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On behalf of our Bangladeshi authorities, we thank the staff for their analytical reports and the productive engagement during the Article IV consultation. Our authorities welcome the opportunity provided by this policy dialogue and value staff's assessment and recommendations. We will focus our remarks on the macroeconomic outlook and key policy challenges.

Pandemic and the macroeconomy

1. **The pandemic significantly impacted the economy of Bangladesh as GDP growth slowed down to 3.5 percent in FY2020 (July 2019-June 2020), which is the lowest since FY2009.[1] The Government's strategy to combat the pandemic aimed at striking a careful balance between lives and livelihoods was successful in containing the severity of the pandemic.** Thus, the economy quickly turned around with 6.9 percent growth in FY2021, aided by progressive normalization of the external demand and trade. The daily death rates reached a negligible level by the end of 2021 with the trend in mobility rising since August 2021 and remaining higher than many Asian peers. Though Omicron-led new case counts peaked in January 2022, the trend soon reverted with 1,298 daily cases on February 23, 2022. Nevertheless, the death rate remains very low. Authorities expect to vaccinate 70 percent of the population by March 2022 with financing arrangements from development partners. The country has also ensured gender equality in vaccination with about 50.2 percent of the doses administered to women. The challenges in vaccination arise from disruption of supply chains, storage, cold chains, and vaccine hesitancy.
2. The fiscal policy prioritized funding health and social safety nets, while monetary and financial policies facilitated adequate liquidity in the financial system. The stimulus packages estimated at 6 percent of GDP so far, facilitated additional expenditure in the healthcare sector, humanitarian assistance, including the workers affected in garment manufacturing. The fiscal stimulus was financed mainly by curtailing non-priority current spending and suspending low-priority capital projects. To minimize the financial stress stemming from the pandemic shock, Bangladesh Bank proactively addressed the liquidity challenges and adjusted the Bank Rate, CRR, and Repo rate. The timely monetary stimulus also provided positive signals to the market.
3. **Despite the mobility challenges posed by the pandemic, food production and supply chains remained largely unaffected.** The inflation rate at 5.6 percent in FY21, stayed close to the target of 5.4 percent. It has, however, marginally hardened to 6.1 percent in December 2021 due to higher global commodity prices but fallen below 6 percent again in January 2022. Exports recovered strongly, recording 30.3 percent growth in FY22 so far (July21-Jan22), with a faster recovery in major trading partners, diversion of orders from the rest of Asia, faster reopening of economic activities at home, and policy support to the ready-made garment (RMG) industry. The underlying pace of domestic activity is also mirrored in strong growth (26 percent) in imports of capital machinery imports so far (up to November 2021) and robust growth in VAT collection (15.2 percent). After remaining strong in FY21,

[1] The fiscal year for Bangladesh is July-June.

overseas remittances slowed down during the current fiscal year as many Bangladeshi migrants lost their jobs and many returning migrants couldn't travel back due to international travel disruptions. Despite some expansion in CAD, foreign exchange reserves stood at US$ 45.6 billion on February 10, 2022, providing about 6 months of import cover.

Outlook

4. **The domestic macroeconomic stability remains firmly anchored**. Our authorities believe that the pick-up in economic activity will continue, and inflation will remain contained. They expect the economy to expand by 7.2 percent in FY22, supported by large-scale vaccination, a continuation of the stimulus packages, recovery in domestic demand, and a strong pickup in exports. The fiscal deficit is expected to remain within 5 percent of GDP in FY22 on the back of expenditure rationalization and robust revenue growth; the authorities recognize some upside risks to the fiscal position from the recapitalization of the banking sector. They agree that inflation in FY22 may exceed their target of 5.7 percent given food and energy-driven imported inflation. They are closely monitoring second-round effects and believe that the impact of imported inflation is likely to be muted and temporary. The key sources of uncertainty and risk regarding the outlook continue to be the evolution of the global health pandemic. The authorities are striving with the vaccination drive to cover the unvaccinated population.

Augmenting revenues and buffers

5. **Despite the revenue mobilization challenge, Bangladesh performed well in fiscal management by keeping public debt at a moderate level. Our authorities are seized by the tax revenue challenges and striving to reach the tax-GDP ratio of 14 percent by FY25.** The main objective under the domestic resource mobilization strategy is to improve tax compliance without increasing tax rates. Therefore, reform measures aim at (i) strengthening revenue administration and improving compliance, (ii) broadening tax base and simplifying tax structures, and (iii) elimination of, or reduction in, tax exemptions and tax holidays awarded for prolonged periods. Accordingly, the government has planned and undertaken measures, including implementation of the new VAT law to boost collections, automation of VAT systems and Electronic Fiscal Devices to minimize evasions, harmonization and simplification of customs processes and tax procedures, expansion of taxpayer base, and minimization of tax exemptions.
6. The government had introduced a saving scheme for small savers, called National Savings Certificate (NSC), to motivate people to save money, collect scattered small savings, and provide a safety net for certain groups of the population, including senior citizens and women. NSCs pay a higher interest rate than bank deposits with similar maturity, thus involving some fiscal cost. Realizing the fiscal burden, the government has introduced digitalization of the scheme for better targeting of the benefits and has rationalized interest rates by introducing tiered interest rates since September 2021. To accelerate the development of the local bond market, the government has recently introduced the Islamic Sukuk Bond. They are also closing loss-making SOEs and creating a database to monitor the financial performance of SOEs to contain fiscal risks.

Monetary and Financial Sector issues

7. Our authorities plan to continue the work on modernizing the monetary policy framework, including through IMF TA. The authorities plan to move from targeting monetary aggregates to interest rate targeting.
8. On the exchange rate front, the authorities will continue to provide FX to meet rising import demand and allow the Taka to depreciate gradually against the US dollar. They expect this to be a short-run phenomenon and for the exchange rate to stabilize with the repatriation of export proceeds and a pickup in remittances.
9. State-Owned Commercial Banks (SOCBs) in Bangladesh, like other low and lower-middle-income countries, carry a large social inclusion programme and are a key vehicle to attain inclusion, and reduce poverty and inequality. Responding to the challenges posed by the SOCBs' rising NPLs, our authorities have made amendments to several laws and acts to strengthen the banking sector and would continue to align them with best international practices. The broad objectives of the amendments are to define willful defaulters, make mergers between banks easier, improve the legal process to expedite loan recovery, improve the autonomy of the central bank, and put in place an orderly bank resolution system. To improve the performance of SOCBs, Bangladesh Bank has signed MoUs with five of the six SOCBs and is also working toward risk-based supervision being supported by the IMF TA.

Export-led growth and diversification challenges

10. COVID-19 severely affected Bangladesh exports leading to a contraction of 16.9 percent in FY20 due to the closure of economic activities at home and abroad. However, aided by timely stimulus packages of the government and revival of global demand, exports strongly rebounded recording 15.1 percent growth in FY21 and further strengthening in FY22 so far.
11. Export growth led by the readymade garments industry has created enormous employment opportunities, with many backward and forward linkage with industries as well as services. Being a labor-intensive sector, it has generated employment opportunities for millions, most of whom are women. The challenge, however, is that exports remained heavily concentrated in readymade garments (85 percent) and limited markets. **Recognizing the challenges, the 8th Five Year Plan (FY21-25) has focused on many policy options to diversify both products and markets. A blend of skills, finance, improved technology, entrepreneurship, and adequate quality infrastructure are identified as key to export diversification. Pharmaceuticals, leather, processed food, and light engineering have been identified as product categories.**

Structural reforms

12. During the pre-pandemic period, Bangladesh's economy grew by an average of 6.9% during FY2011-19, leading to the economy attaining a size of US$ 416 billion by FY2021. **A higher growth trajectory of the last two decades has helped reduce poverty by more than one-half from 48.9 percent in FY 2001 to 20.5 percent in FY2019,[2] and extreme poverty (World Bank $1.9 PPP 2011 prices) from 34.3 percent to 10.5 percent during the same period.** While the healthy flow of remittances to rural areas supported the growth of

[2] Percentage of the population living below the national poverty line.

consumption and created new jobs in services, the spread of microcredit programmes helped protect the consumption of the rural poor.

13. **The country attained lower-middle-income status in 2015 and met all the criteria to graduate from the LDC status with graduation to be effective in 2026.** Even before the move towards graduation, the share of concessional financing is progressively coming down and the country is gearing up to the challenges arising from market-based financing, including measures to enhance the role of FDI, which is likely to play an important role in bringing new technology, markets and bridging the financing gap.
14. To meet the challenges, the government is incorporating graduation priorities into national development plans, enhancing competitiveness through increased productivity, reducing the cost of production and doing business, diversifying exports in terms of both products and markets, and strengthening participation in the global value chain. The authorities are stepping up investments in several megaprojects, high-tech parks, and SEZs, as well as modernizing agriculture. 100 special economic zones are planned with emphasis on logistics including the development of deep ports and technology.

Tackling climate change

15. Despite the economic size exceeding US$400 billion, the share of Bangladesh in global CO2 emissions has been very low (0.3 percent of total global CO2 emission). In terms of per capita CO2 emission, Bangladesh ranked a low 193rd among 229 countries with a per capita emission of 0.6 tonnes in 2019 – a fraction of the world average emission of 4.8 tonnes. **To address the vulnerability of climate change, the Bangladesh Delta Plan 2100 was launched in 2018 and the government is working on a strategic investment framework to mobilize financing (Mujib Climate Prosperity Plan 2030)**. Energy Efficiency and Conservation Master Plan (2030) will reduce dependence on coal for power generation. To promote green technology, Bangladesh Bank has established a refinance scheme to support environment-friendly technology such as solar energy, biogas plants, and effluent treatment plants.
16. **Bangladesh may need US$ 37 billion by 2030 to implement climate change projects under the Delta Plan. Climate-specific support mechanisms and financial aid for mitigation and adaptation activities are key to spur and enable a just transition towards low-carbon climate-resilient development.** Developing countries should receive the necessary support and tools to make climate-resilient investment decisions and budget allocations. Thus, there is an urgent need for technology transfer, and scaling up funding to enable a just transition to a low emission economy. The energy transition must be fair and equitable as Bangladesh's per capita energy consumption is still $1/7^{th}$ of what a global citizen consumes. The advanced countries should recognize their historical responsibilities to promote a global public good i.e., mitigation and adaptation efforts of developing countries, including Bangladesh.