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IMF Executive Board Completes Third Review Under Bangladesh's PRGF Arrangement and Approves Disbursement Under the Trade Integration Mechanism

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Bangladesh's economic performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review makes immediately available to Bangladesh an amount equivalent to SDR 67.3 million (about US\$ 98.5 million) under the arrangement, including the first of the three equal disbursements under the Trade Integration Mechanism (TIM) amounting to SDR 17.8 million (about US\$ 26.0 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\$ 507.7 million). The Executive Board also approved on July 28, 2004 Bangladesh's request for activation of the newly created TIM with an augmentation of the PRGF amounting to SDR 53.3 (about US\$ 78.0 million) (see [Press Release No. 04/161](#)). As a result, the total amount under the PRGF arrangement increased to SDR 400.3 million (about US\$ 585.7 million). So far, Bangladesh has drawn SDR 148.5 million (about US\$ 217.3 million) under the arrangement.

In completing the review, the Executive Board also decided today to extend the current PRGF arrangement to December 31, 2006 so that the remaining reviews and all disbursements under the arrangement could be completed. It also decided to waive the nonobservance of a structural performance criterion for end-September 2004, as the authorities have since taken corrective actions and implemented the measure.

Following the Executive Board's discussion on Bangladesh, Mr. Rodrigo de Rato, Managing Director and Chair, stated:

“Bangladesh’s reform efforts since the early 1990s have resulted in significant economic and social improvements with steady GDP growth and manageable inflation. As a result, poverty indicators have improved, malnutrition has declined, and gender equality has been enhanced. Nevertheless, Bangladesh still remains among the poorest countries in the region, requiring much faster economic growth if the Millenium Development Goals (MDGs) are to be met by 2015.

“Since the last Article IV consultation, the authorities have maintained macroeconomic stability and advanced the structural reform agenda. The thrust of the authorities’ economic policies has

been broadly consistent with Fund advice. However, the pace of reforms has been slower than envisaged due to a difficult political environment.

“The authorities program for the third year of the PRGF will give priority to: further tax administration reform to increase revenue; divesting Nationalized Commercial Banks (NCBs) to improve efficiency and contain quasi-fiscal losses; liberalizing the investment regime, including trade reforms; and reforming the energy sector state-owned enterprises to secure adequate supply of power while ensuring fiscal sustainability.

“The authorities are committed to boosting revenue and reorienting expenditures to support growth and the MDGs, while protecting fiscal sustainability. They acknowledged the importance of modernizing the National Board of Revenue, and noted that a strategic plan will be developed during 2005 with World Bank assistance. The FY06 budget narrows the scope for tax exemptions while introducing some measures to broaden the tax base. On the expenditure side, pro-poor expenditures will be emphasized and the public sector wage increases will be curtailed and phased in over 3 years.

“Bangladesh should maintain a flexible exchange rate system based on market principles. It is particularly important to preserve competitiveness, and therefore interventions in the exchange market should continue to be confined to countering disorderly conditions.

“A tight monetary policy stance is important to ensure price stability and orderly exchange market conditions. The authorities have responded by increasing the Cash Reserve Requirement, raising interest rates on treasury securities, and actively using the repo and reverse-repo facilities to conduct daily monetary operations.

“Improving competitiveness and the investment climate remains a critical challenge, especially after the elimination of Multi-Fiber Agreement quotas. The authorities’ decision to ease restrictions on foreign direct investment in the ready-made garment sector, reduce the number of trade-related quantitative restrictions on imports, and to take further measures to address the infrastructural bottlenecks will help boost export competitiveness.

“The authorities have made significant efforts to strengthen the NCBs. Memoranda of Understanding have been signed with all NCBs that set explicit targets on improving operational performance and constraining lending growth. This has resulted in a reduction in non-performing loans and the rationalization of staffing and branch networks. With respect to the divestment of Rupali Bank, an information memorandum was issued in May and the authorities are hopeful that the bank will be divested by the end of the year.

“The weak performance of energy sector state-owned enterprises (SOEs) continues to impede economic growth and pose fiscal risks. The authorities’ latest decision to adjust domestic fuel prices was appropriate, and further adjustments may be necessary. The authorities should continue to work with the World Bank and Asian Development Bank to define a restructuring plan to improve the operational and financial performance of the energy sector SOEs,” Mr. de Rato 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 each PRGF-supported program is 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 5 ½-year grace period on principal payments.