



INTERNATIONAL MONETARY FUND

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Press Release

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An International Monetary Fund (IMF) team led by Mr. Nissanke Weerasinghe, Advisor in the Asia and Pacific Department of the IMF, visited Bangladesh from March 27 to April 9 to hold discussions with the Bangladesh authorities on the 2005 Article IV consultation and the third review of the economic program supported by the Poverty Reduction and Growth Facility (PRGF).¹ The mission met with Minister for Finance and Planning M. Saifur Rahman, Finance Secretary Zakir Ahmed Khan, Bangladesh Bank Governor Fakhruddin Ahmed, NBR Chairman Khairuzzaman Chowdhury, other senior government officials and representatives of NGOs and civil society.

Bangladesh's economic performance remained impressive through the first half of FY2005. Growth—driven by a healthy expansion in the construction, manufacturing and service sectors, as well as a strong recovery in exports—accelerated to 5.5 percent in FY2004 (from 5.3 percent in the previous fiscal year). Inflation, despite high oil prices and large increases in commodity and food prices following the devastating floods in July and September 2004, was a relatively modest 5.5 percent through December 2004. Due to good export performance and strong growth in remittances, the international reserve position remains strong, at just over US\$ 3.0 billion (almost 3 months of imports) in December 2004. External debt policy remains appropriate, with the bulk of external debt contracted on concessional terms. Against the background of lower than projected revenue, the government has maintained a prudent expenditure policy.

¹ Bangladesh's 3-year PRGF arrangement was approved in June 2003, with a total lending commitment of SDR 347 million (about US\$ 523 million at current exchange rates). The PRGF lending commitment was supplemented with SDR 53.33 million (about US\$ 80 million) with funds from the IMF's Trade Integration Mechanism (TIM) at the time of the completion of the second review under the PRGF in July 2004. The funds made available under the TIM are available to help Bangladesh adjust following the expiry of the Multi-Fiber Arrangement at the end of 2004.

However, against the backdrop of rising inflation, and the need to dampen recent very strong domestic credit growth and protect Bangladesh's international reserve position going forward, adjustments to monetary and exchange rate policies are appropriate in the near term. These policy adjustments will help contain inflationary expectations and protect the balance of payments. While this will help preserve growth prospects, the combination of risks arising from the devastating floods, the expiry of the Multi-Fiber Arrangement (MFA), and sustained high world energy and commodity prices have led the mission to adjust its projections of growth to 5.2 percent and of inflation to 6.5 percent in FY 2005.

There has been progress on tax administration reforms. The LTU for VAT has been expanded to cover more than 50 percent of domestic VAT collections and joint audits of large VAT and income tax payers has begun. These changes, however, have yet to be translated into revenue gains. The mission reached agreement with the authorities on further steps to strengthen tax administration that will be supported by technical assistance from DfID and the World Bank.

The Government is close to finalizing the information memorandum for the divestment of Rupali Bank. The management advisory teams in place at Sonali Bank and Agrani Bank are providing recommendations to improve the operations of these banks, and a new management advisory team should be in Janata Bank by June. Enhanced controls over the Nationalized Commercial Banks have been broadly effective and the authorities intend to strengthen the boards of these banks to allow for more effective implementation of advice from the management teams.

The mission learned that steps are being taken to help address competitiveness issues facing the RMG sector following the phase out of the MFA. These include the approval of FDI outside of EPZs in the sector, streamlining of regulatory stages for imports and exports, pursuing the modernization of Chittagong port with AsDB assistance, and seeking duty-free access for RMG exports to the US market.

The mission looks forward to approval of the final PRSP in the next several months and welcomed again the Government's commitment to broad-based participation in the PRSP process.

Assuming the implementation of policies agreed with the authorities to revitalize the structural reform agenda and to continue balanced macroeconomic policies in the medium term, the mission is hopeful that it will be able to propose the completion of the third review of the program supported by the PRGF to the IMF's Executive Board in June 2005.