

A Pit of Economic Troubles: How We Can Ride Out of It

*What are the
key challenges
confronting our
economy?*

*What remedies
should the new
FY25 budget
have?*

*What policy
priorities
Bangladesh
need to set for
near future?*

**We reached out to economists and business leaders
to get their views. Here is what they think.**



“

We have invested a lot in our infrastructure and now through triangulation of investment connectivity, transport connectivity and trade connectivity, Bangladesh must make the journey forward.

Professor Mustafizur Rahman
Distinguished Fellow, Centre for Policy Dialogue

”

CHALLENGE

REMEDY

1. Restoration of macro-economic stability with low inflation and exchange rate stability

- Applying and aligning monetary and fiscal tools to improve macroeconomic management
- Improving market management from import point to retail point to reduce the high cost involved in the supply chain

2. Improving Governance and Institutions: Weak governance and lack of efficiency of institutions have led to wastage, leakage and corruption, undermining our economy's competitiveness.

- Showing zero tolerance against corruption and malpractices.
- Freeing Bangladesh Bank from political influence and establishing its autonomy.

3. Revitalizing domestic resource mobilization: Almost all the annual development projects are now financed by either through internal or foreign borrowings. Bangladesh has transitioned into a debt-dependent nation particularly because there is no surplus in the revenue budget. About 20% of our revenue budget is spent on servicing the interest of our loans.

- Taking steps to raise direct tax
- Investing in NBR digitalization efforts.

BANGLADESH'S PRIORITY IN TRADE

LDC graduation is an added challenge, which will require Bangladesh to comply with environmental, gender, good governance and labor rights issues. The country will face stiff global competition and retain market access.

Investment in human resources should be a priority in increasing productivity for competitiveness.

Exploring market potentials in Asia, which now accounts for only 12% of our export

Focusing on regional and sub-regional cooperation and signing bi-lateral free trade agreements and comprehensive economic partnerships which will require strong negotiation capacity



“

IMF prescription needs to be applied with diligence and discretion, not all measures would benefits economy and people of low income, Argentina should be an example. For example, subsidy on agriculture (fuel) and fertilizer.

— **Dr. Salehuddin Ahmed**

Former Governor, Bangladesh Bank

”

CHALLENGE

REMEDY

1. Inflationary Pressure on life and businesses: Growth only strategy aggravated income and wealth inequality, which may lead to middle income trap, like Brazil.

- Contractionary monetary policy alone cannot solve inflation. Supply side factors of inflation should also be tackled
- Market monitoring and supply chain management would tame somehow the inflationary pressure
- Rationalizing VAT as it hurts poor most

2. Banking sector irregularities and depleting foreign exchange reserve

- Banking reform, policy on NPL, access to credit by smaller business units should be priority.

3. Adhocism deepening crisis in the energy sector

- Immediate attention in exploring own energy resources would be required.

BANGLADESH'S PRIORITY

Allocation for employment generation, education and health needs to prioritised.

Micro and small businesses need special attention.



Inflation is equivalent to a regressive tax for the poor because it hurts the poor more than high income people. So, inflation has to be addressed as a top priority challenge in the budget.

Dr. Zaidi Sattar

Chairman, Policy Research Institute

CHALLENGE

REMEDY

1. Ensuring macroeconomic stability:
Fiscal deficit management is a big issue

Remedy The budget FY 2025 has to support the monetary management to contain fiscal deficit, which should not be financed through borrowing from the Bangladesh Bank. We have to stop putting any caps on interest rates. That's one way of restricting demand.

2. Taming inflation: It is particularly hurting the fixed income people and the poor.

Monetary policy strategies for stabilizing the macroeconomy have to be supported by the budget

3. Restoring balance of payment stability:
The surplus in the current account can be sustained for too long, but it has been done by too much pressure on controlling of imports.

Trade policy reform should be a priority targeting overall rationalizing and reduction.

BANGLADESH'S PRIORITY IN MANAGING GOVT BORROWING

Budget deficit target should be lowered to 4.5 or 4% of GDP from 5% now

Borrowing from the Bangladesh Bank should be totally avoided



“

Research and development funding must be increased. Innovation, technology and development cannot happen without research. It is mandatory in order to prepare driving forces of youth and also women.

Dr. Narayan C. Das

Development Economist and Senior Research Fellow at BIGD, BRAC University

”

CHALLENGE

REMEDY

1. Inflation Control

- Subsidizing poultry/fish feed and lowering import duties of agricultural inputs
- Heavily subsidising fertilizers
- Diversifying exports beyond RMG
- Investing in renewable energy

2. Quality of Education and Addressing High Youth Unemployment

- Simply increasing allocation for education might not address the issue; instead, investment for teachers' training and higher education is needed
- Initiatives are needed to reduce brain drain and foreign hires in mid-level RMG jobs
- Expanding Care Economy to bring more female workforce in jobs and reduce gender gap in employment
- Expanding vocational training
- Providing short-term incentives in potential sectors to create labour demand
- Addressing skilled manpower export gap

3. Interest Payments: Rising interest payments on government debt raises concerns about long-term financial sustainability

- Reducing duration of completion of development projects
- Increasing tax-to-GDP ratio
- Reducing internal borrowings

PEOPLE'S PERSPECTIVE ON NATIONAL BUDGET

Bangladesh's social security programs (SSP) reach only 23.9% households in urban areas compared to 44% in rural areas (HIES 2022). More than half of people with disabilities are left out of SSNP (Social Safety Net Programme) coverage (NSPD 2021). Rising prices make increasing social benefits even more important.

Investing in livestock development along with wider crop and livestock insurance can improve livelihoods by encouraging investment in food production.

While acknowledging the need to support production, ordinary people prioritize keeping the cost of living low, particularly food prices. Job creation, especially for young graduates, is crucial.

More research on flood- and drought-tolerant rice varieties is essential to ensure food security in a changing climate.

Collaboration between the government and NGOs is necessary to address future climate risks. International cooperation on climate change initiatives is also important.



“

Put more focus on direct taxation and reduction of effective corporate tax rate which has been driven up by inadmissibility of legitimate business expenditures.

Zaved Akhtar

CEO and Managing Director of Unilever Bangladesh,
and FICCI President

”

CHALLENGE

REMEDY

1. Stickiness of Inflation

Pursuing contractionary monetary policy

2. Fiscal Deficit

Simplification of VAT and indirect taxation while building an integrated digital infrastructure for digitalisation of customs, tax and VAT

3. Stressed Financial Institutions due to Non-Performing and Distressed Loans

Concerted efforts are required to manage non-performing and distressed loan through restructuring, recovery, disposal and write-off



Mahbubul Alam FBCCI President

CHALLENGE

1. Bank Interest Rate adjustment for more investment

2. Uninterrupted electricity

3. Ease of doing business

REMEDY

Holistic Policy implementation, costs will go down



Mohammad Hatem Executive President of BKMEA

CHALLENGE

1. AIT should be refundable, otherwise it should be final statement or abolished

2. Apparel sector source tax should be fixed at 0.5% for at least next five years

3. To meet growing demand of electricity the government should take initiative to reduce import duty on solar system related equipment



“

Government services automation is the road to increase efficiency.

Ashraf Ahmed
President, DCCI

”

CHALLENGE

REMEDY

1. Revenue Collection

- Tax automation
- Tax net expansion
- Simplification of tax process
- Creation of Tax policy units: currently not properly coordinated with industrial and trade policy yet and only focused inside NBR.
- Rationalisation of tariffs

2. Government Expenditure

- Automation and technology can reduce operational costs of the government, creating fiscal space for impactful policy measures.

3. Financing the Budget Deficit

- To directly fund the deficit, the government can borrow from the banking sector through T-bonds. However, this type of deficit financing creates inflationary pressure.
- To mitigate this inflationary pressure, we suggest engaging the private sector by utilising foreign loans and private capital through mechanisms such as bill operations or transfers.
- Engage the private sector through Public-Private Partnerships (PPPs): Leveraging private sector capital enables the government to distribute project costs over a ten-year horizon, alleviating the immediate strain on public finances.

INFLATION

The Power of Well-Timed Strategies

Trends and Reform Policies

3 South Asian countries followed IMF guidelines to access emergency loans, but outcomes were not the same

Inflation in Sri Lanka surged to a record high of 73.7% in the last year, now cooled down to its lowest

Pakistan succeeded in bringing down inflation from its mid-2023 record high to two-year low, though the rate still remains high

Bangladesh's inflation soared to 10-year high in mid-2023 and remains close to 10% for more than a year now, while inflation marked fast declines in two other South Asian neighbours

Inflation in Sri Lanka, Pakistan and Bangladesh

Year-on-year changes in Consumer Price Index





Aggressive and Timely Monetary Policy Measures

Sri Lanka racked up record high inflation that peaked at 73.7% in September 2022 after its economy suffered its worst financial crisis in decades, triggered by a plunge in foreign exchange reserves.

POLICIES

Interest Rate Hikes: Central Bank of Sri Lanka (CBSL) cut policy rates by 700 bps since last year to help the economy return to growth

Market-Based Exchange Rate: Devaluation of currency (dollar price increased by 160 rupees from Feb to May 2022)

Import Curbs: Restriction of fuel imports for 12 months, ban on import of 300 consumer items like chocolates, perfumes and shampoo in 2023
Fuel rationing at filling stations

VAT rate raised: From **15%** to **18%** on goods and services from 1 Jan 2024, to attempt to raise govt revenue

Transformation of remittance inflow: Enhanced restrictions on halwa (hundi) in 2021, while trying to send high-skilled workers mostly to the Middle East

IMPACT

Sri Lanka successfully reduced inflation from a peak of **73.7%** in Sep 2022 to **3.4%** in Nov 2023

Inflation declined all the way down to **2.5%** in Mar 2024 after reducing the sales tax which had been raised previously to fulfill targets outlined in a **\$2.9B** IMF programme



A Blended Approach to Combat Inflation

Pakistan has been beset by inflation above 20% from June 2022 till March 2024. Inflation jumped to 38% in May 2023, as the country navigated reforms as part of an IMF bailout program that led the rate to sharp fall in recent months.

POLICIES

Interest Rate Hikes: Kept benchmark interest rate at record high for several meetings (22% in Apr 2024) aiming to slow economic activity and reduce demand-driven inflation

Currency Crackdown: Launched operations against currency hoarders to stabilize the rupee (rupee strengthened 9% in Oct 2023)

IMPACT

Reached staff-level pact with IMF on \$3B stand-by arrangement in Jun 2023 as the country battled acute BOP crisis and falling foreign exchange reserves

Secured \$1.1B from IMF in Apr 2024 to provide some economic stability

Inflation eased recently, reaching a 2-year low of 17.3% in Apr 2024

Food inflation has shown significant slowdown

Central bank aims to bring inflation down further through tight monetary policy



Comparable actions,
but too little too late?

Bangladesh's
inflation soared
to a decade-high of
9.94% in May
2023 and remains
stubbornly high for months
now, with no visible impact of
the measures taken so far.

POLICIES

Interest Rate Adjustments:

Increased policy rate several times, latest by 50 bps to 8.5% (May 2024) to tighten money supply and control inflation

Market-Driven Lending Rates:

Abolished the six-month average reference rate, allowing banks to set lending rates based on market conditions aiming to make borrowing costlier

Devaluation: Devalued the Taka by allowing a market-driven exchange rate system, latest by Tk7 to Tk117 per dollar under crawling peg method aiming to stabilize exchange rates and control inflation by making imports more expensive

IMPACT

Despite these measures, inflation remains high (9.74% in Apr 2024)

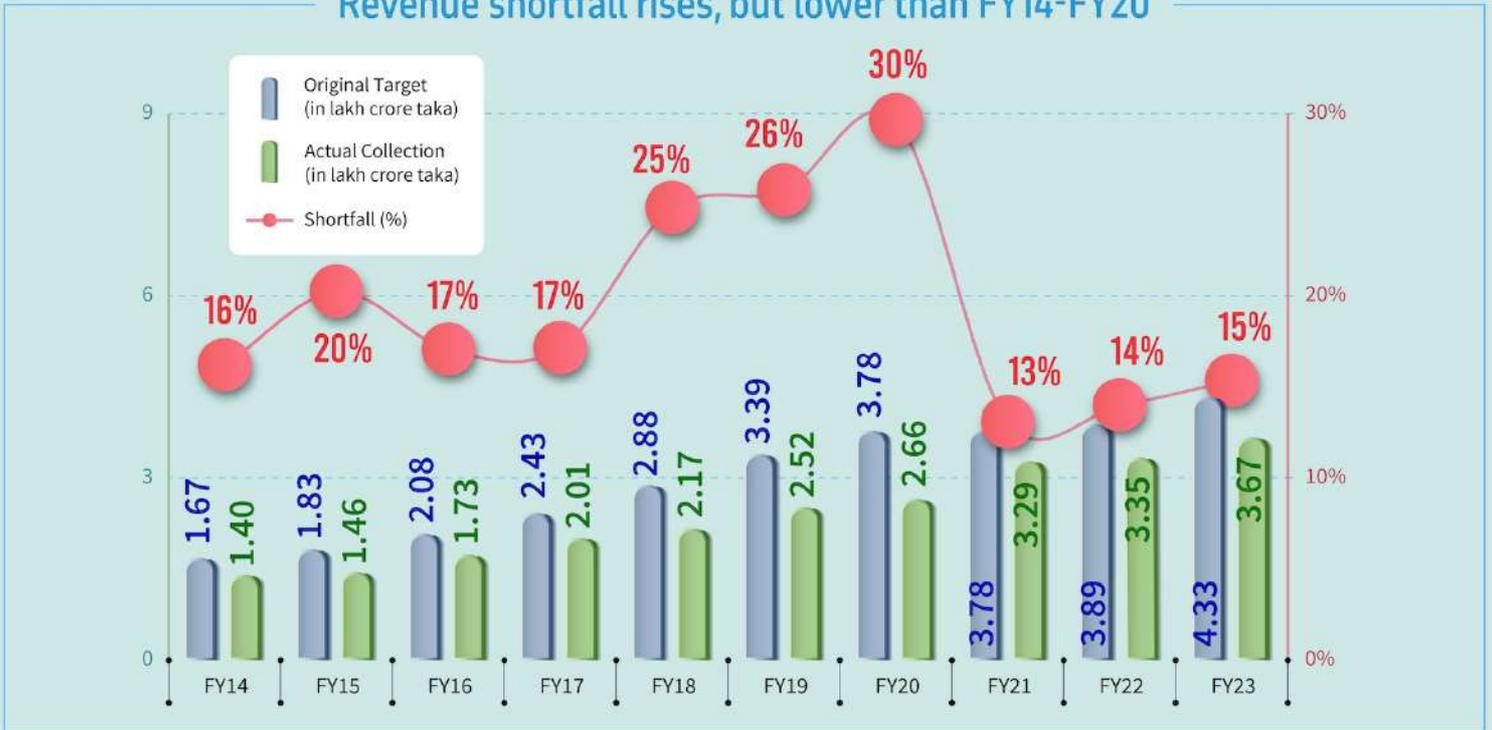
Central bank aims to continue tightening monetary policy until inflation falls to the target level (7.5%)

In May 2024, IMF has agreed to release \$1.15B in the third instalment under its \$4.7B loan programme signed in Jan 2023

Latest policy measures were long overdue and are yet to bring intended results. Financial markets are still bearing the brunt of long-persistent overvalued taka, capped interest rates and multiple exchange rates

A DEEP DIVE INTO BANGLADESH BUDGET

Revenue shortfall rises, but lower than FY14-FY20



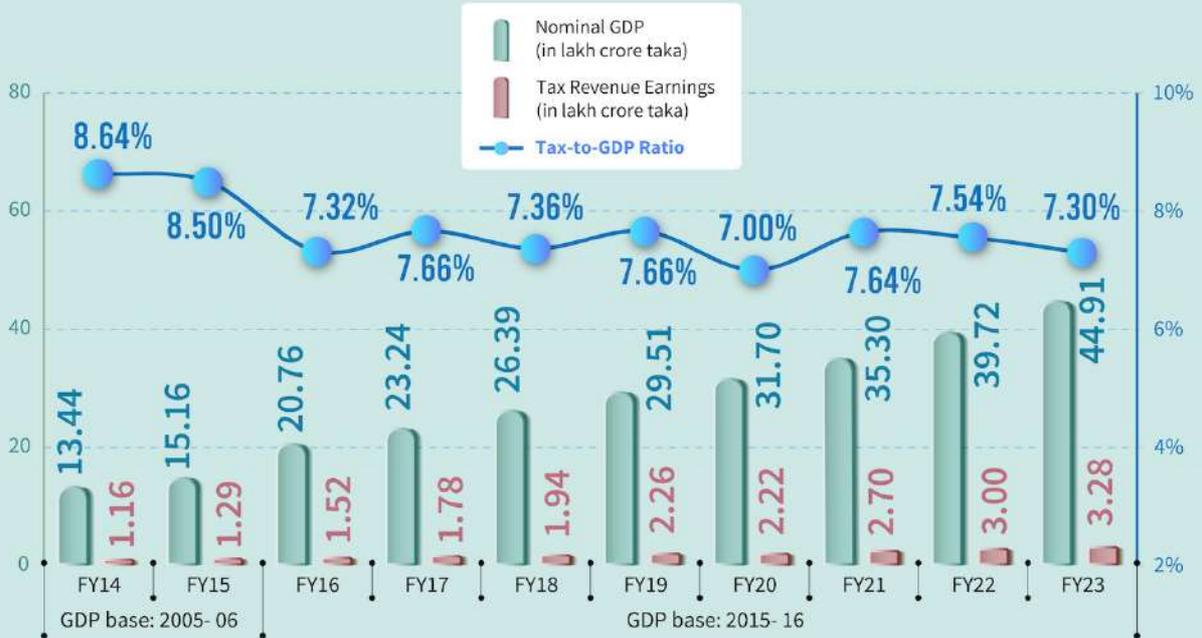
Government's operating expenditure exceeds revenue collection in FY23



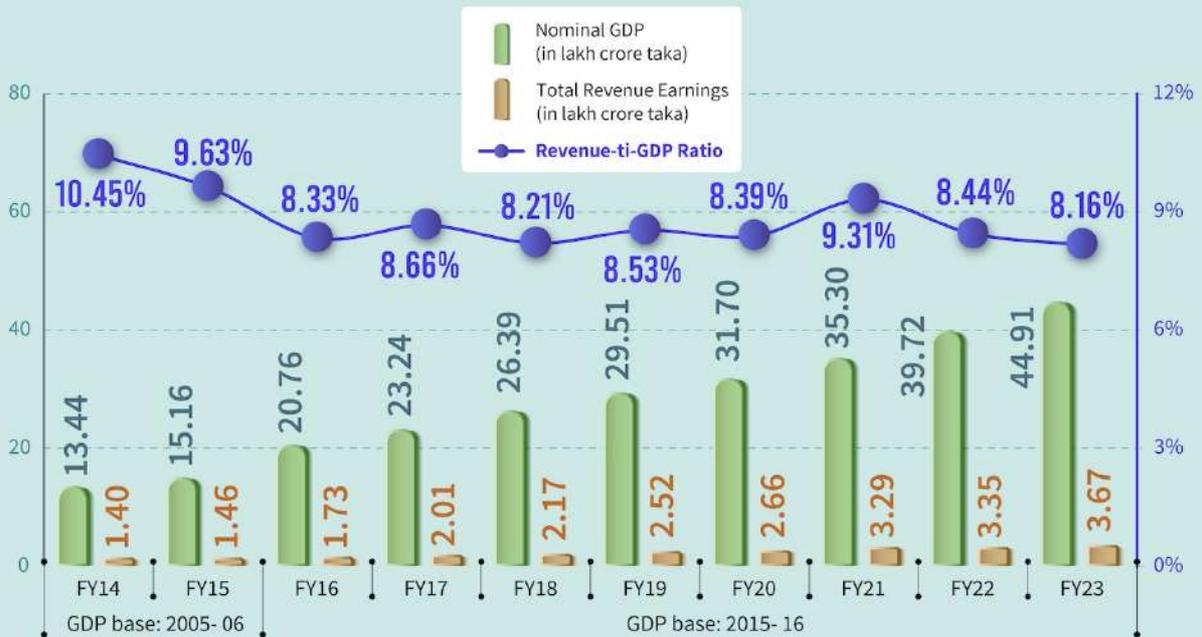
Source: Ministry of Finance

ECONOMY EXPANSION OUTPACES REVENUE GAINS

Tax as a percentage of GDP Keeps Falling

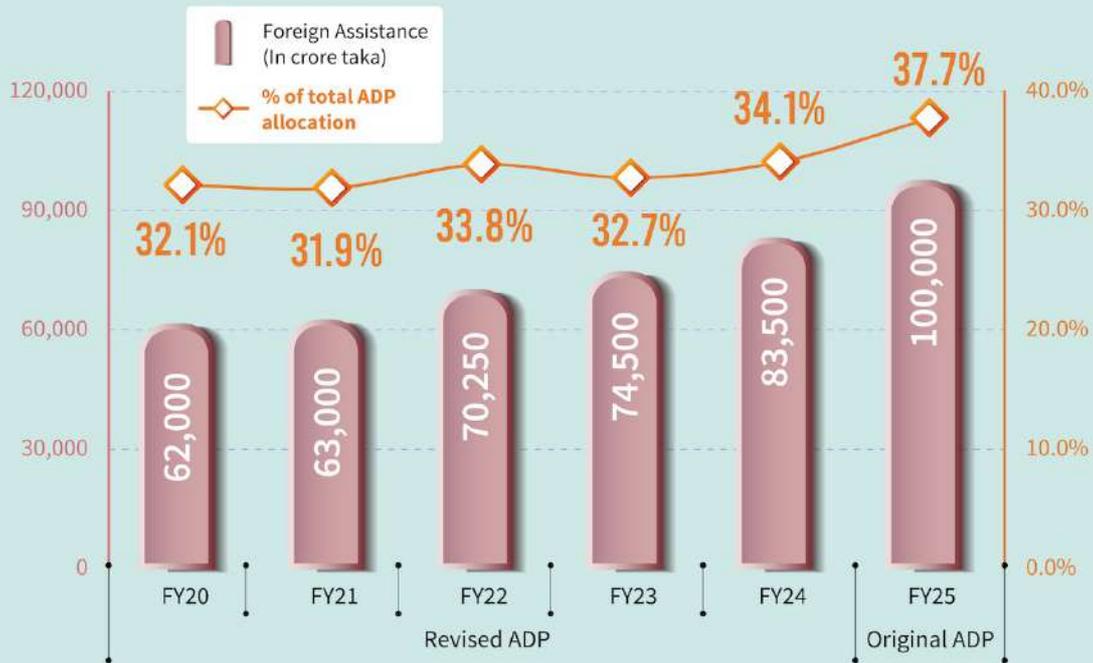


Revenue as a percentage of GDP Slips Down



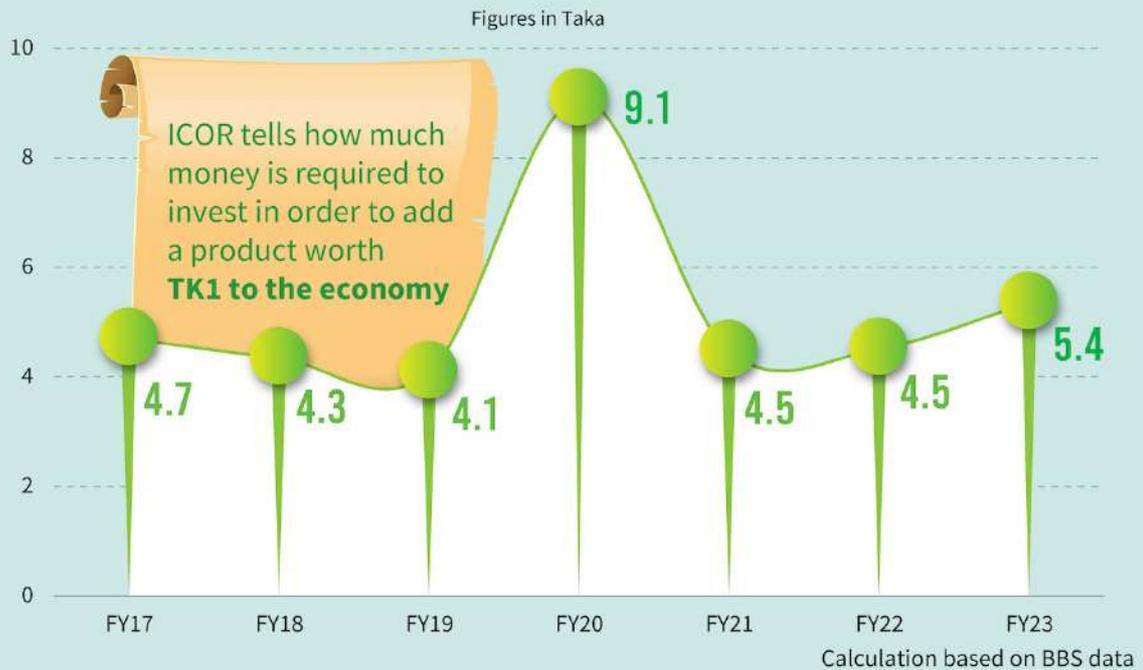
Source: Ministry of Finance

Foreign financing in ADP grows



Source: Planning Commission

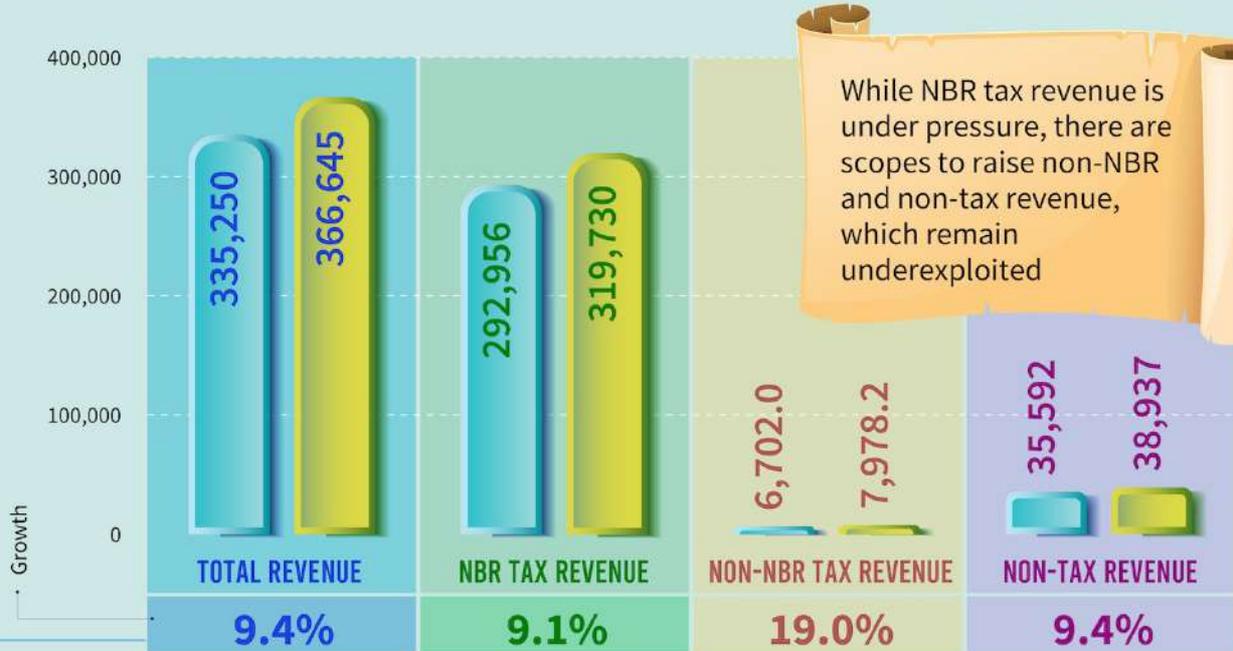
Incremental capital output ratio (ICOR) in Bangladesh



Revenue Receipts Growth

Figures in crore taka

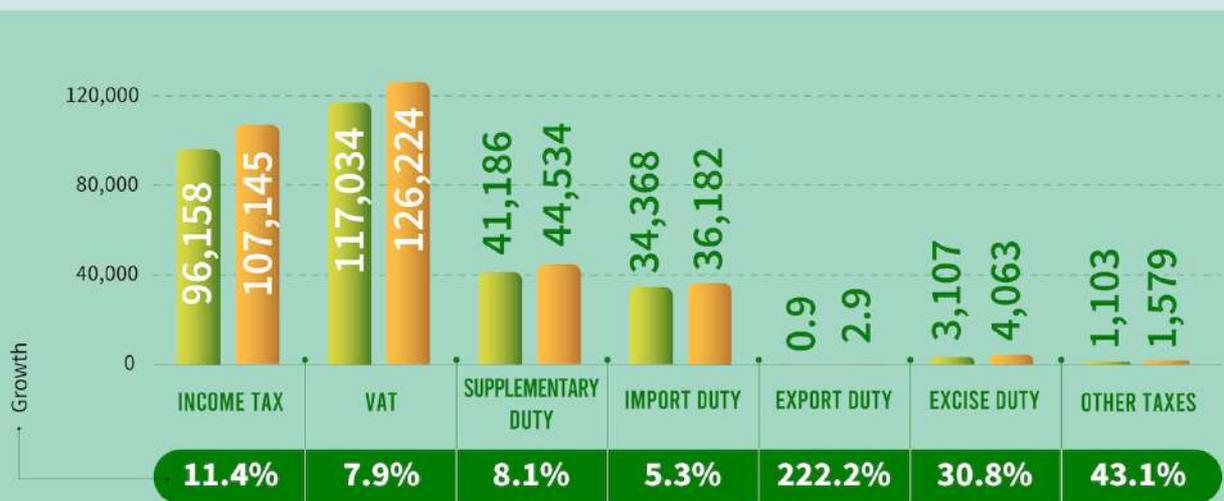
FY22 FY23



NBR TAX REVENUE

Figures in crore taka

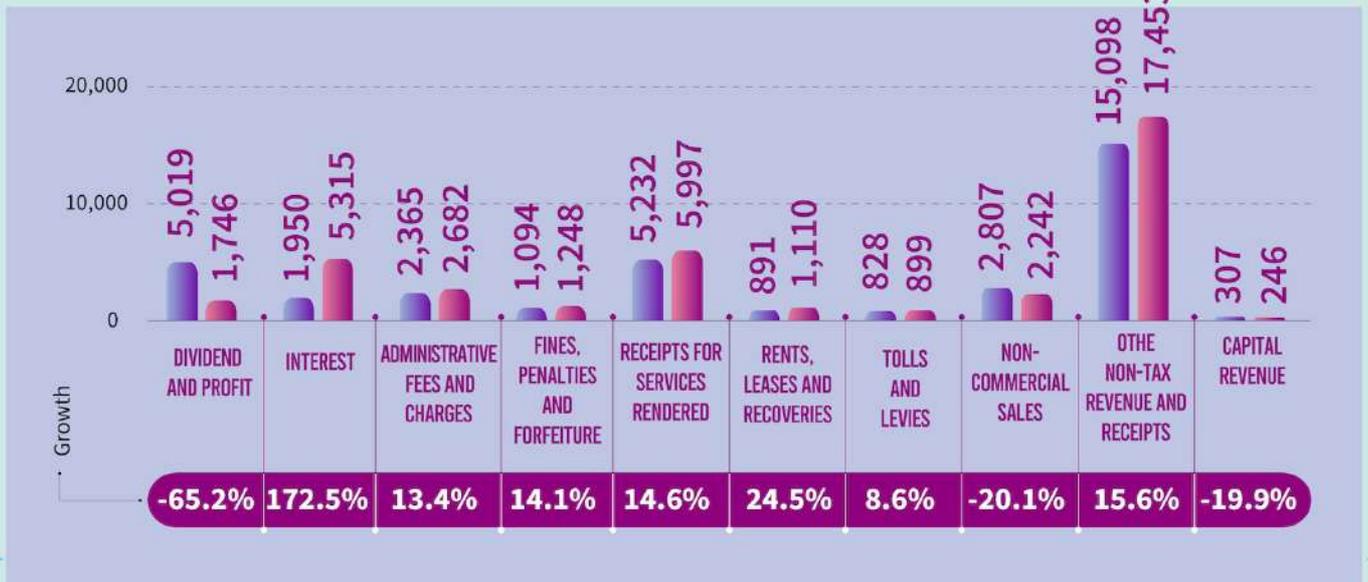
FY22 FY23



NON-TAX REVENUE

Figures in crore taka

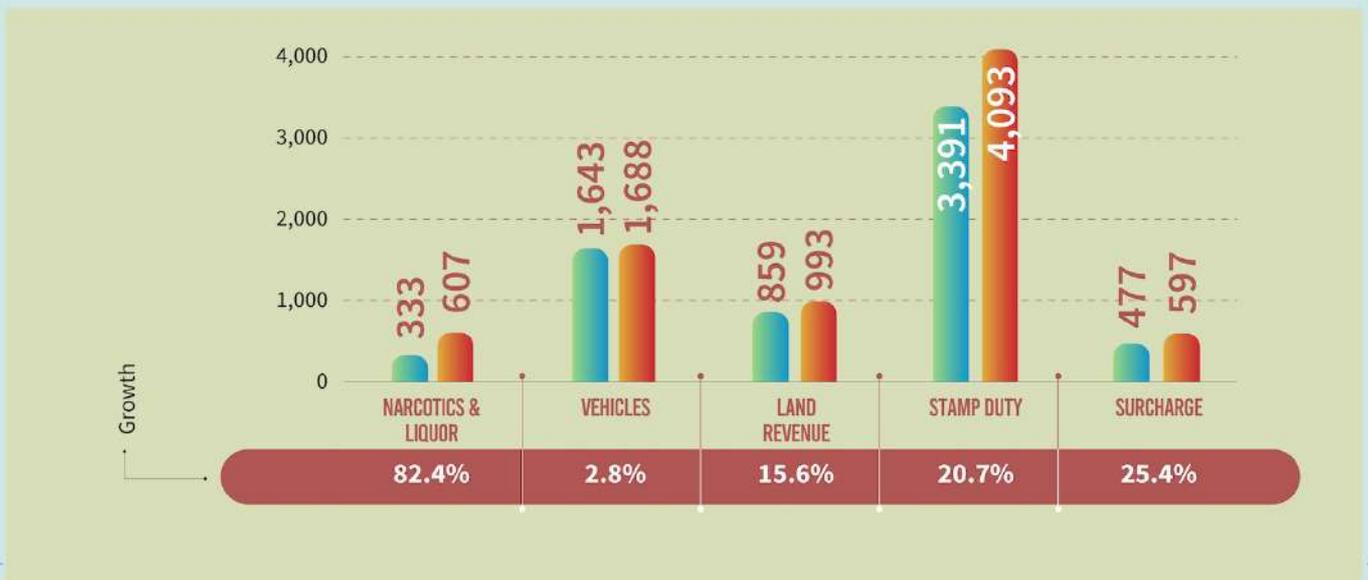
FY22 FY23



NON-NBR TAX REVENUE

Figures in crore taka

FY22 FY23



VAT Dominates Govt Revenue Receipts

Other Taxes
and Duties
TK5,645CR
1.5%

Non-NBR
TK7,978CR
2.2%

Non-tax
Revenue
TK38,937CR
10.6%

VAT
TK126,224CR
34.4%

TK3,66,644CR
Total revenue
income in
FY23

Import
Duty
TK36,182CR
9.9%

Supplementary
Duty
TK44,534CR
12.1%

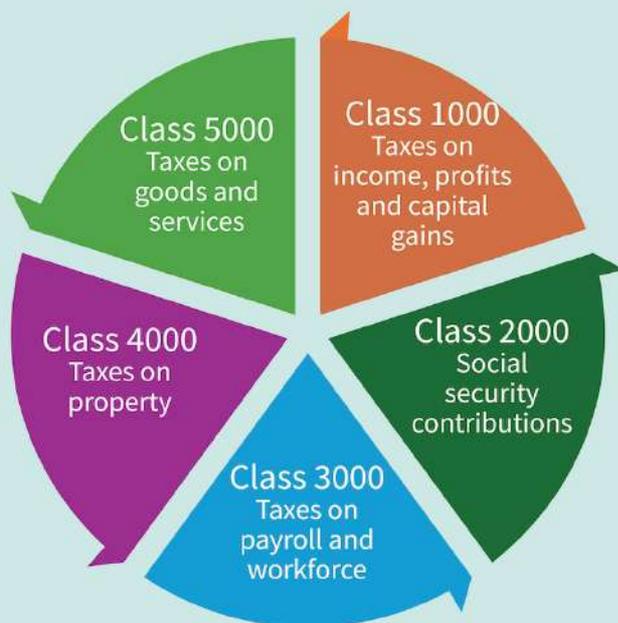
Income Tax
TK107,145CR
29.2%

Source: Ministry of Finance

Analysed by Mohsin Bhuiyan, TBS Research

How to Increase Revenue for Fiscal Stability without Putting Pressure on Poor





6 Categories of taxes classified by OECD

Bangladesh tax revenue is coming predominantly (87%) from 5 Tax revenue sources

- Corporate Income Tax
- Personal Income Tax
- Value Added Tax (VAT)
- Supplementary Duty
- Customs Duty

Possible ways to increase Tax Revenue:

Tax Net

Increasing tax net is the most effective way of increasing tax revenue. The **efficiency of the NBR** through **digitalization** may bring desired result.

Corporate Income Tax (CIT)

The average **corporate income tax** is 27.5%, there is scope for revisiting towards increasing for **medium and large enterprises**.

VAT and Cost of Living

The value added tax needs revision considering the cost of living of the poor and the middle class. The **VAT on essential products** may be **revisited to 5%** from 15%. This would also facilitate reducing inflationary pressure.

COMPARATIVE TAX RATES IN SELECTED COUNTRIES OF ASIA-PACIFIC (VAT AND CIT)

Country	Type of Tax	VAT/GST Rate (%)		CIT (%)
		Minimum	Maximum	Average
Brunei	VAT	0		18.5
Bangladesh	VAT	15		27.5
Cambodia	VAT	10		20
India	GST	5-28		34.5
Indonesia	VAT	11		25
Laos	VAT	10		24
Malaysia	GST	6		24
Myanmar	Commercial Sales tax	5	120	25
Pakistan	VAT Product	18		29
	VAT Services	13	16	
Singapore	GST	7		17
Thailand	VAT	7	10	20
Vietnam	VAT	10		20
	(Two tier system)	5		

Source: Trading Economics, Asean Briefing

Personal Income Tax

The personal income tax requires restructuring giving **respite to low and middle income class citizens**, with **high tax brackets** for earning above **BDT 5 million annually**.

CURRENT		REVISITED (PROPOSED)	
BDT 300,000	0%	BDT 500,000	0%
BDT 300,001 to BDT 400,000	5%	BDT 500,001 to BDT 1,000,000	10%
BDT 400,001 to BDT 700,000	10%	BDT 1,000,001 to BDT 2,000,000	20%
BDT 700,001 to BDT 1,100,000	15%	BDT 2,000,001 to BDT 3,000,000	30%
BDT 1,100,000 to BDT 1,600,000	20%	BDT 3,000,001 to BDT 5,000,000	40%
>BDT 1,600,000	25%	>BDT 5,000,000	50%

Introduction of Social Security Contribution

Bangladesh may introduce Social Security Contribution Levy (SSCL) like the US, and our neighbor, Sri Lanka. This tax would allow Bangladesh to spend more for social safety net from a dedicated source and with better transparency.

SOCIAL SECURITY CONTRIBUTIONS AS NEW SOURCE OF TAX: Adopting OECD Classification of Taxes [2000]	
Class 2100: Employees	
	2110. On a payroll basis
	2120. On an Income tax basis
Class 2200: Employers	
	2210. On a payroll basis
	2220. On an Income tax basis
Class 2300: Self-employed or non-employed	
	2310. On a payroll basis
	2320. On an Income tax basis
Class 2400: Unallocable as between 2100, 2200 and 2300	
	2410. On a payroll basis
	2420. On an Income tax basis

Sri Lankan Example of Social Security Contribution

The Social Security Contribution Levy (SSCL) in Sri Lanka was introduced in 2022. SSCL is payable by every taxable person (individual or entity) who: Imports any article, carries on the business of manufacturing of any article, provides a service of any description, Engages in wholesale or retail sale of any article (except for sales by the manufacturer of that article).

TURNOVER DEFINED USING LIABILITY-BASED SPECIFIC CATEGORY OF PERSONS

For importation of any article: The value of the article is ascertained for the purpose of Value Added Tax (VAT).

For business of manufacture of any article: The sum receivable from selling articles manufactured in Sri Lanka (excluding exempted articles).

For providing a service: The sum receivable from supplying financial services in Sri Lanka (excluding exempted services).

For wholesale or retail sale of any article: The sum receivable from selling articles in Sri Lanka (excluding exempted articles).

Certain exemptions applicable for pharmaceuticals, articles subject to Commodity Levy, articles exported, fuels (petroleum and LPG) sold in a filling station, fresh milk, green leaf, cinnamon or rubber purchased from any local manufacturer or producer.

US Example of Social Security Contribution:

In the United States, Social Security is financed through a **dedicated payroll tax**.

Employers and employees each pay **6.2% of wages** up to the taxable maximum (which was USD 168,600 in 2024), while self-employed individuals contribute **12.4%**.

High earners only pay into the Social Security system until their pay reaches the **taxable maximum**.

Research by Dr. Ananya Raihan, Chief Imaginator, DataSense

How sectoral allocation changes

◇ % of total budget ● % of GDP

HEALTH BUDGET



EDUCATION BUDGET



ENERGY AND POWER BUDGET



AGRICULTURE BUDGET



TRANSPORT AND COMMUNICATION BUDGET



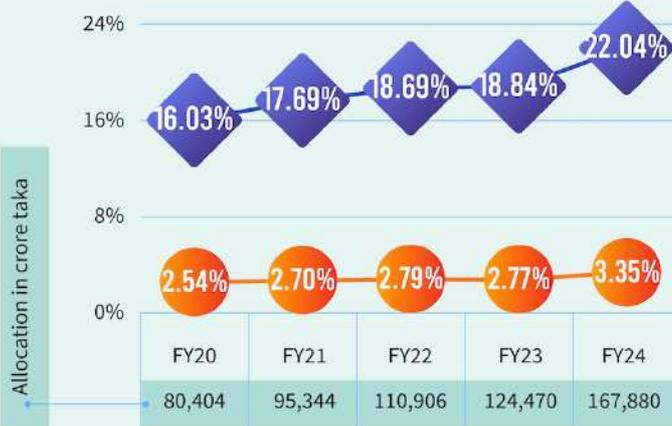
INTEREST PAYMENT



How sectoral allocation changes

◆ % of total budget ● % of GDP

PUBLIC ADMINISTRATION BUDGET



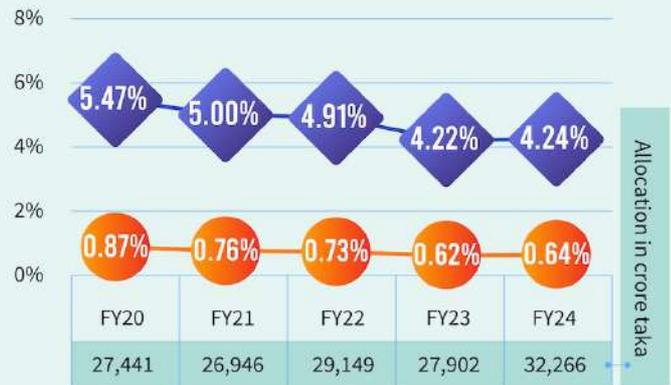
LOCAL GOVERNMENT AND RURAL DEVELOPMENT BUDGET



DEFENCE SERVICES BUDGET



PUBLIC ORDER AND SAFETY BUDGET



TECHNOLOGY BUDGET



SOCIAL SECURITY AND WELFARE



How sectoral allocation changes

◆ % of total budget ● % of GDP

HOUSING BUDGET



RECREATION, CULTURE AND RELIGIOUS AFFAIRS BUDGET



INDUSTRIAL AND ECONOMIC SERVICES BUDGET



NB: The budget for FY20-FY23 is revised budget. FY24 budget is original.

Source: Ministry of Finance and Bangladesh Bureau of Statistics

HEALTH



- ▶ Health sector neglected for over two decades, spending below **1%** of GDP
- ▶ Studies suggest governments need to spend **5% to 7.5%** of GDP on health care
- ▶ However, the sector budget share and GDP share increased slightly to **5%** and **0.76%** in current fiscal from **4.72%** and **0.75%** in FY16

EDUCATION



- ▶ Education allocation consistently below **2%** of GDP
- ▶ UNESCO's Education 2030 Framework for Action recommends **4-6%** of GDP
- ▶ Education sector budget share and GDP decreased to **11.57%** and **1.76%** in current fiscal from **14.02%** and **1.87%** in FY16

INTEREST PAYMENT



- ▶ Interest payment jumped **64%** in five years
- ▶ The payment at **1.88%** of GDP in current fiscal, up from **1.82%** in FY20
- ▶ It held at the second highest budgetary allocation at **12.39%** in current fiscal, up from **11.50%** in FY20

AGRICULTURE



- ▶ Agriculture allocation consistently below **1%** of GDP, except in FY23 when it reached **1.21%** of GDP.
- ▶ FY24 allocation increased slightly to **0.87%** of GDP in current fiscal from **0.85%** in FY20
- ▶ Budget share for agriculture in FY24 fell to **5.74%** from **8.22%** in FY23

TRANSPORT AND COMMUNICATION



- ▶ Transport and communication sector allocation received the fourth highest allocation in the current fiscal
- ▶ Allocation decreased to **1.75%** of GDP in current fiscal, down from **1.84%** in FY20
- ▶ Transport sector budget share declined to **11.50%** in current fiscal from **11.66%** in FY20

ENERGY AND POWER



- ▶ Despite high focus on energy and power sector, allocation has decreased in terms of budget share
- ▶ Share of total budget decreased to **4.57%** in current fiscal, down from **5.21%** in FY20
- ▶ Allocation also dropped to **0.70%** of GDP, down from **0.82%** in FY20

TECHNOLOGY



- ▶ Allocation for technology sector decreased to **0.32%** of GDP in current fiscal from **0.56%** in FY20
- ▶ Allocation peaked at **3.55%** of the budget in FY18 in recent years declining to **2.10%** in the current fiscal year.



Why FDI Inflow is Low Despite Favorable Investment Regime?

Factors which affect FDI Inflow



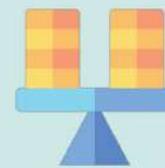
Infrastructure and Access to Raw Materials



Communication and Transport Links



Skills and Wage Costs of Labor



Economic Stability



Regulatory Environment



Sectoral Policies



Political Stability

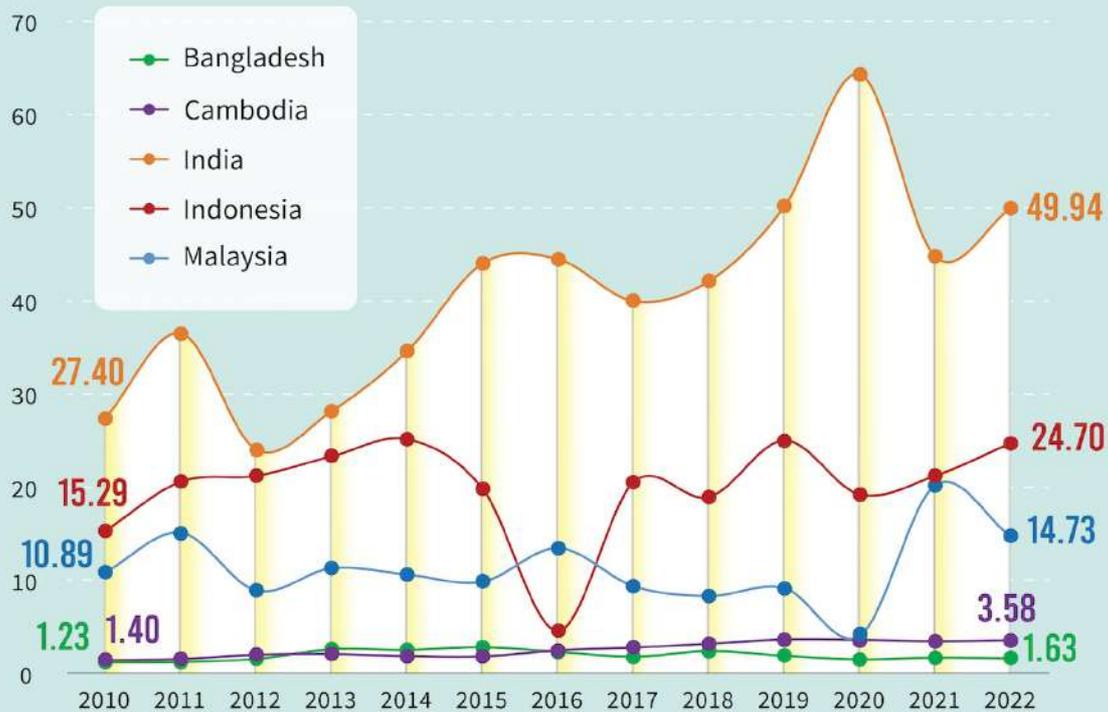


Sector-specific Conditions and Limits

Bangladesh meets most of the factors mentioned above for attracting FDI.

Net Inflow of FDI of Selected Countries

Figures in billion USD



Source: World Bank

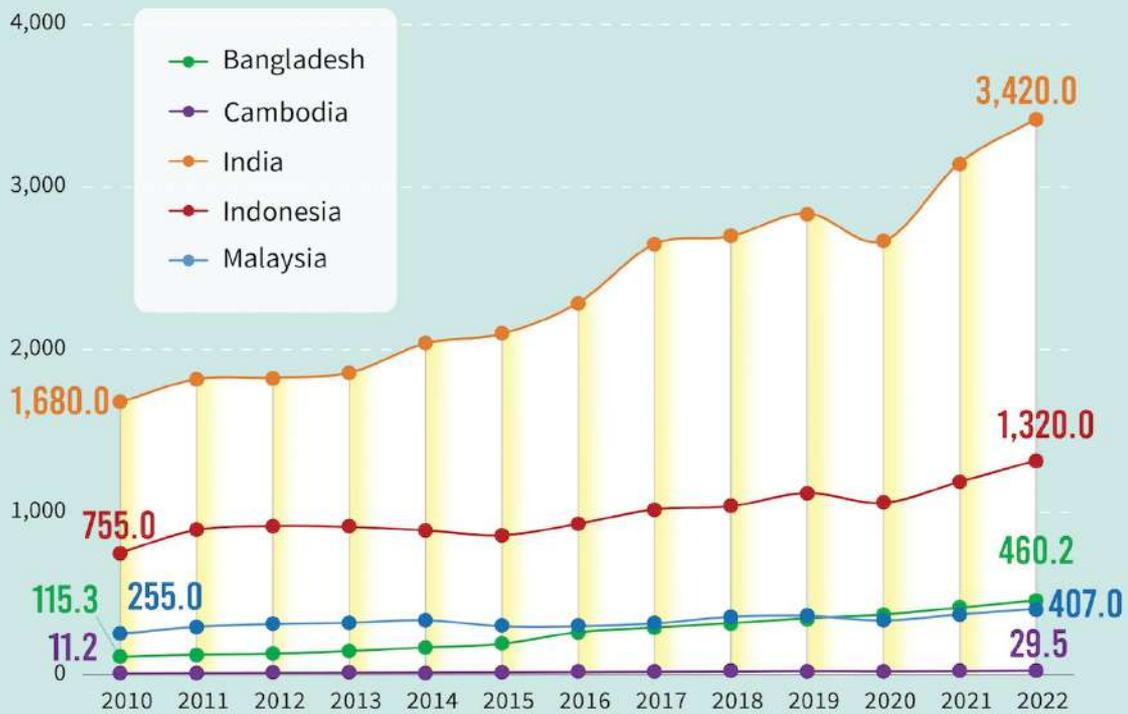
Bangladesh has one of the most favorable FDI regime. Bangladesh Investment Development Authority and Bangladesh Economic Zone Authority present regulatory environment and sectoral policies

Despite the presence of all the factors mentioned above, the FDI growth trend is still not as expected. The economy of Cambodia is **16 times** smaller than Bangladesh, however, its net inflow of FDI more than double of Bangladesh. Nominal GDP of Malaysia and Bangladesh is very close, however, net inflow of FDI in Malaysia is more than **9 times** higher than of Bangladesh.



Nominal GDP of Selected Countries

Figures in billion USD



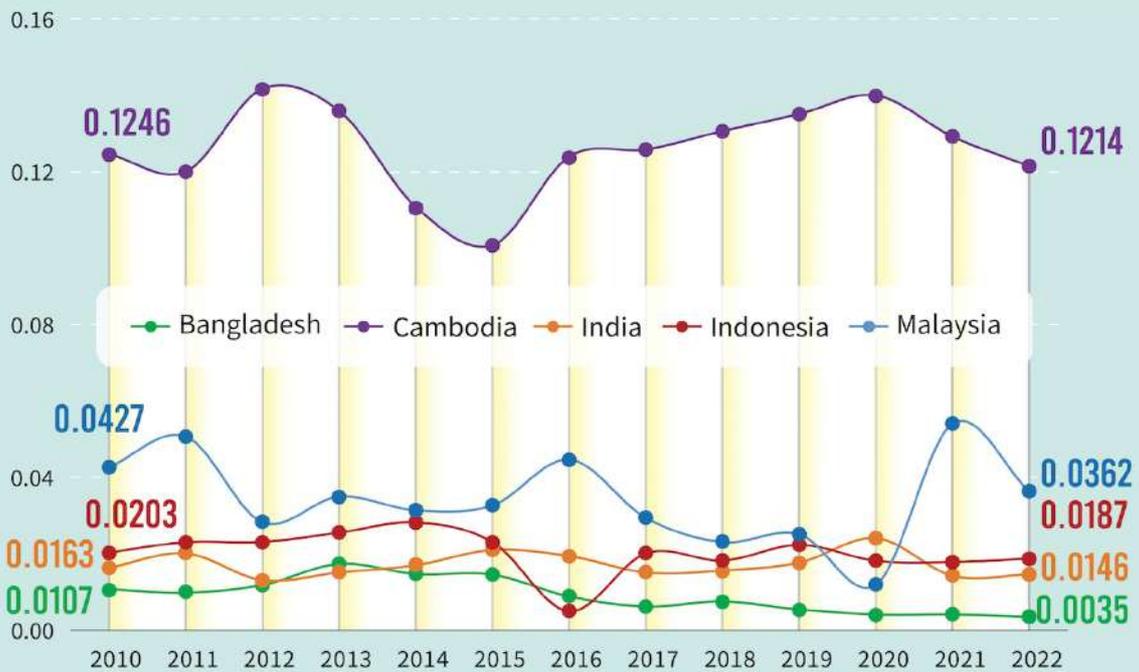
The comparison of Investment and GDP in terms of ratio shows that Cambodia has the highest invest-GDP ratio, whereas Bangladesh's is lowest. Thus, Cambodia enjoys FDI-based growth. On the other hand, it may be terms that Bangladesh has FDI-less growth.

Among the comparable countries, if we take Bangladesh and Malaysia, according to Ease of doing business index of the World Bank, Malaysia is the best destination for investors, followed by Indonesia, India, and Cambodia.

Bangladesh has improved its Corruption Perception Index over the last decade; however, it is still at the bottom of the comparable countries.

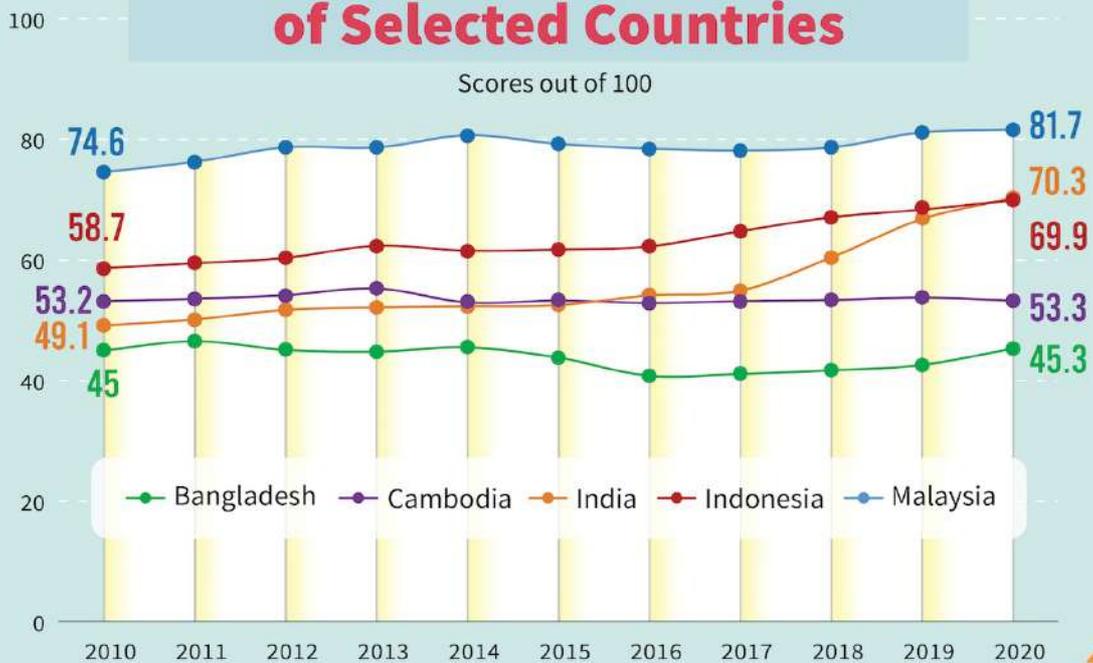


Investment-GDP Ratio of Selected Countries

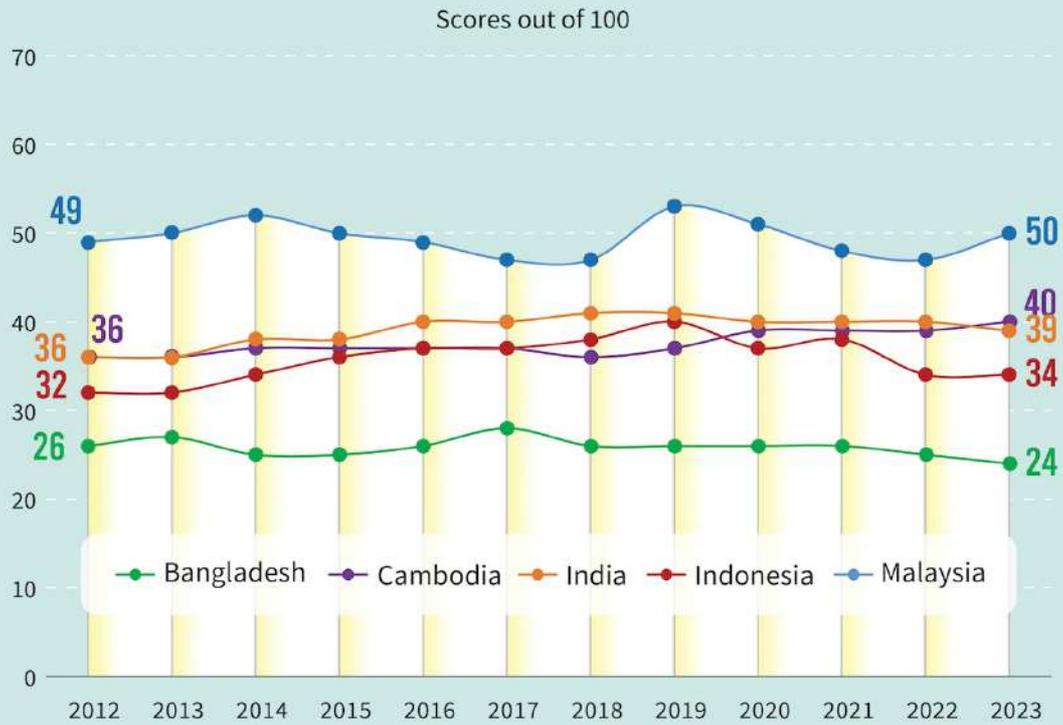


Source: World Bank

Ease of Doing Business Index of Selected Countries



Corruption Perception Index of Selected Countries



Source: Transparency International

Research by Dr. Ananya Raihan, Chief Imaginator, DataSense





IMF's Facilities and Possible Implications on Macroeconomic stability

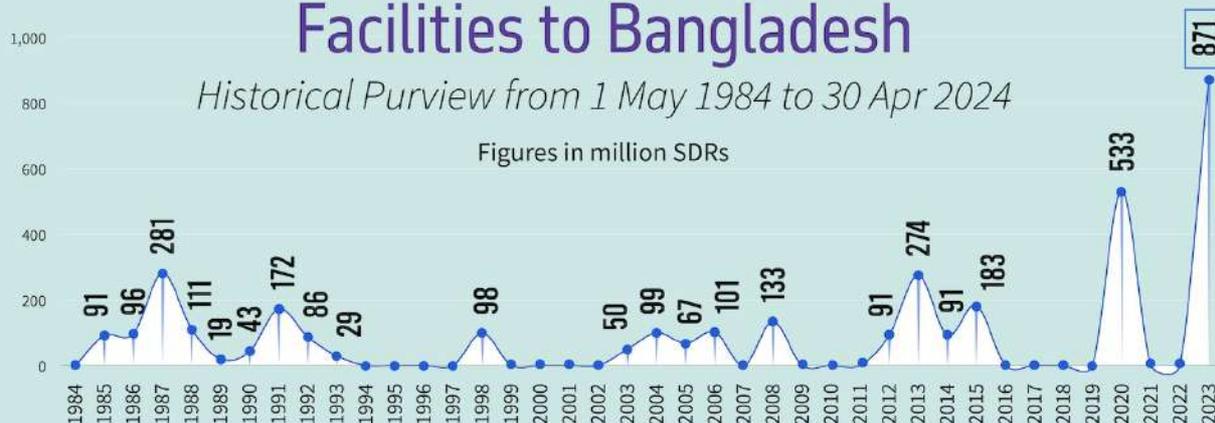
Bangladesh, since independence, entered into 14 arrangements with IMF. These arrangements typically involve purchases, repurchases, loans and technical assistance programs falling into three specific categories:

- a. GRA [General Resource Account]
- b. PRGT [Poverty Reduction and Growth Trust]
- c. RST [Resilience and Sustainability Trust]

Disbursement of IMF Facilities to Bangladesh

Historical Purview from 1 May 1984 to 30 Apr 2024

Figures in million SDRs

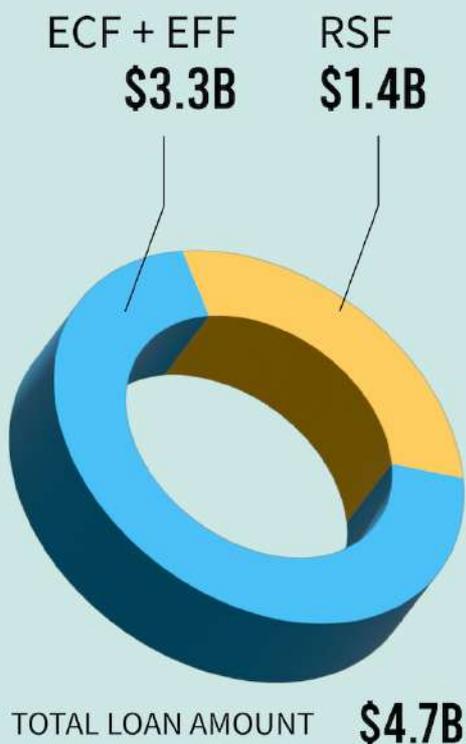


In the background of falling foreign reserve, for stabilization of balance of payment, IMF and Bangladesh Government agreed in January 2023 USD 4.7 billion loan, out of which USD 3.3 billion is under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangement, and an additional USD 1.4 billion is under the Resilience and Sustainability Facility (RSF). This agreement outlines a 42-month financial support program. The IMF's facility is highest in terms of amount since 1984. After 1980s, there is a cyclical pattern in availing the facilities [see above figure].

The officially set objectives for availing this facility are:

- a. **Preserving Macroeconomic Stability:** Restoring and maintaining stability in core economic indicators, such as inflation and exchange rates, for creating a more predictable environment for businesses and households.
- b. **Supporting Strong, Inclusive, and Green Growth:** Fostering robust economic growth that benefits all segments of Bangladeshi society, including creating opportunities for employment and poverty reduction, while also promoting environmentally friendly practices.
- c. **Protecting the Vulnerable:** Safeguarding vulnerable populations who are disproportionately affected by necessary economic adjustments.

Allocation of IMF facilities by Category



For the first time Bangladesh is receiving fund under **Resilience and Sustainability Facility (RSF)**, which was introduced in 2022. The RSF offers Bangladesh access to USD 1.4 billion, which will specifically support the country's vital climate investment needs. Bangladesh is the first country in Asia to be granted support through RSF.

Both Extended Credit Facility (ECF) and Extended Fund Facility (EFF)

are to be accessed for mitigating balance of payment problems, due to weak economic structures and slow growth. These loans come with policy recommendations aimed at fixing the root causes, like fiscal discipline or sectoral reforms. USD 3.3 Billion is the highest amount Bangladesh is accessing in the backdrop of anticipated acute balance of payment pressure.

CONDITIONALITIES OF IMF FACILITIES

- a. **Taming Inflation & Exchange Rates:** IMF conditions push Bangladesh to control inflation and stabilize exchange rates, fostering a predictable economic environment.
- b. **Boosting Sustainable Growth:** Focuses on long-term, environmentally friendly economic expansion that benefits all citizens.
- c. **Shielding Vulnerable Groups:** Protects those most at risk from economic hardships caused by rising global prices



Impact of IMF Conditionalities on Economy

Condition	High Level Action Item	Rationale by IMF	Major Specific Action Items	Potential Impact
1 Creating additional fiscal space	Higher Revenue Mobilization	Financing government spending without excessive borrowing	Increase tax-GDP ratio to 8.3.% by end of FY2024 and to 9.4% by FY2026	Positive
			Collection of Tax revenue at fixed rates	Unknown
			Discarding tax breaks for businesses (VAT & income tax) to boost government revenue starting next fiscal year. Thirty-three industries are enjoying various tax breaks	Negative for certain Priority Sectors
			Establishment of Compliance Risk Management Units	Positive
	Rationalization of expenditures	Cutting 'wasteful' subsidies	Elimination of energy subsidies by introduction of an automatic fuel pricing mechanism and potentially reducing overall subsidies	Negative
			Develop a policy paper outlining sustainable public procurement practices, including strategies to address air and plastic pollution	Mixed
		Increasing growth-enhancing spending.	No specific suggestions	Unknown
	Maintenance of fixed Foreign Reserves	Reduction of balance of payment and macroeconomic vulnerabilities	Mandatory implementation of IMF formula for calculating foreign reserves [by excluding, e.g., export development fund (EDF)] as a beginning	Positive
	Higher Social Spending	Freeing up funds from subsidy for investing in social programs, thus reducing impact on the vulnerable will be mitigated as result of subsidy withdrawal and other measures	No specific suggestions	Positive
	Quality of Social safety net programs	Ensuring resources reach those who need them most	Increasing the number of true beneficiaries and widening its coverage	Positive



Condition	High Level Action Item	Rationale by IMF	Major Specific Action Items	Potential Impact
2 Containing inflation and modernizing the monetary policy	Modernizing the monetary policy framework	Promoting macroeconomic stability and improve policy transmission.	The monetary stance to be guided by the inflation outlook	Positive
		Facilitating management of liquidity and promote stability in short-term interest rates.	Adoption of a corridor system for setting interest rates with automatic standing lending and deposit facilities	Mixed
	Increased exchange rate flexibility	Creating buffer from external shocks	Introduction of market-determined exchange rates for currencies	Mixed
3 Boosting growth potential	Expanding Trade & Investment	Sustaining GDP growth, increasing employment and reduction of poverty	Increasing trade and FDI	Positive
			Expanding and diversifying exports	Positive
			Publication of quarterly GDP data by BBS	Positive
			Enhancing investment climate.	Positive
	Governance	Enhance transparency and accountability within government institutions.	Complete Execution of Ibas++ software to ensure transparency in government spending	Unknown
			Enactment of Bankruptcy (Amendment) Act and The Financial Debt Courts Act 2020	Positive
	Deepening Financial Sector	Stopping anomalies, corruption, and loan frauds	Report to IMF on Bank Financial Health from Bangladesh, including data on rescheduled loans and non-performing loans (NPLs) in the annual financial stability report	Positive
			Greater number of inspections should be conducted	Unknown
	Development of Human Capital	Meeting the demand of a middle-income country and reduction of dependency on foreign expertise	Investment in education and training programs to improve the workforce's skills	Positive
	Enhancing Business Climate	Meeting the challenges of LDC graduation in FY26 and integration with the global financial system.	Creating conditions that are attractive and supportive for businesses to operate	Positive



Condition	High Level Action Item	Rationale by IMF	Major Specific Action Items	Potential Impact
4 Strengthening the financial sector	Strengthening Financial Sector	Reduction of vulnerabilities in the financial system and improving oversight to ensure its stability.	Bringing down the banking sector's default loans to within 10 percent and raising the capital adequacy ratio to the BASEL 3 requirement of 12.5 percent	Positive
	Enhance Regulatory Framework:	Modernizing regulations and governance practices to create a strong foundation for financial activities.	Ensuring International Financial Reporting Standards (IFRS) to transparency and accountability in the banking sector	Unknown
			Publishing a financial risk statement of the public banks and declaring the budget for the upcoming fiscal ("IMF sets conditions for major reforms in 2024 – Prothom Alo")	Unknown
			Completion of pilot of risk-based bank supervision	Positive
			Setting up an asset management company to dispose of soured loans	Unknown
	Stabilizing Liquidity		Providing access to IMF to lending and deposit programs for all banks, provided they have acceptable collateral for loans.	Unknown
Develop Capital Markets	Fostering the growth of capital markets to provide more avenues for financing economic growth.	No specific suggestions	Unknown	



Condition	High Level Action Item	Rationale by IMF	Major Specific Action Items	Potential Impact
5 Building climate resilience	Strengthening Institutions	Enhancing capacity to address challenges of climate change	Develop a policy paper outlining sustainable public procurement practices, including strategies to address air and plastic pollution.	Unknown
			Reinstating a 5 per cent supplementary duty on polythene bags and a new levy on single-use plastics	Unknown
	Enable Climate Investment	Creating an environment that encourages and facilitates large-scale investments in climate solutions	No specific suggestions	Unknown
			Issuance of guidelines by Bangladesh Bank for banks to report climate-related risks, following international recommendations.	Unknown
			Revamping green bond guidelines by Bangladesh Bank to fully match national climate goals (NAP)	Positive
	Mobilize Climate Finance	Attracting additional financial resources to support climate action	Imposing carbon tax on fossil fuels and advance income tax (AIT) on private motor vehicles and motorcycles	Negative
			Preparing a set of directives for eco-friendly banking and a plan for overall management including loan repayment	Positive

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