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September 23, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Bangladesh - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Bangladesh, which is tentatively scheduled for discussion on Wednesday, October 23, 1985. A draft decision appears on page 26.

Mr. Al-Eyd (ext. 7335) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

BANGLADESH

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the Article IV Consultation with Bangladesh

Approved by Tun Thin and Eduard Brau

September 20, 1985

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I. Introduction

The 1985 Article IV consultation and discussions on the possible use of Fund resources were held in Dhaka during the course of three staff visits. 1/ Meetings were held with the Advisor for Finance, the Governor of Bangladesh Bank, the Finance Secretary, and senior officials concerned with economic and financial matters.

The last stand-by arrangement for Bangladesh was concluded in March 1983, and the full amount available (SDR 68 million or 30 percent of the quota then in effect) was drawn; as of August 31, 1985, total Fund credit outstanding amounted to 131.5 percent of quota. Bangladesh purchased the equivalent of SDR 54.9 million under the compensatory financing facility in April 1985, which raised outstanding purchases under this facility to 50 percent of quota.

Bangladesh continues to avail itself of the transitional provisions of Article XIV. Relations with the Fund are summarized in Annex I and the role of the World Bank in Bangladesh in Annex II.

II. Background to the Discussions

At the outset of the 1980s, Bangladesh's economy stagnated under the impact of the world recession and a deterioration in the terms of trade. Adverse weather, which affected crop production, was instrumental in slowing real GDP growth to 1 percent in 1981/82, 2/ while inflation accelerated to over 16 percent. The external current account deficit widened sharply to 11.5 percent of GDP, and the balance of payments recorded a large overall deficit, resulting in a drastic reduction in international reserves. The Government responded to the severe deterioration in the economic and financial situation by adopting a set of adjustment measures which included higher taxes, lower subsidies, adjustments in key administered prices, credit controls, more flexible exchange rate management, and improved incentives for private investment. The Government's program was supported by a stand-by arrangement from the Fund. The economy registered significant gains in 1982/83, as the positive impact of the adjustment policies was strengthened by favorable weather, a recovery in the terms of trade, and higher inflows of workers' remittances and foreign aid. Real GDP growth rose to 3.5 percent, inflation declined, and the overall balance of payments

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1/ Staff visits to Dhaka took place during March 16-April 1, May 27-June 10, and August 10-19. The staff representatives who participated in one or more rounds of discussions were Mr. K. Al-Eyd (head), Mrs. E. Gurgen, Mr. S. Ishii, Mr. R. Feldman (all ASD), Mr. C. Boonekamp, Mr. N. Weerasinghe (both ETR), Mr. W. Mahler, Mr. R. Hurnard (both FAD), Mr. S. Quin (STA), Ms. M. Rubin (Secretary, ETR), and Mrs. O. Goodger (Secretary, ASD). The staff was assisted by Mr. S. Itam, the Fund Resident Representative in Dhaka.

2/ Fiscal year ending June 30.

moved into a sizable surplus, permitting an accumulation of international reserves to the equivalent of almost two months' imports (Table 1).

1. Economic developments in 1983/84

The gains achieved in 1982/83 were largely sustained in 1983/84, aided by a further sharp improvement in the terms of trade. Real GDP growth remained at 3.5 percent. The growth of agricultural GDP declined to 2.7 percent, while the growth of nonagricultural GDP almost doubled to 4.3 percent, largely on the strength of significant increases in industrial output and construction activity (Appendix Table 5).

The government budget for 1983/84 was designed to provide some fiscal stimulus to growth. In order to strengthen domestic resource mobilization a number of revenue measures were introduced during the year, including adjustments in certain tax rates, power tariffs, and in fees and charges. Tax collections, however, were about 13 percent below the original budget estimate, largely reflecting a significant shortfall in revenue from customs duties and the sales tax on imports. There was also a large shortfall in development spending due primarily to constraints on project preparation and implementation, while the food account deficit was lower than anticipated. Reflecting these developments, the overall budget deficit remained almost unchanged at just over Tk 32 billion; in terms of GDP, the budget deficit declined from 11.2 percent in 1982/83 to 9.2 percent in 1983/84. Net bank financing, which was principally in the form of special two-year treasury bill sales to banks, amounted to Tk 2.4 billion, compared with Tk 0.7 billion in the previous year.

The broad stance of monetary policy was to accommodate credit demand in order to sustain the economic recovery. Credit expansion was strong. 1/ The growth in credit to the private sector accelerated to 52 percent, partly reflecting a further deterioration in loan recovery, particularly for agricultural loans. Credit to public enterprises grew by close to 13 percent, reflecting heavy borrowing by the Bangladesh Textile Mills Corporation and the Bangladesh Jute Mills Corporation. The Government's demand for credit rose in its effort to maintain expenditure in the face of revenue shortfalls. The combination of these developments resulted in domestic credit expansion of 28 percent which, coupled with a sizable external surplus, brought about a 43 percent

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1/ In July, the authorities brought to the attention of the staff certain revisions to monetary statistics which cast doubt on the monetary program for 1985/86 discussed with the authorities in June. While the monetary survey presented in this report incorporates all revisions to date, it is based on the present system of compiling monetary data and will be revised based on a new system currently under discussion with the authorities. The recent trends in the major monetary aggregates, however, are expected to remain broadly unchanged in the new series.

Table 1. Bangladesh: Selected Economic and Financial Indicators, 1981/82-1985/86 1/

	1981/82	1982/83	1983/84	1984/85 Estimate	1985/86 Projection
	(Annual percentage changes; unless otherwise specified)				
National income and prices					
GDP at constant market prices	1.0	3.5	3.5	2.6	4.2
Implicit GDP deflator	12.5	5.7	15.7	12.5	10.0
Consumer prices	16.3	9.9	9.7	10.9	12.0
External sector (in U.S. dollars)					
Exports, f.o.b.	-11.6	8.6	20.8	13.4	0.8
Imports, c.i.f.	1.2	-10.3	4.8	14.7	-7.5
Of which: Nonfood imports	-0.2	-16.1	5.1	11.2	2.1
Export volume	6.8	5.4	1.7	-3.8	24.0
Import volume	7.5	-5.0	7.1	16.1	-8.8
Terms of trade	-12.0	9.2	21.3	19.4	-19.8
Real effective exchange rate 2/	-10.7	0.9	8.7	-2.6	...
Government budget 3/					
Revenue	7.5	9.5	12.6	23.2	13.0
Tax	8.2	8.5	12.4	18.4	15.9
Nontax	3.9	14.6	13.5	46.3	1.7
Total expenditure	6.8	25.3	4.9	18.0	7.8
Current expenditure	13.8	29.7	19.9	19.8	14.3
Annual Development Program	13.1	11.2	1.0	9.1	16.5
Money and credit					
Domestic credit	21.5	14.7	28.3	27.0	...
Government, net	12.7	2.9	10.3	6.2	...
Other public sector	28.5	9.0	12.6	14.3	...
Private sector	24.3	30.0	52.2	44.1	...
Broad money	6.5	31.9	42.7	26.5	...
Income velocity (GDP/M2)	5.8	4.8	4.0	3.7	...
Interest rate (end of period, 1-2 year time deposits)	14.0	14.0	14.0	14.0	...
	(In percent of GDP; unless otherwise specified)				
External sector					
Current account deficit	-11.5	-8.4	-6.9	-9.1	-8.0
External public debt (including Fund credit, end of period) 4/	36.7	44.2	42.2	41.9	44.7
Debt service as a percent of exports of goods, services, and private transfers	17.0	16.7	18.5	21.5	25.7
Government budget 3/					
Revenue	8.8	8.8	8.2	8.8	8.7
Expenditure	17.4	19.9	17.4	17.8	16.8
Overall balance	-8.7	-11.2	-9.2	-9.1	-8.1
Excluding food stocking	-9.6	-11.2	-9.1	-8.3	-8.0
Domestic bank financing (net)	0.9	0.2	0.7	0.5	-0.4
Foreign financing (net)	7.6	9.7	8.0	7.9	7.5
	(In millions of U.S. dollars)				
External sector					
Current account balance	-1,524	-1,025	-957	-1,397	-1,225
Overall balance	-291	294	154	-73	-20
Gross official reserves	122	358	539	397	290
In months of imports	0.6	1.9	2.8	1.8	1.4

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

1/ Fiscal year ending June.

2/ End of period. The index is based on overall CPI for middle-income families in Dhaka City (1973/74 = 100).

3/ Data for 1985/86 are budget estimates.

4/ Includes short-term debt.

increase in broad money. The inflationary impact of the rapid monetary expansion was partly mitigated by the sharp increase in financial savings in response to high real interest rates and the moderation of inflationary expectations. Inflation was contained at the previous year's level of just below 10 percent, mostly on account of a further decline in import prices.

Balance of payments conditions continued to be favorable in 1983/84. There was a further narrowing in the external current account deficit to 6.9 percent of GDP from 8.4 percent in the previous year. This development, which took place against a 7 percent increase in import volume and only a modest growth in export volume, was attributable largely to the 21 percent improvement in the terms of trade, reflecting favorable developments in raw jute and tea prices. Net inflows of private transfers, while declining slightly, remained in excess of $600 million. Notwithstanding a reduction in foreign aid inflows, associated partly with slower project implementation, the overall balance of payments recorded a surplus of $154 million, resulting in a further buildup of international reserves to the equivalent of 2.8 months' imports. The official exchange rate of the taka was depreciated by 2.8 percent during 1983/84. Given the large inflation differential between Bangladesh and its major trading partners, the real effective exchange rate appreciated by about 9 percent.

On the occasion of the 1984 Article IV consultation with Bangladesh, while commending the authorities for their economic policies under the 1982/83 adjustment program, Executive Directors noted that the improvement in the economic situation was fragile as the economy remained structurally weak and vulnerable to exogenous shocks. The authorities' intention to increase domestic resource mobilization through an expansion of the tax base, a reduction in subsidies, and increased flexibility in the setting of administered prices was welcomed. Noting the rapid growth in broad money for two years in succession, Directors expressed concern about the inflationary potential of the liquidity situation, and stressed the importance of a flexible interest rate policy. The balance of payments position was considered fundamentally weak, with export receipts financing only a small proportion of imports, and debt service payments claiming an increasing share of scarce foreign exchange resources. It was noted that Bangladesh would continue to rely on highly concessional external assistance, and the role played by the World Bank was emphasized in this respect. Directors stressed that Bangladesh would need to sustain a strong adjustment effort over a number of years. The traded goods sector would need to be strengthened, particularly through flexibility in exchange rate management. Directors also encouraged the authorities to further liberalize the import regime, and to broaden the scope of the secondary exchange market in order to improve economic efficiency and to pave the way for the establishment of a unified exchange market in the near future.

2. Economic developments and the policy response in 1984/85

The vulnerability of the Bangladesh economy to adverse weather was illustrated once more in 1984/85. Heavy floods during the summer of 1984 resulted in large production losses in the agricultural sector with significant implications for developments in the rest of the economy (Chart 1). 1/ Real GDP growth slowed to 2.6 percent, due mainly to the lower growth in foodgrain production and a 13 percent decline in jute production, which together account for about 70 percent of agricultural output. Overall agricultural growth is estimated to have decelerated to 1.8 percent. The growth in nonagricultural output, estimated at 3.4 percent, was also lower due largely to a pronounced slowing down in industrial growth to 2 percent.

The Government continued to pursue a relatively cautious fiscal policy in 1984/85. While the budget aimed at providing further stimulus to economic growth, the overall deficit was to be contained approximately in line with available external financing; recourse to domestic bank financing was not envisaged. The 1984/85 budget introduced a number of new tax measures as well as measures to improve tax administration. These measures included adjustments in customs and excise duties, a foreign travel tax, a turnover tax, a motor vehicle tax, and a stamp tax. A new shop tax and irrigation tax were introduced. There were also a number of measures to raise nontax revenue, notably increases in registration and embarkation fees. New revenue measures and intensified income tax collection efforts were projected to yield revenue equivalent to about 0.2 percent of GDP. Based on preliminary estimates, the overall budget deficit to GDP ratio remained approximately stable at 9.1 percent in 1984/85 (Table 2). However, excluding the impact of changes in the level of foodstocks, there was an improvement (from 9.1 percent of GDP to 8.3 percent) in the overall deficit.

The 1984/85 budget provided for a 29 percent increase in the Annual Development Program (ADP) based on the assumption that there would be a substantial improvement in project aid disbursement, after a decline in 1983/84. Despite a 20-30 percent increase in the wage bill, the budget provided for only about a 10 percent increase in current expenditure, mainly through the curtailment of operations and maintenance expenditure. The total increase in expenditure of about 20 percent was expected to be closely matched by the projected increase in revenue, brought about mostly by a substantial growth in the value of dutiable imports.

The estimated overall budget deficit of about Tk 36 billion for 1984/85, is well below the Tk 39 billion initially budgeted. Total

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1/ In late May 1985, Bangladesh also suffered from a severe cyclone that resulted in a heavy loss of human life, with the number of deaths estimated at 10,000. The economic consequences were less harsh because the cyclone affected only a small area in the southeastern part of the country; the heaviest losses were sustained by cattle and shrimp farms.

Table 2. Bangladesh: Central Government Operations, 1982/83-1985/86

	1982/83	1983/84	Budget 1984/85	Staff Estimate 1984/85	Budget 1985/86
			(In billions of taka)		
Total revenue	25.40	28.60	34.05	35.24	39.81
Tax	21.08	23.70	28.23	28.07	32.52
Nontax	4.32	4.90	5.82	7.17	7.29
Total expenditure	57.80	60.65	73.17	71.56	77.13
Current expenditure	19.20	23.03	25.29	27.58	31.53
Food account deficit	6.56	3.80	4.18	6.88	3.47
Of which: foodstock change	(-0.03)	(0.27)	(2.21)	(3.21)	(0.56)
Annual Development Program (ADP)	29.80	30.11	38.96	32.84	38.26
Other capital expenditure and net lending 1/	2.24	3.71	4.74	4.26	3.87
Overall budget deficit	32.40	32.05	39.12	36.32	37.32
Excluding foodgrain stocking	(32.43)	(31.78)	(36.91)	(33.11)	(36.76)
Net foreign financing 2/	28.25	27.87	36.43	31.55	34.66
Project aid	13.44	13.31	20.82	15.83	21.30
Commodity aid	9.00	9.63	11.90	9.80	11.00
Food aid	6.40	6.97	6.25	5.74	6.55
Commercial food borrowing (net)	1.23	-0.41	-0.51	2.76	-1.50
Debt amortization	-1.82	-1.63	-2.03	-2.58	-2.69
Net domestic financing	4.15	4.18	2.69	4.77	2.66
Banking system	0.65	2.35	-0.43	1.58	-2.00
Other domestic	3.50	1.86	3.12	3.19	4.66
			(Annual percentage changes)		
Memorandum items:					
Total revenue	9.5	12.6	19.0	23.2	13.0
Total expenditure	25.3	4.9	20.6	18.0	7.8
Current expenditure	29.7	19.9	9.8	19.8	14.3
ADP	11.2	1.0	29.4	9.1	16.5
			(In percent of GDP)		
Total revenue	8.8	8.2	8.5	8.8	8.7
Tax revenue	7.3	6.8	7.0	7.0	7.1
Nontax revenue	1.5	1.4	1.5	1.8	1.6
Total expenditure	19.9	17.4	18.2	17.8	16.8
Current expenditure	6.6	6.6	6.3	6.9	6.9
ADP	10.3	8.7	9.7	8.2	8.3
Overall budget deficit	11.2	9.2	9.8	9.1	8.1
Excluding foodstocking	(11.2)	(9.1)	(9.2)	(8.3)	(8.0)

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

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

2/ Including foreign grants.

CHART 1

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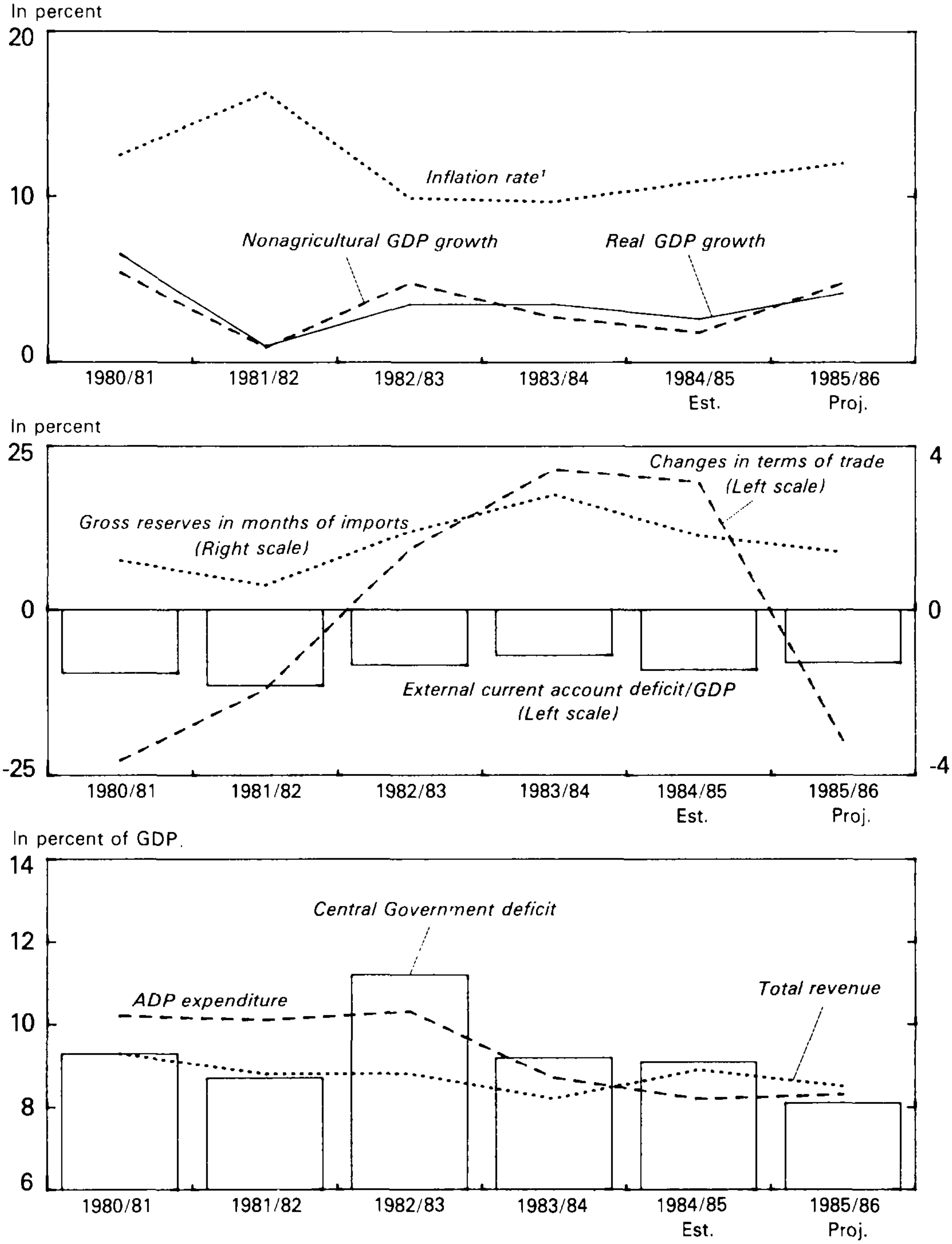
SELECTED ECONOMIC INDICATORS, 1980/81-1985/86



Sources: Data provided by the Bangladesh authorities, and staff estimates.
[1]Based on the CPI for middle income families in Dhaka City (1973/74 = 100).

revenue for 1984/85 is estimated at 3.5 percent above, and total expenditure at 2.2 percent below the budgeted levels. The better-than-expected revenue outturn was attributable mainly to a higher-than-anticipated profit transfer from Bangladesh Bank. The estimated expenditure outturn reflects larger-than-budgeted spending on food relief and on other current expenditure items (about Tk 2 billion each), but a substantially lower level of ADP expenditure, which is estimated at Tk 33 billion, or Tk 6 billion below the budgeted amount. Mainly because of the large increase in foodgrain stocks, from what the authorities regard as a dangerously low level, there was a substantial increase in the food account deficit. A sharp increase in relief expenditure associated with the floods accounted for much of the increase in current expenditure above budgeted levels.

Foreign financing of the budget deficit increased by 13 percent during 1984/85, reflecting higher project assistance (although less than budgeted), as well as substantial borrowing to finance commercial foodgrain imports. Domestic financing of the budget is estimated at Tk 4.8 billion, compared with Tk 4.2 billion in the previous year, with net domestic bank financing totaling Tk 1.6 billion (Tk 2.4 billion in 1983/84).

The financial position of public enterprises was dominated by the heavy losses sustained by the Bangladesh Jute Mills Corporation (BJMC). Prices of raw jute escalated sharply in 1984/85, following heavy production losses due to flooding in conjunction with a low opening stock position. This led to a sharp increase in production costs relative to jute goods prices, which did not rise commensurately with raw jute prices due in part to competition from synthetics. Bank credit outstanding to the BJMC is estimated to have more than doubled during the year. A number of industrial public enterprises have benefited from restructuring operations in recent years under the New Industrial Policy, which involved the sale of some units to the private sector, consolidation of others, and capital restructuring, including the conversion of some debt to equity and grants. While this has generally resulted in improved performance, there were some setbacks in 1984/85 as a result of raw material shortages and wage increases granted during the year. Although public enterprises are permitted to increase their selling prices by up to 10 percent in response to increased costs of production without prior Government approval, there appears to have been some unwillingness to undertake the necessary adjustments.

The strong monetary expansion experienced in 1983/84 continued during most of 1984/85, due mainly to the accommodative stance of credit policy. Reflecting the impact of the floods and the low rate of loan recovery, particularly in agriculture, the growth in credit to the private sector averaged over 60 percent on an annual basis during the first three quarters of the fiscal year, before declining to 44 percent by end-June 1985. Net bank credit outstanding to the Government rose by 6 percent during 1984/85, while the growth in credit to public enterprises, which had moderated in the preceding two years, reached

14 percent, due mostly to the increase in raw jute prices and the replenishment of inventories in sugar and steel following a year of very low inventories. Notwithstanding the turnaround in the external situation, as evidenced by the sharp decline in net foreign assets of the banking system, total liquidity growth remained high at approximately 27 percent during 1984/85 (Table 3 and Chart 2).

In response to the strong credit expansion, Bangladesh Bank imposed individual credit ceilings on banks to achieve an overall domestic credit target growth of 18 percent for the fiscal year. A penalty rate of 4 percent above the Bangladesh Bank rate was set, applicable to amounts of credit in excess of the individual ceilings imposed on banks. Refinancing by Bangladesh Bank was curtailed, with a few exceptions, mainly for trade-related credits. In addition, a number of adjustments in interest rates were undertaken during November 1984 and January 1985 which included: a 2 percentage point increase in interest rates on advances against fixed-term deposits and financial paper securities to 18 percent and 20 percent, respectively; an increase from 16 percent to 18 percent in interest rates on trading credits; an increase in the Bangladesh Bank rate from 10.5 percent to 11.0 percent; and an increase in interest rates on rural individual savings deposits. While these measures failed to limit domestic credit expansion to the overall target set, they were instrumental in moderating the growth of credit to the private sector in the final quarter of the fiscal year.

The share of quasi-money in total liquidity has grown steadily in recent years, rising from 52 percent in June 1981 to 59 percent in June 1985. The maintenance of positive real interest rates on bank deposits, particularly those with maturities of one to three years, together with the expansion of bank branches in rural areas, has facilitated the channeling of funds into the banking system. The banks' liquidity situation continued to be strong through 1984/85, following the substantial accumulation of liquid assets in 1983/84, which were partly absorbed through the issuance of special two-year treasury bills.

Inflation accelerated during 1984/85, reflecting the flood-induced domestic supply shortages, adjustments in administered prices, and the rapid monetary expansion. The annual average rate of inflation, measured by the change in the consumer price index for middle-income families in Dhaka City, is estimated at 10.9 percent (Chart 3). There was a significant slowing down in the rate of inflation during the last quarter of the fiscal year, mainly due to a decline in foodgrain prices.

The balance of payments position came under considerable pressure in 1984/85, despite a further improvement of 19 percent in the terms of trade. Although import prices declined slightly, the value of total imports rose by 15 percent, largely due to a 32 percent increase in foodgrain imports. The floods also played a role in the 26 percent decline in the volume of raw jute exports, with the result that, although export unit values rose by an average of 18 percent, the growth in the value of total exports was only 13 percent. Consequently, the

CHART 2

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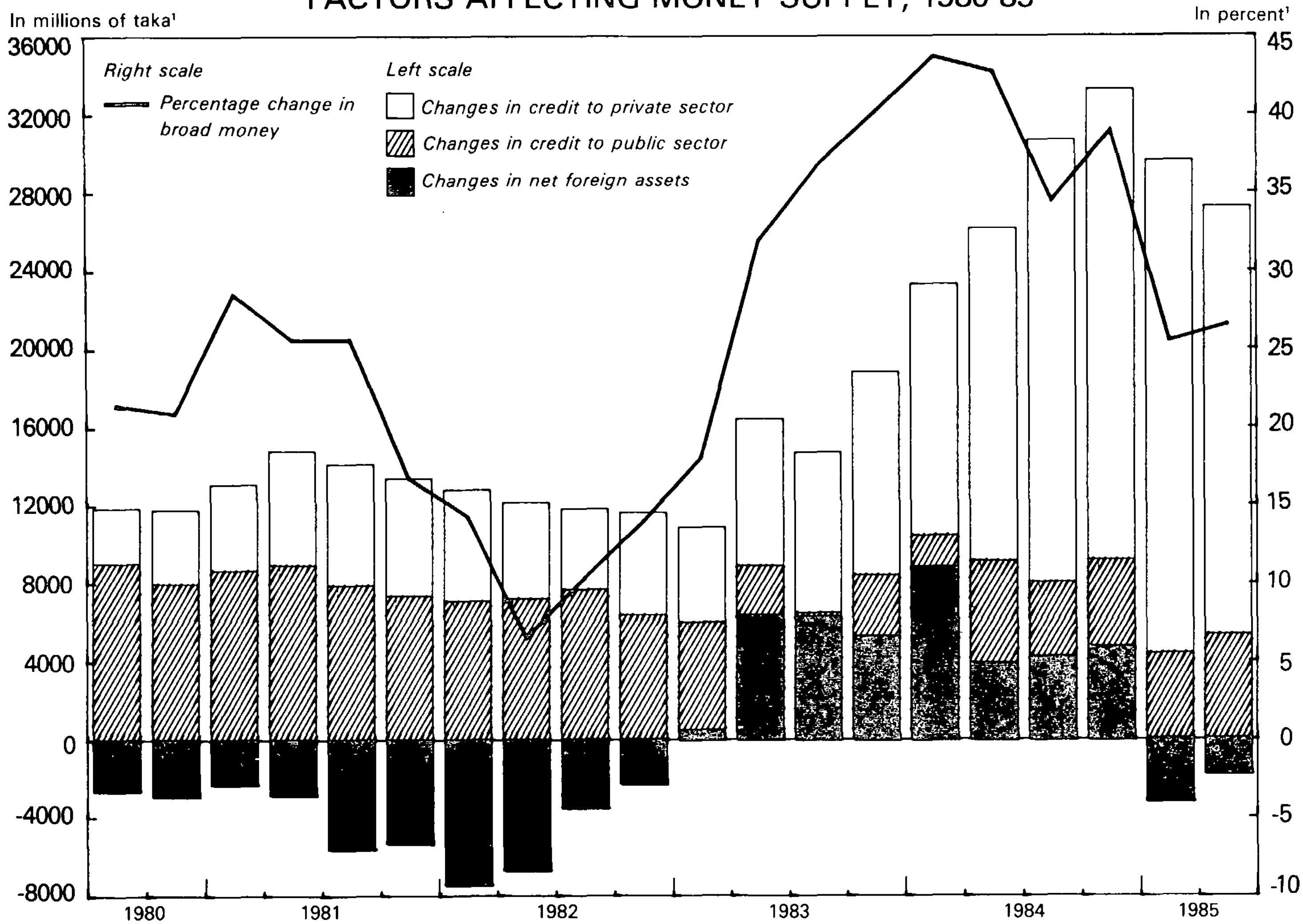
FACTORS AFFECTING MONEY SUPPLY, 1980-85



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

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

CHART 3

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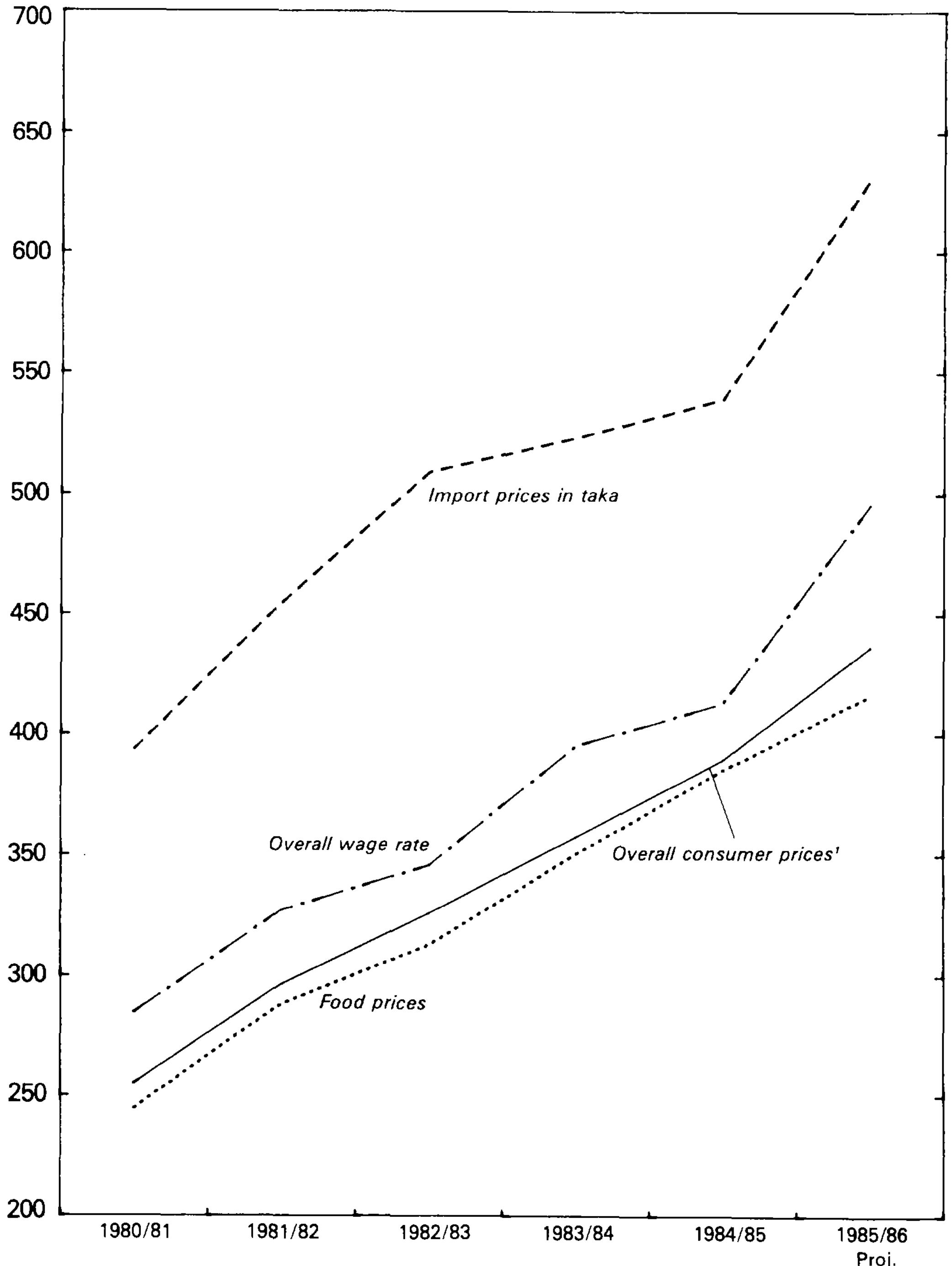
FACTORS AFFECTING PRICES, 1980/81-1985/86

(1973/74 = 100)



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

[1] Based on the CPI for middle income families in Dhaka City.

Table 3. Bangladesh: Monetary Survey, 1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84				1984/85			
				Sept.	Dec.	Mar.	June	Sept.	Dec.	March	June
				(In millions of taka; end of period)							
Net foreign assets	-1,229	-7,932	-1,595	-1,703	1,633	3,608	2,241	2,463	3,051	408	451
Domestic credit	56,554	68,706	78,801	79,443	88,745	88,901	101,135	105,939	117,330	118,512	128,395
Public sector	36,367	43,614	46,180	45,798	50,343	47,279	51,472	49,683	54,852	51,670	56,814
Government (net)	19,709	22,216	22,861	21,520	22,647	22,941	25,213	24,184	24,347	22,311	26,788
Other	16,658	21,397	23,319	24,278	27,696	24,338	26,259	25,499	30,505	29,359	30,026
Private sector	20,188	25,092	32,621	33,645	38,402	41,622	49,663	56,256	62,478	66,842	71,581
Broad money	42,885	45,681	60,266	64,352	75,334	76,192	86,004	86,510	104,683	95,601	108,795
Money	20,479	20,252	28,272	29,626	33,210	33,071	36,901	37,088	43,748	37,538	44,447
Quasi-money	22,406	25,429	31,994	34,726	42,124	43,121	49,103	49,422	60,935	58,063	64,348
Other items (net)	12,440	15,093	16,940	13,388	15,044	16,317	17,372	21,892	15,698	23,319	20,051
				(Annual percentage changes) 1/							
Domestic credit	35.5	21.5	14.7	11.9	18.1	19.6	28.3	33.4	32.2	33.3	27.0
Public sector	32.8	19.9	5.9	0.5	6.9	3.7	11.5	8.5	9.0	9.3	10.4
Government (net)	43.7	12.7	2.9	3.5	11.1	15.2	10.3	12.4	7.5	-2.7	6.2
Other	21.8	28.5	9.0	-2.0	3.6	-5.2	12.6	5.0	10.1	20.6	14.3
Private sector	40.6	24.3	30.0	32.3	37.1	44.7	52.2	67.2	62.7	60.6	44.1
Broad money	25.6	6.5	31.9	36.7	40.1	43.7	42.7	34.4	39.0	25.5	26.5

Source: Data provided by Bangladesh Bank, Statistics Department.

1/ For quarterly data, percentage change over comparable quarter of the previous year.

trade balance is estimated to have deteriorated by $236 million, to a deficit of $1.8 billion (Table 4). With an increase in net service outflows and a marked decline of 30 percent in private transfers, due largely to reduced employment opportunities in Middle Eastern countries where most Bangladesh expatriates are employed, the current account deficit to GDP ratio is estimated to have widened to 9.1 percent from 6.9 percent in the previous year. Consequently, despite a 7 percent increase in net capital flows, the overall balance of payments shifted to a deficit of $73 million, and gross reserves declined to the equivalent of 1.8 months of imports.

In July 1984, with a view to encouraging nontraditional exports, the authorities introduced a 100 percent import entitlement rate for leather products, jute carpets, and tea bags under the Export Performance Licensing Scheme (XPL), and raised entitlement rates for certain other items. Among nontraditional exports, the volume of ready made garment exports is estimated to have more than doubled, reflecting increased output from new investments aimed at taking advantage of Bangladesh's unfilled quotas under the Multifiber Arrangement. Nontraditional exports amounted to about 28 percent of total exports in 1984/85.

At end-June 1985, Bangladesh's outstanding external debt is estimated at $6.5 billion, equivalent to about 42 percent of GDP. Excluding net use of Fund credit and commercial food credits, disbursed medium- and long-term external debt outstanding was in the order of $5.9 billion, almost all of which was of a highly concessional nature, with maturity of over 12 years. In 1984/85, total debt service payments increased by 13 percent to $358 million reflecting, in part, interest payments on food loans taken during the year. With the modest growth in exports being more than offset by the decline in workers' remittances, debt service as a percent of exports of goods and services and private transfers rose from 18.5 percent in 1983/84 to 21.5 percent in 1984/85.

During 1984/85, the official exchange rate of the taka was depreciated by 10 percent on a cumulative basis in terms of the U.S. dollar. 1/ As a result of these adjustments, the real official effective exchange rate of the taka depreciated by 2.6 percent in 1984/85 (Chart 4).

The authorities also took steps in 1984/85 to expand the secondary exchange market where workers' remittances and, since February 1985,

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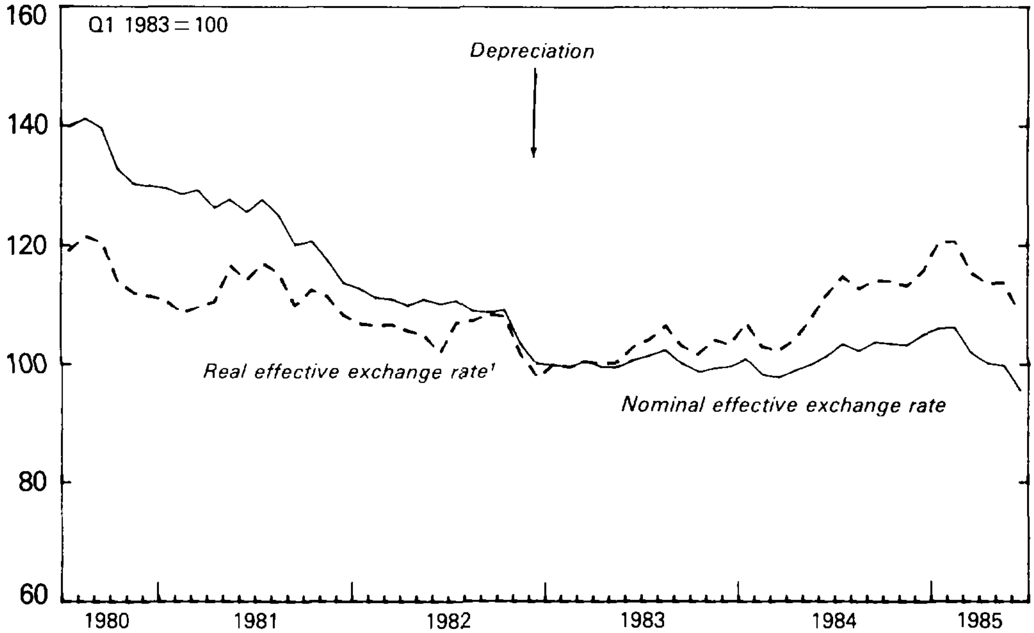
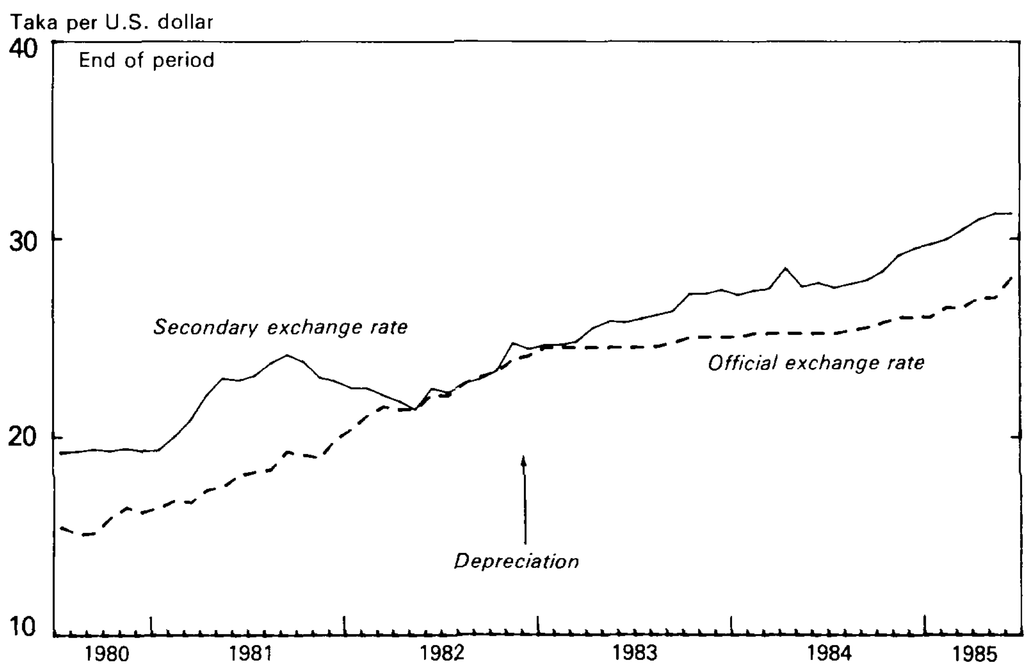
1/ Between July-August, 1985 the taka was further depreciated, in steps, by 4.3 percent to Tk 29.25 per U.S. dollar.

CHART 4

BANGLADESH

NOMINAL AND REAL EXCHANGE RATE INDICES, 1980-1985





Sources: Data provided by the Bangladesh authorities; and *IFS*.

[1] Nominal effective exchange rate adjusted by relative movements in CPIs.

Table 4. Bangladesh: Summary Balance of Payments, 1981/82-1985/86

(In millions of U.S. dollars)

	1981/82	1982/83	1983/84	1984/85 Est.	1985/86 Proj.
Trade balance	-1,878	-1,566	-1,532	-1,768	-1,558
Exports, f.o.b.	626	680	821	932	939
Imports, c.i.f.	-2,504	-2,246	-2,353	-2,700	-2,497
Food	-285	-385	-398	-527	-279
Nonfood	-2,219	-1,861	-1,955	-2,173	-2,218
Services, net	-66	-108	-48	-68	-97
Receipts	248	230	268	296	276
Payments	-314	-338	-316	-364	-373
Of which: interest	(-121)	(-123)	(-125)	(-125)	(-125)
Private transfers	420	649	623	439	430
Current account balance	-1,524	-1,025	-957	-1,397	-1,225
Nonmonetary capital movements (net)	1,237	1,282	1,224	1,313	1,205
Aid disbursements	1,238	1,345	1,268	1,320	1,387
Food aid	233	255	277	245	227
Commodity aid	421	452	439	425	440
Project aid	584	638	552	650	720
Amortization payments	-40	-73	-72	-86	-90
Trust Fund (net)	--	-1	-8	-15	-25
Food credits (net)	-9	47	-9	124	-66
Other (net)	48	-36	45	-30	-1
SDR allocation	--	--	--	--	--
Errors and omissions (net) 1/	-4	37	-113	11	--
Overall balance	-291	294	154	-73	-20
Financing items	291	-294	-154	73	20
Fund credit (net)	49	48	19	-11	-87
Others	242	-342	-173	84	107
Memorandum items:					
Current account balance (in percent of GDP)	-11.5	-8.4	-6.9	-9.1	-8.0
Gross reserves (in millions of US$)	122	358	539	397	290
(in months of imports)	0.6	1.9	2.8	1.8	1.4
Debt service as percent of exports of goods and services and private transfers	17.0	16.7	18.5	21.5	25.7
Terms of trade index	100.0	109.2	132.5	158.2	126.8

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

1/ Includes valuation adjustments.

tourist receipts are sold. 1/ Under the Export and Import Policy Orders for 1984/85, the list of items importable through the secondary market was further expanded, and the import entitlement rates were raised for a number of exports. Effective July 7, 1984 scheduled banks were authorized to purchase foreign exchange in this market for their own use or on behalf of their clients, and were not required to surrender foreign exchange thus acquired. Concurrently, it was announced that the rate would be set by a committee of authorized dealers with Bangladesh Bank acting as an observer but ready to intervene in the market in order to hold the premium within a range of 7-10 percent above the official exchange rate. The sharp decline in workers' remittances, coupled with increases in foodgrain and sugar imports financed through the secondary market, led to heavy reserve losses in early 1984/85 under the Bank's intervention policy. Support operations by Bangladesh Bank involved net sales of foreign exchange in the secondary market of $365 million during the fiscal year. Notwithstanding continued but moderated intervention, the premium of the secondary market rate over the official rate rose to 16 percent by end-May 1985. There has, however, been a sharp drop in the premium in recent months, partly reflecting the more frequent adjustments of the official rate; by end-August, the premium stood at 9.7 percent.

III. Policy Discussions and Prospects for 1985/86

The major objectives of economic policy for 1985/86 are to bring about an improvement in the external position and realize a higher rate of growth. Staff projections indicate that, provided appropriate policies are pursued, the external current account deficit in terms of GDP can be reduced by 1.1 percentage points to 8 percent, while achieving a real GDP growth of about 4 percent. Adjustments in wages and administered prices, recent exchange rate actions, and continued flexible exchange rate management are expected to result in an acceleration in the average rate of increase in prices to 12 percent in 1985/86. This rate is expected to come down significantly, however, once the effects of the corrective measures adopted have been absorbed through the economy.

1/ Effective July 1, 1985 some 50 percent of export receipts are also sold in this market; in addition, the range of import-related payments financed through this market has been enlarged (see below). The funds purchased in this market were for the importation of specified goods and certain invisibles, mainly foreign travel. In 1983/84, when the rate had been a free interbank auction rate, the premium of the secondary market rate over the official rate ranged from 6-13 percent. Also, under the XPL, all registered nontraditional exporters received a share of their export earnings in the form of Import Entitlement Certificates (IECs), which were fully negotiable. The premium on these certificates generally followed the premium in the secondary market.

Staff discussions with the authorities focused on mobilization of additional domestic resources through the adoption of new revenue measures, more efficient allocation of resources through pursuit of realistic pricing policies, implementation of restrained monetary and credit policies in order to contain inflationary pressures and stimulate domestic savings, and export promotion and diversification through the provision of adequate incentives and further liberalization of the trade and payments system.

1. Fiscal policy

The thrust of the authorities' fiscal policy in 1985/86 is to ensure that expenditure growth remains within the limits of available resources and does not necessitate recourse to bank financing. In support of this policy, efforts are being made to increase domestic resource mobilization, cut subsidies, and restrict the size of the ADP in line with the expected inflow of foreign assistance and available domestic nonbank resources. The 1985/86 budget, presented on June 30, foresees an overall deficit (excluding grants) of about Tk 37 billion, equivalent to 8.1 percent of GDP, and provides for a net repayment of credit to the banking system of Tk 2.0 billion; the effect of food-stocking operations, which, in some years, distorts the underlying budgetary trends, is expected to be negligible. Total revenue is projected to increase by about 13 percent, and total expenditure by close to 8 percent over the estimated outturn for 1984/85.

Revenue measures announced in the budget are officially estimated to yield an additional Tk 1.8 billion (0.4 percent of GDP). The measures reflect the authorities' recognition of the need to increase the relative importance of domestically based taxes in the revenue structure in view of the volatility of international trade tax receipts, which presently account for about 55 percent of tax revenue. The revenue measures include increases in excise duties, notably for natural gas (increases ranging from 22-30 percent); a new duty structure on cigarettes; modifications to customs duty and sales tax rates yielding a small net increase in revenue; increases in land development tax rates (mainly on nonagricultural land); increases in passport fees; and legislative changes aimed at improving the collection of customs duties, income taxes, stamp duties, and registration fees. In order to improve compliance and accelerate collections, a withholding tax was introduced on the value of certain imports and on interest payable on fixed bank deposits in excess of Tk 40,000. However, the latter measure was subsequently withdrawn due to implementation difficulties, and new measures were implemented, including the introduction of a 4 percent surcharge on interest income from savings deposits, a 25 percentage point increase (from 75 percent to 100 percent) in the customs duty on sugar imports retroactively to July 1, 1985, and increases in certain fees and charges. These new measures are expected to more than offset the loss in revenue.

The budget announced substantial reductions in the income tax rates for individuals, lowered the highest tax rate for registered firms from 30 percent to 25 percent, and extended the expiry dates and limits of a number of income tax concessions. However, the authorities expect that the measures adopted and the rationalization of the tax structure will inspire higher tax compliance and help to compensate for the revenue loss resulting from the reductions in tax rates. Given the size of the income tax reductions (as much as 40 percent in certain instances), the staff believes that the net revenue impact of the budget measures may be somewhat overestimated. Based on budget estimates, the ratio of total revenue to GDP shows a slight decline from 8.8 percent in 1984/85 to 8.7 percent in 1985/86. However, given the declared intention of the authorities to pursue a flexible exchange rate policy, the total revenue to GDP ratio may turn out to be somewhat higher than indicated by the budget estimates.

Expenditure estimates in the budget include a provision for the salary and wage increases introduced with effect from June 1, 1985, following an examination by two Pay Commissions of pay and allowances of public sector salaried employees and industrial workers. The wage increases, which average about 28 percent, are estimated to entail an additional net outlay of about Tk 3 billion for the Central Government and Tk 1 billion for public sector organizations. As part of the restructuring, a number of allowances have been merged with the basic pay scale, and the system of automatic scale promotion after seven years' service has been abolished. In order to offset the cost of the salary restructuring, and as part of the move toward improved resource allocation and efficiency, expenditure reductions have been made in other areas. The food account deficit is expected to decline by about Tk 3.4 billion, partly because the increase in foodgrain stocks is expected to be much less in 1985/86. Foodgrain subsidy expenditure is to be reduced from Tk 2.5 billion to Tk 1.9 billion as a result of a lower offtake and an increase in some ration prices. The distribution price of fertilizer was increased by an average of 3 percent on July 1, 1985 and further increases are expected during the year in line with the World Bank recommendation. The financial provision for the fertilizer subsidy in 1985/86, included in the ADP, is Tk 460 million, compared with Tk 860 million in 1984/85, reflecting both a decline in the cost of imported fertilizer and the domestic price adjustments being undertaken by the Government. Relief and rehabilitation expenditure, which was sizable in 1984/85, is expected to decline by Tk 610 million. At the same time, interest expenditure is expected to increase by Tk 740 million, or about 23 percent over 1984/85.

The budget provides for Tk 38.3 billion in expenditure on the ADP, of which Tk 32.1 billion is expected to be financed through foreign aid receipts. This would result in a slight increase in the ratio of development expenditure to GDP. In view of past problems of implementation, the staff considers it unlikely that the budgeted level of development expenditure can be realized. Budgetary planning has suffered in the past from overestimation of both the availability of resources and the capacity to implement projects. This has also been an area of concern to the World Bank. The Bank has emphasized that persistent overestimation of ADP resources and project expenditures undermines the effectiveness of the ADP as a tool for planning and managing development spending, and raises doubts on the part of aid donors with regard to the need for additional aid commitments.

The recent increases in a number of prices and tariffs are expected to improve the financial performance of public enterprises. The adjustments include increases in natural gas prices (where the selling price increase of 20 percent announced in the budget reflects both a higher excise duty and a higher margin for gas companies), fertilizer prices, electricity tariffs, railway charges, and water and sewerage charges. The recent sharp decline in raw jute prices is also expected to enhance the financial position of the Bangladesh Jute Mills Corporation. In view of the higher costs that public enterprises are expected to face this year (particularly on account of increases in wage rates and prices of imported inputs), the Government has emphasized the importance of raising capacity utilization, improving management, and reducing wastage and inefficiency in the public enterprise sector. The Government will require enterprises to make timely dividend and interest payments (in contrast to their past performance) and, should they fail to do so, will consider deducting overdue interest at source. Public enterprises have been instructed to reflect actual production costs in their selling prices.

2. Monetary and credit policies

Beginning in late 1984, the authorities implemented a number of measures to curtail the growth in domestic credit. Monetary restraint and strengthening of the measures adopted so far will be essential in order to contain inflation and improve the external balance. Accordingly, the authorities plan to curtail substantially the growth in total domestic bank credit in 1985/86. Net bank credit outstanding to the Central Government will be reduced by Tk 2 billion through the retirement of the two-year special treasury bills issued in 1983/84. Measures to improve the financial viability of public enterprises, notably increases in administered prices, are expected to contain the growth in bank credit to nonfinancial public enterprises. Therefore, only a moderate increase is projected in credit to the public sector as a whole. Credit expansion to the private sector will take into account the need not to unduly constrain the productive sectors of the economy. The authorities, moreover, recognize the importance of improving loan recovery (see below) in order to strengthen the effectiveness of monetary management and restore the revolving nature of bank loans. Credit to the private sector, therefore, will not be allowed to grow by more than necessary to sustain the projected growth of the economy, while measures will be taken to realize a sizable reduction in the present excessive proportion of overdue loans in total bank loans outstanding.

The effectiveness of interest rate management and credit controls has been seriously undermined in recent years by the large and increasing stock of overdue loans which are mostly concentrated in the private sector. At end-June 1985, overdue loans constituted close to 30 percent of total loans outstanding in the Bangladesh Krishi Bank (financing the agricultural sector), 40-50 percent of total loans outstanding in the two industrial development banks, and a substantial amount in the nationalized commercial banks. This has resulted in inefficient resource allocation and inequities in the relative growth of financial institutions. The solvency of financial institutions has been jeopardized by the increasing share of delinquent loans in their asset portfolios, and the capital adequacy of banks has become questionable in light of this growing risk factor. The World Bank is also seriously concerned about the continued deterioration in the recovery of agricultural and industrial loans. Both the World Bank and the Asian Development Bank have recently made new lending to industry through the Development Finance Institutions conditional on improvements in loan recovery rates. In response, the authorities have taken steps to apply more effectively the existing laws and regulations to address the problem. Moreover, loan recovery targets have been established for individual banks with the understanding that refinancing through Bangladesh Bank will be further curtailed for those banks failing to achieve their loan recovery targets.

Refinance facilities have been made widely available to financial institutions through Bangladesh Bank, with significant implications for credit management in recent years. Refinancing through Bangladesh Bank expanded rapidly until mid-1982 to ensure credit to priority sectors, but was subsequently curtailed in the face of rising bank liquidity. There was a resumption of refinance credit in the second half of 1984, mostly in response to the needs of the agricultural sector associated with the floods. Beginning in December 1984, Bangladesh Bank imposed a moratorium on refinancing. This measure, however, proved largely ineffective, as several exceptions were made to meet agricultural credit demands. The authorities intend to establish refinance limits for individual banks this year, linked partly to improvements in loan recovery and deposit mobilization. In addition, refinance rates for different sectors have recently been linked to the Bangladesh Bank rate which could be expected to facilitate possible future adjustments in these rates.

Some interest rates, including the Bangladesh Bank rate, were raised in late 1984 and early 1985. 1/ However, these adjustments were not very significant and most nominal interest rates have remained essentially unchanged since October 1980 (Appendix Table 6). With the moderation of inflation in recent years, key interest rates have continued to be positive in real terms. The authorities are committed to a

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1/ On September 16, 1985, the Bangladesh Bank rate was further increased from 11.00 percent to 11.25 percent.

flexible interest rate policy in order to promote domestic resource mobilization and ensure an efficient allocation of financial resources.

3. External prospects and policies

Despite the projected modest increase in aid disbursements and a significant decline in foodgrain imports, the balance of payments is expected to remain under pressure in 1985/86 mainly because of an anticipated 20 percent decline in the terms of trade and substantial repayments on commercial food credits. Export volume is forecast to rise by 24 percent, led by a sharp recovery in raw jute, and continued growth in nontraditional exports, including ready-made garments. The export unit value index is expected to fall by 19 percent, due largely to a sharp decline in raw jute prices from the exceptionally high levels in 1984/85. Export receipts are thus estimated to grow by less than 1 percent to reach $939 million. However, imports are projected to fall by close to 8 percent in nominal terms (9 percent in volume), due entirely to sharply reduced foodgrain imports, resulting in a substantial decline in the trade balance. Despite a sharp deterioration in the net services balance, the projected improvement in the trade balance is expected to reduce the current account deficit from $1.40 billion (9.1 percent of GDP) in 1984/85 to $1.23 billion (8.0 percent of GDP) in 1985/86.

Net capital inflows are expected to decline by $109 million, with increases in debt amortization payments more than offsetting the anticipated 5 percent growth in aid disbursements. The repayment of $96 million of commercial food credits will be largely responsible for the 4 percentage point increase in the debt service ratio to an estimated 25.7 percent in 1985/86. The overall balance of payments deficit is projected to decline from an estimated $73 million in 1984/85 to $20 million in 1985/86. The financing of the deficit, together with repurchases of Fund credit amounting to $87 million, will result in a further decline in gross international reserves to the equivalent of 1.4 months of imports.

Exchange rate policy will continue to aim at ensuring competitiveness and encouraging a gradual shift of resources to the traded goods sector. During the two-year period ended January 1985, the official exchange rate of the taka, determined against a basket of six major currencies, appreciated by 20 percent in real effective terms. In February 1985, the authorities embarked on a policy of steadily depreciating the taka. By end-August 1985, the official exchange rate of the taka had been devalued by 11.1 percent, relative to its value at end-January 1985. The authorities have stated that they will continue to pursue this policy until competitiveness is fully restored and that, thereafter, an objective of exchange rate policy will be to avoid an appreciation of the real official effective exchange rate of the taka.

The staff emphasized to the authorities the desirability of unifying the exchange markets at the earliest possible time. In recognition of the merits of moving toward unification of the exchange markets, and with a view to providing additional incentives for exports and ensuring an improved allocation of imports, the scope of the secondary market was expanded significantly effective July 1, 1985. On that date, the XPL Scheme and the issuance of IECs were replaced by the Export Performance Benefit Scheme (XPB), under which export receipts from 51 export items (mainly nontraditional) are sold in the secondary exchange market. Export receipts from raw jute, loose tea, and wet leather continue to be sold entirely in the official market. All other export items are given a "secondary market sale" coefficient of either 70 percent or 40 percent. It is notable that under the XPB Scheme, the traditional export category of jute goods has become subject to the secondary exchange rate; in particular, 100 percent of the receipts from carpet backing cloth and jute mats, and 40 percent of the receipts from hessian and sacking are now transacted at the secondary market rate. Some 40 percent of the export earnings from ready-made garments are also sold at the secondary market rate. As a result of these changes, approximately 50 percent of all export earnings are now effectively sold at the secondary market rate, compared with about 23 percent in 1984/85. In addition, receipts from the export of technical and consultancy services are sold, with effect from July 1, 1985, in the secondary market. Further, the authorities have decided to limit their intervention in the secondary market.

Effective July 1, 1985, all imports into Bangladesh, financed through the secondary market, are transacted on the basis of a negative list rather than a positive one. Imports on the negative list are prohibited either because they are domestically produced, or for social and religious reasons. The negative list is supplemented by a restricted list, which contains items importable subject to certain qualifications. With few exceptions, access to importation through the secondary market requires only the possession of a valid Import Registration Certificate, which is readily obtainable. Due to the resource constraint, the authorities noted that imports at the official exchange rate continue to be regulated by the allocation of resources on the basis of exchange availability. The negative and restricted lists, however, also apply to these imports.

As a result of the changes introduced to broaden the scope of the secondary market, the list of foreign exchange payments transacted at the official exchange rate has been limited to: imports of food, books, and a portion of petroleum imports; all imports against loans, grants, barter, and special trading arrangements; imports of certain essential inputs for industry; government imports; debt service payments; and all other service payments except those related to travel, medical, and educational expenses. It is the intention of the authorities to shift additional transactions from the official to the secondary market during the current fiscal year.

Despite adoption of the above measures, Bangladesh's import system still retains restrictive elements, largely because of the foreign resource constraint and the perceived need to protect domestic production. The authorities stated that balance of payments difficulties preclude further liberalization of the system at the present time, but that the remaining restrictions will be eased gradually as the external situation permits.

Since August 1983, Bangladesh has had in effect an Exchange Rate Fluctuation Burden Absorption Scheme (EFAS). Under the provisions of the EFAS, Bangladesh Bank stands ready to provide exchange rate guarantees on certain concessional project loans against the payment of a 2.5 percent annual premium of the outstanding amount of the loan. Although participation in the Scheme has not been significant to date and the Scheme has not incurred any losses, the staff cautioned the authorities that the EFAS could give rise to a multiple currency practice, might lead to a misallocation of funds, and could result in losses to Bangladesh Bank. In recognition of these drawbacks, the authorities are reviewing the administration of the Scheme, and are also considering not extending the Scheme beyond its scheduled termination date of June 1988.

The import coverage of gross international reserves, which has averaged 1.8 months over the past four years, is projected to decline to 1.4 months in 1985/86. In view of the narrow export base and the large share of food and essential inputs in total imports, the authorities argue that a significant strengthening in gross reserves cannot be expected in the absence of additional untied foreign aid disbursements over the coming years. The staff stressed that such a prospect compounds the vulnerability of the balance of payments and that steps should be taken to strengthen the country's reserve position.

Given Bangladesh's relatively high debt service burden in the immediate future, mostly on account of sizable repurchases due to the Fund and repayments of food loans, the authorities' policy will be to seek external assistance on concessional terms, and to limit nonconcessional borrowing to emergency financing of foodgrain imports. In recent years, Bangladesh has contracted loans with maturities of one year or less, principally for financing oil imports and for balance of payments purposes. The Government intends to strictly limit such loans which carry commercial terms.

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

4. Production policies and structural changes

The Government's agricultural policy aims at achieving sustained growth in foodgrain production with a view to attaining self-sufficiency in foodgrain, while at the same time diversifying into other crops with growth potential. The expansion of irrigation facilities, and the increased use of chemical fertilizers and high-yield seed varieties, were the major factors contributing to the growth of agricultural production in recent years. Further improvements in these areas are crucial to the promotion of agricultural production. In view of the substantially slower-than-anticipated expansion of irrigation facilities in 1984/85, priority will be given to new investment in irrigation as well as improved efficiency in the use of existing capacity. These efforts will be supplemented by improvements in agricultural research and extension services. The diversification of crop production has been constrained largely by the scarcity and the inefficient distribution of modern agricultural inputs and equipment. In recognition of the need to overcome existing deficiencies, the authorities are taking steps to strengthen public sector agricultural programs and promote private sector participation in the agricultural diversification effort. The latter move is illustrated by the increased reliance on private sector distribution of fertilizers and minor irrigation equipment. In addition, recent efforts to improve loan recovery in agriculture are expected to ensure a more productive use of agricultural credit.

A vigorous export promotion effort constitutes the basis of Bangladesh's industrial development strategy as outlined in the Government's New Industrial Policy promulgated in July 1982. The objective of promoting private investment, notably in export-oriented manufacturing industries, and expanding opportunities available to the private sector, has been reflected in the divestment of public enterprises and the denationalization of banks in recent years. A number of major public units have been divested, including 33 jute mills and 26 cotton textile mills; two out of the six nationalized banks have also been transferred to the private sector. These moves, in conjunction with the capital restructuring and financial rehabilitation of the retained units, are expected to promote competitiveness and efficiency of operations. Furthermore, a special unit is being set up to develop and implement a performance monitoring system for public enterprises.

The Government foresees a growing role for foreign private investment in Bangladesh. Two joint investment companies have recently been formed and the Export Processing Zone in Chittagong, where foreign enterprise operations benefit from low-cost labor and certain tax incentives, has been expanded.

The role of financial institutions in channeling credit to the industrial sector has gained in importance with the intensification of the industrialization effort. The two Development Finance Institutions (Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha) engaged in term lending to the industrial sector have experienced growing financial difficulties, due mostly to the inability to recover loans. In order to address this problem, and to bring about a resumption in foreign aid disbursements to the DFIs, which have recently been made conditional on improved financial performance, the authorities have prepared an action program based on the recommendations of a UNDP financed study on the subject. The program, which entails a restructuring of the DFIs as well as a number of other changes, is expected to go into effect during 1985/86.

5. Statistics

There are several areas in which the coverage, quality, and timeliness of economic and financial statistics could be improved (Annex III). The reliability of monetary statistics has been of particular concern. During the course of the Article IV consultation discussions and negotiations on the possible use of Fund resources, the staff team noted that the present system of reporting and compiling of monetary data suffers from serious weaknesses that complicate the task of formulating and implementing monetary policy. In August, a staff team visited Dhaka to review certain revisions to monetary statistics reported by the authorities and to make initial recommendations on areas of improvement. Another mission is visiting Dhaka in September to assist the authorities in establishing a more comprehensive system of reporting and compiling monetary data, with a view to strengthening the reliability of the statistical series on the basis of which monetary policy is formulated.

IV. Medium-Term Outlook

Bangladesh will continue to face an external resource constraint in the years ahead, given the economy's narrow resource base. Policies, particularly with respect to the expansion of the secondary exchange market and exchange rate management, are now being implemented to enlarge and diversify the export base. However, progress in this area will take time, and Bangladesh will continue to rely on raw jute and jute goods as a primary source of export receipts for many years to come, especially as the recently observed rapid growth of the ready-made garments sector is unlikely to continue under present international textile quotas. Assuming a modest but steady growth in the volume of exports, Bangladesh's export earnings are projected to rise at an annual average rate of about 7 percent over the five-year period ending in 1989/90. The annual inflow of workers' remittances, on the other hand, is projected to remain constant in the medium term, largely because employment opportunities for Bangladesh workers abroad are not expected to improve.

Bangladesh also faces a peaking in total debt service payments in 1986/87 (Appendix Table 7). Approximately 88 percent of Bangladesh's total external debt outstanding, estimated at $6.5 billion at end-June 1985, represents concessional loans with maturities of over 12 years.

Nevertheless, the recent accumulation of commercial food loans and net use of Fund resources will cause the debt service ratio (including remittances) to rise to about 27 percent during 1985/86-1986/87, after having averaged almost 19 percent annually during the period 1980/81-1984/85. Subsequently, the ratio will sharply decline to 14 percent by 1989/90. Therefore, a large part of the projected growth in foreign exchange earnings in coming years will be absorbed by heavy debt service payments. These factors, together with the need to maintain gross reserves at a level sufficient to meet emergencies, will imply continued reliance on foreign aid to finance imports. Assuming that current trends continue, external aid disbursements are projected to grow by an average of about 2 percent annually in real terms over the next five years.

It is essential for Bangladesh to continue its adjustment effort in order to cope with its debt service obligations and strengthen its reserve position, while maintaining a slight real growth in per capita income. According to present staff projections, this will require a reduction in the external current account deficit from 9.1 percent of GDP in 1984/85 to 7.5 percent in 1989/90. Given the expected reduction in the import bill in 1985/86, the achievement of such targets would allow for an annual average growth of 7 percent in imports during the four years following 1985/86, which, with normal weather, could support an average real GDP growth of about 3 percent per year. The World Bank staff believes that a higher rate of economic growth over the medium term could be achieved. This, however, would entail a somewhat stronger import growth and accompanying aid disbursements, and would call for intensified adjustment efforts in view of the low level of reserves and the high debt service obligations.

V. Staff Appraisal

At the turn of the decade, Bangladesh experienced a severe deterioration in its external position, a slowing down in output growth, and a high rate of inflation. A combination of factors contributed to this outcome, including poor harvests of the major crops and a sharp decline in the terms of trade. The Government's response was to adopt an adjustment program that was supported by the use of Fund resources. The ensuing turnaround in the economic situation during 1982/83, strengthened also by an improvement in the terms of trade, was significant.

The progress made in 1982/83 was largely sustained in the following year, aided once again by favorable exogenous developments. While growth was restored, inflation moderated, and the external current account deficit reduced, the economy nevertheless remained structurally weak and vulnerable to external shocks. The latter was demonstrated once more in 1984/85 when heavy floods resulted in large production losses, with significant repercussions throughout the economy. Relatively slow export growth, coupled with a sharp drop in private remittances, led to additional borrowing on commercial terms as well as a heavy drawdown of reserves to finance the needed imports. Adverse external developments were accompanied by inadequate financial and exchange rate policies. Monetary expansion was excessive, with sharply deteriorating loan recovery rates in most areas of bank lending. A number of major public enterprises resorted heavily to bank borrowing in the face of large cost overruns. The expansion in credit to the private sector was well in excess of amounts justifiable by the growth in productive activity. In contrast, the budget deficit was contained and government recourse to bank financing was limited, but this achievement was attributable, for the most part, to persistent shortfalls in development spending while efforts to generate additional revenue remained modest.

Against this background, the Government initiated a number of corrective actions in the latter part of 1984/85 to contain monetary expansion and restore international competitiveness of the traded goods sector. While some progress was made in both areas, the need for further measures remained. To strengthen the adjustment process and achieve higher economic growth, the authorities' economic policies for 1985/86 will require fiscal restraint, a tightening of monetary policy, adjustments in administered prices, flexible exchange rate management, and a significant move toward unification of the exchange markets. The major objectives for this year are to reduce the external current account deficit, while achieving real GDP growth of approximately 4 percent. Inflation is expected to rise slightly at the outset, but to come down significantly once the impact of the corrective measures is absorbed through the economy.

The budget for 1985/86 envisages a reduction in the overall deficit in terms of GDP, and a decline in outstanding net credit to the Government from the banking system. The authorities have introduced a number of revenue measures with a view to generating more resources. In addition, steps are being taken to improve tax administration and avoid evasions. Although in the right direction, these revenue measures are insufficient to offset the low elasticity of the revenue system. More substantial efforts will be required in the coming years to realize a notable improvement in the revenue to GDP ratio. While fiscal adjustment in 1985/86 will also rely on expenditure cuts, mainly through subsidy reductions and limiting the size of the Annual Development Program, sizable salary increases have been announced with the budget. The staff is of the view that the overall increase in the wage bill should have been less than provided for in the budget and that the increase should have been targeted to remuneration of the skilled categories, as recommended by the World Bank. In order to offset the high cost of the salary increase, the authorities decided to curtail other current expenditures. The staff stressed that such reductions be kept under review in order not to impair the capacity to maintain and operate existing capital stock.

The staff welcomes the measures taken to improve pricing policies and reduce subsidies, and encourages the authorities to intensify their efforts in these areas with a view to improving the financial position of public enterprises and easing pressures on the budget. The Government's foodgrain rationing system is currently under review. The staff believes that there would be merit in confining the Government's foodgrain operations to the maintenance of strategic stocks, stabilization of foodgrain prices through open market sales, and certain well-targeted distribution schemes.

The recent performance of nonfinancial public enterprises has been mixed. A number of enterprises have generated surpluses, following the implementation of the New Industrial Policy while others, notably the Bangladesh Jute Mills Corporation, have incurred large losses. The denationalization of several public enterprises and the reorganization of publicly held units are expected to encourage competitiveness and improve efficiency, while at the same time promoting the role of the private sector in the economy. In view of increased wages and imported input prices, public enterprises are expected to face higher costs this year at a time when they are being urged to improve their profitability. These considerations will necessitate a stronger effort to improve management and reduce inefficiency in the public enterprise sector, as well as a greater willingness to increase prices promptly in response to increases in production costs.

The measures adopted by the authorities in response to the continued rapid monetary expansion during 1984/85 contributed to curtailing the growth of credit toward the end of the year. The staff supports the authorities' intention to further tighten monetary policy this year with a view to containing inflation and achieving the external target. The effectiveness of monetary management has been seriously undermined in recent years by the large and growing stock of overdue bank loans. A significant improvement in loan recovery will be essential for successful monetary management in 1985/86. In this regard, the staff welcomes the steps taken so far to address the problem, and urges the authorities to closely monitor developments in loan recovery with a view to taking additional measures if needed. Key interest rates have continued to be positive in real terms. The authorities are committed to a flexible interest rate policy and intend to undertake the adjustments that may become necessary to maintain positive real interest rates.

The authorities have initiated a number of corrective measures to improve Bangladesh's external position. Since the beginning of 1985, the nominal exchange rate for the taka has been depreciated by 11 percent on a cumulative basis. It is essential that the recently adopted flexible exchange rate policy be continued to fully restore export competitiveness and promote an allocation of resources to the traded goods sector, thereby reducing the vulnerability of the balance of payments. In the meantime, appropriate international reserve management is required, supported by the cautious external debt policy that the authorities intend to pursue in order to contain debt service payments, which will remain heavy in the years ahead. These considerations underscore the critical importance of exchange rate policy in the context of

Bangladesh. On this front, the authorities recognize the desirability of unifying the exchange markets and, as an initial step in this direction, have modified the payments system to allow for approximately half of exports to be effectively transacted at the more depreciated secondary market rate. The staff strongly supports this move and the authorities' intention to transfer additional transactions to the secondary market during the current fiscal year. The decision to terminate intervention in support of the secondary market is highly commendable and should be maintained in order to avoid further depletion of official reserves. Efforts to further liberalize the payments system are also underway, as illustrated by the recent adoption of a negative list for imports, and the authorities intend to ease the remaining restrictions as the external situation permits.

The authorities have been implementing, in consultation with the Fund staff, corrective measures under the adjustment program adopted for 1985/86. As indicated earlier, negotiations on the possible use of Fund resources in support of this program have been underway, and are expected to be resumed in the coming weeks, at which time the new data base should be in place.

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

VI. Proposed Decision

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

1. The Fund takes this decision relating to Bangladesh's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1985 Article XIV consultation with Bangladesh, in light of the 1985 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/85/264 The Fund welcomes the introduction of a negative list for imports and the movement of additional transactions to the secondary exchange market. The Fund encourages Bangladesh to eliminate the margin requirements on import letters of credit, to continue channeling more transactions through the secondary exchange market with a view to an early unification of the exchange markets, and to terminate the bilateral payments arrangements with Fund members.

Table 5. Bangladesh: Output and Prices, 1980/81-1985/86

(Annual percentage changes)

	1980/81	1981/82	1982/83	1983/84 Prov.	1984/85 Est.	1985/86 Proj.
GDP at constant market prices	6.5	1.0	3.5	3.5	2.6	4.2
Agriculture	5.4	0.9	4.8	2.7	1.8	4.8
Nonagriculture	7.5	1.1	2.3	4.3	3.4	3.6
Industry	5.6	1.3	-1.3	3.9	2.0	-1.4
Construction	13.4	5.6	-1.7	4.9	5.5	-3.9
Energy	11.1	18.4	35.1	25.0	20.0	20.0
Services	7.5	0.4	3.5	4.1	3.3	5.5
Implicit GDP deflator	10.6	12.5	5.7	15.7	12.5	10.0
Consumer prices						
(Annual average) 1/	12.5	16.3	9.9	9.7	10.9	12.0
Food	9.1	17.8	8.5	12.0	10.7	...
Nonfood	18.3	14.1	12.1	6.2	11.3	...
Consumer prices						
(End of period) 1/	17.1	7.5	13.9	12.3	7.7	13.0
Food	14.6	8.4	12.6	17.5	5.0	...
Nonfood	21.0	6.2	15.9	4.5	12.1	...
Memorandum item:						
GDP at current market prices						
(in billions of taka)	233	265	290	348	401	460

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

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

Table 6. Bangladesh: Selected Interest Rates, 1980-85

(In percent per annum) 1/

	1980 Oct.	1982 July	1983 Oct.	1984 March	1985 March
Bank rate	10.5	10.5	10.5	10.5	11.0
Bank deposits					
Savings account					
Without checking	10.0	10.0	10.0	10.0	10.0
Fixed deposits					
Three months to less than six months	12.0	12.0	12.0	12.0	12.0
One year to less than two years	14.0	14.0	14.0	14.0	14.0
Three years and over	15.0	15.0	15.0	15.0	15.0
Bank lending					
Government					
Treasury bills	8.5	8.5	8.5	8.5	8.5
Tap treasury bills	9.5	9.5	9.5	9.5	9.5
Two-year bonds					
Issued at discount	--	--	--	15.7	15.7
Issued at par	--	--	--	14.2	14.2
Export 1/	12.0	12.0	12.0	12.0	12.0
Agriculture 1/	12.0	12.0	16.0 2/	16.0 2/	16.0 2/
Socioeconomic 1/	13.0	13.0	13.0	15.0 3/	15.0 3/
Industry 1/	14.0	14.5	14.5	14.5	14.5
Other (nonpriority)	15.5	16.0	16.0	16.0	16.0-20.0

Source: Data provided by the Bangladesh authorities.

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

Table 7. Bangladesh: Medium-Term Balance of Payments and External Debt Outlook, 1982/83-1989/90

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

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
			Est.	Staff Projections				
External resources								
Availability	2,648	2,555	2,695	2,574	2,655	2,936	3,179	3,459
Export of goods 1/	680	821	932	939	976	1,067	1,173	1,298
Private transfers	649	623	439	430	430	430	430	430
Capital account (net) 2/	1,319	1,111	1,324	1,205	1,249	1,438	1,576	1,731
Of which: aid disbursements	(1,345)	(1,268)	(1,320)	(1,387)	(1,474)	(1,590)	(1,726)	(1,874)
Uses	2,354	2,40	2,768	2,594	2,551	2,835	3,098	3,387
Imports 3/	2,246	2,353	2,700	2,497	2,460	2,752	3,017	3,305
Services (net) 4/	108	48	68	97	91	83	80	82
Monetary movements (- increase) 5/	-294	-154	73	20	-104	-101	-81	-71
Of which: IMF	(48)	(19)	(-11)	(-87)	(-114)	(-77)	(-52)	(-46)
Debt service payments								
Payments on existing debt	260	316	358	414	425	297	263	254
Interest 6/	123	125	125	115	102	88	79	73
Of which: IMF charges 7/	(38)	(38)	(32)	(29)	(21)	(12)	(6)	(3)
Amortization	137	191	233	299	323	210	184	181
Of which: IMF repurchases 7/	(53)	(51)	(66)	(87)	(114)	(77)	(52)	(46)
Payments on new borrowings 8/	--	--	--	10	24	31	40	40
Interest	--	--	--	10	14	21	30	40
Of which: IMF charges	--	--	--	--	--	--	--	--
Amortization	--	--	--	--	10	10	10	--
Of which: IMF repurchases	--	--	--	--	--	--	--	--
Total	260	316	358	424	449	328	302	294
Of which: IMF 7/	(91)	(89)	(98)	(116)	(135)	(89)	(58)	(49)
Debt service as a percent of goods and services								
Excluding remittances	28.6	29.0	29.2	34.8	35.7	24.1	20.4	18.2
Including remittances	16.7	18.5	21.5	25.7	26.6	18.3	15.8	14.3
Memorandum items:								
Gross reserves (in millions of US$)	358	539	397	290	286	320	358	392
(In months of imports)	1.9	2.8	1.8	1.4	1.4	1.4	1.4	1.4
Current account deficit as a percent of GDP	8.4	6.9	9.1	8.0	7.0	7.5	7.5	7.5
Debt outstanding (end of period)	5,398	5,874	6,454	6,850	7,223	7,762	8,388	9,098
Of which: IMF 7/	(401)	(420)	(409)	(322)	(208)	(132)	(80)	(34)

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

1/ In 1986/87 and beyond, both export volume and prices are projected to grow by about 4 percent annually.
2/ Assumes no short-term borrowings during the projection period; a 2.2 percent real annual increase in project and commodity aid disbursements; and no real increase in food aid disbursements. For 1982/83-1984/85, net errors and omissions are included.
3/ Import projections are consistent with an average real growth of 3.4 percent per annum in the period 1986/87-1989/90.
4/ Includes projected interest payments on projected new borrowing.
5/ Assumes maintenance of gross reserves at six weeks' imports during 1985/86-1989/90.
6/ Includes interest on short-term debt.
7/ Excludes Trust Fund.
8/ With the exception of a projected $30 million in food credit in 1985/86, all projected borrowings are assumed to be concessional with an average interest rate of 1.2 percent.

Bangladesh - Fund Relations
(As of August 31, 1985)

(Amounts in millions of SDRs, unless otherwise indicated)

I. Membership status

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

A. Financial Relations

II. General Department (General Resources Account)

(a)	Quota:	287.5
(b)	Total Fund holdings of taka:	643.1
	(As percent of quota)	(223.7)
(c)	Fund credit:	378.1
	(As percent of quota)	(131.5)
	Credit tranches	68.4
	(As percent of quota)	(23.8)
	Extended Fund Facility	103.0
	(As percent of quota)	(35.8)
	Supplementary Financing Facility	72.1
	(As percent of quota)	(25.1)
	Compensatory Financing Facility	134.6
	(As percent of quota)	(46.8)
(d)	Reserve tranche position:	22.4
(e)	Current operational budget:	None
(f)	Lending to the Fund:	None

III. Stand-By and Extended Arrangements

(a) There is no current arrangement.
(b) Previous stand-by and extended arrangements during the last ten years.

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

1/ Arrangement became inoperative in June 1981 and was cancelled in June 1982.

(c) Special facilities

Type of Special Facility	Date of Approval	Amount
CFF	02/17/82	60.00
CFF	08/30/82	71.20
CFF	04/10/85	54.95

IV. SDR Department

(a) Net cumulative allocation:	47.1
(b) Holdings:	0.4
(As percent of net cumulative allocation)	(0.8)

V. *Administered accounts*

(a) Trust Fund loans:	
(i) Disbursed	122.2
(ii) Outstanding	90.1
(b) SFF Subsidy Account:	
(i) Donations to Fund	--
(ii) Loans to Fund	--
(iii) Payments by Fund	14.8

VI. Overdue Obligations to the Fund: None

B. Nonfinancial Relations

VII. Exchange rate arrangement

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 August 1985, the exchange rate was Tk 29.25 per U.S. dollar in the official market and Tk 32.08 per U.S. dollar in the secondary market.

VIII. Last Article IV consultation

The last Article IV consultation report (SM/84/151) was discussed by the Executive Board on July 20, 1984 (EBM/84/113). The following decision (Decision No. 7460-(84/113)) was adopted:

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

2. The Fund notes that Bangladesh maintains certain restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/84/160. The Fund encourages Bangladesh to eliminate the margin requirements of import letters of credit, to channel more imports through the secondary exchange market, and to terminate the bilateral payments arrangements with Fund members.

IX. Consultation cycle

A consultation cycle of 12 months was indicated in the Summing Up of the 1984 Article IV consultation.

X. Technical assistance

(a) CBD and Legal: A mission led by Mr. Sundararajan visited Bangladesh in February 1985 to review bank regulations and financial developments. There was a follow-up mission in late-June, headed by Ms. Lachman, to help draft proposed legislative changes.

(b) Fiscal: Mr. Premchand visited Bangladesh in January 1985 to identify technical assistance requirements in the area of revenue forecasting. Messrs. Garnier and Wilson visited Bangladesh in March-April 1985 to suggest ways of improving revenue forecasting and tax administration management.

(c) Other: Mr. Gurgen (STA) visited Bangladesh in December 1984 in order to document the sources and methods used in the compilation of balance of payments statistics, and to make recommendations for improvement.

XI. Resident representative

The Resident Representative's office was established in Dhaka in 1972. The current Resident Representative, Mr. Samuel Itam, was appointed in August 1984.

Relations with IBRD and IDA

A. Role of the World Bank in Bangladesh

Cumulative World Bank commitments to Bangladesh total $3,243.40 million. This figure includes reactivation of 11 IDA credits ($151.41 million) made to Pakistan before 1971, a consolidation IBRD loan ($54.90 million), and a consolidation IDA credit ($37.45 million) approved in 1975 to cover liabilities arising from projects completed prior to independence. In addition, the Bank has approved 84 new IDA credits since Bangladesh became a member of IBRD and IDA in 1972. The country is currently the largest IDA-only recipient of IDA funds. Bangladesh became a member of IFC in 1976 and three investments have been approved to date.

In response to the urgent need for sustained transfer of substantial financial resources, the World Bank's assistance strategy for Bangladesh provides for a significant proportion of its lending (about one third) to be in the form of Import Program Credits (IPCs). Also, IDA project financing continues to cover all foreign exchange costs, and a significant portion of local currency expenditures. In addition to providing foreign exchange and local counterpart financial support, the IPCs have been a useful vehicle for initiating and supporting sectoral and macroeconomic structural and policy reforms.

Since 1982, IDA has extended 12 IPCs totaling $965 million. The scope and objectives of the IPCs have evolved in line with the needs of the country. After supporting critical post-independence rehabilitation needs, the emphasis changed to improving the efficiency of the jute and cotton textile industries; thereafter, the focus changed to export development and structural problems of the industrial sector as a whole and, subsequently, to increasing agricultural production and improving foodgrain distribution. In response to the country's severe macroeconomic difficulties, IPCs XI (1982/83) and XII (1983/84) addressed broader issues of effective resource utilization and appropriate levels of government expenditures along with new initiatives in agriculture, trade and industry. IDA is discussing with the Government further support under a future IPC operation to promote improvements in fiscal planning and budgetary management, accelerate project implementation, and strengthen agricultural policies and institutions.

With respect to projects, IDA lending to agriculture (about 25 percent of total) focuses on increasing food production through the augmentation of essential inputs (irrigation equipment, fertilizer and improved seeds), the development of flood control infrastructure, extension services, research programs and rural cooperatives, the provision of credit, and the promotion of input and output pricing policies that would provide adequate incentives to farmers. In the future, more emphasis will be placed on agricultural diversification into areas such as fish, livestock, and forestry production.

IDA's lending for industry (over 10 percent of total) seeks to help the Government: (a) increase efficiency in public sector enterprises; (b) reform trade, industrial and financial policies; (c) strengthen existing financial institutions; (d) formulate export promotion programs; and (e) promote rural and small-scale industries. In addition to assistance under program credits, IDA has financed projects to increase fertilizer production, rehabilitate the jute and textile industries, strengthen the development finance institutions, and promote small-scale industries.

With inadequate supply of energy constituting a major constraint to growth in Bangladesh, IDA's lending for power and gas investments (13 percent) supports the use of natural gas as a substitute for imported oil, promotes conservation measures and more efficient energy use, and encourages further gas and oil exploration. Other projects support expansion of the country's rural electrification system and power generation and transmission capabilities. In transport, IDA's lending (7 percent) has focused on the development of the inland water transport system. Future lending will also concentrate on maintaining and upgrading the existing road network.

In the social sectors, lending for primary education supports the national goals of achieving universal primary education and reducing illiteracy, expanding access to education, and upgrading its quality. In order to alleviate the severe and increasing pressures of Bangladesh's population on its scarce resources, IDA, together with other donors, is assisting the Government in implementing an accelerated family planning program. In response to Bangladesh's rapid urban population growth, future IDA lending will also help provide low-cost shelter and infrastructure services for the urban poor; IDA is already financing water supply and sanitation improvements in Chittagong and Dhaka.

IDA chairs the annual Bangladesh Aid Group meetings which provide a forum for aid donor consultation, and IDA's Resident Representative chairs regularly scheduled donor meetings in Dhaka to exchange views on policy issues, project implementation, and aid coordination. The most recent Aid Group meeting was held in Paris in May 1985.

B. IBRD/IDA lending operations:

	Disbursed	Undisbursed
	(In millions of U.S. dollars April 30, 1985)	
Completed projects and import program credits	1,044.25	--
IBRD	54.90	--
IDA	989.35	--
Projects in execution (all IDA)	527.94	858.41
Agriculture and rural development	242.45	304.42
Industry	65.75	107.28
Education	32.83	84.03
Population	19.60	12.40
Transportation	20.45	75.26
Telecommunication	3.03	29.14
Technical assistance	9.52	27.23
Power and gas	103.22	167.89
Water supply and sewerage	31.09	50.76
Import program credits	297.90	37.26
Total	825.84	895.67
Repayments	6.71	
Total debt outstanding 1/	2,724.72	
IFC investment	5.81	

Import Program Credit: The twelfth import program credit (IPC XII) for an amount of $140 million was approved on May 10, 1984 and became effective on June 19, 1985.

1/ Includes undisbursed amounts.

Bangladesh - Statistical Issues

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

	Latest Data in September 1985 issue of IFS
Real Sector	
National Accounts	1983/84
Prices	March 1985
Production	January 1985
Employment	n.a.
Earnings	n.a.
Government Finance	
Deficit/Surplus	1978/79
Financing	1978/79
Debt	n.a.
Monetary Accounts	
Central Bank	March 1985
Deposit Money Banks	March 1985
Other Financial Institutions	n.a.
External Sector	
Merchandise Trade: Values	January 1985
Merchandise Trade: Prices	n.a.
Balance of Payments	Q4-1984
International Reserves	
Including Gold	July 1985
Excluding Gold	July 1985
Exchange Rates	July 1985

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

2. Outstanding Statistical Issues

Real Sector: The reporting of the expenditure components of the national income accounts needs to be included. At present, only data on gross domestic product are published in *IFS*. There are two consumer price indices reported by the authorities: one published in *IFS* and is based on the 1969/70 household survey, and the other reported in the Data Fund and is based on the 1974/75 household survey. A new consumer price index needs to be constructed to reflect the more recent consumption pattern in the country.

Government Finance: The latest published data in IFS refer to 1978/79; the Government reports data only after the budgetary accounts are finally closed. Mr. Wasfy (STA) visited Bangladesh in 1984 to establish a new data base which could eliminate discrepancies between the IFS and RED data and improve the currentness of the former data. The authorities expressed full support for the use of the new data base in both the RED and the IFS, and indicated their willingness to provide the Fund with fiscal data in the proposed format.

Monetary Accounts: The recent Fund missions found serious weaknesses in the present system of reporting and compiling of monetary data. The staff is assisting the authorities to establish a more comprehensive system of reporting and compiling monetary data.

External Accounts: While the balance of payments data published in IFS are reasonably current, the coverage should be expanded to include overall indices of unit prices and volumes of exports and imports.

3. Technical Assistance in Statistics

(a) A mission will visit Bangladesh during September 18-October 3, 1985 to establish a more comprehensive system of reporting and compiling monetary data.

(b) A mission visited Bangladesh during December 10-20, 1984 to document the sources and methods used in the compilation of balance of payments statistics and to make recommendations for improvements. The mission found that the methodology used and the compilation techniques are generally satisfactory. The mission identified some statistical problems, and its recommendations for dealing with them were given to the authorities.