

Star BUSINESS



IMF sees brighter days for Bangladesh from FY26

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The International Monetary Fund (IMF) yesterday said that the country's economic scenario may turn positive in fiscal year 2025-26 with the inflationary pressure easing and economic growth picking up.

The multilateral lender attributed several government measures to their forecast of the positive outlook.

"We've seen this in many other countries with corrective measures in place... we expect a rebound," said IMF official Chris Papageorgiou at a press briefing at the finance ministry.

He led a recent two-week mission to Dhaka. "We are expecting that we would see the inflation decline finally in the next year," he said.

Earlier on Wednesday, the IMF cut Bangladesh's growth outlook to 3.8 percent for FY25, which may rebound to 6.7 percent in FY26.

It also said that inflation is anticipated to remain around 11 percent in FY25 before declining to 5 percent in FY26.

"This is a very important point, when we start seeing inflation coming down to single digits, hitting the target rate of five to six percent, then we'll see growth start to pick up," Papageorgiou said.

Earlier on Wednesday, the IMF cut Bangladesh's growth outlook to 3.8 percent for FY25, which may rebound to 6.7 percent in FY26

He said disruptions caused by floods in the northeastern region in August and September, and other disruptions earlier slowed growth this year.

"Frankly, a lot of the growth reduction we see is because of the disruptions in the months of July and August, and also flooding, unprecedented flooding that we've seen."

"From next fiscal year, we expect everything, the growth momentum, to start transitioning, rebounding to better days Bangladesh used to have in the past," he added.

"We do not see inflation coming down to rates we were expecting," he said. "Inflation remains in double digits. We have numbers [inflation] as of November, and the price pressures remaining very high comes from two parts," he added.

He said that high inflation is driven by both supply-side and demand-side factors.

On the supply side, structural issues contribute to persistent food inflation. On the demand side, strong aggregate demand has also contributed to inflationary pressures.

"So inflation remains much higher than our expectations," he said.

He said this combination of low growth and high inflation has put additional strain on the balance of payments and foreign exchange reserves.

The IMF has long been vocal about the non-performing loans (NPLs) in the banking sector.

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IMF pushes for more reforms to unlock additional \$750m

INTERNATIONAL MONETARY FUND

The country seeks additional \$750m from the lender

IMF board to review the additional loan proposal in Feb 2025

CONDITIONS FOR ONGOING PACKAGE

- Prioritising revenue mobilisation
- Reducing tax exemptions
- Lowering subsidies
- Carrying out banking reforms

BANGLADESH WILL HAVE TO ...

- Form revenue mobilisation commission
- Make exchange rates more flexible

Bangladesh currently under \$4.7b IMF loan package

AT A GLANCE

STAR BUSINESS REPORT

The International Monetary Fund (IMF) has proposed more reforms, including the separation of tax administration and tax policy and greater exchange rate flexibility, as conditions for an additional \$750 million loan to Bangladesh.

The multilateral lender will present the proposal for the additional loan, along with the next instalment of the ongoing \$4.7 billion package, to its executive board meeting in February 2025.

Before the board meeting, Bangladesh will have to implement the revenue mobilisation commission and adopt more flexible exchange rate policies, according to IMF official Chris Papageorgiou, who led a two-week mission to Dhaka.

At a press conference at the finance ministry yesterday, Papageorgiou said the formation of the revenue commission fulfils one of the conditions. Once the second condition is fulfilled, the proposal will be submitted to the IMF board meeting on February 5 next year.

The meeting will finalise the fourth tranche of the ongoing programme, totalling \$645 million including \$80 million from the additional loan.

In a statement on Wednesday, the IMF confirmed that the government had requested an additional \$750 million from the fund, separate from the ongoing \$4.7 billion programme approved in January 2023.

The mission chief also said that

the IMF has already committed to the additional amount and will release \$80 million of it with the regular fourth tranche.

The IMF determined the additional amount in consultation with the Asian Development Bank (ADB) and the World Bank (WB).

After the IMF press conference, Finance Adviser Salehuddin Ahmed and Power and Energy Adviser Fouzul Kabir Khan spoke to journalists.

Salehuddin said that the IMF has

However, Energy Adviser Fouzul Kabir Khan said that the government would not increase electricity prices this year due to high inflation.

Khan added that the IMF agreed to this and that the government would reduce power subsidies by lowering generation costs and increasing revenue.

REVENUE BOOSTING EFFORTS SLOWING DOWN

At the press conference, Papageorgiou said revenue mobilisation efforts of Bangladesh are slowing down instead of progressing.

He said the IMF supports structural changes at the National Board of Revenue (NBR), including the separation of tax policy and administration, which he described as a "big reform."

"It is going to bring very good things to the country, because, like many other countries, this should be the case, policy should be separated from administration," Papageorgiou said.

The IMF has also identified specific measures to increase revenue, specially addressing tax exemptions.

Papageorgiou said these exemptions have become a long-standing cultural issue, which needs massive effort and political will to change.

Another key area of focus for the IMF is exchange rate flexibility. While the central bank governor has made significant strides, the IMF is advocating for a more

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Padma Bank seeks Tk 1,300cr bailout

MD MEHEDI HASAN

Problem-ridden Padma Bank has applied to the Bangladesh Bank for Tk 1,300 crore in liquidity support to mitigate its crisis and strengthen its ability to repay depositors.

"We applied to the central bank for liquidity support last week but are yet to get any green signal," said Kazi Md Talha, chief executive officer (current charge) of Padma Bank.

The bank needs the fund to mitigate its current liquidity crisis, he added.

After getting the fund, the bank will be able to repay its individual and institutional depositors, according to officials of the bank.

The bank currently has a liability to repay deposits amounting to Tk 6,100 crore.

A new chairman has also been appointed, so the bank will now identify more ways to repay depositors, Talha said.

Md Shawkat Ali Khan, CEO and managing director of Sonali Bank PLC, was appointed to concurrently serve as chairman of Padma Bank through a meeting of the board of directors on December 18.

After getting the fund, the bank will be able to repay its individual and institutional depositors, said officials of the bank

Officials of the central bank said the Bangladesh Bank was yet to take any initiative to provide liquidity support to Padma Bank.

Padma Bank, which was established as Farmers Bank in 2013, became a hotbed for financial irregularities within just three years of its inception. More than Tk 3,500 crore was siphoned out of the bank in that period, according to the Bangladesh Bank.

Its ownership and management underwent a significant overhaul in 2017 after Muhiuddin Khan Alamgir, a former presidium member of the Awami League, stepped down as chairman.

To rescue Farmers Bank from financial distress, the government stepped in with a financial lifeline: state-owned Investment Corporation of Bangladesh, Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank bought a 60 percent stake in the bank for Tk 715 crore.

In January 2018, Chowdhury Nafeez Sarafat, chairman of RACE Asset Management, took charge as chairman of Padma Bank.

The bank was also rebranded as Padma Bank in 2019 to give it a clean slate. But the ghosts of Farmers Bank continued to haunt the institution.

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Deposits in full-fledged Islamic banks fall

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Savers are increasingly parking their funds at Islamic banking branches and windows of commercial banks in Bangladesh in a move away from full-fledged Shariah based banks, which were mired by irregularities during the tenure of previous government ousted in August this year.

Deposits at 10 full-fledged Islamic banks fell 2.9 percent to Tk 390,760 crore at the end of September this year from Tk 402,541 crore at the end of June.

Year-on-year, these banks lost 1.11 percent of their deposits amounting to Tk 395,142 crore in September 2023, according to a Bangladesh Bank quarterly report on Islamic banking.

On the other hand, conventional banks with Islamic banking branches recorded roughly 3 percent growth in deposits to Tk 20,582 crore at the end of September from Tk 19,986 crore at the end of June.

Similarly, banks that have Islamic banking windows recorded growth in the flow of savings during the July-September period, data showed.

It is because these banks are relatively in better health and have not faced any major allegations of irregularities like some of the full-fledged Shariah based banks have,

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Adani pressed by Bangladesh to reopen power deal

REUTERS, Dhaka

Bangladesh's interim government has accused energy supplier Adani Power of breaching a multi-billion-dollar agreement by withholding tax benefits that a power plant central to the deal received from New Delhi, according to documents seen by Reuters.

In 2017, the Indian company controlled by billionaire Gautam Adani signed an agreement with Bangladesh to provide power from its coal-fired plant in eastern India. Dhaka has said it hopes to renegotiate the deal, which was awarded by then-Prime Minister Sheikh Hasina without a tender process and costs Bangladesh far more than its other coal power deals, according to Bangladesh power agency documents and letters between the two parties reviewed by Reuters, as well as interviews with six Bangladesh officials.

Dhaka has been behind on payments to Adani Power since supply started in July 2023. It owes several hundred million dollars for energy that has already been



PHOTO: AFP/FILE

A general view of the Adani Corporate House in Khodiyar village near Ahmedabad in India's state of Gujarat on November 21, 2024.

supplied, though the two sides dispute the exact size of the bill.

Bangladesh's de facto power minister Muhammad Fouzul Kabir Khan told Reuters the country now had enough domestic capacity to cope without the Adani supply, though not all domestic power generators were operational.

Nobel peace prize laureate Muhammad Yunus took power in August after a student-led revolution ousted Hasina, who critics accuse of stifling democracy and mismanaging the economy. She ran Bangladesh for most of the last two decades and was a close ally of Indian Prime Minister Narendra

Modi.

Reuters is reporting for the first time that the contract came with an additional implementation agreement that addressed the transfer of tax benefits. The news agency is also revealing details about Bangladesh's plan to reopen the 25-year deal, and that it hopes to use the fallout from US prosecutors' November indictment of Adani and seven other executives for their alleged role in a \$265 million bribery scheme to press for a resolution.

Adani Power has not been accused of wrongdoing in Bangladesh. A company spokesperson said in response to Reuters' questions that it had upheld all contractual obligations and had no indication Dhaka was reviewing the contract. The company did not answer questions about the tax benefits and other issues raised by Bangladesh.

Adani Group has called the US allegations "baseless."

TAX EXEMPTIONS
Adani Power's Godda plant runs off imported coal and was built to serve Bangladesh.

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Panel formed to make tax expenditure policy

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The National Board of Revenue (NBR) yesterday formed a nine-member committee to make a policy framework for tax expenditure.

The tax expenditure is a form of tax subsidy that includes rebates, discounts, exemptions and reduced rates of taxation.

The tax administrator has formed the committee to assess its overall direct and indirect tax exemptions as the International Monetary Fund has been asking to cut the existing tax expenditure since it approved a \$4.7 billion loan for Bangladesh.

The committee has been asked to submit the report within seven days.

Mirza Mohammad Mamun Sadat, first secretary of tax policy of the NBR, will chair the committee while Md Bodruzzaman Munshid, second secretary of the VAT policy, will serve the committee as member secretary.

STOCKS	
DSEX ▲	CASPI ▲
0.26%	0.23%
5,221.57	14,522.70

COMMODITIES	
Gold ▼	Oil ▼
\$2,602.57	\$69.83
(per ounce)	(per barrel)

ASIAN MARKETS			
MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▼ 1.20%	▼ 0.69%	▼ 0.44%	▲ 0.36%
79,218.05	38,813.58	3,776.88	3,370.03