ANNUAL REPORT

1977-78

BANGLADESH BANK

LETTER OF TRANSMITTAL

BANGLADESH BANK

DACCA :

November 10, 1978

The Secretary,
Ministry of Finance,
Government of the People's
Republic of Bangladesh,
D A C C A.

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, 1978.

Yours faithfully,
M. Nurul Islam
Governor

CONTENTS

CHAPTER I

TRENDS IN THE ECONOMY

TRENDS IN THE ECONOMY

The economy staged an impressive rocovery during 1977-78. In contrast to a mere 1.7 per cent growth in the preceding year, the Gross Domestic Product increased by 7.8 per cent during the year. The performance was encouraging both in the agricultural and the industrial sectors. Agricultural production increased by 7.4 per cent during 1977-78 as against a decline of 1.4 per cent in the preceding year, reflecting favourable weather conditions coupled with increased use of fertilisers, HYV seeds and irrigation facilities. The increase in Government procurement prices of rice and paddy by 10 per cent during the year seemed to have provided some incentive to the farmers. Industrial production also rose by 10.4 per cent during the year as against an increase of 9.1 per cent in 1976-77. The improved performance of the industrial sector was made possible by fuller utilisation of capacity through a significant increase in the volume of imported raw materials under liberal import policy, labour discipline and measures to raise the efficiency level. The better utilisation of industrial capacity was also assisted by increased foreign demand for jute goods, improvement in home demand for cotton textiles and other products due to economic recovery and intensification of construction activities. The growth rate in all other sectors of the economy taken together worked out to 8 per cent during the year.

2. Apart from a substantial increase in domestic production, the improvement in availability was also brought about by a sharp increase in imports which at Tk. 1904.28 crores during 1977-78 were about 69 per cent higher than in the preceding year. This was mainly accounted for by increased imports of foodgrains, fertilisers, raw cotton and capital goods.

3. The strength of the economy was also reflected in accelerated investment expenditure in both public and private sectors. The size of the

Annual Development Programme of the Government for 1977-78 which was originally fixed at Tk. 1151 crores—representing 14 per cent increase over the revised ADP of last year—was revised upward to Tk. 1203 crores despite some constraints in local currency expenditure. This was due mainly to an upward revision of the estimate for debenture financing by the Commercial Banks from Tk. 24.40 crores to Tk. 30.02 crores and accrual of Tk. 14.56 crores as savings of some Autonomous bodies. There was also encouraging trend in private sector investments in industries. Against the provision of Tk. 191 crores in the Investment Schedule for the private sector for two years ending in 1977-78, total sanctions rose sharply to Tk. 211 crores during 1977-78 alone, as compared to Tk. 81 crores sanctioned during 1976-77.

4. Notwithstanding the marked improvement in availability, the pressure on prices continued during the year. The cost of living index for Middle Class people at Dacca city (1969-70=100) which stood at 407.45 in June, 1977 rose to 457.27 in June, 1978, representing an increase of 12.23 per cent over the year against an increase of 11.30 per cent in the preceding year. Although the increase was shared by all the sub-indices, the rise was particularly pronounced in the case of food, housing and household requisites and fuel and lighting. But for the open market sale of rice by the Government and import arrangements made before the commencement of the year for essential commodities in the case of which shortages developed, the price increase would have been still larger. The price hike during the year, though partly reflecting increase in the prices of some imported goods and 10 per cent rise in the Government procurement prices of rice and paddy, was largely attributable to shortages in certain essential commodities, coupled with a fast expansion in liquidity.

5. In the background of a substantial price increase of 11.3 per cent in 1976-77, the monetary programme for the year under report was, as a measure of caution, so formulated as to keep the expansion in liquidity

at even less than the rate warranted by the prospective growth in GDP and the moderate price increase envisaged in the Annual Development Programme. In addition, a number of selective credit control measures were also taken in the first quarter of 1977-78 to curb the unhealthy trends in credit to the private sector. These included the following :

(a) Loans and advances by banks for domestic trading except in raw jute were subjected to 50 per cent margin requirement.

(b) Loans and advances by banks against the security of Fixed Deposit Receipts and other financial obligations were also subjected to 50 per cent margin requirement, except for Weavers' Co-operatives for purchase of cotton yarn.

(c) Complete ban was imposed on advances to the foodgrains dealers.

(d) Restriction was also imposed on grant of advances by banks to the oil mills against the security of locally produced oil seeds, and the existing advances to the oil mills were required to be retired within 45 days.

(e) All unsecured loans and advances secured by guarantees were prohibited except for the purpose of financing exports without any limit or under the Small Loans Scheme upto Tk. 25,000 per party.

(f) No loan was allowed to be extended for paying bid money for purchase of abandoned/taken-over property disinvested by the Government.

(g) All advances against imported consumer goods were required to be retired within 45 days as against the previous time limit of 60 days from the date of advance.

6. It needs to be recorded that despite the cautious monetary and credit programme and the credit restrictions listed above, broad money increased by as much as Tk. 332.59 crores (18 per cent) from Tk. 1830.61 crores to Tk. 2163.20 crores during the first half of the year ending in December, 1977. This large growth in liquidity was due entirely to expansion in domestic credit (as per IMF definition) as the foreign sector exercised contractionary influence of Tk. 108.84 crores during this period. Though the Government budget for 1977-78 did not make any provision for deficit financing, the Government had to take substantial recourse to the banking system due to substantial foodgrains imports not envisaged in the budget: the Government deficit during July-December, 1977 amounted to Tk. 82.35 crores. Simultaneously, the seasonal expansion in credit to the public sector (excluding the Government) till the end of December, 1977 was much larger at Tk. 146.69 crores than anticipated in the credit programme (Tk. 90.00 crores) on account of increased prices of jute, larger import financing, increased inventory of raw cotton by the textile mills and a sizeable excess of exports over imports under the barter trade. Reflecting larger import financing, increased prices of jute and enlarged agricultural credit due to launching of Tk. 100-Crore Special Agricultural Credit Programme from February, 1977, expansion in credit to the private sector also turned out to be much larger at Tk. 169.64 crores during this period than the original estimate of Tk. 96.00 crores in the credit programme.

7. Because of the sharp expansion in liquidity that took place in the first half of the year, credit policy was further tightened from January, 1978. The repayment schedules for jute credit were advanced from April, 1978 to January, 1978. Strict repayment schedules were also annuounced for credit to the sugar mills. Refinance window of the Bangladesh Bank for the

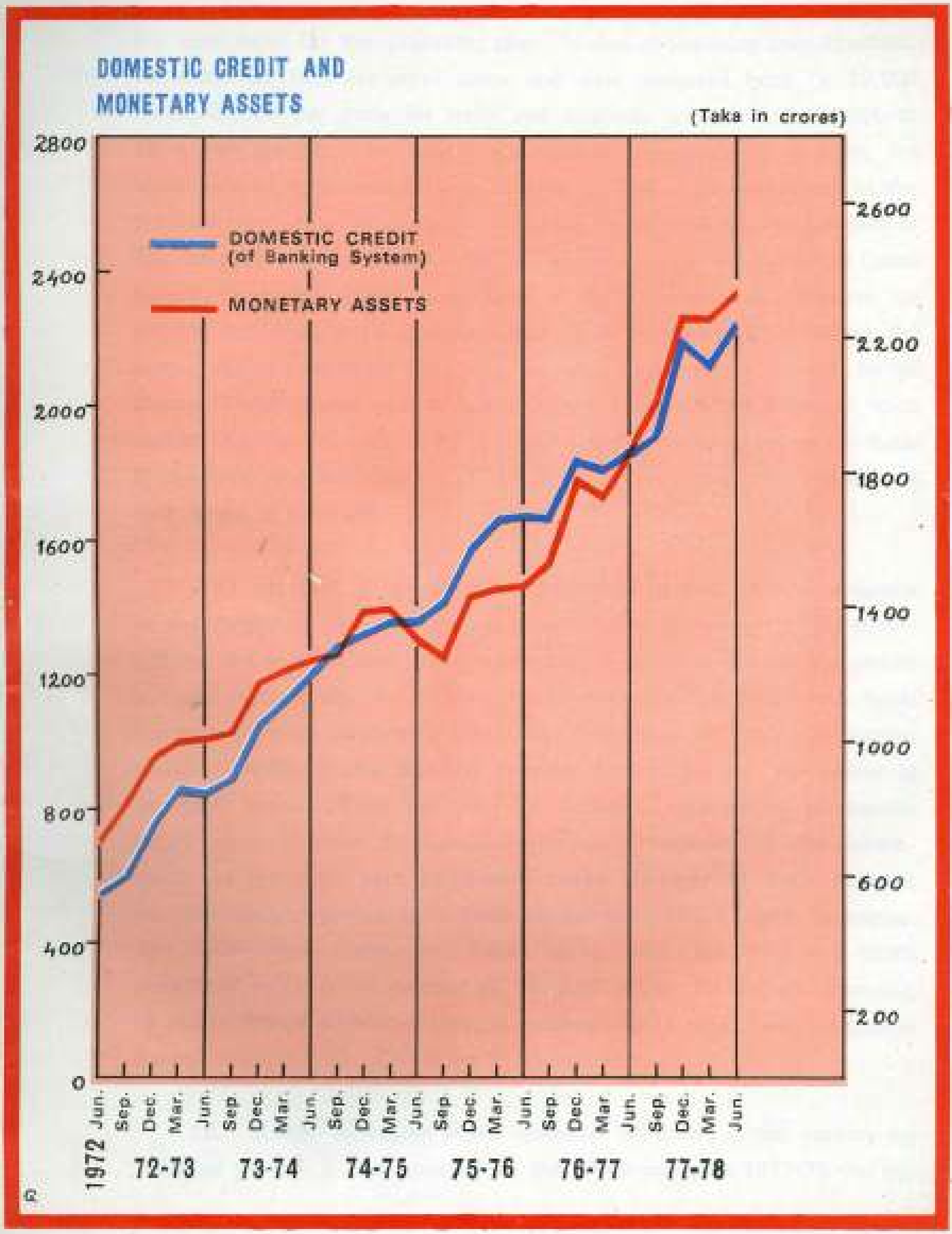
commercial banks against seasonal expansion of credit was also closed from January, 1978 and the refinance facilities extended to the commercial banks till December, 1977 were required to be retired according to an accelerated programme. Meanwhile, the Government endeavoured to cushion the increase in its expenditure by improved revenue collections and various economy measures.

8. In spite of the measures mentioned above, the domestic credit continued to expand in the second half of the year from January to June 1978, though at a much reduced rate as compared with the first half of the year. The net credit to the Government and gross credit to the public sector increased further by Tk. 31.73 crores and Tk. 32.57 crores respectively during this period. Credit to the private sector also recorded a further increase of Tk. 23.41 crores in the second half of the year. While retirement of credit in the case of the jute sector was less than programmed, credit to non-jute sector recorded a significant expansion during January-June, 1978. Continued expansion in domestic credit and a surplus of Tk. 36.21 crores in the foreign sector, partly offset by a contractionary influence from miscellaneous items, led to a further expansion of Tk. 58.06 crores in liquidity during the second half of the year.

9. Taking the year as a whole, net credit to the Government showed an expansion of Tk. 114.08 crores, compared to a contraction of Tk. 21.25 crores in the previous year. At the same time credit to the public and private sectors expanded by Tk. 179.26 crores (24%) and Tk. 193.05 crores (35%) respectively, as against increases of Tk. 33.18 crores (5%) and Tk. 165.81 crores (42%) in the preceding year. Total liquidity expanded by Tk. 390.65 crores or 21.34% which was slightly lower than the expansion of 23.83% in the preceding year. Although the rate of expansion in liquidity in 1977-78 was quite close to that of 1976-77, it is noteworthy that while in 1976-77 broad money increased at a much faster rate of 23.83% than narrow money which expanded by 10.76% only, the rates of expansion in both narrow and

broad money during the year under report were almost equal at 21.92% and 21.34% respectively. Again, out of the total increase in narrow money during the year, as much as 63.20% was accounted for by currency in circulation, as against 36.80% on account of demand deposits. As a result, at the end of June, 1978 the ratio of currency in circulation to total narrow money stood significantly higher at 41.50%, as compared to 36.73% a year ago. The ratio of currency in circulation to broad money also increased from 20.68 per cent at the end of June, 1977 to 23.48 per cent at the end of June, 1978, implying a faster growth in currency in circulation vis-a-vis deposits. It is not only that deposits grew at a slower pace relatively to currency in circulation during the year but also that there was a slowing down in the growth of bank deposits in absolute terms, particularly time deposits, during 1977-78 as compared to the last year. The increase in deposits during the year amounted to Tk. 247.84 crores only as against Tk. 313.52 crores in 1976-77. With deposits expanding at a slower pace than credit, the credit-deposit ratio of the banks stood higher at 0.83 at the end of June, 1978 as compared to 0.78 a year ago. Though the slower growth of deposits during the year could be only partly explained by the inflationary expectation in the economy, it appears that the major contributory factor was the larger flow of funds to the rural sector (where the banking habit is not yet well developed) due to higher jute prices, larger procurement of rice and paddy by the Government, sizeable increase in rural credit for agriculture and other allied activities and accelerated development expenditure in the rural areas. A sizeable deficit of Tk. 108.84 crores in the foreign sector during the year, in contrast to a surplus of Tk. 169.67 crores in the preceding year, might have also impeded the deposit growth.

10. While credit policy during the year was sought to be attuned to the need of curbing unhealthy credit expansion, efforts to attain social goals were further strengthened. The small loan target of each of the nationalised commercial banks during the year 1977-78 was revised upward to 2 per cent of deposit liabilities to be disbursed in two phases as against 1½


DOMESTIC CREDIT AND
MONETARY ASSETS
(Taka in crores)
DOMESTIC CREDIT
(of Banking System)
MONETARY ASSETS
2800
2400
2000
1600
1200
800
400
0
2600
2200
1800
1400
1000
600
200
Jun. Sep. Dec. Mar. 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
77-78

per cent fixed for the preceding year. In view of the rising price structure, the maximum limit for small loans was also increased from Tk. 25,000 to Tk. 50,000 per party for trade and business and from Tk. 50,000 to Tk. 1 lakh per party for small and cottage industries. In addition, the usual security requirements were relaxed in favour of proven skill of the borrower, his sense of honesty and integrity as well as the prospect of his business. In order to further expand the scope of the Small Loans Scheme a special credit programme of Tk. 6 crores was launched for cottage and small scale industries from 1st February, 1978. Under the programme a Committee has been set up in each district, headed by the Deputy Commissioner or Additional Deputy Commissioner (Dev.) of each district, and the financing bank sanctions and disburses loans on the basis of concrete recommendations of the District Committee as to the amount and period of the loan.

11. Further, in view of the substantial growth in time deposits in the preceding year, it appeared desirable that commercial banks should provide increased longer-term project finance to both public and private sectors. Accordingly, under arrangements made by the Bangladesh Bank, commercial banks purchased long-term debentures of semi-autonomous bodies including House Building Finance Corporation to the extent of Tk. 49.39 crores during the year for financing projects of commercial nature approved under the Annual Development Programme of the Government. At the same time, commercial banks appeared to have stepped up their participation in term financing for the private sector industries. The Nationalised Commercial Banks along with the BSB and BSRS committed to ICB an amount of Tk. 5.92 crores for project financing of public limited companies through underwriting of their shares as against the commitment of Tk. 3.84 crores in the preceding year.

12. In order to ensure wider dispersal of credit in the country for balanced growth it was stressed in the credit policy for 1977-78 that the

credit needs of the less developed/under-developed regions should be adequately met. Further, in view of the need to plough back the resources tapped from the rural areas and the importance attached to the development of the rural economy, banks were advised to increase the flow of credit to the rural/under-developed areas urgently and to aim at increasing the credit/deposit ratio in the rural areas upto 40 per cent by the end of 1977-78. Banks' efforts in this direction met with considerable success. This will be evident from the fact that 46 per cent of the deposits mobilised in rural areas as on 31st December, 1977 was deployed in rural areas against the ratio of 28 per cent as on 31st December, 1976.

13. Considerable emphasis was also placed on mobilising deposits in the rural sector. Prospects for mobilising deposits in this sector brightened up because of four important developments. First, consecutive three good crops of rice in the country, coupled with higher prices of jute in the primary market this year, improved the cash position of the surplus farmers in the rural sector. Second, generally higher prices of farm products, namely, beef-cattle, poultry, milk, eggs, onion, chillies, pulses etc., increased income of the farmers. Third, the operation of Tk. 100-Crore Special Agricultural Credit Programme resulted in increased flow of funds to the rural areas. Fourth, increased emphasis on rural development resulted in sizeable developmental outlay in the rural areas. In order to mop up the surplus funds with the farmers, interest on fixed deposits for 6 months to 1 year and above but less than 2 years was allowed at 1 per cent higher than the normal rates on deposit accounts opened by individuals in rural areas after 15th December, 1977. Total deposits collected on the enhanced interest rates amounted to more than Tk. 2 crores by the end of June, 1978. The deposit mobilisation efforts in the rural areas were also sought to be helped by opening a large number of branches in these areas. During the year scheduled banks opened as many as 691 branches in the country out of which 496 were opened in rural areas.

improve the resource position in case payments tend to exceed receipts. It is equally important for the public sector enterprises to reduce their dependence on bank borrowing through quicker turnover of credit by better inventory management and cost control. The inventory norms that have been set for credit extension to the main public sector enterprises, namely, jute, cotton textile and sugar industries, need to be strictly adhered to by them. In so far as the private sector is concerned, there has been a substantial expansion of bank credit to this sector over the last two years. This is because of the increasingly important role that the private sector is now playing in the economy. There are, however, misgivings that the extensive credit made available to the private sector has not always been productively used and the unscrupulous elements have diverted credit to purposes other than those for which it was sanctioned. This warrants stricter end-use supervision by the banks of the credit extended to the private sector.

17. Finally, turning to the developments in the external sector of the economy, it may be mentioned that during 1977-78 the gross foreign exchange reserves recorded a decline of Tk. 51.39 crores to Tk. 404.77 crores, which covers not more than two/three months' import requirements. This decline was the result of a deliberate policy to finance a liberalised import programme for increasing the availability of essential raw materials and consumer goods in the economy. The draw-down of the reserves was also partly caused by cash import of foodgrains to create an adequate stock position as a cushion against possible intensification of inflationary pressure in the event of a crop failure and consequent food shortage. The foreign exchange reserves have now come down to a level which leaves little room for further draw-down. It, therefore, follows that if the tempo of liberal import policy is to be maintained to meet the import requirements of the economy, increased export earnings should receive top priority. Although our exports at Tk. 747.72 crores during the year under report were close to the target of Tk. 750 crores fixed for the year and the major export items like jute

Tk. 100.00 crores Special Agricultural Credit Programme for development of pond fisheries. In addition, banks are providing finance for purchase of rickshaws, as also for purchase of dhekis (an indigenous instrument for paddy husking), for cow and goat fattening, etc. Though the disbursements made so far under these various schemes are of modest amounts, there is no doubt that a good beginning has been made. In the ultimate analysis the success of such non-farm lending will depend on, among other things, careful selection of borrowers with an eye on their technical expertise and sense of honesty and integrity, adequate motivation and orientation among the bank officials to break into new areas of lending for productive purpose, close supervision on the use of loans and strict enforcement of repayment discipline.

16. The double digit inflationary pressure which persisted for the two consecutive years of 1976-77 and 1977-78 is a cause of concern and underlines the need for a careful watch on the monetary and credit situation so that an excessive liquidity expansion does not threaten the balance between demand and supply in the economy. Ability to contain monetary and credit expansion within such a safe level would depend on enforcement of adequate credit discipline in both public and private sectors, as also avoidance of deficit financing by the Government. The Government budget for 1978-79 does not provide for any additional recourse to the banking system during the year. It is, however, worth mentioning that since the financing of the Annual Development Programme during 1978-79 is envisaged to be met to the extent of about 76 per cent from foreign aids and loans, any delay or shortfall in disbursement of foreign assistance may leave no alternative for the Government but to incur a deficit in its fiscal operations, if the Annual Development Programme is to remain unaffected. There may also arise a compulsion for recourse to bank borrowing by the Government in the event of a shortage of local currency resources, as was experienced in 1977-78. Government would no doubt keep the budgetary situation under constant review and take timely action through tax and other measures to

improve the resource position in case payments tend to exceed receipts. It is equally important for the public sector enterprises to reduce their dependence on bank borrowing through quicker turnover of credit by better inventory management and cost control. The inventory norms that have been set for credit extension to the main public sector enterprises, namely, jute, cotton textile and sugar industries, need to be strictly adhered to by them. In so far as the private sector is concerned, there has been a substantial expansion of bank credit to this sector over the last two years. This is because of the increasingly important role that the private sector is now playing in the economy. There are, however, misgivings that the extensive credit made available to the private sector has not always been productively used and the unscrupulous elements have diverted credit to purposes other than those for which it was sanctioned. This warrants stricter end-use supervision by the banks of the credit extended to the private sector.

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goods, tea, hides and skins etc. fared quite well, the growth of non-traditional exports slowed down to some extent, due primarily to supply constraint and marketing problems. Though concerted efforts are being made by the Government to remove these constraints with a view to accelerating the rate of expansion of non-traditional exports, nevertheless the fact remains that the traditional export items, particularly jute and jute goods, will continue to dominate the export scene for years to come. Judged in this perspective, it is crucial to maintain the competitiveness of jute goods vis-a-vis synthetic products. Since the cost of jute manufactures is substantially determined by raw jute prices, it is considered necessary to keep these prices within a reasonable level. While raw jute prices should remain attractive to the growers, it is equally important to ensure that the prices do not become so high as to disturb the competitiveness of jute manufactures. In this context utmost attention needs to be given to expanding raw jute production at cheaper cost. An Intensive Jute Cultivation Scheme has already been started by the Government to this end and no efforts should be spared to achieve the target of jute production under this scheme for coming years.

CHAPTER II

DEVELOPMENTS IN MAJOR SECTORS

DEVELOPMENTS IN MAJOR SECTORS

18. According to the preliminary estimates of the Planning Commission, the gross domestic product (G.D.P.) of Bangladesh rose by 7.8 per cent in 1977-78 as against the anticipated growth of 7 per cent during the year. This compared with the actual growth of mere 1.7 per cent during 1976-77.

Agricultural Production

19. The output in the agricultural sector as a whole increased by 7.4 per cent during 1977-78 as against a decline of 1.4 per cent during 1976-77. The share of agriculture in the G.D.P. was estimated at about 57% during 1977-78, the same as in the previous year. Production of the major crop rice increased by 12.71% to 133.23 lakh tons. Production of Aman rice increased by 7.47% to 74.21 lakh tons while the production of Aus rice rose by 3.06% to 31.03 lakh tons during the year. The output of Boro crop, on the other hand, recorded a rise of 48.48% to 24.50 lakh tons in 1977-78 as compared to 16.50 lakh tons produced during 1976-77. The output of the other important food crop wheat went up by 40.87% to 3.55 lakh tons. Raw jute production increased by about 15% to 54 lakh bales during the year. Production of tea went up by 10.27% to 81.62 million pounds during 1977-78.

Industrial Production

20. The performance of the industrial sector improved considerably during the year. Industrial production as a whole is estimated to have risen by about 10.4* per cent during 1977-78 from the level of 1976-77. As a result, the contribution of the industrial sector to the G.D.P increased to 8.43 per cent during 1977-78 as compared to 8.23 per cent

*Based on the production of the first nine months of 1977-78.

during 1976-77. The output of major industries like jute goods, cotton cloth, paper and board, newsprint, cigarettes, matches, cement, steel, sugar, tea, vegetable products and natural gas registered considerable increases during the year. The improvement occurred mainly as a result of various pragmatic policies adopted by the Government.

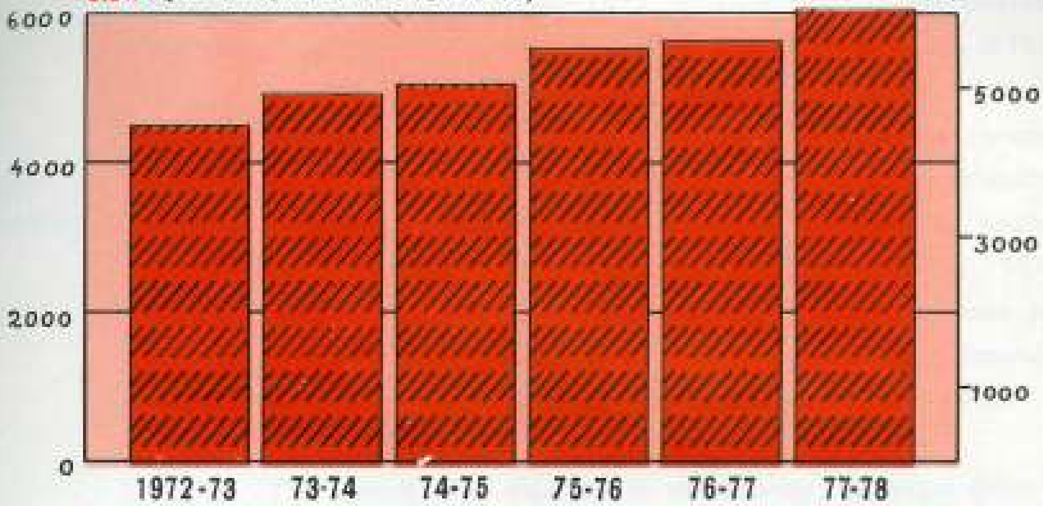
21. Production of jute goods rose by 11 per cent to 5.46[P] lakh tons during 1977-78 as compared with 4.90 lakh tons produced during 1976-77. Production of cotton yarn and cotton cloth rose to 897.66 lakh lbs. and 825.52 lakh yds. respectively during 1977-78 from 824.22 lakh lbs. and 681.24 lakh yds. during the previous year. The output of paper and board rose by 20 per cent to 41,283[P] tons during 1977-78 as compared with 34,491 tons during the preceding year. Newsprint production rose remarkably by 89 per cent to 27,632 tons during the year under report as compared with 14,587 tons during 1976-77. Sugar production also rose by 26 per cent to 1,75,267 tons during 1977-78 from 1,38,707 tons during the previous year. The output of steel rose by 30 per cent to 2,62,881 tons during 1977-78 as compared with 2,02,514 tons during 1976-77. The production of cigarettes and matches rose to 11,974 million sticks and 8114 thousand gross boxes respectively from 11,631 million sticks and 7564 thousand gross boxes during the previous year. The production of cement rose to 3,40,512 tons during 1977-78 from 3,07,666 tons during the preceding year. The output of vegetable oil products increased to 7,099 tons during 1977-78 as compared with 6,611 tons during 1976-77. Natural gas extraction rose to 34,294 million CFT in 1977-78 from the level of 32,360 million CFT during 1976-77.

22. On the other hand, the production of chemical fertilizer declined by 24 per cent to 2,55,686 tons during 1977-78 from the level of 3,37,679 tons during 1976-77, mainly due to mechanical troubles and closure of Ghorasal Fertilizer Factory for overhauling.

P= Provisional.

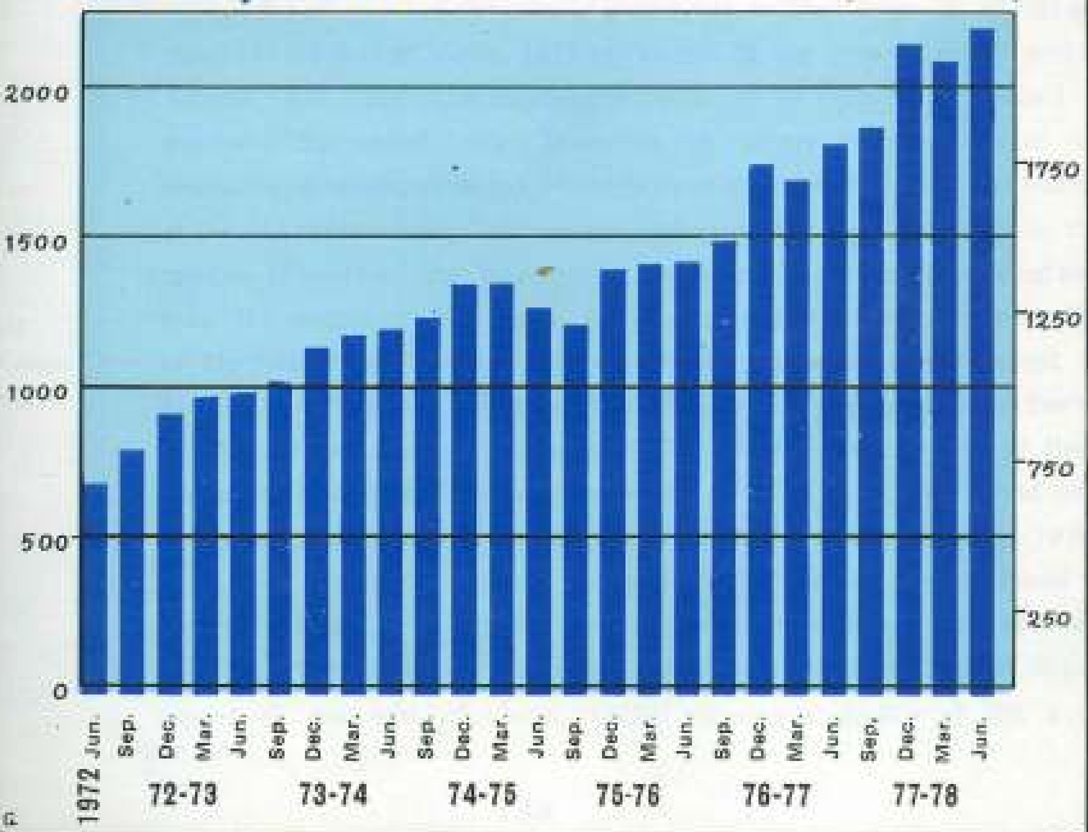
G.D.P. (AT CONSTANT 1972-73 PRICES)

(Taka in crores)



MONEY AND QUASI-MONEY

(Taka in crores)



Private Investment

23. The trend of investment in industries by the private entrepreneurs has been quite encouraging during 1977-78 mainly due to the favourable investment policy pursued by the Government. Against the provision of Tk. 191 crores in the Investment Schedule for two years ending in 1977-78, total sanctions rose sharply to Tk. 211 crores during 1977-78 alone as compared to Tk. 81 crores sanctioned during 1976-77. Out of the foreign investment proposals amounting to Tk. 20.95 crores for 20 units during the two-year period ending June, 1978 Tk. 16.16 crores was sanctioned during 1977-78 while an amount of Tk. 4.79 crores was sanctioned in the previous year. Under the policy of disinvestment, 210 units were disinvested by December, 1977 and 36 more were in the process of disinvestment by June, 1978.

Food Situation

24. The overall food situation in the country remained generally satisfactory during 1977-78. Reflecting mainly the arrival of Aus rice in the market the country average price of coarse rice declined from Tk. 147.91 per maund at the end of June, 1977 to Tk. 132.72 per maund at the end of August, 1977. The price, however, increased to Tk. 139.39 per maund at the end of September, 1977. Thereafter, the country average price of rice showed a declining trend and gradually came down to Tk. 123.67 per maund at the end of November, 1977 owing to the arrival of new Aman rice in the market. Meanwhile, the Government started the procurement drive of rice from the middle of November, 1977 at an enhanced procurement price of Tk. 132.00 per maund. As a result the price of rice increased to Tk. 130.00 per maund in December, 1977 and gradually increased further to Tk. 148.39 per maund by March, 1978. Following the arrival of Boro rice in the market the price of rice again showed a declining trend and gradually came down to Tk. 135.75 per maund at the end of June, 1978. Thus, over the year the country average price of coarse rice registered a decline of 8.22%. The country average price of medium rice also declined from Tk. 163.05 per maund at the end of June, 1977 to Tk. 154.90 per maund at the end of June, 1978, showing a decline of 5% over the year.

25. Import of foodgrains into the country during 1977-78 amounted to 17.09 lakh tons, 3.19 lakh tons of rice and 13.90 lakh tons of wheat, representing an increase of 111.50% from the level of 8.08 lakh tons of the preceding year.

26. Internal procurement of rice and paddy during 1977-78 under the Government's internal procurement scheme stood at 5.40 lakh tons in terms of rice, as compared to 3.11 lakh tons procured during 1976-77. Procurement of wheat aggregated to 11,033 tons in 1977-78 as against 2,834 tons procured during 1976-77.

Price Situation

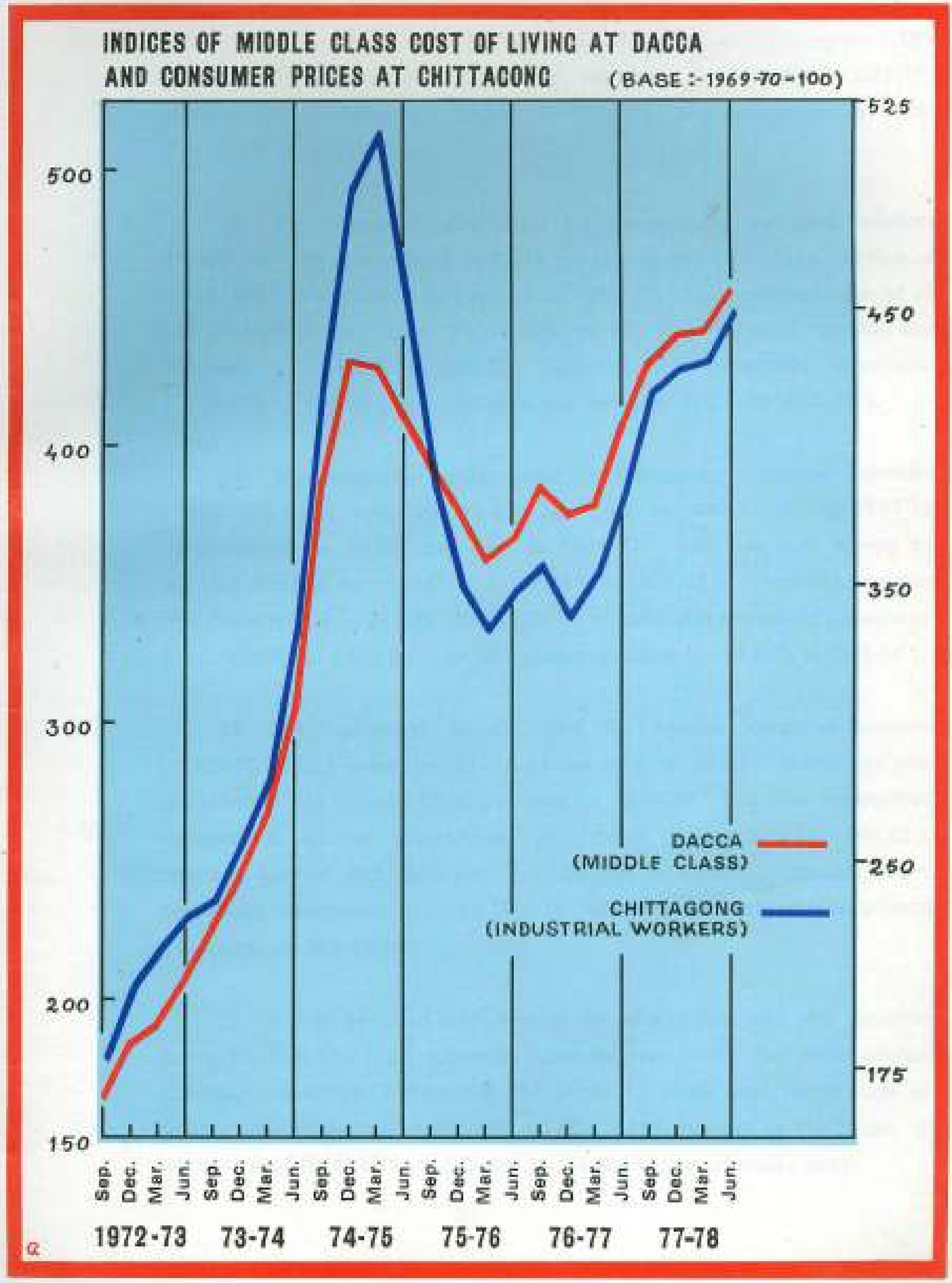
27. The overall price situation in the country showed an uptrend during 1977-78. Prices of a number of selected essential consumer items recorded notable increases. The uptrend in prices inspite of increased availability on account of higher domestic production and larger imports may be attributable mainly to a significant expansion in money supply during the year as also the increase in the international prices of imported goods.

28. The commodities which recorded significant price@ increases over the year included blades (100%), turmeric (100%), baby food (52%), vegetable oil (41%), mustard oil (40%), masur dal (17%), long cloth (16%), soyabean oil (40%), mutton (11%) and eggs (9%). On the other hand, items recording price declines included onion (43%), blended tea (30%), sugar (18%), atta (23%), coarse rice (6%), medium rice (10%) and ruhi fish (10%).

Cost of Living

29. The cost of living index for middle class people in Dacca city (1969-70=100) which stood at 407.45 in June, 1977, rose to 457.27 in June, 1978, indicating an increase of 12.23 per cent over the year as against 11.31 per cent in 1976-77. This rise was shared by all the

@ In Dacca city.



INDICES OF MIDDLE CLASS COST OF LIVING AT DACCA
AND CONSUMER PRICES AT CHITTAGONG
(BASE :- 1969-70 = 100)
525
500
450
400
350
300
250
200
175
150
DACCA
(MIDDLE CLASS)
CHITTAGONG
(INDUSTRIAL WORKERS)
Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun. Sep. Dec. Mar. Jun.
1972-73
73-74
74-75
75-76
76-77
77-78

sub-indices viz., food (+11.54% to 439.32), fuel and lighting (+ 2.18% to 409.11), housing and household requisites (+ 23.04% to 621.87), clothing and footwear (+ 13.24% to 493.20) and miscellaneous items (+ 8.25% to 407.34).

30. The consumer price index for Narayanganj industrial workers (1969-70=100) increased by 12.74 per cent to 440.15 in June, 1978 over June, 1977 as against 11.97 per cent in 1976-77. This reflected rises of all the subindices viz., 'food' (+12.68% to 420.18), 'apparel, textiles and footwear' (+ 21.23% to 568.79), 'housing and household operations' (+ 8.19% to 488.66) and miscellaneous items (+ 7.51% to 402.48).

31. The consumer price index for Chittagong industrial workers (1969-70=100) rose by 16.97 per cent to 449.11 during 1977-78 as compared to 10.52 per cent in 1976-77. The rise was shared by the sub-indices for 'food' (+ 17.38% to 435.42), 'apparel, textiles and footwear' (+ 22.08% to 543.74), 'housing and household operations' (+ 14.08% to 545.13) and miscellaneous items (+ 11.97% to 365.14).

32. The consumer price index for Khulna industrial workers (1969-70=100) went up by 11.33 per cent to 411.17 during the year under report as against 15.65 per cent in 1976-77. The rise represented increases in all the sub-indices, viz., 'food' (+ 9.27% to 395.83), 'apparel, textiles and footwear' (+ 26.29% to 480.83), 'housing and household operations' (+ 16.17% to 506.42) and miscellaneous items (+4.03% to 359.43).

33. It may be noted that although the price of rice and atta declined during the year, the 'food' sub-index recorded rise in all the major centres due mainly to marked increases in the prices of other food items such as pulses, vegetables, meat and edible oil etc. A 10% increase in the prices of rationed food items also contributed to the rise in the sub-index 'food'.

CHAPTER III

MONETARY AND BANKING DEVELOPMENTS

MONETARY AND BANKING DEVELOPMENTS

Money Supply

34. The monetary and credit situation during 1977-78 was characterised by substantial expansion in money supply, sharp expansion in credit to both private and public sectors, rise in deposit resources specially in time deposits and a decline in the country's international account. Money supply (M_1—narrow money) recorded an increase of Tk. 225.96 crores or 22 per cent to Tk. 1256.68 crores during 1977-78 as compared with the increase of Tk. 100.11 crores or 11 per cent to Tk. 1030.72 crores in the preceding year. Excepting a small decline in October, 1977, money supply during the first half of the 1977-78 financial year (July-December, 1977) showed a continuously rising trend. During this period money supply increased by as much as Tk. 222.80 crores to Tk. 1253.52 crores. During the second half of the year money supply went up, amidst fluctuations, by a further Tk. 3.16 crores to Tk. 1256.68 crores at the end of June, 1978.

35. The increase in money supply during 1977-78 was brought about largely by the credit expansion of Tk. 193.54 crores in private sector and of Tk. 185.95 crores in public sector. Other contributory factors were the sizeable deficit of Tk. 108.00 crores in the Government fiscal operations and increases of Tk. 22.39 crores and Tk. 6.08 crores on account of "miscellaneous" factors and Government currency liabilities respectively. These expansionary influences were partly neutralised by the accretion of Tk. 164.69 crores in time deposits and deficit of Tk. 125.31 crores in the country's international account.

36. An analysis of the different causative factors of the change in money supply during 1977-78 is given below :

CAUSATIVE FACTORS OF THE CHANGE IN MONEY SUPPLY (M_1)

(Taka in crores)

	30.6.77	30.6.78	Changes
1. Currency outside Banks	378.66	521.47	+ 142.81
2. Demand Deposits	652.06	735.21	+ 83.15
			+ 225.96

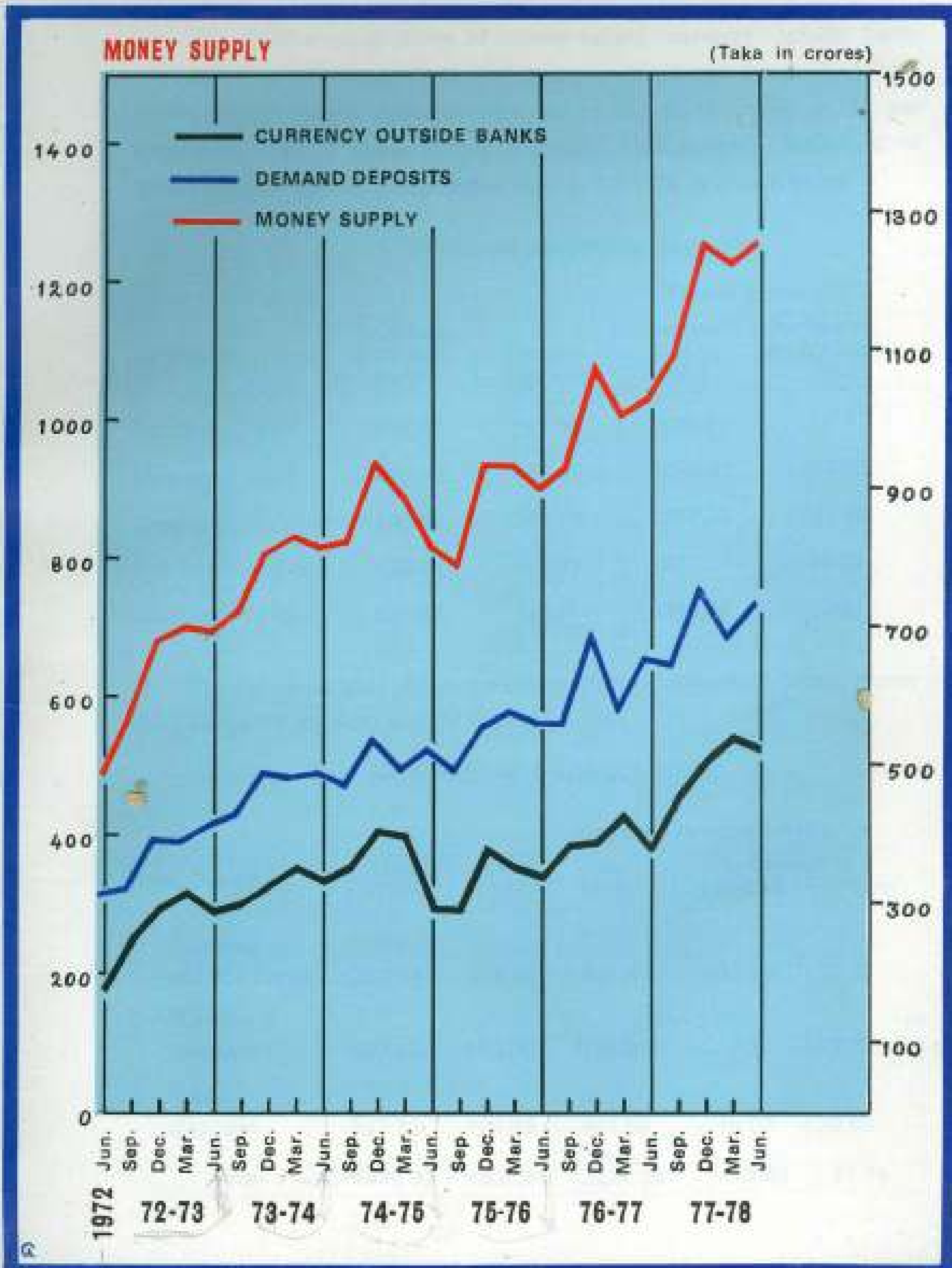
Change in Money Supply

CAUSATIVE FACTORS

Expansion (+)

Contraction (–)

A. Private Sector (Credit)	+ 193.54
B. Public Sector	+ 185.95
i) Credit to Public Sector	(+138.37)
ii) Investment in Public Sector	(+ 47.58)
C. Time Deposit with Scheduled Banks (increase–)	– 164.69
D. Government fiscal operations	+ 108.00
i) Food Ministry	(– 19.74)
ii) Others	(+127.74)
E. Government currency liabilities	+ 6.08
F. Foreign Sector	– 125.31
G. Residual items (Miscellaneous factor)	+ 22.39
Total :	**+ 225.96**


MONEY SUPPLY
(Taka in crores)
CURRENCY OUTSIDE BANKS
DEMAND DEPOSITS
MONEY SUPPLY
1400
1200
1000
800
600
400
200
0
1500
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. Sep. Dec. Mar. Jun.
1972
72-73
73-74
74-75
75-76
76-77
77-78

37. Of the components of money supply, currency outside banks recorded a net increase of Tk. 142.81 crores or 38 per cent to Tk. 521.47 crores, while demand deposits went up by Tk. 83.15 crores or 13 per cent to Tk. 735.21 crores during the year. The quarterly movement of money supply and its components during 1977-78 is shown below :

CHANGE IN NARROW MONEY

(Taka in crores)

Period	Currency Outside Banks	Demand Deposits	Money Supply (M_1)	Changes in Money Supply (M_1)
End-June, 1977	378.66	652.06	1030.72	—
End-Sept., 1977	452.63	645.39	1098.02	+ 67.30
End-Dec., 1977	503.82	749.70	1253.52	+155.50
End-March, 1978	539.34	684.93	1224.27	— 29.25
End-June, 1978	521.47	735.21	1256.68	+ 32.41

38. The following table shows the comparative movement of broad money (M_2) during FY 1976-77 and FY 1977-78 :

CHANGE IN BROAD MONEY

(Amounts in crore Taka)

Items/Period	June 1976	June 1977	June 1978	% Change in 1976-77	% Change in 1977-78
1. Currency outside Banks	339.94	378.66	521.47	+11.39	+37.71
2. Demand Deposits	590.67	652.06	735.21	+10.39	+12.75
3. Time Deposits	547.76	799.89	964.58	+46.03	+20.59
Total :	**1478.37**	**1830.61**	**2221.26**	**+23.83**	**+21.34**

It will be seen from the above table that the total broad money increased by Tk. 390.65 crores in 1977-78 as compared to Tk. 352.24 crores in 1976-77. Percent-wise, the increase was slightly lower at 21.3 per cent during the year, as against 23.8 per cent in the previous year. Of the component items, currency outside banks as stated earlier, recorded a rise of Tk. 142.81 crores or 38 per cent in 1977-78 as against 11 per cent in the previous year. The far larger expansion in currency outside banks during the year under report probably reflects increased monetary expansion in the rural areas (having comparatively less developed banking habit and inadequate banking facilities) due to the larger volume of total agricultural credit provided by banks, much higher prices of raw jute prevailing, and the larger quantity of domestic procurement of foodgrains (rice and paddy) by the Government during 1977-78 as compared to the previous year. On the other hand, it may be mentioned that time deposits or quasi-money rose by Tk. 164.69 crores or 21 per cent in 1977-78 as against a sharp rise of 46 per cent in the previous year. The slower rise in time deposits during the year could be partly due to the rising costs of living in the country. Demand deposits rose by Tk. 83.15 crores or 13 per cent in 1977-78 as against Tk. 61.39 crores or 10 per cent in the previous year. As at the end of June, 1978, currency outside banks, demand deposits and time deposits constituted 23.48%, 33.10% and 43.42% respectively of the total broad money as against 20.68%, 35.62% and 43.70% respectively at the end of the previous year.

Bank Credit

39. Outstanding bank credit of the scheduled banks recorded a substantial expansion of Tk. 300.92 crores to Tk. 1603.17 crores during 1977-78 as compared with Tk. 232.58 crores during the previous year. Of the components of bank credit, advances increased substantially by Tk. 319.23 crores to Tk. 1504.07 crores, while bills purchased and discounted declined by Tk. 18.31 crores to Tk. 99.10 crores over the year.

40. A detailed analysis of bank credit reveals that during the first month of the year (i.e. July, 1977) bank credit declined nominally by

Tk. 0.50 crore from the end June, 1977 level of Tk. 1302.25 crores. Thereafter, bank credit expanded sharply and by end February, 1978 reached the level of Tk. 1611.88 crores due to busy season influences and other factors. However, during March—May, 1978 bank credit declined by Tk. 84.99 crores to Tk. 1526.89 crores at the end of May, 1978. Bank credit rose again in June, 1978 to close the year at Tk. 1603.17 crores, indicating a net increase of Tk. 300.92 crores over the year. Quarterly movement of bank credit is shown below :

CHANGE IN BANK CREDIT

(Taka in crores)

Period	Advances	Bills	Total Credit	Advances as % of total Credit	Bills as % of total Credit
End-June, 1977	1184.84	117.41	1302.25	90.98	9.02
End-Sept., 1977	1363.69	97.25	1460.94	93.34	6.66
End-Dec., 1977	1464.67	126.96	1591.63	92.02	7.98
End-March, 1978	1437.56	124.75	1562.31	92.02	7.98
End-June, 1978	1504.07	99.10	1603.17	93.82	6.18

41. The major items against which advances registered increases were: jute manufactures (+Tk. 55.96 crores), agricultural loans of BKB (+Tk. 26.28 crores), industrial loans of BSB (+Tk. 23.93 crores), minerals and other imported goods (+Tk. 29.42 crores), raw jute (+ Tk. 27.57 crores), cotton yarn (+Tk. 19.74 crores), cotton textiles and other textiles (+Tk. 14.68 crores), real estates (+Tk. 8.43 crores) and industrial machinery (+Tk. 7.85 crores). The items against which advances registered declines were: foreign bills (—Tk. 17.21 crores), advances to the Ministry of Food (—Tk. 1.07 crores) and chemicals and dyes etc. (—Tk. 0.98 crore).

42. Scheduled banks deposits (excluding inter-bank items) recorded an expansion of Tk. 247.84 crores to Tk. 1699.79 crores during 1977-78 as compared with the increase of Tk. 313.52 crores during the preceding year. The smaller deposit growth during the year despite a larger monetary expansion can be ascribed to higher leakage in the form of currency outside banks particularly in the rural areas as has been explained in para-38 above. This indicates the need to step up deposit mobilisation efforts in the rural areas. Of the increase in total deposits, time deposits increased by Tk. 164.69 crores to Tk. 964.58 crores while demand deposits rose by Tk. 83.15 crores to Tk. 735.21 crores. As a result, the share of time deposits to total deposits increased from 55 per cent in June, 1977 to 57 per cent in June 1978. Quarterly movement of scheduled banks' deposits during 1977-78 is shown below:

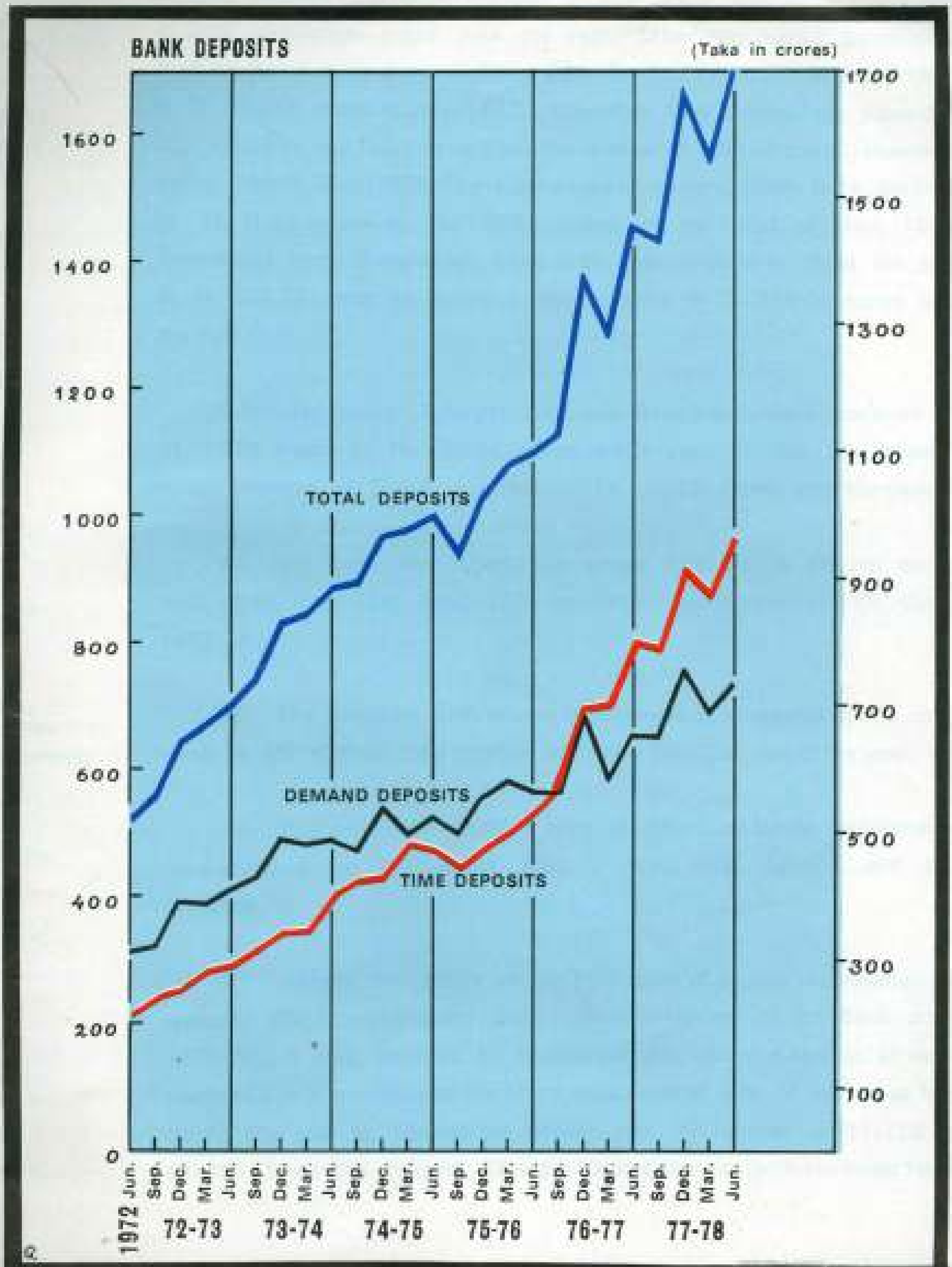
Bank Deposits

CHANGE IN BANK DEPOSITS

(Taka in crores)

Period	Demand Deposits	Time Deposits	Total Deposits	Time Deposits as % of total Deposits	Demand Deposits as % of total Deposits
End-June, 1977	652.06	799.89	1451.95	55.09	44.91
End-Sept, 1977	645.39	788.52	1433.91	55.00	45.00
End-Dec., 1977	749.70	909.68	1659.38	54.82	45.18
End-March, 1978	684.93	873.87	1558.80	56.06	43.94
End-June, 1978	735.21	964.58	1699.79	56.75	43.25

43. The liquidity position of the scheduled banks remained generally tight during 1977-78. This was mainly due to the larger increase in earning assets as compared to the rise in deposit resources. The credit/deposit ratio increased from 0.78 in June, 1977 to 0.93 in February, 1978. Thereafter,



BANK DEPOSITS
(Taka in crores)
TOTAL DEPOSITS
DEMAND DEPOSITS
TIME DEPOSITS
0
200
400
600
800
1000
1200
1400
1600
100
300
500
700
900
1100
1300
1500
1700
1972 Jun.
Sep.
Dec.
Mar.
Jun.
Sep.
Dec.
Mar.
Jun.
Sep.
Dec.
Mar.
Jun.
Sep.
Dec.
Mar.
Jun.
Sep.
Dec.
Mar.
Jun.
Sep.
Dec.
Mar.
Jun.
72-73
73-74
74-75
75-76
76-77
77-78

the ratio declined to 0.83 at the end of June, 1978, indicating a net rise of 0.05 percentage point over the year. Scheduled banks' borrowings from the Bangladesh Bank declined from Tk. 117.71 crores in June, 1977 to Tk. 110.13 crores in July, 1977. Thereafter, their borrowings expanded sharply and by end February reached the level of Tk. 260.50 crores. However, during March-May, 1978 their borrowings from Bangladesh Bank declined by Tk. 71.93 crores to Tk. 188.57 crores at the end of May, 1978. Borrowings from Bangladesh Bank rose again in June to close the year at Tk. 227.77 crores, indicating a net increase of Tk. 110.06 crores over the year.

Liquidity Position

Scheduled banks' balances with the Bangladesh Bank declined by Tk. 13.79 crores to Tk. 108.94 crores while cash in their tills recorded a net increase of Tk. 6.14 crores to Tk. 49.22 crores over the year.

Bank Rate

44. The Bank Rate which was raised from 5% to 8% per annum with effect from 21st June, 1974 remained unchanged at 8% during 1977-78.

Cash Reserve Requirement

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

Liquidity Ratio

46. The prescribed liquidity ratio of scheduled banks also remained unchanged during 1977-78 at 25% of their total demand and time liabilities.

47. Interest rate policy as an instrument of deposit mobilisation and resource allocation remained under constant review of the Bank during 1977-78. It may, interalia, be mentioned that advances against all export commodities were allowed to enjoy concessional rate of interest at 10½% during the year as against the general rate of interest at 11-12% per annum. Since the ordinary Savings Bank Accounts with chequing facility

Interest Rate

are by and large used as transaction balances, the interest on such accounts was reduced from 6% to 4½% per annum with effect from 1st August, 1977. The interest on Savings Bank Accounts without chequing facility was, however, kept unchanged at 7 per cent per annum. To encourage balanced regional development, the interest on loans an advances to industries in less developed areas was allowed to be charged at a rate not exceeding 11½% per annum. Interest on loans and advances for Chittagong Hill Tracts, continued to be charged at 11% per annum. As a drive for mobilisation of increased deposits of short-term nature from the rural areas, interest on fixed deposits opened by individuals with rural branches of banks from 15th December, 1977 with maturity period of 6 months to one year and above but less than 2 years was allowed at 1% higher than the ususal rates.

Credit Policy and Measures

48. The credit policy pursued by the Bank during the year 1977-78 provided for selective credit restrictions and extention of credit facilities particularly to the preferred sectors, retarded areas and weaker sections of the people including self-emloyed men of small means. The important measures taken during the year were as under :

(1) For meeting the credit requirements of the housing sector, commercial banks were required to extend credit facilities upto 1% of their total Demand and Time Liabilities as on last Friday of June, 1977 to the housing sector. As in the preceding year, the banks extended credit to this sector within the prescribed ceiling of Tk. 3 lacs per party against mortgage of real estates repayable over a maximum period of 7 years. In addition, a special financing programme for construction of multi-storied buildings for low and middle income group people of urban areas has been introduced at a concessional rate of interest at 5%. House Building Finance Corporation and three nationalised Commercial banks viz., Sonali, Janata and Agrani

are the financing institutions under this scheme. The loan under this programme is repayable in 25 years.

(2) A rural housing scheme was also introduced on experimental basis. This scheme provides for financing construction of low cost houses in villages under Swanirvar programme/IRDP as also in villages which have been electrified. A maximum amount of Tk. 8,000 per borrower was provided at 11% interest against mortgage of the house built or other household land repayable over a period of 20 years.

(3) Banks were required to extend credit to the extent of 1½% of their total Demand and Time Liabilities as on last Friday of June, 1977 to meet the credit requirements of the transport sector.

Small Loans

(4) Small loan targets were fixed for each of the nationalised commercial banks equivalent to half of 2% of their total Demand and Time Liabilities as on last Friday of June, 1977 and December, 1977—1% each to be disbursed during July—December, 1977 and January—June, 1978 respectively. The maximum limits of Small Loans were enhanced from Tk. 25,000 to Tk. 50,000 in case of small traders/self-employed persons and from Tk. 50,000 to Tk. 1,00,000 for small scale/cottage industries. The nationalised commercial banks were also required to disburse small loans during the year 1977-78 as per the following sectoral targets within the overall small loan target—

(i) Small Scale/Cottage Industries	50%	of the total target.
(ii) Retail Trade	25%	-do-

5—

(iii) Other self-employed Persons	20% of the total target.	
(iv) Rural electrification	5%	-do-

A Special Credit Programme of Tk. 6 crores was introduced on experimental basis effective from the 1st February, 1978 for extending loans to small and cottage industries. Under this Programme borrowers are to be selected by a District Committee constituted in each district.

(5) Limits sanctioned to Government Licensed private traders in Foodgrains against the security of rice and paddy were cancelled w.e.f. 7th July, 1977 and outstanding advances were to be retired by the 7th August, 1977.

(6) The credit restrictions on advances against existing capacity was relaxed w.e.f. 26th July, 1977 for the purpose of making advances for repair of such water transport vessels as were lying idle.

(7) Restriction was imposed on advances to Oil Mills against oil and oil seeds w.e.f. 5th August, 1977 except for lifting oil/oil seeds on cash payment against Government allotments and import of oil seeds from abroad. Effective from 19th April, 1978 banks were allowed to make advances to Oil Mills for purchase of locally produced oil seeds against the security of the same subject to 50% margin and adjustment within 30 days from the date of advance.

(8) Effective from 11th August, 1977 all advances against the security of FDR irrespective of purpose were subject to 50% margin requirement and interest on such advances was to be charged at usual rate.

(9) Effective from 26th October, 1977 margin restriction on advances against FDR was relaxed in respect of advances to Weavers' Co-operatives for the purpose of purchasing cotton yarn for distribution to weavers and the rate of margin on such advances was left to the discretion of banks. Interest on such loans was to be charged at a rate of 1% above the rate allowed on relative fixed deposits.

(10) Effective from 11th August, 1977 grant of clean advances or advaces secured by guarantee by banks was prohibited except for the purpose of financing exports without any limit or under the Small Loan Scheme upto Tk. 25,000 per party.

(11) Effective from 11th August, 1977 advances against Bangladesh Sanchaya Patra allowed for genuine business purposes only were subject to 50% margin requirement.

(12) Advances against all kinds of general merchandise for the purpose of internal trading except raw jute was subject to 50% margin w.e.f. 11th August, 1977.

(13) Effective from 11th August, 1977 advances against all imported consumer goods were required to be retired within 45 days from the date of advance.

(14) Effective from 11th August, 1977 grant of loans and advances against the security of abandoned/taken over properties disin-vested by the Government towards payment of bid money/ instalment for purchase of the same was restricted.

(15) Effective from 15th December, 1977 banks were allowed to make advances against the security of quoted shares only to

the members of Stock Exchange upto 50% of the face value of such shares and such advances are to be retired within 30 days from the date of advance.

(16) Effective from 3rd January, 1978 banks were allowed to make advances for imports under the Wage Earners' Scheme upto the full Taka value of the funds in foreign currency accounts/AIPs at the official rate of exchange, except for motor cars, air-conditioners, toilet requisites and new readymade garments where advances could be made upto 50% of the amount of foreign currency/AIPs at official rate of exchange.

(17) Effective from 20th March, 1978 banks were allowed to make clean advances upto Tk. 1,500 per party for extending electric connections to houses, shops, factories etc. to the intending borrowers in the urban areas upto the Sub-divisional level, repayable over a period not exceeding 3 years. Previously the facility was available in rural areas only.

(18) Effective from 12th April, 1978 banks have been allowed to extend credit facilities to any party for lifting of sugar allotted by the Food Department of the Government subject to 50% margin requirement and adjustment within 45 days from the date of advance.

(19) Credit norms were fixed for banks to extend credit facilities to the salt-growers and salt-dealers appointed by the Food Department for the purpose of procurement of salt from the salt-growers against hypothecation of salt at the usual rate of interest.

(20) Arrangements were made for channelising bank credit to the weavers through their primary co-operatives under a Special Programme initially covering 10 selected places.

Credit Guarantee Scheme

49. A credit Guarantee Scheme has been introduced by the Bank w.e.f. 1st March, 1978 to provide guarantees to the extent of 30% of bonafide loss sustained by the scheduled banks against advances given by them under the Small Loan Scheme other than advances for retail trade.

Cost of Finance

50. With a view to reducing the dependence of the scheduled banks on refinance facilities from the Bangladesh Bank, a system was introduced with effect from 15th November, 1975 under which the scheduled banks (BKB and BSB excepted) are charged interest on their borrowings from the Bank beyond certain limit at a higher rate of interest on a graduated scale (ranging from 1% to 3% above Bank Rate), depending on the position of net liquidity of the banks concerned. Banks having net liquidity of 20% or over are allowed to borrow at Bank Rate. The arrangement remained in force during the year 1977-78.

Basic Refinance Limit

51. The commercial banks were entitled to a basic refinance facility from Bangladesh Bank upto 5% of their total demand and time liabilities as on last Friday of June, 1977 at Bank Rate.

Other Refinance

52. Refinance was available to the commercial banks at Bank Rate against fresh small loans disbursed by them in 1977-78 as also against the increase in their outstanding small loans as on end-June, 1977, over the outstanding as on end-June, 1976. Refinance from Bangladesh Bank was also made available to commercial banks during the fiscal year 1977-78 by way of (a) rediscounting of export bills, and (b) overdraft against the security of export bills upto a limit of 20% of their total export bills purchased and discounted as on last Friday of September, 1977, at Bank Rate. Rediscounting/overdraft facilities against the export bills in respect of non-traditional exports were made available at Bank Rate upto 100% of the bills thus discounted. Any additional financing by Bangladesh Bank on account of export bills was subjected to higher rates of interest on a graduated scale (ranging from 1% to 2½% above Bank Rate).

CHAPTER IV

DEVELOPMENT OF BANKING FACILITIES AND FINANCE

DEVELOPMENT OF BANKING FACILITIES AND FINANCE

Branch Expansion

53. 691 bank branches were opened and one was closed by the Scheduled banks (nationalised commercial banks, Bangladesh Krishi Bank, Bangladesh Shilpa Bank and Foreign banks) in Bangladesh during the period from 1st July, 1977 to the 30th June, 1978. Thus the total number of Scheduled bank branches in Bangladesh stood at 2,756 as on 30th June, 1978.

Foreign Banking

54. During the period under report Bangladeshi banks opened 3 branches abroad raising the total number to 13, while the foreign banks opened 2 branches in Bangladesh during the period from lst July, 1977 to 30th June, 1978 raising the total number to 20.

Inspection of Banks

55. Inspection reports of Janata, Pubali, American Express International Banking Corporation, Grindlays Bank, Uttara Bank, Chartered Bank and State Bank of India were forwarded to them for compliance. Inspection reports relating to Sonali, Agrani and Bangladesh Shilpa Bank were in the final stage of preparation. Comprehensive inspection of 26 branches of Rupali Bank examining their position as on 3rd March, 1978 was completed and the report was under compilation.

56. Special Inspection of a large number of selected accounts at various branches of the nationalised banks was also conducted as per terms of reference of the Review Committee No. IV appointed by the Government.

57. Inspection of foreign exchange business of commercial banks is being conducted regularly by the Foreign Exchange Inspection Teams

under the direct supervision of the Inspection Division of Banking Control Department. During 1977-78 inspection of foreign exchange business of Rupali Bank, Sonali Bank, The Chartered Bank, State Bank of India, and Bangladesh Shilpa Bank was completed. Final reports on all the inspected banks have been forwarded to the banks for necessary action.

58. In addition to 8 banks, the Bangladesh Bank took over charge of 9 more banks (In Liquidation) during the year as per orders of the Hon'ble High Court. Out of the 17 banks under liquidation, Allied Bank and Jessore Banking and Trading Co. Ltd. (In Liq.) were dissolved during the year. Patuakhali Bank Ltd. (In Liq.) is also under the process of dissolution. Bangladesh Bank as the Official Liquidator is making all out efforts to realise the outstanding dues from the debtors of the defunct banks by instituting appropriate legal action. Some of the mortgaged/attached properties of the debtors were found disputed. As a result, final disposal of winding-up proceedings is being delayed. Dividend is being paid on pro-rata basis to the creditors from time to time in accordance with availability of funds of the bank concerned with prior approval of the Hon'ble High Court.

Jute Finance

59. As in the past years adequate finance from the banking system was arranged for Jute trade and Jute Mills during the 1977-78 Jute Season. The norm for jute mill finance was relaxed to cover six months' inventory of raw jute as against 3 months' stocks previously. The commercial banks sanctioned a total cash credit and packing credit limit of Tk. 374.84 crores as against Tk. 341.92 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. 302.82 crores as on 30th December, 1977 against which refinance provided by Bangladesh Bank was of the order of TK. 138.70 crores.

Finance for Sugar Mills

60. A credit line of TK. 44.00 crores was arranged from the commercial banks for the Bangladesh Sugar and Food Industries Corporation for financing production of sugar during 1977-78. Bangladesh Bank provided refinance to the extent of TK. 23.00 crores to the commercial banks for supplementing their resources for financing the sugar mills.

Tea Finance

61. A refinance limit of TK. 2.00 crores was sanctioned for financing export of tea during the year 1977-78.

Other Refinance Facilities

62. Refinance was extended to commercial banks against fresh small loans disbursed by them in 1977-78 as also against the increase in their outstanding small loans as on end June, 1977 over the outstanding as on end June, 1976. The peak level utilization was TK. 11.65 crores.

63. Tk. 6.03 crores was allowed to commercial banks as refinance against their disbursements of loans under TK. 100.00 crores Special Agricultural Credit Programme, 1977.

Other Counter Finance Facilities

64. For financing procurement and distribution of foodgrains by the Government a sum of TK. 90.00 crores was made available by the nationalised banks and a refinance limit of TK. 67.50 crores was allowed by the Bangladesh Bank during 1977-78 to the nationalised banks for supplementing the banks resources.

65. Counter Finance extended by the Bangladesh Bank to the nationalised banks for financing procurement and distribution of fertilizer by the B.A.D.C. during 1977-78 amounted to TK. 25.00 crores.

CHAPTER- V

DEVELOPMENT OF CAPITAL MARKET

DEVELOPMENT OF CAPITAL MARKET

Stock Exchange

66. To develop a sound capital market in the country, the Dacca Stock Exchange which had remained defunct since liberation was re-opened and reactivated from the middle of 1976. Since then efforts continued to remove the various bottlenecks that stand in the way of a buoyant capital market and thereby to broaden and enlarge the scope and activities of the Stock Exchange. The number of public companies listed with the Dacca Stock Exchange increased to 14 by June, 1978 from 8 at the end of 1976. Besides, Advance Import Permits (AIP) in terms of dollar and pound sterling are also regularly quoted in the Dacca Stock Exchange. The annual accounts of the Stock Exchange indicated improvement in its operational surplus : the net surplus for 1977 stood at Tk. 1.48 lakhs as compared with Tk. 0.72 lakh during 1976.

Investment Corporation of Bangladesh

67. The Investment Corporation of Bangladesh was set up in October, 1976 with the main objective of encouraging and broadening the base of investment, developing the capital market and mobilising savings. Since its inception the Corporation has been providing under-writing/debenture finance support to industrial projects of public limited companies. During the year ending June, 1978, the ICB committed Tk. 13.43 crores which included Tk. 10.46 crores worth of underwriting/bridge finance, the balance being debenture finance.

International Finance and Investment Company

68. The International Finance and Investment Company Ltd. which was established in October, 1976 obtained certificate of commencement of business on 28th February, 1977. The Company was established mainly to carry on banking and other financial business outside Bangladesh either singly or in collaboration with other companies, financial institutions

and banks with the main objective of developing and strengthening the financial relationship between Bangladesh and the world outside, especially the oil-rich Middle-East countries. The Company is reported to have earned a gross profit of Tk. 40.19 lakhs during the period ending December, 1977.

CHAPTER VI

AGRICULTURAL FINANCE

AGRICULTURAL FINANCE

Institutional Finance

69. In view of the priority given by the Government to agricultural development, Bangladesh Bank continued its policy of providing concessionary credit and counter-finance facility to the specialised credit institutions namely Bangladesh Krishi Bank (BKB) and Bangladesh Jatiya Samabaya Bank (BJSB) during 1977-78 fiscal year to enable them to extend credit to the farmers at reasonable interest rates. The amounts of credit sanctioned and disbursed by the Bank to these two institutions during the years 1976-77 and 1977-78 were as under:

(Amount in Crores of Taka)

Credit Agencies	1976-77		1977-78	
	Sanction	Disbursement	Sanction	Disbursement
Bangladesh Krishi Bank	35.87	28.30	64.03	47.90
Bangladesh Jatiya Samabaya Bank	11.29	10.92	24.82	15.57
Total:	**47.16**	**39.22**	**88.85**	**63.47**

70. Outstanding borrowings of these two institutions from Bangladesh Bank stood at Tk. 73.64 crores at the end of 1977-78 as compared to Tk. 47.48 crores at the end of 1976-77 showing an increase of Tk. 26.16 crores over the year. The institution-wise break up of the outstandings was as under:

(Amount in Crores of Taka)

Credit Agencies	1976-77	1977-78
Bangladesh Krishi Bank	35.05	56.11
Bangladesh Jatiya Samabaya Bank	12.43	17.53
Total:	**47.48**	**73.64**

Commercial Bank Finance

71. As in previous years, the Bangladesh Bank prepared an annual Agricultural Credit Programme for 1977-78. The programme was drawn up with 2 separate components, one being the normal agricultural credit programme of all agencies including BKB, the nationalised commercial banks and co-operatives and the other being Tk. 100-Crore Special Agricultural Credit Programme in which only BKB and the six nationalised commercial banks have been involved. Under the normal agricultural credit programmes of all agencies a total credit target of Tk. 112.37 crores was fixed for 1977-78 as against Tk. 84.70 crores fixed in the previous year. The agency-wise allocation of the target fixed was as under:

(Amount in Crores of Taka)

Agencies	1976-77	1977-78
Bangladesh Krishi Bank	36.35	43.23
Bangladesh Jatiya Samabaya Bank	20.00	22.00
Nationalised Commercial Banks	28.35	47.14
Total :	84.70	112.37

72. Subsequently it was decided in January, 1978 that like the Tk. 100-Crore Special Agricultural Credit Programme, the normal credit programmes of all the agencies should also be shown on calendar year basis. The annual programme was, therefore, divided into two phases, one for January-June, 1978 and the other for July-December, 1978. Normal credit programme of all the credit agencies including the Nationalised Commercial Banks for the first phase i.e., for January-June period of 1978 was fixed as under:

Bangladesh Krishi Bank	Tk. 34.52 crores
Bangladesh Jatiya Samabaya Bank	Tk. 15.00 ,,
Nationalised Commercial Banks	Tk. 26.22 ,,
Total :	Tk. 75.74 ,,

73. Total amount of credit disbursed by all the credit agencies including commercial banks under their normal credit programme during the year 1977-78 amounted to Tk. 90.88 crores as against Tk. 64.95 crores disbursed in the previous year. In addition, a total amount of Tk. 69.92 crores was disbursed by all the participating Nationalised Commercial Banks (NCBs) and Bangladesh Krishi Bank (BKB) under Tk. 100-Crore Special Programme as against Tk. 22.99 crores disbursed under the same programme in 1976-77. Thus the aggregate disbursement of agricultural credit by all the agencies during the year amounted to Tk. 160.80 crores recording an increase of 82.8% over the disbursement of Tk. 87.94 crores in the previous year as shown in the following Table:

Agency	1976-77			1977-78			% of increas
	Normal Pro-gramme	Special Pro-gramme	Total	Normal Pro-gramme	Special Pro-gramme	Total	Over previouse year
BJSB	11.33	—	11.33	17.05	—	17.05	50.49
BKB	31.68	7.12	38.80	37.29	17.84	55.13	42.09
NCBs	21.94	15.87	37.81	36.54	52.08	88.62	134.38
Total:	**64.95**	**22.99**	**87.94**	**90.88**	**69.92**	**160.80**	**82.80**

74. Out of Tk. 60.68 crores disbursed by the participating banks under Tk. 100-Crore Programme 1977, an amount of Tk. 58.15 crores fell due for recovery upto June, 1978. As against this, recoveries made by the participating banks upto the end of June, 1978 amounted to Tk. 28.11 crores constituting 48.34% of the amount due and 46.32% of the amount disbursed. In order to improve the recovery position, efforts were made to obtain maximum possible co-operation of the Government officials at different levels and also of the Union Parishads. To help recovery of the loans, the participating banks have recruited a good number of local field level assistants to contact the individual loanees. Besides, some special teams constituted

with representatives of Bangladesh Bank and participating banks visited different districts, held meetings with the Government officials as well as the Chairmen of the Union Parishads and requested them to extend full co-operation to the bank officials for recovery of the loans.

Tk. 100 Crores Special Credit Programme

75. A Special Agricultural Credit Programme of Taka 100 crores similar to that of the previous year was drawn up for the calendar year 1978. The disbursement target set for this programme at Tk. 100 crores has since been increased to Tk. 150 crores to be disbursed upto end-June, 1979.

76. Under Tk. 100-Crore Special Agricultural Credit Programme 1978, an amount of Tk. 3 crores has been earmarked for financing a programme of development of fisheries in tanks and ponds owned by private individuals and/or institutions throughout the country. The main objectives of this programme are to increase the supply of fish and increase the income of rural people. An amount of Tk. 1.35 crores has also been allocated under the programme for financing purchase of improved agricultural implements by the farmers.

77. To evaluate the Tk. 100-Crore Special Agricultural Credit Programme of 1977, two separate sample surveys were conducted, one by the Bank's own staff and the other by M/s. Robert R. Nathan Associates, Inc., a foreign firm appointed by the Bank as consultant for studying the agricultural credit system with IDA Technical Assistance Credit. The survey reports are under process of preparation.

78. The Bank under its inspection programme conducted inspection of BKB, 19 IRDP-TCCAs and one Town Co-operative Bank.

79. During the year 26 new branches were opened by the BKB raising its total number of branches to 197.

80. The consultancy firm of M/s. Robert R. Nathan Associates, Inc., assisted by the local counter-part team of experts continued their study of the agricultural credit system for its re-organisation and submitted their Phase-I and Phase-II Reports.

Study on Agricultural Credit System

81. With a view to identifying the training needs of agricultural credit personnel of the agricultural credit institutions including commercial banks and co-operatives a survey was conducted by the Bank in collaboration with Bangladesh Institute of Bank Management (BIBM) under FAO/SIDA Co-operative Programme and the Country Report prepared on the basis of this survey was submitted to FAO for considering grant of financial and technical support for development of BIBM as the apex training institute. After considering this report, FAO asked for a project proposal to be submitted with the approval of the Government.

Membership of (APRACA)

82. The Bank secured special membership for itself and Government and ordinary membership for three other banks, namely, Krishi Bank, Sonali Bank and Janata Bank in the Asian and Pacific Regional Agricultural Credit Association (APRACA) which has been formed under the auspices of FAO for establishing meaningful co-operation among various member organisations of the participating countries in the field of agricultural credit and other related matters.

CHAPTER VII

GOVERNMENT FINANCES

GOVERNMENT FINANCES

Budget for 1977-78 (Revised)

83. The Bangladesh Budget for 1977-78 envisaged revenue receipts at Tk. 1172.69 crores and revenue expenditures (non-development) at Tk. 906.31 crores, thus showing a surplus of Tk. 266.38 crores. The budget estimates for the year were subsequently revised placing the revenue receipts and expenditure at Tk. 1244.64 crores and Tk. 1035.99 crores respectively, leaving a surplus of Tk. 208.65 crores. The Revised Budget estimated a deficit of Tk. 92.30 crores in the overall budget due to a shortfall of Tk. 56.03 crores in domestic financing, increased expenditure in Food For Works Programme and the Annual Development Programme (Net) by Tk. 9.18 crores and Tk. 52.28 crores respectively. The Government's recourse to the banking system stood at Tk. 108.00 crores on the 30th June, 1978.

84. The revised budget estimates for 1977-78 showed increases in the following major heads of receipts over their original estimates ; sales tax (+Tk. 54.00 crores), nationalised banks (+Tk. 10.92 crores), nationalised industries (+Tk. 15.00 crores), stamp, forest and registration (+Tk. 9.55 crores) and customs (+Tk. 3.89 crores). However, increases in these major heads were partly offset by declines in interest receipts (—Tk. 16.00 crores), land revenue (—Tk. 5.04 crores) and other receipts (—Tk. 4.42 crores). The overall increase in the revenue receipts in the revised budget estimates stood at Tk. 71.95 crores over the original budget estimates. The increase of about Tk. 61.00 crores under tax receipts in the revised budget was due to a rise in revenue from customs, excise duties, sales tax and several other small taxes resulting from a higher level of imports and economic activity as well as improvement in tax administration. The overall increase of Tk. 11.16 crores in the revised estimates of non-tax revenue as compared to the original budget estimates represented substantial increases in profits from the

nationalised industries and banks, and modest increases in stamp, forest, registration and railway receipts, partly offset by lower interest receipts and a deterioration in the net financial position of Post Office Department and Telegraph and Telephone Board due to increases in their working expenses including salaries and wages.

85. The revenue expenditures under the revised budget for 1977-78 increased by Tk. 129.68 crores to Tk. 1035.99 crores over original estimates. The bulk of the increase in the revised budget reflected higher requirements than those envisaged in the original budget for new salary and pension benefits, subsidy payments to the Jute Mills Corporation and credits from the revenue budget to the food accounts in the capital budget reflecting cash losses on estimated sales of food stuff from stocks financed entirely with domestic resources. Expenditure on 'Defence', 'Education', 'Cultural Affairs and Sports,' 'State Railway' and subsidy on account of 'Food and Jute Mills Corporation' increased by Tk. 37.71 crores, Tk. 21.48 crores, Tk. 14.85 crores and Tk. 85.38 crores respectively in the revised estimates.

86. The size of the Annual Development Programme for 1977-78 was originally placed at Tk. 1150.65 crores on a net basis but subsequently the allocation was raised to Tk. 1202.93 crores due to an upward revision of the estimate for debenture financing from Tk. 24.40 crores to Tk. 30.02 crores and accrual of Tk. 14.56 crores as savings of some autonomous bodies. The domestic financing of the plan which was originally estimated at Tk. 295.15 crores subsequently stood lower at Tk. 239.12 crores in the revised estimate. But the net resources available through foreign assistance increased from Tk. 895.75 crores to Tk. 920.74 crores in the revised estimate.

Budget Estimate for 1978-79

87. The budget estimates for 1978-79 placed revenue receipts on the basis of existing rates at Tk. 1376.50 crores and non-development expenditure at Tk. 1053.09 crores yielding a revenue surplus of Tk. 323.41 crores. Of the total revenue receipts, customs head is estimated

to yield Tk. 489.00 crores, excise Tk. 240.00 crores, income tax, corporation tax and agricultural income tax Tk. 140.00 crores and sales tax Tk. 190.00 crores. Of the total expenditures, defence accounts for Tk. 175.60 crores while the estimate for education, cultural affairs and sports stands at Tk. 138.96 crores. Other important allocations include Railways (Tk. 79.51 crores), Police (Tk. 60.45 crores), General Administration (Tk. 41.97 crores), Health Services and Family Planning (Tk. 46.94 crores) and Other Expenditures (Tk. 93.08 crores). The size of unexpected expenditure in the budget has been estimated at Tk. 50.00 crores, as a cushion against unforeseen needs and events.

88. The size of the Annual Development Programme for 1978-79 has been estimated at Tk. 1470.47 crores on a gross basis and Tk. 1390.03 crores on net basis. This represents an acceleration of nearly 16% over the size of the revised Annual Development Programme. Out of the total development expenditure of Tk. 1470.47 crores, an amount of Tk. 192.62 crorês (13%) has been allocated to Agriculture, Tk. 146.93 crores (10%) to Flood Control and Water Resources, TK. 253.30 crores (17%) to Industries, Tk. 209.30 crores (14%) to Transport and Tk. 131.71 crores (9%) to Power. Allocation for Housing and Physical Planning, Education and Training, and Health are placed at TK. 113.84 crores, Tk. 77.49 crores, Tk. 54.20 crores or 8%, 6% and 4% respectively. Rural development sector with an allocation of Tk. 67.39 crores represented about 5 per cent of the total outlay.

89. The development budget for 1978-79 envisages that Tk. 1124.26 crores or 76% would be financed from net resources available through foreign assistance as against 70% in the preceding year.

Fiscal Measures for 1978-79

90. The main fiscal measures of the budget for 1978-79 are summarised below :—

A. Customs Duties

1. (a) The concessionary rate for industrial raw materials under the Wage Earners' Scheme has been extended to all such imports ;

(b) Duties on Wage Earners' Scheme imports of certain items importable both under normal licence and Wage Earners' Scheme have been adjusted so as to make their cost more or less at par with the normal licence imports ; and

(c) Duties on Wage Earners' Scheme imports of certain items which are exclusively importable under it have been reduced (+Tk. 1.05 crores).

2. Duty on powdered and condensed milk has been reduced from 10% to 5% (—Tk. 1.40 crores).

3. (a) Duty on auto-rickshaw has been reduced from 15% to 5% and

(b) Duty on fare meters has been reduced from 75% to 10%. (—Tk. 7.90 lakh).

4. (a) Duty on built-up taxi-cabs upto 750 c.c. has been reduced from 25% to 10%;

(b) Duty on built-up taxi-cabs exceeding 750 c.c. but not exceeding 1000 c.c. has been reduced from 25% to 15%;

(c) Duty on built-up taxi-cabs exceeding 1000 c.c. but not exceeding 1300 c.c. has been reduced from 40% to 25% ; and

(d) Duties on CKD taxi-cabs upto 750 c.c., exceeding 750 c.c. but not exceeding 1000 c.c. and exceeding 1000 c.c. but not exceeding 1300 c.c. have been reduced from 15%, and 30% to 5%, 10% and 15% respectively.

5. (a) Duty on built-up one-band radio sets has been reduced from 150% to 50%;

(b) Duty on component kits of multi-band radios has been reduced from 100% to 75%; and

(c) Duty exemption on component kits of one-band radio has been withdrawn and the duty refixed at a concessional rate of 20% (+ Tk. 37 lakhs).

6. Duties on white and coloured cement and marble chips have been reduced from 140%, 115% and 75% respectively to 50% (—Tk. 55 lakhs).

7. Duty on nuts and bolts has been reduced from 115% to 75% and machinery concession on the item withdrawn (+ Tk. 25 lakhs).

8. Duties on sodium bicarbonate, sodium bichromate and sodium hydrosulphite have been reduced from 75% and 115% respectively to 50% (—Tk. 96.53 lakhs).

9. (a) Duty on 100% synthetic fabrics excluding suitings has been raised from 175% to 225%; and

(b) Duty on mixed synthetic fabrics and 100% synthetic suitings has been enhanced from 125% to 175% (+ Tk. 4.17 crores).

10. Export duty on wet-blue leather and raw hides and skins has been raised from 10% to 15% (+ Tk. 3.25 crores).

B. Excise Duties

11. Duty at the rate of 10% advalorem has been imposed on China-ware and porcelain-ware in replacement of the 30% sale-tax which has been reduced to 10% (+ Tk. 40 lakhs).

12. Duty has been refixed on (a) jute fabrics at the rate of Tk. 300.00 per ton, (b) broadloom carpets at the rate of Tk. 5.00 per sq.yd., (c) other carpets at the rate of Tk. 2.00 per sq.yd., (d) jute mattings at the rate of 25 poisha per sq.yd. and (e) other jute manufactures at the rate of Tk. 200.00 per ton (+ Tk. 45 lakhs).

13. Duty at the rate of Tk. 1.50 per pound on rayon yarn and 5% advalorem on dilphane paper manufactured by Karnaphuli Rayon and Chemicals Ltd., has been exempted for one year (—Tk. 63.42 lakhs).

14. Duty on Ganja has been fixed at the rate of Tk. 250.00 per seer by merging the additional licence fee with duty (+Tk. 11.31 lakhs).

15. Duty on Mritasanjibani has been enhanced from Tk. 93.00 to Tk. 115.00 per L. P. G. (+ Tk. 11 lakhs).

C. Sales Tax

16. The rate of sales tax on coconut oil and portland cement imported under the Wage Earners' Scheme has been reduced from 20% to 10%. The rate of customs duty has been changed in respect of all imports under the Wage Earners' Scheme. There will be consequential effects on sales tax revenue (+ Tk. 20 lakhs).

17. Sales tax on trucks and buses imported in CKD condition has been exempted (— Tk. 221.00 lakhs).

18. The concession of machinery rate on ball-bearing and nuts and bolts has been withdrawn. These goods will now bear 20% sales-tax (+ Tk. 130.00 lakhs).

D. Income Tax

19. The minimum taxable limit of income liable to income-tax has been raised from Tk. 9,000 to Tk. 10,000 (—Tk. 40 lakhs).

20. The ceiling of investment allowance has been raised (— Tk. 10 lakhs).

21. The percentage of the tax on the basis of which additional tax under section 18A is charged has been reduced (—Tk. 10 lakhs).

22. The taxation of foreign ships has been rationalised and simplified (+ Tk. 2 crores).

23. A scheme of monetary reward as a measure of checking evasion of tax has been introduced (+ Tk. 30 lakhs).

E. Gift Tax

24. The exemption ceiling of gift to spouse and dependent relative has been raised (— Tk. 50 lakhs).

25. The annual exemption limit has been raised (— Tk. 50 lakhs).

F. Wealth Tax

26. The wealth tax rate has been restructured (— Tk. 3 lakhs)

Railway Budget for 1978-79

91. The Bangladesh Railway Budget for the year 1978-79 places revenue receipts at Tk. 61.18 crores and the net expenditure at Tk. 76.76 crores, thus showing a deficit of Tk. 15.58 crores. The total deficit might, however, stand at Tk. 18.33 crores as an amount of Tk. 2.75 crores would have to be paid as return on Government investments. This compares with revenue receipts of Tk. 59.60 crores, revenue expenditure of Tk. 73.41 crores and deficit of Tk. 13.81 crores in the 1977-78 revised estimates.

92. The allocation of Funds for a total of 46 projects during the year 1978-79 would be Tk. 45.09 crores, of which project assistance and local expenditure would be Tk. 14.50 crores and Tk. 30.59 crores respectively. Some of the important Railway projects are :

(i) Execution of the works under the Asian Development Bank aided projects for rehabilitation of Dacca—Chittagong sector would be accelerated.

(ii) 115 miles of the track would be renewed, and 135 miles of rails would be welded.

(iii) 120 miles set of points and crossing would be replaced while 116 bridge girders would be changed.

(iv) 45 steam locomotives and 6014 freight wagons would be repaired.

(v) The signalling system at 48 stations of Khulna—Darsana, Akhaura—Sylhet, Tongi—Mymensingh and Yasminpur—Natore station would be improved.

(vi) Construction of high level platform at Bipulashar, Maijdee, Adamdighi, Chatiangram, Amirgang and Ulipur would be taken in hand.

Government Borrowings

93. No new Public Loan was floated by the Government of Bangladesh during the year ended 30th June, 1978. The only outstanding Government Loan is the 5½ per cent Loan 1982 floated in October, 1972 amounting to Tk. 63,75,01,000.

94. Three months Government Treasury Bills @ 7% discount per annum stood as on 30th June, 1978 at the same level of Tk. 57.03 crores as on 30th June, 1977. These bills were re-issued every 90 days.

95. The 6% Special Treasury Bills created to replenish the cash balance of the Government increased to Tk. 444.00 crores as on 30th June, 1978 from Tk. 319.00 crores on the 30th june, 1977. The Ways an Means Advances of the Bank to the Government as on 30th June, 1978 remained unchanged at Tk. 20.00 crores. In addition to the above borrowings, Government debtor balance stood at Tk. 9,39,71,000 as on 30th June, 1978 against Tk. 9,57,10,000 on 30th June, 1977.

96. Special Treasury Bills @ 6% discount per annum offered with effect from 21st June, 1976 for sale to Non-Banking Institutions stood at Tk. 7,62,65,000 as on 30th June, 1978 as against Tk. 2,40,75,000 as on 30th June, 1977.

97. 5% Income Tax Bonds of the erstwhile Pakistan Government held by Bangladesh Nationals/Institutions Liabilities for re-validation of which have been accepted by the Governmet of Bangladesh have been revalidated for face value of Tk. 23.52 lakhs during the year ended 30th June, 1978 as against Tk. 43.24 lakhs as on 30th June, 1977.

98. The amounts of G.P. Notes/Stocks Certificates of the erstwhile Pakistan and its provincial Governments Loans and 5% Defence Bonds held by Bangladesh Nationals/Institutions Liabilities for redemption/re-validation of which have been accepted by the Government of Bangladesh stood at Tk. 12,14,79,400 as on 30th June, 1978 as against Tk. 13,69,96,600 as on 30th June, 1977.

99. The amounts of Non-Negotiable Bonds issued by the Government of the People's Republic of Bangladesh to the Share-holders of Nationalised Industries as compensation stood at Tk. 3,59,61,704 as on 30th June, 1978 as against Tk. 1,92,33,814 as on 30th June, 1977.

Bangladesh Savings Certificates and Sanchaya Patras

100. The net sales of both Bangladesh Savings Certificates and Bangladesh Sanchaya Patras in the banking sector stood at Tk. 9,17,26,970 as on 30th June, 1978 against Tk. 9,64,73,505 as on 30th June, 1977. Sales and encashments of Bangladesh Savings Certificates and Bangladesh Sanchaya Patras during the year 1977-78 were Tk. 6,40,235 and Tk. 53,86,770 respectively. The Bangladesh Sanchaya Patra with 10 years maturity period has ceased to be on sale with effect from 2nd January, 1978.

Pratirakkha Sanchaya Patras

101. The net sale of Pratirakkha Sanchaya Patras in the banking sector stood at Tk. 22,80,40,920 as on 30th June, 1978 against Tk. 16,18,20,005 as on 30th June, 1977. Sales and encashments of Pratirakkha Sanchaya Partas during the year under report were Tk. 7,10,47,250 and Tk. 48,26,335 respectively.

Bonus Sanchaya Patras and 5-year Bangladesh Sanchaya Patras

102. Two new savings schemes called Bonus Sanchaya Patras and 5-Year Bangladesh Sanchaya Patras have been introduced by the Government with effect from 2nd January, 1978 with more attractive rate of return in pursuance of Government decision for mobilization of more savings with a view to augmenting the country's budgetary resources. The Bonus Sanchaya Patra carries profit of 16.66% per annum on maturity

after 6 years and 5-year Bangladesh Sanchaya Patra carries profit of 12.20% per annum on maturity after 5 years. The total sale and encashment of Bonus Sanchaya Patras in the banking sector stood at Tk. 24,35,250 and Tk. 7,300 respectively and that of 5-year Bangladesh Sanchaya Patras stood at Tk. 90,02,150 and Tk. 7,500 respectively as on 30th June, 1978.

Prize Bonds

103. The 10-Taka Bangladesh Prize Bonds scheme which was introduced in June, 1974 continued during the year. Progressive net sales of the Prize Bonds amounted to Tk. 6,27,11,670 as on 30th June, 1978 against Tk. 4,57,01,000 as on 30th June, 1977. Fifteen series of Bonds namely A, B, C, D, E, F, G, H, J, K, L, M, N and Bengali series KA and KHA have been put on sale upto 30th June, 1978. Twenty prize draws have since been held. Draws are held on a bi-monthly basis.

CHAPTER VIII

BALANCE OF TRADE AND PAYMENTS

BALANCE OF TRADE AND PAYMENTS*

Balance of Trade and Payments

104. The balance of trade of the country markedly deteriorated during 1977-78 as compared to 1976-77. This was mainly on account of much higher imports as compared to preceding year. The deficit on the Merchandise Account (i.e., visible exports less visible imports) sharply rose to Tk. 1150.54 crores during 1977-78 from Tk. 412·97 crores during 1976-77. Similarly, the Services Account (i.e., invisible receipts less invisible payments) showed a larger deficit of Tk. 258.93 crores during 1977-78 as compared to Tk. 169.79 crores during the preceding year.

105. The balance of payments also recorded a sharp deterioration during 1977-78 with an overall deficit of Tk. 101·56 crores in contrast to a surplus of Tk. 260.70 crores during 1976-77. The reversal in payments position from a surplus to deficit was caused by a steep rise in deficit on Goods and Services Account, neutralised partly by an increase in net receipts under Unrequited Transfers and net inflow under Capital Transactions.

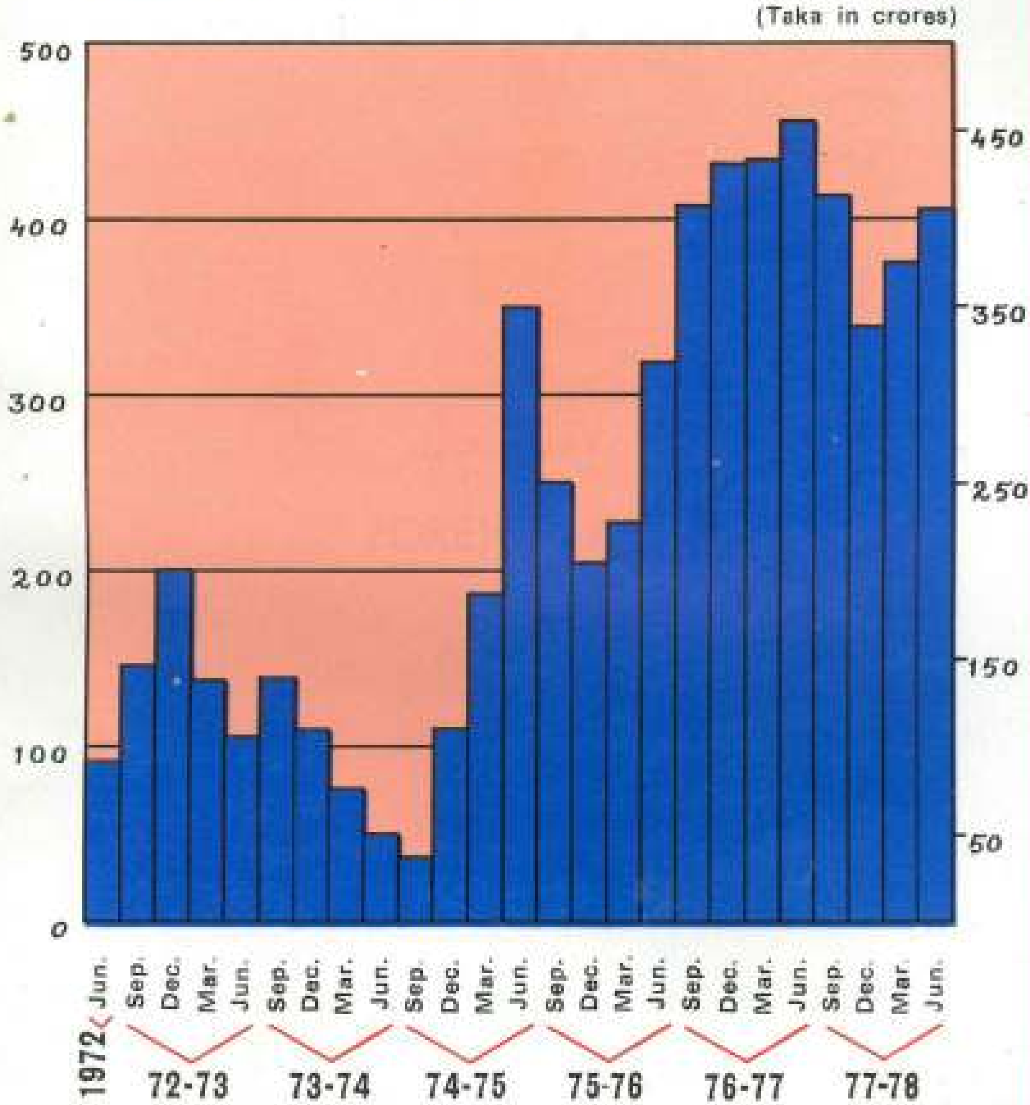
106. Foreign exchange reserves (convertible) declined by Tk. 81.57 crores to Tk. 374.59 crores at the end of March, 1978 from the end of June, 1977 level of Tk. 456.16 crores despite the receipts of Tk. 10.78 crores as special OPEC loan, Tk. 38.31 crores from the IMF under Trust Fund Facility, Kuwaiti Deposit of Tk. 30.67 crores, Iranian Deposit of Tk. 7.64 crores and Saudi Grant of Tk. 15 crores during the first nine months of 1977-78.

The factors contributing to decline in reserves of such magnitude were higher payments for imports during the nine month period of 1977-78

*Figures for 1977-78 are provisional.

including payment of Tk. 81.00 crores out of the country's own cash resources for imports of foodgrains and repurchase of SDR to the tune of Tk. 13.95 crores under the IMF's 1972 Compensatory Financing Facility of Export Fluctuations. At the end of April, 1978 the reserves rose to Tk. 424.03 crores reflecting mainly the receipts of Tk. 9.00 crores as cash grant from Abu Dhabi and Tk. 7.50 crores under IMF Gold Sales Profit during the month. Thereafter, amidst some fluctuations the foreign exchange reserves declined to Tk. 404.78 crores at the end of June, 1978. Taking the year 1977-78 as a whole, the decline in reserves was to the extent of Tk. 51.38 crores from the end-June, 1977 level.

FOREIGN EXCHANGE RESERVES



CHAPTER IX

FOREIGN AID

FOREIGN AID

107. The estimated foreign aid disbursements at $ 796 million during 1977-78 recorded a considerable increase of 58.6% from $ 502 million in 1976-77. However, the total disbursement during the year was still less than $ 919 million and $ 813 million disbursed in 1974-75 and 1975-76 respectively. A much larger amount was disbursed as food aid during 1977-78 compared with the previous year, which coupled with commercial import of food, helped build up stocks to a level of 700,000 tons at the end of the year from an opening stock level of 376,000 tons. Commodity aid disbursement also increased substantially indicating better utilisation of capacity and replenishment of inventories. Notable improvement took place in the disbursement of project aid reflecting acceleration in the implementation of aided projects. The table below gives the estimate of aid disbursements in 1977-78 and also provides comparative figures for the previous years :

Disbursement of Foreign Aid

(Million dollars)

Category	1974-75	1975-76	1976-77	1977-78 Estimate
Food Aid	375	306	107	190
Commodity Aid	299	348	187	329
Project Aid	145	129	147	254
Cash	100	30	61	23
Total :	**919**	**813**	**502**	**796**

The figures in the above table relate to gross disbursement of foreign aid. The repayment of foreign debt (excluding IMF) was estimated to be of the order of \$ 34 million in addition to interest payment of \$ 31 million. Thus, the net inflow of foreign capital amounted to \$ 731 million in 1977-78.

External Debt

108. Aid commitment during 1977-78 amounted to \$ 1,159 million which was considerably higher than the previous year's low level of \$ 657 million. The total aid commitment since independence till the end of June, 1978 is estimated at \$ 6,140 million of which \$ 2,711 million represents grants. The total disbursement during the same period has been \$ 4,313 million which leaves an opening pipeline in 1978-79 of \$ 1,837 million. The total debt service payment during 1977-78 stood at \$ 84 million, inclusive of IMF net repayment and constituted 16.7 per cent of estimated total export receipts of \$ 503 million. The total outstanding debt as on December 31, 1977 was \$ 3,504 million inclusive of an undisbursed amount of \$ 1,255 million.

CHAPTER X

TRANSACTIONS WITH IMF

TRANSACTIONS WITH IMF

109. Bangladesh made a purchase of SDR 13.38 million under the Trust Fund Facility on July 28, 1977. Another drawing amounting to SDR 8.25 million was made under the same Facility on January 26, 1978.

110. Bangladesh made the following repurchases during the year under report:

Type of the Fund's Facilities	Year of puchase	Amount of repurchase
Compensatory Financing Facility	1972-73	15.63 million SDR
First Credit Tranche (service charges)	1973-74	0.80 ,, ,,
Oil Facility Drawings	1974-75	6.52 ,, ,,
Total :		**22.95** ,, ,,

111. Outstanding drawings from the Fund stood lower at SDR 211.38 million at the end of June, 1978 as against SDR 212.70 million at the end of June, 1977.

112. Bangladesh received SDR 2.02 million on May 31, 1978 as interest subsidy under the 1975-Oil Facility and SDR 0.93 million worth of gold from the Fund under its Gold Restitution Operation. She also received SDR 4.41 million from the profits of the sale proceeds of the Fund Gold auctions. The quota of Bangladesh in the Fund was raised from SDR 125 million to SDR 152 million with effect from April 1, 1978 under its Sixth Quota Review.

CHAPTER XI

TRADE POLICY

TRADE POLICY

113. Concerted efforts were made during the year 1977-78 for boosting the volume of exports of both traditional and non-traditional goods. With this end in view some rationalisation and simplification of the export facilities extended earlier were made and certain new export promotional measures were also introduced. The new measures included (i) introduction of Export Credit Guarantee Scheme, (ii) reorganisation of Export Promotion Bureau as a semi-autonomous body to improve the services provided by them to export promotion, (iii) selecting an exportable commodity having earning prospects as the "Export Commodity of the Year", (iv) extending graduated rate of XPL to a total of 63 exportable items and (v) expansion of Banking facilities through the opening of export cell in different branches of banks.

Export Policy and Target

114. The export target for the year 1977-78 was fixed at Tk. 750.00 crores which was 20% higher than the actual export of Tk. 625.50 crores during 1976-77. Actual exports during the year 1977-78 stood at Tk. 747.72 crores, reflecting 99 per cent achievement of the target. Exports of raw jute and jute goods amounted to Tk. 144.90 crores and Tk. 371.66 crores during 1977-78 as compared to Tk. 176.54 crores and Tk. 268.62 crores respectively during 1976-77. Exports of non-traditional items also fetched a higher amount of Tk. 231.16 crores as compared to Tk. 180.34 crores during 1976-77. The decline in export earnings from raw jute as compared to the preceding year despite increase in the export price of raw jute could be attributed mainly to the lower volume of exports while higher export receipts from jute goods and non-traditional items was the combined result of increases both in volumes and export prices.

Import Policy

115. The import policies during the two shipping periods of 1977-78 aimed at augmenting domestic production and boosting exports. As against the total allocation of Tk. 1214.00 crores actual imports during the year is estimated at Tk. 1200.00 crores and was financed by Tk. 300.00 crores from commodity assistance, Tk. 80.00 crores from barter, Tk. 120.00 crores from Wage Earners' Scheme and the balance of Tk. 700.00 crores from own cash resources.

116. Among the notable features of the import policies during the year 1977-78, mention may be made of the introduction of the OGL system with respect to certain commercial items and raw materials for industries, enlargement of the Wage Earners' Scheme which included 89 items, setting of time frame for utilisation of licences both by commercial and industrial importers. In addition, the share of the T.C.B. was raised to 100 per cent in respect of imports of aluminium ingots, import of M.S. Billet was made permissible under XPL and Wage Earners' Scheme without prior permission, and at the same time the XPL scheme was enlarged to include 63 items.

117. Taking into account the export performance of 1977-78 the import policy for 1978-79 has been fixed higher at Tk. 1450.00 crores excluding foodgrains and defence imports and imports under project aid. The higher allocation is aimed at alleviating the pressure on prices in the domestic economy and at the same time facilitating fuller utilisation of industrial capacity of the country.

CHAPTER XII

TRADE AND PAYMENTS AGREEMENTS

TRADE AND PAYMENTS AGREEMENTS

118. Bangladesh entered into 9 new trade agreements with different countries during 1977-78. Of these there were 7 barter trade agreements, one transit agreement and one general trade agreement.

119. The trade protocol with the German Democratic Republic signed on July 7, 1977 for a period of one year provides for exports of raw jute, jute products, tea, tanned and semi-tanned goat skins, crushed bones, tobacco, specialised textiles, cellophane paper, rayon yarn etc. from Bangladesh and imports of typewriters, spare-parts and ribbon there of, scientific instruments and hospital equipments, pharmaceuticals, dyes and chemicals, photographic materials and X-ray films etc. from G.D.R.

120. A trade agreement was signed between Bangladesh and the Democratic People's Republic of Korea on the 12th August, 1977. Under the agreement, Bangladesh will export to Korea sugar, jute products, paper, hides and skins, soaps, medicinal herbs, glycerine and other chemicals. Bangladesh, in turn, will import from Korea cement, mild steel billets, pig iron, coal, magnesia clinker, P.V.C. and chemicals, machinery and spare parts etc.

121. Another trade protocol was concluded with Poland on the 24th September, 1977. The protocol provides for exports of raw jute and jute goods, tea, hides and skins, oil cakes and rice bran, cables, specialised textiles, coir and coir products, viscose yarn, crushed bones, molasses, handicrafts, paper and paper products etc. from Bangladesh and imports of corrugated iron sheets, dyes and chemicals, fertilizers, refractory materials, ball and ball bearings, cotton drill, construction and electrical equipments and tools, spares for saw mills, sulphur rolls etc. from Poland.

122. A barter protocol with Czechoslovakia was signed on the 21st September, 1977. Under the agreement, the exportable items from Bangladesh are raw jute and jute products, tea, leather, specialised textiles and other non-traditional items such as electric cables, glycerine, cellophane, rayon, newsprint, readymade garments, etc. The imports from Czechoslovakia include electrical equipments, diesel engines, cold storage plants, scientific and laboratory materials, dyes and chemicals, spare parts of locomotives, sulphur and hard wares etc.

123. Under an agreement signed between Bangladesh and Nepal, Bangladesh will extend to Nepal transit facilities for movement of goods from Nepal to third countries and vice versa over the territories of Bangladesh. For this purpose, Nepalese exporters and importers will appoint agents in Bangladesh who will arrange necessary facilities for transit through Bangladesh.

124. Trading Corporation of Bangladesh (TCB) entered into an agreement with the Transclear Kollerich S.A. of Switzerland on the 25th January, 1978. Under the agreement, the TCB will export tea, molasses and naptha from Bangladesh against imports of raw cotton and cotton yarn from Switzerland.

125. Bangladesh and People's Republic of China entered into a barter trade protocol on January 24, 1978. The protocol provides for exports from Bangladesh of raw jute and jute goods, hides and skins, rayon, newsprint, paper, paper products, pulps and cellophane, hard board/particle board etc. against the imports of M.S. billets, pig iron, coal, cement, dyes and chemicals, light industrial products, machineries, equipments etc. from China.

126. A barter agreement with the U.S.S.R. was signed on the 22nd February, 1978. Under this agreement, the exportable items from Bangladesh

are raw jute, jute cloth and jute bags, goat skins, tea, cables, readymade garments, cotton and hosiery goods, vegetables and fruits, coir fibre, books and periodicals, cinematographic films etc. The imports from the U.S.S.R. include spare parts for aircraft and helicopter, machinery and equipment including tractors and trailers, spare parts for Ghorasal Power Station, ball bearing, ingot moulds, rolls, pig iron, kerosene, steel billets, books and periodicals, cinematographic films etc.

127. Bangladesh-Hungary barter trade agreement which was concluded on the 8th May, 1978 provides for exports of raw jute and jute manufactures, tea, tanned/semi-tanned leather and leather products, specialised textiles, paper and newsprint, handicrafts, oilcakes, electric wire and cables, G.I. pipes, readymade garments etc. from Bangladesh against the imports of carriages, spares and bogies for railway, drugs and pharmaceutical products, photographic materials, elevators and lift spares, electrical and scientific equipments for laboratory and hospital, vehicles spare parts, hand tools, workshop equipments, locks and padlocks, aluminium ingots, cotton etc. from Hungary.

CHAPTER XIII

TRENDS IN EXPORT COMMODITIES

TRENDS IN EXPORT COMMODITIES

128. The principal commodity markets in the country were characterised by rising trend during 1977-78. Prices of raw jute, jute goods, tea, hides and skins depicted a general uptrend.

129. Estimated production of raw jute during 1977-78 season at 54.00 lakh bales was higher by 7 lakh bales than the actual production of 47.00 lakh bales during the preceding season. The improvement in production was mainly attributed to the increase in acreage under jute cultivation by 12% to 18 lakh acres which again resulted from the movement of jute/rice price ratio in favour of jute. Total availability of raw jute, however, stood lower at 56.45 lakh bales during the season as compared to 57.65 lakh bales in the preceding year due to a smaller carryover stocks of 2.45 lakh bales from the previous season. As a result, the supply position of raw jute remained rather tight during the year under report.

130. Due to tight supply position in the face of increased demand in both internal and external markets the prices of raw jute ruled at a substantially higher level than in the preceding year. The annual average price of unassorted loose jute in the country's primary markets stood higher at Tk. 156.51 per maund as compared to the indicative price of Tk. 130.00 per maund for X Bottom grade for the 1977-78 season and the average market price of Tk. 113.74 per maund reached in the preceding season. Similarly, the export price of raw jute in the international markets also recorded substantial increase over the year.

131. Arrivals of raw jute in the country's secondary markets stood higher at 49.42 lakh bales during 1977-78 as compared to 43.42 lakh bales during the previous season.

132. Export sales registration of raw jute during the season stood lower at 14.29 lakh bales as compared to 30.80 lakh bales in the preceding season. The lower export sales during the season were mainly attributable to the non-availability of certain grades of raw jute in sufficient quantities. Actual shipments of raw jute during the 1977-78 season also stood lower at 16.67 lakh bales as compared to 22.76 lakh bales in the preceding season. Total value of the export of raw jute is estimated to be Tk. 144.90 crores as against the actual receipts of Tk. 176.54 crores in the previous season.

133. The price of raw jute in the terminal market at Narayanganj for white X Bottom grade which had stood at Tk. 135.00 per maund on July 1, 1977 declined to Tk.130.00 per maund on September 30, 1977. Thereafter the price gradually increased to Tk. 195.00 per maund on February 18, 1978 and remained unchanged at that level till the close of the year under report. The prices of all grades of raw jute in the pucca bale section also showed a rising trend. The price of B. W. D. grade jute which had stood at Tk. 785.00 per bale on July 1, 1977 rose to Tk. 840.00 per bale on 9th December, 1977. The price continued to go up further and finally, rose to Tk. 1080.00 per bale on February 18, 1978 to remain steady at that level till the close of the year 1977-78.

134. The export prices of raw jute which used to be quoted in U.S. dollar were changed into pound sterling from January 30, 1978 in view of depreciation of U. S. dollar vis-a-vis pound sterling. However, the export prices of all grades of raw jute during the season depicted an increasing trend. The price of B. W. D. grade jute which had stood at £ 191 ($ 328) per ton on July 1, 1977 rose to £ 196 ($ 348)

per ton and £ 198 ($ 361) per ton respectively on the 1st and the 26th November, 1977. The price rose further to £ 210 per ton on January 30, 1978 and ruled at that level till June 30, 1978.

Jute Goods

135. The production performace of the country's jute industry denoted further improvement during 1977-78 season. The total production of jute manufactures during the season stood higher at 5.46[P] lakh tons as compared to 4.90 lakh tons in the preceding season. On an average, there were 25,748 installed looms of which 21,427 looms or 83% operated during the season. Loss of jute industry during 1977-78 is, however, estimated to have increased by about Tk. 11.47 crores to Tk. 64.00[P] crores due mainly to higher raw jute prices.

136. Export sales of jute manufactures registered with the Bangladesh Bank during 1976-78 stood lower at 5.06 lakh tons as compared with 5.21 lakh tons of the previous season. Actual exports of jute manufactures stood higher at 5.22[P] lakh tons during the season as against 4.53 lakh tons during 1976-77. The value of export of jute goods stood at Tk. 371.66 crores in 1977-78 which reflected an increase of about 39% over the actual earnings of Tk. 268.62 crores in the preceding year.

137. Stocks of finished jute goods (including sold, unsold, and stock-in-transit) as on June 30, 1978 stood lower at 0.60[P] lakh ton as compared to 0.96 lakh ton on the corresponding date of 1977.

Tea

138. The tea industry during the year 1977-78 witnessed further expansion and increase in its production. The production of tea during the year at 81.62 million lbs. was 10 per cent higher than the record crop of the preceding season. The increase in the production of tea during the 1977-78 season* was mainly attributable to (i) incentive received from the higher prices obtaining during the preceding season, (ii) favourable

P=Provisional. *Tea Season: April—March.

weather condition during the greater part of the year and (iii) removal of some production difficulties which were being experienced by tea industry in the earlier periods. Total availability of tea during 1977-78 season with a carry over of 9.00 million lbs. stood at 90.62 million lbs. as against 97.54 million lbs. which included a carry over of 23.56 million lbs. during the previous season.

139. The Chittagong tea market remained very firm during the greater part of the 1977-78 season. In all 27 auctions were held at Chittagong during the season in which a total quantity of 73.30 million lbs. of tea was sold at an average price of Tk. 8.53 per lb. This compared with 67.44 million lbs. sold at an average price of Tk. 7.71 per lb. during 1976-77 season. Internal prices of tea, however, showed a rising trend since the beginning of the new tea season from April, 1978.

140. Despite the decline in volume of tea exports during 1977-78 the foreign exchange earnings increased due to higher prices. The quantity of tea exported during 1977-78 season stood at 58.69 million lbs. valued at Tk. 65.28 crores, as against 73.54 million lbs. valued at Tk. 56.47 crores during 1976-77. The decline in the export volume was on account of tight supply position prevailing during the early months of the season when the Government had to take some restrictive measures on export of tea to ease the supply situation in the internal market. Exports of tea during the first 3 months of the current 1978-79 tea season (i.e., April-June, 1978) stood at 7.91 million lbs. valued at Tk. 7.61 crores. The target for export of tea for the 1978-79 has been fixed at 65.50 million lbs. with an estimated foreign exchange earning of Tk. 65.50 crores.

Hides and Skins

141. The hides and skins market depicted a mixed trend during the year under report. The prices of cow-hides (wet salted heavy) opening at Tk. 10,000—Tk. 12,000 per hundred pieces declined gradually to Tk. 6,000—

Tk. 7,000 per hundred pieces on the 24th October, 1977. Thereafter, the price showed a rising trend and reached the highest level at Tk. 16,000—Tk. 18,000 per hundred pieces on 13th February, 1978 but finally closed the year lower at Tk. 14,000—Tk. 14,500 per hundred pieces. The price of sheep skins, which showed generally a rising trend during the year, opened at Tk. 1,000—Tk. 1,500 and gradually rose to Tk. 2,300—Tk. 2,400 per hundred pieces by 13th March, 1978. Thereafter prices, however, declined to close the year at Tk. 2,100—Tk. 2,200 per hundred pieces. The price of goat skins, which opened at Tk. 4,500—Tk. 5,500 per hundred pieces came down to Tk. 4,000—Tk. 4,500 on 11th August, 1977 and ruled around that level upto 29th November, 1977. Thereafter, the price depicted a rising trend and reached the peak level at Tk. 4,800—Tk. 5,800 on 13th February, 1978 and finally amidst fluctuations closed the year under report at Tk. 4,200—Tk. 5,000 per hundred pieces.

142. Bulk of the exports of hides and skins during the year was in the form of tanned and semi-tanned leather. The earnings during 1977-78 from exports of leather (including hides and skins) at Tk. 70.00 crores were TK. 5.00 crores higher than the export target. The export earnings from hides and skins had stood at Tk. 59.58 crores during 1976-77.

143. Since hides and skins have bright export potentiality it has been selected as "Export product of the year" in the Export Policy of 1978-79. At the same time export of this commodity in the ready to finished form would be extended XPL at the enhanced rate of 30 per cent.

CHAPTER XIV

EXCHANGE RATE POLICY AND DEVELOPMENTS IN EXCHANGE CONTROL

EXCHANGE RATE POLICY

144. The practice of making suitable adjustments from time to time in the value of Taka, keeping in view the fluctuations in the exchange rate of pound sterling vis-a-vis other currencies in the major internatinoal markets, continued during 1977-78. In response to changes in the exchange rate relationship between the U. S. dollar and sterling rate, the official exchange rate of Taka in relation to the pound sterling was refixed on the following dates during 1977-78 in order to maintain more or less a stable cross rate of Bangladsh currency in relation to U. S. dollar.

Taka/£ Sterling Middle Rates

Period	Rate
October 17, 1977	Tk. 26.925 = £ 1.00
November 9, 1977	Tk. 27.375 = £ 1.00
December 9, 1977	Tk. 27.625 = £ 1.00
January 30, 1978	Tk. 28.725 = £ 1.00
April 24, 1978	Tk. 28.025 = £ 1.00

145. The buying and selling rates of the Bangladesh Bank were also adjusted in order to neutralise the effect of relatively minor fluctuations

between the exchange rates 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
October 17, 1977	26.90	26.90	26.95	27.0005	27.0510
November 9, 1977	27.35	27.35	27.40	27.4513	27.5027
December 9, 1977	27.60	27.60	27.65	–	27.7536
January 30, 1978	28.70	28.70	28.75	–	28.8578
April 24, 1978	28.00	28.00	28.05	–	28.1552

146. As a further measure towards maintaining stability, floor and ceiling exchange rates of Taka in relation to U. S. dollar, independent of actual cross rates, were also fixed with effect from November 17, 1977. The system envisaged a minimum return of Tk. 15.0018 to the exporters the miximum being Tk. 15.1493 per Dollar and minimum cost of Tk. 15.1810 for the importers. With effect from March 1, 1978, the floor rate for U. S. dollar was lowered to Tk. 14.7010 and the ceiling rate was withdrawn. The minimum rate was also withdrawn with effect from April 24, 1978.

DEVELOPMENTS IN EXCHANGE CONTROL

147. The following important measures were taken in the field of exchange control and management during the year under Report.

I. Amendment/Modifications of Export Regulations

(a) In order to maintain uniformity in the matter of repatriation of the export proceeds it was decided that proceeds of all goods exported from Bangladesh would be repatriated within a period of four months from the date of shipment.

(b) With a view to ensuring that the export bills are paid on due date by the foreign buyers as also to avoid loss of interest, it was decided that in all export contracts as well as letters of credit opened by the foreign buyers relating to exports of jute, jute goods, tea and hides and skins, a provision would be made that bills must be paid on due date on presentation, failing which interest for the period from the due date of payment upto the actual date of payment abroad will be on buyer's account.

(c) Consequent upon continuous fall in the value of U.S. dollar it was decided that all quotations for sale of raw jute, meshta, jute cuttings etc. would be made in pound sterling instead of U.S. dollar, effective from January 30, 1978.

II. Import Trade

To ease the problems of importers, Authorised Dealers were advised that if any letter of credit was not accepted by a foreign supplier they would be free to open fresh letter of credit within one month from the date of receipt of advice from the advising bank. The letters of credit in such cases would be valid for shipment within six months from the date of opening of the fresh letters of credit.

III. Amendment/Modification of Rules for Operation of Funds under Wage Earners' Scheme

(a) With a view to restricting irregular transfer of funds through the medium of Wage Earners' Scheme, all remittances from Bangladesh in the form of TT/MT/DD for import of goods under the Scheme were subjected to declaration of the proposed imports by the actual importers on IMP Forms. This was followed by a still stricter measure under which all imports under Wage Earners' Scheme would be required to be made through the opening of irrevocable documentary letters of credit.

(b) As a measure of widening the scope of inward remittances under the Wage Earners' Scheme, certain new types of foreign exchange earnings of Bangladesh nationals have been brought under the Scheme. These include honorarium, royalty etc., received by Bangladesh Authors, Newspaper stringers on their foreign publications and despatches, remittances received from research or consultancy work and special studies carried out abroad by Bangladeshi firms.

(c) In order to sell foreign exchange remittances under Wage Earners' Scheme at competitive rates, a Committee known as "Wage Earners' Fund Disposal Committee" was set up at Dacca with representatives of Bangladesh Bank, Sonali Bank, Janata Bank and Grindlays Bank with effect from Ist November, 1977.

IV. Travel Policy

(a) With a view to allowing necessary personal contacts of the business community with their foreign counterparts travel policy was considerably liberablised to allow business travel facility to the export brokers of jute goods as admissible to other exporters.

(b) Importers of capital machinery including ships were also made eligible for business travel facility provided the import is for any approved project.

(c) Bangladeshi construction firms, Law and Management Consultants and Chartered Accountants, intending to explore business prospects abroad were made eligible for business travel quota.

(d) Travel quota under Wage Earners' Scheme was increased from £ 25/– to £ 100/– for India, Pakistan, Sri Lanka, Burma and Nepal once in a year. In case of other countries the limit was raised from U. S. $ 300.00 to £ 300.00 per person per visit.

V. Hajj Arrangement

For extending travel facility and release of foreign exchange quota to the Hajj pilgrims, necessary arrangement was made for issue of drafts expressed in Saudi Riyals to the pilgrims through booths set up by the nationalised banks in the Hajee Camps. The pilgrims were also allowed to take additional amount of foreign exchange upto U. S. $ 300.00 from foreign Currency Account under the Wage Earners' Scheme. In addition, pilgrims selected outside the official list/Hajj ballot were accorded the facility of availing foreign exchange upto U . S . $ 750.00 per head from the foreign Currency Account under the Wage Earners' Scheme.

VI. Promotion of Tourism

Keeping in view the difficulties which a tourist faces in the matter of reconversion of his unspent Taka balances while leaving the country, the previous limit of Tk. 250.00 had been raised to Tk. 500.00 or upto 25% of total encashment whichever is less.

VII. New Exchange control Manual

For guidance of the Authorised Dealers, the first edition of Exchange Control Manual (1977-Edition) was brought out during the year under report. The Manual incorporated exchange control rules, regulations and instructions issued upto December 31, 1976. Separately, a booklet summarising the exchange control regulations in Bangladesh was also brought out for convenience of the general public.

CHAPTER XV

ASIAN CLEARING UNION

ASIAN CLEARING UNION

148. Transaction under the Asian Clearing Union during the year 1977-78 was very limited. In all 23 inward remittances for a total amount of AMU 37,390.54 (Tk. 6,65,751.93) were received and all of them were from Sri Lanka. On the other hand, only 1 outward remittance for a sum of AMU 12,548.98 (Tk. 2,24,724.62) was effected from Bangladesh to Sri Lanka.

149. Efforts were being made to route more transactions through the Union. The settlement of payments through the Asian Clearing Union Arrangements relating to export of commodities other than raw jute, jute goods and tea from Bangladesh to the participating countries were made obligatory with effect from January 1, 1978.

CHAPTER XVI

CURRENCY AND COINAGE

CURRENCY AND COINAGE

New Bank Notes

150. New 100-Taka Bank-Notes printed on superior quality bank-note paper with a security thread and mould-made water mark were put into circulation with effect from 15th December, 1977. The main design feature of the note is an engraved picture of the "Star Mosque" on the obverse and a picture of the "Lalbag Fort" on the reverse. The predominant colour of the note is blue.

151. New 5-Taka Bank-Notes printed on similar superior quality paper as the 100-Taka Notes were also put into circulation with effect from 2nd May, 1978. These notes are of similar designs and specifications as the existing 5-Taka Note except for the picture of the "Star Mosque" which has been replaced with the picture of the "Mihrab" of Kusumba Mosque. The predominant colour of the new note is dark brown.

Coinage

152. Bangladesh coinage with completely new designs were put to circulation during the year, the 5-Poisha and 50-Poisha coins with effect from 2nd January, 1978, the 10-Poisha and 25-Poisha coins with effect from 25th March, 1978 and 1st February, 1978 respectively.

153. The main design of the obverse of all these coins is the National Emblem placed inside an elevated outer rim.

154. The main design of the reverse of 5-Poisha coin consists of a portion of an industrial wheel appearing on the left hand side, and a Plough and a Tractor on the right hand side.

155. On the reverse side of the 10-Poisha coin is depicted 4 human figures viz. a man, a woman and two children seated on their respective laps.

156. The main design of the reverse of 25-Poisha coin is the head of a "Royal Bengal Tiger" appearing within an inner circle.

157. In the 50-Poisha coins the corresponding main design consists of a fish, a hen, a banana and a pineapple, the entire design being surrounded by a circle.

158. Small coins in circulation as on 30th June, 1978 amounted to Tk. 13.52 crores as against Tk. 11.27 crores as on 30th June, 1977. This was in addition to Tk. 23.46 crores worth of Taka one Notes and Taka one coins in circulation as on 30th June, 1978 as against Tk. 19.63 crores on 30th June, 1977.

CHAPTER XVII

ADMINISTRATION

ADMINISTRATION

Appointments

159. Mr. Muhammad Nurul Islam was appointed as Governor of Bangladesh Bank for a period of 3 years with effect from the fore-noon of the 1st March, 1978.

160. During the year Mr. A.M.A. Muhith, Secretary, External Resources Division, Ministry of Planning was nominated by the Government as a Director of the Board in place of Mr. K. Mahmood.

161. Seven meetings of the Board of Directors and five meetings of the Executive Committee were held during 1977-78.

162. The following appointments in different grades were made during the year :

(i)	Senior Officer	...	1
(ii)	Officer Class I Selection Grade	...	1
(iii)	Officers Class I	...	4
(iv)	Officers Class II	...	2
(v)	Clerical and other staff	...	462

163. Pending revision of the Pay Scales, employees of the Bank were allowed ad-interim relief with effect from 1st July, 1977 at rates determined by the Government. Also, employees in Grade VII to X were allowed increased

house rent and further adhoc relief effective from 1st July, 1977 subject to adjustment against pay and allowances which may become due in accordance with the Government decision on Pay Committee's recommendation.

Welfare Activities

164. A sum of Tk. 87,400 was sanctioned during the year for welfare and recreational activities of the employees. Further, a sum of Tk. 86,180 was sanctioned for awarding stipend to children of 'D' category employees of the Bangladesh Bank.

Office Accommodation

165. The work of overhead bridge between Main Office and Annexe Building and construction of 2nd Annexe Building at Dacca have been approved and the necessary sub-soil investigations have been completed.

166. A Mechanical Incinerator was installed at the Main Office Premises at Dacca during 1977-78.

167. The 1st floor of Spencer's Building at 22, Motijheel Commercial Area has been taken on lease which accommodates Agriculture Study Project and Import-Export price check Division.

168. The 2nd floor of Main Office Building at Khulna has been completed during 1977-78. Construction of a dome type Incinerator at Khulna Office Premises was almost complete.

169. Construction of a shed, vault room, Police Barrack, Incinerator, Road Pavement, drainage, electrification work, sentry Boxes, wooden cash counter etc. has been completed to facilitate the opening of full-fledged Bank branch at Rajshahi.

170. Construction of a 7 storied office building with a 3 storied Annexe at Bogra is in progress.

171. 8 'G' type flats at R.K. Mission Road and 4 'G' type flats at Motijheel, Dacca have been completed and allotted to the staff during this year.

Residential Accommoda-tion

172. Construction of 40,000 gallon underground water tank at Motijheel Staff quarters has been completed during the year and another 20,000 gallon under-ground water tank at Minto Road Officer's quarters was under construction.

173. Overhead flats of G, D and H type Building at Chittagong were under construction.

174. 35 Bighas of Land at I. G. Bagan have been purchased for construction of staff/officers quarter.

Training of Bank Officials

175. The Bank made arrangement for participation of a good number of officers of the Banking Sector in different training courses/seminars in foreign countries under Technical Assistance Programmes and other programmes including courses offered by the IMF Institute, Washington.

176. Arrangements were also made for training of 51 officers of the Bank under domestic training programme organised by different Institutions in the country.

177. The Bank also conducted the In-service Training Programme for 100 newly promoted Grade-VI officers during the year. Training of the 2nd and 3rd batch of 60 officers Grade-VI (in Head Office and Dacca Office) was completed on 30th June, 1978. 18 Officers Class I of the Bank have also received In-service Training on commercial banking in 3 (three) nationalised commercial banks during the year under report.

CHAPTER XVIII

ANNUAL ACCOUNTS

ANNUAL ACCOUNTS

Issue Department

178. The Balance Sheet of the Issue Department as on 30th June, 1978 appears on page 130 of the Report.

179. Total Notes Issued as on 30th June, 1978 amounted to Tk. 534.41 crores as against Tk. 391.25 crores as on 30th June, 1977. Assets against the note-issue included Approved Foreign Exchange of Tk. 200.00 crores, Taka Coin worth Tk. 7.77 crores and Government of Bangladesh Securities worth Tk. 326.64 crores. The corresponding figures of assets against note-issue as on 30th June, 1977 were Approved Foreign Exchange of Tk. 193.00 crores, Taka Coin of Tk. 11.61 crores and Government of Bangladesh Securities of Tk. 186.64 crores.

Banking Department

180. The Balance Sheet of the Banking Department as on 30th June, 1978 appears on page 132. On the Liabilities Side, balances in the Statutory Funds have been increased by appropriation of Tk. 4.00 crores (para 184). Bank's Deposits declined to Tk. 116.13 crores as on 30th June, 1978 as against Tk. 124.58 crores as on 30th June, 1977. "Other Deposits" including I.B.R.D., I.M.F., OPEC Special Fund Deposits etc. stood at Tk. 370.75 crores as against Tk. 328.56 crores as on 30th June, 1977.

181. On the Assets Side, "Balances held outside Bangladesh" declined to Tk. 204.78 crores as on 30th June, 1978 as against Tk. 263.18 crores on the same day last year. While "Loans and Advances to Government" remained unchanged at Tk. 20.00 crores, the "Government's Debtor Balances" declined to Tk. 9.40 crores on 30th June, 1978 as against Tk. 9.57 crores as on 30th June, 1977. The "Other Loans and Advances" increased to Tk. 218.70 crores as on 30th June, 1978 as against Tk. 102.05

crores on the 30th June, 1977. The balances under Bank's investment declined to Tk. 86.78 crores as on 30th June, 1978 from Tk. 145.66 crores as on 30th June, 1977.

Profit & Loss Account

182. The Profit and Loss Account of the Bank for the year ending 30th June, 1978 appears on page 134.

183. The Profit and Loss position of the Bank for the year 1977-78 is summarised as under :

Gross earnings of the Bank	Tk.	61,42,90,807
Total Expenditure	Tk.	30,80,35,827
Profit :	**Tk.**	**30,62,54,980**

184. Out of the above profit of Tk. 30,62,54,980 a sum of Tk. 4.00 crores has been appropriated to different statutory funds and Tk. 1.00 crore credited to Credit Guarantee Fund Account and the balance of Tk. 25,62,54,980 has been transferred to the Government as surplus profit as indicated below :

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 Stabilisation Fund	Tk.	1,00,00,000
Credit Guarantee Fund	Tk.	1,00,00,000
Surplus Profit Transferred to Government	Tk.	25,62,54,980
Total :	**Tk.**	**30,62,54,980**

Appointment of Auditors

185. In terms of Article 65 (1) of the Bangladesh Bank Order, 1972 the Government have been pleased to appoint Messers Khan Wahab Shafique Rahman and Co. and Messers Howlader, Yunus and Co. Chartered Accountants as Auditors of the Bank for auditing the accounts of the Bank for the year 1977-78.

Appreciation

186. We wish to record our appreciation of the loyal and devoted services rendered by the officers and staff of the Bank during the year ending 30th June, 1978.

BALANCE SHEET

AND

PROFIT AND LOSS ACCOUNT

AS AT

30TH JUNE, 1978

BANGLADESH
BALANCE SHEET AS AT

ISSUE

LIABILITIES	TAKA	TAKA
Notes held in the Banking Department	70,28,185	
Notes in Circulation*	533,71,21,265	
Total Notes Issued		534,41,49,450
TOTAL LIABILITIES	**Tk.**	**534,41,49,450**

*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 Pakistan Currency Notes demonetised and withdrawn from circulation and physically held by the Bangladesh Bank.

BANK
30TH JUNE, 1978

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	200,00,00,000	200,00,00,000
B.	Taka Coin	7,77,13,259	
	Government of Bangladesh Securities**	326,64,36,191	
	Internal Bills of Exchange and other Commercial Papers	NIL	334,41,49,450
	TOTAL ASSETS	Tk.	534,41,49,450

**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	...	5,75,00,000
Industrial Credit Fund	...	6,50,00,000
Export Credit Fund	...	6,75,00,000
Agricultural Credit Stabilisation Fund	...	5,25,00,000
Deposits :		
(a) Government	...	NIL
(b) Banks	...	116,13,08,639
(c) Others	...	370,74,68,479
Allocation of Special Drawing Rights	...	NIL
Bills Payable	...	5,06,419
Other Liabilities	...	204,43,72,881
TOTAL LIABILITIES	Tk.	**721,61,56,418**

DEPARTMENT

ASSETS		TAKA
Notes	...	70,28,185
Taka Coin	...	984
Subsidiary Coin	...	2,146
Bills Purchased and Discounted :		
(a) Internal	...	29,00,00,000
(b) External	...	NIL
(c) Government Treasury Bills	...	120,79,06,655
Balances held outside Bangladesh*	...	204,77,78,416
Special Drawing Rights held with the International Monetary Fund	...	NIL
Loans and Advances to Government	...	20,00,00,000
Government's Debtor Balances	...	9,39,71,230
Other Loans and Advances	...	218,70,02,350
Investments	...	86,78,22,840
Other Assets	...	31,46,43,612
TOTAL ASSETS	Tk.	**721,61,56,418**

*Include Cash and Short Term Securities.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 1978

INCOME

Interest, Discount, Exchange, Commission, etc.	Tk. 61,42,90,807

EXPENDITURE

Establishment	4,93,89,052
Directors' Fees and Expenses	15,887
Auditors' Fees	15,600
Rent, Taxes, Insurance, Lighting etc.	28,27,469
Law Charges	1,46,188
Postage and Telegram Charges	9,77,041
Remittance of Treasure	10,00,876
Stationery, etc.	26,06,677
Security Printing (Cheques, Note forms etc.)	3,68,34,700
Depreciation and Repairs to Bank's property	66,26,853
Agency Charges	75,89,416
I.M.F. Charges	16,74,93,173
Interest Subsidy to Banks and Financial Institutions	15,30,687
Interest on Deposits	1,89,02,858
Interest on Staff Provident Fund	40,19,231
Contribution to Staff and Superannuation Fund	NIL
Miscellaneous Expenses	80,60,419
Net Available Balance	30,62,54,980
Total:	**Tk. 61,42,90,807**
Amount transferred to the 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 Export Credit Fund	1,00,00,000
Amount transferred to Agricultural Credit Stabilisation Fund	1,00,00,000
Amount transferred to Credit Guarantee Fund	1,00,00,000
Surplus payable to the Government	25,62,54,980
Balance carried forward	NIL
Total:	**Tk. 30,62,54,980**

RESERVE FUND ACCOUNT

By Balance on 30th June, 1977	3,00,00,000
By Transfer from Profit and Loss Account	NIL
Total:	**Tk. 3,00,00,000**

M.A. Haque	M. Ijadur Rahman	A.H. Chowdhury	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, 1978.

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-cum-Manager 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.

Howlader, Yunus & Co.
Chartered Accountants
Khan Wahab Shafique Rahman & Co.
Chartered Accountants.

Dacca, the 31st day of
July, 1978.

APPENDIX I

COMPARATIVE POSITION OF SCHEDULED BANKS

(In Crore Taka)

Particulars	Amount as on		
	30.6.77	30.6.78	29-6-79
Bank Deposits (excluding inter-bank items)	**1451.95**	**1699.79**	2113.40
Demand Deposits	652.06	735.21	883.08
Time Deposits	799.89	964.58	1230.32
Borrowings from Bangladesh Bank	117.71	227.77	352.10
Cash in hand	43.08	49.22	56.68
Balances with Bangladesh Bank	122.73	108.94	154.32
Balances with other banks in current account in Bangladesh	11.41	23.53	23.97
Money at Call and Short Notice in Bangladesh	49.90	51.32	43.36
Investment in Bangladesh	**330.85**	**389. 25**	478.99
Government Securities	244.60	254.92	287.40
Others	86.25	134.33	191.59
Bank Credit (excluding inter-bank items)	**1302.25**	**1603.17**	2042.87
Advances in Bangladesh	1184.84	1504.07	1888.02
Inland and foreign bills purchased and discounted in Bangladesh	117.41	99.10	154.85
Credit/Deposit Ratio	0.78	0.83	0.85

OFFICES OF THE BANGLADESH BANK

(As on June 30, 1978)

Head Office

DACCA

Offices At

DACCA

CHITTAGONG

KHULNA

BOGRA

RAJSHAHI

SYLHET