IMF Loan Talks: Here’s how we need to prepare

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Two points stand out in the International Monetary Fund’s (IMF) statement from last week about the current economic situation in Bangladesh. First, Bangladesh is “not in a crisis situation.” Second, any economic programme to address the current challenges to our economy will be the government’s programme. Specifically, the statement said, “It is the authority’s programme and our efforts will be focused on collaborating with them to design a programme which will support them in addressing their long-term structural issues.”

Bangladeshi economists have also pointed out we are not in a crisis but facing difficult external conditions that need firm handling so that they do not become one. With four to five months of foreign exchange reserves and low foreign debt, we have enough ammunition to

address short-term needs, barring other big shocks. As announced by the Fund, the discussions on this programme will take place in October.

With these positive developments and government actions to lower imports, such as depreciating the currency and allowing banks to trade more freely, the dollar kerb market is calmer. As I write, the dollar has fallen there – i.e., the taka has regained value – by 10 percent over the last 10 days.

At the same time, as the government knows, there is no room for complacency or errors made in haste. Instead, let us use the current challenge to strengthen our economy.

As a previous August 3 IMF statement puts it, the reality is that our economy faces “a sharp deterioration in external conditions.” The immediate issue is not foreign debt but rather the record-breaking trade deficit of USD 33 billion and the current account deficit of USD 19 billion – i.e., the deficit even after including the USD 22 billion of remittances receipts sent by heroic Bangladeshi workers abroad. To put things in perspective, last year’s current account deficit increased nearly five times over the FY 2021 deficit and is almost four times the average current account deficit of the past five years.

Current account deficits are fundamentally the result of spending more than our income or, what is the same, importing more goods and services than we export. So, managing the current account will mean that our imports will need to grow markedly less than our exports in the next few years.

The immediate driver behind the high external deficits has been the spike in energy, fertiliser, food, and edible oil import prices. But that is not all. Even without these import price increases the current account deficit of FY 2022 would have been significant – perhaps twice that of the previous year.

That is because long-pending unaddressed structural weaknesses have made the economy and exports less diversified and competitive. These problems include low revenues and inadequate public expenditures, made worse by weak management; a strained financial sector burdened by non-performing loans, weak governance and interest rate caps; weakness in infrastructure, energy and urban development planning – all of which lower our

economy’s competitiveness.

More fundamentally, an insufficiently trained labour force and a burdensome investment climate constrain our economy, as evidenced by the minimal foreign direct investment inflows. These are not long-term but pressing matters. Because of these weaknesses, we excessively depend on foreign services and skilled expatriate workers. Thus, our gross external payments for these services have almost doubled over the past five years to approximately USD 14 billion.

One driver of our large deficit is that our real exchange rate appreciated by more than 70 percent over the past decade, which made imports cheaper and our exports more expensive. That needed a correction. The depreciation of the taka by about 10 percent over the past few months has been one response. However, signalling that the exchange rate may still be unsettled, the kerb rate premia – the difference between the interbank rate and the kerb rate – remains at about 14 percent.

Thus, we will need realistic thinking. Assuming that energy prices will steadily decline is not warranted, given that winter is coming to Europe and North America. Even if Iranian oil enters the global market, it will provide only one percent of demand. European countries are stocking up and contracting oil and LNG supplies to avoid the perils of an unheated cold winter. Facing these conditions and high inflation, European and American demand for our exports will likely be subdued, even with some switching to our cheaper garments products. A global food shortage and rising prices are also all but guaranteed. Together, these ingredients can lead to deeper and longer-term economic difficulties and even a crisis for globalised developing economies such as ours.

Further, economic events during times of uncertainty, such as now, can be sudden and unexpected, as we have already discovered. It becomes critical for governments to stay ahead of events by preparing a well-coordinated programme to stabilise the economy and be ready for contingencies.

How should the government prepare such a coherent, well-coordinated programme? There needs to be three elements in it.

First, as good civil servants will tell you, strong political leadership will be imperative. For speed and authority, it may be best to organise a small economic committee of ministers that has the confidence of the prime minister to prepare and implement such a programme.

They and their civil service team should prepare large parts of the economic stabilisation and recovery policy package in advance of the IMF’s visit, negotiate with them when they arrive, and steer it through Cabinet approval. That will enable better coordination and political support. Leaving this task alone with the Ministry of Finance and the Bangladesh Bank could slow things.

A historically good example of this comes from India during its foreign exchange crisis of 1991, when, with the support of the IMF, they prepared and implemented a path-breaking economic reforms package. Reputed Indian economists say that was the programme that generated 20 years of rapid economic growth. That reform programme was almost wholly Indian prepared by then Finance Minister Manmohan Singh with the partnership of Commerce Minister P Chidambaram, with technical inputs provided by then Finance Secretary Montek Ahluwalia and other civil servants. Certainly, the steadfast political support of PM Narasimha Rao made it possible. Other examples are Thailand’s Cabinet Committee for Economic Policy, Indonesia’s Industry and Economic Committee, and Malaysia’s Special Cabinet Committee to protect the Economy and Labour market against Covid-19.

Who should be the members of such a committee in Bangladesh? The ministers of finance, agriculture, commerce and planning perhaps, along with the participation of the Governor of the Bangladesh Bank. The Foreign Ministry can advise on fraught matters such as assuring Europe and the US if we import oil from Russia. Including the road transport and bridges minister can provide political heft.

Second, while the finance minister does not need to be the chair of such a committee, the secretariat of this committee has to be the Ministry of Finance, and it has to be staffed by the most experienced civil servants in finance and the other ministries. Finance, in particular, is a ministry where nothing can replace the experience of working there for years. Difficult policy decisions about revenues, expenditure, subsidies, exchange rates, interest rates, bank governance, food and energy prices, regulations and safety nets will be needed. Only civil servants with the experience and knowledge of their subject will have the confidence to lay

down situations and options most starkly to their political superiors. If this link in the chain falls, the political masters will be uninformed and blindsided.

Third, outside experts and stakeholders need to be consulted not only for their advice, but also to communicate the objective situation and get their support. Bangladesh has several former governors, finance secretaries and other civil servants who have effectively dealt with the IMF and with difficult economic situations in the past. We also have competent economists, including some with first-hand experience working in crisis-prone countries. Bangladesh also has thoughtful stakeholders in the chambers of commerce and business associations who can offer valuable perspectives. Finally, major political figures should also be taken into confidence to at least attempt to get unity behind the recovery programme.

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