Statement by the IMF Staff Representative
April 5, 2012

This statement provides additional information that has become available since the issuance of the staff report (March 28, 2012). It does not change the thrust of the staff appraisal.

1. **Indicative targets.** Preliminary data suggest that indicative targets on net international reserves (floor), net domestic assets of Bangladesh Bank (ceiling), and reserve money (ceiling) under the prospective Extended Credit Facility arrangement were met at end-March 2012. Net international reserves were US$6.405 billion, net domestic assets of Bangladesh Bank were Tk 418 billion, and reserve money was Tk 917 billion. Data on other indicative targets at end-March are currently not available.

2. **Recent developments.**

- Headline inflation declined to 10.1 percent (y/y) in March 2012 from 10.4 percent in February 2012, with lower food price inflation the main cause.

- Weighted-average bulk and retail electricity tariffs were raised on March 29, 2012 by 7½ and 6¼ percent, respectively, retroactively from March 1. These hikes follow tariff increases effected in November 2011 and February 2012 (see footnote 2 in the staff report) and are consistent with restricting on-budget subsidy-related losses of the Bangladesh Power Development Board to agreed levels in FY12 (July 2011–June 2012).

- Budget performance in January 2012 was in line with the programmed fiscal outlook for FY12. Preliminary data on National Board of Revenue collections in February 2012 were also consistent with this outlook.

- Workers' remittances were US$1.1 billion in March 2012 and US$9.5 billion so far in FY12, in line with balance of payments projections.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year ECF Arrangement for Bangladesh

The Executive Board of the International Monetary Fund (IMF) approved today a three-year arrangement for Bangladesh under the Extended Credit Facility (ECF) in a total amount equivalent to SDR 639.96 million (about US$987 million). The Board's decision will immediately enable the initial disbursement of an amount equivalent to SDR 91.423 million (about US$141 million).

The ECF arrangement is designed to support the authorities' program, which aims to restore macroeconomic stability, strengthen the external position, and engender higher, more inclusive growth. During the program period, the authorities are committed to taking actions to create fiscal space, reinvigorate the financial sector, and catalyze additional resources, in order to boost social- and development-related spending, tackle power shortages and the infrastructure deficit, and stimulate export-oriented investment and job growth.

Following the Board's discussion of Bangladesh, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"Macroeconomic pressures have intensified in Bangladesh since late 2010 due to a negative terms-of-trade shock, rising oil and infrastructure-related imports, and accommodative policies. More recently, a weakening in external demand and a surge in oil prices have further weakened Bangladesh's balance of payments and added to fiscal and inflationary pressures.

"The authorities' program focuses on policy adjustments and structural reforms aimed at restoring macroeconomic stability, strengthening the external position, and promoting higher, more inclusive growth. The authorities are committed to these objectives and stand ready to take additional measures, as appropriate, to ensure the success of the program.

"Under the program, upfront tightening of macroeconomic policies are being undertaken, supported by structural reforms to strengthen tax policy and administration, public financial

management, and financial sector oversight. A moderate fiscal consolidation path will be underpinned over the medium term by a modernization of the tax regime and rationalization of subsidy costs, in order to create fiscal space for more social and development spending and to contain public debt. Monetary policy has been tightened, supported by greater exchange and interest rate flexibility. The central bank is committed to further policy measures if needed to bring inflation firmly under control. The authorities also aim to accelerate trade liberalization and improve the investment climate.

"With steady but forceful action, the authorities' program is expected to reduce imbalances and catalyze additional support from development partners, putting Bangladesh's balance of payments on a sustainable path over the medium term."

Recent economic developments

Macroeconomic pressures have intensified in Bangladesh over the past 18 months. The balance of payments went into a deficit in FY11 (July 2010–June 2011) and reserves declined significantly owing mainly to increased demand for oil imports. Global headwinds and firming oil prices have accentuated these pressures in the current fiscal year, with growth in exports outstripped by that in imports. As a result, GDP growth is expected to slow to 5.5 percent in FY12. Fiscal strains have emerged due to rising subsidy costs, mainly on account of higher fuel consumption. Finally, headline inflation, while moderating recently, remains at an elevated level, with nonfood inflation the main driver.

The near- to medium-term outlook hinges on timely progress on policy adjustments and structural reforms envisaged under the authorities' program. Starting in FY13, growth is projected to rebound, assuming stable domestic economic conditions; more effective resource usage, notably development partner support; and improved global economic conditions. Inflation is expected to decline to single digits by end 2012 through appropriately restrained fiscal and monetary policies and, over time, by a further easing of supply constraints. The overall BOP is projected to return to a surplus in FY13 through a combination of policy tightening measures, exchange rate flexibility, and more supportive global conditions. Reserves are programmed to rise, reaching nearly three months of import cover by FY15.

Bangladesh's medium-term prospects are broadly favorable, but still subject to risks. Policy buffers are limited in the event of adverse real shocks, given heightened inflation and reserve losses. Prolonged delays in adjusting fuel, electricity, and fertilizer prices and unanticipated increases in import-related costs could exert additional pressure on the fiscal and external positions. Adjustments and reforms also require strengthened implementation capacity.