

Bangladesh, the IMF-World Bank nexus, and the political economy of reform



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Bangladesh's participation in the 2026 IMF-World Bank Spring Meetings, held earlier this month, presents a case study of a well-known problem in development finance: the conflict between external conditionality and local ownership of policies. Although the immediate narrative focuses on delayed funding and diplomatic manoeuvring, the more fundamental challenge is one of institutional design: how can a lower-middle-income country reconcile its need for credibility, sovereignty, and reform sequencing in a challenging international macroeconomic environment?

To begin with, the case for Bangladesh per the fundamentals of open-economy macroeconomics is obvious. As an energy importer, the country is exposed to various external shocks, especially commodity prices and geopolitical risks affecting the functionality of global supply chains. In such a situation, external disequilibria become a structural feature rather than a cyclical phenomenon.

The IMF's relatively pessimistic assessment of global economy, defined by moderate growth, elevated inflation, and geopolitical risks, accentuates Bangladesh's vulnerability. In this regard, the country faces a classic trilemma of economic policy, meaning it cannot simultaneously achieve exchange rate stability, monetary independence, and foreign capital inflows. The delayed devaluation of the exchange rate, which has been discussed in policy negotiations, is an illustration of this trilemma.

IMF conditionality and the credibility problem

The conditionality for the next tranche of the \$5.5 billion IMF loan is not merely an isolated administrative consequence but an indication of a broader credibility problem. As in any principal-agent relationship, where the former expects certain conditions to be met by the latter, the IMF (principal) needs a

commitment on the part of the Bangladesh government (agent) in terms of revenue generation and other measures, including subsidy rationalisation and fiscal discipline.

From the perspective of fiscal contract theory, fiscal capacity would be guaranteed in a credible social contract, where the benefits of tax collection are obvious for taxpayers. However, a credible social contract cannot develop under the circumstances of persistent tax exemptions, as seen in Bangladesh. As a result, the lack of endogenous revenue—money generated within the economy—forces the country to continue relying on international assistance and the accompanying conditionality.

Furthermore, the change in the government raises questions related to dynamic inconsistency, an economic concept describing a situation in which a decision-maker's preferences change over time, making earlier choices inconsistent with later ones. Since the new government was not responsible for developing the initial IMF package, dynamic consistency implies that renegotiations would require a credible substitute, complete with benchmarks and deadlines, thus providing for additional delays for both parties involved.

The key issue here is whether Bangladesh should stick to the existing programme, or bargain for a more appropriate one from the perspective of its politics.

From the perspective of political economy analysis, ownership of a reform programme is absolutely necessary for its success. Experience shows that foreign-imposed reforms tend to fail if local interests are not committed to them. Sometimes, a harsher new programme may improve compliance if the interests of all political forces involved are aligned.

However, a new agreement could involve greater scrutiny and more severe structural targets, thus leaving Bangladesh with less flexibility for policymaking. Ideally, it

is important to start with the signalling approach, showing intentions to pursue reforms through early visible steps, especially in terms of revenue administration and energy prices.

The financial sector: Institutional weaknesses and reform sequencing

Given the presence of non-performing loans (NPLs), there is another classical problem associated with the financial sector that relates to the weaknesses of governance and moral hazard.

The problems associated with the banking sector can be explained through the soft budget constraint approach—the tendency

of social welfare-minded governments to bail out failing banks. When institutions expect certain implicit guarantees, excessive riskiness arises and the asset quality worsens. Hence, it is important to implement reforms at the legislative level and to have effective tools of enforcement. Importantly, foreign organisations require having a plan to address the issue, rather than solving it immediately, as this task is impossible. It shows the significance of sequencing reform measures.

programmatic conformity to the national goals, especially those of the current government's manifesto. A strategic opportunity exists here. According to the theory of development finance, complementarities between public expenditure and institution-building are very significant. Aligning itself with the developmental activities of the World Bank can be useful for Bangladesh, as this will enable the use of concessional finance and increase the country's growth capacity. Notably, the recommendation to diversify finance through capital market instruments such as bonds and sukuk (Shariah-compliant financial instruments) is interesting since, from a portfolio management point of view,

responding to conditions rather than influencing them. The current approach suggests moving away from the reactive stance towards strategic negotiation.

From a game theory point of view, it marks a transition from the passive to the strategic equilibrium point. By offering comprehensive reform strategies, complete with institution-specific roles and schedules, the country can bring about a change in the bargaining scenario.

In addition to finance, programmes (such as that of the IMF) have an important signalling function. Within international capital markets, programmes provide signals of policy commitment, thus decreasing risk. This means that the lack of a functioning programme will have spillover effects and may constrain the country from accessing further financial assistance, both bilaterally and multilaterally.

The function of signalling may be understood from the perspective of reputation theory. Countries that comply with programmes build up reputation capital, which decreases the cost of borrowing and provides access to more funds. Non-compliance has the reverse effect.

In evaluating the results of the Spring Meetings, one should not simply focus on potential financial benefits. Instead, they serve as an indicator of Bangladesh's governance capacity to craft and implement meaningful reforms when exposed to international public opinion.

In order to advance, the following steps are necessary: i) implementing credible fiscal reform by improving tax administration to increase revenue-generating capacity; ii) reforming the financial sector by dealing with governance shortcomings and implementing effective measures to ensure accountability; and iii) effectively utilising development partnerships by making use of complementarities between IMF stabilisation programmes and World Bank development finance.

However, the problem at hand is not technical but institutional. The effectiveness of Bangladesh's interactions with the IMF and World Bank will hinge on the ability to convert policy promises into credible actions. In that regard, the upcoming period may be viewed not so much as a negotiation process but as a test of governance capacity.



VISUAL: ANWAR SOHEL

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The World Bank: Complementarities and strategic conformity

Unlike the IMF, which concentrates on macroeconomic stability, the World Bank works in the domain of development financing, funding long-term projects. This recent involvement shows the possibility of

the use of one instrument makes the system more vulnerable.

Recent improvements in forex reserves, inflation, and stability in monetary policy are positive signals. Yet, analytically, these are not sufficient indicators of stability. IMF's emphasis on revenue indicates that the focus is more on fundamentals than on signals. This is because macroeconomic stability entails a combination of policies that must complement each other. Without sufficient fiscal capacity, monetary tightening will be incapable of stabilising the macroeconomy, especially during adverse external conditions.

Negotiation strategy: From reactive to strategic engagement

Bangladesh has always been reactive during its dealings with various multilateral bodies,

TRIBUTE

Remembering Raghu Rai and the light he left behind



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AMIRUL RAJIV

February, 2016. India was in turmoil. Across universities, protests erupted over the tragic suicide of Dalit student Rohith Vemula. The streets were filled with voices demanding dignity and justice. At India Gate in Delhi, Rohith's mother sat in a protest, surrounded by students and heavily guarded by police. We were in Delhi at that time. We arrived at the protest site with Raghu Rai, cameras hung from our shoulders. The air was tense and charged. Raghu Rai, with his tall stature, draped in a robe of sort, stepped out of the car. His presence alone shifted something in the air. The police parted slightly, making way.

We had barely enough space to stand. Journalists pressed in from all sides. Ahead of us stood the renowned filmmaker Anand Patwardhan, camera in hand. "Anand, can we get a little space?" Raghu asked. A narrow opening appeared. He stepped forward. We were not there for over a minute. He took a few frames. Then he turned to us and said quietly, "Let's go. It's not safe to stay." We walked a short distance and stopped in front

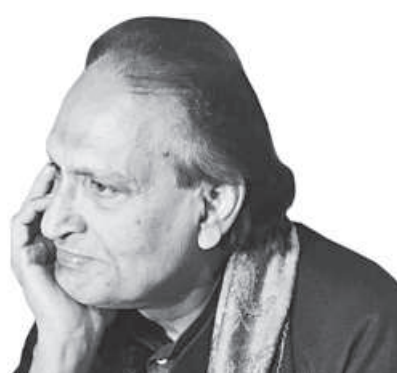
of a small ice cream shop. There, he showed us the images—me, Naim, and Prem Kumar. It was astonishing. In that chaos and urgency, he had captured light, form, and emotion with a precision that felt almost otherworldly. A fleeting moment, transformed into something timeless. Raghu Rai was, in every sense of the word, a magician of light and composition.

For over 50 years, he shaped a visual language that defined the Indian subcontinent. From war to ritual and suffering to beauty, his lens revealed the poetry within the everyday life. Through him, the lives of millions became part of a shared visual history.

He was born on December 18, 1942, in Jhang, Punjab, now in Pakistan. The youngest in his family, he was first guided toward engineering, even working briefly as a civil engineer in Delhi. But the calling of photography came through his elder brother, S. Paul. In 1962, he began learning, quietly and instinctively. By 1965, he joined *The Statesman* as a chief photographer, where

his signature style of bold, intimate, and high-contrast images began to emerge.

Bangladesh's Liberation War in 1971 became a turning point in this photographic journey. Through his images of refugees, of war and surrender, he captured history with an honesty that resonated across the world. Those photographs brought him a much-deserved international recognition. He was awarded India's Padma Shri in 1972. Decades



Raghu Rai (December 18, 1942 - April 26, 2026)
PHOTO: AMIRUL RAJIV

later, in 2012, Bangladesh honoured him with the Friends of Liberation War Award.

In 1971, the legendary Henri Cartier-Bresson, after seeing his work, invited him to join Magnum Photos, an international photographic cooperative. By 1977, Raghu Rai became a full member. From there, his journey expanded to *India Today*, global publications

and a number of books. His photograph of a buried child from the Bhopal gas tragedy became one of the most haunting symbols of industrial disaster in modern history. He captured not just events but essence: of people, cities, rituals, and silences. He published more than 50 books that carry his vision.

I first interviewed him in 2004. We spoke about the intellectual void in Bangladesh left by the violence during the Liberation War. I was drawing parallels between this and state-sponsored violence on the Naxalite movement in India. Our conversation grew intense. He did not easily accept simplifications. He thought there was violence from both sides and considered the Naxalites terrorists and expressed that their movement could have been less violent. Yet, in the end, we agreed that both incidents left behind a deep emptiness that echoed across generations, especially in the 70s.

In 2016, I visited him again at his photography school in Gurgaon. He had arranged fish for us. Smiling, he said, "I know Bengalis love fish and conversation." When we arrived, he was watering plants and speaking softly to a dying tree. He seemed genuinely distressed, telling the gardener it needed care, and that it could still be saved. His connection to life extended beyond humans. He had gathered rare plants from across India, nurturing them with his own hands. He even published several books on trees.

I once asked him how he saw Bangladesh after the Liberation War. He paused, then said, "Look, when it comes to wrongdoing, India, Pakistan, Bangladesh—we are all the

same. So many years after independence, we are still careless towards nature, towards life. Democracy has too often become a tool for corruption. I cannot give you a satisfying answer."

Whenever he came to Dhaka, he would rise early and go out to photograph. He preferred the outskirts, the quieter edges of the city, where he could mingle with ordinary people. As he had grown older, I would instinctively reach out to support him on uneven streets and roads. He, however, would burst out laughing. Gesturing me to watch, he would leap across potholes with ease and say, "I can still climb trees...can you keep up with me?"

He was deeply devoted to his guru and held an unshakable faith in the creative and spiritual power within human beings. One of his most famous sayings, long displayed on Magnum's website, was: "The picture comes from God."

Like his world-renowned photographs, he too seemed to fade into an eternal mystery. For many of us, it was his images that gave us the courage to step into photography—both as a discipline and as a profession. Through his work, he left behind a new visual language, one that will continue to shape how we see life, aesthetics, and spirituality of this region for generations to come.

What remains are his images, a language of light, through which we continue to see ourselves.

The eyes may have closed, but what it has seen and shown, will be luminous and live within us. May your onward path be lit with grace and golden light, maestro!

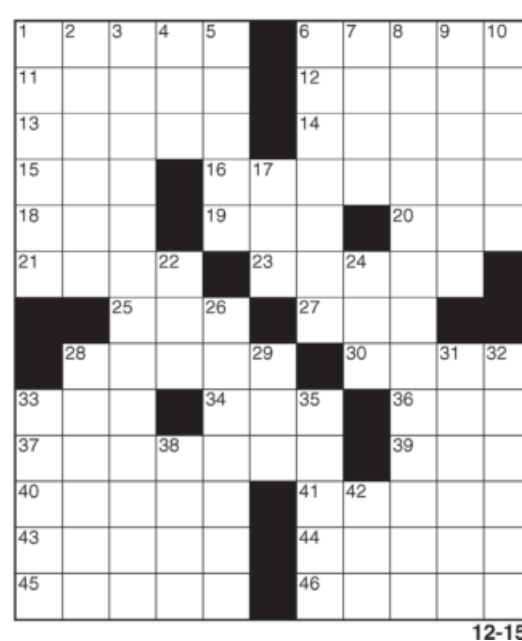
CROSSWORD BY
THOMAS JOSEPH

ACROSS

- 1 "Wheel of Fortune" name
- 6 Croc's cousin
- 11 Island ring
- 12 Skip a ceremony
- 13 Fashion
- 14 Drinks
- 15 Plop down
- 16 Planned
- 18 "The Name of the Rose" author
- 19 "Platoon" setting
- 20 Diet no-no
- 21 Postmark part
- 23 Accords
- 25 Laugh sound
- 27 "Well, that's obvious!" Night
- 28 First known asteroid

- 30 Porgy's love
 - 33 Pussy foot
 - 34 "... the season ..."
 - 36 Misery
 - 37 Pain reliever
 - 39 World Cup cry
 - 40 Get naked
 - 41 Lyricist's concern
 - 43 Puzzle out
 - 44 Not rented out
 - 45 At a close
 - 46 Pascal of "The Last of Us"
- DOWN**
- 1 Got fresh with
 - 2 Ancient Greek region
 - 3 #1 song by Three Dog Night
 - 4 Completely

- 5 Designer Calvin
- 6 Fumes
- 7 Loads
- 8 #1 song by the Carpenters
- 9 Verdi works
- 10 Stopwatch button
- 17 Afternoon break
- 22 Anvil's place
- 24 New reporter
- 26 Entered anew
- 28 Ohio city
- 29 Confession topic
- 31 Fuse together
- 32 Handles
- 33 Out of fashion
- 35 Assure
- 38 Seedy bar
- 42 Undivided



SUNDAY'S ANSWERS



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