

FOR
AGENDA

EBS/83/121

CONFIDENTIAL

June 10, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Bangladesh - Staff Report for the 1983 Article IV Consultation
and Review of Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Bangladesh and the review of the stand-by arrangement for Bangladesh. Draft decisions appear on page 23. It is proposed to bring this subject to the agenda for discussion on Wednesday, July 13, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Szapary, ext. 57365.

Att: (1)

INTERNATIONAL MONETARY FUND

BANGLADESH

Staff Report for the 1983 Article IV Consultation and
Review of Stand-By Arrangement

Prepared by the Staff Representatives for the
1983 Consultation with Bangladesh

Approved by Hubert Neiss and Subimal Mookerjee

June 9, 1983

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I. Introduction

The 1983 Article IV consultation discussions with Bangladesh were held in Dhaka during April 19-29, 1983. The staff team also conducted a review of policies under the current stand-by arrangement, including administered pricing, interest rate and exchange rate policies; such a review is a performance criterion under the arrangement. Discussions were held with the Minister of Finance, A.M.A. Muhith; the Bangladesh Bank Governor, M.N. Islam; the Secretary of Finance Division, M. Syeduzzaman; and other senior officials. The staff team consisted of Mr. Szapary (Head, ASD), Ms. Eken (ETR), Mr. Sisson (FAD), Mr. Ishii (ASD), and Mrs. Colliflower (ASD). The staff team was assisted by Mr. Sertic, the Fund's Resident Representative in Bangladesh.

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

In March 1983, the Executive Board approved a stand-by arrangement for Bangladesh in the amount of SDR 68.4 million (30 per cent of quota) for the period through August 31, 1983. The arrangement is in support of the economic program for the last six months of fiscal year 1982/83, which ends in June 1983. Purchases under the arrangement are phased in three equal amounts of SDR 22.8 million. The first purchase was made in March 1983; the second purchase became available after April 30, 1983 and is contingent upon the mid-term review being completed and the performance criteria for end-March 1983 being met; and the third purchase will become available after July 31, 1983 and is contingent upon the performance criteria for end-June 1983 being met.

Economic developments in Bangladesh during the past two years have been described in the Staff Report for the Request for Stand-By Arrangement (EBS/83/56, March 9, 1983). This report reviews performance under the current stand-by arrangement (Section II) and discusses near-term prospects and the major policy issues facing the authorities (Section III).

II. Current Economic Situation and Performance Under the Stand-By Arrangement

The years 1980/81-1981/82 were a difficult period for Bangladesh; the country was confronted with a sharp deterioration in the terms of trade--representing a net loss of resources equivalent to about 4 per cent of GDP per annum during those two years--declining levels of external aid and, in 1981/82, poor harvests owing to unfavorable weather. These developments and the delayed policy response put heavy pressure on the balance of payments and threatened to erode the financial stability of the economy. In 1982/83, the authorities undertook an economic program aimed at restoring financial discipline and moving toward the medium-term goal of achieving sustained growth with balance of payments viability. The main policies designed to realize the objectives of the program were: (i) measures to increase the mobilization of domestic resources

through tax increases, reduction in budgetary subsidies, and substantial adjustments in administered prices; (ii) a curtailment of development spending coupled with steps to improve project implementation; (iii) a continued depreciation of the taka; (iv) credit restraint; and (v) various measures to improve productivity in agriculture and industry. On the basis of developments during the first ten months of the fiscal year, both the balance of payments and inflation performance are expected to be better than targeted, while economic growth is projected to reach the level foreseen under the program (Table 1). All performance criteria under the stand-by arrangement have been observed (Table 2).

1. Growth and investment

The deterioration in the external environment and the unfavorable weather conditions have had a severe impact on the growth performance of the economy over the past two years. After enjoying relatively rapid economic growth through 1980/81--about 6 per cent per annum on average since 1972/73--aggregate output growth fell to less than 1 per cent in 1981/82 (Appendix Table I), as a result of a 2 per cent reduction in agricultural production caused by drought and a sharp slowdown in activity in other sectors due to the constraints on imports imposed by the reduced availability of external resources. During 1982/83, the rate of growth of real GDP is expected to accelerate to about 3 per cent, which is still only slightly higher than the rate of population growth (2.6 per cent); while agricultural production has increased, activity in the nonagricultural sectors has weakened further.

Despite disappointing summer and winter crops owing to yet another dry spell, the spring crops are expected to reach record levels in 1982/83, leading to a projected 5 per cent growth in foodgrain production for the year as a whole (Chart 1).^{1/} Besides the return of favorable weather in the second half of the year, the major factor contributing to the good spring crops has been a rapid increase in the sale of fertilizers and irrigation equipment, which has been supported by a government-directed expansion of rural credit and has led to a marked improvement in yields.

The gains in the agricultural sector were partly offset by a fall in industrial production and construction activity, which were adversely affected by the curtailment in the Government's development program and the generally depressed demand owing to the adjustment in administered prices, the income-reducing impact of the depreciation of the taka, and the restrictive credit policies adopted by the authorities. However, domestic demand has begun to pick up in the last quarter of 1982/83 as a result of the favorable spring harvests and the stepped-up implementation of the Government's development program, which are expected to boost activity in these sectors during the months ahead.

^{1/} According to recent reports, crops in certain low-lying areas have been affected by floods as a result of an early onset of the monsoon rains. The extent of the damage is not yet known, but its overall impact on the spring crops appears to be limited.

Table 1. Bangladesh: Summary of Financial Program and Selected Indicators, 1980/81-1982/83

| | 1980/81 | 1981/82 | 1982/83 | |
|--|---------|---------|--------------------|------------------|
| | | | Program Targets | Revised Proj. |
| (Annual per cent changes, unless otherwise specified) | | | | |
| National income and prices | | | | |
| GDP 1/ | 5.9 | 0.9 | 3.0 | 3.0 |
| Consumption 1/ | 3.2 | 4.8 | ... | 0.1 |
| Fixed investment 1/ | 6.7 | -8.7 | ... | 0.4 |
| Private | (13.2) | (-6.2) | (...) | (3.3) |
| Public | (2.6) | (-12.0) | (...) | (-2.2) |
| Consumer prices 2/ | 12.6 | 16.3 | 12.0 | 10.0 |
| External sector | | | | |
| Exports, f.o.b. | -2.3 | -11.4 | 9.6 | 3.7 |
| Imports, c.i.f. | 8.6 | -0.1 | -9.8 | -10.6 |
| Non-food imports, c.i.f. | 32.9 | -1.6 | -11.5 | -17.3 |
| Export volume | 13.5 | 6.6 | 2.1 | -2.6 |
| Import volume | -3.3 | -3.6 | -9.4 | -6.1 |
| Terms of trade (deterioration -) | -23.4 | -19.8 | 8.2 | 11.8 |
| Workers' remittances | 53.0 | 10.2 | 14.3 | 42.9 |
| Effective exchange rate (depreciation -) 2/ | | | | |
| Nominal | -6.2 | -11.8 | -13.0 | -11.6 |
| Real | -5.6 | -5.6 | -7.0 | -7.4 |
| Government budget | | | | |
| Total revenue | 25.6 | 8.3 | 6.4 | 8.5 |
| Total expenditure | 8.3 | 3.0 | 16.8 | 21.7 |
| (Excluding food account) | 14.0 | 13.9 | 13.8 | 13.3 |
| Money and credit 2/ | | | | |
| Domestic credit | 39.2 | 28.6 | 17.4 | 15.2 |
| Public sector | (45.5) | (28.6) | (15.4) | (10.3) |
| Private sector | (29.3) | (28.3) | (20.8) | (23.9) |
| Money and quasi-money | 22.7 | 18.6 | 11.1 | 13.6 |
| Velocity (GDP/M ₂) | 5.2 | 4.8 | 5.0 | 4.7 |
| (In per cent of GDP, unless otherwise specified) | | | | |
| Underlying government budget deficit (excluding foodstocks) | 9.9 | 11.2 | 11.3 | 11.5 |
| Overall government budget deficit | 11.1 | 9.9 | 11.0 | 11.9 |
| Domestic bank financing | (2.6) | (0.1) | (-0.6) | (-0.5) |
| Foreign financing | (8.0) | (9.4) | (11.4) | (11.9) |
| Balance of payments | | | | |
| Current account deficit | 12.4 | 14.8 | 12.3 | 11.5 |
| Overall balance (US\$ million) | -195 | -245 | -70 | 112 |
| Gross official reserves (weeks of imports) | 5.0 | 2.5 | 2.8 | 4.8 |
| External debt (includes Fund credit, US\$ billion, end of period) | 3.9 | 4.3 | 5.0 | 5.0 |
| Debt service ratio (in per cent of exports of goods and services) | 27.4 | 24.2 | 28.9 | 28.3 |
| Debt service ratio (in per cent of exports of goods and services, plus workers' remittances) | 19.7 | 16.4 | 19.0 | 16.9 |

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

1/ At constant market prices.

2/ Annual averages.

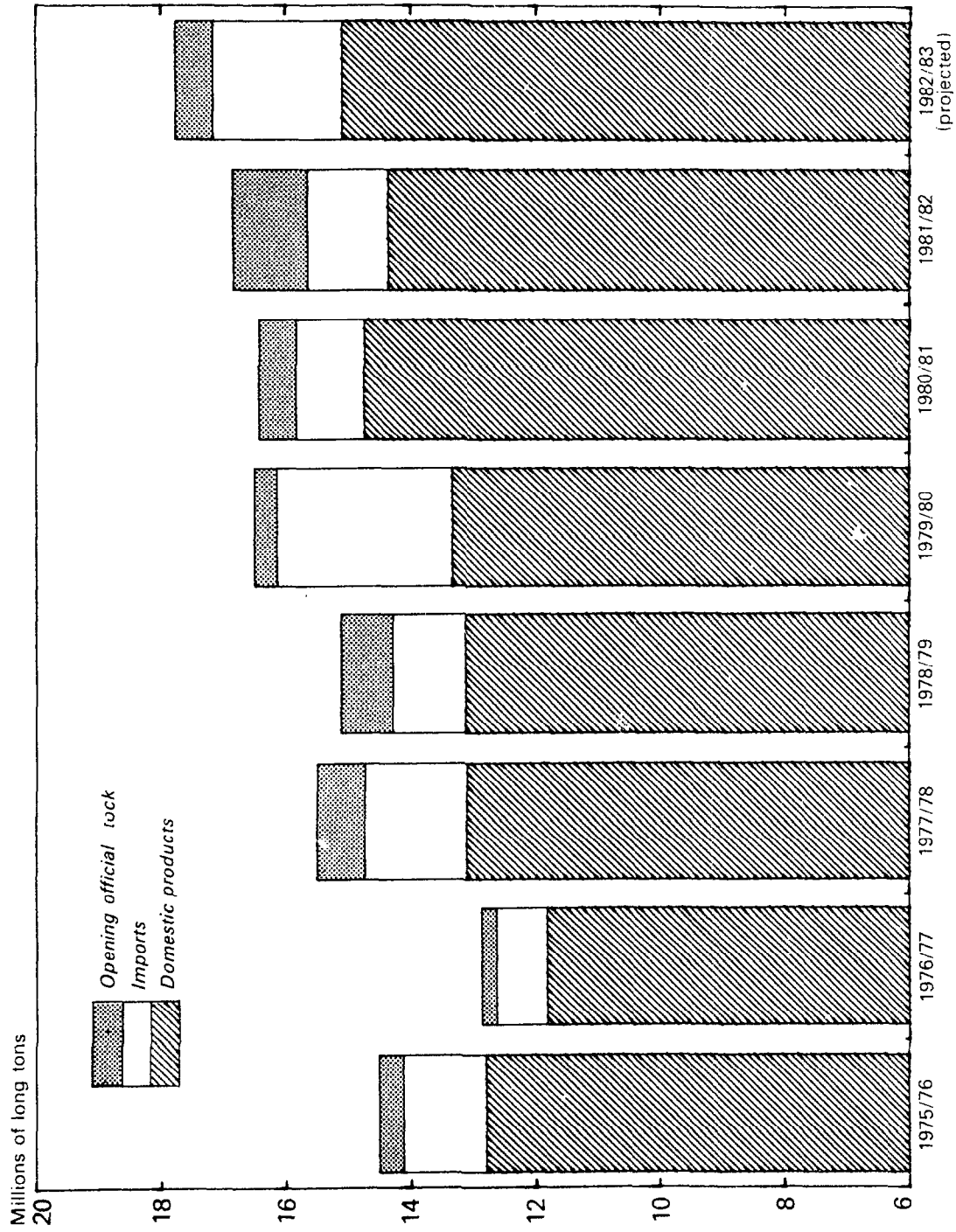
Table 2. Bangladesh: Quantitative Performance Criteria and Actual Developments Under the 1982/83 Stand-By Arrangement

| | 1983 | |
|--|---|-------|
| | March | June |
| | <u>(Outstanding in billions of taka; end of period)</u> | |
| Total domestic credit of the banking system | | |
| Ceiling | 70.50 | 74.40 |
| Actual | 67.74 | |
| Credit to the public sector | | |
| Ceiling | 42.80 | 46.80 |
| Actual | 39.85 | |
| | <u>(In millions of U.S. dollars)</u> | |
| New external loans contracted by the public and private sectors (February-June 1983) | | |
| 1- to 12-year maturity | | |
| Ceiling | 100 | 100 |
| Actual | 14.2 | |
| 1- to 5-year maturity | | |
| Ceiling | 70 | 70 |
| Actual | 14.2 | |

Source: Data provided by the Bangladesh authorities.

Until 1980/81, the increasing inflows of external aid, together with a relatively rapid growth of the economy, enabled Bangladesh to raise investment levels from an average of 10 per cent of GNP during 1974/75-1977/78 to 17 per cent in 1980/81 (Appendix Table II). National saving (including workers' remittances) also increased, though it remained low at an estimated level of only about 4 per cent of GNP. In 1981/82, adjustment to the lower level of external resource availability was made through a sharp reduction in the level of investment, particularly in the public sector, while consumption levels--which were protected mainly by delaying increases in key administered prices--continued to rise. The situation changed in 1982/83, as the authorities shifted to consumption a greater part of the burden of adjustment in order to minimize the fall in investment. As a result of the adjustment measures implemented in the course of the year, consumption is expected to stagnate in real terms during

CHART 1
BANGLADESH
AVAILABILITY OF FOOD GRAIN SUPPLY



Source: Data provided by the Bangladesh authorities

1982/83, while the level of gross fixed investment is projected to increase by about 0.5 per cent, compared with a fall of almost 9 per cent in the previous year.

Since government investment declined, the slight growth in total fixed capital formation reflects an expansion in private investment, mostly in rural areas, but also in construction and industry. The growth of private investment in industry is in part the consequence of the New Industrial Policy (NIP) promulgated in June 1982, under which the Government expanded the number of sectors open for private sector participation and simplified the investment sanction procedures. A prominent feature of the NIP has been the decision to return to their former Bangladeshi owners 30 jute and 28 textile mills, representing over one third of total capacity, which had been nationalized after independence. This divestment program, which has been virtually completed, has led to some increase in investment demand, as the new owners began to rehabilitate and upgrade the divested units.

2. Food situation

The Government of Bangladesh maintains a food procurement and distribution system, under which it purchases foodgrains from farmers at a floor price set at incentive levels and distributes foodgrains through a ration system at subsidized prices; it also occasionally sells foodgrains on the free market to stabilize market prices. The Government is also responsible for food imports and the maintenance of an adequate level of official stocks. Approximately 10 to 15 per cent of total foodgrain consumption transits through the official distribution system.

The authorities regard 1.2 million tons as the minimum level of official stocks needed at the start of the fiscal year to operate the system efficiently, a level equivalent to about one month of total consumption or six months of peak ration system offtake. Following the crop failure in 1981/82, domestic procurement fell sharply which, together with an increase in offtakes, led to a halving of the level of stocks to 0.6 million tons by the end of the fiscal year. Although production has increased in 1982/83, domestic procurement has remained low. This appears to be the consequence of both the low level of official stocks which normally encourages private sector hoarding and a decision by the Government to eliminate the middlemen from the procurement process. In order to replenish stocks to a somewhat more comfortable level, the authorities have decided to import 0.8 million tons of foodgrains on commercial terms, or about double the amount foreseen earlier. With these imports, stocks are projected at 0.85 million tons by the end of 1982/83--still below the level considered to be adequate.

The additional commercial food imports were partly financed through cash payments and partly through external borrowings. Although these imports were not envisaged when the stand-by program was negotiated, their financing does not require any modification in either the domestic credit ceilings or the foreign borrowing limits, as the credit expansion

to the public enterprises has been lower than anticipated, and some planned external borrowings for non-food purposes have been postponed. Since balance of payments developments have turned out to be better than expected, the additional food imports could be accommodated without placing increased pressure on the external accounts.

3. Public sector policies

In 1982/83, the authorities introduced a series of measures designed to increase the mobilization of domestic resources and to improve the public sector's financial position. The budget was framed with the objective of avoiding any domestic bank financing, except with respect to food stocking operations, should such a financing need arise (Table 3 and Appendix Table III). Several new tax measures were introduced--including increases in the land tax and upward adjustments in selected customs duties and sales and excise taxes--subsidies on foodgrains and fertilizers were reduced, and the Annual Development Program (ADP) was set at a level consistent with a realistic assessment of resources. The underlying fiscal deficit excluding the food stocking operations was projected to remain approximately unchanged as a ratio of GDP, which implied a decline in the ratio of nearly 2 percentage points after adjustment for the valuation impact of the depreciation of the taka on the local currency value of foreign aid. The deficit was forecast to be fully financed by foreign aid and domestic nonbank borrowing, and net domestic bank credit to the Government was 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.

Apart from the impact of the higher food imports, budgetary developments during the first ten months of 1982/83 have been broadly in line with program targets. As a result of a better-than-expected collection of import duties and excise and income taxes, government revenue for the fiscal year as a whole is now projected to be about 2 per cent higher than foreseen under the program. On the other hand, because of the higher food imports, total expenditures are projected to be about 4 per cent larger. The consequent increase in the overall budget deficit will be financed by greater external borrowings, mainly in the form of deferred food payments, and a somewhat lower-than-targeted surplus (Tk 1.2 billion) in the Government's position vis-a-vis the domestic banking system. However, the underlying revenue and expenditure balance, which excludes the food stocking operations, is projected to be about the same as foreseen under the program. In recent months, there has been some slowing in the disbursements of commodity aid as public enterprises have experienced institutional delays in requesting goods available under such aid. The authorities indicated that should there be a worsening of this trend in the closing months of the fiscal year, the Government's surplus vis-a-vis the banking system could be somewhat further reduced.

Table 3. Bangladesh: Summary of Central Government Operations, 1979/80-1982/83

(In billions of taka)

| | 1979/80 | 1980/81 | 1981/82 | 1982/83 | |
|---|---------|---------|---------|---------|----------------------|
| | | | | Program | Revised Estimates |
| Total revenue | 17.2 | 21.6 | 23.4 | 24.9 | 25.4 |
| Total expenditure | 40.0 | 43.3 | 44.6 | 52.1 | 54.3 |
| Overall deficit | 22.8 | 21.7 | 21.2 | 27.2 | 28.9 |
| Underlying deficit <u>1/</u> | 20.6 | 19.4 | 24.0 | 28.0 | 27.8 |
| Net foreign financing | 18.9 | 15.6 | 20.1 | 28.1 | 28.9 |
| Net domestic bank financing | 3.0 | 5.0 | 0.3 | -1.5 | -1.2 |
| (In per cent of GDP) : | | | | | |
| <u>Memorandum items:</u> | | | | | |
| Revenue | 10.0 | 11.1 | 10.9 | 10.1 | 10.5 |
| Expenditure | 23.3 | 22.2 | 20.8 | 21.1 | 22.4 |
| Deficit | 13.3 | 11.1 | 9.9 | 11.0 | 11.9 |
| Underlying deficit, excluding food stock changes | 12.0 | 9.9 | 11.2 | 11.3 | 11.5 |

Sources: Ministry of Finance; Ministry of Food; and staff estimates.

1/ Overall deficit excluding net transactions with respect to food stocking operations.

With the introduction of the 1982/83 budget, the authorities also undertook to improve project implementation. In the past, the tendency to overestimate resources led to the inclusion of too many projects in the ADP, including projects that were not yet approved or sufficiently appraised. This practice led to an inadequate implementation even of the priority projects, since whenever the resource availability imposed cutbacks in expenditure, all projects tended to suffer. With the aim of establishing an order of priority and of protecting key projects from cutbacks in the event of an unexpected shortfall in revenue, a core program was adopted within the 1982/83 ADP. The level of the core program was set at 80 per cent of the ADP; it gave priority to projects which were foreign-assisted, ongoing, and quick-yielding. The release of funds for projects in the core program was streamlined, by allowing automatic releases for the first three quarters of the fiscal year; fourth quarter releases have remained subject to the approval of the Ministry of Finance. These reforms in the budgetary procedures, which have been supported by the IBRD and were welcomed by the aid donor community, have alleviated one of the important bottlenecks to the faster implementation of priority projects.

During the first half of the fiscal year, expenditures were limited to the core program. With the resource picture becoming clearer, the tempo of expenditures has been accelerated in the second half, as spending on noncore programs has been authorized and new projects have been added to the ADP. As a result of these additions and valuation effects resulting from the depreciation of the taka, the authorities have increased to Tk 30.5 billion the budgeted level of the ADP for 1982/83. However, the actual level of ADP is not expected to exceed the programmed level of Tk 29 billion because of anticipated shortfalls in project implementation, particularly in the areas of health and education where such shortfalls have been customary.

The financial position of public enterprises has also improved considerably. Following the substantial increase in domestic petroleum prices effected in the course of 1982/83 ^{1/} and the decline in world oil prices, the Bangladesh Petroleum Corporation, which had been recording large losses, is currently running a small operating surplus. The Bangladesh Power Corporation has also been able to strengthen its financial position as a result of price adjustments and the completion of the East-West Interconnector, which allows the substitution of oil-generated electricity in the west with electricity produced by cheaper, domestically produced natural gas in the east; it is estimated that the interconnector will save Bangladesh the equivalent of about US\$25 million per year in oil imports. There has also been a marked improvement in the Jute Mills Corporation's financial position, which has been partly brought

^{1/} Current petroleum prices in Bangladesh are, on average, higher than world market prices and compare favorably with prices in neighboring countries.

about by the depreciation of the taka. Overall, the net financial position of the nonfinancial public enterprises turned from a deficit of Tk 4.6 billion in 1981/82 to an estimated surplus of about Tk 500 million in 1982/83 (Appendix Table IV).

4. Monetary policy and price developments

Following two years of high rates of inflation and mounting balance of payments pressure, the monetary program for 1982/83 was designed with the aim of facilitating external adjustment and reducing the rate of inflation. The program envisaged a deceleration in the average expansion of liquidity from 19 per cent in 1981/82 to about 11 per cent in 1982/83, and of domestic credit, from 29 per cent to about 17 per cent (Table 4 and Appendix Table V).

The growth of domestic credit has been smaller than envisaged under the program. At the end of March 1983, total domestic credit was about 4 per cent below the program ceiling, and there was virtually no change in the level of total credit in April. While credit to the private sector rose faster than anticipated, credit to the public sector was substantially lower than programmed, partly because of a better-than-expected improvement in the financial performance of public enterprises and partly because the Bangladesh Petroleum Corporation rolled over a large part of its external short-term debt, which it was expected to refinance domestically.

During the year ended in April 1983, credit to the public sector rose by an average of 12 per cent, compared with 33 per cent during the preceding 12-month period. In addition to the sharp reduction in the credit needs of public enterprises, the slow growth of public sector credit also reflects the accumulation of a surplus by the Government vis-a-vis the domestic banking system on account of its food operations.^{1/} The reduction in the financing requirements of the public sector has provided room for a significant growth of credit to the private sector (Chart 2). The expansion of private sector credit during the period has come to a large extent from an increase in agricultural credit to finance the purchases of seeds, fertilizers, and irrigation equipment. To increase rural credit, the authorities have expanded the financial facilities offered and extended the coverage of and eligibility for agricultural credit.

Notwithstanding the lower-than-programmed credit expansion, the growth of liquidity was faster than expected, as the overall balance of payments moved into a surplus, compared with an anticipated deficit. The more rapid growth of liquidity has not led to any increase in inflationary pressures (Chart 3). In fact, after a temporary acceleration in

^{1/} In view of the deferred payments obligations with respect to commercial food imports effected in 1982/83 and the need to build up food stocks further next year, the authorities intend to restrict the use of the surplus in the food account for general budgetary operations.

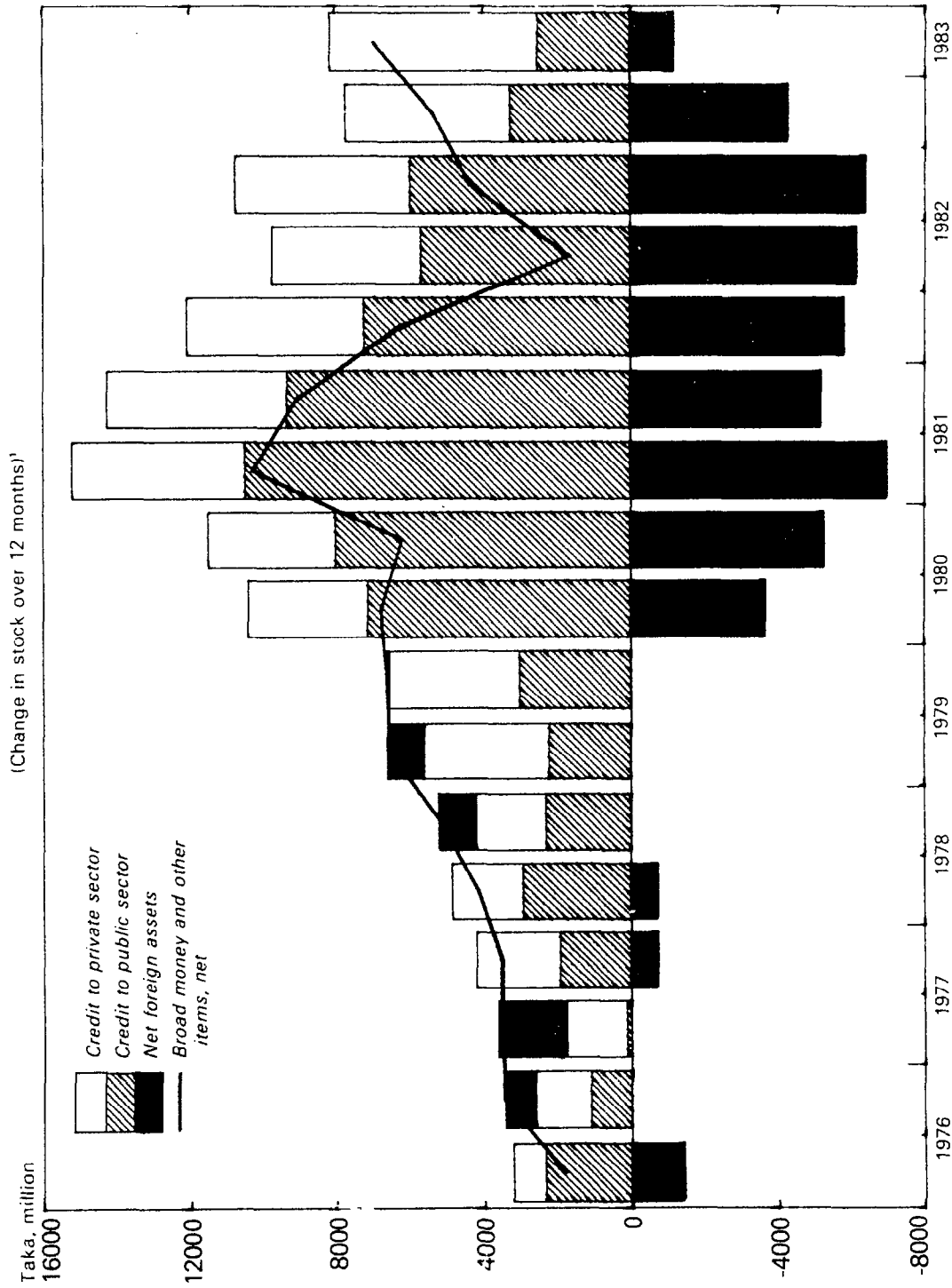
Table 4. Bangladesh: Summary of Monetary Developments, 1981-83

| | 1981 | 1982 | 1983 | | | | |
|--|-------|--------|---------|----------|-------------|---------|-------------|
| | June | | March | | April | June | |
| | | | | | | Staff | |
| | | | Program | Actual | Provisional | Program | Projections |
| (In billions of taka at end of period) | | | | | | | |
| Net foreign assets | -7.95 | -15.53 | -18.20 | -12.19 | -11.55 | -19.10 | -15.70 |
| Domestic credit | 54.88 | 64.65 | 70.50 | 1/ 67.74 | 67.78 | 74.40 | 1/ 72.60 |
| Public sector | 35.86 | 41.54 | 42.80 | 1/ 39.85 | 39.21 | 46.80 | 1/ 42.80 |
| Private sector | 19.02 | 23.11 | 27.70 | 27.89 | 28.57 | 27.60 | 29.80 |
| Broad money | 43.72 | 47.19 | 50.00 | 53.22 | 53.09 | 52.80 | 54.40 |
| (Annual average percentage changes) | | | | | | | |
| Rate of increase of average level during fiscal year | | | | | | | |
| Domestic credit | 39.2 | 28.6 | 17.7 | 17.3 | 16.3 | 17.4 | 15.2 |
| Broad money | 22.7 | 18.6 | 11.0 | 11.6 | 12.2 | 11.1 | 13.6 |

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

1/ Program ceilings.

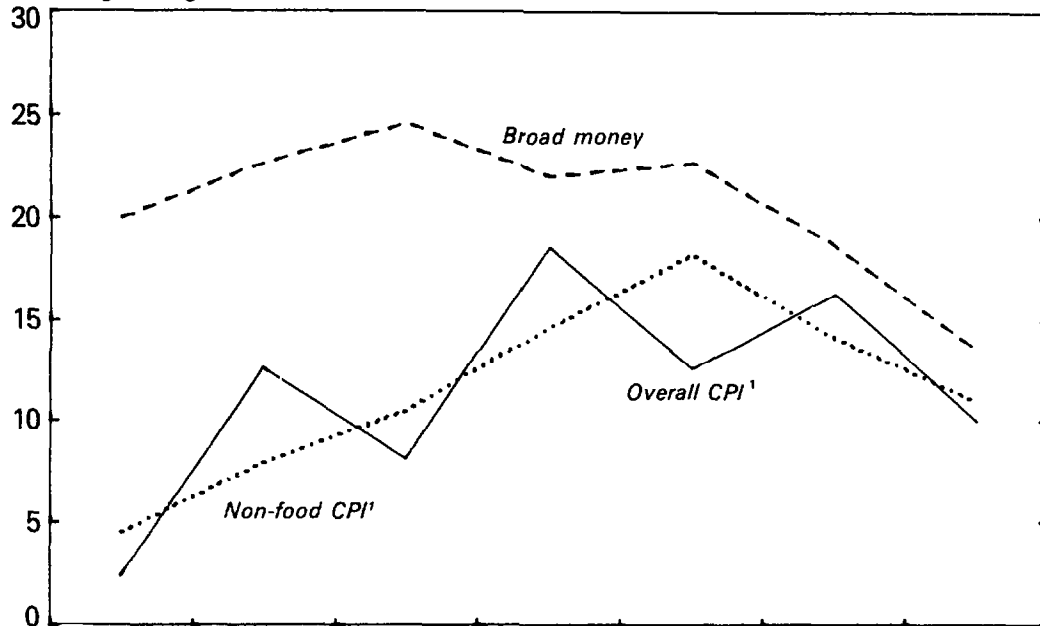
CHART 2
BANGLADESH
FACTORS AFFECTING MONEY SUPPLY



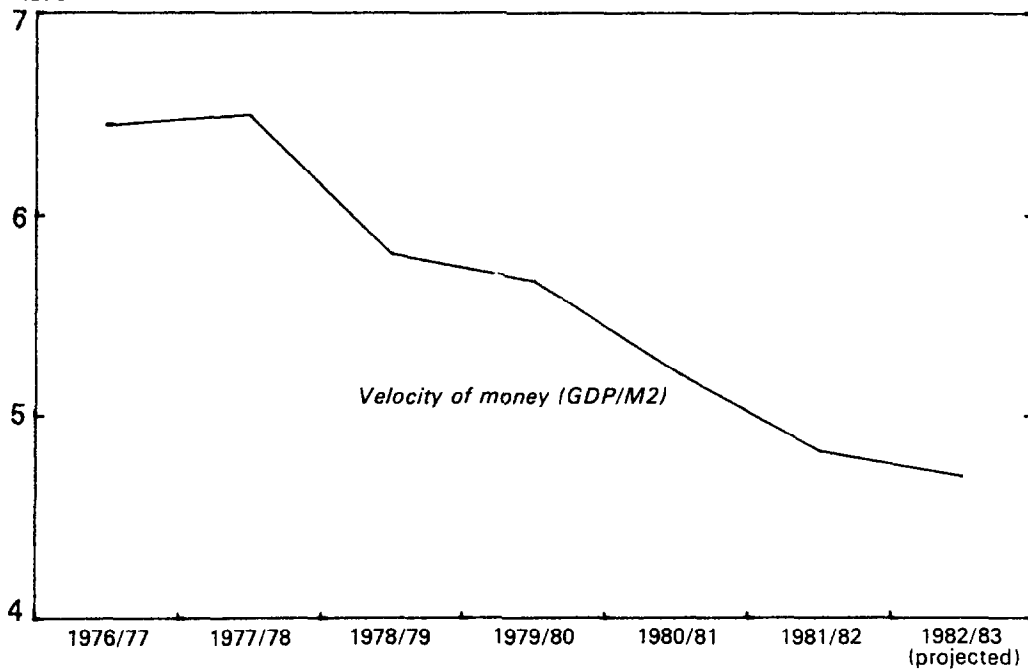
Source: Data provided by the Bangladesh authorities.
¹For 1976-81, 12-month periods ending in June and December; thereafter, 12-month periods ending in each quarter.

CHART 3
BANGLADESH
INFLATION, LIQUIDITY EXPANSION,
AND VELOCITY OF MONEY

Annual averages
Percentage change



Ratio



Source: Data provided by the Bangladesh authorities.
¹CPI for middle income families in Dhaka; 1973/74=100.

the first quarter of the fiscal year following the administered price adjustment, the rate of inflation has declined faster than expected and is now projected at 10 per cent for 1982/83 as a whole, compared with 16 per cent in 1981/82 and a program target of 12 per cent. The greater monetary expansion has thus served mainly to satisfy an increase in the demand for money, which can be associated with the decline in inflationary expectations and the emergence of significant positive real interest rates.^{1/}

The authorities emphasized their commitment to follow monetary policies that will prevent a rekindling of inflation. In this connection, they stated that since the credit needs of the public enterprises had been reduced, credit to the public sector would remain significantly below the ceiling during the remainder of the program period. On the other hand, credit to the private sector was expected to grow faster than originally envisaged; nevertheless, total credit was also likely to remain below the ceiling.

5. Balance of payments situation

The balance of payments is projected to show a significant improvement in 1982/83, brought about principally by a rapid growth in workers' remittances, mostly from the Middle East, an amelioration in the terms of trade, and a considerable contraction in non-food imports (Table 5, Charts 4 and 5, and Appendix Table VI). The most favorable development has been the growth in workers' remittances, which are now projected to increase by over 40 per cent in 1982/83, much faster than foreseen under the program. The main factors contributing to this rapid growth appear to have been an increase in the number of Bangladeshi workers abroad, the favorable exchange rate, and improved facilities offered to immigrants to effect remittances, such as an increase in the number of branches by Bangladeshi banks in host countries and the introduction of a taka draft system. There has been a significant improvement in the terms of trade (estimated at 12 per cent) as well, due mainly to a firming of export prices and a decline in the world prices of oil and food-grains.

A less favorable development has been the decline in the volume of jute goods and leather exports, owing to weak world demand. As a result, total export earnings are now projected to grow by only 4 per cent in 1982/83, compared with an increase of 10 per cent forecast earlier. On the other hand, despite higher food imports, total imports are also projected to be lower than anticipated, reflecting weaker domestic demand and more favorable price developments in international markets. Non-food imports are now projected to fall by 17 per cent in nominal terms, which implies a substantial reduction in real terms.

^{1/} The one-year time deposit rate is currently 14 per cent and the general lending rates (i.e., excluding priority sectors) range between 14.5 and 16 per cent. These nominal interest rates have remained unchanged since December 1981.

Table 5. Bangladesh: Summary of External Indicators, 1980/81-1984/85

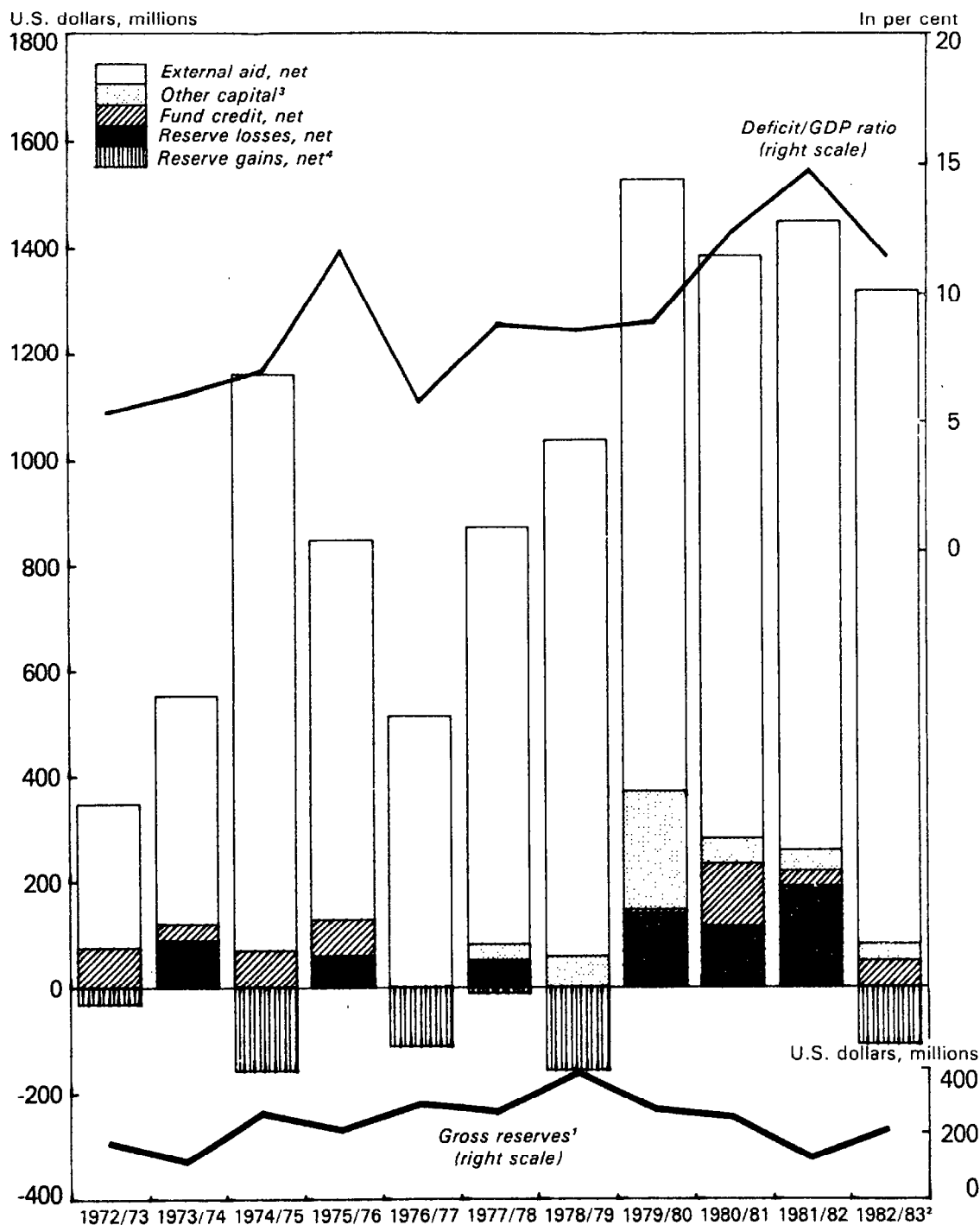
(In millions of U.S. dollars)

| | 1980/81 | 1981/82 | 1982/83 | | 1983/84 | 1984/85 |
|---|---------|---------|---------|----------------------|----------------------|-----------|
| | | | Program | Revised Estimates | Staff Projections | <u>1/</u> |
| Exports | 708 | 627 | 687 | 650 | 720 | 778 |
| Imports | -2,575 | -2,572 | -2,321 | -2,300 | -2,500 | -2,690 |
| Private remittances | 381 | 420 | 480 | 600 | 650 | 685 |
| Current account deficit | -1,475 | -1,579 | -1,264 | -1,160 | -1,218 | -1,309 |
| (As per cent of GDP) | (12.4) | (14.8) | (12.3) | (11.5) | (11.0) | (10.4) |
| External aid (net) | 1,103 | 1,191 | 1,237 | 1,240 | 1,366 | 1,415 |
| Overall balance | -195 | -245 | -70 | 112 | 7 | 85 |
| Gross reserves (in weeks of imports) | 5.0 | 2.5 | 2.8 | 4.8 | 5.0 | 5.0 |
| Total debt service payments/ exports of goods and services | | | | | | |
| Excluding workers' remittances | 27.4 | 24.2 | 28.9 | 28.3 | 32.7 | 31.2 |
| Including workers' remittances | 19.7 | 16.4 | 19.0 | 16.9 | 19.9 | 19.1 |
| Outstanding stock of short-term commercial debt (end of period) | 35 | 103 | 103 | 66 | -- | -- |

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

1/ For assumptions underlying these projections, see Appendix Table VII.

CHART 4 BANGLADESH CURRENT ACCOUNT DEFICIT AND ITS FINANCING



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

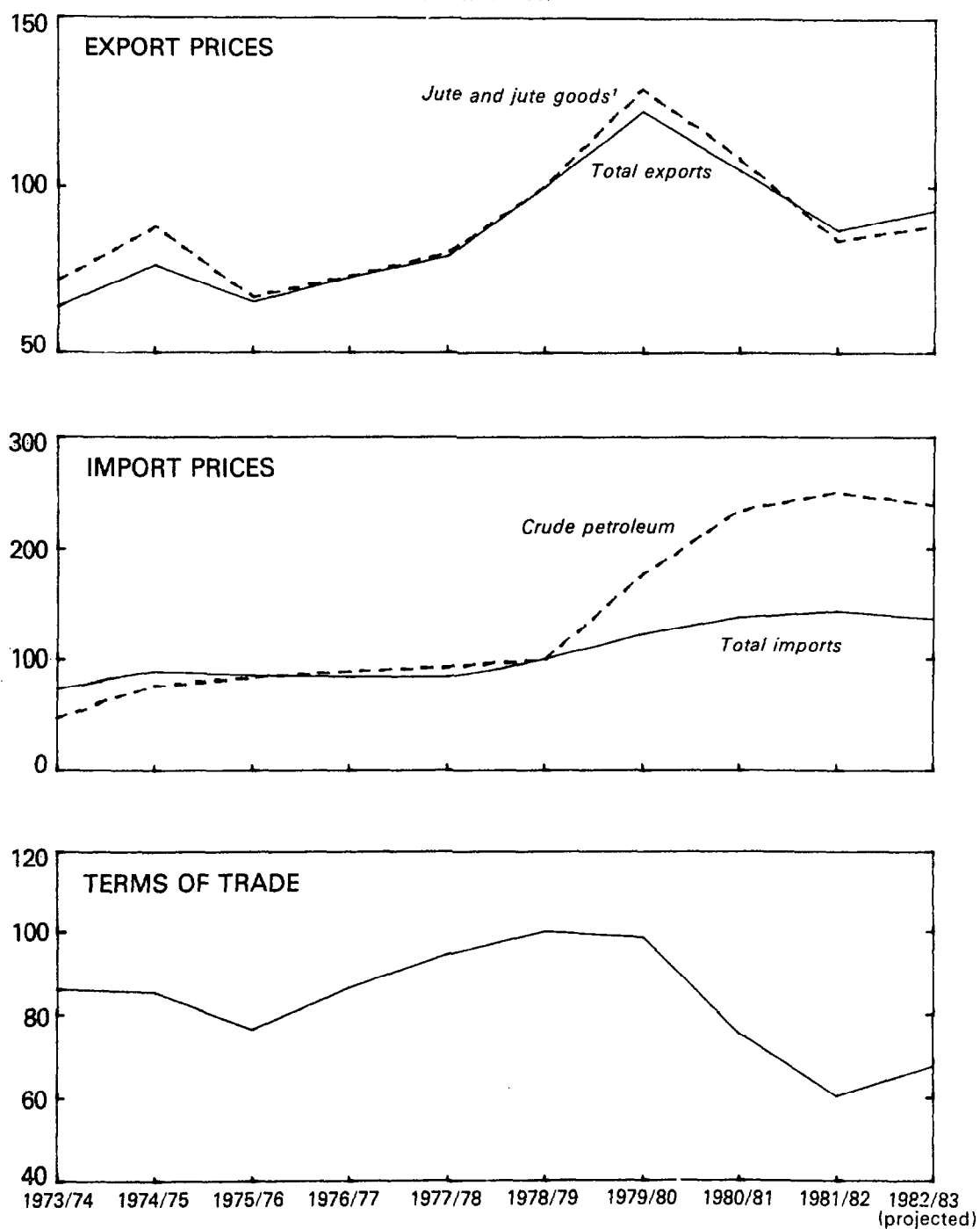
¹ At end of fiscal year.

² Estimate.

³ Includes SDR allocation, gold profits, and commercial loans.

⁴ Includes net repayments to the Fund.

CHART 5
BANGLADESH
EXPORT AND IMPORT PRICES AND TERMS OF TRADE
(1978/79=100)



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

¹Weighted index of raw jute and jute goods export unit values.

Although the deficit in the services account is estimated to double due to increased interest payments and higher international operating costs for the national airline, the current account deficit is now expected to narrow from US\$1.58 billion (14.8 per cent of GDP) in 1981/82 to US\$1.16 billion (11.5 per cent) in 1982/83, compared with a deficit of US\$1.26 billion (12.3 per cent) envisaged earlier. Aid disbursements will be somewhat less than anticipated under the program, because implementation of the full ADP had not been authorized until the second half of the year and there have been delays in processing commodity aid requests. While the Government increased its external borrowings to finance the additional food imports, some deferred food import payments that fell due were postponed.

Reflecting the above developments, the overall balance of payments is projected to show a surplus of US\$112 million in 1982/83, compared with a deficit of US\$245 million recorded in the previous year and a deficit of US\$70 million foreseen under the program. Such a surplus has permitted a much-needed buildup of reserves, which is projected to reach a level equivalent to about five weeks of imports at the end of 1982/83, compared with less than three weeks of imports a year earlier. Even though the program foresaw no change in the stock of outstanding short-term external debt, the better balance of payments performance has allowed a reduction in such debt, which is now estimated to decline by close to US\$40 million. As to external borrowings with maturities of more than one year, the contracting of new loans has remained comfortably below the program limits.

6. Exchange and trade policies

Since October 1980, the authorities have adopted a flexible exchange rate policy aimed at encouraging a gradual shift of resources toward the external sector (Chart 6). Since then through December 1982, the nominal effective exchange rate for the taka in the official market depreciated by 37 per cent, and the real rate, by about 17 per cent. The objective of the program was to avoid an appreciation in the real effective exchange rate for the taka. This policy was to ensure an average depreciation of the official rate of about 7 per cent in real terms during 1982/83. As of end-March 1983, the level of the real effective exchange rate was approximately the same as in December 1982.

With a view to providing incentives for workers' remittances and nontraditional exports,^{1/} a secondary exchange market has been maintained in which proceeds from these transactions are auctioned off.^{2/} Until December 1981, there was an important premium (fluctuating between 15 to

^{1/} Through the Wage Earners' Scheme (WES) and the Export Performance Licensing Scheme (XPL), respectively. See the associated Recent Economic Developments report to be issued shortly.

^{2/} During the past two years, an average of about 20 per cent of total imports and 50 per cent of nonaid imports have transited through the secondary market.

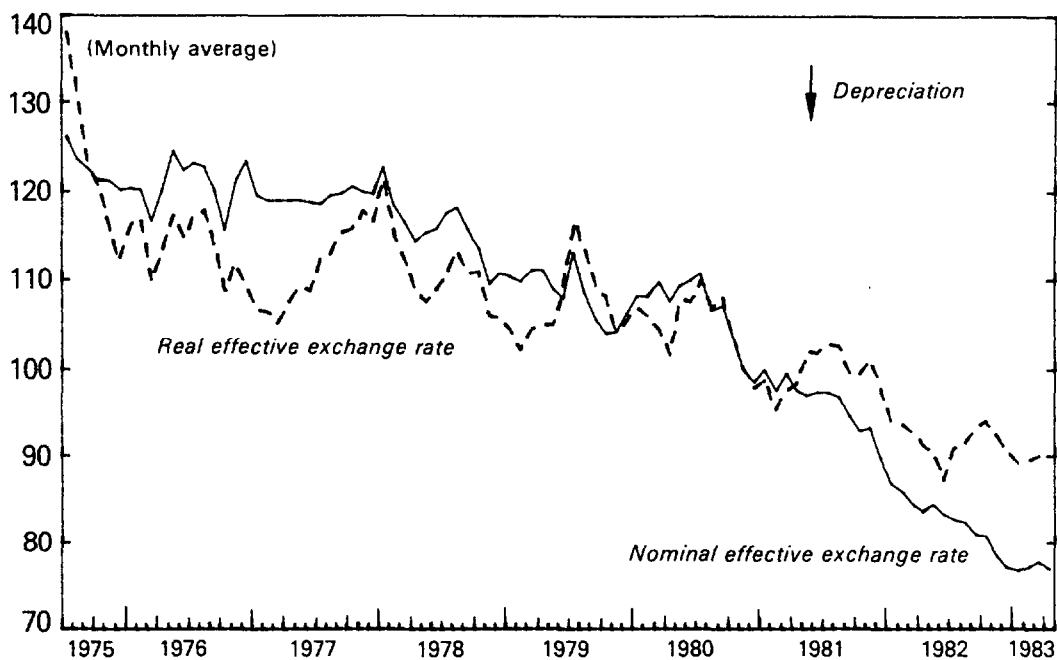
30 per cent during the preceding two years) in this market vis-a-vis the official exchange rate. However, in the course of 1982, the premium virtually disappeared due to a combination of several factors, including the restrictive credit policy for financing imports in the secondary market and the depreciation of the official exchange rate. Partly to maintain a minimum premium in the secondary market and partly to prevent a manipulation of the market by brokers at a time when demand for foreign exchange has been weak, the Bangladesh Bank has, since November 1982, set a floor price in the auction market at which price it purchases all foreign exchange not sold through the auction. The floor price has been set at about 1 per cent above the official exchange rate and has been adjusted whenever the official rate has been changed. This policy, coupled with the continued depreciation of the official rate, ensured a depreciation of the exchange rate in the secondary market, reversing the appreciation which took place in this market between September 1981 and March 1982.

The flexible exchange rate policy has had a beneficial impact on the economy in several ways. Although the development of major exports, such as jute, jute goods, and leather, has been constrained by weak world demand, the depreciation has, in the face of declining world prices, made it possible for producers to receive a higher price in domestic currency than would have been possible otherwise, thereby attenuating the adverse impact of the decline in world prices on producer incentives. In addition, the depreciation has helped the Jute Mills Corporation to substantially improve its financial position. The continued good performance of such exports as ready-made garments, tobacco, handicrafts, and fresh fruits and vegetables is an indication that the flexible exchange rate policy, together with the promotion efforts undertaken over the past two years, has had a favorable impact on the development of nontraditional exports. The depreciation is also likely to have contributed to the increase in workers' remittances by reducing the incentives for workers to remit their foreign savings in the form of unrecorded imports from neighboring countries; it may have also reduced the incentives for them to hold back their savings in the expectation of a more favorable rate. Furthermore, through the real balance effects, the depreciation has reduced demand and has helped contain imports without resorting to quantitative restrictions. Finally, the flexible exchange rate policy has had a strong secondary benefit in the form of increasing import duty receipts and commodity aid counterpart funds.

In addition to the flexible exchange rate policy, several other exchange measures were introduced to encourage exports and expand the secondary market. In July 1982, the export duties on raw jute and tea were abolished, and the XPL 1/ was modified by the addition of an 80 per

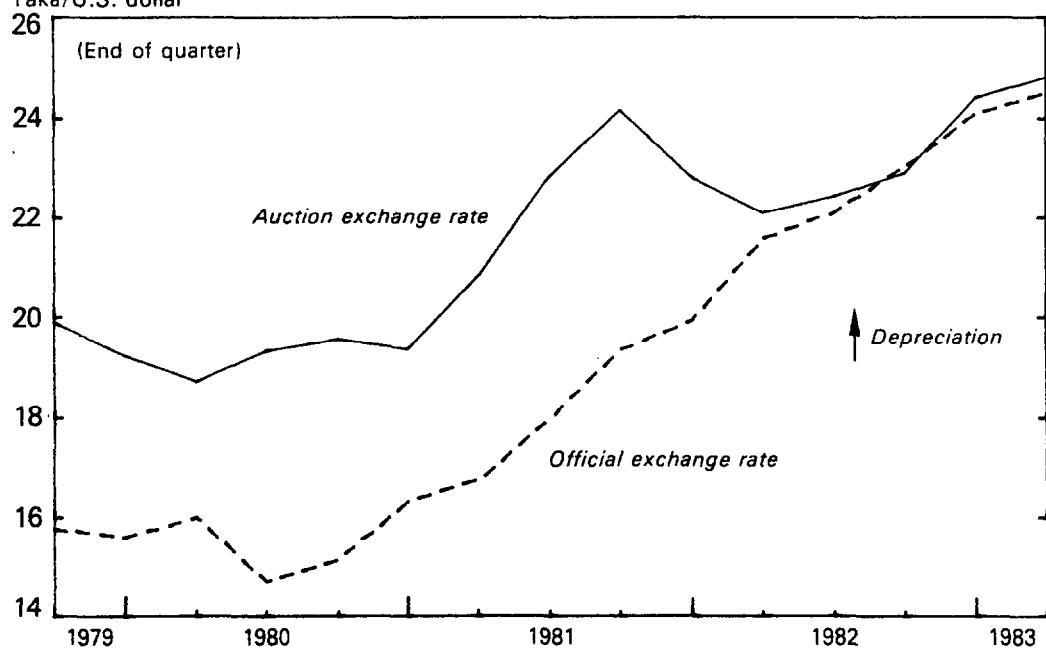
1/ Under the scheme, exporters obtain import entitlement certificates up to the indicated percentage of the net value added of their foreign exchange earnings, which can be sold or utilized for the import of any commodity eligible for import in the secondary market. All exports other than raw jute, jute goods, and tea are eligible for import entitlements under the scheme.

CHART 6
BANGLADESH
NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES¹



OFFICIAL AND AUCTION EXCHANGE RATES

Taka/U.S. dollar



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

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

cent entitlement rate to the already existing 40 per cent and 60 per cent rates; also, all new nontraditional exports were made automatically eligible for the 40 per cent rate. Furthermore, a separate line of credit was established by the Bangladesh Bank for financing exports, and exporters of nontraditional goods who exceeded their previous year's earnings by at least 10 per cent were entitled to a 10 per cent income tax rebate.

During 1982/83, several changes were introduced 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.^{1/} The number of goods permitted to be imported in the secondary market has been expanded during the year, and importation through this market is now free for both private importers and public entities. The minimum advance deposit requirements for opening letters of credit were reduced from 15 per cent to 10 per cent for most essential items and from 50 per cent to 25 per cent for nonessential items. However, despite the enactment of these measures, the import system remains restrictive and a large number of items are banned for protective reasons.

Bangladesh maintains 10 bilateral payments (or commodity exchange) agreements, under which the balance of trade in favor of Bangladesh had declined to US\$1 million in 1981/82. Four of these arrangements are with Fund members--Hungary, the People's Republic of China, Romania, and Yugoslavia. Bangladesh's exchange system has the following features which are subject to Article VIII: (1) multiple currency practices arising from (a) operations of the Wage Earners' Scheme (WES), (b) the Export Performance License Scheme (XPL), and (c) advance deposit requirements for imports of luxury goods under the WES and XPL; and (2) bilateral payments agreement with the People's Republic of China.

III. Outlook and Policy Issues

Despite the recent improvement in the external position, Bangladesh's balance of payments remains fundamentally weak. The level of imports needed to sustain a reasonable development effort is about four times larger than exports. At the same time, exports continue to be heavily dependent on jute and jute goods (accounting for over 60 per cent of total export earnings), the world demand for which is expected to increase slowly at best. Although workers' remittances have become a growing source of foreign exchange earnings, there are many uncertainties regarding their future growth. In the past, the rapidly rising current account deficits have been almost fully financed by external aid, which rose from 5 per cent of GDP in 1973/74 to 13 per cent in 1982/83. While it is reasonable to expect some growth in the nominal levels of aid, the authorities cannot count for the years ahead on a rapid increase in real terms such as experienced in the 1970s.

^{1/} See the associated Recent Economic Developments report to be issued shortly.

The situation is compounded by the fact that Bangladesh is faced with an increasing external debt service burden (Appendix Table VII). At the end of 1982/83, Bangladesh's total external debt (including the IMF) is expected to reach about US\$5 billion. Even though about 90 per cent of the debt other than Fund credit represents concessional loans, the large accumulation of such loans over the years, together with the recourse to commercial loans and purchases from the Fund over the past two years, have caused a considerable increase in debt service payments for the next several years. Such payments, which represented 24 per cent of exports of goods and services (16 per cent in relation to exports plus workers' remittances) in 1981/82, are projected to rise to 33 per cent (21 per cent) in 1986/87 before they begin to decline.

If policies to strengthen the balance of payments performance are not pursued, an outflow of resources of the above magnitude will seriously hinder the Government's objective to improve the welfare of its population over the longer run. One important task is to maintain domestic financial stability so as to preserve the hard-earned benefits of the stabilization effort in 1982/83. In addition, continuing progress on the longer-term issues of domestic resource mobilization, investment policies, and development of the traded-goods sectors is needed.

1. The outlook for 1983/84

In view of the easing of the immediate balance of payments pressures, the authorities would like 1983/84 to be a year of consolidation. After a period of two years over which investment and per capita incomes have declined, the major concern of the authorities for next year is to revive investment and to accelerate growth. Given the low level of capacity utilization in the economy, the prospect for a pickup in world demand, and a somewhat more favorable outlook for aid disbursements, the authorities believe that there is room for resuming the growth process with vigor. They intend to achieve this primarily by increasing the level of ADP, improving project implementation, and generally refraining from taking measures that would depress domestic demand and abort the still fragile recovery that has recently started. Although the 1983/84 budget will be finalized only toward the end of June, the authorities indicated to the staff team that no major new tax measures were being contemplated; however, the tax/GDP ratio was expected to rise as a result of a greater availability of imports. Also, there were no plans for significant reductions in budgetary subsidies, but food and fertilizer prices would be adjusted in line with any cost increases so as to prevent an increase in the unit subsidies.

The authorities have targeted a rate of growth of close to 7 per cent for 1983/84. Assuming normal weather, they hope to achieve a food-grain production of about 16 million tons, representing an increase of about 7 per cent over the expected crop this year. They also anticipate some acceleration in aid disbursement, partly as a result of the favorable outcome of the Bangladesh Aid Group meeting held in Paris during last April. In the aid indications given by donors at that meeting, there

was a significant increase in the proportion of quick-disbursing commodity aid, and several donors also indicated their willingness to finance a greater proportion of the local currency costs of projects. Both these developments are expected to lead to an increase in real terms in aid disbursements during next year.

The staff team emphasized that notwithstanding some improvement in the external aid picture and the prospects for a pickup in world demand, uncertainties remained with respect to the strength of the world recovery, as well as the flow of workers' remittances. It was therefore important to be prudent in resource management by following financial policies that were based on a realistic assessment of external and domestic resource availability. In order to prevent a crowding out of the private sector, the policy of framing the government budget with the objective of avoiding domestic bank financing except for food stocking operations should be continued. In this connection, the staff team stressed the need to set the ADP at a realistic level so as to avoid the experiences of 1981/82, when costly mid-year cuts had to be implemented in the development budget.

Commenting on the authorities' growth target for 1983/84, the staff team observed that such a target should take into account the need for continuing the process of external adjustment started in 1982/83. The authorities stressed that they were conscious that the process of revitalization of the economy should not permit the benefits of the stabilization program to be eroded, and stated that they will monitor the financial situation closely. In particular, they reiterated their commitment to the concept of core programming in the ADP, which should ensure that expenditures would be undertaken only if adequate funding were available.

2. Domestic resource mobilization

The domestic resource mobilization effort in Bangladesh is low. Bangladesh is one of the poorest countries in the world and the difficulties of increasing the mobilization of domestic resources must be appreciated in a nation where, by necessity, a major preoccupation of its population is to ensure a minimum level of consumption. However, in view of the likely slow growth of external resources, gradually raising the savings level is essential for ensuring an adequate rate of investment and even for making full use of the external resources which are available. In the past, nearly all domestic currency requirements of project aid were funded externally through counterpart funds generated by commodity aid. Today, however, commodity aid provides only about half of the domestic funding needs, as there has been a gradual shift over the years from commodity to project aid. The recent moves by donors to provide a greater proportion of quick-disbursing commodity aid and to finance a larger portion of the domestic costs of project aid will alleviate, but not resolve, the problem of growing domestic funding needs. Since a large portion of capital investment is still channeled

through the ADP, notwithstanding the recent steps to expand the role of the private sector, the resource mobilization effort in the budget remains crucial.

Bangladesh's tax effort (less than 9 per cent of GDP in 1982/83) is low by international standards, and the tax revenue is heavily dependent on import-related duties, which account for about 60 per cent of tax receipts. Although because of the low per capita income and the small size of the industrial sector, Bangladesh has no readily available "tax handle" other than the already heavily taxed imports, there is room and a pressing need to expand and diversify the tax base. The staff team suggested that areas on which the authorities could focus are taxes on domestically produced natural gas, the price of which is considerably below world price equivalents, personal income taxation, and land taxation. It is important to make progress in this area in 1983/84 so as to lay the basis for increased resource mobilization in the following fiscal year, when budget revenues from import taxes are not expected to show an increase as strong as projected for 1983/84.

There is also scope for resource mobilization through a further reduction in food and fertilizer subsidies, and the authorities should not interrupt the progress toward achieving their stated objective of phasing out these subsidies over the next few years. Efforts to reduce the subsidies provided through the public enterprises are equally important. The Government should strive to more than eliminate the operating deficits where they still exist. Approximately one third of the ADP is used to provide the nonfinancial public enterprises' capital requirements, but a large share of these resources are subsequently transformed into indirect subsidies when firms find it impossible to service the debt obligations associated with these investments. To ensure efficient resource allocation, it is essential to follow official pricing policies that will enable the enterprises to cover capital costs. Following the administered price adjustments implemented in the course of 1982/83 and the introduction of a more flexible pricing system--whereby most public enterprises can automatically pass on cost increases up to 10 per cent without prior government authorization--the financial performance of public enterprises has improved. Nevertheless, important price increases are still warranted in a number of cases where price adjustments have not fully covered cost increases; this applies in particular to the Power Corporation. Also, there remains a continuing need to improve the productivity, reduce the overemployment, and strengthen the management of the public corporations.

The authorities believe that the greater role being given to the private sector is likely to stimulate private savings and that it is important that the necessary institutional support be provided to attract such savings. Recently, the Government has opened up the banking business to private sector participation, and several private banks have begun operations. It is expected that by changing the public's perception regarding confidentiality of information on financial holdings, these private banks will be able to attract new savings. The authorities explained that so far the Government has not been successful in creating

adequate institutional incentives to stimulate household savings. Therefore, the development of such alternative financial assets as stocks and bonds could be explored. The staff team observed that these measures should be supported by a flexible interest rate policy that aims at maintaining positive real rates.

3. Investment policies

The original Second Five-Year Plan (covering 1980/81-1984/85) was formulated against the backdrop of rapidly rising external resources in the 1970s and the expectations that these trends would continue. But soon after the Plan was launched, the world trade and aid environment deteriorated sharply. The Government's initial reaction was to cut back on nonessential projects while maintaining the major targets of the Plan, since it was felt that the deterioration in the international climate would be overcome shortly. However, as it became clear that the original targets of the Plan could not be achieved, it was decided to revise the Plan in the course of 1982/83. The overall investment program has been scaled down by about a third, while the allocation for private investment has been increased by over 10 per cent, raising its share from about 20 to 35 per cent of the Plan outlays. Though the broad priorities of the Plan--food self-sufficiency, population control, and health and education--remained unchanged, greater importance is being given to projects which would help resource mobilization, increase rural employment opportunities, and improve the balance of payments position. The IBRD supports this development strategy, but recommends that added emphasis be given to crop diversification and the development of domestic energy resources. In this regard, the IBRD has emphasized that even though proven and probable natural gas reserves would cover the country's energy needs for several decades to come, there was a need for a more systematic approach to gas development and exploration.

The need to accelerate project implementation has been an issue that has generated considerable donor concern over the years. The adoption of core programming and the simplification of taka release procedures mentioned earlier have improved the situation, but much more needs to be done in this area. The authorities are fully aware of this problem and have recently undertaken extensive consultations with the IBRD and other donors on the measures that need to be taken. The Government has also decided to decentralize the administration, providing a greater role to the thanas, which are regional units at the county level. The authorities believe that this devolution of administration will increase people's participation and improve program execution.

4. External policies

Satisfactory growth with balance of payments viability cannot be achieved without the promotion and diversification of exports and efficient import substitution. Areas of substantial export growth potential outside jute and jute goods are leather products, fish and seafood, textile goods, tobacco, and fruits and vegetables. In addition to food-grains, the major areas of import substitution are natural gas and gas-based industries, and an array of intermediate and consumer goods.

Over the past several years, a number of measures outside the exchange system have been taken to encourage exports, including the establishment of a free export zone, an Export Promotion Board, and a National Council for Exports for coordinating the export development efforts. However, further measures are necessary in this area. There is a particular need for dissemination of market information to small-scale producers, the provision of adequate credit, and support for marketing and quality control for both jute growers and producers of nontraditional exports. Most importantly, export promotion and import substitution require that clear signals be given to investors through a flexible exchange rate policy to channel resources into those sectors.

Notwithstanding the depreciation of the taka, exporters of nontraditional goods have started to request cash subsidies, as the premium in the secondary exchange market declined to negligible levels. The staff team recommended that rather than providing cash subsidies, the authorities raise the entitlements under the XPL system. Furthermore, in order to encourage the emergence of a premium in the secondary market, imports through this market should be expanded by adopting a negative list of permissible imports and by shifting more imports from the official to exclusively the secondary market. The staff team stressed that these measures should be viewed as transitional arrangements and that the authorities should aim over the medium term at a unification of the exchange markets at an appropriate rate. Such a unification would allow over time the dismantling of the complex network of exchange and trade controls, which involves substantial economic costs. The authorities pointed to their record of exchange rate flexibility over the past years and reiterated their commitment to a continuation of this policy.

IV. Staff Appraisal

In 1982/83, the authorities undertook strong and decisive measures to restore financial discipline and lay the basis for renewed growth and balance of payments viability. As was called for by the difficult circumstances, the measures taken were far-reaching and covered a broad front. With a view to mobilizing domestic resources, the budget introduced several tax measures and reduced subsidies for food and fertilizers. The ADP was set at a realistic level and a new concept of core programming was adopted, accompanied by a series of measures aimed at improving project implementation. In order to strengthen the financial position of public enterprises, substantial upward adjustments were made in administered prices, particularly in the energy and transport sectors. In the monetary field, the authorities have followed policies aimed at controlling inflation. Exchange rate policy has been flexible, and a further significant strengthening of competitiveness has been achieved in 1982/83. At the same time, the restrictions on imports have been eased. The above policies have been supplemented by various measures designed to improve productivity, such as the expansion of input programs in agriculture and the return of several industrial units to the private sector.

Mainly as a result of the policies undertaken, and aided by a more favorable international climate, considerable improvement has been achieved in Bangladesh's external position. The current account deficit is expected to be reduced significantly in 1982/83, and the overall balance, which recorded large deficits in the previous two fiscal years, is expected to show a surplus, allowing a welcome, though still modest, buildup of reserves. After a temporary acceleration in the first quarter of the fiscal year following the administered price adjustment, inflation has moderated significantly. On the strength of a recovery of agricultural production, the rate of aggregate output growth is expected to increase, but activity in the nonagricultural sectors, which had to carry the brunt of the adjustment effort, has declined. However, as a result of the good spring crops and the stepped-up implementation of the ADP, activity in these sectors has now begun to pick up and should strengthen further in the months ahead.

A particularly welcome consequence of the adjustment policies followed in 1982/83 is the marked improvement in the financial position of public enterprises and the Central Government. As a result, the financing requirement of the public sector has been reduced substantially, providing room for an expansion of credit to the private sector despite a deceleration in total domestic credit expansion. The growth in private sector credit has been particularly important in the agricultural sector. This greater availability of rural credit has contributed importantly to the increase in the sale of seeds, fertilizer, and irrigation equipment, which has helped expand agricultural production. The enhanced availability of credit to the private sector will also help provide support to the recently denationalized industries.

In view of the easing of the immediate balance of payments pressures and the sluggish economic activity, the authorities' major concern for the next fiscal year is to revive investment and to renew the growth process. Given a prospective improvement in the external resource availability, there is room for an acceleration of growth. However, there are important uncertainties with respect to the recovery of the world economy and the inflow of workers' remittances. Caution is therefore required in resource management. In this regard, the importance of setting the ADP at a realistic level cannot be overemphasized. Prudence is also required in the area of monetary policy. The recent acceleration in liquidity expansion brought about by the improvement in the balance of payments does not appear to have placed pressure on prices, as the faster liquidity growth has served to satisfy an increased demand for money. However, the authorities will monitor the situation closely to avoid a rekindling of inflation. In order to prevent a crowding out of the private sector, domestic bank financing of the government budget, except with respect to food stocking operations, should be avoided.

The recent improvement of Bangladesh's external position is most encouraging; however, the country's balance of payments remains structurally weak, dependent as it is on a narrow export base, with exports covering only a small portion of the level of imports necessary to

sustain satisfactory growth. At the same time, the foreign borrowings accumulated over the years will claim a growing share of the country's future foreign exchange earnings. This situation could frustrate the objective of achieving sustained growth if the longer-term adjustment efforts initiated in 1982/83 were not pursued vigorously.

The domestic resource mobilization is a crucial element in this effort. In the area of taxation, the objective should be to expand and diversify the tax base, with a view to gradually raising the tax effort. There is also scope for resource mobilization through further reductions in budgetary subsidies. With respect to public corporations, it is important to keep their financial position under close watch in order to prevent the re-emergence of large deficits. This requires flexible and realistic pricing policies, allowing public enterprises to pass on promptly to consumers any increases in costs.

The extent to which output and consumption levels can rise during the years to come will depend to an important degree on the efficiency with which resources are put to use. A careful determination of investment priorities and a careful selection of projects, combined with the strengthening of management capabilities, is therefore essential. The steps introduced in the course of 1982/83 to improve project implementation is an important contribution and the authorities' stated objective of making further significant progress in this area next year is welcome.

Satisfactory growth with balance of payments viability over the medium term cannot be achieved without the promotion and diversification of exports and efficient import substitution. Continuation of a flexible exchange rate policy will be essential in channeling resources into these sectors, as well as providing incentives for workers' remittances. During the past year, steps have been taken to liberalize the import system. This policy should be continued by channeling more imports through the secondary exchange market. The staff is of the view that, over time, Bangladesh should aim at unifying the exchange markets at an appropriate rate. The staff also encourages the authorities to eliminate the bilateral payments agreements with Fund members. In the meantime, the staff does not recommend that the Executive Board grant approval for these practices.

In conclusion, Bangladesh's adjustment effort during 1982/83 has been considerable, and after almost three years of adversities the economy is ready to resume the growth process. It is hoped that the authorities will maintain prudence in resource management and will continue the longer-term adjustment measures initiated in 1982/83, so as to ensure that Bangladesh will achieve a lasting benefit from the present recovery.

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

V. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

A. 1983 Consultation

1. The Fund takes this decision relating to Bangladesh's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with Bangladesh, in the light of the 1983 Article IV consultation with Bangladesh conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

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

B. Review under Stand-By Arrangement

1. The Fund and Bangladesh have completed the review contemplated in paragraph 3(b) of the stand-by arrangement for Bangladesh (EBS/83/56) and in paragraph 2 of the letter of March 9, 1983, attached thereto, without the need to reach new understandings as contemplated therein.

Table I. Bangladesh: Output and Prices, 1979/80-1982/83

(Annual percentage change)

| | 1979/80 | 1980/81 | 1981/82 | 1982/83 Proj. |
|--|---------|---------|---------|------------------|
| Real GDP at market prices | 3.7 | 5.9 | 0.9 | 3.0 |
| Agriculture | 0.1 | 5.5 | -1.9 | 5.0 |
| Industry | 0.2 | 7.7 | 0.4 | -8.0 |
| Construction | 6.4 | 3.2 | 2.9 | -9.0 |
| Services | 9.5 | 6.4 | 4.6 | 4.0 |
| Consumer prices (annual average) ^{1/} | 18.5 | 12.6 | 16.3 | 10.0 |
| Food | 20.9 | 9.1 | 17.8 | 8.5 |
| Non-food | 14.6 | 18.2 | 14.4 | 12.5 |
| <u>Memorandum item:</u> | | | | |
| GDP at current market prices (in billions of taka) | 172 | 195 | 214 | 242 |

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.

Table II. Bangladesh: Estimates of Consumption, Investment,
and Savings, 1974/75-1982/83

(As percentages of GNP at market prices)

| | 1974/75-1977/78 Average | 1978/79 | 1979/80 | 1980/81 | 1981/82 | 1982/83 Proj. |
|--|----------------------------|---------|---------|---------|---------|------------------|
| Consumption | 98.3 | 95.8 | 96.1 | 95.9 | 100.8 | 96.1 |
| Private | 93.0 | 89.2 | 89.1 | 88.4 | 92.4 | 88.6 |
| Public | 5.3 | 6.6 | 7.0 | 7.5 | 8.4 | 7.5 |
| Investment | 10.3 | 12.8 | 16.4 | 16.8 | 13.7 | 14.9 |
| Private | 5.2 | 6.1 | 6.4 | 7.0 | 6.9 | 6.7 |
| Public | 5.1 | 6.7 | 10.0 | 9.8 | 6.8 | 8.2 |
| National savings <u>1/</u> | 1.7 | 4.2 | 3.9 | 4.1 | -0.8 | 3.9 |
| Foreign savings <u>1/</u> | 8.6 | 8.6 | 12.5 | 12.0 | 14.6 | 11.0 |
| <u>Memorandum items:</u> | | | | | | |
| Investment excluding changes in official foodstocks | ... | 13.6 | 15.1 | 15.7 | 15.0 | 14.5 |
| Of which: public investment | (...) | (7.5) | (8.7) | (8.7) | (8.1) | (7.8) |

Sources: IBRD Report No. 4277-BD (Table 2.7); and staff estimates.

1/ National savings include workers' remittances; foreign savings exclude these remittances.

Table III. Bangladesh: Central Government Operations, 1979/80-1982/83 ^{1/}

(In billions of taka)

| | 1979/80 | 1980/81 | 1981/82 | 1982/83 | |
|-------------------------------------|---------|---------|---------|---------|------------------|
| | | | | Program | Revised Estimate |
| Total revenue | 17.2 | 21.6 | 23.4 | 24.9 | 25.4 |
| Total expenditure | 40.0 | 43.3 | 44.6 | 52.1 | 54.3 |
| Current expenditure | 10.9 | 13.0 | 14.8 | 18.1 | 18.1 |
| Annual development program | 20.6 | 23.7 | 26.8 | 29.0 | 29.0 |
| Domestic sources | (11.7) | (15.7) | (17.0) | (16.4) | (16.3) |
| Foreign sources | (8.9) | (8.0) | (9.8) | (12.6) | (12.7) |
| Other capital expenditure | 2.0 | 1.5 | 1.9 | 2.4 | 2.2 |
| Food account deficit | 6.5 | 5.1 | 1.1 | 2.6 | 5.0 |
| Of which: food stocks ^{2/} | (2.2) | (2.3) | (-2.8) | (-0.8) | (1.1) |
| Overall deficit | 22.8 | 21.7 | 21.2 | 27.2 | 28.9 |
| Excluding food stock changes | (20.6) | (19.4) | (24.0) | (28.0) | (27.8) |
| Net foreign financing | 18.9 | 15.6 | 20.1 | 28.1 | 28.9 |
| Project aid | (8.9) | (8.0) | (9.8) | (12.6) | (12.7) |
| Commodity aid | (5.6) | (5.6) | (7.6) | (10.5) | (10.4) |
| Food aid | (4.4) | (3.0) | (3.6) | (6.5) | (6.5) |
| Deferred food payments (net) | (1.5) | (-0.6) | (-0.2) | (-0.5) | (1.1) |
| Debt amortization | (-0.4) | (-0.4) | (-0.7) | (-1.0) | (-1.8) |
| Net domestic financing | 3.9 | 6.1 | 1.1 | -0.9 | -- |
| Banking system | 3.0 | 5.0 | 0.3 | -1.5 | -1.2 |
| Other | 0.9 | 1.1 | 0.8 | 0.6 | 1.2 |

(In per cent of GDP unless otherwise indicated)

Memorandum items:

| | | | | | |
|------------------------------------|-------|-------|-------|-------|-------|
| Tax | 8.2 | 8.9 | 8.9 | 8.1 | 8.5 |
| Expenditures | 23.3 | 22.2 | 20.8 | 21.1 | 22.4 |
| Expenditures excluding food stocks | 22.0 | 21.0 | 22.1 | 21.4 | 22.0 |
| Deficit | 13.3 | 11.1 | 9.9 | 11.0 | 11.9 |
| (Excluding grants) | (8.7) | (6.2) | (4.9) | (6.3) | (7.1) |
| Deficit excluding food stocks | 12.0 | 9.9 | 11.2 | 11.3 | 11.5 |
| (Excluding grants) | (7.4) | (5.0) | (6.2) | (6.6) | (6.7) |
| Real growth rate of ADP (per cent) | 12.6 | 0.2 | -4.5 | -7.1 | -7.1 |
| Grants (Tk billion) | 7.9 | 9.6 | 10.7 | 11.6 | 11.6 |

Sources: Ministry of Finance; Ministry of Food; and staff estimates.

^{1/} Includes revised data on the value of foodgrains purchased by deferred payments.

^{2/} Quantities valued at average procurement prices.

Table IV. Bangladesh: Financial Position of Public Enterprises, 1979/80-1982/83

(In millions of taka)

| | 1979/80 | 1980/81 | 1981/82 Provisional | 1982/83 Projections |
|----------------------------|---------------|--------------|------------------------|------------------------|
| Industry | <u>1,352</u> | <u>751</u> | <u>-1,281</u> | <u>102</u> |
| Jute mills | <u>1,167</u> | <u>401</u> | <u>-633</u> | <u>-196</u> |
| Textile mills | <u>-187</u> | <u>-111</u> | <u>-652</u> | <u>54</u> |
| Steel and engineering | <u>145</u> | <u>177</u> | <u>-128</u> | <u>33</u> |
| Sugar and food | <u>134</u> | <u>272</u> | <u>271</u> | <u>225</u> |
| Chemicals | <u>93</u> | <u>12</u> | <u>-139</u> | <u>-14</u> |
| Energy | <u>-1,565</u> | <u>-325</u> | <u>-3,141</u> | <u>470</u> |
| Petrobangla | <u>74</u> | <u>128</u> | <u>69</u> | <u>57</u> |
| Petroleum | <u>-1,263</u> | <u>-92</u> | <u>-2,820</u> | <u>388</u> |
| Power development | <u>-376</u> | <u>-361</u> | <u>-390</u> | <u>25</u> |
| Transport | <u>-79</u> | <u>-177</u> | <u>-83</u> | <u>-72</u> |
| Shipping | <u>69</u> | <u>123</u> | <u>36</u> | <u>30</u> |
| Inland water | <u>-20</u> | <u>-41</u> | <u>-47</u> | <u>-47</u> |
| Airline | <u>-64</u> | <u>-195</u> | <u>-72</u> | <u>-55</u> |
| Road | <u>-64</u> | <u>-64</u> | <u>...</u> | <u>...</u> |
| Other | <u>-88</u> | <u>-176</u> | <u>-63</u> | <u>-27</u> |
| Jute trading | <u>-147</u> | <u>-52</u> | <u>-95</u> | <u>-80</u> |
| Jute marketing | <u>-130</u> | <u>-115</u> | <u>-66</u> | <u>-96</u> |
| Agricultural development | <u>65</u> | <u>47</u> | <u>--</u> | <u>--</u> |
| Mineral development | <u>43</u> | <u>-22</u> | <u>-42</u> | <u>--</u> |
| Other | <u>31</u> | <u>-34</u> | <u>140</u> | <u>149</u> |
| Nonfinancial enterprises | <u>-380</u> | <u>73</u> | <u>-4,568</u> | <u>473</u> |
| Finance | <u>1,788</u> | <u>2,005</u> | <u>2,311</u> | <u>2,701</u> |
| Bangladesh Bank | <u>1,010</u> | <u>1,034</u> | <u>1,141</u> | <u>1,242</u> |
| Commercial banks | <u>324</u> | <u>434</u> | <u>483</u> | <u>690</u> |
| Specialized banks | <u>241</u> | <u>268</u> | <u>345</u> | <u>369</u> |
| House building finance | <u>21</u> | <u>42</u> | <u>59</u> | <u>48</u> |
| Insurance | <u>192</u> | <u>227</u> | <u>283</u> | <u>352</u> |
| Total | <u>1,408</u> | <u>2,078</u> | <u>-2,257</u> | <u>3,174</u> |
| Profits paid to Government | <u>958</u> | <u>1,352</u> | <u>1,043</u> | <u>1,300</u> |
| Nonfinancial enterprises | | | <u>14</u> | <u>100</u> |
| Financial enterprises | | | <u>1,029</u> | <u>1,200</u> |

Sources: Ministry of Finance, Budget Estimates of Autonomous Bodies; and other sources.

Table V. Bangladesh: Monetary Survey, 1980-83

| | 1980 | | 1981 | | 1982 | | 1983 | | | |
|---|---------|---------|---------|---------|---------|---------|------------------|---------|----------------|-----------------|
| | June | Dec. | June | Dec. | June | Dec. | March Program | Actual | April Prov. | June Program |
| (In billions of taka at end of period) | | | | | | | | | | |
| Net foreign assets | -2.62 | -4.80 | -7.95 | -9.82 | -15.53 | -14.53 | -18.20 | -12.19 | -11.55 | -19.10 |
| Domestic credit | 39.65 | 45.01 | 54.88 | 59.27 | 64.65 | 68.92 | 70.50 | 67.74 | 67.78 | 74.40 |
| Public sector | 25.38 | 28.74 | 35.86 | 38.10 | 41.54 | 43.28 | 42.80 | 39.85 | 39.21 | 46.80 |
| Government | (10.21) | (11.30) | (15.55) | (15.79) | (15.91) | (14.03) | (14.10) | (13.75) | (13.60) | (14.40) |
| Other | (15.17) | (17.44) | (20.31) | (22.31) | (25.63) | (29.25) | (28.70) | (26.10) | (25.61) | (32.40) |
| Private sector | 14.27 | 16.27 | 19.02 | 21.17 | 23.11 | 25.64 | 27.70 | 27.89 | 28.57 | 27.60 |
| Broad money | 34.31 | 37.49 | 43.72 | 47.47 | 47.19 | 53.23 | 50.00 | 53.22 | 53.09 | 52.80 |
| Narrow money | 17.40 | 18.36 | 22.22 | 22.87 | 21.56 | 24.78 | | 24.03 | 23.49 | |
| Quasi-money | 16.91 | 19.13 | 21.50 | 24.60 | 25.63 | 28.45 | | 29.19 | 29.60 | |
| Other items, net | 2.72 | 2.72 | 3.20 | 1.98 | 1.93 | 1.16 | 2.30 | 2.33 | 3.14 | 2.50 |
| (Percentage changes) | | | | | | | | | | |
| Year on year | | | | | | | | | | |
| Domestic credit | 35.7 | 34.4 | 38.4 | 31.7 | 17.8 | 16.3 | 18.3 | 13.7 | 11.4 | 15.1 |
| Public sector | 39.1 | 38.7 | 41.3 | 32.6 | 15.8 | 13.6 | 14.6 | 6.7 | 2.5 | 12.7 |
| Government | (42.6) | (77.1) | (52.3) | (39.7) | (2.3) | (-11.1) | (-7.6) | (-9.9) | (-7.5) | (-9.5) |
| Other | (36.8) | (21.6) | (33.9) | (27.9) | (26.2) | (32.5) | (29.9) | (18.2) | (8.7) | (26.4) |
| Private sector | 30.1 | 27.3 | 33.3 | 30.1 | 21.5 | 21.1 | 24.6 | 25.4 | 26.4 | 19.4 |
| Broad money | 18.3 | 18.4 | 27.4 | 26.6 | 7.9 | 12.1 | 12.3 | 19.7 | 20.6 | 11.9 |
| Annual average | | | | | | | | | | |
| Rate of increase of average level dur- ing fiscal year: | | | | | | | | | | |
| Domestic credit | 24.2 | 31.8 | 39.2 | 36.6 | 28.6 | 20.6 | 17.7 | 17.3 | 16.3 | 17.4 |
| Broad money | 22.0 | 19.0 | 22.7 | 25.6 | 18.6 | 11.7 | 11.0 | 11.6 | 12.2 | 11.1 |
| Memorandum item: | | | | | | | | | | |
| Velocity (GDP/M2) | 5.7 | | 5.2 | | 4.8 | | | | | 5.0 |

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

Table VI. Bangladesh: Balance of Payments, 1980/81-1984/85

(In millions of U.S. dollars)

| | 1980/81 | 1981/82 | 1982/83 | | 1983/84 | 1984/85 |
|--|---------------|---------------|---------------|---------------|-------------------|---------------|
| | | | Program | Rev. Est. | Staff Projections | |
| Exports, f.o.b. | 708 | 627 | 687 | 650 | 720 | 778 |
| Imports, c.i.f. | -2,575 | -2,572 | -2,321 | -2,300 | -2,500 | -2,690 |
| Of which: food imports | (251) | (285) | (289) | (408) | (292) | (...) |
| Trade balance | <u>-1,867</u> | <u>-1,945</u> | <u>-1,634</u> | <u>-1,650</u> | <u>-1,780</u> | <u>-1,912</u> |
| Services (net) | 11 | -54 | -110 | -110 | -88 | -82 |
| Private transfers <u>1/</u> | 381 | 420 | 480 | 600 | 650 | 685 |
| Current account balance | <u>-1,475</u> | <u>-1,579</u> | <u>-1,264</u> | <u>-1,160</u> | <u>-1,218</u> | <u>-1,309</u> |
| External aid: | 1,147 | 1,236 | 1,345 | 1,310 | 1,470 | 1,545 |
| Food | (194) | (231) | (260) | (260) | (220) | (...) |
| Commodity | (393) | (421) | (475) | (450) | (540) | (...) |
| Project | (560) | (584) | (610) | (600) | (710) | (...) |
| Debt repayment (medium- and long-term) | -44 | -45 | -108 | -70 | -104 | -130 |
| Other capital <u>2/</u> | 48 | 39 | -43 | 32 | -141 | -21 |
| Errors and omissions | 129 | 104 | — | — | — | — |
| Overall balance | <u>-195</u> | <u>-245</u> | <u>-70</u> | <u>112</u> | <u>7</u> | <u>85</u> |
| Financing items | <u>195</u> | <u>245</u> | <u>70</u> | <u>-112</u> | <u>-7</u> | <u>-85</u> |
| Bangladesh Bank | 235 | 220 | 70 | -62 | -7 | -85 |
| Reserves (- increase) | (24) | (128) | (-4) | (-91) | (-28) | (-17) |
| Liabilities | (211) | (92) | (74) | (29) | (21) | (-68) |
| Of which: Fund credit | <u>/121/</u> | <u>/31/</u> | <u>/74/</u> | <u>/49/</u> | <u>/21/</u> | <u>/-68/</u> |
| Commercial banks | -38 | 37 | — | — | — | — |
| Unused balances in foreign currency accounts <u>3/</u> | -2 | -12 | — | -50 | — | — |
| Memorandum items: | | | | | | |
| Current account to GDP ratio (in per cent) | 12.4 | 14.8 | 12.3 | 11.5 | 11.0 | 10.4 |
| Gross official reserves (In millions of US\$) | 250 | 122 | 126 | 213 | 241 | 258 |
| (In weeks of imports) | 5.0 | 2.5 | 2.8 | 4.8 | 5.0 | 5.0 |

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

1/ Mostly workers' remittances.

2/ Includes net food debt repayments.

3/ The Bangladesh authorities do not consider these unused balances as part of the banks' foreign exchange reserves.

Table VII. Bangladesh: Medium-Term External Debt Analysis, 1981/82-1987/88

(In millions of U.S. dollars)

| | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 |
|---|-------------------|--------------------|------------------|-------------------|---------|---------|---------|
| | | | | Staff Projections | | | |
| Debt service payments | | | | | | | |
| Payments on existing debt | | | | | | | |
| Interest ^{1/} | 108 | 123 | 118 | 101 | 88 | 77 | 68 |
| Of which: IMF | (28) | (36) | (40) | (34) | (24) | (15) | (8) |
| Amortization | 104 | 130 | 208 | 219 | 249 | 291 | 264 |
| Of which: IMF repurchases | (19) | (54) | (29) | (68) | (95) | (126) | (84) |
| Payments on new borrowings ^{2/} | | | | | | | |
| Interest | — | — | 4 | 17 | 29 | 42 | 55 |
| Amortization | — | — | — | — | — | — | — |
| Total | 212 | 253 | 330 | 337 | 366 | 410 | 387 |
| Of which: IMF | (47) | (90) | (69) | (102) | (119) | (141) | (92) |
| Total debt service payments/ exports of goods and services | | | | | | | |
| Excluding workers' remittances | 24.2 | 28.3 | 32.7 | 31.2 | 31.7 | 33.1 | 29.1 |
| Including workers' remittances | 16.4 | 16.9 | 19.9 | 19.1 | 19.5 | 20.6 | 18.2 |
| External resources | | | | | | | |
| Availability | 2,381 | 2,522 | 2,595 | 2,857 | 3,055 | 3,259 | 3,475 |
| Exports of goods ^{3/} | 627 | 650 | 720 | 778 | 840 | 907 | 980 |
| Private transfers ^{4/} | 420 | 600 | 650 | 685 | 719 | 755 | 793 |
| Capital account (net) ^{5/} | 1,334 | 1,272 | 1,225 | 1,394 | 1,496 | 1,597 | 1,702 |
| Of which: external aid | (1,236) | (1,310) | (1,470) | (1,545) | (1,650) | (1,762) | (1,882) |
| Use | 2,626 | 2,410 | 2,588 | 2,772 | 2,945 | 3,114 | 3,367 |
| Imports | 2,572 | 2,300 | 2,500 | 2,690 | 2,866 | 3,035 | 3,286 |
| Services (net) ^{6/} | 54 | 110 | 88 | 82 | 79 | 79 | 81 |
| Reserve movements (-increase) ^{7/} | 214 ^{8/} | -161 ^{8/} | -28 | -17 | -15 | -19 | -24 |
| Net Fund credit | 31 | 49 | 21 ^{9/} | -68 | -95 | -126 | -84 |
| Memorandum items: | | | | | | | |
| Debt outstanding (end of period) | 4,334 | 5,013 | 5,589 | 6,144 | 6,720 | 7,310 | 7,987 |
| Of which: IMF | (362) | (413) | (434) | (366) | (271) | (145) | (61) |
| Gross reserves (weeks of imports) | 2.5 | 4.8 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |

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

^{1/} Includes interest on short-term debt.

^{2/} Assumes that all loans are concessional with an average interest rate of 1.5 per cent.

^{3/} For 1983/84, the projections assume an increase of 5 per cent in both the volume and unit value of exports. For the years thereafter, the projections assume a rate of growth of 2 per cent per annum in volume and 6 per cent per annum in prices.

^{4/} Workers' remittances are projected to rise by about 8 per cent in 1983/84 and by 5 per cent per year thereafter.

^{5/} Assumes that all outstanding commercial short-term borrowings will be repaid in 1983/84. Based on the outstanding pipeline of aid commitments and the results of the last Aid Group meeting for Bangladesh, aid disbursements are projected to increase by about 12 per cent in 1983/84; for the following years, aid disbursements are projected to rise by about 7 per cent per annum.

^{6/} The projections of interest payments on external debt include payments on projected future borrowings.

^{7/} Assumes maintenance of gross official reserves at the equivalent of about five weeks of imports.

^{8/} Includes changes in reserve position of commercial banks and unused balances in the foreign currency accounts.

^{9/} Assumes that the amount of the current stand-by arrangement will be fully drawn.

Bangladesh--Basic Data 1/

| | |
|-----------------------------------|---------------------------------|
| Area: | 143,000 square kilometers |
| Population (January 1983): | 93.6 million |
| Population growth rate: | 2.6 per cent |
| Gross national product (1981/82): | Tk 220 billion (\$11.0 billion) |
| Per capita GNP (1981/82): | \$117 |

| | <u>1980/81</u> | <u>1981/82</u> | <u>1982/83</u> Proj. |
|---|----------------|----------------|-------------------------|
| <u>Production</u> | | | |
| Gross domestic product at 1972/73 market prices (Tk bn.) | 73.3 | 74.0 | 76.2 |
| (Percentage change) | (5.9) | (0.9) | (3.0) |
| Foodgrain output (mn. long tons) | 14.8 | 14.4 | 15.1 |
| Raw jute (mn. bales) | 4.9 | 4.7 | 5.0 |
| Industrial value added at 1972/73 prices (Tk bn.) | 7.5 | 7.5 | 6.9 |
| (Percentage change) | (7.7) | (0.4) | (-8.0) |
| <u>Inflation</u> | | | |
| Dacca cost of living index (annual average rate of change) | 12.6 | 16.3 | 10.0 |
| <u>Money and credit (end of period; Tk bn.)</u> | | | |
| Total liquidity | 43.7 | 47.2 | 54.4 |
| Narrow money | 22.2 | 21.6 | ... |
| Quasi-money | 21.5 | 25.6 | ... |
| Domestic credit | 54.9 | 64.7 | 72.6 |
| Credit to public sector | 35.9 | 41.5 | 42.8 |
| Credit to other public sector | 20.3 | 25.6 | 28.1 |
| Credit to private sector | 19.0 | 23.1 | 29.8 |
| Net foreign assets | -8.0 | -15.5 | -15.7 |
| <u>Central Government budget (Tk bn.)</u> | | | |
| Revenues | 21.6 | 23.4 | 25.4 |
| Expenditures | 43.3 | 44.6 | 54.3 |
| Current | 13.0 | 14.8 | 18.1 |
| Capital | 25.2 | 28.7 | 31.2 |
| Food account deficit | 5.1 | 1.1 | 5.0 |
| Of which: foodstocks | (2.3) | (-2.8) | (1.1) |
| Overall deficit (-) | -21.7 | -21.2 | 28.9 |
| Net foreign financing | 15.6 | 20.1 | 28.9 |
| Net domestic financing | 6.1 | 1.1 | — |
| Of which: banking system | 5.0 | 0.3 | -1.2 |
| <u>Balance of payments (US\$ mn.)</u> | | | |
| Exports (f.o.b.) | 708 | 627 | 650 |
| Imports (c.i.f.) | -2,575 | -2,572 | -2,300 |
| Current account | -1,475 | -1,579 | -1,160 |
| Overall balance | -195 | -245 | 112 |
| <u>Gross international reserves (US\$ mn.)</u> | | | |
| (End of period) | 250 | 122 | 213 |
| In weeks of imports of the following year | 5.1 | 2.8 | 4.4 |

1/ Fiscal year ending June.

Fund Relations with Bangladesh 1/

Date of membership: August 17, 1972.

Status: Article XIV.

Quota: SDR 228 million; proposed quota under the Eighth Review of Quotas: SDR 286.7 million.

Fund holdings of taka: SDR 597.1 million (261.9 per cent of quota). Of which:
SDR 0.9 million (0.4 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 88.8 million (39.0 per cent) under the CFF; and SDR 66.9 million (29.3 per cent) under credit tranches.

SDR position: SDR 4.58 million, or 9.7 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. The authorities also maintain a secondary exchange market in which proceeds from workers' remittances and nontraditional exports are auctioned off. At the end of April 1983, the exchange rate was Tk 24.5 per U.S. dollar in the official market and Tk 25.5 per U.S. dollar in the secondary exchange market.

Extended and stand-by arrangements: 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. On Mar. 28, 1983, the Executive Board approved a stand-by arrangement in the amount of SDR 68.4 million for the period through Aug. 31, 1983 (EBS/83/56, 3/9/83); a purchase of SDR 22.8 million was made on March 31, 1983.

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); a repurchase of SDR 19.3 million in respect of overcompensation was made on March 14, 1983.

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

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

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

1/ As of April 30, 1983.

IBRD Relations with Bangladesh

IBRD/IDA lending operations:1/

| | <u>Disbursed</u> | <u>Undisbursed</u> |
|--|-------------------------------|--------------------|
| | (In millions of U.S. dollars) | |
| Completed projects and import program credits | 878.60 | -- |
| IBRD | 54.90 | -- |
| IDA | 823.70 | -- |
| Projects in execution (all IDA) | 409.95 | 949.85 |
| Agriculture and rural development | 143.98 | 312.02 |
| Industry | 108.77 | 164.23 |
| Education | 19.84 | 64.96 |
| Population | 16.14 | 30.86 |
| Transportation | 35.20 | 95.80 |
| Telecommunication | 16.89 | 38.11 |
| Technical assistance | 7.28 | 18.72 |
| Power and gas | 47.36 | 197.64 |
| Water supply and sewerage | 14.49 | 27.51 |
| Import program credits | <u>67.08</u> | <u>142.92</u> |
| Total | <u>1,355.63</u> | <u>1,092.77</u> |
| Repayments: | \$0.4 million | |
| Total debt outstanding: <u>2/</u> | \$2,448.00 million | |
| IFC investment: | \$2.61 million | |

Import Program Credit: The eleventh import program credit for an amount of US\$110 was approved on December 10, 1982 and became effective on March 4, 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 most recent meeting took place in April 1983 in Paris.

Source: World Bank.

1/ As of March 31, 1983.

2/ Includes undisbursed amounts.