DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

0451

EBS/90/132
Supplement 1

CONFIDENTIAL

August 6, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Bangladesh - Staff Report for the 1990 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

The attached supplement to the staff report for the 1990 Article IV consultation with Bangladesh and its request for arrangements under the enhanced structual adjustment facility has been prepared on the basis of additional information.

Mr. Browne (ext. 7329) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

BANGLADESH

Staff Report for the 1990 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility--Supplementary Information

Prepared by the Asian and the Exchange and Trade Relations Departments

Approved by P.R. Narvekar and Michael Edo

August 6, 1990

This supplement provides details of the import liberalization, food ration price, tax revenue and exchange rate measures that have been implemented since mid-July. These actions fulfill all the commitments that were made to the Fund staff in connection with the 1990/91 economic program.

1. Import liberalization

Effective July 1, a further 70 categories were removed from the controlled list of imports, thereby reducing the number of categories containing goods subject to quantitative bans or restrictions from 354 categories (28 percent of the total) to 284 categories (23 percent of the total). The liberalized items were selected primarily with a view to stimulating export production (including 7 types of machinery for the tea and textile sectors) and reducing protection and stimulating competition in domestic industry (including 12 varieties of plastic and rubber goods, 10 groups of paper products and 23 agricultural and food items). Improved access to six categories of wood products was provided to alleviate deforestation for environmental reasons. In view of the weak reserve position, the removal of the quantitative restrictions on most items was accompanied by the imposition of duty rates in the range of 50-150 percent. The authorities intend to accelerate the pace of import liberalization and tariff reduction in the second and third years of the proposed ESAF program.

2. Food ration prices

Effective July 12, ration prices under the public food distribution system were increased by an average of 7 percent in order to reduce the budgetary cost of food subsidies. The rates of increase ranged from 5 percent for most sales to the poorer groups to 16 percent for sales to the better-off urban recipients. Tentative staff calculations indicate that the food subsidy will decline from Tk 6 billion in 1989/90

- over -

(0.8 percent of GDP) to Tk 5 billion in 1990/91 (0.6 percent of GDP), as a result of the higher ration prices, as well as lower import prices and reduced commercial imports of foodgrains.

3. Revenue measures

Effective August 5, tax measures designed to yield Tk 0.96 billion (0.1 percent of GDP) were introduced to compensate fully for the revenue that was lost as a result of the withdrawal during the Parliamentary budget discussion of certain proposed customs and excise duty increases. These actions should ensure that the 1990/91 target of an increase of 0.5 percent in the ratio of tax revenue to GDP is met. The measures included increased customs duty on crude oil and petroleum products to yield Tk 0.75 billion and higher sales tax on milk powder to yield Tk 0.21 billion. Bangladesh Petroleum Corporation was expected to have sufficient resources to pay the higher customs duties to the Government without any adjustment in retail prices, if world prices did not exceed their end-July 1990 levels. The authorities will keep the situation under review and adjust retail prices if necessary to reflect higher import prices. The new measures will have a smaller adverse impact on the most vulnerable groups than the proposals that they replace, which included higher excise duties on kerosene, natural gas and edible oil.

4. Exchange rate

Effective August 4, both the official rate and the secondary market rate were depreciated against the U.S. dollar by 2 percent in foreign currency terms, maintaining the spread of 2 percent between the two rates. After this depreciation, the official rate and the secondary market rate stood at Tk 35.59 per U.S. dollar and Tk 36.305 per U.S. dollar, respectively. Since March 1990, the value of the taka has been depreciated by about 10 percent against the U.S. dollar. This action has substantially reversed the appreciation of the real effective exchange rate index that occurred between late 1988 and early 1990.