



Press Release No. 04/161
FOR IMMEDIATE RELEASE
July 29, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Second Review Under Bangladesh's PRGF Arrangement and Approves Activation of the Trade Integration Mechanism

The Executive Board of the International Monetary Fund (IMF) has completed the second review of Bangladesh's economic performance under its three-year Poverty Reduction and Growth Facility (PRGF) arrangement. In doing so, the Executive Board approved Bangladesh's request for a waiver on the nonobservance of structural performance criteria on making fully operational a Central Intelligence Cell (CIC) by the end of December 2003 and on adopting resolution strategies for the four nationalized commercial banks by the end of April 2004.

The decision enables Bangladesh to draw an amount equivalent to SDR 49.5 million (about US\$72 million) under the arrangement, and would bring total disbursements under the program to SDR 148.5 million (about US\$216 million). The IMF's Executive Board approved Bangladesh's three-year PRGF arrangement on June 20, 2003 (see [Press Release No. 03/92](#)) for an amount equivalent to SDR 347 million (about US\$505 million).

The Executive Board also approved Bangladesh's request for activation of the Trade Integration Mechanism (TIM) together with an augmentation of the PRGF amounting to SDR 53.33 (about US\$78 million) in accordance with the newly created TIM (see [Press Release No. 04/73](#)). As a result, the PRGF amounts to SDR 400.33 million (about US\$583 million).

The TIM is designed to address existing or anticipated balance of payments difficulties related to the implementation of trade liberalization measures by other members. Under the TIM's "baseline feature," the current activation of the TIM and augmentation under the arrangement is intended to help Bangladesh cope with balance of payments pressures stemming from the lifting of Multifiber Arrangement (MFA) quotas by the end of 2004. Should these balance of payments pressures prove stronger than anticipated the Board noted the authorities' intention to request at a later stage an augmentation of PRGF access under TIM's "deviation feature," and stated its willingness to consider such a request.

This is the first activation of the TIM since the Executive Board approved the new mechanism on April 2, 2004.

Following the Executive Board's discussion of Bangladesh on July 28, 2004, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, said:

“Bangladesh’s economic recovery has continued in the first year of the PRGF-supported program, bolstered by the authorities’ sound macroeconomic management. Growth remains robust, inflation has been kept in check, and the external sector has strengthened. The program is on course, with achievement of the key macroeconomic targets. Despite a difficult political environment, the authorities have continued with the reform agenda. After some slippages, key reform measures in tax administration and in the nationalized commercial banks are being implemented. The recent catastrophic flooding has had a devastating impact, and the government intends to seek the assistance of the international community for rehabilitation and reconstruction.

“The authorities’ policies for the second year of the PRGF arrangement are designed to turn the initial progress into faster and lasting growth, with a view to reducing poverty and preparing the economy to better cope with the Multifiber Agreement quota phase-out by end-2004. Meeting these challenges will require steadfast implementation of policies, especially in tax administration, trade reform, and NCB reform, together with credible actions to strengthen governance.

“The budget targets for FY 2005 include increases in infrastructure and pro-poor social spending, supported in part by the prospective external support on concessional terms. However, the stepped-up spending, particularly through the Annual Development Program (ADP) will require improved project selection and execution, better public expenditure management with improved fiscal transparency and accountability, and timely decisions on meeting policy conditions for project financing. Achieving the revenue target will also require much strengthened tax administration, and timely actions to expand the Large Taxpayers Unit to cover the value-added and withholding taxes. Fundamental reforms in the National Board of Revenue will also be critical to underpin the programmed revenue targets for attaining the Millennium Development Goals.

“Monetary policy continues to be prudent in supporting growth, with a downward trend in inflation. To further improve monetary operations, the Bangladesh Bank will need to take steps to strengthen the operations of the interbank and treasury securities markets. The floating exchange rate regime has worked well for Bangladesh, and should help mitigate the potential impact from the lifting of the MFA quotas and is consistent with the need to maintain external competitiveness.

“Structural reform measures will need to be decisively implemented to help improve the prospects for investment and to maintain fiscal sustainability. In particular, the implementation of the reform agenda for the NCBs will require strong political support, technical assistance, and close monitoring. It will also be important to further build on recent steps to strengthen bank management and to persevere with the implementation of the bank-by-bank resolution strategies that have been adopted.

“The authorities’ concerted trade reform effort is well timed, particularly in view of the pending MFA quota removal. The determination to move forward in this area will help bolster confidence in the export sector in Bangladesh in the post-MFA era.

“Assistance under the Trade Integration Mechanism should help to smooth the economic adjustment process related to the phase-out of MFA quotas, but strong efforts on the part of the authorities will also be needed urgently in further defining and implementing the post-MFA action program.

“Stepping up the reform of the energy sector will be important to address infrastructure bottlenecks and improve growth prospects. Restructuring plans, particularly for the Dhaka Electricity Supply Authorities, will be critical for turning around the financial and operational performance of the energy sector SOEs. In addition, further efforts will be needed to divest manufacturing SOEs as soon as practicable. Domestic energy prices will also need to be kept under close review with timely adjustment when needed.

“Progress is being made toward the finalization of the full PRSP by end-2004, but further attention will be needed to develop a more comprehensive approach to tackle governance issues as well as law and order problems, and to strengthen public expenditure management,” Mr. Kato said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a [Poverty Reduction Strategy Paper \(PRSP\)](#). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.