ANNUAL REPORT 1985 – 86

BANGLADESH BANK

BOARD OF DIRECTORS

1.	Mr. M. Nurul Islam	Chairman
2.	Mr. M. A. Beg*	Director
3.	Mr. Nuruddin Ahmed	Director
4.	Mr. Nizamuddin Haider	Director
5.	Dr. A.H. Sahadatullah	Director
6.	Dr. Md. Habibullah	Director
7.	BA-138, Major General Muhammad Abdul Latif Psc.	Director
8.	Mr. S. A. Mahmud	Director
9.	Mr. S. B. Chowdhury**	Director

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* Effective from April 29, 1986 in place of Mr. Kazi Badrul Alam.

** Effective from November 4, 1985 in place of Mr. Munir-uz-Zaman.

GOVERNOR

Mr. M. Nurul Islam

DEPUTY GOVERNORS*

Mr. M. A. Beg
Mr. A. K. M. Khalilur Rahman

EXECUTIVE DIRECTORS

Mr. Mahbubur Rahman Khan
Mr. A. T. M. Hafizur Rahman
Mr. P. K. M. A. Chowdhury
Mr. M. Mokhlesur Rahman

ECONOMIC ADVISER

Mr. A. S. M. Fakhrul Ahsan

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* Mr. A.T.M. Amin and Mr. Kazi Badrul Alam, Deputy Governors proceeded on L.P.R. with effect from 31st December, 1985 and 27th February, 1986 respectively.

HEADS OF DEPARTMENT/GENERAL MANAGERS

Mr. A. K. Matlub Ahmed	Accounts Department
Mr. S. M. Khalilur Rahman	Administration & Expenditure Department
Mr. Kamaluddin Ahmed Mr. Harinarayan Majumder	Agricultural Credit Department
Mr. M. Jafar Ahmed Chowdhury	Agricultural Credit Inspection Department
Mr. B. L. Chowdhury	Audit & Inspection Department
Mr. S.R. Karmaker Mr. Syed Ashraf Ali	Banking Control Department
Mr. R. A. Khan Mr. A. T. Ahmed Chowdhury Mr. Ataul Huq	Department of Banking Inspection
Mr. Zahid Hossain	Department of Public Relations and Publications
Mr. A.H.M. Nurul Islam Choudhuri Mr. Muhammad Mohasin Ali	Department of Research
Mr. M. A. Mannan	Engineering Department
Mr. Nizamuddin Ahmed Mr. Jahiruddin Ahmad	Exchange Control Department
Mr. Walayet Hossain	Industrial Credit Department
Mr. Md. Saleh Ahmed	Personnel Department
Vacant	Secretary's Department
Mr. A.T.M. Insanuddin Mridha	Rural Credit Project Department
Dr. M. Sohrabuddin Mr. Nurul Islam	Statistics Department
Mr. Abdur Raquib	Training Academy
Major Abul Hussain	Security Management Department
Mr. A.B.M. Mahbubul Amin Khan	Secretary, National Commission on Money, Banking and Credit

HEADS OF BRANCH OFFICES

Mr. M. A. Quasem	Motijheel Office, Dhaka
Mr. Manzur Rashid	Chittagong Office
Mr. M. Maidul Islam	Khulna Office
Mr. Mohd. Ruhul Amin	Bogra Office
Mr. Syed Feda Hossain	Rajshahi Office
Mr. M. Ruhul Amin	Sylhet Office
Mr. Alauddin Ahmed	Sadarghat Office, Dhaka

LETTER OF TRANSMITTAL
BANGLADESH BANK

DHAKA :
April 12 , 1987.

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

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, 1986.

Yours faithfully,
M. NURUL ISLAM
Governor

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CHAPTER I

WORLD ECONOMIC SETTING AND TRENDS IN BANGLADESH ECONOMY

WORLD ECONOMIC SETTING
AND
TRENDS IN BANGLADESH ECONOMY

World Economic Trends

The pace of expansion in the world economy which had gathered momentum in 1984 slowed down during 1985-86. Despite inflation rate receding further and fall in interest rates and energy prices, the world economy registered only a moderate increase in output. The slowing down of industrial countries' economy and the set-back suffered by developing countries in their efforts to achieve growth with adjustment resulted in reduced world trade, a further weakening of commodity prices and intensification of protectionist pressures. Falling export earnings in developing countries worsened the outlook for the restoration of generalized credit worthiness and resumption of a satisfactory growth performance. The substantial decline in oil prices during the period affected the oil exporting countries' growth rates adversely which, in turn, reduced their capacity for financial assistance to the developing countries.

2. Increasing recourse to trade restrictions and associated price support policies by the industrial countries depressed global demand and also led to a slump in commodity prices in the inter national market. The adverse impact of the sharp decline in world trade fell more heavily on the developing countries. Lower export possibilities for these countries not only affected the output of sectors producing internationally- traded goods and of industries ancillary thereto but also worked as a constraint on imports and consequent cut-backs in domestic activities dependent on imported inputs in many countries. As a

result, the growth rate for the developing countries also decelerated. The world economy is in a transition phase, as it adapts to a number of major changes, including a large shift in the pattern of exchange rates, sharp reduction in interest rates and energy prices and the planned strengthening of the U.S. fiscal position.

Performance of Bangladesh Economy

3. The Bangladesh economy, despite rather discouraging world economic environment and also set-back suffered domestically, performed well during 1985-86, the first year of the 3rd Five-Year Plan. The Gross Domestic Product (GDP) as estimated by the Planning Commission has grown by about 4 per cent during the year due mainly to the satisfactory growth (4.08 per cent) recorded by the agriculture sector. The overall improvement in the performance of agriculture sector during 1985-86 took place due mainly to production of jute which increased by as much as 54.0 per cent. Increased production of some other crops also contributed to the improved performance of the agriculture sector. The growth of 1.2 per cent in the industrial sector during 1985-86 was notably less than expected owing mainly to interruption in power supply and labour unrest, as output of jute goods and cotton textiles declined in particular.

4. The overall liquidity and domestic credit during the year were contained at around the programmed levels. Broad money (M_2) registered a growth of 17.1 per cent which was significantly lower than the rate of 25.62 per cent during 1984-85. Total domestic credit expanded at a slower rate of 16.64 per cent during the year as against the far larger growth of 26.21 per cent during 1984-85, while net credit to the Government declined by 5.8 per cent. The overall balance of payments registered a surplus of $ 46 million during 1985-86 in the face of a decline

in export earnings by $ 62 million, due mainly to reduced import payments by $ 283 million and increased workers' remittances by $ 114 million (to $ 555 million) as compared to the previous year. The foreign exchange reserves increased by $ 81 million over the year to $ 476 million, equivalent to 2.4 months' imports, at the end of June, 1986. However, drawings of SDR 84 million during 1985-86 under a Standby Arrangement with the IMF (for SDR 180 million) increased the reserves. Reflecting a moderate increase in import prices and the slower pace of domestic demand, the rate of inflation for the year decelerated to 9.9 per cent, well below the anticipated level of 12 per cent. In the face of continued depreciation of US dollar, our intervention currency, in the world exchange market, the taka-dollar exchange rate was adjusted downwards through a series of adjustments during the first half of the year with a view to restoring competitiveness in the external market. Later, some appreciation in the exchange rate was made in the second half. As a result of these adjustments, the taka-dollar exchange rate depreciated by 8.21 per cent from Tk. 28.00 per US dollar at the end of June, 1985 to Tk. 30.30 per US dollar at the end of June, 1986. In the secondary market also, the taka-dollar rate depreciated by 6.01 per cent from Tk. 31.28 per US dollar at the end of June, 1985 to Tk. 33.16 per US dollar at the end of June, 1986.

Third Five-Year Plan

5. The country's Third Five-Year Plan (TFYP) was launched during the year from July 1, 1985 with the broad objectives of reducing poverty, bringing down the population growth to 1.8 per cent, increasing exports and domestic savings by 5.9 per cent and 10.0 per cent respectively, attaining self-sufficiency in food production and realising an annual GDP growth of 5.4 per cent. The Plan (1985-90) envisages a total outlay of Tk. 38,600 crores of which public sector will account for

Tk. 25,000 crores while the remaining Tk. 13,600 crores is earmarked for the private sector. Of the total plan outlay, a sum of Tk. 17,572 crores or 45.52 per cent would be financed from domestic resources while the remaining amount of Tk. 21,028 crores or 54.48 per cent would come from external sources.

Adjustment and Support Measures

6. Taking stock of the developments in international economic environment and realising the vulnerability of Bangladesh economy to the vagaries of nature, the Government adopted various adjustment and support measures during 1985-86 towards realization of objectives of the Third Plan. The fiscal measures initiated in the budget for 1985-86 aimed at increasing mobilisation of domestic resources and reducing dependence on external assistance. Thorough realignment and rationalisation were made in the tax/duty structure so as to encourage entrepreneurial innovations, expand employment opportunities and increase production, and help maintain relative price stability in the economy. With a view to encouraging investment and production, a number of incentives were provided by way of tax relief/rebate in the cases of income and capital gains tax to companies. In order to increase investment in shares of companies and mobilisation of savings by banks, the general exemption limit of income from dividend of shares and interest earning from bank deposits was enhanced from Tk. 5,000 to 15,000. The period of tax holiday was extended for a further period of 5 years from July, 1985. In order to encourage formation of new companies in the industrial field, the entire capital gains arising out of transfer of land and buildings to a newly set-up industrial company has been exempted from tax provided the same is invested in

that company's equity. The capital gain accruing in the process of transformation of firms into new companies has also been made fully tax-exempt subject to investment of the same income in the new company. In order to provide inducement to investors for investing in new shares of companies, capital gains received from transfer of land and buildings by an individual has been exempted from income tax provided such income is invested in the purchase of new shares of companies enlisted with the Stock Exchange. With a view to easing transport problems in the country, investment in the transport sector was encouraged through providing 25 per cent rebate on income tax to owners of passenger buses and motor launches. For encouraging construction of residential buildings, the time period for full or partial tax exemption depending on size of the buildings was extended upto July, 1990.

7. With a view to encouraging economic activities and creating employment opportunities in the new centres of development at Zilla and Upazilla levels, arrangements were made for a block allocation of Tk.425.00 crores, in addition to Tk. 12.00 crores and Tk. 47.00 crores allocated for development of Municipal areas and Chittagong Hill Tracts area respectively in the Annual Development Programme for 1985-86. Policy measures were also adopted for reducing dependence on imported petroleum by increasing production and distribution of power and gas. Priority was attached to continued expansion of rural electrification, rural health care and Family Planning Programme. In order to raise more resources a number of new tax measures were introduced in the budget for 1985-86 which was estimated to provide additional revenue to the extent of Tk. 196.56 crores. Other non-tax revenue measures taken by the Government to mobilise resources included incfease in passport fees, airport

fees, railway fares, etc. In addition, the Government sought to achieve saving in resources by reducing expenditure on food subsidy through raising issue price of ration rice from Tk. 718.00 per quintal to Tk.737.80 per quintal on December 1, 1985 and further to Tk.775.00 per quintal on June 15, 1986. Simultaneously, the issue price of wheat was also enhanced from Tk. 463.48 to Tk. 485.50 and further to Tk. 515.00 per quintal.

8. In addition to various measures taken from time to time under the New Industrial Policy of 1982, substantial policy modifications were carried out for bringing about overall and structural improvements in the industrial sector within the policy packages adopted in the Third Five-Year Plan. Important policy packages envisaged in the Third Plan were:

a) to evolve an industrial structure suitable for development of domestic resources, thereby increasing the supply of basic and consumer goods;

b) to create new productive employment opportunities by encouraging establishment of small-scale and cottage industries throughout the country and providing improved training facilities to workers;

c) to increase production of export-oriented and import-substitution commodities; and

d) to carryout improvement of indigenous technology through research and adaptations.

9. The endeavour to expand the country's industrial sector was supported by a liberal policy for import of industrial machinery and spares as well as by ensuring adequate provisions for bank finance. The import policy for 1985-86 provided for a sum of Tk. 3217.63 crores or 69.64

per cent of total import allocation for import of industrial machinery and raw materials during the year. The rate of interest on loans and advances to industrial projects for a period of 5 years and above and working capital loans was reduced from 14.5 per cent to 14 per cent per annum on March 1, 1986. The rate of interest on working capital loans to jute and jute spinning mills which was fixed at 14 per cent per annum on March 16, 1986 was further reduced to 12 per cent per annum on June 1, 1986. The rate of interest on post import advances against industrial imports under barter was reduced by 1 per cent to 11.5 per cent per annum on July 1, 1985 and further to 11 per cent per annum on March 1,1986 as against 15 per cent per annum for commercial importers.

10. To make available adequate funds for financing agricultural operations a separate programme for agricultural credit was continued during 1985-86. The Annual Crop Credit System introduced last year for ensuring orderly flow of credit to farmers was also continued during the year. However, slow rate of recovery of credit in the agricultural sector has become a serious problem for the banks to continue financing of agricultural operations at the required scale. Because of large-scale default the banks could not sanction fresh agricultural loans to those who have not fully repaid their past outstanding. As a result, despite a larger target of Tk.1275.00 crores the amount disbursed during 1985-86 stood significantly lower at Tk. 564.62 crores as compared to Tk. 1149.84 crores during 1984-85. The amount of recovery at Tk. 610.39 crores during the year was only 28.5 per cent of the amount due for recovery. However, efforts to improve the rate of recovery was strengthened during the year. The Government continued to provide price support to the growers through

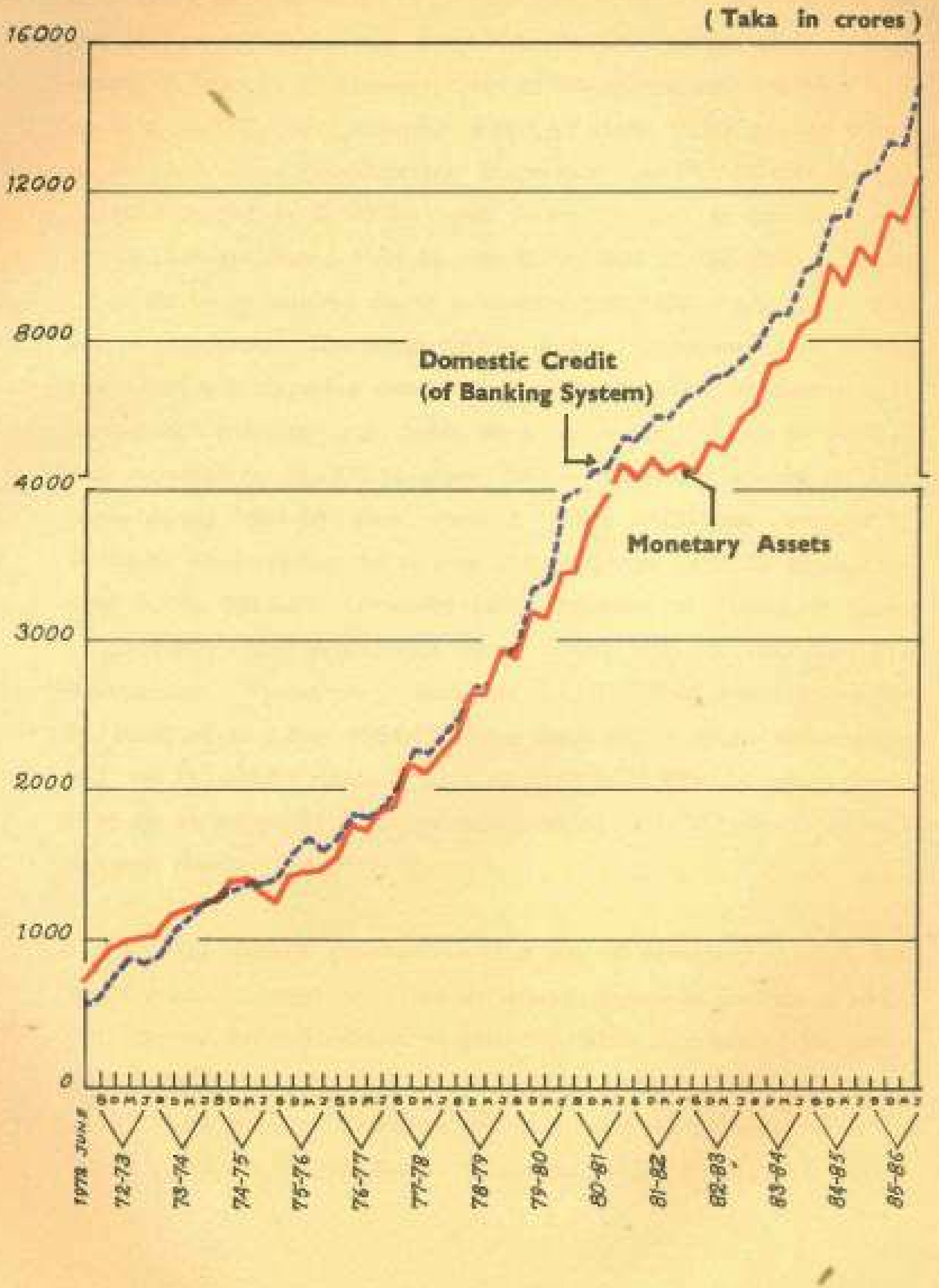
internal procurement operations during the year. With a view to keeping the procurement prices of paddy and rice at incentive level the same were enhanced from Tk. 442.10 and Tk. 664.50 per quintal to Tk. 455.40 and Tk 683.15 per quintal respectively with effect from November 15, 1985 and further to Tk 468.80 and Tk. 709.90 per quintal respectively from May 14, 1986. The procurement price of wheat was also raised from Tk. 434.00 to Tk. 455.40 per quintal effective from March 15, 1986 and further to Tk. 482.25 per quintal effective from April 1, 1986. At the same time, in order to keep food prices under control, sufficient foodgrains were released from government stocks for distribution through the rationing system as well as for sale in the open market during the year.

Domestic Credit Scene and Measures

11. The rigid enforcement of various policy measures helped to esttore discipline in the monetary and credit front during 1985-86. Better co-ordination between the fiscal and the monetary and credit policies was also sought to be achieved through continuous evaluation of actual developments and necessary policy adaptations. In order to see that banks reduce their dependence on the Bangladesh Bank and make efficient use of their own resources for their credit operations, the provision for imposition of 4 per cent penal rate of interest per annum on the excess outstanding credit of banks over their respective prescribed credit ceilings was continued during the year. In addition, the Bank Rate was raised from 11 per cent to 11.25 per cent on September 16, 1985. As a result, the rate of expansion in domestic credit during the year decelerated sharply to 16.6 per cent from 26.2 per cent in 1984-85.

12. The expansion in domestic credit during 1985-86 was shared by both the public and the private sectors. While net credit to the Government declined by 5.8 per cent to Tk. 2205.70 crores, credit to the

DOMESTIC CREDIT AND MONETARY ASSETS



other public sector increased by 23.0 per cent to Tk. 3972.80 crores at the end of June, 1986. The rise in credit to the other public sector occurred mainly on account of increased credit to the Bangladesh Jute Mills Corporation (BJMC), the Bangladesh Jute Corporation (BJC) and the Bangladesh Agricultural Development Corporation (BADC). Credit to the BJMC increased by Tk. 85.35 crores during the year as compared with Tk.180.30 crores during 1984–85. The BJMC was in difficulties as a result of the losses incurred owing to lower export price of jute goods than cost of production. The sharp decline in the international price of raw jute which also caused a drastic fall in domestic prices necessitated substantial bank financing for a "buffer stock" arrangement. Credit to the BJC thus increased by Tk. 276.15 crores during 1985–86 as against Tk.74.03 crores during 1984–85. Bank financing to the BADC also increased by Tk.147.52 crores during the year as compared with Tk.50.23 crores financed during 1984–85. Scheduled banks' financing of debentures issued by corporations and autonomous bodies during 1985–86 under the Annual Development Programme increased by Tk. 75.40 crores as against Tk.120.00 crores during 1984–85. Gross credit to the private sector expaded by Tk.1465.50 crores or 21.3 per cent to Tk. 8356.20 crores during 1985–86 as compared with the expansion of Tk.1976.1 crores or 40.2 per cent during 1984–85.

Prices and Cost of Living

13. The marked slowdown in the rate of expansion in both total liquidity and domestic credit had its salutary impact on the rate of inflation during the year. Inspite of pay and salary increases of the public sector employees from June, 1985 involving a net additional expenditure of Tk. 395.00 crores as also some increases in the administered prices and import prices, the rate of inflation (computed by the Bureau of Statistics),

as measured by the twelve-month average of the consumer price indices for Middle Income Families in Dhaka, did not exceed 9.95 per cent during 1985-86 as compared with 10.94 per cent in 1984-85. The increase in prices during the year was more pronounced in the 'food' than in the 'non-food' items. While the sub-index for 'food' denoted an increase of 10.71 per cent that for 'non-food' items increased by 8.73 per cent over the year.

Balance of Payments Situation

14. The country's overall balance of payments recorded a surplus of $ 46 million (Tk. 137.9 crores) during 1985-86 in contrast to a deficit of $ 95 million (Tk. 248.2 crores) in 1984-85. The improvement in the overall payments position was due mainly to a significant decline in import payments, and increased receipts under private transfers consisting mainly of workers' remittances. Reflecting mainly a marked decline in imports of foodgrains out of own resources, total value of merchandise imports during 1985-86 stood significantly lower at $ 2,364 million as compared with $ 2,647 million during 1984-85. Food aids received during the year stood lower at $ 203 million as against $ 244 million received during last year. Total payments made for foodgrains imports during 1985-86 stood much lower at $ 220 million as compared with $ 498 million during 1984-85; payments for non-food imports also declined from $ 2,149 million to $ 2,144 million. Receipts under private transfer increased significantly from $ 398 million in 1984-85 to $ 525 million in 1985-86 due mainly to increased remittances by Bangladeshi workers abroad. Wage Earner's remittances during 1985-86 amounted to $ 555 million as compared with $ 441 million during 1984-85. Net capital inflow (excluding grants) at $ 548 million during 1985-86 stood higher than $ 511 million during 1984-85. Inflows of capital in the shape of project

loans/grants increased significantly from $ 591 million in 1984-85 to $ 710 million during 1985-86 while commodity aid declined from $ 432 million to $ 393 million.

15. Earnings from merchandise exports of Bangladesh in terms of US dollar came down by $ 62 million to $ 909 million in 1985-86 from $ 971 million in 1984-85. The decline in export earnings in terms of dollar, despite an increase in the volume of exports, was due mainly to a substantial decline in export prices of major items. Thus though the volume of raw jute exports increased by 63 per cent from 14.1 lakh bales in 1984-85 to 23.0 lakh bales in 1985-86, earnings declined from $ 147 million in 1984-85 to $ 118 million in 1985-86. The average export price of raw jute declined by 48.7 per cent from $ 104.26 per bale in 1984-85 to $ 53.48 per bale in 1985-86. Despite increase in the volume of jute goods exports from 4.84 lakh tons in 1984-85 to 4.94 lakh tons in 1985-86, the export earnings declined from $ 420 million in 1984-85 to $ 339 million in 1985-86 due to the 22.1 per cent decline in export price from $ 867.77 to $ 676.11 per ton. Earnings from tea exports fell by 39.0 per cent from $ 57 million in 1984-85 to $ 35 million in 1985-86 despite a 21 per cent increase in the export volume. Except readymade garments, frozen food and handicrafts, export earnings from other items recorded declines during the year although there occurred some increases in volume.

Terms of Trade

16. The substantial decline in export prices in the face of a rise in import prices adversely affected the country's terms of trade. The index of commodity terms of trade (1975-76 = 100) deteriorated by 24.45 per cent from 175.67 in 1984-85 to 132.72 in 1985-86.

Medium-term Prospects

17. Bangladesh is likely to continue to face a balance of payments constraint over the medium term. In the years immediately ahead, jute exports cannot be expected to display much real variation beyond the usual cyclical pattern, and jute goods exports will be increasingly constrained by strong competition from synthetics. Among non-traditional exports the future of readymade garments will depend on accessibility to foreign markets in the face of rising protectionism, and wage earners remittances will be influenced by economic conditions in the oil-producing countries. Given the prospects of higher import demand needed to support the growth rate targeted in the Third Five-Year Plan and structural adjustment of the economy, there will not be much scope for reducing the current account deficit. In view of the recent trends and the experience in the first year of the Third Plan, it might be difficult to achieve the growth target of over 5 per cent per annum during the plan period, unless the growth rate in the non-agricultural sector is to accelerate susbtantially.

CHAPTER II

DEVELOPMENTS IN MAJOR SECTORS

DEVELOPMENTS IN MAJOR SECTORS

GDP

18. According to the latest estimate of the Planning Commission, the Gross Domestic Product (GDP) increased by 4.01 per cent in 1985-86 (at 1984-85 constant factor cost) as against the target of 5.2 per cent. The growth in agricultural output was estimated at 4.08 per cent during the year. Industrial production was estimated to grow by 1.2 per cent only. Growth in Electric, Power and Gas sector was 8.4 per cent. Growth of the construction sector was placed at 7.09 per cent. Housing sector showed a growth of 5.6 per cent and public service sector indicated a growth of 8.26 per cent during 1985-86. Transport and Communication sector registered a growth of 4.12 per cent while Trade and other service sector had a growth of 3.09 per cent during the year.

Agricultural Production

19. The overall agricultural production in the country increased by 4.08 per cent during 1985-86. Total foodgrains production at 160.79 lakh metric tons during 1985-86 stood more or less at the preceding year's level of 160.84 lakh metric tons. Total production of rice at 150.37 lakh metric tons in 1985-86 was 2.85 per cent higher than that of 146.20 lakh metric tons produced in the previous year. While the production of Aus and Aman rice increased by 1.61 per cent and 7.69 per cent to 28.27 lakh metric tons and 85.40 lakh metric tons respectively, that of Boro rice declined by 6.09 per cent to 36.70 lakh metric tons during the year. On the other hand, production of wheat declined substantially by 28.82 per cent to 10.42 lakh metric tons during the year as against 14.64 lakh metric tons in 1984-85.

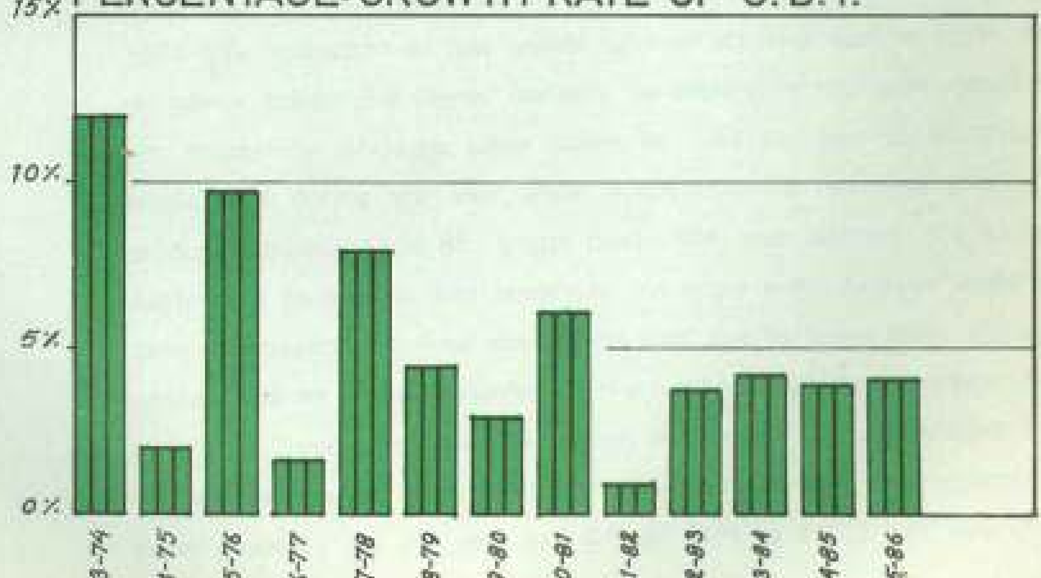
Industrial Production

20. The industrial sector remained more or less stagnant during the year. Industrial production was estimated to grow by 1.2 per cent only in 1985-86 largely on account of decline in output of jute goods and cotton textiles. Performance of the industrial sector was adversely affected by irregular power supply and labour strikes in some of the major industrial units during the year.

21. The Government continued to extend all possible support and incentives for strengthening the country's industrial sector during 1985-86. In addition to continuance and adaptations of the measures initiated under the New Industrial Policy of 1982, Government sought to bring about some basic reforms for overall and structural improvement in the industrial sector. Particular attention was given to meet the working capital requirements of the existing industries as also for establishment of new projects having high export potential/import substitution bias. In order to facilitate expansion and modernisation of the existing projects and launching of the new projects, adequate provision was made for sanction of cash foreign exchange for import of foreign technology and experts in the Import Policy for 1985-86. Some measures were also taken to enhance the range of incentives for encouraging exports. Some items like handloom and weaving and light engineering products were allowed to enjoy concessional bank loans at a rate of interest of 7.0 per cent only instead of 9.0 per cent previously. Export cess from non-traditional items like fish, tobacco, etc. was withdrawn. With a view to extend maximum advantage to the exporters in respect of exchange rate variation, a new provision of three slabs of 100 per cent, 70 per cent and 40 per cent XPB was also introduced during the year.

MONEY SUPPLY (M_2)

PERCENTAGE GROWTH RATE OF G.D.P.



22. As estimated by the Planning Commission, production of cement recorded an increase of 21.67 per cent to 292 thousand metric tons during 1985-86 from 240 thousand metric tons in 1984-85. Output of chemical fertilizer increased by 18.11 per cent to 952 thousand metric tons during 1985-86 as compared to 806 thousand metric tons during the previous year. Production of paper and newsprint increased by 6.59 per cent to 97 thousand metric tons during the year as compared to 91 thousand metric tons during 1984-85. Production of petroleum product went up by 0.64 per cent to 949 thousand metric tons during 1985-86 as compared to 943 thousand metric tons produced during 1984-85. Production of cigarettes and matches increased by 2.73 per cent and 8.53 per cent to 14,753 million sticks and 140 lakh gross boxes respectively during 1985-86 from 14,361 million sticks of cigarettes and 129 lakh gross boxes of matches produced in 1984-85.

23. Production of jute goods declined substantially by 14.49 per cent to 4.90 lakh tons during 1985-86 from 5.73 lakh tons during 1984-85. Production of jute goods suffered set-back due to power failure, labour strikes and slower demand for sacking in the international market. Production of sugar came down by 5.68 per cent to 83 thousand metric tons during the year under report from 88 thousand metric tons produced during 1984-85. Sugar production was affected due to lower sugar-cane production and supply to the sugar mills. Acreage under sugarcane cultivation declined during the year due to lower price of sugarcane as well as untimely rainfall in the northern districts. Diversion of sugarcane to 'gur' production in certain mill zones also contributed to lower production of sugar. Production of cotton yarn and cotton cloth came down by 6.4 per cent and 4.8 per cent to 1,187 lakh pounds and

597 lakh meters respectively during 1985-86 from 1,268 lakh pounds and 627 lakh meters respectively in 1984-85. Production of cotton yarn and cotton cloth suffered set-back due to lower demand for the locally-produced cotton yarn and cotton cloth in the home market because of inferior quality and higher cost compared to those brought in from abroad.

Public Sector Outlay

24. The Annual Development Programme (ADP) for 1985-86 which originally envisaged a total public sector development outlay of Tk. 3825.72 crores was subsequently revised upward to Tk. 4095.54 crores. This compared with the revised outlay of Tk. 3508.42 crores in the preceding year, indicating an increase of Tk. 587.12 crores or 16.73 per cent over the year. Of the total revised outlay during 1985-86, domestic and foreign resources for financing expenditure constituted Tk. 703.73 crores or 17.18 per cent and Tk. 3391.81 crores or 82.82 per cent as compared to Tk. 890.42 crores or 25.38 per cent and Tk. 2618.00 crores or 74.62 per cent respectively during the previous year. In absolute terms, domestic resources for financing expenditure declined by Tk. 186.69 crores or 20.97 per cent while foreign resources[@] went up by Tk. 773.81 crores or 29.56 per cent during 1985-86.

25. The sectoral allocations for 1985-86 were as follows: Power Tk. 725.56 crores, Industries Tk. 590.51 crores, Flood Control and Water Resources Tk. 477.19 crores, Upazilla Infrastructure and Assistance to Upazilla Parishad Tk. 425.00 crores, Self-financed Schemes of Autonomous Bodies Tk. 334.04 crores, Transport Tk. 265.95 crores, Oil, Gas and Natural Resources Tk. 210.78 crores, Population Control and Health Tk. 200.20 crores, Agriculture Tk. 192.96 crores, Education and Religion Tk. 181.73 crores, Rural Development and Institutions Tk. 104.94 crores and Physical Planning, Water Supply and Housing Tk. 102.88 crores.

@ In terms of Taka.

Allocation against other heads of expenditure aggregated to Tk. 283.80 crores. Allocation for Agriculture, Flood Control and Water Resources, Rural Development, Population Control and Family Planning and Infrastructural Development of Upazilla, which have a direct bearing on rural development., together accounted for 34.19 per cent of the total outlay for 1985-86 as against 44.81 per cent during the previous year.

Investment in Private Sector Industries

26. In the private sector, a total of 1,111 industrial units were sanctioned and registered during 1985-86 with a total investment outlay of Tk. 684.76 crores including a foreign exchange component of Tk. 359.24 crores. This compared with 918 industrial units sanctioned for a total investment of Tk. 479.18 crores, including a foreign exchange component of Tk. 241.09 crores during 1984-85. The major industries accounting for the investment during 1985-86 were: engineering industries (Tk. 217.58 crores), textile industries (Tk. 211.24 crores), chemicals, pharmaceuticals and allied industries (Tk. 57.01 crores) paper, board, printing and publishing (Tk. 39.97 crores), food and allied products (Tk. 46.26 crores) glass, ceramic and other non-metallic mineral products (Tk. 22.46 crores) miscellaneous industries (Tk. 16.64 crores), tannery, leather and rubber products (Tk. 35.63 crores), services industries (Tk. 14.75 crores) and industries not elsewhere classified (Tk. 23.22 crores)

Food Situation

27. Food situation in the country remained satisfactory during 1985-86. Although production of Aman and Aus rice increased, production of Boro rice and wheat declined. Boro rice is regarded as a secure crop and has been contributing progessively to the increasing foodgrains production of the country. Although the area under this crop expanded gradually as many farmers switched over from local varieties to HYV, actu-

al acreage under this crop fell slightly during the year due mainly to shortfall in surface water. Yields were affected due to shortages of irrigation equipments and surface water as also for reduction in fertilizer distribution. In addition, Boro crop was affected at maturity stage by hail-storms and high winds. The winter drought upto March, 1986 also affected the wheat production at the grain filling stage. The area under wheat cultivation also declined sharply partly because of the relative attractiveness of other alternative winter cash crops. The loss suffered by Boro and wheat crop was partially made good by increased production of Aman and Aus rice during the year. Domestic production, imports, and satisfactory Government stocks exerted a conducive effect on food prices.

28. The country average minimum retail price of coarse rice which had stood at Tk. 672.00 per quintal at the end of June, 1985 increased amidst fluctuations to Tk. 711.00 per quintal at the end of September, 1985 due mainly to the tight supply position. The price registered slight decline in December, 1985 with the arrival of Aman rice in the market. Peak level price of coarse rice at Tk. 812.00 per quintal was recorded at the end of April, 1986. With the arrival of wheat and Boro rice in the market, the country average minimum retail price of coarse rice declined during the last two months of 1985-86 and stood at Tk.769.00 per quintal at the end of June, 1986, thus showing an increase of 14.43 per cent over the year.

29. Imports of rice and wheat into the country during 1985-86 stood lower at 0.36 lakh metric ton and 11.64 lakh metric tons respectively as against 6.89 lakh metric tons of rice and 18.99 lakh metric tons of wheat imported during 1984-85.

30. Internal procurement of rice and wheat during 1985-86 stood at 2.19 lakh metric tons and 1.30 lakh metric tons respectively as compared to 1.33 lakh metric tons of rice and 2.15 lakh metric tons of wheat procured during the preceding year. The procurement prices of paddy and rice were enhanced from Tk. 455.40 and Tk. 683.15 per quintal to Tk. 468.80 and Tk. 709.90 per quintal respectively with effect from May 14, 1986. The procurement price of wheat was also enhanced from Tk. 434.00 to Tk. 455.40 per quintal with effect from March 15, 1986. The price of wheat was further enhanced to Tk. 482.25 per quintal from April 1, 1986.

31. In order to keep the food prices within control, the Government released sufficient quantity of foodgrains for sale in the open market. Releases of rice and wheat from Goverment stocks during 1985-86 stood at 3.73 lakh metric tons and 11.67 lakh metric tons respectively as compared to 4.00 lakh metric tons of rice and 21.63 lakh metric tons of wheat released during 1984-85. Government stock of foodgrains stood at 9.76 lakh metric tons at the end of June, 1986 as compared to 10.08 lakh metric tons at the end of June, 1985.

32. The ration price of rice was enhanced from Tk. 718.00 per quintal to Tk. 737.80 per quintal with effect from December 1, 1985 and further to Tk. 775.00 per quintal with effect from June 15, 1986. Simultaneously, the ration price of wheat was also enhanced from Tk. 463.48 to Tk. 485.50 per quintal with effect from December 1, 1985 and further to Tk. 515.00 per quintal with effect from June 15, 1986.

33. The overall price situation in the country remained generally satisfactory during the year. The consumer price indices of the principal urban centres of the country went up by different margins. The average consumer price index (CPI) for Dhaka middle income families (1973–74=100) recorded an increase of 9.95 per cent during 1985–86 as against the rise of 10.94 per cent during 1984–85. The average consumer price index for rural population in Dhaka district went up by 3.43 per cent during 1985–86 as against the rise of 13.12 per cent during 1984–85. However, on point to point basis, the consumer price index for rural population in Dhaka district increased by 10.94 per cent during 1985–86 as against the rise of 0.68 per cent during 1984–85. The increase in prices during the year occurred in both food and non-food items, and was attributable mainly to the increase in wages and salaries made to the public sector employees from June, 1985, short supply of some essential commodities due to natural calamities, and high prices of imported consumer goods and industrial raw materials.

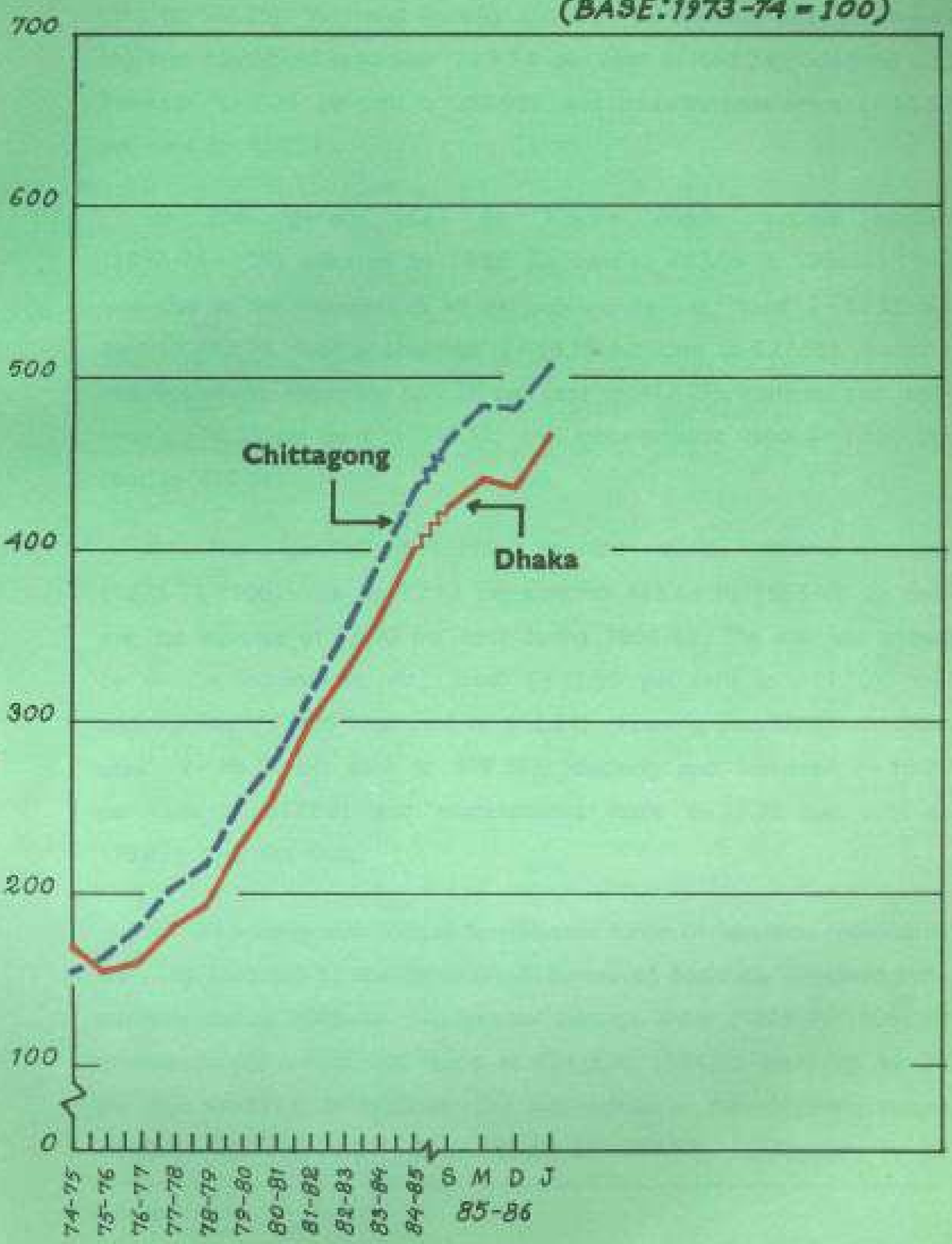
Price Situation

34. The 'general' CPI for the middle income families in Dhaka city (1973–74 = 100) which had stood at 411.56 in June, 1985 rose to 464.67 in June, 1986 indicating an increase of 12.90 per cent over the year on point to point basis. The rise was shared by all the sub-indices viz., 'food' (+15.41 per cent to 463.48), 'fuel and lighting' (+7.30 per cent to 554.67) 'housing and household requisites' (+9.09 per cent to 521.35), 'clothing and footwear' (+9.57 per cent to 284.52) and 'miscellaneous' items (+9.90 per cent to 451.41).

Consumer Price Indices (CPI)

35. The 'general' CPI for the middle income families in Chittagong (1973–74 = 100) increased by 11.59 per cent to 503.73 in 1985–86. The

INDICES OF MIDDLECLASS CONSUMER PRICE AT DHAKA AND CHITTAGONG



increase was reflected in all the sub-indices, viz., 'food' (+ 12.81 per cent to 502.29), 'fuel and lighting' (+ 17.20 per cent to 385.73), 'housing and household requisites' (+ 7.34 per cent to 697.24), 'clothing and footwear' (+ 7.25 per cent to 284.99)' and miscellaneous items (+ 10.97 per cent to 458.51).

36. The 'general' CPI for Khulna middle income families (1973-74 = 100) went up by 16.56 per cent to 453.08 in 1985-86. This was due to the increases in all the sub-indices, viz., 'food' (+ 18.32 per cent to 463.74, 'fuel and lighting' (+ 19.79 per cent to 527.89), 'housing and household requisites' (+ 2.78 per cent to 417.79), 'clothing and footwear' (- 14.33 per cent to 318.12) and 'miscellaneous' items (+ 13.50 per cent to 419.84).

37. The 'general' CPI for Rajshahi middle income families (1973-74 = 100) rose by 12.13 per cent to 445.48 in 1985-86 as against the increase of 14.00 per cent during 1984-85. The rise was shared by all the sub-indices, viz., 'food' (+ 11.68 per cent to 417.70), 'fuel and lighting' (+ 6.36 per cent to 682.99), 'housing and household requisites' (+ 15.74 per cent to 498.39), 'clothing and footwear' (+ 16.22 per cent to 317.66) and 'miscellaneous' items (+ 18.76 per cent to 473.87) over the year.

Wages

38. The wage rate indices for different kinds of labourers in the country, as compiled by the Bangladesh Bureau of Statistics, increased substantially during 1985-86. The 'general' average index (1969-70 = 100) of nominal wages which had stood at 734.0[R] in 1984-85 went up by 32 per cent to 971.0 in 1985-86. The sub-indices of manufacturing wages increased by 40 per cent (from 775.88 to 1084.58), construction by 30

R=Revised.

per cent (from 775.86 to 1006.55), agriculture by 46 per cent (from 641.64 to 938.77) and fisheries by 5 per cent (from 702.12 to 739.38) during 1985-86.

Savings and Investment

39. Gross domestic savings at current prices during 1985-86 as estimated by the Planning Commission stood at Tk. 1,835 crores which was 25.51 per cent higher than Tk. 1,462[R] crores during 1984-85. Gross domestic savings as percentage of GDP stood at 4.8 as compared to 4.2[R] in 1984-85. Gross domestic investment at current prices stood at Tk. 6,547 crores in 1985-86 as compared to Tk. 6,008[R] crores in 1984-85. The percentage share of gross domestic in investment in GDP thus marginally declined from 17.3[R] in 1984-85 to 17.0 in 1985-86.

Report of the National Commission

40. The National Commission on Money, Banking and Credit, which was appointed by the Government at the end of June, 1984, submitted a comprehensive report to the Finance Adviser to the President on the 19th June, 1986. The Bangladesh Bank provided necessary analytical and logistic support to the Commission including the services of a number of officers for its Secretariat.

Report of the Committee on Fraud and Forgeries

41. Earlier in March, 1986, the Committee on Fraud and Forgeries in Banks and Financial institutions submitted its report to the Finance Adviser to the President. The Bangladesh Bank also provided necessary investigative, analytical and logistic support to the Committee.

R- Revised.

CHAPTER III

MONETARY AND BANKING DEVELOPMENTS

MONETARY AND BANKING DEVELOPMENTS

Money Supply

42. In line with the monetary programme to finance productive economic activity and maintain reasonable price stability, money supply increased at a slower rate during 1985–86 than in the previous year. Money supply (M_1) or Narrow Money expanded by Tk. 696.1 crores or 16.4 per cent to Tk. 4927.9 crores during the year as compared to the increase of 19.2 per cent during the preceding year.

43. An analysis of the causative factors of the change in money supply during 1985–86 reveals that the expansion emanated from increased credit to the private as well as the public sector other than Government to the tune of Tk.1465.5 crores and Tk.743.4 crores respectively and a surplus of Tk.76.4 crores in the country's international accounts. These were partly offset by the contractionary impact of the increase of Tk. 1107.8 crores in time deposits and surplus of Tk.135.1 crores in the fiscal operation of the Government as detailed in Table 3.1.

TABLE 3.1

CAUSATIVE FACTORS OF THE CHANGE IN MONEY SUPPLY

(Taka in crores)

Particulars	As on 30.6.86	As on 30.6.85	Changes
1. Currency Outside Banks	1953.1	1722.9	+ 230.2
2. Demand Deposits	2974.8	2508.9	+ 465.9
Total Money Supply:	**4927.9**	**4231.8**	**+696.1**

CAUSATIVE FACTORS

Expansion (+)	
Contraction (–)	
1. Public Sector	**+608.3**
i) Government (Net)	–135.1
ii) Other Public Sector	+ 743.4
2. Private Sector	+ 1465.5
3. Time Deposits (Increase –)	–1107.8
4. Foreign Sector (Net)	+ 76.4
5. Other items (Net)	– 346.3
Total:	**+ 696.1**

44. Of the components of money supply (M_1), currency outside banks went up by Tk. 230.2 crores or 13.4 per cent to Tk. 1953.1 crores during 1985–86, while demand deposits increased by Tk. 465.9 crores or 18.6 per cent to Tk. 2974.8 crores. The quarterly movements of money supply and its components during 1985–86 are shown in Table 3.2.

MONEY SUPPLY (M_1)

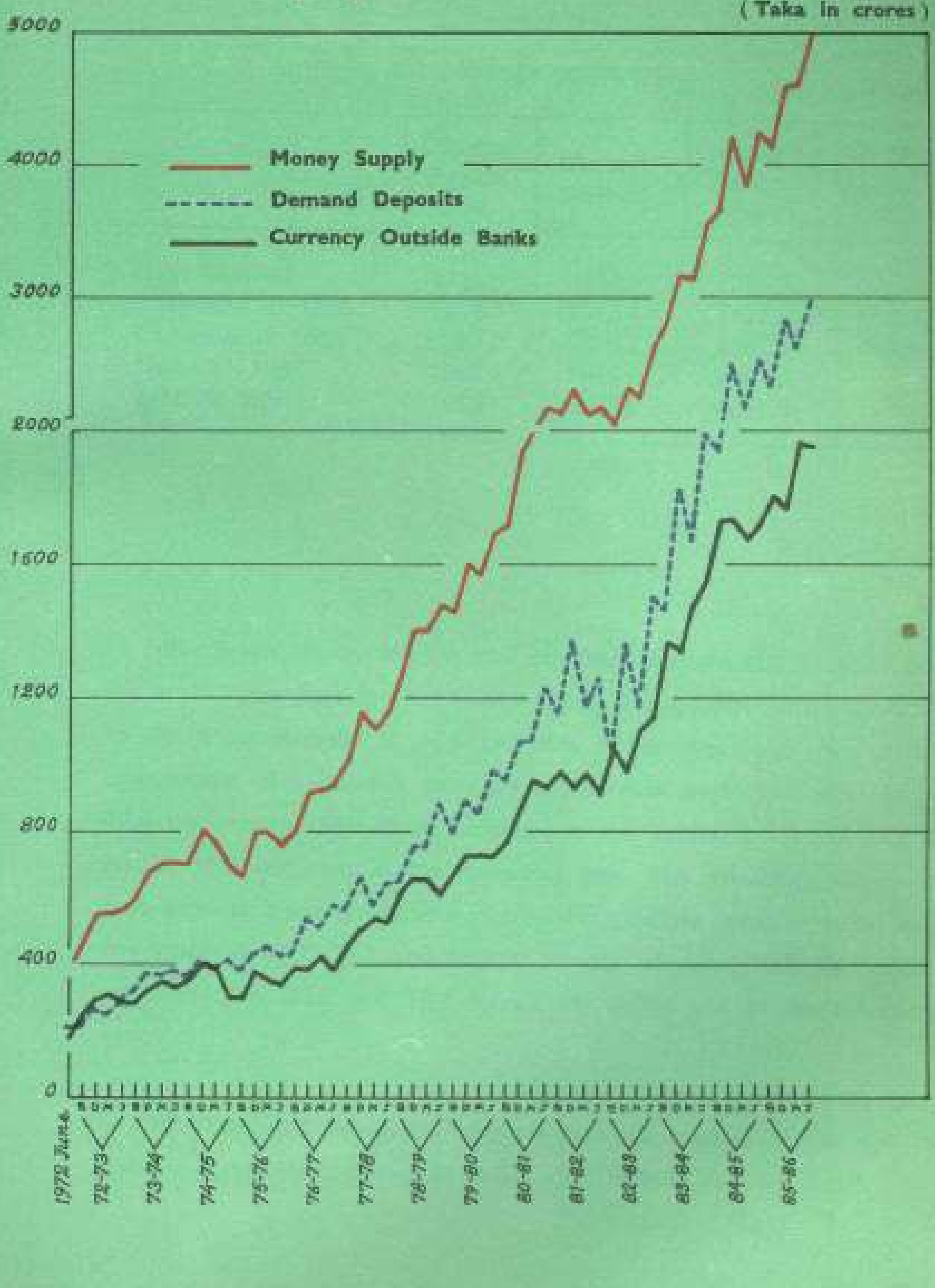


TABLE 3.2

MONEY SUPPLY

(Taka in crores)

As on	Currency Outside Banks	Demand Deposits	Money Supply (M_1)	Changes in Money Supply
June 30, 1985	1722.9	2508.9	4231.8	–
September 30, 1985	1809.3	2318.6	4127.9	–103.9
December 31, 1985	1767.2	2828.3	4595.5	+467.6
March 31, 1986	1960.6	2626.4	4587.0	–8.5
June 30, 1986	1953.1	2974.8	4927.9	+340.9

45. Broad Money (M_2) or total liquidity increased by Tk.1803.9 crores or 17.1 per cent to Tk. 12,338.1 crores during 1985–86 as compared to the larger increase of 25.6 per cent in the preceding year. Of the components, time deposits or quasi money rose by Tk.1107.8 crores or 17.6 per cent in 1985–86 as compared to the increase of Tk.1466.5 crores or 30.3 per cent in the preceding year. The percentage shares of time deposits, demand deposits and currency outside banks in broad money stood at 60.1, 24.1 and 15.8 at the end of June, 1986 as compared with 59.8, 23.8 and 16.4 respectively at the end of the preceding year.

46. Table 3.3 shows the changes in broad money (M_2) as also its different components during 1984–85 and 1985–86.

TABLE 3.3

BROAD MONEY

(Taka in crores)

Particulars	June, 1984	June, 1985	June, 1986	% Changes	
				1984–85	1985–86
1. Currency Outside Banks	1556.4	1722.9	1953.1	+ 10.7	+ 13.4
2. Demand Deposits	1993.6	2508.9	2974.8	+ 25.8	+ 18.6
3. Time Deposits	4835.9	6302.4	7410.2	+ 30.3	+ 17.6
Total :	**8385.9**	**10534.2**	**12338.1**	**+25.6**	**+17.1**

47. The income velocity of money ($GDP \div M_2$) declined marginally during 1985-86. Trend in income velocity of money is shown in Table 3.4.

TABLE 3.4

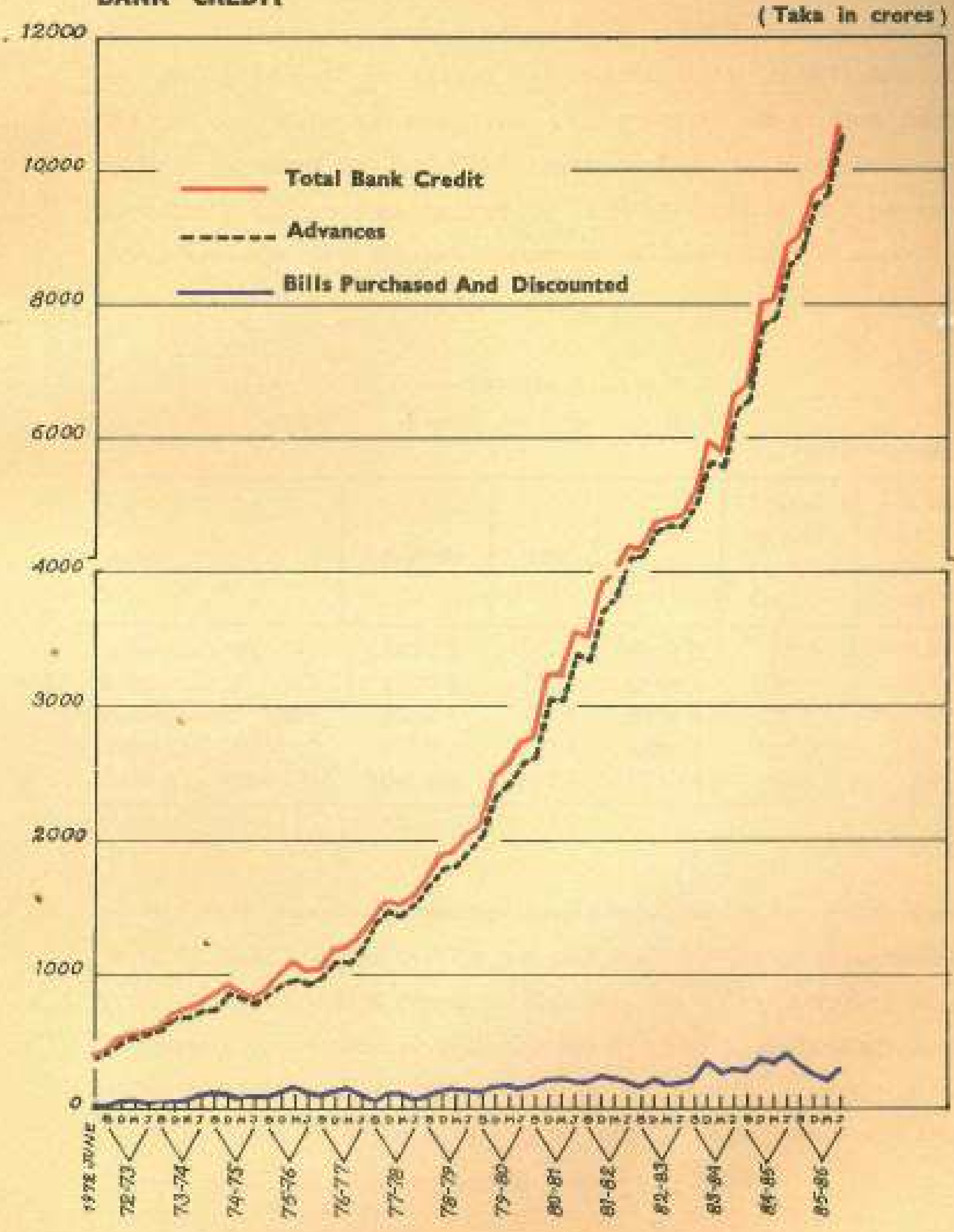
INCOME VELOCITY OF MONEY

(Taka in crores)

Particulars	GDP at Market Price*	Broad Money (M_2)	Income Velocity of Money (Col. 2 ÷ 3)
1	2	3	4
1984-85	34,883	10,534.2	3.3
1985-86	38,536	12,338.1	3.1

* Source: Planning Commission.

BANK CREDIT


(Taka in crores)
12000
10000
8000
6000
4000
3000
2000
1000
0
Total Bank Credit
Advances
Bills Purchased And Discounted
1972 JUNE
72-73
73-74
74-75
75-76
76-77
77-78
78-79
79-80
80-81
81-82
82-83
83-84
84-85
85-86

48. The outstanding level of bank credit (excluding inter-bank items) of the scheduled banks increased by Tk. 1778.6 crores or 19.8 per cent during 1985-86 as against the increase of Tk. 2248.1 crores or 33.4 per cent in the preceding year. Of the components of bank credit, advances increased by Tk. 1,885.7 crores or 22.0 per cent while bills purchased and discounted declined by Tk. 107.1 crores or 25.9 per cent during the year. The quarterly movement of bank credit is shown in Table 3.5.

TABLE 3.5

(Taka in crores)

As on	Advances	Bills	Total Credit	Advances as % of Total Credit	Bills as % of Total Credit
June 30, 1985	8570.7	414.1	8984.8	95.4	4.6
September 30, 1985	8833.5	335.6	9169.1	96.3	3.7
December 31, 1985	9502.1	274.5	9776.6	97.2	2.8
March 31, 1986	9658.3	222.1	9880.4	97.8	2.2
June 30 , 1986	10456.4	307.0	10763.4	97.1	2.9

49. Bank deposits (excluding inter-bank items) registered an increase of Tk. 1573.4 crores or 17.9 per cent during 1985-86 as compared to the rise of Tk.1981.8 crores or 29.0 per cent in the preceding year. The increase was shared by both demand and time deposits which rose by Tk. 465.6 crores or 18.6 per cent to Tk. 2974.3 crores and by Tk. 1107.8 crores or 17.6 per cent to Tk. 7410.2 crores respectively. The quarterly movement of bank deposits is shown in Table 3.6.

TABLE 3.6

BANK DEPOSITS

(Taka in crores)

As on	Demand Deposits	Time Deposits	Total Deposits	Demand Deposits as % of Total Deposits	Time Deposits as % of Total Deposits
June 30, 1985	2508.7	6302.4	8811.1	28.5	71.5
September 30, 1985	2318.4	5907.8	8226.2	28.2	71.8
December 31, 1985	2827.9	6832.1	9660.0	29.3	70.7
March 31, 1986	2625.8	6660.1	9285.9	28.3	71.7
June 30, 1986	2974.3	7410.2	10384.5	28.6	71.4

Rural and Urban Deposits and Advances

50. Both rural deposits and advances of scheduled banks increased considerably during 1985–86. The share of rural deposits in total deposits at the end of June, 1986 stood at 19.10 per cent as compared to 17.27 per cent at the end of June, 1985. The share of bank advances in rural areas stood at 26.66 per cent at the end of June, 1986 as against 28.50 per cent at the end of June, 1985. In absolute terms, rural advances totalled Tk. 2905.78 crores while rural deposits amounted to Tk. 2103.82 crores at the end of June, 1986. These compared with Tk. 2545.91 crores and Tk. 1615.89 crores of rural advances and rural deposits respectively at the end of June, 1985. Thus the welcome trend of rural advances exceeding rural deposits continued during the year. The percentage distribution of bank deposits and advances by rural and urban areas for the last five years is shown in Table 3.7.

BANK DEPOSITS

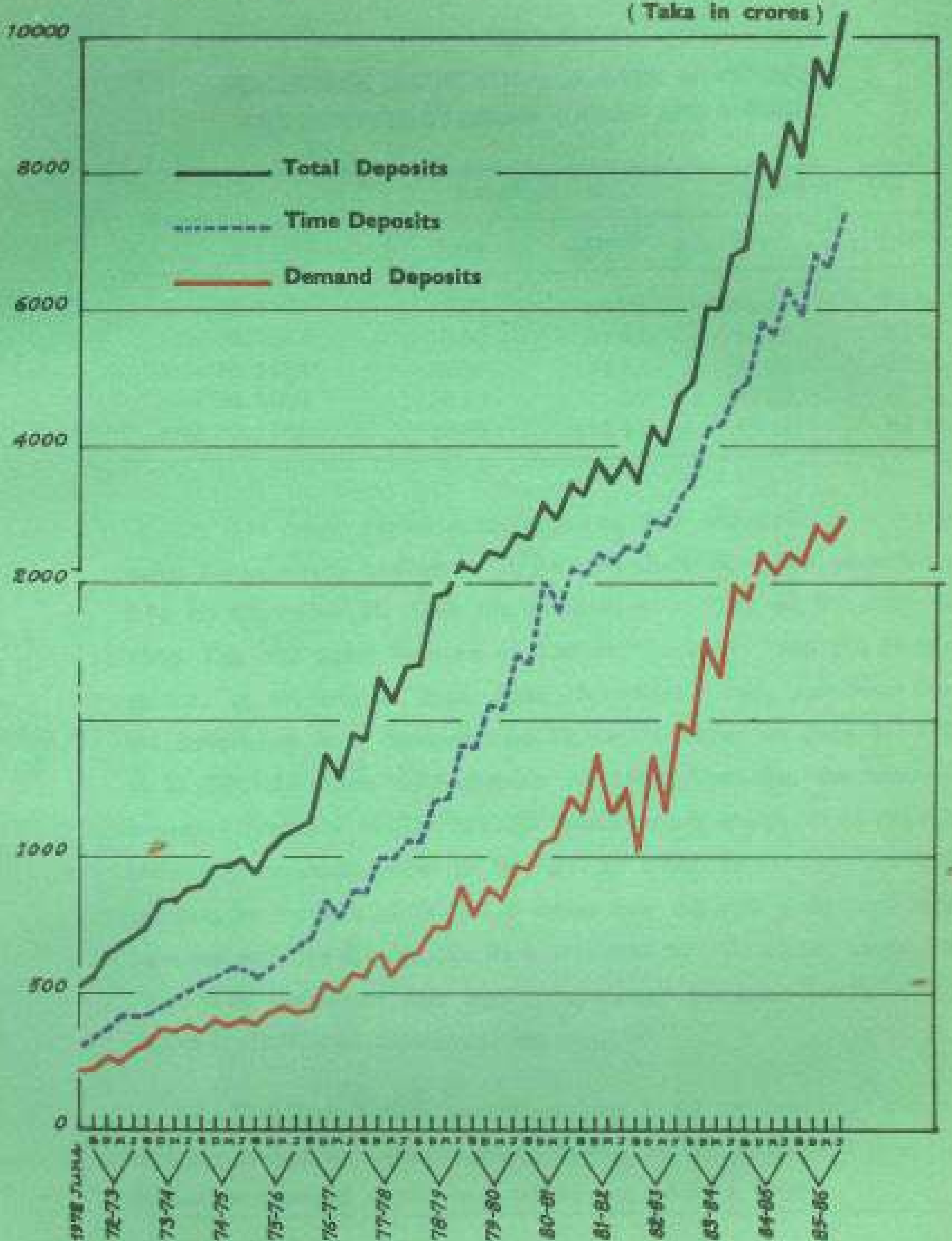


TABLE 3.7

PERCENTAGE DISTRIBUTION OF BANK ADVANCES AND DEPOSITS BY AREAS (URBAN AND RURAL)

As on	Advances %		Deposits %	
	Rural	Urban	Rural	Urban
June 30, 1982	13.22	86.78	15.42	84.58
June 30, 1983	18.60	81.40	16.75	83.25
June 30, 1984	25.78	74.22	17.06	82.94
June 30, 1985	28.50	71.50	17.27	82.73
June 30, 1986	26.66	73.34	19.10	80.90

Liquidity Position

51. The credit/deposit ratio (excluding BKB and BSB) of the scheduled banks which had stood at 0.81 on June 30, 1985 increased to 0.89 on September 30, 1985 but came down to 0.82 on December 30, 1985. The ratio again went up to 0.86 on March 31, 1986 but declined to 0.83 at the end of June, 1986. Scheduled banks borrowings from the Bangladesh Bank declined from Tk.2080.80 crores on June 30, 1985 to Tk. 2001.60 crores on September 30, 1985. Thereafter, the borrowing increased gradually to Tk. 2239.80 crores as on March 31, 1986. The borrowings increased further to Tk. 2277.50 crores as on June 30, 1986 showing an increase of Tk.196.70 crores over the year. Scheduled banks balances with the Bangladesh Bank increased by Tk. 62.50 crores to Tk. 675.80 crores and their cash in tills also increased by Tk. 62.70 crores to Tk. 338.40 crores over the year.

Bank Rate

52. The Bank Rate@ was raised from 11.00 per cent to 11.25 per cent per annum with effect from September 16, 1985, and the rate remained unchanged at that level till the end of June, 1986.

@ Bangladesh Bank's basic lending/discount rate.

53. The following other interest rate adjustments were made during the financial year 1985-86 :

i) Rate of interest on advances against import under barter for industrial imports as well as commercial imports were fixed at 3 per cent below the normal rate of interest on such advances. Accordingly, the rate of interest on advances against imports under barter for industrial import was fixed at 11.50 per cent and for commercial imports at 15 per cent with effect from July 1, 1985. Rate of interest on advances for industrial import under barter other than advances representing term finance for industrial projects for a period of less than five years was further reduced to 11 per cent with effect from March 1, 1986 following the revision of interest rate on advances to industries with effect from that date.

ii) Rate of interest on pre-shipment export credit for 3 non-traditional items, viz., light engineering and electrical goods, handicrafts, and handloom products was reduced from 9 to 7 per cent with effect from July 1, 1985.

iii) Rate of interest on working capital loans to cold-storage was fixed at 16 per cent irrespective of the amount of such loan with effect from January 1, 1986.

iv) Rate of interest for term finance for industrial projects extended for a period of five years and above, and for working capital loans to industries, i.e., all manufacturing industries including assembling, all industries connected with processing, milling and crushing, and transport industry (both water and road transport) was reduced from 14.5 per cent to 14.0 per cent effective from March 1, 1986. The rate of interest on term finance for industrial projects extended for a period of less than five years, however, continued to remain at 14.5 per cent.

v) Rate of interest on working capital finance to jute industries (jute mills and jute spinning mills) was reduced from 14.5 per cent to 14 per cent with effect from March 1, 1986 with the provision that financing bank would refund interest at 2 per cent as per prescribed procedure to the mills concerned, as and when shipment of the jute goods was effected for export. The rate of interest on working capital loans to jute mills, including jute spinning mills, was reduced to 12 per cent with effect from June 1, 1986 but no refund of interest would be allowed on shipments made on or after that date.

vi) Levy on Deposit Income for Jamuna Bridge: As per Government decision a levy was imposed on income earned by way of interest on savings deposits with or without chequing facility and fixed deposits/term deposits maintained with any scheduled bank as also on income earned by way of share of profit on such deposits maintained with any bank run on Islamic principles for financing the cost of the proposed Jamuna Bridge Project. The levy would be deducted at source @ 4 per cent of the interest/share of profit as mentioned above with effect from October 1, 1985, irrespective of the period of accrual of income.

Cash Reserve Requirement

54. The statutory cash reserve requirement of the scheduled banks remained unchanged at 5.0 per cent* of their total demand and time liabilities.

Liquidity Ratio

55. The statutory liquidity ratio of the scheduled banks, except the Bangladesh Krishi Bank and the Bangladesh Shilpa Bank, during 1985-86 remained unchanged at 25.0 per cent of their total demand liabilities and 23.0 per cent of their total time liabilities. The statutory liquidity ratio for the Islami Bank Bangladesh Ltd. also remained unchanged at 15.0 per cent (effective from December, 1984) for both its demand and the time liabilities. The Bangladesh Krishi Bank and the Bangladesh Shilpa Bank continued to have the exemption from maintaining liquid assets under section 29 of the Banking Companies Ordinance, 1962.

Interest Subsidy (Export Credit) Scheme

56. The rate of interest subsidy under the Interest Subsidy (Export Credit) Scheme introduced in May, 1983 remained unchanged at 5.5 per cent during 1985-86. Total amount of interest subsidy allowed to the banks during the year on account of their financing non-traditional exports was Tk. 1.00 crore.

Deposit Pension Scheme

57. The Deposit Pension Scheme introduced in September, 1983 for implementation by the nationalised banks continued to remain in force during the year 1985-86.

Investment Company

58. Pursuant to the Government decision, two private investment companies, viz. National Credit Ltd. and Bangladesh Commerce and Investment Limited have been allowed to start functioning with effect from October 31, 1985 and December 11, 1985 respectively, and they were also permitted to participate in the inter-bank call money market.

Credit Guarantee Scheme

59. Under the Industrial Credit Guarantee Scheme of the Bangladesh Bank, 71 guarantee certificates were issued covering a total loan of Tk. 5.64 crores during 1985-86. Under the Credit Guarantee Scheme (Small Loan), a total of 243 guarantee certificates were issued covering a total loan of Tk. 16.35 lakhs extended to individual weavers during the year.

Other Credit Policy Measures

60. With a view to channelling the scarce bank resources to augment production, increase employment opportunities and real income, and secure the socio-economic priorities, distributive justice and regional balance, the following other credit control and support measures were adopted by the Bangladesh Bank during 1985-86:

(i) Small Loans:

a) In order to meet the credit requirements of borrowers with small means, including those running small and cottage industries and self-employed persons, each of the nationalised commercial banks was given a target equivalent to 1 per cent of its total demand and time liabilities as on September 30, 1985 for disbursement from October, 1985 to June, 1986. The distribution of the targeted amount among the various categories was made as under:

i) Small and cottage industries	50%
ii) Retail trade	25%
iii) Self-employed persons	20%
iv) Rural electrification	5%
	100%

b) A credit target for the foreign banks and private sector banks equivalent to 1 per cent of their respective demand and time liabilities as on February 27, 1986 was also fixed for disbursement to the small scale industries during the period from March, 1986 to June 1986. For this purpose a small scale industry was defined as one having assets worth upto Tk. 1.5 crores.

c) The credit scheme introduced in August, 1983 for financing working capital of hosiery industry remained in operation during 1985–86.

d) The special credit programme for small and cottage industries introduced in 1978 was reinforced with a fresh allocation of Tk. 3.50 crores raising the aggregate allocation under the programme to Tk. 45.70 crores.

(ii) Transport Sector:

a) Transport sector continued to be treated as a priority sector. Foreign Banks operating in Bangladesh and private sector banks, including Pubali Bank Ltd. and Uttara Bank Ltd., were given a target equivalent to 1 per cent of their total demand and time liabilities as on September 30, 1985 to finance the transport industry during the period from October, 1985 to June, 1986.

b) In order to meet the credit requirement of the road transport sector, banks were advised to extend credit to the transport operators for purchase of new trucks and buses provided they had either fully adjusted or substantially reduced their previous outstanding bank loans on this account. Banks were also advised to finance new borrowers in the transport sector on the basis of their credit-worthiness. Banks were further allowed to finance import of new truck and bus chasis fitted with engine under WES/Secondary Exchange Market, subject to a minimum margin requirement of 25 per cent.

(iii) Housing Sector:

Housing sector also continued to be treated as a priority sector. Banks were required to finance this sector by observing the prescribed terms and conditions.

(iv) Export Credit:

Provision for liberal export credit facilities introduced earlier continued during 1985-86. Duty-draw back credit scheme also remained in force during the year.

(v) Industrial Sector:

The arrangements which were streamlined to provide working capital to the new industries set up with financial assistance from Development Financing Institutions (DFIs) including those approved by the Investment Board or Permission Committee headed by the Director General, industries remained in force during the year.

(vi) Post-Import Finance:

Post-import finance for import of refined salt in the private sector was prohibited with effect from March 11, 1986.

(vii) Advance against National Bonds:

Effective from April 20, 1986, banks were allowed to make advances against the security of National Bonds issued by the Government to the non-bank investors upto 80 per cent of the value of the Bonds.

(viii) Advance against Foreign Currency Account under Wage Earners' Scheme:

Effective from August 24, 1985, advances against balances in foreign currency accounts under the Wage Earners' Scheme to the members of the Stock Exchange or nominees of the foreign currency accounts were prohibited. This would, however, not debar the account holders themselves ,to obtain credit facilities against balances in their F.C. accounts subject to prescribed margin requirement and repayment period.

(ix) Credit Facility to Oil Mills

The time limit for grant of credit facility for purchase of locally produced oil seeds and against finished products was extended upto November 30, 1986.

(x) Advances against Imported Oil Seeds:

Effective from July 8, 1985, the period for adjustment of loans against imported oil seeds was enhanced from 2 months to 6 months from the date of advance. Banks were advised to draw up repayment schedule for recovery of such advances within a maximum period of six months, in consonance with the crushing capacity of the relevant oil mills.

(xi) Margin Requirement for Opening L/Cs. for Imports:

The minimum margin requirement for opening L/C covering import of industrial goods and selected commercial items remained unchanged at the level of 5 per cent with a maximum of 25 per cent. In all other cases of commercial imports minimum margin requirement for opening letters of credit remained at 25 per cent except the following where higher margins were prescribed:

a) 50 per cent in respect of coconut oil, spices, and betel nuts with effect from July 30, 1985.

b) 50 per cent in respect of import of cotton yarn of 21 to 59 counts by commercial importers with effect from January 23, 1986.

c) 50 per cent for opening of L/C on account of commercial importers in the private sector for import of palm oil with effect from February 16, 1986.

d) Minimum margin requirement for opening of L/Cs. for import of 'salt refined' by commercial importers in the private sector was raised to 75 per cent with effect from March 11, 1986.

(xii) Other Measures :

a) Loans to salt growers were allowed by 4 nationalised commercial banks and the Bangladesh Krishi Bank at the rate of Tk. 2000 per acre of land upto a maximum of Tk. 10,000 per borrower during the salt growing season of 1985-86.

b) Banks were advised to provide credit facility to cold storage units on the basis of ruling market price of potato as determined by the Director of Agricultural Marketing in order to meet the genuine credit needs of the cold storage units for preservation of potato during 1986 season.

c) Banks were advised that term finance for power looms and ancillary machineries under Wage Earners' Scheme/Secondary Exchange Market or under any credit line available to them should be allowed subject to the condition that, at least, 25 per cent of such power looms and machineries should be procured by the concerned entrepreneurs from the local manufacturers.

d) Effective from June 15, 1986, the maximum loan limit per borrower under the credit scheme for unemployed youths trained by the Youth Development Division was enhanced from Tk. 10,000 to Tk. 20,000 in respect of the following specified trades: welding; electrical repairing shop; beef fattening; dairy farm; pisciculture; radio and TV repairing shop; and wooden furniture workshop. The loan limit of Tk. 10,000 per borrower under the above credit scheme for all other trades remained unchanged.

Refinance Policy

61. In respect of refinance, Bangladesh Bank's policy continued to be aimed at encouraging banks to rely mainly on their own resources for their credit operations. However, keeping in view the economic priorities and the need for seasonal credit expansion, Bangladesh Bank continued to provide refinance accommodation to banks in case of genuine needs. The basic features of the refinance programme followed by the Bank during 1985-86 were as under:

i) Refinance Facility for Jute

Refinance facility to the extent of 30 per cent of the total credit extended by banks to the jute sector was allowed at 8½ per cent per annum. There was also provision for additional refinance on this account at concessional rate in case of need.

ii) Refinance against Pre-shipment Export Credit for Non-traditional Items

100 per cent of the pre-shipment export finance of banks less overdues was eligible for refinance at a concessional interest rate of 5½ per cent. Pre-shipment export credit included packing credit as well as credit extended against firm export contract/export L/C and working capital finance extended to a 100 per cent export-oriented industry including fish-freezing units and industrial units working under customs' bonded arrangement exclusively for export sale.

iii) Refinance against Pre-shipment Export Credit for Light Engineering and Electric Goods, Handicrafts and Handloom Products

Refinance was allowed to banks at an interest rate of 3½ per cent against pre-shipment export credit, including packing credit for 3 non-traditional items of exports, viz., light engineering and electrical goods, handicrafts and handloom products.

iv) Refinance against Tea other than Packet Tea

Refinance against pre-shipment export credit for tea was allowed to the extent of 100 per cent of outstanding advances less overdues at an interest rate of 8½ per cent per annum.

v) Refinance for Credit to Sugar Mills

50 per cent of the credit extended by banks to sugar mills was eligible for refinance at Bank Rate.

vi) Refinance in Respect of Working Capital Loans to Industries

Refinance to the extent of 50 per cent of the credit limits sanctioned by banks as working capital to industries established on or after July 1, 1984 was admissible at Bank Rate.

vii) Refinance against Export Bills

Refinance facility was allowed to banks by way of rediscounting of export bills and over-draft against export bills to the extent of 50 per cent and 100 per cent of the bills in respect of traditional and non-traditional exports respectively. The rate of interest for refinance relating to traditional items was 8½ per cent while that in respect of non-traditional items was 5½ per cent.

viii) Refinance under Duty Drawback Credit Scheme

Refinance to the extent of 100 per cent of loans extended under Duty Drawback Credit Scheme was made available to banks free of interest.

ix) Refinance for Financing Locally Produced Machineries

Refinance to the extent of 100 per cent of advances extended by the banks against purchase of locally-produced machineries and equipments was allowed at 2 per cent below the rate of interest charged by banks concerned on such advances

x) Refinance against Investment of Funds of the Banks in Term Loan

Refinance was allowed at Bank Rate against disbursement made by banks in financing projects involving advances beyond Tk. 0.50 crore in each individual project in the priority sectors of the economy.

xi) Refinance against BMRE Finance of Existing Tannery Units

Refinance against finance for BMRE of the existing tannery units was admissible to banks to the extent of 100 per cent of such finance at Bank Rate.

xii) Refinance against Advances in SEZ of Chittagong Hill Tracts Region

Refinance facility was admissible to banks at an interest rate of 1.5 per cent to the extent of 100 per cent of the amount of local currency loan/advances disbursed by them in the Special Economic Zones (SEZ) of Chittagong Hill Tracts Region at a concessional interest rate of 5 per cent.

CHAPTER IV

DEVELOPMENT OF BANKING FACILITIES AND FINANCE

Branch Expansion

62. A total of 155 bank branches were opened in Bangladesh by the scheduled banks during 1985–86 as against 147 bank branches opened during 1984–85. Four of their existing branches were, however, closed during the year. Thus the total number of scheduled bank branches in the country increased by 151 to 5114 as on June 30, 1986 as against 4963 as on June 30, 1985. The scheduled banks opened 111 branches in the rural areas during the year, raising the number of rural branches at the end of June, 1986 to 3446 or 67.38 per cent of total bank branches in Bangladesh. The number of nationalised banks' branches operating in foreign countries stood at 12 as on June 30, 1986 as against 14 as on June 30, 1985 (one branch each of Janata Bank in the UAE and Sonali Bank in the U.K. was merged with their other branches operating there). The number of foreign banks operating in Bangladesh remained unchanged at 7 with their 21 branches during 1985–86. The number of private sector banks in Bangladesh also remained unchanged at 8 during 1985–86. Total number of their branches increased by 33 to 665 in June, 1986 from 632 in June, 1985.

63. The Islami Bank Bangladesh Ltd. (IBBL) which was incorporated in March, 1983 and formally commenced business in August of the same year is the only bank operating in Bangladesh under the principles of Islamic Shariah. The business of the bank registered significant growth

during the year. Total deposits of IBBL increased by 56.7 per cent to Tk. 163.30 crores at the end of June, 1986 from Tk.104.23 crores at the end of June, 1985. Financing/Investments made by IBBL also increased substantially by 51.6 per cent to Tk. 118.46 crores at the end of June, 1986 from Tk. 78.13 crores at the end of June, 1985. The number of branches of the bank increased to 13 at the end of June, 1986 from 7 at the end of June, 1985.

Islami Bank

64. Bangladesh Bank carried out comprehensive inspection of 15 scheduled banks (nationalised and private, including foreign banks) during 1985-86 and their reports were sent to the concerned banks for taking necessary action. In addition, inspection of the U.K. branches of Sonali Bank was carried out during the year. Further, summary and special inspection of 168 branches of different commercial banks were conducted during 1985-86. Irregularities detected during inspection were brought to the notice of the concerned banks for taking necessary action.

Inspection of Banks

65. For financing procurement and distribution of foodgrains by the Government, a sum of Tk. 50.00 crores was allocated to the nationalised banks and a counter-finance limit of the same amount was allowed by the Bangladesh Bank during 1985-86. The outstanding amount against the above counter-finance limit stood at Tk. 14.20 crores at the end of June, 1986.

Counter Finance for Food

66. Bangladesh Bank sanctioned counter-finance limit of Tk. 120.00 crores to the nationalised banks during 1985-86 for financing procurement and distribution of fertilizer by the BADC. Outstanding counter-fina-

nce against the same stood at Tk. 93.00 crores as on June 26, 1986 as compared to the outstanding amount of Tk. 24.00 crores as on June 27, 1985. Another counter-finance limit of Tk. 20.00 crores was allowed to Sonali Bank against financing procurement of pumps, engines and accessories of shallow tubewells (STW) by BADC against which the entire limit remained outstanding at the end of June, 1986.

Counter Finance for Fertilizer

Jute Finance

67. Adequate finance from the banking system continued to be made available for Jute trade and jute mills during 1985–86 jute season. The commercial banks sanctioned cash credit and packing credit limits 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. 1463.67 crores as on January 2, 1986 as against previous year's peak level utilization of Tk. 1223.52 crores as on January 3, 1985. Refinance availed of by banks from the Bangladesh Bank stood at Tk. 558.36 crores at the end of June, 1986 as against Tk. 172.89 crores at the end of June, 1985.

Financing of BSFIC

68. As in the previous year, a total credit limit of Tk. 50.00 crores was arranged from the Sonali Bank and the Janata Bank for the Sugar mills under the control of the Bangladesh Sugar and Food Industries Corporation (BSFIC) for financing production of sugar during 1985–86. Peak level refinance availed of by these banks during 1985–86 stood at Tk. 16.61 crores which was fully liquidated by the end of June, 1986.

69. Refinance at peak level availed of by banks from the Bangladesh Bank against their advances to the Bangladesh Petroleum Corporation

Refinance against Petroleum Finance

(BPC) which had stood at Tk. 69.50 crores as on November 21, 1985, came down to Tk. 20.00 crores at the end of June, 1986. The refinance outstanding at end-June, 1985 was Tk. 16.60 crores.

Refinance against Pre-shipment Export Credit for Non-traditional Items

70. The outstanding amount in respect of refinance allowed to banks by the Bangladesh Bank against pre-shipment export credit for non-traditional items stood at Tk. 71.18 crores at the end of June, 1986.

Refinance against Locally Produced Seed Cotton

71. A refinance limit of Tk. 2.00 crores was allowed to the Bangladesh Krishi Bank (BKB) on account of its advances to the Cotton Development Board for procurement of locally produced seed cotton against which there was an outstanding of Tk. 0.90 crore at the end of June, 1986.

Export Bills

72. Peak level outstanding in respect of overdraft/rediscounting facilities allowed to banks by the Bangladesh Bank against export bills which stood at Tk. 11.29 crores as on February 6, 1986 came down to Tk. 5.44 crores at the end of June, 1986. This compared with the outstanding refinance of Tk. 12.48 crores at the end of June, 1985.

Other Refinance

73. Other refinance allowed by the Bangladesh Bank to scheduled banks on various accounts stood at Tk. 65.71 crores at the end of 1985-86 as against Tk. 128.60 crores at the end of the previous year.

CHAPTER V

DEVELOPMENT OF CAPITAL MARKET AND INDUSTRIAL FINANCE

Dhaka Stock Exchange

74. The Dhaka Stock Exchange made substantial progress during 1985-86. The number of Public Limited Companies listed with the Exchange increased to 78 from 69 in 1984-85. The investment climate improved, further with significant rise in activity in the stock market. Several factors contributed to the improvement in performance of the Stock Exchange.- These included entry of new classes of investors, participation by non-resident investors, government policies helping boost up public confidence and growing awareness among the companies themselves. The New Industrial Policy laid emphasis on faster growth of the private sector, and investors' response to the public offering of new shares seemed to be encouraging. Besides, with the disinvestment policy of the Government and privatization of some public enterprises, more and more companies came forward to enlist their shares with the Exchange. The total paid-up capital of the companies listed with the Exchange stood at Tk. 209.85 crores in 1985-86 as compared to Tk. 201.75 crores in 1984-85, showing an increase of 4.01 per cent over the year.

75. Trading in shares on the floor of the Dhaka Stock Exchange recorded an uptrend during 1985-86. Total turnover during 1985-86 was 6,70,399 shares worth Tk. 3.44 crores which was 76.34 per cent bigger in volume and 52.71 per cent higher in value as compared with those in 1984-85. In all, 10 companies offered shares worth Tk. 4.90 crores to the general public for subscription during the year. With the exception of

only one company, shares of all the companies were oversubscribed. In some cases the premium on shares ranged from 25 per cent to 225 per cent of their offer values. As against the total of Tk. 4.90 crores of capital offered by these companies, public response was valued at Tk. 8.31 crores representing an oversubscription of 69.6 per cent. A total of 40 companies declared dividends ranging from 8 per cent to 60 per cent. Market capitalisation of the listed companies increased from Tk. 304.82 crores in 1984-85 to Tk. 343.65 crores in 1985-86.

Investment Corporation of Bangladesh (ICB)

76. Total resources of the Investment Corporation of Bangladesh as on June 30, 1986 amounted to Tk. 79.18 crores consisting of the paid-up capital of Tk. 10.00 crores, Government loan of Tk. 18.50 crores and debentures worth Tk. 50.68 crores issued in favour of the Bangladesh Bank, the Nationalised Commercial Banks and the foreign commercial banks. As against this, ICB made a total commitment of Tk. 88.66 crores upto June 30, 1986 thus leaving a resource gap of Tk. 9.48 crores. The Corporation did not have any line of foreign credit/investment resources. In order to improve its resource base, the possibility of securing financial assistance from the Islamic Development Bank (IDB), International Finance Corporation (IFC) and Asian Development Bank (ADB) was being explored.

77. During the year ending June, 1986 the ICB committed Tk. 1.21 crores for underwriting/bridge financing as against Tk. 5.95 crores committed during 1984-85. The Corporation committed Tk. 0.34 crore for debenture financing during 1985-86 as against Tk. 0.28 crore in 1984-85. As investment support in the form of under-writing/bridge and debenture financing committed by other financial institutions decreased to

Tk. 0.74 crore in 1985-86 from Tk. 3.75 crores during the preceding year, total commitments made by the ICB and its consortium partners also declined to Tk. 2.29 crores during 1985-86 from Tk. 9.98 crores committed during 1984-85. Since inception upto June 30, 1986, the corporation committed financial assistance of Tk. 88.66 crores to 292 projects.

Bangladesh Shilpa Bank (BSB)

78. During 1985-86, the Bangladesh Shilpa Bank received a total of 94 applications as against 65 applications received during 1984-85. During the year, the Bank sanctioned loans amounting to Tk. 99.11 crores which included Tk. 87.93 crores in foreign currency and Tk. 11.18 crores in local currency. During the preceding year total loans sanctioned by the BSB had amounted to Tk. 66.27 crores which included Tk. 63.51 crores in foreign currency and Tk. 2.76 crores in local currency. Notably, as in the past year, all the loans sanctioned during 1985-86 were in the private sector, indicating an encouraging response of the private sector to industrial ventures and opportunities.

79. Total disbursement of loans by the BSB during 1985-86 amounted to Tk. 12.23 crores of which Tk. 5.80 crores were in foreign currency and the balance of Tk. 6.43 crores in local currency. Projects in the private sector claimed the entire amount disbursed during the year as was the case in the preceding year also. Total disbursement during the preceding year had amounted to Tk. 28.81 crores of which the foreign currency component was Tk. 8.58 crores. The BSB recovered an amount of Tk. 41.72 crores during 1985-86 as compared to Tk. 36.70 crores in 1984-85. Total amount of BSB loans outstanding (including overdues) as on June 30, 1986 stood at Tk. 610.73 crores as against Tk. 567.40 crores as on June 30, 1985.

Bangladesh Shilpa Rin Sangstha (BSRS)

80. The total amount of loans sanctioned during 1985–86 against loan applications received in the previous year stood at Tk. 12.70 crores as compared to Tk. 16.90 crores sanctioned during the preceding year. Of the total sanctions during 1985–86, foreign currency and local currency loans amounted to Tk. 9.00 crores (70.87 %) and Tk. 3.70 crores (29.13 %) respectively as compared to Tk. 9.98 crores (59.05 %) and Tk. 6.92 crores (40.95 %) respectively during the preceding year. As in the previous year, no new loan was sanctioned in the public sector during 1985–86.

81. During 1985–86, an amount of Tk. 8.89 crores was disbursed by the BSRS as against Tk. 19.75 crores disbursed during the preceding year. Of the total disbursement, local currency and foreign currency components accounted for Tk. 4.85 crores (54.56 %) and 4.04 crores (45.44 %) respectively as compared to Tk. 18.62 crores (94.28 %) and Tk. 1.13 crores (5.72 %) respectively during 1984–85. During the year under report, an amount of Tk. 8.04 crores (88.55%) was disbursed in the private sector and Tk. 1.04 crores (11.45%) in the public sector. Compared to this, Tk. 17.88 crores were disbursed in the private sector and Tk. 1.85 crores were disbursed in the public sector during the previous year.

82. The BSRS recovered an amount of Tk. 34.38 crores during 1985–86 as compared to Tk. 26.12 crores during the preceding year. Of the total recovery during the year, the public and private sectors accounted for Tk. 13.21 crores (38.42%) and Tk. 21.17 crores (61.58%) respectively as compared to Tk. 12.00 crores (45.94%) and Tk. 14.12 crores (54.06%) respectively during the preceding year.

83. The total outstanding loans of the BSRS as on June 30, 1986 stood at Tk. 670.00 crores as compared to Tk. 621.85 crores as on June 30, 1985.

Commercial Banks

84. The commercial banks played an active role in the promotion of capital market in the country through their participation in debenture financing of the sector corporations such as HBFC, ICB, Petrobangla, BCIC and BSFIC. Total debenture financing by the nationalised private and foreign commercial banks as at the end of June, 1986 stood at Tk. 767.77 crores as compared to Tk. 669.96[R] crores at the end of June, 1985. Besides, commercial banks made advances to the members of the Stock Exchange against the security of their shares listed with the Exchange. Advances against Stock Exchange securities (including Government and other trustee securities) as at the end of June, 1986 stood at Tk. 17.52 crores as compared with Tk. 56.61 crores at the end of June, 1985.

R= Revised.

CHAPTER VI

AGRICULTURAL AND RURAL FINANCE

Annual Agricultural Credit Programme

85. The Annual Agricultural Credit Programme for 1985–86 envisaged an overall credit target of Tk. 1275.00 crores against Tk. 1150.00 crores during 1984–85. Of the total, Tk. 596.00 crores or 46.8 per cent was earmarked for crop financing (other than tea), Tk. 136.00 crores or 10.7 per cent for financing purchase of irrigation equipments and Tk. 543.00 crores or 42.6 per cent for other agricultural activities*. This compared with the targets of Tk.615.00 crores and Tk. 145.00 crores for crop financing and financing purchase of irrigation equipments respectively and a separate provision of Tk. 390.00 crores for financing other agricultural activities during 1984–85.

Annual Crop Credit System

86. The annual crop credit system which was introduced in 1984–85 to ensure orderly flow of credit to finance the country's major crops production remained in force during 1985–86. Under this system, credit allocations are made at a time to individual former loanees on the basis of their respective annual production plan. Credit requirements are estimated as per credit norms and needs of the intending borrowers. For ensuring proper utilization of loans and smooth functioning of the system, credit is generally disbursed on the commencement of the crop season and all transactions relating to loan sanctioned are carried out through **Credit Pass Book** of respective borrowers introduced for the purpose.

Credit Pass Book

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* These include financing of plough cattle, dairy, poultry, fishery, cold storage, marketing and processing of agricultural products, tea industry, etc.

Agricultural Credit Disbursement under the Programme

87. As against the target of Tk. 596.00 crores for financing crop production (other than tea) during 1985–86, an amount of Tk. 124.73 crores or 20.9 per cent was disbursed by the participating credit institutions (PCIs). This compared with the disbursement of Tk. 514.81 crores during 1984–85. Financing of irrigation equipments during 1985–86 stood at Tk. 80.83 crores or 59.4 per cent of the target which was Tk. 29.45 crores or 26.7 per cent lower than the disbursement of Tk. 110.28 crores during the preceding year. Financing of other agricultural activities during 1985–86 amounted to Tk. 359.06 crores which was Tk. 165.69 crores or 31.6 per cent lower than Tk. 524.75 crores disbursed in 1984–85. Total disbursement of agricultural credit under all the programmes taken together during 1985–86 thus stood at Tk. 564.62 crores against the target of Tk. 1275.00 crores as compared with Tk. 1149.84 crores disbursed during 1984–85, indicating a decline of Tk. 585.22 crores or 50.9 per cent over the year. The decline in disbursement was due mainly to introduction of "Credit Pass Book" which eliminated fake borrowers and non–issuance of fresh loans to the defaulter loanees.

Recovery of Agricultural Credit

88. The recovery target for 1985-86 was set at Tk. 925.00 crores against which all the agricultural lending institutions recovered a total amount of Tk. 610.39 crores or 66 per cent of the target. This was, however, 4.5 per cent higher than the recovery of Tk. 583.90 crores during 1984–85. Outstanding agricultural credit as at the end of June, 1986 stood at Tk. 3409.2 crores as compared with Tk. 3034.24 crores at the end of June, 1985, showing an increase of Tk. 374.96 crores or 12.4 per cent over the year.

89. A comparative position of credit operations under the Annual Agricultural Credit Programme for 1984-85 and 1985-86 is presented in Table 6.1.

TABLE 6.1

COMPARATIVE POSITION OF CREDIT OPERATIONS UNDER ANNUAL AGRICULTURAL CREDIT PROGRAMME DURING 1984-85 AND 1985-86

(Taka in crores)

Particulars	1984-85	1985-86	% change over the year
1. Target for Disbursement	1150.00	1275.00	+10.87
a) Crop Financing (Other than tea)	615.00	596.00	- 3.09
b) Financing of Irrigation Equipments	145.00	136.00	- 6.21
c) Other Agricultural Activities (including tea)	390.00	543.00	+39.23
2. Actual Disbursement	1149.84	564.62	- 50.90
a) Crop Financing	514.81	124.73	-75.77
b) Financing of Irrigation Equipments	110.28	80.83	-26.70
c) Other Agricultural Activities (including tea)	524.75	359.06	-31.58
3. Overdue (As on June 30)	1158.89	1534.35	+32.40
4. Recovery	583.90	610.39	+ 4.54
5. Outstanding (As on June 30)	3034.24	3409.20	+12.36

90. Table 6.2 shows the operations of agricultural credit by types:

TABLE 6.2

DISBURSEMENT OF AGRICULTURAL CREDIT BY TYPES (SHORT-TERM AND LONG-TERM LOANS)

(Taka in crores)

Particulars	1984–85	1985–86	% Change
Total Agricultural Credit	**1149.84**	**564.62**	**–50.90**
1. Short-term Loans:	806.60 (70.15)	330.19 (58.48)	–59.06
a) Crop Loans (other than tea)	514.81	124.73	–75.77
b) Other agricultural activities	291.79	205.46	–29.59
i) Crop Loan for tea	85.75	93.43	+ 8.96
ii) Others	206.04	112.03	–45.63
2. Long-term Loans:	343.24 (29.85)	234.43 (41.52)	–31.70
a) Irrigation Equipments	110.28	80.83	–26.70
b) Other agricultural activities	232.96	153.60	–34.07
i) Plough animals	87.62	46.51	–46.92
ii) Others	145.34	107.09	–26.32

Notes: Figures in brackets indicate percentages of total credit.

91. It may be observed from the above table that disbursement of short term and long-term agricultural credit declined by 59.06 per cent and 31.70 per cent respectively during 1985–86 as compared with the increase of 12.08 per cent and 19.40 per cent respectively in 1984–85. The shares of short-term and long-term loans in total credit stood at 58.48 per cent and 41.52 per cent respectively in 1985–86 as compared

with 70.15 per cent and 29.85 per cent respectively in 1984-85. While short-term crop loans other than those for tea recorded a significant decline of 75.77 per cent, those for tea recorded an increase of 8.96 per cent during the year. Term loans for financing purchase of irrigation equipments . recorded a decline of 26.70 per cent during 1985-86 as compared with a decrease of 2.36 per cent in the preceding year. Term loans for plough animals and other purposes declined by 34.07 per cent during 1985-86 as against an increase of 33.49 per cent during the preceding year.

92. **Table 6.3 shows the position of disbursement of agricultural credit by sources :**

TABLE 6.3

AGRICULTURAL CREDIT BY SOURCES

(Taka in crores)

Sources/ Agencies	1984-85		1985-86	
	Total	Crop Loan other than tea	Total	Crop Loan other than tea
BKB	614.73	154.50	365.05	33.39 (-78.39)
PCBs	383.20	261.03	91.89	35.16 (-86.53)
BRDB/UCCAs	123.61	76.29	93.68	46.72 (-38.76)
BSBL	28.30	22.99	13.99	9.46 (-58.85)
Total:	**1149.84**	**514.81**	**564.61** (-50.90)	**124.73** (-75.77)

Note: Figures in bracket indicate percentage changes over the year.

93. The above table indicates that the supply of crop loans from all the participating credit institutions declined significantly during 1985–86. While crop financing by the PCBs, BRDB–UCCAs and the BSBL declined by 74.65 per cent that by the BKB declined by 78.39 per cent during the year.

94. Table 6.4 shows the percentage shares of agricultural credit by sources :

TABLE 6.4

PERCENTAGE SHARES OF AGRICULTURAL CREDIT BY SOURCES

Sources/ Agencies	1984–85			1985–86		
	Total	Crop Loan other than tea	Irrigation equip-ments	Total	Crop Loan other than tea	Irrigation equip-ments
BKB	53.46	25.13	9.42	64.66	26.77	30.62
PCBs	33.36	68.15	3.28	16.27	28.19	11.28
BRDB/UCCAs	10.75	61.72	32.18	16.59	37.46	58.10
BSBL	2.46	81.24	—	2.48	7.58	—

95. The above table indicates that BKB continued to remain the major source of agricultural finance in the country and its share in total agricultural credit increased from 53.46 per cent in 1984–85 to 64.66 per cent in 1985–86.

96. Refinance availed of by all the credit agencies taken together from the Bangladesh Bank during 1985–86 amounted to Tk. 253.17 cro-

Refinance by Bangladesh Bank

res as compared to Tk. 799.34 crores during 1984–85. This includes a refinance of Tk. 80.13 crores against Tk. 82.93 crores sanctioned to the Sonali Bank during the year against its lending to the BRDB/UCCAs for financing purchase of irrigation equipments. Detailed position of the Bangladesh Bank's refinance to different lending institutions during 1984–85 and 1985–86 is shown in Table 6.5.

TABLE 6.5

(Taka in crores)

Credit Agencies	1984–85		1985–86	
	Sanction	Disbursement	Sanction	Disbursement
BKB	488.20	362.87	114.00	109.99
PCBs	351.09	348.94	41.57	43.57
BSBL	28.25	28.15	28.98	12.10
Sonali Bank-BRDB	85.00	59.38	82.93	80.13
BRDB	—	—	10.00	7.38
Total:	**952.54**	**799.34**	**277.48**	**253.17**

Outstanding Borrowings of the PCIs

97. The outstanding borrowings of the PCIs from the Bangladesh Bank stood at Tk. 1370.86 crores at the end of June, 1986 as against Tk. 1402.53 crores at the end of June, 1985, showing a decrease of Tk. 31.67 crores or 2.26 per cent over the year. The individual position of outstanding borrowings by the PCIs from the Bangladesh Bank during 1984–85 and 1985–86 is shown in Table 6.6 .

TABLE 6.6

(Taka in crores)

Credit Agencies	1984-85	1985-86	% Change over the year
BKB	1024.48	1112.49	+8.59
BSBL	38.72	33.56	-13.33
PCBs	271.95	74.14	-72.74
Sonali Bank-BRDB	59.38	139.50	+134.93
BRDB	8.00	11.17	+39.63
Total:	**1402.53**	**1370.86**	**-2.26**

Programmes/ Projects under Agricultural Credit Department (ACD)

98. In addition to the agricultural credit programmes reviewed in the preceding paragraphs, some specific programmes/projects are financed under the supervision and guidance of the Agricultural Credit Department (ACD) of the Bangladesh Bank to help various disadvantaged groups of farmers and other rural poor who had little access to institutional credit.

Loans for Pond Fishery

99. Under a programme for financing pond fishery, the PCBs and the BKB disbursed an amount of Tk. 3.53 crores during 1985-86 as against the target of Tk. 13.05 crores. This compared with the disbursement of Tk. 7.23 crores during 1984-85, indicating a decrease of 51.18 per cent over the year. Agency-wise disbursement of loans under the programme during 1984-85 and 1985-86 is given in Table 6.7.

TABLE 6.7

(Taka in crores)

Agencies	1984-85	1985-86	% Change over the year
PCBs	0.60	0.06	-90.00
BKB	6.63	3.47	-47.66
Total:	**7.23**	**3.53**	**-51.18**

Loans for Cold Storage

100. In order to promote cold storage facility for preservation of potatoes in the country, the PCBs and the BKB together disbursed an amount of Tk. 28.31 crores out of the target of Tk. 35.00 crores during 1985–86 as compared to Tk. 37.98 crores during 1984–85, indicating a decrease of 25.46 per cent over the year. The source-wise disbursement of loans under the programme during 1984–85 and 1985–86 is shown in Table 6.8 .

TABLE 6.8

(Taka in crores)

Agencies	1984-85	1985-86	% Change over the year
PCBs	25.01	13.86	-44.62
BKB	12.97	14.45	+10.24
Total:	**37.98**	**28.31**	**–25.46**

Rural Finance Project

101. Under the Rural Finance Project (RFP) which started function–ing under a grant Agreement signed between the Government of Bangla–desh and the U.S.A. on August 15, 1983 with the aim of creating an economically viable rural financial system for Bangladesh, the USAID released U.S. $ 75 million in three equal instalments.

Bangladesh Swiss Agricultural Project (BASWAP)

102. The Bangladesh-Swiss Agricultural Project (BASWAP) on post–harvest technology, storage facility and marketing credit for small farmers and share-croppers which completed its first phase in June, 1983 was renewed for another six years and half (i.e. upto 1990) under the name BASWAP–II to be implemented in phases. The period 1984–85 has been

earmarked for phase-I while phase-II will be undertaken during the period 1987-90. Out of 14 godowns to be constructed during the period of phase-I, construction of 12 godowns were completed and these were brought into use for storing grains. The recovery position under the project worked out to 93.00 per cent of disbursement during 1985-86. Bank-wise credit position of the project upto the end of June, 1986 is shown in Table 6.9 .

TABLE 6.9

CREDIT OPERATIONS UNDER BASWAP-II
(1985-86)

Name of Financing Banks/Area	Number of Farmers under the Project	Quantity of Foodgrains stored (md.)	Amount disbursed (Taka in crore)	Amount recovered (Taka in crore)
Sonali Bank (Boda Union)	7200	34362	0.41	0.39
Rupali Bank (Satnala Union)	3642	24565	0.31	0.28
Total:	**10842**	**58927**	**0.72**	**0.67**

Shwanirvar Credit Programme

103. The Shwanirvar (self-reliance) Programme launched in 1978 for financing income and employment generating activities in rural areas continued its operation with 'Paddy Husking Loan Scheme' started in 10 Thanas (now Upazillas) of 10 districts. Presently the scheme covers 75 Upazillas of 19 (old) districts of the country. Separate 5-member target groups for men and women are organised for financing under the scheme, each member of a group owning not more than 0.40 acre of cultivable land or having yearly income of not exceeding Tk. 6,000.00. The

PCBs and the BKB extend short-term loans of a maximum amount not exceeding Tk. 5,000.00 per party out of their own resources at an interest rate of 13.00 per cent (excluding service charge) per annum. Agency-wise performance of the scheme upto June 30, 1986 is shown in Table 6.10.

TABLE 6.10

LENDING UNDER SWANIRVAR PROGRAMME
(Cumulative Position as on June 30, 1986)

(Taka in crores)

Credit Agencies	Amount Disbursed	Amount Recovered	Amount Outstanding	Amount Overdue
NCBs	37.57	22.05	18.76	8.53
Uttara & Pubali Bank Ltd.	2.51	1.73	0.88	0.44
BKB	15.45	9.28	7.08	1.92
Total:	**55.53**	**33.06**	**26.72**	**10.89**

ASARRD Project

104. An Action-cum-Research project on small farmers and landless labourers, popularly known as ASARRD (Asian Survey on Agricultural Reform and Rural Development) which was introduced in March, 1976 under the joint sponsorship of the FAO/UNDP and the Ministry of Local Government, Rural Development and Co-operatives of the Government of Bangladesh with the objectives of improving the social and economic conditions of small farmers and landless labourers of the country through integrated programmes for increasing productiviiy, income, employment opportunities and mobilizing available farm resources and savings as also for training of farmers and officers for promoting

group action in accelerating development concluded its second phase of operations in June, 1985. In the first phase (1976-80) about 230 groups of target people in 12 villages of Mymensingh, Comilla and Bogra districts were given supervised credit amounting to Tk. 80.00 lakhs by Janata Bank which is the participating agency for the project. The second phase (1980-85) which was undertaken in four districts viz., Mymensingh, Comilla, Bogra and Rangpur at a revised cost of about Tk. 3.00 crores to cover 200 villages continued during 1985-86. Credit disbursed under the scheme on the basis of borrower's production plan upto the end of June, 1986 amounted to Tk. 2.11crores against which Tk. 2.03 crores or 96.20 per cent of disbursement was recovered. Savings mobilized under the project amounted to Tk. 0.23[P] crore.

Special Credit Scheme for Small Farmers under IFAD

105. Under a credit agreement signed between the Government of Bangladesh and the International Fund for Agricultural Development (IFAD), a Tk. 10.00 crores scheme for small farmers was launched in February, 1980 in three old districts viz., Jessore, Kushtia and Faridpur. The scheme defines the target group of small farmers as those cultivators having not more than 3.0 acres of land. The main emphasis of the project was given on short-term production credit. Other off-farm activities like pond fishery, livestock, poultry, small and cottage industries, purchase of agricultural machineries, etc. were also financed under the scheme. Encompassing 4,650 villages in 644 unions of the three districts, the scheme extended credit amounting to Tk. 18.67 crores upto June 30, 1986. Break-up of credit operations under the scheme is shown in Table 6.11.

P= Provisional

TABLE 6.11

CREDIT OPERATIONS UNDER IFAD

(Upto June 30, 1986)

(Taka in crores)

Banks	Disburse-ment	Due for recovery	Recovery	Over-due	Outstan-ding
NCBs	5.36	8.07	5.76	2.31	3.35
Pubali Bank Ltd.	0.48	0.68	0.56	0.12	0.26
Uttara Bank Ltd.	0.07	0.12	0.09	0.03	0.03
BKB	12.76	11.86	8.66	3.20	6.05
Total:	**18.67**	**20.73**	**15.07**	**5.66**	**9.69**

Second Rural Development Project (RD-II Project)

106. In an effort to strengthen the operations of the TCCA / KSS co-operative system as well as those of the BRDB and KSS / BSS / MSS in the rural financial structure, a second Rural Development Project (RD-II Project) was undertaken in March, 1984 for operations in 13 old districts, namely, Dinajpur, Rangpur, Bogra, Khulna, Barisal, Patuakhali, Dhaka, Mymensingh, Tangail, Jamalpur, Comilla, Sylhet and Chittagong. The project is being financed under grants/credit from IDA, the CIDA and the UNDP. A Development Credit Agreement (DCA) with IDA and a Memorandum of Understanding for a grant from the CIDA were signed by the Government of Bangladesh which would enable the Bangladesh Bank to receive, through a Subsidiary Loan Agreement (SLA) with the Government, US dollar equivalent to SDR 70.46 million as IDA loan and C $ 13.46 million as CIDA grant. The Bangladesh Bank will provide refinance facility to the Sonali Bank to the extent of 90.00 per cent of its project loans in four categories.

(i) Agricultural MT Credit; (ii) Agricultural ST Credit; (iii) Marketing godowns of UCCAs; and (iv) Rural Poor Programme. Both the Bangladesh Bank and the Sonali Bank will bear a portion of the Project loans out of their own resources. As on June 30, 1986 an amount of Tk. 91.25 crores under this project was given to the Sonali Bank as refinance against its disbursement of Tk. 100.81 crores. The Bangladesh Bank received Tk. 28.83 crores from IDA against its refinance and also Tk. 9.76 crores as advance to special account for import of irrigation equipments.

North-West Rural Development Project

107. The Government of Bangladesh signed a loan agreement with the Asian Development Bank (ADB) for US $ 45.0 million and with the International Fund for Agricultural Development (IFAD) for SDR 13.7 million on 20th April and 18th April, 1983 respectively for the purpose of undertaking North-West Rural Development Project for operation in 52 upazillas of old Rajshahi, Pabna and Kushtia districts. For providing refinance facility to the Sonali Bank against its disbursement of short and medium term loans to landless and rural poor farmers through BRDB's UCCA/BSS/MBSS system for promoting agriculture, livestock and various off-farm activities, the Bangladesh Bank would receive an amount equivalent to US $ 6.00 million and SDR 2.74 million through a Subsidiary Loan Agreement (SLA). Bangladesh Bank's refinance to Sonali Bank against their disbursement to target borrowers stood at Tk. 95.42 lakhs as on June 30, 1986.

Projects under RCPD

108. The Rural Credit Project Department (RCPD) of the Bangladesh Bank is entrusted with the responsibility of preparation, implementation, monitoring and supervision of a number of Projects/Schemes relating to various income and employment generating activities in rural areas of the country.

Lending under IDA Credit No. 1147-BD

109. The schemes for various components for lending under Agricultural Credit Project-I (IDA Credit No. 1147-BD) involving an amount equivalent to US $ 62.40 million (including a price contingency of US $ 14.30 million) were introduced by the RCPD which are briefly reviewed in the following paragraphs. The Project was originally scheduled to end in June, 1985 but subsequently extended upto December, 1986.

Financing of Sale and Installation of Minor Irrigation Equipments

110. Of the various components for financing of sale and installation of minor irrigation equipments like shallow tubewells (STW) under IDA Credit No. 1147-BD was launched from July, 1981 in Rajshahi Division. Under the project, a total of 214 STWs were sold and installed during 1985-86. This brought the total number of STWs installed under the project to 33,734 as against the target of 40,097 STWs to be commissioned within the project period.

Financing of Grain Storage, Village Mechanics and Agricultural Workshop

111. Another scheme drawn under the above IDA Credit provides for financing of grain storage, village mechanics and agricultural workshops. Under the scheme, the participating credit institutions together disbursed a sum of Tk.15.98 lakhs for construction of 4 grain storages while another sum of Tk. 0.14 lakh was sanctioned to village mechanics during 1985-86. There was no disbursement against agricultural workshops during the year.

Other Diversified Lending

112. Other diversified lending of funds introduced under the above IDA Credit include financing of cattle purchase, beef fattening, rural transport, pond fishery, small scale dairy, etc. A sum of Tk. 8.50 crores was disbursed by the participating credit institutions upto March, 1986.

Refinance under IDA Credit No. 1147-BD

113. The Bangladesh Bank provided a total of Tk. 5.98 crores as refinance to the participating credit institutions (Sonali Bank, Janata Bank, Agrani Bank and BKB) for financing of various components under the IDA Credit No.1147–BD during 1985–86. The cumulative amount of refinance provided by the Bangladesh Bank to the PCIs under the above Credit and reimbursement thereof upto the end June, 1986 stood at Tk. 94.15 crores and Tk. 69.77 crores respectively.

114. Performance of other schemes / projects introduced by the RCPD for financing by the NCBs and the BKB out of their own resources with refinance facility from the Bangladesh Bank are summarized below :

Rural Housing Financing Scheme

115. Under the 'Rural Housing Financing Scheme' introduced in January, 1984 for financing construction of semi–pucca dwelling houses in rural areas (outside Municipal areas and Upazilla Head quarters) the participating credit institutions (NCBs and Grameen Bank) together disbursed an amount of Tk.16.29 crores upto June 30, 1986. The scheme provides for long-term loans of Tk. 38,000 and Tk. 65,000 per borrower for construction of semi–pucca houses having plinth area of 250 sft. and 425 sft. respectively at an interest rate of 5.0 per cent per annum and a repayment period of 27 years (including grace period of 2 years).

Banana Plantation Financing Scheme

116. The PCIs (NCBs and BKB) disbursed Tk. 0.11 crore and recovered an amount of Tk. 0.11 crore during 1985–86 under the Banana Plantation Financing Scheme which now covers a total of 82 Upazillas. Since inception of the scheme in 1980 upto the end of June, 1986 the PCIs disbursed a total amount of Tk. 3.68 crores against which Tk. 1.16 crores was recovered upto June 30, 1986.

Rural Transport Financing Scheme

117. Under the Rural Transport Financing Scheme, the PCIs disbursed short and medium-term loans amounting to Tk. 0.19 crore and recovered a sum of Tk. 0.22 crore during 1985-86. Cumulative disbursement of loans since inception of the scheme in 1981 upto the end of June, 1986 amounted to Tk. 6.86 crores against which Tk. 2.58 crores was recovered upto June 30, 1986.

Shrimp Culture Financing Scheme

118. The Shrimp Culture Financing Scheme which was introduced in 1980 now covers 23 Upazillas of Khulna, Bagerhat, Satkhira, Chittagong and Cox's Bazar districts. As against the allocation of Tk. 10.50 crores, the PCIs disbursed an amount of Tk. 5.20 crores and recovered Tk. 5.17 crores during 1985-86. This brought the total financing under the scheme to Tk. 29.23 crores against which a sum of Tk. 13.17 crores was recovered upto the end of June, 1986.

Lac Culture Financing Scheme

119. Under the Lac Culture Financing Scheme introduced for financing cultivation of lac and shellac in Chapai Nawabganj district, Agrani Bank disbursed an amount of Tk. 1.86 lakhs and recovered Tk. 2.30 lakhs (including interest) since inception of the scheme in 1981 upto the end of June, 1986.

Rower Pump Financing Scheme

120. Under the Rower Pump Financing Scheme which presently covers 112 Upazillas of 33 districts, the PCIs were given a target for financing purchase of 23,245 rower pumps, a low cost Manually Operated Shallow Tubewells for Irrigation (MOSTI) innovated by the Mirpur Agricultural Workshop and Training School (MAWTS), involving an amount of Tk. 3.37 crores. The PCIs disbursed an amount of Tk. 3.04 lakhs and recovered a sum of Tk. 1.57 lakhs during 1985-86. Total loans disbursed

under the Scheme since its inception in December, 1982 upto the end of June, 1986 amounted to Tk. 7.12 lakhs of which a sum of Tk. 2.63 lakhs was recovered.

Commercial Poultry (Broiler) Financing Scheme

121. With a view to increasing the supply of meat and eggs by encouraging establishment of commercial poultry farms, a credit scheme was launched in November, 1983 in some selected areas around Dhaka city. Sonali Bank and Agrani Bank disbursed an amount of Tk. 7.30 lakhs during 1985–86. Total amount disbursed since inception upto June 30, 1986 amounted to Tk. 23.69 lakhs against which a sum of Tk. 0.57 lakh was recovered.

Training of Bank Employees

122. With a view to improving the professional skill of bankers in the dispensation of rural credit, the RCPD arranged 24 basic courses and 18 follow up courses through training institutions of the PCIs under which a total of 536 bank employees received training during 1985–86. In addition, 1021 officials and employees of the PCIs received training in Refreshers' Courses at the training institutes of the PCIs. Besides, 17 management level officials from the Bangladesh Bank and the PCIs attended a Trainers' Training Programme during the year.

Inspection of Bank Branches and Cooperatives

123. The Agricultural Credit Inspection Department (ACID) of the Bangladesh Bank conducted comprehensive/summary inspection of Co-operative institutions, branches of the BKB and branches of commercial banks (NCBs, Uttara Bank Ltd. and Pubali Bank Ltd.) during 1985–86.

The Grameen Bank

Grameen Bank

124. The Grameen Bank started as a project in June, 1976 with the objective of providing financial resources to the poor on reasonable terms and conditions they can generate productive self-employment without any external assistance. After its initial success and in recognition of the need for a separate financial institution for the rural poor, the Government through the Grameen Bank Ordinance, 1983 established the Grameen Bank on September 4, 1983 as an independent bank with the main functions of providing credit with or without collateral security in cash or in kind to landless persons for all types of economic activities including housing, but excluding business in foreign exchange transactions.

125. From the start of operations as an independent bank from October 2, 1983, the Grameen Bank has made significant progress in rural banking. It embarked on a programme for increasing the number of branches from 102 at the end of June, 1984 to 500 by the end of June, 1988. In support of this expansion programme, IFAD agreed to provide a soft loan of SDR 23.60 million at an interest of 3.0 per cent per annum in respect of which an agreement was signed between the Government of Bangladesh and IFAD on March 25, 1985. By the end of June, 1986 the number of Grameen Bank branches rose to 241. The Grameen Bank also gets refinance support from the Bangladesh Bank for its rural housing scheme as well as for normal lending operations at an interest rate of 4 per cent and 8.5 per cent per annum respectively.

126. The Grameen Bank started a new scheme during 1984–85 for construction of simple tin-roof houses for its members under which one can borrow upto a maximum of Tk. 18,000. As a boost up to rural hou–

sing, nearly 1811 houses were constructed under the scheme upto the end of June, 1986. Total disbursement of loans under this scheme amounted to Tk. 2.37 crores upto the end of June, 1986.

127. The Grameen Bank operations also received encouraging response to investments in collective enterprises like owning and operating shallow and deep tubewells, rice and oil mills, power looms, and undertaking joint cultivation through leasing of land, pond, etc. Total cumulative disbursement of loans for investment in such collective ventures amounted to Tk. 5.65[P] crores at the end of June, 1986.

128. The Grameen Bank recorded rapid increases both in its number of borrowers and disbursement of loans during 1985–86. Total disbursement of loans during 1985-86 stood at Tk. 45.87 crores which was 16.99 per cent higher than the disbursement of Tk. 39.21 crores during 1984–85. Since inception of the Bank (as a project) in June, 1976 upto the end of June, 1986, the Grameen Bank extended collateral-free loans amounting of Tk. 118.69* crores to 1,99,869 landless people of whom 1,39,814 or 69.95 per cent were women. Of the total disbursement of Tk. 118.69 crores, an amount of Tk. 92.03 crores or 77.54 per cent was paid back by the loanees in weekly instalments. By the end of June, 1986 a total number of 4,330 villages in 13 districts (new) were brought under the purview of the Grameen Bank operations through its 241 branch net-work. The proportion of overdue loans remained quite low at 4.06 per cent due to the Grameen Bank's specialised system of intensive credit supervision.

P= Provisional

* Includes Tk. 15.31 crores disbursed by the PCBs and BKB under the GBP upto September 30, 1983, i.e., prior to conversion of GBP into a full-fledged Bank but excludes loan disbursed for construction of rural houses.

129. Total group savings (including contributions to emergency Fund) under the Grameen Bank at the end of June, 1986 amounted to Tk. 12.35 crores which was 91.47 per cent higher than Tk. 6.45 crores at the end of June, 1985.

CHAPTER VII

FINANCING OF SMALL AND COTTAGE INDUSTRIES

FINANCING OF SMALL AND COTTAGE INDUSTRIES

Financing under IDA Credit No. 1065-BD

130. Under IDA Credit No. 1065–BD which became effective from January 15, 1981, an amount equivalent to SDR 22.87 million was originally made available to the Bangladesh Bank for extending refinance to 3 participating credit institutions (PCIs) viz., the Sonali Bank, the Janata Bank and the Agrani Bank. The said credit was subsequently enhanced to SDR 24.67 million during 1985–86 by transferring SDR 1.80 million from the technical assistance component of the Credit. Its validity expired on June 30, 1986. Though SDR 24.67 million was available for refinance, the cumulative amount that could be committed upto June 30, 1986 stood lower at SDR 23.70 million due to fewer number of eligible project proposals.

131. Under the programme, the PCIs provided term loans for establishment of Small and Cottage Industries (SCI) projects in the private sector as per prescribed eligibility criteria of the Credit. The lending rate of interest charged by the PCIs from the SCI borrowers was 13 per cent per annum with no extra premium or service charge. The maximum period of the individual loans is 12 years inclusive of a grace period of 3 years. The Bangladesh Bank provides refinance for the similar period to the PCIs at 3 different rates of interest, depending upon the size of loans as under :

i) For loans not exceeding Tk. 5 lakhs at 5 per cent per annum.

ii) For loans above Tk. 5 lakhs upto Tk. 15 lakhs at 6 per cent per annum.

iii) For loans above Tk. 15 lakhs upto Tk. 30 lakhs at 7 per cent per annum.

132. The funds received under the above Credit arrangement are kept in the IDA Credit Account maintained with the Bangladesh Bank. Withdrawals made by the Bangladesh Bank from IDA Credit Account against the refinance provided to the PCIs constitute the Bangladesh Bank's subsidiary loan from the Government of Bangladesh at rates of interest 2 per cent below the rates at which corresponding refinance has been provided The Bangladesh Bank is to repay the subsidiary loan to the Government of Bangladesh in 15 years inclusive of 5 years grace period. Funds withdrawn from the Credit Account are to be repaid by the Government of Bangladesh to the IDA in 50 years which include a grace period of 10 years.

133. During 1985-86, the Industrial Credit Department (ICD) of the Bangladesh Bank approved 70 new projects involving loans amounting to Tk. 9.98 crores for refinancing under the above IDA Credit. Total disbursement of refinance by the Bangladesh Bank to the PCIs under the Credit during 1985-86 amounted to Tk. 9.47 crores. The cumulative disbursement of refinance since the beginning of operations under the Credit in January, 1981 upto June 30, 1986 amounted to Tk. 47.39 crores. The bank-wise position of refinance under the Credit is shown in Table – 7.1.

TABLE 7.1

(Amounts in crore Taka)

PCIs	Disbursement of refinance during 1985–86	Cumulative disbursement of refinance upto June 30, 1986	Refinance Outstanding as on June 30, 1986
Sonali Bank	5.19	19.11	15.71
Janata Bank	1.65	16.49	12.36
Agrani Bank	2.63	11.79	9.99
Total:	**9.47**	**47.39**	**38.06**

134. Cumulative number of loan cases approved for refinance upto June 30, 1986 stood at 690 for a total amount of Tk. 62.42 crores since the beginning of operation of the Credit in January, 1981. Size-wise and bank-wise break-down of the loan cases sanctioned by each of the three participating commercial banks were shown in Table. 7.2

TABLE 7.2

(Amount in crore Taka)

Size of Loans	Sonali Bank		Janata Bank		Agrani Bank		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Upto Tk. 5 lakhs	159	5.10	104	2.84	18	0.60	281	8.54
Above Tk. 5 lakhs & upto Tk. 15 lakhs	99	10.06	105	9.95	96	8.69	300	28.70
Above Tk. 15 lakhs & upto Tk. 30 lakhs	51	11.84	22	4.94	36	8.40	109	25.18
Total:	**309**	**27.00**	**231**	**17.73**	**150**	**17.69**	**690**	**62.42**

135. Of the total number of projects approved under the IDA Credit, those located in Dhaka Division constituted 54.64 per cent and accounted for 62.33 per cent of the total amount of loans sanctioned. Division-wise distribution of loans approved for refinance under the Credit upto June 30, 1986 is shown in Table 7.3.

TABLE 7.3

Division	No. of Projects	% of Total	Amount in crore Tk.	% of Total
Chittagong	133	19.27	11.84	18.97
Dhaka	377	54.64	38.91	62.33
Khulna	50	7.25	4.58	7.34
Rajshahi	150	18.84	7.09	11.36
Total :	**690**	**100.00**	**62.42**	**100.00**

136. Economic classification of projects approved under the Credit shows that major portion of the loans sanctioned comprised of investments in food and allied products, textiles and engineering industries. The distribution of cumulative refinance approved as on June 30, 1986 among the major economic groups of industries is shown in Table 7.4.

TABLE 7.4

Economic Group	No.of Projects	Amount (in crore Tk.)	% of Total
Food & Allied Products	257	16.50	26.43
Textile Industries	125	15.84	25.38
Specialised Jute Industries	2	0.10	0.16
Forest Products & Allied Industries	56	1.68	2.69
Paper, Board and Printing	32	3.83	6.14
Tannery,Leather & Rubber	21	2.63	4.22
Chemicals, Pharmaceuticals and Allied Products	22	3.10	4.98
Glass, Ceramics & Non-metallic products	7	0.95	1.52
Engineering Industries	102	11.97	19.17
Miscellaneous Industries	39	4.44	7.11
Road Transports	21	0.89	1.42
Miscellaneous Cottage Industries	1	0.09	0.14
Industries N.E.C.*	5	0.40	0.64
Total :	**690**	**62.42**	**100.00**

*N.E.C.: Not Elsewhere Classified.

137. As per the terms of the Credit, participating banks were required to advance 60 per cent of loan amount to projects with fixed cost exceeding Tk. 10.00 lakhs and the remaining 40 per cent to those upto Tk. 10.00 lakhs. However, advances given for investment in 100 per cent export-oriented industries were excluded from this prescribed limit of

60:40 ratio. Upto the end of June, 1986, loans amounting to Tk. 41.10 crores were approved for refinance against 243 projects in the category of fixed cost above Tk. 10.00 lakhs while those in respect of 447 projects in the category of fixed cost upto Tk. 10.00 lakhs amounted to Tk.21.32 crores, yielding a ratio of 66:34. Bank-wise position of loans approved for refinance against these two categories of projects as at the end of June, 1986 is shown in Table 7.5.

TABLE 7.5

PCIs	Projects with fixed cost upto Tk. 10.00 lakhs			Projects with fixed cost above Tk. 10.00 lakhs		
	No of Projects	Amount of loans approved for refinance (Tk. in crore)	% of Total loans approved for refinance	No. of Projects	Amount of loans approved for refinance (Tk. in crore)	% of total loans approved for refinance
Sonali Bank	198	8.01	29.67	111	18.99	70.33
Janata Bank	165	7.54	42.53	66	10.19	57.47
Agrani Bank	84	5.77	32.62	66	11.92	67.38
Total :	**447**	**21.32**	**34.16**	**243**	**41.10**	**65.84**

138. Bank-wise position of local and foreign currency components of loans approved for refinance is shown in Table 7.6.

TABLE 7.6

(Taka in crores)

PCIs	Total loans approved for refinance	Loans in local currency	Local currency loans as % of total (Col. 3÷2)	Tk. equivalent of loans in foreign currency	Foreign currency loans as % of total (Col. 5÷2)
1	2	3	4	5	6
Sonali Bank	27.00	16.23	60.11	10.77	39.89
Janata Bank	17.73	12.42	70.04	5.31	29.96
Agrani Bank	17.69	10.11	57.13	7.58	42.87
Total :	**62.42**	**38.76**	**62.09**	**23.66**	**37.91**

139. Out of total loans of Tk. 62.42 crores approved for refinance, Tk. 40.13 crores or 65 per cent were sanctioned to 398 projects in the urban areas while the remaining amount of Tk. 22.29 crores or 35 per cent went to 292 projects in the rural areas.

140. Total refinance extended by the Bangladesh Bank during 1985-86 to the participating credit institutions against their loans disbursed amounted to Tk. 9.48 crores as compared with Tk.20.79 crores during 1984-85. Cumulative amount of refinance to the PCIs amounted to Tk. 47.38 crores upto June 30, 1986. The bank-wise break-up of refinance provided by the Bangladesh Bank is given in Table 7.7.

TABLE 7.7

(Taka in crores)

PCIs	Refinance against Loans disbursed		Cumulative amount of refinance against loans disbursed as on June 30,1986
	1984-85	1985-86	
Sonali Bank	7.40	5.19	19.11
Janata Bank	8.07	1.65	16.48
Agrani Bank	5.32	2.64	11.79
Total:	**20.79**	**9.48**	**47.38**

Financing under NORAD Grant

141. Under an agreement signed on June 17, 1982 between the Governments of the Kingdom of Norway and the People's Republic of Bangladesh, an amount equivalent to 5 million Norwegian kroner was to be provided by the Norwegian Agency for International Development (NORAD) for financing Small and Cottage Industries (SCI) in Bangladesh. A revolving fund known as "NORAD Grant Refinancing Fund" was created in the Bangladesh Bank on January 20,1983 with NOK 5 million equivalent to Tk. 1.67 crores for refinancing by the Bangladesh Bank against loans to be disbursed to eligible small and cottage industrial enterprises by two participating credit institutions viz., the Sonali Bank and the Janata Bank. According to the terms of Agreement, the amount of refinance recovered by the Bangladesh Bank could be ploughed back for refinancing of fresh loans. The amount of refinance provided by the Bangladesh Bank to the PCIs under the NORAD Grant upto June 30, 1986 stood at Tk. 1.50 crores as shown in Table 7.8.

TABLE 7.8

(Taka in crores)

PCIs	No. of SCI Projects	Amount of Refinance Disbursed
Sonali Bank	1450	Tk. 0.65
Janata Bank	1494	Tk. 0.85
Total :	**2944**	**Tk. 1.50**

Financing under Saudi Grant

142. The Governments of the Kingdom of Saudi Arabia and the People's Republic of Bangladesh had signed a Grant Agreement on September 30, 1981 for an amount of US $ 100 million. Bangladesh imported fertilizers, edible oils, foodgrains, pulses, industrial spare parts, etc. under the Grant. The Grant amount was enhanced by US $ 50 million on August 15, 1982. Out of this enhanced amount US $ 4 million was allocated for investment in small and cottage industries. The Government of Bangladesh appointed the Bangladesh Small and Cottage Industries Corporation (BSCIC) and the Janata Bank to jointly select small scale industrial projects for financing. The Janata Bank financed 47 projects under the Grant involving an amount of Tk. 11.22 crores as on June 30, 1986. Refinance provided by the Bangladesh Bank to the Janata Bank upto June 30, 1986 against financing of 29 industrial enterprises stood at Tk. 6.68 crores.

CHAPTER VIII

HOUSING POLICY AND HOUSE BUILDING FINANCE

HOUSING POLICY AND HOUSE BUILDING FINANCE

Housing Policy

143. Until recently, Government housing policy was essentially urban oriented with major house building activities centered in principal towns of the country. Efforts are now being made for improving dwelling conditions in rural areas as well through provision for concessionary finance for construction of semi-pucca residential houses at village level. The Third Five-Year Plan has specifically recognised the need to stimulate private sector participation in the housing sector in view of the limited capacity of the public sector to tackle the housing problem of the country. The Plan provides that public sector investment will be made only in those areas, where it is indispensable such as land development, construction of roads, etc. The strategy of "seed fund" adopted in the Second Five-Year Plan to stimulate private investment in the housing sector will be continued during the Third Plan period. In respect of city development, the main focus of the metropolitan city authorities will be more on regulatory function than on mere development activities except for common services. Urban housing programmes / schemes are generally drawn-up by different public authorities like Bangladesh Public Works Department (BPWD), Housing and Settlement Directorate, etc., as also by urban development authorities like the Dhaka Improvement Trust (DIT), Chittagong Development Authority (CDA), etc. Different autonomous and semi-autonomous organisations also have their own policy in respect of providing housing accommodation to their respective employees.

144. In rural areas housing has traditionally been taken care of by the villagers themselves. About 15 per cent of the total available land in

Urban and Rural Housing

rural areas is occupied by homesteads. If the age-old practice of go-as-you-like construction of homesteads by villagers is allowed to continue, not less than 30 per cent of total land area may be required by such homesteads at the turn of the current century. In order, therefore, to forestall further proliferation of rural homesteads, Government sought to make necessary arrangements and enact suitable laws empowering local bodies to require from intending rural house/homestead builders to seek prior permission / approval for new construction. The policy aims at ensuring that all available spaces in the existing homesteads have been economically utilized with the ultimate objective of containing the total rural homesteads within the present limits.

145. Keeping in view the above broad strategy, Government policy seeks to standardise the existing residential accommodation of Government and autonomous organisations, in addition to making necessary arrangements for distribution of suitable land, service/utilities and easy term-finance to a large number of Government and Semi-Government employees to enable them to build their own houses/flats. Government is also providing core houses to individuals of small means for further development by the occupants. Construction and distribution of multistoried flats on hire—purchase system also forms a part of the Government's housing policy. Concessionary financing of construction of multi-storied building at Upazilla headquarters and strong semi-pucca dwelling houses in the villages has now become a part of the government housing policy.

House Building Finance

146. The Bangladesh House Building Finance Corporation (HBFC) set up in 1973 provides financial assistance for construction, repair and

House Building Finance Corporation

remodelling of residential houses and apartments in cities, towns and Upazilla / rural Thana headquarters. The Corporation has at present 5 zonal offices including two in Dhaka and one each in the three other divisional headquarters and 14 regional offices in the district headquarters. The authorised capital of the Corporation is Tk. 10.00 crores of which paid-up capital of Tk. 9.83 crores has been fully subscribed by the Government. The main source of its working capital in recent years has been the sale of debentures to the Bangladesh Bank, Bima Corporations and nationalised commercial banks. The Corporation provides house-building finance under two separate programmes viz. (i) General Programme for single unit buildings, and (ii) Multi-storied Loan Programme for construction of multi-storied apartment houses. The loans are secured by mortgaging the land and building to be built thereon.

(i) General Loan Programme

147. Initially, the limit of the HBFC loan under the General Loan Programme was Tk. 2.55 lakhs for a self-contained single unit house. The loan was to be repaid over a maximum period of 20 years. The margin of investment required to be made by an applicant was 15 per cent of the estimated cost of construction of the proposed building. Effective from April 12, 1983, the limit of the HBFC loan under this programme has been enhanced to Tk. 6.00 lakhs in view of the increased costs of construction. The rate of interest has been fixed at 13 per cent (simple) per annum upto Tk. 4.00 lakhs and 16 per cent (simple) per annum for the additional Tk. 2.00 lakhs, with a repayment period of 25 years. The margin of investment to be made by an applicant was reduced from 15 per cent to 10 per cent. Under this programme, the Corporation sanction 1903 loan cases for a total of Tk. 66.88 crores during 1985-86 as compared with 1737 loan cases sanctioned for a total of Tk. 58.13 crores

during 1984–85. Actual disbursement of loans under the programme during 1985–86 amounted to Tk. 52.72 crores. This compared with the disbursement of Tk. 75.30 crores in 1984–85.

(ii) Multi-storied Loan Programme

148. In order to ease the acute housing problem in the urban areas, the HBFC started the Multi-storied Loan Programme for financing construction of multi-storied, multi-unit buildings, from July, 1977. The ceilings of loan under this programme were enhanced from Tk. 5.60 lakhs and Tk. 6.47 lakhs to Tk. 7.00 lakhs and Tk. 8.00 lakhs for multi-storied buildings with covered areas of 800 sfts. and 1000 sft. respectively in each floor, excluding staircase and balcony. The maximum repayment period was also increased from 25 years to 30 years. The rate of interest for both the case remained unchanged at the 1982–83 level of 10.5 per cent per annum. The minimum margin of investment to be made by applicants are 2.5 per cent and 10.0 per cent for building having floor spaces of 800 sft. and 1000 sft. respectively. Under this programme, the Corporation sanctioned a total of Tk. 53.35 crores for 786 cases comprising 2895 housing units during 1985–86. Of the total, 1931 units were for Dhaka Zone, 318 and 448 units were for Rajshahi and Chittagong Zones respectively while Khulna Zone had 198 units. This compared with a total of 1473 cases comprising 4710 housing units sanctioned for Tk. 79.13 crores during the previous year. The amount disbursed under this programme during 1985–86 stood at Tk. 73.08 crores as compared to Tk. 78.87 crores during the pevious year. The total amount of loans sanctioned and disbursed under the programme since its introduction in July, 1977 upto June 30, 1986 stood at Tk. 507.50 crores and Tk. 421.25 crores respectively.

(iii) Concessionary Loan Facility for Upazilla and Rural Thana

149. With a view to encouraging construction of buildigns at the new centres of development work in Upazilla and Rural Thana, the Government decided to extend HBFC loan facilities to those areas and fixed the rate of interest (simple) at 5 per cent per annum for all categories of loans with a repayment period of 30 years. A two-storied building in those places is treated as a multi-storied building for the purpose of avavailing of Multi-Loan. Besides, the HBFC also allowed the benefit of additional loans under new ceiling to the borrowers who could not complete their houses with previously sanctioned amount. Borrowers who obtained loans from commercial banks with prior permission of the HBFC for completion of their houses were allowed to avail additional loan to repay such liabilities as well as for completion of their houses.

Sanction, Disbursement, Recovery and Outstanding of the HBFC Loans

150. Total loans sanctioned by the HBFC under the General and Multi-Loan Programmes totalled Tk. 120.23 crores during 1985-86. Total disbursement of loans under these programmes during the year amounted to Tk. 125.80 crores. This compared with the total sanctions of Tk. 137.25 crores and disbursements of Tk. 154.17 crores during 1984-85. Since its inception upto the end of June, 1986 the HBFC sanctioned a total of Tk. 932.81 crores for construction of 68,441 housing units against which a sum of Tk. 794.86 crores was disbursed. The HBFC recovered a total amount of Tk. 38.17 crores under its General Loan and Multi-Loan Programmes during 1985-86 as compared to Tk. 27.52 crores recovered during the preceding year. The amount of HBFC Loans outstanding as on June 30, 1986 stood at Tk. 890.00 crores (including interest) as compared to Tk. 731.23[R] crores as on June 30, 1985.

R= Revised

Debenture Source of the HBFC Finance

151. Total funds raised by the HBFC upto June 30, 1986 through the sale of debentures to the Bangladesh Bank, the Commercial Banks and the Sadharan Bima Corporation stood at Tk. 899.00 crores which included Tk. 212.00 crores raised during 1985-86. The Bangladesh Bank's financing of such debentures amounted to Tk. 734.85 crores upto June 30, 1986 while the remaining amount of Tk. 164.15 crores was financed by the Commercial Banks and the Sadharan Bima Corporation till the end of June, 1986.

Promotional Activities of the HBFC

152. With a view to expanding the area and scale of operation, the HBFC planned to increase the number of its offices throughout the country. At present, it has Regional Offices in all the district headquarters (old) except Jamalpur, Patuakhali and Rangamati. Offices in the remaining districts are to be opened in due course. For the convenience of the local people and to make the recovery measures more effective, the Corporation has decentralised maintenance of its accounts in the Regional Offices effective from January 1, 1981. The Corporation has also undertaken some development projects for construction of its own office buildings as well as staff quarters for the employees. Besides the Head Office Building in Dhaka, the Corporation has started construction of a new building for its Zonal Office at Agrabad, Chittagong. The construction work of 6 five-storied buildings for staff accommodation in Uttara Model Town, Dhaka has already been completed. Plots for construction of Zonal Office buildings at Khulna and Rajshahi have also been purchased in the meantime.

153. The service of commercial banks have also been enlisted for augmenting the availability of finance for construction of houses and buildings in the country. Thus the banks were advised to treat housing as

a priority sector and extend house-building finance to bonafide borrowers within a prescribed ceiling of Tk. 3.00 lakhs (inclusive of any loan from the HBFC) against the mortgage of real estate. It was decided later on that the ceiling be enhanced upto Tk. 5.00 lakhs with the approval of the financing banks' Board of Directors. The rate of interest at 12 per cent per annum was raised to 15.5 per cent with the enhancement of Bank Rate on October 16, 1980. The rate of interest was further enhance to 16 per cent per annum with effect from December 5, 1982.Thereafter,, a restriction was imposed on commercial banks' financing to general borrowers for construction of residential houses with effect from December 22, 1983 as a credit control measure. Financing of commercial buildings was, however, continued and the repayment period for such loans, including those outstanding against residential houses, was enhanced from 7 years to 12 years. With effect from June, 1984 the restriction was withdrawn and banks were allowed to finance general borrowers for construction of residential houses, including those who availed HBFC loans. It was also decided that appalication of interest on such loans should not be made.byibanks before the expiry of first six months from the date of disbursement of loans. As usual, the rate of interest would, be 16 per cent per annum with the extended payment period of 12 years.

Commercial Banks' Financing of House Building

154. Loans disbursed by the nationalised commercial banks in the housing sector during 1985-86 totalled Tk. 4.95 crores as compared with Tk. 7:42 crores disbursed during the preceding year. This was in addition to Tk. 1.74 crores of housing loans provided by the foreign banks operating in Bangladesh during 1985-86. The private banks also disbursed an amount of Tk. 1.57 crores as housing loans during the year under report. Total outstanding loans provided by the nationalised commercial banks,

private banks and the foreign banks operating in Bangladesh stood at Tk. 72.36 crores at the end of June, 1986.

Rural Housing Financing Scheme of Bangladesh Bank

155. With a view to improving the dwelling conditions of the rural people, a new scheme under the name "Rural Housing Financing Scheme" was introduced throughout the country from January, 1984 under the supervision of the Rural Credit Project Department of the Bangladesh Bank. The former "Rural Housing Scheme" which had been introduced during 1977–78 was, however, discontinued. The new scheme is applicable to any rural area of the country (except Municipal areas and Upazilla headquarters) and confined only to construction of dwelling houses for own use of the borrower. The scheme will provide finance for construction of semi-pucca dwelling houses strong enough to withstand natural calamities. Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank and the Grameen Bank are the financing agencies of the scheme.

156. Under the scheme, long-term loans of Tk. 38,000 and Tk. 65,000 per party are allowed at 5 per cent rate of interest per annum for construction of semi-pucca dwelling houses having a plinth area of 250 sft. and 425 sft. respectively. Repayment period of the loan will be 25 years with a grace period of 2 years. A total of 2,660 rural houses were financed under the scheme and disbursements of loans totalled Tk. 16.29 crores upto June, 1986.

CHAPTER IX

PUBLIC FINANCE

Mobilisation of Domestic Resources

157. The budget for 1985-86 sought to achieve increased mobilisation of resources through generation of increased income by providing fiscal incentives for efficiency of investment, utilisation of productive capacity as well as for protection of selected industries and boosting up exports. The policy provided for measures to help the economy adjust to volatility in external resources for progressive import substitution and export promotion. Another important objective of the fiscal policy was to maintain a relative price stability in the economy. Measures were also envisaged for increasing the efficiency of tax administration by simplification of rules and rationalisation of rates. Various rates of allowances and rebates for income taxes were enhanced substantially with a view to encouraging savings and investment. As an additional instrument of mobilising small savings, new prize bonds of 50 Taka denomination was introduced from September, 1985.

158. The budget for 1985-86 envisaged total revenue receipts at Tk. 3950.56 crores and total revenue expenditures (non-development) at Tk. 3313.00 crores, showing a revenue surplus of Tk. 637.56 crores. The budget estimates for the year were subsequently revised placing the revenue receipts higher by Tk. 122.44 crores at Tk. 4073.00 crores and revenue expenditures larger by Tk. 107.53 crores at Tk. 3420.53 crores, leaving a larger surplus of Tk. 652.47 crores.

159. The revised budget estimates for 1985-86 showed increased revenue receipts under the following heads: dividend and profits from public financial institutions (+ Tk.120.74 crores), interest (+Tk. 63.07crores),

general administration and services (+Tk.19.77 crores), agriculture and allied services (+Tk. 14.78 crores), taxes on vehicles (+Tk. 2.00 crores), economic services (+Tk. 4.07 crores), capital revenue (+Tk. 0.83 crore), social and community service (+Tk. 0.21 crore) and other non-tax revenue (+Tk. 38.69 crores). The above increase in revenue was partly offset by decline in revenue earnings from telegraph and telephone (-Tk. 4.91 crores), transport and communication (-Tk.11.89 crores), railway (-Tk. 4.15 crores), post office department (-Tk. 9.87 crores), excise duties (-Tk. 34.00 crores) and other taxes and duties (-Tk. 10.80 crores) and residual items (-Tk. 2.70 crores).

Revised Budget for 1985-86

160. In the revised budget for 1985-86 increased revenue expenditures were shown under the following heads: Subsidy, Grants-in-aid and Contribution(+Tk. 117.41 crores), Education (+Tk. 112.96 crores), Defence (+Tk.94.91 crores), Social and Community Service (+Tk.59.89 crores), Police Tk. 34.94 crores), Interest on Foreign Debt (+Tk.22.37 crores), General administration, Public Order and Safety (+Tk.20.58 crores), Agriculture and Allied Services (+Tk. 14.04 crores), Interest on Domestic Debt (+Tk.12.95 crores), Secretariat (+Tk. 11.66 crores), General Services (+Tk.11.06 crores), Bangladesh Rifles (+Tk.10.39 crores), General Economic Services (+Tk.8.11 crores), Foreign Affairs (+Tk. 6.88 crores), Organs of Government (+Tk.6.50 crores), Administration of Justice (+Tk.2.95 crores), Water and Energy (+Tk.3.00 crores), Fiscal Service (+Tk.2.84 crores), Industries and Mining (+Tk.2.17 crores), Transport and Communication (+Tk.0.41 crores), and other items (+Tk. 6.49 crores). These increases were, however, offset somewhat by declines in Unexpected Expenditures (-Tk.391.51 crores), Subsidies (-Tk.45.57 crores), Health and Population Control (-Tk.16.25 crores), and Audit (-Tk.1.65 crores).

Revised ADP for 1985-86

161. The size of the Annual Development Programme (ADP) for 1985-86 which was originally placed at Tk. 3825.72 crores was subsequently revised upward by Tk. 269.82 crores to Tk. 4095.54 crores. In the revised budget, total foreign assistance for financing the ADP was placed higher at Tk. 3391.81 crores, including Tk. 2183.81 crores under Project Aid, Tk.1100.00 crores under Non-Project Assistance and Tk. 108.00 crores under PL-480, EEC, etc. Domestic financing for the ADP was revised upward to Tk. 703.73 crores including revenue surplus of Tk. 652.47 crores, net domestic capital of (-) Tk. 91.70 crores, deficit from food budget of Tk. 111.00 crores and Extra-Budgetary Resources of Tk. 253.96 crores.

Budget Estimates for 1986-87

162. The budget estimates for 1986-87 placed revenue receipts at Tk. 4468.00 crores and expenditures at Tk. 3740.00 crores, thus showing a revenue surplus of Tk.728.00 crores (excluding Tk.372.00 crores in new taxes). Of the total revenue receipts, Customs duties are estimated to yield Tk.1448.00 crores, Excise duties Tk. 900.00 crores, Sales tax Tk.600.00 crores, Income Tax Tk. 510.00 crores and Stamps (non-judicial)Tk.130.00 crores. The non-tax revenue receipts of the Budget include Interest Tk.180.00 crores, Dividend and profit from Public Financial Institutions Tk.180.00 crores, Dividend and Profit from Non-Financial Public Enterprises Tk.65.00 crores. On the expenditures side, Education and Defence account for Tk.697.03 crores and Tk.659.14 crores respectively. Other important allocations include Subsidy, Grants-in-aid and Contributions Tk.65.84 crores, Interest on Domestic Debt Tk. 204.80 crores, Interest on External Debt Tk.223.61 crores, Social and Community Services Tk. 240.38 crores, Police Tk.177.01 crores, Health and Population Control Tk.240.96 crores and Unexpected Expenditures Tk.125.00 crores (including provision for completed Development Schemes).

ADP for 1986-87

163. The size of the Annual Development Programme (ADP) for 1986-87 has been estimated at Tk.4764.00 crores. This shows an increase of Tk.668.46 crores (about 16.32%) over Tk.4095.54 crores of the revised ADP for 1985-86. Of the total outlay, Tk.709.93 crores (15%) has been allocated for Industries, Tk.688.67 crores (14%) for power, Tk.375.00 crores (8%) for Development of Upazilla Infrastructure, Tk.520.60 crores (11%) for Flood Control and Water Resources and Tk.452.64 crores (10%) for Self-finance Schemes of Autonomous Bodies. Allocations for Transport, Agriculture, Oil, Gas and Natural Resources, Education and Religion, Population and Family Planning and Rural Development stood at Tk.370.11 crores (8%), Tk.263.06 crores (6%), Tk. 243.03 crores (5%), Tk. 253.36 crores (5%), Tk. 143.76 crores (3%) and Tk. 141.91 crores (3%) respectively. An amount of Tk.601.93 crores (13%) has been allocated for other sectors. The Annual Development Programme for 1986-87 envisages a total foreign assistance of Tk.3779.00 crores or 79.32 per cent of the total outlay as against 82.82 per cent in the revised ADP for the previous year.

Fiscal Measures

164. Some of the important fiscal measures of the Budget for 1986-87 are as under:

Import Duties and Sales Tax

i) Duty on B.P. sheet has been reduced to 20 per cent from 50 per cent though sales tax will now be realised at the rate of 10 per cent.

ii) A 20 per cent tax chargeable on neutral glass bottle has been withdrawn and the duty on pilfer proof cap has been reduced from 150 per cent to 50 per cent.

iii) Duty on capital machinery imported by industries to be set up in the BSCIC industrial estates and on industries using 70 per cent local raw materials has been reduced from the existing 10 per to 2½ per cent irrespective of the location.

iv) Duty rate on clocks and watches has been reduced from 150 per cent and 100 per cent respectively to 50 per cent each. However, the existing 20 per cent duty on parts and components of watches has been retained. The duty on parts and components of table fan has been brought down from 150 per cent to 50 per cent.

v) 20 per cent sales tax leviable on packing materials for food processing industry has been exempted.

vi) Customs duty and regulatory duty on inputs of yarn i.e., raw cotton, synthetic fibre, viscose staple fibre and nylon chips have been withdrawn. Duty on textile dyes has also been reduced from 50 per cent to 20 per cent. Regulatory duty on single count yarn has been reduced from 15 per cent to 5 per cent and that on piled and twisted yarn from 50 per cent to 20 per cent.

vii) Duty on fabrics has been reduced to 100 per cent from 150 per cent and the sales tax of 20 per cent has been withdrawn.

viii) Duty and sales tax on salt has been raised from 10 per cent each to 20 per cent each.

ix) Duty on palm oil has been raised from 20 per cent to 50 per cent and a 20 per cent sales tax has been made leviable on the item. Refined Soyabean oil has also been made liable to a duty rate of 50 per cent with a 20 per cent sales tax. Duty on coconut oil has been raised from 20 per cent to 50 per cent while the same on crude olive oil has been reduced to 20 per cent from 50 per cent.

x) Duty on diesel engines has been enhanced from 50 per cent to 100 per cent but that on ball point pens has been reduced from 100 per cent to 50 per cent.

xi) Duty at the rate of Taka one thousand per metric ton has been levied on crude petroleum. Sales tax chargeable at 20 per cent on imported built-up bus and trucks has been withdrawn although customs duty rate at 50 per cent will remain unchanged. The present 20 per cent duty on built-up and semi-knocked down minibus with exemption of sales tax will continue.

xii) Duty on spare parts of lifts has been reduced from 100 per cent to 50 per cent, in addition to exemption of 20 per cent sales tax. Duty on spare parts and safety equipments having exclusive use in deep sea fishing and IWT industries has been reduced from 50 per cent to 20 per cent.

xiii) Regulatory duty on duplicating ink, shoe lace, g.i. pipe upto 8" dia, stapling pin, black and white television, insulator etc. has been withdrawn.

xiv) Duty on raw materials of stretch nylon and urea formal-dehyde compound has been reduced while a sales tax of 20 per cent has been imposed on mosquito coil. Duty on nylon filament yarn has been reduced to 10 per cent from 20 per cent and sales tax has been completely exempted.

Excise Duty:

i) The highest rate of 30 per cent excise duty has been reduced to 25 per cent on items assessed on advalorem basis. Cottage industries with machinery not exceeding Taka one lakh and employing not more than 15 persons will enjoy exemption of excise duty.

ii) Excise duty at 25 per cent advalorem levied on jute carpet has been reduced to 10 per cent while excise duty on bread has been withdrawn.

iii) The price of natural gas has been raised by 20 per cent over the existing level. The increase in gas price will be limited to 10 per cent for domestic use.

iv) Excise duty for air conditioned cinema houses has been raised from 50 per cent and 45 per cent to 55 per cent and 50 per cent for Dhaka and Chittagong Metropolitan areas respectively. The rate for cinema houses of other areas was also raised from 35 per cent to 40 per cent.

v) Though domestic selling price of petroleum products has been reduced, the price of condensate, a by-product of natural gas, has been raised from Tk. 1.32 per litre to Tk. 2.65 per litre.

vi) The minimum levy on video cassette shops in Dhaka and Chittagong Metropolitan areas has been raised from Taka twenty five thousand to Taka one lakh.

Direct Tax:

i) The rate of rebate attributable to income from passenger buses and launches has been raised from 25 per cent to 50 per cent.

ii) A tax rebate of 2 ½ per cent will be allowed to small and cottage industries if their volume of production increases by more than 15 per cent over the preceding year. This rebate will go upto 5 per cent if production goes up by more than 25 per cent.

iii) Dividents paid out of profit of publicly traded companies during the tax holiday period has been exempted from income tax.

iv) Existing allowance for repairing cost of the houses @ $^{1}/_{5}$th of the annual value has been reduced to $^{1}/_{6}$th.

Fiscal Incentives for EPZ Industries:

i) New "hitech" industries in the Export Processing Zone will be allowed tax holiday for ten years.

ii) Exemption will be allowed upto 50 per cent of the tax attributable to export sales after the expiry of the tax holiday period.

iii) Dividend incomes of the non-resident shareholders will be exempted from tax during tax holiday period.

iv) Accelerated depreciation to the extent of 100 per cent of the actual cost of machinery or plant will be allowed to hitech electronic industry during the tax holiday period.

v) Manufacturers of salt in the EPZ will be exempted from excise duty and excise control. Stamp duty has also been exempted on land alloted in the EPZ.

Other Taxes :

i) The aggregate of income and wealth taxes has been reduced from 60 per cent to 50 per cent of the total income.

ii) Immovable properties transfer tax has been enhanced from 1 per cent to 2 per cent.

iii) Taxes for foreign travel by land and sea have been revised upward from Tk. 50 and Tk. 200 to Tk. 100 and Tk. 400 respectively per travel.

iv) An air ticket tax of Tk. 30 and Tk.100 per domestic and international journey respectively will be charged from August 1 1986.

v) Motor vehicle fees have been enhanced and a turnover tax of 2 per cent will be levied on indenting firms.

vi) Postal charges for overseas mails have been enhanced by 50 per cent, charge for telephone calls for the users of PABX of 400 lines and above has been increased from Tk. 1.00 to Tk. 1.10 per call and the installation charges for telephones in Dhaka, Chittagong and Khulna have been increased from Tk. 2000.00 to Tk. 2500.00.

Government Borrowings

165. Against "Two-Year Special Treasury Bond" sold during January 19 to July 31, 1984 an amount of Tk. 207.01 crores was encashed during the year, leaving a balance of Tk. 13.88 crores as on June 30, 1986 as against Tk. 220.89 crores as on June 30, 1985. Bonds for an amount of Tk. 60.00 crores was reissued during the year for a period of another 2 years on the same terms and conditions. Thus the total outstanding amounted to Tk. 73.88 crores as on June 30, 1986.

166. The outstanding amount against the 11 per cent Government of Bangladesh Loan, 1992 floated in October, 1982 remained at the last year's level of Tk. 63.75 crores as on June 30, 1986.

167. The sale of three-month Government Treasury Bills on Tap @ 9.50 per cent discount per annum have been redeemed on their maturity in the month of August, 1985.

168. The outstanding balance of Special Treasury Bills @ 9.0 per cent discount per annum offered for sale from June 21, 1976 to non-bank

institutions stood at Tk. 0.88 crore as on June 30, 1986 as against Tk. 4.83 crores on June 30, 1985.

169. Government has accepted the liabilities of 5.0 per cent Income Tax Bonds of the erstwhile Pakistan Government held by Bangladeshi nationals and institutions. These Bonds have been revalidated and the amount outstanding stood at Tk. 0.76 crore both as on June 30, 1986 and June 30, 1985.

170. The amount of G.P. Notes/Stocks Certificate including 5.0 per cent Defence Bonds of the erstwhile Pakistan and its Provincial Governments held by Bangladeshi nationals and institutions, liabilities of which have been accepted by the Government of Bangladesh but awaiting redemption stood at Tk.2.80 crores as on June 30, 1986 as against Tk. 4.31 crores as on June 30, 1985.

171. The amount of 5.0 per cent 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.13.19 crores as on June 30, 1986 as against Tk. 13.18 crores as on June 30, 1985. Out of this, payment of maturity value payable in instalments from July 1, 1979 has been made for a total of Tk. 12.81 crores upto June 30, 1986 as against Tk.12.78 crores upto June 30, 1985. The outstanding balance as at the end of June, 1986 was Tk.0.38 crore as against Tk.0.40 crore at the end of June, 1985.

172. The amount of 8.0 per cent Savings Bond issues by the Government of the People's Republic of Bangladesh against 100-Taka demo-

netised Notes stood at Tk.1.86 crores as on June 30, 1986 as against Tk.1.83 crores as on June 30, 1985. Out of this, maturity value payable from April 10, 1982 has been made for a total of Tk.1.70 crores, leaving a balance of Tk.0.16 crore as on June 30, 1986.

Bangladesh Savings Certificates and Bangladesh Sanchaya Patras

173. The net outstanding of both Bangladesh Savings Certificates and Bangladesh Sanchaya Patras sold through banks stood at Tk. 18.29 crores as on June 30, 1986 as against Tk. 17.30 crores as on June 30, 1985. The net sale of Bangladesh Sanchaya Patras through Post Offices stood at (-) Tk. 2.04 crores during 1985-86 as compared to (-) Tk. 2.86 crores during 1984-85.

Pratirakkha Sanchaya Patras

174. The net sale of Pratirakkha Sanchaya Patras through the banking sector amounted to Tk. 238.19 crores as on June 30, 1986 as against Tk. 199.79 crores as on June 30, 1985. Sale and encashment of Pratirakkha Sanchaya Patras by the banking sector during the year under report were Tk. 47.92 crores and Tk. 9.52 crores respectively. The net sale of Pratirakkha Sanchaya Patras through Post Offices stood at (-) Tk.3.83 crores during 1985-86 as compared to (-) Tk. 0.51 crore during 1984-85.

Bonus Sanchaya Patras

175. The net sale of Bonus Schanchaya Patras through the banking sector amounted to Tk. 16.41 crores as on June 30, 1986 against Tk. 13.68 crores as on June 30, 1985. Sale and encashment of Bonus Sanchaya Patras during 1985-86 were Tk.4.54 crores and Tk.1.81 crores respectively. The net sale of Bonus Sanchaya Patras through Post Offices stood at Tk.0.50 crore during 1985-86 as against Tk. 0.39 crore during 1984-85.

5-Year Bangladesh Sanchaya Patras

176. The net sale of 5-year Bangladesh Sanchaya Patras through the banking sector amounted to Tk. 15.79 crores as on June 30, 1986 as against Tk. 10.97 crores as on June 30, 1985. Sale and encashment of 5-year Bangladesh Sanchaya Patras during the year under report were Tk. 5.74 crores and Tk. 0.92 crore respectively. The net sale of 5-year Bangladesh Sanchaya Patras through Post Offices stood at Tk. 1.18 crores during 1985-86 as against Tk. 0.52 crore during the previous year.

Bangladesh Prize Bonds

177. The 10 – Taka Bangladesh Prize Bonds Scheme introduced in June, 1974 continued during the year. Progressive net sale of Prize Bonds amounted to Tk. 14.50 crores as on June 30, 1986 as compared to Tk. 14.59 crores as on June 30, 1985. Forty six series of Prize Bonds namely English A, B, C, D, E, F, G, H, J, K, L, M, N, P, Q, R, S, T, U and V and Bengali series KA, KHA, GA,GHA, UMA, CHA, CHHA, JA, JHA, YEUO, THA, DA, DHA, THA, DA, NA, PA, FA, BA, MA, LA, SHA, SHHA, KAKA, KAKHA and DANTASHA have been put on sale upto June 30, 1986. Sixty eight bi-monthly prize draws have been held so far under the single common draw system. New 50-Taka Prize Bonds have been introduced from October 30, 1985 for sale to the members of public. Progressive net sale of 50-Taka Prize Bonds amounted to Tk. 12.30 crores as on June 30, 1986. Five series of the Bonds, viz., KA, KHA, GA, GHA and UMA have been put on sale upto June 30, 1986 and four bi-monthly prize draws have been held under single common draw system.

178. A scheme for sale of Prize Bonds and different types of Sanchaya Patras was introduced in the United Arab Emirates (UAE) in Novem-

Sale of Savings Instruments to the Bangladeshi Wage Earners Serving Abroad

ber, 1979 and in the U.K. in October, 1980 through Janata Bank and Sonali Bank respectively. Prize Bonds and Sanchaya Patras worth Tk.0.43 crore and Tk. 0.01 crore respectively were sold to Bangladeshi Wage Earners living in the U.A.E. and the U.K. upto June 30, 1986.

Wage Earners' Development Bonds

179. Wage Earners' Development Bond Scheme was introduced in 1981. With a view to augmenting its sale the Wage Earners' Development Bonds Rules were amended on June 13, 1984. The amount of Wage Earners' Development Bonds sold by different banks stood at Tk. 29.50 crores as on June 30, 1986 as against Tk.17.40 crores as on June 30,1985. Out of these, payment of surrender value has been made for a total of Tk.1.47 crores, living a balance of Tk.28.03 crores as on June 30, 1986 as against Tk.16.67 crores as on June 30, 1985.

National Bonds for Non-Bank Investors

180. The Government put on sale "National Bonds for Non-Bank Investors" from December 1, 1985, which remained open for sale upto September 15, 1986. Total Bonds worth Tk.148.46 crores were sold upto June 30, 1986.

CHAPTER X

INTERNATIONAL ECONOMIC COOPERATION AND INVESTMENT PROMOTION

INTERNATIONAL ECONOMIC COOPERATION AND INVESTMENT PROMOTION

181. In order to promote growth and accelerate the pace of economic development, the developing countries like Bangladesh need international economic cooperation and collaboration. With a view to achieving this objective, concerted efforts towards strengthening international cooperation continued during 1985-86. Bangladesh actively participated in a number of important international conferences/meetings and played a significant role in upholding the issues of the developing countries in the field of economic cooperation.

Commonwealth Finance Ministers' Meeting

182. Bangladesh participated in the Commonwealth Finance Ministers' Meeting held in Male, the capital of Maldives, on October 1-2, 1985. Bangladesh delegation to the meeting raised some important points which have been reflected in the Joint Communique at the conclusion of the meeting. The delegation in particular, focussed on the adverse effects of increased protectionist policies of some of the developed countries on the structural adjustment efforts of developing nations. It was highlighted that most of the developed countries had failed to fulfil their commitments of Official Development Assistance (ODA), particularly those under the Substantial New Programme of Action (SNPA). In their deliberations, participants from the least developed countries underlined the need for increasing the flows of concessional development assistance to the levels agreed to by the developed countries. In this meeting, the Commonwealth Ministers also called for substantial and rapid progress on

outstanding GATT issues, particularly those concerning safeguards, non-tariff barriers, agricultural products and textiles, which could assist in rolling back protectionism. Bangladesh also participated in the eighth biennial Commonwealth Summit held at Nassau, Bahamas in October, 1985. In their declaration on world order the leaders called for a substantial general capital increase for the World Bank to fulfil its larger role. They also recommended that replenishment for IDA-8 should be substantially increased. In stressing the importance of the new round of multilateral trade negotiations in the GATT in helping the restore confidence in the multilateral system and reverse protectionism, the Commonwealth Secretariat was asked to prepare a comprehensive paper on issues of concern to the Commonwealth countries.

Meeting of G-24 Ministers and World Bank-IMF Annual Meeting

183. The Meeting of G-24 Ministers, Interim Committee and Development Committee Meetings and World Bank-IMF Annual Meeting, 1985 were held in Seoul, capital of the Republic of Korea, on October 5-11, 1985. Bangladesh attended the first three of the above meetings as observer/associate and as a member in the Bank-Fund Annual Meeting. Bangladesh delegation to the Bank-Fund Annual Meeting which was formally inaugurated on October 8, 1985 pointed out that for the least developed countries like Bangladesh, the single most discouraging element in the hostile world economic environment was the steady decline of concessional finance for economic development. The delegation pointed out that IDA had suffered from subjective obstacles to an adequate Seventh Replenishment and hoped that this would be fully borne in mind prior to negotiation of IDA-8. It was also pointed out that use of Trust Fund reflows should be in line with existing decisions in respect of concessionality and conditionality and these resources should be made available to

the very low income countries and not placed under a common umbrella with other concessional flows. The outcome of the Annual Meetings of the World Bank and IMF was quite positive. The convention establishing the Multilateral Investment Guarantee Agency (MIGA) was approved. Agreement was reached for allocation of Trust Fund reflows to the low—income developing countries, although modalities remained to be worked out. Consensus was reached about negotiations of Eighth Replenishment of IDA resources.

Trade and Development Board (TDB) of UNCTAD Sessions

184. The Trade and Development Board (TDB) of UNCTAD held its thirty-first and thirty-second sessions in Geneva on September 16-27, 1985 and March 10 to April 2, 1986 respectively. Bangladesh participated in both the sessions. The Board in its thirty-first session discussed briefly the issue of protectionism and structural adjustment, and approved a resolution requesting the secretariat to prepare appropriate documentation for an indepth review of developments in the international trading system at its thirty-third session. In the thirty-second session of TDB, the Board had three major items on its agenda: (i) the interdependence of problems of trade, development finance and the international monetary system, including debt problems of developing countries; (ii) protectionism and structural adjustment; and (iii) the venue and agenda for UNCTAD-VII. Regarding protectionism and structural adjustment, the item on which substantive discussions took place in the session, the Group of 77 pointed out that the industrial countries had not lived up to the commitment they had entered into in Resolution 159(vi) adoped at UNCTAD-VI in 1983. In this regard, the Group suggested that the annual TDB review

should concentrate on an analysis of the export sectors of particular interest to developing countries, and that this analysis should lead to the recommendation of concrete trade policy measures to be adopted by the developed countries. In the thirty-second session of TDB, the representative of Bangladesh pointed out that the implementation of the SNPA for the least developed countries had been very slow since its adoption in 1981, and that the economic situation in many of the least developed countries had worsened considerably, and emphasized the need for a substantial strengthening of the international support measures for the programme.

ESCAP Session

185. As a member of the Economic and Social Commission for Asia and the Pacific (ESCAP) Bangladesh participated in the forty-second session of the ESCAP held in Bangkok from April 22-May 2, 1986. The Commission reviewed the development of the ESCAP region and made appraisal of the International Development Strategy and the implementation of the SNPA for 1980s for the least developed countries. Bangladesh actively participated in the session in which some issues and programmes in various fields of activities of the ESCAP were discussed. Bangladesh also participated in the meeting of ESCAP Ministers of Trade held in Bangkok in June, 1986. The meeting discussed matters of international trade with particular reference to the ESCAP region. Bangladesh delegation to the meeting noted that despite best efforts by the developing countries, progress in improving their volume of trade has lagged behind due to imposition of a number of protectionist measures by the developed countries. Bangladesh urged the developed countries to remove all discriminatory measures imposed on exports of the developing countries.

186. The Mid-Term Global Review Conference of the SNPA for the least developed countries was held in Geneva from September 30 to October 11, 1985 under the auspices of UNCTAD. The Conference was participated by 150 countries, bilateral donors, including Group-D countries and China, multilateral financial and technical agencies and developing countries representing Group of 77. In addition, non-governmental organizations were represented at the meeting. The delegations to the conference observed that to date performance in the implementation of the SNPA had not matched expectations, particularly those relating to the international support measures, and urged for prompt implementation of the SNPA during the rest of the decade. Some important decisions were announced by the donor countries and agencies to benefit the LDCs which could be considered as major tangible results of the meeting. Foremost was the announcement by the EEC to extend STABEX (Stabilization of Exports) facilities in favour of all LDCs not covered by the Lome Convention. Nine countries, including Bangladesh, would become eligible for enjoying this facility during the five-year period beginning in 1986. The outcome of the meeting, particularly in respect of aid volume and debt relief measures, has fallen short of expectation mainly because of reservations expressed by some of the developed countries. However, considering the gravity of deliberations by various participants and adoption of unanimous recommendations, particularly those relating to international support measures, the Mid-Term Review of the SNPA was largely successful. The Bangladesh delegation to the Review Conference pointed out that the Mid-Term Review should lead to consensus on an action-oriented policy package which could be implemented with better understanding. In particular, the ODA target of 0.15 per cent of GNP for LDCs should be seen as 'a bare minimum; new bilateral commitments should be

Review of the SNPA

entirely in grant form and to the maximum extent possible on untied basis, all bilateral ODA debt to LDCs should be cancelled. The Bangladesh delegation welcomed the decision of EEC to extend STABEX facility for non-ACP (African, Caribbean and Pacific) LDCs and made a strong plea for substantially increased support measures for full and expeditious implementation of the SNPA. Bangladesh as coordinator of the Group of 77 for LDCs acted as the spokesman of the LDCs during the Conference.

SAARC Summit Meeting

187. The idea of the South Asian Association for Regional Cooperation (SAARC) originated by Bangladesh was endorsed by six other countries of the region, namely, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The first summit of the Heads of the State and Government of the seven member countries of the SAARC was held in Dhaka on December 7-8, 1985. President of the People's Republic of Bangladesh was elected chairman of the summit. The summit assumed utmost importance as it laid the firm foundation for useful consultations and exchange of views among the countries of the region in matters of mutual interest and cooperation in economic, social, technical and cultural fields. The summit leaders acknowledged that countries of South Asia, who constituted one-fifth of humanity, were faced with formidable challenges of combating poverty, economic backwardness, low levels of production, unemployment and pressure of population compounded by exploitation of the past and other adverse legacies. They also expressed deep concern at the continuing crisis in the global economy affecting economic and social conditions that retarded growth of South Asia and other developing countries. Considering enormous economic potentiality in the seven countries comprising SAARC, the leaders expressed their confidence that effective regional cooperation could make optimum use of their capacities for the benefit of their people and collective self-reliance. The leaders of the

SAARC unanimously decided to meet at summit level once a year.

188. An Expert Level Meeting on Islamic Banking Studies was held in the premises of the Bangladesh Bank, Dhaka on May 10–12, 1986 to deliberate upon the studies prepared by the International Association of Islamic Banks (IAIB) in accordance with the recommendations of the 6th Meeting of the Governors of Central Banks and Monetary Authorities of the Member States of OIC held in Dhaka in February, 1985. Experts from the designated Central Banks of the member States of OIC and IAIB participated in the meeting. Bangladesh Banks representative was elected chairman of the meeting. A representative of the General Secretariat of OIC, Jeddah also participated in the meeting. The Expert Level Meeting examined the studies and adopted valuable recommendations in respect of (1) the relationship between the central banks and Islamic banks, (2) the relationship between Islamic and conventional banks, (3) the relationship among the Islamic banks, and (4) model statute of an Islamic bank, for promotion and consolidation of the newly-emerging Islamic banking system. In the field of relationship between central banks and Islamic banks the meeting, inter alia, recommended that the central bank might provide general accommodation to an Islamic bank facing liquidity problem in the form of Mudarabah deposit on which the Islamic bank may offer profit at the rate declared on such deposits. Bangladesh Bank is currently offering such facility to the existing Islamic bank in the country. The meeting recommended forms of possible co-operation between Islamic and conventional banks in the field of correspondence service, opening documentary credit, professional associations and functional training programmes, etc. The experts recommended that Islamic banks should develop close cooperation and collaboration among themselves, particularly in the field of joint investment, joint projects and promotion of

OIC Expert Level Meeting on Islamic Banking

Islamic financial market. It was also recommended that Shariah Boards may be established in the OIC countries to oversee operations of Islamic banks to conform to Shariah.

SEANZA Central Bank Governors' Meeting

189. The SEANZA (South-East Asia, New Zealand and Australia) Council of Central Bank Governors held its Sixteenth Meeting at Dhaka on November 20-21, 1985. The meeting which was chaired by the Governor, Bangladesh Bank accepted the invitation of Bangladesh Bank to hold the Sixteenth SEANZA Central Banking course in Dhaka for ten weeks from October through December, 1986 and approved the syllabus and other arrangements for the course as proposed by the Governors' aides. The meeting accepted the offer of the Governor of the Reserve Bank of Australia to host the Seventeenth Council of Governors' Meeting in Australia in 1987 and the Seventeenth SEANZA Central Banking Course in 1988. They welcomed the offer made by the Governor, Reserve Bank of India to host the Eighteenth Council of Governors' Meeting and the Eighteenth SEANZA Central Banking Course in 1989 and 1990 respectively.

SEANZA Forum of Banking Supervisers' Meeting

190. The Second Meeting of the SEANZA Forum of Banking Supervisers was held at Dhaka on 2nd and 3rd April, 1986, the first one being held at Katmandu, Nepal in November, 1984. 20 delegates from 13 countries and 2 observers from Macau and one each from U.K. and U.S.A. also participated in the meeting. The following issues were discussed :

i) recent development in supervision of domestic as well as foreign banks ;

ii) exchange of views on international cooperation in banking supervision within the SEANZA region, exchange of information, sharing of experience and necessity of issue of letter of comfort from the parent supervisory authority ;

iii) assesment of liquidity, adequacy of capital, classification and provisioning of loans, supervision of non-performing advances, etc.; and

iv) measures for detecting and preventing incidence of frauds and forgeries.

Export Processing Zone

191. In line with the Government policy of encouraging foreign investment in the country, the Export Processing Zone in Chittagong, where foreign enterprises benefit from low-cost labour and certain tax incentives, has been expanded. The Bangladesh Export Processing Zone Authority (BEPZA) till end June, 1986 sanctioned 32 projects in the Chittagong Export Processing Zone (CEPZ) of which 14 industries had already gone into commercial production while 5 units were in the process of implementation. Among these 19 units expected to go into production by December, 1986, 5 units are 100% foreign-owned, 9 units are joint venture projects and the remaining 5 units are fully owned by Bangladesh nationals. With the re-organisation of BEPZA, simplified sanctioning procedures, improved utility services, liberal financial arrangement, competitive fiscal incentives and objective support of the Government, it was expected that in the near future there would be more investment in CEPZ.

Joint Investment Companies

192. Joint Investment Companies with foreign participation are being encouraged by the Government of Bangladesh. Two such Joint Investment Companies have already been formed :(1) an Industrial Development

Leasing Company with the participation of IFC and the Korean Development Bank and (2) an Agricultural and Industrial Investment Company established jointly with the Kingdom of Saudi Arabia.

Bangladesh Wage Earners' Remittances

193. Remittances from Bangladesh workers abroad, specially in the Middle East, is one of the major sources of foreign exchange earnings of the country providing substantial support to balance of payments. Overseas new employment for Bangladesh nationals recorded a notable increase during 1985-86. Total number of Bangladesh nationals leaving on employment increased from 56,754 during calendar year 1984 to 77,694 during 1985. The employment figure during first six months of 1986 stood at 36,847. Wage earners' remittances also increased during the period. Table 10.1 shows year-wise new employment of Bangladesh nationals abroad alongwith corresponding remittances for the period from 1976 till June, 1986.

TABLE 10.1

YEAR-WISE NEW EMPLOYMENT ABROAD OF BANGLADESH NATIONALS FROM 1976 TO JUNE, 1986

(Taka in crores)

Period (Calendar Year)	Type				Total Number	Remittances of Wage Earners' Abroad
	Profes-sional	Skilled	Semi-Skilled	Un-Skilled		
1976	568	1,775	543	3,201	6,087	35.84
1977	1,766	6,447	490	7,022	15,725	123.66
1978	3,455	8,190	1,050	10,114	22,809	165.59
1979	3,494	7,005	1,685	12,301	24,485	266.74
1980	1,983	12,209	2,343	14,038	30,573	493.15
1981	3,892	22,431	2,449	27,015	55,787	620.77
1982	3,898	20,611	3,272	34,981	62,762	1,136.24
1983	1,822	18,939	5,098	33,361	59,220	1,568.37
1984	2,642	17,183	5,484	31,445	56,754	1,268.18
1985	2,568	28,225	7,823	39,078	77,694	1,416.70
1986 (upto June)	1,234	14,260	4,486	16,867	36,847	833.38
Grand Total:	**27,322**	**1,57,275**	**34,723**	**2,29,423**	**4,48,743**	**7,928.62**

Source: Bureau of Manpower, Employment and Training.

CHAPTER XI

BALANCE OF TRADE AND PAYMENTS

Trade Balance

194. The balance of trade (visible exports less visible imports) of the country recorded some improvement during 1985-86. The deficit in the trade balance which had stood at $ 1676 million or Tk. 4352.7 crores in 1984-85 came down to $ 1455 million or Tk. 4348.5 crores in 1985-86, showing an improvement of $ 221 million. This was due mainly to lower payment on account of food grains import during the year. Total Imports during 1985-86 at $ 2364 million or Tk. 7065.1 crores (though Tk.191.3 crores higher in terms of Taka) stood lower by $ 283 million or 10.7 per cent than $ 2647 million during 1984-85.

Import Payments

195. During 1985-86, imports financed by cash (including POL imports), Barter and Special Trade, Wage Earners' Scheme, Loans/Credits and Grants amounted to Tk.1940.6 crores (27.5%), Tk. 353.1 crores (5.0%), Tk. 2020.9 crores (28.6%), Tk. 1301.6 crores (18.4%) and Tk.1448.9 crores (20.5%) respectively. Long-term loans/credits received from Foreign Governments/Institutions etc. were utilised for imports of food (Tk.44.8 crores), non-food project (Tk. 1006.3 crores) and non-food non-project (Tk. 250.5 crores). Food and non-food imports against grants during 1985-86 stood at Tk. 605.9 crores and Tk. 843.0 crores respectively. Import payments under major heads during 1984-85 and 1985-86 are shown in Table 11.1.

TABLE 11.1

MERCHANDISE IMPORTS (PAYMENTS)

Commodity	Period / Value	1984-85		1985-86	
		In crore Tk.	In million U.S. $	In crore Tk.	In million US $
Total Imports (C&F)		**6873.8**	**2647**	**7065.1**	**2364**
1. Food grains		1292.9	498	656.0	220
a) Rice		(456.9)	(176)	(24.5)	(8)
b) Wheat		(836.0)	(322)	(631.5)	(212)
2. Edible oil & oil seeds		290.8	112	354.0	118
3. Petroleum crude and petroleum products		981.4	378	964.3	323
4. Cotton & Textile yarn		253.4	98	250.9	84
5. Fertilizers		355.7	137	306.5	103
6. Chemicals		322.1	124	424.8	142
7. Cement		136.9	53	167.7	56
8. Capital goods & other accessories		1599.3	616	2066.2	691
9. Others		1641.3	631	1874.7	627

Export Receipts

196. Receipts from exports at Tk. 2716.6 crores during 1985-86 was larger by Tk. 195.5 crores as compared to Tk. 2521.1 crores during 1984-85. However, in terms of U.S. dollar the receipts indicated a decline of $ 62 million or 6.4 per cent to $ 909 million during 1985-86. Export earnings from raw jute and jute goods during the year stood at

Tk.352.5 crores (13.0%) and Tk.1014.0 crores (37.3%) respectively. Receipts under the major heads during 1984-85 and 1985-86 are shown in Table 11.2.

TABLE 11.2

MERCHANDISE EXPORTS (RECEIPTS)

Commodity	Period / Value	1984-85 In crore Tk.	1984-85 In million US $	1985-86 In crore Tk.	1985-86 In million US $
Total Exports (FOB)		**2521.1**	**971**	**2716.6**	**909**
1. Raw jute		381.9	147	352.5	118
2. Jute goods		1089.6	420	1014.0	339
3. Tea		147.1	57	103.8	35
4. Leather		219.3	84	249.9	84
5. Fish, shrimps and frog legs		258.4	100	382.4	128
6. Naptha,furnace oil and bitumen		43.8	17	48.4	16
7. Readymade garments		275.7	106	443.9	148
8. Others		105.3	40	121.7	41

The Services Account

197. The deficit in services Account (invisible receipts less invisible payments) during 1985-86 increased to Tk. 374.0 crores from Tk. 202.0 crores during 1984-85. The increase in deficit on the services account during 1985-86 occurred mainly due to lower receipts under "Investment Income" and higher payments under the head "Travel".

198. The country's overall balance of payments showed a surplus of Tk. 137.9 crores ($ 46 million) during 1985–86 as against a deficit of Tk. 248.2 crores ($ 95 million) during 1984–85. The improvement in the overall balance was due mainly to reduced deficit (by $ 221 million) in trade balance in terms of dollar, larger receipts under private unrequited transfers, and increased capital inflow. Receipts under private unrequited transfers increased from Tk. 1033.7 crores (398 million) in 1984–85 to Tk. 1569.3 crores ($ 525 million) in 1985–86. Net capital inflow during the year increased to Tk. 1635.6 crores ($ 548 million) as compared to Tk. 1324.0 crores ($ 511 million) during 1984–85.

Balance of Payments

Foreign Exchange Reserves

199. The convertible foreign exchange reserves held by the Bangladesh Bank (including reserves with the IMF) increased from $ 395 million at the end of June, 1985 to $ 476 million[@] as on June 30, 1986.

Terms of Trade

200. Despite a sizeable decline of 24.5 per cent in commodity terms of trade, the income terms of trade of the country showed some improvement during 1985–86 due mainly to a significant rise in the export volume. The decline in the commodity terms of trade was the combined result of a sharp fall in export price by 17.3 per cent and rise in import price by 9.5 per cent during the year. The commodity terms of trade as given by the ratio of export prices to import prices shows different values of imports which could be received in exchange for a given volume of exports on the basis of price relation alone. The income terms of trade, on the other hand, measures changes in income earned on account of exports through change in commodity terms of trade. Movement of the estimated terms of trade of Bangladesh in recent years are shown in Table 11.3.

@ Equivalent to 2.4 month's imports.

FOREIGN EXCHANGE RESERVES

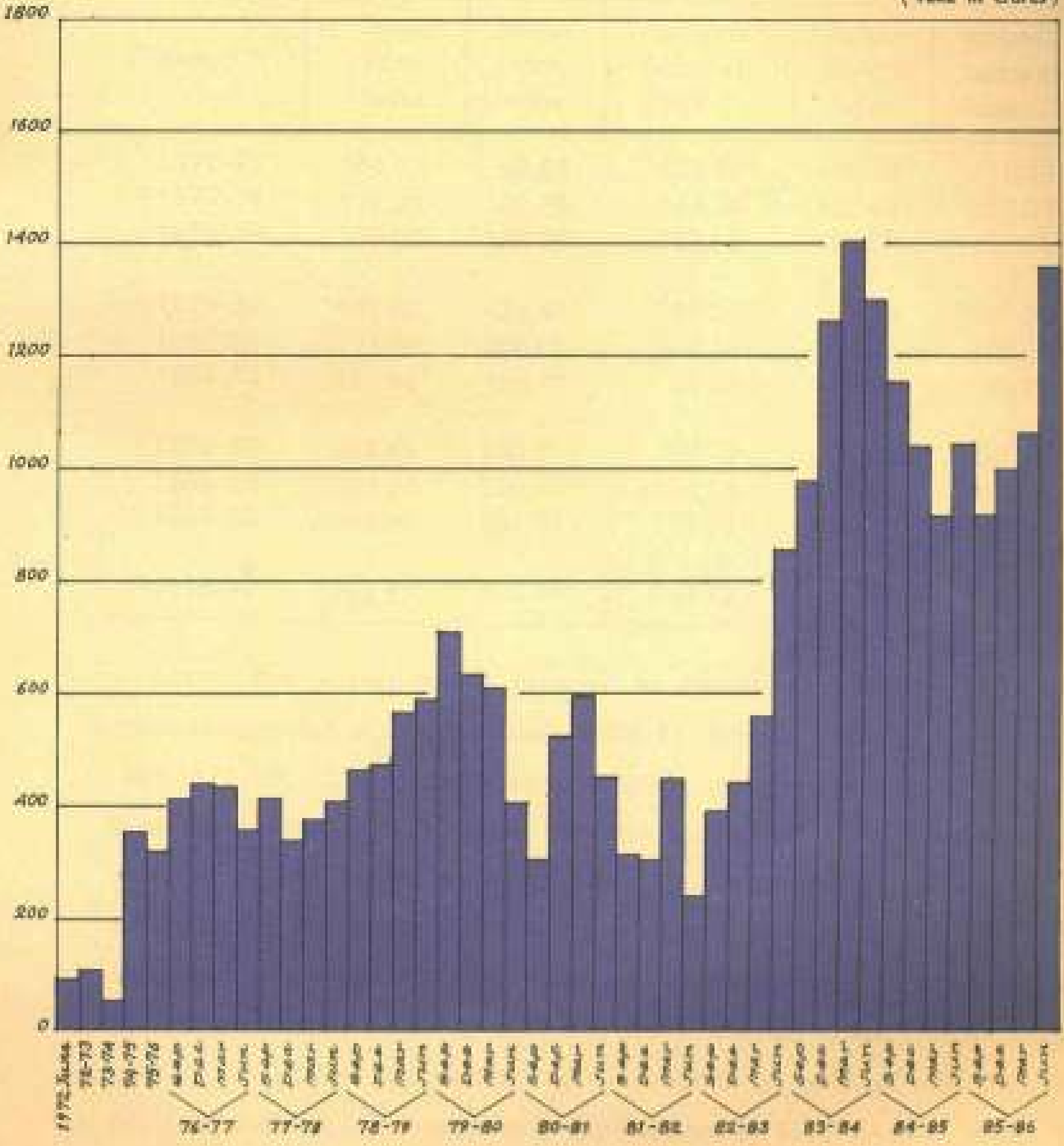

TABLE 11.3

COMMODITY AND INCOME TERMS OF TRADE OF BANGLADESH

(BASE : 1975-76 =100)

Period	Export Price Index	Import Price Index	Commodity Terms of Trade	Export Volume Index	Income Terms of Trade
1976–77	104.02	90.84	114.51	103.48	118.49
1977–78	122.81	82.88	148.18	102.63	152.07
1978–79	153.39	100.14	153.18	98.75	151.26
1979–80	191.60	127.44	150.35	97.95	147. 27
1980–81	174.99	166.08	105.36	104.91	110.53
1981–82	167.66	194.74	86.09	115.83	99.72
1982–83	204.51	205.71	99.42	131.53	130.77
1983–84	253.27	210.82	120.14	127.66	153.37
1984–85	353.65	201.31	175.67	106.21	186.58
1985–86	292.57	220.44	132.72	141.08	187.24

201. The export based capacity to import, i.e., income terms of trade deteriorated during the years 1978–79 through 1981–82 as compared to 1977–78. The income terms of trade, however, showed a significant improvement from 1982–83 to 1984–85 due to gain in commodity terms of trade although some increase in export volume also partly accounted for it. The improvement in income terms of trade during 1982–83 compared to the preceding year was the combined result of improvement in both commodity terms of trade and export volume index. Despite decline in the volume of exports, the commodity as well as the income terms of trade recorded substantial improvement in 1983-84 and 1984–85 as a result of continued increase in the export price index. In 1985–86,

Note: Figures relating to 1985-86 are provisional.

although the commodity terms of trade deteriorated by 24.5 per cent following a substantial decline in export price index, the income terms of trade recorded some improvement due to a significant increase in the export volume index.

CHAPTER XII

FOREIGN AID

202. Foreign aid commitment to Bangladesh during 1985-86 amounted to \$ 1,662 million which was 15.76 per cent lower as compared to \$ 1,973 million in 1984-85. Total commitment of foreign aid since independence till the end of June, 1986 stood at \$ 19,393 million of which \$ 8,883 million or 45.81 per cent represented grants. Total disbursement of aid since independence till June, 1986 stood at \$ 14,011 million or 72.25 per cent of total commitment. Of the total disbursement \$ 7,175 million or 51.21 per cent represented grants. Total outstanding external debt* as on June 30, 1986 stood at \$ 6,140 million as compared with \$ 5,268[R] million at the end of June, 1985.

203. Disbursement of foreign aid during 1985-86 totalling \$ 1,306 million was 3.08 per cent higher than the level of \$ 1,267 million during 1984-85. Food aid at \$ 203 million during 1985-86 was 16.80 per cent lower than \$ 244 million in the preceding year. An amount of \$ 393 million was disbursed as commodity aid during the year which was 9.03 per cent lower than \$ 432 million in 1984-85. Disbursement of project aid at \$ 710 million during 1985-86 was 20.14 per cent higher than the previous year's level of \$ 591 million. The disbursement of foreign aid during 1985-86 alongwith the comparative figures of previous years since 1981-82 are shown in Table 12.1.

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* Excluding grant components.

R= Revised.

TABLE 12.1

DISBURSEMENT OF FOREIGN AID

(Million US Dollar)

Category	1981-82	1982-83	1983-84	1984-85	1985-86
Food Aid	231	255	277	244	203
Commodity Aid	420	452	439	432	393
Project Aid	589	470	552	591	710
Total:	**1240**	**1177**	**1268**	**1267**	**1306**

204. The figures in the above table refer to gross foreign aid disbursement. The principal repayment of foreign aid (excluding repurchases in respect of drawings from the IMF) made by Bangladesh during 1985-86 was placed at $ 117 million. This was in addition to the interest payment of $ 72 million during the year. Thus the net inflow of foreign aid into the country during 1985-86 was to the tune of $ 1,117 million.

CHAPTER XIII

TRANSACTIONS WITH IMF

TRANSACTIONS WITH IMF

205. During 1985-86 Bangladesh entered into a Stand-by Arrangement with the International Monetary Fund for an amount of SDR 180 million to be disbursed is seven instalments over the period extending from December 2, 1985 through June 30, 1987. This amount of SDR 180 million was 62.6 per cent of Bangladesh's current quota which is SDR 287.5 million. Under the arrangement, Bangladesh purchased a total of SDR 84.0 million in three instalments during the year under report.

206. During the year, Bangladesh repurchased a total of SDR 110.34 million on account of outstanding drawings under various facilities of the Fund. The detailed position of Bangladesh's transactions with the Fund during 1985-86 is given in Table 13.1.

TABLE 13.1

TRANSACTIONS WITH IMF

(Million SDR)

Facilities	Amount for Drawing/ Purchase	Outstanding as on June 30, 1985	Purchases during 1985-86	Repurchases during 1985-86	Outstanding as on June 30, 1986
1) Stand-by Arrangement of March, 1983	68.40	68.40	—	2.85	65.55
2) Stand-by Arrangement of December, 1985	180.00	—	84.00	—	84.00
3) Extended Fund Facility of 1980	110.00	105.25	—	18.34	86.91
4) Supplementary Financing Facility of 1980	110.00	75.37	—	27.50	47.87
5) Compensatory Financing Facility of February, 1982	36.90	32.29	—	18.44	13.85
6) CFF-Cereal Facility of August, 1982	51.90	51.90	—	19.47	32.43
7) CFF- Cereal Facility of April, 1985	54.95	54.95	—	—	54.95
8) Trust Fund of 1977-81	121.79	98.92	—	23.74	75.18
Total:		**487.08**	**84.00**	**110.34**	**460.74**

207. As a result of the above transactions during 1985-86, Bangladesh's outstanding liability to the Fund in respect of earlier purchases stood at SDR 460.74 million at the end of June, 1986 as against SDR 487.08[R] million at the end of the previous year. In addition to the repurchases, Bangladesh paid SDR 34.62 million to the Fund as periodic charges during 1985-86.

R- Revised.

CHAPTER XIV

TRADE POLICY

TRADE POLICY

208. The trade policy of Bangladesh recognizes the imperative need to increase foreign exchange earnings in order to meet the large gap between the country's imports and exports. Priority has thus been accorded to diversification and expansion of exports as well as improvement of bilateral trade relation with other countries. The export target for 1985-86 was fixed at Tk. 2655.00 crores, indicating an increase of 18.63 per cent over the target of the preceding year. However, the value of export shipments at Tk. 2431.40 crores[@] during the year fell short of the target by 8.42 per cent due mainly to the sharp fall in the prices of main exportable items in the international market. The export price index is estimated to have declined by 11.76 per cent while the export volume increased by 15.57 per cent during the year.

Export Policy and Target

209. In order to expand the export base of the country, a number of measures were taken in the Export Policy for 1985-86. Some of these are (i) withdrawal of export cess from non-traditional products; (ii) introduction of Export Performance Benefit (XPB) system repealing the erstwhile XPL/IEC; (iii) Provision of XPB facilities having three slabs of 100 per cent, 70 per cent and 40 per cent for promotion of exports on the basis of efficiency; (iv) withdrawal of export duty on tea; (v) decision to allow export of tea upto the value of US $ 250 without opening L/C; and (vi) provision of cash foreign exchange for expansion, modernization and balancing of export-oriented projects.

@ Source: Export Promotion Bureau.

210. Total value of exports at Tk. 2431.40 crores during 1985-86 were marginally higher in terms of Taka than that of Tk. 2415.49 crores during 1984-85. Of the total exports, jute and jute goods accounted for Tk. 367.70 crores (15.12%) and Tk. 870.04 crores (35.78%) as against exports worth Tk. 389.84 crores (16.14%) and Tk. 1007.63 crores (41.72%) respectively during 1984-85. The value of tea exports also declined sharply to Tk. 97.31 crores during 1985-86 from Tk. 157.73 crores in the preceding year. Frozen food and tanned and semi-tanned leather fetched Tk. 335.87 crores and Tk. 180.24 crores respectively during the year as compared to Tk.224.49 crores and Tk. 180.63 crores respectively during 1984-85. Exports of readymade garments, however, picked up from Tk. 300.39 crores during 1984-85 to Tk.390.22 crores during 1985-86. The value of other items of exports totalled Tk. 190.02 crores during 1985-86 as compared to Tk. 154.78 crores during the preceding year.

Export Earnings

Import Policy

211. The Import Policy for 1985-86 envisaged a total allocation of Tk. 4620.00 crores which was higher by 6.18 per cent than the allocation of Tk.4351.00 crores for 1984-85. Of the total allocation, Tk.1038.80 crores (22.48%) were to be financed from the country's own foreign exchange earnings. Commodity Aid, Wage Earners' Scheme, and Barter/STA System were to provide Tk. 938.00 crores (20.30%), Tk. 2461.20 crores (53.27%) and Tk. 182.00 crores (3.94%) respectively.

212. The main features of the Import Policy for 1985-86 were (i) provision for imports worth Tk. 2385.92 crores (51.64%) under private sector industries, Tk. 831.71 crores (18%) under public sector industries, Tk. 994.00 crores (21.52%) for fuel and Tk. 408.37 crores (8.84%) for commercial importers; (ii) provision of two lists of items, one for those

which cannot be imported (negative list), and the other for those which can be imported under certain conditions (restricted list). Items not included in the above two lists can be freely imported under the WES; (iii) introduction of a new Import Control Order repealing the Import Trade Control (I.T.C.) order of 1979; (iv) decision to enhance the exemption limit of import permit fee from Tk. 20,000 to Tk. 25,000; (v) reduction of interest rate on bank loan extended for Barter by 3.0 per cent; (vi) prohibition of those items included in Barter Trade for import under WES or from any other source except tied commodity assistance till the allocation under Barter is fully utilised; (vii) provision of import of coal in the private sector; (viii) decision to finance import of specific commodities, raw materials and spares from specific sources; (ix) fixation of the time period for shipment of goods at 10 days from the date of opening L/Cs which can be extended upto a maximum of 30 days only in case of failure of foreign suppliers; (x) compulsory requirement of making imports through indentors instead of proforma invoice with a few exceptions; (xi) decision to allow importers to import goods under WES upto US $ 1000 simply by taking permission from local import control authority; (xii) decision to allocate cash foreign exchange to export-oriented industries in order to facilitate import of machineries and spares necessary for their balancing, modernisation, rationalisation and expansion (BMRE).

Import Licences

213. As against the total allocation of Tk. 4620.00 crores, value of licences issued during 1985-86 stood at Tk. 3871.80 crores. This compared with licences@ issued worth Tk. 4104.80 crores during 1984-85. Of the total value of licences issued during the year, Tk. 1014.94 crores were financed from cash foreign exchange resources, Tk. 192.33 crores

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@ = C.C.I.&.E

under Barter/STA and Tk. 2095.57 crores and Tk. 568.96 crores under Wage Earners' Scheme, and Commodity Assistance respectively. The sectoral shares in the licences issued were as follows: Commercial importers Tk.1158.17 crores; industrial consumers (private) Tk. 1333.73 crores; sector corporations Tk. 365.08 crores; POL Tk. 865.65 crores; XPL Tk. 20.37 crores; and TCB Tk. 128.80 crores.

Value of Imports

214. Total value of merchandise imports@@ (including food and imports under project aid, etc. but excluding imports made through land customs) during 1985–86 stood at Tk. 5183.11* crores as compared with Tk. 5481.44 crores during 1984–85. Of the total imports during the year, the share of food and live animals stood at Tk. 655.59 crores; crude materials inedible except fuels Tk. 291.78 crores; mineral fuels, lubricants and related materials Tk. 633.84 crores; animal and vegetable oils and fats Tk. 534.97 crores; chemicals, drugs and medicines Tk. 594.29 crores, manufactured goods classified chiefly by materials Tk. 1279.79 crores; machinery and transport equipments Tk. 996.20 crores; and others Tk. 196.65 crores.

@@ Source: Bangladesh Bureau of Statistics based on Customs returns

* The value of total import was actually higher than the above figures as POL imports were not fully refleeted in Customs Statistics.

CHAPTER XV

TRADE AND PAYMENTS AGREEMENTS

TRADE AND PAYMENTS AGREEMENTS

215. Bangladesh signed 12 new trade agreements with other countries during 1985-86 as compared to 9 agreements signed during the preceding year. Of the agreements signed during 1984-85, the one with China (Barter No.8) which became effective from December 21, 1984 remained valid upto March 31, 1986. The agreement with Hungary (Special Account No.9) effective from March 25, 1985 will remain valid upto June 30, 1987 while the agreement with the USSR (Barter No. 13) effective from July 13, 1984 remained valid upto March 31, 1985 and June 30, 1985 for opening L / C and effecting shipment respectively. Barter protocol No. 14 with the USSR effective from April 28, 1985 remained valid upto December 31, 1985 while TCB-E-Marck STA-3 and TCB-ACSA (Andre & CIE SA) Switzerland STA (2nd year) agreements remained valid upto June 30, 1986. The other agreement, namely, TCB-Mueller International B.V. Amsterdam STA dated 17.9.1984 will remain valid upto September 16, 1986.

216. Under the agreements signed during 1985-86, exports from Bangladesh consisted mainly of raw jute, jute goods, crust and finished leather and leather products, hides and skins, tea, readymade garments, hosiery products and special textiles, tobacco, newsprint, paper,soap and detergent, frozen food, G.I. pipes, hard board and particle board, cosmetics, spices, electrical cables and wires, etc. Imports into Bangladesh consisted mainly of machineries, equipments and spares, scientific instruments,pharmaceuticals, X-Ray films, photographic materials, cement, steel,

sugar, pig iron, fertilizer, tyres and tubes, ball bearing, milk powder, petroleum products, high speed diesel oil, zinc ingot, steel and glass, pesticides, etc. Table 15.1 gives a brief description of the agreements signed during 1985-86.

TABLE 15.1

TRADE AGREEMENTS

Date of Agreement	Country/Party	Value of commodities to be exchanged each way
1) 15.9.85	TCB-Otto Sumari, Finland CTA	US $ 3.09 million
2) 14.10.85	TCB-Topaz SA, Turkey CTA	US $ 10.00 million
3) 21.10.85	Bangladesh-DPR Korea (Barter No.4)	US $ 10.00 million
4) 6.11.86	TCB-MITCO STA	US $ 10.00 million
5) 18.11.85	Bangladesh-Bulgaria (Barter No.11)	US $ 35.00 million
6) 13.12.85	Bangladesh-China (Barter No.9)	US $ 43.50 million
7) 31.3.86	Bangladesh-USSR (Barter No.15)	N.A.
8) 3.4.86	TCB-ACSA Switzerland STA-3	US $ 18.00 million
9) 10.4.86	TCB-Interexport Yugoslavia CTA	US $ 0.25 million
10) 20.4.86	TCB-A.B. Sukab, Sweden 3rd TPA	US $ 18.00 million
11) 23.4.86	TCB-NTL Nepal STA	US $ 2.00 million
12) 26.5.86	TCB-MTC-USC STA	US $ 15.00 million

N.A. = Not available.

CHAPTER XVI

TRENDS IN EXPORT COMMODITIES

TRENDS IN EXPORT COMMODITIES

Raw Jute@

217. Raw jute production during 1985-86 season stood at a record level of 76.00 lakh bales. This was 54 per cent higher than the production of 49.39 lakh bales during 1984-85. The sharp rise in production during the season was attributed to the incentive of higher price in the preceding season and consequent coverage of the entire jute area under the Intensive Jute Cultivation Scheme. The area under jute cultivation stood higher at 22.84 lakh acres during 1985-86 as compared to 13.00 lakh acres during 1984-85. The yield per acre however, stood lower at 3.33* bales during the season as compared to 3.80 bales in the preceding season. Total availability of raw jute, including the carryover stock of 9.76 lakh bales, during 1985-86 stood at 85.76 lakh bales which was 26.27 lakh bales higher than 59.49 lakh bales in the preceding season. Export of raw jute during the year also stood 63.00 per cent higher at 23.01 lakh bales than 14.08 lakh bales during 1984-85.

218. The increased production of raw jute in Bangladesh coincided with a marked increase in global production which was unmatched by a relatively smaller increase in world demand. This resulted in a sharp fall in prices of raw jute in the international market. The average export price at Tk. 1598.00 per bale during 1985-86 was 42.28 per cent lower than the price of Tk. 2768.75 per bale during the previous year. Despite a 63 per cent increase in export volume during 1985-86 total foreign exchange earnings from raw jute stood lower at Tk. 367.70 crores as compared to Tk. 389.84 crores during 1984-85.

@ Source: Ministry of Jute and Textiles.

219. The internal prices of raw jute also declined sharply during 1985–86. The growers' level price of raw jute which had stood at Tk. 230.26 per maund* during July,1985 declined to Tk.175.00 per maund by June, 1986. The annual average price of raw jute at the growers' level stood at Tk.196.38 per maund during 1985–86, showing a decline of 61.31 per cent as compared to Tk.507.59 per maund during 1984–85. The declining trend of price continued despite liberal credit policy pursued by the Bangladesh Bank for stimulating the country's raw jute market during the season.

220. The Bangladesh Jute Marketing Corporation and the Bangladesh Jute Trading Corporation were merged to form the Bangladesh Jute Corporation (BJC) with a view to ensuring co-ordinated efforts for boosting up purchase operation in the domestic market as also to provide concerted support to the jute industry. To overcome liquidity problems the BJC was sanctioned a credit limit of Tk. 311.00 crores during 1985–86. The total outstanding credit with the BJC stood at Tk. 337.33 crores (including Tk. 61.18 crores outstanding from the preceding year) at the end of June, 1986. The level of raw jute stock with the BJC stood at 23.09 lakh bales at the end of June, 1986.

221. Arrivals of raw jute in the country's secondary markets during 1985–86 stood substantially higher at 68.40 lakh bales as compared to 40.46 lakh bales in the preceding season.

222. Considering the increased supply position of raw jute in the domestic as well as in the international market, it was decided to liberalise export quotations for jute of D-Grade and below with effect from February 19, 1986 to attain maximum level of exports. As a result, the

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* 1 Maund = 37.324 kg.

export sales registration during 1985-86 stood substantially higher at 30.71 lakh bales as compared to 19.49 lakh bales in the preceding season. Actual export of raw jute during 1985-86 season also stood markedly higher at 23.01 lakh bales as compared to 14.08 lakh bales in the previous season, denoting an increase of 63 per cent over the year.

223. In the Narayanganj terminal market, the kutcha bale price of raw jute depicted a declining trend. The price of white X-Bottom grade of raw jute which had stood at Tk. 898.00 per 100 kg.* on July 1, 1985 gradually declined to Tk. 683.00 per 100 kg. on September 14, 1985 and finally to Tk. 455.00 per 100 kg. on June 14, 1986. In the pucca bale section, the price of B.W.D. grade jute which had stood at Tk. 2200.00 per bale ** on July 1, 1985 gradually declined to Tk.1595.00 per bale on November 2, 1985 and further to Tk. 1495.00 per bale on March 25, 1986. The price finally dropped to Tk. 1200.00 per bale on June 14, 1986 and remained unchanged at that level till the close of the seasons.

224. The export price of B.W.D. grade of jute which had stood at \$ 475.00 per metric ton on July 1, 1985 gradually declined to \$ 400 per metric ton on August 4, 1985, \$ 350 per metric ton on September 9, 1985 and further to \$ 310 per metric ton on February 18, 1986. Thereafter, the export quotations for D-grade and below jute were suspended till the close of the season.

Disinvestment of Jute Mills

225. The Government policy of disinvestment of the nationalised jute mills continued during 1985-86. Accordingly, one nationalised jute mill was disinvested during the year, raising the total number of disinvested jute mills to 35 at the end of June, 1986.

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* 100 Kg = 2.679 maunds
** 1 bale = 5.6 maunds

Jute Goods

226. The country's jute industry also suffered set-back during 1985-86 due mainly to prolonged power failure and labour unrest. As a result, the production of jute manufactures during the year stood 14.49 per cent lower at 4.90 lakh tons@ as compared to 5.73 lakh tons during 1984-85 although raw jute prices fell by 62 per cent during the season.

227. Export sales registration of jute goods with the Bangladesh Bank stood higher at 6.79 lakh tons during 1985-86 as compared to 5.08 lakh tons in the preceding season. Actual export of jute goods also stood higher at 4.94 lakh tons as compared to 4.84 lakh tons in the preceding season. Total foreign exchange earnings from the export of jute goods during the year was, however, 6.56 per cent lower at Tk.967.00 crores as compared to Tk. 1034.90 crores in the preceding season. Despite 2.07 per cent increase in the volume of exports, earnings declined due to 8.45 per cent fall in average export price of jute goods from Tk. 21,382.23 per ton in 1984-85 to Tk. 19,574.90 per ton in 1985-86. In terms of US $, the export price decline was 18.87 per cent.

228. Stocks of jute goods in the country (sold, unsold, stock-intransit and shutout) as on June 30, 1986 stood at 1.19 lakh tons as compared to 1.65 lakh tons at the end of the preceding year.

@ All figures relate to metric measure.

Tea(n)

229. Tea production declined by 8.75 per cent to 38.80 million kgs. during 1985–86 as compared to 42.52 million kgs. during 1984–85 season. The decline in the production of tea during 1985–86 was due mainly to adverse weather conditions. Total availability of tea during 1985–86 season including a carryover of 14.47 million kgs. stood higher at 53.27 million kgs. as against 50.54 million kgs. including a carryover of 8.02 million kgs. during the previous year. The closing stock of tea stood at 11.45 million kgs. at the end of 1985–86 as compared to 14.47 million kgs. at the end of previous year.

230. The Chittagong tea market showed a downward price trend during 1985–86 season. Most of the varieties of tea witnessed an easier market and were sold at lower prices throughout the season under report. In all, 36 auctions were held at Chittagong auction market during 1985–86 in which 36.95 million kgs. of tea were sold at an average price of Tk. 37.74 per kg. as against 34.46 million kgs. of tea sold at an average price of Tk. 49.71 per kg. during the previous year.

231. The export of tea during 1985–86 increased by 15.36 per cent to 29.82 million kgs. from the level of 25.85 million kgs. during the preceding year. The increase was due mainly to extended international demand following a 46 per cent fall in the average export price from Tk.60.32 per kg. during 1984–85 to Tk. 32.60 per kg. in 1985–86. The entry of China, Iran and Iraq in the tea market during the year also contributed to boost up the level of tea exports. However, earnings during the year fell by 38 per cent to Tk. 97.31 crores from Tk. 156.07 crores in 1984–85 due to the rate of fall in export prices overtaking the rate of increase in volume of export.

(n) Source: Bangladesh Tea Board.

Hides@ and Skins

232. Prices of hides and skins in the country depicted an uptrend during 1985–86. The price of cow-hides (wet salted heavy) which opened at Tk.17,000 –Tk.27,000 per hundred pieces on July 1, 1985 increased, amidst some fluctuations, to Tk. 26,000–Tk. 30,000 per hundred pieces on August 21, 1985 and further to Tk. 32,000 – Tk. 37,000 per hundred pieces on September 9, 1985. After ruling unchanged at that level the price started declining from September 19, 1985 and fell, amidst erratic fluctuations to Tk. 29,500 – 31,000 per hundred pieces on November 30, 1985. Thereafter, the price increased from December 7, 1985 and rose steadily to Tk. 33,500 – Tk. 38,000 per hundred pieces on February 8, 1986. The price, however, fell to Tk. 32,000 – Tk. 34,000 per hundred pieces on February 22, 1986. The price, amidst some fluctuations, closed at Tk. 32,000 – Tk. 35,000 per hundred pieces on June 30, 1986.

233. The price of buffalo hides which opened at Tk.27,000–Tk.30,000 per hundred pieces on July 1, 1985 rose, amidst some fluctuations, to Tk.27,500 – Tk.32,500 per hundred pieces on September 23, 1985 and further to Tk.29,500–Tk.37,500 per hundred pieces on November 16, 1985. From November 21, 1985 the price started declining and, amidst fluctuations, fell to Tk. 29,000–Tk.32,000 per hundred pieces on April 9, 1986. Thereafter, the price of buffalo hides started increasing and closed the year at Tk. 30,000 – Tk. 33,000 per hundred pieces.

234. The price of goat-skins (large and heavy) which opened at Tk.5,500–Tk.6,500 per hundred pieces on July 1, 1985 gradually declined to Tk.4,500–Tk.6,000 per hundred pieces on August 5, 1985. The price started increasing from August 14, 1985 and, amidst some fluctuations,

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@ Source: Directorate of Agricultural Marketing rose to Tk.9,500–Tk.10,000 per hundred pieces on September 3, 1985. After ruling unchanged at that level the price declined to Tk.7,000–Tk.8,500 per hundred pieces on October 26, 1985. The price increased again from October 27, 1985 and rose gradually to Tk.11,500–Tk.12,000 per hundred pieces on December 7, 1985. Thereafter, the price declined to Tk.9,000–Tk.9,500 per hundred pieces on January 30, 1986 and further to Tk.8,000–Tk.8,500 per hundred pieces on March 30, 1986. The price of goat-skins rose again from April 16, 1986 and, amidst some fluctuations, closed the year at Tk. 8,500–Tk. 9,500 per hundred pieces.

235. Opening at Tk. 3,000–Tk. 3,500 per hundred pieces on July 1, 1985 the price of sheep skins, amidst some fluctuations, declined to Tk.3,100–Tk. 3,400 per hundred pieces on October 26, 1985. Thereafter, the price started increasing from October 27, 1985 and gradually rose to Tk. 5,000–Tk. 6,000 per hundred pieces on December 1, 1985. The price declined to Tk. 5,000–Tk.5,500 per hundred pieces on December 31, 1985 and further to Tk.4,000–Tk.5,000 per hundred pieces on January 30, 1986. The price started increasing again from February 16, 1986 and rose to Tk.5,500–Tk.6,200 per hundred pieces on March 3, 1986. Finally, the price, amidst some fluctuations, closed the year much lower at Tk.3,500–Tk.4,000 per hundred pieces.

Leather@

236. Export earnings from leather (tanned and semi-tanned) during 1985–86 stood at Tk.180.24 crores which was 23.30 per cent lower than the export target of Tk.235.00 crores for the year and 0.11 per cent lower than the actual earnings of Tk.180.43 crores during the previous year.

@. Source: Export Promotion Bureau.

237. Total export earnings from frozen foods which include shrimps, frog legs and fish stood higher by 49.61 per cent at Tk.335.87 crores during 1985–86 as compared to Tk.224.49 crores in the preceding year.

Frozen Food@

238. Export earnings from naptha and bitumen during 1985–86 declined to Tk.49.73 crores or by 7.43 per cent as compared to Tk. 53.72 crores during 1984–85.

Naptha and Bitumen @

239. Earnings from readymade garments recorded a remarkable improvement during 1985–86 to Tk. 390.22 crores which was 29.90 per cent higher than the earnings of Tk. 300.39 crores from this source during 1984.85.

Readymade Garments @

240. Export value of newsprint stood lower at Tk. 21.78 crores during 1985–86 as compared to Tk. 21.97 crores during the preceding year.

Newsprint@

241. The value of exports of handicrafts during 1985–86 stood higher at Tk. 5.74 crores or 16.43 per cent as compared to Tk. 4.93 crores during 1984–85.

Handicrafts@

@ Source: Export Promotion Bureau.

CHAPTER XVII

EXCHANGE RATE POLICY AND DEVELOPMENTS IN EXCHANGE CONTROL

EXCHANGE RATE POLICY AND DEVELOPMENTS IN EXCHANGE CONTROL

Exchange Rate Policy

242. During 1985-86 the world exchange market was characterised by relative weakness of the U.S. Dollar vis-a-vis the currencies of the other major industrial countries. However, with a view to restoring Bangladesh's international competitiveness which was eroded earlier due to appreciation of Taka vis-a-vis the basket currencies, the Taka-Dollar official exchange rate was allowed to depreciate in small steps during the first half of 1985-86. As a result of these adjustments the country's international competitiveness was considered to have been restored by the end of December, 1985. Thereafter, in line with the continued depreciation of U.S. Dollar, the intervention currency, Taka was allowed to appreciate in nominal terms against the Dollar beginning from January 18, 1986. The movement of Taka-Dollar official exchange rate during 1985-86 is given in Table 17.1.

TABLE 17.1

BANGLADESH BANK'S TAKA RATE PER U.S. DOLLAR

Date of Fixation	Buying	Selling
July 20, 1985	28.22	28.28
August 1, 1985	28.47	28.53
August 17, 1985	28.87	28.93
August 31, 1985	29.22	29.28
September 30, 1985	29.72	29.78
October 31, 1985	29.97	30.03
November 25, 1985	30.47	30.53
December 22, 1985	30.97	31.03
January 18, 1986	30.72	30.78
January 28, 1986	30.47	30.53
February 11, 1986	30.27	30.33

Developments in Exchange Control

i) Export Performance Benefit (XPB) Scheme and Secondary Exchange Market (SEM) Scheme

243. From July 1, 1985 the arrangement of issuance of Import Entitlement Certificate (IEC) under the XPL Scheme was replaced by the **Export Performance Benefit (XPB) Scheme**, under which Authorized Dealers pay a premium in cash to the exporters alongwith the normal export

proceeds. The premium paid by an Authorized Dealer is reimbursed by the Bangladesh Bank. The amount of premium payable in each case is worked out by the Authorised Dealer on the basis of commodity-wise entitlements as announced from time to time and the rate of XPB premium (per Dollar of net FOB value) as announced by Bangladesh Bank from time to time, and published in the Exchange Rate Circulars by Sonali Bank under the auspices of the Exchange Rate Committee. Consequent upon replacement of the IEC by cash payment, Bangladesh Bank sets aside, in an account styled "Secondary Exchange Market Scheme (SEM)", foreign exchange equivalent to the amount of XPB entitlements against which the premium is paid in cash. Foreign exchange purchased by Bangladesh Bank under the Wage Earners' Scheme are also credited into the above mentioned account and are made available to the Authorised Dealers to finance imports under the SEM Scheme. Bangladesh Bank sells funds to Authorised Dealers at the exchange rates (Selling) announced from time to time for SEM / Wage Earners' Funds (U.S Dollar and Pound Sterling) by the Wage Earners' Funds Rate Committee.

ii) Compensation to the Holders of Unexpired and Unutilised IECs

244. Consequent upon abolition of XPL system, the holders of unexpired and unutilised IEC were allowed to exercise their option either for receiving cash compensation from Bangladesh Bank at the rate of premium as was payable on June 30, 1986 or for obtaining LCAs under XPL for import of commodities under the Import Policy Order 1985-86. The facility of cash compensation was also extended to the eligible exporters where negotiation/realization of proceeds took place before June 30, 1985 but IECs were not issued.

iii) Balance of Foreign Currency Funds of Authorized Dealers Held Abroad Outside Exchange Position

245. The arrangement under which Authorised Dealers could retain 100 per cent of balance of Foreign Currency Accounts under Wage Earners' Scheme and of private foreign currency accounts of foreign nationals / firms / companies / embassies, etc. and also 50 per cent of the L/C covers in respect of imports under WES / SEM in their accounts abroad outside their exchange position was discontinued with effect from August 15, 1985. Instead, it was decided that in future Bangladesh Bank will, from time to time prescribe limits for each bank, of holding foreign exchange in their accounts abroad, outside their exchange position and that balances held outside the exchange position in excess of the limit prescribed by Bangladesh Bank shall be deposited by the banks in their Foreign Currency Clearing Accounts with Bangladesh Bank. It was further decided that transfer of Funds from these accounts to the accounts of Authorised Dealers abroad will only be allowed to the extent permitted by the overall limit prescribed by Bangladesh Bank for holding of balances, outside the exchange position in the accounts of banks abroad.

iv) Education Foreign Currency Account

246. With a view to enabling overseas Bangladesh nationals to meet educational expenses of their children, real brothers and sisters and/or themselves abroad during or after completion of their foreign assignments, a new type of foreign currency account known as "Education F.C. Account" has been introduced with effect from September 3, 1985.

The account can be opened/maintained in U.S. Dollar or in Pound Sterling by Bangladesh nationals and persons of Bangladesh origin resident abroad (including those having dual nationality who are eligible to maintain N.F.C.D. Account). Non-residents are allowed to maintain such accounts upto a period of 5 years after their return to Bangladesh for permanent residence. An eligible person can maintain only one such account with any Authorised Dealer in Bangladesh; a maximum amount of US $ 30,000/or its equivalent Pound Sterling can be retained in such an account. The interest on balances in such accounts will be paid on half-yearly basis at six months' Euro-currency deposit rates. The balances in such accounts can be transferred abroad for meeting specified educational expenses or the same may be converted into Bangladesh Taka at any time with accrued interest.

v) Reconversion of Unspent Bangladesh Taka into Foreign Exchange by Foreign Travellers

247. The limit for reconversion of unspent Bangladesh Taka into foreign exchange by foreign tourists at the time of their departure from Bangladesh has been enhanced from Tk. 1,000 to Tk. 6,000 per person. Reconversion into foreign exchange cannot, however, exceed the amounts originally converted into Bangladesh Taka as evidence by the encashment certificate.

vi) Extension of Benefit of the Secondary Exchange Market (SEM) Rates

248. Earnings as consultancy fee by Bangladeshi companies / firms

for rendering professional services within Bangladesh but paid for in foreign exchange by way of remittances from abroad were allowed encashment at the SEM rate with effect from September 11, 1985. The commission earned in foreign exchange and repatriated to Bangladesh through normal banking channel by eligible indenting agents was made encashable at SEM rate with effect from December 1, 1985 and such commissions earned by exports agents, inspection agents and recruiting agents were also made encashable at the SEM rate with effect from January 5, 1986.

vii) Encashment of Unutilised Balance of Licences/Letters of Credit against Imports under WES

249. With effect from November 12, 1985 Authorised Dealers were allowed to encash unutilised balance of Licences / Letters of Credit against import under WES at the buying WES / SEM rate ruling on the date of surrender, provided non-utilization of the fund in question was due to failure of foreign suppliers to effect shipment in time or due to other reasons beyond the control of the importer and that the funds were purchased from banks. However, before allowing the benefit of rulling buying rate the Authorised Dealers should satisfy themselves about the genuineness of the reason put forward for non-utilization of the fund.

viii) Import on Deffered Payment basis by Industrial Consumers

250. Further to the provision of opening deferred payment L/Cs for import of capital machineries under SEM and of opening back to back deffered payment L/Cs for raw and packing materials for import

requirements of the export oriented readymade garment / specialized textile/ hosiery units operating under the bonded warehouse system, opening of letters of credit on deferred payments terms have with effect from January 1,1986 been allowed for periods upto 90 days for import of industrial raw materials under SEM / WES by industrial consumers as per their pass book entitlements subject to the conditions that (i) if the price includes interest on sight FOB price the interest should not be above LIBOR for the relative period and (ii) the payment date must be within the original validity of the relative LCAs for remittance. The requirement of advance deposit of foreign exchange cover before opening of letters of credit for import of admissible items under WES / SEM on deferred payment basis may be decided by the Authorised Dealers on the basis of banker-customer relationship keeping in view their liability for making payment on due date; subject, however, to compliance with the minimum margin requirements for import of such commodity prescribed by Bangladesh Bank from time to time.

ix) Forward Cover Facility for Imports under the back to back L/C Arrangements

251. To provide relief from fluctuation of exchange risk to the exporters who make imports of their raw and packing materials under import L/Cs opened back to back against export L/Cs., Authorised Dealers have been allowed with effect from January 5, 1986 to make forward sales for 6 months for upto 75 per cent of value of exports covering payment of import bills under such back to back import L/Cs, subject to other usual conditions.

x) Purchase of Wage Earners' Funds by Bangladesh Bank

252. Authorised Dealers have been allowed with effect from February 27, 1986 to sell their surplus Wage Earners Funds to Bangladesh Bank at the ruling rate of the date on which the same is tendered instead of the rate at which the fund was purchased by the Authorised Dealers as was the practice earlier.

xi) Jewellery Export Scheme

253. It was decided by Bangladesh Bank to allow export of gold jewelleries from Bangladesh under Jewellery Export Scheme. The Scheme provides that an exporter desiring to participate in the Scheme shall be registered with the Chief Controller of Imports and Exports as exporter, and in addition, shall get himself registered with the Export Promotion Bureau as authorised exporter of jewellery. Under the scheme, an authorised exporter shall have option to procure gold and precious and semi-precious stones to carry out manufacturing operations for export of jewellery under two different procedures, viz., gold replenishment procedure and advance gold supply procedure. In case of gold replenishment procedure, the exporter shall initially use the gold and the stones from his own stock or the initial requirement of gold may also be provided by the Bangladesh Bank at the international market price prevailing on the day of delivery against undertaking / Bank Guarantee for export. Subsequent requirement of gold, stones and other materials shall be imported through Sonali Bank against Special Import Authorisation to be issued against export of jewellery under this Scheme to the extent of 75 per cent of the FOB value of the jewellery exported. Under the advance

gold supply procedure, the authorised exporter will enter into a contract with the foreign buyer for manufacturer of jewellery against advance supply of gold and stones free of cost by the buyer. The scheme also provides for the formation of an "Appraisal Committee" for assessment of the value of jewellery to be exported under the Scheme.

xii) Exchange Rate Fluctuation Burden Absorption Scheme (EFAS)

254. Some of the provisions of the Exchange Rate Fluctuation Burden Absorption Scheme (EFAS) introduced by the Government in 1983 were amended on April 20, 1986. After these amendments, only the term loans in foreign currency disbursed by the Development Financing Institutions (DFIs) will be eligible for cover under EFAS; the premia relating to such covers will be credited to a special blocked account in the name of the Government and the risk of such covers will also be borne by the Government.

xiii) Issuance of Bank Guarantee Favouring Non-residents Towards Repayment of Suppliers' Credit

255. In order to cover repayment of suppliers' credit to public and private sector industries as approved by the Hard Term Loan Committee, Authorised Dealers were allowed to issue Bank Guarantees, in favour of the foreign suppliers' bank without prior approval of the Bangladesh Bank. Any remittance in foreign exchange resulting from claims against such guarantees will, however, require prior approval of the Bangladesh Bank.

xiv) Export of Foreign Currency by Persons Ordinarily Resident in Bangladesh

256. With effect from February 25, 1986 outgoing passengers, ordinarily resident in Bangladesh, were allowed to take out foreign exchange not exceeding US $ 150 per person or its equivalent in other currencies instead of the previous limit of US $ 25 per person without any prior authorisation / endorsement by banks.

xv) Opening of Back to Back L/Cs for Import of Raw and Packing Materials for Export Manufacture by Direct Exporters/by Inputs Supplying Indirect Exporters (Other than Readymade Garments /Hosiery Specialised/Textile Sectors)

257. Export oriented readymade garments / specialised textile / hosiery units operating under the bonded warehouse system can make import of their raw and packing materials requirements by opening of import letters of credit back to back against export L / Cs received by them. Bangladesh Bank has accorded general authorisation to Authorised Dealers in this behalf. Import of raw and packing materials under this back to back arrangement has also been made open to other export manufacturing sectors (who have no import allocation at official exchange rate) operating under the bonded warehouse system. Authorised Dealers are required in these cases to approach Bangladesh Bank for prior approval to their establishing of the back to back import L / Cs. The provision covers both the output manufacturing direct exporters and the input manufacturing indirect exporters supplying inputs to the direct exporters.

xvi) Deffered payment Imports under WES: Interest on Advance Foreign Exchange Deposit

258. It was decided that in the cases of deferred payment imports under WES/SEM where 100 per cent advance foreign exchange cover was obtained by the Authorised Dealers from the importers, the importers should be paid the Taka equivalent of the interest that the Authorised Dealers will earn on this fund deposited in the Foreign Currency Clearing Account with Bangladesh Bank, less ½ per cent retained by the Authorised Dealers towards their handling charges. The conversion of the interest amount in foreign exchange to Bangladesh Taka should be made at the SEM rate ruling on the date of lodgement of the relative import documents.

xvii) Non-Resident Foreign Currency Deposit Account (NFCD Account)

259. It was decided on June 23, 1986 that foreign nationals and companies / firms registered and / or incorporated abroad, banks and other financial institutions, including institutional investors, will be allowed to maintain time deposits in foreign currencies with the banks in Bangladesh. The minimum amount of deposits shall be U.S. $ 25,000 or its equivalent in Pound Sterling. The terms and conditions applicable to such deposits are generally similar to those applicable to Non-Resident Foreign Currency Deposit Account maintained by Bangladesh nationals living abroad.

xviii) Hajj-1986

260. The Government made arrangements for sending 10,000 persons through ballot from Bangladesh to perform Hajj in 1986; all the pilgrims were to be carried by Bangladesh Biman. Foreign exchange quota for the pilgrims by air was fixed at Saudi Riyals 3,319 including Muallim fees, etc. In addition, each pilgrim was allowed to purchase upto U.S. $ 400 under Wage Earners' Scheme. Non-ballottee pilgrims holding return air-tickets were allowed to purchase upto US $ 904 per head from F.C. Account under Wage Earners' Scheme. In addition to the above amount each such non-ballottee pilgrim was allowed to purchase a further sum of upto US $ 400 from F.C. Account under Wage Earners' Scheme.

CHAPTER XVIII

ASIAN CLEARING UNION

ASIAN CLEARING UNION

261. Bangladesh's transactions under the Asian Clearing Union (ACU) continued to expand during 1985-86. As usual, six settlements took place under the ACU arrangement during the year in which Bangladesh emerged as net debtor in five transactions and net creditor in one transaction.

262. Payments on Bangladesh's account recorded a substantial increase of AMU 59.72 million or 95.4 per cent to AMU 122.32 million (Tk. 410.26 crores) in 1985-86 from AMU 62.60 million (Tk. 163.12 crores) in 1984-85. Payments increased due mainly to inclusion of crude oil import from Iran under the Clearing Arrangement during the year. Receipts, on the other hand, declined by AMU 38.10 million or 30.3 per cent to AMU 87.49 million (Tk. 290.85 crores) in 1985-86 from AMU 125.59 million (Tk. 323.58 crores) in 1984-85.

263. As a result of these transactions, Bangladesh's position in the Union changed from a net creditor of AMU 62.99 million (Tk. 160.46 crores) in 1984 85 to a net debtor of AMU 34.83 million (Tk. 119.41 crores) during 1985-86.

CHAPTER XIX

CURRENCY AND COINAGE

CURRENCY AND COINAGE

Bank Notes

264. No new design Notes or Coins were issued during the period from July 1, 1985 to June 30, 1986.

Coins

265. Subsidiary Coins in circulation as on June 30, 1986 amounted to Tk. 36.79 crores as against Tk. 36.27 crores as on June 30, 1985. This was in addition to Taka One Notes and Taka One Coins worth Tk.49.06 crores in circulation as on June 30, 1986 as against Tk. 42.99 crores as on June 30, 1985.

CHAPTER XX

ADMINISTRATION

ADMINISTRATION

Reconstitution of the Bank's Board of Directors

266. The Board of Directors of the Bank was reconstituted with 2 newly-nominated Directors during 1985–86. The new Directors are Mr. S. B. Chowdhury, Secretary, Internal Resources Division and Chairman, National Board of Revenue in place of Mr. M. Munir-uz-Zaman, Ex-Secretary, External Resources Division, and Mr. M. A. Beg, Deputy Governor in place of Mr. Kazi Badrul Alam, Deputy Governor of the Bank who proceded on L.P.R. with effect from February 27, 1986.

Board/ Executive Committee Meetings

267. During 1985–86, 8 meetings of the Board of Directors and 4 meetings of the Executive Committee were held.

Co-ordination Committee Meetings

268. The Co-ordination Committee of the Bank held a total of 12 meetings during the year to discuss various issues concerning the Banks' affairs.

Appointment of Deputy Governors

269. Mr. M. A. Beg and Mr. A.K.M. Khalilur Rahman were appointed as Deputy Governors of the Bank with effect from April 19, 1986 and May 27, 1986 respectively.

Other Appointments

270. The following appointments in different grades of employment were made by the Bank during the year ending June 30, 1986 :

i) Assistant Directors	3
ii) Clerk-cum-Typists, Coin/Note Examiners and other staff	389
	Total: 392

Officers on Deputation

271. One General Manager and 3 Deputy General Managers of the Bank were on deputation with different Central Banks / Monetary Agencies of the Middle East countries during 1985–86. One General Manager, one Deputy General Manager and 2 Deputy Directors of the Bank were on deputation with Ministers/Banks in the country during the year.

272. Two Government officers, one from the Ministry of Establishment and the other from the Ministry of Defence were on deputation with the Bank in the rank and status of General Manager and Deputy General Manager respectively during 1985–86.

Foreign Training

273. During the year 1985–86, arrangements were made for participation of 12 officers of the Bank in different Training Courses / Seminars abroad under different Technical Assistance Programme/Fellowships/Sponsorships.

Domestic Training

274. A total of 234 officials of the Bank participated in different training programmes organised by different training institutions of the country during 1985–86.

Bank's Training Academy

275. With a view to raising the professional skill and efficiency of the Bank's officers and staff, the Bangladesh Bank Training Academy arranged the following training facilities during 1985-86 :-

i) As many as 106 Assistant Directors / Assistant Managers and 71 officers were trained by organising 6 in-service courses. Five in-service courses were also organised for officers / staff of the Cash Department of the Bank wherein 5 Assistant Managers, 21 Assistant Accounts

Officers and 51 Assistant Treasurers participated. The trained officials were also given exposure to the mechanism of Bank's Computer System.

ii) In order to improve the efficiency and expertise of the officers of the Agricultural Credit Inspection Department (ACID) of the Bank, two 2-week courses on "Technique Inspection" were conducted by the Academy wherein 36 officials from different offices of the Bank participated.

iii) Under the Executive Development Programme, the Academy organised 5 Orientation Courses on the following topics during the year in which about 200 officers of the Bangladesh Bank and other financial institutions participated :

(a) "Shwanirvar Programme-Objective and Achievements"

(b) "Problems of Industrial Finance in Bangladesh"

(c) "Human Relations in Banking"

(d) "Monetization and Financial Institutions in Bangladesh"

(e) The role of Banks in developing entrepreneurship in Bangladesh.

iv) To ensure correct reporting of Foreign Exchange Transactions to the Bangladesh Bank by the Authorised Dealers, 6 short courses were conducted at Dhaka, Bogra, Sylhet, Khulna, Chittagong and Rajshahi. A total of 231 officials from the reporting branches of commercial banks participated in those courses.

v) Six educational field trips were arranged by the Academy for the trainee officers of the Bank during 1985-86 with a view to broadening their outlook and also to make them understand better the problems faced by various institutions at field level.

Office Accommodation

276. The construction work of 6-storied Office building with 15-storied foundation at S.B.I. premises, Chittagong, 3-storied Office building with 5-storied foundation at Bangladesh Bank, Rajshahi and 6-storied Annexe building at Bangladesh Bank premises, Khulna was in progress.

Residential Accommodation

277. The construction work of 'A', 'B', 'C' and 'D' types of staff quarters at Faridabad, Dhaka was in progress. The piling work for construction of additional units of staff quarters at Faridabad Colony, Dhaka and Malatinagar, Bogra was in progress while the work order for piling work for construction of staff quarters at Agrabad, Chittagong was issued.

Other Development Work

278. Other developmental work completed during the year included: (a) site development work by earth filling at the Head Office, premises, Motijheel, Dhaka; (b) main surface drain, Guard House and main gate at Faridabad Colony, Dhaka; (c) internal road and surface drain at Baniakhamar staff quarter, Khulna; (d) installation, testing and commissioning of 11/0.415 Kv. Sub-station at Bangladesh Bank premises, Bogra.

Welfare Activities

279. An amount of Tk. 12.40 lakhs was sanctioned for allocation of fund to different offices of the Bank for various welfare and recreational activities for the financial year 1985-86.

Sanction of Stipend

280. The Executive Committee of the Board of Directors in its 29th meeting held on September 10, 1985 was pleased to sanction an amount of Tk.4.10 lakhs for different offices of the Bank for awarding stipend to the eligible children of 'C' and 'D' category employees of the Bank for the financial year 1985-86.

CHAPTER XXI

ANNUAL ACCOUNTS

281. The Balance Sheet of the Issue Department of the Bank as on June 30, 1986 appears at pages 212-213 of the Report.

Issue Department

282. Total notes issued as on June 30, 1986 amounted to Tk.2206.51 crores as against Tk.1919.76 crores as on June 30, 1985. Assets against the notes issued included Gold worth Tk. 50.03 crores, Approved Foreign Exchange of Tk.200.00 crores, Taka Coin worth Tk.0.87 crore, Government of Bangladesh Securities worth Tk.346.37 crores and Internal Bills of Exchange and other Commercial papers worth Tk.1609.24 crores. The corresponding figures of assets against note issue as on June 30, 1985 were Gold worth Tk.40.02 crores, Approved Foreign Exchange of Tk.200.00 crores, Taka Coin worth Tk.1.11 crores, Government of Bangladesh Securities worth Tk.494.39 crores and Internal Bills of Exchange and other Commercial papers worth Tk.1184.24 crores.

Banking Department

283. The Balance Sheet of the Banking Department as on June 30, 1986 appears at pages 214-215. On the liabilities side, balances in the Statutory Funds* increased from Tk. 227.00 crores to Tk.265.00 crores due to appropriation of Tk. 38.00 crores from the Profit and Loss Account. Government Deposits decreased to Tk. 0.57 crore as on June 30, 1986 from Tk.1.23 crores as on June 30, 1985. Bank's Deposits increased to Tk.618.76 crores as on June 30, 1986 from Tk. 586.13 crores as on June 30, 1985. "Other Deposits" increased to Tk. 2231.45 crores as on June 30, 1986 from Tk. 1989.61 crores as on the same day last year. "Other

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* Excluding Credit Guarantee Fund.

Liabilities" also increased to Tk. 967.75 crores as on June 30, 1986 from Tk. 605.48 crores as on June 30, 1985. The allocation of SDR remained unchanged at Tk. 91.74 crores.

284. On the Assets side of the Banking Department, "Bills Purchased and Discounted-Internal" decreased to Tk. 139.00 crores as on June 30, 1986 from Tk. 168.00 crores as on June 30, 1985.

The balance of re-discounted Government Treasury Bills increased to Tk.108.19 crores as on June 30, 1986 from Tk. 93.77 crores as on June 30, 1985. The amount under "Balances Held Outside Bangladesh" also increased to Tk.1110.94 crores as on June 30, 1986 from Tk. 804.20 crores as on June 30, 1985. Other Loans and Advances (Loans and Advances to Banks and other Financial Institutions) went upto Tk. 1327.20 crores as on June 30, 1986 as against Tk. 1326.48 crores as on June 30, 1985. The balances under "Investments" increased to Tk.806.53 crores as on June 30, 1986 from Tk.550.87 crores as on June 30, 1985.

285. The Profit and Loss Account of the Bank for the year ended on June 30, 1986 appears at page 216.

286. The Profit and Loss position of the Bank for the year 1985-86 is summarised as under:

Profit and Loss Account

Gross earnings of the Bank	Tk. 427,31,71,627.20
Total Expenditures	Tk. 192,45,32,710.29
Net Profit:	**Tk. 234,86,38,916.91**

287. Out of the above profit of Tk. 234,86,38,916.91 a sum of Tk. 40.00 crores has been appropriated towards different Statutory Funds including credit guarantee fund and the balance of Tk. 194,86,38,916.91 has been paid to the Government Exchequer as surplus profit as detaild below :

Rural Credit Fund	Tk. 15,00,00,000.00
Industrial Credit Fund	Tk. 4,00,00,000.00
Export Credit Fund	Tk. 4,00,00,000.00
Agricultural Credit Stabilisation Fund	Tk. 15,00,00,000.00
Credit Guarantee Fund	Tk. 2,00,00,000.00
Surplus profit paid to the Government	Tk.194,86,38,916.91
Total:	**Tk. 234,86,38,916.91**

Interest Subsidy to Banks and Other Financial Institutions

288. For financing the Special Housing Scheme for low and middle income people at a concessional rate of interest, Bangladesh Bank continued to allow interest subsidy to Bangladesh House Building Finance Corporation. With a view to boosting up export of non-traditional items, Bangladesh Bank also allowed interest subsidy on export credit to the financing banks. A sum of Tk. 3.52 crores was paid as interest subsidy during 1985-86 as against Tk. 4.58 crores paid last year.

Appointment of Auditors

289. In terms of Article 65(I) of the Bangladesh Bank Order, 1972, the Government was pleased to appoint M / S. Khan Wahab Shafique

Rahman & Co. and M / S. Hoda Vasi Chowdhury & Co., Chartered Accountants to audit the Accounts of the Bank for the year 1985-86.

Appreciation

290. The Board of Directors wishes to place on record its appreciation for the loyal and devoted services rendered by the officers and staff of the Bank during the year.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

LIABILITIES	AS ON JUNE 30, 1986		AS ON JUNE 30, 1985	
	TAKA	TAKA	TAKA	TAKA
Notes held in the Banking Department	91,42,260		42,21,925	
Notes in circulation*	2205,59,90,290		1919,33,97,925	
Total Notes Issued		2206,51,32,550		1919,76,19,850
TOTAL:		TAKA 2206,51,32,550		TAKA 1919,76,19,850

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

BANK
SHEET
DEPARTMENT

ASSETS	AS ON JUNE 30, 1986		AS ON JUNE 30, 1985	
	TAKA	TAKA	TAKA	TAKA
A. Gold Coin and Bullion	50,03,27,000		40,01,67,000	
Silver Bullion	Nil		Nil	
Special Drawing Rights held with the International Monetary Fund	Nil		Nil	
Approved Foreign Exchange	200,00,00,000	250,03,27,000	200,00,00,000	240,01,67,000
B. Taka Coin	86,80,909		1,11,11,209	
Government of Bangladesh Securities **	346,37,18,436		494,39,35,436	
Internal Bills of Exchange and other Commercial Papers	1609,24,06,205	1956,48,05,550	1184,24,06,205	1679,74,52,850
TOTAL ASSETS:	**TAKA**	**2206,51,32,550**	**TAKA**	**1919,76,19,850**

** Includes Special Adhoc Treasury Bills issued for providing assets against issue of Bangladesh Notes in replacement of Pakistan Notes.

LIABILITES	AS ON JUNE 30, 1986		AS ON JUNE 30,1985	
	TAKA	TAKA	TAKA	TAKA
Capital paid-up		3,00,00,000		3,00,00,000
Reserve Fund		3,00,00,000		3,00,00,000
Rural Credit Fund		100,00,00,000		85,00,00,000
Industrial Credit Fund		32,00,00,000		28,00,00,000
Export Credit Fund		33,00,00,000		29,00,00,000
Agricultural Credit Stabilisation Fund		100,00,00,000		85,00,00,000
Deposits:				
(a) Government	57,04,672		1,23,18,005	
(b) Banks	618,75,82,206		586,12,61,991	
(c) Others	2231,44,71,748	2850,77,58,626	1989,61,49,147	2576,97,29,143
Allocation of Special Drawing Rights		91,74,31,206		91,74,31,206
Bills Payable		23,76,853		93,88,710
Other Liabilities		967,75,37,052		605,47,73,311
TOTAL LIABILITIES		TAKA 4181,51,03,737		TAKA 3508,13,22,370

DEPARTMENT

ASSETS	AS ON JUNE 30, 1986		AS ON JUNE 30, 1985	
	TAKA	TAKA	TAKA	TAKA
Notes		91,42,260		42,21,925
Taka Coin		175		20,089
Subsidiary Coin		19		86
Bills Purchased and Discounted:				
(a) Internal	139,00,00,000		168,00,00,000	
(b) External	Nil		Nil	
(c) Government Treasury Bills	108,18,79,677	247,18,79,677	93,76,62,904	261,76,62,904
Balances held Outside Bangladesh ***		1110,93,58,606		804,19,75,540
Special Drawing Rights held with the International Monetary Fund		Nil		Nil
Loans and Advances to Government		Nil		20,00,00,000
Government's Debtor Balances		Nil		Nil
Other Loans and Advances		1327,20,39,384		1326,48,38,079
Investments		806,52,72,840		550,86,49,840
Other Assets		688,74,10,776		544,39,53,907
TOTAL ASSETS	**TAKA**	**4181,51,03,737**	**TAKA**	**3508,13,22,370**

*** Includes Cash and Short-Term Securities.

PROFIT AND LOSS ACCOUNT

	AS ON JUNE 30, 1986 TAKA	AS ON JUNE 30, 1985 TAKA
INCOME :		
Interest, Discount, Exchange, Commission etc.	427,31,71,627	494,06,43,954
EXPENDITURE :		
Establishment	24,90,04,318	17,18,72,689
Directors' Fees and Expenses	16,898	23,903
Auditors' Fees	52,475	52,475
Rent, Taxes, Insurance, Lighting etc.	1,36,78,786	95,37,201
Law Charges	1,89,276	1,77,262
Postage and Telegram Charges	18,23,380	22,97,084
Remittance of Treasure	26,36,382	15,13,794
Stationery etc.	90,08,130	68,36,360
Security Printing (Cheques, Note Forms, etc.)	11,65,16,567	5,67,15,550
Depreciation and Repairs to Bank's Property	2,83,91,814	2,59,25,701
Agency Charges	3,23,12,913	6,78,52,634
I.M.F. Charges	88,85,70,466	63,77,41,462
Interest Subsidy to Banks and Financial Institutions	3,51,76,455	4,58,32,554
Interest on Deposits	46,36,82,628	27,76,42,324
Interest on Staff Provident Fund	2,60,45,177	1,86,56,847
Interest on General Provident Fund	8,40,858	9,84,585
Interest paid on ACU Transactions	1,03,14,173	Nil
Miscellaneous Expenses	5,05,31,268	4,51,29,738
Net Profit	234,86,38,917	337,18,51,801
Total Taka :	**427,31,71,627**	**494,06,43,954**
APPROPRIATION OF PROFIT:		
Amount transfered to Reserve Fund	Nil	Nil
Amount transfered to Rural Credit Fund	15,00,00,000	15,00,00,000
Amount transfered to Industrial Credit Fund	4,00,00,000	4,00,00,000
Amount transfered to Export Credit Fund	4,00,00,000	4,00,00,000
Amount transfered to Agricultural Credit Stabilisation Fund	15,00,00,000	15,00,00,000
Amount transfered to Credit Guarantee Fund	2,00,00,000	2,00,00,000
Surplus payable to Government	194,86,38,917	297,18,51,801
Balance Carried Forward	Nil	Nil
Total Taka :	**234,86,38,917**	**337,18,51,801**
RESERVE FUND ACCOUNT :		
By Balance	3,00,00,000	3,00,00,000
By Transfer from Profit & Loss Account	Nil	Nil
Total Taka :	**3,00,00,000**	**3,00,00,000**

A.K.M. Matlub Ahmed
General Manager

A. K. M. Khalilur Rahman
Deputy Governor

M. Nurul Islam
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 as at June 30, 1986 and the Profit and Loss Account of the Bank for the year ended on that date.

We have examined the foregoing Balance Sheet as at June 30, 1986 and the Accounts with the relevant books and records of the Head Office and seven Offices of the Bangladesh Bank and report that where we have called for explanations and information, such explanations and information have been given satisfactorily. 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 explanations given to us and as shown by the books of the Bank.

Hoda Vasi Chowdhury & Co.,

Chartered Accountants.

Dhaka,

The July 30, 1986.

Khan Wahab Shafique Rahman & Co.,

Chartered Accountants.

APPENDICES

BANGLADESH—SOME BASIC NATIONAL STATISTICS

1. AREA AND POPULATION

Area		1,43,999 Km^2
	1984-85	**1985-86^P**
Population	99.2 Million	101.7 Million
Density of Population:		
a) Per Km^2 of Total Land Area	685	701
b) Per Km^2 of Cultivable Land	1,089	1,116

P—Provisional.

Source : Bangladesh Bureau of Statistics.

II. NATIONAL INCOME, INVESTMENT AND SAVINGS

(Taka in crores)

Items /Sectors	1984-85 Revised	%	1985-86	%
1. GDP (At Constant 1984-85 Factor Cost)	32,887	—	34,205	—
2. GDP (At Current Market Prices)	34,830	—	38,536	—
3. Per Capita GDP (In Taka at Current Prices)	3511.09	—	3789.18	—
4. Gross Investment (at Current Prices)	6,008	@ 17.3	6,547	@ 17.0
5. Gross Domestic Savings (at Current Prices)	1,462	@ 4.2	1,835	@ 4.8
6. Gross National Savings (at Current Prices)	1,506.0	@ 4.15	N.A.	N.C.
7. Sectoral Break-up of GDP (At Constant 1984-85 Factor Cost):				
a) Agriculture	16,591	50	17,268	51
b) Trade & Other Services	7,319	22	7,545	22
c) Industries	3,125	10	3,163	9
d) Public Services	2,145	7	2,322	7
e) Transport & Communication	1,722	5	1,793	5
f) Housing	986	3	1,041	3
g) Construction	761	2	815	2
h) Gas & Electricity	238	1	258	1
		100		100

Source: Planning Commission.

@ As percentage of GDP at current market prices.

N.A. = Not Available.

N.C. = Not Comparable.

III. GOVERNMENT FINANCE AND ANNUAL DEVELOPMENT PROGRAMME

(Taka in crores)

Sl. No.	Heads	1984-85	%	1985-86 (Revised)	%
1.	**Revenue Receipts:**	**3,477.00**	**100**	**4,073.00**	**100**
	a) Tax	2,847.00	82	3,228.00	79
	b) Non-tax	630.00	18	845.00	21
2.	Revenue Expenditure	2,930.00	84	3,420.53	84
3.	Revenue Surplus	547.00	16	652.47	16
4.	**Capital Receipts:**	**3,761.76**	**100**	**5,038.22**	**100**
	a) Capital Expenditure	702.34	19	1,272.11	25
	b) Capital Surplus	3,059.42	81	3,766.11	75
5.	**Size of ADP:**	**3,508.42**	**100**	**4,095.54**	**100**
	a) Domestic	890.42	25	703.73	17
	b) Foreign	2,618.00	75	3,391.81	83

Source: Budget Summary Statements, Ministry of Finance.

IV. MONEY, CREDIT AND PRICES

(Taka in crores)

Sl. No.	Heads	1984-85	1985-86
1.	Broad Money (M_2)	10,534.20	12,338.10
2.	**Domestic Credit:**	**12,460.90**	**14,534.80**
	i) Public Sector (including Govt.)	5,570.30	6,178.60
	ii) Private Sector	6,890.60	8,356.20
3.	Broad Money as % of GDP (at Current Market Prices)	30.25	30.91
4.	General Price Index (1973-74=100) For Dhaka Middle Class :		
	i) Point to Point	411.56	464.67
	ii) Yearly Average	396.58	436.03
5.	Annual Percentage Changes in :		
	i) General Price Index for Dhaka Middle Class :		
	a) Point to Point	+ 7.66	+ 12.90
	b) Yearly Average	+ 10.94	+ 9.95
	ii) Credit to Public Sector (excluding Govt.)	+ 26.54	+ 23.02
	iii) Credit to Private Sector	+ 40.21	+ 21.27

Source: (i) Bangladesh Bank.
(ii) Bangladesh Bureau of Statistics.

V. BALANCE OF PAYMENTS

Items/Period	1984-85		1985-86	
	In crore Tk.	In million US $	In crore Tk.	In million US $
Exports (f.o.b)	2521.1	971	2716.6	909
Imports (c & f)	–6873.8	–2647	–7065.1	–2364
Of which: food grains	(–1292.9)	(–498)	(–656.0)	(–220)
Trade balance	**–4352.7**	**–1676**	**–4348.5**	**–1455**
Services (net)	–202.0	–78	–374.0	–125
Inflows	743.0	286	777.0	260
Outflows	–945.0	–364	–1151.0	–385
Of which: int. payments	(–244.0)	(–94)	(–320.0)	(–107)
Private unrequited transfers	1033.7	398	1569.3	525
Current account balance	**–3521.0**	**–1356**	**–3153.2**	**–1055**
Aid disbursements	3298.1	1270	3911.4	1309[1]
Food	634.8	244	605.9	203
Commodity	1129.1	435	1184.1	396[1]
Project	1534.2	591	2121.4	710
Amortization payments	–285.7	–110	–349.7	–117
Food credits (net)	236.5	91	–198.9	–67
Borrowings	493.3	190	44.8	15
Repayments	–256.8	–99	–243.7	–82
Trust Fund	–34.3	–13	–76.1	–25
Aircraft loan (net)	12.6	5	–4.4	–1
Short-term to BPC	–92.4	–35	3.0	1
Other capital	17.4	7	–10.7	–4
Errors and omissions	120.6	46	16.5	5
Overall balance	**–248.2**	**–95**	**137.9**	**46**
Monetary movements (–increase)	248.2	95	–137.9	–46
Bangladesh Bank	309.3	118	–189.4	–63
Foreign exchange	389.1	149	–188.7	–63
Liabilities	–79.8	–31	–0.7	–
Of which: Fund credit	(–19.6)	(–7)	(–8.6)	(–3)
Commercial banks	–61.1	–23	51.5	17
Assets	–6.1	–2	12.2	4
Liabilities	–55.0	–21	39.3	13

Note: 1 Includes IMF Subsidy ($ 3 million).

VI. MERCHANDISE EXPORTS RECEIPTS

Commodity	Period	1984-85			1985-86		
	Value	In crore Tk.	In million US $	%	In crore Tk.	In million US. $	%
Total exports		**2521.1**	**971**	**100**	**2716.6**	**909**	**100**
1. Raw jute		381.9	147	15.1	352.5	118	13.0
2. Jute goods		1089.6	420	43.2	1014.0	339	37.3
3. Tea		147.1	57	5.8	103.8	35	3.8
4. Leather		219.3	84	8.7	249.9	84	9.2
5. Fish, shrimps & frog legs		258.4	100	10.2	382.4	128	14.1
6. Naptha, furnace oil & bitumen		43.8	17	1.7	48.4	16	1.8
7. Readymade garments		275.7	106	10.9	443.9	148	16.3
8. Others		105.3	40	4.4	121.7	41	4.5

VII. MERCHANDISE IMPORTS PAYMENTS

Commodity	Period	1984-85		1985-86	
	Value	In crore Tk.	In million US. $	In crore Tk.	In million US $
Total Imports (c &f)		**6873.8**	**2647**	**7065.1**	**2364**
1.Food grains		1292.9	498	656.0	220
2. a) Rice		(456.9)	(176)	(24.5)	(8)
b) Wheat		(836.0)	(322)	(631.5)	(212)
3. Edible oil & oil seeds		290.8	112	354.0	118
4. Petroleum crude & petroleum products		981.4	378	964.3	323
5. Cotton & textile yarn		253.4	98	250.9	84
6. Fertilizers		355.7	137	306.5	103
7. Chemicals		322.1	124	424.8	142
8. Cement		136.9	53	167.7	56
9. Capital goods & other accessories		1599.3	616	2066.2	691
10. Others		1641.3	631	1874.7	627

VIII. FOREIGN AID, EXTERNAL DEBT AND DEBT SERVICE

(In Million U.S. Dollar)

Sl. No.	Particulars	1984-85	1985-86P
1.	**Foreign Aid:**		
	a) Gross Disbursement during the year	1,267	1,306
	b) Gross commitment during the year	1,973	1,662
	c) Total Commitment since 1972	17,731	19,393
	d) Total Disbursement since 1972	12,705	14,011
2.	Debt Service	181	189
3.	Debt Service–Export Ratio	18.64	23.08

Source: Planning Commission.
P– Provisional.

IX. TAKA– DOLLAR EXCHANGE RATES *

Month/Year	1984-85	1985-86
July	US $ 1.00 = Tk. 25.20	US $ 1.00 = Tk. 28.10
August	US $ 1.00 = Tk. 25.25	US $ 1.00 = Tk. 28.71
September	US $ 1.00 = Tk. 25.40	US $ 1.00 = Tk. 29.25
October	US $ 1.00 = Tk. 25.58	US $ 1.00 = Tk. 29.76
November	US $ 1.00 = Tk. 25.99	US $ 1.00 = Tk. 30.10
December	US $ 1.00 = Tk. 26.00	US $ 1.00 = Tk. 30.63
January	US $ 1.00 = Tk. 26.00	US $ 1.00 = Tk. 30.83
February	US $ 1.00 = Tk. 26.22	US $ 1.00 = Tk. 30.35
March	US $ 1.00 = Tk. 26.50	US $ 1.00 = Tk. 30.30
April	US $ 1.00 = Tk. 26.53	US $ 1.00 = Tk. 30.30
May	US $ 1.00 = Tk. 27.00	US $ 1.00 = Tk. 30.30
June	US $ i.00 = Tk. 27.50	US $ 1.00 = Tk. 30.30

* Monthly Average.

X. COMPARATIVE POSITION OF SCHEDULED BANKS

(Taka in crores)

Particulars	AS ON	
	30.6.1985	30.6.1986
Bank Deposits (excluding inter - bank items)	**8,811.10**	**10,384.50**
Demand Deposits	2,508.70	2,974.30
Time Deposits	6,302.40	7,410.20
Borrowings from Bangladesh Bank	2,080.80	2,277.50
Cash in Hand	275.70	338.40
Balances with Bangladesh Bank	613.30	675.80
Balances with other Banks in		
Current Account in Bangladesh	199.40	205.90
Money at Call and Short Notice in Bangladesh	169.20	183.00
Scheduled Banks' Investment:	**1,684.90**	**1,855.20**
Government Securities	869.90	956.70
Others	815.00	898.50
Bank Credit (excluding Inter-bank items):	**8,984.80**	**10,763.40**
Advances in Bangladesh	8,570.70	10,456.40
Inland and Foreign Bills Purchased		
and Discounted in Bangladesh	414.10	307.00
Credit/Deposit Ratio (excluding BKB & BSB)	0.81	0.83

XI. INTERNATIONAL RESERVES

(Amount in million)

Period	Total Reserves (Including IMF Reserve Position)	
(End–June Position)	Amount in Taka	US Dollar equivalent
1972–73	1270	173
1973–74	874	110
1974–75	3508	257
1975-76	3189	213
1976-77	4562	294
1977-78	4048	269
1978-79	5940	393
1979-80	4053	275
1980-81	4523	250
1981-82	2698	122
1982-83	8765	358
1983-84	13595	539
1984-85	11068	395
1985-86	14408	476

XII. EXCHANGE RATES
(Period Average of Official Rates)

Period	Taka per U.S. Dollar
1972–73	7.8763
1973–74	7.9664
1974–75	8.8752
1975–76	15.0541
1976–77	15.4260
1977–78	15.1168
1978–79	15.2231
1979–80	15.4900
1980–81	16.2586
1981–82	20.0652
1982–83	23.7953
1983–84	24.9437
1984–85	25.9634
1985–86	29.8861

XIII. WAGE EARNERS' REMITTANCE

Year/Period	Remittance	
	In Million U.S. Dollar	In Crore Taka
1975–76	16.33	24.59
1976–77	47.28	72.94
1977–78	101.98	154.16
1978–79	124.04	188.83
1979–80	248.84	385.45
1980–81	378.74	619.74
1981–82	412.38	839.65
1982–83	617.28	1480.15
1983–84	596.40	1491.00
1984–85	439.10	1146.54
1985–86	555.10	1661.11

XIV. LIST OF SCHEDULED BANKS

(As on June 30,1986)

A. NATIONALISED BANKS (6)

a) Commercial Banks (4)

1. Sonali Bank
2. Janata Bank
3. Agrani Bank
4. Rupali Bank

b) Specialised Banks (2)

1. Bangladesh Krishi Bank
2. Bangladesh Shilpa Bank

B. PRIVATE COMMERCIAL BANKS (8)

1. Pubali Bank Ltd.
2. Uttara Bank Ltd.
3. Arab Bangladesh Bank Ltd.
4. International Finance, Investment & Commerce Bank Ltd.
5. Islami Bank Bangladesh Ltd.
6. National Bank Ltd.
7. The City Bank Ltd.
8. United Commercial Bank Ltd.

C. FOREIGN COMMERCIAL BANKS (7)

1. American Express Bank Ltd.
2. Bank of Credit and Commerce International (Overseas)Ltd.
3. Banque Indosuez
4. The Chartered Bank
5. Grindlays Bank p.l.c.
6. Habib Bank Ltd.
7. State Bank of India

XV. OFFICES OF THE BANGLADESH BANK

(As on June 30, 1986)

Head Office

DHAKA

Offices at

MOTIJHEEL (DHAKA)

SADARGHAT (DHAKA)

CHITTAGONG

KHULNA

BOGRA

RAJSHAHI

SYLHET

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