The large cracks in Bangladesh that IMF missed

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In January 2023, Bangladesh entered into a $4.7-billion IMF programme, spanning over 42 months, to fight the pressures on the macroeconomy and arrest the associated economic downslide. These pressures, triggered by a series of external shocks emerging from Covid-19, global inflation and the Ukraine War, had accumulated over a number of years owing to weak economic management. The policy corrections, therefore, involve macroeconomic adjustments, structural reforms and institutional strengthening.

The core IMF programme was broken down into six reviews, and the associated policy reforms were designed to become progressively more challenging. The government should take some comfort in successfully negotiating the release of the second review on June 24. While the government succeeded in ticking many of the conditionalities for the first and second review and convinced the IMF to be more flexible on some others, in substance, the two most important policy reforms implemented so far are the flexibility of the exchange rate and interest rate. However, fiscal correction has not happened, and the structural reforms in taxation, subsidies, state-owned enterprises, trade policy, and the banking sector have not made adequate progress.

Against this backdrop, the IMF has identified nine specific risks and uncertainties that could jeopardise progress with implementation of the IMF programme and constrain the ability of Bangladesh to successfully stabilise the macroeconomy and resume the growth process on a sustainable path. Five of these risks are global in nature and four are domestic.

The global risks include intensification of regional conflicts, commodity price volatility, abrupt global slowdown, systemic financial instability, and deepening geoeconomic fragmentation. The domestic ones relate to failure to maintain a market-based flexible exchange system, failure to address banking sector reforms, insufficient international support in resolving the Rohingya crisis, and higher frequency and severity of natural disasters related to climate change.

The global risks are well identified. It is hard to quarrel with them. Regional conflicts and deepening geoeconomic fragmentation are of particular concern. Yet, it is fair to say many of these risks have prevailed over the decades. The main policy implication of these risks is to make an all-out effort to stabilise the macroeconomy and resume the momentum of sustainable growth as quickly as possible. Growing economic resilience is the best way to absorb external shocks and take corrective actions in the future.

VISUAL: SALMAN SAKIB SHAHRYAR

The list of domestic risks is way too conservative and misses out some big-ticket items. Regarding the Rohingya crisis, this is more in the nature of an external risk. Bangladesh is doing its best to drum up international support. Progress with fiscal reforms will help create more space to fund Rohingya needs.

Concerning climate-related natural disasters, this is more a long-term challenge, although admittedly, Bangladesh's response in instituting policies and programmes to build greater climate resilience so far has been weak. It is not clear whether the IMF programme's $1.4-billion climate resilience component has been very effective in strengthening this policy response, especially in regards to mainstreaming climate change policies in planning, budgeting, incentives and institutional capabilities. I would like to throw the ball back at the IMF's court and ask it to reassess this component to see if the programme design was adequate to secure substantial climate reforms with potential long-term benefit.

The two remaining domestic risks are both very relevant and fall in the high risk category. It has now been 18 months since the IMF programme was approved, and little progress has been achieved in the banking sector. If anything, downside risks have increased. The volume of non-performing loans and distressed assets continues to increase, and there is little sign that a reversal is coming anytime soon. Without meaningful progress on banking reforms, the overall quality of the IMF programme will suffer.

On the exchange rate, an encouraging beginning has been made with the reform on May 8. The unification of the exchange rate and adoption of the interim crawling peg regime is a sound reform. Steps must be taken to quickly move to a fully flexible market-based exchange system. The risk of slippage is high, but the IMF must remain vigilant in monitoring this risk and engage with the government to stay on track.

Several substantial domestic risks have not been identified in the IMF risk matrix. These risks are not only high but present more immediate adverse consequences for the macroeconomy and resumption of growth momentum than the seven other risks noted by the IMF (the five global, the Rohingya, and the natural disaster ones).

First and foremost is the weakness of fiscal policy. This is the Achilles heel of Bangladesh's development strategy, and progress has been faltering for a long time. The 18 months of the IMF programme has brought in some marginal progress, but most of the institutional and structural aspects of the tax reform programme have not been addressed.

A big missing item in the budget is the absence of reform of the state-owned enterprises (SOEs). The financial return on investments in SOEs is very low and net budgetary transfers to sustain these poorly performing SOEs are way too high. Reform of SOEs is an easy win and surprisingly not emphasised in the IMF programme.

Of immediate concern is the consistency of the FY2025 budget with monetary policy for inflation control. At 4.6 percent of GDP, the budget deficit is way too high to allow the credit tightening that is needed to control inflation. There is a high risk that the budget will either crowd out private credit or cause a loosening of monetary policy thereby jeopardising inflation control.

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On the spending side, the budget subsidy target is too high while the allocations for health, education, training, agriculture, water, and social protection are too low. At a time when job creation is constrained, the economy is slowing down, and inflation is high, the low level of spending on social protection (0.8 percent of GDP excluding civil service pensions) is very disturbing and must be corrected.

Another major structural reform where very little progress has been made concerns trade protection. This again is a long standing challenge. The tax revenue's excessive dependence on customs duties, including supplementary and regulatory duties, has prevented any meaningful progress with trade reforms even after 18 months of the IMF programme. Consequently, the anti-export bias of trade policy prevails, which constrains export diversification and growth of non-RMG exports. Indeed, the slowdown in export growth to a mere 2 percent in FY2024 is a hugely worrisome development for both the sustainable management of the balance of payments and recovery of the growth momentum.

The final missing risk area is governance and institutions. The high incidence of corruption, some of which have erupted openly in the public domain, especially at a time when inflation is high and the economy has slowed, is a huge threat to social and economic stability. The government has adopted a policy of zero tolerance for corruption. This is comforting to know but it must now act decisively to implement its policy of zero tolerance. It must dig down to the root causes of corrupt practices and implement the required institutional and regulatory reforms that eliminate/minimise the scope for rent seeking.

Students and job seekers have taken it to the streets, seeking an end to positive discrimination under the quota system that looms over half of government jobs. FILE PHOTO: ANISUR RAHMAN

PENSION WARS AND QUOTA PROTESTS:

The manufactured divide

BLOWIN' IN THE WIND

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SHAMSAD MORTUZA

How does it feel to live in a society that seems to be melting from the bottom up, as well as from the top down? On one end of the pendulum, you see one of your country's biggest loan defaulters, aka one of the "Crazy Rich Asians," throwing a lavish wedding party in the Middle East. Then you witness common people groaning in front of the fish market, unable to afford anything except the throwaway guts and bones.

The "division bell" is responsible for creating a toxic climate in which our resentment for one another grows while our compassion for one another declines. Polarisation, rife with mutual fear and rage, is on the rise. Something dark and sinister is occurring. Our long-term sense of solidarity is fading; we are seeing a rise in isolationism and hostility. The problem is sociological. People blame rotten politics, social media, and moral or spiritual degradation for the venom's spread. It seems each group is on its own. We hardly give each other any thought until the issue flares close by.

Many divisive problems that pit one group against the other clearly show how our society is disintegrating. Public university teachers are on strike, calling for the protection of their pension rights. Students and job seekers have taken it to the streets, seeking an end to positive discrimination under the quota system that looms over half of government jobs. The court has overturned a previous decision to end quotas for the offspring of freedom fighters. The time is tough. A troubling pattern emerges that masks the deeper systemic issues through a calculated orchestration of conflict. In the process, the focus shifts from the real culprits who have brought our economy to a halt.

Public university teachers are on strike, calling for the protection of their pension rights. PHOTO: STAR

What do I mean by orchestration? The government's handling of the pension reform offers a case in point. Everyone welcomed the government's announcement last year of a universal pension package under four categories: Probash for expatriate Bangladeshis, Progoti for private service-holders, Surakkha for self-employed nationals, and Samata for those below the poverty line. The inclusion of Prottoy, a contributory pension scheme that affects new teachers joining from July 1, 2024, triggered the issue. This scheme is for all autonomous entities, among other bodies, funded by the government.

Once the details were revealed, the stakeholders found that they would be getting the short end of the stick. Why change the existing scheme and create a system through which incoming colleagues receive a different and disadvantageous payoff? Why separate the state-affiliated autonomous bodies from the state schemes? Why then, delay the pension scheme for civil servants by a year while maintaining secrecy about its details? The striking teachers have reason to believe that the intended parity and inclusivity promoted by the universal pension scheme are not universal after all.

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The administration has made no secret of its intention to limit the scope of the teachers. Without consulting the teachers, authorities decided to implement a contributory pension scheme for new teachers, which does not include the existing one-time lump sum gratuity. This unilateral approach has not only sparked widespread outrage but has also further exacerbated the divide between the state and the educators who have long been the backbone of our society.

The policymakers have completely ignored the demands of the striking teachers. The finance minister, in charge of introducing a new contributory pension programme, called the protest "irrational." The education minister echoed the government's stance, stating that his office has nothing to do with it and that all new teachers have to follow the universal programme. Assigned to hear the teachers' side of the tale, the minister for road, transport, and bridges called off his planned meeting on Thursday, saying he had to first speak with the prime minister. The government is well aware that these teachers are not like those battery-rickshaw pullers who created mayhem to press home their demands. Given their lack of support, the teachers are likely to eventually yield. They are unlikely to get public support as they have failed to publicly oppose numerous other social injustices. They are on their own.

So much so, there is no communication between the teachers holding sit-in demonstrations inside the campus and the students staging protests at Dhaka's Shahbagh, each man for himself. Adding fuel to the fire, we see the civil servants creating a new list of perks and benefits: scholarships for higher studies, allocation of land and provision for housing societies, car loans, and selection grades. Their constant disregard for the teachers' community, whom they perhaps hate for their academic freedom, was evident when they requested a university of their own. Already, we have seen military professionals create their own universities to rehabilitate their officers or provide them with degrees for post-retirement job opportunities. The current socio-political landscape is characterised by a perilous game of division and control.

Teachers are now pitted against students, students against the government, and the mainstream media against anyone who dares to speak out. This coordinated conflict serves two purposes: it deflects attention from the rampant abuses of private entrepreneurs who use tax holidays and other incentives to launder money, and it diverts attention from the shortcomings of civil servants and military officials who are often involved in corruption scandals. It muffles the voice of civil society, which has the ability to speak.

In this climate of division, public anger and frustration have become palpable. This pervasive distrust has tainted our interactions with one another, whether on the road, in public spaces, or in our daily lives. A sense of betrayal and helplessness is increasingly driving us, unravelling the societal fabric.

As we navigate through this turbulent situation, it's crucial to understand the underlying issues: the systematic manipulation of social tensions to uphold the status quo for a select few, leaving the rest of us to bear the consequences. The consequences fall on the rest of us. The solution to these problems depends on a democratic climate that promotes openness, inclusion, and sincere communication.