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March 9, 1983

To: Members of the Executive Board
From: The Acting Secretary
Subject: Bangladesh - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a request from Bangladesh for a stand-by arrangement equivalent to SDR 68.4 million. A draft decision appears on page 27.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

BANGLADESH

Request for Stand-By Arrangement

Prepared by the Asian and the Exchange
and Trade Relations Departments

(In consultation with the Fiscal, the Legal,
and the Treasurer's Departments)

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

March 8, 1983

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I. Introduction

In the attached letter dated March 9, 1983, the Minister of Finance of Bangladesh requests a stand-by arrangement with the Fund for the period through August 1983 in an amount of SDR 68.4 million, equivalent to 30 per cent of quota. The proposed arrangement is for a shorter period than usual because it is in support of the economic program for the last six months of fiscal year 1982/83 which ends in June 1983.^{1/} The size of the arrangement also reflects the fact that the program is a phase in a sustained adjustment effort. It is expected that discussions on a subsequent arrangement covering 1983/84 will be started in April 1983, when the preparation of the budget for the next fiscal year will be well under way.^{2/}

Table 1 summarizes recent use of Fund resources by Bangladesh. Bangladesh received an extended arrangement from the Fund for SDR 800 million (351 per cent of quota) on December 8, 1980. The arrangement, which became inoperative during its first year, was canceled in June 1982 as it became evident that its original targets could not be achieved.^{3/} Purchases amounted to SDR 220 million under the extended arrangement. Recently, Bangladesh also made net purchases totaling SDR 108.1 million (47.4 per cent of quota) under the compensatory financing facility. Fund holdings of taka as of end-December 1982 were 260.7 per cent of quota; excluding outstanding purchases under the oil facility (0.8 per cent of quota) and the compensatory financing facility (47.4 per cent of quota), they stood at 212.5 per cent of quota. Assuming that the requested stand-by arrangement is approved and that the full amount of the arrangement is purchased, Fund holdings of taka would increase to 281.5 per cent of quota; excluding holdings under the special facilities, they would increase to 242.5 per cent of quota. During the period of the proposed stand-by arrangement, Bangladesh has repurchase commitments totaling SDR 21.1 million, including a repurchase of SDR 19.3 million due on account of an overcompensation with respect to the August 1982 compensatory facility purchase.

Purchases under the proposed arrangement are phased in three equal amounts of SDR 22.8 million. The first purchase would become available upon approval of the arrangement by the Executive Board; the second purchase would become available after April 30, 1983 and is contingent upon meeting the performance criteria for end-March 1983; and the last purchase would become available after July 31, 1983 and is contingent upon meeting the performance criteria for end-June 1983.

^{1/} Discussions on the arrangement commenced in Dhaka in May-June 1982, were continued in Toronto at the Annual Meetings and in Washington in September, and were concluded in Dhaka in December. The following staff members participated in one or both of the missions to Dhaka: Messrs. G. Szapary (Head), R. Baban, R. Hides (all ASD); C. Boonekamp (ETR); C. Sisson (FAD); S. Ishii (EP); S. Suriyaarachchi (IBRD); and Ms. B. Tveitan (ADM) and Ms. M. Allen (ASD). Participating resident staff in Bangladesh were Messrs. C. Browne and V. Sertic.

^{2/} These discussions will take place at the time of the mid-term review under the proposed stand-by arrangement and are expected to be continued in mid-1983 when the Article IV consultation discussions are scheduled.

^{3/} Performance under the extended arrangement was reviewed in the Staff Report for the 1981 Article IV consultation (SM/21/41, 2/23/82).

Table 1. Bangladesh: Use of Fund Resources, 1980/81-1983/84 1/

	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83 2/</u>	<u>1983/84 2/</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83 2/</u>	<u>1983/84 2/</u>
	(In millions of SDRs)				(In per cent of quota)			
Purchases	<u>220.00</u>	<u>60.00</u>	<u>116.80</u>	<u>22.80</u>	<u>96.5</u>	<u>26.3</u>	<u>51.2</u>	<u>10.0</u>
Credit tranches, regular	--	--	<u>45.60</u>	<u>22.80</u>	--	--	<u>20.0</u>	<u>10.0</u>
Extended facility	220.00	--	--	--	96.5	--	--	--
Compensatory financing facility	--	60.00	71.20	--	--	26.3	31.2	--
Repurchases	<u>57.34</u>	<u>16.47</u>	<u>49.30</u>	<u>26.64</u>	<u>25.2</u>	<u>7.2</u>	<u>21.6</u>	<u>11.7</u>
Credit tranches, regular	<u>0.75</u>	--	--	<u>19.51</u>	<u>0.3</u>	--	--	<u>8.6</u>
Extended facility	--	--	--	7.13	--	--	--	3.1
Compensatory financing facility	22.99	--	42.40 <u>3/</u>	--	10.1	--	18.6 <u>3/</u>	--
Oil facility	33.60	16.47	6.90	--	14.8	7.2	3.0	--
Net purchases	<u>162.66</u>	<u>43.53</u>	<u>67.50</u>	<u>-3.84</u>	<u>71.3</u>	<u>19.1</u>	<u>29.6</u>	<u>-1.7</u>
Outstanding balance <u>4/</u>	<u>287.49</u>	<u>331.02</u>	<u>398.52</u>	<u>394.68</u>	<u>126.1</u>	<u>145.2</u>	<u>174.8</u>	<u>173.1</u>
(Excluding compensatory and oil facilities)	(264.12)	(264.12)	(309.72)	(305.88)	(115.8)	(115.8)	(135.8)	(134.1)
Fund holdings of currency <u>4/</u>	<u>515.60</u>	<u>551.50</u>	<u>619.00</u>	<u>615.16</u>	<u>226.1</u>	<u>241.9</u>	<u>271.5</u>	<u>269.8</u>
(Excluding compensatory and oil facilities)	(492.13)	(484.60)	(530.02)	(526.18)	(215.8)	(212.5)	(232.5)	(230.8)

Source: International Monetary Fund.

1/ Years ending in June.2/ Projection.3/ Includes a repurchase of SDR 19.3 million due for overcompensation with respect to a CF purchase made in August 1982.4/ End of period.

II. The Setting

The economy of Bangladesh is structurally weak, dependent as it is on a narrow export base and the vagaries of weather; with a population of approximately 90 million and a density of 625 persons per square kilometer, Bangladesh is the most densely populated country in the world after the city states of Hong Kong and Singapore, while its per capita income, at about US\$120, is one of the lowest in the world. Since virtually all arable land is already under cultivation, progress in agricultural output requires the use of increased inputs, many of which need to be imported, as well as the expansion of irrigation, drainage, and flood control facilities which requires substantial investment. Although there is scope and a pressing need for substantially increasing the mobilization of domestic resources, the possibility for a large increase in the short run is limited because of the low per capita income and the fact that a large segment of the population lives at the threshold of subsistence.

While there has been some modest progress in non-jute exports (tea, leather goods, and frozen fish and shrimp), raw jute and jute goods continue to account for over 60 per cent of Bangladesh's total export earnings. Despite Bangladesh's importance in the world trade in jute (its market shares are 65 per cent and 42 per cent in world exports of raw jute and jute goods, respectively), the performance of its jute exports depends largely on world demand, which has been affected by the availability of synthetic substitutes. The slow growth of such demand over the past decade, combined with insufficient progress in export diversification, is the main reason for the modest growth of less than 3 per cent per year on average in the volume of Bangladesh's exports since 1972/73. As a result, the country has become increasingly dependent on external aid to ensure a minimum growth in per capita income for its fast-growing population (2.6 per cent per annum). Although workers' remittances have become a growing source of foreign exchange earnings, the current account deficit of the balance of payments rose steadily from an average of 6 per cent of GDP in 1972/73-1973/74 to an average of over 13 per cent in 1980/81-1981/82. Virtually all of the cumulative current account deficits during these periods were financed by inflows of external aid (Chart 1), with such aid financing on average about three quarters of total investment; in 1981/82, foreign aid represented almost 12 per cent of GDP.^{1/} Because of the large inflows of external assistance, until recent years foreign borrowing on commercial terms could be avoided and the loss of reserves could be minimized.

With the help of increasing aid, Bangladesh was able to maintain an average rate of growth of about 6 per cent per year in real GDP in the decade through 1981/82, an outcome that was in part attributable to a

^{1/} External aid comprises grants and loans extended on concessional terms. Grants account for about half of total aid.

recovery from the low production levels immediately following independence in 1972.^{1/} Industry and services were the fastest growing sectors, but agricultural output, which still represents about half of GDP, also recorded important gains. Significant improvements have taken place in foodgrain production, achieved mainly through higher productivity as a result of expanded use of irrigation equipment, fertilizers, and high-yielding variety of seeds. Despite these input-based improvements, foodgrain production remains highly dependent on weather, and self-sufficiency in foodgrain is still several years away.

III. Recent Developments

Given the narrow export base and high dependence on external aid and weather, the economy of Bangladesh is extremely vulnerable to exogenous shocks. This has become starkly evident over the past two years, when a sharp deterioration in the terms of trade was combined with a slowdown in aid inflows and, in 1981/82, a bad crop as well. Owing mainly to a fall in world jute prices and the increase in oil prices, the external terms of trade facing Bangladesh declined by about 40 per cent during 1980/81-1981/82, representing a net loss of resources equivalent to about 4 per cent of GDP per annum during those two years. Over the same period, the value of foreign aid stagnated, implying a decline in real terms. In addition, foodgrain production fell in 1981/82 due to drought, necessitating substantial imports on commercial terms.

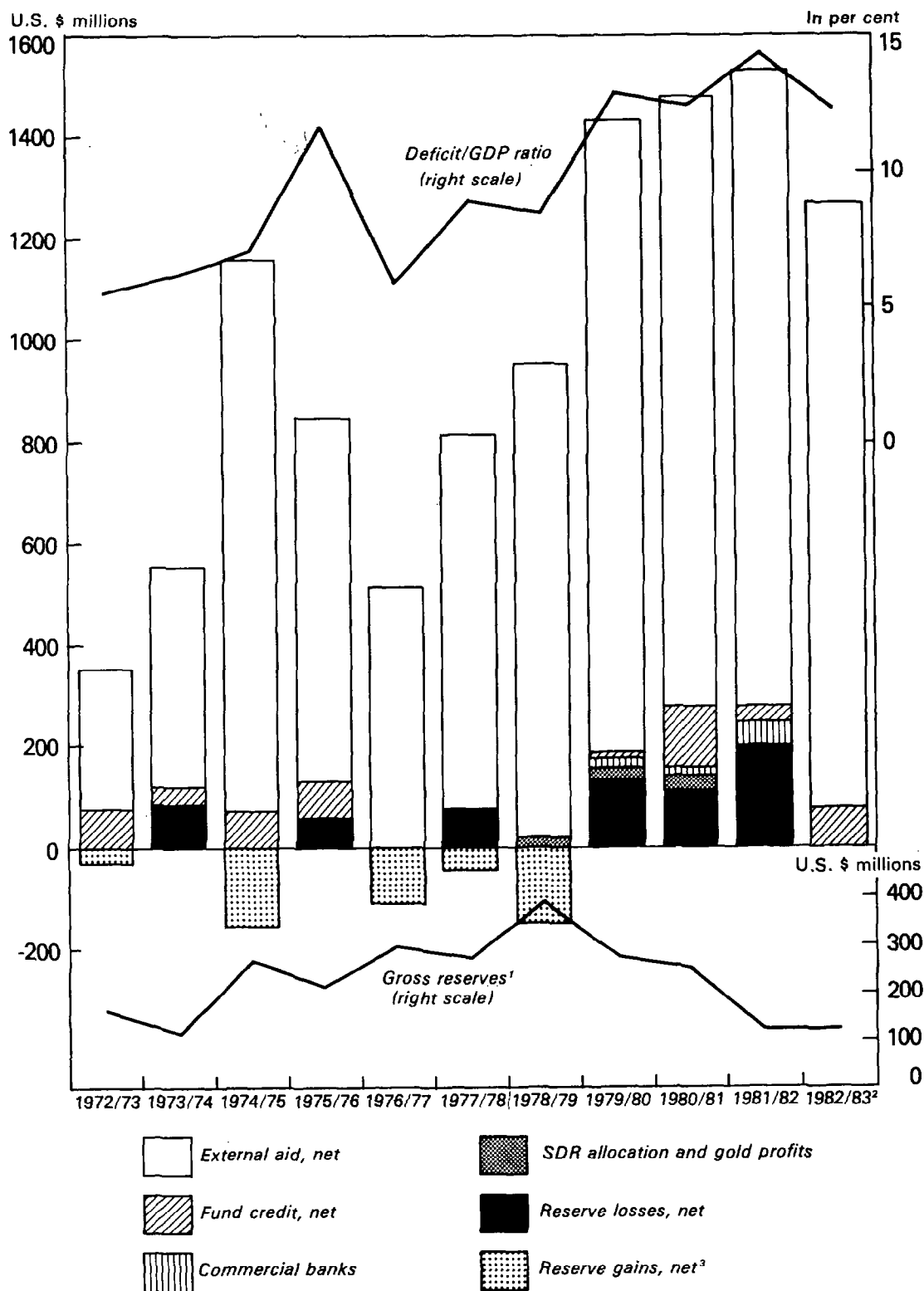
The initial reaction of the authorities to these developments was to restrict imports, which, together with the crop failure and expansionary policies, resulted in an acceleration of inflation. Starting in August 1981, the authorities adopted restrictive financial policies, leading to a pronounced decline in monetary expansion. Despite these measures, the current account and overall deficits of the balance of payments widened, financing of which required recourse to considerable commercial short-term borrowing and drawing down of reserves (Table 2).

1. Growth situation

Following an increase of almost 6 per cent in real GDP in 1980/81, when growth benefited from a bumper crop and buoyant industrial activity, aggregate output growth fell to less than 1 per cent in 1981/82, reflecting the impact of bad weather and the external resource constraint (Table 3). Drought affected the main winter rice and wheat crops, and foodgrain production fell by 3 per cent (Appendix Table I). In order to avoid a shortage of supplies, the Government sought and obtained emergency food aid and also arranged for commercial food imports. Nevertheless, official foodgrain stocks were drawn down from a level equivalent to nearly six months of peak ration system offtake at the end of 1980/81 to

^{1/} During the period 1976/77-1981/82, the average rate of growth was 4 per cent.

CHART 1 BANGLADESH CURRENT ACCOUNT DEFICIT AND ITS FINANCING



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

¹At end of fiscal year.

²Projection.

³Includes net repayments to commercial banks and the Fund.

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Table 2. Bangladesh: Selected Economic and Financial Indicators, 1980/81-1982/83

	1980/81	1981/82 Preliminary Actual	1982/83 Program Targets
(Annual per cent changes, unless otherwise specified)			
National income and prices			
GDP at constant market prices	5.9	0.9	3.0
Consumer prices (annual average)	12.6	16.3	12.0
External sector			
Exports, f.o.b.	-2.3	-11.3	9.4
Imports, c.i.f.	8.6	-3.6	-6.5
Non-oil imports, c.i.f.	5.7	-7.5	-4.5
Export volume	13.5	6.2	2.1
Import volume	-3.4	-5.2	-7.9
Terms of trade (deterioration -)	-23.4	-17.9	5.6
Effective exchange rate (depreciation -)			
Nominal (annual average)	-7.1	-13.3	-13.0
Real (annual average)	-6.4	-6.0	-7.0
Government budget			
Total revenue	25.6	8.3	6.4
Total expenditure	14.0	3.6	13.6
Money and credit (annual averages)			
Domestic credit	39.2	28.6	17.4
Public sector	(45.5)	(28.6)	(15.4)
Private sector	(29.3)	(28.3)	(20.8)
Money and quasi-money	22.7	18.6	11.1
Velocity (GDP/M ₂)	5.2	4.8	5.0
(In per cent of GDP, unless otherwise specified)			
Underlying government budget deficit (excluding foodstocks)	10.3	11.6	11.2
Overall government budget deficit	11.4	10.3	10.9
Domestic bank financing	(2.6)	(0.1)	(-0.6)
Foreign financing	(8.3)	(9.8)	(11.2)
Balance of payments			
Current account deficit	12.4	14.4	12.3
(Including grants)	(7.4)	(8.2)	(5.5)
Overall balance (US\$ million)	-247	-278	-70
Gross official reserves (weeks of imports)	5.0	2.3	2.5
External debt (includes Fund credit, US\$ billion, end of period)	3.9	4.4	5.0
Debt service ratio (in per cent of exports of goods and services)	23.1	18.5	28.9 ^{1/}
Debt service ratio (in per cent of exports of goods and services, plus workers' remittances)	16.5	12.7	19.0 ^{1/}

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

^{1/} Includes a repurchase of US\$21 million due on account of a CF over-compensation.

less than three months at the end of 1981/82 (Appendix Table II), a level which is regarded as being below the minimum needed to operate efficiently the government foodgrain distribution system.

Table 3. Bangladesh: Output and Prices, 1978/79-1982/83

(Annual percentage change)

	1978/79	1979/80	1980/81	1981/82 Prov.	1982/83 Proj.
Real GDP at market prices	4.4	3.7	5.9	0.9	3.0
Agriculture	-0.4	0.1	5.5	-1.9	3.5
Industry	6.0	0.2	7.7	0.4	-3.0
Construction	9.1	6.4	3.2	2.9	1.0
Services	11.5	9.5	6.4	4.6	5.0
Consumer prices (average) ^{1/}	8.2	18.5	12.6	16.3	12.0
Food	6.8	20.9	9.1	17.8	10.0
Non-food	10.5	14.6	18.2	14.4	15.4
<u>Memorandum item:</u>					
GDP at current market prices (in billions of taka)	145	172	195	214	247

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

^{1/} Based on the 1973-74 consumer price index for middle-income families in Dhaka.

Drought also affected raw jute production which dropped by 6 per cent. Although the production of other major crops (sugar, tea, tobacco) increased, this was not sufficient to offset the decline in the production of foodgrains and raw jute, and value-added in agriculture fell by about 2 per cent in 1981/82. The reduction in agricultural incomes, combined with restrictive financial policies and the reduced availability of imports, sharply curtailed activity in the nonagricultural sectors. Manufacturing activity was particularly affected in the cotton textile and iron and steel industries, which recorded declines in production (Appendix Table III). As a result, value-added in industry virtually stagnated in 1981/82; activity in the construction and services sectors also slowed.

2. Budgetary developments and public enterprises

Budgetary developments in Bangladesh are heavily influenced by the availability of imports and the food situation. Import duties and sales taxes on imported goods constitute about 60 per cent of government tax revenue. The food situation bears upon the budget through the official food procurement and distribution system, under which the Government purchases foodgrains from farmers at a floor price set at incentive levels and distributes foodgrains through a ration system at subsidized prices; the Government also occasionally sells foodgrains on the free market to stabilize market prices. When the harvest is good, domestic procurement is increased while demand for food supplies from the official market is reduced, leading to an increase in stocks and a consequent demand on net budgetary resources. When the harvest is poor, the opposite occurs, generating, in conjunction with the usual sale of food aid, a cash surplus on the Government's food operations. With implicit outlays for food transactions representing an average of 6 per cent of GDP over the past three years, swings in food account operations have important financial implications for the budget.

In 1981/82, the Government did not introduce significant new tax measures to strengthen the domestic resource mobilization effort, while at the same time it committed itself to an excessive level of development spending based on unrealistic expectations of revenue and external aid inflows. Total revenue rose by only 8 per cent (Tk 1.8 billion) in 1981/82, compared with a budgeted increase of 26 per cent; the actual increase in revenue would have been even lower had it not been for the significant depreciation of the taka in the course of 1981/82, which raised the domestic prices of imports and, hence, import duty collections (Table 4 and Appendix Table IV). Although current expenditures were held in check (to an increase of 4 per cent, or Tk 0.5 billion) by various measures, including a ban on new civil service appointments, the Annual Development Program (ADP) rose by about 16 per cent (Tk 3.9 billion), notwithstanding a 15 per cent across-the-board cut in the local currency component of the ADP in the middle of the fiscal year that seriously disrupted project implementation, including aid-financed priority projects. Nevertheless, total outlays rose by only about 4 per cent (Tk 1.6 billion), because the Government realized a substantial cash surplus on its food operations due to the bad harvest and consequent decumulation of stocks (Appendix Table V). As a result, the overall fiscal deficit remained virtually unchanged from 1980/81 and net recourse by the Government to the domestic banking system was sharply reduced. However, the underlying revenue and expenditure balance deteriorated, and the fiscal deficit excluding the food stocking operations increased substantially.

The financial situation of the public enterprises sector also deteriorated considerably in 1981/82, following a modest improvement in the previous year. Public enterprises play a dominant role in the economy of Bangladesh, and the state of their finances has a major impact on the country's financial stability. The record of state enterprises has been poor, characterized by inflexible pricing policies, low-capacity utilization, shortages of imported inputs, and incentives to maintain output

Table 4. Bangladesh: Central Government Operations, 1979/80-1982/83

(In billions of taka)

	1979/80	1980/81	1981/82 Preliminary Actuals	1982/83 Program Estimates
Total revenue ^{1/}	17.2	21.6	23.4	24.9
Total expenditure	38.5	43.9	45.5	51.7
Current ^{2/}	10.9	13.0	13.5	18.1
Annual Development Program	20.6	23.7	27.6	29.0
Domestic sources	(12.8)	(15.7)	(17.6)	(16.4)
Foreign sources	(7.8)	(8.0)	(10.0)	(12.6)
Other capital outlays	2.0	1.5	1.4	2.4
Food account deficit	5.0	5.7	3.0	2.2
Of which: for stocks	(2.2)	(2.3)	(-2.7)	(-0.8)
Overall deficit	21.3	22.3	22.1	26.8
Overall deficit excluding food stocks	19.1	20.0	24.8	27.6
Net foreign financing	17.4	16.2	20.9	27.7
Project aid	7.8	8.0	10.0	12.6
Commodity aid	5.7	5.6	7.6	10.5
Food	4.4	3.2	4.0	5.6
Debt amortization	-0.5	-0.6	-0.7	-1.0
Net domestic financing	3.9	6.1	1.2	-0.9
Banking system	3.0	5.0	0.3	-1.5
Other	0.9	1.1	0.9	0.6
Memorandum items:	(In per cent)			
Deficit/GDP	12.4	11.4	10.3	10.9
(Excluding grants)	(7.8)	(6.5)	(5.3)	(6.2)
Deficit excluding food stocks/GDP	11.1	10.3	11.6	11.2
(Excluding grants)	(6.5)	(5.3)	(6.6)	(6.5)
Real growth rate of ADP	12.6	0.2	-1.5	-10.7
Grants (Tk bn.)	7.9	9.6	10.7	11.6

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

^{1/} Excludes railway revenue which is netted against expenditure.

^{2/} Includes railways on a net basis and excludes the subsidy on the food account which is netted out in consolidation with the food account.

and employment levels rather than to maximize economic return. Under these conditions, many firms have been unable not only to meet their obligations vis-a-vis the Government with respect to loans and equity participation, but also to generate enough earnings for capital expansion. As a consequence, they receive most of their investment funds from the government budget; loans and grants to and equity investment in state enterprises currently represent almost one third of budgetary outlays. During 1981/82, most major public enterprises incurred substantial operating deficits, due to the failure to adjust administered prices to reflect higher costs. The principal loss-making enterprises were the Bangladesh Petroleum Corporation, the electric power company, and firms in the transport, textile, iron and steel, and chemical sectors. The Bangladesh Jute Mills Corporation also incurred a large loss because of the decline in world jute prices. These losses were mainly financed by borrowing from the domestic banking system and, in the case of the Petroleum Corporation, by external commercial borrowings.

3. Monetary and price developments

Reflecting a rapid growth of credit to both the public and private sectors, there was a sharp acceleration in credit expansion during 1980/81, when domestic credit recorded an average growth of 39 per cent, compared with 23 per cent the previous year (Table 5). As this acceleration was associated with a substantial loss of net foreign assets, the growth of broad money, while remaining high (23 per cent), did not accelerate significantly. Starting in August 1981, the authorities undertook to restore financial discipline by the adoption of restrictive monetary measures. These measures included directives to banks to reduce their outstanding credit, a tightening of Bangladesh Bank refinancing, the introduction of higher margin requirements for opening letters of credit for imports on the secondary exchange market, and a 0.5 percentage point increase in bank lending rates. Aided by the reduction in net credit expansion to the Government and by a shift in borrowing by the Bangladesh Petroleum Corporation from the domestic banking system to external sources, the above measures led to a significant deceleration in the growth of monetary aggregates in 1981/82. The average credit expansion declined to 29 per cent, and the average growth of broad money was reduced to 19 per cent; on a point-to-point basis, the decline in the rate of growth of these aggregates was even more pronounced.

Price developments in Bangladesh are heavily influenced by fluctuations in the prices of foodgrains, which have a relatively large weight in the consumer price index. Thus, despite the decline in the rate of monetary expansion in 1981/82, the average increase in consumer prices accelerated to 16 per cent (from 13 per cent in 1980/81) as the rise in food prices doubled to 18 per cent owing to the bad crop (Table 3). The increase in nonfood prices declined, though the decline would have been smaller had administered prices been adjusted in line with cost increases.

Table 5. Bangladesh: Monetary Survey, 1980/81-1982/83

	1980		1981		1982		1983 Program	
	June	Dec.	June	Dec.	June	Nov. 1/	Mar.	June
(In billions of taka at end of period)								
Net foreign assets	-2.62	-5.08	-7.58	-10.26	-15.70	-14.99	-18.20	-19.10
Domestic credit	39.65	45.01	54.88	59.27	64.65	64.90	70.50 2/	74.40 2/
Public sector	25.38	28.74	35.86	38.10	41.54	40.62	42.80 2/	46.80 2/
Government	(10.21)	(11.30)	(15.55)	(15.79)	(15.91)	(13.98)	(14.10)	(14.40)
Other	(15.17)	(17.44)	(20.31)	(22.31)	(25.63)	(26.64)	(28.70)	(32.40)
Private sector	14.27	16.27	19.02	21.17	23.11	24.28	27.70	27.60
Broad money	34.31	37.49	43.72	47.47	47.19	47.86	50.00	52.80
Narrow money	17.40	18.36	22.22	22.87	21.56	22.01
Quasi-money	16.91	19.13	21.50	24.60	25.63	25.85
Other items, net	2.72	2.44	3.58	1.54	1.76	2.05	2.30	2.50
(Percentage changes)								
Year-on-year								
Domestic credit	35.7	34.4	38.4	31.7	17.8	14.1	18.3	15.1
Public sector	39.1	38.7	41.3	32.6	15.8	11.0	14.6	12.7
Government	(42.6)	(77.1)	(52.3)	(39.7)	(2.3)	(-9.5)	(-7.6)	(-9.5)
Other	(36.8)	(21.6)	(33.9)	(27.9)	(26.2)	(26.0)	(29.9)	(26.4)
Private sector	30.1	27.3	33.3	30.1	21.5	19.6	24.6	19.4
Broad money	18.3	18.4	27.4	26.6	7.9	9.0	12.3	11.9
Annual average								
Rate of increase of average level during fiscal year:								
Domestic credit	22.5		39.2		28.6			17.4
Broad money	22.0		22.7		18.6			11.1

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

1/ Provisional.

2/ Program ceilings.

4. Balance of payments situation

The balance of payments came under heavy pressure in 1981/82 (Table 6 and Appendix Table VI). Despite an increase in the volume of exports, export earnings fell by 11 per cent as a result of a decline in export prices (Appendix Table VII). The fall in prices was most important for jute goods (24 per cent), followed by raw jute (15 per cent), and tea (10 per cent). At the same time, the growth of workers' remittances came to a virtual halt, which appears to have been due mainly to a slowdown in the economic activity in host countries and temporary uncertainties associated with a change in government. With increased interest payments and lower foreign exchange earnings by the national airline, the services account swung to a deficit. As a result of the restrictive import licensing and the more stringent demand management, nonaid imports fell by 14 per cent and total imports by about 4 per cent (Appendix Table VIII).

The reduction in imports helped limit the increase in the current account deficit to about US\$50 million. However, since net capital inflows did not rise significantly, the overall balance of payments recorded a deficit of US\$278 million. Financing of this deficit required recourse to considerable net short-term commercial borrowing and a substantial drawdown of reserves to a level equivalent to approximately two weeks of imports.

5. Exchange rate

Since August 1979, Bangladesh has followed a flexible exchange rate policy, with the taka being pegged within margins to a basket of currencies. Since October 1980, only depreciations of the taka against the basket have been allowed within the margins. Following an initial one-step depreciation of almost 6 per cent in October 1980, the exchange rate of the taka against the pound sterling--until recently the intervention currency--has been changed on numerous occasions; since late July 1981, only depreciations of the taka/sterling rate have been effected, thereby accelerating the depreciation of the taka against the basket. This policy has led to a significant depreciation of the taka in both nominal and real terms (Chart 2).

A different effective exchange rate arises from the operation of a secondary exchange market in which workers' remittances and proceeds from nontraditional exports are auctioned off. Until December 1981, there was an important premium (fluctuating between 15 to 30 per cent during the preceding two years) in this market vis-a-vis the official exchange rate. However, in the course of 1981/82, the premium virtually disappeared. This seems to be due to several factors, including the depreciation of the official exchange rate, the restrictive credit policy for financing imports on the secondary market, and the generally sluggish demand due to the depressed economic activity.

Table 6. Bangladesh: Availability and Use of External Resources, 1979/80-1984/85

(In millions of U.S. dollars)

	1979/80	1980/81	1981/82	1982/83 Proj.	1983/84 Proj.	1984/85 Proj.
Availability	2,167	2,232	2,246	2,512	2,740	2,955
Exports, f.o.b.	725	708	628	687	750	815
Private transfers	210	377	382	480	540	600
Aid disbursements	1,232	1,147	1,236	1,345	1,450	1,540
Use	2,295	2,374	2,416	2,582	2,736	2,887
Imports	2,372	2,575	2,482	2,321	2,470	2,586
Aid financed	(1,296)	(1,206)	(1,303)	(1,418)	(1,528)	(1,623)
Nonaid financed	(1,076)	(1,369)	(1,179)	(903)	(942) ^{1/}	(963) ^{1/}
Services payments, net	-3	-11	60	110	136	155
Other capital, net	-74	-190	-126	151	130	146
Short-term debt	(-20)	(-15)	(-67)	(--)	(--)	(--)
Reserve movements (- increase)	119	21	139	-4	--	--
Net Fund credit	9	121	31	74 ^{2/}	-4 ^{3/}	-68 ^{4/}
<u>Memorandum items:</u>						
Overall deficit (+ surplus)	-159	-247	-278	-70	4	68
Current account deficit	-1,434	-1,479	-1,532	-1,264	-1,316	-1,326
Current account deficit to GDP ratio (in per cent)	12.9	12.4	14.4	12.3	11.3	10.0

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

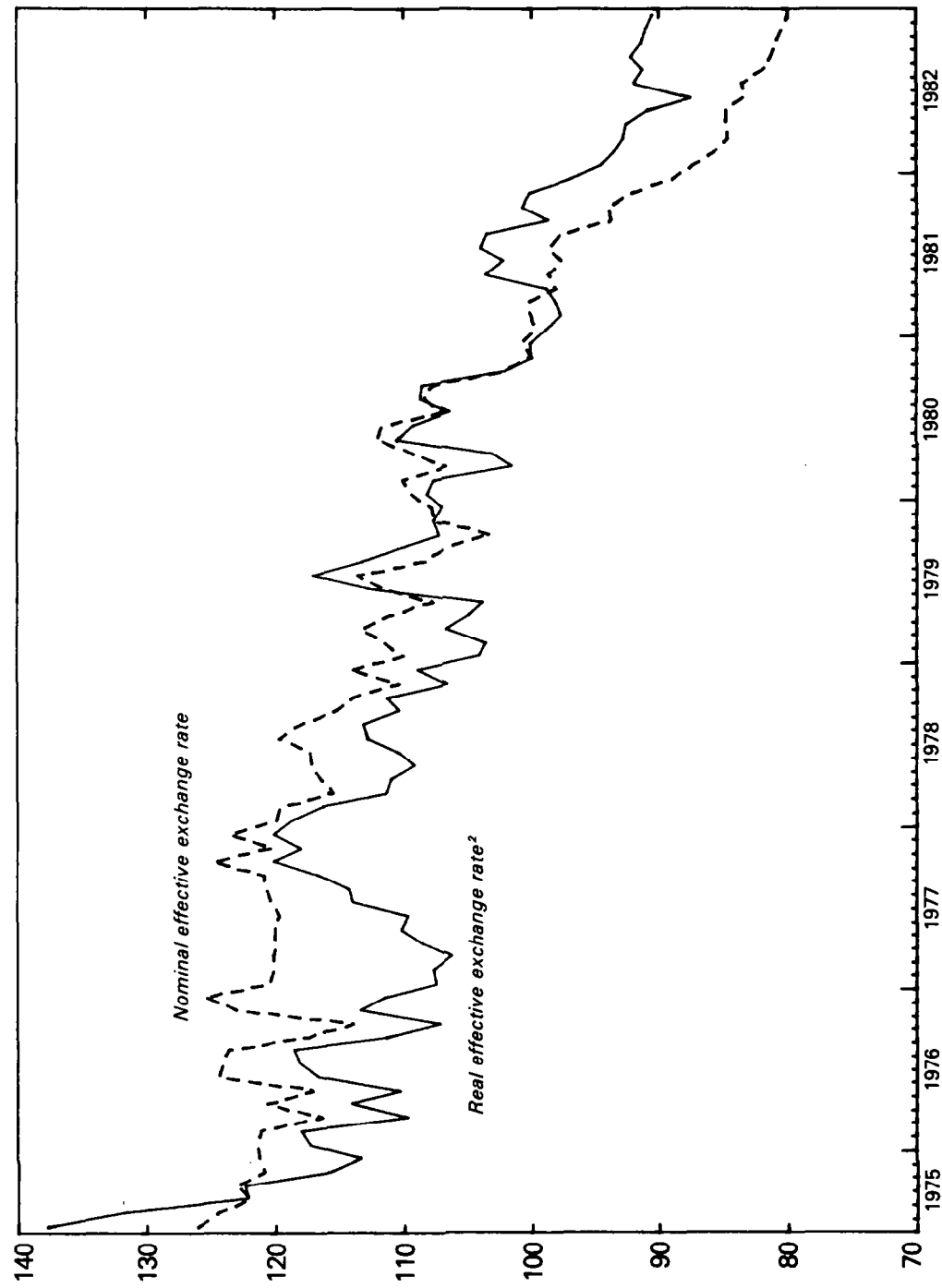
^{1/} Import projections have been constrained so as to prevent the emergence of a financing gap.

^{2/} Composed of a CF purchase of US\$78 million made in August 1982; purchases of US\$50 million under the proposed stand-by arrangement; scheduled repurchases of US\$33 million; and a repurchase of US\$21 million due on account of a CF over-compensation.

^{3/} Composed of a purchase of US\$25 million under the proposed stand-by arrangement and scheduled repurchases of US\$29 million.

^{4/} Composed of scheduled repurchases.

CHART 2
BANGLADESH
NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES¹



Sources: Data provided by the Bangladesh authorities and staff estimates.
¹Calculated using the official currency basket.
²Nominal effective exchange rate adjusted by relative CPI (Bangladesh: Overall CPI, 1973/74=100).

IV. Medium-Term Outlook

Given the economy's narrow resource base and the uncertain world economic environment, Bangladesh is faced with a stringent external resource constraint in the years ahead. Policies are being implemented to expand and diversify the export base, but progress in this area will necessarily take time, and Bangladesh's exports will remain heavily dependent on jute and jute goods for several years to come. Assuming a gradual recovery of the world economy and a modest but steady growth in the volume of exports, Bangladesh's export earnings are projected to rise by about 9 per cent per annum on average over the next three years (Table 6). Workers' remittances are projected to register a rapid growth in 1982/83 and to increase at an average annual rate of about 11 per cent in the following two years.

Counterbalancing these factors, however, is the increasing service burden on the external debt incurred in recent years (Table 7). At the end of 1982, Bangladesh's total external debt outstanding (including the IMF) amounted to US\$4.7 billion. Although approximately 90 per cent of the debt other than Fund credit represents concessional loans with maturities of over 12 years, the accumulation of commercial debt and the use of Fund resources over the past two years have led to a marked increase in debt service payments for the next several years. In relation to exports of goods and services, debt service payments averaged 22 per cent during 1979/80-1981/82, but in relation to exports plus workers' remittances, which is a more relevant scale factor for Bangladesh, debt service payments averaged 16 per cent during that period. These respective ratios are projected to increase to an average of about 30 per cent and 20 per cent during 1982/83-1986/87 before they begin to decline. Consequently, a large part of the projected growth in foreign exchange earnings during the next few years will be absorbed by the increase in debt service payments. The substantial borrowings from external commercial markets and the drawdown of reserves to a bare minimum have left recourse to these short-term sources of finance virtually exhausted. As a result, the resources available for imports will depend largely on the continued inflow of external aid. Assuming that current trends continue, external aid disbursements are projected to remain approximately unchanged in real terms during the next three years.

As indicated in Table 7, there will be a significant increase in total debt service payments during 1984/85-1986/87, which is in part the result of a hump in payments due to the Fund. Adjustment is the necessary condition for Bangladesh to be able to cope with its debt service obligations. On present staff projections, this will require that the current account deficit of the balance of payments be reduced from 14 per cent of GDP in 1981/82 to about 10 per cent by 1984/85 and 8 per cent by 1987/88, i.e., below the expected flow of aid so as to allow for a net repayment of debt. This means that the rate of growth of imports during the five years following 1982/83 will have to be limited to about 7 per cent per annum in nominal terms, which could support a rate of GDP growth of only about 2 to 3 per cent per annum (assuming normal weather).

Table 7. Bangladesh: External Debt Service, 1979/80-1987/88 1/

	1979/80	1980/81	1981/82	1982/83 <u>2/</u>	1983/84	1984/85	1985/86	1986/87	1987/88
Total debt service payments (US\$ mn.)	228.1	215.1	155.5	266.4	275.8	334.6	382.9	431.2	407.7
Of which:									
Medium- and long-term debt	108.0	85.1	91.4	160.2	195.1	220.2	250.8	274.4	303.1
Principal	(42.1)	(41.0)	(45.0)	(108.2)	(117.8)	(134.0)	(160.6)	(174.7)	(191.2)
Interest	(65.9)	(44.1)	(46.4)	(52.0)	(77.3)	(86.2)	(90.2)	(99.7)	(111.9)
IMF	119.2	125.6	47.7	91.2	67.7	101.4	119.1	143.8	91.6
Repurchases	(106.4)	(114.9)	(18.8)	(54.2)	(29.3)	(67.7)	(95.4)	(128.7)	(84.3)
Charges	(12.8)	(10.7)	(28.9)	(37.0)	(38.4)	(33.7)	(23.7)	(15.1)	(7.3)
Ratio of debt service to exports of goods and nonfactor services (per cent)	23.4	23.1	18.5	28.9	27.4	30.6	31.9	32.9	28.7
Ratio of debt service to exports of goods and nonfactor services plus workers' remittances (per cent)	19.2	16.5	12.7	19.0	17.9	19.7	20.6	21.2	18.6
External debt to GDP ratio (end of period; per cent)	31.0	32.5	41.5	49.2	48.6	46.4	43.9	41.3	38.4

Sources: Data provided by the Bangladesh authorities; IBRD; IMF Treasurer's Department; and staff estimates.

1/ Includes interest on short-term commercial debt and charges and repurchases with respect to purchases under the proposed stand-by arrangement, as well as the service on projected external aid inflow.

2/ Includes a repurchase of US\$21 million due on account of a CF overcompensation.

Achievement of a better growth performance will depend not only on the perseverance of the authorities in their efforts to diversify and expand production and exports, increase domestic resource mobilization, and improve the efficiency of investment, but also on whether a higher level of aid than presently projected can be obtained.

The authorities are aware that, in order to lay the basis for sustained economic growth with balance of payments viability, a longer-term adjustment effort is required. The economic program that has been adopted by the authorities for the fiscal year 1982/83 is essentially a phase in an adjustment effort that is expected to be pursued over a number of years. It is on the basis of this program that the proposed stand-by arrangement for the last six months of the fiscal year 1982/83 has been requested. This adjustment effort is also being supported by an IBRD program loan.

V. The Economic Program for 1982/83

1. Objectives and growth prospects

The main macroeconomic objective of the 1982/83 economic program is to make progress toward achieving a sustainable balance of payments with reasonable growth and price stability. Specifically, the program aims at reducing the external current account deficit by about 2 percentage points of GDP, and the average rate of inflation, from 16 per cent in 1981/82 to 12 per cent in 1982/83. Taking into account the impact on domestic prices of the depreciation of the taka and the venting of suppressed inflation through the increase in administered prices implemented recently, the price target for 1982/83 implies a halving to about 5 per cent of the underlying domestic rate of inflation. After a temporary acceleration in the rate of inflation during the first quarter of 1982/83 following the administered price adjustments, the rate of inflation declined to about 6 per cent during the 12-month period ended December 1982.

The rate of GDP growth compatible with the above balance of payments and price targets is estimated to be about 3 per cent, with a recovery in agricultural production being partly offset by a decline in industrial output and a virtual stagnation in the construction sector which will bear the brunt of adjustment to the external resource constraint.^{1/} Although the summer crop declined further and the main winter crop recovered only partially because drought again affected certain parts of the country in 1982, total foodgrain production is still expected to recover to its level of two years ago on the strength of current favorable ground moisture conditions for the spring crops. Reflecting the generally sluggish demand and the restrictive fiscal policy adopted for 1982/83, industrial production declined by almost

^{1/} The Bangladesh authorities believe that, because of the low capacity utilization in industry and comfortable stock levels of raw materials, a rate of growth of up to 5 per cent is attainable and would be compatible with the balance of payments and price targets. The staff feels that this estimate is based on a somewhat optimistic assessment of the stock situation and of the strength of the recovery in agriculture.

11 per cent during the first quarter of the fiscal year. While some pickup in industrial activity is expected in the months ahead, for the year as a whole, value-added in industry is projected to decline by about 3 per cent. Construction activity is also slowing down, but activity in the services sector is expected to increase slightly, spurred by the anticipated recovery in rural incomes.

2. Policies

The main policies designed to achieve the objectives of the program are: (i) measures to increase the mobilization of domestic resources in the public sector through tax increases, reductions in budgetary subsidies, and adjustments in the prices charged by public enterprises; (ii) a marked slowdown in development spending coupled with measures to improve the efficiency of project implementation; (iii) monetary restraint accompanied by continued depreciation of the taka; during 1982/83, the average exchange rate of the taka vis-a-vis the U.S. dollar is estimated to be 20 per cent more depreciated than during 1981/82 (the estimated nominal effective depreciation is 13 per cent); and (iv) interest rate and other exchange actions to boost exports and workers' remittances. These financial and exchange policies are being supplemented by real sector measures in agriculture and industry aimed, inter alia, at expanding the role of the private sector.

The program contains the following performance criteria: (i) a ceiling on total domestic credit with a subceiling on credit to the public sector; (ii) limits on the contracting of public and publicly guaranteed external loans with maturities of 1 to 12 years and 1 to 5 years; (iii) the customary clause regarding payments and trade restrictions; and (iv) a mid-term review of policies, including exchange rate, interest rate, and pricing policies; the mid-term review is to be completed before April 30, 1983. The quantitative performance criteria are presented in Table 8 and a summary of the financial program is presented in Table 9.

Table 8. Bangladesh: Quantitative Performance Criteria for 1982/83

	Actuals 1/ November 1982	Ceilings	
		March	June
(In billions of taka) 2/			
Domestic credit			
Total	64.90	70.50	74.40
Government and rest of public sector	40.62	42.80	46.80
(In millions of U.S. dollars) 3/			
Contracting of new public and publicly guaranteed external debt			
1 to 5 years	...	70	70
1 to 12 years	...	100	100

1/ Provisional.

2/ End of period.

3/ Cumulative increase during program period.

Table 9. Bangladesh: Summary of Financial Program, 1982/83

	1981/82 Actual	1982/83 Projections
Real GDP growth (per cent)	0.9	3.0
Food production (millions of tons)	14.36	14.8
Food imports (millions of tons)	1.23	1.6
Exports (US\$ million)	628	687
Of which: jute	393	422
Workers' remittances (US\$ million)	382	480
External aid (US\$ million)	1,236	1,345
Terms of trade change (per cent)	-17.9	5.6
Average exchange rate (Tk/US\$)	20.0	24.0
Velocity (GDP/M2)	4.8	5.0
Domestic inflation rate (CPI annual average; per cent)	16.3	12.0
Domestic liquidity growth (annual average; per cent)	18.6	11.1
Fiscal deficit excluding food stocks/GDP (per cent)	11.6	11.2
Domestic bank borrowing by the Government (as per cent of GDP)	0.1	-0.6
Current account deficit (US\$ million)	1,532	1,264
Current account deficit to GDP ratio (per cent)	14.4	12.3
Balance of payments deficit (US\$ million)	278	70

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

a. Agricultural policies

One of the principal objectives of the Government in the area of agricultural policy is to gradually move away from the provision of subsidized inputs and to rely on a policy of realistic input costing supported by incentive producer pricing. As a step in this direction, the subsidy on fertilizers was reduced by 23 per cent at the start of the 1982/83 fiscal year, with the objective of eliminating the subsidy altogether by 1985. In addition, subsidies on shallow and hand tubewells were eliminated, and those on low-lift pumps were reduced from 40 per cent to 25 per cent of cost; subsidies on deep tubewells were also reduced. Furthermore, rental rates on irrigation equipment were raised to encourage users to buy their own equipment so that the public rental program could be eventually phased out. To support the sale of equipment, credit to farmers is being expanded. In conjunction with these measures, the procurement price for rice was raised by about 11 per cent

and that for wheat by 9 per cent in November 1982, which is expected to significantly improve net farm returns. The Government will continue to adjust procurement prices with a view to providing adequate incentives to producers.

In order to improve the availability and expand the use of fertilizers and minor irrigation equipment, the Government has recently taken steps to reduce the role of the public sector and expand that of the private sector in the distribution of fertilizers and the manufacturing, marketing, and servicing of irrigation equipment. To achieve these objectives, the Government, in consultation with the World Bank and other donors, has scaled down the operations of the Bangladesh Agricultural Development Corporation by turning over a large portion of fertilizer and minor irrigation equipment sales to the private sector. Measures have also been taken to ensure that private and public agencies can compete under equal conditions.

b. Industrial and energy policies

The Government in June 1982 promulgated a new Industrial Policy which aims essentially at expanding the participation of the private sector and simplifying investment sanction procedures. A major element of the new policy is the decision to return to their former Bangladeshi owners approximately 50 jute and textile mills, representing over one third of total capacity,^{1/} which had been nationalized after independence. So far, more than 40 mills have been returned to their former owners, and the program, which has elicited a very favorable response from the private sector, is expected to be completed soon. The divestiture has been simplified by the decision to return the mills to the owners at prices equal to the compensation received by them at the time of nationalization. Since these amounts were low, the funds needed now to buy back the mills are relatively limited, although the owners have been asked to assume the liabilities of the firms. These payments will increase budgetary receipts, but their impact on the budget will be small. One source of financing has been private transfers from abroad which have increased rapidly since the start of the privatization program. It is expected that the divestiture program will significantly improve efficiency in the jute and textile sectors.

The Government has also expanded the list of industries open to private sector participation, especially in the petrochemical, fertilizer, and other natural gas-based industries. At the same time, a "one-stop" investors' center has been established to eliminate the need for investors to deal separately with different approval institutions. The licensing procedure for importing raw materials and machinery has been simplified, and a system of automatic registration of projects which do not require foreign exchange from the Government has been introduced.

^{1/} The other mills, which had belonged to non-Bangladeshi owners, will remain in the public sector.

Even though energy consumption per capita in Bangladesh is one of the lowest in the world, the cost of petroleum imports absorbs about three quarters of export earnings. Bangladesh is endowed with important natural gas reserves, the development of which could have a major influence on the balance of payments. Recently, the Government has introduced new incentives to attract exploration activities by foreign companies, while the Government itself is concentrating its efforts on increasing production of existing wells. In July 1982, the authorities raised the prices of natural gas by 13 per cent. Despite this adjustment, natural gas prices are still very low by world standards, and it is the Government's intention to gradually raise natural gas prices to more realistic levels. The prices of petroleum products and electricity were substantially raised in July 1982 (see subsection d below), and it is the Government's intention to pass on to final users any future cost increases as fully and as quickly as possible.

c. Fiscal policies

The 1982/83 budget has been framed with the objective of avoiding any domestic bank financing of the budget, except with respect to food-stocking operations, should such a financing need arise. In fact, the Government is expected to run another significant cash surplus (Tk 1.5 billion) on its food account in 1982/83, with ration market sales increasing and domestic food procurement falling as a result of the poor summer and winter crops. To prevent a further decline in food stocks, the Government obtained additional food aid and also arranged for commercial food imports on a deferred payment basis. In view of these deferred payment obligations and the need to build up food stocks to more normal levels next year, the authorities are restricting the use of the surplus in the food account for general budgetary operations.

Revenues in 1982/83 are estimated to increase by Tk 1.5 billion (6.4 per cent) and total outlays by Tk 6.2 billion (13.6 per cent). The overall deficit therefore is projected to rise by approximately Tk 5.0 billion, or 0.6 percentage point of GDP. However, this increase in the overall deficit reflects the impact of two factors: (1) a smaller cash surplus on the food account in 1982/83 than in the previous year as a result of an expected improvement in the spring crops; and (2) the depreciation of the taka which automatically increases in terms of local currency the foreign aid component of the budget (foreign aid finances more than half of total expenditures excluding the food account). Excluding the food stocking operations, the underlying fiscal deficit is projected to decline by 0.4 percentage point of GDP to 11.2 per cent. Adjusting for the impact of the depreciation, the underlying fiscal deficit declines by nearly 2 percentage points of GDP. The projected deficit for 1982/83 will be fully financed by foreign aid and domestic nonbank sources, and net credit to the Government from the domestic banking system is programmed to decline by Tk 1.5 billion (0.6 per cent of GDP), or the equivalent of the expected cash surplus in the food account.

The 1982/83 budget introduced several tax measures, including increases in the land tax, upward adjustments in selected customs duties and sales and excise taxes, the introduction of a new turnover tax, and a doubling to 2 per cent of the development surcharge on dutiable imports. These measures are estimated to generate additional revenue of about Tk 0.8 billion. The impact of these measures on revenue will be partially offset by a rationalization of the tariff structure and income tax reductions (through lower tax rates and higher exemptions) to mitigate the effect of inflation creep on real incomes. Therefore, the net effect of all the discretionary measures on revenue is estimated at Tk 0.5 billion, or 0.2 per cent of GDP. In addition, the depreciation of the taka is estimated to generate an increase in revenue equivalent to almost 1 per cent of GDP (Table 10). Nevertheless, the tax/GDP ratio is estimated to decline by almost 1 percentage point of GDP to approximately 8 per cent, due to the sluggish economy and the sharp loss in revenue resulting from a projected fall in the volume of imports imposed by the external resource constraint. The authorities recognize that the domestic resource mobilization effort is low in Bangladesh and that government revenue is heavily dependent on import-related duties and therefore vulnerable to factors affecting the availability of external resources. It is the objective of the authorities to continue efforts to expand and diversify the tax base. Toward this end, the Government will review potential additional domestic sources of revenue, with a view to generating new resources in the 1983/84 budget.

As part of the program to phase out subsidies, fertilizer prices were raised by an average of 14 per cent and the ration prices of rice and wheat by 11 per cent and 8 per cent, respectively, in July 1982. To prevent the unit subsidy on foodgrains from rising following the November 1982 increase in procurement prices, the ration prices were raised again in January 1983 by 10 per cent for rice and 8 per cent for wheat. These reductions in fertilizer and food subsidies represent budgetary savings equivalent to almost Tk 1 billion, or 0.4 per cent of GDP. Following only a slight increase in current expenditures in the previous year, such expenditures are estimated to increase by 34 per cent in 1982/83, but about one third of this increase is due to the impact of administered price adjustments and the depreciation of the taka, while about a fourth is attributable to a 10 to 30 per cent increase in public sector salaries granted in July 1982. This salary increase was the first cost-of-living adjustment awarded to public sector employees since 1977.

In light of last year's experience when there was a significant shortfall in revenue from budgeted levels necessitating costly mid-year cutbacks in development outlays, the 1982/83 level of the Annual Development Program (ADP) was initially set at Tk 27 billion, virtually the same as the level realized in 1981/82. At the same time, the authorities identified a core program of priority projects amounting to Tk 22 billion to be protected in case cutbacks became necessary because of a shortfall in revenue. The establishment of a core program has been fully supported by the IBRD. The core program consists mainly of quick-yielding projects

with a high aid-financed component. A new funding release program was also introduced to ensure that projects will be initiated only when funds are available. During the first four months of the fiscal year, the authorities restricted the level of spending to the core program. With a firmer revenue forecast and taking into account the tempo of aid disbursements, spending on the ADP has now been authorized at the budgeted Tk 27 billion level. Reflecting the impact of the taka depreciation on the local currency value of aid, the budgeted level of ADP is now equivalent to about Tk 29 billion in nominal terms. In real terms, this represents a reduction of about 11 per cent from the 1981/82 level.

Table 10. Bangladesh: Effect of Fiscal and Pricing Measures Taken in 1982/83

	In Billions of Taka	In Per Cent of GDP
Government budget	4.5	1.82
New tax measures (net)	0.5	0.20
Subsidy reductions	0.9	0.36
Fertilizer	(0.2)	(0.08)
Rationed food	(0.7)	(0.28)
Exchange rate depreciation effect (net)	3.1	1.26
Revenue	(2.0)	(0.81)
Expenditure	(-2.6)	(-1.05)
Counterpart funds	(3.7)	(1.50)
Public enterprises pricing	4.8	1.94
Petroleum	3.9	1.58
Electricity	0.7	0.28
Railways	0.1	0.04
Gas	0.1	0.04
Less: Wage increases	1.6	0.65
Government employee salary increases	1.2	0.49
Other public sector employee salary increases	0.4	0.16
Total	7.7	3.11

Source: Staff calculations.

d. Public enterprises sector

In order to improve the financial position of public enterprises, a series of important price adjustments were implemented in July 1982. These included average increases of 40 per cent in electricity prices, 38 per cent in petroleum prices, 30 per cent in bus fares, and 20 per cent in railway tariffs; the prices of newsprint and textiles were also increased. Over the past year, the authorities have also decontrolled the prices of many goods and granted the authority to most public enterprises to adjust selling prices by up to 10 per cent. As a consequence, many public enterprises have raised their prices from time to time to reflect increases in costs.

Recently, the prices of petroleum products, other than high-speed diesel, light diesel, super kerosene, jet fuel, and furnace oil, were again raised by an average of about 18 per cent. These increases were designed to prevent the emergence of a deficit in the Petroleum Corporation's current operations as a result of the continued depreciation of the taka. The freight rates of inland water transportation were also raised by 6 per cent. It was not necessary to raise electricity prices again because of the coming into operation of the East-West interconnector, which allows the substitution of cheaper gas-generated electricity in the east for oil-generated electricity in the west. The Government also established a special high-level committee to recommend, before the end of the fiscal year, longer-term measures to put the Petroleum Corporation on a sound financial footing.

The above administered price adjustments are equivalent to almost 2 per cent of GDP. These adjustments have considerably improved the financial position of public enterprises, which are now generally breaking even or making a small operating surplus, with the exception of the railways and the newsprint company, whose deficits, however, have been reduced. The authorities are aware that this situation can be reversed quickly if prices are not adjusted promptly in line with costs and they therefore intend to monitor closely the finances of public enterprises.

e. Monetary policy

The objective of monetary policy is to facilitate the targeted external adjustment and to limit the second-round effects on inflation of the exchange rate depreciation and the administered price adjustments. The monetary program, which has been based on a real GDP growth of 3 per cent, an average inflation rate of 12 per cent, and a US\$70 million decline in net foreign assets, foresees a deceleration in the average rate of growth of broad money from almost 19 per cent in 1981/82 to about 11 per cent in 1982/83, implying some increase in velocity. The average expansion of domestic credit is programmed to decline from close to 29 per cent in 1981/82 to about 17 per cent in 1982/83, with the rate of growth of credit to both public and private sectors declining. During the first five months of 1982/83, domestic credit and broad money rose at an annual rate of only 1 per cent and 3 per cent, respectively. This

was attributable to both seasonal factors and the low level of government spending on the ADP, which depressed demand in other sectors as well. Taking into account seasonal factors and the stepped-up spending on the ADP, the program foresees an increase in the rate of credit and liquidity expansion during the remainder of the fiscal year. Another special factor influencing credit developments in 1982/83 is that the Petroleum Corporation has been repaying its external commercial loans, contracted at a high interest rate in 1981/82, with loans from the domestic banking system. As a result, credit to public enterprises is expected to increase during the period ending in June 1983 at the same rate as in the previous year. However, excluding the switching from foreign to domestic financing by the Petroleum Corporation, the rate of credit expansion to public enterprises is projected to decline significantly in 1982/83.

With the decline in the rate of inflation, key deposit and lending rates have now become positive in real terms ^{1/} and the authorities will keep interest rates under continuous review, with the objective of maintaining positive real rates. In June 1982, the authorities introduced competitive interest rates (10 to 14 per cent) on nonresident foreign currency deposits with a view to encouraging the inflow of workers' remittances; previously, such deposits had not earned interest.

f. Balance of payments policies

The balance of payments is expected to record a significant improvement in 1982/83, with the adjustment being brought about by a modest improvement in exports, a relatively rapid growth in workers' remittances, and a substantial contraction in imports. Exports are projected to increase by 9 per cent to about US\$690 million; export volume is forecast to rise by some 2 per cent, and average export prices, by about 7 per cent. Based on recent trends in prices and an anticipated modest recovery in world demand, the value of jute exports is projected to expand by 7 per cent. Tea exports are forecast to increase more rapidly as a result of efforts to rejuvenate tea gardens, and the exports of fertilizer and newsprint are also projected to record significant gains. Private transfers (mostly workers' remittances), which registered substantial growth in the first quarter of 1982/83 over the same period a year ago, are expected to rise by 26 per cent to about US\$480 million. Several factors explain this relatively rapid increase: (i) a growth in the number of workers employed abroad; (ii) the privatization of jute and textile mills, which has prompted a strong inflow of private transfers from abroad; (iii) the enlargement of the list of goods permitted to be imported in the secondary market, combined with a lowering of deposit margins on the opening of letters of credit; and (iv) the introduction of competitive interest rates on nonresident foreign currency deposits.

^{1/} The one-year time deposit rate is currently 14 per cent and general lending rates range between 14.5 and 16 per cent (Appendix Table IX).

Imports are projected to fall by almost 7 per cent in nominal terms. The burden of adjustment to the external resource constraint falls, of course, on nonaid imports which are forecast to drop by over 20 per cent. The net services balance will deteriorate further, owing to increased interest payments and higher international operating costs for the national airline. The current account deficit is projected to decline from US\$1.53 billion (14.4 per cent of GDP) in 1981/82 to about US\$1.26 billion (12.3 per cent of GDP) in 1982/83. Net capital inflows are expected to remain approximately unchanged as an anticipated 9 per cent growth in aid disbursements will be offset by an increase in debt repayments; the estimate of aid flows is based on current commitment and disbursement trends. The overall deficit is projected to fall from US\$278 million in 1981/82 to about US\$70 million in 1982/83. This deficit will be financed by net use of Fund resources, with reserves remaining at a level of approximately 2.5 weeks of imports. Net use of Fund resources in 1982/83 is composed of a CF purchase of US\$78 million made in August 1982; scheduled repurchases of US\$33 million; a repurchase of US\$21 million due with respect to a CF overcompensation; and purchases of US\$50 million under the proposed stand-by arrangement.

Exchange rate policy will continue to aim at ensuring adequate competitiveness and encouraging a gradual shift of resources toward the traded goods sector. Since October 1980, when the present flexible exchange arrangement was adopted, through November 1982, the nominal effective exchange rate depreciated by 35 per cent and the real rate by an estimated 17 per cent. During the remainder of the program period, the objective of exchange rate policy will be to avoid an appreciation in the real effective exchange rate for the taka. Furthermore, the policy of the past two years whereby the basket of currencies has been followed asymmetrically will be continued.^{1/} These policies are expected to lead to a further nominal depreciation of the taka. On average, the nominal effective exchange rate of the taka in 1982/83 is expected to depreciate by 13 per cent; in real terms, the estimated average depreciation is 7 per cent. The adequacy of exchange rate policy will be reviewed before the end of April 1983.

With a view to providing additional incentives for the development of nontraditional exports (goods other than raw jute, jute goods, and tea), the export performance licensing scheme was modified in July 1982. Under this scheme, exporters are granted import entitlement certificates equivalent to a percentage of their nontraditional export receipts; these certificates may be used by the exporters themselves or sold in the secondary market. In July 1982, an 80 per cent entitlement rate was added to the already existing 40 and 60 per cent rates and, in addition, the three lists of eligible exports were rearranged to favor nontraditional exports with a high domestic value-added content. Also, new nontraditional exports now automatically become eligible for the 40 per cent rate, which may be increased upon verification of local value-added.

^{1/} Effective January 11, 1983, the intervention currency was changed from the pound sterling to the U.S. dollar.

At the start of 1982/83, the authorities introduced several changes in the import system which have reduced the scope of the official market in favor of the secondary market, simplified the import regime, and liberalized import procedures. One significant change has been the expansion of the list of items permitted to be imported in the secondary market from 104 to 120 categories of goods. In addition, public entities have become eligible to import through the secondary market, and the actual user scheme, under which final users could obtain official foreign exchange for the importation of 19 items up to specific value limits, has been abolished and its users have been directed to the secondary market where they may import without value limits. Furthermore, commercial banks have been authorized to extend the validity period of import licences and/or letters of credit; the possibility of deferred payments for secondary market imports has been allowed; and the need for proof of the utilization of previous import entitlements as a requirement of eligibility for new entitlements has been abolished. Finally, deposit margin requirements on the opening of letters of credit for imports in the secondary market have been gradually reduced, with rates of 100 per cent being retained only for some nonessential consumer durables and motor vehicles. Despite the enactment of the above measures, the import system remains restrictive, largely because of the foreign resource constraint and the need to protect domestic production. Present balance of payments difficulties preclude the authorities from taking further liberalization measures for the time being, but they intend to relax the restrictions gradually as the balance of payments position permits.

Given Bangladesh's relatively high debt service burden during the coming years, the Government intends to limit external borrowing. As in the past, the authorities' policy will be to seek external assistance on concessional terms. During the program period, new external loans contracted or guaranteed by the public sector with an original maturity of between 1 and 12 years will not exceed US\$100 million; the contracting or guaranteeing of new external debt with an original maturity of between 1 and 5 years will be limited to US\$70 million. These limits include prospective loans totaling US\$35 million from the Islamic Development Bank on concessional terms. Bangladesh has in the recent past contracted commercial loans with maturities of less than one year for balance of payments financing. Such loans are expensive and the Government intends to limit their use to meet emergencies and to roll over existing debt. The staff does not anticipate a significant increase in short-term indebtedness.

VI. Staff Appraisal

During the past two years, the economy of Bangladesh has been confronted with a sharp deterioration in its terms of trade accompanied by virtual stagnation in aid inflows. In 1981/82, the situation was compounded by a severe drought. For a time, the authorities attempted to maintain expansionary financial policies and to cope with the resultant balance of payments pressures by restricting imports. In the course of 1981/82, fiscal and monetary policies were gradually tightened, but this

could not prevent a drawing down of reserves to a bare minimum, despite considerable short-term borrowings on external markets. The bad harvest and the constraints imposed by the balance of payments situation on other activities limited aggregate output growth to approximately 1 per cent in 1981/82.

In 1982/83, the authorities introduced a series of measures designed to restore financial discipline and to promote the longer-term goal of balance of payments viability. Administered prices were increased substantially, permitting a considerable improvement in the finances of most major public enterprises. At the same time, a system of greater price flexibility was adopted which, if firmly adhered to, should help avoid the re-emergence of large operating deficits in the public enterprises sector. The 1982/83 budget introduced some new tax measures, although their impact was partly offset by tax reductions in other areas, and actions were taken to reduce significantly budgetary subsidies. In addition, the level of development spending was lowered, and important steps were initiated to improve project implementation. The establishment of a core program of priority projects was a particularly useful step in the direction of improved budget management. Further, a greater role is being given to the private sector in the economy, which is expected to improve productivity and efficiency.

The Government intends to maintain a flexible exchange rate policy supported by fiscal and monetary restraint. A flexible exchange rate policy is important in order to encourage the flow of resources into the export and import-competing sectors and to allow a relaxation of import restrictions over time that would enable the private and public enterprise sectors to operate efficiently. In this regard, the expansion of the list of permissible imports in the secondary exchange market is a positive development. However, in order to promote the efficient allocation of resources, Bangladesh should aim over the medium term at the unification of the exchange markets at an appropriate exchange rate.

The balance of payments situation is expected to improve in 1982/83, with both the current and overall deficits declining significantly. Since the scope for increasing exports is limited in the short run, the adjustment will come mostly from a contraction of imports, with its attendant implications for growth in the nonagricultural sector, which will carry most of the burden of external adjustment. As a result of cautious fiscal and monetary policies, inflation is expected to decline, despite the substantial administered price adjustments and the impact of the depreciation of the taka on domestic prices. On the strength of an expected recovery in agriculture, a modest increase in overall growth is projected.

The fundamentals of the Bangladesh economy remain weak, however. Progress toward export diversification will take time, and for several years to come, Bangladesh will have to rely for most of its exports on jute, the world demand for which is expected to increase slowly at best. Given the prospective debt service payments, Bangladesh is likely to face serious external resource constraints during the years ahead.

This underscores the need for perseverance in the adjustment effort, which ought to be carried out on a broad front. Future adjustment measures should be directed primarily toward further mobilization of domestic resources through increased taxation, continued progress in the reduction of subsidies, and close monitoring and restructuring of the investment program to maintain it in line with resource availability. Continued exchange rate flexibility, supported by realistic pricing policies and measures to improve the management and efficiency of public enterprises, is also essential. But in view of the structural weaknesses of the economy, successful adjustment will need to be supported by continued substantial levels of external aid; without such support, it will be impossible for Bangladesh to maintain minimum growth.

The staff believes that the program being implemented by Bangladesh during 1982/83 constitutes an important phase in a longer-term adjustment effort that is required to achieve the objective of satisfactory growth with balance of payments viability. The proposed arrangement is for a shorter period than usual because it is in support of the economic program for the second half of fiscal year 1982/83, but it is expected that the Government will continue its adjustment policies. Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. The Government of Bangladesh has requested a stand-by arrangement in the amount of SDR 68.4 million for a period from 1983 through August 31, 1983.
2. The Fund approves the stand-by arrangement attached to EBS/83/56 (3/9/83) and waives the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement.

Table I. Bangladesh: Production of Major Crops, 1978/79-1982/83

(In millions of long tons unless otherwise indicated)

Crops	1978/79	1979/80	1980/81	1981/82	1982/83 Proj.
Rice	12.65	12.54	13.67 ¹	13.41	13.7
Aus	(3.29)	(2.81)	(3.24)	(3.22)	(3.0)
Aman	(7.43)	(7.30)	(7.84)	(7.09)	(7.4)
Boro	(1.93)	(2.43)	(2.59)	(3.10)	(3.3)
Wheat	0.49	0.81	1.08	0.95	1.1
Jute (million bales)	6.44	5.96	4.94	4.65	4.81
Tea (million pounds)	84	81	88	95	...
Tobacco (thousand long tons)	43	39	47	50	...
Sugarcane	6.83	6.34	6.50	7.20	...

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

Table II. Bangladesh: Foodgrain Demand and Supply, 1978/79-1982/83

(In millions of long tons)

	1978/79	1979/80	1980/81	1981/82	1982/83 Projected
Domestic production (gross)	13.14	13.35	14.75	14.36	14.8
Aus rice	3.29	2.81	3.24	3.22	3.0
Aman rice	7.43	7.30	7.84	7.09	7.4
Boro rice	1.93	2.43	2.59	3.10	3.3
Wheat	0.49	0.81	1.08	0.95	1.1
Domestic production (net) ^{1/}	11.83	12.02	13.28	12.92	13.3
Imports	1.15	2.73	1.06	1.23	1.6
Available supplies	12.98	14.75	14.34	14.15	14.9
Apparent consumption ^{2/}	13.36	14.18	13.88	14.81	14.9
(Apparent consumption per capita per day, in ounces)	(14.8)	(15.3)	(14.3)	(15.4)	(15.0)
Change in official stocks	-0.38	0.57	0.46	-0.66	--
Closing official stock level	0.21	0.77	1.23	0.57	0.57

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

^{1/} Gross production minus 10 per cent allowance for seeds, feed, and waste.

^{2/} Includes changes in privately held stocks and losses due to damage in storage.

Table III. Bangladesh: Major Industrial and Energy
Production, 1978/79-1982/83

(In per cent change)

	1978/79	1979/80	1980/81	1981/82	1982/83 ^{1/} Provisional July-Sept.
General index ^{2/}	6.3	—	8.1	0.3	-10.6
Jute textiles	-7.6	4.5	8.5	—	-9 0
Cotton textiles	5.5	-3.1	10.0	-7.4	-15.3
Sugar	-25.3	-28.6	52.6	39.1	...
Tea	-2.8	9.5	9.2	-4.8	-3.1
Tobacco and cigarettes	13.0	3.0	7.0	6.2	-6.0
Chemical fertilizer	37.8	21.9	-3.2	-1.8	82.4
Matches	13.4	2.5	7.9	14.5	15.1
Basic metal, iron and steel	26.2	-8.9	8.8	-14.4	-50.1
Drugs and medicine	21.3	19.4	7.5	7.1	-4.5
Petroleum products	13.9	1.3	-0.3	-6.9	-24.2
Natural gas	14.5	14.7	10.8	29.1	17.0
Electricity	10.9	10.9	13.1	5.0	21.1

Source: Statistical Bulletin of Bangladesh.

^{1/} Change over the same period in 1981/82.

^{2/} Excludes natural gas and electricity.

Table IV. Bangladesh: Central Government Revenues, 1979/80-1982/83

(In billions of taka)

	1979/80	1980/81	1981/82 Preliminary Actuals	1982/83 Program Estimate
Total revenue	<u>17.2</u>	<u>21.6</u>	<u>23.4</u>	<u>24.9</u>
Tax revenues	<u>14.1</u>	<u>17.4</u>	<u>18.9</u>	<u>20.1</u>
On income and profits	1.5	2.2	2.8	3.1
On international trade	6.3	7.6	7.9	8.8
On sales	2.8	3.6	3.4	3.2
Excise	2.9	3.8	4.5	4.6
Land and other taxes	0.6	0.2	0.3	0.4
Nontax revenues	<u>3.1</u>	<u>4.2</u>	<u>4.5</u>	<u>4.8</u>
NPE 1/ remittances	(0.9	(1.4	0.4	0.1
FPE 2/ remittances	(0.8	(1.4	1.0	0.9
Interest receipts	0.7	0.7	1.1	1.0
Fees and charges	0.7	0.7	1.4	1.7
Other	0.7	0.7	0.6	1.1
<u>Memorandum items:</u>				
	(In per cent)			
Revenue/GDP	10.0	11.1	10.9	10.1
Tax revenue/GDP	8.2	8.9	8.8	8.1

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

1/ Nonfinancial public enterprises.

2/ Financial public enterprises.

Table V. Bangladesh: Government Food Account, 1979/80-1982/83

(In billions of taka)

	1979/80	1980/81	1981/82 Preliminary Actuals	1982/83 Program Estimate
Receipts	<u>7.8</u>	<u>6.9</u>	<u>9.4</u>	<u>9.7</u>
Gross sales	6.1	5.3	7.3	6.9
Valuation of deliveries under Food for Work Program	1.0	1.1	1.4	2.0
Deposit account for sales proceeds under Title III	0.6	0.3	0.7	0.8
Other	0.1	0.2	--	--
Expenditures	<u>12.8</u>	<u>12.6</u>	<u>12.4</u>	<u>11.9</u>
Procurement and other	8.4	9.4	8.4	6.3
Imports (grants and loans) <u>1/</u>	4.4	3.2	4.0	5.6
Overall balance in the Food Account <u>2/</u>	<u>-5.0</u>	<u>-5.7</u>	<u>-3.0</u>	<u>-2.2</u>
Cash surplus or deficit (-) <u>2/</u>	-0.6	-2.5	2.1	1.5

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

1/ Imports against foreign loans are valued under terms of the agreement; grants are valued at ration system prices.

2/ The difference between the overall balance and the cash flow position arises mainly from noncash expenditures, such as food aid or imports on deferred payment basis.

Table VI. Bangladesh: Summary Balance of Payments, 1979/80-1982/83

(In millions of U.S. dollars)

	1979/80	1980/81	1981/82	1982/83 Proj.
Trade balance	-1,647	-1,867	-1,854	-1,634
Exports, f.o.b.	725	708	628	687
Imports, c.i.f.	-2,372	-2,575	-2,482	-2,321
Services (net)	3	11	-60	-110
Private transfers	210	377	382	480
Current account balance	-1,434	-1,479	-1,532	-1,264
Capital account	1,376	1,136	1,192	1,194
Aid disbursements	1,232	1,147	1,236	1,345
Food aid	(375)	(194)	(231)	(260)
Commodity aid	(388)	(393)	(421)	(475)
Project aid	(469)	(560)	(584)	(610)
Debt repayment ^{1/}	34	-79	-44	-151
Other capital	110	68	--	--
Errors and omissions ^{2/}	-101	96	62	--
Overall balance	-159	-247	-278	-70
Financing items	159	247	278	70
Bangladesh Bank	139	232	230	70
Reserves (-increase)	(119)	(21)	(139)	(-4)
Liabilities	(20)	(211)	(91)	(74)
Of which: Fund credit	[9]	[121]	[31]	[74] ^{3/}
Commercial banks	20	15	48	--
Memorandum items:				
Current account to GDP ratio (in per cent)	12.9	12.4	14.4	12.3
(Including grants)	(7.0)	(7.4)	(8.2)	(5.5)
Gross reserves (in weeks of imports; end of period)	8.1	5.0	2.3	2.5
Outstanding stock of short-term commercial debt (US\$ mn.; end of period) ^{4/}	20	35	102	102
Grant component of foreign aid (US\$ mn.)	653	595	655	699

Sources: Bangladesh Bank; and staff estimates.

^{1/} Includes net food debt repayments.^{2/} Includes valuation gains and losses.^{3/} Composed of a CF purchase of US\$78 million made in August 1982; purchases of US\$50 million under the proposed stand-by arrangement; scheduled repurchases of US\$33 million; and a repurchase of US\$21 million due on account of a CF overcompensation.^{4/} With maturities of less than one year; composed of borrowings by the Bangladesh Bank and the commercial banks.

Table VII. Bangladesh: Exports by Main Product Category,
1979/80-1982/83

(In millions of U.S. dollars)

	1979/80	1980/81	1981/82	1982/83 Proj.
Raw jute	143	120	100	102
Quantity (million bales)	1.97	1.94	1.91	1.85
Unit value (US\$/bale)	72.6	61.9	52.4	55.1
Jute goods	391	362	293	320
Quantity (thousand tons)	450	500	536	540
Average unit value (US\$/ton)	869	724	547	593
Tea	33	41	39	49
Quantity (million pounds)	50	64	68	77
Unit value (US\$/lb.)	0.661	0.641	0.574	0.636
Leather	66	57	64	64
Fish and frog legs	37	40	52	70
Naptha and furnace oil	22	48	42	30
Other	<u>33</u>	<u>40</u>	<u>38</u>	<u>52</u> ^{1/}
Total	725	708	628	687
<u>Memorandum items:</u>				
Export price index (1978/79 = 100)	122.1	105.1	87.8	94.1
Nominal growth of exports (in per cent)	19.0	-2.3	-11.3	9.4
Real growth of exports (in per cent)	-2.5	13.5	6.2	2.1

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

^{1/} Includes newsprint exports of US\$10 million and fertilizer exports of US\$10 million.

Table VIII. Bangladesh: Imports by Main Product Category, 1979/80-1982/83

(In millions of U.S. dollars)

	1979/80	1980/81	1981/82	1982/83 Proj.
Foodgrains	623	257	279	289
Rice (million tons)	0.712	0.083	0.130	0.320
Wheat (million tons)	2.018	0.978	1.103	1.280
Edible oil	68	92	71	69
Oilseeds	8	11	5	13
Petroleum products	128	136	210	183
Crude petroleum	262	345	334	288
Cotton	53	108	90	81
Yarn	11	20	22	21
Fertilizer	134	116	66	81
Cement	36	34	30	33
Textiles	34	36	24	25
Capital goods	475	580	602	624
Other	<u>540</u>	<u>840</u>	<u>749</u>	<u>614</u>
Total	2,372	2,575	2,482	2,321
<u>Memorandum items:</u>				
Import price index (1978/79 = 100)	123.9	139.2	141.5	143.6
Nominal growth of imports (in per cent)	54.7	8.6	-3.6	-6.5
Real growth of imports (in per cent)	24.9	-3.4	-5.2	-7.9

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

Table IX. Bangladesh: Bank Interest Rates

(In per cent per annum)

	Rates in Effect From	
	May 1, 1977 <u>1/</u>	October 16, 1980
Bank rate	8	10.5
Bank deposits		
Current deposits	--	--
Call deposits and special notice accounts	4-4.25	4.5
Savings bank accounts: with checking	4.5 <u>2/</u>	8.5
without checking	7	10
Fixed deposits: 3 months to less than 6 months	7	12
6 months to less than 1 year	7.5	13
1 year to less than 2 years	8.25	14
2 years to less than 3 years	9.25	14.5
3 years and over	10.25	15
Bank lending		
Exports and domestically traded jute, jute goods, and tea	10.5	12 <u>3/</u>
Agriculture, forestry, fisheries	11	12
Small-scale sector)		13
General lending: Industry)	11-12	14.5 <u>4/</u>
Other)		16.0 <u>5/</u>

Source: Data provided by the Bangladesh authorities.

1/ The rates shown are representative rates. For some categories of deposits, higher rates were offered in rural areas. Lending rates below those stated applied to a small proportion of bank lending.

2/ Reduced from 6 per cent on August 1, 1977.

3/ Reduced to 11.5 per cent for tea on June 25, 1982 and for nontraditional exports on July 1, 1982.

4/ Increased from 14.0 per cent on August 1, 1981.

5/ Increased from 15.5 per cent on December 5, 1981.

Bangladesh--Fund Relations 1/

Date of membership: August 17, 1972.

Status: Article XIV.

Quota: SDR 228 million.

Fund holdings of taka: SDR 594.5 million (260.7 per cent of quota). Of which:
SDR 1.8 million (0.8 per cent) under the oil facility;
SDR 110.0 million (48.2 per cent) under the EFF;
SDR 110.0 million (48.2 per cent) under the SFF;
SDR 108.1 million (47.4 per cent) under the CFF; and
SDR 44.1 million (19.4 per cent) under credit tranches.

SDR position: SDR 0.7 million, or 1.6 per cent of net cumulative allocation.

Exchange system: Since August 13, 1979, the taka has been 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 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.

Extended arrangement: A three-year extended arrangement for SDR 800 million (351 per cent of quota) was approved on Dec. 8, 1980 (EBS/80/251, 11/24/80). The arrangement, which had been inoperative since June 30, 1981, was cancelled on June 21, 1982; SDR 220 million was purchased under the arrangement.

Compensatory Financing Facility: A purchase of SDR 60 million (26.3 per cent of quota) was approved on February 10, 1982 (EBS/82/11, 1/20/82); a repurchase of SDR 23.1 million in respect of overcompensation was made on August 13, 1982. A further purchase of SDR 71.2 million (31.2 per cent of quota) was made on August 30, 1982 (EBS/82/136, 7/28/82).

Trust Fund loans: Bangladesh received SDR 122.2 million during the first and second periods.

Gold distribution: 106,979 fine ounces.

Distribution of profits: US\$19.9 million.

Technical assistance: The Fund has maintained a resident representative in Dacca since 1972.

Last consultation: Article IV consultation discussions were last held during November 25-December 8, 1981. The Staff Report (SM/82/41, 2/23/82) was discussed by the Board on March 22, 1982.

1/ As of December 31, 1982.

IBRD Relations with Bangladesh

IBRD/IDA lending operations:1/

	<u>Disbursed</u> (In millions of U.S. dollars)	<u>Undisbursed</u>
Completed projects and import program credits	739.22	--
IBRD	54.90	--
IDA	684.32	--
Projects in execution (all IDA)	376.92	950.58
Agriculture and rural development	147.37	328.13
Industry	98.39	174.61
Education	8.16	56.84
Population	14.64	32.36
Transportation	32.30	92.70
Telecommunication	14.71	5.29
Technical assistance	5.15	20.85
Power and gas	34.88	210.12
Water supply and sewerage	12.32	29.68
Import program credits <u>3/</u>	160.40	79.60
Total	1,267.54	1,030.18
Repayments:	\$0.4 million	
Total debt outstanding: <u>2/</u>	\$2,297.32 million	
IFC investment:	\$2.61 million	

Import Program Credit: The eleventh import program credit was approved on December 10, 1982 for an amount of US\$110 million. The projected date of effectiveness is March 10, 1983.

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.

Aid consortium: The aid consortium was established in October 1974, and meets annually under the chairmanship of the World Bank. The next meeting is scheduled for April 1983 in Paris.

Source: World Bank.

1/ As of September 30, 1982.

2/ Includes undisbursed amounts.

3/ Includes one fertilizer import credit.

Bangladesh--Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated March 9, 1983 from the Minister of Finance of Bangladesh requesting a stand-by arrangement and setting forth the objectives, policies, and measures that the authorities of Bangladesh intend to pursue for the period of this stand-by arrangement, and understandings of Bangladesh with the Fund regarding a review that will be made of the progress in realizing the objectives of the program and of the policies and measures that the authorities of Bangladesh will pursue for the remaining period of this stand-by arrangement. To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from _____, 1983 until August 31, 1983, Bangladesh will have the right to make purchases from the Fund in an amount equivalent to SDR 68.4 million, subject to paragraphs 2, 3, and 4 below, without further review by the Fund.
2.
 - a. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 22.8 million until April 30, 1983 and the equivalent of SDR 45.6 million until July 31, 1983.
 - b. None of these limits shall apply to a purchase under the stand-by arrangement that would not increase the Fund's holdings of Bangladesh's currency in the credit tranches beyond 25 per cent of quota.
3. Bangladesh will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Bangladesh currency in the credit tranches beyond 25 per cent of quota:
 - a. during any period in which the data at the end of the preceding period indicate that
 - (i) the limits on total domestic credit of the banking system described in paragraph 13 of the memorandum annexed to the attached letter; or
 - (ii) the limits on the sum of net credit from the domestic banking system to the Government and gross credit to the rest of the public sector described in the same paragraph; or
 - (iii) the limits on contracting of new public or publicly guaranteed external loans with maturities of 1 to 5 years or 1 to 12 years described in paragraph 19 of the same memorandum

are not observed; or

b. during any period after April 30, 1983 until the review of policies by the Fund contemplated in paragraph 2 of the attached letter has been completed and the understandings with the Fund referred to in paragraph 16 of the memorandum annexed thereto have been reached; or

c. during the entire period of this stand-by arrangement, if Bangladesh

- (i) imposes or intensifies restrictions on payments and transfers for current international transactions; or
- (ii) introduces multiple currency practices; or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or
- (iv) imposes or intensifies import restrictions for balance of payments reasons.

When Bangladesh is prevented from purchasing under this stand-by arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and Bangladesh and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. Bangladesh's right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Bangladesh. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 4, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Bangladesh and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Bangladesh, the Fund agrees to provide them at the time of the purchases.

6. Bangladesh shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

7. a. Bangladesh shall repurchase the amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases as Bangladesh's balance of payments and reserve position improves.

b. Any reductions in Bangladesh's currency held by the Fund shall reduce the amounts subject to repurchases under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

8. During the period of the stand-by arrangement, Bangladesh shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Bangladesh or of representatives of Bangladesh to the Fund. Bangladesh shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Bangladesh in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

9. In accordance with paragraph 2 of the attached letter, Bangladesh will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria under paragraph 3 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Bangladesh has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time at the initiative of the Government or at the request of the Managing Director concerning Bangladesh's balance of payments policies.

Dhaka, Bangladesh
March 9, 1983

Dear Mr. de Larosiere:

1. Attached is a memorandum setting forth major elements of Bangladesh's economic program for 1982/83. The principal objectives are to promote external adjustment and domestic resource mobilization in the face of a tight external resource constraint. In support of these objectives, and in view of the expected balance of payments needs, we request a stand-by arrangement from the International Monetary Fund in an amount equivalent to SDR 68.4 million for the period through August 1983.

2. The Government believes that the policies set forth in the attached memorandum are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the policies of the Fund on such consultation. Moreover, the Government will conduct with the Fund a review of policies, including administered pricing, interest rate, and exchange rate policies, before the end of April 1983 and in the course of that review will reach understandings with the Fund in accordance with paragraph 16 of the attached memorandum.

Sincerely yours,

A.M.A. Muhith
Minister for Finance
and Planning

Att: Memorandum of the Government
of Bangladesh on Certain
Aspects of its Economic
and Financial Policies

Mr. J. de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431

Memorandum of the Government of Bangladesh
on Certain Aspects of its Economic Policies

1. Following a period of almost ten years of relatively rapid growth since independence--during which real GDP expanded at an average rate of about 6 per cent per annum--our development effort has suffered a severe setback during the past two years, largely as a result of a sharp deterioration in the terms of trade owing mainly to a decline in the prices of jute, our principal export, and an increase in the prices of imports, as well as a slowing of external assistance. During the two years 1980/81-1981/82, our external terms of trade declined by about 40 per cent, representing a direct loss of resources equivalent to about 4 per cent of GDP per annum during those two years. Moreover, severe drought conditions led to a 3 per cent fall in foodgrain production in 1981/82, further depressing growth and necessitating unexpectedly large imports of foodgrains. As a result of these developments, real GDP is estimated to have risen by only about 1 per cent in 1981/82, and the balance of payments came under heavy pressure. Confronted with a substantial external resource constraint in 1981/82, the Government cut budget expenditures in mid-year and adopted a restrictive credit policy. Despite these measures to curtail domestic demand, the pressures on the balance of payments remained severe. The current account deficit of the balance of payments widened, financing of which required recourse to substantial short-term commercial borrowing and drawing down of reserves to the equivalent of less than three weeks of imports.

2. In view of the sharply deteriorating external environment facing Bangladesh, it soon became evident that the objectives of the economic program in support of which the Fund approved an extended arrangement in December 1980 could not be attained. Not only did we need to scale down our growth, but as has now become clear, much stronger measures were required to adjust to the sharp contraction in external resource availability. The extended arrangement was cancelled in June 1982, and we now request a stand-by arrangement in support of our economic program for 1982/83. Over the medium term, our main objective is to restore satisfactory growth with balance of payments viability. For the current fiscal year, the principal goals of our economic policy are to narrow the current account deficit of the balance of payments, to reduce inflationary pressures in the economy, and to increase the mobilization of domestic resources. Given the tight external resource constraint, we will be able to attain only a growth of 3 to 5 per cent in real GDP in 1982/83, despite our renewed domestic resource mobilization efforts. We believe, however, that the measures taken this year will lay the foundation for an accelerated growth in the years to come. The policies designed to achieve our objectives are described in the following paragraphs.

II. Production and Investment Policies

3. Agricultural production accounts for approximately half of the nation's gross domestic product and rapid progress in this sector is essential to both achieving satisfactory growth and strengthening the balance of payments through self-sufficiency in foodgrains. In the past, the Government relied on the practice of using subsidized inputs to encourage production. However, this practice has put a heavy burden on the budget and it has now been decided to gradually phase out the subsidies on agricultural inputs and to rely on remunerative producer pricing to provide adequate incentives to farmers. As a first step, the subsidy on fertilizers has been reduced by almost 25 per cent; the subsidy on minor irrigation equipment has also been reduced substantially. At the same time, the procurement price for rice was increased for the main (Aman) crop from Tk 190 to Tk 210 per maund. The Government will continue to adjust procurement prices with a view to providing adequate incentives to producers. In order to improve efficiency in the fielding of irrigation equipment, it has been decided to reduce the role of public agencies in the manufacturing, marketing, and servicing of minor irrigation equipment and to rely increasingly on the private sector to carry out these activities. Measures have recently been taken to allow the private sector to engage in these activities on an equal footing with the public sector agencies.

4. The Government recognizes the need for expanding the role of the private sector in the economy. In pursuing these objectives, we promulgated a New Industrial Policy (NIP) in June 1982. Under the NIP, approximately 50 jute and textile mills which had been nationalized after independence will be returned to their former Bangladeshi owners. So far, more than 40 mills have already been returned to the private sector. We also decided to increase the number of industries open to private sector participation, especially in the petrochemical, fertilizer, and other gas-based industries. Moreover, we have taken further steps to rationalize investment approval procedures and introduced an automatic registration of projects which do not require foreign exchange from the Government. In addition, we have established a "one-stop" investors' center to eliminate the need for foreign investors to deal separately with several institutions. Furthermore, we intend to review periodically the list of industries which are subject to sanction control, with a view to reducing the list over time.

5. Even though energy consumption per capita in Bangladesh is one of the lowest in the world, our balance of payments has been severely affected by the increases in the world prices of oil, with the cost of petroleum imports now absorbing almost 75 per cent of our export earnings. Our strategy is to encourage conservation and to develop the exploitation of our abundant natural gas resources. As detailed below, the prices of petroleum and electricity were raised substantially in July 1982, and it is our intention to pass on to final users any future cost increases as fully and as quickly as possible. The price of natural

gas was also raised, and we have recently announced new incentives aimed at attracting exploration activities by foreign companies. Despite the recent adjustment, natural gas prices are still very low by world standards, and our intention is to gradually increase natural gas prices to more realistic levels.

III. Financial Policies

6. Largely because of a shortfall in imports imposed by the tight external resource situation, government revenues in 1981/82 failed to reach projected levels, as import-related taxes, which account for about three fifths of total tax revenue, fell well below budgeted levels. Furthermore, transfer and interest payment receipts from nonfinancial public enterprises were significantly lower than budget estimates, reflecting the poor financial performance of many of these enterprises. The Government reacted by initiating measures to reduce expenditure, the most important of which was a 15 per cent across-the-board cut in the domestic funding of the Annual Development Program (ADP) in mid-year. Despite these measures, the avoidance of a significant net recourse to the domestic banking system by the Government was made possible only because of a drawdown of official foodstocks occasioned by the poor harvest.

7. We intend to follow a cautious fiscal policy in 1982/83. It is our intention to limit the Government's net recourse to the domestic banking system to the amount necessary to finance food-stocking operations and to restrict the use for budgetary operations of the resources that might become available because of a shortfall in foodgrain procurement or a drawdown of foodgrain stocks. Although economic circumstances are not favorable, we have taken steps to maintain a reasonable development effort by mobilizing additional domestic resources to offset to the maximum extent possible the decline in revenue due to the external resource constraint. The 1982/83 budget includes increases in customs duties, sales taxes, excise and land taxes, and the introduction of a new turnover tax, which are estimated to generate about Tk 0.8 billion in additional revenue. It was also necessary, however, to reduce income tax rates and increase exemptions to mitigate the impact of inflation creep on real incomes, somewhat reducing the effect of the other tax measures. The external resource constraint will limit the revenue gains from existing sources, and total revenue is now expected to increase by about 7 per cent to approximately Tk 26 billion in 1982/83 (including railway revenue). With a view to limiting the need for expenditure increases, the Government is committed to the phasing out of food and fertilizer subsidies. Toward this end, in July 1982, the ration price of rice was increased from Tk 175 per maund to Tk 195 per maund and that of wheat from Tk 124 per maund to Tk 134 per maund. Also in July 1982, the prices of fertilizers were raised by an average of 14 per cent. In January 1983, following the increase in procurement prices, the ration price of rice was further raised to Tk 215 per maund and that of wheat to Tk 145 per maund; these price adjustments will ensure that there will be no increase in the unit cost of subsidy.

8. Our development goals are framed in the context of the Annual Development Program (ADP), and successful implementation of the ADP is the key to our economic progress. In light of the experience of the past year, when shortages of funds required across-the-board mid-year cuts costly to efficient project implementation, we have identified in the 1982/83 ADP a core program of Tk 22 billion which is to be protected against unexpected revenue shortfalls. Moreover, we introduced a new funding release program which ensured that projects would be initiated only when funds were available. It is now apparent that budgetary developments, including the tempo of aid disbursements, will allow an ADP of almost Tk 29 billion in 1982/83, which still implies a significant reduction in real terms from the expenditure level recorded in 1981/82. As a further measure to improve budgetary management, a working-level Secretariat has been established under the supervision of the Chairman of the Resource Committee to monitor fiscal flows such as aid disbursements and revenue collections throughout the year.

9. The Government is aware that, despite recent efforts to improve the public finances, the overall budgetary position remains weak. In particular, the tax effort is low, even taking the low per-capita income into account. Furthermore, the tax system is heavily dependent on import-related duties, so that cyclical and other factors affecting the availability of external resources have a pronounced impact on the availability of budgetary revenue. During periods when external resources are expanding, the dependence on import-related revenue serves to bolster the tax effort, but during an era of external resource constraint such as we have been experiencing since 1981/82, this dependence leads to a decline in the tax/GDP ratio, thereby seriously hindering our development aims. It is therefore our essential objective to increase the tax effort and to diversify the tax base away from its dependence on import-related taxes and toward domestic sources. Toward this end, we will review potential additional domestic sources of revenues, taking into account the recommendations of the Taxation Inquiry Commission, with a view to generating new resources. These measures will, of course, continue to be accompanied by further efforts to improve the efficiency of government expenditure.

10. The Government has also acted to strengthen the financial position of public enterprises. To this end, the prices of many important commodities were increased in July-August. The prices of petroleum products, which had fallen below costs due to the depreciation of the taka, were increased by a weighted average of 38 per cent; electricity prices by 40 per cent; natural gas prices by 13 per cent; bus fares by 30 per cent; and railway fares by 20 per cent; the prices of textiles and newsprint were also increased. Recently, the prices of petroleum products, other than high-speed diesel, light diesel, super kerosene, jet fuel, and furnace oil, were further increased by an average of about 18 per cent. The Government also established a high-level committee to make recommendations, before the end of the current fiscal year, on longer-term measures required to place the Petroleum Corporation on a sound financial footing. Freight rates of inland water transportation were

also increased by 6 per cent and domestic air transportation prices will be adjusted upward shortly. The Government recognizes that the gains from these price adjustments may be eroded again by inflation and cost increases, such as those due to the depreciation of the taka. Therefore, administered prices will be kept under constant review and adjustments will be made promptly to reflect higher costs, with the exception of some sensitive items. To this end, public enterprises have been granted the authority to adjust selling prices by up to 10 per cent in response to increases in foreign exchange and energy costs; increases in excess of 10 per cent will continue to be subject to Government approval. In conjunction with these measures, steps have been taken to reduce the growing gap between debt service obligations of public enterprises and actual payments to the Government. As an initial step, reasonable debt service obligations will be automatically deducted from the enterprises' quarterly ADP release.

11. Wage policy has long been supportive of government fiscal objectives, and public servants have received only negligible cost-of-living adjustments for more than five years, leading to a gradual erosion of their real wages. It is, however, not in the country's long-term interest to severely restrain government employees' salaries, as over time a decline in their relative wages diminishes the effectiveness of the civil service. It was with these concerns in mind that in 1982/83 the Government granted wage increases ranging from 10 to 30 per cent to public sector employees. The Government does not plan any further wage increases during the program period.

12. In the course of 1981/82, domestic credit policy was progressively tightened as the external situation deteriorated. In contrast to the previous year, net credit to the Government remained virtually unchanged, and the growth of credit to the rest of the public sector was reduced, mainly through the lowering of inventories and, in certain cases, through resorting to foreign loans. Credit to the private sector was restrained mainly by lower ceilings on commercial bank credit, higher penalties on banks which exceeded their lending ceilings, higher margin requirements on the opening of letters of credit for imports through the secondary market, and a tightening of the Bangladesh Bank's refinancing policy. Following these measures, the rate of liquidity growth has decelerated sharply since the end of 1981.

13. The objective of our monetary policy for 1982/83 is to facilitate the targeted external adjustment and to limit the second-round effects on inflation of the recent administered price adjustments and the depreciation of the taka, while ensuring that the legitimate credit needs of the productive sectors are adequately met. The credit program for 1982/83 is based on the following macroeconomic targets: an annual growth rate of 3 to 5 per cent of real GDP; an increase of 12 per cent in the consumer price index; and a decline in the net foreign assets of the banking system of about US\$70 million. The monetary program implies an acceleration in the growth of liquidity in the second half of 1982/83 to accommodate seasonal factors and an expected pickup in economic

activity. In implementing the monetary program, the Government will observe the following credit limits: (1) total domestic credit of the banking system, which amounted to Tk 65.12 billion on October 26, 1982, will not exceed Tk 70.5 billion at the end of March 1983, and Tk 74.4 billion at the end of June 1983; (2) within this total, the sum of net credit to the Government and gross credit to the rest of the public sector, which amounted to Tk 40.93 billion on October 26, 1982, will not exceed Tk 42.8 billion at the end of March 1983, and Tk 46.8 billion at the end of June 1983. Prompt corrective measures will be taken if developments indicate that the above ceilings or sub-ceilings may be exceeded.

14. The Government is cognizant of the need to intensify the mobilization of domestic savings through the financial system. Accordingly, following several years during which bank deposit and lending rates had been generally negative in real terms, nominal interest rates were raised substantially in October 1980 with the aim of attracting financial savings and promoting a more efficient allocation of resources. While this temporarily yielded positive real interest rates, the subsequent acceleration in inflation gradually eroded the positive margins and turned real interest rates temporarily negative again. With the recent decline in the rate of inflation, key deposit and lending rates have become positive once more in real terms. We will keep interest rates under continuous review with the objective of keeping key deposit and lending rates positive in real terms.

IV. External Policies

15. In 1982/83, the balance of payments constraint will continue to be severe with the anticipated growth of external resource availability being largely offset by a significant increase in external debt service obligations. In order to avoid a further fall in reserves and limit to a minimum costly borrowings on external commercial markets, it is the Government's objective to reduce the current account deficit from US\$1.5 billion (14.4 per cent of GDP) in 1981/82 to approximately US\$1.3 billion (12.3 per cent of GDP) in 1982/83, and the overall deficit, from US\$278 million to about US\$70 million. Achievement of these objectives assumes a less than 10 per cent increase in exports and aid disbursements and imposes a significant lowering of imports. The overall balance of payments deficit is expected to be financed by net purchases from the Fund.

16. Bangladesh has followed a flexible exchange rate policy in recent years, with the taka being pegged to a basket of currencies. Since July 1981, the basket has been followed asymmetrically, with only downward adjustments (depreciations) being made in the exchange rate of the taka against the intervention currency. This policy led to a depreciation of 35 per cent in the nominal effective exchange rate for the taka between October 1980 and November 1982; in real terms, the depreciation was about 17 per cent. Our policy objective will be not to

allow an appreciation of the real effective exchange rate for the taka during the program period. Furthermore, the policy of the past two years whereby the basket has been followed asymmetrically with only downward adjustments made relative to the intervention currency will be continued. We recognize that an active exchange rate policy is needed to promote external adjustment and we will review exchange rate policy with the Fund before the end of April 1983, and will reach understandings with the Fund on the exchange rate policies to be followed during the remainder of the program period.

17. Remittances from workers abroad and nontraditional exports are an important source of foreign exchange earnings. All workers' remittances which are converted into local currency are sold in the secondary exchange market, as are a significant portion of the proceeds from non-traditional exports. We intend to ensure that adequate incentives are provided to encourage the growth of these earnings. As a step in that direction, the Import Policy Order for 1982/83 expanded the list of imports permissible through the secondary market. Moreover, since June 1982, competitive interest rates have begun to be paid on nonresident foreign currency term deposits. An additional incentive was recently introduced in respect of the coverage of Import Entitlement Certificates, which permit exporters to sell part of their foreign exchange earnings in the secondary market. In addition to the existing rates of 40 per cent and 60 per cent, a rate of 80 per cent was established in July 1982 for certain commodities. These measures, by increasing the demand for foreign exchange in the secondary market, might lead to a higher premium in this market vis-a-vis the official exchange rate, which should stimulate the inflow of remittances from abroad, as well as nontraditional exports. The Government will keep under review the list of permissible imports through the secondary market, with a view toward further expanding the list.

18. In addition to the measures mentioned above, the Import Policy Order for 1982/83 simplified the import procedures. Among the more important measures taken were the granting of authority to commercial banks to extend the period of import licenses and/or letters of credit; the permissibility of deferred payments for secondary market imports; and the eligibility of public agencies to import through the secondary market. Despite these measures, our import system maintains restrictions because of the foreign resource constraint and the need to protect domestic production. However, it is our intention to relax these restrictions gradually as the balance of payments position permits. During the period of the stand-by arrangement, the Government does not intend to impose or intensify restrictions on payments and transfers for current international transactions, or introduce new multiple currency practices, or conclude bilateral agreements which are inconsistent with Article VIII, or impose or intensify import restrictions for balance of payments reasons.

19. Bangladesh has relied extensively on official external assistance to finance the current account deficit, but despite this policy the debt service burden is considerable and is projected to increase in the

coming years. Our policy, therefore, is to strictly limit new borrowings on short maturity and on commercial terms. During the program period, the contracting or guaranteeing of new external loans by the public sector with an original maturity of more than 1 year and up to 12 years will not exceed US\$100.0 million. Of this amount, the contracting or guaranteeing of new loans with an original maturity of more than one year and up to five years will not exceed US\$70 million, although such loans will be avoided, except in emergencies or to finance the rollover of existing debt. During the recent past, Bangladesh has contracted foreign bank loans with maturities of less than one year to finance the balance of payments deficits. Such loans are extremely costly and we intend to limit them to emergencies and the rollover of existing credit.