

IMF LOAN: IS IT GOOD NEWS? NOT YET

Reverse Swing



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The finance minister has cheered, quite logically on his part, the IMF approval of \$4.7 billion loan package to Bangladesh. The good news for the government came early Tuesday and it was a bit late for many newspapers to publish it in their city editions. Finance Minister AHM Mustafa Kamal did not waste a minute in expressing his gratitude to the Washington-based lender the International Monetary Fund (IMF).

“We are certainly grateful to the IMF for this loan,” Kamal was quoted by the Business Standard newspaper which sought his early reaction. “Special thanks and appreciation to the team that recently visited Bangladesh over the issue.....,” he said in his initial reaction.

The IMF sent its negotiators to Bangladesh over the recent months since Bangladesh sought the bail-out soon after the adoption of the national budget for FY23. The latest IMF official to come to Dhaka was its deputy managing director Antoinette Monceau Sayeh, along with the head of mission Rahul Anad. From the early stage of the negotiations it has been more or less clear that the international lender is

willing to help Bangladesh out. Bangladesh’s request came as the country started witnessing a fall in the otherwise comfortable level of foreign exchange reserves (it reached an all-time high of \$48 billion in August 2021) amid declining remittance during post-Covid period. This led to a sudden pressure on the dollar situation if not a full-fledged crisis. The government defended the IMF loan request saying it has been necessary so maintain the macroeconomic stability and to provide budgetary support. As Prime Minister Sheikh Hasina has insisted on several occasions that the loan has been sought not as a bail-out by as a preemptive so the economy remains stable.

So the loan is coming. But the questions remain about the conditions that the government has to fulfill it. They say that no lunch is free in this world. So is said that no loan from the IMF and the World Bank are without a set of strings. Not that all the conditions they set are bad for the receiving country. It all depends on how the recipient country deals with the ‘do’s and don’ts’ and make best use of the money it borrows. During the negotiations the IMF officials have let

the government know what they want for the assistance to be available. According to some news reports here the loan package contains a set of 30 conditions attached to it. Dynamic adjustment of the fuel prices, reduction in the default loans of state-owned banks to 10 percent, establishment of asset management companies to recover defaulted loans and leaving the exchange rate to the market. (Source: The Business Standard).

The IMF will have time to watch and examine how the government responds to its list of conditions. The government too has time to adjust to the new realities to get and properly utilise the full package to achieve the goals for which it has been sought. The loan as we know is likely to be disbursed in 42 instalments. The first one of \$447.8 million is expected in February, followed by six equal instalments of \$659.18 million. The interest rate would be about 2.2 percent. Of the \$4.7 billion, \$1.3 billion can be repaid over a 20-year horizon with a grace period of 10 years, according to officials involved in the negotiations.

Getting the loan approval has not been very difficult for a multiple of factors. The growth of the country’s economy in recent years has been quite impressive in improving the national rating in the international arena. Bangladesh has earned the creditworthiness for performing well despite some hiccups in the financial sector. For quite some time experts in Bangladesh have been calling for reforms in policies. Their suggestions match the IMF’s too. It’s time to see how the government goes about the hard issues such as downsizing subsidies in fuel, fertilizer and agriculture. Until then the IMF loan can’t be fully celebrated.

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