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June 29, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Bangladesh - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Bangladesh. A draft decision appears on page 20.

It is proposed to bring this subject to the agenda for discussion on Friday, July 20, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Al-Eyd (ext. (5)7335).

Att: (1)

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INTERNATIONAL MONETARY FUND

BANGLADESH

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the
1984 Consultation with Bangladesh

Approved by P.R. Narvekar and Donald K. Palmer

June 28, 1984

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I. Introduction

The 1984 Article IV consultation discussions with Bangladesh were held in Dhaka during April 25-May 10, 1984. Discussions were held with the Advisor for Finance and Principal Finance Secretary, the Governor of Bangladesh Bank, the Secretary of Finance, and senior officials in various ministries and public enterprises. The staff team consisted of Messrs. Al-Eyd (Head), Baban, Itam, Ishii (all ASD), Abrams (ETR), and Mrs. Goodger (ASD). The staff team was assisted by Mr. Sertic, the Fund's Resident Representative in Bangladesh.

Bangladesh continues to avail itself of the transitional arrangements of Article XIV.

II. Background to the Discussions

The performance of Bangladesh's economy improved substantially in 1982/83 and 1983/84. 1/ Real growth accelerated, inflation declined, and the overall balance of payments recorded surpluses following deficits in the preceding three years (Table 1). These developments were mainly attributable to adjustment policies adopted by the authorities under the 1982/83 economic program, the recurrence of favorable weather, and improvements in the terms of trade. The 1982/83 economic program was supported by a stand-by arrangement from the Fund in the amount of SDR 68.4 million (30 percent of the prevailing quota). All performance criteria under this arrangement were met and all drawings were made (Appendix Table 6).

Despite the recent improvement in its overall economic situation, Bangladesh faces deep-seated socio-economic problems. One of the least developed countries in the world, Bangladesh has a per capita income of about US$140, a densely distributed and rapidly growing population, limited natural resources, inadequate infrastructure, and a narrow export base with export receipts financing only a fraction of import needs. Under these circumstances, Bangladesh has relied on grants and concessional external loans to sustain a real growth rate which averaged 3.6 percent during the last seven years. Given the low rate of national savings (estimated at about 5 percent of GDP in 1982/83), Bangladesh will continue to depend on such aid for some time to come.

1. The 1982/83 economic program and outturn

With the objective of reducing internal and external imbalances and reviving a substantially weakened economy, the authorities adopted an economic program in 1982/83 that involved a comprehensive set of

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1/ The fiscal year ends on June 30.

Table 1. Bangladesh: Selected Economic and Financial Indicators 1981/82-1984/85 1/

	1981/82	1982/83 Program	1982/83 Actual	1983/84 Staff Est.	1984/85 Staff Proj.
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
GDP at constant market prices	0.9	3.0	3.2	5.1	5.2
Implicit GDP deflator	12.7	12.0	7.0	9.5	9.5
Consumer prices 2/	16.3	12.0	9.9	9.5	9.5
External sector (in U.S. dollars)					
Exports, f.o.b.	-11.6	9.6	8.6	15.5	9.4
Imports. c.i.f.	1.2	-7.3	-10.3	11.1	5.6
Export volume	6.9	2.1	5.2	1.2	7.3
Import volume	7.5	-4.7	-5.1	12.3	1.7
Terms of trade	-12.0	8.2	9.3	15.3	-1.9
Real effective exchange rate index 2/	-3.1	-7.0	-4.7	...	...
Public sector					
Revenue	8.2	6.5	9.7	8.0	...
Tax	(9.0)	(6.0)	(8.7)	(8.6)	(...)
Nontax	(4.9)	(8.8)	(14.0)	(5.3)	(...)
Total expenditure	7.1	11.1	25.9	7.7	...
Current expenditure	(13.9)	(22.3)	(29.7)	(12.9)	(...)
Annual development program	(13.1)	(8.2)	(11.2)	(10.7)	(...)
Money and credit 3/					
Net domestic credit	17.6	15.1	9.7	23.5	...
Government	-8.2	-9.5	-4.7	21.9	...
Other public sector	27.6	26.4	-2.3	14.8	...
Private sector	26.1	19.4	29.3	30.7	...
Money and quasi-money	4.7	11.9	29.8	28.6	...
Income velocity (GDP/M2)	5.9	6.4	5.7	4.8	...
	(In percent of GDP, unless otherwise indicated)				
External sector					
Current account deficit	11.5	10.2	8.5	8.7	8.2
External public debt (including Fund credit, end of period) 4/	33.1	40.5	40.1	41.7	41.9
Debt service 5/ as a percent of					
Exports of goods and services	25.1	28.9	31.5	26.3	32.2
Exports of goods and services and private transfers	16.9	19.0	18.6	16.5	20.7
Public sector					
Expenditure	17.7	17.1	20.1	18.9	...
Revenue	8.8	8.2	8.7	8.2	...
Overall deficit	8.9	8.9	11.4	10.6	...
Excluding food stocking	(9.9)	(9.3)	(11.3)	(10.2)	(...)
Domestic bank financing	0.1	-0.5	-0.4	0.8	...
Foreign financing	7.6	9.2	9.6	8.9	...

Sources: Data provided by the Bangladesh authorities; and staff estimates.
1/ Fiscal year ending June.
2/ Annual averages, based on overall CPI for middle income families in Dhaka City (1973/74 = 100).
3/ Based on data provided by the Statistics Department, Bangladesh Bank.
4/ Excludes short-term debt.
5/ Includes interest payments on short-term debt.

measures. 1/ In the fiscal area, the authorities raised taxes, reduced subsidies on official sales of fertilizer, foodgrains, and minor irrigation equipment, and adjusted upward key administered prices, notably those for electricity, natural gas and petroleum products. The fiscal impact of these measures was estimated at 2.5 percent of GDP. Moreover, the authorities adopted an Annual Development Program (ADP) consistent with realistic resource estimates and defined core projects which would be continued even in the event of a resource shortfall, so as to avoid the costly interruptions experienced in the previous year.

These fiscal measures were supplemented by other actions designed to increase agricultural production, reduce inflation, facilitate external adjustment, and promote private investment. In the agricultural sector, improved access to rural credit facilitated the expanded use of minor irrigation equipment, fertilizer, and high-yield variety seeds. In the monetary field, ample scope for increases in private sector credit was provided, as the substantial reduction in public sector credit requirements was expected to moderate overall domestic credit expansion. In the external sector, the exchange rate was managed flexibly, thereby permitting a depreciation of the taka by about 5 percent in real effective terms (Chart 1). In addition, incentives for nontraditional exports were increased, and the import regime was further liberalized mainly through an increase in the number of items importable through the secondary exchange market and through reductions in minimum deposit margins on import letters of credit. Moreover, the inflow of workers' remittances was further encouraged by the establishment of special remittance procedures in banks abroad and the setting of the interest rate on nonresident foreign currency deposit accounts at LIBOR plus 1 percentage point. Lastly, with a view to expanding the scope of private investment in the economy, the New Industrial Policy was promulgated. Under this policy, the authorities denationalized 55 jute and cotton textile mills (accounting for about a third of capacity in these two sectors), opened to private investment certain sectors previously reserved for public enterprises, and simplified approval procedures for domestic and foreign private investment. Furthermore, public enterprises were authorized to raise prices by up to 10 percent without prior Cabinet approval to compensate for increases in the prices of energy and imported inputs. 2/

The economic outturn in 1982/83 was generally more favorable than the targets envisaged in the economic program, as the effects of policy measures were enhanced by the recurrence of favorable weather and a 9 percent improvement in the terms of trade (Chart 2). Real GDP growth accelerated to 3.2 percent, slightly above the target rate of 3 percent

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1/ The 1982/83 economic program is described in detail in "Bangladesh--Request for Stand-by Arrangement" (EBS/83/56, 3/9/83).

2/ The authorization excluded prices for fertilizer, petroleum products, newsprint, baby food, and pharmaceuticals which are subject to price controls.

(Appendix Table 7). While the agricultural sector experienced a robust recovery, industrial activity declined, mainly because of the deflationary impact of adjustment policies on aggregate demand. The rate of inflation declined from 16 percent in the previous year to 10 percent, (2 percentage points lower than the target rate), as the moderation of increases in domestic food prices and the decline in import prices mitigated the impact of the depreciation of the taka. Balance of payments pressures also eased. Reflecting a recovery in exports, a sharp increase in workers' remittances, and a decline in imports, the current account deficit declined from 11.5 percent of GDP in the previous year to 8.5 percent, compared with a target rate of 10.2 percent (Table 2 and Chart 3). 1/ This development, combined with a significant increase in aid disbursements, led the overall balance to swing from a deficit of US$297 million in the previous year to a surplus of US$342 million, compared with a target deficit of US$70 million. Consequently, gross reserves tripled to the equivalent of about 1.9 months of imports.

The disparity between the performance of the agricultural and nonagricultural sectors in 1982/83 adversely affected budgetary performance. Despite the adoption of tax and nontax measures, the ratio of revenue to GDP declined slightly because of the decline in dutiable imports, the most important tax base. With a sharp rise in expenditures, partly reflecting increases in foodgrain procurement, the ratio of the overall budget deficit to GDP rose by 2.5 percentage points to 11.4 percent (Table 3). Nevertheless, in view of more than adequate financing from foreign and domestic nonbank sources, the Government was able to reduce its net indebtedness to the banking system.

The accumulation of international reserves and the sharp increase in private sector credit caused the growth of liquidity to sharply accelerate from 5 percent in the previous year to 30 percent (Table 4). However, the potential inflationary impact of this liquidity growth was mitigated by the substantial increase in demand for time deposits, which became more attractive with the emergence of positive real yields in mid-1982 (Chart 4).

2. Developments in 1983/84

The overall policy stance in 1983/84 was directed toward sustaining the gains achieved in the previous year. While new policy measures were not as far-reaching as those implemented under the 1982/83 program, the real growth, inflation, and balance of payments objectives are likely to be achieved. Because of continued favorable weather, an estimated 15 percent improvement in the terms of trade, and the recovery of the nonagricultural sector, real GDP growth is estimated to accelerate to

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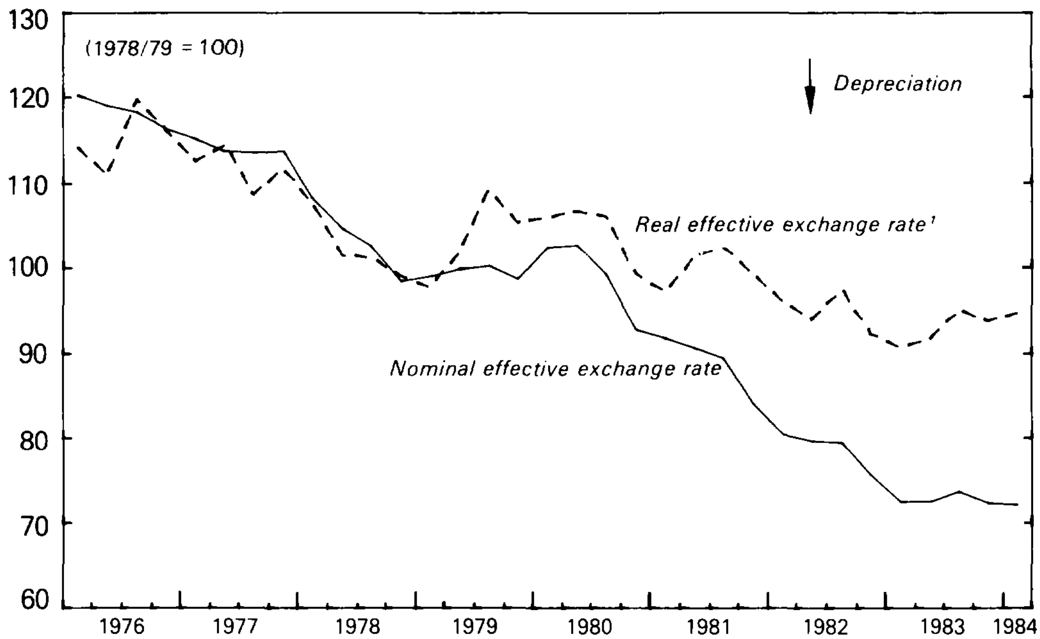
1/ In 1982/83, the increase in workers' remittances combined with a decline in import demand caused the premium in the secondary exchange market to narrow and, for a short period, disappear.

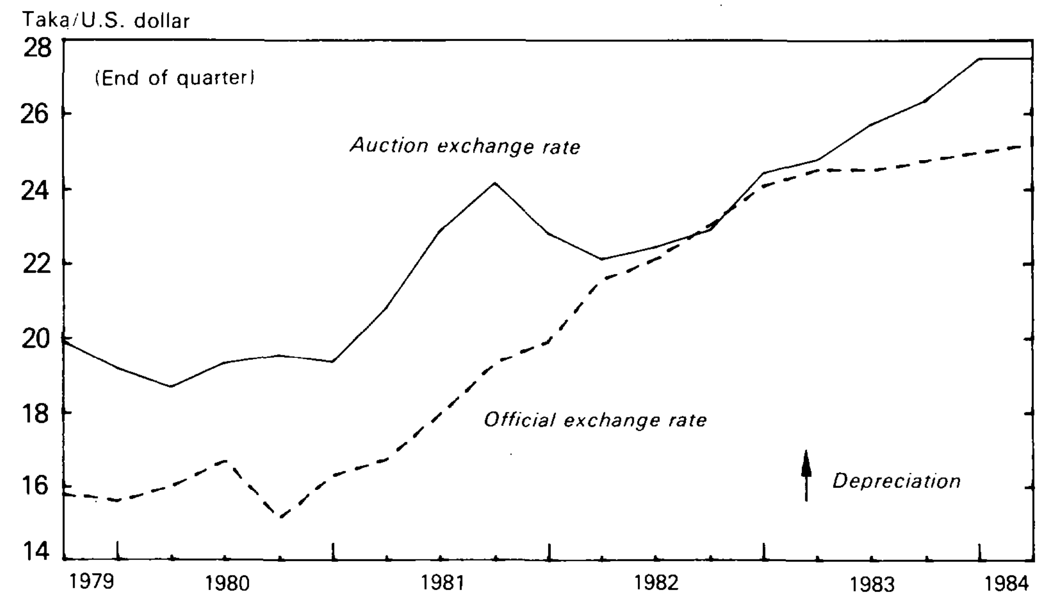
CHART 1

BANGLADESH

NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES



OFFICIAL AND AUCTION EXCHANGE RATES



Sources: Data provided by the Bangladesh authorities; and staff estimates.

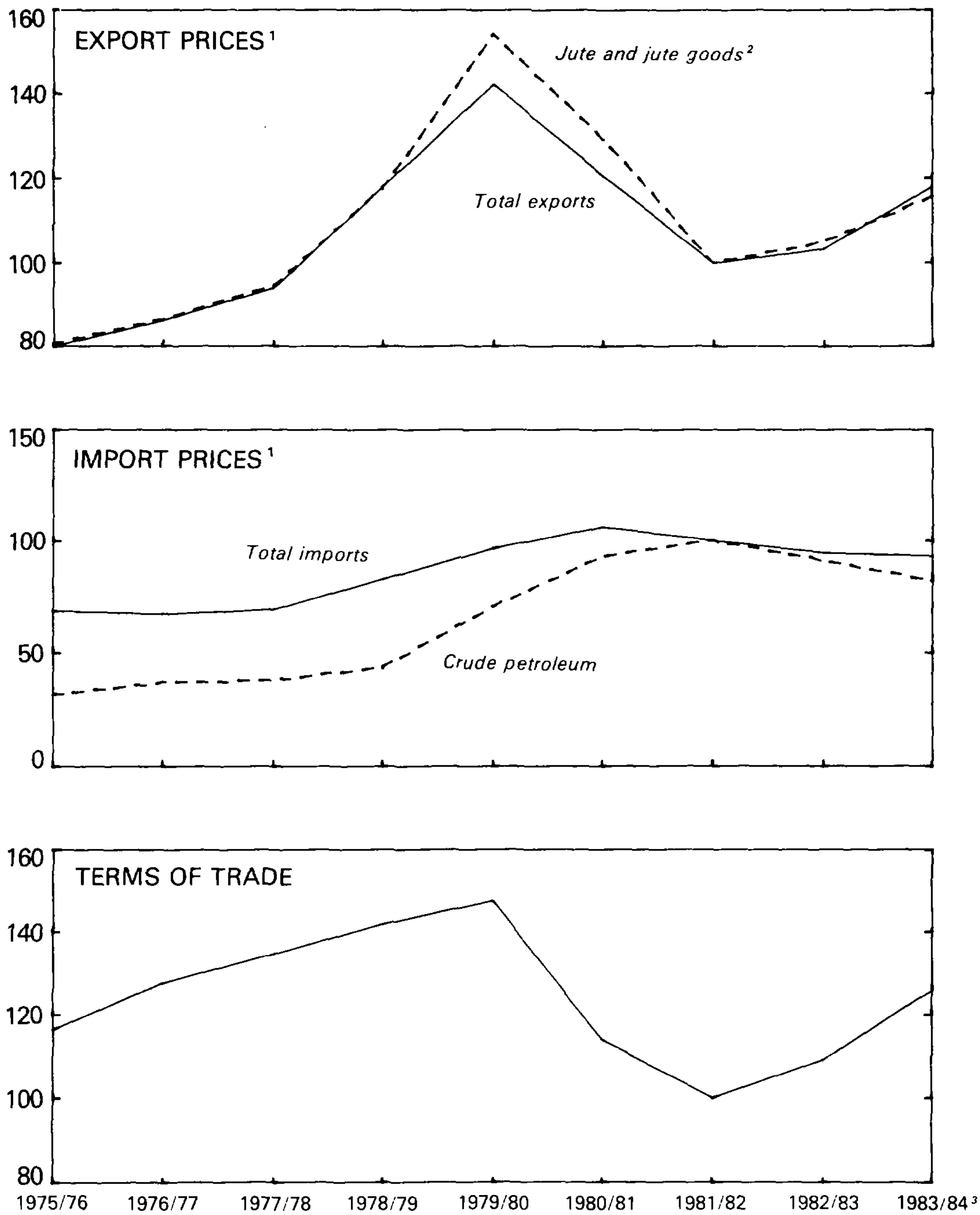
[1] Nominal effective exchange rate adjusted by relative CPI (Bangladesh overall CPI, 1973/74=100).

CHART 2

BANGLADESH

INDICES OF EXPORT AND IMPORT PRICES AND TERMS OF TRADE

(1981/82 = 100)

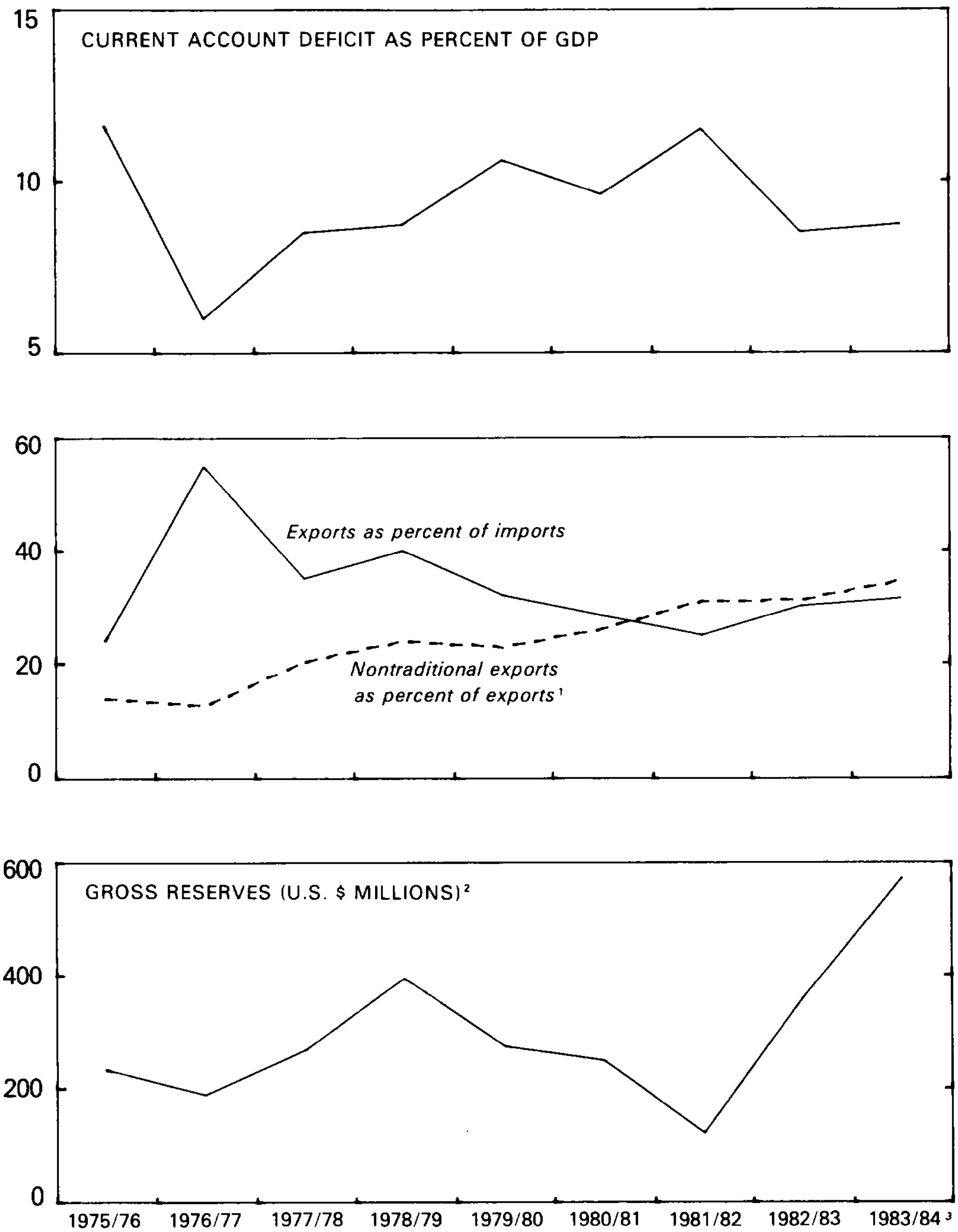


Sources: Data provided by the Bangladesh authorities; and staff estimates.
[1]Indices based on prices in terms of U.S. dollars.
[2]Weighted index of jute export unit values.
[3]Estimate.

CHART 3

BANGLADESH

SELECTED BALANCE OF PAYMENTS INDICATORS



Sources: Data provided by the Bangladesh authorities; and staff estimates.

[1] Nontraditional exports include raw jute, jute goods and loose tea.

[2] At end of period.

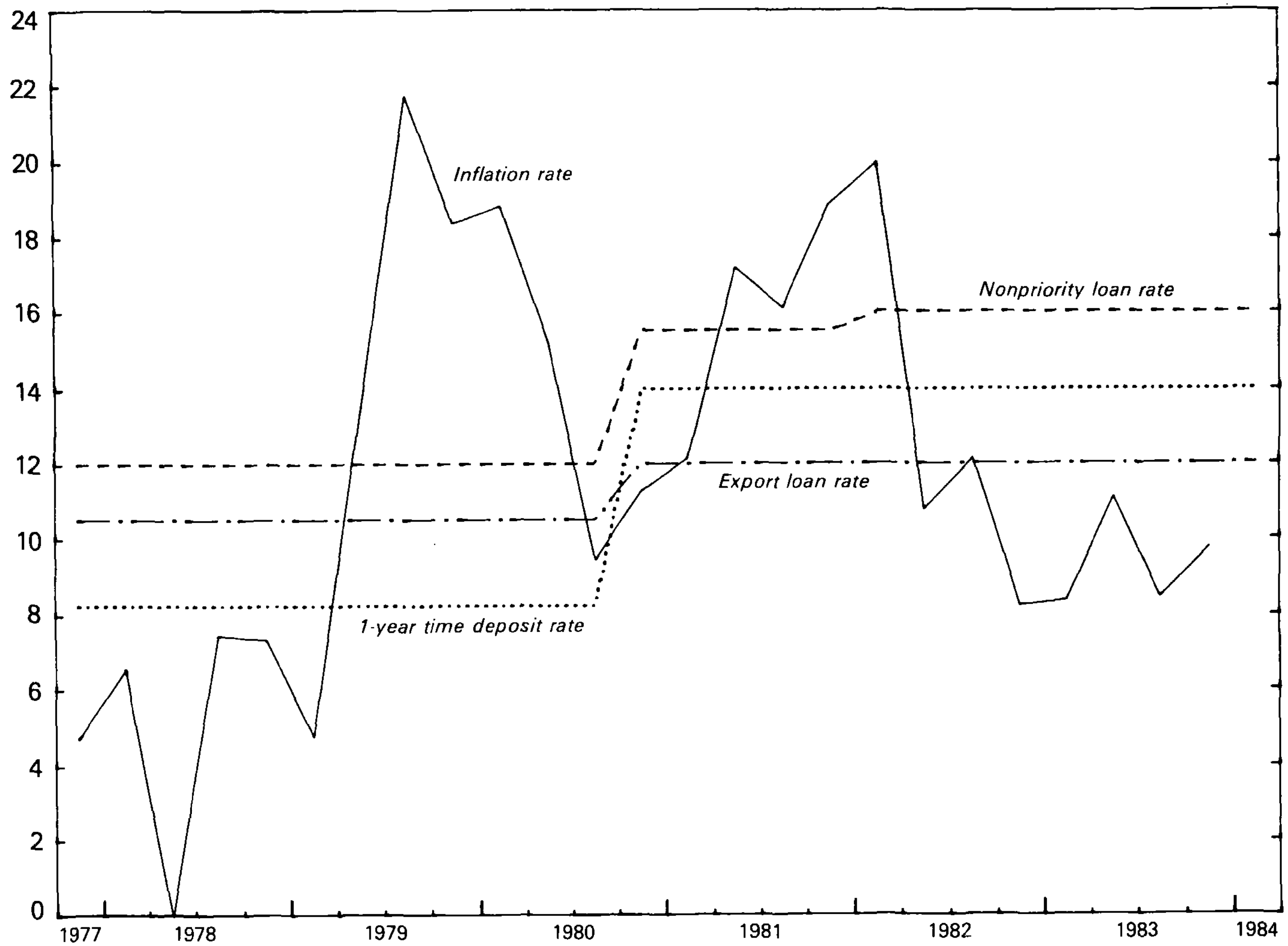
[3] Estimate.

CHART 4

BANGLADESH

SELECTED INTEREST RATES AND THE RATE OF INFLATION[1]

(In percent per year)



Source: Data provided by the Bangladesh authorities.

[1] The rate of inflation is based on the overall CPI (1973/74=100).

Table 2. Bangladesh: Balance of Payments, 1981/82-1984/85

(In millions of U.S. dollars)

	1981/82	1982/83 Program	1982/83 Actual	1983/84 Est.	1984/85 Proj.
Exports, f.o.b.	626	687	680	785	859
Imports, c.i.f.	-2,504	-2,321	-2,246	-2,495	-2,635
Of which: Foodgrains	(285)	(289)	(385)	(401)	(360)
Trade balance	-1,878	-1,634	-1,566	-1,710	-1,776
Services (net)	-65	-110	-113	-92	-76
Inflows	(248)	(...)	(230)	(283)	(313)
Outflows	(-313)	(...)	(-343)	(-375)	(-389)
Of which: Interest payments and IMF charges	[-120]	[-89]	[-128]	[-124]	[-132]
Private unrequited transfers 1/	420	480	633	633	650
Current account balance	-1,523	-1,264	-1,046	-1,169	-1,202
Aid disbursements	1,236	1,345	1,413	1,452	1,540
Food	(231)	(260)	(255)	(297)	(250)
Commodity	(421)	(475)	(520)	(455)	(540)
Project	(584)	(610)	(638)	(700)	(750)
Amortization payments	-40	-108	-95	-68	-118
Other capital 2/	39	-42	11	-12	-30
Trust Fund	--	-1	-1	-8	-15
Valuation adjustment	16	--	7	--	--
Errors and omissions	-25	--	53	--	--
Overall balance	-297	-70	342	195	175
Monetary movements (- increase in assets)	297	70	-342	-195	-175
Bangladesh Bank	246	70	-246	...	...
Foreign assets	(128)	(-4)	(-236)	(...)	(...)
Liabilities	(118)	(74)	(-10)	(...)	(...)
Of which: Fund credit	[31]	[74]	[40]	[19]	[-66]
Commercial banks	63	--	-59	...	...
Assets	(67)	(--)	(-2)	(...)	(...)
Liabilities	(-4)	(--)	(-57)	(...)	(...)
Unused balances in foreign currency accounts 3/	-12	--	-37	-30	...
Memorandum items:					
Current account deficit (in percent of GDP)	11.5	10.2	8.5	8.7	8.2
External debt outstanding 4/ (including Fund credit)	4,371	5,000	4,951	5,629	6,154
Gross reserves (end of period)	122	126	358	572	681
Gross reserves (in months of imports; end of period)	0.6	0.7	1.9	2.8	3.1

Sources: Data provided by the Banglagesh authorities; and staff estimates.

1/ Mostly workers' remittances.
2/ Includes food credits, suppliers' credits, short-term loans and other capital.
3/ The Bangladesh authorities do not consider these unused balances as part of the banks' foreign exchange reserves.
4/ Excludes short-term debt.

Table 3. Bangladesh: Summary of Central Government Operations, 1981/82-1983/84

(In billions of taka)

	1981/82	1982/83		1983/84		
		Program	Actual	Budget	Revised Estimates	Staff Estimates
Total revenue	23.4	24.9	25.6	32.3	28.7	27.7
Tax	19.0	20.1	20.6	27.1	23.4	22.4
Nontax	4.4	4.8	5.0	5.2	5.3	5.3
Total expenditure	46.9	51.7	59.0	67.0	66.3	63.6
Current expenditure	14.8	18.1	19.2	21.2	21.7	21.7
Annual Development Program	26.8	29.0	29.8	34.8	35.8	33.0
Other expenditure	2.0	2.4	2.2	3.8	3.8	3.8
Food account deficit	3.3	2.2	7.8	7.3	5.0	5.1
Overall budget deficit	23.5	26.8	33.4	34.7	37.6	35.9
(Excluding foodstocking)	(26.3)	(27.6)	(33.1)	(33.8)	(36.0)	(34.3)
Net foreign financing	20.2	27.7	28.2	31.0	31.4	30.1
Project aid	9.9	12.6	13.4	16.8	18.1	16.8
Commodity aid	7.6	10.5	9.0	11.2	9.5	9.5
Food aid	3.6	5.6	6.4	6.2	6.7	6.7
Commercial food borrowings (net)	-0.2	...	1.2	-1.4	-1.0	-1.0
Debt amortization	-0.7	-1.0	-1.8	-1.8	-1.9	-1.9
Net domestic financing	3.3	-0.9	5.1	3.8	6.2	5.8
Banking system	0.3	-1.5	-1.2	1.4	2.0	2.7
Other domestic (net)	3.0	0.6	6.3	2.4	4.2	3.1
			(Annual percentage change)			
Memorandum items:						
Total revenue	8.2	6.6	9.7	26.0	11.9	8.0
Total expenditure	7.1	10.3	25.8	13.6	12.3	7.7
Current expenditure	13.9	22.3	29.7	10.3	12.9	12.9
Annual Development Program	13.1	8.2	11.2	16.9	20.3	10.7
			(As percent of GDP)			
Total revenue	8.8	8.5	8.8	9.6	8.5	8.2
Total expenditure	17.7	17.6	20.1	19.9	19.6	18.8
Overall budget deficit	8.9	9.1	11.4	10.3	11.1	10.6
(Excluding foodstocking)	(9.9)	(9.4)	(11.3)	(10.0)	(10.7)	(10.2)

Sources: Data provided by the Bangladesh authorities; and staff estimates.

Table 4 . Bangladesh: Monetary Survey, 1980-84

	1980	1981	1982		1983			1984	
	June	June	June	Dec.	March	June	Dec.	March Prov.	June Est.
	(In billions of taka at end of period) 1/								
Net foreign assets	0.7	-2.5	-9.9	-8.3	-7.4	-3.5	-0.9	-0.8	1.3
Domestic credit	37.6	53.4	62.8	66.2	66.8	68.9	83.4	83.3	85.1
Public sector	22.9	33.7	37.9	38.6	36.3	36.7	43.4	42.9	43.1
Government	(7.8)	(14.1)	(13.0)	(10.5)	(11.2)	(12.4)	(15.0)	(14.4)	(15.1)
Other	(15.1)	(19.6)	(24.9)	(28.1)	(25.1)	(24.4)	(28.4)	(28.4)	(28.0)
Private sector	14.7	19.7	24.9	27.6	30.5	32.1	39.9	40.4	42.0
Broad money	34.7	43.9	46.0	53.4	51.9	59.7	75.3	74.8	76.7
Narrow money	18.7	21.5	21.1	24.5	23.8	27.6	33.5	32.9	33.7
Quasi-money	16.0	22.4	24.9	28.8	28.1	32.1	41.8	42.0	43.0
Other items, net	3.6	7.0	6.9	4.5	7.5	5.7	7.2	7.7	9.7
	(Percentage changes over 12 months) 2/								
Domestic credit	40.5	42.2	17.6	10.5	11.3	9.7	26.0	24.6	23.5
Public sector	35.3	47.3	12.6	5.1	0.9	-3.2	12.6	18.1	17.2
Government	(53.2)	(81.9)	(-8.2)	(-28.1)	(-16.2)	(-4.7)	(42.8)	(28.8)	(21.9)
Other	(27.6)	(29.6)	(27.6)	(27.0)	(11.1)	(-2.3)	(1.3)	(13.3)	(14.8)
Private sector	49.4	34.3	26.1	19.2	26.7	29.3	44.7	32.4	30.7
Broad money	21.0	26.7	4.7	13.2	15.5	29.8	41.1	44.3	28.6
Memorandum item:									
Income velocity of money	6.4	6.1	5.9	...	...	5.7	...	...	4.8

Source: Based on data provided by the Statistics Department, Bangladesh Bank.
1/ Components may not add exactly to totals due to rounding.
2/ Calculated on the basis of figures in millions.

about 5 percent. The pressure on the prices of food, particularly foodgrains, has increased (Chart 5) because of higher liquidity in rural areas and increased government spending associated with the decentralization program aimed at enlarging the responsibilities of local governments. Nevertheless, the overall rate of inflation is estimated to remain under 10 percent, reflecting an easing in the rate of increase of nonfood prices.

With the aim of giving further impetus to economic development, the 1983/84 budget provided for a shift in the composition of expenditures toward development spending, while maintaining the ratio of total expenditures to GDP at about 20 percent. The growth of ADP was budgeted to accelerate to 17 percent, while the growth of current expenditures was to be limited to the expected rate of inflation. The projected growth in revenues underlying budgeted expenditures was essentially predicated on the resumption of import growth, as the net impact of revenue measures taken in July 1983 was estimated to be only about Tk 0.5 billion, or about 0.1 percent of GDP. These measures included modifications of customs duties, sales taxes, and excise taxes, and upward adjustments in electricity duties, railway fares, water rates, and health, postal and telephone charges.

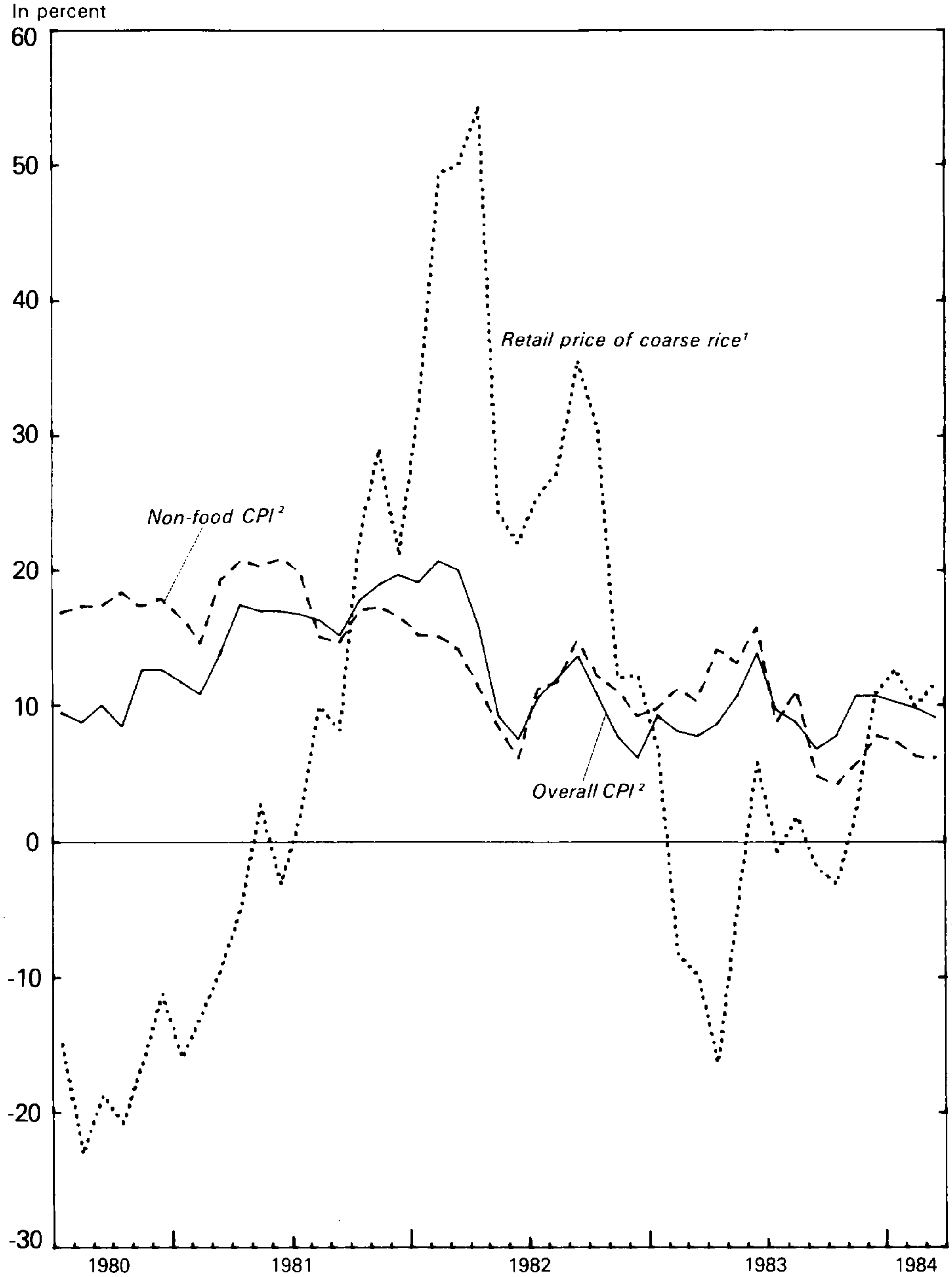
A mid-year assessment of the budget resulted in several adjustments. With a slower-than-projected increase in dutiable imports and a shift in import composition toward goods subject to lower duties, a substantial revenue shortfall emerged. In order to maintain development spending, including that relating to noncore projects, at the budgeted level, the authorities decided to issue more special two-year bonds than the Tk 500 million originally envisaged. This was intended not only to fill the financing gap but also to provide an outlet for the excess liquidity building up in the domestic banking system. While current expenditures were estimated to be contained to about the budgeted level, the authorities decided in April 1984 to increase the ADP from Tk 34.8 billion to Tk 35.8 billion, following upward revisions of project aid forecasts. However, due to delays in project implementation, actual ADP is estimated to amount to Tk 33 billion, implying an increase of 11 percent over the 1982/83 level. With the food account deficit estimated to decline sharply, staff estimates indicate that the ratio of the overall fiscal deficit to GDP would decline slightly to 10.6 percent, while the ratio of domestic bank financing to GDP would rise from a negative figure to about 0.8 percent.

The decline in the food account deficit was attributable to several factors. Total expenditures declined, reflecting reduced outlays on domestic operations (mainly because of high foodgrain prices) as well as lower import costs, while total receipts rose substantially, due in part to the increases in ration issue prices for wheat and rice in January 1984. In order to increase foodgrain stocks by about 50 percent to 960,000 tons (a level still below the 1.2 million tons which the authorities deem to be adequate), foodgrain imports under grants and

CHART 5

BANGLADESH

CHANGES IN CONSUMER PRICES



Source: Data provided by the Bangladesh authorities.

[1]Coarse rice has a weight of 24.7 percent in the overall CPI.

[2]Based on CPI for middle income families in Dhaka City (1973/74=100).

concessional loans were augmented by imports financed in part by commercial deferred credits.

Resort to bank borrowing by public enterprises, which declined moderately in 1982/83, is estimated to increase by 15 percent during 1983/84. This development mainly reflected the expansion in their operations in line with the industrial recovery. However, it is noteworthy that the financial position of seven major nonfinancial public enterprises, which improved markedly in 1982/83 mainly because of upward adjustments in administered prices, is expected to improve further in 1983/84 due to selected price increases and stable or declining input costs. 1/ The Bangladesh Petroleum Corporation was able to reduce sharply its short-term external debt, while all seven enterprises are expected to reduce their borrowing from the domestic banking system for the second successive year.

Monetary policy in 1983/84 was conducted to accommodate domestic credit demand, while the banking system continued to improve its net foreign exchange position, albeit at a slower pace than in 1982/83. To moderate the consequent acceleration in the growth of liquidity, the Bangladesh Bank took measures in October 1983 to increase the rate of repayment in agricultural loans and to induce banks to use their own resources for these loans. The Bangladesh Bank raised its refinancing rates on these loans and banks were permitted to charge higher penalty rates on overdue payments and to levy an annual service charge of 4 percent, thereby increasing the effective annual interest rate on agricultural loans to 16 percent (the rate applicable to nonpriority industrial loans). As these measures affected only a fraction of overall credit demand and given the strong demand for credit due to the increasing momentum of the economic recovery, the rate of domestic credit expansion is estimated to more than double to 24 percent in the current fiscal year. 2/ Thus, despite a lower increase in net foreign assets, broad money is estimated to rise by a further 29 percent (Chart 6).

In the early part of 1983/84, commercial banks began accumulating liquid assets substantially in excess of required liquid asset reserves. While the issuance of special government bonds provided an outlet for this excess liquidity, the 12-15 percent interest rates applicable to time deposits obliged the authorities to offer relatively high rates of return on these bonds (i.e., 15.8 percent on bonds sold at discount and held to maturity, and 14.2 percent on bonds sold at par) (Table 5).

1/ Bangladesh Petroleum Corporation, Bangladesh Jute Mills Corporation, Bangladesh Textile Mills Corporation, Bangladesh Power Development Corporation, Bangladesh Chemical Industries Corporation, Bangladesh Sugar and Food Industries Corporation, and Bangladesh Steel and Engineering Corporation.

2/ The original 1983/84 monetary program prepared by the authorities provided for an increase of 17 percent in total domestic credit.

Table 5. Bangladesh: Selected Interest Rates, 1980-84

(In percent per annum) 1/

	1980 Oct.	1982 July	1983 Oct.	1984 March
Bank rate	10.5	10.5	10.5	10.5
Bank deposits				
Savings account				
Without checking	10.0	10.0	10.0	10.0
Fixed deposits				
Three months to less than six months	12.0	12.0	12.0	12.0
One year to less than two years	14.0	14.0	14.0	14.0
Three years and over	15.0	15.0	15.0	15.0
Bank lending				
Government				
Treasury bills	8.5	8.5	8.5	8.5
Tap Treasury bills	9.5	9.5	9.5	9.5
Two-year bonds				
Issued at discount	--	--	--	15.7
Issued at par	--	--	--	14.2
Export 1/	12.0	12.0	12.0	12.0
Agriculture 1/	12.0	12.0	16.0 2/	16.0 2/
Socio-economic 1/	13.0	13.0	13.0	15.0 3/
Industry 1/	14.0	14.5	14.5	14.5
Other (nonpriority)	15.5	16.0	16.0	16.0

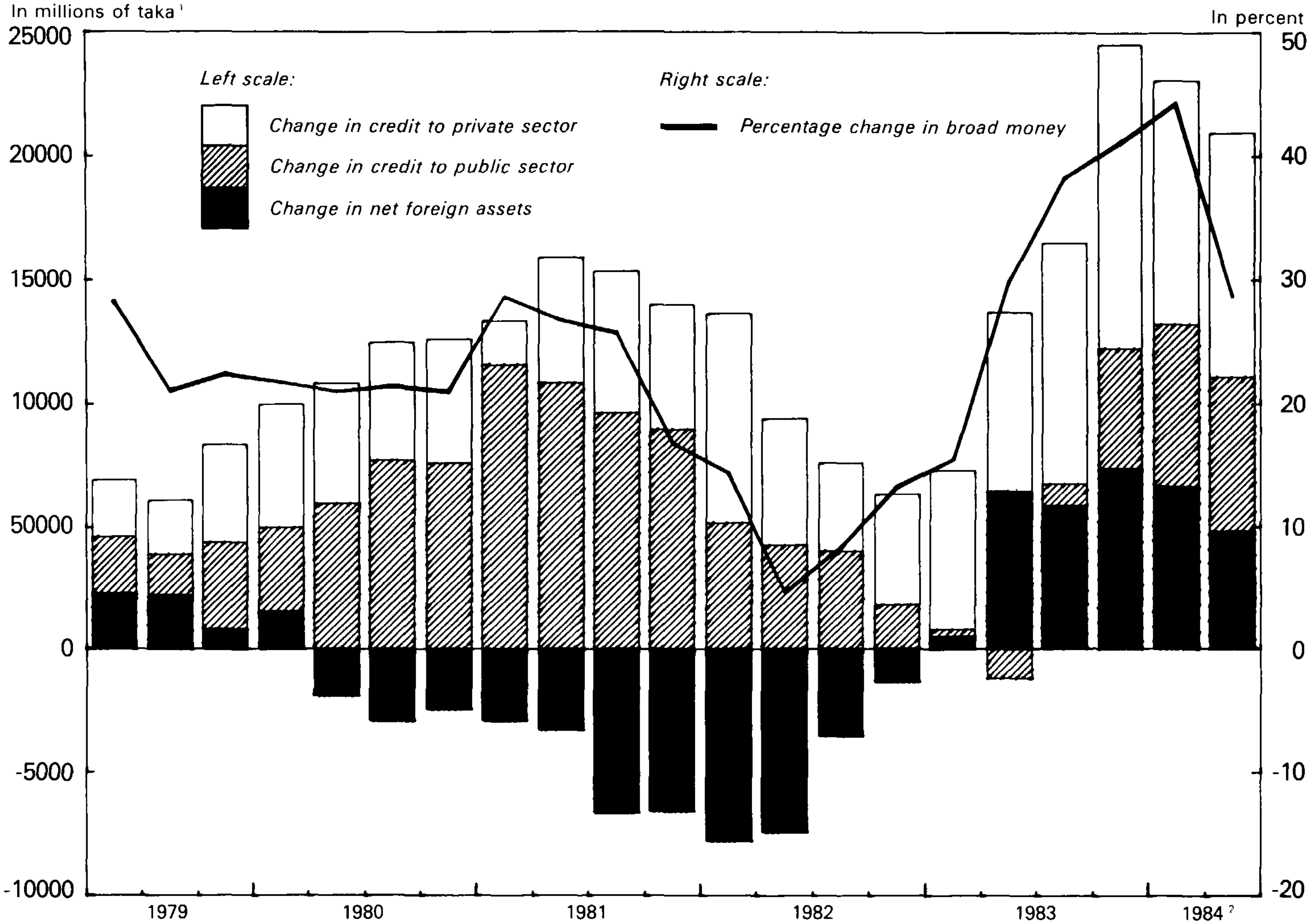
Source: Data provided by the Bangladesh authorities.

1/ Actual lending rates may be lower than representative rates shown depending on the subsector involved.
2/ Includes service charge of 4 percent per annum.
3/ Includes service charge of 2 percent per annum.

CHART 6

BANGLADESH

FACTORS AFFECTING MONEY SUPPLY



Sources: Data provided by the Bangladesh authorities and staff estimates.

[1]Absolute and percentage changes are calculated over the same period in the preceding year.

[2]Figures for the second quarter are estimated.

With a minimum bond denomination of Tk 100,000 and yields of 15-16 percent on existing small savers' schemes, virtually all of these bonds were absorbed by the commercial banks. By the end of 1983/84, total bond sales to banks are estimated to reach Tk 2 billion, or about 3 percent of budget expenditures.

Among the types of bank deposits, time deposits recorded the most rapid rate of growth, particularly those with maturities of one year and three years. The maintenance of interest rates on these relatively risk-free assets made them significantly more attractive than longer-term instruments offered by development financial institutions, thereby exacerbating the chronic shortage of funds in the capital market. In their search for investment opportunities, banks began to increase loans with three-year maturities, which provided only limited relief to borrowers requiring long-term funds.

The balance of payments is estimated to record a lower, though still substantial, surplus. While import growth has resumed in a climate of stable import prices and export growth has accelerated owing mainly to improved export prices, some deterioration in the trade balance is estimated. With a decline in net service outflows and the maintenance of private transfers at the 1982/83 level, the ratio of the current account deficit to GDP is estimated to widen slightly to 8.7 percent. Given only a slight increase in aid disbursements and sizable repayments of commercial food credits and short-term loans, the overall surplus is estimated to decline to US$195 million.

The improvement in export prices in 1983/84 benefited Bangladesh's traditional exports, namely raw jute, jute goods, and tea. While these goods continued to constitute the major part of total exports, their share continued to diminish with the faster growth of nontraditional exports. Among the latter group, ready-made garments are estimated to record the largest increase, reflecting new investment in export-oriented industries aimed at taking advantage of Bangladesh's unfulfilled quotas under the Multi-Fiber Agreement.

The development of indigenous natural gas resources also contributed to alleviating balance of payments pressures. Since the completion of the East-West Electricity Grid Interconnector in December 1982, gas-generated electricity has been transmitted from the eastern zone to replace oil-generated electricity in the western zone. In 1983/84, it is estimated that savings of about US$45 million were realized in the oil import bill. Larger savings would have been possible were it not for delays in gas development projects.

The exchange rate continued to be managed flexibly with a view to maintaining the external competitiveness of the traded goods sector. From August 1983 to February 1984, the authorities effected in small steps a cumulative nominal depreciation of the taka of 2.8 percent vis-a-vis the U.S. dollar, the intervention currency. Reflecting these adjustments and the stability of the rate of inflation in Bangladesh, the real effective exchange rate index indicates no appreciation as of March 1984 (the latest month for which consumer price data are available) over November 1982, the base month for exchange rate surveillance under the 1983 stand-by arrangement.

The authorities also took steps to provide further incentives for nontraditional exports, to strengthen the secondary exchange market, and to liberalize further the import regime. To promote the export of nontraditional goods, which are estimated to amount to about one third of total exports in 1983/84, the number of items eligible for the 60 percent and 80 percent entitlement rates under the Export Performance Licensing Scheme was increased. In view of the growing demand for foreign exchange by the private sector, the Bangladesh Bank ceased purchases of foreign exchange in the secondary market on behalf of the Bangladesh Petroleum Corporation, a device previously used to assist in maintaining a more depreciated exchange rate in this market. The list of items importable through this market was expanded further and certain minimum margin requirements on import letters of credit were reduced. Moreover, to facilitate the importation of industrial raw materials and spare parts through the official market, the import licensing requirement on these goods was abolished and industrial importers were permitted to freely determine the product mix of their imports within their foreign exchange allocations.

Bangladesh's exchange system has the following features which are subject to approval under Article VIII: (1) multiple currency practices arising from (a) operations of the Wage Earners' Scheme, (b) the Export Performance Licensing Scheme, and (c) minimum deposit margins on letters of credit for certain commercial goods imported under these schemes; and (2) a bilateral payments agreement with the People's Republic of China. Bangladesh also maintains bilateral payments agreements with Hungary, Romania, and Yugoslavia in accordance with transitional arrangements under Article XIV.

III. Prospects for 1984/85 and Policy Issues

According to staff projections, prospects for macroeconomic aggregates in 1984/85 will be broadly in line with the estimated outturn in 1983/84, provided that the authorities pursue appropriate monetary and fiscal policies. Real GDP would continue to grow at about 5 percent, the rate of inflation would remain under 10 percent, and the overall balance of payments would remain in surplus. However, given the economy's vulnerability to adverse weather conditions and adverse shifts in the terms of trade, a serious deterioration in the economy could occur should either or both of these events transpire.

The staff discussions with the authorities focussed on policies aimed at maintaining economic stability in the short run and providing a more solid foundation for sustained growth with balance of payments viability in the medium term.

1. Fiscal policy

Developments in 1983/84 underscored the basic weaknesses in the budget, particularly the narrowness of the tax base and the high variability of revenue based on dutiable imports. The authorities recognize that in order to put the development effort on a more solid foundation, these weaknesses have to be alleviated and that more domestic resources have to be mobilized. As these goals cannot be achieved quickly in a resource-poor country where the majority of the people live at the threshold of subsistence, the authorities are actively reviewing a range of options which collectively should ensure progress over the medium term.

The appropriate fiscal stance toward the agricultural sector was an issue of concern in the discussions. Although it accounts for about half of GDP, agriculture directly contributes only about 1.4 percent of tax revenues through the land development tax while it benefits from substantial subsidies on fertilizer and other agricultural inputs. The authorities noted that due to the difficulties in administering the recently introduced land development tax, the flow of revenues has amounted to only about half of official projections; improved administration, however, should increase the yield of this tax over time. As for input subsidies, the authorities agreed with the objective of eliminating them gradually, but pointed out that given the intensity of cultivation in Bangladesh, sudden reductions in such subsidies, particularly those for fertilizer, could adversely affect agricultural production. In line with their gradual approach, the authorities have undertaken under the Twelfth IDA Imports Program Credit (approved in May 1984) to: (1) raise wholesale fertilizer prices in two steps during the first half of 1984/85 so as to reduce the subsidy rate from 23 percent to about 15 percent; and (2) eliminate fertilizer subsidies by the end of 1985/86.

With respect to the taxation of the nonagricultural sector, the authorities intend to implement several reforms. First, the Income Tax Act will be revised in the near future so as to expand the taxable base, simplify tax computations, and encourage investment. The lowering of the personal exemption threshold was ruled out by the authorities, as the extra cost of administration was estimated to exceed the expected marginal revenue intake. Second, the coverage of the turnover tax, currently limited to a few industries, will be expanded significantly. Third, the import duty structure will be further rationalized, and customs collections procedures tightened.

Subsidies on foodgrain were seen to be critical to low-income segments of the population, and the authorities stressed the need for caution in reducing such subsidies. They noted that price adjustments made in January 1984 reduced the unit subsidies from 18 percent to 15 percent on wheat, and from 13 percent to 12 percent on rice. While not ruling out further price adjustments, the authorities agreed that greater efforts could also be made to reduce the costs of foodgrain operations through greater efficiency in grain handling, where large losses are incurred.

The authority given to public enterprises to raise their prices by up to 10 percent without prior Cabinet approval has not been fully exercised. While the authorities appreciated the need to avoid delays in justifiable cases, they were also concerned that this authority not be abused to conceal inefficiency. They noted that despite the reluctance of public enterprises to act autonomously, justifiable price increases have been taken more promptly since the new policy was adopted in 1982/83.

The pricing of natural gas in accordance with long-term development costs was accepted in principle by the authorities. However, they noted that the speed of progress toward this end must not be so rapid as to impede the growing substitution of natural gas for petroleum products. Cost incentives were deemed to be necessary for industries to undertake the capital costs involved in converting plants to use gas instead of oil. The staff noted that the development of gas wells has been hampered by inadequate funds and that the generation of internal resources through price increases would help alleviate this problem.

The authorities were not in a position to discuss the details of the 1984/85 budget, which was then under preparation. In late May, the public sector wage adjustment, anticipated to be effected in the next fiscal year, was announced ahead of schedule. This adjustment would add an estimated Tk 1.9 billion to current expenditures in 1984/85. The mission stressed the need to make adjustments in other expenditures and to mobilize more revenue so as to avoid recourse to bank financing for the second successive year. The authorities stated that the budgetary policy of bank borrowing only for food stocking operations continued to be in effect and that the deviation from this policy through sales of special bonds in 1983/84 was temporary.

2. Monetary policy

The inflationary potential of the recent rapid increases in liquidity was a major source of concern. On the basis of staff projections of major factors affecting prices (particularly foodgrain production and import prices), the rate of inflation could be contained at the 1983/84 level if the rate of liquidity expansion is substantially reduced. The authorities agreed that if appropriate action is not taken, adverse price pressures could spread either directly or indirectly through the rising cost of food. The advancement of the timetable for public sector wage adjustments due to public pressure is a symptom that such a process may be already underway.

The authorities' active use of instruments to control liquidity has been circumscribed by the rigid interest rate structure, which has remained essentially unchanged since October 1980. The authorities considered that an increase in the liquid asset reserve requirements would be effective in controlling the growth of liquidity; however, given the fixed 12-15 percent yield on time deposits, requiring the banks to absorb Treasury bills yielding 9.5 percent in order to effect higher reserve requirements would have adversely affected bank profitability. Open market operations were also constrained by the lack of interest rate flexibility and the absence of a developed secondary market for government securities. The authorities also examined other monetary instruments at their disposal. A further tightening of the Bangladesh Bank's refinance window was calculated to have only a marginal effect, given the liquidity buildup in banks. They ruled out the use of credit ceilings, except as a last resort, because such ceilings were deemed to be detrimental to the more resourceful and competitive banks.

The mission recommended the adoption of a more flexible interest rate policy which would not only permit a more active use of reserve requirements but could also serve to attract funds into longer-term deposits. Given the narrow and rigid differentials between short-term and long-term deposit rates, the movement of funds into long-term deposits has been inadequate. The authorities expressed concern about the feasibility of a flexible interest rate policy given the lack of sophistication in the banking system, and about the possibility that, under such a policy, long-term interest rates might rise to unduly high levels. Under prevailing conditions, the likely impact of a more flexible interest rate policy would be a decline in short-term deposit rates. With a larger spread between short-term rates and rates on long-term deposits, more long-term credit could become available.

The authorities' monetary program for 1984/85 provides for a deceleration in the growth of all credit categories to: 5 percent for public sector credit; 24 percent for private sector credit; and 15 percent for total domestic credit. Assuming a balance of payments surplus of US$92 million, broad money was projected to rise by 18 percent. The staff noted that its own projections indicated a surplus twice the size of the official forecast, thereby underscoring the need to establish adequate instruments to prevent further large increases in liquidity.

3. External policies

The authorities reaffirmed their policy of maintaining the external competitiveness of the traded goods sector through periodic adjustments of the taka to offset differentials between domestic inflation and inflation in trading partners and indicated their intention to review this policy in the light of export performance and the progress of efficient import substitution. The mission also stressed that the authorities should aim at the eventual unification of the exchange markets at an appropriate exchange rate.

The authorities also reaffirmed their commitment to the further liberalization of the import regime. Measures under consideration included further expansion of the list of goods importable through the secondary exchange market and further simplification of import procedures. With regard to minimum margins on import letters of credit, the authorities stated that the rates applicable to most goods are consistent with the range of rates that commercial banks would have required in the absence of specific regulations; at present, there were no plans to abolish them. The authorities continued to have reservations about the replacement of the positive import lists in the annual Import Policy Order (IPO) with negative lists, as a means of simplifying the import regime and making its restrictiveness more transparent. They noted that justifiable requests for imports not anticipated by the IPO have been accommodated without undue delay and that, given the stronger reserve position in 1983/84, actual foreign exchange allocations have exceeded those budgeted in the IPO. Despite their reservations regarding negative lists, the authorities expressed their willingness to study the experience of other countries that have adopted such lists.

With regard to the Exchange Rate Fluctuations Absorption Scheme (EFAS), under which foreign loans in any currency could be insured against exchange risk upon payment of a 2.5 percent annual premium, the authorities noted that no loans have been insured since August 1983 when the scheme became effective. Thus, the possibilities that the scheme would encourage over-borrowing in foreign currency and that exchange losses would exceed premia do not appear to be of immediate concern. Nevertheless, the mission hoped that continuation of the scheme would be reassessed carefully at its scheduled termination in four years' time.

IV. Medium-Term Outlook

The broad outlines of the Third Five-Year Plan (1985/86-1989/90) have been announced by the authorities. 1/ Priority will continue to be given to agricultural development, energy resource development, basic education, manpower development, and population control. Local governments will be more closely integrated with project formulation and implementation. Furthermore, the private sector will be encouraged to play a greater role in the development effort. The IBRD staff has supported the overall objectives of investment policies in Bangladesh. Within the context of preparations for the Plan, the IBRD staff has called for balanced sectoral strategies, more emphasis on the maintenance of existing investments, greater efficiency in project formulation and implementation, realistic estimates of resource availability, and increased mobilization of domestic resources.

An illustrative medium-term scenario prepared by the staff underscores the fragility of the recent improvement in the balance of

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1/ Planning Commission, Ministry of Finance and Development, Thoughts on the Third Five-Year Plan, 1985-90, Dhaka, September, 1983.

payments, the importance of continuing appropriate adjustment policies, and the need for caution in planning the scale of development efforts in the future. According to the scenario, the current account deficit will rise from 8.7 percent of GDP in 1983/84 to 10 percent by 1988/89 (Appendix Table 8). The overall balance will be in surplus in 1984/85 and 1985/86; thereafter, overall deficits will be incurred in rapidly escalating amounts, creating large financing gaps in 1987/88 and 1988/89. If the authorities were to aim at a growth rate higher than the assumed 5 percent target without a commensurate increase in aid flows, or if the economy were subjected to adverse exogenous shocks, overall balance of payments deficits would emerge sooner.

The external debt service burden is projected to increase significantly, despite the fact that most debt is expected to continue being contracted on highly concessional terms. Total debt service payments are estimated to rise from 17 percent of exports of goods and services and workers' remittances in 1983/84 to 24 percent in 1986/87, and decline thereafter. The projected increase in this ratio partly reflects relatively sizable repurchases and charges due to the Fund in 1984/85-1986/87. During this period, debt service payments due to the Fund will range from 21 percent to 31 percent of the total.

The staff's scenario is based on several key assumptions. Project aid and commodity aid were assumed to remain constant in real terms, while food aid was set to equal food import requirements. Foodgrain production was projected to rise by the trend rate, while agricultural production as a whole was projected to rise above the trend rate because of expected progress in crop diversification. Nonagricultural production was projected to increase at a rate slower than the trend rate, to adjust for the slower growth in external aid disbursements in the 1980s compared with the 1970s. The growth of export volume was forecast to be higher than the trend rate in view of the rapid growth of nontraditional exports in recent years. Imports were projected on a disaggregated basis, taking into account foodgrain requirements, aid-related capital imports, and the estimated statistical relationship between the volume of imports and real nonagricultural growth. The terms of trade were projected to decline slightly, and private remittances were assumed to be maintained in nominal terms.

V. Staff Appraisal

In 1982/83, the Bangladesh authorities successfully implemented a comprehensive economic program. The pursuit of adjustment policies under the program, good harvests, and a more favorable external environment have resulted in an improvement in the country's economic performance over the course of the last two years. Real economic growth accelerated, inflation declined and short-run balance of payments pressures eased. The realization of overall balance of payments surpluses in two successive years has resulted in a welcome build-up of international reserves. Further reserve increases are desirable since the economy remains vulnerable to adverse weather conditions and adverse shifts in the terms of trade and since the external debt service burden will be increasing.

The adjustment measures implemented during 1983/84, especially in the fiscal field, were less substantial than those implemented in the previous year. Reflecting the modest impact of new revenue measures and a slower-than-anticipated increase in imports, government revenue has been substantially less than budget estimates and the shortfall has been met mainly through sales of special bonds to commercial banks. The authorities viewed this recourse to borrowing from the domestic banking system as a temporary deviation from established official policy which restricts such borrowing to financing foodgrain stocking operations. These developments underscored once again the need to contain the growth of current expenditures, set the ADP at a level consistent with available resources, and diversify the tax base so as to lessen the heavy dependence on trade-related taxes. In this connection, the authorities intend to improve the administration of the land tax, widen the coverage of the income tax and improve the efficiency of its collection, tighten customs collection procedures, reduce subsidies on foodgrains, fertilizer and other agricultural inputs, and increase the flexibility of administered prices.

The denationalization of certain jute and textile mills and the sanctioning of private investment in areas previously reserved for the public sector will increase the scope of private participation in the economy. Moreover, it will foster greater competitiveness and efficiency in public enterprises.

The development of indigenous natural gas resources has lessened dependency on imported fuels, thereby contributing to the improvement in Bangladesh's external position. While the high capital outlays involved in converting plants for gas use instead of imported oil may justify prices that are lower than those charged for alternative fuels, prices need to be progressively raised to levels adequate to cover long-term development costs. This would enable a part of capital expenditure to be recovered and encourage end-users to conserve a nonrenewable natural resource.

The inflationary potential of high liquidity growth is a major source of concern. In the last two years, this potential has been partly mitigated by an increase in the demand for money as a result of the emergence of positive real rates of return on financial savings. However, in view of the strong possibility that inflationary tendencies could be rekindled, as evidenced by growing pressures on food prices, appropriate steps need to be taken to control domestic credit expansion. Moreover, it is necessary to encourage the channeling of financial savings into longer-term instruments. In part, for this purpose, the staff recommends the adoption of a more flexible interest rate policy.

Despite the favorable outturn in the last two years, the underlying balance of payments remains structurally weak, and highly vulnerable to exogenous shocks. As the balance of payments will remain a major constraint to growth for some time to come, particularly in view of the rising debt service burden, it is essential to set realistic development targets, increase domestic resource mobilization, increase the efficiency of domestic and external resource use, and further strengthen the traded goods sector. The difficulties of achieving an adequate growth rate with balance of payments viability in Bangladesh cannot be overemphasized. While perseverance with adjustment policies should enable an increase in the rate of national saving, such saving will need to be supplemented by external aid for some time to come.

In recent years, the authorities have pursued a flexible exchange rate policy aimed at maintaining the external competitiveness of the traded goods sector. As a complement to this policy, further steps should be taken to liberalize the import regime and to broaden the secondary exchange market with the objective of unifying the exchange market at an appropriate rate. The staff encourages the authorities to abolish margin requirements on import letters of credit and to eliminate bilateral payments agreements with Fund members at the earliest opportunity. In the meantime, the staff does not propose that the Executive Board grant approval for these practices.

It is recommended that the next Article IV consultation with Bangladesh be held on the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board.

1. The Fund takes this decision relating to Bangladesh's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with Bangladesh, in the light of the 1984 Article IV consultation with Bangladesh conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. The Fund notes that Bangladesh maintains certain restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/84/.... The Fund encourages Bangladesh to eliminate the margin requirements on import letters of credits, to channel more imports through the secondary exchange market, and to terminate the bilateral payments arrangements with Fund members.

Table 6. Bangladesh: Quantitative Performance Criteria and Actual Developments Under the 1983 Stand-By Arrangement

	1983 March	1983 June
	(In billions of taka; end of period)	
Total domestic credit of the banking system 1/		
Ceiling	70.50	74.40
Actual	67.74	72.58
Credit to the public sector 1/		
Ceiling	42.80	46.80
Actual	39.85	41.36
	(In millions of U.S. dollars)	
New external loans contracted by the public and private sectors (February-June 1983)		
1- to 12-year maturity		
Ceiling	100.0	100.0
Actual	14.2	40.8
1 - to 5-year maturity		
Ceiling	70.0	70.0
Actual	14.2	24.3

Source: Data provided by the Bangladesh authorities.

1/ Based on the monetary survey prepared by the Research Department, Bangladesh Bank.

Table 7. Bangladesh: Output and Prices, 1979/80-1983/84

(Annual percentage change)

	1979/80	1980/81	1981/82	1982/83	1983/84 Est.
GDP at constant market prices	1.3	6.7	0.9	3.2	5.1
Agriculture	0.2	5.3	0.9	4.3	5.0
Industry 1/	2.1	5.4	1.6	-1.6	6.0
Construction	-21.3	13.4	5.6	3.3	4.5
Services	5.8	8.3	-0.1	2.8	5.0
Implicit GDP deflator	13.0	10.3	12.7	7.0	9.5
Consumer prices (annual average) 2/	18.5	12.6	16.3	9.9	9.5
Food	20.9	9.1	17.8	8.5	11.0
Nonfood	14.6	18.2	14.4	12.1	7.0
Memorandum item: GDP at current market prices (in billions of taka)	198	233	265	293	337

Sources: Data provided by the Bangladesh authorities; and staff estimates.

1/ Includes power, gas, and mining.
2/ Based on the consumer price index for middle-income families in Dhaka City (1973/74 = 100).

Table 8. Bangladesh: Medium-Term Balance of Payments and External Debt Outlook, 1982/83-1988/89

(In millions of U.S. dollars, unless otherwise indicated)

	1982/83	1983/84 Est.	1984/85	1985/86	1986/87	1987/88	1988/89
			Staff Projections				
External resources							
Availability	2,701	2,782	2,886	3,020	3,072	3,147	3,238
Exports of goods 1/	680	785	859	914	975	1,042	1,115
Private transfers	633	633	650	650	650	650	650
Capital account (net) 2/	1,388	1,364	1,377	1,456	1,447	1,455	1,473
Of which: external aid	(1,413)	(1,452)	(1,540)	(1.626)	(1,630)	(1,672)	(1,713)
Uses	2,359	2,587	2,711	2,874	3,114	3,449	3,843
Imports 3/	2,246	2,495	2,635	2,795	3,026	3,331	3,675
Services (net) 4/	113	92	76	79	88	118	168
Monetary movements (- increase) 5/	-342	-195	-175	-146	42	302	605
Of which: IMF	(40)	(19)	(-66)	(-90)	(-122)	(-85)	(-26)
Financing gap 5/	--	--	--	--	--	370	688
Debt service payments							
Payments on existing debt	287	281	344	343	385	365	298
Interest 6/	128	124	107	106	100	94	86
Of which: IMF charges 7/	(38)	(38)	(36)	(28)	(20)	(14)	(9)
Amortization	159	157	237	237	285	271	212
Of which: IMF repurchases 7/	(53)	(29)	(66)	(90)	(122)	(85)	(26)
Payments on new borrowings 8/	--	--	33	71	78	98	110
Interest	--	--	25	49	58	67	77
Amortization	--	--	8	22	20	31	33
Total	287	281	377	414	463	463	408
Of which: IMF 7/	(91)	(67)	(102)	(118)	(142)	(99)	(35)
Total debt service as a percent of exports of goods and services							
Excluding remittances	31.5	26.3	32.2	32.9	35.0	33.7	28.9
Including remittances	18.6	16.5	20.7	21.7	23.5	22.9	19.8
IMF as a percent of total debt service	31.7	23.8	27.1	28.5	30.7	21.4	8.6
Memorandum items:							
Gross reserves (months of imports) 5/	1.9	2.8	3.1	3.2	2.3	2.0	2.0
Current account deficit as a percent of GDP	8.5	8.7	8.2	8.2	8.5	9.2	10.0
Debt outstanding (end of period)	4,951	5,629	6,154	6,653	7,107	7,588	8,139
Of which: IMF	(401)	(420)	(354)	(264)	(142)	(57)	(31)

Sources: Data provided by the Bangladesh authorities; and staff estimates.

1/ Export projections for 1984/85 are based on official volume projections and staff price projections. In 1985/86 and beyond export volume is projected to grow by about 3.5 percent annually and export prices by about 3.2 percent annually.
2/ Assumes no new short-term borrowings in 1984/85; a 4 percent nominal annual increase (no real growth) in project and commodity aid disbursements; food aid disbursements equal to projected food import requirements.
3/ Import estimates are based on projected foodgrain needs, aid-related capital imports and the estimated statistical relationship between other imports and nonagricultural real GDP growth.
4/ Includes projected interest payments on projected new borrowings.
5/ Assumes maintenance of gross reserves at two months' imports in 1987/88 and 1988/89.
6/ Includes interest on short-term debt.
7/ Excludes Trust Fund.
8/ With the exception of a projected US$31 million in food credits in 1984/85, all projected borrowings are assumed to be concessional with an average interest rate of 1.6 percent.

Bangladesh: Basic Data 1/

Area	: 143,998 square kilometers
Population (January 1983)	: 95.9 million
Population growth rate	: 2.5 percent per annum
Gross national product (1982/83)	: Tk 306 billion (US$12.9 billion)
Per capita GDP (1982/83)	: US$139.4

	1979/80	1980/81	1981/82	1982/83	1983/84 Staff Est.
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
GDP at constant market prices	1.3	6.7	0.9	3.7	5.1
Implicit GDP deflator	13.0	10.3	12.7	7.0	9.5
Consumer prices 2/	18.5	12.6	16.3	9.9	9.5
External sector (in U.S. dollars)					
Exports, f.o.b.	21.8	-4.7	-11.6	8.6	15.5
Imports, c.i.f.	53.4	6.7	1.2	-10.3	11.1
Nonfood imports, c.i.f.	29.0	31.2	-0.2	-16.1	12.7
Non-oil imports, c.i.f.	45.2	2.6	-1.4	-6.2	15.3
Export volume	0.9	12.2	6.9	5.2	1.2
Import volume	30.1	-3.0	7.5	-5.1	12.3
Nonfood import volume	9.0	20.3	5.4	-12.0	13.0
Terms of trade	-10.7	-22.9	-12.0	9.3	15.3
Nominal effective exchange rate 2/	1.0	-7.4	-10.9	-10.0	...
Real effective exchange rate 2/3/	6.8	-5.4	-3.1	-4.7	...
Public sector					
Revenue	22.0	25.6	8.2	9.7	8.0
Total expenditure	45.5	8.0	7.1	25.9	7.7
Current expenditure	(13.5)	(19.3)	(13.9)	(29.7)	(12.9)
Annual Development Program	(28.0)	(15.1)	(13.1)	(11.2)	(10.7)
Money and credit					
Net domestic credit	40.5	42.2	17.6	9.7	23.5
Government	53.2	81.9	-8.2	-4.7	21.9
Other public sector	27.6	29.6	27.6	-2.3	14.8
Private sector	49.4	34.3	26.1	29.3	30.7
Money and quasi-money	21.0	26.7	4.7	29.8	28.6
Income velocity (GDP/M2)	6.4	6.1	5.9	5.7	4.8
Interest rate (end of period, one-year term deposit)	8.25	14.0	14.0	14.0	14.0
	(In millions of U.S. dollars, unless otherwise indicated)				
External sector					
Exports, f.o.b.	743	708	626	680	785
Imports, c.i.f.	-2,318	-2,474	-2,504	-2,246	-2,495
Private transfers	210	381	420	633	633
Current account deficit	-1,361	-1,374	-1,523	-1,046	-1,169
Aid disbursements	1,222	1,147	1,236	1,413	1,452
Overall balance	-101	-187	-297	342	195
Gross official reserves (end of period)	274	250	122	358	572
Gross official reserves (in months of imports)	1.4	1.2	0.6	1.9	2.8
External debt outstanding (including Fund credit) 4/	3,426	3,946	4,371	4,951	5,629
	(In percent of GDP, unless otherwise indicated)				
External sector					
Current account deficit	10.6	9.6	11.5	8.5	8.7
External public debt (including Fund credit, end of period)	26.8	27.7	33.1	40.1	41.7
Debt service 5/ as a percent of					
Exports of goods and services	25.0	27.4	25.1	31.5	26.3
Exports of goods and services and private transfers	20.6	19.7	16.9	18.6	16.5
Public sector					
Expenditure	20.5	18.8	17.7	20.1	18.9
Revenue	8.7	9.3	8.8	8.7	8.2
Overall deficit	11.8	9.5	8.9	11.4	10.6
Excluding food stocking	(10.7)	(8.5)	(9.9)	(11.3)	(10.2)
Domestic bank financing	1.4	2.9	0.1	-0.4	0.8
Foreign financing	9.4	6.7	7.6	9.6	8.9

Sources: Data provided by the Bangladesh authorities; and staff estimates.
1/ Fiscal year ending June.
2/ Annual averages.
3/ Inflation rate in Bangladesh is based on overall CPI for middle-income families in Dhaka City (1973/74 = 100).
4/ Excludes short-term debt.
5/ Includes interest payments on short-term debt.

Bangladesh - Fund Relations

(As of end-May 1984)

(Amounts in millions of SDRs, unless otherwise indicated)

I. Membership status

(a)	Date of Membership:	August 17, 1972
(b)	Status:	Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a)	Quota:	287.5
(b)	Total Fund holdings of taka:	674.0
	(As percent of quota)	(234.4)
(c)	Fund credit:	408.8
	(As percent of quota):	(142.2)
	Of which: credit tranches 1/	320.0
	(As percent of quota)	(111.3)
	CFF	88.8
	(As percent of quota)	(30.9)
(d)	*Reserve tranche position:*	22.4
(e)	Current operational budget:	--
(f)	Lending to the Fund:	--

III. Stand-By and Extended Arrangements

(a) There is no current arrangement.
(b) Previous stand-by and extended arrangements:

Type of Arrangement	Date of Approval	Duration	Amount	Utilizaton
SBA	06/14/74	1 year	31.25	31.25
SBA	07/28/75	1 year	62.50	62.50
SBA	07/30/79	1 year	85.00	85.00
EFF	12/08/80	3 years 2/	800.00	220.00
SBA	03/28/83	5 months	68.40	68.40

1/ Ordinary and borrowed resources.
2/ Arrangement became inoperative in June 1981 and was cancelled in June 1982.

(c) Special facilities

Type	Date of Approval	Amount
CFF	02/17/82	60.00
CFF	08/30/82	71.20

IV. SDR department

(a) Net cumulative allocation:	47.1
(b) Holdings:	0.2
(As percent of net cumulative allocations)	(0.4)

V. Administered accounts

(a) Trust Fund loans	
(i) Disbursed	122.2
(ii) Outstanding	113.5
(b) SFF Subsidy Account	
(i) Donations to Fund	--
(ii) Loans to Fund	--
(iii) Payments by Fund	8.3

B. Nonfinancial Relations

VI. Exchange rate arrangement:

On August 13, 1979 the taka was pegged, within margins, to a currency-weighted basket. The exchange rate of the taka in terms of the pound sterling, which had been the intervention currency from 1972 to January 10, 1982, was changed from Tk 38.422 to Tk 39 per pound sterling on August 24, 1982. On January 11, 1983, the taka was pegged to a trade-weighted basket, the intervention currency was changed to the U.S. dollar, and initial buying and selling rates of Tk 24.48 and Tk 24.52 per U.S. dollar, respectively, were announced. The authorities also maintain a secondary exchange market in which workers' remittances and part of the proceeds from nontraditional exports are auctioned off. At the end of April 1984, the exchange rate was Tk 25.2 per U.S. dollar in the official market and Tk 28.3 per U.S. dollar in the secondary market.

VII. Last Article IV Consultation:

The last Article IV consultation report (EBS/83/121) was discussed by the Executive Board on July 13, 1983 (EBM/83/102). The following decision (Decision No. 7466-(83/102)) was adopted:

1. The Fund takes this decision relating to Bangladesh's exchange measures subject to Article VIII, Sections 2 and 3, and in

concluding the 1983 Article XIV consultation with Bangladesh in the light of the 1983 Article IV consultation with Bangladesh conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that Bangladesh maintains certain restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/83/147. The Fund welcomes the reduction in the advance import deposit requirements implemented in 1982/83 and encourages Bangladesh to eliminate these requirements, to channel more imports through the secondary exchange market, and to terminate the bilateral payments arrangements with Fund members.

VIII. Consultation cycle:

A consultation cycle of 12 months was indicated in the Summing Up of the 1983 Article IV consultation.

IX. Technical assistance

(a) CBD: None
(b) Fiscal: None
(c) Other:
(i) Mr. M. Wasfy (STAT) visited Bangladesh in January-February 1984 to establish a common data base and methodology for ASD and STAT in respect of fiscal statistics.
(ii) Mr. Edward W. Saunders (STAT) visited Bangladesh in July/August 1983 to reconcile monetary statistics prepared by the Research Department of Bangladesh Bank (used by ASD) with those prepared by the Statistics Department of Bangladesh Bank (published in IFS).

X. Resident representative

The Resident Representative's office was established in Dhaka in 1972. The current Resident Representative, Mr. Viktor R. Sertic, was appointed in October 1982.

IBRD Relations with Bangladesh

IBRD/IDA lending operations: 1/

	Disbursed	Undisbursed
	(In millions of U.S. dollars)	
Completed projects and imports program credits	979.08	--
IBRD	54.90	--
IDA	924.18	--
Projects in execution (all IDA)	492.26	1,019.01
Agriculture and rural development	135.21	327.66
Industry	140.85	192.15
Education	29.87	75.03
Population	8.86	23.14
Transportation	20.01	25.99
Telecommunication	19.79	35.21
Technical assistance	10.72	57.28
Power and gas	85.67	210.83
Water supply and sewerage	41.28	71.72
Import program credits	170.99	39.01
Total	663.25	1,058.02

Repayments:	2.76 million
Total debt outstanding: 2/	2,642.69 million
IFS investment:	2.61 million

Import Program Credit: The eleventh import program credit for an amount of US$110 million was approved on December 10, 1982 and became effective on March 4, 1983. A twelfth import program credit was approved on May 8, 1984 but is not yet effective.

Technical assistance: Technical assistance has been provided to Bangladesh by the IDA in connection with its lending operations and mission work. Bangladesh authorities have been working with the Bank Group on development strategy, and IDA assistance in recent years has been concentrated on development projects in agriculture, industry, and energy.

Source: IBRD.
1/ As of March 31, 1984.
2/ Includes undisbursed amounts.

Aid consortium: The aid consortium was established in October 1974, and meets annually under the Chairmanship of the World Bank. The most recent meeting took place in April 1984 in Paris.

Bangladesh - Statistical Issues

1. Coverage, Currentness, and Reporting of Data in IFS

		Latest Data in June 1984 issue of IFS
Real Sector	- National Accounts	1982/83
	- Prices	Jan. 1984
	- Production	Dec. 1983
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Central Bank	Dec. 1983
	- Deposit Money Banks	Dec. 1983
	- Other Financial Institutions	n.a.
External Sector	- Merchandise Trade: Values	Dec. 1983
	- Merchandise Trade: Prices	n.a.
	- Balance of Payments	Q3-1983
	- International Reserves	
	- Including Gold	Dec. 1983
	- Excluding Gold	Apr. 1984
	- Exchange Rates	Apr. 1984

The reporting record of the IFS correspondent on all statistics except for government finance statistics has been satisfactory during the past year.

2. Outstanding Statistical Issues

Real Sector: The reporting of the expenditure components of national income accounts needs to be improved. At present, only data on gross domestic product are published in IFS.

Government Finance: No data on government finance are currently published in IFS. Annual data are published in the Government Finance Statistics (GFS) Yearbook, but the latest published data refer to 1977/78; the Government reports data published in the GFS Yearbook only after the budgetary account is finally closed. The currentness of the data needs to be improved substantially.

Monetary Accounts: The reporting lag, which is currently two months, could be shortened. The coverage of data needs to be expanded to cover Other Financial Institutions.

External Accounts: While the balance of payments data published in IFS are reasonably current, no data have been reported so far by Bangladesh on stocks of foreign assets and liabilities. Data on overall indices of unit prices of exports and imports need to be included in IFS. Currently, only unit prices of selected exports and imports are available in official publications.

3. Technical Assistance in Statistics

(a) A mission visited Dhaka during July 20-August 11, 1983 to review the coverage and quality of monetary statistics. The mission recommended changes in compilation procedures to increase the reliability and timeliness of statistics.

(b) A mission visited Dhaka during January 23-February 2, 1984 to establish a common data base and methodology in respect of government finance statistics. During the mission a three-day seminar was given to 35 officials from different units of the Government to explain the concepts and definitions used in the GFS Yearbook.