PRESS RELEASE NO. 24/141

IMF Reaches Staff-Level Agreement on the Second Review of Bangladesh's Extended Credit Facility, Extended Fund Facility, and Resilience and Sustainability Facility Arrangements

May 8, 2024

> End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- IMF staff and the Bangladesh authorities have reached a staff-level agreement on the policies needed to complete the second review of the authorities' program supported by the IMF's Extended Credit Facility (ECF), Extended Fund Facility (EFF), and Resilience and Sustainability Facility (RSF). The review is pending IMF Executive Board approval. Upon the Board's approval, Bangladesh will have access to SDR871 million (about US$1,152 million) in financing.
- Bangladesh authorities adopted some critical, reforms to address macroeconomic imbalances, including the realignment of the exchange rate, adoption of a crawling peg regime, and the full liberalization of retail interest rates. It is imperative to sustain the reform momentum and ongoing efforts towards macroeconomic stabilization.
- The authorities' reform program supported by the IMF will continue to help Bangladesh navigate a difficult external environment and preserve macroeconomic stability, while accelerating economic reforms and delivering on their climate agenda to achieve sustainable, inclusive, green growth.

Dhaka, Bangladesh: An International Monetary Fund (IMF) mission team led by Mr. Chris Papageorgiou visited Dhaka during April 24 – May 8, 2024 to discuss economic and financial policies in the context of the second review of the IMF's Extended Credit Facility (ECF), Extended Fund Facility (EFF), and Resilience and Sustainability Facility (RSF).

At the end of the mission, Mr. Papageorgiou issued the following statement:

"The IMF team reached a staff-level agreement with the Bangladesh authorities on the policies needed to complete the second review under the ECF/EFF/RSF arrangements. The staff-level agreement is subject to approval by the Executive Board, which is expected in the coming weeks. Completion of the second review will make available SDR704.70 million (about US$932 million, equivalent of 66 percent of quota) under the ECF/EFF and SDR166.68 million (about US$220 million, equivalent of 15.6 percent of quota) under the RSF.

"The authorities have made significant progress on structural reforms under the IMF-supported program, including the implementation of a formula-based fuel price adjustment mechanism for petroleum products. Nonetheless, larger-than-expected spillovers from tightening of global financial conditions, and still elevated international commodity and food prices, coupled with domestic vulnerabilities, has led to persistently high inflation and declining foreign exchange (FX) reserves. This has exacerbated pressures on the economy and heightened the complexity of macroeconomic challenges.

"Against this backdrop, we welcome Bangladesh Bank's bold actions to realign the exchange rate and simultaneously adopt a crawling peg regime with a band as a transitional step toward greater exchange rate flexibility to restore external resilience. Following the liberalization of retail interest rates, additional tightening of monetary policy should help alleviate any inflationary pressures resulting from the exchange rate reform. Fiscal policy should support these monetary tightening efforts through revenue-based consolidation. If external and inflationary pressures intensify, the authorities should stand ready to tighten policies further.

"The macroeconomic outlook is expected to gradually stabilize as policy actions start to take hold. Real GDP growth is projected to moderate to 5.4 percent in FY24 owing to the ongoing import compression and policy tightening. However, it is anticipated to rebound to 6.6 percent in FY25 as imports rebound and FX pressures ease. Inflation is projected to remain elevated at approximately 9.4 percent (year-on-year) in FY24 but is anticipated to decline to around 7.2 percent in FY25, on the back of the continued tighter policy mix and projected lower global food and commodity prices. Nevertheless, uncertainties surrounding the outlook remain high, with risks predominantly leaning towards the downside.

"Considering Bangladesh's low tax-to-GDP ratio, it is imperative to prioritize sustainable revenue generation to bolster investments in social welfare and development initiatives. To this end, tangible tax policy and administrative measures should be incorporated into the FY25 budget to augment tax revenues by 0.5 percent of GDP. At the same time, a medium- and long-term revenue strategy, with an accompanying implementation framework, should guide future reforms. Reducing subsidies, improving expenditure efficiency, and managing fiscal risks will allow for additional spending on social safety nets and growth-enhancing investment.

"Reducing banking sector vulnerabilities remains a priority. Efforts to implement the non-performing loan reduction strategy should help support the growing financing needs of the economy. At the same time, Bangladesh Bank should continue the transition to risk-based supervision to enhance financial sector resilience, while continuing legal reforms to improve corporate governance and regulatory frameworks. Looking ahead, domestic capital market development will be instrumental in mobilizing long-term financing to support growth.

"Maintaining the reform momentum is critical to align with the authorities' goal of reaching upper middle-income country status by 2031. Diversifying trade, attracting more foreign direct investment, enhancing the investment climate, and strengthening governance will be crucial in this regard.

"Building resilience to climate change will help mitigate macroeconomic and fiscal risks. Ongoing efforts to strengthen institutions and enhance spending efficiency would help meet climate objectives and mobilize climate finance, particularly from private sources. At the same time, the government should prioritize climate-responsive fiscal management reforms and undertake green and resilient infrastructure investment. Better management of climate-related risks will enhance financial sector resilience as well.

"The IMF team is grateful to the Bangladesh authorities and other stakeholders for their hospitality and candid discussions. The team held meetings with State Minister of Finance Waseqa Ayesha Khan, Bangladesh Bank Governor Abdur Rouf Talukder, and other senior government and Bangladesh Bank officials. The team also met with representatives from the private sector, think tanks, bilateral donors, and development partners."

IMF Communications Department

MEDIA RELATIONS

PRESS OFFICER: RANDA ELNAGAR

PHONE: +1 202 623-7100 | **EMAIL:** MEDIA@IMF.ORG

@IMFSpokesperson (https://twitter.com/IMFSpokesperson)