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Bangladesh Development Update

New Frontiers in Poverty Reduction

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Table of Contents

Boxes

Tables

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Abbreviations

ADP	Annual Development Program
ADR	Advance-to-Deposit Ratio
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDT	Bangladeshi Taka
BMET	Bureau of Manpower, Employment, and Training
BoP	Balance of Payment
BPM6	Balance of Payments Manual 6
BSEC	Bangladesh Securities and Exchange Commission
CAD	Current Account Deficit
CBN	Cost of Basic Needs
CBPS	Cox's Bazar Panel Survey
CY	Calendar Year
DRP	Displaced Rohingya Population
DSA	Debt Sustainability Analysis
DSE	Dhaka Stock Exchange
EDF	Export Development Fund
EMDE	Emerging Market and Developing Economies
EPZ	Export Promotion Zone
FDI	Foreign Direct Investment
FSR	Financial Stability Report
FX	Foreign Exchange
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
HIES	Household Income and Expenditure Survey
IMF	International Monetary Fund
IPO	Initial Public Offerings
IRC	Interest Rate Corridor
LC	Letters of Credit
LDC	Least Developed Country
LLP	Loan Loss Provision
MLT	Medium and Long-Term
MPI	Multidimensional Poverty Index
MPS	Monetary Policy Statement
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NPL	Non-Performing Loan
NSC	National Savings Certificate
PPP	Purchasing Power Parity
PTA	Preferential Trade Arrangement
PSPR	Poverty and Shared Prosperity Report
QLFS	Quarterly Labour Force Survey
RMG	Ready-made garments
ROA	Return on Asset
ROE	Return on Equity
SMART	Six Month Moving Average Rate of Treasury Bills
SME	Small and Medium Enterprises
SOE	State-owned Enterprises
TCB	Trading Corporation of Bangladesh
VAT	Value-added Tax
WRI	Wage Rate Index
WASH	Water, Sanitation, and Hygiene
WFP	World Food Programme

Executive Summary

Bangladesh navigated the COVID-19 pandemic shock with prudent macroeconomic policies, but now faces a significant balance of payments (BoP) deficit and rising inflationary pressure. Elevated commodity prices and synchronous global monetary policy tightening in the aftermath of Russia's invasion of Ukraine contributed to a widening BoP deficit and a sharp decline in foreign exchange (FX) reserves from the second half of FY22. Domestic policies exacerbated the impacts of external pressure, including the introduction of multiple exchange rates, and de facto caps on deposit and lending rates.

Consequently, real GDP growth slowed to 6.0 percent in FY23 from 7.1 percent in FY22, based on Bangladesh Bureau of Statistics (BBS) provisional estimates. On the supply side, industrial production slowed due to disruptions in the imports of raw materials, higher energy prices, and power and gas shortages. On the demand side, private consumption and investment growth slowed as a result of high inflation and rising uncertainty. The trade deficit narrowed, supported by import compression and resilient export growth. Inflation accelerated following an increase in administered energy prices and depreciation of the currency.

Bangladesh Bank (BB) adopted a contractionary monetary policy to reduce inflation. However, monetary policy transmission was impaired by caps on lending interest rates. Private sector credit growth decelerated amid tighter liquidity conditions, reduced demand for trade finance, and rising uncertainty. Public sector credit growth surged due to the government's heightened borrowing from the banking sector, partially the result of a shift away from National Savings Certificates (NSCs). Liquidity within the banking system remained constrained due to BB dollar sales and declining deposit growth, driven by negative real interest rates and weak depositor confidence. Banking sector vulnerabilities deepened, with a rise in stressed assets.

The external sector remained under pressure. The Current Account Deficit (CAD) narrowed in FY23 to US $3.3 billion from US$ 18.6 billion in FY22, supported by resilient export growth and import suppression measures. However, the financial account moved into deficit, as trade credit and medium- and long-term borrowing contracted sharply. As a result, the Balance of Payments (BoP) deficit widened to US$ 8.2 billion in FY23, up from US$ 6.7 billion in FY22. Exchange rate flexibility was insufficient to clear the FX market, despite modest depreciation. BB sold US dollars at an accelerated rate, depleting FX reserves by US$ 9.8 billion in FY23.

The estimated fiscal deficit widened to 5.3 percent of GDP in FY23 from 4.6 percent of GDP in FY22 as expenditure growth outpaced revenue growth. Tax collection stagnated, primarily due to declining trade-related taxes resulting from falling imports. Expenditure growth was driven by subsidies and incentive payments. Deficit financing from domestic banks increased, as net sales of National Savings Certificates (NSCs) declined following a reduction in NSC interest rates and stronger enforcement of purchase limits. Public debt as a share of GDP increased but remained sustainable at 35.3 percent of GDP.

Global economic growth is set to slow to 2.1 percent in CY23, amid continued monetary policy tightening to rein in high inflation, before a tepid recovery to 2.4 percent in CY24. In Bangladesh, GDP growth is projected to decelerate to 5.6 percent in FY24, before reverting to a higher long-term trend. Absent policy tightening, inflation is likely to remain elevated in the near term and gradually subside if import prices stabilize in the medium term. External pressure is expected to persist in FY24, contingent on global economic conditions and additional exchange rate flexibility. The fiscal deficit is expected to remain within the government's target of 5.5 percent of GDP, with a moderate increase in revenues. Downside risks to the outlook are significant, including rising inflation, slowing demand in major export markets, and further increases in financial sector vulnerabilities.

In the near term, monetary and exchange rate policy changes are needed to reverse the decline of reserves and contain inflationary pressure. Measures to address growing financial sector vulnerabilities are needed, including improving bank supervision, adopting international standards, and strengthening corporate governance and management across the sector. Addressing longstanding structural reforms could accelerate the pace of the recovery and strengthen resilience to future shocks. Bangladesh's expected graduation from the UN's Least Developed Country (LDC) status in 2026 will present new challenges. Bangladesh will need to strengthen its trade competitiveness, expand bilateral and multilateral free trade agreements, strengthen financial sector stability and soundness, improve business climate to attract investment, improve domestic resource mobilization, address climate change adaptation and mitigation, and improve the governance framework. Reforms in these priority areas would promote Bangladesh's development and accelerate poverty reduction.

The special focus section of this report discusses Bangladesh's progress in poverty reduction based on the recent Household Income and Expenditure Survey (HIES) data. Bangladesh's recent economic growth has made a significant impact on poverty reduction. Between 2016 and 2022, poverty and extreme poverty rates fell by 1.3 and 0.6 percentage points per annum to reach 30.0 percent and 5.0 percent, respectively. Poor households today enjoy similar levels of physical capital as non-poor households did in 2010, particularly in terms of access to electricity and water, sanitation levels, and improved housing. While this progress is encouraging, several challenges remain. There were no significant changes in inequality from 2016-22, with the Gini coefficient increasing marginally to 33.4. Consumption growth among the country's urban population is growing faster for better-off households than for poorer households. More poor have moved into urban areas, compounding the stubborn inequality gap in urban consumption. Promoting a more equitable approach to issues such as education and land ownership will help promote social mobility and close Bangladesh's persistent inequality gaps.

Recent Developments

Context

Bangladesh navigated the COVID-19 pandemic shock with prudent macroeconomic policies, but now faces a significant balance of payments (BoP) deficit and rising inflationary pressure. Elevated commodity prices and synchronous global monetary policy tightening in the aftermath of Russia's invasion of Ukraine contributed to a widening BoP deficit and a sharp decline in foreign exchange (FX) reserves from the second half of FY22. Domestic policies exacerbated the impacts of external pressure, including the introduction of multiple exchange rates, and de facto caps on deposit and lending rates. To support key policy reforms, authorities requested additional World Bank budget support, and an IMF program was approved in January 2023.

Real Sector

The post-pandemic recovery decelerated in FY23. On the supply side, industrial production slowed due to disruptions in the imports of raw materials, higher energy prices, and power and gas shortages. On the demand side, private consumption and investment growth slowed as a result of high inflation and rising uncertainty. The trade deficit narrowed, supported by import compression and resilient export growth. Inflation accelerated following an increase in administered energy prices and depreciation of the currency.

Table 1: Contributions to Growth

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23e
GDP Growth	**7.1**	**6.6**	**7.3**	**7.9**	**3.4**	**6.9**	**7.1**	**6.0**
Contribution of Production Sectors (%)								
Industry	4.2	2.6	3.2	3.8	1.2	3.5	3.4	2.9
Services	3.6	3.3	3.3	3.5	2.0	2.9	3.1	2.9
Agriculture	-0.9	0.4	0.5	0.4	0.4	0.4	0.4	0.3
Import duty	0.3	0.3	0.3	0.2	-0.2	0.2	0.2	-0.1
Contribution of Expenditure Components (%)								
Consumption	**2.6**	**4.6**	**6.6**	**4.1**	**2.1**	**5.7**	**5.3**	**2.5**
Private consumption	2.1	4.2	6.3	3.3	2.0	5.3	5.0	2.3
Government consumption	0.5	0.4	0.3	0.8	0.1	0.4	0.4	0.2
Investment	**2.7**	**2.5**	**3.7**	**2.2**	**1.3**	**2.6**	**3.8**	**0.6**
Private Investment	2.4	1.4	3.4	2.2	0.1	1.9	2.9	0.4
Government Investment	0.3	1.2	0.3	0.0	1.2	0.7	0.8	0.2
Resource Balance	**1.7**	**-1.2**	**-3.3**	**1.4**	**-0.2**	**-1.5**	**-2.2**	**2.8**
Exports, goods & services	0.3	-0.3	0.8	1.5	-2.3	1.0	3.1	2.0
Imports, goods & services	-1.4	0.9	4.1	0.1	-2.1	2.4	5.3	-0.8
Statistical discrepancy	0.1	0.6	0.3	0.2	0.3	0.1	0.2	0.1

Source: Bangladesh Bureau of Statistics (BBS), estimates for FY23 based on provisional data.

Real GDP growth slowed to 6.0 percent in FY23 from 7.1 percent in FY22, based on Bangladesh Bureau of Statistics (BBS) provisional estimates. On the supply side, the slowdown was driven by the industrial and services sectors. The industrial production index slowed from 11.9 percent in FY22 to 5.1 percent in FY23 as a result of import restrictions, rising raw material costs, increased energy prices, and electricity and gas disruptions. Though the construction of large mega projects continued, private sector construction activity slowed due to elevated raw material prices and the estimated industrial growth slowed from 9.9 percent in FY22 to 8.2 percent in FY23. Agricultural growth slowed modestly from 3.2 in FY22 to 3.1 percent in FY23, but a robust public food stock supported food security.

The global economy remains in a precarious state amid the protracted effects of the overlapping negative shocks of the pandemic, the Russian invasion of Ukraine, and the sharp tightening of monetary policy to contain

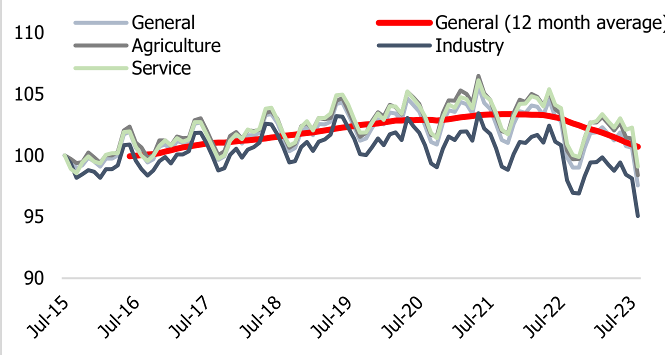
high inflation.[1] Growth in advanced economies in late 2022 and early 2023 slowed less than expected, as tight labor markets supported robust wage growth and prevented a sharper slowdown in consumption. In many emerging market and developing economies (EMDEs), external demand was supported by the pickup in growth in China and unexpected resilience in advanced economies. Indicators of domestic demand, such as consumer confidence, have started to recover but remain weak in EMDEs. Tighter financial conditions have weighed on activity in sectors more sensitive to interest rates, such as construction and industrial production, both of which have been subdued.

Table 2: Global Growth and Commodity Prices

Real GDP Growth (%)	2020	2021	2022e	2023f	2024f
World	-3.1	6.0	3.1	2.1	2.4
USA	-2.8	5.9	2.1	1.1	0.8
Euro Area	-6.1	5.4	3.5	0.4	1.3
Saudi Arabia	-4.3	3.9	8.7	2.2	3.3
Commodity Prices					
Crude Oil, Brent ($/bbl)	42.3	70.4	99.8	84.0	86.0
Coal, Australia ($/mt)	60.8	138.1	344.9	200.0	155.0
Liquified Natural gas, Japan ($/mmbtu)	8.3	10.8	18.4	18.0	16.0
Fertilizer, TSP ($/mt)	265	538	716	560	510
Cotton ($/kg)	1.6	2.2	2.9	2.2	2.2
Iron ore ($/dmt)	108.9	161.7	121.3	115.0	110.0
Soybean oil ($/mt)	838	1,385	1,667	1,120	1,105

Source: Global Economic Prospects (June 2023); and Commodity Markets Outlook (April 2023)

Fig 1: Real Wages by Major Sector (Low Paid / Unskilled)



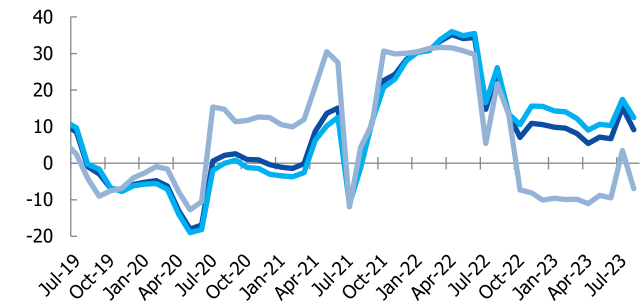
Source: BBS Wage Indices; WB Staff inflation adjustment

On the demand side, private consumption and investment growth slowed in Bangladesh. A surge in inflation eroded consumer purchasing power, contributing to a deceleration in estimated private consumption from 7.5 percent to 3.5 percent. The Wage Rate Index illustrates the pernicious effects of inflation on purchasing power. The 12-month moving average of the Wage Rate Index of lower-income skilled and unskilled wages declined sharply in FY23, indicating a decline in real wages. (Figure 1). Slowing private consumption was also reflected in an 8.6 percent decline in consumer goods imports and weak domestic VAT collection. Similarly, private investment growth declined by an estimated 10.4 percentage points to 1.4 percent in FY23. Import restrictions and FX constraints contributed to a 17.2 percent decline in capital goods. Private sector credit growth slowed to 10.8 percent, remaining below the Bangladesh Bank's 14.1 percent target. Public investment slowed, as ongoing construction megaproject investments were offset by the deferral of lower-priority development projects. Government consumption growth remained subdued, with modest public sector wage gains and ongoing austerity measures.

[1] World Bank, 2023. Global Economic Prospects, June 2023.

Export growth was resilient in FY23, as Bangladesh continued to gain readymade garment (RMG) market share. Merchandise exports earnings increased by 6.7 percent (y-o-y) in FY23, driven by a 10.3 percent increase in RMG exports. Bangladesh gained RMG market share from China (WTO, 2023), while unit prices increased modestly, supported by taka depreciation. Exports remained highly concentrated, with 84.6 percent of total exports from the RMG and 62.9 percent of total exports going to the USA and the EU. Non-RMG exports declined by 9.5 percent, led by leather and leather products (declining by 1.7 percent), jute and jute goods (declining by 19.1 percent), home-textile (declining by 32.5 percent) and agricultural products (declining by 27.5 percent). Increase in production costs due to expensive raw materials, rising freight costs, and fall in demand from certain markets (i.e., Turkey and Sudan for jute goods) led to this decline.

Fig 2: Exports, RMG, and Non RMG Growth (y-o-y)
Percent



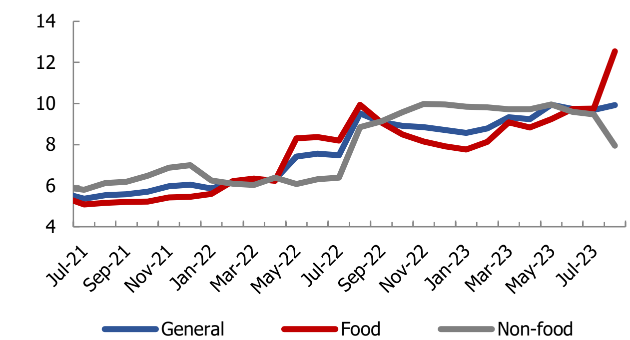
Source: Export Promotion Bureau

Import compression complemented the resilient export growth to reduce the trade deficit. Merchandise imports contracted by 15.5 percent in FY23 as a result of widespread restrictions on issuance of letters of credit, controls on non-essential and luxury items, and weaker demand. This decline was evident across all import categories, including capital goods (17.2 percent decline), intermediate goods (19.9 percent), and consumer goods (8.6 percent). The decrease in capital goods imports can be attributed to diminished private investment, public sector austerity measures, and project execution delays. As a result, trade deficit narrowed to US$ 17.1 billion at the end of FY23 from US$ 33.3 billion one year earlier.

Inflation

Inflation accelerated, reaching 9.9 percent in August 2023 (Figure 3). Food inflation accelerated to 12.5 percent in August 2023, while non-food inflation reached 8 percent. Non-food inflation was led by double-digit increases in housing, energy, utility, household equipment, and recreation related prices. To help offset the impact of rising prices, the state-owned Trading Corporation of Bangladesh (TCB) has started distributing subsidized essential food items to 10 million low-income families from July 2023.

Fig 3: Inflation (Base: 2021-22, y-o-y, %)
Percent



Source: Bangladesh Bureau of Statistics

Inflationary pressure accelerated as a result of external and domestic factors. External factors include supply chain disruptions following Russia's invasion of Ukraine and higher international commodity prices. Domestic factors include a 16 percent depreciation of the taka against the US dollar in FY23, and persistent FX shortages that have led to import restrictions. A 179 percent increase in the administered gas for the industrial sector, coupled with an increase in administered electricity prices led to higher prices for manufactured products. Higher administered diesel prices affected irrigation and the prices of agricultural products. A more than 40 percent increase in the administered prices of petroleum products in the domestic market impacted transportation costs, which, in turn, affected retail prices.

Poverty and welfare

Economic growth supported a continued reduction in poverty and improving living conditions. The estimated incidence of poverty declined between CY16 and CY22. Moderate poverty (at $3.65 per person per day in 2017 PPP) declined by 1.6 percentage points annually over this period, while extreme poverty (at $2.15) declined by 0.6 percentage points annually. Non-monetary dimensions of well-being have also improved, including reductions in infant mortality, stunting, and adolescent fertility. Access to electricity, improved sanitation facilities, and enhanced access to education have also increased. Labor force participation increased in the agricultural sector between FY17 and FY22, but it declined in the industrial and service sectors.[2] Female labor force participation also increased from 36.3 percent to 42.7 percent over this period.

Welfare challenges facing the displaced Rohingya population (DRP) persist. This group depends on assistance for approximately 70 percent of consumption. Food insecurity and child malnutrition are expected to worsen following recent cuts to World Food Programme (WFP) food assistance. Data from the Cox's Bazar Panel Survey (CBPS) Round 2 (2023) suggest that after the first cuts in early 2023, over one-third of Rohingya households resorted to eating less preferred food, with 15 percent restricting adult food consumption and 23 percent reducing portion sizes.

Monetary and Financial Sector Developments

Bangladesh Bank (BB) adopted a contractionary monetary policy to reduce inflation. However, monetary policy transmission was impaired by caps on lending interest rates. Private sector credit growth decelerated amid tighter liquidity conditions, reduced demand for trade finance, and rising uncertainty. Public sector credit growth surged due to the government's heightened borrowing from the banking sector, partially the result of a shift away from National Savings Certificates (NSCs). Liquidity within the banking system remained constrained due to BB dollar sales and a decrease in deposits, driven by negative real interest rates and dwindling depositor confidence. Banking sector vulnerabilities has exacerbated with a rise in stressed assets.

Table 3: Monetary Program Performance

	FY19	FY20	FY21	FY22	FY 23	
	Actual	Actual	Actual	Actual	Target (Jun-23)	Actual(p) (Jun-23)
Net Foreign Assets	2.1	10.2	27.7	-11.9	-2.1	-13.0
Net Domestic Assets	12.3	13.4	9.3	17.2	16.0	16.9
Domestic credit	12.4	13.7	10.4	16.2	18.2	15.1
Public Sector credit	21.7	53.4	21.7	29.1	36.0	35.0
Private Sector credit	11.3	8.6	8.3	13.7	14.1	10.6
Broad Money	9.9	12.7	13.6	9.4	12.1	10.5
Reserve Money	5.3	15.7	22.4	-0.3	9.0	10.5
Inflation (end of period average)	5.5	5.6	5.6	6.1	7.5	9.6
Growth	7.9	3.4	6.9	7.1	6.5	-

Source: Bangladesh Bank and Bangladesh Bureau of Statistics.

BB announced a contractionary monetary policy on June 18, 2023 (Box 1). The new Monetary Policy Statement (MPS) for July to December 2023 aims to contain inflation while fostering greater flexibility in interest and exchange rates. The main policy rate (repo rate) was tightened by 50 basis points to 6.50 percent. This adjustment marks a continuation of a tightening cycle that commenced in May 2022, with a cumulative increase of 175 basis points. However, monetary policy transmission was impaired by an ongoing cap on lending rates, which

[2] Based on a provisional BBS report on the 2022 Quarterly Labour Force Survey (QLFS).

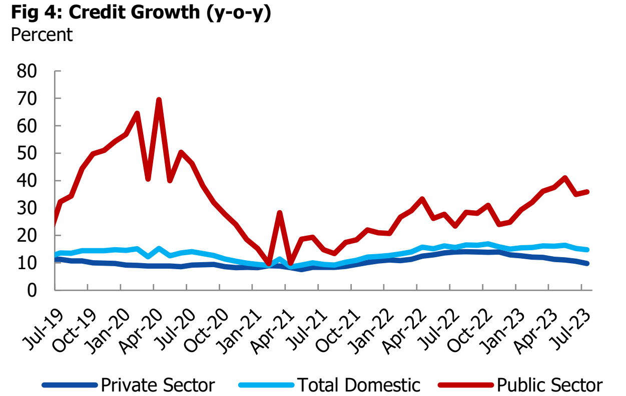
transitioned from a fixed 9 percent cap to a new floating cap based on a reference rate. The real policy rate remains deeply negative.

Box 1: Policy updates on interest rates and exchange rates
• *Transition to interest rate targeting:* BB will transition from monetary targeting to an interest rate targeting framework. The framework focuses on the policy interest rate as the primary target. The objective will be to maintain the interbank call money rate in close proximity to the policy rate. For that, the BB will implement a symmetric Interest Rate Corridor (IRC) centered on the policy rate (repo rate) of 6.5 percent. The upper and lower limit of the IRC is set within the 200 basis points limit of the policy rate, at 8.5 percent and 4.5 percent, respectively. This means that banks and non-bank financial institutions (NBFIs) can borrow from the BB at interest rates ranging from 6.5 to 8.5 percent, depending on the tenor or other specific criteria determined by the BB. On the other hand, these institutions can deposit surplus cash with BB at an interest of 4.5 percent. This IRC is expected to ensure that the short-term interbank call money rate remains around the policy rate.
• *Transition from fixed to variable lending rate cap:* A 9 percent lending rate cap on most categories of commercial lending has been replaced with a variable rate cap. BB introduced a 'six month moving average rate of treasury bills' (SMART) reference rate, which will be announced on the first working day of each month. Major categories of bank lending rates will be limited to 3 percent above SMART. However, SMART shows no obvious relationship with the policy rate, limiting its utility in improving monetary policy transmission. Furthermore, extensive BB interventions in treasury auctions limits the role of the six-month treasury bill as a market proxy.
• *Exchange rate consolidation:* The MPS announced adoption of a "unified and market-driven single exchange rate regime." Under the new policy, BB dollar sales will be made at the prevailing interbank market rates rather than a lower BB dollar selling rate. However, the interbank rate remains capped by BB and has been so far insufficient to clear the FX market.

Source: Bangladesh Bank MPS, June 2023

Private sector credit growth declined gradually, while public sector credit growth rose in FY23 (Figure 4). Demand for private sector credit rose gradually in FY22 as pandemic-related disruptions moderated. However, credit growth decelerated to 10.6 percent by the end of FY23 amidst tighter liquidity conditions, a decline in demand for imports, a volatile FX market, and rising uncertainty from unpredictable exchange rate policies and inflation. By contrast, public sector credit growth increased to 35 percent, as the government continued to borrow from the banking sector to finance its deficit, and high-cost NSC issuance was reduced to control interest expenditures. The overall advance-to-deposit ratio (ADR) stood at 79.4 percent in March 2023, well below the regulatory limit of 87 percent. This largely reflects the impact of interest rate caps on lending, which have constrained banks' ability to adequately price credit risks.

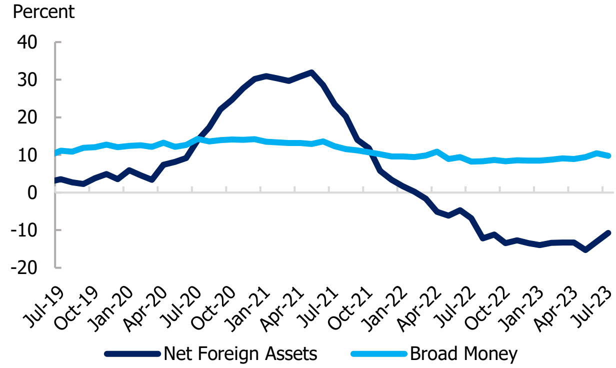
Fig 4: Credit Growth (y-o-y)



Source: Bangladesh Bank

Monetary growth accelerated marginally but remained below BB target. BB net FX sales of US$ 13.4 billion in FY23 led to a 13.0 percent decline in Net Foreign Assets (NFA). However, a 16.9 percent increase Net Domestic Assets (NDA) resulting from monetization of a widening fiscal deficit resulted in broad money growth of 10.5 percent. Yet, it remained below BB's target of 12.1 percent set in the previous MPS for June. Broad money growth target was reduced to 9.5 percent for December 2023.

Fig 5: Broad Money and Net Foreign Assets Growth (y-o-y)



Source: Bangladesh Bank

Stressed assets in the financial sector are on the rise. Newly published BB statistics revealed that the total of rescheduled loans, non-performing loans and net written off loans outstanding reached BDT 3,779.2 billion (approximately US$ 34.4 billion) or 9.5 percent of FY22 GDP (see box 2). Rescheduled loans surged following the introduction of an accommodative BB rescheduling policies in July 2022. The gross non-performing loan (NPLs) ratio increased to 8.8 percent in March 2023 compared to 8.5 percent in the previous year. Loan loss provisioning deteriorated, covering only 58 percent of NPLs at the of March 2023. The capital adequacy ratio modestly declined to 11.2 percent in March 2023 from 11.4 percent in the previous year. However, these financial soundness indicators understate banking sector vulnerabilities due to lax regulatory definitions and reporting standards, forbearance measures, and weak regulatory enforcement.

Box 2: Stressed loans in the banking sector

The Financial Stability Report (FSR) 2022 discloses new data on a growing stock of rescheduled loans. BB issued new rescheduling policy in July 2023, allowing banks to adopt their own rescheduling policies within BB parameters. BDT 637.2 billion of loans (US$ 5.8 billion) were rescheduled in 2022 and the stock of outstanding rescheduled loans reached BDT 2,127.8 billion (US$ 19.3 billion). The ratio of stressed loans to total loans stood at 22.8 percent in 2022, almost three times higher than the NPL ratio.[3] The ratio of rescheduled loans to total outstanding loans increased to 14.4 percent in 2022 from 12.9 percent in 2021. Over 80 percent of outstanding rescheduled loans remained unclassified (i.e., not recorded as NPLs). The largest share of rescheduled loans is in the RMG and textile sectors (20.4 percent), and large and medium industries together account for 74 percent of rescheduled loans.

Table 4. Stressed loans in the banking sector (in billion BDT)

Year	Total outstanding loans	Gross NPL outstanding	Rescheduled loans (year-wise)	Unclassified Rescheduled loans outstanding	Total rescheduled loans outstanding	Net outstanding written-off loans	Stressed assets ratio* [(3+5+7)/2]
1	2	3	4	5	6	7	8
2018	9,115.1	939.1	232.1			401.0	0.205
2019	10,116.2	942.5	523.7	1,063.5	1,362.4	443.0	0.242
2020	10,954.8	882.4	198.1	1,257.0	1,556.3	441.5	0.236
2021	12,188.5	1,019.4	268.1	1,354.3	1,684.0	440.8	0.231
2022	14,776.9	1,206.5	637.2	1,719.2	2,127.8	444.9	0.228

Source: Financial Stability Reports (FSR) 2018-2022, BB.
* For 2019-2022, the ratio is an approximation. This is an under-estimation as data on restructured loans is not available. The ratio for 2018 is from BB FSR.

The NPL ratio increased, and the provisioning shortfall widened. Outstanding NPLs increased to BDT 1,206.5 billion (US$ 11.0 billion) in 2022 from BDT 1,019.6 billion (US$ 9.3 billion) in 2021. The top five banks held 45.9 percent of total NPLs.

[3] Stressed loan is the sum of NPL, rescheduled loans, and written-off loans.

The overall loan loss provision (LLP) to NPL ratio decreased to 60.6 percent at end-December 2022 from 64.5 percent in 2021. The share of bad/loss category of NPLs shows an increasing trend since 2012 and constitutes 88.7 percent of total NPLs in 2022. This indicates that the majority of NPLs were have remained non-performing for a long period of time. The net outstanding written-off loans stood at BDT 444.9 billion (US$ 4.0 billion). Total non-performing loans, rescheduled loans, and outstanding written-off loans reached BDT 3,779.2 billion (US$ 34.4 billion, or 9.5 percent of FY22 GDP) by the end of 2022, compared to BDT 3,144.2 billion (US$ 28.6 billion) in 2021.

Profitability indicators were enhanced by loan rescheduling. In 2022, profits after provision and tax increased by 183.3 percent to BDT 142.3 billion (US$ 1.3 billion) from BDT 50.2 billion (US$ 456 million) last year. Loan rescheduling enabled banks to avoid recognizing impaired assets, artificially boosting profitability. Return on asset (ROA) and return on equity (ROE) were 0.6 percent and 10.7 percent, respectively, compared to 0.25 and 4.37 percent in preceding year. The net interest margin of the banking sector decreased to 1.2 percent from 1.3 percent in 2021.

Liquidity in the banking system remained tight. Net FX sales by the central bank, slow deposit growth, limited growth of official remittance inflows, and weak loan recovery put pressure on the liquidity of many banks. Following public allegations of fraud, several private banks, including shariah compliant banks, have faced a decline in deposits and subsequent liquidity challenges, requiring BB liquidity intervention.[4] Across the banking sector, liquid assets to total assets stood at 15.1 percent in March 2023, down from 18 percent one year before. Total liquid assets declined by 4.6 percent between June 2022 and June 2023. The advance-to-deposit ratio increased to 79.4 percent in March 2023 compared to 74.1 percent previous year, mainly due to a slowdown of deposit growth. Overnight and two-week interbank interest rates increased as a result of tighter liquidity conditions, rising from 6.0 and 8.75 percent in August 2022 to 8.0 and 9.0 percent in August 2023.

Investor confidence in capital markets remained subdued. The reinstatement of price floor on stocks by the Bangladesh Securities and Exchange Commission (BSEC) resulted in reduced trade volumes. Foreign participation in stock market reached the lowest level in a decade, with substantial withdrawals. The DSE broad index declined by 2.5 percent (y-o-y) in August 2023. The market for Initial Public Offerings (IPOs) contracted in 2023. As of August 2023, two new IPOs were introduced to the broader market as well as one IPO on the Small and Medium Enterprises (SME) board. Over past 12 months only six IPOs were listed.

External Sector

The Current Account Deficit (CAD) narrowed in FY23, supported by resilient export growth and import suppression measures. However, the financial account moved into deficit, as trade credit and medium- and long-term borrowing contracted sharply. As a result, the Balance of Payments (BoP) deficit widened to US$ 8.2 billion in FY23, up from US$ 6.7 billion in FY22. Exchange rate flexibility was insufficient to clear the FX market, despite modest depreciation. BB sold US dollars at an accelerated rate. Gross FX reserves declined by US$9.8 billion in one year to reach US$23.1 billion in August 2023.

Table 5: Balance of Payments
US$ millions

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23 (p)
Overall Balance	**5,050**	**3,169**	**-857**	**179**	**2,925**	**9,274**	**-6,656**	**-8,222**
Current account balance	**4,262**	**-1,331**	**-9,567**	**-4,490**	**-4,723**	**-4,575**	**-18,639**	**-3,334**
Trade balance	-6,460	-9,472	-18,178	-15,835	-17,858	-23,778	-33,250	-17,155
Merchandise export f.o.b. (inc. EPZ)	33,441	34,019	36,285	39,604	32,832	36,903	49,245	52,340
Merchandise import f.o.b. (inc. EPZ)	-39,901	-43,491	-54,463	-55,439	-50,690	-60,681	-82,495	-69,495
Services	-2,708	-3,288	-4,201	-3,176	-2,541	-3,020	-3,955	-4,256
Income	-1,915	-1,870	-2,641	-2,382	-3,106	-3,172	-3,152	-4,233
Current transfers	15,345	13,299	15,453	16,903	18,782	25,395	21,718	22,310

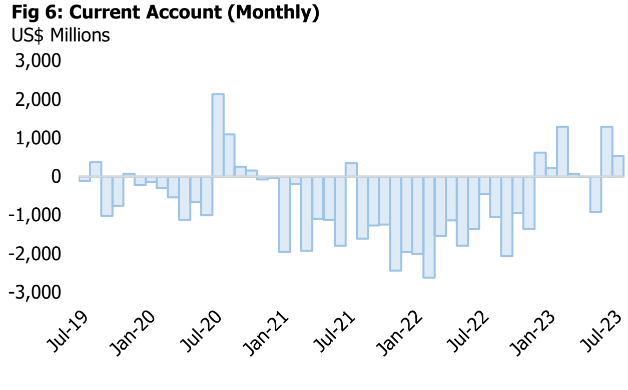
[4] Outstanding liquidity support to banks and NBFIs stood at BDT 201.1 billion at end May 2023.

Official	67	59	51	41	19	51	16	88
Private	15,278	13,240	15,402	16,862	18,763	25,344	21,702	22,222
o/w Workers' remittance	14,717	12,769	14,982	16,420	18,205	24,778	21,032	21,611
Capital account	**478**	**400**	**331**	**239**	**256**	**458**	**181**	**473**
Financial account	**944**	**4,247**	**9,011**	**5,130**	**7,537**	**14,067**	**15,458**	**-2,142**
Foreign direct investment (net)	1,285	1,653	1,778	2,628	1,271	1,355	1,827	1,611
Portfolio investment (net)	139	457	349	171	44	-269	-158	-18
MLT loans (excludes suppliers' credit)	3,033	3,218	5,987	6,263	6,222	7,449	9,811	8,689
MLT amortization payments	-849	-895	-1,113	-1,202	-1,257	-1,417	-1,527	-1,745
Other long-term loans (net)	-110	-153	141	302	438	1,684	1,443	-533
Other short-term loans (net)	-435	1,030	1,508	272	931	2,064	3,315	-1,910
Trade Credit (net)	-2,101	-1,185	-1,270	-3,493	-616	3,749	-438	-6,530
Change in Commercial Bank Assets (net)	-18	122	1,631	189	-270	-548	1,185	-2,772
Errors and omissions	**-634**	**-147**	**-632**	**-700**	**-145**	**-676**	**-3,656**	**-3,220**

Source: Bangladesh Bank.

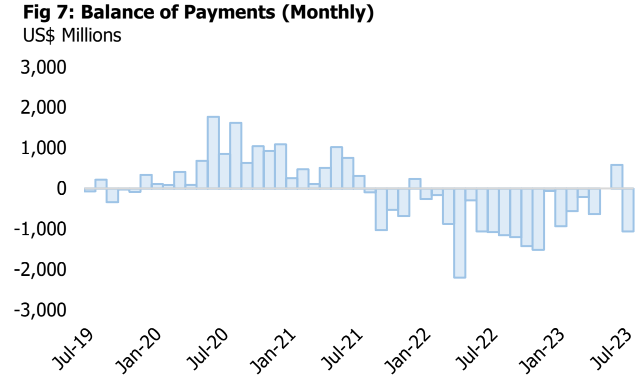
The CAD narrowed in FY23, supported by import compression. Imports declined sharply as BB implemented tight controls on issuance of letters of credit (LCs) to slow the outflow of foreign exchange reserves. LCs openings plummeted by 26.8 percent, and total merchandise imports fell by 15.8 percent. Merchandise export growth remained resilient, rising by 6.7 percent, contributing to a 48.8 percent contraction in the trade deficit. Official remittance inflows remained subdued despite a significant increase in the number of immigrant workers abroad (Box 3). Resilient exports and import compression resulted in the CAD narrowing to US$ 3.3 billion at the end of FY23, compared to US$ 18.6 billion in FY22.

Fig 6: Current Account (Monthly)



Source: Bangladesh Bank

Fig 7: Balance of Payments (Monthly)

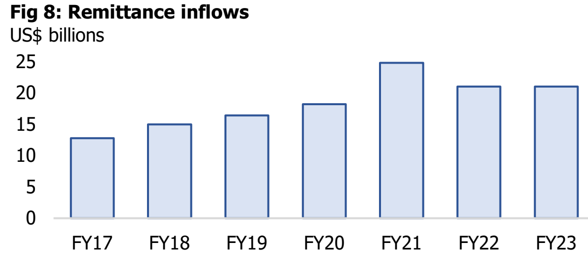


Source: Bangladesh Bank

Box 3: The slowdown in official remittance inflows

Official remittance inflows remained muted in FY22 and FY23. Remittance inflows increased steadily from FY17 to FY21, nearly doubling over this period. However, inflows declined by 15.1 percent in FY22, with only modest growth of 2.8 percent in FY23 despite taka depreciation and a 2.5 percent government incentive.

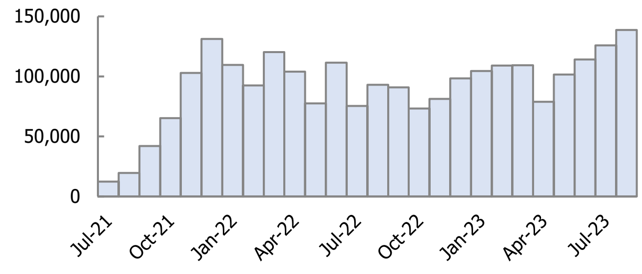
Fig 8: Remittance inflows



Source: Bangladesh Bank

Although remittance inflows remain stagnant, the outflow of workers has accelerated following the COVID-19 pandemic. According to data from the Bureau of Manpower, Employment, and Training (BMET), more than 2.1 million workers went abroad for work in FY22 and FY23, surpassing pre-COVID levels. This increase was driven by rising demand for labor in Gulf Cooperation Council (GCC) countries and the reopening of other major labor markets such as Malaysia. However, this sharp increase in migrant workers has not contributed to a proportionate increase in official remittance inflows. A bivariate granger causality test indicates that although historically migrant outflow has caused remittance inflow with a lag in the past in Bangladesh, the relationship weakened during the post-COVID period.

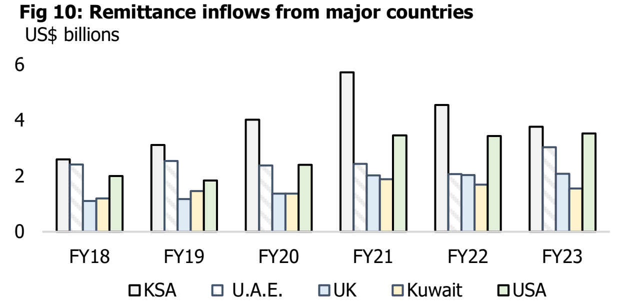
Fig 9: Monthly Outflows of Overseas Workers



Source: Bureau of Manpower Employment and Training (BMET)

Weak inflows from GCC countries have weighed on overall remittance growth. Official remittance inflows from Saudi Arabia, traditionally Bangladesh's largest overseas labor market, declined in FY22 and FY23 despite a steady increase in the outflow of migrant workers.[5] Growth in remittances from other major GCC countries such as Kuwait and the United Arab Emirates (UAE) has also slowed. Conversely, remittances from non-GCC countries like the United States (US) and the United Kingdom have risen. The US overtook the UAE as the second-largest source of remittances for Bangladesh in FY21 and nearly matched Saudi Arabia in FY23.

Fig 10: Remittance inflows from major countries

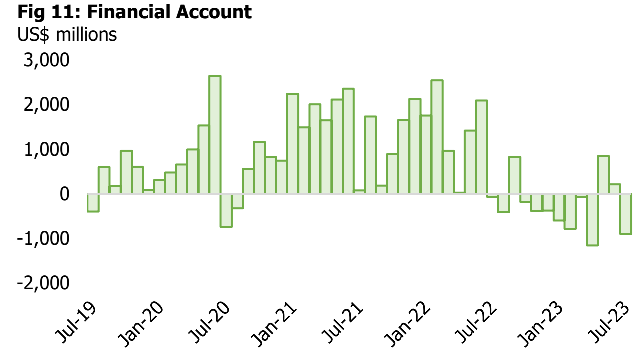


Source: Bangladesh Bank

The diversion of remittances to informal channels driven by a widening informal exchange rate premium may account for weak official inflows from the GCC region. Over the past two years, the gap between formal and informal exchange rates has widened. An econometric analysis of South Asia countries shows that the gap between the official and informal exchange rates has a statistically significant negative correlation with official remittance inflows. At the same time, there is no statistically significant relationship between the official interbank exchange rate and official remittance inflows. This suggests that depreciation of the official exchange rate alone would not have a positive effect on remittance if the informal rate gap does not narrow (World Bank, 2023).

The financial account moved into deficit as financing flows contracted sharply. Net trade credit declined as a result of a decline in imports and a contraction in the supply of trade credit, amidst tighter global credit conditions. Credit to the private sector contracted, reflecting lower demand for higher-cost external loans and eroding creditor confidence following ratings downgrades. External public borrowing increased, as the government sought additional external financing to finance the deficit. Net Foreign Direct Investment (FDI) declined amidst uncertainties in the external sector. The financial account balance moved into a US$ 2.1 billion deficit at the end of FY23, compared to a surplus of

Fig 11: Financial Account



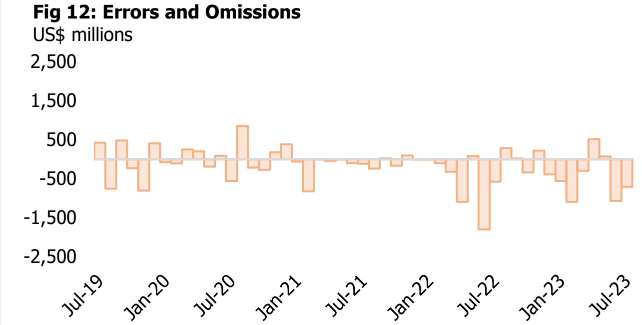
Source: Bangladesh Bank

[5] The data of pre-COVID (FY18-FY19) and post-COVID (FY22-23) period indicate that the outflow of migrant workers were 58.7 percent higher in the latter period.

US$ 15.5 billion in FY22. Given the continued deterioration, credit rating agency S&P Global lowered Bangladesh's outlook to negative from stable, and Moody's Investors Service downgraded Bangladesh's long-term ratings to B1 from Ba3.

The BoP deficit widened in FY23, with rising errors and omissions. Led by the financial account deficit, the BoP deficit widened to US$ 8.2 billion at the end of FY23 compared to deficit of US$ 6.7 billion a year ago. Net errors and omissions contributed materially to the BoP deficit (39.2 percent of total BoP deficit), exceeding US$ 3 billion.[6] Errors and omissions may partially reflect a growing gap between export shipments and export receipts, as firms defer repatriation of export proceeds amidst ongoing exchange rate adjustments. Moreover, academic literature points to errors and omissions as a proxy for illicit capital flows along with estimates based on mis-invoicing practices (Siranova et.al. (2021); Cobham and Jansky (2017); GFI (2017)).

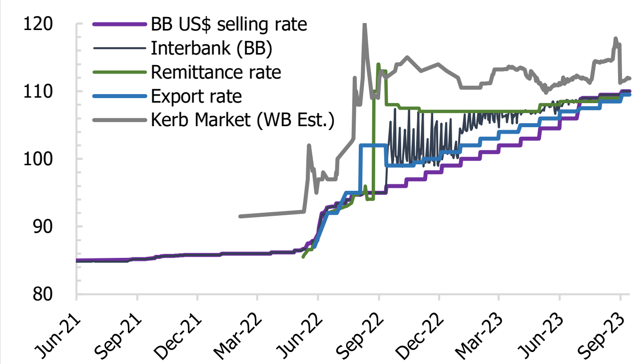
Fig 12: Errors and Omissions



Source: Bangladesh Bank

Exchange rate depreciation was insufficient to clear the FX market. A complex multiple exchange rate regime introduced in September 2022 remained in place with modifications introduced in FY23. The spread between administered exchange rate caps for remittances, exports, and interbank transactions was narrowed (Fig 13), and BB eliminated a separate official exchange rate for the sale of FX reserves. Administered rates were depreciated through monthly adjustments. BB enforcement of exchange rate caps in the banking sector led to persistent shortages of foreign exchange in the interbank market, with a largely illiquid interbank spot FX market. Consequently, BB intermediated FX transactions with net dollar sales equivalent to US$ 13.4 billion in FY23, the highest ever in a single fiscal year. In early FY24, BB began enforcing exchange rate caps in the cash-based money exchange market. The gap between the interbank and kerb market exchange rates narrowed as a result. However, dollar liquidity in the kerb market is now severely constrained, further reducing access to foreign exchange.

Fig 13: Bangladesh - BDT/US$ Exchange Rates

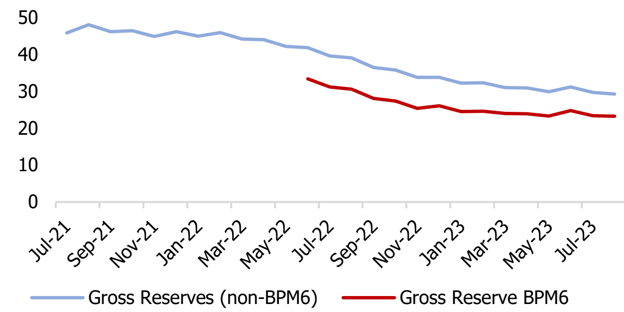


Source: Bangladesh Bank, Staff estimates of kerb market rates

[6] Provisional data for FY22 indicated net errors and omissions of US$ -530 million, which was revised to US$ -3.7 billion the following year.

Gross FX reserves continue to decline. Gross FX reserves fell by US$ 9.8 billion in FY23, to US$ 23.1 billion in August 2023, measured using BPM6 standards.[7] Gross reserves declined from 4.8 months of prospective imports to 3.5 months over this period.[8] Policies to preserve foreign exchange reserves have so far been insufficient (Box 4). Without a market clearing exchange rate, BB FX sales are the primary source of interbank dollar liquidity.

Fig 14: Monthly Gross Foreign Exchange Reserves
US$ Billions



Source: Bangladesh Bank

Box 4: Policies Adopted to Preserve FX Reserves

In addition to import restrictions, the BB has taken several steps to stem the depletion of the FX reserves. They include:

- *Reducing the size of the Export Development Fund (EDF) and implementing stringent eligibility criteria:* The EDF uses foreign exchange reserves to provide trade finance. Newly adopted BPM6 standards exclude the EDF from gross reserves. BB has reduced the EDF by US$ 2.6 billion to US$ 4.6 billion as of July 2023.[9] The ceiling for loans from EDF for individual exporters has been reduced to US$ 10 million from US$ 15 million. To accelerate repayments to the facility, a 4 percent interest penalty will be charged to banks on overdue EDF loans and may be debited from foreign currency clearing accounts that the banks maintain with BB.
- *Alternative currency arrangements for trade transactions:* Bangladesh and India have agreed to allow trade-related transactions in Indian Rupees in addition to US dollars. Bangladesh and Russia have agreed to settle part of the loan repayment for the Rooppur Nuclear Power Plant, one of largest ongoing development projects, in Chinese Yuan instead of US dollars.
- *Ensuring timely receipt of export earnings:* Rules have been tightened to prevent delayed repatriation of export earnings by exporters anticipating further depreciation in administered exchange rates. According to BB rules, exporters are required to repatriate export proceeds within 120 days of shipment. BB announced a new policy that would require banks to provide exporters with the exchange rate applicable on the day when export proceeds should have been realized to discourage deferral of repatriation for more favorable exchange rates.
- *Providing flexibility to banks for transferring capital between their offshore and domestic units:* Banks are now permitted to transfer up to 40 percent of their total regulatory capital from their offshore banking units (OBS) to their domestic units for settling import payments, an increase from the previous limit of 25 percent.

[7] BB adopted the BPM6 definition of reserve assets in July 2023. Non-BPM6 gross reserves include non-monetary uses of reserve assets.
[8] NIR is defined as gross reserves minus the reserve liabilities (i.e., SDR allocation, Asian Clearing Unit payments, FC clearing account, among others) and currently it covers about 2.5 months of imports.
[9] The EDF is intended to facilitate financing in foreign currency for input procurements by manufacturer-exporters. The central bank disburses the fund from FX reserves through authorized dealer banks. The size of the EDF was increased to US$ 7 billion during the COVID-19 pandemic.

Fiscal Trends and Debt Sustainability

The estimated fiscal deficit widened in FY23 to 5.3 percent of GDP from 4.6 percent of GDP in FY22 as expenditure growth outpaced revenue growth. Tax collection stagnated, primarily due to declining trade-related taxes resulting from falling imports, and remains among the lowest in the world as percentage of GDP. Expenditure growth was driven by subsidies and incentive payments. The reliance on the domestic banking sector to finance the deficit increased, given the decline in net sales of National Savings Certificates (NSCs) following a reduction in NSC interest rates and the enforcement of stringent regulations. Public debt as a share of GDP increased but remains sustainable.

Revenue collection stagnated in FY23. Revenue-to-GDP declined to an estimated 7.9 percent in FY23 compared to 8.5 percent in FY22, remaining among the lowest in the world. Trade-related taxes (which accounted for almost one-third of total taxes) declined due to a sharp fall in imports. Income tax collection also slowed as a result of muted profits by firms. A new Income Tax Act was approved by Parliament in June 2023, which replaced the Income Tax Ordinance of 1984. The new Act aims to increase revenue and simplify the tax submission process. It consolidates tax exemptions on salary, introduces environmental surcharges for owning multiple vehicles, reduces the documentation needed to file a corporate tax return, imposes taxes on interest paid by mobile financial services providers, and abolishes the provision for mandatory submission of wealth statements for travelling abroad.

Table 5: Fiscal Outcomes (% of GDP)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23e
Total revenue 1/	8.7	8.2	8.6	8.5	9.4	8.5	7.9
Tax revenue	7.7	7.4	7.7	7.0	7.6	7.5	7.4
Total expenditure	11.6	12.2	13.3	13.3	13.0	13.0	13.2
Current expenditure	7.1	6.8	7.4	7.4	7.5	7.7	8.1
Capital expenditures	3.7	4.7	5.2	5.1	4.7	4.6	4.4
Deficit 1/	-2.9	-4.0	-4.7	-4.8	-3.7	-4.6	-5.3
Net external financing	0.5	1.0	1.1	1.3	1.3	1.6	1.9
Net domestic financing	2.4	3.0	3.6	3.4	2.3	2.9	3.4
General government debt stock	26.2	27.2	28.5	31.7	32.4	33.7	35.3
External	9.6	10.4	10.4	11.8	11.9	12.4	12.9
Domestic	16.6	16.8	18.1	19.9	20.5	21.3	22.4

Source: Ministry of Finance.
1/Excluding grants

Expenditure is estimated to have grown by 14.1 percent in FY23, driven by a rise in current expenditure. Though expenditure growth in goods and services was constrained by ongoing austerity measures, expenditure on subsidy and transfer payments rose significantly, led by energy subsidies and social security program providing food to lower income group people at subsidized rate.[10] Implementation of infrastructure mega-projects continued, although overall capital expenditure remained muted due to reprioritization of other projects. The Annual Development Program (ADP) implementation rate declined to 84.6 percent, 7.7 percentage points lower than the previous year.

Several large infrastructure projects are expected to become operational, albeit partially. The Uttara-Farmgate portion of the Dhaka Elevated Expressway opened for public use in September 2023. After the opening of the Padma Bridge in June 2022, the rail component of the bridge is expected to begin partial operations soon.

[10] Austerity measures include delay or cancellation of public procurement of vehicles, ships, and aircraft, restrictions on government officials' foreign travel, deferral of non-essential imported goods, among others. Actual outturn of government expenditure for FY23 is not available.

Likewise, the second phase of the Dhaka Metro Rail, connecting Agargaon to Motijhil, and the Bangabandhu Sheikh Mujibur Rahman Tunnel under the Karnaphuli River, which will enhance connectivity between Dhaka, Chattogram, and Cox's Bazar, are set to be inaugurated soon. However, the implementation of the Rooppur Nuclear Power Plant has experienced additional delays.

The fiscal deficit is estimated to have widened in FY23, financed predominantly through the borrowing from the banking sector. A higher growth in expenditure compared to revenue widened the estimated fiscal deficit to 5.2 percent of GDP in FY23. As in previous years, deficit financing relied primarily on domestic borrowing (59.5 percent of total borrowing). However, there was a major shift within domestic borrowing sources. Net government borrowing from banking sector rose by 64.9 percent, but borrowing from the non-bank sources including the NSCs declined by 71.6 percent (Bangladesh Bank, 2023). In line with the Medium-Term Debt Strategy which aims to reduce dependency on NSCs, the government discouraged NSC sales by reducing NSC interest rates and imposing additional purchase regulations, including a requirement to submit tax return confirmations to buy new bonds. Net foreign financing rose marginally by 1.9 percent.

The stock of public debt continued to grow, but the risk of debt distress remains low. Estimated public debt (excluding guarantees) rose to 35.3 percent of GDP in FY23, from 33.7 percent in FY22. External debt amounted to 12.9 percent of GDP, or just over a third of the total debt stock. External debt is mostly owed to multilateral creditors (53.8 percent of total external debt), although their share in overall external debt has been declining in recent years with increased borrowing from bilateral creditors to finance large infrastructure projects. About half of the external debt is denominated in US dollars, and Japanese Yen (21 percent) and Euro (17 percent) remain the other two major currencies (Ministry of Finance, 2023). The January 2023 joint World Bank-IMF Debt Sustainability Analysis (DSA) assessed that Bangladesh remained at low risk of debt distress.

Explicit and implicit contingent liabilities from state-owned enterprises (SOEs) remained elevated. As of the end of June 2022, the total liabilities of SOEs in Bangladesh stood at BDT 4,313 billion (about 10 percent of GDP, or US$ 39.2 billion), increasing by 14 percent (y-o-y). Outstanding balance of government on-lending to SOEs also rose by 18.2 percent (y-o-y) in FY22. The government provides guarantees and counter-guarantees against loan negotiated by various SOEs. As of June 2023, these guarantees amounted to BDT 985.1 billion (US$ 9.0 billion), provided mostly to the state airline Bangladesh Biman, power sector, fertilizer production plants, and Trading Corporation of Bangladesh (TCB).

Outlook and Risks

GDP growth is projected to decelerate to 5.6 percent in FY24, before reverting to its long-term trend. Absent policy tightening, inflation is likely to remain elevated in the near term and gradually subside if import prices stabilize in the medium term. Pressure on the external sector is expected to persist in FY24, easing later if global conditions are favorable and the exchange rate policy improves. The fiscal deficit is expected to remain within the government's target of 5.5 percent of GDP, with a moderate increase in revenues. There are significant downside risks. Failure to address distortions in the FX market, rising inflation, slowing demand in Bangladesh's major export markets, and financial sector vulnerabilities could jeopardize economic progress.

Near and Medium-Term Outlook

The global economic growth is set to slow in 2023 to 2.1 percent, amid continued monetary policy tightening to rein in high inflation, before a tepid recovery in 2024, to 2.4 percent.[11] Tight global financial conditions, new forms of protectionism aimed at de-risking, and subdued global trade are expected to weigh on growth across emerging market and developing economies (EMDEs). Although persistent, inflation is projected to decline gradually as demand weakens and commodity prices moderate, provided longer-term inflation expectations remain anchored.

The Bangladesh economy is expected to remain stressed in FY24 and improve gradually in the medium term. Real GDP growth is projected to decelerate to 5.6 percent in FY24 due to persistent inflationary pressures and external sector challenges. Elevated inflation will continue to limit real wage growth, reducing private consumption growth. Investments are expected to remain constrained by foreign exchange, import suppression measures, growing financial sector vulnerabilities, and energy shortages. Government investment is likely to stay resilient due to mega project implementation. Industrial and services growth is expected to remain below historical averages. Growth in agriculture is expected to recover, unless disrupted by floods and other natural disasters. GDP growth is projected to gradually rise to 5.8 percent in FY25, driven by easing inflationary pressures, alleviation of complementary input shortages, gradual external sector normalization, and reduced uncertainty.

Table 6: Selected Macroeconomic Indicators
(annual percentage change, unless indicated otherwise)

	FY20	FY21	FY22	FY23f	FY24f	FY25f
Real GDP growth, at constant market prices	3.4	6.9	7.1	6.0	5.6	5.8
Private Consumption	3.0	8.0	7.5	3.5	5.3	5.6
Government Consumption	2.0	6.9	6.2	3.1	4.7	6.3
Gross Fixed Capital Investment	3.9	8.1	11.7	1.7	4.9	7.9
Exports, Goods, and Services	-17.5	9.2	29.4	15.7	9.4	8.9
Imports, Goods, and Services	-11.4	15.3	31.2	-3.9	6.0	11.4
Real GDP growth, at constant factor prices	3.8	7.0	7.2	6.3	5.7	5.8
Agriculture	3.4	3.2	3.1	2.4	3.2	3.8
Industry	3.6	10.3	9.9	5.5	7.3	8.5
Services	3.9	5.7	6.3	5.9	5.2	5.2
Inflation (Consumer Price Index)	5.6	5.6	6.1	9.0	8.5	7.7
Current Account Balance (% of GDP)	-1.5	-1.1	-4.1	-0.8	-0.3	-0.6
Financial Account Balance (% of GDP)	-2.3	-3.4	-3.4	0.5	-0.2	-1.4
Fiscal Balance (% of GDP) 1/	-4.8	-3.7	-4.6	-5.3	-5.0	-4.6
Primary Balance (% of GDP) 1/	-2.9	-1.7	-2.6	-3.1	-2.6	-2.3
Debt (% of GDP)	31.7	32.4	33.7	35.3	36.0	36.4

Source: Bangladesh Bureau of Statistics; Ministry of Finance; Staff Estimates.
1/ including grants

[11] World Bank, 2023. Global Economic Prospects, June 2023

Inflation is expected to decline gradually in the medium term. High administered energy prices and their spillover effects on other sectors, the continued depreciation of the taka, continued restrictions on imports, insufficient US dollars in the banks, and sluggish monetary tightening are expected to keep inflation at an elevated level in FY24. Despite the government's efforts to provide essential food items to low-income groups at subsidized rates, inflation is anticipated to disproportionately affect the poor. Improved transmission of monetary policy through the relaxation of interest rate caps, easing of foreign exchange shortage through exchange rate flexibility and the consequent normalization of imports are likely to help ease inflationary pressure gradually in the medium term.

Monetary policy needs to be contractionary until inflation recedes to the target. Monetary policy transmission would be improved by greater interest rate flexibility and reduced use of non-market NSC instruments for government borrowing. However, the continued reliance on bank borrowing to finance the government budget deficit as envisioned in the FY24 budget would continue to pressure banking sector liquidity, potentially crowding out of the private sector. BB has lowered its private sector credit growth target and increased the public sector credit growth target for FY24.

The CAD is expected to rise again in the medium term after moderating further in FY24. Imports are likely to remain subdued compared to FY22 levels due to the continuation of import restriction measures and the difficulties businesses face in opening LCs due to FX shortages. Moderate exports growth could be sustained but there remains a risk of a potential slowdown in the major export markets, particularly the European Union. As a result, the CAD is expected to decline to 0.3 percent of GDP before rising again in the medium term. Though remittance inflows are expected to rise, a large fraction of the remittances could continue to flow through informal channels if the informal exchange rate premium is not reduced through greater exchange rate flexibility.

The BOP deficit is expected to narrow but the pressure on the external sector is expected to remain. The financial account is expected to moderately improve with a decline in trade credit outflows and a higher volume of external financing, although it is expected to remain low compared to historical levels. Improvements in both the current and financial accounts will narrow the balance of payments (BoP) deficit in FY24. This in turn will stem the erosion of FX reserves in FY24 before beginning to improve again. In the medium term, the BoP is expected to further improve, with a return of financial account surplus offsetting the increase in CAD, supporting the rebuilding of FX reserves.

The fiscal deficit is projected to remain below 5.0 percent of GDP over the medium term. In the near-term, revenue growth is likely to remain tepid as a result of muted imports. Over the medium term, revenues will rise with increasing trade, improving domestic economic activity, higher incomes, and ongoing efforts to strengthen tax administration. However, without major structural changes, the revenue to GDP ratio for Bangladesh is likely to remain one of the lowest in the world at below 10 percent of GDP. Current expenditure growth in the near term may be subdued if the austerity measures are effective. These include pause in the purchase of new vehicles and foreign travels of government officials, and stricter rules on expenditures related to land acquisition. Over the medium term, the government is likely to exit austerity and the growth in subsidy expenditures would be contained by pricing reforms. Capital expenditure on infrastructure megaprojects is expected to remain robust. Over the longer term, rising public expenditure requirements to meet infrastructure needs, mitigation of climate vulnerabilities, and enhancement of human capital will require additional domestic revenues. Declining reliance on NSCs for deficit financing would need to continue in the medium term. The resulting increase in government's bank borrowing could increase deposits in the commercial banks due to reduced investment in NSCs. However, close monitoring of the liquidity of the banking system will be required to minimize crowding out of private credit by government borrowing. As a result of declining fiscal deficit, the debt-to-GDP ratio is expected to remain at a sustainable level. However, adequate foreign exchange liquidity will be critical to meeting debt service and other external payment obligations.

There are significant downside risks. The stabilization of the external sector will depend crucially on the removal of the distortions in the exchange rates, which in turn is dependent on the lifting of exchange rate ceilings to minimize the gap between the formal and informal exchange rate. Delay in adjustments could lead to arbitrage opportunities and fewer foreign currency inflows through the formal channels, exacerbating the existing challenges and maintaining incentives for illegal capital outflows. High inflation may persist longer than expected if domestic energy prices are not adjusted in line with global slowdown in energy prices or if the global inflationary pressure rises. Unexpected floods and other natural calamities can disrupt food production and increase food inflation. Financial sector vulnerabilities may worsen with increase in bad loans and create further pressure on the liquidity in the banking system. Increased uncertainties and political violence in the run up to the national election can depress the investment climate and lead to reduction in exports orders, adding further pressure to the BoP.

Policy Directions and Structural Reforms

Both the monetary and fiscal policy need to address inflation. The FY24 Monetary Policy Statement (MPS) introduced greater, albeit still limited, flexibility in the interest rate on lending, which would help facilitate monetary policy transition. It is important to ensure that the treasury rate, which determines the final lending rate, are market-driven. On the fiscal policy side, it would be necessary to reduce tariffs on essential imports and ensure they are not hampered due to FX shortages. The new National Tariff Policy commits the government to reduce tariffs. Domestic financing of the deficit was heavily monetized last year, which is incompatible with the objective of reducing inflation. The retreat from such a stance through the first quarter of FY24 is a welcome change that needs to be sustained. Bangladesh faces a significant policy trade-off between inflation and growth, and it may be necessary to risk some reduction in growth through contractionary monetary and fiscal policies to bring inflation closer to the target.

Further flexibility in the exchange rate would be crucial to remove the existing distortions in the FX market and attract foreign currency through the formal channels. Though the recent depreciation of the currency and the convergence of the multiple administered exchange rates in the first quarter of the current fiscal year helped, further corrections are necessary in the wake of rising gap between the formal and informal exchange rates. A market-determined exchange rate is critical to attract more remittance through the formal channel, reduce the difference between export shipment and export receipts, and make illegal capital outflows less attractive. This would support BoP and reserve accumulation and restore market confidence. Forcing the market to trade at an exchange rate significantly different from the market clearing rate may only support the further use of the informal foreign exchange markets such as the kerb and hundi markets.[12]

Addressing financial sector vulnerabilities is fundamental to supporting economic growth. Increased stressed assets in the banking system and existence of chronic under-capitalized banks necessitate immediate measures to strengthen weak bank management and the financial sector safety nets, including the deposit insurance and other crisis preparedness measures. In addition to recognizing NPLs in line with international standards, a viable NPL resolution mechanism, improvement of corporate governance and modernization and restructuring of state-owned banks remain critical.

[12] Hundi is an informal way of transferring money from one country to another. It is illegal in Bangladesh and works outside the conventional banking system.

Fiscal policy can support weathering the negative impacts of the external sector. Government revenue from trade related taxes is expected to remain low in the short term due to depressed imports and in the long term due to Bangladesh's graduation from the LDC and the reduction of trade tariff rates as outlined in the recently approved National Tariff Policy. To compensate, the government will need to increase revenue collection from domestic activities. Unifying the different VAT rates to a single rate, improving digitalization to close the loopholes, streaming tax expenditures, and making the tax submission process easier and efficient could be some of the steps in the short run to improve revenue mobilization. Fiscal policy needs to complement monetary policy to address the inflation and external sector challenges, including measures to raise revenues and constrain expenditure growth. At the same time, it will be important to strengthen the support to the poor with proper social expenditure targeting. Greater recourse to domestically financed development projects may contribute to the financial account deficit and put pressure on demand for dollars. In this context, there is an opportunity to adjust current borrowing policies with a greater emphasis on external financing for the country's development spending needs.

Addressing longstanding structural reforms could accelerate the pace of the recovery and strengthen resilience to future shocks. Bangladesh's expected graduation from the UN's Least Developed Country (LDC) status in 2026 will present new challenges due the loss of preferential market access. To prepare for the LDC graduation, Bangladesh could strengthen its trade competitiveness, expand bilateral and multi-lateral free trade agreements, improve business climate, strengthen financial sector stability and soundness to promote investment, and increase domestic resource mobilization.

Reforms in these priority areas would help maintain Bangladesh's development progress and accelerate poverty reduction. Bangladesh has made significant progress in poverty reduction in the last decade (see the next section). However, accelerated inflation, weak employment and declining real wages in recent times has affected the poor disproportionately. This could create social and economic disruptions that would require government countermeasures. Targeted social assistance and labor market measures would be necessary to support the poor.

Special Focus: New Frontiers in Poverty Reduction

Preliminary analysis of the 2022 Household Income and Expenditure Survey (HIES) provides new data on poverty and welfare in Bangladesh, updating the 2016 HIES. Between 2016 and 2022, year-on-year poverty and extreme poverty rates fell by 1.3 and 0.6 percentage points per year, respectively. Poverty declined from 11.8 percent in 2010 to 5.0 percent in 2022 based on the international poverty line of US$ 2.15 per day (using 2017 purchasing power parity). At the same time, challenges remain. Bangladesh faces widening urban inequality. Urban consumption growth is faster for better-off households than for the poor. A high urbanization rate compounds this stubborn inequality gap. More equitable access to education and land ownership would help promote social mobility and reduce persistent inequality gaps.

Economic growth has contributed to a significant decline in poverty over the past twelve years. Real GDP growth averaged 6.5 percent from 2016 to 2022. Over this period, poverty and extreme poverty declined by 1.3 and 0.6 percentage points per year, lifting 11 million people out of poverty, and 5.4 million people out of extreme poverty. Poverty declined from 11.8 percent in 2010 to 5.0 percent in 2022 based on the international poverty line of US$ 2.15 per day (using 2017 purchasing power parity). By 2022, less than one in five Bangladeshis lived in poverty, and less than six percent were in extreme poverty (see Figure 15.a). This poverty reduction is principally the result of economic growth (Figure 16.d). The elasticity of poverty reduction to per capita GDP growth[13] remained stable at approximately 0.8 during both periods, but at the extreme poverty line, it increased notably from 0.7 to 1.1.

Box 5: Poverty Measurement in Bangladesh

Official poverty statistics in Bangladesh are estimated using the Cost of Basic Needs (CBN) method. This method calculates the cost of a bundle of food and non-food items adequate to satisfy basic consumption needs. If a person cannot afford this bundle, that person is considered poor. Extreme poverty is measured using a lower poverty line with a bundle primarily comprised of food, with a small share of non-food items. The BBS updated poverty lines in 2022 due to significant changes in consumption patterns and improvements in the 2022 HIES. These improvements included a rigorous process in selecting quality enumerators, conducting residential training, introducing Computer Assisted Personal Interviewing (CAPI), and the Classification of Individual Consumption by Purpose (COICOP), which substantially increased the number of food and non-food items, the use of weighing scales, strict diary data collection with continuous monitoring and intense supervision in the field that improved the quality of data. To obtain comparability between the 2022 and previous rounds (2016 and 2010) a survey-to-survey (S2S) imputation method was implemented. The poverty line was adjusted between survey rounds using a food prices index that captures food inflation in each domain and the non-food CPI. For a complete discussion on how comparability over time is restored, see Fernandez et al. (2023).

The elasticity of extreme poverty reduction to per capita GDP growth is slightly lower than the regional average. Yet, when considering extreme poverty levels (defined as $2.15-a-day using 2017 PPP), Bangladesh's figures are lower and align with those of countries in Latin America and the Caribbean. This is a notable achievement, especially considering that twelve years ago, the extreme poverty rate mirrored the levels of the South Asia region (Figure 15.b). Conversely, moderate poverty levels ($3.65-a-day 2017 PPP) are over twice as high as in more developed regions. However, the rate at which moderate poverty has declined in Bangladesh over the past twelve years has been slightly higher than in South Asia as a whole (decreasing by 1.6 and 1.4 percentage points per year

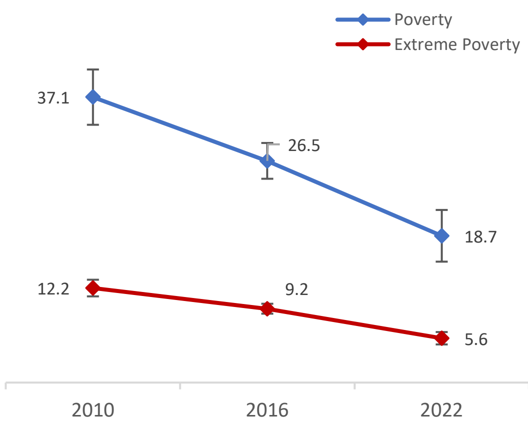
[13] The percentage reduction in poverty divided by growth in GDP per capita. The values using the growth rate instead of growth per capita are 0.6 for both periods. The average annual population growth rate in 2011 was almost 1.5 percent, falling to 1.2 percent in 2022 (BBS, Population and Housing Census 2022, Preliminary Report).

respectively) (Figure 15.b). The elasticity of poverty reduction to GDP per capita growth is similar (0.5) for Bangladesh and South Asia.

Figure 15: Substantial poverty reduction, below the regional average

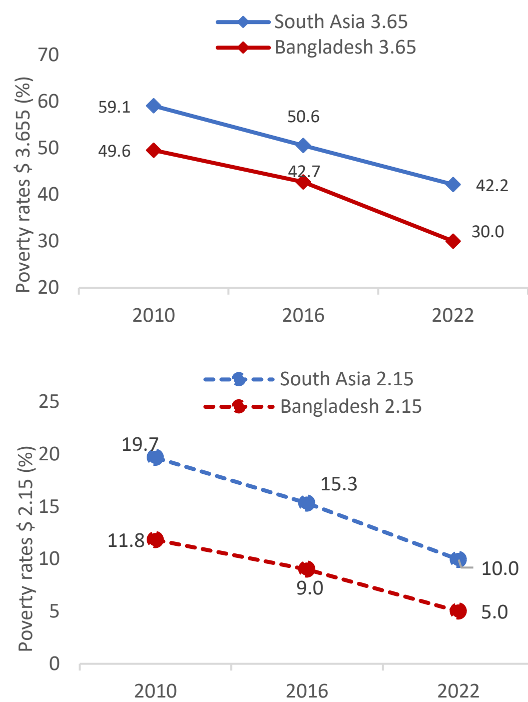
National Poverty Lines

a. Poverty and extreme poverty incidence (%)

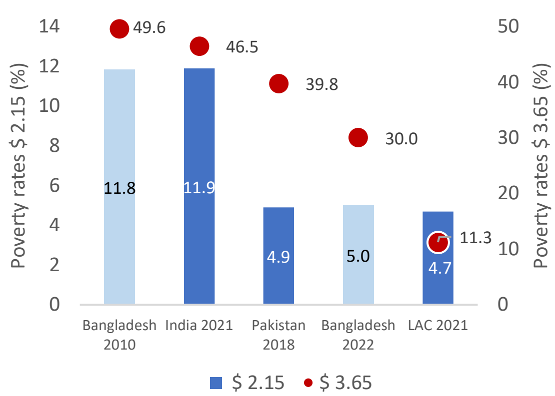


International Poverty Lines

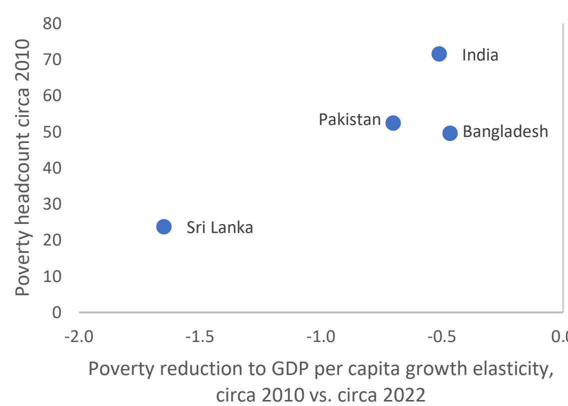
b. Poverty incidence at $ 3.65 and $ 2.15 per day -2017 Purchasing Power Parity (%)



c. International comparison of poverty headcounts (%)



d. Poverty to GDP per capita growth elasticity circa 2010 vs. circa 2022 (USD 3.65 per day)



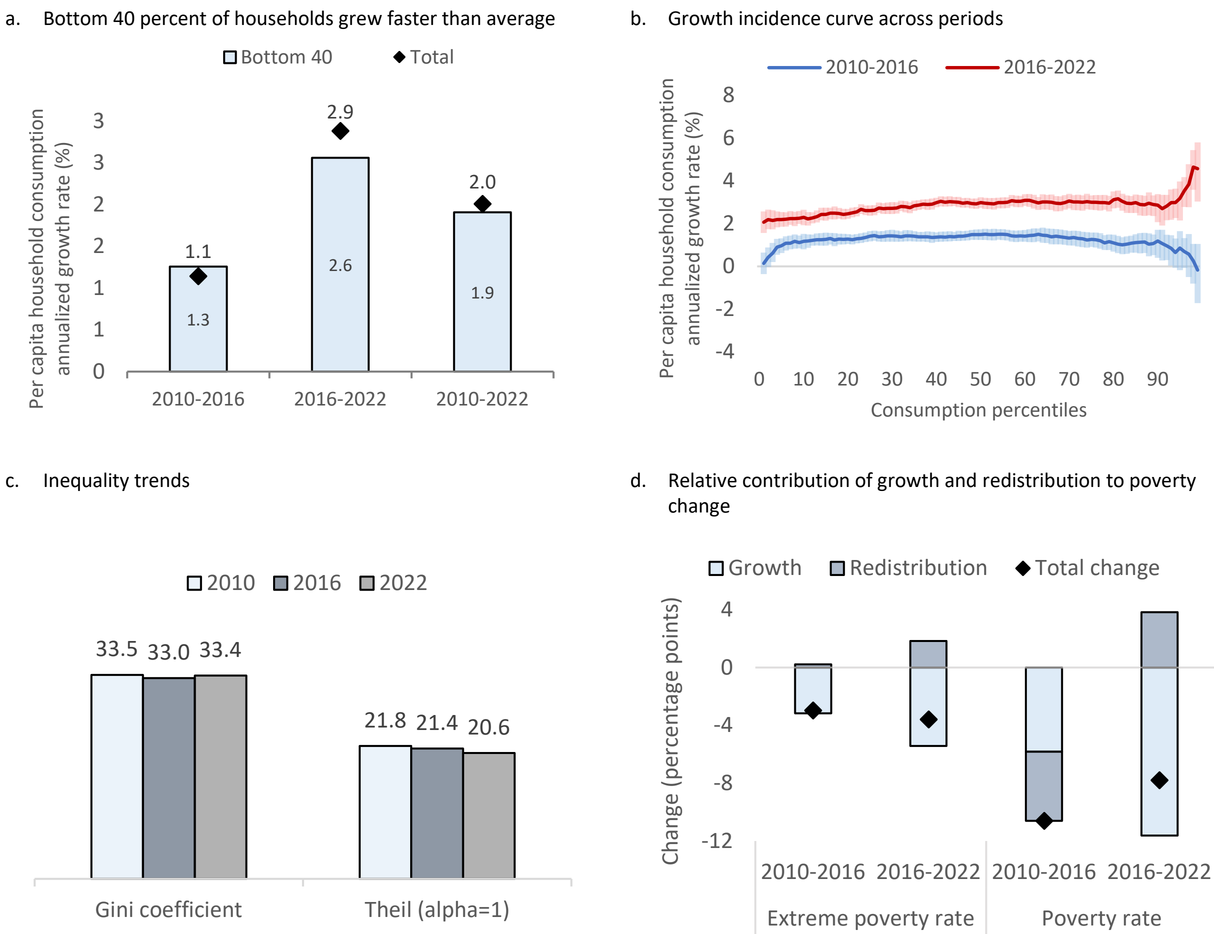
Source: Staff estimations based on 2010, 2016, and 2022 HIES

Note: National poverty line is based on BBS estimates (BBS, 2023). South Asia poverty estimates are based on FY23 estimates of growth. Bangladesh's international estimates are based on comparable consumption aggregates across rounds. For further information, see (Fernandez et al 2023). Poverty growth elasticities for Sri Lanka and Pakistan are based on pre-pandemic poverty figures.

Economic growth contributed to a broad increase in welfare, though inequality persisted. Over the 2010-16 period, consumption growth was slightly higher among poorer households. Consumption growth among the bottom 40 percent of the welfare distribution grew at 1.3 percentage points per year, compared to 1.1

percentage points for the top 60 percent of the welfare distribution. In contrast, from 2016 to 2022, wealthier households experienced higher consumption growth (3.0 percent annually) than poorer counterparts (2.6 percent yearly) (Figure 16.a). Over the same full period, from 2010 to 2022, Bangladesh's Gini and Theil coefficients dropped slightly by 0.1 and 1.1 percentage points, respectively (Figure 16.c).[14] These different measures show that inequality is persistent; on the one hand, wealthier households saw a slightly higher increase in their consumption, while on the other hand, the Gini remains largely unchanged.

Figure 16: Consumption growth accelerated and became pro-poor



Source: Staff estimations based on 2010, 2016, and 2022 HIES

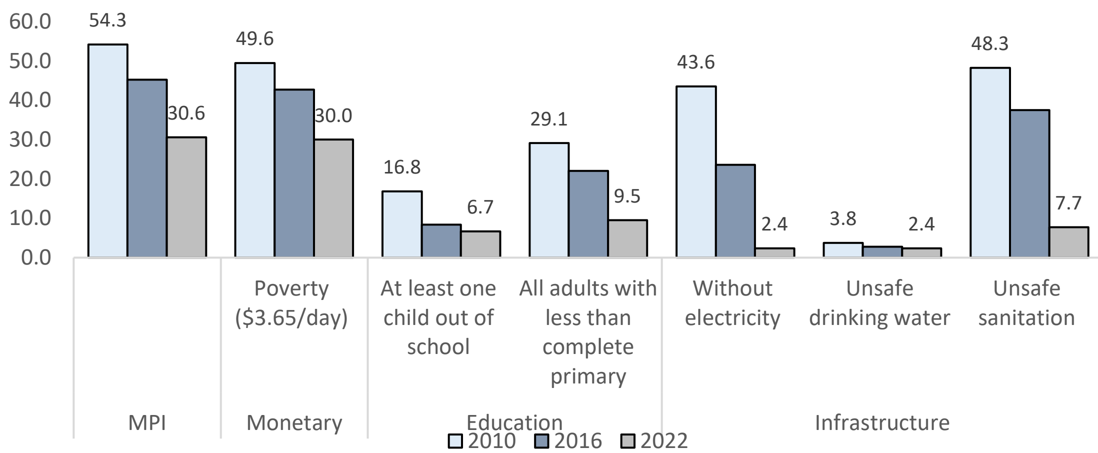
Other dimensions of well-being improved over the same period, including infant mortality, stunting, access to electricity, sanitary toilets, and education. Between 2017 and 2022, infant mortality declined from 36 to 25 deaths per 1,000 births. The proportion of children under 5 years of age who are stunted also fell from 31 to 24 percent. The adolescent fertility rate declined four percentage points from 27.7 to 23.7.[15] Access to electricity was almost universal in 2022, with a 22-percentage point growth since 2016. The percentage of households with sanitary toilets increased from 25.6 percent in 2016 to 40.1 percent in 2022. Literacy rates increased by nearly 10 percentage points for adults, from 62.5 percent in 2016 to 72.3 percent in 2022.

[14] Inequality changes are not statistically significant.

[15] Bangladesh, Demographic and Health Survey – Key Indicators Report 2022

Progress in monetary and nonmonetary dimensions of well-being has resulted in significantly less multidimensional poverty (Box 5)**.** The proportion of Bangladeshis facing nonmonetary deprivation (i.e., education and infrastructure) decreased significantly from 2010 to 2022. Multidimensional poverty fell from 54.3 percent to 30.6 percent of the total population, lifting almost 30 million people out of all deprivations. More importantly, the number of people who live in households with two or more deprivations plummeted from 25 million to nearly two million in 12 years. This was driven by an impressive improvement in infrastructure, principally through increased access to electricity and reductions in unsafe sanitation. However, the highest deprivation is still monetary, indicating the importance of jobs and labor income as a path out of poverty in Bangladesh.

Figure 17: Monetary[16] and nonmonetary components of well-being reduced multidimensional poverty



Source: Staff estimations based on 2010, 2016, and 2022 HIES

Box 5: Multidimensional Poverty Index

The World Bank recently updated the 4th edition of the global Multidimensional Poverty Index (MPI), which complements the international measurement of monetary poverty and highlights deprivations in three dimensions: education, infrastructure, and consumption.

A household is deprived of education if no members above 15 years of age have completed primary education or above, or if the household includes school-age children who are not attending school. Similarly, a household is deprived of the housing infrastructure dimension if it does not have access to any of the following three basic services: electricity, drinking water, and sanitation. Finally, a household is deprived of the monetary poverty dimension if the household expenditure per capita falls below the lower-middle-income poverty line of $3.65 per day per person (2017 PPP). The three dimensions are included with equal importance in the MPI. Within each dimension, the indicators are included with equal importance. A household is defined as multidimensionally poor if the index is below one-third.

The multidimensional poverty index was estimated globally in the 2018 Poverty and Shared Prosperity Report (PSPR) and is updated following the same methodology every year. Methodological details are available in PSPR Chapter 4.

Dimension	Weight dimension	Indicator	Weight indicator
Education	1/3	All adults with less than primary schooling. Deprived when all adults (household older than 15 yo) have less than primary education	1/6
		Child out of school. Deprived when at least a child of school age is out of school	1/6

[16] The welfare aggregates utilized to compute monetary poverty in the MPI align with the official Global Municipal Database (GMD). Conversely, the welfare aggregates referenced throughout the rest of the document are constructed using the survey-to-survey imputation method outlined in Fernandez et al. (2023).

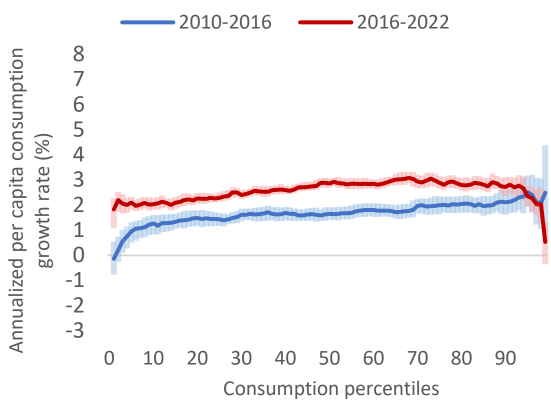
Infrastructure	1/3	Access to electricity. Deprived when households have no access to electricity	1/9
		Unsafe drinking water. Deprived when households are without an improved source of drinking water following the WHO/UNICEF Joint Monitoring Program definition	1/9
		Unsafe sanitation. Deprived when households were without improved sanitation	1/9
Monetary	1/3	Monetary poor. Deprived when per capita consumption per day is less than $3.65 a day (2017 PPP) international poverty line	1/3

Poverty has become more urbanized

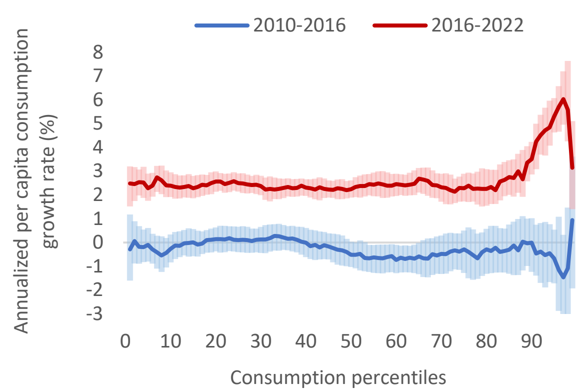
There are contrasting narratives of progress between rural and urban Bangladesh. Consumption growth supported an increase in overall welfare between 2016 and 2022. This progress was more evenly distributed among rural households than urban households. In rural areas, consumption grew at the same rate for the bottom 40 percent of households as for the top 60 percent. However, in urban areas, the top 60 percent of households registered an annualized growth rate that was 0.6 percentage points higher than the bottom 40 percent. The opposing trends in inequality between urban and rural areas counterbalanced each other, leading to a nearly unchanged level of national inequality in 2022.

Figure 18: Contrasting narratives for rural and urban areas

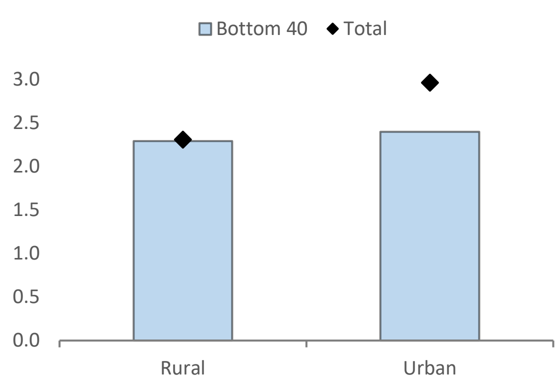
a. Neutral growth in rural areas



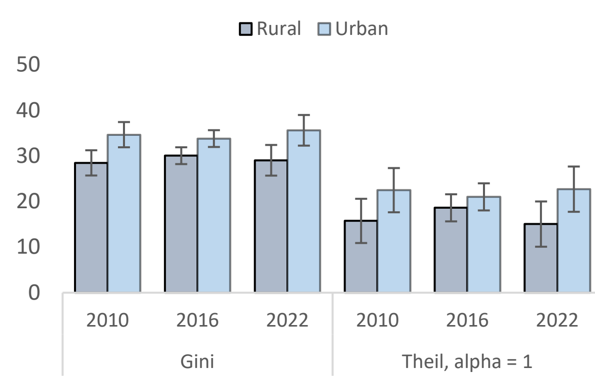
b. Faster growth for high-income groups in urban areas



c. Shared prosperity by areas (%)



d. Inequality was reduced only in rural areas

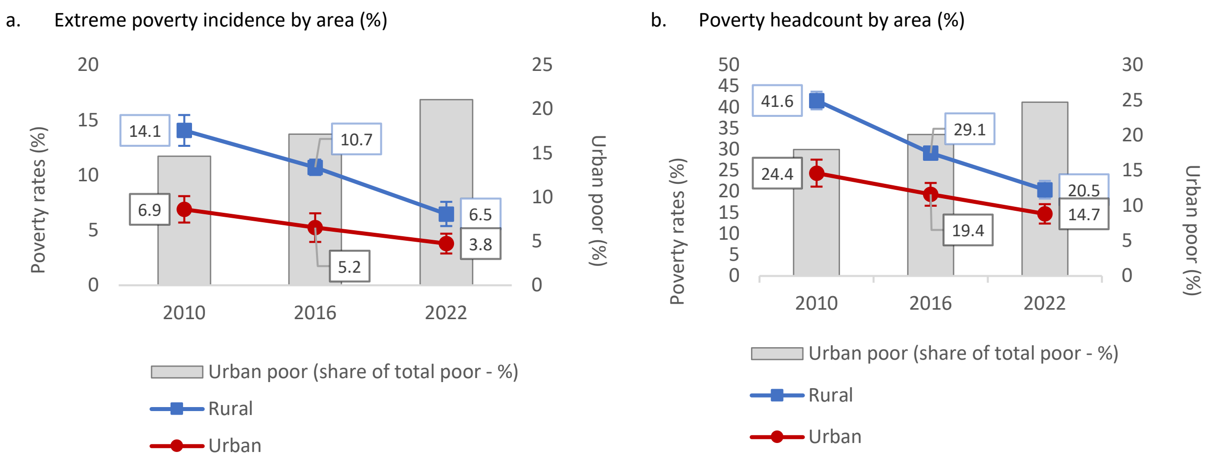


Source: Staff estimation based on 2010, 2016, and 2022 HIES

Note: Growth incidence curves indicate the growth in consumption per capita at each level of consumption (from the poorest on the left to the richest on the right).

Faster consumption growth of the rural bottom 40 has explained nearly all poverty reduction in Bangladesh. Poverty declined in urban and rural areas but at a lower pace than in the previous period (2010-2016). Poverty reduction in rural areas (from 29.1 to 20.5 percent) continued to outpace urban areas (from 19.4 to 14.7 percent). At the same time, urbanization has accelerated. In 2022, one in four Bangladeshis lived in urban areas, compared to fewer than one in five in 2016. As a result of these factors, a higher proportion of poor people lived in urban areas in 2022, although poverty in rural areas was still almost 6 percentage points higher. Extreme poverty declined irrespective of place of residence, with a statistically significant reduction in rural areas (from 10.7 to 6.5).

Figure 19: Poverty is converging across areas and becoming more urbanized



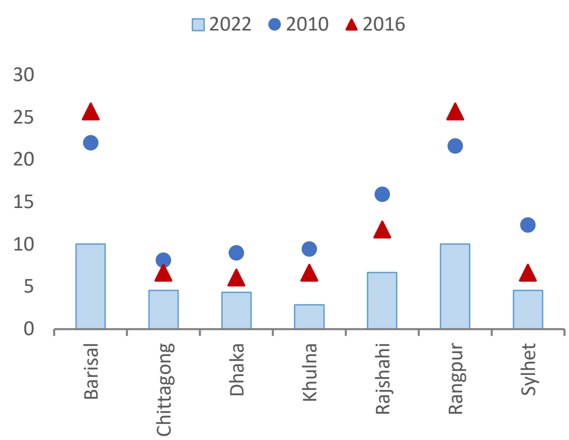
Source: Staff estimation based on 2010, 2016, and 2022 HIES.

The East-West Divide in Poverty Rates Narrowed Between 2016 and 2022

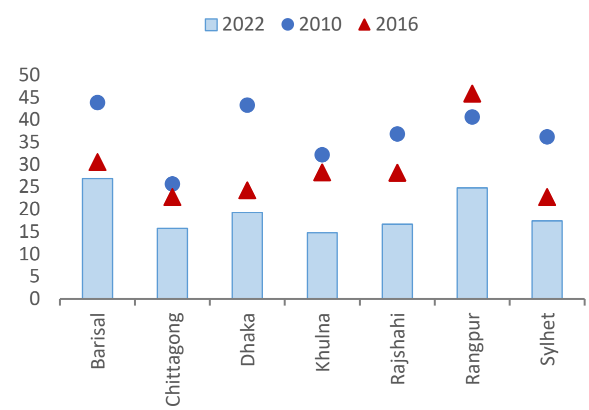
Poverty rates are significantly lower than 12 years ago, but poverty reduction has been uneven across divisions. Poverty and extreme poverty incidence was halved in most divisions between 2010 and 2022, but spatial analysis shows a heterogeneous incidence. While poverty levels in Khulna and Chittagong were considerably below the national average, poverty levels in Barisal and Rangpur largely exceeded the national average. These results mirror the consumption growth experienced in the East and the West regions over the last 12 years. Consumption growth was lower in the West than in the East between 2010 and 2016, but the trend for most of the distribution switched between 2016 and 2022.

Figure 20: Poverty reduction and consumption growth was uneven across space

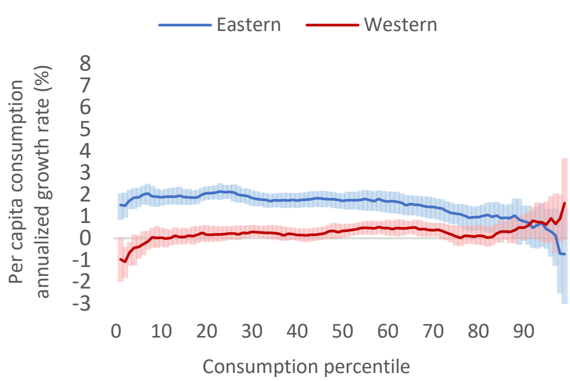
a. Extreme poverty at the division level



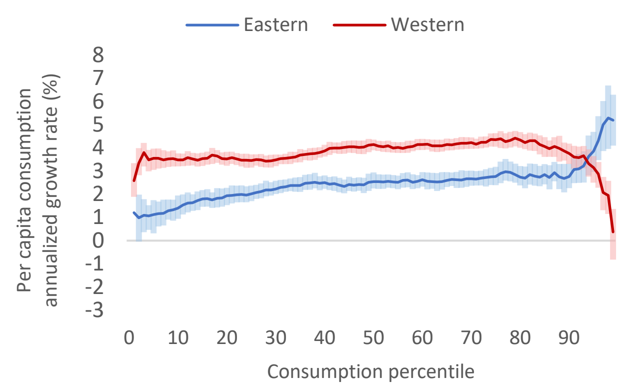
b. Poverty at the division level



c. Growth incidence curve, 2010-2016



d. Growth incidence curve, 2016-2022



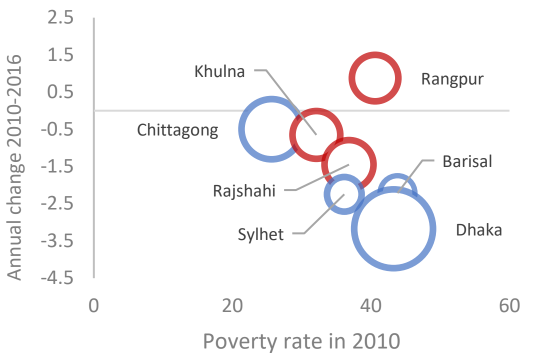
Source: Own estimation based on 2010, 2016, and 2022 HIES.

Note: 'West' includes the divisions of Rangpur, Rajshahi, and Khulna. 'East' includes the divisions of Barisal, Chittagong, Dhaka, and Sylhet. Mymensingh was included as part of Dhaka as in previous studies. Growth incidence curves indicate the growth in consumption per capita at each level of consumption (from the poorest on the left to the richest on the right).

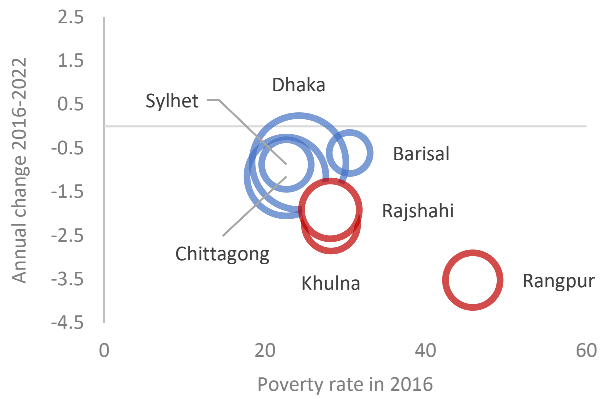
Despite spatial disparities, there have been signs of convergence in poverty and extreme poverty across divisions. Between 2010 and 2016, divisions in the Eastern region with lower poverty rates experienced higher reductions in poverty. This widened the gap in poverty rates between Eastern and Western Bangladesh. However, this pattern changed between 2016 and 2022. Divisions in the Western region with higher poverty rates experienced more considerable reductions in poverty. These patterns have significantly narrowed the East-West divide over the last six years.

Figure 21: Convergence across divisions

a. Poverty reduction at division levels and initial levels, 2010-2016



b. Poverty reduction at division levels and initial levels, 2016-2022



Source: Own estimation based on 2010, 2016, and 2022 HIES

Box 6: The impact of displaced Rohingya population inflow since 2019

The 2017 inflow of the displaced Rohingya population (DRP) in Cox's Bazar District had an immediate impact on poverty within the Chittagong Division, although the impact was highly localized. The Ukhia and Teknaf upazilas host almost one million DRP (living in camps), which is more than double the Bangladeshi population living in the area. This increase in the population of Cox's Bazar District poses considerable welfare challenges for both the DRP and the host community. The concentration of refugees in a small geographic area is putting pressure on service delivery, local wages, and prices of commodities.

Results from the Cox's Bazar Panel Survey (CBPS) Round 2 (2023) show that overall living conditions for both DRP and host communities have improved since 2019, with households reporting improved access to electricity and water, sanitation, and hygiene (WASH) services. However, literacy and educational attainment remain a major concern for the DRP, especially for young adolescent women. Negative economic impacts on host communities are more linked to wages than to price increases. While wages generally rose between 2019 and 2023, the increase is about 24 percent for those living 15 km distance from camps (i.e., Low Exposure), which is over three times more than the observed increase for those living within 15 km distance camps (i.e., High Exposure).

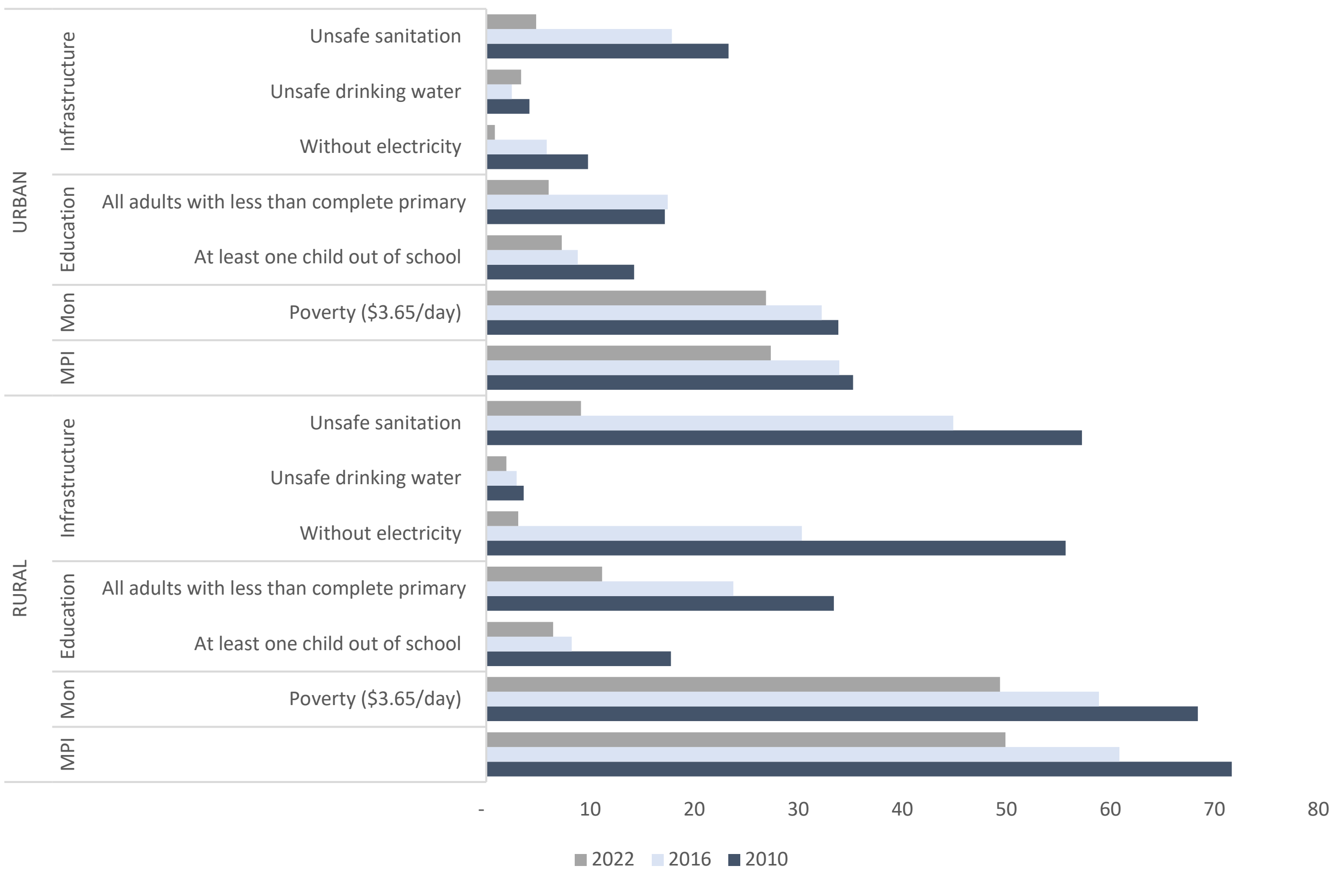
The DRP face ongoing welfare challenges, localized in the Cox's Bazar district and Bhasan Char. The DRP are highly vulnerable, with the majority unable to meet basic needs without aid. Over 70 percent of consumption comes from assistance. With recent cuts to WFP food assistance, food insecurity and child malnutrition are expected to worsen. In the absence of assistance, the median per-capita household consumption of the DRP would fall to 27 percent of the host community (517 kcal). Data from the CBPS Round 2 (2023) suggest that after the first reduction of food assistance in early 2023, over one-third of Rohingya households resorted to eating less preferred food, with 15 percent restricting adult food consumption and 23 percent reducing portion sizes. This implies that efforts to reduce vulnerability in Bangladesh also need to enhance support to the DRP and the host communities.

In sum, the Rohingya inflow presents ongoing socio-economic challenges. Service delivery by the local sectors and administration is stretched – a situation exacerbated by declining external humanitarian assistance. Given the protracted nature of the crisis and the conditions associated with it, supporting the government in its response will require: (i) international responsibility-sharing of the costs of hosting; and (ii) a more inclusive and medium-term approach to development interventions in Cox's Bazar and the Bhasan Char Island for the benefit of the DRP and the host communities.

Other dimensions of well-being have also converged between urban and rural areas. Even though deprivation levels remain higher in rural areas, infrastructure, and education deprivations declined significantly. This contributed to a narrowing gap between rural and urban areas (Figure 8.a). From 2010 to 2022, more than 90 percent of the 21 million people who left multidimensional poverty were from rural areas. The speed of poverty reduction increased between 2016 and 2022. Unsafe sanitation declined, access to electricity rose, and the number of adults with completed primary education increased, particularly in rural areas. Eastern regions (i.e., Sylhet, Dhaka (including Mymensingh), Chittagong, and Barisal) contributed to almost 70 percent of the reduction in multidimensional poverty between 2010 and 2016. However, western regions (i.e., Rangpur, Rajshahi, and Khulna) also progressed rapidly between 2016 and 2022, contributing more than half the reduction in multidimensional poverty. As a result, 11.3 million Bangladeshis from the East and 9.7 million from the West were lifted from multidimensional poverty between 2010 and 2022.

Figure 22: Spatial deprivation gaps in education and infrastructure have been narrowing between 2010 and 2022.

a. Multidimensional poverty index by urban and rural areas



Source: Staff estimation based on 2010, 2016, and 2022 HIES
Note: 'West' includes the divisions of Rangpur, Rajshahi, and Khulna. 'East' includes the divisions of Barisal, Chittagong, Dhaka and Sylhet. Mymensingh was included as part of Dhaka as in previous studies.

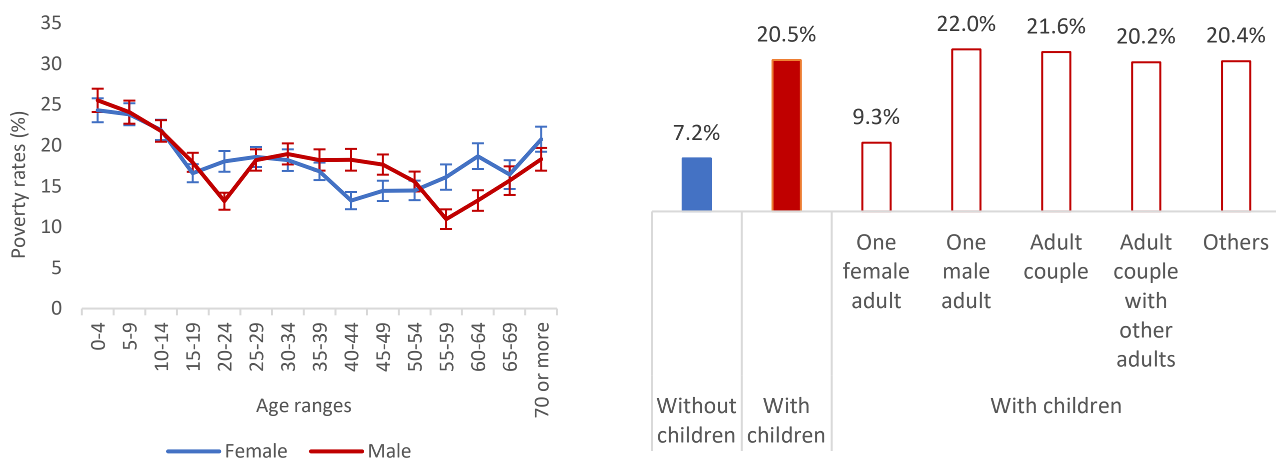
The Characteristics of Poor Households

Poverty affects men and women differently over their life cycle, with significantly higher poverty rates among households with children. Bangladeshi women face significantly higher poverty rates than men for young (20-24 years old) and adult (55-64 years old) cohorts, with and lower poverty among women in their forties. However, urban poverty similarly affects all adult populations (45+) regardless of gender. Households with children are almost three times more likely to be poor than those without them (20.5 versus 7.2 percent). In 2022, almost 95 percent of poor households have children. Among them, there are no significant differences in their poverty status (20 percent), except in those households with one female adult, which are less than half as likely to be poor (9.3 percent) as their counterparts.

Figure 23: Poverty incidence by gender and household type

a. Young and adult women are poorer than their male counterparts

b. Households with children are significantly poorer than those without them



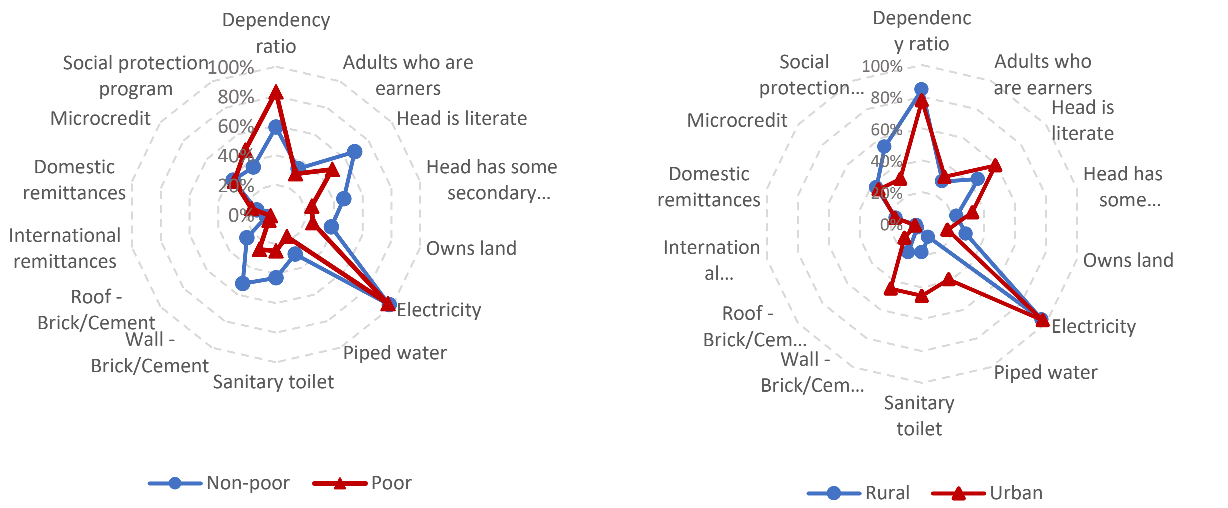
Source: Staff estimation based on 2022 HIES

The poor have fewer productive assets and lower access to water and sanitation than their non-poor counterparts, but similar access to electricity, microcredit, and remittances. In 2022, poor households in Bangladesh had lower human and physical capital than non-poor households (Figure 24.a). Among heads of poor households, 49 percent were literate, and 25 percent had some secondary education. For non-poor households, these proportions increase to 68 and 47 percent, respectively. Likewise, concerning physical capital, 17 and 25 percent of poor households have access to piped water and sanitary toilets, respectively, compared to 30 and 43 percent for non-poor households. Almost all households have access to electricity, with similar service quality for both groups. Only 6 percent and 26 percent of the poor Bangladeshis' dwellings have brick/cement in roofs and walls, while a quarter and more than half of non-poor households have them. Regarding institutional capital, 26 percent of poor households own their land relative to 38 percent of non-poor households. However, poor households have similar access to microcredits and benefit in the same way from domestic or international remittances as their non-poor counterparts. More importantly, almost half of poor households have access to social protection programs, relative to less than 40 percent of non-poor households.

Figure 24: Characteristics of poor and non-poor Bangladeshi households

a. Poor Bangladeshis have lower productive assets and access to water and sanitation

b. Poor households enjoy better human capital and infrastructure in urban than rural areas

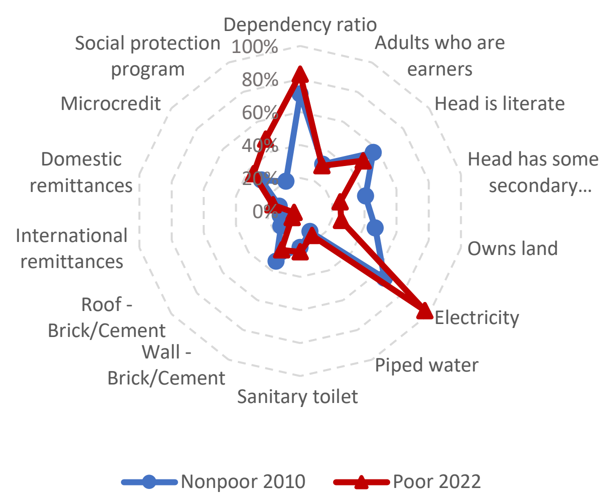


Source: Staff estimation based on 2010, 2016, and 2022 HIES

Urban poor households are better off in human capital and infrastructure than rural poor households. Poor households in rural areas experience lower human and physical capital than their urban counterparts but higher access to microcredits, land ownership, and social protection programs (Figure 24.b). For some other indicators, such as access to electricity and international and domestic remittances, the differences are negligible.

Living conditions have improved substantially, despite persistent disparities between poor and non-poor households. In 2022, a poor household had similar facilities as a non-poor household in 2010 in terms of physical capital, such as access to water, sanitation levels, and improved quality of roofing and wall materials (Figure 25). Access to electricity and microcredit among the poor in 2022 is higher than access among the non-poor in 2010. However, disparities in land ownership and human capital persist, posing a threat to future access to better jobs, and incomes, and, consequently, hindering improvements in intergenerational mobility.

Figure 25: A poor household in 2022 looks like a non-poor household more than decade ago



Source: Staff estimation based on 2010, 2016, and 2022 HIES.

These preliminary findings point to ongoing improvements in living standards as Bangladesh's economic transformation continues. Bangladesh's economy has continued to transition from agriculture to services and industry. Households with higher shares of non-farm income have been less likely to remain in or fall into poverty (World Bank, 2019). The narrowing east-west divide in poverty is consistent with a more equal distribution of industrial activities, as infrastructure development has improved intra-regional connectivity. While poverty rates declined in rural areas, a high rate of urbanization continues to put pressure on cities where infrastructure gaps already impair service delivery. Going forward, policymakers need to continue what worked to reduce poverty (i.e., providing greater access to water, electricity, better housing, and financing) and at the same time focus on improving the factors that lagged behind (i.e., inclusive and sustainable urbanization, creating more jobs in rural areas, and reducing inequality).

Annexes

Table A.1: Characteristics of poor and non-poor households (average)

	Non-poor	Poor	
Demographics			
Household lives in an urban area (%)	33.3%	24.9%	***
Household size	4.1	4.9	***
Household dependency ratio	0.59	0.83	***
Age of household head	46.8	45.6	***
Household head is female (%)	13.2%	9.1%	***
Household head is married (%)	90.7%	91.7%	
Labor market			
Share of adults who are earners	34.4%	30.5%	***
Share of adults in agriculture	12.7%	12.4%	
Household head in agriculture (%)	32.8%	37.5%	**
Household head in industry (%)	22.6%	25.3%	*
Household head in services (%)	31.2%	25.8%	***
Household member has a chronic illness/disability	33.4%	23.7%	***
Human capital			
Household head is literate (can write a letter, %)	67.9%	48.7%	***
Household head has no education (%)	28.4%	44.5%	***
Household head has some primary education (%)	10.5%	14.5%	***
Household head has completed primary education (%)	13.7%	15.9%	**
Household head has at least some secondary education (%)	47.0%	24.9%	***
Assets			
Household owns land (%)	38.3%	25.5%	***
Household owns a mobile phone (%)	98.7%	97.6%	***
Household has electricity (%)	97.8%	96.8%	
Household has piped water (%)	29.8%	16.5%	***
Household has sanitary toilet (%)	43.0%	24.8%	***
Transfers and credit			
Household receives international remittances (%)	6.7%	3.8%	***
Household receives domestic remittances (%)	13.3%	17.0%	***
Household receives microcredit (%)	37.2%	36.2%	
Household receives social protection program (%)	35.6%	48.3%	***

Source: Own estimations based on HIES 2022.
Note 1: Stars indicate whether the mean for non-poor and poor households is significantly different using a Wald test. Significance at the *10%, **5%, and ***1% level. Note 2: Dependency ratio was calculated as the population age zero to 14 and over the age of 65, to the total population age 15 to 65.

Table A.2: Characteristics of rural poor and non-poor households (average)

	Non-poor	Poor	
Demographics			
Household size	4.2	4.9	***
Household dependency ratio	0.61	0.85	***
Age of household head	47.4	46.0	***
Household head is female (%)	13.4%	9.4%	***
Household head is married (%)	90.6%	91.6%	
Labor market			
Share of adults who are earners	33.8%	29.7%	***
Share of adults in agriculture	17.0%	15.0%	**
Household head in agriculture (%)	43.7%	45.1%	
Household head in industry (%)	18.2%	21.2%	
Household head in services (%)	25.8%	21.7%	**
Household member has a chronic illness/disability	34.9%	24.6%	***
Human capital			
Household head is literate (can write a letter, %)	61.8%	45.3%	***
Household head has no education (%)	33.8%	47.7%	***
Household head has some primary education (%)	11.7%	14.4%	**
Household head has completed primary education (%)	15.0%	15.4%	
Household head has at least some secondary education (%)	39.2%	22.4%	***
Assets			
Household owns land (%)	44.5%	28.5%	***
Household owns a mobile phone (%)	98.4%	97.2%	**
Household has electricity (%)	97.0%	96.6%	
Household has piped water (%)	15.3%	9.2%	***
Household has sanitary toilet (%)	31.2%	18.0%	***
Transfers and credit			
Household receives international remittances (%)	6.7%	3.6%	***
Household receives domestic remittances (%)	13.6%	16.9%	**
Household receives microcredit (%)	39.9%	36.6%	*
Household receives social protection program (%)	41.9%	53.9%	***

Source: Own estimations based on HIES 2022.
Note 1: Stars indicate whether the mean for non-poor and poor households is significantly different using a Wald test. Significance at the *10%, **5%, and ***1% level. Note 2: Dependency ratio was calculated as the population age zero to 14 and over the age of 65, to the total population age 15 to 65.

Table A.3: Characteristics of urban poor and non-poor households (average)

	Non-poor	Poor	
Demographics			
Household size	4.1	4.9	***
Household dependency ratio	0.55	0.78	***
Age of household head	45.7	44.5	*
Household head is female (%)	12.7%	8.4%	**
Household head is married (%)	91.0%	92.1%	
Labor market			
Share of adults who are earners	35.5%	32.8%	**
Share of adults in agriculture	4.1%	4.6%	
Household head in agriculture (%)	10.8%	14.2%	
Household head in industry (%)	31.4%	37.8%	**
Household head in services (%)	42.2%	38.2%	
Household member has a chronic illness/disability	30.6%	20.7%	***
Human capital			
Household head is literate (can write a letter, %)	80.1%	59.0%	***
Household head has no education (%)	17.4%	35.0%	***
Household head has some primary education (%)	8.1%	15.0%	***
Household head has completed primary education (%)	11.2%	17.4%	***
Household head has at least some secondary education (%)	62.7%	32.5%	***
Assets			
Household owns land (%)	26.1%	16.5%	***
Household owns a mobile phone (%)	99.2%	98.7%	
Household has electricity (%)	99.5%	97.3%	*
Household has piped water (%)	58.9%	38.7%	***
Household has sanitary toilet (%)	66.6%	45.3%	***
Transfers and credit			
Household receives international remittances (%)	6.5%	4.3%	
Household receives domestic remittances (%)	12.8%	17.4%	*
Household receives microcredit (%)	31.8%	34.8%	
Household receives social protection program (%)	22.9%	31.4%	***

Source: Own estimations based on HIES 2022.

Note 1: Stars indicate whether the mean for non-poor and poor households is significantly different using a Wald test. Significance at the *10%, **5%, and ***1% level. Note 2: Dependency ratio was calculated as the population age zero to 14 and over the age of 65, to the total population age 15 to 65.

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