



Economic growth likely to increase to 5.5 pc: IMF

ECONOMIC REPORTER

A mission of the Asian Pacific Department (APD) of the International Monetary Fund (IMF) visited Bangladesh during April 24-May 8 to conduct the second review of the Poverty Reduction and Growth Facility (PRGF) and to discuss the second year programme under the PRGF. The mission was led by Nissanke Weelasinghe, Advisor in APD.

The three-year PRGF arrangement for Bangladesh was approved in June 2003, with a total loan amount of SDR 347 million (about \$500 million at current exchange rates).

The loan is disbursed in 7 equal disbursements, of which the first was disbursed at the time of the approval of the loan by the IMF's Executive Board and the second in January 2004 upon completion of the first review. The third installment will be disbursed after completion of the current review by the Executive Board.

The economic recovery gathered further strength in FY2003-04. Economic growth is likely to increase to about 5.5 per cent, from 5.8 per cent last year. Strong demand from domestic sources and from abroad are underpinning a recovery in industrial activity and services.

But, inflation is running higher than expected, and prices are likely to be 6 per cent higher in FY2003-04 than last year. The higher inflation is mainly due to large increases in import prices fol-

lowing the worldwide increase in commodity prices. Recently, inflation pressures have leveled off.

The accumulation of international reserves has continued and stand now at \$2.8 billion or close to three months of imports. This reflects the rebound in exports and continued growth in remittances.

Prudent macroeconomic policies underlie the strong performance of the Bangladeshi economy. Fiscal and monetary policies have been appropriately right, while providing room for economic growth, and external debt policy has been prudent, with the bulk of foreign debt contracted at concessional terms.

Bangladesh Bank has managed the exchange rate well since the float of the Taka in May 2003, with competitiveness improving as the Taka depreciated slightly against Bangladesh's main competitors.

Tax revenues have underperformed somewhat, and an intensification of tax reforms and enforcement efforts is needed. Also, the mission encouraged the authorities to intensify its efforts to build an active secondary government securities and bond market.

Good progress has been made with structural reforms, although with delays in some areas. A new Large Taxpayer Unit for income tax and a Central Intelligence Cell have been set up in NBR. Controls

on NCBS have been enhanced and the strengthening of their management has been initiated, although this process has moved more slowly than envisaged. Progress in SOE reform has stalled due to political resistance from vested interests. The mission reacted agreement with the government on further steps in these areas.

Looking forward, Bangladesh will face the challenge of the phasing out of quotas under the Multi Fiber Agreement as of 2005. The flexible exchange rate provides a first line of defense against this potential shock.

In addition, there is a need to reduce the anti-export base in the trade regime, improve the investment climate, continued prudent financial policies, as well as post-effective measures to assist the RMG sector and its workers.

The mission also took note of the progress with the preparation of the full PRSP to be completed by end-2004. It welcomed the commitment of the government to broad-based participation in the PRSP process to ensure genuine national ownership and the costing and incorporation of pro-poor policies in a medium-term expenditure framework.

On the basis of these achievements and the understandings reached on economic policies for FY2004-05, the mission is very hopeful that the Executive Board will complete the review and approve the second year programme.