

ENOUGH OF ECONOMIC BOOM – ASSESSING BANGLADESH'S MOVE TOWARD IMF

By

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



So far, Bangladesh has been viewed as an unheralded economic success story. However, on 22nd July 2022, one of its leading newspapers, The Daily Star reported that Bangladesh was knocking at the doors of the International Monetary Fund (IMF), seeking a loan of around \$4.5 billion.¹ The IMF is not the only institution that the country has sought help from. Bangladesh has also reached out to the World Bank and the Asian Development Bank seeking a loan of \$1 billion from each of them.²

Bangladesh has come a long way in its economic progress. In 1971, it was counted as one of the poorest countries in the world by the World Bank.³ The country reached lower-middle income status in 2015. It was estimated that by 2026, Bangladesh would leave the United Nations list of the Least Developed Countries.⁴ Therefore, its recent bid seeking loans came out as a shock for many. However, careful analysis of the successive events of past years indicates the inevitability of the move.

1 Ruma Paul and Krishna N. Das, "Bangladesh Seeks \$4.5 Bln IMF Loan As Deficit Widens, Newspaper Says," *Reuters*, last modified July 26, 2022, <https://www.reuters.com/world/asia-pacific/bangladesh-seeks-45-bln-imf-loan-deficit-widens-newspaper-says-2022-07-26/>.

2 Arun Devnath, "Bangladesh Turns to ADB, World Bank for Funds: Report," *Al Jazeera*, last modified August 3, 2022, <https://www.aljazeera.com/economy/2022/8/3/bangladesh-turns-to-adb-world-bank-for-funds-report>.

3 "Overview," World Bank, last modified 11, 2022, <https://www.worldbank.org/en/country/bangladesh/overview>

4 Ibid.

The current move is to seek help to tackle the balance of payment issue and the budgetary needs of the country, coupled with the issue of climate change. Many other factors have also contributed to it.

Firstly, Bangladesh has recently faced a balance of payment issue. Bangladesh's economy mainly revolves around garment exports. These exports have taken a blow due to the Russia-Ukraine war and the slowdown of global economy. During the first 11 months, Bangladesh's imports jumped to 39 percent while the exports were around 34 percent.⁵ According to the Bangladesh Bank's data, Bangladesh's July to May balance of payment deficit was around \$17.2 billion as compared to 2.78 billion last year.⁶

Secondly, remittances are the second highest source of foreign reserves for the country. Due to the Covid-19 crisis many workers lost their jobs. Many were not able to travel to their home country because of travel restrictions. Consequently, Bangladesh's foreign exchange reserves fell from 45.5 billion dollars to 39.67 billion as of July 2022.⁷ With that, remittances fell 5 percent making them a total of \$1.8 billion.⁸

Thirdly, the rising fuel prices in the global economy have further aggravated the situation. Russia-Ukraine war has contributed to this price hike, and resultantly the balance of payment has been negative in Bangladesh. It has created an energy crisis in the country. Many diesel power plants with 1500 megawatts of generation capacity are taken off the grid.⁹ Due to this, there have been lengthy blackouts in the country. Thousands of mosques have been asked to curtail the use of air-conditioners to ease pressure on the electricity grid.¹⁰

The issue is that Bangladesh has relied heavily on the import of fossil fuels, like Liquefied Natural Gas (LNG), which can be expensive for poorer countries. Sixty percent of Bangladesh's energy production comes from LNG.¹¹ Experts have urged the government to either switch to cheaper sources of

5 Ibid.

6 Paul and Das, "Bangladesh seeks."

7 "Now It's Bangladesh's Turn to Ask the IMF for a Loan," *Al Jazeera*, last modified July 27, 2022, <https://www.aljazeera.com/economy/2022/7/27/now-its-bangladeshs-turn-to-ask-the-imf-for-a-loan>.

8 Ibid.

9 "Bangladesh's Turn to Ask for Loan"

10 Ibid.

11 The Print, "Why Bangladesh's energy crisis tells a deeper story beyond ripples of the Ukraine war," YouTube, August 26, 2022, <https://www.youtube.com/watch?v=PRRzn-acRes>

energy by diversifying the country's energy import basket or to explore the Bengal Delta, which is deemed as an extremely gas-rich province.¹²

Against the backdrop of the increasing energy crisis, the government of Bangladesh has already adopted austerity measures. It includes import curbs, rationing electricity, and cutting spending in the development sector. Shopping malls are closed by 8 pm every night. In a recent move, in the third week of August, the government decided that schools will close for an additional day in Bangladesh.¹³ The schools were usually closed on Friday, but now they will be closed on Saturdays too. While the working hours will be cut from eight to seven hours each day in public offices and banks because of supply disruptions and shortage of electricity.¹⁴

Fourthly, the recent floods have also played a crucial role in the already precarious economic situation in the country.¹⁵ Bangladesh has faced the worst flooding in hundreds of years. The floods have stranded 4.0035 million people and have killed dozens. The floods have further "damaged 75,000 hectares (185,000 acres) of paddy and 300,000 hectares (741,000 acres) of other crops, including maize, jute, and vegetables" according to the agriculture ministry,¹⁶ which has further ramifications for the food security in the country.

In addition to these, several other factors have also contributed to the brewing economic crisis in the country. For example, the depreciation of Bangladesh's currency in recent months. Only in the past four months, Bangladesh's taka has slid 20 percent against the US dollar.¹⁷ Factor in the balance of payment crisis, the energy crisis, and the receding international economic markets for exports, and Bangladesh's economy becomes a breeding ground for disaster in the future.

It is pertinent to note that Bangladesh's recent move toward the IMF, the WB, and the ADB is considered pre-emptive in nature at this point. Both the IMF and Bangladesh are set to initiate the

¹² Ibid.

¹³ Bangladesh Cuts School, Office Hours to Save Electricity," VOA, last modified August 23, 2022, <https://www.voanews.com/a/bangladesh-cuts-school-office-hours-to-save-electricity/6713205.html>.

¹⁴ Ibid.

¹⁵ "Bangladesh Seeks \$4.5bn IMF Loan As Forex Reserves Shrink: Report," *Al Jazeera*, last modified July 26, 2022, <https://www.aljazeera.com/news/2022/7/26/bangladesh-seeks-4-5bn-imf-loan-as-forex-reserves-shrink-report>

¹⁶ "As Bangladesh Floods Recede, Fears of Waterborne Diseases," *Al Jazeera*, last modified June 23, 2022, <https://www.aljazeera.com/news/2022/6/23/as-bangladesh-flood-waters-recede-fears-of-waterborne-diseases>.

¹⁷ "Why Bangladeshi Taka Losing Value Against US Dollar," Business Inspection, last modified June 19, 2022, <https://businessinspection.com.bd/why-bangladeshi-taka-losing-value-against-us-dollar/>.

talks about the support package in the third week of October 2022.¹⁸ The first staff-level mission is expected in the third week of October. Once the agreement has taken place, the program will be sent to the executive board for approval. The disbursements are made only after their approval.¹⁹

IMF says that Bangladesh was also interested in its new Resilience and Sustainability facility which helps governments to deal with climate-induced challenges. The fund is “created to allow wealthier countries to channel part of their excess IMF Special Drawing Rights reserves to poorer and vulnerable middle-income countries.”²⁰ It remains to be seen the amount of money released by the IMF for Bangladesh. IMF’s Resilience and Sustainability Trust cap funds at 150 % of a country’s quota.²¹ This means that Bangladesh can get a loan of \$1 billion under it.

Other than the Covid-19 fundings, which were globally disbursed by the IMF, the last time Bangladesh availed IMF’s loan was in 2012²² which helped in restoring macroeconomic stability and inclusive growth in the country. Bangladesh is on the same junction once again in its history.

In a nutshell, though pre-emptive in nature, seeking a loan from bodies like the IMF is always tricky because such loans come with their stringent conditions. Moreover, neo-liberal institutions like the IMF often work as an economic-sanctions regime enforced by the rich-north against the poor-south to exploit their vulnerabilities and Bangladesh will have to exercise extreme caution in treading this path.

18 Rejaul K. Byron, "Bangladesh Not in Crisis: IMF," *The Daily Star*, last modified August 17, 2022, <https://www.thedailystar.net/news/bangladesh/news/bangladesh-not-crisis-3096521>.

19 Ibid.

20 Ibid.

21 David Lawder, "IMF Says It is Working with Bangladesh on RST Loan with 'safeguards'," *Reuters*, last modified August 3, 2022, <https://www.reuters.com/markets/us/imf-says-it-is-working-with-bangladesh-rst-loan-with-safeguards-2022-08-03/>.

22 "History of Lending Commitments," IMF, accessed August 29, 2022, <https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=55&date1key=2013-11-30>.