product use, agriculture, forestry and other land use, and waste, in line with guidance from the Intergovernmental Panel on Climate Change (IPCC). The updated NDC commits to reducing emissions across these sectors by 89.5 MtCO2e, or 21.9 percent by 2030, relative to business as usual (27.6 MTCO2e unconditional, 61.9 MTCO2e conditional). Bangladesh has experienced short-term power crisis in the recent past driven by the fall in necessary gas and fuel imports due to FX shortages and decline in domestic gas production, which highlights the need to diversify the sources of energy, including renewable energy, and to leverage regional energy trade. Based on 2008 Renewable Energy Policy, Bangladesh had a target of generating 10 percent of overall energy demand from renewable sources by 2020 but has been successful in generating less than 5 percent so far. The economics of domestic renewable energy projects in the near to medium term are likely to remain less favorable than for renewable energy imports. Expanded access to clean power sources in India, Nepal, and Bhutan will support an increased share of green and least-cost energy in the energy mix; displacement of costlier and dirtier power generation; the phase-out of dilapidated and highly inefficient gas-based steam turbines; and reduce demand on scarce land resources. Some progress has been made regarding improved pricing mechanisms through the establishment of an automated fuel pricing mechanism that will adjust domestic fuel prices in line with the prices in the international market every month – a reform supported by the World Bank's Green and Climate Resilient DPC.

D. Other Challenges

4. **Implementation of these ambitious commitments depends on concurrent reforms in public investment management, financial sector reforms, and domestic revenue mobilization**. At a minimum, public and private financing options will need to support an estimated US$12 billion in annual climate investment expenditure over the medium term (approximately 2.6 percent of FY24 GDP) for unconditional NDC commitments and BDP2100 investments. [1] Operationalizing financing at this scale will require contribution from the public and private sector. The strategy for public funding is some

[1] Bangladesh Country Climate Development Report (CCDR), 2022.

combination of tax financing, application of cost recovery based on beneficiary pays principle and mobilizing foreign funding. However, sources for foreign funding such as the Green Climate Fund (GCF) may be fewer following the LDC graduation, are more difficult to access, and only a fraction of the financing that Bangladesh requires. Climate financing will also hinge on changing in tax policy and administration to mobilize public revenues. According to the Bangladesh Delta Plan 2100, Bangladesh aims to mobilize at least 0.5 percent of GDP per year from the private sector, and therefore, scaling up private sector financing is also a priority. Reaching these objectives will require addressing longstanding financial sector vulnerabilities, including weak corporate and regulatory governance, related party lending, and weak credit underwriting capacity. It will also require targeted sectoral policies to reduce risks for key low-carbon solutions. The private sector can also play a key role through partnerships for technology transfer and operational efficiency. Continued close collaboration between the World Bank, the IMF, and other public and private sector partners can support Bangladesh in these areas– in particular, identifying sector-specific policy interventions that can improve the investment attractiveness for key solutions.

E. World Bank Engagement in the Area of Climate Change

5. World Bank Group lending, technical assistance, and knowledge instruments support the implementation of the government's climate change objectives. Climate objectives are integrated across World Bank operations. All IDA projects approved since FY14 have been screened for climate and disaster risk to inform design. Since then, cumulatively US$8.9 billion (or 37 percent) of total IDA commitments in Bangladesh (FY14-24) had climate co-benefits, 55 percent of which was for adaptation. Building on CCDR policy recommendations, the Green and Climate Resilient Development Policy Credit series (FY23-27) has been supporting structural reforms to (i) enhance public planning, financing, and delivery of green and climate resilient interventions at national and local levels; and (ii) promote key sector reforms for climate-smart production and services. The Bangladesh Recovery and Resilience DPC series (FY22-24) supported the cancellation of planned investments in coal-fired powerplants, the introduction of a new building code to increase energy efficiency, and adoption of the Mujib Climate Prosperity Plan. The recently closed Coastal Embankment Improvement Project Phase-1, Urban Resilience Project, Multipurpose Disaster Shelter Project, and Bangladesh Weather and Climate Services Regional Project as well as ongoing Resilient Infrastructure for Adaptation and Vulnerability Reduction Project, Climate-Smart Agriculture and Water Management Project, Jamuna River Sustainable Management Project, and Emergency Multi-Sector Rohingya Crisis Response Project have supported critical resilience infrastructure in coastal, riverine, urban, and rural areas to protect people and livelihoods as well as institutional capacity building for climate risk management. The recently approved Bangladesh Climate and Carbon Finance for Renewable Energy Project is an innovative example that is providing up-front results-based financing to support project development. This project will support carbon transactions aligned with the Article 6 of the Paris Agreement to monetize carbon emission reductions achieved from the national solar home system program. The World Bank is providing the Government with additional support to scale up similar carbon finance transactions via the Partnership for Market Implementation (PMI) program.

BANGLADESH

June 20, 2025

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND THE ARRANGEMENT UNDER EXTENDED FUND FACILITY, REQUESTS FOR EXTENSION OF THE ARRANGEMENTS, AUGMENTATION AND REPHASING OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND THIRD AND FOURTH REVIEWS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—SUPPLEMENTARY INFORMATION

Prepared By

Prepared by the Asia and Pacific Department in consultation with Strategy, Policy, and Review and Legal Departments

This supplement provides information that has become available since the issuance of the staff report (EBS/25/47) on June 10, 2025, related to the fulfillment of the two prior actions. The additional information does not change the thrust of the staff appraisal.

1. **The authorities have completed the first prior action by enacting the agreed revenue measures of additional BDT 300 billion**. The proposed FY26 budget includes tax policy measures focused on reducing VAT and income tax exemptions. These measures, summarized in the staff report, are estimated to yield BDT 305 billion (0.5 percent of GDP). Following the budget submission to the Council of Advisors, the authorities completed the necessary legal steps by issuing ordinances by the Finance Advisor, in lieu of the President, and issuing or repealing relevant statutory regulatory orders of the National Board of Revenue. As part of the budget approval process, the authorities have recently concluded public consultations, which led to the reversal of a VAT measure estimated at BDT 0.3 billion. Nevertheless, the total expected yield remains above the agreed threshold of BDT 300 billion and the reversal of the VAT measure does not imply a change in the quality of the reform package. The FY26 budget, including the revenue measures, will be formally approved as submitted by the Council of Advisors, acting in lieu of Parliament, in late June.

2. **The authorities have also completed the second prior action by launching the exchange rate reform on May 14, which allows for a freely quoted exchange rate**. Bangladesh Bank (BB) issued a circular guiding the functioning of the new exchange rate regime and foreign exchange (FX) market in accordance with the reform. This circular rescinds

an earlier circular that had restricted free quoting of the exchange rate. The Governor met with forex dealers—followed by an official letter to the dealers and public communication—to confirm that dealers are now able to determine exchange rates based on demand and supply without any intervention from BB. Staff have monitored the implementation of the exchange rate reform for a five-week period since its launch. Based on the FX market data and consultations with the dealers, staff established that the free exchange rate quoting has so far been in place, BB is not engaging in moral suasion, and the new regime was implemented and is operating as detailed in the Technical Memorandum of Understanding.

Statement by Parameswaran Iyer, Alternate Executive Director for Bangladesh and Rajeev Jain, Advisor to Executive Director
June 23, 2025

The Bangladesh authorities would like to convey their sincere appreciation to Mr. Papageorgiou and his team for the fruitful policy discussions in the context of reviews under the EFF/ECF and RSF arrangements. The authorities broadly share staff's assessment and policy recommendations which are expected to be taken up for implementation going forward.

I. Macroeconomic Performance and Outlook

Since the completion of the second review of the EFF/ECF and RSF arrangement in June 2024, the Bangladesh economy has faced headwinds from multiple fronts. While political unrest in July and August caused supply-side disruptions, catastrophic and massive floods in August and October further exacerbated country's economic challenges. Severe monsoon conditions, particularly in the eastern and northern regions, impacted livelihood of millions of people by causing damage to roads, croplands, and fisheries. After reporting a sharp slowdown during the period of domestic political turbulence in Q1, the industrial sector rebounded sharply in Q2 (October-December 2024) of FY2024-25. Reflecting a slower pace of activity in both agriculture and services sectors, the Bangladesh Bureau of Statistics (BBS) provisional estimate suggests the real GDP growth to moderate slightly to 4.0 per cent in FY2024-25 from 4.2 per cent in the preceding year. From the expenditure-side perspective, lower GDP growth could be attributed to subdued growth in domestic consumption and private investment. Provisional estimates by BBS, however, are higher than the staff's growth projection of 3.8 per cent for the year. Over the medium-term, the authorities expect the economy to grow by 6.5 per cent – in line with staff's average growth projected for the next five years.

High inflation remains a concern for the authorities. Reflecting supply-side concerns and the depreciation of the Bangladesh Taka (BDT), inflation spiked to a double-digit level during H1 of 2024-25. However, it stayed below 10 per cent from January to May 2025 due to softening of food inflation. The domestic supply-side situation has been eased by allowing state entities to buy liquefied natural gas, fertilizer, and rice- bran oil, among others. Also, import duties were reduced and LC margin requirements were relaxed to ease the supply of essential goods ahead of Ramadan. Taking cognizance of sources of inflation, the Monetary Policy Committee (MPC) has paused its policy rate hikes since its December 2024 meeting. Going forward, domestic inflation is expected to moderate further on account of the benign global commodity prices and the stability of the BDT exchange rate. Keeping in view the production shortages of Aus and Aman crops, the government is prepared to import food grains to enhance food security. Efforts are also underway to provide liquidity support in the banking system and its sterilization through open market operations to avoid inflationary pressures. Bangladesh Bank also recognizes the importance of credit disbursement to productive sectors, especially agriculture, and the cottage, micro, small, and medium enterprises, for enhancing the supply of essential goods and services.

The external sector situation has remained stable so far in FY2024-25. Despite supply-side disruptions intensifying since the period of political turmoil, readymade garment exports (in US dollar terms) increased by 10.0 per cent in FY2024-25 (July 2024-April 2025). As export growth exceeded import growth, the goods trade deficit remained contained during the same period. During the July 2024 to April 2025 period, the inflow of remittances rose 27.9 per cent over its level a year ago. Significantly higher remittances were reported by expatriates from the US, Saudi Arabia and Malaysia. Importantly, remittances are increasingly flowing through official channels implying reduced reliance of expatriates on informal hundi channels. Buoyed by robust current receipts, the current account deficit narrowed sharply in the first ten months of FY2024-25. Improvement in net inflows under the financial account, however, was limited due to a significant fall in foreign aid and lower net FDI inflows. With the easing of FX shortages in recent months, Bangladesh Bank has also reduced its intervention operations in the FX market. The quantitative performance criterion (QPC) prescribing floors for net international reserves for end-June 2024 and end-December 2024 was comfortably met. As at end-April 2025, gross international reserves as per BPM6 were of the order of US$ 22.0 billion as compared with US$20.0 billion a year ago. To mitigate the potential impact of trade tariffs and weakening global trade on exports, the authorities are prepared to adopt additional measures. Despite elevated uncertainty over global trade policy and Bangladesh's export outlook, external refinancing risks remain mitigated due to a manageable external debt-servicing profile and structural reforms focusing on macroeconomic stability.

On the fiscal front, improvements are evident in FY2024-25 as the budget deficit as well as the primary deficit remained below their expected levels. As per the revised estimates for FY2024-25, the overall budget deficit at 4.1 per cent of GDP was lower than the target of 4.6 per cent. Total revenue collections (both tax and non-tax) in FY2024-25 exceeded the previous year's level by 26.4 per cent but fell short of the target due to disruption in economic activity at the beginning of the year. As revenue collections fell short of the target, a large reduction in the fiscal deficit was mainly on account of a contraction in the Annual Development Program (ADP) expenditure. In FY2025-26, however, further narrowing of the budget deficit to 3.6 per cent of GDP is expected largely on account of a reduction in operating recurrent and capital expenditure by 0.7 percentage points of GDP. In FY2025-26, total revenue collections are targeted at 9.0 per cent of GDP, including 8.3 percentage points from tax sources.

II. Policy Focus and Major Reforms

The authorities are making all-out efforts to get the economy back on track. Policy measures are being taken to deepen structural reforms aiming to boost the economy's growth potential, improve the fiscal framework, modernize the monetary and exchange rate policy frameworks, and address the banking sector's weaknesses.

Real Sector

As Bangladesh is set to formally graduate from the group of LDCs in November 2026, the authorities are aware of policy priorities to deal with the challenges relating to the cancellation of the benefits in foreign markets. To guide the process of transition, the Smooth Transition Strategy has been formulated in 2024. Apart from highlighting the importance of macroeconomic stability, the Strategy identifies future action plans to promote *inter alia* export diversification and competitiveness, build productive capacity, and foster international partnerships to secure trade preferences. Policy measures aim to promote entrepreneurship and support the SME sector through updating human skills, cluster mapping and demand assessment, organizing product fairs, and connecting women entrepreneurs with corporate buyers through digital platforms.

The development of physical infrastructure is a priority for the authorities. To secure energy security, domestic sources are being explored for oil and gas production. A plan has been chalked out to reduce power generation costs by 10 per cent which will also help reduce the burden of power subsidy. Work is in progress for the modernization of the power distribution system. The tariff structure of the purchase agreements is also being reviewed to ensure transparency and accountability in the power sector. Under an Integrated Power Sector Master Plan, a target has been set to generate 3,400 MW of electricity from clean sources by 2028. The preparation of the draft 'Highway Master Plan 2040' with the support of the Asian Development Bank is in its final stage.

Fiscal Reforms

Demonstrating their firm commitment to fiscal reforms, the authorities have undertaken measures to improve public institution transparency and the fiscal framework. The Budget FY2025-26 announced in June 2025 reflects the government's continued policy stance to exercise fiscal prudence and finance the budget deficit without any recourse to monetary financing. In fact, the size of the budget for FY2025-26 has been reduced while protecting allocations for social security schemes.

Recognizing the need to improve the country's tax-to-GDP ratio, the authorities have focused on tax reforms including rationalization of exemptions, improving compliance and separating tax policy from administration. They are confident that a gradual and steady increase in tax collections will create fiscal space to increase capital expenditure allocations under the ADP over the medium-term. The authorities expect domestic tax collections to gradually improve as the National Board of Revenue (NBR) has already hiked the VAT rate on several goods and services in January 2025. Medium-and Long-Term Revenue Strategy formulated in April 2025 targets to increase the tax-GDP ratio to 10.5 per cent by FY2034-35. The Strategy identifies 60 action points with a specific timeline to undertake end-to-end automation of NBR's business processes, improve voluntary compliance, close the gap between actual and potential tax revenues, ensure uniformity of practice and enforcement of law and improve integrity and transparency. A Tax Expenditure Policy and Management Framework has been adopted for reducing tax expenditures gradually. The Budget for FY2025-26 has proposed rationalization of various tax rates to address existing inconsistencies in the tax framework and expand the tax base in the economy while protecting the interests of vulnerable segments of society.

Our authorities consider restructuring the NBR to be a vital step to improve efficiency, ensure a more accountable framework, reduce conflicts of interest, widen the tax base, ensure consistent enforcement and enhance credibility of tax governance. Accordingly, following the best international practice, a policy decision was taken in May 2025 to dissolve the NBR and bifurcate its policymaking and administrative functions. Under the new setup, the Revenue Policy Division will be responsible for drafting tax laws and setting tax rates while the Revenue Management Division will focus on tax enforcement, audits and compliance. The Budget for FY2025-26 allocated BDT 134 crore for automation of the activities of the NBR.

Under the Customs Strategic Plan (CSP) 2024-2028 announced in February 2025, the focus is to foster a business-friendly environment by facilitating trade, enhancing revenue collection, and modernizing tax administration operations. The CSP sets well-defined targets and timelines to drive efficiency in customs administration and aims to fully implement the Bangladesh Single Window by 2027, integrating customs systems with port authorities, transport logistics, the tax administration and stakeholders engaged in cross-border trade. The growing use of iBAS++ in field offices and electronic fund transfers to pay allowances for social security programs reflects improvements in public financial management practices.

On the expenditure side, the focus is on strengthening the social security net by expanding the coverage and increasing the rate of allowances of various social security programs. These schemes mainly benefit the poor, marginalized and vulnerable people including old age people, disadvantaged communities, and deserted and destitute women. The ongoing initiative to establish a Dynamic Social Registry strives to make the social security programs more targeted, going forward. The FY2025-26 Budget aims to cover an additional 5 lakh families under the food-friendly program, expanding the total coverage to 55 lakh families.

Financial Sector Reforms

The authorities aim to address concerns relating to asset quality, capitalization and governance standards in the banking sector. Major reforms include setting up separate taskforces to ensure the autonomy of the central bank, assess defaulted loans and facilitate asset recovery in the banking sector. The Bangladesh Bank has also formed a five-member committee to provide necessary policy support for restructuring corporate borrowers who have defaulted on loans due to factors beyond their control. In essence, the high-level committee aims to facilitate the recovery of non-performing bank loans from distressed businesses by helping them become viable, and therefore able to make repayments. The Bank Resolution Ordinance 2025 published in the Official Gazette in May enhances the scope of the regulatory authority by allowing for swift intervention to protect financial stability and prevent the build-up of systemic risks in the banking sector. The Ordinance allows the government and the Bangladesh Bank to jointly take temporary control of any scheduled bank or financial institution, including Islamic banks, by issuing share transfer orders. The Ordinance also makes a provision to set up bridge banks to temporarily manage the affairs of failed or distressed banks and ensure the continuity of essential banking services during the resolution process. To ensure good governance in the financial sector, the authorities envisage certain amendments to the existing Bank Company Act.

Policy measures are also being undertaken to improve the functioning of the domestic capital market. Final recommendations submitted in April/May 2025 by the Capital Market Reform Task Force to the Bangladesh Securities and Exchange Commission aim to develop the domestic stock market, boost investor confidence, and ensure the adoption of international standards by addressing concerns relating to structural inefficiencies and governance issues. Accordingly, policy recommendations relate to rules governing IPOs and mutual funds. Further, the central bank's decision to stop buying government securities in the primary market since 2023 and reduced reliance on national savings certificates to finance the fiscal deficit has improved the primary market's ability to price and supply government securities. As Bangladesh's digital payments infrastructure is also evolving rapidly, mobile financial services (MFS) have become a vital tool for distributing social safety net allowances, student stipends, remittances, and personal transfers.

Monetary and Exchange Rate Policy Reforms

Supported by steady remittance inflows, a lower trade deficit, a relatively stable foreign reserve position, and declining inflation, Bangladesh Bank (BB) announced a shift towards a fully liberalized exchange rate regime on 14th May 2025 which allows the purchase/sale of foreign currency at freely negotiated rates by the authorized dealers. To support the transition and ensure short-term stability, an intervention fund is created to allow BB to step into the market, if needed. BB is also strengthening its market monitoring mechanism to prevent any malpractices in the foreign exchange market. The authorities believe that the market-based exchange rate system will boost both domestic and foreign investors' confidence and boost trade competitiveness.

Other Reforms

Apart from reforms necessary to boost macroeconomic stability, steps have been taken to strengthen domestic institutions. To achieve this objective, 11 reform commissions were set up which have submitted their reports - recommending steps to improve public service delivery and governance *inter alia* pertaining to the domestic electoral system, police, judiciary, public administration, labor and health sectors. The recently adopted 'Land Offences Prevention and Remedy Rules 2024' will reduce the complexity of the land laws and ensure speedy disposal of land-related cases. The formulation of 'Land Zoning and Protection Act 2025' is in the pipeline to reduce litigations related to land as well as to simplify land-related services. The amendment of the Anti-Corruption Commission Act 2004 is also underway.

With the aim to strengthen bilateral trade ties, the process of signing FTAs with some trading partners is currently at the negotiating stage. As a step toward signing a zero-tariff deal or a Free Trade Agreement (FTA) with the USA, a high-powered committee has been constituted in May 2025 to prepare a draft deal. As part of preparations for trade dialogue with the US, the FY2025-26 budget proposed (i) to completely withdraw/reduce import duties on 175 products and (ii) to completely withdraw/reduce supplementary duties on 451 products.

As detailed in the staff report, important steps have been taken to accelerate the transition to a clean and low-carbon economy. Apart from focusing on climate resilient infrastructure, the authorities intend to submit a new Nationally Determined Contribution (NDC) ahead of the COP30 with higher policy ambition and targets for 2035. To maximize the catalytic effects of the RSF arrangement, an ADB-funded project "Operationalizing the Bangladesh Climate Development Partnership" (BCDP) was launched in January 2025. The BCDP will boost a cross-sector and multi-year climate action partnership with international financial institutions, bilateral donors, and the private sector with the aim to mobilize climate finance, accelerate policy reforms, enhance capacity for innovative climate projects, and facilitate knowledge sharing.

III. Program Performance

Program performance was strong under the first two reviews of the ongoing program. Notwithstanding intense political unrest in July-August 2024, program performance under the third and fourth reviews has also been broadly on track. All end-June 2024 and end-December 2024 quantitative performance criteria (QPCs) were successfully met. Reflecting severe disruption in the economic activity in Q1 of FY2024-25, the indicative target (IT) on tax revenue floors for end-December 2024, however, could not be achieved. Fully cognizant of the importance of tax collections to create fiscal space, the authorities are committed to the steadfast implementation of measures announced recently to modernize tax administration and boost revenue collections. For some obvious reasons relating to political disturbances and economic disruptions, a few structural benchmarks (SBs) needed additional time for completion. However, the authorities are fully committed to implement these remaining SBs in due course, as specified in the report. As regards the RSF arrangement, program performance has been strong as all four reform measures required under the third and fourth reviews were implemented in a timely manner.

IV. Conclusion

Our authorities place a high value to the Fund's support and policy advice which they consider critical to anchor domestic reforms and restore macroeconomic stability. Despite the country navigating a tricky political transition, the authorities reaffirm their commitment to the ongoing program. The Fund's continued high quality CD support to facilitate the reform implementation process is also acknowledged. The authorities look forward to Executive Directors' support for completion of the combined third and fourth reviews as well as for other requests relating to program modalities made after due consideration to domestic economic and political circumstances.