

The political economy of an IMF programme



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writes for Star Business

The new BNP government, led by Prime Minister Tarique Rahman, took office on February 17, 2026. It inherited a fragile and unstable economy. The inflation rate is high, GDP growth plunged to 3.5 percent in FY2025, public and private investment declined, and exports fell by 2 percent in the first nine months of FY2026. The non-performing loans of the banking sector climbed to Tk 6.5 trillion in September 2025, capital adequacy turned negative at -2.9 percent, and the loan provisioning gap soared to Tk 3.5 trillion, all pointing to a deeply distressed banking system. The tax-to-GDP ratio fell to 6.8 percent in FY2025, compared with an average of 19 percent for lower-middle-income countries, while the subsidy bill rose to Tk 1.3 trillion in the same year, amounting to 20 percent of total tax revenues. On top of these macroeconomic imbalances, slowing growth and high inflation are pushing up poverty, and unemployment among educated youth now exceeds 10 percent and continues to rise.

Even before the new government could settle and gain some breathing space, the United States and Israel attacked Iran on February 28, triggering a conflict that persists with damaging consequences for the global economy. Energy prices have surged, international trade has been disrupted, and shipping costs have increased sharply. Bangladesh, as a major energy-importing country, has been especially affected. Higher global energy prices have worsened the balance of payments and fiscal pressures, further aggravating existing imbalances. Economic activity, including exports, has suffered additional setbacks because of energy constraints.

The cumulative effects of a fragile domestic economy and the external shock caused by the Iran war threaten to destabilise the economy unless urgent corrective measures are taken. Bangladesh will also require a substantial inflow of external financing to manage pressures on the balance of payments and the budget. An IMF programme, first negotiated in 2023, is currently in

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place. The government is weighing the merits of continuing with the existing arrangement or negotiating a new programme better aligned with current needs. There is also a backlash, with some arguing that Bangladesh would be better off without an IMF programme because of disagreement over the conditionalities attached to such arrangements.

The debate over whether Bangladesh needs an IMF programme is largely futile. The more pertinent question is what reforms are required to stabilise the macroeconomy and restore growth momentum within a reasonable time frame of 12 to 24 months. If such a programme is developed using relevant macroeconomic data and anchored

in a credible and internally consistent macroeconomic framework, it can serve as the basis for negotiating financial support from the Bretton Woods institutions, including the IMF, the World Bank and the IFC, as well as from the ADB and bilateral development partners. If the reform programme is substantive and credible, there is no compelling reason why the financial assistance required to implement it would not be forthcoming.

Controversy over conditionality tends to arise when a government has not undertaken the necessary preparatory work to design a credible reform programme supported by a coherent macroeconomic framework. In such circumstances, the IMF provides its own framework and identifies the reforms it considers necessary to achieve macroeconomic targets. These IMF-identified reforms may not be fully attuned to domestic political economy realities or implementation capacity constraints and can therefore become embroiled in controversy.

I make this assertion on the basis of 30 years of experience as a former senior staff member of the World Bank,

backed by sweeping structural reforms including industrial deregulation, trade liberalisation and currency devaluation. The reform programme was formulated by the Indian government under the leadership of Finance Minister Manmohan Singh. The economy responded positively to the deregulation of trade and investment. Exports surged, and GDP growth accelerated. India has not required a subsequent IMF programme, and the 1991 crisis is widely regarded as a turning point that transformed the country from a closed, state-led system into one of the world's fastest-growing open economies.

Case 2: In March 1998, Pakistan conducted nuclear tests that prompted sanctions from the United States and the G7. The macroeconomy was already fragile, and sanctions curtailed new international lending, including suspension of the ongoing three-year IMF ESAF/EFF programme for 1997-2000. By December, foreign reserves had fallen below \$200 million, and the risk of default loomed. At that time, I was serving in Islamabad as the World Bank country director. Pakistan's Finance Minister

non-performing loans. GDP growth was around 5 percent, and poverty affected nearly half the population. Under the leadership of Finance Minister Saifur Rahman, and with technical support from the IMF and the World Bank, the government developed a comprehensive reform programme covering exchange rate management, trade and investment liberalisation, banking reform, fiscal and monetary policy, and the energy sector. At the time, I was sector director for economic management at the World Bank. Working closely with the government and the IMF, my team prepared a series of single-tranche budget support operations, known as development support credits, amounting to about \$1.0 billion. The IMF designed a three-year financial assistance programme of \$0.5 billion. The reforms were implemented over FY2003 to FY2005, yielding strong improvements in export performance, GDP growth, reduction in non-performing loans and fiscal outcomes. Accelerated growth and export expansion contributed to a significant decline in poverty.

Several common threads underpin the success of these programmes. First,



A partial view of the International Monetary Fund (IMF) headquarters during the first day of the 2026 Spring Meetings of the IMF and the World Bank Group in Washington, DC on April 13.

PHOTO: AFP

with strong involvement in developing credible macroeconomic frameworks and associated reforms for a large number of client countries, working closely with IMF teams. In many instances, the IMF and the World Bank provided flexible financing through separate programmes while sharing a common macroeconomic framework and closely coordinated policy reforms in their respective areas of competence.

I summarise below three successful IMF-World Bank programmes from South Asia in which reform agendas were developed by the governments themselves, and political backlash over conditionality was limited. The first is the 1991 IMF programme for India; the second is the 1998 IMF programme for Pakistan; and the third is the 2002-2005 IMF programme with Bangladesh. I was not involved in the India programme but played a major role in both the Pakistan and Bangladesh programmes referred to here.

Case 1: In 1991, India faced a severe balance of payments crisis, with foreign reserves falling below \$1 billion, barely sufficient to cover three weeks of imports. To avert default, India secured emergency loans of roughly \$2.2 billion from the IMF,

Ishaq Dar, now foreign minister, and Punjab Chief Minister Shahbaz Sharif, now prime minister, sought assistance in mobilising balance of payments support. Given the geopolitical constraints, I advised that a credible reform programme with upfront policy actions was essential before financing could be secured. Working with IMF and World Bank teams, the government developed a coherent macroeconomic framework and implemented difficult reforms in exchange rate policy, fiscal management, the financial sector and the social sectors before loan approval. In January 1999, a financing package of about \$1.5 billion was approved by the IMF, the World Bank and the ADB. The strength of the reform programme and its early implementation persuaded G7 members, except the United States, to support the package. The United States abstained but did not oppose.

Case 3: In 2001, the BNP, led by Begum Khaleda Zia, replaced the Awami League government and inherited a fragile economy. Foreign reserves and export growth were weak, creating balance of payments pressures. The banking system was burdened by a high level of

each reform agenda was homegrown and nationally owned. Second, there was a genuine partnership between the country's economic team and the Bretton Woods institutions. Third, there was strong political backing at the highest level. Prime Minister Narasimha Rao of India, Nawaz Sharif of Pakistan and Prime Minister Khaleda Zia of Bangladesh were all directly engaged in supporting their respective reform programmes. Fourth, the economic teams were competent and cohesive, operating under empowered finance ministers who had the authority to act decisively and direct access to their prime ministers for consultation when necessary.

The present BNP government can draw lessons from the successful reforms undertaken during 2003 to 2005 under Prime Minister Khaleda Zia. With a strong and credible reform programme implemented swiftly, Bangladesh should be able to secure the external financing required and navigate the economy through the current period of turbulence.

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Trump-Xi summit augurs more risk than relief

REUTERS, Hong Kong

Donald Trump's message to China is clear: he will not be denied. Specifically, the US president will not be denied a photo op with his Chinese counterpart Xi Jinping during an expected state visit to Beijing next week. But the outcome of Trump's last such sojourn bodes ill for any big breakthroughs this time round, while more recent events suggest downside risks, however slim, far exceed anything either side might get out of the negotiations.



US President Donald Trump (right) and China's President Xi Jinping (left) hold talks at the Gimhae Air Base, located next to the Gimhae International Airport in Busan on October 30, 2025.

PHOTO: AFP/FILE

A full rundown of what the two leaders will discuss on May 14-15 is not available, but America's \$200 billion-plus trade deficit in goods with China will likely top the list even after falling by nearly a third last year, and US Treasury Secretary Scott Bessent on Monday said Iran would also feature. But Beijing is wise to play the welcoming host after last year's disastrous tit-for-tat squabble briefly pushed tariffs into the triple digits and threatened to torch virtually all bilateral trade. The two camps now stand in uneasy détente after China realised it needs American semiconductors and the US discovered it can't live without Chinese rare earths.

That might once have provided building blocks for a deal that locks in tentative treaties on all the above as the firm foundation of a less hostile, even functional relationship. But both sides know better because, mere months after telling Xi that "we're going to do tremendous things for both China and for the United States" at their joint presser in 2017, Trump opened fire in a trade war that has continued in fits and starts to this day and redefined the Sino-American relationship.

So the chief upsides of the coming confab may be limited to Trump getting his photo op, for which America's leader apparently feels compelled to fly to China first, instead of the other way round as during his first term. But Beijing should be wary of underestimating the threat of renewed tariffs simply because the US Supreme Court struck down broad levies on Chinese goods in February. Since then, the White House has launched a flurry of national security investigations that should allow it to cobble together new levies as needed to replace a temporary 10% global duty expiring in July and further press the People's Republic.

But China's top cadres have also been busy, as evidenced by new leverage-enhancing regulations to punish foreign firms for shifting their supply chains elsewhere. And on Saturday, the commerce ministry announced its first injunction under rules from 2021 to block recent US sanctions on Chinese refiners accused of buying Iranian oil.

A commentary published online by People's Daily, the Communist Party's official newspaper, described the injunction as a "pivotal step in the real deployment of our country's foreign-facing legal arsenal". This unprecedented disregard dropped days after the US Treasury added to its sanctions list Hengli Petrochemical, one of China's biggest private refiners, quite possibly to gin up another bargaining chip ahead of negotiations.

Iran war jolts China's well-oiled manufacturing hub

AFP, Foshan

Vacuum cleaners and vapes could get more expensive if the Iran war drags on for much longer, Chinese factory owners and traders warn, as the world's manufacturing hub reels from "crazy" costs.

Weeks of US-Israeli strikes on Iran and the effective closure of the Strait of Hormuz have choked Asia's oil supply, stymieing the production of plastic — derived from oil — across the region.

Manufacturing giant China has been comparatively sheltered from fuel shortages thanks to oil reserves and renewable energy, but local factories are picking up a ballooning raw materials bill.

"Basically, we've been losing money on all our orders," said Bryant Chen, a manager at vacuum cleaner factory RIMOO in southern Guangdong province's Foshan.

The price of plastic has risen roughly 50 percent since before the Iran war, Chen told AFP as workers behind him fastened suction tubes to metal tanks.

"The costs of the products that we are making are being very greatly affected," the 42-year-old said, listing

plastic, copper for the vacuum's motor and raw materials in its power cords.

"Typically at this time we'd be entering peak season, but compared to the same period previously, shipment and production data aren't very optimistic."

Two hours away, plastic traders in storage hub Zhangmutou said price fluctuations were the worst they've seen in decades.

"It has never been this crazy," said Li Dong, 46, who entered the industry two decades ago.

The plastic, rice-sized pellets he buys for local phone case and EV battery factories jumped wildly in March, triggering days of panic that jammed the small town's roads as factories rushed to stock up.

'MUTUAL STATE OF DECLINE'
Exporters in Zhangmutou showed AFP a vast range of products their pellets would become, including drones and badminton birdies.

One trader sifted through pink, green and purple beads that she said would be moulded into e-cigarette casings sold in the Middle East. The Iran war has hit plastic production even harder than bottlenecks caused by the Covid



This picture taken on April 28 shows employees working on the vacuum cleaner production line at the Rimoo Electrical Appliance Tech Company in Foshan, in southern China's Guangdong province.

PHOTO: AFP

pandemic, when ships could not come and go from China, Li said.

Some sellers cashed in on the plastic panic, he added, fighting to take advantage of surging costs.

Li said the price of plastic had dropped around 10 to 20 percent from its height, but he cautioned

against further oil hold-ups.

"The factories we supply to will suffer the most because their direct costs will rise," he said.

For exporters, the Middle East crisis has added to the hangover still lingering from Donald Trump's sweeping global tariffs last year.

The US Supreme Court struck down those levies as illegal, but tolls on Chinese goods entering the US still sit at around 20 percent.

On the outskirts of Guangzhou, one garment factory owner lamented the chaos triggered by the US President's trade war.

Overseas clients are afraid to place orders, while Chinese manufacturers cannot pin down changing costs.

"As a result, everyone is in a mutual state of decline," garment boss Zhou, 55, said.

While 80 percent of his clients have returned, the fabrics scattered on his factory floor made into sweatpants headed for Europe and North America have risen 10 to 20 percent in cost due to the Middle East war.

As overseas orders dropped, seamstresses went months without a job. **'TENSIONS RISE, ORDERS DISAPPEAR'**

Migrant worker Jingjing returned to her hometown in Hubei province for two months, where she made half the 400 yuan (\$60) she now earns in Guangzhou's garment factories.

"When tensions rise... orders suddenly disappear," the 42-year-old said.

But this year she said she always

has something to do.

In a damp back alley, Jingjing joined job seekers milling about leisurely, haggling for higher wages while garment bosses perched on scooters brandished hiring signs, desperate for day labourers.

Chen, the vacuum factory manager, said he was "still worried" about surging shipping costs should the Iran war drag on.

"If shipping costs rise, it will cause the final costs for our customers to increase sharply," he said.

"They will have no way to sell normally, because the costs are just too high."

Chen said RIMOO plans to expand to other markets beyond the Middle East where around 60 percent of its customers are based.

"We are still optimistic," he said. "The market demand still exists."

But analysts warn the war's impact on costs will be felt for months.

"The problem is all of these costs will filter through the supply chains for the rest of the year," said supply chain consultant Cameron Johnson.

"The longer it goes on, that kind of cascades into much bigger problems, particularly if there's not enough oil in general to run stuff."