International Monetary Fund

Bangladesh and the IMF

Bangladesh: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Press Release:
IMF Executive Board Approves Three-Year ECF Arrangement for Bangladesh
April 11, 2012

March 27, 2012

The following item is a Letter of Intent of the government of Bangladesh, which describes the policies that Bangladesh intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Bangladesh, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

BANGLADESH: LETTER OF INTENT

27 March, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

Bangladesh continues to open its economy, which is driving up investment rates, stimulating new exports, and creating employment opportunities, especially for women. Our economy grew by 6¾ percent in FY11 (July 2010-June 2011) and on average by 6 percent a year during the past decade. Domestic resources mobilization, as a share of GDP, reached a record level in FY11. Over the past 10 years, external trade increased by almost four-fold in U.S. dollar terms and more than doubled as a share of GDP. At the same time, the poverty level nearly halved, in line with achieving most of our Millennium Development Goals by 2015, but it remains unacceptably high. Bangladesh has drawn up a Vision-2021 programme aiming to raise its growth rate to 8 percent by 2015 and possibly to 10 percent by 2021, in line with our objective to attain middle income status in the next 10 years. In the process, we intend to further reduce poverty to a tolerable range of 12-15 percent and bring the unemployment rate down to this vicinity.

Our strategy of growth with equity has been embraced in many reform measures announced in our annual budget statements as well as in our finalized Sixth Five-Year Plan. However, due to the process of slow recovery out of the global financial crisis and expansionary domestic measures, we face several major challenges now, which have given rise to an actual balance of payment financing need that is expected to be protracted. First, relatively accommodative policies coupled with increasing global headwinds have led to widening trade imbalances and foreign reserve losses. Second, a rapid rise in oil imports, continued firmness in commodity prices, and associated increases in government subsidies have added to external and fiscal pressures. Third, power, transportation, and climate change-mitigating infrastructure needs remain immense, creating huge import requirements that exacerbate BOP needs.

In response, we have formulated a reform program based on various policy announcements that we have made in the last three years in support of high, sustainable, and equitable growth. The current three-year programme is centered on upfront policy actions aimed at preserving macroeconomic stability and gradually rebuilding our reserve buffer, while going forward with macro-critical structural reforms. In keeping with these objectives, stepped-up efforts will be made to (a) create more fiscal space and better utilize resources mobilized from development partners; (b) ensure a stable, well-regulated financial system; (c) create a business-friendly trade and investment regime; and (d) secure greater regional and global economic integration. This is likely to raise saving and investment rates, strengthen our external position, and achieve broad-reaching labor-intensive export-led growth.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the major objectives of the government's reform program for the period 2012-2015. In this context, the government of the People's Republic of Bangladesh is requesting access to IMF resources under an Extended Credit Facility (ECF) in the amount of SDR 639.96 million (120 percent of quota) over a three-year period to meet in part our BOP financing need and provide a buffer against shocks until our policy adjustments and reform measures take hold. During this time, we expect to secure support from other development partners to meet our overall financing needs.

We believe that our commitments, as outlined in the MEFP, are adequate to achieve program objectives, but we are prepared to take further measures, as appropriate, for this purpose. To ensure strong performance under an ECF-supported arrangement, we will maintain a close policy dialogue with the IMF and pursue technical assistance, 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 the objectives of the program. We also authorize publication of this Letter of Intent and its attachments, as well as the accompanying staff report.

Sincerely yours,

/s/
Abul Maal Abdul Muhith
Minister of Finance
Government of the People's Republic of Bangladesh

Attachments: Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding

March 27, 2012

BANGLADESH—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. OVERVIEW

1. **This memorandum lays out the reform program of the government of the People's Republic of Bangladesh under the three-year Extended Credit Facility (ECF) arrangement.** It focuses on the targets and objectives in the first year of the ECF, setting forth the policy adjustments and structural reforms needed to preserve macroeconomic stability, strengthen the external position, and enhance overall competitiveness. Our ultimate aim is to lay a strong foundation for higher, more inclusive growth. This objective is in keeping with our long-term Perspective Plan (2010–2021), which seeks to halve poverty rates and elevate Bangladesh to middle-income status over the next decade. In support, our Sixth Five Year Plan (FY11–15) (SFYP) sets out specific policies intended to narrow our infrastructure deficit, enhance the business environment, and expand the industrial base, while effectively mobilizing resources on all fronts, in order to create employment opportunities, especially for women, as a key plank of our poverty reduction efforts.

II. MACROECONOMIC CONDITIONS

2. **Macroeconomic pressures have intensified over the past 18 months, resulting in heightened risks to Bangladesh's external position.** Our balance of payments (BOP) slipped into a deficit in FY11 (July 2010–June 2011) for the first time in a decade. Record exports were driven higher by ready-made garments, in part from the capture of new market share. However, they were more than offset by record imports, which were pushed up by surging oil demand and accommodative policies. Remittances flows were supportive, as the pace of workers going abroad picked up in 2011, but aid disbursements slowed, owing in part to the low uptake of project loans. External pressures have prevailed in FY12, but with exports now affected by the weaker global demand. As a result, gross international reserves (GIR) have declined substantially since late 2010. Despite record tax takes, fiscal pressures have also emerged, stemming mainly from rising fuel, electricity, and fertilizer subsidies. In turn, domestic borrowing by the government rose sharply in the first half of FY12, straining available liquidity in the banking system and putting upward pressure on interest rates. Lastly, inflation pressures have firmed, with headline, food, and non-food rates now in excess of 10 percent due to rising commodity prices and strong aggregate demand.

3. **Current conditions have given rise to an actual and protracted BOP financing need.** Notwithstanding recent policy adjustments and sizable exchange rate depreciation, reserves could slip well below two months of import without further adjustments and reforms, exposing Bangladesh to greater risks and vulnerabilities. In the longer term, our external position is expected to come under additional pressures from increased import demand, previously held back by less-open trade policies and repressed energy demand, as we take steps to further open our economy and relieve infrastructure bottlenecks, most notably in the power and transport sectors, which currently constrain growth.

III. POLICY FRAMEWORK

4. **Against this backdrop, our reform program aims to preserve macroeconomic stability, strengthen our external position, and ultimately bolster growth prospects.** During the program period (FY12–15), we will seek to bring down inflation to and retain it at single-digit levels through appropriately restrained fiscal and monetary policies and over time by further easing supply constraints. We also intend to increase reserves to 2¾-3 months of import cover by FY15 by putting the BOP on a sustainable path through sound aggregate demand management, continued exchange rate flexibility, and structural reforms needed to bolster competitiveness. These measures are also expected to catalyze additional external inflows, including foreign direct investment (FDI). Finally, we aim to increase real GDP growth to 7.5–8 percent a year by mid-decade through reforms aimed at increasing investment rates, further opening our economy, and broadening employment opportunities, focused on labor-intensive and export-oriented activities, consistent with our SFYP.

5. **We recognize that upfront policy actions are needed to reduce the risk of a payments crisis and put Bangladesh on a firm adjustment path.** Under our program, we will pursue moderate fiscal consolidation over the near to medium term by further increasing tax revenue, reducing subsidy costs, and prioritizing development spending, with a view to containing domestic borrowing. In keeping with this, we will also limit monetary policy accommodation by setting appropriate policy rates and containing Bangladesh Bank (BB) financing of the budget deficit, aided by stronger policy coordination, to ensure stable reserve money growth. Greater interest rate flexibility should help improve monetary policy transmission. Finally, we will continue to maintain a flexible exchange rate regime, taking steps to deepen the foreign exchange market and limit official intervention to smoothing short-term volatility, in order to facilitate adjustment. A well-coordinated mix of fiscal and monetary tightening and continued exchange and interest rate flexibility, combined with limited BB activity in the foreign exchange market, should help protect reserves.

6. **In addition, macro-critical structural reforms are necessary to raise saving and investment rates, expand the export base, and ensure BOP sustainability.** They are also aimed at promoting sound economic governance and accountability. Thus, over the near to medium term, we will undertake structural fiscal reforms centered on modernizing our tax regime, strengthening public financial management (PFM), and promoting a sound debt policy, in order to provide adequate budgetary resources to bolster social and infrastructure outlays over the medium term, supported by new public-private partnerships (PPP). Moreover, we will take steps to ensure a stable, inclusive, and well-regulated financial system conducive to meeting private financing needs, including in agriculture and for small- and medium-scale enterprises, and minimizing fiscal and systemic risks. Finally, focus will be placed on enhancing Bangladesh's integration into the global economy through business-friendly trade and investment climate reforms, drawing on the experience of outward-oriented economies that have transitioned successfully to middle income status.

A. Fiscal Policy and Debt Management

7. **Policy objectives.** Fiscal policy will be geared towards promoting a stable macroeconomic environment, debt sustainability, and broad-based growth. Upfront tightening measures will be complemented by tax, subsidy, and PFM reforms to ensure Bangladesh stays on a sound fiscal path. To this end, we will limit our overall fiscal deficit (excluding grants) to around 4.5 percent of GDP in FY12 and pursue moderate fiscal consolidation in FY13 and over the medium term. During the program period, we aim to increase tax revenue to around 13 percent of GDP in order to create adequate space to raise Annual Development Program (ADP) spending to at least 6 percent of GDP, in support of higher growth. Fiscal performance will be anchored by a ceiling on net claims on government by the banking system (a performance criterion) and supported by a floor on tax revenue (an indicative target). To ensure targets are met in FY12, we have capped total energy-related subsidy costs to Tk 150 billion in FY12 (a prior action). In part, this is being aided by recent domestic fuel prices increases, which have averaged nearly 40 percent since mid-2011, as well as through scheduled adjustments to electricity tariffs.

8. **Tax policy.** The adoption of new VAT and income tax regimes will be the centerpiece of our tax reform efforts, with the aim to broaden the tax base and increase tax receipts, in support of stability and growth. On the VAT, we received approval by our Cabinet of the new legislation in March 2012 (a prior action), following careful drafting and extensive stakeholder consultation, supported by technical assistance (TA) from the IMF and other development partners (DPs). The law, which will build on recent reforms, has a single 15 percent VAT rate with very limited exemptions, no truncated valuations, and minimal advance payment and withholding schemes. A final draft of the law that is consistent with tax modernization efforts and medium-term revenue targets will be submitted to the National Parliament by June 2012 (a program benchmark). To ensure a modern VAT is fully in place by FY15, we will get the approval of the Minister of Finance of an implementation plan and timetable and a new organizational structure for the National Board of Revenue (NBR) by September 2012 (a program benchmark). Timely implementation will be ensured with support from a resident adviser as well as by peripatetic experts from DPs. We will remove certain tax concessions and exemptions in the FY13 Finance Bill in June 2012 equivalent to 0.5 percent of GDP (a program benchmark). We also plan to finalize a new draft direct tax code in FY13 that further rationalizes exemptions, rates, and thresholds in keeping with our medium term revenue target and embracing international best practices.

9. **Revenue administration.** We will consolidate revenue administration reforms already under way over the past few years to further modernize tax collections and enforcement. An NBR modernization plan (2012–16), building on its June 2011 outline of a tax modernization plan, will be formulated by mid-2012, with support from DPs. As part of our efforts, we aim to continue upgrading systems, broadening the coverage, and improving the coordination of the Large Taxpayers Units for income tax and indirect taxes. The use of the taxpayer identification numbers is also being expanded by beginning to automate their

issuance and linking them to national identification and business identification numbers—a process we aim to complete in our main tax offices by December 2012 (a program benchmark). Furthermore, we are upgrading the ASYCUDA system, with an aim of installing it in major land customs stations by December 2012, with support from UNCTAD. We have also begun implementing an alternative dispute resolution (ADR) mechanism in FY12 at the NBR on a pilot basis. Over the medium term, we will further improve tax compliance by strengthening audit and investigative procedures, establishing separate court benches dedicated to taxation issues, and fully rolling out the ADR mechanism.

10. **Subsidy reforms.** Effective steps are being taken to contain the growth in fuel, electricity, and fertilizer subsidies and to bring these costs fully on budget starting in FY13, in order to protect priority social and development spending and reduce price distortions. The overall size of these subsidies has grown rapidly in recent years due to rising import costs and inadequate cost recovery undermining our fiscal position and overall macroeconomic stability. Notwithstanding significant fuel and electricity prices adjustments over the past year, we recognize that further adjustments to energy prices are likely necessary in 2012, given projected import costs and available budgetary financing. To contain fuel subsidies, we will move to an automatic adjustment formula by December 2012, which will ensure full pass-through of changes in international prices (a program benchmark), with a clear timeline being developed to make necessary preparations for this change. In the meantime, we established a technical committee in January 2012 comprising the Ministry of Finance (MoF) and BB to monitor closely the finances of the Bangladesh Petroleum Corporation (BPC) in order to ensure regular budget transfers to cover subsidy-related losses and subsequently to enable it to buy foreign exchange from domestic banks to pay for petroleum imports. In addition, we are undertaking timely implementation of the medium-term electricity tariff adjustment schedule, as set out by the independent Bangladesh Energy Regulatory Commission. Moreover, we will adjust fertilizer prices, as necessary, to more fully capture changes in local and imported inputs, in order to contain subsidy growth. Finally, taking a longer-term perspective, we will make efforts to accelerate our *Power Sector Road Map*, adopted in 2010, so that higher-cost temporary rental power units now being used to relieve electricity shortages can be replaced with more cost-effective permanent power plants. Chronic under-investment in the power, gas and coal, and oil sectors will be further aided by moves towards full cost recovery by energy producers and distributors.

11. **State-owned enterprise finances.** In keeping with our commitment to bring subsidy costs on budget, new subsidy-related loans from the state-owned commercial banks (SOCBs) to the BPC, Bangladesh Power Development Board (BPDB), and Bangladesh Chemical Industries Corporation (BCIC) will be limited to zero on a net basis in FY12 (an indicative target). Agreement to settle existing legacy loans held by the SOCBs stemming from earlier subsidy-related losses will be fully reflected in our budget framework, with around Tk 27 billion in these loans already securitized in FY12. We are further committed to conducting efficiency audits of the BPC and BPDB in 2012. To safeguard fiscal targets, we will continue to monitor closely budget transfers and directed lending to all state-owned enterprises

(SOEs), placing strict limits on support to largely inoperative ones, to ensure public resources are not diverted away from priority needs.

12. **Public financial management.** We are committed to strengthening PFM, focusing our efforts on performance-focused budgeting, budget integration and monitoring and improved cash and debt management. The Strengthening Public Expenditure Management Program (SPEMP)—a multi-donor trust fund administered by the World Bank—will guide these reforms, with its mandate now focused on strategic policy planning and budget management, public financial systems, and training and capacity building in PFM. In keeping with our priorities, we will establish new budget management wings/branches in all line ministries and issue a circular ensuring uniform budget implementation and reporting standards by June 2012 (a program benchmark). In our efforts to improve cash and debt management, we will expand the terms of reference of the Cash and Debt Management Technical Committee to prepare bi-weekly and monthly rolling cash flow projections of the government's Treasury Single Account (TSA) balance by June 2012, with reporting standards to be consistent with previous TA in this area. To better monitor performance, we are further committed to revising the current budget classification structure and reporting, with the new Integrated Budget and Accounting System expected to provide an important bridge in generating *GFS* compliant statements. As a follow up to Public Expenditure and Financial Accountability (PEFA) assessment done in mid-2011, a fiscal Report on Standards and Codes focused on budget transparency will be sought in FY13.

13. **Annual Development Program implementation and aid effectiveness.** In support of our growth strategy and poverty reduction efforts, we are taking steps to improve ADP implementation, better align spending with development objectives, and increase overall aid effectiveness, in close collaboration with DPs. Balancing these objectives with current resource constraints, we have reprioritized development projects in FY12 budget and also issued a government circular in January 2012 restricting the use of taka funding to make up for shortfalls in the externally-funded ADP budget (a prior action). Going forward and working closely with DPs, we will further rationalize the number of ADP projects, build project appraisal capacity in the Planning Commission and line ministries, and issue a basic technical manual on project formulation and appraisal by December 2012. During the program period, measures will also be taken to improve land acquisition procedures, strengthen government-DP interface on procurement processes, and improve aid coordination, especially on multi-donor projects, consistent with the Joint Cooperation Strategy agreed between the government and DPs in 2011.

14. **Social spending and safety nets.** During the program period, we will intensify efforts to protect priority social spending and improve the effectiveness of safety nets, carefully monitoring social-related spending (an indicative target). We will use this information in our regular reporting to the National Parliament on budget implementation, which we commenced following the adoption of the Public Moneys and Budget Management Act in 2009. In recognition that fuel and electricity price increases could place a heavy

burden on the poor, we will develop an action plan by June 2012 to ensure well-targeted social safety net programs aimed at mitigating this burden. As an upfront measure, we will ensure that open market sales of food staples, a self-targeted program mostly for the urban poor, are done in a timely and judicious way in 2012 to mitigate the impact of rising fuel and food prices on their purchasing power.

15. **Public-private partnerships.** Operational guidelines and legal and institutional framework for PPPs are being established, as part of our strategy to increase infrastructure investment, with support from the Asian Development Bank (AsDB). The government will take equity stakes in projects through the new Bangladesh Infrastructure Finance Fund, as well as provide technical and viability gap funding. Large projects will be approved by the Cabinet Committee on Economic Affairs to ensure consistency with our growth and debt strategies. As a coordinating body, a PPP office has been established in the Prime Minister's Office and staffed by professional managers. It is charged with supporting line ministries to ensure that PPP projects are properly identified, contracted, and implemented, with a view to minimizing fiscal risks. A cell was also created in the MoF in mid-2011 to assess the medium-term fiscal implications of PPP projects and ensure that government resources required for selected projects are fully incorporated into future budgets.

16. **Debt management.** Our debt management strategy (DMS) is consistent with minimizing borrowing costs and ensuring a sustainable fiscal stance. The strategy, prepared in 2011, is anchored by maintenance of prudent levels of domestic borrowing and reliance for the foreseeable future on concessional terms for most external borrowing. Its execution and monitoring are being supported by a dedicated debt management wing in the MoF. Under our DMS, annual borrowing plans will be guided by a macro-fiscal framework and debt sustainability analysis and supported by a single, comprehensive debt database. We will also move toward fully recognizing the debts of SOEs and other official entities in our analysis, particularly on BPC, BPDB, and BCIC, where government guarantees on borrowing have been provided and/or contingent liabilities exist. To ensure adequate domestic financing, we have signaled to primary dealers in the Treasury market that yields on bills and bonds will continue to be responsive to market conditions by setting auction cut-off rates across all maturities at market-clearing level. As part of this effort, we will also strengthen the operations of the National Savings Directorate, benchmark yields on National Savings Certificates (NSCs) to market-based rates, and bring the taxation of interest on NSCs in line with other government debt instruments by June 2012. In this process, we will also revamp savings schemes aimed at non-resident Bangladeshis to attract stronger foreign inflows. Building on progress in recent years in recording external debt flows, we will install the UNCTAD's Debt Management and Financial Analysis System (DMFAS.6) by June 2012 to incorporate most domestic debt flows.

17. **Debt ceilings and limits.** Under our program, we will adhere to nonconcessional external debt ceilings, consistent with our DMS and continued sound management of public sector external borrowing. In compliance with our ceiling on new nonconcessional external

debt maturing in more than one year (a continuous performance criterion), we will limit any such borrowing to properly evaluated projects, in line with procedures followed by the executive committee of our National Economic Council in considering and approving larger development projects. We will also have a ceiling on nonconcessional external debt maturing in one year or less (a continuous performance criterion). This debt will exclude normal import-related credits, notably suppliers' credit and other short-term financing for oil imports from the Islamic Development Bank and other official entities, on which we will have a separate non-zero ceiling (an indicative target). To keep this borrowing manageable, our program will have adjustors on net international reserves (NIR) of BB, net domestic assets (NDA) of BB, and NCG by the banking system for suppliers' credit contracted by BPC and guaranteed by the government in excess of programmed levels. We will also continue to ensure no new accumulation of external payment arrears by the public sector (a continuous performance criterion).

B. Monetary and Exchange Rate Policy and Central Bank Operations

18. **Policy objectives.** Monetary policy will aim to contain aggregate demand pressures, bring down inflation, and help build a reserve buffer. Bangladesh Bank has demonstrated its resolve by increasing its benchmark repo rate by 325 bps over the past 18 months to 7.75 percent, including the latest 50 bps rise in January 2012. As a result, credit growth has slowed significantly since mid-2011, in support of stabilization efforts. To improve the monetary transmission mechanism, Treasury bill and bond yields have also been allowed to adjust more to market conditions. In addition, most remaining bank lending rate caps were removed in December 2011 (a prior action). Greater exchange rate flexibility has also been allowed to facilitate adjustment. Central bank actions will continue to be guided by its semi-annual monetary policy statements, which will be consistent with our program ceilings on reserve money (an indicative target), as a nominal anchor, and on NDA of BB—its main operating targets (a performance criterion). To contain external vulnerability, we will target a modest reserve buildup in NIR of BB in 2012 (a performance criterion) and a further significant increase over the medium term, in keeping with monetary as well as fiscal tightening, continued exchange rate flexibility, and, over time, improved external prospects.

19. **Monetary management.** To help achieve our program targets, BB is prepared to maintain the existing restrained monetary policy and to take further steps to strengthen liquidity management, backed by an appropriately tight fiscal policy. Bangladesh Bank will undertake further hikes in its repo and reverse repo rates, as necessary, and continue to channel most liquidity support through the emergency repo window (currently provided at 300 bps above the regular repo window). It will also encourage all commercial banks to maintain market-determined lending and deposit rates to facilitate monetary transmission and properly price risk. Furthermore, BB will strictly enforce its cash reserves, liquid asset, and credit-to-deposit ratio requirements, sanctioning banks found in violation of these standards. In addition, it will finalize a lender of last resort policy and contingency plan in May 2012, approved by BB management, in line with TA we received earlier in this area. Finally, BB is

committed to improve its liquidity forecasting framework in 2012, with possible TA from DPs.

20. **Exchange rate policy.** We will continue to allow greater exchange rate flexibility, to ensure orderly conditions in the foreign exchange market and facilitate external adjustment over the medium term. Bangladesh Bank will allow interbank transactions at market-determined rates and limit its intervention to smoothing short-term volatility, consistent with meeting NIR targets. To boost turnover in the spot interbank foreign exchange market, BB will monitor that the interbank selling rate remains aligned with the selling rate for bills of collection of foreign exchange dealers. In keeping with our reserve targets, SOCBs will be expected to procure foreign exchange for oil-, food-, and fertilizer-related import payments from the interbank spot market, taking advantage of rising turnover in this market. At the same time, other banks will be encouraged to open letters of credits for these payments, notably for BPC, with BB setting notional targets, if necessary. Bangladesh Bank ceased issuing foreign exchange overdrafts in December 2011 and will reduce their outstanding balances to zero by June 2012 (a program benchmark), with settlement being done consistent with meeting our NIR targets. It will also enforce banks' net open foreign exchange position limits.

21. **Central bank operations.** Other measures are being taken by BB to strengthen its financial operations and controls. Bangladesh Bank will adhere to new reserve management guidelines adopted in mid-2011. It will also address significant vulnerabilities identified in the IMF's Safeguards Assessment, completed in July 2011, notably in external and internal audits and oversight mechanisms. On this matter, the government floated a tender in February 2012 for an internationally-affiliated firm to conduct an external audit on BB's end-June 2012 accounts, with the audit opinion to be signed by both the audit firm's international or regional head office and by its local affiliate (a prior action). Bangladesh Bank has also begun implementing an automated Enterprise Resource Planning system, phasing out its manual accounting system by June 2012, to ensure timely and comprehensive financial reporting, with ongoing support from the DPs.

C. Financial Sector Reforms

22. **Policy objectives.** Under our program, we will strengthen financial sector governance and oversight in order to better manage risks and support growth. Further steps will be taken to improve the stability, soundness, and reach of our financial system, anchored by clear oversight responsibilities, strong risk-based supervision, and proper managerial and operational controls. We recognize that a rapidly expanding financial sector, deepening inter-bank linkages, and increasing parent-subsidiary activities require coordinated efforts by regulators to minimize risks posed by poorly governed or weakly supervised institutions.

23. **Bank governance and performance.** On banks' internal governance and risk controls, we are committed to making necessary legal and prudential reforms, with a focus on

the SOCBs. An amended Bank Companies Act (BCA) will be submitted to the National Parliament by September 2012 aimed at establishing a clear supervisory mandate for BB, allowing remedial actions against prudential lapses, and strengthening the internal governance of commercial banks (a program benchmark). In view of current liquidity pressures, limited supervisory capacity, and pending governance reforms, we will strictly enforce new bank licensing criteria to ensure a stable banking environment. With regard to the SOCBs, we will pursue further measures aimed at increasing operational independence, strengthening their finances, broadening their capital bases with a view to corporatizing their operations, minimizing fiscal risks, and reducing the government's effective ownership over the program period. Bangladesh Bank will continue to anchor this process through memoranda of understanding with each bank, with new ones issued in March 2012 particularly focused on SOCBs' lending standards. To improve their financial performance, an audit of each SOCB was conducted by reputable internationally-affiliated auditors in 2011. Using these audits as a guide, we intend to help stabilize the financial position of SOCBs over the near to medium term by limiting their dividend payments, ensuring proper loan loss provisions, and prohibiting their purchase of any classified loans from other banks, as notified by BB in February 2012. The SOCBs will adhere strictly to agreed schedules to amortize valuation adjustments made to their balance sheets to cover earlier losses, as part of BB's effort to fully enforce Basel II capital adequacy standards introduced in 2010.

24. **Financial supervision.** Bangladesh Bank will focus more efforts and resources on risk-based supervision and controls. To lay a foundation for this, BB issued a set of guidelines in February 2012 aimed at strengthening the risk management framework and processes of commercial banks. It also intends to adopt a new organizational structure by May 2012 aimed at consolidating management over on-site and off-site activities. As a complement, a council of the regulatory agencies will be established by June 2012, comprising BB, the MOF, Insurance Development and Regulatory Authority (IDRA) and the Securities and Exchange Commission (SEC), with a mandate to preserve financial stability and powers *inter alia* to designate potentially systemic financial firms for enhanced supervision. The central bank will also adopt new loan classification and loss-provisioning standards that embrace international best practices by June 2012 (a program benchmark), implementing them over a two-year period. To increase transparency, BB published its inaugural *Financial Stability Report* in December 2011, detailing the finding of its off-site supervisory activities. It will continue to compile a unified set of financial soundness indicators and report them on a quarterly basis, putting greater emphasis on data integrity. An IMF resident advisor at BB is supporting efforts to improve bank supervision, with peripatetic experts also expected to help strengthen on-site inspections.

25. **Securities markets.** We will also closely regulate the securities market to ensure a stable trading environment, in view of recent volatility. The SEC will develop and enforce a transparent regulatory framework in line with international best practices, with support from the AsDB. In this context, we will strengthen the SEC's autonomy, ensuring it has a sufficient supervisory mandate and qualified personnel to properly oversee brokers, dealers,

and merchant banks and develop the necessary contingencies to contain systemic risk. As part of our effort to strengthen self-governance over securities markets, we will seek approval by the SEC of a demutualization model and plan for the Dhaka Stock Exchange and Chittagong Stock Exchange by December 2012 (a program benchmark). We are also committed to capping banks' shareholding limits to 25 percent of their regulatory capital by September 2012 (a program benchmark), subject to parliamentary approval of the amended BCA. Bangladesh Bank and the SEC will conduct jointly consolidated supervision of merchant bank subsidiaries, completing examinations of the larger ones by June 2012. They, in tandem, are further committed to ensuring all banks comply with a reduced margin lending and collateral requirements. We will also bring all bank subsidiaries under BB's supervision by mid-2013.

26. **Anti-money laundering.** In order to conform to international best practices, we have promulgated the Anti-Money Laundering Ordinance and the Anti-Terrorism Financing Ordinance which will be placed before the National Parliament for ratification in February 2012.

D. Trade and Investment Environment

27. **Policy objective.** Achieving our ambitious growth targets depends on creating a more supportive investment climate, accelerating trade liberalization, and attracting more FDI. During the program period, our efforts on trade reform will aim at reducing trade distortions, minimizing anti-export biases, and ensuring greater integration of Bangladesh into the multilateral trading system. Improvements in the investment climate are expected to come from maintaining a stable macroeconomic environment; developing a modern, transparent tax regime; and ensuring well-regulated financial system, supported by improved social and physical infrastructure.

28. **Trade regime.** We will work closely with the World Bank on a Diagnostic Trade Integration Study for Bangladesh in 2012, which is expected to inform on the near to medium term priorities in our trade development strategy. In this context, we are committed to rationalizing trade taxes, inclusive of para-tariffs arising from supplementary and regulatory duties. We will also bring down trade logistic costs, which are substantially higher than those in the region, with strategic investments in ports and transport. In addition, we will seek more effective regional trade cooperation, using recent inroads with India as a catalyst for change.

29. **Investment climate.** We will work with the International Finance Corporation (IFC) and other DPs to strengthen property registration, contract enforcement, and adjudication processes—each of which currently constrain investment, as highlighted in the IFC's *2012 Doing Business* report rankings. Elevating government support to attract and retain FDI will also be a high priority, with an upfront focus on ensuring adequate power supply in export processing zones and improving access to information on land availability and logistical support.

E. Statistical Policy

30. **We are committed to strengthening macroeconomic statistics, in order to better inform policy decisions and monitor targeted outcomes.** The Bangladesh Bureau of Statistics (BBS) is preparing a National Strategy for the Development of Statistics (NSDS), supported by development partners. The NSDS, when fully formulated in late 2012, will provide a roadmap for improving the timeliness and accuracy of national statistical reporting and better integrating statistics into planning and development processes. A new Statistics Act that provides the BBS with greater autonomy will be submitted to the National Parliament by June 2012. The BBS, in turn, will receive more resources, including staff, and upgrade regional facilities to improve statistical surveys. It plans to complete the rebasing of the national accounts to 2005/06 by mid-2012, with continued IMF TA. Bangladesh Bank is also improving external statistics to ensure proper recording and classification of balance of payments flows.

IV. Program Monitoring

31. **Progress under the our program will be monitored** through quantitative performance criteria and indicative targets, structural benchmarks, and other necessary measures, in order to complete semi-annual program reviews, as summarized in Tables 1 and 2 and guided by the attached Technical Memorandum of Understanding.

Table 1: Bangladesh: Quantitative Performance Criteria (PC) and Indicative Targets (IT) 1/

	2011			2012			
	6/30 Est.	9/30 Est.	12/31 Est.	3/31 IT	6/30 PC	9/30 IT	12/31 PC
Performance criteria 2/							
Net international reserves (NIR) of Bangladesh Bank (BB) (floor, end of period (eop) stock, in millions of U.S. dollars (US$)) 3/	6,726	6,791	6,154	5,977	5,937	6,165	6,256
Net domestic assets (NDA) of BB (ceiling, eop stock, in billions of taka) 3/	371	377	444	483	550	556	573
Net credit to the central government (NCCG) by the banking system (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka) 3/	205	68	139	174	252	49	99
New nonconcessional external debt maturing in more than one year, contracted by the public sector or and/or guaranteed by the central government or BB (ceiling, eop stock since the beginning of the program, in millions of U.S. dollars) 4/	...	...	...	500	500	1,000	1,000
New nonconcessional external debt maturing in one year or less, contracted by the public sector and/or guaranteed by the central government or BB (ceiling, eop stock since the beginning of the program,in millions of U.S. dollars) 4/	...	...	...	0	0	0	0
Accumulation of new external payment arrears by the public sector (ceiling, eop stock since the beginning of the program, in millions of U.S. dollars) 4/	...	...	...	0	0	0	0
Indicative targets							
Reserve money (ceiling, eop stock, in billions of taka)	897	904	925	950	1,014	1,037	1,061
Tax revenue of central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka) 5/	763	190	394	627	924	232	489
Social-related spending by central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka)	342	70	...	248	400	81	161
Net suppliers' credit and other short-term financing for oil imports (cumulative change from end-FY11, in millions of U.S. dollars), program level	...	-75	-55	750	1,000	1,125	1,250
State-owned banks funded loans to BPC, BPDB and BCIC (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka) 6/	41	-7	2	15	0	0	0
Memorandum item:							
Budget support from bilateral and multilateral donors agencies (cumulative change from the beginning of the fiscal year, in millions of U.S. dollars), program level	...	...	...	0	0	0	50

1/ Fiscal year begins July 1.
2/ Evaluated at the program exchange rate.
3/ The adjustors are specified in the Technical Memorandum of Understanding. Accordingly, the floor on NIR of BB will be adjusted upward (downward) and the ceiling on NCCG by the banking system and the ceiling on NDA of BB will be adjusted downward (upward) by the amount of budget support received from bilateral and multilateral donors in excess (short) of the programmed level. The floor on NIR of BB will be adjusted upward and the ceiling on NCCG by the banking system and the ceiling on NDA of BB will be adjusted downward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level. The ceiling on NCCG by the banking system will be adjusted downward by the amount of net lending by the central government to the Bangladesh Petroleum Corporation (BPC) and the Bangladesh Power Development Board (BPDB) short of the programmed level.
The ceiling on NCCG by the banking system in FY12 (July 2011-June 2012) excludes Tk 27 billion of special bonds issued by the central government to state-owned commercial banks for securitization of loans made by these banks to the BPC prior to FY12 to cover shortfalls in government budgetary transfers for fuel-related subsidy costs incurred by the BPC.
4/ These performance criteria are applicable on a continuous basis.
5/ Collections by the National Board of Revenue only.
6/ Outstanding funded loans of Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, and BASIC Bank to BPC, BPDB, and Bangladesh Chemical Industries Corporation.

Table 2. Bangladesh: Prior Actions and Structural Benchmarks in the First Year of the ECF Arrangement

Actions	Date	Macroeconomic Criticality	Status
Prior Actions:			
Approval by the Cabinet of Ministers of a new value added tax (VAT) law consistent with National Board of Revenue (NBR) tax modernization plans and medium-term revenue targets.		To increase tax revenue	Completed. Cabinet approved law in March 2012.
Issue a government circular to line ministries indicating that shortfalls in externally-funded ADP budget will not be substituted with taka funding.		To achieve fiscal targets	Completed. Circular issued in January 2012.
Adjust retail electricity and petroleum prices to contain budgetary transfers to the Bangladesh Petroleum Corporation (BPC) and the Bangladesh Power Development Board (BPDB) to Tk 150 billion in FY12.		To reduce operating losses of BPC and BPDB and overall subsidy costs in the budget	Completed. Programmed fiscal targets in FY12 are consistent with this cap.
Lift the remaining lending caps on commercial bank loans, except on agricultural loans and short-term pre-shipment credits for exports.		To increase interest rate flexibility and deepen financial markets	Completed. Caps lifted in January 2012.
Float a tender for an internationally-affiliated firm to conduct an external audit on Bangladesh Bank's (BB) end-June 2012 accounts, with the audit opinion to be signed by both the audit firm's international or regional head office and local affiliate.		To strengthen central bank operations	Completed. Tender floated in February 2012.
Structural Benchmarks:			
Reduce the outstanding balances of foreign exchange overdrafts provided by BB to zero.	June 2012	To increase transparency and safeguard foreign reserves	
Submit a new VAT law to the National Parliament consistent with tax modernization plans and medium-term revenue targets.	June 2012	To increase tax revenue	
Remove tax concessions and exemptions in the FY13 Finance Bill equivalent to at least 0.5 percent of GDP in FY13.	June 2012	To increase tax revenue	
Establish budget management wings/branches in all line ministries and issue a circular to ensure uniform budget implementation and reporting standards.	June 2012	To strengthen budget monitoring and controls	
Issue new BB regulations on loan classification and loan-loss provisioning in line with international best practices, to take full effect by June 2014.	June 2012	To strengthen the financial sector	
Approval by the Minister of Finance of a VAT implementation plan and timetable and a new organizational structure of the NBR.	September 2012	To increase tax revenue	
Submit amendments to the Bank Companies Act (BCA) to the National Parliament, giving BB the sole legal supervisory and regulatory authority over all commercial banks and expanding fit and proper criteria for all commercial banks to major shareholders, board members, and executive officers.	September 2012	To strengthen risk management and improve bank governance	
Issue a BB order, consistent with the amended BCA, establishing a limit on a commercial bank's shareholdings in the stock market to 25 percent of its total regulatory capital.	September 2012	To strengthen banks' financial position	
Automate taxpayer identification number issuance, including links to the national identification number system.	December 2012	To increase tax revenue	
Adopt an automatic adjustment mechanism for retail petroleum prices to ensure full pass-through of international prices.	December 2012	To eliminate operating losses of BPC and reduce overall subsidy costs in the budget	
Approval by the Securities and Exchange Commission of a demutualization model and plan for the Dhaka and Chittagong stock exchanges.	December 2012	To strengthen the financial sector	

March 27, 2012

BANGLADESH: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative performance criteria and indicative targets under the Extended Credit Facility (ECF) arrangement, 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 first year of the ECF arrangement, the program exchange rate is Bangladesh taka (Tk) 74.23 per U.S. dollar, or the average interbank rate prevailing on June 30, 2011. 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 June 30, 2011, and then be converted to Bangladesh taka.

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 quantitative performance criteria or benchmarks. All revisions to data will be promptly reported to IMF staff.

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

4. Under the first year of the ECF arrangement, quantitative performance criteria will be set for end-June 2012 and end-December 2012, while indicative targets will be set for end-March 2012 and end-September 2012.

5. Performance criteria under the ECF 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;
- Ceiling on the level of net domestic assets of BB, calculated as an end-of-period stock; and
- Ceiling on the change in net credit to the central government from the banking system, calculated as a cumulative flow from the beginning of the fiscal year (FY) (i.e., FY12 is July 1, 2011–June 30, 2012).

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

- Ceiling on new medium- and long-term nonconcessional external debt (maturing in more than one year) contracted by the public sector and/or guaranteed by the central government or BB, calculated in cumulative terms from December 31, 2011;

- Ceiling on new short-term nonconcessional external debt (maturing in one year or less) contracted by the public sector and/or guaranteed by the central government or BB, calculated in cumulative terms from December 31, 2011; and

- Ceiling on the accumulation of new external payment arrears by the public sector, calculated in cumulative terms from December 31, 2011.

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

- Ceiling on the level of reserve money, calculated as an end-of-period stock;

- Ceiling on the net change in suppliers' credit and other short-term financing for oil imports, calculated in cumulative terms from June 30, 2011;

- Ceiling on the net change in funded loans made by state-owned banks to Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB) and Bangladesh Chemical Industries Corporation (BCIC), calculated in cumulatively from the beginning of the fiscal year;

- Floor on tax revenue of central government, calculated cumulatively from the beginning of the fiscal year; and

- Floor on social-related spending by central government, calculated cumulatively from the beginning of the fiscal year.

8. Adjustors to the measurement of performance criteria are (i) budget support to the central government from bilateral and multilateral agencies, calculated cumulatively from the beginning of the fiscal year; (ii) net lending by the government to the BPC and BPDB calculated cumulatively from the beginning of the fiscal year; and (iii) suppliers' credit and other short-term financing for oil imports.

II. INSTITUTIONAL DEFINITIONS

9. 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).

10. 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.

11. 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.

12. Nonbank claims on the central government represent the sum of cash receipts from sales of National Savings Certificates and Treasury bill and bond holdings outside BB and the DMBs, as reported by National Savings Directorate and BB's Debt Management Department.

III. Monetary Aggregates

A. Reserve Money

13. A ceiling applies on the level of reserve money, which comprises currency 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.

B. Net International Reserves of Bangladesh Bank

14. A floor applies to the level of net international reserves (NIR) of BB. The floor on NIR of BB will be adjusted upward (downward) by the amount of budget support from bilateral and multilateral agencies in excess (short) of the programmed level. The floor on NIR of BB will be adjusted upward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level.

15. For program monitoring purposes, NIR of BB is defined as gross international reserves (GIR) less international reserve liabilities. 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.

16. Gross international reserves 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 of investment grade (i.e., a rating of at least Baa (Moody's) or BBB- (Standard & Poors and Fitch)) 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 assets that are in any way encumbered or pledged, including, but not limited to, reserve assets used as collateral or guarantee for third-party external liabilities, BB's blocked account with the Central Bank of Iraq, and BB's deposits with Rupali Bank (Pakistan);
- Foreign currency assets in nonconvertible currencies and precious metals other than gold, including BB's Silver Acquisition Account;
- Non-investment grade foreign currency sovereign bonds;
- Foreign currency claims on entities incorporated in Bangladesh, including funds lent out through the Foreign Exchange Overdraft Facility (FXOD) and funds invested in offshore banking units (OBUs) of domestic banks and subsidiaries or branches of international banks in Bangladesh;
- Any other foreign currency claims on residents; and
- Capital subscriptions in international institutions.

17. International reserve liabilities of BB are defined as the sum of:

- All outstanding liabilities of Bangladesh to the IMF; and
- Foreign currency liabilities in convertible currencies to nonresidents, including liabilities to the Asian Clearing Union, the Foreign Currency Clearing Account (i.e., the total amount of DMBs' foreign currency deposits held at BB), and forward contracts, foreign currency swaps, and other futures market contracts.

C. Net Domestic Assets of Bangladesh Bank

18. A ceiling applies to the level of net domestic assets (NDA) of BB. The ceiling on NDA of BB will be adjusted downward (upward) by the amount of budget support from bilateral and multilateral agencies in excess (short) of the programmed level. The ceiling on NDA of BB will be adjusted downward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level.

19. For program monitoring purposes, NDA of BB is defined as the difference between reserve money and the sum of NIR of BB and other net foreign assets (NFA) of BB valued in taka using the program exchange rates specified in paragraph 2. Any revisions to the historical stock of reserve money based on changes to the accounting treatment of the profit/loss account of BB will be notified to the IMF immediately and used to adjust monetary aggregates by an equivalent amount, as deemed appropriate. Other NFA of BB includes:

- Foreign assets related to holdings of foreign currency deposits and securities not included in NIR of BB, and loans, shares, financial derivatives, or other accounts receivable with nonresidents (including BB's blocked account with the Central Bank of Iraq and deposits with Rupali Bank (Pakistan); holdings of noninvestment grade foreign currency bonds; and other foreign assets that are not included in NIR of BB, as defined in Section III. B (including the Silver Acquisition Account); and

- Foreign liabilities related to foreign currency deposits and securities of nonresidents, and loans, shares, financial derivatives, and other accounts payable with nonresidents; and other foreign liabilities that are not included in NIR of BB, as defined in Section III. B.

Other NFA does not include funds invested in OBUs of resident domestic banks and subsidiaries or branches of resident foreign banks in Bangladesh. These funds are included as a part of NDA of BB.

D. Net Credit to the Central Government by the Banking System

20. A ceiling applies on the change in net credit to the central government (NCCG) by the banking system measured cumulatively from the beginning of the fiscal year. The ceiling on NCCG by the banking system will be adjusted upward (downward) by the amount of budget support from bilateral and multilateral agencies short of (in excess of) the programmed level. The ceiling on NCCG by the banking system will be adjusted downward by the amount of suppliers' credit and other short-term financing for oil imports in excess of the programmed level and by the amount of net lending by the central government to the BPC and the BPDB short of the programmed level. The ceiling on NCCG by the banking system excludes special bonds issued by the central government to the state-owned commercial banks (SOCBs) for the securitization of loans made by these banks to the BPC prior to FY12 to cover shortfalls in government budgetary transfers for fuel subsidy-related costs incurred by the BPC.

21. For program monitoring purposes, NCCG by the banking system is defined as the sum of net claims of BB and DMBs on the central government (see Table 2).

E. Funded Loans by State-Owned Banks to State-Owned Enterprises

22. A ceiling applies on the net change in funded loans by selected banks to state-owned enterprises. Funded loans are defined as cash lending by Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, and BASIC Bank to BPC, BPDB and BCIC (see Table 3).

IV. FISCAL AGGREGATES

A. Tax Revenue

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

24. For program monitoring purposes, tax revenue is defined as collections by the National Bureau of Revenue that have been transferred to the Controller General of Accounts.

B. Social-Related Spending

25. A floor applies on social-related spending by central government cumulatively from the beginning of the fiscal year.

26. For program monitoring purposes, social spending comprises all spending categories of the Ministry of Primary and Mass Education; Ministry of Education; Ministry of Health, Family, and Welfare; and all expenditures on social safety net programs in the budget economic codes listed in Table 4. Safety net programs hosted in one of these ministries already included in this definition will be deducted from the total to avoid double counting.

V. EXTERNAL DEBT

A. Medium- and Long-Term External Debt

27. A continuous ceiling applies to new nonconcessional external debt with nonresidents with original maturities of more than one year contracted by the public sector and/or guaranteed by the central government or BB. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitutes a contingent liability of the central government or BB.

28. For program monitoring purposes, the definition of debt is set out in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangement

Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09-91), effective December 1, 2009 (see Annex I). External debt is defined by the residency of the creditor, excluding any taka-denominated treasury bonds and any U.S. dollar-denominated bonds issued by the central government's Directorate of National Savings that are held by nonresidents (see TMU paragraph 29).

29. Excluded from the ceiling are (i) the use of IMF resources; (ii) concessional debts; (iii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt; (iv) any taka-denominated treasury bonds held by nonresidents; and (v) any U.S. dollar-denominated bonds issued by the central government's Directorate of National Savings that are held by nonresidents.

30. For program purposes, the guarantee of a debt arises on any explicit legal obligation of the central government or BB to service debt in the event of nonpayment by the main obligor (involving payments in cash or in kind).

31. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD would continue to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

B. Short-Term External Debt

32. A continuous ceiling applies to new nonconcessional debt with nonresidents with original maturities of up to and including one year contracted by the public sector and/or guaranteed by the central government or BB. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the central government or BB.

33. For program monitoring purposes, the definition of debt is set out in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangement approved by the Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09-91), effective December 1, 2009 (see Annex I). External debt is defined by the residency of the creditor, excluding any taka-denominated treasury bills or BB bills held by nonresidents (see TMU paragraph 34).

34. Excluded from the ceiling are (i) debts classified as international reserve liabilities of BB; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt; (iii) taka-denominated treasury bills and BB bills held by nonresidents; (iv) concessional debts; (v) normal import financing; (vi) suppliers' credit and other short-term financing for oil imports from the Islamic Development Bank (IsDB) and other official entities; and (vii) forward contracts, foreign currency swaps, other futures market contracts, and short-term liabilities of the banking system. A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

C. Suppliers' Credit and Other Short-Term Financing for Oil Imports

35. A ceiling applies on the net change in suppliers' credit and other short-term financing for oil imports.

36. For program monitoring purposes, suppliers' credit is defined in Annex I. Other short-term financing for oil imports comprises financing received for this purpose from the IsDB and other official entities and through syndicated loans, which is contracted by the public sector and/or guaranteed by the central government or BB.

VI. External Payment Arrears

37. A continuous ceiling applies on the accumulation of new external payments arrears by the public sector.

38. 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. However, for program purposes, overdue debt and debt-service obligations that are in dispute will not be considered as external payment arrears.

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
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) 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
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
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
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)	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

Table 1. Bangladesh: Data Reporting Requirements

Item	Reporting agency	Periodicity
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, exports, and others)	MOF (FD)/CGA	Monthly, within six weeks of the end of each month
Social spending (see Table 4)	MOF (FD)/CGA	Quarterly, within six weeks of the end of each quarter
Food account surplus/deficit	MOF (FD)/CGA	Monthly, within six weeks of the end of each month (quarterly for detailed data)
Annual Development Program (ADP) expenditure funded by (i) the central government and (ii) foreign grants and loans, included in the budget, including separately for Padma Bridge (domestically and externally funded)	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 four weeks of the end of each month
Disbursements of program and project grants by donor	MOF (ERD)	Monthly, within four 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. State-owned enterprise data	**MOF**	
See Table 3 on key financial indicators for Bangladesh Power Development Board (BPDB), Bangladesh Petroleum Corporation (BPC), and Bangladesh Chemical Industries Corporation (BCIC).	MOF (FD/SOE Monitoring Unit)/BPC	Quarterly, within six weeks of the end of each quarter
IV. Debt data	**MOF/BB/National Savings Directorate (NSD)**	

Table 1. Bangladesh: Data Reporting Requirements

Item	Reporting agency	Periodicity
New external debt obligations contracted and/or guaranteed (concessional and nonconcessional) by the government of Bangladesh, BB, nonfinancial public enterprises, departments and autonomous and semi-autonomous bodies of all ministries and divisions (i.e. the public sector) , 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
Stock of outstanding external debt (short-term and medium- and long-term obligations) of the public sector, 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 public sector 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 instruments of the National Savings Directorate (i.e. National Savings Certificates)	MOF (FD)/BB/NSD	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
V. Financial data	**BB**	
Financial soundness indicators of DMBs	BB (Department of Off-Site Supervision (DOS))	Quarterly, within eight weeks of the end of the quarter
Compliance of state-owned commercial banks (SOCBs) with memoranda of understanding	BB (DOS)	Quarterly, within six weeks of the end of the quarter
Total capital market exposure and total share holding (in percent of total liabilities) of DMBs, and their exposures via subsidiaries	BB (DOS)	Monthly, within six weeks of the end of each month
Risk-weighted capital asset ratios and asset quality indicators of DMBs	BB (DOS)	Monthly, within six weeks of the end of each month
Stock of loans extended to SOEs (BPC, BPDB, BCIC) by SOCBs (Sonali, Agrani, Janata, Rupali) and BASIC bank, both funded and unfunded loans	BB (DOS)	Monthly, within four weeks of the end of each month
VI. External data	**BB/Other agencies**	
Detailed balance of payments	BB	Monthly, within six weeks of the end of each month
Export data by goods	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

Table 1. Bangladesh: Data Reporting Requirements

Item	Reporting agency	Periodicity
Remittances and manpower exports	BB/Bureau Manpower, Employment, and Training	Monthly, within two weeks of the end of each month
VII. 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
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		
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 credit to autonomous and semi-autonomous bodies		
Change in accrued interest		
Change in government deposits and lending funds		
Change in government deposits		
Change in government lending funds		
Commercial banks		
Change in claims on government		
Of which: Change in holdings of Treasury bills and bonds		
Change in advances and bills to ministries (of food and others)		
Change in credit to autonomous and semi-autonomous bodies		
Change in accrued interest		
Change in government deposits and lending funds		
Change in government deposits		
Change in government lending funds		

Table 3. Bangladesh: Template for Key Financial Indicators of Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB), and Bangladesh Chemical Industries Corporation (BCIC)

Name of company (BPC, BPDB, or BCIC)	**Periodicity**
Item (in Tk millions of taka)	All quarterly
Tax payments, due to the National Bureau of Revenue (NBR)	
Tax payments, paid to the NBR	
Debt service payments, due to the government	
Debt service payments, paid to the government	
Quarterly profit (loss) reported by company	
Transfers received from the budget	
New interest-bearing loans received from the budget	
Outstanding stock of funded loans from state-owned commercial banks (SOCBs)	
Additional items (for BPC only)	All monthly
Financing requirements: (in Tk millions, unless otherwise indicated)	
Oil import costs	
Costs of operating BPC	
Repayments of SOCB loans	
Repayments to Islamic Development Bank (IsDB) (in US$ millions)	
Repayment of deferred payments (other suppliers' credit) (in US$ millions)	
Repayment of syndicated loans	
Increase in assets (inventories, cash, etc.)	
Other	
Sources of financing: (in millions of taka, unless otherwise indicated)	
Sales revenue	
Other income	
Gross disbursements of loans from SOCBs	
Gross disbursements from IsDB (in US$ millions)	
Gross disbursements of deferred payments (other suppliers' credit) (in US$ millions)	
Gross disbursement of syndicated loans	
Net lending from the government	
Increase in payables	
Other items:	
Exchange rate imputed for estimated outturns (taka per U.S. dollar)	
Demand volumes of petroleum products (kerosene (SKO), diesel (HSD), furnace oil (FO), petrol (MS), octane (HOBC), and jet fuel (JET-A-1))	

Table 4. Bangladesh: Safety Net Programs

	Programs	Name of Ministry	Code
(A.1) Cash Transfer (Allowances) Programs & Other Activities:			
(A.1.1) Social Protection			
1	Old Age Allowance	Ministry of Social Welfare	3960
2	Allowances for the Widow, Deserted and Destitute Women	Ministry of Social Welfare	3965
3	Allowances for the Financially Insolvent Disabled	Ministry of Social Welfare	3970
4	Maternity Allowance Program for the Poor Lactating Mothers	Ministry of Social Welfare	4715
5	Honorarium for Insolvent Freedom Fighters	Ministry of Social Welfare	3587
6	Honorarium & Medical Allowances for Injured Freedom Fighters	Ministry of Social Welfare	3585
7	Grants for Residents in Government Orphanages and Other Institutions	Ministry of Social Welfare	0000
8	Capitation Grants for Orphan Students in Non-government Orphanages	Ministry of Social Welfare	3451
9	General Relief Activities	Disaster Management & Relief Division	0001
10	Block Allocation for Disaster Management	Disaster Management & Relief Division	0003
11	Non-Bengali Rehabilitation	Ministry of Social Welfare	0015
12	Allowances for Distressed Cultural Personalities/ Activists	Ministry of Cultural Affairs	0001
13	Pension for Retired Government Employees and their Families	All Ministries	
14	Ration for Shaheed Family and Injured Freedom Fighters	Ministry of Liberation War Affairs	0001
(A.1.2) Social Empowerment			
1	Stipend for Disabled Students	Ministry of Social Welfare	4711
2	Grants for the Schools for the Disabled	Ministry of Social Welfare	0001
(A.2) Cash Transfer (Special) Program			
(A.2.1) Social Empowerment			
1	Housing Support	Disaster Management & Relief Division	0001
2	Agriculture Rehabilitation	Ministry of Agriculture	0012
(B) Food Security Programs: Social Protection			
1	Open Market Sales (OMS)		
2	Vulnerable Group Development (VGD)	Ministry of Women & Children Affairs	0005
3	Vulnerable Group Feeding (VGF)	Ministry of Women & Children Affairs	0007
4	Test Relief (TR) Food	Food Division	0001

	Programs	Name of Ministry	Code
5	Gratuitous Relief (GR)- Food	Food Division	0001
6	Food Assistance in CTG-Hill Tracts Area	Ministry of Chittagong Hill Tracts	0003
7	Food For Work (FFW)	Disaster Management & Relief Division	5010
(C.1) Micro-Credit Programs: Social Empowerment			
1	Micro-credit for Women Self-employment	Ministry of Women & Children Affairs	3092
2	Fund for Micro-Credit through PKSF	Finance Division	3912
3	Social Development Foundation	Finance Division	3946
4	NGO Foundation	Finance Division	2829
(C.2) Miscellaneous Funds: Social Empowerment			
1	Fund for the Welfare of Acid Burnt and Disabled	Ministry of Social Welfare	3967
2	Fund for Assistance to the Small Farmer and Poultry Farms	Finance Division	3996
3	Swanirvar Training Program	Finance Division	3961
4	Shamaj Kallyan Parishad	Ministry of Social Welfare	3091
(C.3) Miscellaneous Funds: Social Protection			
1	Fund for Climate Change	Ministry of Environment & Forest	0002
2	Allowances for Urban Low-income Lactating Mothers	Finance Division	4005
3	Block Allocation for Various Program	Finance Division	0000
4	Employment Generation Program for the Ultra Poor	Disaster Management & Relief Division	0006
5	National Service	Ministry of Youth and Sports	4729
6	Special Program for Irrigation and Water Logging	Ministry of Agriculture	4837
7	Skill Development Fund for Expatriate Returnees and New Entrants to Labor market	Ministry of Expatriates Welfare & Overseas Employment	0010
8	Child Development Center	Ministry of Social Welfare	3489
9	Service and Assistance Center for Disabled	Ministry of Social Welfare	3490
10	Ghare Fera Program (Returning Home)	Banking Division	0014
(C.4) New Fund: Social Protection			
1	Rehabilitation and Creation of Alternative Employment for People Engaged in Begging Profession	Ministry of Social Welfare	3495
(D) Development Sector Programs: Social Empowerment			
(D.1) Running Development Programs			
1	Stipend for Primary Students	Ministry of Primary & Mass Education	6020

	Programs	Name of Ministry	Code
2	School Feeding Program	Ministry of Primary & Mass Education	5150
3	Stipend for Dropout Students	Ministry of Primary & Mass Education	5960
4	Char Livelihood	Rural Development & Cooperatives Division	6980
5	"Ashrayan" (Housing)	Prime Minister's Office	6520
6	Stipend and Access Increase for Secondary and Higher Secondary Level Students (including Secondary Education Stipend Project)	Ministry of Education	5620
7	Maternal Health Voucher Scheme	Ministry of Health & Family Welfare	8540
8	National Nutrition Program	Ministry of Health & Family Welfare	8320
9	Protection of Children at Risk	Ministry of Social Welfare	7011
10	Economic Empowerment of the Poor	Rural Development & Cooperatives Division	8162
11	Fundamental Education for Urban Working Children	Ministry of Primary & Mass Education	5964
12	Employment for Ultra-Poor in Northern Region	Rural Development & Cooperatives Division	7000
13	Participatory Rural Development (2nd Phase)	Rural Development & Cooperative Division	8090
14	Rural Employment Opportunity for Public Asset	Local Government Division	6030
15	"Gucchagram" (Climate victims rehabilitation project)	Ministry of Land	5010
16	Rural Employment and Rural Maintenance Program	Local Government Division	8112
17	Preliminary Education for Development of Children	Ministry of Women & Children Affairs	5011
18	Vulnerable Group Development for Ultra Poor (Women)	Ministry of Women & Children Affairs	5100
19	Reconstruction of Houses of SIDR affected landless people	Food Division	5160
20	Construction of Flood-Shelter in Flood Prone and River-Erosion Areas	Food Division	5381
21	Disaster Risk Mitigation and Reduction	Disaster Management & Relief Division	5010
22	Small Farmers Development Foundation	Rural Development & Cooperatives Division	7250
23	Regional Fisheries and Livestock Development	Ministry of Fishery & Animal Division	5300
24	Projects Undertaken for Fisheries Development	Ministry of Fishery & Animal Division	7050
25	Jatka (Fish)Protection and Alternative Employment for Fishermen	Ministry of Fishery & Animal Division	5390

	Programs	Name of Ministry	Code
26	Micro-Nutrient Supplementation	Ministry of Health & Family Welfare	8340
27	Post Literacy Education Project for Human Resource Development	Ministry of Primary & Mass Education	5960
28	One Household One Farm	Rural Development & Cooperatives Division	7310
29	Revitalization of Community Health Care Initiative in Bangladesh	Ministry of Health & Family Welfare	5450
30	Sisimpur Outreach Project	Ministry of Women & Children Affairs	7021
31	National Sanitation Project	Local Government Division	5140
32	Pulse and Oil Seed Project	Ministry of Agriculture	7450
33	Community Based Adaptation to Climate Change through Coastal Aforestation in Bangladesh	Ministry of Environment & Forest	5360
34	Comprehensive Village Development	Rural Development & Cooperatives Division	8167
35	Comprehensive Disaster Management Program	Disaster Management & Relief Division	5041
36	Urban Public Environment Health Development Program	Local Government Division	7479
(D.2) New Development Programs			
1	Poverty Eradication and Ensuring Livelihood for the People Living in Economically Backward Areas.	Ministry of Fishery & Animal Division	6463
2	Poverty Eradication through Social Aforestation.	Ministry of Environment & Forest	7396
3	Improvement and Quality Seed Production of Rice, Wheat and Maize.	Ministry of Agriculture	8881

ANNEX I. GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO EXTERNAL DEBT

Excerpt from Executive Board Decision No. 6230-(79/140), subsequently amended, including by Executive Board Decision No. 14416-(09-91), effective December 1, 2009.

9. (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.