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AGENDA**

EBS/86/176
Correction 1

CONFIDENTIAL

August 28, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: Bangladesh - Staff Report for the First Review Under
the Stand-By Arrangement

The following corrections have been made in EBS/86/176 (8/5/86):

Page 11, Table 4, last line, columns 1 and 2: for "(11.2) (9.1)"
read "(-11.2) (-9.1)"

Page 30, Table 9, line 1, columns 3 and 7: delete footnote "2/"

Corrected pages are attached.

Att: (2)

Table 4. Bangladesh: Central Government Operations, 1982/83-1986/87

	1982/83	1983/84	1984/85 Prelim. Actual	1985/86		1986/87 Program
				Program 1/ Actual	Prov. Actual	
(In billions of taka)						
Total revenue	25.40	28.60	36.47	43.66	42.07	50.69
Tax	21.08	23.70	29.04	35.87	32.70	40.74
Nontax	4.32	4.90	7.43	7.79	9.37	9.95
Total expenditure	57.80	60.65	69.13	77.21	77.97	89.20
Current expenditure	19.20	23.03	27.38	32.03	33.76	37.66
Food account deficit	6.56	3.80	4.31	3.78	1.37	2.80
Of which: foodstock change	(-0.03)	(0.27)	(1.96)	(--)	(-0.04)	(1.59)
Annual Development Program (ADP)	29.80	30.11	32.91	37.36	38.20	44.25
Other capital expenditure and net lending 2/	2.24	3.71	4.53	4.04	4.64	4.49
Overall budget deficit	32.40	32.05	32.66	33.55	35.90	38.51
Excluding foodgrain stocking	(32.43)	(31.78)	(30.69)	(33.55)	(35.93)	(36.92)
Net foreign financing 3/	28.25	27.87	30.28	32.38	31.73	35.39
Project aid	13.44	13.31	15.74	18.52	20.65	23.31
Commodity aid	9.00	9.63	9.65	11.50	10.50	12.47
Food aid	6.40	6.97	4.92	6.55	5.90	6.52
Commercial food borrowing (net)	1.23	-0.41	2.55	-1.50	-2.49	-3.46
Debt amortization	-1.82	-1.63	-2.58	-2.69	-2.83	-3.45
Net domestic financing	4.15	4.18	2.38	1.17	4.17	3.12
Banking system	0.27	4.27	-1.39	-1.30	-1.30	0.50
Other domestic	3.88	-0.09	3.77	2.47	5.47	2.62
(Annual percentage change)						
Memorandum items:						
Total revenue	9.5	12.6	27.5	22.1	15.4	20.5
Total expenditure	25.3	4.9	14.0	11.7	12.8	14.4
Current expenditure	29.7	19.9	18.9	17.0	23.3	11.6
ADP	11.2	1.0	9.3	13.6	16.1	15.8
(In percent of GDP)						
Total revenue	8.8	8.2	8.9	9.5	9.0	9.5
Tax revenue	7.3	6.8	7.1	7.8	7.0	7.7
Nontax revenue	1.5	1.4	1.8	1.7	2.0	1.9
Total expenditure	19.9	17.4	16.9	16.8	16.6	16.8
Current expenditure	6.6	6.6	6.7	7.0	7.2	7.1
ADP	10.3	8.7	8.1	8.1	8.2	8.3
Overall budget deficit	-11.2	-9.2	-8.0	-7.3	-7.7	-7.2
Excluding food-stocking	(-11.2)	(-9.1)	(-7.5)	(-7.3)	(-7.7)	(-6.9)

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

1/ The 1985/86 program figures were based on an earlier estimate for 1984/85.

2/ Comprises non-ADP project expenditure, the Food for Work Program, miscellaneous investment (nondevelopment) and net loans and advances to nonfinancial public enterprises. A major part of gross lending by the Government is included within the ADP.

3/ Includes foreign grants.

expected to rise to 7.7 percent of GDP from 7 percent in the previous year. Nevertheless, the low elasticity of the tax system has been a source of serious concern, and is particularly apparent in years when GDP growth is led by agriculture which is inadequately taxed. Despite new tax measures adopted each year, the ratio of tax revenue to GDP has barely been maintained. In order to address this problem, and reduce excessive reliance on foreign trade-related taxes, the authorities have undertaken to initiate a review of tax policy and administration during the current fiscal year and will be seeking technical assistance from the Fund and the World Bank in this area.

The growth in total government expenditure is projected to be contained at about 14.4 percent in 1986/87. This will be achieved by curtailing the growth of current expenditure to 11.6 percent, compared with over 23 percent in the previous year. In view of the sizable wage and salary increases granted in 1985/86, the program does not provide for further adjustments in wage rates. Moreover, the freeze on new hirings imposed in most areas of public employment has been continued into the current fiscal year. The wage bill is thus projected to increase by only 4.6 percent, with its share in total current expenditure declining to 37 percent from 40 percent in the previous year. The growth in current expenditure other than wages and salaries is projected at about 16 percent, which accommodates the needed increase in operations and maintenance spending to promote the more efficient use of existing assets. The food account deficit is expected to rise to Tk 2.8 billion in 1986/87, reflecting mainly the projected strong increase in domestic procurement, as well as some recovery in foodgrain imports.

A number of price adjustments were undertaken during 1985/86 to reduce subsidies through the government budget. Fertilizer prices were raised in July and October 1985, resulting in a Tk 312 million reduction in the fertilizer subsidy. In the 1986/87 budget, the fertilizer subsidy has been completely eliminated, notwithstanding an average reduction of 4 percent in urea prices effective July 1, 1986 to bring domestic prices more in line with international urea prices which declined sharply in the preceding months. With regard to foodgrain subsidies, the ration prices of rice and wheat were raised in late 1985 which, coupled with lower volume of operations, resulted in a Tk 890 million reduction in the foodgrain subsidy, a drop of 40 percent from the previous year. The ration prices of wheat and rice were again raised effective June 15, 1986 by approximately 5 percent to realize a further reduction of Tk 200 million in the food subsidy in 1986/87.

The ADP for 1986/87 is projected at Tk 44.3 billion, 15.8 percent above the 1985/86 level. This represents a real growth of approximately 7 percent, and raises slightly the size of the ADP in terms of GDP to 8.3 percent. In recent years, ADP spending has generally remained below budget estimates due largely to bottlenecks in project preparation,

Table 8. Bangladesh: Output and Prices, 1982/83-1986/87

(Annual percentage changes)

	1982/83	1983/84	1984/85	1985/86 Est.	1986/87 Proj.
GDP at constant market prices	<u>3.5</u>	<u>4.3</u>	<u>4.2</u>	<u>5.0</u>	<u>4.8</u>
Agriculture	4.8	1.4	1.9	5.0	3.6
Nonagriculture	<u>2.3</u>	<u>7.3</u>	<u>6.4</u>	<u>5.1</u>	<u>5.8</u>
Industry	-1.3	3.9	2.5	3.7	4.9
Construction	-1.7	21.9	13.9	4.9	8.0
Energy	35.1	25.0	20.0	20.0	20.0
Services	3.5	6.3	6.3	5.6	5.5
Implicit GDP deflator	5.1	16.3	12.3	10.0	8.5
Consumer prices (Annual average) ^{1/}	<u>9.9</u>	<u>9.7</u>	<u>10.9</u>	<u>10.0</u>	<u>8.5</u>
Food	8.5	12.0	10.7
Nonfood	12.1	6.2	11.3
Memorandum item:					
GDP at current market prices (In billions of taka)	288	350	409	469	533

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

^{1/} Based on the consumer price index for middle-income families in Dhaka City (1973/74 = 100).

Table 9. Bangladesh: Quarterly Monetary Survey, June 1985-June 1987 ^{1/}

	1985 June Actual	1986 June Program	1986 June Actual	1986 Sept. Program	1986 Dec. Program	1987 March Program	1987 June Program
(In millions of taka; end of period)							
Net foreign assets	<u>-25</u>	<u>810</u>	<u>2,139</u>	<u>2,000</u>	<u>2,300</u>	<u>2,500</u>	<u>3,280</u>
Net domestic assets	<u>105,367</u>	<u>121,270</u> ^{2/}	<u>121,242</u>	<u>124,600</u> ^{2/}	<u>131,700</u> ^{2/}	<u>133,300</u> ^{2/}	<u>139,440</u>
Domestic credit	<u>124,609</u>	<u>143,410</u>	<u>145,347</u>	<u>147,500</u>	<u>155,900</u>	<u>157,800</u>	<u>165,100</u>
Public sector	<u>55,702</u>	<u>61,620</u>	<u>61,785</u>	<u>64,500</u>	<u>66,900</u>	<u>67,300</u>	<u>69,600</u>
Government (net)	(23,408)	(22,110) ^{2/}	(22,057)	(22,200) ^{2/}	(22,400) ^{2/}	(21,600) ^{2/}	(22,600)
Other public sector	(32,294)	(39,510)	(39,728)	(42,300)	(44,500)	(45,700)	(47,000)
Private sector	<u>68,907</u>	<u>81,790</u>	<u>83,562</u>	<u>83,000</u>	<u>89,000</u>	<u>90,500</u>	<u>95,500</u>
Other items (net)	<u>-19,242</u>	<u>-22,140</u>	<u>-24,105</u>	<u>-22,900</u>	<u>-24,200</u>	<u>-24,500</u>	<u>-25,600</u>
Broad money	<u>105,342</u>	<u>122,080</u>	<u>123,381</u>	<u>126,600</u>	<u>134,000</u>	<u>135,800</u>	<u>142,720</u>
(Annual percentage changes)							
Net domestic assets	27.9	15.1	15.1	19.3	15.4	17.4	15.0
Domestic credit	26.2	15.1	16.6	16.1	16.7	18.7	15.1
Public sector	12.3	10.6	10.9	13.9	15.3	17.1	11.9
Government (net)	(-2.8)	(-5.5)	(-5.8)	(-6.3)	(0.4)	(7.8)	(2.3)
Other public sector	(26.5)	(22.3)	(23.0)	(28.4)	(24.6)	(22.1)	(17.2)
Private sector	40.2	18.7	21.3	17.9	17.8	20.0	17.5
Broad money	25.6	15.9	17.1	26.1	17.3	20.7	15.6

Sources: Bangladesh Bank; and staff estimates.

^{1/} At constant June 30, 1985 exchange rates.

^{2/} Credit ceilings under the stand-by arrangement.