INTERNATIONAL MONETARY FUND

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BANGLADESH

September 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BANGLADESH

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Bangladesh, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 9, 2019 consideration of the staff report that concluded the Article IV consultation with Bangladesh.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 9, 2019, following discussions that ended on June 27, 2019, with the officials of Bangladesh on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 5, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Bangladesh.

The documents listed below have been or will be separately released.

Selected Issues

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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September 18, 2019

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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Bangladesh

On September 9, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Bangladesh.

Bangladesh continues to achieve impressive economic growth and social development. Rapid expansion of the Ready-Made Garment (RMG) sector helped the economy transform to a more manufacturing-based economy and large inflows of remittances helped strengthen its external position and supported private consumption. The country made steady progress in reducing income poverty and improving many indicators for Sustainable Development Goals.

Economic growth remained strong with stable inflation in FY18. Real GDP growth increased to 7.9 percent. Private consumption growth was exceptionally strong, influenced by the rebound in remittance and exports growth. Average annual inflation picked up slightly to 5.8 percent in FY18 due mainly to higher food prices. The current account deficit expanded to 3½ percent of GDP with higher import growth, reflecting need for capital goods due to mega infrastructure projects and temporary flood-related food imports.

Growth is projected to be strong at above mid-7 percent in FY19 and FY20. After a slowdown in private investment before the election in last December, robust growth is expected, led by private consumption with strong remittance inflows and smaller negative contributions from net exports. Average annual inflation is expected to close to the central bank's 5½ percent target though non-food inflation slightly picked up over the last few months. The current account deficit is projected to decline to around 2 percent of GDP with strong export and remittance growth. Slow progress in resolving the Rohingya refugee crisis could add to social tensions as well as spending pressures, and donor support will remain essential.

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

Executive Board Assessment[2]

Executive Directors commended the authorities for Bangladesh's strong and stable economic performance, which has resulted in reduced income poverty and improving social indicators. Looking ahead, Directors noted that, to realize the country's growth potential and reach upper middle-income status, the authorities will need to promote productive investments and upgrade the economic policy framework.

Directors commended the Bangladesh Bank for keeping inflation broadly stable. However, with inflation expectations remaining elevated, they urged the Bangladesh Bank to monitor inflation developments closely and stand ready to adjust its policy promptly if warranted. Directors encouraged the authorities to continue efforts to gradually increase exchange rate flexibility to help buffer the economy against external shocks, preserve foreign reserves, and support the modernization of the monetary policy framework.

Directors commended the authorities for fiscal discipline and encouraged them to keep the public debt ratio broadly stable. In this context, they stressed the need to step up the effort to increase revenues to finance the upgrade of infrastructure, support the vulnerable, and meet the potential costs of climate change. They highlighted the need to expand the tax base by reducing exemptions, and to modernize tax administration. While the launch of the new VAT is welcome, Directors noted that simplifying the multiple rates would facilitate administration and improve revenue intake.

Directors expressed concern about the continued weak financial situation in the banking sector, including high nonperforming loans and the rising amount of restructured and rescheduled loans. They called for resolute steps to enhance banking regulation and supervision, reform state-owned commercial banks, tighten the criteria for loan rescheduling and restructuring, strengthen banks' corporate governance, and enhance legal systems to accelerate loan recovery. Directors encouraged the authorities to continue to develop a well-functioning capital market to reduce the economy's dependence on bank financing. In this context, they welcomed the ongoing reform of the National Savings Certificates system and called for further steps, including reform of the pricing mechanism.

Directors underscored that further improvements in public financial management and strengthening governance will be crucial for continued growth. They highlighted the importance of better public investment management and tax administration, and welcomed the work to revise the authorities' medium-term debt management strategy. They urged continued progress in strengthening the AML/CFT framework.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman 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.

Directors emphasized the importance of greater export diversification for stronger and more sustainable economic growth. They noted that improving the business environment and boosting human capital would help increase Bangladesh's integration into global value chains and make exports more resistant to changes in global demand patterns.

Directors welcomed the authorities' effort to address the country's vulnerability to climate change and natural disasters. They recommended continued efforts to create fiscal space for adaptation and mitigation, managing the impact of natural disasters, and promoting climate-friendly investments.

Table 1. Bangladesh: Selected Economic Indicators, FY2015–20 1/

I. Social and Demographic Indicators

Population (2017, millions; estimate)	165	Infant mortality (2016, per thousand live births)	28.0
GDP per capita (2017, U.S. dollars)	1517	Life expectancy at birth (2016, years)	71.6
Labor force participation rate (2017, percent; national measure)	58	Adult literacy (2016, percent of people)	73.0
Poverty headcount ratio (2016, national measure, percent)	24	Population dependency ratio (2017, percent)	50.0
Gini index (2016,World Bank estimate)	32	Population growth (FY16, y/y, percent; estimate)	1.1

II. Macroeconomic Indicators

	FY15	FY16	FY17	FY18	FY19	FY20
				Prelim.	Staff proj.	
National income and prices (annual percent change)						
Real GDP	6.6	7.1	7.3	7.9	8.0	7.6
GDP deflator	5.9	6.7	6.3	5.6	5.8	5.8
CPI inflation (annual average)	6.4	5.9	5.4	5.8	5.5	5.6
CPI inflation (end of period)	6.3	5.5	5.9	5.5	5.5	5.6
Nonfood CPI inflation (end of period)	6.3	4.2	7.5	6.0	4.8	4.9
Central government operations (percent of GDP)						
Total revenue and grants	9.8	10.1	10.2	9.7	9.9	10.2
Total revenue	9.6	10.0	10.2	9.6	9.8	10.1
Tax	8.5	8.8	9.0	8.6	8.8	9.1
Nontax	1.1	1.2	1.2	1.0	1.0	1.0
Grants	0.2	0.1	0.1	0.0	0.1	0.1
Total expenditure	13.8	13.4	13.6	14.3	14.8	15.1
Current expenditure	7.9	8.3	8.3	7.9	8.4	9.0
Annual Development Program (ADP)	4.3	4.4	4.1	5.3	5.3	5.2
Other expenditures	1.6	0.8	1.1	1.0	1.0	0.9
Overall balance (including grants)	-4.0	-3.4	-3.3	-4.6	-4.8	-4.8
(Excluding grants)	-4.1	-3.5	-3.4	-4.7	-5.0	-5.0
Primary balance (excluding grants)	-2.1	-1.6	-1.7	-2.8	-3.3	-3.1
Total central government debt (percent of GDP)	33.7	33.3	32.6	34.0	34.6	35.2
Money and credit (end of fiscal year; percent change)						
Credit to private sector by the banking system	13.2	16.8	15.7	16.9	15.2	14.2
Reserve money	14.3	30.1	16.3	4.0	5.8	13.9
Broad money (M2)	12.4	16.3	10.9	9.2	12.7	13.9
Balance of payments (billions of U.S. dollars)						
Exports, f.o.b.	30.7	33.4	34.0	36.2	40.7	44.1
(Annual percent change)	3.1	8.9	1.7	6.4	12.5	8.3
Imports, f.o.b.	-37.7	-39.9	-43.5	-54.5	-56.9	-61.5
(Annual percent change)	3.0	5.9	9.0	25.2	4.5	8.0
Current account balance	3.5	4.3	-1.3	-9.8	-5.9	-6.9
(Percent of GDP)	1.8	1.9	-0.5	-3.6	-2.0	-2.1
Capital and financial account balance	2.4	1.4	4.6	9.4	6.0	7.5
Of which: Foreign direct investment	1.8	1.3	1.7	1.6	1.9	2.0
Overall balance	5.0	5.0	3.2	-0.9	-0.3	0.5
Gross official reserves (billions of U.S. dollars) 2/	24.9	30.2	33.5	33.0	33.0	33.4
In months of prospective imports of goods and services	6.5	7.2	6.3	5.8	5.3	5.0
Exchange rate (taka per U.S. dollar; period average)	77.7	78.3	79.1	82.1	...	...
Exchange rate (taka per U.S. dollar; end-period)	77.8	78.4	80.6	83.7	...	...
Nominal effective rate (2010=100; period average)	95.4	100.4	101.2	93.4	...	...
Real effective rate (2010=100; period average)	120.7	133.1	139.3	133.1	...	...
Memorandum item:						
Nominal GDP (billions of taka)	15,158	17,329	19,758	22,505	25,706	29,276

Sources: Bangladesh authorities; World Bank, *World Development Indicators*; and IMF staff estimates and projections.
1/ Fiscal year begins July 1.
2/ Excludes deposits held in offshore accounts of resident financial institutions, noninvestment grade sovereign bonds, and foreign exchange overdrafts provided by BB to domestic banks.

INTERNATIONAL MONETARY FUND

BANGLADESH

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

August 5, 2019

KEY ISSUES

Context. Economic growth in Bangladesh continues to be strong with stable inflation. Sustained growth in the ready-made garment sector with abundant low-cost labor has helped the economy to diversify away from the agricultural sector to a more manufacturing-based economy. Remittance inflows from Bangladeshis overseas continue to play an important role in promoting private consumption and external stability. While the economy still has significant potential with favorable demographics, to ensure sustainability and resilience of growth, the country needs to keep upgrading its macroeconomic policy framework and advance a range of structural measures.

Near-term outlook. Growth is projected to be strong at above mid-7 percent in FY19 and FY20. Average annual inflation is expected at close to the central bank's 5½ percent target. The current account deficit is projected to be around 2 percent of GDP. Risks to the outlook are tilted downward.

Main policy recommendations:

- Bangladesh Bank should monitor inflation developments closely and stand ready to adjust its stance as needed. A gradual increase in exchange rate flexibility would help buffer the economy against external shocks and preserve the level of reserves.
- Fiscal policy should continue to keep the public debt ratio broadly stable. To finance needed infrastructure investment, raising tax revenue is indispensable, which requires a coordinated approach in both tax administration and tax policy.
- Comprehensive reform is required to address banking sector weaknesses. Measures should include enhanced banking regulation and supervision, SOCB reforms, tighter criteria for loan rescheduling/restructuring, stronger corporate governance in the banking sector, and enhanced legal systems to accelerate loan recovery.
- Continuous improvements in public financial management and frameworks to limit vulnerability to corruption will help the authorities' goal to reach upper middle-income country status.
- Improving the business environment will be critical in boosting private investments and promoting export diversification.
- The authorities should consider options to create fiscal space for necessary adaptation and mitigation of climate risk, manage the impact of natural disasters, and promote climate-friendly investments.

Approved By
Anne-Marie Gulde-Wolf (APD) and Kevin Fletcher (SPR)

Discussions took place in Dhaka during June 16–27, 2019. The staff team comprised Daisaku Kihara (head), Jiri Jonas, Racha Moussa, Ragnar Gudmundsson (resident representative) and Muhammad Imam Hussain (resident representative office) (all APD). Subir Gokarn (OED) participated in the concluding meetings. Gamwalla-Khadivi and Biying Zhu (both APD) assisted in preparing the report.

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