ANNUAL REPORT
1976-77

BANGLADESH BANK

LETTER OF TRANSMITTAL

BANGLADESH BANK

Dacca :

August 29, 1977.

The Secretary,
Ministry of Finance,
Government of the People's
Republic of Bangladesh,
DACCA.

Dear Sir,

In terms of the provision contained in Clause (2) of Article 40 of the Bangladesh Bank Order, 1972, I have the honour to submit to the Government of the People's Republic of Bangladesh the enclosed annual report and the audited accounts of the Bank for the year ended June 30, 1977.

Yours faithfully,
M. Nurul Islam
Governor

CONTENTS

CHAPTER I

TRENDS IN THE ECONOMY

TRENDS IN THE ECONOMY

The pursuit of economic stabilization through appropriate policy measures was sustained during the financial year 1976-77. With inflation under control, a liberal bank credit policy was pursued in respect of loans to people of small means and for house-building, transport and non-traditional exports and also for the less developed regions. Adequate care was, however, taken to ensure that credit is utilized only for productive purposes and overall domestic credit level remains within the limit set by the expected growth of the economy. The budget for 1976-77 sought to augment revenue receipts primarily through improving tax administration, direct tax in particular, and also by broadening the base of taxation by subjecting higher agricultural income to income tax, and levying water charges on farmers benefiting from selected irrigation projects. Effort was also made to keep the volume of the Government's current expenditure under control through measures like reduction of subsidies on fertilizers. Despite these stabilization measures some price pressure developed in the later part of the year due mainly to lower realised growth of the economy.

2. G.D.P. rose by about 3 per cent only during 1976-77 as against the expected growth of 5 per cent for the year and the actual growth rate of 9.7 per cent in 1975-76. The reduction in the growth rate primarily reflected the unexpected set-back in the agricultural sector. Agricultural production recorded a decline of 0.5 per cent during 1976-77 as against a marked increase of 9.9 per cent in 1975-76. The negative growth rate of the agricultural sector should not, however, be attributed to the unfavourable weather conditions alone as over a large part of the year foodgrain prices ruled at levels which were even notably lower than the Government's procurement prices. The low level of prices might have discouraged farmers from making investment in fertilizers, seeds and pesticides and might have also discouraged the

renting of pumps or other irrigation equipments. In the industrial sector the growth rate picked up from 5.5 per cent in 1975-76 to 9.1 per cent in 1976-77. The better production performance did not, however, appear to have been accompanied by any appreciable improvement in efficiency levels as several of the nationalised industries continued to suffer losses. Among other sectors, the growth rate increased in construction and professional and other services but declined in transport, trade, public administration, banking and insurance, and power and gas.

3. Money supply measured by narrow money expanded by Tk. 68.37* crores or 7.59 per cent as against the G.D.P. growth rate of 3 per cent during 1976-77 leading to an imbalance between monetary demand and availability. As a result, prices rose by 11.3 per cent during the year as indicated by the movement of the cost of living index (1969-70=100) for Middle Class at Dacca which rose from 366.05 in June, 1976 to 407.45 in June, 1977. The extent of price increase actually reflected a larger gap between monetary demand and availability than indicated by the growth in G.D.P. and the expansion in money supply; this larger imbalance could be explained by a marked reduction in import surplus. The deficit on goods and services account declined substantially from Tk. 1194.00 crores in the first nine months of 1975-76 to Tk. 401.00 crores in the same period this year, reflecting a marked reduction in imports particularly of food, fertilizers and edible oil, and a significant growth in exports. While our import payments at Tk. 791.00 crores during July, 1976—March, 1977 represented a sharp decline as compared to the same period last year, our export earnings attained an impressive level of Tk. 502.00 crores, denoting an increase of Tk. 185.00 crores or 58.3 per cent as compared to the corresponding period of 1975-76. Taking the year 1976-77 as a whole the deficit on goods and services account is estimated at Tk. 588.00 crores, which is Tk. 820.00 crores lower than in the preceding year.

4. As against a rise of 7.59 per cent in narrow money the expansion in overall liquidity was much larger during the year with broad money increasing

* Figure relates to 24th June, 1977 (Last Friday of the year).

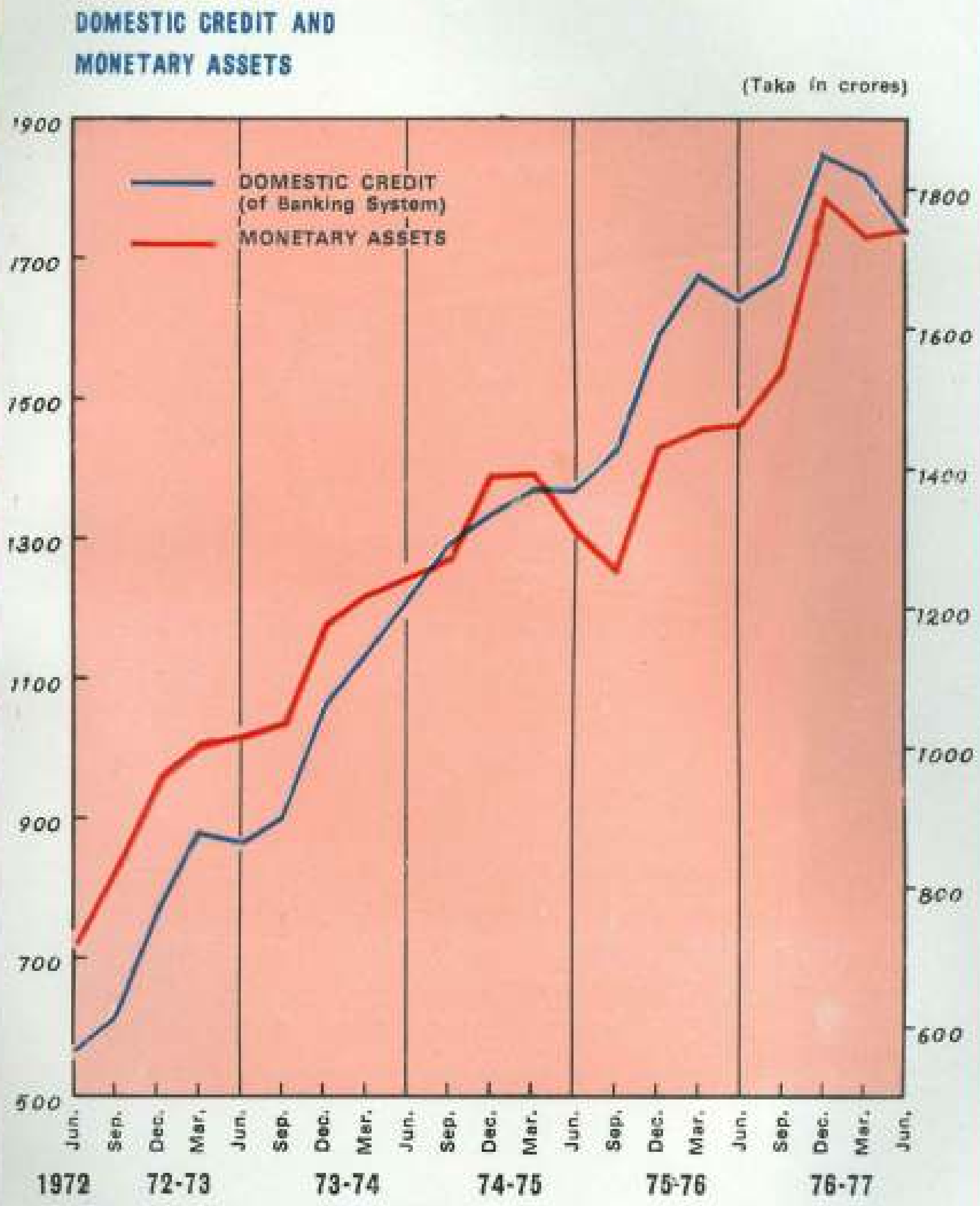
by Tk. 276.76 crores or 19.24 per cent due to a sharp growth in time deposits. These deposits grew by as much as Tk. 208.39 crores during the year as against the increase of only Tk. 17.26 crores in demand deposits with the result that the share of time deposits in total deposits moved up from 49 per cent in June, 1976 to 56 per cent in June, 1977.

5. The 19.24 per cent expansion in liquidity as against a nominal 3 per cent growth in G.D.P. and a 11.3 per cent increase in prices was indicative of sizeable liquidity overhang in the economy. The excess liquidity was a matter of concern as Government food stocks were markedly reduced to 3.91 lakh tons in June, 1977 from 8.47 lakh tons in June, 1976 mainly on account of the slowing down of food imports in anticipation of a crop size which did not materialise. The same factor along with a fall in the quality of the crop also kept domestic procurement lower than originally planned. In this situation Government decided to import $1\frac{1}{2}$ lakh tons of foodgrains from own resources, besides speeding up the procurement and delivery of food aid. Production of various other food items including salt suffered substantial damage due to early and continuous rainfall. The resultant production loss, has put severe pressure on the prices of these commodities, and despite liberal import policy, prices of some of these items are still sticking at high levels. Stocks of non-food consumer goods like yarn, cloth, paper, soap, footwear etc. were also significantly reduced. Of particular concern was the shortfall in the production of yarn and cloth for shortage of raw cotton. Insufficient production of yarn and high international prices of raw cotton contributed to a sharp rise in the internal prices of yarn and cloth. Liberal import of cloth and yarn had eased the supply situation towards the end of 1976-77 but prices continued to be high reflecting mainly the high international prices of raw cotton. It may, however, be mentioned that while prices of wage goods rose primarily due to fall in domestic production, supply and price situation of other goods remained generally satisfactory.

6. Apparently, the main impulse of monetary expansion came from the foreign sector inasmuch as this sector showed a surplus of Tk. 164.52 crores as against a large deficit of Tk. 117.94 crores in 1975-76. Improvement

in the foreign sector to the extent of Tk. 80 crores was on account of the Saudi grant. Excluding the Saudi grant the surplus in the foreign sector would have been lower at Tk. 84.52 crores. This surplus would have gone down further had imports under the Wage Earners' Scheme not been larger at about Tk. 91 crores during 1976-77. Possibility for further growth in import under the Scheme should be kept in view in estimating drawdown of reserves for financing additional imports in 1977-78. As regards domestic credit, the fiscal operation of the Government recorded a surplus of Tk. 73.37@ crores against a deficit of over Tk. 72.66 crores in 1975-76. This reflects a substantial improvement in the fiscal management of the Government even after making allowance for the credit received by the Government on account of Saudi grant of Tk. 80 crores. Domestic credit to the public sector expanded only by Tk. 34.47 crores as against the rise of Tk. 78.66 crores in the preceding year. Domestic credit to the private sector rose sharply by Tk. 165.69 crores during the year as against the expansion of Tk. 60.60 crores in 1975-76 reflecting liberalization of both the content and scope of private sector credit. The expansion was accounted for primarily by credit to agriculture, transport, exports, house building, small loans etc. Disinvestment by the Government of several industrial units and opening of jute export to private sector also contributed to the substantial rise in the share of private sector to the incremental domestic credit of Tk. 200 crores to the private and public sectors (excluding the Government) which represented an increase of 21% over the end-June figure of 1975-76. Now, keeping in view the areas where the bank credit has gone, the question that one may ask is : can we substantially reduce the growth of bank credit to the public and private sectors below the expansion rate of last year without affecting our socio-economic goals? The answer is probably no ; there can at best be a case for selective credit control, rather than a quantitative control. Nevertheless, the whole question needs deeper study to formulate future credit policies.

@ As on 24th June, 1977. The surplus in the fiscal operation of the Government as of 30th June, 1977, however, stood substantially lower at Tk. 19.31 crores due mainly to usual bunching of Government expenditure at the fag end of the year.



DOMESTIC CREDIT AND
MONETARY ASSETS
(Taka in crores)
DOMESTIC CREDIT
(of Banking System)
MONETARY ASSETS
1900
1700
1500
1300
1100
900
700
500
1800
1600
1400
1200
1000
800
600
Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun.
1972
72-73
73-74
74-75
75-76
76-77

7. The marked expansion in credit to the private sector underlines the need for close surveillance on the behaviour of credit to this sector particularly in the context of the new dimension given to the credit policy during the year. With increased emphasis laid on rural development in the country's development programme, a Special Agricultural Credit Programme of Tk. 100 crores was launched from February, 1977 to boost agricultural production. The main objective of the programme is to provide credit for genuine productive purposes to the small and marginal farmers and sharecroppers who had hitherto little access to institutional credit. Loans under the Scheme are being disbursed by commercial banks and the Bangladesh Krishi Bank. The total loans disbursed from mid-February till June 30, 1977 under this programme amounted to Tk. 22.99 crores, besides an amount of Tk. 64.14 crores provided as agricultural credit under the general programme of the banks, cooperatives, I.R.D.P. etc. during 1976-77.

8. Repayment of the special farm loans can take place according to schedule only if these are used to boost production and not diverted to consumption or other unproductive purposes. The most crucial part of production credit is thus supervision. Without close and constant supervision it would be difficult not only to arrive at realistic levels of credit needs but also to effect smooth recovery. Particularly because of the fact that recovery would depend on the yields estimated on the basis of details worked out in the proposals of the borrowers, there is the paramount need for building up an effective machinery for post credit supervision. The main difficulty in this regard is that under the existing organizational set up and also due to the inadequacy of banking presence in the rural areas direct contact between banks and farmers is lacking in most cases. In order that the banks are able to deal with the farmers directly, it is not only necessary that the three-year programme already drawn up by the Bangladesh Bank for rapidly increasing bank branches in the rural sector be implemented to the extent feasible but also that a specialised training programme be introduced in each bank to develop the required expertise. The need for specialised training programme arises from the fact that the task of handling agricultural credit involves not only loaning

operations but also strenuous efforts at educating the farmers many of whom are not familiar with modern technology and do not also adequately realise the need for quicker repayment. The requirement is completely different from the routine or the traditional job of the banking staff. Apart from ensuring speedy recovery of loans under the Special Agricultural Credit Programme which is essential from the view point of monetary and price stability, its implementation would have to be in such a manner as to enable a wider diffusion of the benefits if the principal purpose of the programme is not to be defeated.

9. Reports are that the share of small farmers in the credit so far disbursed under the Special Agricultural Credit Programme is quite negligible, and the main beneficiaries are the farmers ploughing 3—9 acres of land. The sharecroppers and the joint owners of the land are also said to be experiencing difficulties in obtaining their due share. While it would be desirable to devise better ways and means for ensuring adequate credit availability to the small and marginal farmers and joint owner of the land as also the sharecroppers, it is doubtful whether much can be done in this regard unless direct contact is established between banks and farmers all over the country.

10. In the Credit Policy for 1976-77 the small loans were brought under a well-knit ascheme and targets equivalent to half of 1½ per cent of total deposit liabilities as on the last Friday of June, 1976 and December, 1976 were fixed for each of the six nationalised commercial banks to be disbursed during July—December, 1976 and January—June, 1977 respectively. The performance of the commercial banks in the disbursement of small loans has been quite satisfactory. In order, however, to improve the qualitative aspect of the scheme caution needs to be exercised in selecting areas where small loans to retailers are to be extended. In big cities and towns where small retail trade is very much developed additional loans to retailers might result in a much larger growth in stocks than warranted by sales and, consequently the turnover of credit might be reduced. Another possibility is that their stock position being already comfortable, additional funds made available

to them might be diverted to purposes other than those for which these are extended. It may, therefore, be desirable either to link the small loans for retail trade with the area development programme or to give preference, as indicated in the scheme, to retailers in semi-urban and rural areas. While as much emphasis should be placed on manufacturing as on trading under the scheme, a careful judgement would need to be made by banks particularly in respect of new entrants in manufacturing as to whether they have the required entrepreneurial ability and are also well acquainted with the marketing techniques.

11. In order that the banks can smoothly function in the new area covered by the small loan scheme and not much of risk is involved in their new ventures, coordination among banks, at least, by way of exchange of information may be quite helpful. If, among other information, banks supply to each other credit information also, this would forestall the possibility of one individual taking recourse to the facilities under the scheme from different banks simultaneously. It also needs to be borne in mind with regard to the implementation of the scheme that problems and difficulties may vary not only from area to area in which self-employed persons operate but also according to their location in the same area. Again, the schemes submitted by prospective self-employed persons seeking loans may only be mere outlines without crucial details needed to judge the feasibility. As such it would be essential to supplement them at grass root levels for which adequate discretion and judgement would need to be exercised. It is, therefore, needless to emphasise that branch officials implementing the scheme should adopt a dynamic and promotional attitude.

12. With a view to relieving housing shortage a target was also fixed in respect of loans for house-building. After independence housing problem became very acute in the cities and towns of the country due to the fact that while there has been a marked upsurge in the demand for houses following substantial increase in urban population and many new establishments being set up both in the Government and private sectors, construction activity failed to catch up with the growing requirements. Although there is need for

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stepping up construction of houses to a significant extent, with house and house-hold services constituting a very important item in the expenditure budget of the low and middle income groups, it would be too much to expect the House-Building Finance Corporation to provide the entire additional funds needed for the same. The virtual absence of house-building societies and loan associations is an important lacuna in our financial system. As it is only the commercial banks which are in a position to fill the gap, liberal credit facilities were allowed in the credit policy for 1976-77 for the construction of houses. Commercial banks should not feel hesitant to discharge the new responsibility assigned to them on consideration that loans for house-building are of the nature of term finance and do not, therefore, fit well in their portfolios. They should not be oblivious that in their new role they should allow some adjustment in their portfolio mix and take a balanced view of the criterion of profitability particularly when social objectives warrant it. At the same time, their experience in this field being yet very limited, it is essential that they should exercise utmost care and caution in their loaning operations. Further, in order to prevent the misuse of funds, which would have adverse consequences for the price level, it would be necessary to phase out appropriately the disbursements for successive stages of construction of houses with bank finance.

13. Increased emphasis was also placed on finance for non-traditional exports during the year. Apart from the fact that finance for these exports is being extended at a concessional rate of 10½ per cent, the same as in the case of jute, jute goods and tea, banks have been asked to extend to exporters packing and preshipment credit upto 90 per cent of the value of confirmed letters of credit or firm contracts. As the non-traditional exports cover a variety of items and consequently their exporters are spread all over the country, banks would be required to dispense this specialised type of service with equal efficiency and care throughout the country. Although banks have opened export credit branches in each District Headquarter, still further decentralization may be made if it is so warranted.

14. While our efforts to push up non-traditional exports should continue, a question can be raised whether through our export promotion drive we have already reached a stage where utmost care needs to be exercised in determining the extent to which export of the marginally surplus commodities should be further expanded. This question has to be broached or, at least, kept in view as export expansion process has already resulted in shortage of a number of essential products in domestic market, so much so that Government had to restrict export of some items towards the later part of the year.

15. The developments during 1976-77 would suggest that in an economy which is heavily dependent on aid imports for both price stability and development expenditure adequate care should be taken to ensure regular and full utilisation of commodity aid through forward planning. The fall in commodity aid disbursement during 1976-77 as compared to previous years needs to be studied in depth to identify the reasons for the trends of commodity aid disbursements observed during the last few years. This will help prepare realistic projection for development expenditure and would also suggest the option that we have. The revised development expenditure for 1976-77 at Tk. 1006.00 crores, though denoting an increase of 19 per cent in real terms as compared to 1975-76, fell short of the original programme by 9 per cent because of the shortfall in realization in commodity aid as well as project aid. This underlines the need for intensification of our efforts to mobilise internal resources for the Annual Development Programme to make it less dependent on the external aid. At the same time, endeavour should be made to step up investment in the private sector and attract adequate private savings for the purpose. Although there is an indication of a pick-up in the rate of private savings, with our stock exchange not yet quite active and in the near absence of non-banking financial intermediaries, most of the private savings are being concentrated in commercial banks. In such a situation there is a danger of over expansion of short term credit to commercial and industrial sectors which might correspondingly reduce funds available for fixed investment in the private sector. The imbalance between the funds available for meeting the working

capital requirements and those for fixed private investment is being sough to be remedied to some extent by activating I.C.B. and by making the commercial banks to go in for term financing to the extent possible, apart from stepping up the activities of the industrial finance institutions.

CHAPTER II

DEVELOPMENTS IN MAJOR SECTORS

DEVELOPMENTS IN MAJOR SECTORS

16. According to preliminary estimates of the Planning Commission, the Gross Domestic Product (G.D.P.) registered an increase of about 3 per cent during 1976-77 as against the anticipated growth of 5 per cent, and the actual growth of 9.7 per cent during 1975-76. The lower realized growth rate of the economy reflected mainly the setback in agricultural output due to adverse development which reduced rice production.

Agricultural Production

17. Agriculture contributed about 57% of the G.D.P. during the year. Production of the major crop-rice, declined by 6.42% to 117.55 lakh tons. The output of the other important food crop wheat, went up by 16.28% to 2.50 lakh tons. Production of Aman rice declined by 1.99% to 69.05 lakh tons during the year. Production of Aus rice fell by 6.78% to 30.11 lakh tons. The output of Boro also was estimated to have fallen to 18.39 lakh tons against the target of 23.00 lakh tons due to the untimely rainfall and flood. On the other hand, raw jute production increased by 3.54% to 45.00 lakh bales during the year. Production of tea also increased by 14.06% to 73.98 million lbs. during 1976-77.

Industrial Production

18. The performance of the industrial sector was somewhat encouraging during the year. Industrial production is estimated to have risen by about 9.1 per cent during 1976-77 from the level of 1975-76. As a result the contribution of industrial sector to the G.D.P. increased to 7.5 per cent during 1976-77 as compared to 7 per cent during 1975-76. The output of a number of important industries like jute goods, paper and board, matches, cement, steel, fertilizer, sugar, tea, vegetable product and natural gas registered increases during the year. On the other hand, output of cotton yarn, cotton cloth, newsprint, cigarettes and chemicals stood lower than the levels of the previous year.

19. Production of jute goods stood higher at 4.89p lakh tons during 1976-77 as compared with 4.78 lakh tons during 1975-76 mainly due to enlarged demand from foreign buyers and better salesmanship. Production of paper and board increased substantially by about 59% to 31,532p tons during the year from 19,826 tons during the preceding year. The output of matches rose to 7,564 thousand gross boxes from 6,905 thousand gross boxes during 1975-76. Cement production increased significantly by 96 per cent to 3,07,766 tons during the year due mainly to the commissioning of the new Chittagong Cement Factory.

20. Production of steel registered an increase of 18 per cent to 1,93,020p tons. Fertilizer production increased slightly to 3,37,679 tons in 1976-77 from 3,29,441 tons during the preceding year. Production of sugar increased by about 60% to 1,38,707 tons due to increased availability of sugarcane. The output of tea and vegetable products registered increases to 74.86 million lbs. and 6,513 tons respectively from 69.93 million lbs. and 5,179 tons. Natural gas extraction also increased to 29,865 million cft. during 1976-77 from 27,357 million cft. during 1975-76.

21. On the other hand, production of cotton yarn stood lower at 824.22 lakh lbs. during 1976-77 as compared to 880.73 lakh lbs. during 1975-76. The shortfall in cotton yarn production was due to shortage of imported raw cotton. The output of cotton cloth also fell to 679.64 lakh yards during the year from 744.75 lakh yards during the previous year. The production of newsprint and chemicals registered decline from 20,045 tons and 13,323 tons respectively to 14,588 tons and 12,003 tons during 1976-77. Cigarette production also stood lower at 11,630 milllion sticks during the year under report as against 11,907 million sticks during the previous year.

22. The food situation in the country remained comfortable during the first half of 1976-77 but deteriorated during the second half of the year.

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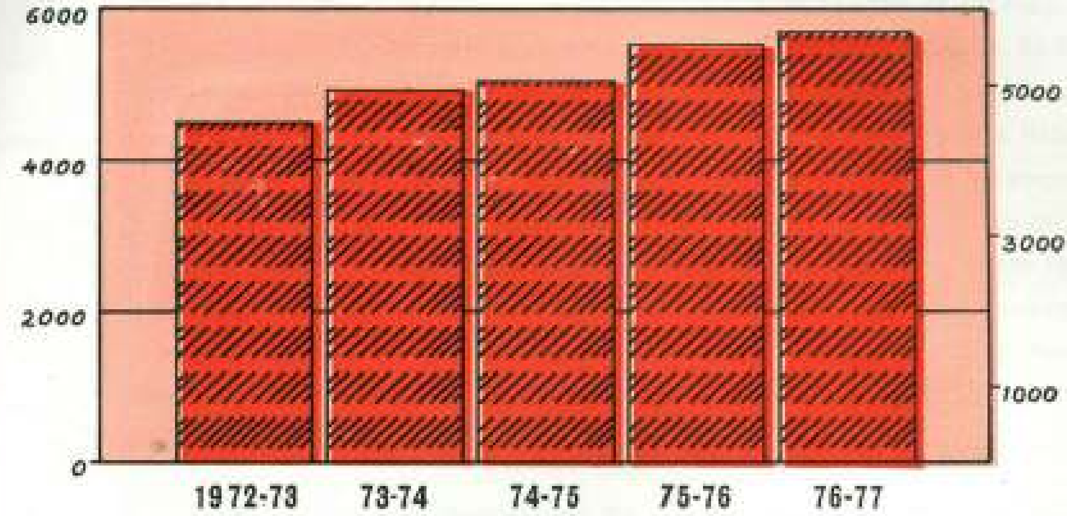
p — Provisional.

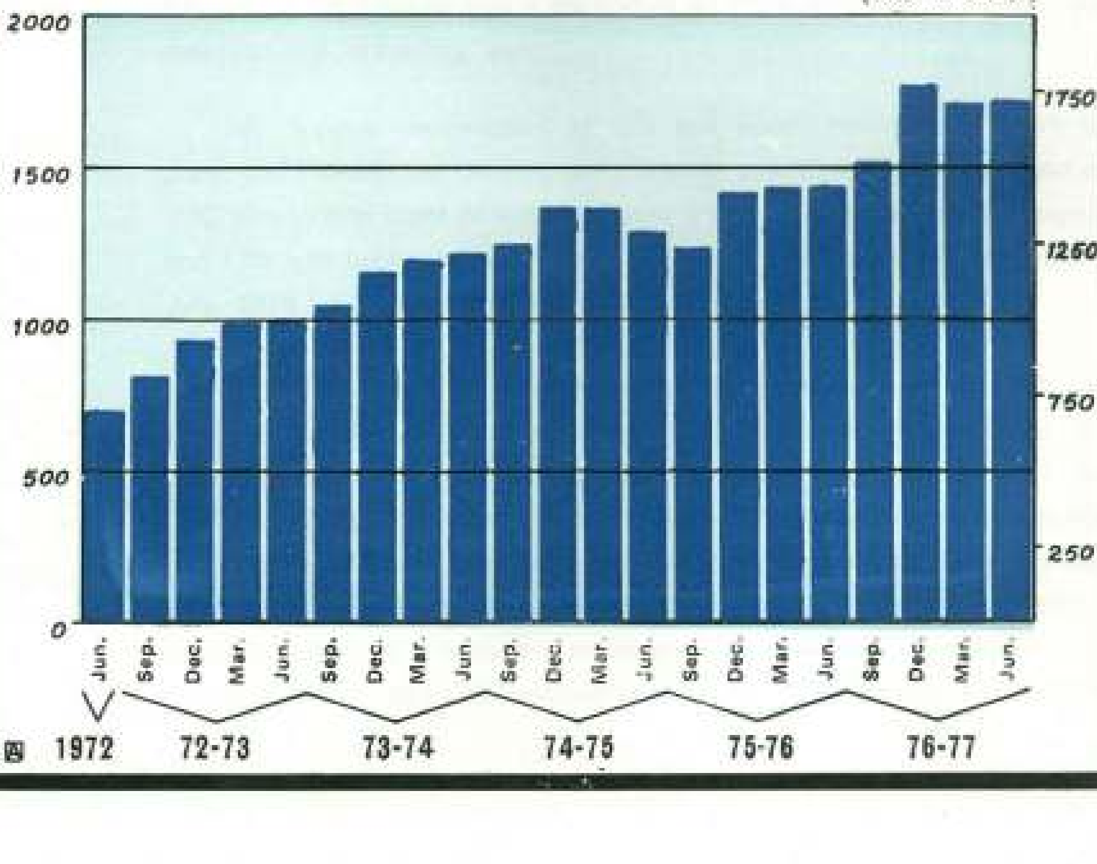
G.D.P. (AT CONSTANT 1972-73 PRICES)

(Taka in crores)



MONEY AND QUASI-MONEY

(Taka in crores)



The country average retail price of coarse rice which had stood at Tk. 101.82 per maund at the end of June, 1976 ruled at around this level upto September, 1976. Thereafter, the price increased only slightly to Tk. 105.28 per maund at the end of October, 1976. Subsequently, the price declined to Tk. 98.96 per maund at the end of December, 1976 owing to the arrival of new Aman rice in the market. The country average price, however, depicted a rising trend since end January, 1977 and increased steadily to Tk. 147.91 per maund by the end of June, 1977 reflecting largely the damage to the Boro crop caused by the untimely rainfall and flash flood. Thus the price of coarse rice recorded an increase of 45.27% in 1976-77. Likewise, the country average price of medium rice increased from Tk. 120.14 per maund at the end of June, 1976 to Tk. 163.05 per maund at the end of June, 1977, showing an increase of 35.72% over the year.

Food Situation

23. Import of foodgrains into the country during July, 1976 to June, 1977 aggregated to 8.08 lakh tons, 1.95 lakh tons of rice and 6.13 lakh tons of wheat, representing a decline of 43.7% from the level (14.35 lakh tons) of the preceding year.

24. Internal procurement of rice and paddy during July, 1976 to June, 1977 under the Government's internal procurement scheme stood at 3.10 lakh tons in terms of rice as against 5.00 lakh tons originally envisaged and 4.05 lakh tons procured during 1975-76. Procurement of wheat during July, 1976 to June, 1977 stood at 2,834 tons.

Price Situation

25. The general price situation in the country during 1976-77 was characterised by continued improvement during the first half of year but deterioration in the second half, resulting in a sizeable rise in the cost of living over the year. The increase in prices of most of the essential consumer goods in the later part of the year, was presumably due to the reduced supply because of shortfall in agricultural crops as also smaller imports from abroad. Among other items of necessity, prices of onion, tea, and chillies rose sharply by 133%, 115% and 100% respectively over the year. Prices of foodgrains

and pulses, turmeric, salt, mustard oil and coconut oil, clothings, fish-ruhi, mutton, dry cell batteries and sugar also registered increases ranging between 10—48 per cent. Prices of a few other items like blades, potatoes, cumin seed, hilsha-fish and firewood, however, recorded some declines over the year.

Cost of Living@

26. Reflecting increases in the prices of essential commodities and cost of housing, the overall cost of living in the country is estimated to have gone up by 12 per cent over the year as against a decline of 20 per cent during 1975-76. Cost of "food" items went up by 13 per cent while those of "apparel, textile and footwear," "housing and household requisites" and "miscellaneous" items rose by 11 per cent, 16 per cent and 4 per cent respectively over the year.

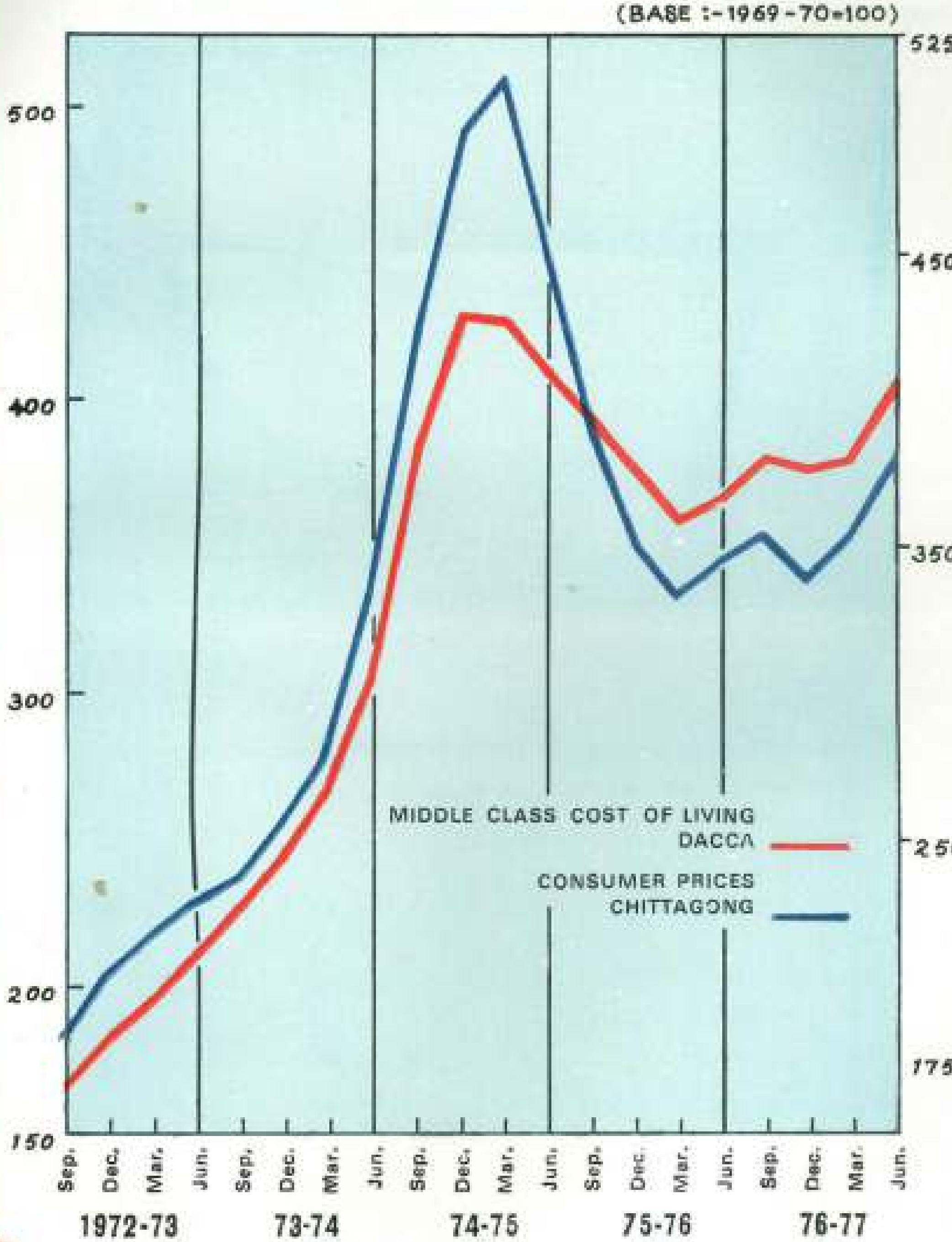
27. The 'general' cost of living index (1969-70=100) for middle class Government employees in Dacca city which had increased from 366.05 in June, 1976 to 380.66 in September, 1976, fell gradually to touch the level of 373.09 in January, 1977. Thereafter, the index steadily increased to 407.45 in June, 1977, indicating a net rise of 11.3 per cent over the year. This compared with a decline of 11 per cent in 1975-76. The rise was shared by all the sub-indices.

28. The 'general' consumer price index (1969-70=100) for industrial workers at Narayanganj went up from 348.68 in June, 1976 to 390.41 in June, 1977, showing a rise of 12 per cent over the year, as against a decline of 22 per cent in 1975-76. The rise in the general index reflected increases in all the sub-indices.

29. The 'general' consumer price index (1969-70=100) for industrial workers at Chittagong went up from 347.42 in June, 1976 to 383.96 in June, 1977, reflecting an increase of 11 per cent over the year. The increase was shared by all the sub-indices, except for 'miscellaneous' items.

@ Based on indices prepared by the Bangladesh Bureau of Statistics.

INDICES OF MIDDLE CLASS COST OF LIVING AT DACCA AND CONSUMER PRICES AT CHITTAGONG



30. The 'general' consumer price index (1969-70=100) for industrial workers at Khulna which had stood at 319.33 in June, 1976 moved up to 369.31 in June, 1977, indicating a net rise of 16 per cent over the period. The rise was widespread.

CHAPTER III

MONETARY AND BANKING DEVELOPMENTS

MONETARY AND BANKING DEVELOPMENTS

31. The monetary and credit situation during 1976-77 was characterised by a sizeable expansion in money supply, a sharp expansion in credit to private sector, a substantial rise in deposit resources especially in the form of time deposits and a surplus in the fiscal operations of the Government. Money supply recorded an increase of Tk. 68.37 crores or 7.59 per cent to Tk. 969.51 crores during 1976-77 as compared with the increase of Tk. 86.61 crores or 10.6 per cent to Tk. 901.14 crores in the preceding year. During the first half of the year (July—December, 1976) money supply rose almost steadily to attain the level of Tk. 1070.10 crores indicating a sharp rise of Tk. 168.96 crores, due mainly to busy season influences as also selective relaxation of credit control measures. However, during the second half money supply, amidst fluctuations, came down by Tk. 100.59 crores to Tk. 969.51 crores at the end of June, 1977, indicating a net expansion of Tk. 68.37 crores over the year.

Money Supply

32. The increase in money supply during 1976-77 was brought about largely by the credit expansion of Tk. 165.69 crores in the private sector and of Tk. 34.47 crores in the public sector. Another contributory factor was the sizeable surplus of Tk. 164.52 crores emanating from the country's international account. These expansionary influences were partly neutralized by the accruals of Tk. 208.39 crores to time deposits, surplus of Tk.73.37@ crores in the fiscal operation of the Government and decline of Tk. 14.41 crores arising from miscellaneous factors. Government currency liabilities also declined marginally by Tk. 0.14 crore.

NOTE: @ The figure relates to last Friday of the year, i.e. 24th June, 1977. The surplus in the fiscal operation of the Government as of 30th June, 1977, however, stood substantially lower at Tk. 19.31 crores due mainly to usual bunching of Government expenditure at the fag end of the year.

33. An analysis of the different causative factors of the change in money supply during 1976-77 is given below :—

CAUSATIVE FACTORS OF THE CHANGE IN MONEY SUPPLY

(Taka in crores)

	25.6.76	24.6.77	Changes
1. Currency outside banks	338.05	389.16	+51.11
2. Demand Deposit	563.09	580.35	+17.26
Changes in Money Supply			**+68.37**

CAUSATIVE FACTORS

Expansion (+)

Contraction (−)

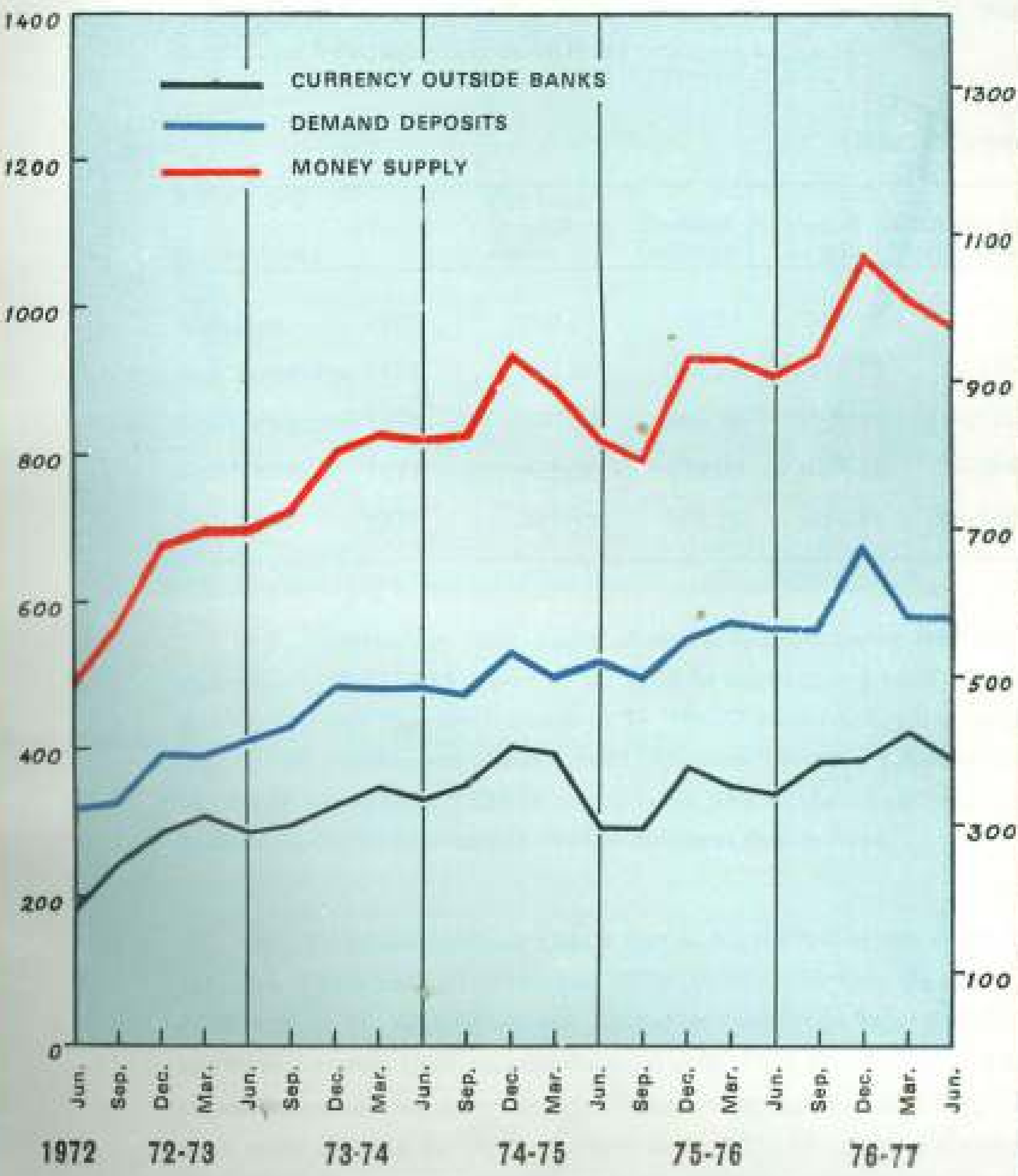
A. Adjusted Domestic Credit Expansion/Contraction	**−8.23**
1. Private	+165.69
2. Public	**+34.47**
i) Credit to public sector	(+28.64)
ii) Investment in public sector	(+5.83)
3. Time Deposit with scheduled banks (increase −) (excluding inter-bank items)	−208.39
B. Government fiscal operation	−73.37@
1. Food Ministry	(+0.34)
2. Others	(−73.71)
C. Government's currency liabilities	−0.14
D. Foreign Sector	+164.52*
E. Residual Items (Miscellaneous factors)	−14.41*
Total Causative Factors :	**+68.37**

NOTE: @ The figure relates to last Friday of the year, i.e. 24th June, 1977. The surplus in the fiscal operation of the Government as of 30th June, 1977, however, stood substantially lower at Tk. 19.31 crores due mainly to usual bunching of Government expenditure at the fag end of the year.

*Provisional.

MONEY SUPPLY

(Taka in crores)



59.9
96.9

3.4-47

34. Of the components of money supply, currency outside banks recorded a net increase of Tk. 51.11 crores or 15.11 per cent to Tk. 389.16 crores, while demand deposits went up by Tk. 17.26 crores or 3.06 per cent to Tk. 580.35 crores during the year. The quarterly movement of money supply and its components in 1976-77 is shown below :—

(Taka in crores)

PERIOD (Last Friday)	Currency Outside Banks	Demand Deposits	Money Supply	Changes in Money Supply
End-June, 1976	338.05	563.09	901.14	—
End-September, 1976	383.96	562.27	946.23	(+)45.09
End-December, 1976	387.50	682.60	1070.10	(+)123.87
End-March, 1977	425.96	579.99	1005.95	(−)64.15
End-June, 1977	389.16	580.35	969.51	(−)36.44

Bank Credit

35. Outstanding bank credit of the scheduled banks recorded an expansion of Tk. 194.16 crores to Tk. 1259.64 crores during 1976-77 which was slightly less than the increase of Tk. 195.07 crores during the previous year. Of the components of bank credit, advances increased substantially by Tk. 214.68 crores to Tk. 1138.25 crores, while bills purchased and discounted declined by Tk. 20.52 crores to Tk. 121.39 crores over the year.

36. A detailed analysis reveals that during the first month of the year (i.e., July, 1976) bank credit declined by Tk. 10.44 crores from the end-June, 1976 level of Tk. 1065.48 crores. Thereafter bank credit expanded sharply and by end-March, 1977, reached the level of Tk. 1237.17 crores, due to busy season influences and other factors. However, during April, and May, 1977 bank credit declined by Tk. 3.98 crores to Tk. 1233.19 crores at the end of May, 1977. Bank credit rose again in June, 1977 to close the year at

4—

Tk. 1259.64 crores, indicating a net increase of Tk. 194.16 crores over the year. Quarterly movement of bank credit is shown below :—

(Taka in crores)

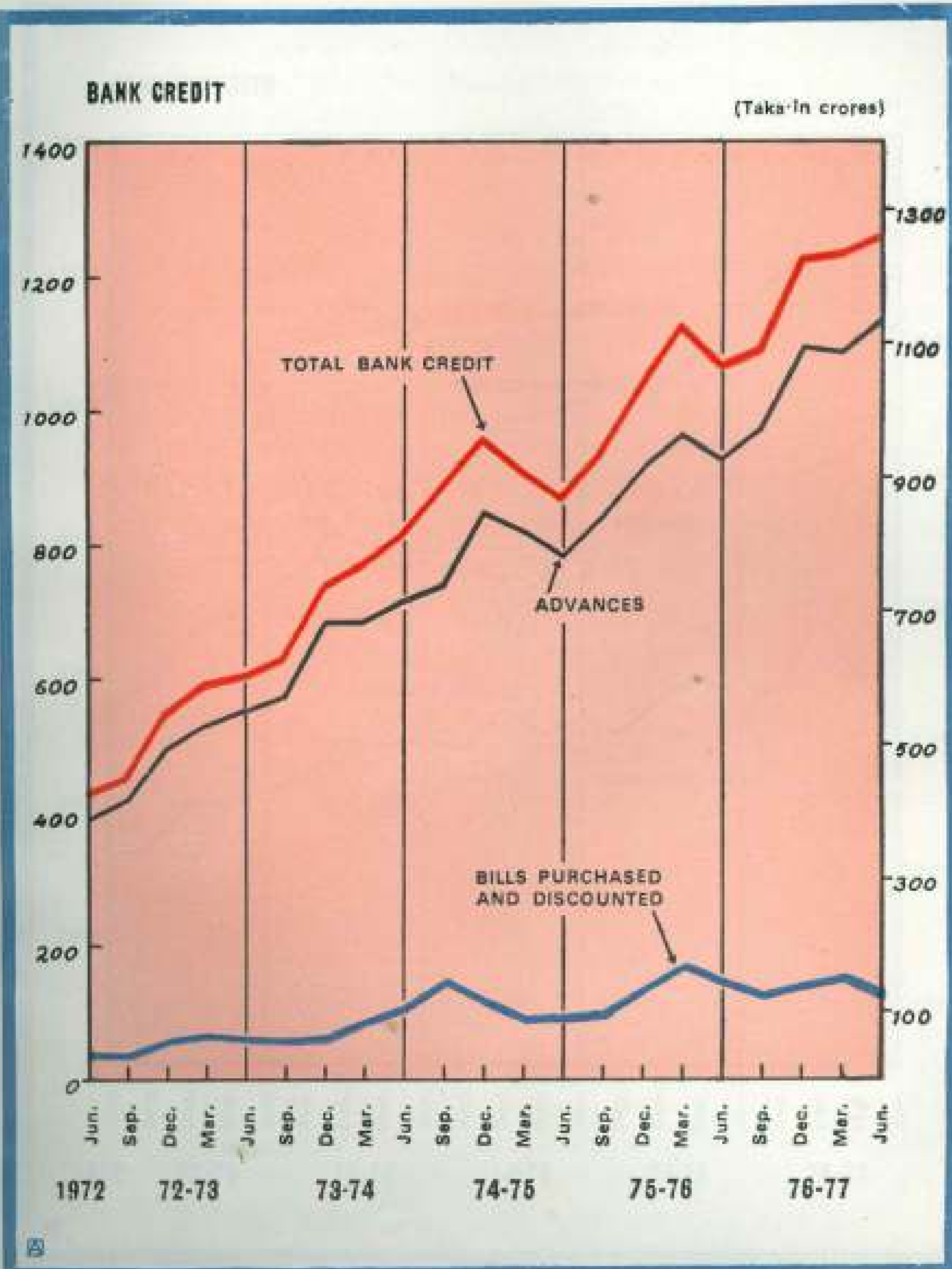
PERIOD (Last Friday)		Advances	Bills purchased & discounted	Total Credit	Advances as % of total credit	Bills as% of total credit
End-June,	1976	923.57	141.91	1065.48	86.68	13.32
End-September,	1976	971.74	120.55	1092.29	88.96	11.04
End-December,	1976	1097.61	137.22	1234.83	88.89	11.11
End-March,	1977	1086.20	150.97	1237.17	87.80	12.20
End-June,	1977	1138.25	121.39	1259.64	90.36	9.64

Bank Deposits

37. Scheduled banks deposits (excluding inter-bank items) recorded a substantial increase of Tk. 225.65 crores to Tk. 1325.64 crores during 1976-77 as compared with the increase of Tk. 105.41 crores during the preceding year. Of the total deposits, demand deposits increased by Tk. 17.26 crores to Tk. 580.35 crores while time deposits rose by Tk. 208.39 crores to Tk. 745.29 crores. Following the upward revision of deposit rates by 1% with effect from April, 1976, a relatively larger rise in time deposits was noticeable indicating shift from demand to time deposits. This trend of shift in deposits persisted during 1976-77. As a result, the share of time deposits to total deposits increased from 49 per cent in June, 1976 to 56 per cent in June, 1977. Quarterly movement of scheduled banks' deposits during 1976-77 is shown below :—

(Taka in crores)

PERIOD (Last Friday)		Demand Deposits	Time Deposits	Total Bank Deposits	Demand Deposits as % of total Deposits	Time Deposits as % of total Deposits
End-June,	1976	563.09	536.90	1099.99	51.19	48.81
End-Sept.,	1976	562.27	567.61	1129.88	49.76	50.24
End-Dec.,	1976	682.60	690.78	1373.38	49.70	50.30
End-March,	1977	579.99	699.87	1279.86	45.32	54.68
End-June,	1977	580.35	745.29	1325.64	43.78	56.22


BANK CREDIT
(Taka in crores)
TOTAL BANK CREDIT
ADVANCES
BILLS PURCHASED AND DISCOUNTED
1400
1200
1000
800
600
400
200
0
1300
1100
900
700
500
300
100
Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun.
1972
72-73
73-74
74-75
75-76
76-77

Liquidity Position

38. The liquidity position of the scheduled banks remained generally easy during 1976-77. This mainly reflected the higher rate of deposit mobilization than bank credit expansion. The credit/deposit ratio which had declined from 0.84 in June, 1976 to 0.79 in August, 1976 gradually increased to 0.85 in March, 1977. Thereafter, the ratio declined to 0.83 at the end of June, 1977, indicating a nominal decline of 0.01 percentage point over the year. Scheduled banks borrowings from Bangladesh Bank declined from Tk. 75.61 crores in June, 1976 to Tk. 72.89 crores in October, 1976. Thereafter, their borrowings expanded sharply and by end-March reached the level of Tk. 121.65 crores. However, during April and May, 1977 their borrowings from Bangladesh Bank declined substantially by Tk. 32.68 crores to Tk. 88.97 crores at the end of May, 1977. Borrowings from Bangladesh Bank rose again in June to close the year at Tk. 109.36 crores, indicating a net increase of Tk. 33.75 crores, over the year. Scheduled banks balances with the Bank recorded a net increase of Tk. 28.60 crores to Tk. 96.86 crores while cash in their tills registered a net increase of Tk. 8.31 crores to Tk. 33.32 crores over the year.

Bank Rate

39. The Bank rate which was increased from 5% to 8% per annum with effect from 21st June, 1974 remained unchanged at 8% during 1976-77.

Cash Reserve Requirement

40. The statutory cash reserve requirement of scheduled banks continued at 5% of their total demand and time liabilities during the year.

Liquidity Ratio

41. The prescribed liquidity ratio of scheduled banks also remained unchanged during 1976-77 at 25% of their total demand and time liabilities.

42. Interest rate policy as an instrument of deposit mobilization and resource allocation remained under constant review of the Bank during the year. With a view to providing impetus to exports a concessional rate of interest at $11\frac{1}{2}\%$ was allowed on advances against non-traditional exports from 1st July, 1976 as against the general rate of 13% per annum. Advances against major export commodities such as jute, jute manufactures and tea continued to enjoy a concessional rate of interest of $10\frac{1}{2}$ per cent. In order

to further streamline export financing, the dual rate of interest charged for different categories of export items was subsequently done away with and a uniform rate of 10½ per cent for all export commodities was prescribed with effect from 1st May, 1977. In view of the Government's over-riding policy of encouraging economic activity, especially in the field of trade and commerce, maximum interest charged by banks on loans and advances was reduced from 12-13 per cent to 11-12 per cent with effect from 1st May, 1977 in order to lessen the cost of borrowing. Interest on agricultural loans being given by the Bangladesh Krishi Bank and the nationalized commercial banks under the Tk. 100 crores special agricultural credit programme launched from 15th February, 1977 is being charged @12 per cent. As a measure of rationalization, rates of interest on Special Notice deposit accounts have been reduced by 1% with effect from 1st May, 1977 as under :—

Interest Rates

(a) Rates on Special Notice Accounts or deposits withdrawable at a notice of 7 to 29 days have been reduced from 5% to 4% per annum.

(b) Rates on Special Notice Accounts or deposits withdrawable at a notice of 30 days or over have been reduced from 5½% to 4½% per annum.

Credit Policy and Measures

43. The credit policy pursued by the Bank during year 1976-77 provided for selective relaxations of credit restrictions and extension of credit facilities, particularly to the preferred sectors, retarded areas and weaker sections of the people including self-employed men of small means. The important measures taken during the year were as under :—

(1) For meeting the credit requirements of the housing sector banks were requested to extend credit to the extent of 1% of their total demand and time liabilities as on the last Friday of June, 1976. Accordingly, advances amounting upto Tk. 1 lac per party were allowed since July, 1976. The limit was later enhanced to Tk. 2.25 lacs and finally to Tk. 3 lacs effective from 28th December,

1976 and 28th February, 1977 respectively. These loans are to be repaid over a maximum period of seven years. It has since been further decided to allow liberal bank credit facilities for construction of multistoried houses and multi-unit housing blocks in the public and private sectors in order to relieve housing shortage and to provide housing facility to low and middle income people in the cities, urban areas and district towns.

(2) Banks were required to extend credit to the extent of 1½% of their total demand and time liabilities as on last Friday of June, 1976, to meet the credit requirements of the transport sector. Such credit was, however, allowed only for the purchase of new trucks, buses, auto-rickshaws and water-transports and is repayable within a period of two years in monthly instalments.

Small Loans

(3) Small loans targets equivalent to half of 1½ per cent of total deposit liabilities as on the last Friday of June, 1976 and December, 1976 were fixed for each of the six nationalised commercial banks to be disbursed during July—December, 1976 and January—June, 1977 respectively. The minimum target fixed on the above basis for the six nationalised banks worked out to Tk. 7.41 crores and Tk. 9.98 crores for July—December, 1976 and January—June, 1977 respectively. While identifying sectors eligible for small loans, preference was given to those in rural and semi-urban areas and self-employed people like blacksmiths, weavers, cobblers, potters, rickshaw-pullers, artisans and painters. The limit of small loans was upto Tk. 25,000 per party for trade and business and Tk. 50,000 per party in the industrial sector. Banks may also extend small loans upto Tk. 5,000 per party against hypothecation of stock of the borrower in rural and semi-urban areas where insurance cover was not possible. The performance of the scheduled banks in the disbursement of small loans has been quite satisfactory. Disbursements of small loans by

the banks during July—December, 1976 amounted to Tk. 17.42 crores while disbursements during January—June, 1977 amounted to Tk. 17.61 crores thus exceeding the targets for both the half-years.

(4) In order to encourage economic activity in the relatively underdeveloped Chittagong Hill Tracts, banks were given a set of guidelines in September, 1976 to effectively meet the credit requirements of the people in that district. The maximum rate of interest to be charged by the commercial banks on loans and advances to people of that district which stood at 12% per annum with effect from 14th September, 1976 was reduced to 11% from 1st May, 1977.

(5) Effective from 26th February, 1977 banks were directed to extend loans against deposits of warehouse receipts issued by the Bangladesh Warehouse Corporation, subject to certain set guidelines.

(6) Banks were advised to adequately meet the genuine credit needs of the salt crushers, subject to certain guidelines, with effect from 2nd February, 1977.

(7) Advances were being allowed to Government licensed private foodgrains dealers against the security of rice and paddy since 1st December, 1976, under cash credit facility. Such advances were, however, restricted in March, 1977, and the credit limit sanctioned to them was reduced and frozen at the level of outstanding loans as on 29th March, 1977 in order to check speculative trade in foodgrains.

(8) Credit facilities were allowed for import of cotton yarn and salt under Wage Earners' Scheme as a special case since April, 1977.

(9) Margin requirement of 50% was re-imposed effective from March, 1977, in the case of advances to private traders against locally produced cotton yarn and synthetic yarn/textiles/twine/hosiery and all such advances are required to be retired within 45 days from the date of advance. This measure was intended to improve availability of yarns in the country.

Refinance Facility

44. The system of charging interest on the borrowings of scheduled banks from the Bangladesh Bank beyond a certain limit at a higher rate of interest on a graduated scale, depending on net liquidity position of the banks concerned, was continued during the year. The basic refinance limit for banks was fixed with effect from 1st July, 1976 upto 1% of their total demand and time liabilities as on last Friday of June, 1976. The limit was enhanced to 5% with effect from January, 1977. Refinance facility was also made available to the scheduled banks by way of (a) rediscounting of export bills and (b) overdraft facility against export bills upto 15% of total export bills purchased and discounted by banks as on last Friday of September, 1976.

Lead Bank Scheme

45. Besides these policy measures, "Lead Bank Scheme" has also been drawn up under which each nationalized bank has been selected as a lead bank to whom one or more districts has been assigned for surveying credit needs, expansion of banking coverage and extension of credit facilities in the respective districts.

CHAPTER IV

DEVELOPMENT OF BANKING FACILITIES AND FINANCE

DEVELOPMENT OF BANKING FACILITIES AND FINANCE

Branch Expansion

46. A total of 303 new bank branches were opened by the scheduled banks during 1976-77 as against 159 in the preceding year. As 4 branches were closed down during the year, the total number of bank offices in the country stood at 2078 at the end of June, 1977 as against 1779 in June, 1976.

Foreign Banking

47. With the opening of 5 new branches, the number of Bangladeshi bank branches operating abroad stood at 10, while with the opening of 3 branches by two new foreign banks e.g. Habib Bank (Overseas) Ltd. and Bank of Credit and Commerce International (Overseas) Ltd. the number of foreign banks' branches operating in Bangladesh during 1976-77 increased to 18.

Inspection of Banks

48. Comprehensive inspection of Sonali Bank, Rupali Bank, Janata Bank, Pubali Bank, American Express International Banking Corporation and Grindlays Bank Ltd. was completed during the year. Inspection reports of Sonali Bank and Rupali Bank were already sent to the concerned banks for necessary action and those relating to Janata Bank, Pubali Bank, American Express International Banking Corporation and Grindlays Bank were in the final stage of preparation. Besides, special inspection of the nationalised banks on certain specific points was also undertaken during 1976-77.

49. Inspection of foreign exchange business of the commercial banks is being conducted regularly by the Foreign Exchange Inspection Team under the direct supervision of Inspection Division of the Banking Control Department. During 1976-77, inspection of foreign exchange business of Pubali Bank and Agrani Bank was completed and that of Rupali Bank which started from April, 1977 was in progress.

50. As in the past years, adequate finance from the banking system was arranged for jute trade and jute mills during the 1976-77 jute season.

Jute Finance

The commercial banks sanctioned a total cash credit and packing credit limit of Tk. 341.92 crores as against Tk. 291.95 crores in the preceding year for financing movement of raw jute as well as meeting the working capital requirements of jute mills. Peak level utilization of bank credit by jute sector stood at Tk. 287.02 crores as on 31st December, 1976 against which refinance provided by the Bangladesh Bank was of the order of Tk. 117.50 crores.

Finance for Sugar Mills

51. A credit line of Tk. 36.00 crores was arranged from the commercial banks for the Bangladesh Sugar and Food Industries Corporation for financing production of sugar during 1976-77. Bangladesh Bank provided refinance to the extent of Tk. 12.00 crores (i.e., Tk. 11.00 crores to Sonali Bank and Tk. 1.00 crore to Janata Bank) for supplementing the banks' resources for financing the sugar mills.

Tea Finance

52. A sum of Tk. 4.00 crores was provided by the Bangladesh Bank as refinance for financing production and export of tea during the year.

Other Counter Finance Facilities

53. For financing procurement and distribution of foodgrains by the Government a sum of Tk. 60.00 crores was made available to the nationalised banks by the Bangladesh Bank during 1976-77.

54. Counter-finance extended by the Bank to the nationalised banks for financing procurement and distribution of fertilizer by the B.A.D.C. during 1976-77 amounted to Tk. 11.92 crores.

CHAPTER V

DEVELOPMENT OF CAPITAL MARKET

DEVELOPMENT OF CAPITAL MARKET

Stock Exchange

55. As a step towards the development of capital market, the Dacca Stock Exchange which had remained defunct since the liberation of the country was reopened and reactivated.

I. C. B.

56. The Investment Corporation of Bangladesh was set up on 1st October, 1976 to encourage and broaden the base of investments in the country.

International Finance and Investment Company

57. A significant development was the setting up of the International Finance and Investment Company whose purpose is to undertake banking and other financial business outside Bangladesh either singly or in collaboration with companies, financial institutions and banks. Its principal objective is to develop and strengthen banking and financial relationship between Bangadesh and the important financial centres in other countries, particularly the oil-rich Arab countries of the Middle East.

CHAPTER VI

AGRICULTURAL FINANCE

AGRICULTURAL FINANCE

Institutional Finance

58. In view of the priority given by the Government on agricultural development. Bangladesh Bank continued its policy providing concessionary credit and counter finance facility to the specialised credit institutions namely BKB and BJSB during 1976-77 fiscal year to enable them to extend credit to the farmers at reasonable interest rates. As in previous years, the Bank also prepared an annual agricultural credit plan for 1976-77. As against the total credit target of Tk. 49.56 crores during 1975-76, credit target for 1976-77 was fixed at Tk. 84.70 crores, the agency-wise allocation of which was as under :—

(Figures in Crores of Taka)

Agencies	1975-76	1976-77
Bangladesh Krishi Bank	22.00	36.35
Bangladesh Jatiya Samabaya Bank	15.50	20.00
Nationalised Commercial Banks	12.06	28.35
	49.56	**84.70**

59. The total credit target allocated to BKB and BJSB was Tk. 56.35 crores against which they disbursed a total amount of Tk. 42.20 crores during the year as compared to Tk. 27.68 crores disbursed in the preceding year.

60. Disbursement of loans by Bangladesh Bank to BKB and BJSB increased by Tk. 13.33 crores during 1976-77 fiscal year. The comparative position of sanction and disbursement of loans by Bangladesh Bank to these credit agencies was as under :—

(Figures in Crores of Taka)

Agencies	1975-76		1976-77	
	Sanction	Disbursement	Sanction	Disbursement
Bangladesh Krishi Bank	17.00	16.45	35.87	28.30
Bangladesh Jatiya Samabaya Bank	16.00	9.44	11.29	10.92
	33.00	**25.89**	**47.16**	**39.22**

61. Outstanding borrowings of these two agencies with Bangladesh Bank stood at Tk. 47.48 crores at the end of 1976-77 as compared to Tk. 34.27 crores at the end of 1975-76 showing an increase of Tk. 13.21 crores over the year.

Commercial Bank Finance

62. As against their annual target of Tk. 28.35 crores during 1976-77 the nationalised commercial banks disbursed a total amount of Tk. 21.94 crores upto 30th June, 1977 as compared to Tk. 20.61 crores during 1975-76 recording an increase of Tk. 1.33 crores. Their total outstandings including overdues stood at Tk. 21.19 crores as on 30th June, 1977.

Tk. 100 Crores Special Credit Programme

63. In addition to the normal credit target, a Special Credit Programme of Tk. 100 crores was launched from 15th February, 1977 as per Government decision with a view to enlarging the flow of institutional credit for boosting up agricultural production. All the 6 nationalised commercial banks and BKB have been involved in this programme. The credit target of Tk. 100 crores under this programme has been allocated district-wise and crop-wise on the basis of the overall crop production plan. Credit norms have also been fixed in the light of requirements of individual crop. A total amount of Tk. 22.99 crores was disbursed by the nationalised commercial banks and BKB upto end-June, 1977 under the programme. BKB, besides disbursing short-term credit under Tk. 100 crore programme, have also been providing short-term credit for tea financing and term credit for other purposes under its normal programme.

Study on Agricultural Credit System

64. A counter-part team of local experts has been constituted for working with a team of foreign experts appointed for carrying out a special study of the agricultural credit system of the country for its reorganization with technical assistance credit from the World Bank.

CHAPTER VII

GOVERNMENT FINANCES

Budget for 1976-77 (Revised)

65. The Bangladesh Budget for 1976-77 envisaged revenue receipts at Tk. 982.38 crores and revenue expenditures (non-development) at Tk. 767.87 crores, thus showing a surplus of Tk. 214.51 crores. The budget estimates for the year were subsequently revised placing the revenue receipts and expenditures at Tk. 996.09 crores and Tk. 821.55 crores respectively, showing a surplus of Tk. 174.54 crores.

66. The revised budget estimates for the year showed increases in the following major heads of receipts over their original estimates : income tax, corporation tax and agricultural income tax (+Tk. 18.04 crores), sales tax (+Tk. 10.70 crores), nationalised banks (+Tk. 9.63 crores) and stamp, forest and registration (+Tk. 3.47 crores). However, increases in these major heads were partly offset by the declines in customs duty (—Tk. 20.20 crores), nationalised industries (—Tk. 6.25 crores) and land revenue (—Tk. 4.98 crores) etc. The overall increase in the revenue receipts in the revised budget estimates stood at Tk. 14.00 crores over the original budget estimates. Receipts from customs duty declined due to smaller imports during the beginning of the year but realization from income tax and sales tax showed significant increase. Increases in other heads were mainly due to effective collection drive made by the Government during the year.

67. The revenue expenditures under the revised budget for 1976-77 increased by Tk. 54.00 crores to Tk. 822.00 crores or 7 per cent over the original budget estimates. Increased expenditures were due to strengthening of general administration and additional expenditures spent on defence and other para-military forces, larger cash subsidy for jute industry and increased expenditures in foreign affairs. Increases in the outlay on law and order machinery and national security forces were considered to be essential in order to safeguard the border and to frustrate the evil designs of the miscreants so that

economic activity could go on uninterrupted. Expenditures on 'Defence', 'Other Expenditures', 'General Administration' and 'Foreign Affairs' increased by Tk. 15.07 crores, Tk. 34.06 crores, Tk. 7.27 crores and Tk. 3.95 crores respectively in the revised estimates.

68. The size of the Annual Development Programme for 1976-77 was originally placed at Tk. 1100.00 crores but subsequently the allocation was lowered to Tk. 1006.00 crores due to shortfall in realisation in project aid and commodity aid. The revised Annual Development Programme of Tk. 1006.00 crores signifies in real terms an increase of 19% over the development expenditures of 1975-76. The revised estimates of foreign aid and grants stood lower at Tk. 816.81 crores as against the original estimates of Tk. 915.59 crores.

Budget Estimates for 1977-78

69. The budget estimates for 1977-78 place revenue receipts at Tk. 1156.61 crores on the basis of existing taxes and non-development expenditures at Tk. 906.31 crores yielding a revenue surplus of Tk. 250.30 crores. Of the total revenue receipts, customs duties are estimated to yield Tk. 384.00 crores, excise duties Tk. 220.00 crores, income tax, corporation tax and agricultural income tax Tk. 120.10 crores and sales tax Tk. 123.00 crores. Of the total expenditures, Defence accounts for Tk. 162.41 crores and Education Tk. 113.81 crores. Other important allocations include Railways (Tk. 58.56 crores), General Administration (Tk. 43.36 crores), Police (Tk. 45.21 crores), Health (Tk. 37.68 crores) and other non-development expenditures (Tk. 82.75 crores). A sizeable amount of Tk. 100.00 crores is kept earmarked for 'unexpected expenditures' of which Tk. 60.00 crores will be available for additional emoluments to Government servants on the basis of recommendation of Pay and Services Commission.

70. The size of the Annual Development Programme for 1977-78 has been fixed at Tk. 1278.50 crores on a gross basis and Tk. 1150.65 crores on a net basis. Out of the total net development expenditure of Tk. 1150.65 crores, an amount of Tk. 151.33 crores has been alloted to Agriculture, Tk. 135.29

crores to Flood Control and Water Resources, Tk. 148.02 crores to Industry, Tk. 125.36 crores to Electricity and Tk. 181.47 crores to transport. Allocations for House Building and Natural Planning, Education and Training and Communications are Tk. 93.28 crores, Tk. 56.20 crores and Tk. 52.36 crores respectively.

71. The development budget for 1977-78 envisages that Tk. 895.75 crores or 75 per cent would be financed from net receipts of foreign aids and loans as against 80 per cent in the preceding year.

Fiscal Measures for 1977-78

72. The main fiscal measures of the budget for 1977-78 are summarised below *:—

A. Customs Duties

1. Exemption of customs duties on the import of raw materials by the industrial importers under the Wage Earners' Scheme has been partially withdrawn (+Tk. 1.25 crores).

2. Duty on dolomite and barytes has been reduced from 115% to 50% advalorem (–Tk. 22 lakhs).

3. Duty on copper wire has been reduced from 115% to 50% advalorem (–Tk. 1.12 crores).

4. Duty on geometry box, biology box and slide rules has been reduced from 50% to 25% advalorem (–Tk. 3 lakhs).

5. Duty on special purpose vehicles has been reduced from 75% to 30% advalorem (–Tk. 91 lakhs).

6. Duty on four wheel drive vehicles and station-wagons built on truck chassis has been reduced from 60% to 45% advalorem for built-up imports and to 30% advalorem for CKD imports (–Tk. 13 lakhs).

7—

7. Duty on utility vehicles like pick-up and vans and on heavy duty self-loading trucks, works trucks etc. has been reduced from 75% to 40% advalorem for built-up imports and to 30% for CKD imports (–Tk. 48 lakhs).

8. Duty on second-hand clothing other than woollen has been increased from 40% to 75% advalorem (+Tk. 1.75 crores).

9. Duty on betelnuts has been increased from Tk. 3.25 per lb. to Tk. 5.00 per lb. (+Tk. 1 crore).

10. Export duty at the rate of 10% on the f.o.b. value has been levied on wet-blue semi-finished leather and the export rebate thereon abolished (+Tk. 6 crores).

B. Duties of Excise

11. The existing exemption on manually made cigarettes (biris) has been withdrawn and duty at the rate of Tk. 5.00 per thousand sticks imposed (+Tk. 7.5 crores).

C. Income Tax

12. The ceiling of investment allowance has been raised (–Tk. 5 lakhs).

13. The ceiling of admissible perquisites to employees has been raised (–Tk. 2 lakhs).

14. The ceiling of cash house rent allowance has been raised (–Tk. 1 lakh).

15. The export rebate on raw hides and skins and wet-blue leather has been withdrawn (+Tk. 50 lakhs).

16. Provision for deducting tax at source from winnings from lotteries and cross-word puzzles (+Tk. 5 lakhs).

17. Value of a motor-car for the purpose of depreciation has been raised (—Tk. 2 lakhs).

D. Wealth Tax

18. Exemption limit has been raised and rate schedule has been restructured (—Tk. 5 lakhs).

E. Estate Duty

19. Exemption limit has been raised and rate schedule has been restructured (—Tk. 1 lakh).

F. Postal Rates

20. Rates of letters, postcard, business reply envelopes, business reply card, book packets and inland aerogram have been increased (+Tk. 1.08 crores).

Railway Budget for 1977-78

73. The Bangladesh Railway budget for 1977-78 envisages revenue receipts of Tk. 57.60 crores as against the revenue expenditures of Tk. 55.89 crores, thus showing a surplus of Tk. 1.71 crores. This compares with the revenue receipts of Tk. 54.50 crores and revenue expenditures of Tk. 54.09 crores in the 1976-77 revised estimates. The estimated revenue expenditures of Tk. 55.89 crores for 1977-78 consist of Tk. 50.95 crores for ordinary working expenses, Tk. 4. 38 crores for interest and repayment of foreign loans, Tk. 0.31 crores for depreciation reserve fund and Tk. 0.25 crore to investment fund.

74. The total development expenditures for the railways during 1977-78 are estimated at Tk. 38.39 crores. The development expenditures include Tk. 12.16 crores for 19 ongoing projects, Tk. 14.57 crores for 24 new projects and Tk. 11.66 crores for reconstruction and rehabilitation for 11 old schemes. Some of the important projects are :—

i) The truck renewal work between Dacca and Chittagong, improvement of telecommunications and signalling and repairs of steam locomotives and wagons under Asian Development Bank-aided project ;

ii) Work of improved signalling of 57 stations ;

iii) Work of relay inter-lncking and improved signalling at 11 stations ;

iv) Construction of Faridpur-Barisal line upto Pukuria ;

v) Improvement of workshops, loco-sheds and train examining depots ; and

vi) The reconstruction work of Bholagaoj Ropeway etc.

Government Borrowings

75. No new Public Loan was floated by the Government of Bangladesh during the year ended 30th June, 1977. The only outstanding Government loan is the 5¾% Loan—1982 floated in October, 1972 amounting to Tk. 63,75,01,000.

76. Three months Government Treasury Bills (Tender) @ 7% interest per annum stood as on 30th June, 1977 at the same level of Tk. 57.03 crores as on 30th June, 1976. These Bills were re-issued every 90 days.

77. The Special Ad-hoc Treasury Bills created primarily to provide assets against issue of Bangladesh Currency Notes in replacement of Pakistani Currency Notes as also for other purposes were reduced from Tk. 549.34 crores as on 30th June, 1976 to Tk. 507.80 crores as on 30th June, 1977. Special Treasury Bills worth Tk. 198,64,00,000 were sold to different banks out of the above Treasury Bills. The Ways & Means Advances of the Bank to the Government as on 30th June, 1977 remained unchanged at Tk. 20.00 crores. In addition to the above, Government debtor balance with the Bank stood at Tk. 9,57,10,000 as on 30th June, 1977 as against Tk. 9,23,32,000 as on 30th June, 1976.

78. Special Treasury Bills @ 6% interest per annum offered for sale to Non-Banking Institutions stood at Tk. 2,40,75,000 as on 30th June, 1977 as against Tk. 10,00,000 as on 30th June, 1976.

Income Tax Bonds

79. 5% Income Tax Bonds of the erstwhile Pakistan Government held by Bangladeshi Nationals/Institutions, liabilities of which have been accepted by the Government of Bangladesh have been revalidated for face value of Tk. 43.24 lakhs during the year ended 30th June, 1977.

Prize Bonds

80. Sales of 10 Taka Bangladesh Prize Bonds, which were introduced in June, 1974, continued during the year. Progressive net sales amounted to Tk. 4. 57 crores as on 30th June, 1977 as against Tk. 2.54 crores as on 30th June, 1976. Twelve series of Bonds namely A,B,C,D,E,F,G,H,J,K,L and Bengali Series KA have been put on sale upto 30th June, 1977.

Sanchaya Patra and Pratirakkha Sanchaya Patra

81. The net sales of both Bangladesh Savings Certificates and Bangladesh Sanchaya Patras in the banking sector stood at Tk. 9,64,73, 505 as on 30th June, 1977 against Tk. 12, 79, 73, 920 as on 30th June, 1976. Sales and encashment of Bangladesh Savings Certificates and Bangladesh Sanchaya Patras during the year 1976-77 were Tk. 17,41,915 and Tk. 3,32,42,330 respectively.

82. The net sales of Pratirakkha Sanchaya Patras upto 30th June, 1977 was Tk. 16,18,20,005 in the banking sector against Tk. 4,53,21,820 as on 30th June, 1976. Sales and encashments of Pratirakkha Sanchaya Patras during the year under report were Tk. 44,95,89,150 and Tk. 33,30,90,965 respectively.

Securities of Erstwhile Pakistan Government

83. The amounts of G.P. Notes/Stock Certificates of the erstwhile Pakistan and its provincial Governments loans and 5% Defence Bonds held by Bangladeshi nationals and institutions accepted by the Government of Bangladesh for revalidation/redemption stood at Tk. 13.70 crores as on 30th June, 1977 as against Tk. 17.03 crores on 30th June, 1976.

CHAPTER VIII

BALANCE OF TRADE AND PAYMENTS

BALANCE OF TRADE AND PAYMENTS*

84. The balance of trade of the country improved considerably during 1976-77. This was the combined result of a significant rise in export earnings and a sharp reduction in import payments due partly to the reduced imports of foodgrains. The deficit on the Merchandise Account (i.e., visible exports *less* visible imports) declined to Tk. 289.11 crores during July, 1976-March, 1977 from Tk. 1052.29 crores during the same period of 1975-76. Similarly, the Services Account (i.e, invisible receipts *less* invisible payments) showed a smaller deficit of Tk. 111.85 crores during the first nine months of 1976-77 as compared to Tk. 141.66 crores during the corresponding period last year.

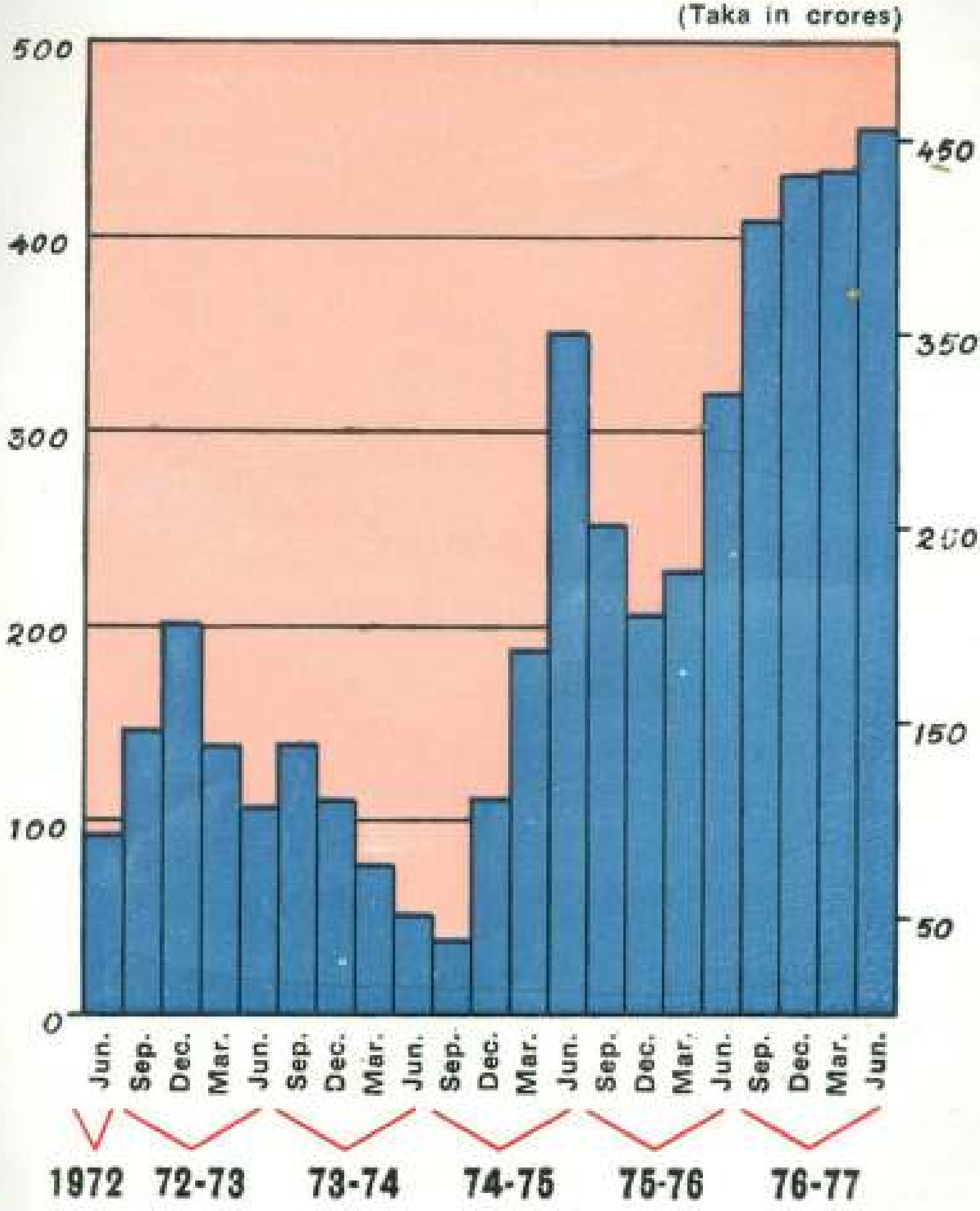
85. The balance of payments also recorded a marked improvement during 1976-77 (first nine months) with an overall surplus of Tk. 125.69 crores in contrast to a deficit of Tk. 197.85 crores during the corresponding period of 1975-76. The reversal in the payments position from a deficit to a surplus was accounted for by a sharp reduction in deficit on Goods and Services Account, neutralized partly by a decline in net receipts under Unrequited Transfers and net inflow under Capital Transactions.

86. Foreign exchange reserves (convertible) rose by Tk. 114.87 crores during the first nine months of the year to Tk. 433.73 crores at the end of March, 1977 despite a repurchase of SDR 31.25 million (equivalent to Tk. 54.4 crores) from the IMF. The contributing factors for the accretion to the reserves were higher export receipts, drawings of the balance amount of Tk. 36.96 crores (SDR 21.5 million) from the Fund under the Second Stand-by Arrangement and a drawing of Tk. 34.38 crores (SDR 20 million) under the Compensatory Financing Facility. The reserves (convertible) rose further to Tk. 528.35 crores at the end of May, 1977 due to the receipt of a Saudi grant equivalent to Tk. 80·42 crores and aspecial OPEC loan of Tk. 10.78 crores, offset

* Figures for the first nine months of 1976-77 are provisional.

in part by the repayment of the Kuwaiti deposit of Tk. 35.49 crores. The reserves were drawn down during the last quarter of the year for imports of foodgrains out of cash resources, re-purchases of Tk. 15.6 crores (SDR 8.65 million) from IMF against the drawing under the first Credit Tranche and a further repurchase of Tk. 14.08 crores (SDR 7.8125 million) against the drawing under 1972 Compensatory Financing Facility. Nonetheless, the reserves stood at Tk. 456.16 crores at the end of June, 1977 which were Tk. 137.30 crores higher than the level recorded at the end of June, 1976.

FOREIGN EXCHANGE RESERVES



CHAPTER IX

FOREIGN AID

FOREIGN AID

87. The estimated foreign aid disbursements at $ 574 million during 1976-77 recorded a marked decline as compared to $ 865 million in 1974-75 and $ 835 million in 1975-76. Reduction in aid disbursements by about 31 per cent from the previous year's level reflected mainly a lower inflow of food aid and a sharp decline in commodity aid disbursements. The table below summarises the estimated aid disbursements in comparison with the preceding two years :—

(Million US $)

Type of Aid /Year	1974-75	1975-76	1976-77
Food	264	307	135
Commodity	361	369	229
Project	140	129	160
Cash	100	30	50
Total :	**865**	**865**	**574**

88. Total foreign aid (loans and grants) pipe line for financing the Annual Development Plan for 1976-77 was originally estimated at Tk. 744.60 crores. The revised estimates, however, indicate that the aggregate receipts would be no more than Tk. 630.00 crores.

External Debt

89. The total aid commitments to Bangladesh since liberation to end-June, 1977 were estimated at $ 5.229 billion while the estimated total disbursements amounted to $ 3.561 billion. Total debt service payment stood at $ 47 million during 1976-77 and constituted 10.5% of total foreign exchange earnings during the year. Of this, an amount of $ 20 million was for repayment of long term loans and $ 27 million for interest payments.

CHAPTER X

TRANSACTIONS WITH IMF

TRANSACTIONS WITH IMF

90. Bangladesh made a purchase of SDR 21.50 million on 23rd July, 1976 under the Stand-by Arrangement entered with the International Monetary Fund. Another drawing amounting to SDR 20.00 million was made in August, 1976 under the enlarged Compensatory Financing Facility.

91. Bangladesh made the following repurchases during the year under report :—

Types of Fund's Facility	Year of purchase	Amount of Repurchase
Compensatory Financing Facility	1972-73	39.06 Million SDR
Gold Tranche	1973-74	1.72 ,,
First Credit Tranche	1973-74	8.65 ,,
Total :		49.43 ,,

92. Outstanding drawings from the Fund stood lower at SDR 212.70 million at the end of June, 1977 as against SDR 220.63 million at the end of June, 1976.

93. Bangladesh received SDR 2.00 million on June 16, 1977 as interest subsidy under the 1975 Oil Facility and SDR 0.93 million worth of gold from the Fund under its Gold Restitution Operation. The Fund also agreed on the 10th June, 1977 to allow Bangladesh to make drawings under the Trust Fund Facility amounting to SDR 23 million in two semi-annual instalments beginning July, 1977.

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CHAPTER XI

TRADE POLICY

TRADE POLICY

Export Target

94. The Government policy of providing incentives for boosting exports was maintained and certain new export promotional measures were introduced during the year. These included (i) facilities for establishment of "Export Houses" at home and abroad (ii) loans from the banks upto 90 per cent of the value of letters of credit, subject to normal rules of customs and preshipment, and packing credit from the banks at a concessional rate of interest ; and (iii) addition of 17 new items to the list of Export Performance Lincence.

95. The export target for the year 1976-77 was fixed at Tk. 564.00 crores. The actual export receipts during the year, however, have been substantially higher at Tk. 707.20 crores. This reflected an increase of Tk. 143.20 crores or 25 per cent over the export target, and compared with the export earnings of Tk. 551.68 crores during 1975-76. The receipts from jute goods and non-traditional items of exports amounted to Tk. 306.72 crores and Tk. 209.25 crores respectively as against the targets of Tk. 247.00 crores and Tk. 130.50 crores respectively. Earnings from raw jute, stood at Tk. 191.23 crores as compared to the target of Tk. 186.50 crores, despite somewhat lower volume of exports, on account of a rise in international price of raw jute. The increases in the export earnings from jute goods and non-traditional items were attributable to increases both in their volume and prices.

Import Policy

96. The import policy for July—December, 1976 aimed at expanding industrial out-put and boosting the country's exports. As against the original allocation at Tk. 464.00 crores for the shipping period, actual imports amounted to Tk. 386.00 crores financed by Tk. 212.00 crores from country's own foreign exchange earnings and Tk. 116.00 crores from foreign grants and loans; imports worth Tk. 58.00 crores were under barter and Wage Earners' Scheme.

97. Among the notable features of the import policy for the July—December, 1976 shipping period, the Wage Earners' Scheme was enlarged to include 78 items. The import business of the TCB was reduced by about 50%. Emphasis was laid on meeting the needs of the export-oriented industries. Provisions were made to accommodate new importers from places other than Dacca, Narayanganj, Chittagong and Khulna.

98. The import policy for January—June, 1977 shipping period envisaged a total allocation of Tk. 512.00 crores. However, the actual utilisation of resources for imports amounted to Tk. 550.00 crores. Of this, Tk. 318.00 crores was financed from cash foreign exchange resources, Tk. 140.00 crores from foreign aid and grants, and the balance from barter and the Wage Earners' Scheme. Imports under the Wage Earners' Scheme during the January—June, 1977 shipping period was higher at Tk. 46.00 crores as against the original target of Tk. 35.50 crores. This was mainly due to the imports of yarn, dry chillies and salt under this scheme. Industrial raw materials, cloth and second-hand clothing constituted about 34%, 21% and 15% respectively of total imports under the Wage Earners' Scheme.

99. In order to ensure larger utilisation of industrial capacity the procedure for imports of industrial raw materials and spare parts was further liberalised during the January—June, 1977 shipping period.

CHAPTER XII

TRADE AND PAYMENTS AGREEMENTS

TRADE AND PAYMENTS AGREEMENTS

100. Bangladesh entered into 10 new trade agreements with different countries during 1976-77. Of these, there were 6 barter trade agreements and 4 general trade agreements. The general trade agreement between Bangladesh and India which was signed in 1973 was also renewed for a further period of 3 years with effect from the 29th September, 1976.

101. A trade agreement was signed between Bangladesh and Iran on the 26th July, 1976. Under the agreement, Bangladesh will export to Iran raw jute, jute manufactures, tea, newsprint, paper, hides and skins, leather, electrical goods, hard board, potato, rayon yarn, handicrafts, handloom products, ceramic products etc. Bangladesh will, in turn, import from Iran buses, motor cycles and bi-cycles, tractors and other agricultural equipments, diesel engines, electric motors, ball bearings, machine tools etc.

102. Another trade agreement was concluded with Turkey on 27th July, 1976. The agreement provides for exports of raw jute, jute manufactures, newsprint, paper, hides and skins, rayon yarn etc. from Bangladesh and imports of tobacco, cotton, chemicals, glass and glass ware, paints and varnishes etc, from Turkey.

103. The trade protocol with Sri Lanka, signed on the 8th February,-1977, provides for exports of raw jute, jute manufactures, jute carpets, tea, newsprint, paper, hard and particle board, dry fish etc. from Bangladesh and imports of rubber, copra, coconut oil, tyres and tubes, automatic batteries, spices, non-ferrous metals and ores from Sri Lanka.

104. The trade agreement signed between Bangladesh and Egypt on the 26th April, 1977 provides for exports of raw jute, jute products, tea, newsprint, cables, coir fibres etc. and imports of raw cotton, cotton yarn, pig iron, rock phosphate, aluminium ingots, petroleum oil, iron and steel products etc. from Egypt.

105. The agreement between Bangladesh and Yugoslavia which was signed on the 20th July, 1976 provides for exports of raw jute, jute goods, tea, textile products, leather etc. from Bangladesh against imports of lifts and elevators, rolls, pouring plates, slag pots, ingot moulds, pesticides, electrical equipments, aluminium ingot/sheet and virginia tobacco etc. from Yugoslavia.

106. The agreement with Hungary concluded on the 3rd September, 1976 provides for exports from Bangladesh of raw jute, jute goods, tea, textile products, leather etc. in exchange for imports of railway materials, electrical equipments, photographic materials, elevators and spares etc.

107. The agreement with the People's Republic of China, signed on the 4th January, 1977, provides for exports from Bangladesh of raw jute, jute goods, leather, hides and skins, paper and paper products, newsprint, electrical cables and rayon etc. The list of imports from China under the agreement includes coal, cement, textile and cotton yarn, minerals, pig iron, dyes and chemicals, machinery and tools, tobacco etc.

108. The agreement with Rumania which was concluded on the 3rd February, 1977 provides for imports of mineral oils, ambulances, electrical equipments, dyes, chemicals and caustic soda, soda ash, tools and workshop equipments etc. from Rumania. Exports from Bangladesh included raw jute, jute yarn, jute goods, hides and skins, tea, cotton textile etc.

109. A barter agreement with the U.S.S.R. was signed on the 18th April, 1977. Under this agreement the exportable items from Bangladesh are raw jute, jute cloth, jute bags, goat skins, cables, vegetables and fruits etc. The imports from the U.S.S.R. include spare parts for aircraft, machine equipments, tractors and trailers, ball bearing rolls, ingot moulds, pig iron, steel billets etc.

110. A commodity exchange protocol was signed between Bangladesh and Bulgaria on the 7th May, 1977. This provides for exports from Bangladesh of raw jute, jute products, jute yarn, leather, paper, newsprint, cotton yarn, rayon yarn etc. Imports from Bulgaria, on the other hand, include engines, agricultural machinery, motor trucks, electrical fork lift trucks, electrical equipments, soda ash, dyes, chemicals, pig iron etc.

CHAPTER XIII

TRENDS IN EXPORT COMMODITIES

TRENDS IN EXPORT COMMODITIES

111. The principal commodity markets in the country ruled firm during 1976-77. Prices of raw jute and hides and skins showed a general uptrend. The price of tea also recorded a marked increase during the year.

Jute

112. Jute production during 1976-77 estimated at 45.00p lakh bales was only marginally higher than the level of 43.46 lakh bales produced during the preceding year. There was more area under jute crop during 1976-77, following a favourable jute/rice price ratio, but the yield was adversely affected due to drought and floods. A number of measures were taken by the Government to stabilise internal and external prices of jute, check smuggling, diversify the overseas markets and to overcome shipping difficulties. As a result, export sales registration of raw jute during the season showed substantial improvement. But actual shipments of raw jute at 22.76 lakh bales were marginally lower than the revised export target of 23.00 lakh bales.

113. The raw jute market remained firm during 1976-77 mainly due to lower than expected production in the face of increased domestic and international demand. The annual average price of unassorted loose jute at the growers, level was Tk. 118.91 per maund as compared with Tk. 99.91 per maund in the previous year.

114. Arrivals of raw jute in the different marketing centres during 1976-77 season stood higher at 43.42 lakh bales as compared to 40.77 lakh bales during the preceding year.

115. Export sales registration of raw jute during the season stood higher at 30.80 lakh bales as against 26.55 lakh bales during the preceding year. The increase in export sales was due partly to the reopening of export trade with Pakistan and partly to shortfall in jute production in the major

p — Provisional.

producing countries of the world. Actual shipments of raw jute during 1976-77 stood slightly lower at 22.76 lakh bales as compared to 23.47 lakh bales of 1975-76. Total receipt of foreign exchange from raw jute stood at Tk. 191.23 crores as against the target of Tk. 186.50 crores set for the year.

116. The average internal price of X.Bottom grade (white and tossa) which opened at Tk. 105.00 per maund rose to Tk. 107.00 per maund on November 2, 1976, and thereafter gradually went upto Tk. 137.50 per maund on March 31, 1977 and maintained that level till the close of the season.

117. The export quotations of all grades of raw jute also recorded a firm trend during the year. The export price of B.W.D. grade which ruled at $ 298 per ton on July 1, 1976 was refixed twice at $ 308 and $ 328 per ton on December 23, 1976 and February 14, 1977 respectively, following a rise in overseas import demand. The export quotation of B.W.D. grade remained unchanged at $ 328 per ton upto end of the year under report.

Jute Goods

118. The performance of the jute industry improved during 1976-77. The output of jute goods at 4.89p lakh tons was higher than the target of 4.80 lakh tons set for the year and also 4.78 lakh tons produced during 1975-76. On an average, there were 24,609p installed looms of which 20,189p looms or 82% operated during the season as against 19,839 looms or 83% during the previous year.

119. Export sales of jute manufactures registered with the Bangladesh Bank during 1976-77 stood lower at 5.21 lakh tons as compared to 5.47 lakh tons of the preceding year. Shipments of jute goods during the year, however, stood higher at 4.49p lakh tons as compared to 4.38 lakh tons of the previous year. Total foreign exchange earning from jute goods amounted to Tk. 306.72 crores as against the target of Tk. 247.00 crores during 1976-77.

120. Stocks of jute goods (including sold, unsold stock-in-transit) as on June 30, 1977 stood at 0.95p lakh ton as compared to 1.17 lakh tons on the corresponding date of 1976.

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p— Provisional.

Tea

121. The tea industry witnessed a boom condition during the year following sharp increase in the demand for Bangadesh tea in the wake of an acute world-wide shortage of coffee and lower output of tea in other producing countries. There was an all time record production of tea of 73.98 million lbs. during 1976-77 as compared to 64.86 million lbs. in the preceding season.* Total availability of tea during 1976-77 season with a carryover of 23.56 million lbs., stood at 97.54 million lbs. as against 83.76 million lbs. during the previous season. Total output of tea during April-June, 1977 stood at 23.20 million lbs. as compared to 17.29 million lbs. during the same period of 1976.

122. The Chittagong tea market remained very firm during the greater part of the season. In all, 22 auctions were held at Chittagong during the season in which a total quantity of 67.44 million lbs. of tea was sold at an average price of Tk. 7.71 per lb. This compared with 52.44 million lbs. sold at an average price of Tk. 4.24 per lb. during 1975-76 season. Internal prices of tea, however, showed a declining trend since the start of the new tea season from April, 1977.

123. There was a record increase in the exports of tea during 1976-77. The quantity of tea exported during 1976-77 season stood at 73.54 million lbs. valued at Tk. 56.47 crores as compared to 50.91 million lbs. valued at Tk. 25.47 crores during 1975-76. A larger domestic output and a 44 per cent increase in export price of tea doubled the earnings from tea. Total exports of tea during the financial year 1976-77 (July—June) stood at 64.86 million lbs. valued at Tk. 55.88 crores as compared to 49.22 million lbs. worth Tk. 25.75 crores during the preceding year. Exports of tea during the first three months of the current 1977-78 tea season (i.e., April—June, 1977) stood at 3.50 million lbs. valued at Tk. 5.00 crores.

124. In view of the sharp increase in domestic price of tea, Government took steps to bring down the internal prices. These included allocation of 2.00 lakh lbs. of tea for direct sale through the Consumers Supply Corporation's

*Tea Season : April—March.

shops, reservation of 20% of the total production of tea for domestic market and withdrawal of excise duty of Tk. 1 per lb. However, an export duty of Tk. 1 per lb. was introduced with effect from 22nd April, 1977. The targets for production and export of tea for the 1977-78 season (April-March) have been fixed at 75 million lbs. and 60 million lbs. respectively with an estimated foreign exchange earning of Tk. 70.00 crores.

Hides & Skins

125. The hides and skins market remained generally firm during the greater part of 1976-77. The prices of cow-hides (wet-salted heavy) opening at Tk. 13,000—Tk. 15,000 per hundred pieces reached the level of Tk. 16,000—Tk. 18,000 on 31st January, 1977 and thereafter, amidst fluctuations, closed the year at Tk. 10,000—Tk. 12,000 per hundred pieces. The price of sheep skins opened at Tk. 2,200—Tk. 2,300 and gradually rose to Tk. 2,600—Tk. 2,800 per hundred pieces by 3rd January, 1977 and ruled at that level upto 1st April, 1977. Thereafter, the price eased, amidst fluctuations, to close the year at Tk. 1,000—Tk. 1,500 per hundred pieces. The price of goat skins opened at Tk. 4,800—Tk. 5,800 per hundred pieces but, amidst fluctuations, closed the year at Tk. 3,000—Tk. 3,500 per hundred pieces.

126. Bulk of the exports of hides and skins during the year was in the form of tanned and semi-tanned leather. The estimated earnings from exports of leather (including hides and skins) for the year 1976-77 at Tk. 51.15 crores were Tk. 9.15 crores higher than the original export target. The export earnings from hides and skins had stood at Tk. 45.70 crores during 1975-76.

CHAPTER XIV

EXCHANGE RATE POLICY AND DEVELOPMENTS IN EXCHANGE CONTROL

EXCHANGE RATE POLICY

127. The practice of making adjustments as and when warranted, in the value of Taka in relation to Pound Sterling on the basis of the trends in the exchange rates of Pound Sterling vis-a-vis other currencies in major international markets continued during 1976-77. The official exchange rate of Taka vis-a-vis Pound Sterling was refixed twice on the following dates :—

Taka/£ Sterling Parity

Period	Rate	
November 2, 1976	Tk. 25.45	=£ 1.00
January 18, 1977	Tk. 26.70	=£ 1.00

The buying and selling rates of the Bangladesh Bank were also adjusted in order to neutralise the effects of relatively minor fluctuations between the exchange rate of Pound Sterling and U.S. Dollar as under :—

Buying and Selling Rates

Period		Buying per £ Sterling		Selling per £ Sterling		
		Spot	Forward upto 6 months	Spot	Forward upto 3 months	Forward upto 6 months
August	16, 1976	27.15	27.15	27.17	27.2209	27.2718
September	30, 1976	26.65	26.65	26.75	26.80	26.85
November	2, 1976	25.40	25.40	25.50	25.5478	25.5956
December	31, 1976	25.95	25.95	26.00	26.0487	26.0975
January	18, 1977	26.65	26.65	26.75	26.80	26.85

DEVELOPMENTS IN EXCHANGE CONTROL

128. The following important measures in the field of exchange control and management were taken during the year under report :—

i) With effect from 17th August, 1976 Bangladesh Bank decided to sell forward U.S. Dollars to Authorised Dealers for delivery upto 3 months and 6 months.

ii) Arrangements were made in the regional offices of the Bank at Chittagong and Khulna to purchase U.S. Dollars both spot and forward from the Authorised Dealers in their respective areas.

iii) The facility of spot and forward purchase of Pound Sterling and U.S. Dollar was also extended to the Authorised Dealers under the jurisdiction of the Bangladesh Bank at Bogra.

iv) In order to safeguard the country's importers and exporters from exchange risks in respect of transactions under the Commodity Exchange Agreements, the Bank introduced a system enabling both exporters and importers to carry out their transactions at the rate of exchange prevailing on the date of advising/opening letters of credit.

v) The Foreign Exchange Regulation Act, 1947 was amended to incorporate some new provisions under sections 18A, 18B & 22A. The indentors, recruiting agents etc., as also foreign firms maintaining or desirous of maintaining a place of business in Bangladesh are now required to get themselves registered with the Bangladesh Bank. The Bank has been empowered to carry out inspection and to grant immunity in certain cases.

vi) General permission was accorded to the Authorised Dealers in the country to maintain foreign currency accounts in the names of (a) Bangladeshis residing abroad, (b) foreign nationals residing abroad, and (c) foreign firms operating abroad.

vii) It was decided to extend facilities in respect of passage and exchange to (a) reputed Bangladeshi construction and consultancy firms desirous of undertaking construction work and consultancy services abroad, (b) approved recruiting agents for the purpose of securing employment for Bangladeshis in foreign countries and (c) indenting houses having earned and repatriated foreign exchange.

viii) The Authorised Dealers were allowed to release foreign exchange from foreign currency accounts for travel abroad to individuals holding confirmed air-tickets at the rate of US $ 30 per day, subject to a maximum of $ 300 per person, for travel to countries other than Pakistan, India, Burma, Nepal and Sri Lanka, while in the case of India, Pakistan, Nepal, Burma and Sri Lanka the maximum limit was fixed at £ 25 or its equivalent per person.

ix) In order to look into cases of over-invoicing of imports and under-invoicing of exports, an Export-Imports Price Cell started functioning in the Exchange Control Department at the Head Office of the Bank.

x) Non-IATA Travel Agents were also allowed to submit applications to the Bangladesh Bank to book passages subject to observation of certain terms and conditions.

CHAPTER XV

ASIAN CLEARING UNION

ASIAN CLEARING UNION

129. For the period from 1st July, 1976 to 30th June, 1977 transaction under Asian Clearing Union arrangements relating to Bangladesh was very limited. In all, 21 inward remittances for a total sum of AMU 62,328.90 (Tk. 11,24,743.70) were received out of which 20 transactions were from Sri Lanka and one from India. No outward remittance was effected from Bangladesh.

CHAPTER XVI

CURRENCY AND COINAGE

CURRENCY AND COINAGE

One-Taka Notes

130. New One-Taka notes of the existing design and colour scheme but without the watermark were issued with effect from 1st October, 1976.

New Bank Notes

131. New 5-Taka and 10-Taka Bank notes with an engraved picture of the famous "Star Mosque" and in changed colour scheme were put into circulation with effect from 11th October, 1976. The size and other design features, however, remained unchanged.

132. New 500-Taka Bank notes were also issued on 15th December, 1976. These notes are printed on superior quality Bank note paper with a special microprinted security thread and watermark depicting a "Royal Bengal Tiger" in sitting posture. The main design features of the *obverse* include a finely engraved picture of the "Star Mosque" while the *reverse* side depicts the picture of the Supreme Court of Bangladesh.

Coinage

133. No new coins were issued during the year under report. Small decimal coins in circulation as on 30th June, 1977 amounted to Tk. 11.27 crores as against Tk. 10.55 crores as on 30th June, 1976. This was in addition to Tk. 19.63 crores worth of Taka one Notes/Coins in circulation as on 30th June, 1977, as against Tk. 20.34 crores on 30th June, 1976.

CHAPTER XVII

ADMINISTRATION

ADMINISTRATION

Board of Directors

134. The Government was pleased to constitute the Board of Directors of the Bangladesh Bank on 20th October, 1976 with the following members:—

1.	The Governor	—	Chairman
2.	Mr. Hafizur Rahman	—	Director
3.	Mr. Mahfuzul Huq	—	,,
4.	Mr. Mirza Gholam Hafiz	—	,,
5.	Mr. Syed Mohsen Ali	—	,,
6.	Mr. K. Mahmood	—	,,
7.	Mr. A.F.M. Ehasanul Kabir	—	,,
8.	Mr. M.S.H. Chisty	—	,,
9.	Mr. A.K. Gangopadhyay	—	,,

Executive Committee

135. The Executive Committee of the Board has been constituted as under :—

1.	The Governor	—	Chairman
2.	Mr. A.K. Gangopadhyay	—	Member
3.	Mr. Mirza Gholam Hafiz	—	,,
4.	Mr. A.F.M. Ehasanul Kabir	—	,,

136. During the course of the year, seven meetings of the Board of Directors and three meetings of the Executive Committee were held.

Appointments

137. Mr. M. Nurul Islam was appointed as the Governor of the Bank with effect from 14th July, 1976.

138. Mr. A.M. Aminul Haque Chowdhury was appointed as a Deputy Governor with effect from 5th August, 1976.

Office Accommodation

139. Construction of the Annexe Building at Dacca was completed during the year. The new building has 8 floors.

140. Construction of the 2nd floor at the Khulna Office building was nearing completion.

141. Construction of a 7-storied office building with a 3-storied annexe started at Bogra.

142. Construction of a Vault Room, Police Barrack and addition/ alteration of the existing office building at Rajshahi also started.

Residential Accommodation

143. Two blocks consisting of 4 flats were constructed at Minto Road and allotted to the two Deputy Governors, Economic Adviser and an Executive Director. 60 newly-constructed flats at Dacca centre were alloted to officers and staff. 6 officer's flats at Minto Road and 12 staff quarters at R.K. Mission Road and Motijheel, Dacca were under construction during the year.

Welfare Activities

144. A sum of Tk. 81,320 was sanctioned for grant of scholarship to the children of employees in the National Grade IX & X during the year.

Training of Bank officials

145. The Bank made arrangements for participation of a number of officers of the Bank in different training courses in foreign countries under Technical Assistance Programme and other programmes, including courses offered by the IMF Institute, Washington.

146. Arrangements were also made for training of 11 officers of the Bank under domestic training programme organized by the different institutions in the country. Further, the Bank conducted the in-service training programme for 72 directly-recruited Grade V Officers and 50 newly-promoted Grade VI Officers during the year.

CHAPTER XVIII

ANNUAL ACCOUNTS

ANNUAL ACCOUNTS

Issue Department

147. The balance sheet of the Issue Department as on 30th June, 1977 appears on Pages 104-105 of the Report. Total notes issued as on that date amounted to Tk. 391.25 crores as against Tk. 334.48 crores as on 30th June, 1976. Assets against the note-issue included Approved Foreign Exchange of Tk. 193.00 crores, Taka Coin worth Tk. 11.61 crores and Government of Bangladesh Securities worth Tk. 186.64 crores. The corresponding figures of assets against note-issue as on 30th June, 1976 were Approved Foreign Exchange of Tk. 100.00 crores, Taka Coin of Tk. 10.89 crores and Government of Bangladesh Securities of Tk. 223.59 crores.

Banking Department

148. The Balance Sheet of the Banking Department as on 30th June, 1977 appears on pages 106-107. On the Liabilities side, balances in the Statutory Funds have increased by Tk. 4.00 crores by appropriation from the Profit and Loss account. Banks' deposits increased from Tk. 98.03 crores as on 30th June, 1976 to Tk. 124.58 crores as on 30th June, 1977, while "Other Deposits" including I.B.R.D., I.M.F., OPEC—Special Fund Deposits etc. stood at Tk. 328.56 crores as on 30th June, 1977 as against Tk. 352.73 crores as on 30th June, 1976.

149. On the Assets side, "Balances held outside Bagladesh" stood higher at Tk. 263.18 crores as on 30th June, 1977 as compared to Tk. 218.88 crores on 30th June, 1976. While "Loans and Advances to Government" remains unchanged at Tk. 20.00 crores, the "Government's Debtors Balances" increased by Tk. 0.34 crore to Tk. 9.57 crores as on 30th June, 1977. The "Other Loans and Advances" increased to Tk. 102.05 crores as on 30th June, 1977 from Tk. 63.02 crores on 30th June, 1976. The balance under Bank's investments declined to Tk. 145.66 crores as on 30th June, 1977 from Tk. 297.29 crores as on 30th June, 1976.

150. The Profit and Loss Account of the Bank for the year ending 30th June, 1977 appears on pages 108.

Profit and Loss Position

151. The Profit and Loss Position of the Bank for the year 1976-77 is summarised as under :—

Gross earnings of the Bank	Tk.	42,19,91,587
Total Expenditure	Tk.	9,37,79,337
	Profit :	**Tk. 32,82,12,250**

152. Out of the above profit of Tk. 32,82,12,250, a sum of Tk. 4.00 crores has been appropriated to the Statutory Funds administered by the Bank as shown below, and the balance of Tk. 28,82,12,250 will be transferred to the Government as surplus profit :—

Rural Credit Fund	Tk. 1,00,00,000
Industrial Credit Fund	Tk. 1,00,00,000
Export Credit Fund	Tk. 1,00,00,000
Agricultural Credit Stabilization Fund	Tk. 1,00,00,000
Surplus Profit transferable to the Government	Tk. 28,82,12,250
Total :	**Tk.32,82,12,250**

Appointment of Auditors

153. In terms of Article 65(1) of the Bangladesh Bank Order 1972, the Government have been pleased to appoint Messers Khan Wahab Shafique Rahman & Co. and Messers Howladar, Yunus and Co., Chartered Accountants as Auditors for auditing the accounts of the Bank for the year 1976-77.

Appreciation

154. We wish to record our appreciation of the loyal and devoted services rendered by the officers and other employees of the Bank during the year ended 30th June, 1977.

BALANCE SHEET

AND

PROFIT AND LOSS ACCOUNT

AS AT

30TH JUNE, 1977

BANGLADESH
BALANCE SHEET AS AT
ISSUE

LIABILITIES	TAKA	TAKA
Notes held in the Banking Department	39,73,115	
Notes in Circulation*	390,85,30,170	
Total Notes Issued		391,25,03,285
TOTAL LIABILITIES		391,25,03,285

* The statement with regard to 'Notes in circulation' is made without prejudice to the claim of the Government of the People's Republic of Bangladesh/ Bangladesh Bank for obtaining value from the Government of Pakistan/State Bank of Pakistan in respect of Pakistani Currency Notes demonetised and withdrawn from circulation and physically held by the Bangladesh Bank.

BANK
30TH JUNE, 1977
DEPARTMENT

ASSETS	TAKA	TAKA
1.A. Gold Coin and Bullion	NIL	
Silver Bullion	NIL	
Special Drawing Rights held with the International Monetary Fund	NIL	
Approved Foreign Exchange	193,00,00,000	
		193,00,00,000
B. Taka Coin	11,60,93,034	
Government of Bangladesh** Securities	186,64,10,251	
Internal Bills of Exchange and Other Commercial Papers	NIL	
		198,25,03,285
TOTAL ASSETS		391,25,03,285

** Includes Special Ad-hoc Treasury Bills issued for providing assets against issue of Bangladesh Notes in replacement of Pakistani Notes.

LIABILITIES		TAKA
Capital Paid Up		3,00,00,000
Reserve Fund		3,00,00,000
Rural Credit Fund		4,75,00,000
Industrial Credit Fund		5,50,00,000
Export Credit Fund		5,75,00,000
Agricultural Credit Stabilization Fund		4,25,00,000
Deposits :		
(a) Government		NIL
(b) Banks		124,58,37,819
(c) Others		328,55,65,847
Allocation of Special Drawing Rights		NIL
Bills Payable		25,32,939
Other Liabilities		201,79,17,700
TOTAL LIABILITIES	Tk.	681,43,54,305

DEPARTMENT

ASSETS	TAKA
Notes	39,73,115
Taka Coin	1,32,719
Subsidiary Coin	451
Bills Purchased and Discounted :—	
(a) Internal	29,00,00,000
(b) External	1,52,53,125
(c) Government Treasury Bills	87,61,16,369
Balances held outside Bangladesh*	263,17,50,803
Special Drawing Rights held with the International Monetary Fund	NIL
Loans and Advances to Government	20,00,00,000
Government's Debtor Balances	9,57,09,943
Other Loans and Advances	102,04,64,300
Investments	145,65,72,840
Other Assets	22,43,80,640
TOTAL ASSETS	Tk. 681,43,54,305

* Include Cash and Short Term Securities.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 1977

INCOME

Interest, Discount, Exchange, Commission etc.	Tk. **42,19,91,587**

EXPENDITURE

Establishment	4,52,07,444
Directors' Fees and Expenses	7,192
Auditors' Fees	15,600
Rent, Taxes, Insurance, Lighting, etc.	24,49,376
Law Charges	38,078
Postage and Telegram Charges	7,87,731
Remittance of Treasure	6,68,216
Stationery, etc.	21,93,492
Security Printing (Cheques, Note forms etc.)	2,50,12,195
Depreciation and Repairs to Bank's property	55,55,309
Agency Charges	52,21,909
Contribution to Staff and Superannuation Funds	NIL
Miscellaneous Expenses	66,22,795
Net Available Balance	32,82,12,250
Total :	**Tk. 42,19,91,587**

Amount transferred to Reserve Fund	NIL
Amount transferred to Rural Credit Fund	1,00,00,000
Amount transferred to Industrial Credit Fund	1,00,00,000
Amount transferred to Extport Credit Fund	1,00,00,000
Amount transferred to Agricultural Credit Stabilization Fund	1,00,00,000
Surplus payable to the Government	28,82,12,250
Balance carried forward	NIL
Total :	**Tk. 32,82,12,250**

RESERVE FUND ACCOUNT

By Balance on 30th June, 1976	3,00,00,000
By Transfer from Profit and Loss Account	NIL
Total :	**Tk. 3,00,00,000**

M.A. Haque	**M. Khalid Khan**	**A.K. Gangopadhyay**	**M. Nurul Islam**
Director of Accounts	Executive Director	Deputy Governor	Governor

REPORT OF THE AUDITORS

To the Government of the People's Republic of Bangladesh

We, the undersigned Auditors of the Bangladesh Bank do hereby report to the Government upon the Balance Sheet and Accounts of the Bank as at 30th June, 1977.

We have examined the above Balance Sheet with the Accounts, Certificates and Vouchers relating thereto of the Head Office and of the offices at Dacca, Chittagong, Khulna and Bogra and with the Returns submitted and certified by the Assistant Controller of Sylhet and Senior Assistant Controller of Rajshahi offices which returns are incorporated in the above Balance Sheet and report that, where we have called for explanations and information, such information and explanations have been given and have been satisfactory. In our opinion, the Balance Sheet is a full and fair Balance Sheet containing all necessary particulars and is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of our information and the explanations given to us and as shown by the Books of the Bank.

Khan Wahab Shafique Rahman & Co.
Chartered Accountants

Dacca, the 1st day of
August, 1977.

Howladar, Yunus and Co.
Chartered Accountants

COMPARATIVE POSITION OF SCHEDULED BANKS

(In Crore Taka)

Particulars	Amount as on	
	25.6.76	24.6.77
Bank Deposits (excluding inter-bank items)	1099.99	1325.64
Demand Deposits	563.09	580.35
Time Deposits	536.90	745.29
Borrowings from the Bangladesh Bank	75.61	109.36
Cash in hand	25.01	33.32
Banlances with Bangladesh Bank	68.26	96.86
Balances with other banks in current account in Bangladesh	7.33	8.86
Money at Call and short notice in Bangladesh	50.05	53.17
Investment in Bangladesh	250.22	308.67
Government Securities	167.06	222.38
Others	83.16	86.29
Bank Credit (Excluding inter-bank items)	1065.48	1259.64
Advances in Bangladesh	923.57	1138.25
Inland and foreign bills purchased and discounted in Bangladesh	141.91	121.39
Credit/Deposit Ratio	0.84	0.83

LIST OF SCHEDULED BANKS

(As on the 30th June, 1977)

A. NATIONAL BANKS

i) Commercial Banks

1. Sonali Bank
2. Rupali Bank
3. Agrani Bank
4. Janata Bank
5. Pubali Bank
6. Uttara Bank

ii) Specialised Banks

1. Bangladesh Krishi Bank
2. Bangladesh Shilpa Bank

B. FOREIGN BANKS

1. Grindlays Bank Ltd.
2. Chartered Bank
3. American Express International Banking Corporation.
4. State Bank of India
5. Habib Bank Ltd.
6. Bank of Credit and Commerce International (Overseas) Ltd.

OFFICES OF THE BANGLADESH BANK

(As on June 30, 1977)

Head Office
DACCA

Offices At
DACCA
CHITTAGONG
KHULNA
BOGRA
SYLHET
RAJSHAHI