

How IMF is scrubbing economic ledger

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intensified through 2024-25, setting aggressive targets such as reducing banking system NPL down to 10 per cent. Actual NPL moved in the opposite direction with accelerating momentum, prompting the programme's recalibration. The 2025 reviews highlight "increasing stress in the banking sector." Reforms in resolution, corporate bankruptcy, and state bank governance are work in progress.

Accumulated arrears in taka and dollars needed urgent attention. The previous government left behind \$3.2 billion, or roughly Tk 390 billion, in foreign loans in the power and energy

around Tk 200 billion in unpaid bills. The IMF has elevated arrears clearance to the level of quantitative performance criteria (QPCs)—the most binding form of conditionality. This means arrears reduction targets must be met for loan disbursements to continue, or Bangladesh would need to request waivers. The programme requires the government to gradually eliminate arrears in power, gas, and fertiliser through transparent budget transfers rather than ad hoc bonds.

The programme has disbursed \$2.74 billion. Programme financing and foreign exchange policy reforms helped address arrears and build reserves.

and strategies for banking sector stabilisation.

Tax reform confronted entrenched interests resistant to losing their stake. Banking reform threatened powerful borrowers and politically connected defaulters. Exchange rate unification and adjustment propagated inflation. The IMF's presence anchored credibility, but it also heightened tensions by insisting on reforms that were politically unpalatable even for the political Interim Government.

The experience so far illustrates how governance rupture and macroeconomic instability can collide in ways that are both constructive and destabilising. On one hand, the programme nudged long-delayed reforms: dismantling interest rate caps, unifying exchange rates, and initiating a long overdue clean-up of the banking sector. On the other hand, it exposed deep fragilities without adequate buffers, leaving the economy vulnerable to shocks and social unrest. The BB Governor has publicly downplayed the need for IMF loans, describing them as a "sweetener" rather than a necessity while at the same time stressing the need for technical support to implement reforms.

The programme underestimated the scale of banking fragility. Non-performing loans were far

higher than official figures suggested, provisioning shortfalls are deep and pervasive, and governance weaknesses systemic. Without brutally honest diagnostics and credible restructuring plans, macro stabilisation rests on quick sand.

The Fund's comparative advantage lies in forcing recognition of costs that entrenched interests prefer to externalise—whether inflation, reserve depletion, or systemic banking fragility. Yet without domestic ownership, even the most technically sound prescriptions risk becoming paper promises. Governance rupture in August 2024 tested programme resilience with changes in the central bank and finance ministry leaderships.

The adjustment with the new leadership was by no means frictionless. Both sides converged on recalibrating fiscal benchmarks and extending the programme period by one year with an \$800 million augmentation in June 2025. The Fund combined the 4th and 5th tranche apparently to hedge against deep political uncertainty after the August change. These funds were released in June 2025 with a time-bound action plan for the next six months so the 6th, worth about \$800 million can be released in December. Note that the IG had already announced elections in February. Yet the tranche continuity

was expected until the Fund changed mind in October-November.

A STRATEGIC PAUSE
The IMF has withheld the 6th tranche until a new elected government assumes office. The Fund presumably wants to ensure that the incoming administration is committed to continuing reforms. Key areas flagged include fiscal transparency, exchange rate flexibility, subsidy rationalisation, and financial sector reform. There isn't exactly a full meeting of minds with the current counterparts on the nuts and bolts of policy action in these areas. What is not said about pausing the 6th tranche is perhaps more significant

The IMF programme totals \$5.5 billion, of which \$2.74 billion has been disbursed so far, while foreign exchange reserves had fallen from over \$40 billion to below \$20 billion by late 2022.

than what is said.

The Fund's June expansion was a strategic bet on Bangladesh's reform trajectory. Its November caution is not a reversal, but another hedge. The IMF is signalling their commitment to Bangladesh, but they will not underwrite reforms without a government that can credibly own them. In other words, the IMF gave Bangladesh more rope in June but by November, it decided to hold the rope until someone elected takes the other end.

Clearly, the IMF is not in the business of certifying democracy. It has lent to juntas, autocrats, and governments accused of rigging elections. What it probably is seeking is a government that can survive long enough to own the reforms. In Bangladesh today, that means waiting for February—not because the ballot box confers virtue, but because it confers durability.



sector. The Interim Government repaid Tk 290 billion of that debt by April 2025. Despite these measures, arrears to private power producers remained significant, with the Bangladesh Power Development Board (BPDB) still owing

POLICY CONTINUITY AND PROGRAMME FLEXIBILITY

The journey has by no means been smooth. Both sides negotiated hard on sequencing exchange rate liberalisation, revenue restructuring,

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