

The political economy of an IMF programme

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The new BNP government, led by Prime Minister Tarique Rahman, took office on February 17, 2026. It inherited a fragile and unstable economy. The inflation rate is high, GDP growth plunged to 3.5 percent in FY2025, public and private investment declined, and exports fell by 2 percent in the first nine months of FY2026. The non-performing loans of the banking sector climbed to Tk 6.5 trillion in September 2025, capital adequacy turned negative at -2.9 percent, and the loan provisioning gap soared to Tk 3.5 trillion, all pointing to a deeply distressed banking system. The tax-to-GDP ratio fell to 6.8 percent in FY2025, compared with an average of 19 percent for lower-middle-income countries, while the subsidy bill rose to Tk 1.3 trillion in the same year, amounting to 20 percent of total tax revenues. On top of these macroeconomic imbalances, slowing growth and high inflation are pushing up poverty, and

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Even before the new government could settle and gain some breathing space, the United States and Israel attacked Iran on February 28, triggering a conflict that persists with damaging consequences for the global economy. Energy prices have surged, international trade has been disrupted, and shipping costs have increased sharply. Bangladesh, as a major energy-importing country, has been especially affected. Higher global energy prices have worsened the balance of payments and fiscal pressures, further aggravating existing imbalances. Economic activity, including exports, has suffered additional setbacks because of energy constraints.

The cumulative effects of a fragile domestic economy and the external shock caused by the Iran war threaten to destabilise the economy unless urgent corrective measures are taken. Bangladesh will also require a substantial inflow of external financing to manage pressures on the balance of payments and the budget. An IMF programme, first negotiated in 2023, is currently in place. The government is weighing the merits of continuing with the existing

arrangement or negotiating a new programme better aligned with current needs. There is also a backlash, with some arguing that Bangladesh would be better off without an IMF programme because of disagreement over the conditionalities attached to such arrangements.

The debate over whether Bangladesh needs an IMF programme is largely futile. The more pertinent question is what reforms are required to stabilise the macroeconomy and restore growth momentum within a reasonable time frame of 12 to 24 months. If such a programme is developed using relevant macroeconomic data and anchored in a credible and internally consistent macroeconomic framework, it can serve as the basis for negotiating financial support from the Bretton Woods institutions, including the IMF, the World Bank and the IFC, as well as from the ADB and bilateral development partners. If the reform programme is substantive and credible, there is no compelling reason why the financial assistance required to implement it would not be forthcoming.

Controversy over conditionality tends to arise when a government has not undertaken the necessary preparatory work to design a credible reform programme supported by a coherent macroeconomic framework. In such circumstances, the IMF provides its own framework and identifies the reforms it considers necessary to achieve macroeconomic targets. These IMF-identified reforms may not be fully attuned to domestic political economy realities or implementation capacity constraints and can therefore become embroiled in controversy. I make this assertion on the basis of 30 years of experience as a former senior staff member of the World Bank, with strong involvement in developing credible macroeconomic frameworks and associated reforms for a large number of client countries, working closely with IMF teams. In many instances, the IMF and the World Bank provided flexible financing through separate programmes while sharing a common macroeconomic framework and closely coordinated policy reforms in their respective areas of competence.

I summarise below three successful IMF-World Bank programmes from South Asia in which reform agendas were developed by the governments themselves, and political backlash over

conditionality was limited. The first is the 1991 IMF programme for India; the second is the 1998 IMF programme for Pakistan; and the third is the 2002-2005 IMF programme with Bangladesh. I was not involved in the India programme but played a major role in both the Pakistan and Bangladesh programmes referred to here.

Case 1: In 1991, India faced a severe balance of payments crisis, with foreign reserves falling below $1 billion, barely sufficient to cover three weeks of imports. To avert default, India secured emergency loans of roughly $2.2 billion from the IMF, backed by sweeping structural reforms including industrial deregulation, trade liberalisation and currency devaluation. The reform programme was formulated by the Indian government under the leadership of Finance Minister Manmohan Singh. The economy responded positively to the deregulation of trade and investment. Exports surged, and GDP growth accelerated. India has not required a subsequent IMF programme, and the 1991 crisis is widely regarded as a turning point that transformed the country from a closed, state-led system into one of the world's fastest-growing open economies.

Case 2: In March 1998, Pakistan conducted nuclear tests that prompted sanctions from the United States and the G7. The macroeconomy was already fragile, and sanctions curtailed new international lending, including suspension of the ongoing three-year IMF ESAF/EFF programme for 1997-2000. By December, foreign reserves had fallen below $200 million, and the risk of default loomed. At that time, I was serving in Islamabad as the World Bank country director. Pakistan's Finance Minister Ishaq Dar, now foreign minister, and Punjab Chief Minister Shahbaz Sharif, now prime minister, sought assistance in mobilising balance of payments support. Given the geopolitical constraints, I advised that a credible reform programme with upfront policy actions was essential before financing could be secured. Working with IMF and World Bank teams, the government developed a coherent macroeconomic framework and implemented difficult reforms in exchange rate policy, fiscal management, the financial sector and the social sectors before loan approval. In January 1999, a financing package of about $1.5 billion was approved by the IMF, the World Bank and the ADB. The strength of the reform programme and its early implementation persuaded G7 members, except the United States, to support the package. The United States abstained but did not oppose.

Case 3: In 2001, the BNP, led by Begum Khaleda Zia, replaced the Awami League government and inherited a fragile economy. Foreign reserves and export growth were weak, creating balance of payments pressures. The banking system was burdened by a high level of non-performing loans. GDP growth was around 5 percent, and poverty affected nearly half the population. Under the leadership of Finance Minister Saifur Rahman, and with technical support from the IMF and the World Bank, the government developed a comprehensive reform programme covering exchange rate management, trade and investment liberalisation, banking reform, fiscal and monetary policy, and the energy sector. At the time, I was sector director for economic management at the World Bank. Working closely with the government and the IMF, my team prepared a series of single-tranche budget support operations, known as development support credits, amounting to about $1.0 billion. The IMF designed a three-year financial assistance programme of $0.5 billion. The reforms were implemented over FY2003 to FY2005, yielding strong improvements in export performance, GDP growth, reduction in non-performing loans and fiscal outcomes. Accelerated growth and export expansion contributed to a significant decline in poverty.

Several common threads underpin the success of these programmes. First, each reform agenda was homegrown and nationally owned. Second, there was a genuine partnership between the country's economic team and the Bretton Woods institutions. Third, there was strong political backing at the highest level. Prime Minister Narasimha Rao of India, Nawaz Sharif of Pakistan and Prime Minister Khaleda Zia of Bangladesh were all directly engaged in supporting their respective reform programmes. Fourth, the economic teams were competent and cohesive, operating under empowered finance ministers who had the authority to act decisively and direct access to their prime ministers for consultation when necessary.

The present BNP government can draw lessons from the successful reforms undertaken during 2003 to 2005 under Prime Minister Khaleda Zia. With a strong and credible reform programme implemented swiftly, Bangladesh should be able to secure the external financing required and navigate the economy through the current period of turbulence.

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