International Monetary Fund

Bangladesh and the IMF

Press Release:
IMF Executive Board Completes Fifth and Sixth Reviews Under the Extended Credit Facility Arrangement for Bangladesh and Approves US$258.3 Million Disbursement
October 21, 2015

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Bangladesh: Letter of Intent and Memorandum of Economic and Financial Policies

October 5, 2015

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.

Appendix I. Letter of Intent

October 5, 2015

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

Dear Ms. Lagarde:

The Extended Credit Facility (ECF) arrangement between the Government of Bangladesh and the International Monetary Fund (IMF) is coming to an end. This is therefore a fitting moment to take stock of what has been achieved in the three and a half years since the start of the arrangement.

Our policy program under the ECF has played an important role in supporting strong economic performance and macroeconomic stability in Bangladesh. Growth averaged 6.2 percent over the program period, driven mainly by higher public investment and exports, and poverty has continued to fall. Non-food inflation has nearly halved during the lifetime of the program. Our external position is much stronger and foreign reserves are significantly higher at 6 months of prospective imports. We have also consistently maintained fiscal discipline and public debt remains sustainable.

In addition, we have made good progress on structural reforms. However, we have faced delays in the completion of some structural benchmarks, in particular with regards to the introduction of a new value added tax (VAT), a key tax reform to boost fiscal space. Nonetheless, the government has taken remedial measures. The VAT implementation is back on track and we are firmly committed to its launch in July 2016. Moreover, we have met all the performance criteria and completed all prior actions for the combined fifth and sixth reviews under the ECF arrangement. We sincerely appreciate the IMF Executive Board’s approval of our request for an extension of the ECF arrangement through October 31, 2015, which provided more time for completion of the prior actions. Against this backdrop, we request completion of the fifth and sixth reviews, the two final reviews under the ECF arrangement, and access to the associated disbursements totaling SDR 182.845 million.

Going forward, our focus remains on preserving macroeconomic stability, supporting high growth and sustaining efforts in poverty reduction. Structural reforms will center on stepping up revenue collections anchored by the new VAT law to help finance higher spending in critical infrastructure and social safety nets; strengthening the state-owned commercial banks and the state-owned enterprises; further improving public financial management; and enhancing the business climate. The attached Memorandum of Economic and Financial Policies (MEFP) details the achievements under the government’s economic program, and provides an update on our economic policies in the post-program period ahead. We believe that the commitments in the MEFP are well aligned with our long-term development goals enshrined in our national development strategy, the Seventh Five Year Plan.

On behalf of the Government of Bangladesh, I would like to thank the IMF for the support provided under the ECF, and look forward to a continued close policy dialogue.

We 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

Attachment I. Memorandum of Economic and Financial Policies

OCTOBER 5, 2015

This memorandum updates the May 11, 2014 Memorandum of Economic and Financial Policies (MEFP) under the Government of Bangladesh's Extended Credit Facility (ECF) arrangement. It reports on developments and policies at the time of the combined 5th and 6th reviews under the ECF arrangement (hereinafter referred to as the review). While this is the last review under the arrangement, the memorandum contains our policy framework and objectives going forward.

A. Political Transition

1. Main achievements under the program. As the ECF draws to an end, it is opportune to take stock of the many achievements since its wake: international reserves have been rebuilt to comfortable levels, inflation has steadily come down, growth has remained high and stable, and the public debt-to-GDP ratio has also remained stable. All of this has been underpinned by prudent monetary and fiscal policies. Moreover, capital spending under the Annual Development Program (ADP) has increased as a share of GDP; domestic tariff increases have helped contain fuel and electricity subsidies (further helped by lower global prices more recently); social spending has been protected as share of GDP; and poverty has continued to fall (from 31.5 percent in 2010 to 24.7 percent in 2014). Finally, major structural reforms have been introduced, notably the passage of a new VAT Act in November 2012 and of an amended Bank Companies Act (BCA) in July 2013, laying the foundation for significantly higher fiscal revenue and for stronger banking sector supervision and regulation, respectively.

2. Macroeconomic conditions. After the January 2014 general elections, calm and normalcy returned and economic activity recovered, although there was some unrest in the third quarter of FY15. Our provisional estimate of real GDP growth in FY15 puts it at 6.5 percent, with domestic demand supported by a rebound in worker remittances and higher wages in the garment industry. Export growth has moderated as the ready-made garment (RMG) industry adjusts to higher labor and factory safety standards and growth in key export markets (notably Europe) remains slow. Nevertheless, we have continued to shore up international reserves. Inflation has eased further, anchored by prudent monetary and fiscal policies, strong domestic harvests, and lower global commodity prices.

B. Fiscal Policy and Public Financial Management

3. Fiscal performance in FY14. Tax collections by the National Board of Revenue (NBR) fell well short (by over half of a percentage point of GDP) of the program indicative target (IT) for end-June 2014, the fifth test date of the ECF arrangement. Revenue across all different tax categories was affected by weak investment and slower economic activity in the first half of the fiscal year. At the same time, we kept current expenditures under control, while the January 2014 elections led to delays in ADP execution. As a result, the overall fiscal deficit (excluding grants) for FY14 was 3.5 percent of GDP, below the program target, and we met our performance criterion

(PC) on net credit to the central government (NCCG) by the banking system at end-June 2014. Social-related spending was above the program IT floor for June 2014.

4. Fiscal performance in FY15. Tax revenues have been weaker than expected and fell just short of the program IT floor for December 2014 (the test date for the sixth ECF review), but significantly underperformed by end-FY15 relative to our targets, owing in part to unrest-related disruptions in the third quarter of FY15. At the same time, expenditure remained contained, helped by lower fuel subsidies as we have kept domestic fuel prices unchanged against a steep decline in their global prices. Together with a much higher-than-expected take-up of National Savings Certificates (NSCs), this has kept the NCCG below the PC targets. Our preliminary data suggest that the overall fiscal deficit (excluding grants) in FY15 was at the target of 3.8 percent of GDP agreed at the time of the fourth ECF review. However, in light of the expected reconciliation of expenditure items, we see risks that the final deficit numbers might exceed the target.

5. Fiscal policy objectives for FY16. We will continue to maintain a prudent fiscal policy stance, anchored by the target to keep the overall fiscal deficit (excluding grants) around 4½ percent of GDP in FY16. This will help safeguard macroeconomic stability and allow the government debt-to-GDP ratio to remain stable or decline gradually. Based on the report issued by the Pay Commission in December 2014, the Cabinet has approved an increase in pay and allowances for civil servants and, following historical practice, will do so over more than one fiscal year, starting in FY16. The impact of the pay increase will be partially offset by fiscal gains from the oil price decline (paragraph 9). We will also increase priority public investment and social-related spending. ADP spending will focus on critical transport and power infrastructure, and is projected to rise in FY16 and over the medium term. To finance this as well as a sizeable increase in well-targeted social spending, we will strengthen our efforts to boost tax revenues. Our main strategies and policies in this regard are outlined below.

6. Protecting the integrity of the new VAT law. Before submission to Parliament in 2012, the new VAT law underwent extensive consultations with stakeholders. Despite this, the new law has come under criticism by segments of the business community. To look into their concerns, we formed a joint committee with the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI). In its report, issued in January 2015, the committee recommended several amendments to the VAT Act, including a higher enlistment threshold for the turnover tax and introduction of multiple rates. The FBCCI also recommended weakening the administrative powers of the NBR and greater scope for the government to grant exemptions. After careful consideration, the Government of Bangladesh has decided as follows:

- To accept the recommendation to increase the enlistment threshold, and raise it from Tk 2.4 million of annual turnover to Tk 3 million (that is, the 3 percent turnover tax will apply to businesses with annual turnover between Tk 3 million and Tk 8 million, while the VAT, at a rate of 15 percent, will apply to businesses with annual turnover of Tk 8 million or more, as currently envisaged in the new VAT law). An amendment to the VAT Act to adopt this increase in the enlistment threshold was passed by Parliament in September 2015 (a prior action for this review).

- To consider adding, in the rules and regulations for the new VAT Act, one or two highly socially sensitive goods or services to the list of exemptions from VAT.

- To reject all other recommendations from the committee.

The rationale for these decisions is to protect the basic principles of the new VAT law, including: a creditable VAT with a single rate of 15 percent; a tax base determined on the basis of actual transaction values; no preapproved values or truncated bases; and limited exemptions. Preserving these principles is essential to achieve the objectives and main benefits of the new VAT law, including: boosting fiscal space for social protection and much needed investment in power and transport infrastructure; facilitating business operations and reducing compliance costs; eliminating the scope for taxpayer harassment; and protecting small businesses through a minimum tax threshold and poor households through exemptions of basic consumption items.

7. Pressing ahead with VAT implementation. Implementation of the new VAT law is a key policy priority of this government. We have made progress in several areas of implementation. For instance, we have appointed a full-time director, full-time deputy directors, and 15 full-time staff for the project implementation unit (PIU). The PIU has been provided with new premises adequately equipped with all necessary facilities and supplies. To prepare NBR staff for the upcoming online VAT, we have also begun staff training programs at the national and local levels. However, VAT implementation has fallen behind schedule and will be delayed by one year from the original schedule following the rejection in July 2014 by the Cabinet Committee on Government Purchases (CCGP) of the procurement for the project's computer software. The CCGP concluded that the required procedures for international procurements had not been strictly followed, highlighted inefficiencies in procuring software and hardware separately, and ordered NBR to restart the process, combining the tenders for software and hardware. There have also been delays in other areas of VAT implementation, including the procurement of a project management consultancy (PMC) to manage the implementation process, which was also forced to restart following errors in the documents submitted by bidders. These delays required moving the launch date for the new VAT from July 2015 to July 2016. The government is firmly committed to implementing the new VAT law by the rescheduled date of July 2016. In order to minimize delays and the risk of further setbacks, we will:

- **Continue to press ahead expeditiously on the different processes required for VAT implementation.** NBR is working on this, in consultation with the Central Procurement Technical Unit (CPTU) regarding procurement procedures. To keep implementation moving forward, we have completed the following critical milestones:

(i) Public announcement via Gazette notification of the revised VAT launch date of July 1, 2016 for the new VAT law (a prior action for this review; completed in April 2015).

(ii) Approval by the CCGP of the procurement for the PMC (a prior action; completed in June 2015).

(iii) Approval by the CCGP of the combined tender for procuring hardware, software, networking and support services (a prior action; completed in July 2015).

- **Strengthen reporting procedures.** Progress reports on VAT implementation against the current plan will continue to be provided by the PIU to the NBR Chairman on a monthly basis. In turn, the NBR Chairman will continue to provide the Honorable Finance Minister with monthly summary reports on progress in implementing the new VAT, along with full explanations for any delays against the revised VAT implementation timetable approved by the Minister.

- **Engage in taxpayer education.** We have launched programs to explain to taxpayers and the general public, through workshops and information campaigns, the benefits that this modern VAT law will have for the business community and for the economy as a whole, as well as clarify the differences between VAT and supplementary duty reforms and their separate implementation timetables.

8. Other revenue-enhancing measures. In addition to the measures listed above on VAT implementation, we will take other steps to boost government revenue:

- **Other tax reforms.** We are in the process of drafting a new Direct Tax Code, which will broaden the tax base by eliminating exemptions. This law should be revenue-neutral or enhancing.

- **Stronger revenue administration.** We continue to make progress in improving revenue administration by automating tax reporting and collection. Some large corporate taxpayers are now able to make VAT payments electronically, and we are working to expand coverage. For income tax purposes, taxpayers will be identified by unique "e-TIN" identification numbers. Approximately 1.7 million "e-TINs" have been issued, around two-fifths of which to new taxpayers as of end-August 2015. An electronic payment facility for individual taxpayers has been operating for some time. Further, we have contracted an international firm for the provision of software required to establish an electronic filing system for income tax returns. We aim to have these electronic systems fully operational by the end of FY16. In addition, a new Customs Act has been drafted that simplifies administration procedures in line with international best practice and WTO principles. The procedures established under the new Act will be consistent with the ongoing automation of tax administration, including the use of ASYCUDA World software which is now in operation to collect information necessary for the payment of import-related taxes. The draft is expected to be submitted to Parliament soon. We are also attempting to make our customs administration procedures consistent with those of other countries in the region.

9. Subsidy policies. We remain committed to containing the cost of subsidies and replacing them with targeted transfers to the poor, while making the fiscal cost of subsidies more transparent. Effective September 2015 we raised electricity and natural gas tariffs. And, against a backdrop of significantly lower global fuel prices, we have so far not adjusted domestic fuel prices. This has allowed Bangladesh Petroleum Corporation (BPC) to make operating profits, which will be used in the first instance to lower its debt (BPC's stock of short-term external financing for oil imports was reduced well below the corresponding IT ceilings for end-June and end-December 2014). The fiscal savings can be channeled to well-targeted social spending for the poor. Should global fuel prices increase again, we will adjust prices up as needed to keep domestic average fuel prices not more than Tk 10 per liter below international prices. We will continue to make regular budgetary transfers to cover the cost of energy-related and fertilizer subsidies incurred by state-owned enterprises (SOEs).

10. SOE reforms. We remain committed to strengthening BPC's financial management and reporting. In this regard, we have improved and regularized the production of monthly cash flow statements for BPC. Also, BPC has already adopted automated financial reporting software. However, there have been significant delays in other areas. The recruitment of a professional financial advisor, initially hampered by lack of qualified applicants, was only completed in March 2015. The procurement of a global firm to audit (in association with a local firm) BPC's financial statements for FY13 (a September 2014 structural benchmark), has been delayed by complaints by local audit firms that current legislation prevents foreign firms from conducting an audit of BPC. To remove this legal hurdle in the BPC Act 2015, the government submitted to Parliament legislation allowing international audit firms to conduct audits for BPC (a prior action for this review; completed in October 2015). We are also exploring technical assistance to strengthen BPC's financial reporting.

11. Public debt and cash flow management. Although with some delays, we have developed a pilot framework for cash flow forecasting. The framework is still being tested, and we will request further technical assistance in this area as needed. The medium-term debt strategy was approved by the Honorable Minister of Finance in late 2014. Based on one of the findings of the Debt Management Performance Assessment (DeMPA) conducted by the World Bank, we adopted in July 2014 guidelines for the approval and issuance of loan guarantees provided by the government (a structural benchmark). These will help contain and better monitor the government's contingent liabilities. To eliminate the distortions and potential financial disintermediation effects from the rising wedge between interest rates on bank deposit and NSCs, and to contain the increasing interest cost from the unexpectedly large flows into NSCs, we reduced the interest rate on NSCs in May 2015. Inter-agency coordination on external borrowing has continued to strengthen, and the requirement to have qualified staff from the Ministry of Finance in external debt negotiations is being observed. As part of the ramping up of public investment, we expect external concessional and nonconcessional borrowing to increase, with funds continuing to center on projects in education as well as power, transportation, telecommunications, and other infrastructures to help meet our critical development needs.

C. Monetary Policy and Central Bank Financial Reporting

12. Monetary and exchange rate policy. We will continue to anchor monetary policy on a reserve money target. Reserve money met our end-June and end-December 2014 targets, but exceeded the end-September 2014 target by a significant margin, as demand for liquidity increased sharply ahead of two important religious festivals in late September and early October. Monetary policy has remained prudent in calendar year 2015, and aims at bringing average inflation down to 6.2 percent by end-FY16 (as per BB's July 2015 Monetary Policy Statement) while allowing adequate private sector credit growth. There are upside risks to inflation arising from the rebound in domestic demand and recent increases in retail energy prices. We are monitoring non-food inflation closely and will adjust reserve money as necessary. International reserves have remained on an upward trend, comfortably exceeding the PC targets for June and December 2014. BB will continue to build up reserves in order to preserve reserve adequacy, sterilizing as required to meet our reserve money targets. In light of the strong real appreciation of the taka since early 2014, driven mainly by the appreciation of the US dollar against other currencies (notably the euro), we will allow the taka to depreciate if market forces move it in that direction.

13. Central bank financial reporting. We are taking several steps to improve BB's financial reporting. External audits of BB's FY13 and FY14 financial accounts were conducted by a global firm and received unqualified audit opinions. We have made progress in implementing the recommendations in the management letter for these external audits. To further strengthen BB's internal control environment, we are working toward improving risk management in key departments, developing risk rating reports, integrating different information technology platforms, and reviewing their operational risks. We intend to continue improving BB's financial reporting by conducting external audits by globally-affiliated local audit firms, including for BB's FY15 accounts.

D. Financial Sector Reforms

14. Banking system supervision: Loan rescheduling and restructuring. BB brought the temporary relaxation of loan rescheduling guidelines, announced in December 2013, to an end in June 2014. To help struggling corporate groups, BB issued a circular in January 2015 allowing banks to restructure large loans (above Tk 5 billion) under relaxed rules up until end-June 2015. To mitigate the moral hazard that these policies may potentially create, BB will revise by December 2015 the guidelines and circulars on loan rescheduling and restructuring under the following principles:

- Upon rescheduling/restructuring a loan, the bank will have to write off an amount equal to the difference between the recorded amount of the original loan and the net present value of the contractual cash flows from the rescheduled/restructured loan.

- The provisioning requirement for the rescheduled/restructured loan will not be changed unless the borrower has serviced the rescheduled/restructured loan regularly for at least six months after rescheduling/restructuring or, if no contractual cash flows are expected from the borrower for a period longer than 6 months, until at least two of the contractual cash flows have been made by the borrower.

15. Banking system supervision: Other areas. We have continued to make progress in other areas to strengthen financial supervision:

- *Enforcement*. Using its enhanced powers under the amended (BCA), BB has taken disciplinary actions against banks where severe irregularities have been found (including, in one case, recommending the removal of the entire board of directors, which the government accepted). We will continue to impose very strong sanctions in case of noncompliance with prudential rules and regulations.

- *Stock market exposures.* BB has directed banks with stock market exposures above the permissible limit to present plans to bring them down to within the ceiling by July 2016, and in the meantime is strictly enforcing that banks do not increase their exposures further.

- *Contingency planning.* Progress is being made in setting up stronger bank resolution and lender of last resort (LOLR) facilities, under the roadmap approved in September 2013, within the existing legal framework. However, amendments may be required to the relevant legislation.

- *Private sector external borrowing.* Local corporations have continued to expand their external borrowing in foreign currency to take advantage of low international interest rates. We are closely monitoring this borrowing and weighing any possible risks it may pose to the domestic financial system.

16. Strengthening the state-owned commercial banks (SOCBs). We will continue to focus on improving the governance, balance sheets, and financial reporting of the SOCBs. To this end, we are taking measures in different fronts:

- **Governance.** We appointed new chairmen and directors for the boards of several SOCBs, vetted by BB as per the fit and proper criteria established in the amended BCA. We are committed to continue appointing competent directors, holding them strictly accountable, and cooperating with BB in ensuring strong punitive actions in the event of any irregularities. BB completed the assessment of SOCBs' compliance with their new internal control and compliance (ICC) policies (a structural benchmark for December 2014). This assessment found that SOCBs had weak internal audit processes that were, in turn, inadequately supervised by their boards and management. To address these issues, BB has asked SOCBs to report on compliance with ICC policies as of March and June 2015, and will conduct further inspections to verify those reports.

- **Enforcement.** We will continue to impose strong and escalating regulatory sanctions in case of noncompliance with the MoUs, particularly regarding areas which are directly under the control of banks, such as credit growth and single borrower exposures and related lending.

- **Strengthening of SOCB balance sheets.** In FY15 we recapitalized one SOCB by Tk 7.1 billion, with another Tk 12 billion going to a specialized development bank. We reiterate our commitment to continue to strengthen the SOCBs' capital position in line with regulatory capital adequacy standards, conditional on progress on actions agreed under the MOUs and in the business plans approved by the SOCBs. In addition to BB's MoU with SOCBs, the government has signed performance contracts with their boards and management. BB is also monitoring SOCBs' loan recovery efforts together with the government.

- **Branch automation.** We have made progress under the branch automation plan approved in March 2014. In 2014, nearly 400 SOCB branches (about 11 percent of the total) were brought under the Core Banking System software. We will ensure that SOCBs follow their automation targets to be able to complete the entire process by end-2016.

E. Reforms to Boost Growth and Inclusion

17. Poverty reduction strategy. Our poverty reduction strategy is anchored in our Sixth Five Year Plan (FY11-15), under which we have seen a reduction in the poverty rate from 31.5 percent in 2010 to 24.7 percent in 2014. A mid-term implementation review of the first three years of the plan found that, while domestic employment creation fell short of target, the poverty reduction target remains on track (based on preliminary estimates), supported by higher than expected overseas employment.

18. Labor and safety standards. We have achieved significant improvements in labor rights and factory safety standards in collaboration with all relevant stakeholders.

19. Social safety nets. We will continue to work on strengthening the efficiency and transparency of social safety net programs, including by developing a comprehensive poverty database. We met the IT on social-related expenditure for June, September and December 2014.

20. Trade and investment reforms. To help facilitate business transactions, deepen local capital markets, and attract foreign direct investment, we have continued to make progress towards a gradual liberalization of exchange regulations on current and capital account in accordance with the roadmap approved in September 2013. BB adopted the necessary amendments to foreign exchange regulations and reporting routines for current account transactions (a structural benchmark for December 2014). In addition, in September 2015

Parliament passed amendments to the Foreign Exchange Regulation Act. We are also pressing ahead with reforms to rationalize our trade policies by reducing the dispersion and average level of protection, as well as the incidence of waivers and exemptions. We have drafted a new Customs Act that will simplify the administration of customs duties (see paragraph 8, second bullet). We will also continue to reduce supply bottlenecks and the cost of doing business by focusing public investment on projects with high development impact.

Table 1. Bangladesh: Quantitative Performance Criteria (PC) and Indicative Targets (IT) 1/ 2/

	6/30/14				9/30/14				12/31/14						
	Prog. PC	PC with adjustors	Est.		IT	IT with adjustors	Est.		Prog. PC	PC with adjustors	Est.				
Performance criteria applicable on a periodic basis															
Net international reserves (NIR) of Bangladesh Bank (BB) (floor, end of period (eop) stock, in millions of U.S. dollars) 3/	15,290	15,240	18,088	Met	15,760	15,610	19,186	Met	16,230	16,080	19,555	Met			
Net domestic assets (NDA) of BB (ceiling, eop stock, in billions of taka)	155	159	-58	Met	129	140	-2	Met	177	188	-74	Met			
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)	242	237	100	Met	25	36	37	Not Met	100	103	-30	Met			
	4/1/14 – 6/30/14				7/1/14 – 9/30/14				10/1/14 – 7/31/15				8/1/15 onward		
	Prog. PC		Est.		Prog. PC		Est.		Prog. PC		Est.		Prog. PC	Est.	
Performance criteria applicable on a continuous basis 4/															
New nonconcessional external debt maturing in more than one year, contracted by the public sector and/or guaranteed by the central government or BB (ceiling, stock since December 31, 2011, in millions of U.S. dollars)	5,750		3,665	Met	6,000		3,880	Met	6,000	6,000	5,103	Met	6,500	5,103	Met 5/
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, stock since December 31, 2011, in millions of U.S. dollars)	0		0	Met	0		0	Met	0	0	0	Met	0	0	Met 5/
Accumulation of new external payment arrears by the public sector (ceiling, stock since December 31, 2011, in millions of U.S. dollars)	0		0	Met	0		0	Met	0	0	0	Met	0	0	Met 5/
	6/30/14				9/30/14				12/31/14						
	IT		Est.		IT		Est.		IT		Est.				
Indicative targets															
Reserve money (ceiling, eop stock, in billions of taka)	1,304		1,295	Met	1,313		1,432	Not Met	1,396		1,387	Met			
Tax revenue of central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka)	1,191		1,114	Not Met	274		272	Not Met	569		559	Not Met			
Social-related spending by central government (floor, cumulative change from the beginning of the fiscal year, in billions of taka)	519		527	Met	95		105	Met	215		215	Met			
Net suppliers' credit and other short-term financing for oil imports (ceiling, cumulative change from end-FY11, in millions of U.S. dollars), program level	775		637	Met	750		348	Met	600		376	Met			
State-owned banks funded loans to Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB), and Bangladesh Chemical Industries Corporation (BCIC) (ceiling, cumulative change from the beginning of the fiscal year, in billions of taka)	0		4	Not Met	0		13	Not Met	0		30	Not Met			
Net loans extended by four largest state-owned commercial banks (ceiling, eop stock, in billions of taka)	719		707	Met	736		716	Met	752		722	Met			
Memorandum items:															
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	100		50		150		0		150		0				
Budgetary transfers for settling fertilizer subsidy commitments incurred in FY12 (July 2011-June 2012) (cumulative change from the beginning of the fiscal year, in billions of taka), program level	...		...		...		...		...		...				
Budgetary transfers for recapitalizing the four largest state-owned commercial banks (cumulative change from the beginning of the fiscal year, in billions of taka), program level	50		41		0		0		15	15	7				

1/ Fiscal year begins July 1. Cell marked by "..." indicates that the cell is not applicable for that particular date.

2/ For definitions of these quantitative targets and the applicable adjustors please see the Technical Memorandum of Understanding for the arrangement (IMF Country Report No. 14/149).

3/ Evaluated at the program exchange rate.

4/ These performance criteria are applicable on a continuous basis, i.e., the targets are monitored continuously during each period.

5/ Information available as of September 30, 2015.

Table 2. Bangladesh: Structural Benchmarks and Prior Actions under the ECF Arrangement

Actions	Date	Macroeconomic Criticality	Status
Structural Benchmarks:			
Selection of a vendor for a tax automation system for value-added tax (VAT).	June 2014	To strengthen tax revenue administration	Not met. The Cabinet Committee on Government Purchases rejected the tender process, and requested a retendering. Completion of this action became a prior action for the fifth and sixth reviews. The prior action was completed on July 22, 2015.
Adopt guidelines for the credit risk assessment, approval and issuance of loan guarantees provided by the central government.	July 2014	To strengthen public debt management	Met.
Complete a full external audit for the financial year 2012-13 of Bangladesh Petroleum Corporation (BPC) by a global audit firm in association with a local firm.	September 2014	To strenghten financial manangement at the largest state-owned enterprise	Not met. Tender for the global audit firm attracted no interest by potential bidders. The authorities are amending legislation clarifying the legal authority of BPC to appoint international audit firms to conduct audits of BPC's accounts. Submission to Parliament of this legislation is a prior action for the fifth and sixth reviews. The prior action was completed on October 4, 2015.
Review and adopt the amendments to foreign exchange regulations and reporting routines for all current account transactions, guided by the September 2013 roadmap adopted by Banlgadesh Bank (BB) and the Ministry of Finance.	December 2014	To strengthen the trade and investment climate	Met.
An assessment by Bangladesh Bank of compliance by the state-owned commercial banks (SOCBs) with the Internal Control and Compliance policies approved in December 2013.	December 2014	To further improve governance at the SOCBs	Met.
Prior Actions for the Combined Fifth and Sixth Reviews			
Public announcement via Gazette notification of the revised VAT launch date of July 1, 2016 for the new VAT law.		To prepare general public for launch of new VAT system	Met. The gazette notification was issued on April 19, 2015.
Approval by the Cabinet Committee on Government Purchases (CCGP) of the combined tender for procuring hardware, software, networking and support services for the VAT.		To provide critical inputs for VAT implementation	Met. The procurement was approved by CCGP on July 22, 2015.
Approval by the Cabinet Committee on Government Purchases (CCGP) of the procurement for the project management consultancy (PMC) for the VAT.		To provide critical inputs for VAT implementation	Met. Procurement of PMC was approved by CCGP on June 17, 2015.
Amendments to the 2012 VAT and Supplementary Duty Act, restricted to none, either or both of, but any any case no more than: (i) an increase in the enlistment threshold for the turnover tax from Tk 2.4 million to Tk 3 million per year of annual turnover, and (ii) adding one or two additional items to the list of exemptions from VAT.		To maintain the integrity of the 2012 VAT Act	Met. The VAT and Supplementary Duty Act was amended to increase the enlistment threshold from Tk 2.4 million to Tk 3 million. This was passed by Parliament on September 2, 2015.
Submission to Parliament of legislation allowing international audit firms to conduct audits of BPC's accounts.		To strengthen financial management at the largest state-owned enterprise	Met. Submitted to Parliament Secretariat on October 4, 2015.