

**IMMEDIATE
ATTENTION**

SM/09/295
Supplement 2

December 23, 2009

To: Members of the Executive Board

From: The Secretary

Subject: **Bangladesh—Staff Report for the 2009 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2009 Article IV consultation with Bangladesh (SM/09/295, 12/23/09), which was circulated for approval on a lapse of time basis. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Bangladesh indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Miyazaki (ext. 36313) and Mr. Almekinders (ext. 34281) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat forthwith; and to the Asian Development Bank and the European Investment Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

BANGLADESH

Staff Report for the 2009 Article IV Consultation—Informational Annex

Prepared by the Asia and Pacific Department
(In consultation with other departments)

December 23, 2009

	Contents	Page
I.	Fund Relations	2
II.	Relations with the World Bank Group.....	4
III.	Relations with the Asian Development Bank	5
IV.	Statistical Issues	7
V.	Millennium Development Goals, 1990-2008	9

ANNEX I. BANGLADESH: FUND RELATIONS
(As of November 30, 2009)

I. **Membership Status:** Joined August 17, 1972; accepted the obligations under Article VIII, Sections 2, 3, and 4 on April 11, 1994.

II. General Resources Account:	<u>SDR million</u>	<u>Percent Quota</u>
Quota	533.30	100.00
Fund holding of currency	666.33	124.94
Reserve position in Fund	0.30	0.06

III. SDR Department:	<u>SDR million</u>	<u>Percent Allocation</u>
Net cumulative allocation	510.40	100.00
Holdings	464.04	90.92

IV. Outstanding Purchases and Loans:	<u>SDR million</u>	<u>Percent Quota</u>
Emergency Assistance	133.33	25.00
PRGF arrangements	301.88	56.61

V. **Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	6/20/03	6/19/07	400.33	316.73
ESAF	8/10/90	9/13/93	345.00	330.00
SAF	2/06/87	2/05/90	201.25	201.25

VI. **Projected Payments to the Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	2009	2010	2011	2012	2013
Principal	4.95	29.70	83.22	130.01	91.73
Charges/Interest	<u>0.76</u>	<u>3.22</u>	<u>2.93</u>	<u>1.93</u>	<u>0.86</u>
Total	<u>5.71</u>	<u>32.92</u>	<u>86.15</u>	<u>131.94</u>	<u>92.59</u>

VII. **Article IV Consultation**

The previous Article IV consultation was concluded on September 19, 2008 (IMF Country Report No. 08/334).

VIII. Safeguards Assessment

Under the Fund's safeguards assessment policy, Bangladesh Bank (BB) is subject to an assessment with respect to the PRGF arrangement, which was approved on June 20, 2003. A safeguards assessment of the BB was completed on January 24, 2005. The assessment concluded that substantial risks exist in the legal structure, financial reporting, internal audit, and internal control systems. Implementation of the measures by BB is monitored by staff.

IX. Exchange Arrangement

Exchange regime. The *de jure* exchange rate regime is a managed float. The *de facto* regime is stabilized.

Exchange restriction. At the last Article IV consultation, the Executive Board urged the authorities to adopt a timetable to remove the remaining exchange restriction on the convertibility and transferability of proceeds of current international transactions in nonresident taka accounts.

X. Resident Representative

The resident representative office was established in 1972. Ms. Eteri Kvintradze will take over as Resident Representative in February from Mr. Jonathan Dunn, who represented the Fund in Dhaka between August 2004 and December 2009.

XI. Technical Assistance

Since the last Article IV consultation, departments have continued to provide technical assistance (TA). Recent and prospective TA includes the following:

Department	Topic	Timing
LEG	Assistance with drafting tax laws	October 2008, January 2010
MCM	Foreign Exchange Market development	October 2008
	FSAP Update (joint with World Bank)	July 2009
	Central bank accounting/internal audit	Multiple visits, 2008-10
	Government debt market	Multiple visits, 2008-10
	Banking supervision	Resident advisor 2010
FAD	Debt management (joint with World Bank)	November 2009
STA	Trade statistics	January 2009
	National accounts statistics	Sept. 2009, 3 follow-up visits
	Price statistics	Two missions in 2010

ANNEX II. BANGLADESH: RELATIONS WITH THE WORLD BANK GROUP¹

1. The World Bank Group Program in Bangladesh consists of an integrated package of financial assistance including concessional IDA credits and IFC investments, along with complementary analytical and advisory services. Collaboration and coordination between the IMF and the World Bank on Bangladesh was described in last year's Article IV staff report.
2. Bangladesh is among the largest recipients of financial assistance from IDA. IDA's engagement in Bangladesh is guided by its Country Assistance Strategy which was discussed and endorsed the Bank's Board of Executive Director's in April 2006. The CAS supports a program of technical and financial assistance aimed at: (i) improving the investment climate and (ii) empowering the poor. Cutting across both these goals, was a focus on improving governance. During the CAS period, in line with its objectives, IDA committed US\$2.69 billion, of which around 40 percent went for improving the investment climate by strengthening infrastructure (energy, roads, transportation, water and sanitation), 17 percent for empowering the poor by improving the delivery of education and health services, and 25 percent for strengthening governance.
3. As part of this strategy, IFC provides direct support to the private sector in Bangladesh, with an emphasis on: (i) private infrastructure; (ii) energy, including investments in gas production and related infrastructure; (iii) manufacturing and service sector companies; and (iv) innovative private sector sponsored projects in health and education. IFC is also supporting the development of local capital markets and a competitive banking sector through direct investments and institution building. Furthermore, to promote SME development, IFC's regional SME Facility, the South Asia Enterprise Development Facility (SEDF), will continue to provide technical assistance to financial intermediaries, SMEs and the professional service firms that support these SMEs. A separate facility, the Bangladesh Investment Climate Facility (BICF), launched in 2007, will assist the Government of Bangladesh to reforms its Investment Climate.
4. Looking ahead, a new CAS is being prepared for Bangladesh covering (FY10-14). It will be aligned with the Poverty Reduction Strategy (PRS) II that is currently being finalized by the government. This new CAS will build on the World Bank Group's work in Bangladesh so far and also help the government deal with some emerging challenges. Specifically, the CAS is expected to focus on:

- Increased resilience to climate change impact.
- Improved Human Development and Social Protection
- Improved Environment for Private Sector Investment and Growth:

The CAS will also continue to focus on improving governance as a cross cutting issue given the important role it plays in strengthening service delivery.

¹ Prepared by World Bank staff. Contact person: Ms. Moorthy, Senior Economist, (SASEP).

ANNEX III. BANGLADESH: RELATIONS WITH THE ASIAN DEVELOPMENT BANK²

Lending and technical assistance operations

Bangladesh joined the Asian Development Bank (AsDB) in 1973 and, as of 31 December 2008, cumulative public sector lending amounted to almost US\$10 billion for 192 loans, with \$183 million for technical assistance (TA) grants for 331 projects. The country is one of the largest borrowers of concessional Asian Development Fund resources. The loans and TAs have supported all key sectors including energy, transport, social infrastructure, agriculture, and natural resources. AsDB has also supported eight private sector projects worth \$242 million, including the Meghnaghat Power Project—the first build-own-operate power project in the country—and GrameenPhone, which substantially expanded rural access to mobile phone services.

In 2008, the AsDB approved a total amount of US\$592 million in loans. This included loans to (i) enhance the capacity of the technical and vocational education and training system (US\$50 million); (ii) fill infrastructure financing gaps, encourage private sector investment, and promote public–private partnership in infrastructure (US\$165 million); (iii) support the improvement of urban governance, infrastructure and service delivery (US\$87 million); (iv) contribute to sustainable economic growth by minimizing the devastating impact of severe floods and a cyclone, and reducing future risk from similar disasters (US\$120 million); and (v) help expand targeted safety net programs (emergency assistance of US \$170 million).

Financial support from the AsDB is set to more than double in FY2010 from the level recorded in FY2009 (US\$599 million, see table). In October 2009, the AsDB approved a loan of US\$500 million under the countercyclical support facility (CSF, established in June 2009 to support AsDB's developing member countries needing to increase fiscal spending to counter the global economic crisis) and three loans totaling US\$244 million under the public expenditure support facility (PESF) for Bangladesh. The PESF loans will support government measures to introduce economic and social policy reforms essential for achieving higher and more inclusive long-term growth and strengthening social safety net programs.

ADB loan disbursements to Bangladesh, FY08-FY10 (in US\$m)			
	FY08	FY09	FY10 Projection
Project loans	289	535	545
Power sector	78	141	159
Gas Transmission and Development	9	18	94
Emergency Assistance	69	203	21
Other	133	173	272
Program loans	141	64	800
Power sector development	64	0	0
Good governance program	52	53	0
Emergency assistance	0	11	0
Countercyclical support	0	0	500
Public expenditure support	0	0	245
Other	25	0	55
Total loans	430	599	1,345

² Based on material provided by AsDB staff.

Country Partnership Strategy

The current results-based country partnership strategy (CPS), covering the period 2006–10, is part of a joint strategy prepared with the UK’s Department for International Development, Government of Japan, and World Bank. Under this CPS, the AsDB is playing a major role in the energy, transport, education, urban health, and urban water supply and sanitation sectors. In other areas, such as agriculture (i.e., agribusiness), water resources management, the financial sector and small- and medium-sized enterprise development, AsDB is supporting initiatives led by other development partners. Disaster mitigation, regional cooperation, gender, and environment continue to be addressed as key crosscutting issues. The CPS emphasizes designing projects that are better prepared for implementation. This means projects that are simpler; take into consideration capacity constraints; and include covenants that are realistic, focused, and properly sequenced.

The Bangladesh country operations business plan for 2010-2012, approved in August 2009, comprises 25 projects totaling about US\$2.4 billion, including assistance for construction of the Padma Multipurpose Bridge and promoting regional cooperation in South Asia. The TA program for 2010-2012 consists of 29 projects, with an annual allocation of about of \$6.2 million.

Cofinancing operations enable AsDB’s financing partners—governments or their agencies, multilateral financing institutions, and commercial organizations—to participate in financing AsDB projects. The additional funds are provided in the form of grants, official loans, or credit enhancement products. In 2008, the Emergency Disaster Damage Rehabilitation (Sector) Project was provided with US\$80 million loan cofinancing, of which US\$60 million was from Japan and US\$20 million was from the OPEC Fund for International Development. This project was also provided US\$10 million in grant cofinancing from Canada. Switzerland provided US\$6 million and US\$2.5 million in grant cofinancing for the Skills Development Project and Post-Literacy and Continuing Education (Supplementary) Projects, respectively. As of year-end 2008, cumulative direct value-added cofinancing for Bangladesh amounted to US\$1.2 billion for 26 investment projects, and US\$58.4 million for 68 TA projects.

Economic and sector work program

Each year, the AsDB publishes its *Asian Development Outlook*, in which it assesses macroeconomic performance. AsDB’s Bangladesh Resident Mission also publishes the *Bangladesh Quarterly Economic Update*. A bimonthly *Economic Indicators Update* has also been launched. In support of AsDB’s Country Partnership Strategy (2006-2010) exercise, several thematic assessments and sector studies were completed. These include: thematic assessments for poverty, growth, and poverty reduction, private sector development, governance, environment, and gender, and various sector studies.

ANNEX IV. BANGLADESH—STATISTICAL ISSUES As of December 9, 2009	
I. Assessment of Data Adequacy for Surveillance	
<p>General: Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected areas are national accounts, fiscal and trade statistics.</p>	
<p>Real Sector Statistics: The paucity of source data remains the principal impediment to improving national accounts statistics and adversely affects the ability of the Bangladesh Bureau of Statistics (BBS) to absorb technical assistance aimed at improving compilation techniques. The BBS does not conduct an annual national accounts survey of business enterprises, and source data are primarily from benchmark surveys, a census of manufacturing establishments conducted every two years, and biannual household expenditure surveys. Many of the benchmark surveys were conducted over five years ago and are based on outdated sample frames.</p> <p>The shortcomings in the data also affect compilation practices. And a system of price indices for estimating national accounts at constant prices needs to be developed. A September 2009 TA mission developed and agreed a detailed work program with the BBS for undertaking the exercise of updating the base year from 1995/96 to 2005/06 and creating a comprehensive benchmark estimate and new series with the new base year.</p>	
<p>Price statistics: The CPI and PPI weights are outdated, which introduces uncertainty.</p>	
<p>Government finance statistics: A 2008 STA multi-sector mission recommended additional actions to strengthen the analytical usefulness of fiscal data, including to: improve the integration of debt stocks and related financial flows; sensitize donors to the need to promptly provide complete data on Direct Project Assistance; and establish an inter-agency committee to prepare a migration plan to the <i>GFSM2001</i>.</p>	
<p>Monetary statistics: Bangladesh Bank compiles monetary data using the standardized report forms (SRFs) framework. The SRFs are reported electronically to the IMF on a regular basis. As a result a consistent time series based on SRF data is available from December 2001.</p>	
<p>Balance of Payments: In the area of goods transactions, the data are collected from different data sources—exports are based on information from customs declarations and imports are based on foreign exchange settlements. But efforts are underway to unify the source data based on customs declarations only, in line with STA's recommendations. This should help resolve inconsistencies with the national accounts, where customs trade data are used in compiling net exports of goods and services.</p>	
II. Data Standards and Quality	
Participant in the GDDS since March 2001.	The Data Module of the ROSC was published in December 2005.

Bangladesh: Table of Common Indicators Required for Surveillance
December 15, 2009

	Date of latest observation	Date received	Frequency of data ⁷	Frequency of reporting ⁷	Frequency of publication ⁷	Memo Items:	
						Data Quality-Methodological soundness ⁸	Data Quality-Accuracy and reliability ⁹
Exchange Rates	12/15/09	12/15/09	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	12/14/09	12/15/09	D	D	D		
Reserve/Base Money	12/14/09	12/15/09	D	D	M	O, O, LO, LO	O, LO, O, O, O
Broad Money	Oct. 2009	12/14/09	M	M	M		
Central Bank Balance Sheet	Oct. 2009	12/14/09	W/M	W/M	M		
Consolidated Balance Sheet of the Banking System	Oct. 2009	12/14/09	M	M	M		
Interest Rates ²	12/14/09	12/15/09	W	W	D		
Consumer Price Index	Sept. 2009	11/25/09	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	n/a	n/a	n/a	n/a	n/a	O, LO, LNO, LO	LO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	June 2009	9/30/09	M/Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Aug. 2009	11/11/09	M	M	M		
International Investment Position ⁶	2008	June 2009	A	A	A		
External Current Account Balance	Sept 2009	Nov. 2009	M	M	M	O, LO, O, LO	LO, LO, LO, O, O
Exports and Imports of Goods and Services	Oct. 2008	Dec. 2009	M	M	M		
GDP/GNP	FY2008/09	June 2009	A	A	A	O, LNO, LO, LO	LNO, LO, LNO, LNO, O
Gross External Debt	Jun. 2009	Sept. 2009	A	A/M	A		

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

⁸Reflects the assessment provided in the data ROSC published on December 8, 2005, and based on the findings of the mission that took place during March 2–16, 2005 for the dataset corresponding to the variables in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁹Same as footnote 8, except referring to international standards concerning source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Annex V. Bangladesh: Millennium Development Goals, 1990–2008 1/

	Base 1990-95	Current 2000-02	Target 2005-09	Target 2015	Status
Goal 1: Eradicate extreme poverty and hunger					
Goal will probably be met					
Target 1: Halve by 2015 the proportion of people living below the poverty line					
Poverty headcount ratio	59	50	40	29	On Track
Poverty gap ratio	17	13	9	8	On Track
Share of income or consumption held by poorest 20 percent (percent)	7	...	5	...	
Target 2: Halve by 2015 the proportion of people who suffer from hunger					
Prevalence of child malnutrition (percent of children under 5)	67	51	40	33	On Track
Population below minimum level of dietary energy consumption (percent)	28	...	20	14	On Track
Goal 2: Achieve universal primary education					
Goal will probably be met					
Target 3: Ensure that all boys and girls complete a full course of primary schooling					
Net enrollment ratio in primary education	61	83	87	100	On Track
Percentage of cohort reaching grade 5 (percent)	43	...	67	100	Needs attention
Adult literacy rate	37	39	54	100	Needs attention
Goal 3: Promote gender equality and empower women					
Goal will probably be met					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and at all levels by 2015					
Ratio of girls to boys in primary and secondary education (percent)	77	104	106	100	Achieved
Ratio of girls to boys in tertiary education (percent)	33	56	56	100	Needs attention
Ratio of literate females to males (percent of ages 20–24)	65	77	71	100	Needs attention
Share of women employed in the nonagricultural sector (percent)	41	...	59	50	On track
Proportion of seats held by women in national parliament (percent)	10	...	15	...	
Goal 4: Reduce child mortality					
Goal will probably be met					
Target 5: Reduce by two thirds by 2015 the under 5 mortality rate					
Under 5 mortality rate (per 1,000)	151	82	62	50	On track
Infant mortality rate (per 1,000 live births)	94	56	45	31	On track
Immunization, measles (percent of children under 12 months)	54	69	87	100	On track
Goal 5: Improve maternal health					
Goal will probably be met					
Target 6: reduce by three quarters, by 2015, the maternal mortality ratio					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	574	320-400	290	147	On track
Births attended by skilled health staff (percent of total)	5	12	20	50	Needs attention
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Goal will potentially be met					
Target 7: Have halted by 2015 and begin to reverse the spread of HIV/AIDS					
Contraceptive prevalence rate (percent of women ages 15–49)	40	...	58	...	Insufficient data
Target 8: Have halted by 2015 and begin to reverse the incidence of malaria and other major diseases					
Notified cases of malaria per 100,00 population	42	...	34	...	Insufficient data
Incidence of tuberculosis (per 100,000 people)	...	233	406	...	Insufficient data
Tuberculosis cases detected under DOTS (percent)	34	34	71	100	On track
Goal 7: Ensure environmental sustainability					
Goal will potentially be met					
Target 9: Integrate the principles of sustainable development into country policies and reverse the loss of environmental resources					
Forest area (percent of total land area)	9.0	10.2	13.0	20	Needs attention
Nationally protected areas (percent of total land area)	...	0.0	2.0	...	Insufficient data
Energy use(kg oil equivalent) per \$1,000 (PPP)	123.2	92.4	Insufficient data
CO2 emissions (metric tons per capita)	0.1	0.2	0.3	...	Low contribution 2/
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and sanitation					
Proportion of urban population with access to safe drinking water	98.8	82.0	99.9	100	On track
Proportion of rural population with access to safe drinking water	93.1	72.0	79	96.5	Needs attention
Proportion of urban population with access to sanitary latrines	56.2	56.0	88.0	85.5	On track
Proportion of rural population with access to sanitary latrines	15.3	29.0	85.0	55.5	On track
Target 11: By 2020 have achieved a significant improvement in the lives of at least 100 million slum dwellers					
Proportion of households with access to secure tenure	36.4	...	Insufficient data
Goal 8: Develop a global partnership for development					
Goal will potentially be met					
Target 12: Develop and implement strategies for decent and productive work for youth					
Youth unemployment rate (percent of total labor force ages 15–24)	2.9	8.0	13.4	...	Needs attention
Target 13: Make available the benefits of new technologies, specially information and communication					
Fixed line and mobile telephones (per 100 people)	0.2	1.3	13.6	...	On track
Internet users (per 100 people)	...	0.2	0.2	...	Insufficient data
General indicators					
Population (in millions)	104.0	131.5	142.5	...	
Gross national income (in billions of U.S. dollars)	31.0	49.6	79.6	...	
GNI per capita (in U.S. dollars)	300.0	380.0	487.0	...	

Sources: Bangladesh Planning Commission and United Nations Development Program

1/ In some cases the data are for earlier or later years than those stated.

2/ The country makes low contribution to the CO2 emission in global context