ANNUAL REPORT

1986-87

BANGLADESH BANK

BOARD OF DIRECTORS

1. Mr. S. B. Chaudhuri [1]	Chairman
2. Mr. A.K.M. Khalilur Rahman [2]	Director
3. Mr. Nizamuddin Haider	Director
4. Dr. A.H. Sahadatullah	Director
5. Dr. Md. Habibullah	Director
6. Major General Muhammad Abdul Latif, Psc.	Director
7. Mr. Shafiqur Rahman [3]	Director
8. Mr. Syed Manzur Elahi [4]	Director
Mr. Mohammad Saleh Ahmed	Secretary

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[1] Consequent upon the appointment of Mr. S. B. Chaudhuri as Governor of the Bank, he became Chairman of the Board with effect from April 13, 1987 in place of Mr. M. Nurul Islam and the post of Director held by the former fell vacant from the same date.

[2] The post of Director held by Mr. A.K.M. Khalilur Rahman, Deputy Governor of the Bank fell vacant on June 18, 1987 due to his death.

[3] Effective from April 2, 1987 in place of Mr. S.A. Mahmud.

[4] Effective from April 2, 1987 in place of Mr. Nuruddin Ahmed.

GOVERNOR

Mr. S. B. Chaudhuri

DEPUTY GOVERNORS

Mr. A.K.M. Khalilur Rahman*
Mr. Mahbubur Rahman Khan

EXECUTIVE DIRECTORS

Mr. A.T.M. Hafizur Rahman
Mr. A.B.M. Mahbubul Amin Khan
Mr. Kamaluddin Ahmad
Mr. M.A. Quasem

ECONOMIC ADVISER

Mr. A.S.M. Fakhrul Ahsan

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*Expired on June 18, 1987.

HEADS OF DEPARTMENTS/GENERAL MANAGERS

Accounts Department	Mr. A. K. Matlub Ahmed
Administration & Expenditure Department	Mr. A.T.M. Insanuddin Mridha
Agricultural Credit Department	Mr. A. H. Tawfique Ahmed Mr. B.A. Khan
Agricultural Credit Inspection Department	Mr. Sultan Ahmed Mollah
Audit & Inspection Department	Mr. B. L. Chowdhury
Banking Control Department	Mr. S.R. Karmaker Mr. Syed Ashraf Ali
Computer Division	Dr. M. Sohrabuddin
Department of Banking Inspection	Mr. A. T. Ahmed Chowdhury Mr. Ataul Huq
Department of Public Relations and Publications	Mr. Zahid Hossain
Department of Research	Mr. A. H. M. Nurul Islam Choudhuri Mr. Muhammad Mohasin Ali
Engineering Department	Mr. M.A. Mannan
Exchange Control Department	Mr. Nizamuddin Ahmed Mr. Jahiruddin Ahmed
Industrial Credit Department	Mr. I. I. Khan
Personnel Department	Mr. S.M. Khalilur Rahman
Rural Credit Project Department	Mr. Syed Feda Hossain
Secretary's Department	Mr. Mohammad Saleh Ahmad
Statistics Department	Mr. Nurul Islam
Training Academy	Mr. Abdur Raquib
Security Management Department	Major (Retd.) Abul Hussain

HEADS OF BRANCH OFFICES

Motijheel Office, Dhaka	Mr. Walayet Hossain
Chittagong Office	Mr. Manzur Rashid
Khulna Office	Mr. Abdus Sobhan
Bogra Office	Mr. Mohd. Ruhul Amin
Rajshahi Office	Mr. Harinarayan Majumdar
Sylhet Office	Mr. M. Ruhul Amin
Sadarghat Office, Dhaka	Mr. M. E. Patwari

LETTER OF TRANSMITTAL
BANGLADESH BANK

DHAKA.
December 26, 1987

The Secretary,
Finance Division,
Ministry of Finance,
Government of the People's
Republic of Bangladesh,
Bangladesh Secretariat,
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, 1987.

Yours faithfully,

S. B. Chaudhuri
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 Setting

1.1 World output growth at 3.2 percent in 1986, though almost the same as in 1985, was lower than expected. This reflected mainly deceleration in the growth of output of industrial countries from 3.2 percent in 1985 to 2.8 percent in 1986. In the U.S., the aggregate level of demand and output was adversely affected by reduced investment spending. The continued depreciation of the U.S. dollar, on the other hand, had the disquieting effect of reducing demand and output growth in countries with appreciating currencies, especially Japan, more rapidly than it stimulated them in the U.S. The industrial countries faced decline in their real net exports,while there was an increase in the volume of developing countries' exports relative to their imports. This reflected in part the strength of industrial countries' demand and in part the fact that developing countries' products were attractively priced for consumers. Consequently, output growth for the developing countries, as a whole, increased to 4.0 percent in 1986 from 3.3 percent in 1985. The growth rate for the non-fuel exporting group of developing countries was particularly impressive with an increase to 5.8 percent in 1986 from 4.7 percent in 1985. As a result of the marked decline in commodity prices, particularly oil, the terms of trade of developing countries deteriorated by 16.7 percent in 1986.

1.2 The overall international economic and financial situation continued to be unfavourable for the developing countries during 1986-87. The lower than expected economic growth, continued decline in real primary commodity prices, widening external imbalances, intensification of protectionist pressures and actions and further increase in debt burden of the developing countries increased the strains on their economies. There were, however, some positive developments in the overall international economic situation. These included continued progress in containing inflation, further decline in interest rates, move towards attainment of more stable exchange rates and harmonisation of policies among the major industrial countries. The prospects for the world economy for 1987 were not, however, favourable. During the first half of 1987, there were signs of weakening of economic activities in the industrial as well as in the developing countries. World output growth has been projected* lower at 2.8 percent during 1987. Output growth in both the industrial and the developing countries has been projected lower at 2.5 percent and 3.3 percent respectively in 1987.

Performance of Bangladesh Economy

1.3 The Bangladesh economy, viewed in the context of not too favourable developments in the world economic scene, could maintain steady progress during 1986–87, the second year of the Third Five Year Plan. GDP growth in real terms increased to 4.4 percent in 1986–87 from 4.0 percent in 1985–86. This growth rate was, however, lower than the Third Plan annual target of 5.4 percent. The small improvement in the overall GDP growth during the year occurred despite growth in the agricultural sector decelerating to 3.1 percent in 1986–87 from 4.1 percent in 1985–86. A substantial decline in raw jute production during the year was mainly responsible for this. The foodgrains production which remained stagnant in 1985–86, however, increased by 2.6 percent during 1986-87. Output of other major agricultural products, namely, sugarcane, oilseeds and tobacco also registered significant increases during the year. The industrial sector recorded impressive recovery with growth rate picking up from 1.2 percent only in 1985–86 to 9.5 percent in 1986–87. Increased production of jute goods and sugar contributed significantly to the higher growth rate of the industrial sector. The power and gas sector also recorded a higher growth rate of 16.7 percent in 1986–87 as compared to 8.4 percent in the preceding year. Growth of the construction sector improved marginally by 0.9

* International Monetary Fund.

percentage point to 8.0 percent during the year while that of other sectors, taken together recorded a small growth of 4.5 percent during the same period.

Adjustment and Support Measures

1.4 In order to achieve the country's overall growth target, policy efforts were significantly strengthened during 1986-87. The budget for 1986-87 provided for a number of fiscal incentives for augmenting investments in the private sector, to boost up exports and to provide protection to the import substitution industries. A number of measures were also taken for strengthening tax collection efforts and rationalisation of tax rates.

1.5 The aggregate rate of income and wealth taxes was reduced from 60 percent to 50 percent of total income. In addition to various incentives provided for attracting investments in the Export Processing Zone (EPZ), some new facilities were introduced during 1986-87. The high technology electronic industries in the EPZ were allowed tax holiday for 10 years with facility of accelerated depreciation to the extent of 100 percent of the cost of plant and machinery. The dividend income of non-resident shareholders of industries set up in the EPZ was fully exempted from income tax during the tax holiday period. Exemption upto 50 percent of the tax attributable to export sales was also made admissible after the expiry of tax holiday period. To reduce cost of imported industrial raw materials and spare parts, custom duties were lowered.

1.6 The duty on capital machinery for industries in the Bangladesh Small and Cottage Industries Corporation (BSCIC) estates and for industries using 70 percent local raw materials was reduced from 10 percent to 2.5 percent irrespective of location. Cottage industries with cost of machinery not exceeding Taka one lakh and employing not more than 15 persons were fully exempted from excise duty. Income tax rebate of 2.5 percent and 5 percent were allowed to small and cottage industries provided their production increased by more than 15 percent and 25 percent respectively over the levels of the preceding year.

1.7 With a view to discouraging investment in real estates, tax on transfer of immovable property was raised from 1 percent to 2 percent. Excise duty on air-conditioned cinema houses was enhanced by 10-14 percent. The minimum excise duty on video casette shops in Dhaka and Chittagong metropolitan areas was raised from Tk. 25,000 to Tk. 1,00,000. The various motor vehicle fees were increased. A turnover tax of 2 percent was imposed on the indenting firms. Air ticket taxes of Tk.30 and Tk.100 were introduced on domestic and foreign travels respectively while the taxes on foreign travels by land and sea were doubled. The postal charges for overseas mails, fees for installation of telephones and charges for telephone calls in certain centres were raised.

1.8 The Industrial Policy for 1986 aimed at further broadening and diversifying the country's industrial base in line with the broad objectives and strategies as delineated in the New Industrial Policy (NIP). Necessary adjustments in the credit policy were effected in pursuance of the Industrial Policy.

1.9 For providing price support to the growers,the procurement prices of paddy, rice and wheat were enhanced twice during the year. As a result of these enhancements, procurement prices of paddy and rice increased by Tk. 67.05 and Tk. 115.10 to Tk. 535.85 and Tk. 825.00 per quintal respectively while that of wheat increased by Tk. 53.60 to Tk. 535.85 per quintal.

1.10 With a view to reducing cost of credit for encouraging productive investment and maintaining price stability, the Bangladesh Bank reduced the Bank Rate from 11.25 percent to 10.75 percent on July 1, 1986. The Bangladesh Bank adopted a number of measures for providing liberal and concessional credit facilities to the priority sectors, including the export and the small and cottage industries sectors, through selective changes in lending rates, margin requirements for opening L/Cs and simplification of loan processing procedures. Rate of interest on working capital loan to jute and jute spinning mills was reduced from

12.0 percent to 9.0 percent per annum. Similarly, the effective rate of interest on export credit relating to raw jute in respect of shippers was reduced from 12.0 percent to 9.0 percent per annum by raising the rate of interest refund from 4.0 percent to 7.0 percent. The rate of interest on export credit for tea was reduced from 12.0 percent to 9.0 percent per annum while that on export credit (preshipment, packing and post shipment) granted to tannery units producing crust and finished leather was fixed at 9.0 percent per annum effective from September 1, 1986. However, if any preshipment export credit to any unit was not covered by actual shipment within 180 days, the normal rate of interest i.e., 14.0 percent per annum was applied. The indirect exporters supplying exportable products or raw materials/intermediate goods to the direct exporters were also allowed to draw export credit upto 90 percent of the L/Cs opended in their favour. The rate of interest on working capital loans for industries located in the Export Processing Zone (EPZ) with 100 percent Bangladeshi ownership was fixed at 9.0 percent.

1.11 The interest rates for different categories of term loans were rationalised and refixed depending on the debt-equity ratios and location of projects. Banks were particularly advised to extend liberal credit facility to the small and cottage industries in pursuance of the Industrial Policy of the Government. For this purpose, banks were asked to provide 5.0 percent of their fresh loanable funds. The Bangladesh Bank lowered the interest rate to be charged by the banks on advances relating to commercial imports by 1 percent and fixed an overall upper limit of 17 percent per annum. For the first time, the banks were allowed to charge any interest rate within a given ceiling.

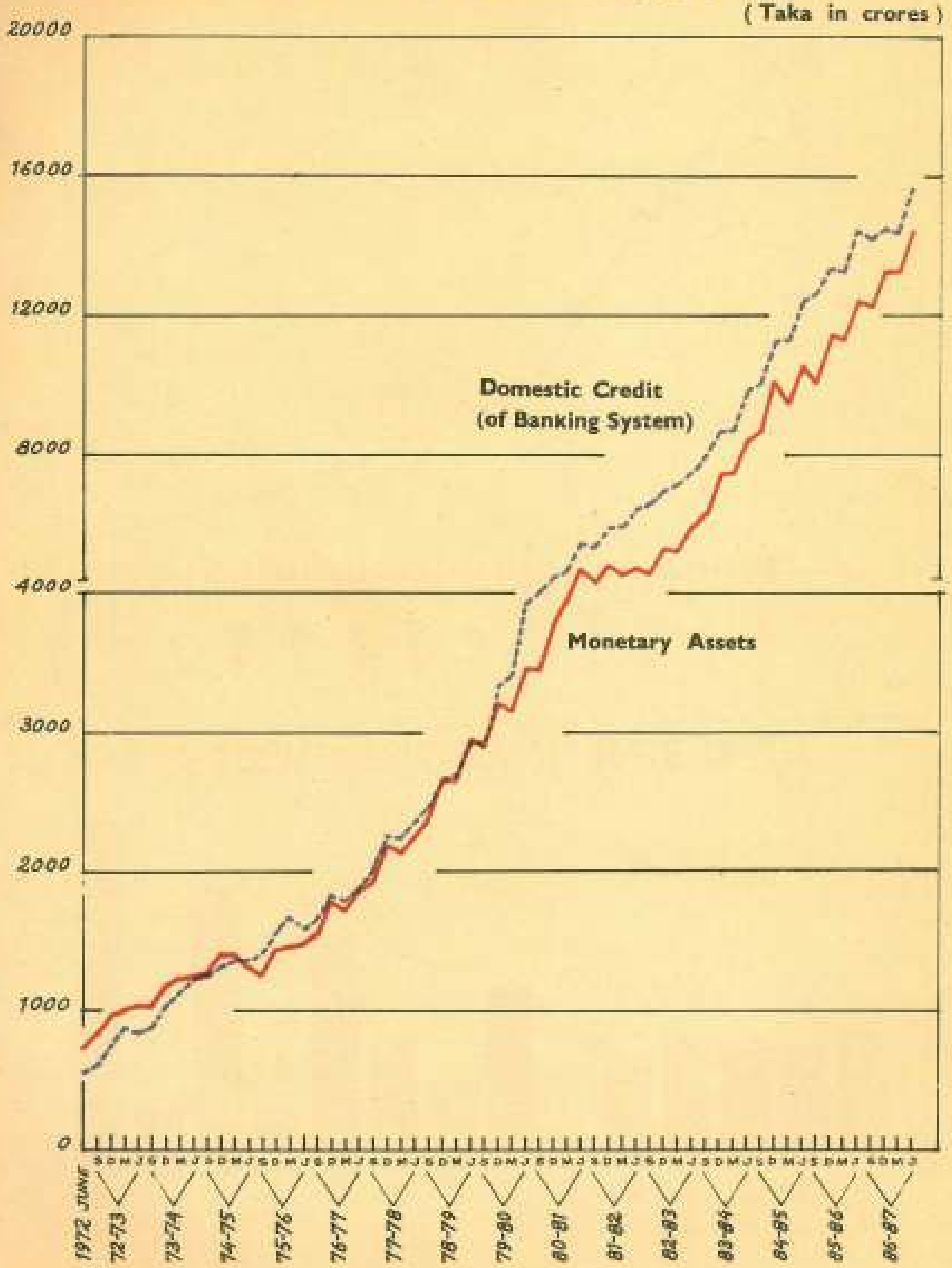
1.12 Stabilisation efforts were strengthened by Bangladesh entering into a three-year medium term adjustment programme under the Structural Adjustment Facility (SAF) of the International Monetary Fund (IMF) beginning from January, 1987.

Money and Credit

1.13 The increase in GDP growth during 1986-87 was achieved within the framework of monetary discipline. Broad money increased by not more than 16.3 percent to Tk. 14353.10 crores during 1986-87. Thus while the rate of growth in GDP increased to 4.4 percent in 1986-87 from 4.0 percent in the preceding year, the rate of monetary expansion slowed down from 17.1 percent to 16.3 percent over the same period. Apart from this, a larger proportion of the increase in broad money occurred in time deposits this year as compared to last year. About 83 percent of the increase in broad money was accounted for by time deposits during 1986-87 as compared with 61.4 percent in the preceding year. Notwithstanding these, the rate of inflation accelerated somewhat during 1986-87. The rate of inflation as measured by the twelve month average of Consumer Price Indices for Middle Income Families in Dhaka City at 10.4 percent during 1986-87 was 0.5 percentage point higher than 9.9 percent in 1985-86. The inflationary expectation perhaps increased due to a marked decline in foodgrains stocks with the Government. These stocks which had stood at 9.76 lakh tons at the end of June, 1986 came down to 7.89 lakh tons by end December, 1986 and markedly declined to an unusually low level of 3.57 lakh tons by end March, 1987. The pressure on prices during the year was thus not only a monetary phenomenon but was also brought about by structural deficiencies. The breakdown of consumer price indices by sub-indices disclosed that the increase in prices was more pronounced in the food items than in the non-food items. Prices of food items on an average indicated a larger increase of 12.6 percent during the year than 10.7 percent in 1985-86, while the same for non-food items showed a smaller rise of 6.8 percent compared to 8.7 percent during the same period.

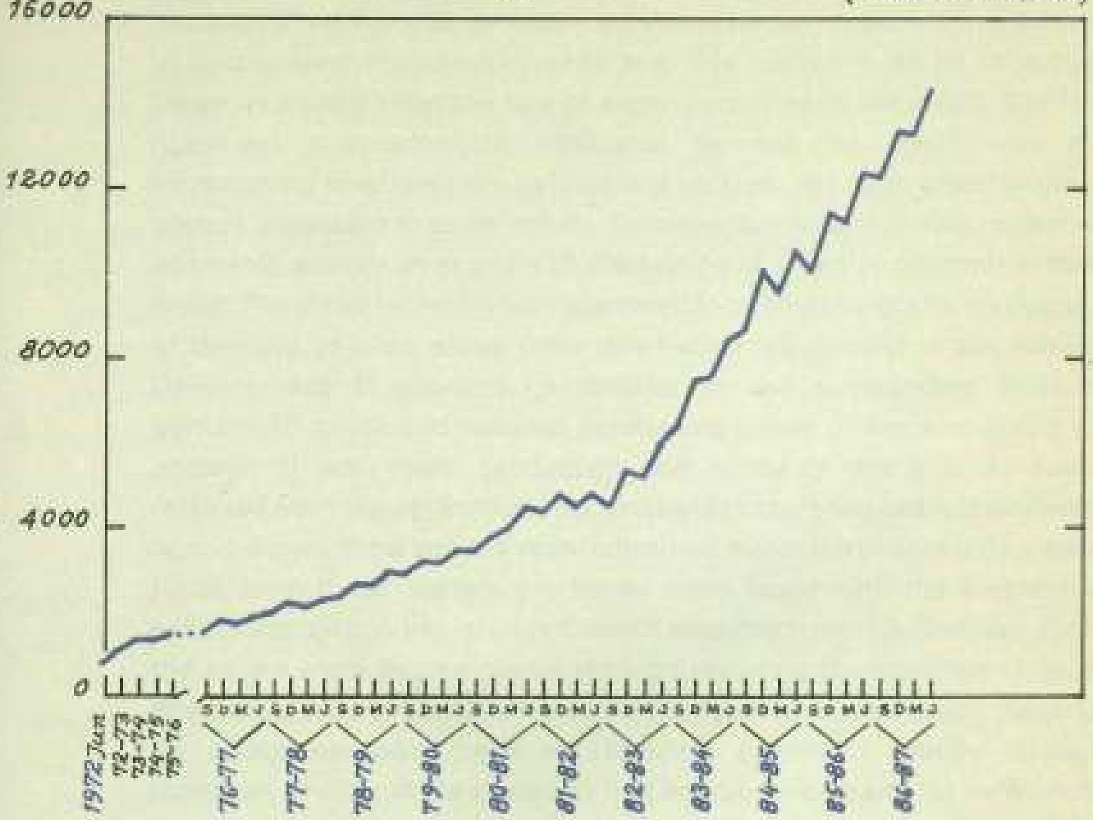
1.14 The rate of expansion in domestic credit was much lower than in liquidity and remained much below the rate programmed. While broad money expanded by 16.3 percent during 1986-87 as against 17.1 percent in 1985-86, total domestic credit expanded by not more than 7.8 percent during the year as compared with 16.6 percent during 1985-86

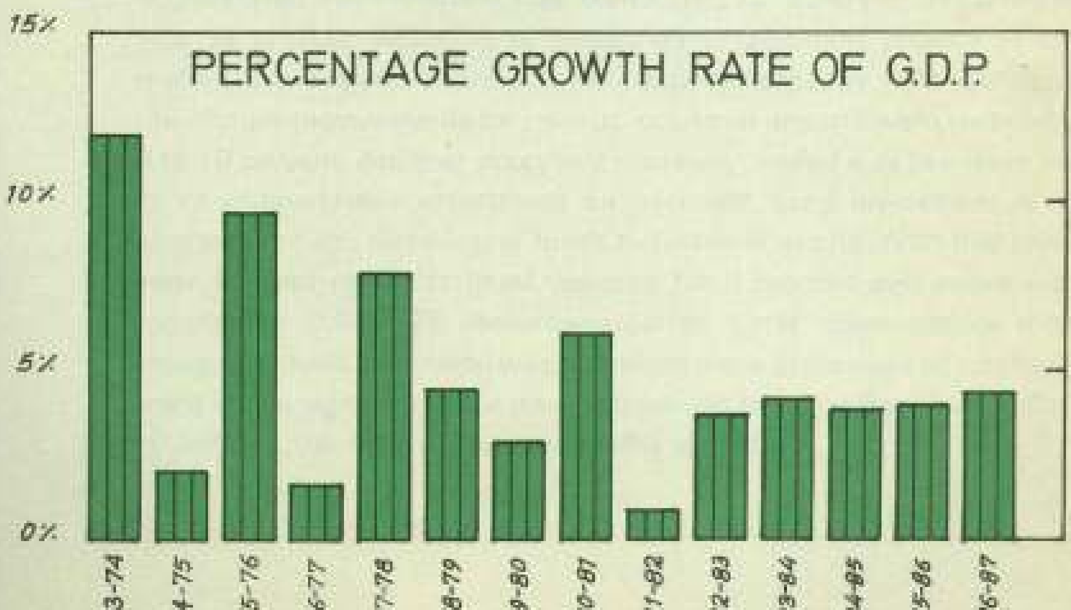
DOMESTIC CREDIT AND MONETARY ASSETS



BROAD MONEY (M_2)

(Taka in crores)





No doubt, in view of an allout drive for recovery of agricultural credit, recovery of such credit far exceeded disbursement resulting in a decline in outstanding agricultural credit and this turned to be an important factor in decelerating the rate of expansion in domestic credit. The fact remained that adequate additional demand for credit was not forthcoming from the non-agricultural sectors, although credit to these sectors expanded to some extent. This was due to dampening impact on economic activity on account of slackening of effective demand in rural areas. The three factors which appeared to be responsible for slackening of demand in rural areas were downward adjustment in the Annual Development Programme, a decline in the outstanding level of agricultural credit and reduced purchasing power of the rural public on account of both lower production and prices of raw jute. As funds released from the agricultural sector could not be adequately channelled to non-agricultural sectors with restrained increases in demand for bank funds from these sectors, the banks were faced with the problem of excess liquidity. A two pronged attack was made on this problem. First, the banks were given a signal through reducing the statutory liquidity assets requirement and fixing it at 20 percent to expand credit. Second, an endeavour was made to stimulate economic activity through monetary and credit measures so that additional demand for bank credit is generated. An important step considered necessary in this direction was to provide incentive to industries to augment imports of raw materials and spares to better the utilisation of capacity. For this purpose, the margin requirements for various industrial imports were reduced by 5 to 10 percent. Another important measure needed was to ensure that in an unfavourable investment environment, fixed investment is not affected through diversion of funds to financial assets. With this end in view, interest rates for fixed deposits for 6 months and above were reduced by 0.50-0.75 percentage points. Later when despite these measures credit expansion was not taking place at the desired rate, banks were encouraged to reduce their borrowings from the Bangladesh Bank by utilising the surplus funds available with them.

Balance of Payments Situation

1.15 Although the balance of payments of Bangladesh recorded a sizable surplus of \$ 95 million which was \$ 49 million larger than in the preceding year, this did not leave much room for complacency. It is no doubt encouraging that exports increased by \$ 91 million to \$ 1,000 million during 1986-87 and this was in marked contrast to the decline of \$ 62 million in the previous year. But it should not be overlooked that the increase occurred mainly in non-traditional items and bulk of the increase was accounted for by a single item, namely, readymade garments. While exports of readymade garments increased by as much as \$ 110 million or 74.3 percent to \$ 258 million during 1986-87, increases in other non-traditional items together did not exceed \$ 51 million during the year. When the expansion possibility of readymade garments is shrouded with uncertainty and the increase that occurred in other non-traditional export items during the year was not substantial, there is the paramount need for stepping up export earnings from traditional items which declined during the year, if a sustainable increase in exports is to be achieved. This is particularly necessary to ensure that the debt servicing burden which is expected to increase in the coming years and repurchase obligations in respect of purchases made from the International Monetary Fund in the past years are met. Another important factor which contributed to the improvement in payments position during 1986-87 was the reduced level of some major imports. It deserves mention that the decline in these imports resulted not from imports substitution but from some slackening in demand on account of relatively low level of economic activity in the earlier months of the year. A particularly marked decline occurred in imports of crude petroleum and petroleum products which came down from \$ 323 million in 1985-86 to \$ 201 million in 1986-87. Import payments for fertilizer was much lower at \$ 16 million in 1986-87 as against \$ 103 million in the previous year. Import payments for edible oil and oil seeds also declined. Import payments for capital machinery and other items, however, increased by \$ 312 million to \$ 1003 million in 1986-87. Imports of foodgrains also increased from the level of \$ 220 million in 1985-86 to \$ 272 million in 1986-87.

1.16 No less an important contributory factor in improved payments position during the year was an increase of $ 141 million in workers' remittances. It needs to be carefully seen whether the increase was a lasting one, particularly in the context of thinking in some quarters that a substantial part of the increase represented funds brought by increased number of workers who are returning home after being laid off.

1.17 The improvement in commodity terms of trade brought about by a marked decline in import prices and the marked increase in foreign exchange reserves were undeniably the encouraging factors of balance of payments during 1986-87. Reflecting the overall surplus and substantial purchases made from the International Monetary Fund, the convertible foreign exchange reserves (including reserves with IMF) increased from $ 476 million at the end of June, 1986 to $ 715 million at the end of June, 1987. At this level, the manoeuvrability of foreign exchange reserves to meet unforeseen import payments or to counter the inflationary expectations substantially increased.

Short-term Prospects

1.18 Bangladesh economy, which recorded lower than expected but steady growth during the first two years of the Third Five Year Plan was poised to achieve higher growth rates during 1987-88 following the structural adjustment measures taken in the national budget for 1987-88. But, industrial growth is being impeded due to both internal and external debilitating demand constraints, and agriculture continues to be predominantly dependent on the vagaries of nature. The weather has been particularly unfavourable during the first three months of 1987-88. The country has experienced repeated devastating floods causing colossal loss to the economy. As a result, the Third Plan targets may need to be significantly adjusted.

1.19 While the monetary policy pursued in the past two years met with success in containing monetary expansion and attaining relative price stability, there remained scope for improving the content and quality of monetary policy. At the same time, some important issues and problems related to banks which remained long outstanding merited special attention. How the monetary policy can be pursued without involving much discrimination between different sectors; how the conflicts between the two important objectives of ensuring adequate flow of credit to priority sectors and monetary regulation could be resolved; how the objective of ensuring adequate flow of credit to the priority sectors can be ensured without imposing much burden on the nationalised banks; whether paid-up capital and reserves of the foreign banks, local private banks and nationalised banks are adequate; how the credit delivery system should be improved so that credit goes to best possible uses and at the same time its timely repayment is ensured; in what manner supervision and inspection machinery of the Bangladesh Bank and the audit and inspection wings of commercial banks are to be strengthened; what mechanism should be developed for overseeing and monitoring overdue loans and also for reducing concentration of credit; how a broad-based Management Information System should be developed for banks-all these issues which need a detailed probe were examined and various recommendations were made in the Report of the National Commission on Money, Banking and Credit. A Special Implementation Cell which was set up to examine and implement these recommendations has already started work.

CHAPTER II

DEVELOPMENTS IN MAJOR SECTORS

DEVELOPMENTS IN MAJOR SECTORS

GDP

2.1 The Gross Domestic Product (GDP) of the country which increased by 4.4* percent during 1986-87 (at 1984-85 Factor Cost) was lower than the target of 5.2 percent but higher than 4.0 percent in 1985-86. The agricultural sector recorded a growth rate of 3.1 percent during 1986-87 as compared to 4.1 percent in 1985-86. The industrial sector showed an encouraging growth of 9.5 percent during the year as compared to the nominal growth of 1.2 percent in 1985-86. The power and gas sector recorded a growth rate of 16.7 percent while the construction sector registered a growth of 8.0 percent during 1986-87 as compared to the growth rates of 8.4 percent and 7.1 percent respectively during 1985-86. The trade and transport sector had a growth rate of 4.6 percent during the year as compared to 3.3 percent in 1985-86. The combined growth rate for the housing and the public services sectors at 4.5 percent in 1986-87 was significantly lower than 7.4 percent in the preceding year.

Agricultural Production

2.2 The deceleration in the growth of agricultural production by 1.0 percentage point was brought about mainly by lower production of raw jute which came down by as much as 36.9** percent during the year due to abnormally low internal prices following the continued depressed demand in international markets for raw jute. Total foodgrains production at 164.97 lakh metric tons in 1986-87 was 2.6 percent higher than 160.79 lakh metric tons produced in 1985-86. Aus production at 31.29 lakh metric tons was 10.7 percent higher than 28.27 lakh metric tons in 1985-86. Aman production at 82.67 lakh metric tons in 1986-87, on the other hand, was 3.2 percent lower than the level attained last year, due mainly to untimely rainfall in the middle of September, 1986 which adversely affected standing crops. Boro

* Planning Commission's estimate

** Source : Ministry of Jute

production at 40.10 lakh metric tons during the year was 9.3 percent higher than 36.70 lakh metric tons in 1985-86. Total rice production at 154.06 lakh metric tons during 1986-87 was 2.5 percent higher than the production level of 150.37 lakh metric tons in 1985-86. Despite setback suffered owing to delayed harvesting of aman crop and prevalance of water-logged conditions in many districts, wheat production at 10.91 lakh metric tons during the year stood 4.7 percent higher as compared to 10.42 lakh metric tons produced in 1985-86. Output of other important agricultural crops, namely, sugarcane, pulses, oilseeds and tobacco also increased during the year.

Industrial Production

2.3 The performance of the industrial sector showed marked improvement during 1986-87. Industrial production, as a whole, grew by 9.5 percent in 1986-87 as against the nominal growth of 1.2 percent in the previous year. Better performance of the industrial sector during the year was attributed mainly to the increase in output of jute goods, sugar, cement, chemicals, fertilizer, cotton yarn and petroleum products.

2.4 Production* of sugar went up substantially by 119.3 percent to 182 thousand metric tons during 1986-87 from 83 thousand metric tons in 1985-86. Output of chemicals increased by 26.3 percent to 24 thousand metric tons during the year as compared to 19 thousand metric tons in 1985-86. Production of jute goods** increased by 21.2 percent to 583 thousand metric tons during 1986-87 from 481[R] thousand metric tons in the preceding year. Production of cement registered an increase of 6.2 percent to 310 thousand metric tons during 1986-87 from 292 thousand metric tons in 1985-86. Production of cotton yarn and cotton cloth went up by 5.1 percent and 0.3 percent to 995 lakh pounds and 648 lakh yards respectively during 1986-87 from 947 lakh pounds of cotton yarn and 646 lakh yards of cotton cloth in 1985-86. Output of petroleum products

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* Bangladesh Bureau of Statistics

** Source: BJMC; BJMA; R = Revised.

recorded an increase of 2.6 percent from 949 thousand metric tons in 1985-86 to 974 thousand metric tons in 1986-87. Production of chemical fertilizer increased by 3.7 percent to 981 thousand metric tons during the year under report from 946 thousand metric tons in the previous year. The output of cigarettes went up by 2.8 percent to 14,762 million sticks from 14,365 million sticks while that of safety matches increased by 9.7 percent to 14,894 thousand gross boxes from 13,579 thousand gross boxes in 1985-86. Tea production increased by 3.3 percent to 40,080* thousand kgs. in 1986-87 from 38,800 thousand kgs. in 1985-86. Production of paper increased by 2.4 percent to 43 thousand metric tons during the year from 42 thousand metric tons during 1985-86 while that of steel went up by 1.4 percent to 211 thousand metric tons in 1986-87 from 208 thousand metric tons in 1985-86. Total number of transport equipments produced during 1986-87 declined by 21.5 percent to 28,705 from 36,583 in 1985-86. While production of newsprint came down by 3.7 percent to 46,643 metric tons in 1986-87 from 48,414 metric tons in the preceding year.

2.5 The effort to invigorate the industrial sector of the country continued during the year. In the Industrial Policy for 1986, announced by the Government during the year, additional provisions were incorporated to further broaden and diversify the country's industrial base in line with the broad objectives and strategies as envisaged in the New Industrial Policy (NIP) of 1982. With the aim of improving the operational efficiency of enterprises under different sector corporations, the following measures were spelled out in the Industrial Policy of 1986:

i) formation of holding companies by transferring 49 percent shares of some enterprises to members of the public and industrial workers;

ii) to appoint management contractors for the major loosing enterprises under sector corporations;

* Source : Bangladesh Tea Board.

iii) to give additional executive powers to the sector corporations for more efficient management of enterprises; and

iv) to make provision for Government investment in appropriate enterprises under sector corporations against which subscription at fixed rate will be made to the Government exchequer.

2.6 In order to enlarge the industrial base of the country as also to provide opportunities to the industrialists to set up industries in remote areas of the country, appropriate measures were taken to simplify the procedural complexities in the Import Policy for 1986-87. Policy measures were adopted in the Export Policy of 1986-87 for maximising foreign exchange earnings of the country through diversification of export items and exploration of export markets. With this end in view, frozen food, which is one of the leading contributors to foreign exchange earnings of the country was earmarked as the "Thrust Sector" for 1986-87. Efforts were made to provide easy working capital finance to the finished leather and leather goods industries at an interest rate of 9 percent per annum. Concessionary rate of interest was provided on working capital finance to industries set up in the Export Processing Zone (EPZ) under 100 percent local investment. Enhanced XPB entitlement of 100 percent was allowed for readymade garments, hosiery goods, silk products, specialised textiles, etc. produced by using local fabrics, while the same was reduced to 40 percent for industries that used imported fabrics.

Public Sector Outlay

2.7 The Annual Development Programme (ADP) for 1986-87 which originally envisaged a total public sector development outlay of Tk. 4764.00 crores was subsequently scaled down by Tk. 250.62 crores or 5.3 percent to Tk. 4513.38 crores. This was Tk. 417.84 crores or 10.2 percent larger than Tk. 4095.54 crores in the preceding year. Of the revised outlay for 1986-87, a sum of Tk. 811.89 crores or 18.0 percent was available from domestic sources while Tk. 3701.49 crores or 82.0 percent was received from foreign sources. This compared with Tk. 703.73 crores or 17.2 percent and Tk. 3391.81 crores or 82.8

percent received from domestic and foreign sources respectively during the previous year. In absolute terms, domestic and foreign resources for financing the ADP went up by Tk. 108.16 crores (15.4%) and Tk. 309.68 crores (9.1%) respectively during 1986-87.

2.8 The sectoral allocations in the revised ADP for 1986-87 were as follows: Power Tk. 849.47 crores; Industries Tk. 667.12 crores; Water Resources Tk. 442.08 crores; Transport Tk. 435.08 crores; Upazilla Infrastructure and Assistance to Upazilla Parishad Tk. 335.00 crores; Self-finance Schemes of Autonomous Bodies Tk. 334.81 crores; Agriculture Tk. 251.95 crores; Population, Family Planning and Health Tk. 222.74 crores; Education and Religion Tk. 214.56 crores; Oil, Gas and Natural Resources Tk. 191.29 crores; Physical Planning, Water Supply and Housing Tk. 158.48 crores; and Rural Development Tk. 137.12 crores. Allocations against other heads of expenditure aggregated to Tk. 273.68 crores. Allocations for Agriculture, Water Resources, Rural Development, Population, Family Planning and Health and Infrastructural Development of Upazilla, which have a direct bearing on rural development, together accounted for 30.8 percent of the total outlay for 1986-87 as against 34.2 percent during the previous year.

Investment in Private Sector Industries

2.9 In the private sector, a total of 8254 industrial units were sanctioned and registered during 1986-87 with a total investment outlay of Tk. 1268.54 crores, including a foreign exchange component of Tk. 386.59 crores. This compared with 1,111 industrial units sanctioned for a total investment of Tk. 684.76 crores, including a foreign exchange component of Tk. 359.34 crores during 1985-86. The major industries accounting for the investment during 1986-87 were: engineering industries (Tk. 446.86 crores), textile industries (Tk. 269.40 crores), chemicals, pharmaceuticals and allied industries (Tk. 214.67 crores), services industries (Tk. 171.76 crores), food and allied products (Tk.45.57 crores), tannery, leather and rubber products (Tk. 34.19 crores), agro-based industries (Tk. 16.50 crores), glass, ceramics and other non-metallic mineral products (Tk. 10.35 crores), printing and publishing, paper converting and packaging (Tk. 9.19 crores), miscellaneous industries (Tk. 5.85 crores) and industries not elsewhere classified (Tk. 44.20 crores).

Food Situation

2.10 The overall availability of foodgrains in the country during 1986-87 was relatively better than in the preceding year. As can be seen from Table 2.1, total foodgrains available for consumption at 167.80 lakh metric tons during 1986-87 denoted an increase of 7.1 percent as compared to 156.63 lakh metric tons in 1985-86. The per capita per day availability of foodgrains, taking into account the increase in population, also indicated an improvement of 4.7 percent to 15.58 oz. in 1986-87 from 14.88 oz. in 1985-86.

TABLE 2.1

PER CAPITA AVAILABILITY OF FOODGRAINS IN BANGLADESH DURING 1985-86 AND 1986-87

Sl. No.	Sources of Availability		1985-86	1986-87
1.	Net Demestic Production(Lakh M. Tons) (After 10% Seed, Feed, wastages)		144.71	148.47 (+2.60)
2.	Total off-take	"	15.41	21.21 (+37.64)
3.	Internal Procurement (-)	"	3.49	1.88 (-46.13)
4.	**Total Availability** (1+2-3)	"	**156.63**	**167.80** (+7.13)
5.	Total Population*	(Million)	101.70	104.10 (+2.36)
6.	Per Capita Availability for Consumption	(oz. per day)	14.88	15.58 (+4.70)

Source: Ministry of Food; * Bangladesh Bureau of Statistics.

Note: Figures in parentheses indicate percentage change over the year.

2.11 Despite larger availability of foodgrains, prices showed wide fluctuations during the year and ruled at significantly higher levels than in the preceding year due mainly to occasional / temporary supply/distribution bottlenecks arising from adverse weather conditions as also delay in arrival of imported foodgrains. These factors coupled with the general increase in prices of other essential consumer goods exerted pressure on foodgrains prices during the year.Following the reduced harvests of boro and wheat crops in the previous season, the country average minimum retail price of coarse rice which had stood at Tk. 769 per quintal at the end of June, 1986, rose to Tk. 800 per quintal at the end of July, 1986, representing a 17.0 percent increase over the level a year earlier. The increasing trend of prices continued and the protracted rainfall in September, 1986, causing damage to standing aman crop and inhibiting processing of foodgrains as well as its movement by disrupting road communication, pushed the price further to Tk. 846 per quintal by the end of October, 1986. The uptrend in prices was, however, reversed to a substantial extent and the price came down to Tk. 786 per quintal by the end of December, 1986 with the arrival of aman crop in the market and distribution of large quantities of foodgrains by the Government through open market operations. The reversal was, however, extremely short-lived and the price soared up again following shortfall in the production of aman and wheat crops. The situation was aggravated by delay in the arrival of aided imports of foodgrains. Despite release of as much as 6.63 lakh metric tons of foodgrains, depleting stocks down to 3.57 lakh metric tons within a period of three months by the Government to improve market supplies, the price continued to rise and reached its peak at Tk. 968 per quintal by the end of March, 1987, representing a 23.2 percent increase over the lowest level of December, 1986. As arrival of imported foodgrains picked up (7.96 lakh metric tons including cash import of 2.78 lakh metric tons) in the following months, prices eased considerably and stood at Tk. 870 per quintal at the end of June, 1987. The average minimum price at this level, however, represented an increase of 13.1 percent over the year as against the increase of 14.4 percent during the previous year.

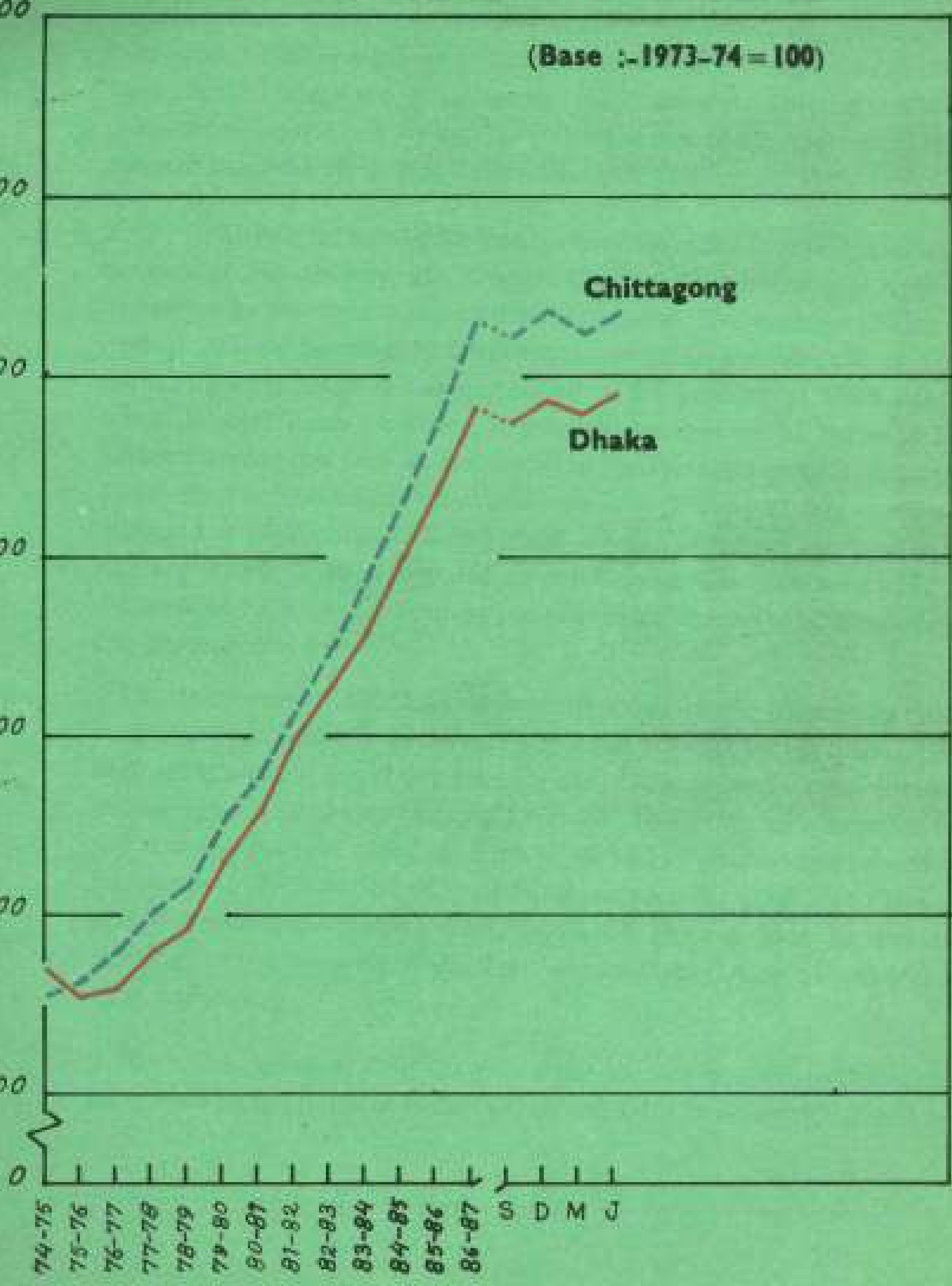
2.12 Imports of foodgrains into the country during 1986-87 stood significantly higher at 17.67 lakh metric tons (rice: 2.61 lakh metric tons and wheat: 15.06 lakh metric tons) as compared to 12.00 lakh metric tons (rice: 0.36 lakh metric ton and wheat: 11.64 lakh metric tons) during 1985-86.

2.13 The internal procurement of foodgrains during 1986-87 stood much lower at 1.88 lakh metric tons (rice: 1.37 lakh metric tons and wheat: 0.51 lakh metric ton) as compared to 3.49 lakh metric tons (rice: 2.19 lakh metric tons and wheat: 1.30 lakh metric tons) during the preceding year. The procurement prices of paddy and rice were enhanced from Tk. 468.80 and Tk. 709.90 per quintal to Tk. 495.65 and Tk. 760.89 per quintal respectively with effect from January 13, 1987 and further to Tk. 535.85 and Tk. 825.00 per quintal respectively on April 21, 1987. The procurement price of wheat was also increased from Tk. 482.25 to Tk. 509.05 per quintal with effect from March 23, 1987 and further to Tk. 535.85 per quintal on April 12, 1987. As market prices ruled generally higher than the procurement prices, total foodgrains procurement at 1.88 lakh metric tons was 166.0 percent lower than the target of 5.00 lakh metric tons for the year.

2.14 In order to contain the upward trend in prices, the Government released sufficient quantity of foodgrains for sale in the open market. Releases of foodgrains from Government stocks during 1986-87 stood at 37.7 percent higher at 21.21 lakh tons (4.95 lakh metric tons of rice and 16.26 lakh metric tons of wheat) as compared to 15.40 lakh metric tons (3.73 lakh metric tons of rice and 11.67 lakh metric tons of wheat) during 1985-86. As a result of lower internal procurement and significantly larger releases, the stocks of foodgrains with the Government came down by 23.1 percent to 7.51 lakh metric tons at the end of June, 1987 from 9.76 lakh metric tons at the end of June, 1986.

2.15 The ration prices of rice and wheat remained unchanged at Tk. 775 and Tk. 515 per quintal respectively during 1986-87.

CONSUMER PRICE INDICES OF MIDDLE INCOME EAMILIES AT DHAKA AND CHITTAGONG



Price Situation

2.16 The pressure on prices continued unabated during 1986-87. The increase in prices during the year, as reflected in the consumer price indices (CPIs)* in the country, was more pronounced in food items than in non-food items. The prices of food items, on an average, increased by 12.6 percent while the same for non-food items indicated a rise of 6.8 percent during the year as against the increases of 10.7 percent and 8.7 percent respectively during 1985-86.

2.17 The CPIs* for middle income families in the four principal urban centres of the country, viz., Dhaka, Chittagong, Khulna and Rajshahi increased by different margins during the year. The average CPI for the middle income families in Dhaka city indicated an increase of 10.4 percent during 1986-87 as compared to 9.9 percent in 1985-86. On point to point basis, however, the index denoted an increase of 5.5 percent during the year as compared to the increase of 12.9 percent in 1985-86. The average CPI for rural people in Dhaka district recorded an increase of 14.1 percent during 1986-87 as against the increase of 3.4 percent in 1985-86. On point to point basis, the index denoted an increase of 13.6 percent during the year as compared to 10.9 percent in the preceding year.

Consumer Price Indices (CPIs)

2.18 The 'general' CPI* for middle income families in Dhaka city which had stood at 464.67 in June, 1986 rose to 490.25 in June, 1987 indicating an increase of 5.5 percent over the year on point to point basis as against 12.90 percent during 1985-86. The increase was shared by the sub-indices, viz., 'food' (+5.8% to 490.15), 'housing and household requisites' (+7.8% to 562.02), 'clothing and footwear' (+7.3% to 305.16) and 'miscellaneous' items (+5.5% to 476.43). The sub-index for 'fuel and lighting' on the other hand, declined nominally by 0.4 percent to 552.27 over the year.

2.19 . The 'general' CPI* for the middle income families in Chittagong increased by 6.0 percent to 534.05 in 1986-87 as against 11.6 percent

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* Base : 1973-74 = 100;

during 1985-86. The increase was reflected in all the sub-indices excepting fuel and lighting viz. 'food' (+6.4% to 534.48), 'housing and household requisites' (+7.0% to 745.94), 'clothing and footwear' (+ 6.8% to 304.46) and 'miscellaneous' items (+ 5.9% to 485.34). The sub-index for 'fuel and lighting' on the other hand, declined by 1.9 percent to 378.53 over the year.

2.20 The 'general' CPI* for Khulna middle income families went up by 6.7 percent to 483.64 in 1986-87 as against 16.6 percent during 1985-86. This was due to the increases in all the sub-indices viz., 'food' (+ 5.8% to 490.82), 'fuel and lighting' (+ 3.7% to 547.30), 'housing and household requisites' (+ 14.2% to 477.30), 'clothing and footwear' (+ 6.2% to 337.73) and 'miscellaneous' items (+ 11.8% to 469.33).

2.21 The 'general' CPI* for Rajshahi middle income families rose by 6.8 percent to 475.86 in 1986-87 as against the increase of 12.1 percent in 1985-86. The rise was shared by the sub-indices viz., 'food' (+ 8.9% to 455.06), 'housing and household requisites' (+ 6.1% to 528.60), 'clothing and footwear' (+ 4.2% to 330.90) and 'miscellaneous' items(+ 2.9% to 487.57). The sub-index for 'fuel and lighting' on the other hand, declined by 0.6 percent to 679.19 over the year.

Wages

2.22 Wages for different categories of labourers in the country increased during 1986-87. The average of the 'general' index (1969-70= 100) of nominal wages, as compiled by the Bangladesh Bureau of Statistics, moved up from 895.00^{R} in 1985-86 to 981.83^{P} in 1986-87, indicating an increase of 9.7 percent over the year. The sub-indices for wages of labourers in manufacturing increased by 11.7 percent (from 958.00 to 1070.42), construction by 6.5 percent (from 938.00 to 998.75), agriculture by 8.0 percent (from 767.00 to 828.50) and fisheries by 10.1 percent (from 856.00 to 942.33) during 1986-87.

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* Base : 1973-74 = 100;

R = Revised; P = Provisional.

Savings and Investments

2.23 Gross domestic savings at current prices during 1986–87 as estimated by the Planning Commission stood at Tk. 2734 crores which was 49.0 percent higher than Tk. 1835 crores during 1985–86. Gross domestic savings as percentage of GDP stood at 6.2 as compared to 4.8 in 1985–86. Gross domestic investments at current prices stood at Tk. 6526 crores in 1986–87 as compared to Tk. 6547 crores in 1985–86. The percentage share of gross domestic investments in GDP thus declined from 17.0 percent in 1985–86 to 14.9 percent in 1986–87.

CHAPTER III

MONETARY AND BANKING DEVELOPMENTS

MONETARY AND BANKING DEVELOPMENTS

Money Supply

3.1 Money supply (both M_1 and M_2) continued to increase at a decelerated rate during 1986-87. Money supply (M_1) or Narrow Money expanded by Tk. 334.9 crores or 6.8 percent to Tk. 5262.8 crores during the year as against the increase of 16.4 percent during the preceding year. Broad Money (M_2) also expanded at a decelerated rate during the year. Broad Money increased by Tk. 2015.0 crores or 16.3 percent to Tk. 14353.1 crores during 1986-87 as compared to the increase of 17.1 percent during the preceding year.

Causative Factors of the Change in Money Supply

3.2 An analysis of the causative factors of the change in money supply (M_1) during 1986-87, as shown in Table 3.1, reveals that increased credit to the public sector including Government and the private sector together exercised an expansionary influence to the tune of Tk. 1126.1 crores (Government Tk. 125.5 crores, other public sector Tk. 382.8 crores and private sector Tk. 617.8 crores). Surplus in the country's foreign sector (net) exerted an expansionary impact to the extent of Tk. 325.9 crores; increase in other assets (net) also contributed to the rise in money supply to the tune of Tk. 563.0 crores. Expansionary impact emanating from these sources totalling Tk. 2015.0 crores were largely offset by the contractionary impulses arising out of accruals in time deposits to the extent of Tk. 1680.1 crores during the year.

TABLE 3.1

CAUSATIVE FACTORS OF THE CHANGE IN MONEY SUPPLY

(Taka in crores)

Particulars	As on 30.6.87	As on 30.6.86	Changes
1. Currency Outside Banks	2074.9	1953.1	+121.8
2. Demand Deposits	3187.9	2974.8	+213.1
Total Money Supply:	**5262.8**	**4927.9**	**+334.9**
CAUSATIVE FACTORS:			
Expansion (+)			
Contraction (–)			
1. **Public Sector**			**+508.3**
i) Government (net)			+125.5
ii) Other Public Sector			+382.8
2. Private Sector			+617.8
3. Time Deposits (increase –)			-1680.1
4. Foreign Sector (net)			+325.9
5. Other items (net)			+563.0
Total:			**+334.9**

3.3 Of the components of money supply (M_1), currency outside banks went up by Tk. 121.8 crores or 6.2 percent to Tk. 2074.9 crores during 1986-87, while demand deposits increased by Tk. 213.1 crores or 7.2 percent to Tk. 3187.9 crores. The quarterly movements of money supply and its components during 1986-87 are shown in Table 3.2.

MONEY SUPPLY (M_1)

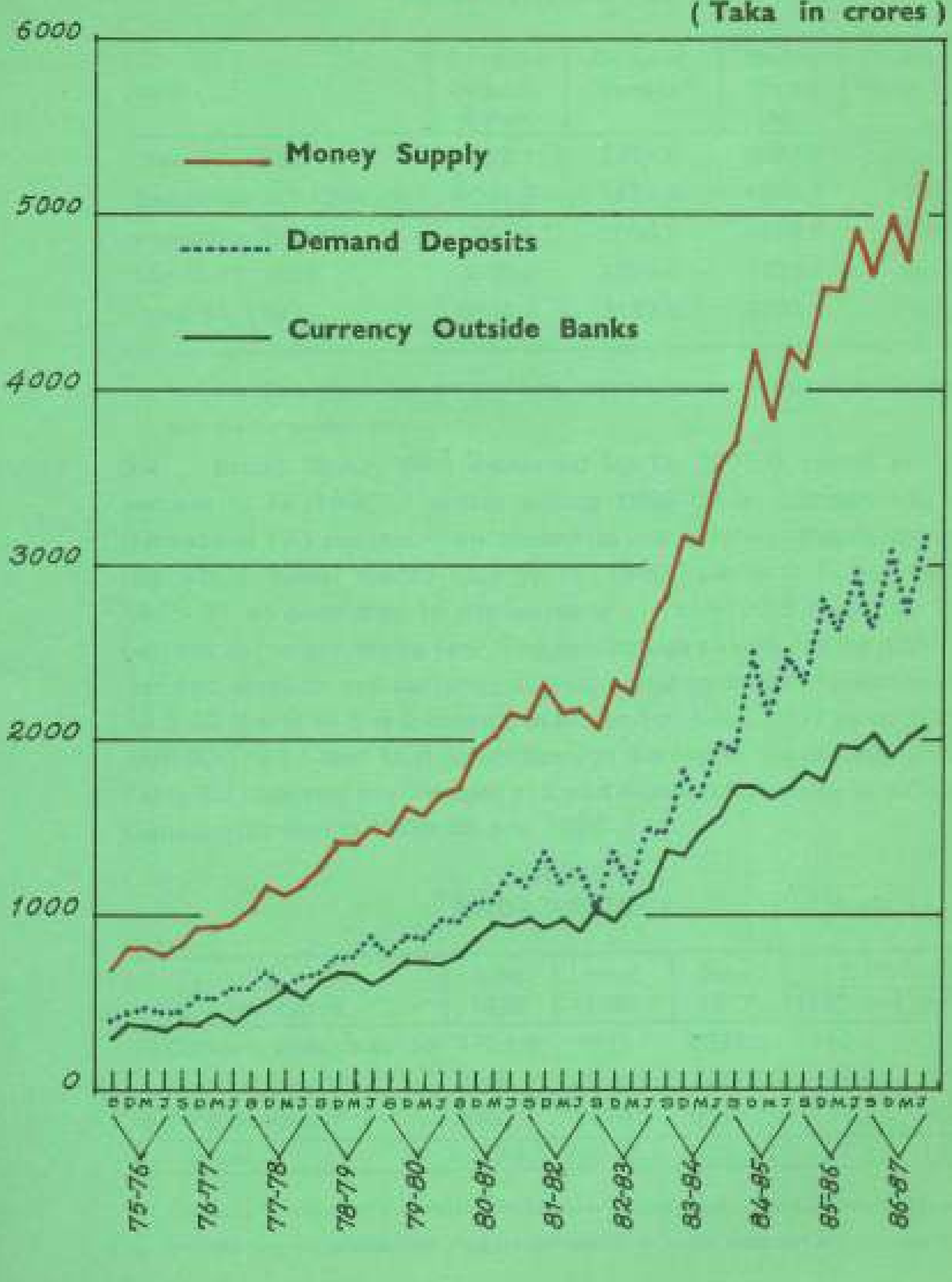


TABLE 3.2

MONEY SUPPLY

(Taka in crores)

As on	Currency Outside Banks	Demand Deposits*	Money Supply (M1)	Changes in Money Supply
June 30, 1986	1953.1	2974.8	4927.9	—
September 30, 1986	2035.7	2624.2	4659.9	–268.0
December 31, 1986	1902.7	3096.9	4999.6	+339.7
March 31, 1987	2010.6	2728.0	4738.6	–261.0
June 30, 1987	2074.9	3187.9	5262.8	+524.2

* Excludes Government deposits with banks but includes non-scheduled banks' deposits with the Bangladesh Bank.

3.4 Broad Money (M2) increased by Tk. 2015.0 crores or 16.3 percent to Tk. 14353.1 crores during 1986–87 as compared to the increase of 17.1 percent in the preceding year. Of the components, time deposits or quasi money rose by Tk. 1680.1 crores or 22.7 percent in 1986–87 as compared to the increase of Tk. 1107.8 crores or 17.6 percent in the preceding year. The percentage shares of time deposits, demand deposits and currency outside banks in Broad Money stood at 63.3, 22.2 and 14.5 respectively at the end of June, 1987 as compared with 60.1, 24.1 and 15.8 respectively at the end of the preceding year. Table 3.3 indicates the changes in broad money (M2) as also its different components during 1985–86 and 1986–87.

TABLE 3.3

BROAD MONEY

(Taka in crores)

Particulars	June, 1985	June, 1986	June, 1987	% Changes	
				1985–86	1986–87
1. Currency Outside Banks	1722.9	1953.1	2074.9	+13.4	+ 6.2
2. Demand Deposits *	2508.9	2974.8	3187.9	+18.6	+ 7.2
3. Time Deposits *	6302.4	7410.2	9090.3	+17.6	+22.7
Total:	**10534.2**	**12338.1**	**14353.1**	**+17.1**	**+16.3**

* **Excludes Government deposits with banks and inter-bank items, but Demand deposits include non-scheduled and cooperative banks' deposits with the Bangladesh Bank.**

Income Velocity of Money

3.5 The income velocity of money (GDP÷M2) during 1986-87 remained unchanged. Trend in income velocity of money is shown in Table 3.4

TABLE 3.4

INCOME VELOCITY OF MONEY

(Taka in crores)

	GDP* at Market price	Broad Mone (M2)	Income Velocity of Money (Col. 2÷3)
1	2	3	4
1985-86	38,536	12,338.1	3.1
1986-87	43,926	14,353.1	3.1

* Source : Planning Commission.

Bank Credit

3.6 The outstanding level of bank credit (excluding inter-bank items) of the scheduled banks increased by Tk. 848.4 crores or 7.9 percent during 1986-87 as against the rise of Tk. 1778.6 crores or 19.8 percent in the preceding year. Of the components of bank credit, advances increased by Tk. 832.7 crores or 8.0 percent while bills purchased and discounted rose by Tk. 15.7 crores or 5.1 percent during the year. The quarterly movements of bank credit are shown in Table. 3.5.

TABLE 3.5

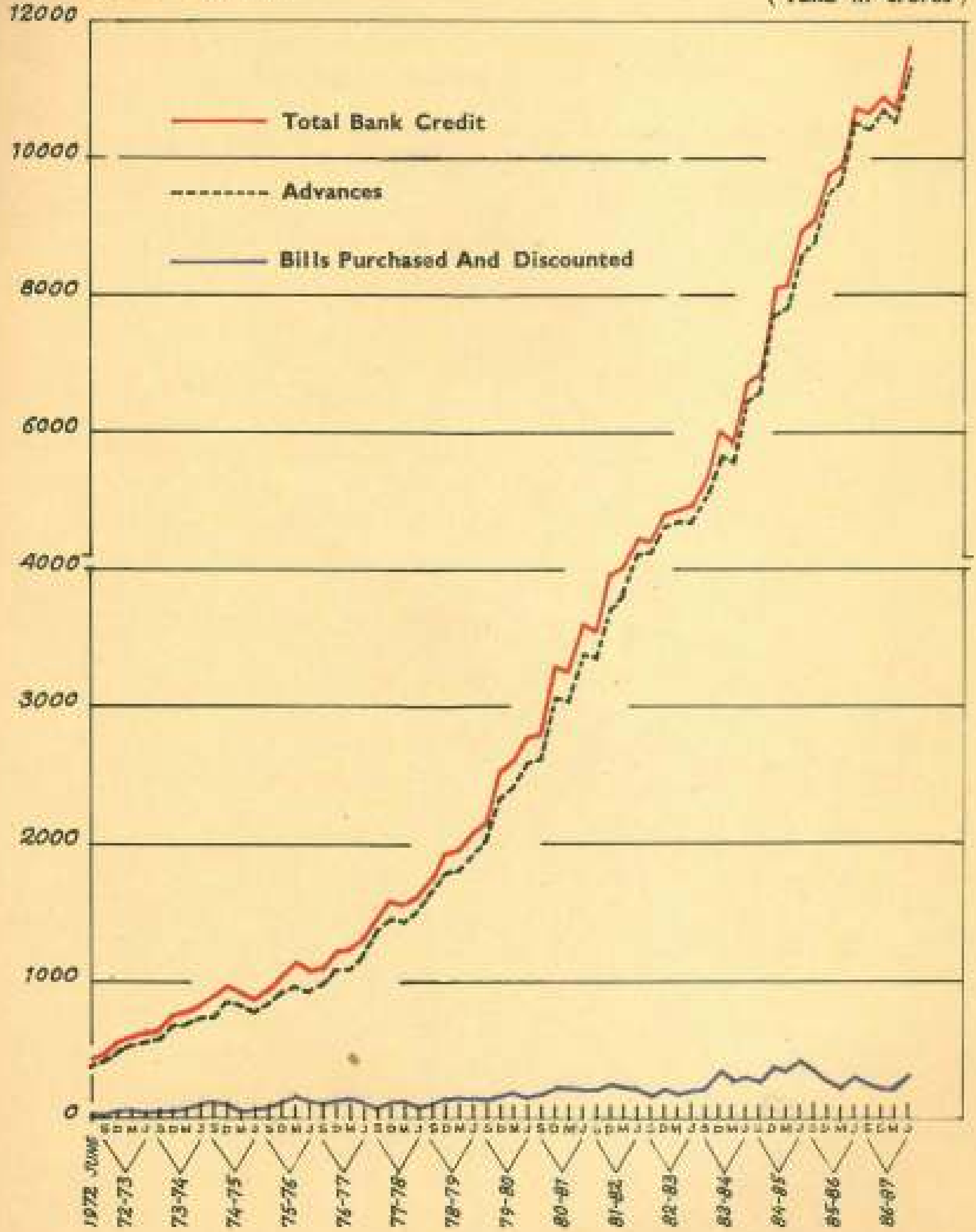
BANK CREDIT

(Taka in crores)

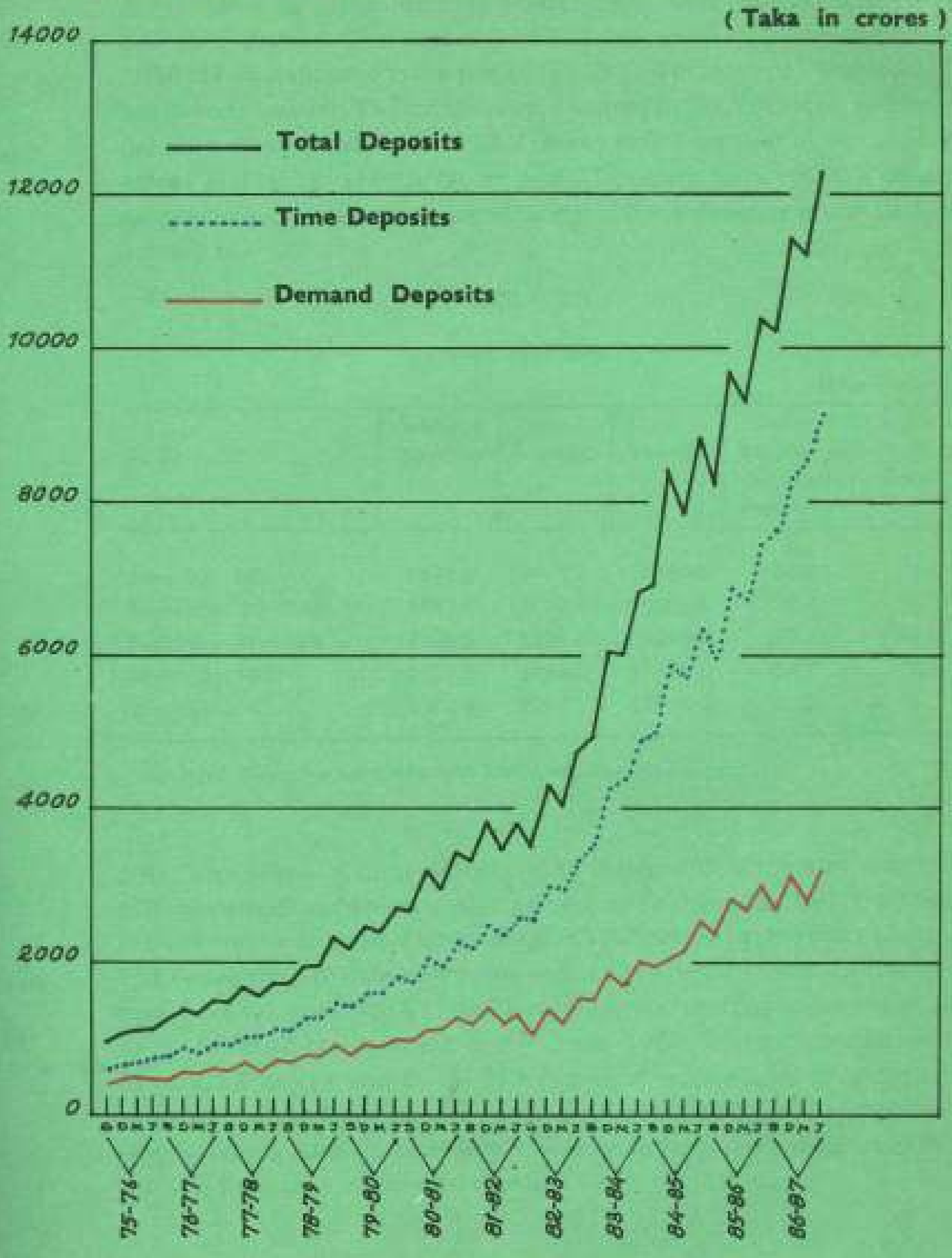
As on	Advances	Bills	Total Credit	Advances as % of Total Credit	Bills as % of Total Credit
June 30, 1986	10456.4	307.0	10763.4	97.1	2.9
September 30, 1986	10406.6	257.5	10664.1	97.6	2.4
December 31, 1986	10697.6	218.6	10916.2	98.0	2.0
March 31, 1987	10526.8	213.1	10739.9	98.0	2.0
June 30, 1987	11289.1	322.7	11611.8	97.2	2.8

BANK CREDIT

(Taka in crores)



BANK DEPOSITS



Bank Deposits

3.7 Bank deposits (excluding inter-bank items) of the scheduled banks registered an increase of Tk. 1892.1 crores or 18.2 percent during 1986-87 as compared to the rise of Tk. 1573.4 crores or 17.9 percent in the preceding year. The increase was shared by both demand and time deposits which rose by Tk. 212.0 crores or 7.1 percent to Tk. 3186.3 crores and by Tk. 1680.1 crores or 22.7 percent to Tk. 9090.3 crores respectively. The quarterly movements of bank deposits are 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, 1986	2974.3	7410.2	10384.5	28.6	71.4
September 30, 1986	2623.9	7581.6	10205.5	25.7	74.3
December 31, 1986	3096.8	8279.4	11376.2	27.2	72.8
March 31, 1987	2727.8	8498.8	11226.6	24.3	75.7
June 30, 1987	3186.3	9090.3	12276.6	26.0	74.0

* Excludes Government deposits with banks and inter-bank items.

Rural and Urban Deposits and Advances

3.8 The share of rural deposits in total deposits at the end of June, 1987 remained unchanged at 19.1 percent as on June 30, 1986. The share of bank advances in rural areas stood at 23.2 percent at the end of June, 1987 as against 26.7 percent at the end of June, 1986. In absolute terms, rural advances totalled Tk. 2742.26 crores while rural deposits amounted to Tk. 2536.47 crores at the end of June, 1987. These compared with Tk. 2905.8 crores and Tk. 2103.8 crores of rural advances and rural deposits respectively at the end of June, 1986. The percentage distribution of bank deposits and advances by rural and urban areas for the last five years is shown in Table 3.7.

TABLE 3.7

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

(In percent)

As on	Advances		Deposits	
	Rural	Urban	Rural	Urban
June 30, 1983	18.6	81.4	16.8	83.2
June 30, 1984	25.8	74.2	17.1	82.9
June 30, 1985	28.5	71.5	17.3	82.7
June 30, 1986	26.7	73.3	19.1	80.9
June 30, 1987	23.2	76.8	19.1	80.9

Credit/ Deposit Ratio

3.9 The credit/deposit ratio (excluding BKB, RKUB and BSB) of the scheduled banks which had stood at 0.83 at the end of June, 1986 increased to 0.84 on September 30, 1986 but declined to 0.78 on December 31, 1986 and remained unchanged at that level till March 31, 1987. The ratio again declined to 0.77 on June 30, 1987. Scheduled banks' borrowings from the Bangladesh Bank gradually declined from Tk. 2277.5 crores on June 30, 1986 to Tk. 2201.8 crores on September 30, 1986 to Tk. 2155.1 crores on December 31, 1986 and further to Tk.1898.7 crores on March 31, 1987. Thereafter, the borrowings increased to Tk. 1953.1 crores on June 30, 1987 showing a net decline of Tk. 324.4 crores over the year. Scheduled banks' balances with the Bangladesh Bank increased by Tk. 292.4 crores to Tk. 968.2 crores and their cash in tills also rose by Tk. 22.9 crores to Tk. 361.3 crores over the year.

Bank Rate

3.10 The Bank Rate was reduced from 11.25 percent to 10.75 percent per annum with effect from July 1, 1986 and remained unchanged at that level till the end of June, 1987.

3.11 Other adjustments made in interest rates during 1986-87 are as follows:

Interest Rates on Lending

i) rate of interest on working capital loans to jute mills including jute spinning mills was reduced from 12 percent to 9 percent per annum with effect from July 1, 1986;

ii) rate of interest on export credit for tea was reduced from 12 percent to 9 percent per annum with effect from July 1, 1986;

iii) while the rate of interest on all advances against raw jute was kept unchanged at 16 percent per annum, the provision for refund of interest on the basis of actual shipment was enhanced to 7 percent from 4 percent per annum with effect from July 1, 1986;

iv) for setting up of medical clinics under the credit programme for self-employment of medical graduates introduced with effect from August 21, 1986 the rate of interest was fixed at 13 percent per annum.

v) on export credit (pre-shipment, packing and post-shipment) granted to the tannery units producing crust and finished leather, the rate of interest was fixed at 9 percent per annum with effect from September 1, 1986. No refund of interest was allowed on shipments effected on or after September 1, 1986. Previously, this rate was 14.5 percent with the provision of refund of interest @ 5.5 percent after actual shipments.

vi) the rate of interest on working capital loans to the industries in Export Processing Zone (EPZ) with 100 percent Bangladeshi ownership was fixed at 9.0 percent per annum with effect from October 1, 1986;

vii) with effect from March 24, 1987 rate of interest on advances on account of commercial imports was revised giving discretion to the banks to fix their own interest rates within an overall upper limit of 17 percent per annum on advances for both pre-shipment and post-shipment commercial imports such as PAD, LIM, C.C. as also purchase of foreign exchange from the secondary market. Previously, the rate of interest on advances on account of commercial imports was fixed at 18 percent per annum;

viii) the rate of interest on term loans were changed as under with effect from July 1, 1986:

(Percent per annum)

Debt-equity ratio	Developed/ Less-developed Areas	Least Developed Areas	For Industries Using Domestically Produced Capital Goods	Small and Cottage Industries
60:40	12	11	10	10 (without any service charges and irrespective of debt-equity ratio and location @ of the project)
70:30	13	12	11	
80:20*	13.5	12.5	11.5	

* Debt-equity ratio of 80:20 is not applicable for developed areas.

@ The rate of interest for industries located in the Special Economic Zone (Greater Chittagong Hill Tracts areas) continues to be only 5 percent.

It was decided on October 1, 1986 that the banks may realise service charge on term loans at a rate not exceeding 2 percent per annum provided the loans are extended from their own resources, but the same will not be applicable in case of term loans for small and cottage industries.

3.12 The rates of interest on different categories of fixed/term deposits with maturity of six months and over were revised with effect from January 17, 1987 as under:

Types of deposits	Rate before 17.1.87	Revised rate
a) For 6 months & over but less than 1 year	13%	12½%
b) For 1 year & over but less than 2 years	14%	13¼ %
c) For 2 years and over but less than 3 years	14½%	13¾%
d) For 3 years & over	15%	14¼%

Interest Rates on Deposits

The rate of interest in respect of term deposits for 3 months and over but less than 6 months remained unchanged at 12 percent per annum.

Cash Reserve Requirement

3.13 The statutory cash reserve requirement of the scheduled banks remained unchanged at 5.0 percent of their total demand and time liabilities.

Liquid Asset Requirements

3.14 The liquid asset requirements of the scheduled banks, except the Islami Bank Bangladesh Ltd., the Bangladesh Krishi Bank and the Bangladesh Shilpa Bank was fixed at 20 percent of their total demand and time liabilities with effect from January 18, 1987. The statutory liquidity ratio for the Islami Bank Bangladesh Ltd. was reduced from 15 percent to 10 percent with effect from January 3, 1987 for both its demand and time liabilities. The Bangladesh Krishi Bank and the Bangladesh Shilpa Bank continued to have the exemption from the requirement of maintaining liquid assets. As a result of bifurcation of the BKB, the Rajshahi Krishi Unnayan Bank (RUKB) came into being in March, 1987 and it was also exempted from maintaining liquid assets. Al Baraka Bank, which started functioning since May, 1987 as a scheduled bank in the private sector on Islamic principles was allowed to maintain liquid assets @ 10 percent of its total deposits.

Interest Subsidy (Export Credit) Scheme

3.15 The rate of interest subsidy under the Interest Subsidy (Export Credit) Scheme introduced in May, 1983 remained unchanged at 5.5 percent during 1986-87. Total amount of interest subsidy allowed to banks during the year on account of their financing non-traditional exports was Tk. 6.65 crores.

Export Incentive/Concessional Interest Rate on Export Credit for Non-traditional Items

3.16 Exporters of non-traditional goods whose export earnings from a commodity during 1985-86 exceeded the previous year's earnings from the same commodity by more than the sectoral target set for that year (i.e. 1985-86) would be given additional incentive in the form of an interest rebate of 2.0 percent per annum on their export credit relating to such excess earnings over the target. The interest rebate will be available in respect of pre-shipment export credit including packing credit for non-traditional exports only.

Deposit Pension Scheme

3.17 The Deposit Pension Scheme introduced in September, 1983 for implementation by the nationalised banks remained in force during 1986-87. Some private sector banks were also asked to participate in the scheme. Year-wise outstanding deposits under the scheme were as under :

(Taka in crores)

Position as on	Amount	Changes
June 30, 1984	10.25	—
June 30, 1985	57.27	+47.02 (458.73%)
June 30, 1986	153.31	+ 96.04 (167.70%)
June 30, 1987	261.17	+ 107.86 (70.35%)

Investment Company

3.18 The two private investment companies, viz., National Credit Limited and Bangladesh Commerce and Investment Limited were allowed to operate with effect from October 31, 1985 and December 11, 1985 respectively. They were also permitted to participate in the inter-bank call money market during the year.

Credit Guarantee Scheme

3.19 Under the Industrial Credit Guarantee Scheme of the Bangladesh Bank, 30 guarantee certificates were issued covering a total of Tk. 2.06 crores during 1986-87. Under the Credit Guarantee Scheme (Small Loan), a total of 356 Gurantee certificates were issued covering a total loan of Tk. 5.96 crores extended to individual weavers during the year.

Other Credit Policy Measures

3.20 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 additional credit control and support measures were adopted by the Bangladesh Bank during 1986-87:

i) **Credit Facility for Middle and Low Income Groups**

A scheme was introduced in August, 1986 for grant of credit facilities to the people in the middle and low income groups to purchase flats with a floor space upto 1500 sft. Under the scheme, the banks would finance upto 80 percent of the cost of the flat while the remaining 20 percent would be borne by the borrowers. The loans which would be secured by way of mortgage of the flats should be rapayble in 15 years with interest at a rate of 16 percent per annum.

ii) **Credit Programme for Self-Employment of Unemployed Medical Graduates**

In order to generate self-employment of unemployed medical graduates, the procedures for sanctioning loans to them were further liberalised with effect from August 21, 1986. Accordingly, the Bangladesh Bank advised the banks to grant credit facility to them to set up clinics outside the metropolitan areas on the basis of the viability of the project as per normal appraisal of the financing banks. The loans, which would bear interest at the rate of 13 percent per annum plus 2 percent service charges, should be repayable over a period of 5 years.

There would normally be no requirement for the borrower's equity or any collateral for the loans which would be covered by the Bangladesh Bank's Credit Guarantee Scheme.

iii) Credit Scheme for Hosiery Industry

The Bangladesh Bank advised the banks to extend loans to Hosiery Industry as normal cash credit renewable annually, depending on the performance of the borrower with effect from October 25, 1986. No security other than hypothecation of raw materials, finished goods and machinery would be insisted upon for loans upto Tk. 50,000 but additional collateral security of equitable mortgage of property may be called for loans exceeding Tk. 50,000. Banks were also advised to extend working capital loans to new hosiery units on the basis of credit worthiness as per guidelines of the Bangladesh Bank.

iv) Advances to oil mills against locally produced oil seeds and finished products

The Bangladesh Bank advised the banks to provide credit facilities to oil mills for purchase of locally produced oil seeds against the security of oil seeds as also finished products with effect from November 26, 1986.

v) Credit Support to Small and Cottage Industries (SCI) Sector

The SCI sector has been identified as a priority sector under the current Industrial Policy. The Bangladesh Bank has also advised the banks on September 30,1986 to provide 5 percent of fresh loanable funds during 1986-87 for development of this sector. In the event a bank is unable to reach this target due to lack of bankable projects, arrangement may be made with the BSCIC to channel the unutilised portion of the fund to the SCI Sector.

Banks have also been advised to open a Cell to cater specially to the financial needs of this sector quickly and systematically. Instructions to open separate desk at all main district level branches to provide guidelines, speedily handle the applications and to appraise the borrower in clear and precise terms about their repayment obligations have also been issued. Banking system will arrange necessary fund for sick small industries. Debt-equity ratio for the SCIs shall be 80:20 in order to provide support to small entrepreneurs.

vi) Advances to Road Transport Sector

Banks were advised by the Bangladesh Bank on December 30, 1986 to provide transport loans for purchase of new trucks and buses, etc. from assemblers in Bangladesh which would be repayable in 2—3 years in monthly instalments against guarantee from the Sadharan Bima Corporation (SBC) for 100 percent repayment of principal and interest. Banks will not insist for margin or any other security.

vii) Margin on Letters of Credit on Account of Industrial and Commercial Imports in the Private Sector under Cash Credit/Barter/SEM

With effect from January 18, 1987 the maximum margin requirement for opening letters of credit by industrial importers in the private sector for import of items listed in their Pass Books, and machinery and mill works, ball bearings, power generators, spinning frames for jute mills and crude degummed soyabean oil imported by refiners belonging to the vegetable oil refiners' group has been lowered from 25 percent to 20 percent. The minimum margin requirement would continue to remain at 5 percent. Margin requirement was also lowered from 25 percent with minimum margin requirement of 5 percent for specified essential items importable by the commercial importers. Minimum margin was also lowered from 50 percent to 40 percent in respect of L/C for import of palm oil, textile fabrics except grey cloth, coconut oil, spices and betel nuts. The margin for import of cotton yarn of 21-59 counts and for grey cloth shall continue to be 50 percent and 25 percent minimum respectively. Margin for import of salt also remained unchanged at 75 percent.

viii) Revision of L/C Margin

In partial modification of the instruction of January 18, 1987, banks were advised with effect from March 22, 1987 to revise L/C margin rate in the following manner:

	Current margin	Revised margin
1) Industrial importers in the private sector for import of items listed in their Pass Books.	20% max.	15% max.
2) Machinery and mill work, ball bearings, power generator, Jute mill spinning frames and crude degummed soyabean oil imported by refiners belonging to the vegetable oil refiners' group.	"	"
3) Specified essential items importable by commercial importers	"	"
4) Palm oil, textile fabrics excepting grey cloth, coconut oil, spices and betel nuts	40% min.	30% min.
5) L/C. for import of grey cloth will remain unchanged	25% "	25% "

ix) Issue of Bank Guarantee on Behalf of the Constituents and Honouring the Bank Guarantee

In the face of mounting complaints received by the Bangladesh Bank regarding reluctance and delays made by some banks to honour commitments to the beneficiaries on one pretext or another, banks were advised on January 19, 1987 to carefully assess the applications for guarantee and ensure that commitments made by them through such guarantees are honoured. It was emphasized that the applicants' credit worthiness should be carefully evaluated and, wherever necessary, collateral security in the form of readily realiseable assets be insisted upon to ensure fulfilment of the obligations. In the event any bank was found negligent in setting claims promtly, the Bangladesh Bank would be constrained to debar it from issuing further guarantees.

x) Opening of L/C Against Completely Assembled Auto Rickshaws Importable under Cash/Barter/SEM

In pursuance of the General Circular No. 45(86-87) of CCI & E dated 25.2.1987 permitting import of completely assembled auto rickshaw during the period from January 1, 1987 to June 30, 1987, the commercial banks were advised on April 7, 1987 to open L/C against the above at a minimum margin requirement of 40 percent.

xi) Disbursement of Export Credit by Means of Inland L/C System

Under the existing arrangement exporters are provided with credit facility upto 90 percent of the value of the irrevocable letter of credit/firm sale contract. This credit facility is normally used to finance procurement of necessary inputs like raw materials and their processing. In some cases the exporter may purchase finished products from the manufacturer. It has been decided with effect from April 19, 1987 that within the amount of credit sanctioned by a bank in favour of an exporter, disbursement be made by opening inland letters of credit on behalf of the exporting client in favour of the firm/companies from whom the exporters buy the exportable products or raw materials and intermediate goods. The indirect exporters in whose favour the inland L/C is opened shall be entitled to draw export credit upto 90 percent of the inland L/C. The banks would ensure that export credit to both direct and indirect exporters be made available by means of inland L/C through the process of backward linkages so that disbursement of export loans would be linked with the evidence of delivery of materials to the direct exporter.

xii) Export Policy 1986 — Export Finance under the Export Credit Guarantee (ECG) Coverage

New comers in export business, specially for non-traditional items should not be refused credit by banks under any circumstances, if necessary the Sadharan Bima Corporation (SBC) guarantee should be obtained. All cases of refusal are to be referred to the Bangladesh Bank giving reasons for such refusal.

xiii) Prior Authorisation of the Bangladesh Bank for Renewal or Sanction of Large Loans

With effect from December 1,1986 the system of obtaining the Bangladesh Bank's prior authorisation for sanction or renewal of loans exceeding Tk. 3.00 crores per borrower by the nationalised commercial banks (NCBs) and Tk. 1.00 crore by foreign and private banks excluding the DFIs has been introduced. Sanction/renewal of working capital loans for sectors like jute mills, spinning mills, sugar mills, textile mills, oil mills, jute shippers/traders, etc., however, would not require such prior authorisation but would be guided by the credit norms prescribed by the Bangladesh Bank.

xiv) Financing of Cold Storage units for Preservation of Potato during 1987

Banks have been advised like previous years to provide cash credit ficilities to the cold storage units for preservation of potato upto 50 percent to 80 percent of the actual cost of potato including cost of gunny bags on the basis of ruling market price of potato as circulated by the Directorate of Agricultural Marketing. Cold storage which were defaulters with the BSB/BSRS and could not produce NOC/ clearance certificate by May 31, 1986 would not be eligible for fresh credit and sanction /renewal of credit limits to these units would be considered only after their production of NOC/clearance certificate from the DFIs.

xv) Industrial Policy 1986- Setting up Industry in Private Sector

Under the New Industrial Policy of 1986, entrepreneurs desiring to set up industry within the indicative list using their own resources would not require prior permission of the Govenment's Hard Term Loan Committee and such permission would be necessary when import of machinery is sought to be financed through suppliers' credit. In cases where the projects either exceed the financial powers of the banks /DFIs (as prescribed in the Industrial Policy) or involve import of raw materials of more than 50 percent in value which would require prior approval of the Government, banks would not open L/Cs for import of machineries for those who were defaulters with other banks/DFIs even if they use own resources.

xvi) Financing of Export Oriented Readymade Garments

In order to maintain uniformity in extending credit facilities to the above-mentioned industries banks have been advised to follow the guidelines as given below:

a) Providing working capital :

Banks may provide pre-shipment credit against Irrevocable Letters of Credit or firm sale contract received by the readymade garment industries upto 90 percent of value of the concerned export order.

b)Back-to-back L/C :

If the value of the back-to-back L/C is equivalent to 75 percent of the concerned export order the bank may extend credit facility upto 15 percent of export order in local currency to meet local expenses of export oriented industries. Banks should not normally ask for margin from them at the time of opening L/C in order to encourage them to implement the export order.

c)Collateral Securities :

While opening of back-to-back L/Cs for import of raw materials by garment industries banks may not insist on additional collateral securities other than the imported raw materials/accessories.

xvii) Working Capital to Fish Freezing Units

Banks have been advised that loan limit and drawing facility should be given from each English calendar year on the basis of quantity of fish with packing expenditure and 45 days' electricity and labour expenditure to each freezing plant of their 60 percent usable capacity or real usable capacity whichever is lower with 20 percent margin. Loan in excess of this limit shall be given to the exporters in the case of stocks of the plant being abnormally high due to low demand of fish in the international market.

xviii) Approval of Export Credit Beyond Credit Limits

To meet the actually needed export credit banks have been advised to extend loans if necessary in addition to normal cash credit limits in order to enable the exporters to complete a large export order. Banks have also been advised to delegate sufficient power to their regional/branch offices for finalisation of loan applications and approval of loan within 15 days. Moreover, they have been advised not to claim excess security for opening back-to-back L/Cs without reasonable ground or claim collateral security against export credit covered by the ECG of the Sadharan Bima Corporation.

xix) Monitoring Committee on Export Credit

In pursuance of the decision in Export Policy-1986, a Monitoring Committee on Export Credit under the Chairmanship of Governor of Bangladesh Bank was constituted in July, 1986 to (i) assess the export credit requirements; (ii) review and monitor the flow of credit for export sector; (iii) examine and take appropriate measures so that exporters can obtain adequate credit and (iv) sort out any bottleneck/problem that may be faced by the exporters in getting credit from the banks. The committee so far held four meetings and took some important decisions in liberalising and synchronising the loan sanctioning procedures for ensuring smooth flow of bank credit in the important sectors like garment industry and frozen food units of the country in particular and outlining reformatory procedures for sanction of cash credit, pre-shipment and packing credits to exporters and export oriented industries under ECG coverage of the Sadharan Bima Corporation in general. Through another decision the committee decentralised the work relating to payment of interest subsidy to banks in respect of export credits extended by them on concessional rate of interest authorising outstation offices of the Bangladesh Bank to deal with such claims of the bank branches falling under their respective jurisdiction. With a view to creating awareness amongst the banks about the export credit policies of the Bangladesh Bank and making them aware of the necessity of providing export credit expeditiously, a seminar was held on May 23, 1987 with the representatives of banks at Zonal and Regional levels, Federation of Chambers of Commerce, Exporters' Association, etc.

xx) Witholding of Credit Facility to Non-repayers of the Value of Disinvested Units

All scheduled banks have been instructed not to give any banking or industrial credit facilities to those institutions and allotees of industries who have failed to pay the repayment instalment to the Government as per contract of the 16 disinvested units.

Refinance Policy

3.21 In respect of refinance, the 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 to the socially important sectors, the Bangladesh Bank continued to provide refinance accommodation to the banks in case of genuine need. The basic features of the refinance programme followed by the Bangladesh Bank during 1986-87 were as under:

i) **Refinance Facility for Jute**

Refinance facility to the extent of 30 percent of the total credit extended by the banks to the jute sector was allowed at an interest rate of 2.5 percent per annum. There was also provision for additional refinance on this account at the above rate in case of need.

ii) **Refinance against Tea Other Than Packet Tea**

Refinance for export sales of tea, other than packet tea was allowed to the extent of 100 percent outstanding advances less overdues at an interest rate of 5.5 percent per annum.

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

Refinance against pre-shipment export credit including packing credit for non-traditional exports was allowed to the extent of 100 percent of pre-shipment export finance of the banks less overdues at an interest rate of 5.5 percent per annum. Such refinances are also being allowed to 100 percent export oriented industries for their working capital finance.

iv) **Refinance against Pre-shipment Export Credit for Light Engineering and Electrical Goods, Handicrafts and Handloom Products**

100 percent refinance was allowed to the banks at an interest rate of 3.5 percent 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.

v) **Refinance under Duty Drawback Credit Scheme**

Refinance to the extent of 100 percent of loans extended to exporters under 'Duty Drawback Credit Scheme' was made available to the banks at free of interest.

vi) **Refinance for Credit to Sugar Mills**

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

vii) **Refinance in Respect of Working Capital Loans to Industries**

Refinance to the extent of 50 percent of the credit limits sanctioned by banks as working capital loan to industries commissioned on or after July 1, 1985 was admissible to the banks at the Bank Rate.

viii) **Refinance against Term Loans**

Refinance against term loans sanctioned on or after July 1, 1986 for project finance was allowed at 2 percent below the normal rate of interest charged by the banks on such advances.

ix) **Refinance against BMRE Finance of Existing Tannery Units**

Refinance against the BMRE finance of the existing tannery units to the extent of 100 percent of such finance was allowed at the Bank Rate.

x) **Refinance against Export Bills**

Refinance facilities by way of (i) rediscounting of export bills and (ii) overdraft against export bills was allowed to the banks at an interest rate of 5.5 percent per annum to the extent of 50 percent and 100 percent of the Usance Bills in respect of traditional exports and non-traditional exports respectively.

xi) Refinance against Advance in SEZ of Chittagong Hill Tracts Region

Refinance against advances in Special Economic Zone (SEZ) of Chittagong Hill Tracts Region was admissible to the banks to the extent of 100 percent of local currency advances at an interest rate of 1.5 percent per annum. The financing banks would disburse these loans at a concessional interest rate of 5 percent per annum.

xii) Counter-finance for Credit to the Government Food Department and the BADC

Counter finance was allowed to the banks at the Bank Rate to the extent of the limits allocated to them by the Bangladesh Bank for the Government Food Department and the Bangladesh Agricultural Development Corporation (BADC).

CHAPTER IV

DEVELOPMENTS IN BANKING FACILITIES AND FINANCE

Branch Expansion

4.1 A total of 130 bank branches were opened in Bangladesh by the scheduled banks during 1986-87 as against 155 during 1985-86. Following the merger of 20 rural branches of the Pubali Bank Limited with their respective nearest branches during the year the total number of bank branches in the country during 1986-87 increased by 110 to 5224 on June 30, 1987 as against 5114 on June 30, 1986. The scheduled banks opened 55 branches in the rural areas during the year, raising the total number of rural branches at the end of June, 1987 to 3501 or 67 percent of total bank branches in Bangladesh. The number of the nationalised commercial bank branches in Bangladesh (including branches of Rupali Bank Ltd.) during 1986-87 increased by 47 to 3446 on June 30, 1987 from 3399 on June 30, 1986. The number of nationalised banks' branches operating in foreign countries stood at 13 on June 30, 1987 as against 12 on June 30, 1986. During 1986-87, the number of foreign banks operating in Bangladesh remained unchanged at 7 and total number of their branches stood at 22 on June 30, 1987 as against 21 on June 30, 1986. The number of private sector banks (excluding Rupali Bank Ltd.) in Bangladesh stood at 9 on June 30, 1987 as against 8 on June 30, 1986. Total number of their branches increased by 23 to 688 at the end of June, 1987 from 665 at the end of June, 1986.

Islami Bank Bangladesh Limited

4.2 The Islami Bank Bangladesh Limited (IBBL) is the first bank operating in Bangladesh under the principles of Islamic Shariah. The business of the IBBL expanded substantially both in terms of deposit mobilisation as well as in terms of investment financing during 1986-87. The number of branches of the bank increased from 13 at the end of June, 1986 to 21 at the end of June, 1987.

4.3 The Al Baraka Bank Bangladesh Limited is the second Islamic bank in the country. The bank started its formal operations from May 20, 1987

AL Baraka Bank Bangladesh Limited

under the principles of Islamic Shariah. The bank is a joint venture banking company sponsored by the Al Baraka Group of Saudi Arabia, renowned Bangladeshi entrepreneurs and the Government of Bangladesh. The authorised capital of Al Baraka Bank is Tk. 60 crores which is divided into 6 lakhs ordinary shares of Tk. 1000 each. The paid-up capital of the bank is Tk. 15 crores which is shared by the different groups as follows:

a) Al Baraka Group	70%
b) Bangladeshi Sponsors	12.5%
c) Public Issue (Local)	12.5%
d) Government of Bangladesh	5%
Total:	100%

Rupali Bank Limited

4.4 In pursuance of the Government decision, the Rupali Bank was transformed into a public limited company on December 14, 1986. The authorised capital of the newly constituted Rupali Bank Limited is Tk. 100 crores of which the paid-up capital is Tk. 40 crores. Of the total paid-up capital, 51 percent has been retained by the Government while 15 percent of the remaining 49 percent has been reserved for allotment to the employees of the bank and 85 percent for public issue.

Rajshahi Krishi Unnayan Bank

4.5 The Rajshahi Krishi Unnayan Bank (RKUB) was established on March 15, 1987 to function as a scheduled bank bifurcating the Bangladesh Krishi Bank (BKB). The bank has taken over assets and liabilities including deposits and advances of the BKB branches in the Rajshahi Division. The authorised capital of the RKUB is Tk. 150 crores which is fully owned by the Government.

Inspection of Banks

4.6 A Deputy Governor was appointed by the Government with a view to ensuring better supervision of banks by strenthening the Inspection Departments of the Bangladesh Bank. Special squads were constituted by the Bangladesh Bank for making indepth investigations and to conduct special inspection of different scheduled banks.

4.7 The Bangladesh Bank under its normal inspection programme carried out comprehensive inspection of 592 branches of 14 scheduled banks (nationalised, local private and foreign banks) during 1986-87. In addition, summary and special inspection of 245 branches of different sheduled banks were conducted during the year. Inspection of the Calcutta branch of the Sonali Bank and the Karachi branch of the Rupali Bank Limited was conducted during 1986-87. Four branches of the Janata Bank in the U.A.E were also inspected during the year.

Counter-Finance for Food

4.8 For financing procurement and distribution of foodgrains a sum of Tk. 75 crores was made available to the Government by the nationalised banks and a counter-finance limit of the same amount was allowed by the Bangladesh Bank during 1986-87. There was no outstanding against the above counter-finance limit at the end of June, 1987.

Counter-Finance for Fertilizer

4.9 The Bangladesh Bank sactioned counter-finance limit of Tk. 120 crores to the nationalised commercial banks during 1986-87 for financing procurement and distribution of fertilizers by the BADC. Outstanding counter-finance against the same stood at Tk.19 crores as on June 25, 1987 as compared to Tk.93 crores as on June 26, 1986. Another counter-finance limit of Tk. 20 crores was allowed to the Sonali Bank against financing procurement of pumps, engines and accessories of shallow tubewells (STW) by the BADC against which there was no outstanding at the end of June 30, 1987.

Jute Finance

4.10 Adequate finance from the banking system continued to be made available for jute trade and jute mills during 1986-87 jute season. The commercial banks sanctioned cash credit and packing credit limits for financing movements of raw jute as well as for meeting the working capital requirements of jute mills. Peak-level utilisation of bank credit by the jute mills including spinning mills stood at Tk. 936.46 crores on April 16, 1987 as against the previous year's peak-level utilisation of Tk. 963.86 crores on January 2, 1986. Peak-level utilisation of bank credit by the jute trade including Bangladesh Jute Corporation stood at Tk. 654.07 crores on April 16, 1986 as against Tk. 499.81 crores on

January 2, 1986. The peak-level of refinance which was availed of by banks from the Bangladesh Bank during the year under report stood at Tk. 618.34 crores on January 1, 1987 as compared to Tk. 558.36 crores at the end of June, 1986.

Export Bills

4.11 The peak-level outstanding in respect of overdraft/rediscounting facilities allowed to banks by the Bangladesh Bank against export bills which had stood at Tk. 19.23 crores on January 22, 1987 came down to Tk. 10.51 crores on June 25, 1987. This compared with the outstanding refinance of Tk. 5.44 crores on June 26, 1986.

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

4.12 The peak-level outstanding in respect of refinance allowed to banks by the Bangladesh Bank against pre-shipment export credit for non-traditional items, which stood at Tk. 107.18 crores on January 22, 1987, was reduced to Tk. 95.59 crores on June 25, 1987. This compared with the outstanding refinance of Tk. 71.18 crores on June 26, 1986.

Financing of BSFIC

4.13 A total credit limit of Tk. 65 crores was arranged from the Sonali Bank, the Janata Bank and the Agrani Bank for the sugar mills under the control of the Bangladesh Sugar and Food Industries Corporation (BSFIC) for financing production of sugar during 1986-87. The peak-level refinance which was availed of by the Sonali Bank against financing of sugar mills under the BSFIC during 1986-87 stood at Tk. 5.80 crores. There was no outstanding at the end of June, 1987.

Refinance against Petroleum Finance

4.14 The peak-level refinance which was availed of by banks from the Bangladesh Bank against their advances to the Bangladesh Petroleum Corporation (BPC) stood at Tk. 41 crores as on July 10, 1986 which was fully liquidated by the end of June, 1987.

Refinance against Locally Produced Seed-Cotton

4.15 A refinance limit of Tk. 2 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 no outstanding at the end of June, 1987.

Other Refinance

4.16 Other refinance facilities allowed by the Bangladesh Bank to the scheduled banks on various accounts stood lower at Tk. 48.30 crores on June 25, 1987 as compared to Tk. 65.71 crores on June 26, 1986.

CHAPTER V

DEVELOPMENT OF CAPITAL MARKET AND INDUSTRIAL FINANCE

DEVELOPMENT OF CAPITAL MARKET AND INDUSTRIAL FINANCE

Dhaka Stock Exchange

5.1 The Dhaka Stock Exchange Ltd. achieved notable progress during 1986-87. The average daily transactions on the trading floor of the Exchange showed a phenomenal increase of 321.9 percent over the year. The overall investment climate in the country improved further during 1986-87 as a result of additional facilities and incentives provided by the Government for encouraging industrial investment in the Industrial Policy of 1986. A large number of companies came up for enlisting their names with the Exchange and investors' response to the public issue of new shares was encouraging. The number of companies listed with the Exchange increased from 78 in 1985-86 to 88 in 1986-87. The total paid-up capital of the listed companies stood at Tk. 279.14 crores in 1986-87 as compared to Tk. 209.85 crores in 1985-86, showing an increase of 33.0 percent over the year.

5.2 Trading in shares on the floor of the Dhaka Stock Exchange Ltd. reached a new peak in 1986-87. The total turnover during the year stood at 19.30 lakh shares worth Tk. 15.24 crores which was 187.9 percent larger in volume and 343.5 percent higher in value as compared with those in 1985-86. In all, 11 companies offered new shares worth Tk. 22.09 crores for public subscription during 1986-87 which was 350.8 percent higher as compared with shares worth Tk. 4.90 crores offered by 10 companies in 1985-86. As against the total shares offered during the year, public response was valued at Tk. 41.14 crores representing an oversubscription of 86.3 percent. In some cases, the shares were oversubscribed to the extent of 145.0 percent of their offered value. A total of 37 companies declared dividends ranging from 5 percent to 150 percent during the year. Market capitalisation of the listed companies increased by 282.8 percent to Tk. 1315.44 crores in 1986-87 from Tk. 343.65 crores in 1985-86.

Investment Corporation of Bangladesh (ICB)

5.3 Total resources of the Investment Corporation of Bangladesh (ICB) as on June 30, 1987 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. 55.02 crores issued in favour of the Bangladesh Bank, the nationalised commercial banks and the foreign commercial banks. As against this, the ICB made a total commitment of Tk. 91.19 crores upto June 30, 1987, thus leaving a resource gap of Tk. 7.67 crores. At present, the Corporation does not have any line of foreign credit/investment resources.

5.4 During 1986-87, the ICB made a total commitment of Tk. 5.37 crores for underwriting/bridge financing as against Tk. 1.21 crores committed during 1985-86. The Corporation made no commitment for debenture financing during 1986-87 as against Tk. 0.34 crore worth of debentures financed in 1985-86. As investment support in the form of underwriting/bridge and debenture financing committed by other financial institutions increased substantially to Tk. 5.03 crores in 1986-87 from Tk. 0.74 crore during* the preceding year, total commitments made by the ICB and its consortium partners also rose significantly to Tk. 10.40 crores during 1986-87 from Tk. 2.29 crores in 1985-86. The ICB has committed financial assistance of Tk. 91.19 crores to 293* projects since its inception.

Bangladesh Shilpa Bank (BSB)

5.5 The Bangladesh Shilpa Bank (BSB) received a total of 125 applications during 1986-87 as against 94 applications received during 1985-86. During the year, the Bank sanctioned loans amounting to Tk. 75.38 crores against 43 projects which included Tk. 59.04 crores in foreign currency and Tk. 16.34 crores in local currency. The BSB had sanctioned a total loan of Tk. 99.11 crores in 1985-86 against 35 projects of which Tk. 87.93 crores were in foreign currency and Tk. 11.18 crores in local currency. As in the previous year, all the loans sanctioned during 1986-87 were in the private sector.

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* Net of cancellation/reduction.

5.6 Total disbursement of loans by the BSB during 1986-87 amounted to Tk. 27.85 crores, of which Tk. 20.86 crores were in foreign currency and Tk. 6.99 crores in local currency. As in the previous years, projects in the private sector claimed the entire amount disbursed during the year. The BSB had disbursed an amount of Tk. 12.23 crores in 1985-86, of which the foreign currency component was Tk. 5.80 crores. The BSB recovered an amount of Tk. 65.89* crores during 1986-87 as compared to Tk. 41.72 crores in 1985-86. The total amount of outstanding BSB loans, including overdue loans of Tk. 295.19 crores, amounted to Tk. 641.37 crores on June 30, 1987 as against Tk. 610.73 crores, including overdue loans of Tk. 267.35 crores on June 30, 1986.

Bangladesh Shilpa Rin Sangstha (BSRS)

5.7 The functions and area operations of the Bangladesh Shilpa Rin Sangstha (BSRS) was reorganised following a Memorandum of Understanding (MOU) singed between the Government of Bangladesh and the donor agencies on March 2, 1985. In accordance with the basic points agreed in the MOU, the Industrial Advisory Centre of Bangladesh (IACB) was merged with the BSRS on March 16, 1987. The reorganised functions of the BSRS are as under:

i) development of necessary expertise for strengthening and improving the repayment performance of borrowers;

ii) providing term credit to industries in the existing portfolio of the BSRS for BMR&E;

iii) providing underwriting/bridge financing/debenture financing assistance to public limited companies;

iv) stengthening capabilities of the BSRS to provide technical and management services to defaulting companies;

v) management, rehabilitation, salvage or liquidation of industries in the existing portfolio; and

vi) industrial promotion, research and consultancy.

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* Excluding Tk. 15.19 crores given by the BSB as concession to the jute mills which was adjusted towards settlement of dues with the Government.

5.8 The amount of loans sanctioned by the BSRS during 1986-87 stood significantly lower at Tk. 0.71 crore only as against Tk. 12.70 crores sanctioned during the preceding year. The amount of loans disbursed by the BSRS during 1986-87 also stood lower at Tk. 5.24 crores as compared to Tk. 9.08 crores in 1985-86. Of the total disbursement during the year, foreign currency and local currency components accounted for Tk.2.30 crores(43.9%) and Tk.2.94 crores (56.1%) respectively as compared to Tk. 4.14 crores (45.6%) and Tk. 4.94 crores (54.4%) respectively during 1985-86. During the year under report, the entire amount of disbursement, i.e. Tk. 5.24 crores was disbursed in the private sector. Compared to this, Tk. 8.04 crores were disbursed in the private sector and Tk. 1.04 crores in the public sector during the previous year.

5.9 The BSRS recovered an amount of Tk. 51.87^{P} crores during 1986-87 as compared to Tk. 34.38 crores during the preceding year. Of the total recovery during the year, the public and private sectors accounted for Tk. 7.71 crores (14.9%) and Tk. 44.16 crores (85.1%) respectively as compared to Tk. 13.63 crores (39.6%) and Tk. 20.75 crores (60.4%) respectively during 1985-86. The total outstanding loans of the BSRS as on June 30, 1987 stood higher at Tk. 750.74 crores as compared to Tk. 707.16^{R} crores as on June 30, 1986.

Commercial Banks

5.10 The commercial banks continued to play an active role in the promotion of capital market in the country. The commercial banks (nationalised, private and foreign banks operating in Bangladesh) extended a total of Tk. 789.77 crores for financing debentures issued by the sector corporations as at the end of June, 1987 as compared to Tk. 767.77 crores at the end of June, 1986. Besides, commercial banks made advances to the members of the Stock Exchange against the security of their shares listed with the Exchange. Commercial banks' advances against stock exchange securities (including Government and other trustee securities) as at the end of June, 1987 stood at Tk.85.06 crores as compared with Tk. 71.58 crores at the end of June, 1986.

P = Provisional.

R = Revised.

CHAPTER VI

AGRICULTURAL AND RURAL FINANCE

AGRICULTURAL AND RURAL FINANCE*

6.1 Agriculture occupies a pivotal position in the economy of Bangladesh as it accounts for more than 50 percent of the country's GDP and provides employment to over 70 percent of the labour force. As the agriculturists who cultivate land mostly on subsistance basis cannot afford to invest adequate capital to raise productivity, institutional finances are provided to them in accordance with the Annual Credit Programme drawn up by the Bangladesh Bank. The institutions providing credit to the farmers for both farm and off-farm activities are: the Bangladesh Krishi Bank (BKB), commercial banks, the Bangladesh Samabaya Bank Ltd. (BSBL), the Bangladesh Rural Development Board (BRDB), Upazilla Central Co-operative Association (UCCAs) and the Grameen Bank. Institutional finances are also provided for special projects/schemes undertaken in selected rural areas of the country to generate employment for the landless and/or small and marginal farmers.

Annual Agricultural Credit Programme

6.2 The Annual Agricultural Credit Programme for 1986-87 envisaged disbursement of a notional amount of Tk. 1,075.00 crores as against Tk. 1,275.00 crores during 1985-86. Of the total, a sum of Tk. 458.00 crores or 42.6 percent was earmarked for crop financing other than tea, Tk. 115.00 crores or 10.7 percent for financing purchase of irrigation equipments and Tk. 502.00 crores or 46.7 percent for other agricultural activities. These compared with Tk. 596.00 crores, Tk. 136.00 crores and Tk. 543.00 crores for financing crops, irrigation equipments and other agricultural activities respectively during 1985-86.

* Figures for 1986-87 are provisional.

The Annual Crop Credit System/ Credit Pass-Book

6.3 In order to ensure orderly flow of credit for financing the country's major crops production, 'the annual crop credit system' introduced in 1984-85 continued to operate during 1986-87. Under the sytem,credit is disbursed to individual borrowers at the beginning of the crop season against allocations made on the basis of their respective annual production plan. For proper utilization of loans and smooth functioning of the system leading to better recovery performance all transactions relating to agricultural loans are recorded in the 'Credit Pass-Book' of the borrowers.

Disbursement of Agricultural/ Rural Finance

6.4 Under the Annual Credit Programme of Tk. 1075.00 crores for 1986-87 a sum of Tk. 667.28 crores (62.1 percent) was disbursed as compared to Tk. 631.72 crores (49.5 percent) disbursed during the preceding year. This includes disbursements under different special projects/schemes like, Pond Fishery, Cold Storage, Bangladesh Swiss Agricultural Project (BASWAP), Shwanirvar Credit Programme, Second Rural Development Project (RD-II Project), North West Rural Development Project (NWRDP), DTW-2 (1287-BD) and Shrimp Culture Financing Scheme during the year. In addition, the Grameen Bank disbursed Tk. 65.54 crores during 1986-87 which showed an increase of Tk. 19.67 crores over Tk. 45.87 crores disbursed during the preceding year. Thus, disbursements under all these programme/special projects/schemes including the Grameen Bank during 1986-87 totalled Tk. 732.82 crores which was 8.2 percent higher than Tk. 677.59 crores during 1985-86.

6.5 The break-down of disbursements made against the Annual Credit Programme during 1986-87 indicates that for financing crop production other than tea, an amount of Tk. 252.69 crores or 55.2 percent of the programme of Tk. 458.00 crores was disbursed by the Participating Credit Institutions (PCIs) as compared to the disbursement of Tk. 190.29 crores during 1985-86. Disbursements made for financing of irrigation equipments during the year stood at Tk. 30.28 crores or 26.3 percent of the programme; this was 54.6 percent lower than the disbursement of Tk. 66.64 crores during the preceding year. Disbursements of

Tk. 384.31 crores against other agricultural activities during 1986-87 were 2.5 percent higher than Tk. 374.79 crores in 1985-86.

Recovery of Agricultural Credit

6.6 The recovery position of agricultural credit showed marked improvement during 1986-87. The intensive recovery drive by the PCIs coupled with the remission of interest and service charges announced by the Government resulted in significant improvement in the overall recovery position of agricultural credit. In pursuance of the Government decision, total/partial remission of interest and service charges was allowed on the outstanding balances as on June 30, 1986 against different categories of crop loans subject to the condition that the remaining balance was repaid within June 5, 1987. Total recovery (excluding remissions) of agricultural credit of Tk. 1,106.81 crores during 1986-87 was 82.3 percent higher than Tk. 607.15 crores recovered in the preceding year. Mainly due to the accelerated recovery performance, the outstanding level of agricultural credit as at the end of June, 1987 decreased by Tk. 219.41 crores or by 6.2 percent to Tk. 3,294.84 crores as compared to Tk. 3,514.25 crores at the end of June, 1986. Following improved loan recovery the overdue loans amounting to Tk. 1,576.57 crores at the end of June, 1987 decreased by Tk. 202.20 crores or by 11.36 percent as compared to Tk. 1,778.77 crores at the end of June, 1986. A comparative position showing the credit programme, disbursement, overdue, recovery and outstanding for 1985-86 and 1986-87 is presented in Table 6.1.

TABLE 6.1

OPERATIONS UNDER ANNUAL AGRICULTURAL CREDIT PROGRAMME

(Taka in crores)

Particulars	1985-86	1986-87	Changes over the year
1. Programme for Disbursement:	1275.00	1075.00	(-) 200.00 (-15.69%)
a) Crop Financing (Other than tea)	596.00	458.00	(-) 138.00 (-23.15%)
b) Financing of Irrigation Equipments	136.00	115.00	(-) 21.00 (-15.44%)
c) Other Agricultural Activities (including tea)	543.00	502.00	(-) 41.00 (-7.55%)
2. Actual Disbursement:	631.72*	667.28**	(+) 35.56 (+5.63%)
a) Crop Financing	190.29	252.69	(+) 62.40 (+32.79%)
b) Financing of Irrigation Equipments	66.64	30.28	(-) 36.36 (-54.56%)
c) Other Agricultural Activities (including tea)	374.79	384.31	(+) 9.52 (+2.54%)
3. Overdue (as on June 30)	1778.77*	1576.57	(-) 202.20 (-11.36%)
4. Recovery	607.15*	1106.81	(+) 499.66 (+82.29%)
5. Outstanding (as on June 30)	3514.25*	3294.84	(-) 219.41 (-6.24%)

* Revised

** Including disbursement by Rajshahi Krishi Unnayan Bank.

6.7 The disbursements of credit by terms/types are shown in Table 6.2. The short-term loans accounted for Tk. 472.93 crores or 70.9 percent of the total during 1986-87 compared to Tk. 400.24 crores or 63.4 percent of the total during 1985-86. This shows an increase of 18.2 percent in the current year as compared to a decline of 50.4 percent during the preceding year. The share of term loans declined by

16.0 percent to Tk. 194.35 crores (29.1 percent of the total) during 1986-87 as compared to a decline of 22.5 percent to Tk. 231.48 (36.6 percent of total) during the preceding year. While the short-term crop loans, other than those for tea, recorded an increase of 32.8 percent, those for tea recorded an increase of 15.8 percent during the year. Term loans for financing irrigation equipments recorded a decline of 54.6 percent during 1986-87 as compared with a decline of 39.5 percent in the preceding year. Term loans for plough animals and other purposes increased by 20.2 percent during 1986-87 as against a decline of 29.2 percent during the preceding year.

TABLE 6.2

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

(Taka in crores)

Particulars	1985-86	1986-87	% Changes
Total Disbursement :	631.72	667.28	(+) 5.63
1. Short-term Loans :	400.24	472.93	(+) 18.16
	(63.35%)	(70.87%)	
a) Crop Loans other than tea	190.29	252.69	(+) 32.79
b) Other Agricultural Activities	209.95	220.24	(+) 4.90
i) Crop Loan for tea	96.96	112.29	(+) 15.81
ii) Others	112.99	107.95	(-) 4.46
2. Term Loans:	231.48	194.35	(-) 16.04
	(36.64%)	(29.12%)	
a) Irrigation Equipments	66.64	30.28	(-) 54.56
b) Other Agricultural Activities	164.84	164.07	(-) 0.47
i) Plough Animals	45.25	54.41	(+) 20.24
ii) Others	119.59	109.66	(-) 8.30

Note : Figures in parentheses indicate percentages of total

6.8 Disbursement of crop loans by all the participating credit institutions increased by 32.8 percent during 1986-87. While crop financing by Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank together increased significantly by 188.2 percent to Tk. 110.89 crores that of participating commercial banks declined by 15.5 percent to Tk. 69.58 crores. Crop financing by BRDB/UCCAs declined by 1.1 percent to Tk. 59.35 crores and that of BSBL increased by 36.1 percent to Tk. 17.1 crores. Table 6.3 shows the position of disbursement of agricultural credit by sources.

TABLE 6.3

DISBURSEMENT OF AGRICULTURAL CREDIT BY SOURCES

(Taka in crores)

Sources/ Agencies	1985-86		1986-87	
	Total	Crop Loan other than tea	Total	Crop Loan other than tea
1. BKB	365.06	38.48	419.24	108.77 (+ 182.66%)
2. RKUB	—	—	22.67	2.12 (—)
3. PCBs	156.67	82.35	134.10	69.58 (– 15.50%)
4. BRDB/UCCAs	96.00	60.00	74.22	59.35 (– 1.08%)
5. BSBL	13.99	9.46	17.05	12.87 (+ 36.05%)
TOTAL:	**631.72**	**190.29**	**667.28**	**252.69 (+ 32.79%)**

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

6.9 The Bangladesh Krishi Bank and the Rajshahi Krishi Unnayan Bank continued to remain the major source of agricultural finance in the country. Their share in total agricultural credit increased from 57.8 percent in 1985-86 to 66.2 percent in 1986-87. The share of participating commercial banks on the other hand declined from 24.8 percent to 20.1 percent in 1986-87. Table 6.4 shows the percentage shares of agricultural credit by sources.

TABLE 6.4

PERCENTAGE SHARES OF AGRICULTURAL CREDIT DISBURSED BY SOURCES

Agencies/ Sources	1985-86			1986-87		
	Total	Crop Loan other than tea	Irrigation equipments	Total	Crop Loan other than tea	Irrigation equipments
BKB	57.79	20.22	40.26	62.83	43.04	21.30
RKUB	—	—	—	3.40	0.84	5.28
PCBs	24.80	43.28	5.72	20.10	27.54	24.54
BRDB/UCCAs	15.20	31.53	54.02	11.12	23.49	42.90
BSBL	2.21	4.97	—	2.55	5.09	5.98

Refinance by the Bangladesh Bank

6.10 Total refinance availed of by all the credit agencies from the Bangladesh Bank during 1986-87 amounted to Tk. 232.20 crores as against Tk. 253.17 crores during 1985-86. This included a refinance of Tk. 68.93 crores to the Sonali Bank for financing the programmes of BRDB/UCCAs during the year. Detailed position of refinance from the Bangladesh Bank in respect of agricultural loan to different lending institutions during 1985-86 and 1986-87 is shown in Table 6.5.

TABLE 6.5

REFINANCE BY THE BANGLADESH BANK

(Taka in crores)

Credit Agencies	1985-86		1986-87	
	Sanction	Disbursement	Sanction	Disbursement
BKB	114.00	109.99	171.13	119.49
PCBs	41.57	43.57	39.89	20.98
BSBL	28.98	12.10	27.90	15.80
Sonali Bank-BRDB	82.93	80.13	68.08	68.93
BRDB	10.00	7.38	6.70	2.00
RKUB*	—	—	89.09	5.00
Total :	**277.48**	**253.17**	**402.79**	**232.20**

* Rajshahi Krishi Unnayan Bank.

6.11 The outstanding borrowings of the Participating Credit Institutions (PCIs) from the Bangladesh Bank stood at Tk. 1201.79 crores at the end of June, 1987 as against Tk. 1370.86 crores at the end of June, 1986, denoting a decrease of Tk. 169.07 crores or 12.3 percent over the year. The outstanding position of borrowings of the various PCIs from the Bangladesh Bank during 1985-86 and 1986-87 is shown in Table 6.6

TABLE 6.6

OUTSTANDING BORROWINGS OF THE PCIs

(Taka in crores)

Credit Agencies	1985-86	1986-87	% Changes over the year
BKB	1112.49	1100.40	– 1.09
BSBL	33.56	32.81	– 2.23
PCBs	74.14	2.51	– 96.61
Sonali Bank-BRDB	139.50	50.68	– 63.67
BRDB	11.17	10.39	– 6.98
Rajshahi Krishi Unnayan * Bank	—	5.00	—
Total :	**1370.86**	**1201.79**	**- 12.33**

Projects under ACD

6.12 Within the overall agricultural credit programme reviewed in the preceding paragraphs, some specific programmes/projects were 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 assetless people who had previously little access to the institutional credit. These were as under :

Loans for Pond Fishery

a) Under a programme of Tk. 11.85 crores for financing pond fishery, the PCBs, the BKB and the RKUB disbursed an amount of Tk.3.76 crores during 1986-87 indicating a decrease of 43.9 percent as compared with the disbursement of Tk. 6.71 crores during 1985-86. Agency-wise disbursement of loans under the programme during 1985-86 and 1986-87 is given in Table 6.7.

TABLE 6.7

DISBURSEMENT OF POND FISHERY LOANS

(Taka in crores)

Agencies	1985-86	1986-87	% Changes over the year
PCBs	3.23	0.70	(-) 78.33
BKB	3.48	2.62	(-) 24.71
RKUB	—	0.44	—
Total:	**6.71**	**3.76**	**(-) 43.96**

Loans for Cold Storage

b) In order to provide additional cold storage facility for preservation of potatoes in the country, the PCBs, the BKB and the RKUB together disbursed an amount of Tk. 44.52 crores during 1986-87 as compared to the disbursement of Tk. 27.68 crores during 1985-86, showing an increase of 60.8 percent over the year. The agency-wise disbursement of loans under the programme during 1985-86 and 1986-87 is shown in Table 6.8.

TABLE 6.8

DISBURSEMENT OF COLD STORAGE LOANS

(Taka in crores)

Agencies	1985-86	1986-87	% Changes over the year
PCBs	13.23	21.76	(+) 64.47
BKB	14.45	20.23	(+) 40.00
RKUB	—	2.53	—
Total :	**27.68**	**44.52**	**(+) 60.84**

BASWAP - II

c) 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 a half (i.e. upto 1990) under the name BASWAP-II to be implemented during the period 1985-90. Out of 14 godowns to be completed 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 be 94.9 percent of disbursement as at the end of June, 1987. Bank-wise credit position of the project upto the end of June, 1987 is shown in Table 6.9.

TABLE 6.9

CREDIT OPERATIONS UNDER BASWAP - II
(As at the end of June, 1987)

Name of Financing Banks/Area	No. of Farmers under the project	Quantity of foodgrains stored (md.)	Amount disbursed (Taka in crores)	Amount Recovered (Taka in crores)
Sonali Bank (Boda Union)	8,590	42,011	0.54	0.51
Rupali Bank (Satnala Union)	4,950	34,301	0.45	0.43
Total:	**13,540**	**76,312**	**0.99**	**0.94**

Shwanirvar Credit Programme

d) The Shwanirvar (self-reliance) Credit Programme started its operation with paddy husking loan scheme in rural areas in 1978. The scheme was initially started in 10 thanas (now Upazillas) of 10 greater Districts. Presently, the scheme covers 76 Upazillas of 19 greater Districs and enlarged its operation to cover a wide range of income and employment generating activities. 5-member target groups are organised separately for men and women for financing under the scheme, each member of a group owning not more than 0.40 acre of cultivable land or having yearly income not exceeding Tk. 6,000. The PCBs and the BKB extend short-term loans of a maximum amount not exceeding Tk. 5,000 per borrower. Agency-wise performance of the scheme upto June 30, 1987 is shown in Table 6.10.

TABLE 6.10

LENDING UNDER SHWANIRVAR PROGRAMME
(As on June 30, 1987)

(Taka in crores)

Credit Agencies	Amount disbursed	Amount recovered	Amount outstanding	Amount overdue
NCBs	43.36	26.94	21.83	10.86
Pubali & Uttara Bank Ltd.	2.51	1.86	1.05	0.53
BKB & RKUB	18.72	12.04	8.39	3.29
Total :	**64.59**	**40.84**	**31.27**	**14.68**

ASARRD Project

e) The Action-cum-Research Project on small farmers and landless labourers, popularly known as the ASARRD (Asian Survey on Agricultural Reform and Rural Development) Project, 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 social and economic conditions of small farmers and landless labourers of the country through integrated programmes for increasing productivity, 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 operation 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 greater districts, viz., Mymenshingh, Comilla, Bogra and Rangpur at a revised cost of about Tk. 3.00 crores to cover 200 villages continued during 1986-87. Disbursement of credit under the scheme on the basis of borrowers' production plan upto the end of June, 1987 amounted to Tk. 2.20 crores against which Tk. 2.23 crores including interest were recovered.

Second Rural Development Project (RD-II Project)

f) In an effort to strengthen the rural infrastructure and operations of the KSS/BSS/MSS under the UCCA co-operative system of the BRDB, a Second Rural Development Project (RD-II Project) was undertaken in March, 1984 in 13 greater districts, namely, Dinajpur, Rangpur, Bogra, Khulna, Barisal, Patuakhali, Dhaka, Mymenshingh, Tangail, Jamalpur, Comilla, Sylhet and Chittagong. The project is being financed under grants/credit from the IDA, the CIDA and the UNDP. A Development Credit Agreement (DCA) with the IDA and a Memorandum of Understanding (MOU) for a grant from the CIDA were signed by the Government of the People's Republic of Bangladesh which would enable the Bangladesh Bank to receive, through a Subsidiary Loan Agreement (SLA) with the Goverment, US dollar equivalent to SDR 70.46 million as the IDA loan and US $ 13.46 million as the CIDA grant. The Bangladesh Bank will provide refinance facility to the Sonali Bank to the extent of 90.0 percent of its project loan in four categories: (i) Agriculture MT credit, (ii) Agriculture ST credit, (iii) Marketing godowns of the UCCAs and (iv) Rural Poor Programme. Both the Bangladesh Bank and the Sonali Bank will provide a portion of the project loans out of their own resources. As on June 30, 1987, an amount of Tk. 112.67 crores under this project was given to the Sonali Bank as refinance against its disbursement of Tk. 152.08 crores. The Bangladesh Bank received Tk. 38.20 crores from the IDA against its refinance and also Tk. 9.76 crores as advance to special account for import of irrigation equipments.

g) The Government of Bangladesh signed a loan agreement with the Asian Development Bank (ADB) for US $ 45.00 million and with the International Fund for Agricultural Development (IFAD)

North-West Rural Development Project

for SDR 13.7 million on April 18 and 20, 1983 respectively for the purpose of undertaking North-West Rural Development Project for operations in 53 Upazillas of old Rajshahi, Pabna and Kushtia districts. For providing refinance facility to the Sonali Bank against its disbursement of short-term and medium-term loans to the landless and rural poor farmers through the BRDB's/UCCA/BSS/MSS 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). The Bangladesh Bank's refinance to the Sonali Bank against disbursement of loans to target borrowers since inception stood at Tk. 2.69 crores as on June 30, 1987. Position of the credit operations during 1986-87 under the project can be seen in Table 6.11.

TABLE 6.11

CREDIT OPERATIONS UNDER NWRDP (1986-87)

(Taka in crores)

Name of Financing Bank	Amount disbursed	Amount recovered	Amount overdue	Amount outstanding
Sonali Bank	2.00	0.80	0.45	2.05

Projects under RCPD

6.13 The Rural Credit Project Department (RCPD) of the Bangladesh Bank was engaged in implementation, monitoring and supervision of the following projects/schemes under the IDA Credit No. 1147-BD during 1986-87:

Lending under IDA Credit No. 1147-BD

(a) The Projects Schemes under the IDA Credit No. 1147-BD involved an amount equivalent to US $ 62.40 million (including price contingency of US $ 14.30 million). The Projects/Schemes, which were originally scheduled to end in June, 1985, were extended upto December, 1986.

Financing of Sale and Installation of Minor Irrigation Equipments

(b) Under the project for financing of sale and installation of minor irrigation equipments in Rajshahi Division a total of 2,894 STWs have been sold and installed during 1986-87. This brought the total number of STWs installed under the project to 36,628 as against the target of 39,745 to be commissioned within the projects period;

Financing of Grain Storage, Village Mechanics and Agricultural Workshop

(c) The Participating Credit Institutions (PCIs) together disbursed Tk. 130.68 lakhs for construction of 26 grain storages and Tk. 1.20 lakhs to village mechanics during the year 1986-87. There was no disbursement against agricultural workshop during the year;

Other Diversified Lending

(d) A sum of Tk. 9.32 crores was disbursed by the PCIs upto December, 1986 for financing of cattle purchase, beef fattening, rural transport, pond fishery, small scale dairy, etc.

Refinance under IDA Credit No. 1147-BD

(e) The Bangladesh Bank provided a total of Tk. 0.65 crore as refinance to the PCIs (Sonali Bank, Janata Bank, Agrani Bank and the BKB) for financing various schemes under the IDA Credit No. 1147-BD during 1986-87. The cumulative amount of refinance provided by the Bangladesh Bank to the PCIs under the IDA credit and reimbursements thereagainst received from the IDA upto the end of December, 1986 stood at Tk. 94.80 crores and Tk. 70.68 crores respectively.

Other Projects/ Schemes

6.14 Performance of other projects/schemes of the RCPD which was financed by the NCBs and the BKB out of their own resources with or without refinance facility from the Bangladesh Bank was as follows :

Rural Housing Financing Scheme

(a) Under the Rural Housing Financing Scheme introduced in January, 1984 for financing construction of semi-pucca dwelling houses in rural areas (outside the Municipal areas and Upazilla Head Quarters) the four participating commercial banks together disbursed an amount of Tk. 15.80 crores upto December 31, 1986. The scheme provides for long-term loans of Tk. 38,000.00 and Tk. 65,000.00 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 percent per annum and a repayment period of 27 years (including grace period of 2 years). The Grameen Bank also provides housing loans upto Tk. 18,000.00 per borrower for construction of simple tin-roofed houses by its members to be repaid by weekly instalments within 10 to 15 years;

Banana Plantation Financing Scheme

(b) The PCIs disbursed Tk. 1.24 lakhs and recovered Tk. 17.88 lakhs during 1986-87 under the Banana Plantation Financing Scheme which covers a total of 82 Upazillas all over the country. Since the inception of the scheme in 1980 upto the end of June, 1987, the PCIs disbursed a total amount of Tk. 3.68 crores and recovered an amount of Tk. 1.34 crores thereagainst upto June 30, 1987;

Rural Transport Financing Scheme

(c) Under the Rural Transport Financing Scheme the PCIs disbursed short and medium term loan amounting to Tk. 0.03 crore and recovered a sum of Tk. 0.16 crore during 1986-87. Cumulative disbursement of loans since the inception of the Scheme in 1981 upto the end of June, 1987 amounted to Tk. 6.89 crores against which Tk. 2.79 crores were recovered.

Shrimp Culture Financing Scheme

(d) The Shrimp Culture Financing Scheme, which was introduced in 1980, now covers Khulna, Sathkhira, Bagerhat, Chittagong, Cox's Bazar, Patuakhali, Barguna and Bhola districts. The PCIs together disbursed an amount of Tk. 5.10 crores and recovered Tk. 7.06 crores during the year 1986-87. This brought the total financing under the Scheme to Tk. 34.32 crores against which a sum of Tk. 20.22 crores was recovered upto June 30, 1987.

Rower Pump Financing Scheme

(e) Under the Rower Pump Financing Scheme, which presently covers 112 Upazillas of 33 districts, the PCIs were given a target for financing purchase of 34,245 Rower Pumps, a low cost Manually Operated Shallow Tubewell for Irrigation (MOSTI) innovated by the Mirpur Agricultural Workshop and Training School (MAWTS) involving an amount of Tk. 3.37 crores. The PCIs disbursed Tk. 1.15 lakhs and recovered Tk. 1.23 lakhs during 1986-87. Total loans disbursed under the Scheme, since its inception in December, 1982 upto the end of June, 1987, amounted to Tk. 8.78 lakhs of which, a sum of Tk. 4.08 lakhs was recovered.

Commercial Poultry (Broiler) Financing Scheme

(f) With a view to increasing supply of meat by encouraging establishment of commercial poultry farms, a credit scheme was launched in November, 1983 in some selected areas around Dhaka City. While no disbursement was made during the year, an amount of Tk. 1.35 lakhs was recovered by the PCIs during the year against their earlier disbursement of Tk. 23.39 lakhs.

Inspection of Bank Branches and Co-operatives

6.15 Agriculture Credit Inspection Department (ACID) carried out comprehensive inspection of 696 branches of the nationalised commercial banks including the Rupali Bank Ltd. and 67 branches of private banks during 1986-87. In addition, inspections were also carried out in 221 branches of the Krishi Bank, 4 branches of the Islamic Commercial Co-operative Bank Ltd. and 43 Upazilla Kendryo Samabaya Samities during the year.

Grameen Bank

6.16 The paid-up capital of the Grameen Bank was raised from Tk. 3.00 crores to Tk. 7.20 crores in July, 1986. Of the share capital, 25.0 percent would remain with the Government while 75.0 percent would be subscribed by the borrowers of the Grameen Bank.

6.17 The Grameen Bank opened 103 branches during 1986-87, raising the total number of branches to 344. Through its branches, the

Grameen Bank has extended its loan operation to 6,258 villages upto June 30, 1987. Out of this, 1,928 new villages were covered during 1986-87. A total of Tk. 65.54 crores was disbursed during 1986-87 which was 42.9 percent higher than the disbursement of Tk. 45.87 crores in the preceding year. The Grameen Bank recovered Tk. 54.08 crores or 82.5 percent of total disbursements during 1986-87 as compared to the recovery of Tk. 42.74 crores or 93.2 percent of total disbursements during 1985-86. Since its inception as a project in June, 1976, the Grameen Bank extended collateral-free loans amounting to Tk. 184.23* crores of which Tk. 146.12 crores or 79.3 percent were paid back by the borrowers in weekly instalments. During the year, the number of borrowers also increased substantially from2.00 lakhs at the end of June, 1986 to 2.78 lakhs at the end of June, 1987 of whom 2.17 lakhs or 78 percent were women. Due to the specialised system of Grameen Bank's supervision, the proportion of overdue loans remained quite low at 4.0 percent as at the end of June, 1987 as compared to 4.1 percent at the end of June, 1986.

6.18 Besides, joint venture loans totalling Tk. 1.25 crores was also disbursed during 1986-87 against which an amount of Tk. 0.94 crore was recovered. A sum of Tk. 1.68 crores was disbursed to 1,707 members of the Grameen Bank for construction of houses during 1986-87. Total disbursement of housing loans upto the end of June, 1987 stood at Tk. 4.05 crores against a total number of 3,518 loanees. The amount saved by the loanees in different accounts including Group Fund and Emergency Fund increased by Tk. 6.35 crores or 63.3 percent during 1986-87 to Tk. 17.30 crores. The Grameen Bank earned a net profit of Tk. 3.58 lakhs during 1986.

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

CHAPTER VII

FINANCING OF SMALL AND COTTAGE INDUSTRIES

FINANCING OF SMALL AND COTTAGE INDUSTRIES

The Industrial Policy- 1986

7.1 The Industrial Policy-1986 laid emphasis on promotion and development of Small and Cottage Industries (SCIs) in the country. The Policy, inter alia, provided guidelines on a wide range of issues concerning industrial finance, especially for term-lending to SCIs in the private sector. Identifying as a priority sector, the Policy envisaged a package of special incentives for the SCIs including the following :

i) concessional duty of 2.5 percent ad valorem without any sales tax for import of machinery and equipments for setting up new industries as well as for balancing, modernisation, replacement and expansion of the existing SCIs in less and least developed areas as also in the Bangladesh Small and Cottage Industries Corporation(BSCIC)industrial estates;

ii) opening of a separate window by the DFIs and commercial banks for financing the SCIs;

iii) requirement of setting apart a definite percentage of resources by the DFIs and commercial banks for development of SCIs;

iv) provision for a low debt-equity ratio of 80:20 for the SCIs;

v) provision for introduction of a Small Entrepreneurs Credit Guarantee Scheme under the joint sponsorship of the BSCIC and the Sadharan Bima Corporation;

vi) provision for income tax rebate to the SCIs located in less and least developed areas linked with incremental production;

vii) provision for concessional bank finance at a simple interest rate of 10 percent per annum; and

viii) provision for arranging necessary fund by the banking system for the sick SCIs.

7.2 In accordance with the above guidelines,the Bangladesh Bank issued instructions to the commercial banks, nationalised as well as private, requiring them to:

i) gear up their term lending activities, specially for the SCI sector;

ii) finance the SCIs (to be sanctioned on or after the Ist July, 1986 and those outside the credit programmes under any foreign loan/grant, etc.) at 10 percent rate of interest per annum without any service charge or fee;

iii) set aside 5 percent of their fresh loanable funds on annual basis for investment in the SCIs;

iv) ensure appropriate and wider regional dispersal with special priority in sanctioning project loans to the less/least developed areas;

v) open separate cell in the head offices of banks to specially cater to the financial needs of the SCIs and establish a separate desk with at least one experienced officer in each of the main district level branches for handling the industrial project loan proposals;

vi) provide required working capital loan to the sanctioned projects at 14 percent rate of interest per annum;

vii) give special priority to women entrepreneurs in sanctioning loans to the SCI projects;

viii) relax the requirement of collateral in cases of entrepreneurs having special skills and technical education;

ix) take decision about sanction or otherwise in respect of industrial loan proposals within a maximum period of three months from the date of their receipt; and

x) make allout efforts to recover the overdue industrial loans.

7.3 The limit for individual loans under the Special Credit Programme for the SCIs was enhanced by the Bangladesh Bank from Tk. 2 lakhs to

Tk. 4 lakhs. Apart from assistance to be taken in connection with loan recovery efforts, banks were advised to utilise the services of the BSCIC, as far as possible, in appraisal of projects under the Special Credit Programme as well as in other credit programmes.

Financing of Small and Cottage Industries under IDA Credit

Third Small Scale Industry Project (SSI-III) under IDA Credit No. 1065-BD

7.4 Under IDA Credit No. 1065-BD which became effective from January 15, 1981, an amount equivalent to SDR 22.87 million was made available to the Bangladesh Bank for extending refinance to 3 participating credit institutions (PCIs) viz., Sonali, Janata and Agrani Banks. The Bangladesh Bank administered implementation of the Credit which completed its operations on December 31, 1986.

7.5 Under the Credit,the PCIs provided term loans for establishment of SCI projects in the private sector as per eligibility criteria set for the same. The rate of interest charged by the PCIs from the SCI borrowers was 13 percent per annum without any extra premium or service charge. The limit of individual sub-loan was 70 percent of total sub-project cost subject to a maximum of Tk. 30 lakhs. The maximum period for repayment of the individual loan under the Credit is 12 years inclusive of a grace period of 3 years. The Bangladesh Bank provided refinance 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 percent per annum.

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

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

7.6 The Bangladesh Bank provided 100 percent refinance to the PCIs against their disbursement of sub-loans to approved sub-projects. Withdrawals made by the Bangladesh Bank from the IDA Credit Account against refinance provided to the PCIs constituted the Bangladesh Bank's subsidiary loan from the Government of Bangladesh at rates of interest 2 percent below the rates at which corresponding refinance was provided. The Bangladesh Bank is to repay the subsidiary loan to the Government of Bangladesh in 15 years with a grace period of 5 years. The Government of Bangladesh shall repay the funds withdrawn from the Credit Account to the IDA in 50 years which include a grace period of 10 years.

7.7 During 1986-87, refinance in respect of 8 previously approved sub-loans was cancelled. Thus the total number of sub-loans approved for refinance since the beginning of operation of the Credit in January, 1981 upto June 30, 1987 stood at 683 involving a total amount of Tk. 61.07 crores. Size-wise and bank-wise breakdown of the sub-loans sanctioned by the PCIs are shown in Table 7.1.

TABLE 7.1

(Account 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	160	5.14	104	2.85	18	0.57	282	8.56
Above Tk. 5 lakhs & upto Tk. 15 lakhs	95	9.72	105	9.94	96	8.69	296	28.35
Above Tk. 15 lakhs & upto Tk. 30 lakhs	50	11.60	22	4.94	33	7.62	105	24.16
Total :	**305**	**26.46**	**231**	**17.73**	**147**	**16.88**	**683**	**61.07**

7.8 Of the total number of sub-projects approved under the IDA Credit No: 1065-BD, 374 sub-projects or 54.8 percent were located in Dhaka Division which accounted for 62.3 percent of total sub-loan sanctioned. Division-wise distribution of sub-loans approved for refinance under the Credit is shown in Table 7.2.

TABLE 7.2

(Amount in crore Taka)

Division	No. of Sub-Projects	% of Total	Sub-loans approved for refinance	% of Total
Dhaka	374	54.76	38,03	62,27
Chittagong	130	19.03	11,41	18,68
Khulna	50	7.32	4.58	7.50
Rajshahi	129	18.89	7,05	11,55
Total :	**683**	**100.00**	**61.07**	**100.00**

7.9 Economic classification of sub-projects financed under the above Credit shows that 71.8 percent of the amount of sub-loans approved for refinance comprised of investments in food and allied products, textiles and engineering industries. The distribution of cumulative refinance approved by the Bangladesh Bank among the major economic groups of industries is shown in Table 7.3.

TABLE 7.3

(Amount in crore Taka)

Economic Group	No. of Projects	Sub-loans approved for re-finance	% of Total
Food and Allied Products	255	16.28	26.7
Textile Industries	125	15,84	25.9
Specialised Jute Industries	2	0.10	0.2
Forest Products & Allied Industries	56	1.68	2.7
Paper, Board, Printing and Packaging	31	3.55	5.8
Tannery, Leather & Rubber	20	2,35	3.8
Chemicals, Pharmaceuticals and Allied Products	20	2.75	4.5
Glass, Ceramics & Non-Metallic Products	7	0.95	1.6
Engineering Industries	101	11.75	19.2
Miscellaneous Industries	39	4.44	7.3
Road Transports	21	0.89	1.5
Miscellaneous Cottage Industries	1	0,09	0,2
Industries N. E. C.+	5	0.40	0.6
Total :	**683**	**61.07**	**100.0**

+ N.E.C. = Not Elsewhere Classified.

7.10 As per terms of the Credit, the PCIs were individually required to make at least 40 percent of their total sanctions against sub-projects with fixed cost not exceeding Tk.10 lakhs while a maximum of 60 percent could be extended to sub-projects having fixed cost above Tk. 10 lakhs. During the project period which ended on December 31, 1986, the PCIs sanctioned subloans amounting to Tk. 39.90 crores or 65.3 percent of total sanctions against 237 sub-projects in the category of fixed cost above Tk. 10 lakhs. The share of sub-loans in this category would stand actually lower at 59 percent as against the maximum limit of 60 percent, if those sanctioned to 100 percent export-oriented industries are excluded. The sub-loans sanctioned against 446 sub-projects in the category of fixed cost upto Tk. 10 lakhs amounted to Tk. 21.17 crores or 34.7 percent of total sanctions during the project period. The bank-wise position of sub-loans approved for refinance against these two catego ries of projects at the end of the project period is shown in Table 7.4

TABLE 7.4

(Amount in crore Taka)

PCIs	Sub-projects with fixed cost upto Tk. 10 lakhs			Sub-projects with fixed cost above Tk. 10 lakhs		
	No. of Sub-pro-jects	Sub-loans approved for re-finance	As % of total sub-loans approed for refinance	No. of sub-pro-jects	Sub-loans approved for re-finance	As % of total sub-loans approved for re-finance
Sonali Bank	197	7.89	29.8	108	18.57	70.2
Janata Bank	165	7.54	42.5	66	10.19	57.5
Agrani Bank	84	5.74	34.0	63	11.14	66.0
Total :	**446**	**21.17**	**34.7**	**237**	**39.90**	**65.3**

Bank-wise position of local and foreign currency components of sub-loans approved for refinance is shown in Table 7.5.

TABLE 7.5

(Taka in crores)

PCIs	Total sub-loans approved for re-finance	Sub-loans in local currency	Local currency sub-loans as % of total (Col. 3÷2)	Tk. equivalent of sub-loans in foreign currency	Foreign currency sub-loans as % of total
1	2	3	4	5	6
Sonali Bank	26.46	15.90	60.1	10.56	39.9
Janata Bank	17.73	12.42	70.0	5.31	29.9
Agrani Bank	16.88	9.86	58.4	7.02	41.6
Total :	**61.07**	**38.18**	**62.5**	**22.89**	**37.5**

7.11 Of the total amount of Tk. 61.07 crores, Tk. 39.29 crores or 64 percent were sanctioned to 394 projects in the urban areas while the remaining amount of Tk. 21.78 crores or 36 percent went to 289 projects in the rural areas.

7.12 Total refinance provided by the Bangladesh Bank to the PCIs during 1986-87 against sub-loans extended under the Credit amounted to Tk. 10.05 crores as compared with Tk. 9.48 crores during 1985-86. The cumulative amount of refinance amounted to Tk. 57.43 crores upto June 30, 1987. The bank-wise break-up of refinance provided by the Bangladesh Bank is shown in Table 7.6.

TABLE 7.6

(Taka in crores)

PCIs	Refinance against Sub-loans disbursed		Cumulative amount of re-finance against sub-loans disbursed as on June 30, 1987
	1985-86	1986-87	
Sonali Bank	5.19	5.56	24.67
Janata Bank	1.65	0.46	16.94
Agrani Bank	2.64	4.03	15.82
Total :	**9.48**	**10.05**	**57.43**

7.13 Of the total amount of SDR 22.87 million made available to the Bangladesh Bank under IDA credit No. 1065-BD, SDR 20.15 million or 88.1 percent was utilized during the loan period ended on December 31, 1986.

Financing under NORAD Grant

7.14 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 (NOK) was 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 and the Janata Banks. According to the terms of Agreement, the amount of refinance recovered by the Bangladesh Bank is being 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, 1987 stood at Tk. 1.50 crores as shown in Table 7.7.

TABLE 7.7

PCIs	No. of SCI projects	Amount of Refinance Disbursed (Taka in crores)
Sonali Bank	1474	0.65
Janata Bank	1494	0.85
Total :	**2968**	**1.50**

Financing under Saudi Grant

7.15 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 spares, 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 Goverment appointed the BSCIC and the Janata Bank to jointly select small scale industrial projects for financing under the Grant. The Janata Bank financed 47 projects involving an amount of Tk. 11.22 crores as on June 30, 1987. Refinance provided by the Bangladesh Bank to the Janata Bank upto June 30, 1987 amounted to Tk. 8.35 crores against financing of 36 projects.

Financing of Rural and Agro-based Industries under ADB Loan No. 773-BAN (SF)

7.16 The Asian Development Bank (ADB), under loan No. 773-BAN (SF) signed with the Government of Bangladesh, agreed to provide a credit line of SDR 18.65 million for financing of rural and agro-based small scale and medium industries in Bangladesh. The Agrani Bank and the Rupali Bank were selected as the participating credit institutions under the Credit. Although there is no provision of refinancing, the Bangladesh Bank has been entrusted with the responsibilities of coordination and supervision of projects to be implemented under the Credit. The Credit became effective from July 31, 1986 and is scheduled to be completed in 2 years with a draw down period of another 1 year. The credit line can be utilized only for financing the foreign exchange cost of individual sub-projects the maximum size of which would be equivalent of US $ 1 million. The rate of interest at the sub-borrowers level is 14.5 percent per annum exclusive of the premium of 2.5 percent to be paid against exchange rate fluctuation. Although the ADB subsequently agreed to extend the credit to cover other priority areas identified in the Industrial Policy of 1986, the higher lending rate for the Credit compared to 10 percent fixed for the SCIs emerged as a major cause for its slow utilization.

Technical Assistance Project under UNDP Grant

7.17 The ADB Credit also embodies a technical assistance project for management and institutional development, funding for which has been arranged from the UNDP under a Technical Assistance Grant for US $0.65 million. The Bangladesh Bank has been entrusted with the responsibilities for implementation and supervision of the technical assistance project which include :

i) to equip the Bangladesh Institute of Bank Management (BIBM) for imparting training on appraisal and supervision of project loans to 100 bank officers each year;

ii) to provide overseas on-the-job training to 50 officers from commercial banks and the Bangladesh Bank on the management of industrial term loan portfolio; and

iii) to design and implement a comprehensive Management Information System (MIS) in one of the nationalised commercial banks for adoption by others in phases.

CHAPTER VIII

HOUSING POLICY AND HOUSE BUILDING FINANCE

Housing Policy

8.1 Government housing 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 multi-storied flats on hire-purchase system both in the public and private sector are being encouraged. 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

The House Building Finance Corporation

8.2 The Bangladesh House Building Finance Corporation (HBFC) provides financial assistance to members of the public for construction, repair and remodelling of dwelling houses and apartments in cities, towns and Upazilla headquarters. The authorised capital of the Corporation is Tk. 10 crores of which Tk. 9.83 crores has been fully subscribed and paid up by the Bangladesh Government. The main source for mobilisation of working capital of the Corporation is the sale of its Government guaranteed debentures to Bangladesh Bank, commercial banks and the Insurance Corporation. To cater to the need for different groups of people, the Corporation provides house building finance under two separate programmes viz. (i) General Loan Programme for single unit buildings and (ii) Multi-storied Loan Programme for construction of multi-storied apartment houses. Loans are secured by mortgage of land and the building to be constructed thereupon.

General Loan Programme

8.3 Under the General Loan Programme, the Corporation extends upto Tk. 6 lakhs for construction of a self contained single unit house with a repayment period of 25 years. The loan bears 13 percent (simple) interest per annum on the first Tk. 4 lakhs and 16 percent (simple) interest per annum on additional Tk. 2 lakhs. The margin of investment required to be made by the intending borrowers has been fixed at 10 percent. Under this programme, the Corporation sanctioned 3,020 loan cases for a total of Tk. 98.54 crores during 1986-87 as compared with 1,903 loan cases sanctioned for a total of Tk. 66.88 crores in the previous year. Actual disbursement of loans under this programme during 1986-87 stood at Tk. 76.33 crores as against Tk. 52.72 crores disbursed in 1985-86. The outstanding amount of loans under this programme stood at Tk. 499.66 crores (including interest) at the end of June, 1987 as compared to Tk. 403.58 crores (including interest) at the end of June, 1986

Multi-storied Loan Programme

8.4 Under the Multi-storied Loan Programme, the HBFC sanctions upto Tk. 7 lakhs and Tk. 8 lakhs for construction of multi-unit buildings with covered areas of 800 sft. and 1000 sft. respectively in each floor, excluding staircase and balcony. The loan is allowed for construction of 4-storied buildings in Dhaka, Narayanganj, Chittagong and Khulna and 3-storied buildings in other areas. The rate of interest on this loan is 10.5 percent (simple) per annum with a maximum repayment period of 30 years. The margin of investment by the borrowers is 2.5 percent for buildings with floor spaces of 800 sft. and 10 percent for those having floor spaces of 1000 sft. The Corporation sanctioned a total of Tk. 80.86 crores against 1,272 loan cases comprising 4,663 housing units during 1986-87. This compared with 786 loan cases comprising 2,895 housing units sanctioned for a total of Tk. 53.35 crores during 1985-86. Of the total loans sanctioned during 1986-87, Tk. 48.69 crores or 60.1 percent was sanctioned for construction of 2,924 housing units in the Dhaka zone. The amount of loan and the number of housing units sanctioned for Rajshahi, Chittagong and Khulna zones were Tk. 11.91 crores for 654 housing units, Tk. 10.59 crores for 579 housing units and Tk. 9.67 crores for 506 housing units respectively. Actual disbursement of loans under the Programme during 1986-87 stood at Tk. 63.37 crores as compared to Tk. 73.08 crores disbursed during 1985-86. The total amount of loans disbursed under this Programme since its introduction in July, 1977 upto June 30, 1987 stood at Tk. 484.52 crores against which Tk. 576.43 [P] crores (including interest) remained outstanding.

Concessionary Loan Facility for Upazilla

8.5 In accordance with the Government decision, the Corporation continued to extend house building loans at a very concessional rate of interest of 5 percent (simple) per annum in Upazilla levels with a repayment period of 30 years. Total amount of loans disbursed by the HBFC under this concessionary system during 1986-87 stood at Tk. 6.68 [P] crores as compared to Tk. 10.07 crores in 1985-86.

Sanction, Disbursement, Recovery and Outstanding of the HBFC Loans

8.6 The total amount of loans sanctioned and disbursed by the HBFC under all the above programmes during 1986-87 stood at Tk. 179.40 crores and Tk. 139.70 crores respectively. These compared with the sanction and disbursement of Tk. 120.23 crores and Tk. 125.80 crores respectively during 1985-86. Upto June, 1987, the HBFC sanctioned a total of Tk. 1,112.21 crores for construction of 72,733 housing units against which an amount of Tk. 934.56 crores was disbursed. The Corporation recovered a total amount of Tk. 44.83 crores during 1986-87 as compared to Tk. 38.17 crores during the preceding year. The amount of HBFC loans outstanding against all programmes as on June 30, 1987 stood at Tk. 1076.09 [P] crores as compared to Tk. 891.22 crores as on June 30, 1986. The amount of overdue loans stood at Tk. 150 [P] crores or 13.9 percent of outstanding at the end of June, 1987 as compared to Tk. 120.33 crores or 13.5 percent of outstanding at the end of June, 1986.

P = Provisional

Debenture Source of the HBFC Finance

8.7 Total funds raised by the HBFC upto June 30, 1987, through sale of debentures to the Bangladesh Bank, the commercial banks and the Sadharan Bima Corporation stood at Tk.1,094.33 crores which included Tk. 198.00 crores raised during 1986-87. The Bangladesh Bank's financing of the HBFC debentures amounted to Tk. 753.85 crores upto June 30, 1987 and the remaining amount of Tk. 340.48 crores was financed by the commercial banks and the Sadharan Bima Corporation.

Commercial Bank's Financing of House Building

8.8 In pursuance of the Government policy the commercial banks have been inducted to play an important role in stimulating private sector investment in house building activities. Commercial banks were advised by the Bangladesh Bank to treat housing as a priority sector and provide necessary finance for the same. The commercial banks were allowed to extend upto Tk. 5 lakhs (inclusive of any loan from the HBFC) for construction of residential houses as well as commercial buildings against the mortgage of real estate. Banks may, however, advance beyond Tk. 5 lakhs in appropriate cases with prior approval of their respective Board of Directors. The above loan facility may also be provided for purchase of flats/apartments measuring upto 1500 sft. constructed by private housing societies/real estate companies to the extent of 80 percent of total cost or purchase price as the case may be. The maximum repayment period of the loan was enhanced from 12 years to 15 years with effect from August 11, 1986 while the rate of interest remained unchanged at 16 percent per annum.

8.9 Loans disbursed by the nationalised commercial banks in the housing sector during 1986-87 totalled Tk. 12.87 crores as compared to Tk. 4.95 crores disbursed during the preceding year. The private banks extended Tk. 1.36 crores as housing loans during 1986-87 which include Tk. 0.66 crore provided by the foreign banks operating in Bangladesh. Total outstanding loans provided by the nationalised commercial banks, private banks and the foreign banks operating in Bangladesh stood at Tk. 86.14 crores as on June 30, 1987.

Rural Housing Financing Scheme of the Bangladesh Bank

8.10 Rural Housing Financing Scheme of the Bangladesh Bank introduced in January, 1984 continued to be in operation during 1986-87. Under the Scheme, long-term loans of Tk. 38,000 and Tk.65,000 are allowed to the borrowers in rural areas of the country (except municipal areas and Upazilla headquarters) for construction of semi-pucca/pucca dwelling houses strong enought to withstand natural calamities having plinth area of 250 sft. and 425 sft. respectively. The loan is limited to those who have less than 3 acres of cultivable land and whose annual income is not more than Tk. 15,000. Government as well as bank employees are not eligible for this loan. The rate of interest on such loans has been fixed at 5.0 percent per annum with a repayment period of 27 years including a grace period of 2 years. The Bangladesh Bank provides 100 percent refinance to the participating commercial banks (PCBs) namely, Sonali, Janata, Agrani and Rupali Banks at an interest rate of 3.0 percent per annum. Since introduction of the Scheme upto December 31, 1986 the PCBs reported disbursement of a total of Tk. 15.80 crores for construction of 2,827 houses in the rural areas. As against the refinance claims of Tk. 10.69 crores by the PCBs against constructionof 1,826 houses, the Bangladesh Bank disbursed a sum of Tk. 5.96 crores against construction of 1,035 houses. Claims for Tk. 4.57 crores extended against 763 houses were cancelled on account of irregularities of the cases while that for Tk. 0.16 crore against 28 houses were under consideration of the Bangladesh Bank upto the end of June, 1987.

Financing through Grameen Bank

8.11 House building loans were also provided by the Grameen Bank. An amount of Tk. 1.68 crores for financing constructionof houses by its members was disbursed by the bank during 1986-87

CHAPTER IX

PUBLIC FINANCE

PUBLIC FINANCE

Mobilisation of Domestic Resources

9.1 The budget for 1986-87 sought to achieve increased mobilisation of domestic resources attuned to augment investments and domestic production while maintaining the necessary flow of imports into the country. Fiscal incentives were provided in the budget for increased investments thereby creating increased employment opportunities as well as for boosting up exports. Protections for healthy growth of import substituting industries were given in the budget for 1986-87. Measures were taken for increasing the efficiency of tax administration by simplification of rules and rationalisation of rates for increasing the revenue collections. Various rates of allowances and rebates on income taxes were enhanced with a view to raising income and thereby encouraging private savings and investments in the country.

Budget, 1986-87

9.2 The budget for 1986-87 envisaged total revenue receipts of Tk. 48.40 crores and total revenue expenditures of Tk. 3740 crores, with a revenue surplus of Tk. 1100 crores. The budget estimates for the year were subsequently revised, placing revenue receipts lower by Tk. 123 crores to Tk. 4717 crores while revenue expenditures higher by Tk. 216 crores to Tk. 3956 crores, yielding a smaller surplus of Tk. 761 crores.

Revised Budget, 1986-87

9.3 The revised budget estimate for 1986-87 showed decline in revenue receipts under the following heads : sales tax (-Tk. 108.85 crores to Tk. 550 crores), excise duties (-Tk. 90.65 crores to Tk. 900 crores), railway (-Tk. 54.90 crores to-Tk. 104 crores), customs duties (-Tk.48.15 crores to Tk. 1550 crores), other taxes (-Tk. 18.50 crores to Tk. 13 crores) and other non-revenue receipts (-Tk. 68.04 crores to Tk. 137 crores). The above decline in revenue was partly offset by increased revenue receipts under dividends and profits from public financial institutions and non-financial public enterprises (+Tk. 104.23 crores to Tk. 349 crores), general administration (+ Tk. 36.78 crores to

Tk. 99 crores), capital revenue receipts* (+ Tk. 27.60 crores to Tk. 59 crores), interest income (+ Tk. 20 crores to Tk. 200 crores), Stamp and registration (+ Tk. 19.25 crores to Tk. 205 crores) and residual items (+ Tk. 67.36 crores to Tk. 763 crores).

9.4 The major heads under which increased revenue expenditures were shown in the revised budget for 1986-87 were : Social and Community Services (+ Tk. 96.14 crores to Tk. 337 crores), Defence (+ Tk. 79.66 crores to Tk. 739 crores), Education (+ Tk. 50.14 crores to Tk. 747 crores), Health and Population Control (+ Tk. 33.61 crores to Tk. 275 crores), General Administration and Services (+ Tk. 35.78 crores to Tk. 260 crores), Police and BDR (+ Tk. 28.09 crores to Tk. 289 crores), Interest on Foreign Debt (+Tk. 15.96 crores to Tk. 240 crores), Grants in Aid/Contributions (+ Tk. 13.46 crores to Tk. 79 crores), Organs of Government (+ Tk. 13.89 crores to Tk. 32 crores), Agriculture and Allied Services (+ Tk. 10.84 crores to Tk. 128 crores), Industries and Mining (+ Tk. 8.05 crores to Tk. 20 crores), Secretariat (+ Tk. 6.35 crores to Tk. 55 crores), Foreign Affairs (+Tk. 4.46 crores to Tk. 62 crores) and Other items (+ Tk. 15.29 crores to Tk. 510 crores). These increases were partly offset by declines in Unexpected Expenditures (-Tk. 123.09 crores to Tk. 2 crores), Subsidies (-Tk.70.50 crores to Tk. 69 crores) and Fiscal Services (-Tk. 2.13 crores to Tk. 114 crores).

ADP for 1986-87

9.5 The size of the Annual Development Programme (ADP) for 1986-87, which was originally placed at Tk. 4,764 crores, was subsequently revised downward by Tk. 250.62 crores to Tk. 4,513.38 crores. In the revised budget, total foreign assistance for financing the ADP was placed lower by Tk. 77.51 crores to Tk. 3701.49 crores. The shortfall was due to lower receipts of Tk. 2328.49 crores (-Tk. 185.51 crores) under project aid and Tk.1100.00 crores (-Tk. 235.00 crores) under non-project assistance which was largely offset by the receipt of Tk. 160 crores as against the negative entry of Tk. 183 crores under the

* Receipts from disinvested industries and sale of other Govt. properties

head 'Advance Expenditure/Receipts.' Domestic financing for the ADP was also revised downward to Tk. 811.89 crores including the revenue surplus of Tk. 761 crores, net domestic capital of (-) Tk. 13.11 crores, deficit of Tk. 136 crores in the food budget and extra-budgetary resources of Tk. 200 crores.

Budget Estimate for 1987-88

9.6 The budget estimates for 1987-88 placed revenue receipts at Tk. 4915 crores and expenditures at Tk. 4481 crores, thus showing a revenue surplus of Tk. 434 crores (including new taxes of Tk. 371 crores). Of the total revenue receipts, customs duties are estimated to yield Tk. 1,625 crores, excise duties Tk. 996 crores, income tax Tk. 635 crores, sales tax Tk. 540 crores, and stamps (Non-Judicial) Tk. 152 crores. The non-tax revenue receipts include : interest income Tk. 210 crores, dividend and profits from public financial institutions Tk. 185.36 crores, general administration and services Tk. 91.51 crores, dividend and profits from non-financial public enterprises Tk. 90 crores and agriculture and allied services Tk. 59.52 crores. Of the total revenue expenditures, education and defence account for Tk. 775.62 crores and Tk. 768.50 crores respectively. Other major heads of expenditures are : social and community services Tk. 342.61 crores , interest on foreign debt Tk. 298.79 crores, health and population control Tk. 289.05 crores, unexpected expenditures Tk. 253 crores, interest on domestic debt Tk. 218.83 crores, police Tk. 201 crores, general administration Tk. 152.09 crores, agriculture and allied services Tk. 132.75 crores, general services Tk. 129.53 crores, fiscal services Tk. 125.13 crores, subsidies Tk. 119.29 crores,pensions and retirement benefits Tk. 105.50 crores, BDR Tk. 95.10 crores and foreign affairs Tk. 91.11 crores.

ADP for 1987-88

9.7 The size of the Annual Development Programme (ADP) for 1987-88 has been estimated at Tk. 5046 crores. This shows an increase of Tk. 532.62 crores or 11.8 percent over Tk. 4513.38 crores of the revised ADP for 1986-87. Of the total outlay, Tk. 883.16 crores(17.5%) has been allocated for Power, Tk. 559.53 crores (11.1%) for Water Resources, Tk. 555.89 crores (11.0%) for Industries , Tk. 499.34 crores

(9.9%) for Transport and Tk. 370 crores (7.3%) for Upazila infrastructure and assistance to Upazila Parishads. Allocations for agriculture, education and religion and self-finance schemes of autonomous bodies were Tk. 354.49 crores (7.0%), Tk. 286.61 crores (5.7%) and Tk. 252. 34 crores (5.0%) respectively. The other heads of allocations are : Oil, gas and natural resources Tk. 232.77 crores (4.6%), physical planning, water supply and housing Tk. 213.60 crores (4.2%), rural development Tk. 181.40 crores (3.6%), population and family planning Tk. 175.35 crores (3.5%). An amount of Tk. 481.52 crores (9.5%) has been allocated for other sectors. The Annual Development Programme for 1987-88 envisages a total foreign assistance of Tk. 4,304 crores or 85.3 percent of the total outlay as against 82 percent in the revised ADP for 1986-87.

Fiscal Measures

9.8 Some of the important fiscal measures of the budget for 1987-88 are as under :

Import Duties and Sales Tax

i) A mid-term revision of unified rate of 20 percent import duty with 10 percent sales tax on B.P. sheet will remain in force during 1987-88.

ii) Sales tax on G.P. and C.I. sheets has been reduced from 20 percent to 10 percent. The regulatory duty on G.P. sheet has been withdrawn.

iii) The import duty on M.S. Strips has been reduced from 100 percent to 30 percent while duty on M.S.rods has been reduced to 50 percent. Duty on M.S. billets has been reduced from 50 percent to 30 percent with a new sales tax of 20 percent.

iv) Duty on silicon sheet, high carbon steel and high speed steel has been reduced from 50 percent to 20 percent and that on tin sheets and stainless steel sheets from 50 percent to 30 percent. Sales tax on high carbon steel and high speed steel has been reduced to 10 percent while that on silicon sheets has been fully exempted.

v) Sales tax on copper rods has been totally exempted and tax on copper wires has been reduced to 10 percent. Duty on electric motors, transformers and chokes has been reduced to 50 percent. The import duty on electronic components and parts imported in disconnected form has been reduced from different high rates to a lower flat rate of 10 percent;

vi) Import duty on aluminium sheets, plate and strips and brass tubes and sheets has been reduced from 50 percent to 30 percent. The duty on glass sheets of 5 mm or more in thickness has been reduced from 100 percent to 50 percent.

vii) Various concessionary rates of import duty for import of different categories of buses, mini-buses and autorikshaws have been proposed while in some cases sales taxes have been totally exempted. The duty on spare parts of vehicles has been reduced from 100 percent to 50 percent and in some cases to 20 percent. The duty and sales tax on tyres and tubes have been reduced from 50 percent and 20 percent to 20 percent and 10 percent respectively. However, the existing concession on taxicab has been withdrawn. Duty on refrigerated van has been reduced to 10 percent with total exemption of sales tax.

viii) The regulatory duty on yarn and sewing thread has been withdrawn. The duty rates on stretch nylon yarn and metalized zari have been reduced from 50 percent and 100 percent to 20 percent and 50 percent respectively. The duty on woollen fabrics has been reduced from 150 percent to 100 percent. A duty of 50 percent has been imposed on jersy and track suits.

ix) Import duty on acetate tow has been proposed to be reduced from the existing rate of 50 percent while sales tax on textile dyes has been reduced from 20 percent to 10 percent.

x) Import duty and sales tax on raw rubber and PVC resin powder have been reduced to 20 percent and 10 percent respectively, while the duty on thermoplastic moulding compound, refined clay, etc. has been reduced to 30 percent. Import duty on duplex boards and plastic tubes, pipes and rods has been reduced from 100 percent to 50 percent.

xi) Import duty on unbreakable glass and oven proof glass has been reduced from 150 percent to 50 percent. Regulatory duty on tyres and tubes of bicycles and cycle rickshaws has been withdrawn. The duty on paints and varnishes has been reduced from 150 percent to 100 percent. Import duty on pulp and waste paper has been revised upward to 30 percent.

xii) Customs duties and sales taxes have been exempted on imports of beverage concentrates, rayon pulp and other raw materials by Karnafully Rayon Complex. Concessional import duty with sales tax exemptions have also been allowed in respect of certain other importable basic chemicals.

xiii) Import duty on timber has been reduced from 150 percent to 30 percent while that on facsimile machines and polishing stones from 100 percent to 50 percent.

xiv) Import duty on shadowless operation lamps and other electro-medical apparatus has been reduced to 20 percent with full exemption of sales tax.

xv) The duty on powdered milk imported in bags has been enhanced from 10 percent to 20 percent. The regulatory duty on powdered milk in tin container has also been increased from 2.5 percent to 5 percent and sales tax of 10 percent has been imposed on condensed and other milk.

Excise Duty :

i) Excise duties on wires and cables have been unified and fixed at 10 percent, while that on nuts, bolts and screws have been exempted.

ii) Excise duty of 10 percent has been imposed on refrigerators, air coolers and water heaters.

iii) Excise duty on tea, machine made fabrics, T.V., drycell batteries, electric bulbs, fluorescent tubes has been increased. The tariff value of sugar has also been increased.

iv) Price of gas supplied for generation of electricity, production of fertilizers and for commercial use has been raised by 30 percent and that for domestic use by 25 percent.

Direct Taxes :

i) Exemption limit of income taxes in respect of individual class of assessees has been raised from Tk. 30,000 to Tk. 36,000, while that limit for compulsory submission of statement of assets, liabilities and expenses from Tk. 80,000 to Tk. 1,00,000. The depreciation allowances for motor vehicles used for business and profession has been raised from Tk. 2,50,000 to Tk. 3,00,000.

ii) The exemption limit for transfer of non-agricultural property valued upto Tk. 1,00,000 has been withdrawn.

iii) Income tax has been exempted for all dividends in respect of shareholders other than companies.

iv) Income taxes of the companies have been reduced by 5 percent.

Other Taxes :

i) The exemption of foreign travel taxes enjoyed by some selected group of Bangladeshi passengers has been withdrawn.

ii) The rates of land development tax have been proposed to be increased. The existing 6 slabs of holdings will be reduced to 4 slabs and the minimum tax on agricultural land will be raised from Tk. 1.00 to Tk. 2.00 per holding.

iii) Railway fares have been increased by 10 percent for second and third classes.

iv) Foreign postal rates and internal fees as well as the postal rates for certain domestic mails have been proposed to be increased.

v) Admission fees for indoor and outdoor patients for Medical College Hospitals and Specialised Hospitals have been introduced. Charges for bed and cabin in Government Hospitals, as well as levy on private clinics have been proposed to be raised.

vi) Tution fees for Government educational institutions have been raised to yield an additional amount of Tk. 3 crores annually.

Government Borrowings

9.9 The outstanding balance against "Two-Year Special Treasury Bond" with reissue of Tk. 60 crores during 1985-86 stood at Tk. 61.38 crores as on June 30, 1987 as compared to Tk. 73.88 crores as on June 30, 1986.

9.10 The outstanding amount against the 11 percent Government of Bangladesh loan 1992 floated in October, 1982 remained at the last year's end level of Tk. 63.75 crores as on June 30, 1987.

9.11 The outstanding balance of Non-Banking Treasury Bills @ 9.0 percent discount stood at Tk. 16.08 crores as on June 30, 1987 as against Tk. 0.88 crore as on June 30, 1986.

9.12 The Government put on sale "National Bond for Non-Bank Investors" from December 1, 1985 which remained open for sale upto September 15, 1986. The total value of Bonds sold stood at Tk. 162.80 crores as on June 30, 1987 against Tk. 148.60 crores as on June 30, 1986.

9.13 The outstanding amount of the revalidated 5.0 percent Income Tax Bonds of the erstwhile Pakistan Government held by Bangladeshi nationals and institutions remained unchanged at Tk. 0.76 crore as on June 30, 1987.

9.14 The amount of G.P. Notes/Stocks Certificates and 5.0 percent Defence Bonds of the erstwhile Pakistan Government and its Provincial Governments held by Bangladeshi nationals and institutions, liabilities of which have been accepted by the Government of Bangladesh but awaiting redemption remained unchanged at Tk. 2.80 crores as on June 30, 1987.

9.15 The amount of 5.0 percent Non-Negotiable Bonds issued by the Government of Bangladesh to the share-holders of nationalised industries as compensation stood at Tk. 13.59 crores as on June 30, 1987 as against Tk. 13.19 crores as on June 30, 1986. As against the total bonds issued, an amount of Tk. 13.21 crores has been paid as maturity value leaving an outstanding balance of Tk. 0.38 crore as on June 30, 1987.

9.16 The amount of 8.0 percent Savings Bond issued by the Government of Bangladesh against 100 Taka demonitised Notes stood at Tk. 1.87 crores as on June 30, 1987 as against Tk. 1.86 crores as on June 30, 1986. Out of this, payment of maturity value has been made for a total of Tk. 1.73 crores, leaving an outstanding balance of Tk. 0.14 crore as on June 30, 1987.

9.17 The amount of Wage Earners' Development Bonds sold by different banks stood at Tk. 55.10 crores as on June 30, 1987 as against Tk. 29.50 crores as on June 30, 1986. Out of these, payment of surrender value has been made for a total of Tk. 4.69 crores, leaving a balance of Tk. 50.41 crores as on June 30, 1987.

Bangladesh Savings Certificates and Bangladesh Sanchaya Patras

9.18 The net encashment of both Bangladesh Savings Certificates and Bangladesh Sanchaya Patras through the banking sector stood at Tk. 18.49 crores as on June 30, 1987 as against Tk. 18.29 crores as on June 30, 1986. The sale of above Savings Certificates and Sanchaya Patras was discontinued from December, 1977.

Pratirakha Sanchaya Patras

9.19 The net sale of Pratirakha Shanchaya Patras through the banking sector amounted to Tk. 276.84 crores as on June 30, 1987 as againstTk.238.19croresas on June 30,1986. Sale and encashment of Pratirakha Sanchaya Patras by the banking sector during the year under report were Tk. 48.94 crores and Tk. 10.50 crores respectively. The net sale of Pratirakha Sanchaya Patras through Post Offices stood at (-) Tk. 1.02 crores during 1986-87 as compared to - Tk. 3.83 crores during 1985-86.

Bonus Sanchaya Patras

9.20 The net sale of Bonus Sanchaya Patras through the banking sector amounted to Tk. 19.27 crores as on June 30, 1987 against Tk. 16.41 crores as on June 30, 1986. Sale and encashment of Bonus Sanchaya Patras during 1986-87 were Tk. 6.03 crores and Tk. 3.17 crores respectively. The net sale of Bonus Sanchaya Patras through Post Offices stood at Tk. 0.71 crore during 1986-87 as against Tk. 0.50 crore during 1985-86.

5-Year Bangladesh Sanchaya Patras

9.21 The net sale of 5-Year Bangladesh Sanchaya Patras through the banking sector amounted to Tk.24.86 crores as on June 30, 1987 as against Tk. 15.79 crores as on June 30, 1986. Sales and encashment of 5-Year Bangladesh Sanchaya Patras during the year under report were Tk. 10.18 crores and Tk. 1.11 crores respectively. The net sale of 5-Year Bangladesh Sanchaya Patras through Post Offices stood at Tk. 2.62 crores during 1986-87 as against Tk. 1.18 crores during the previous year.

Bangladesh Prize Bonds

9.22 The progressive net sale of 10-Taka Bangladesh Prize Bonds amounted to Tk. 14.73 crores as on June 30, 1987 as compared to Tk. 14.39[R] crores as on June 30, 1986. Fifty one series of Prize Bonds were put on sale upto June 30, 1987. The progressive net sale of 50-Taka Prize Bonds introduced from October 30, 1985 amounted to Tk. 16.90 crores as on June 30, 1987. Eight Series of the Bonds were put on sale upto June 30, 1987. Bi-monthly prize draws are held for both the Bonds in alternate months under the single common draw system.

Sale of Savings Instrumentsto Bangladeshi Wage Earners Serving Abroad

9.23 The sale of Prize Bonds and Sanchaya Patras to Bangladeshi Wage Earners in the U.A.E. and the U.K. remained the same in 1986-87 at the previous year's level of Tk. 0.43 crore and Tk. 0.01 crore respectively.

R = Revised

CHAPTER X

INTERNATIONAL ECONOMIC COOPERATION AND INVESTMENT PROMOTION

INTERNATIONAL ECONOMIC COOPERATION AND INVESTMENT PROMOTION

10.1 In an environment of decelerating world output growth and intensification of protectionist pressures leading to reduced aid flows to the developing countries, specially to the least developed countries, the role of international economic cooperation in promoting and accelerating the pace of economic development assumed greater importance during 1986-87. Bangladesh played an important role through active participation in a number of international meetings/conferences during 1986-87 and upholding the issues and interests of the developing countries.

Commonwealth Finance Ministers' Meeting

10.2 The Commonwealth Finance Ministers' Meeting was held in Castries, the capital of St. Lucia on September 23-25, 1986. The Bangladesh delegation circulated papers on : (i) Adjustment Measures and Resource Flows; and (ii) Commodity Prices in connection with the Meeting's main agenda "Current World Economic Situation and Problems including the IMF and the World Bank Questions".

Commonwealth Senior Officials' Meeting

10.3 The Commonwealth Senior Officials' Meeting was held in Dhaka from December 3-5, 1986. The meeting, inter-alia, discussed matters relating to increasing Commonwealth cooperation in different fields, specially, through the Commonwealth Fund for Technical Cooperation (CFTC). A new subject of cooperation on which the Senior Officials' discussion was focussed on the role of women in development. Two new Projects, namely (i) Television Exchange Programme among Commonwealth Member States, and (ii) Establishment of a Commonwealth Open University were discussed in the meeting. The meeting also decided to designate 1987 as the international year of action for shelter of the homeless.

IMF-World Bank Annual Meetings, 1986

10.4 The IMF-World Bank Annual Meetings of 1986 in Washington D.C. were held from September 25-October 3, 1986. The leader of the Bangladesh delegation highlighted policy options on the main issues confronting world economic development in general and promotion of growth in the developing and the least developed countries in particular, in the light of past experiences and future aspirations. Pointing to the current world economic situation as characterised by grave payment imbalances, and negative resource transfers, Bangladesh delegation highlighted the need for enhancing the role of the IMF and the World Bank for reviving international capital flows of all kinds and to adopt appropriate allocation criteria in terms of UN classification. The need for a substantial increase in the volume of ODA rather than for its mere redirection was also emphasised. The delegation also brought into focus the following issues relating to long-term capital inflows : (i) maintenance of basic character of the IDA as a source of concessional flows ; (ii) early implementation of General Capital Increase of the Bank; (iii) supporting the Structural Adjustment Facility with less conditionality; (iv) diversification of the IFC programme to promote private investment in poorer countries; and (v) manipulating allocation and post allocation of SDRs so as to improve the supply and distribution of international liquidity.

UNCTAD-Trade and Development Board Thirty-third Session

10.5 The thirty third session of the Trade and Development Board (TDB) of the UNCTAD was held in Geneva during September 1-12 and October 3, 1986. The Board had three major items on its agenda : (a) an assessment of the interdependence of trade, development finance and the international monetary system, including debt and development problems of developing countries; (b) a review of protectionism, structural adjustment and the pattern of international trade; and (c) the question of agenda, organisation, venue and duration of the UNCTAD-VII. The spokesman for the Group of 77 stated that the deflationary policies of the major market-economies with the concomitant vices of depressed demand and commodity prices in recent years had severely hampered the adjustment efforts undertaken by the developing countries in stepping up savings and investments, and to increase the competitiveness of their industries. The spokesman upheld that the creditor countries could contribute more effectively to the solution of the debt crisis by lowering interest rates, granting liberal grace and repayment periods on existing debt, increasing the ODA flows, raising commodity prices, and eliminating protectionist measures and subsidies curbing the flow of international trade. The Bangladesh representative expressed concern about the lack of progress in the establishment of a complementary facility to compensate for shortfalls in commodity export earnings.

Ministerial Level Meeting of the Asian Group of 77

10.6 The Sixth Ministerial Level Meeting of the Asian Group of 77 was held in Dhaka from 14–16 March, 1987. The Meeting discussed issues relating to resources for development, commodity prices, international trade and problems of the Least Developed Countries (LDCs). The meeting also called for concerted efforts by the developed and developing countries as partners in progress to reconstruct international economic relations based on equity, harmony and universality. The delegates made a strong appeal to all concerned in the forthcoming UNCTAD–VII scheduled in Geneva in July, 1987 for demonstrating 'genuine political will' to launch a constructive dialogue to overcome the world economic crisis and to revitalise development and growth, particularly of the developing countries. The Dhaka Declaration which was adopted on the last day of the session highlighted the interdependence of countries and interlinkages of issues and problems. Illuminating the Asian perspective of the present world economic crisis, the Declaration prescribed the possible policies and measures for its solution, while expressing its serious concern over the continuing and increasing erosion of multilateralism and its substitution by bilateral arrangements, the Declaration unequivocally upheld the 'multipolarity' nature of the world economy.

The ESCAP Session

10.7 The forty–third Session of the Economic and Social Commission for Asia and the Pacific (ESCAP) was held in Bangkok from April 21–30, 1987. The participants made a thorough review and appraisal of the developments in the ESCAP region, including implementation of the International Development Strategies (IDS) and the Substantial New Programme of Action(SNPA) of the 1980s for the LDCs.

Sixth Ministerial Meeting of the Group of 77

10.8 The Sixth Ministerial Meeting of the Group of 77 which was held in Havana from April 20-25, 1987 called for establishment of a new international economic system based on the principles of equity and justice as well as on sovereign right of states. The Declaration characterized the 1980s as the "lost decade of development" as the world economy swings downwards and the developing countries suffer mounting debt burden and steep fall in commodity prices.

Seventh Meeting of Governors of the Central Banks and Monetary Authorities of OIC Member States

10.9 The Seventh Meeting of Governors of the Central Banks and Monetary Authorities of the OIC Member States was held in Istambul, Republic of Turkey, on 30-31 March, 1987. The Economic Adviser, Bangladesh Bank attended the meeting on behalf of the Governor, Bangladesh Bank and the outgoing Chairman of the Sixth Meeting of Governors, which was held in Dhaka in February, 1985. The meeting examined the report prepared by the IDB on promotion of financial markets in member countries and development of financial instruments and mechanism conforming to Islamic principles. The meeting also considered the reports of the IDB on Export Credit Guarantee Scheme and Multilateral Islamic Clearing Union. The Governors commended the Report of the Expert Level Meeting on Islamic Banking held in Dhaka in May, 1986 and felt that the Central Banks and Monetary Authorities should take appropriate action for promotion, consolidation, control and regulation of Islamic banks according to their individual circumstances.

The 16th SEANZA Central Banking Course and SEANZA Central Bank Governors' Symposia

10.10 The 16th SEANZA (South East Asia, New Zealand and Australia) Central Banking Course was held in Dhaka during October 13 to December 18, 1986. The course was attended by 28 participants and 6 directing staff from 20 countries including Bangladesh. Thirty-three Visiting Specialists both from Bangladesh and abroad delivered lectures on different subjects. The main purpose of the Course, among other things, was to provide an opportunity to the middle and senior level officials of central banks with potential to exchange their experience, expertise, ideas and interact among themselves and with highly qualified and highly regarded Visiting Specialists and thereby, improve their professional capability, breadth of vision and responsiveness in the fast moving national and international financial and banking environment. As a component of the Course, the SEANZA Central Bank Governors' Symposia was held during December 15–17, 1986. The Governor of the Bangladesh Bank inaugurated the Symposia. Governors of the Central Banks of Australia, Bangladesh, Indonesia, India, Japan, Korea, Malaysia, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines and Sri Lanka and other senior executives from Central Banks of other SEANZA countries participated in the Symposia. Different issues and problems of central banks and its relationship with various agencies were highlighted in the Symposia.

Investors' Forum-1987

10.11 An "Investors' Forum -1987" was organised in Dhaka from January 19-22, 1987 by the Government of the People's Republic of Bangladesh in collaboration with the United Nations Industrial Development Organisation (UNIDO) and the United Nations Development Programme(UNDP) for promotion of foreign investments in profitable projects in Bangladesh. About 193 foreign participants representing 159 foreign companies based in 30 countries and 450 local sponsors joined in the Forum. Besides, 37 observers from different international organisations and bodies also attended the Forum. Out of a total of 135 project profiles placed before the Forum, the local sponsors and foreign participants signed Memorandum of Understanding (MOU) in respect of 51 projects for joint investments. Forty-five additional MOUs were signed between local sponsors and foreign investors by the end of June, 1987.

Bangladesh Export Processing Zones Authority (BEPZA)

10.12 The Chittagong Export Processing Zone (CEPZ) has been expanded further during 1986-87. Till the end of June, 1987, 34 industrial units which include garments, jute and specialized textiles, electronics, engineering, chemicals, leather products and service industries have been sanctioned by the BEPZA with total investment of US $ 26.17 million.

CHAPTER XI

BALANCE OF TRADE AND PAYMENTS

BALANCE OF TRADE AND PAYMENTS

Trade Balance

11.1 The balance of trade (visible exports less visible imports) of the country recorded deterioration during 1986-87. The deficit in the trade balance which had stood at $ 1455 million or Tk. 4348.5 crores in 1985-86 increased to $ 1600 million or Tk. 4961.47 crores in 1986-87, showing a deterioration of $ 165 million. This was due mainly to larger import payments of $ 2620 million during the year which was 10.8 percent higher than $ 2364 million in 1985-86. In Taka terms, import payments stood 13.6 percent higher at Tk. 8026.0 crores during 1986-87 as compared to Tk. 7065.1 crores in the preceding year. Export receipts at $ 1000 million in 1986-87 was $ 91 million or 10.0 percent higher than $ 909 million in 1985-86 . In Taka terms, export receipts stood 12.8 percent higher at Tk. 3064.3 crores in 1986-87 as compared to Tk. 2716.6 crores in the preceding year.

Import Payments

11.2 During 1986-87, imports financed by Cash (including POL imports), Barter and Special Trade, Wage Earners' Scheme, Loans/Credits and Grants amounted to Tk. 1122.4 crores (14.1%), Tk. 325.8 crores (4.1%), Tk. 2692.5 crores (33.5%), Tk. 1973.7 crores (24.6%) and Tk. 1911.6 crores (23.8%) respectively. Long-term loans/credit received from foreign governments/institutions, etc. were utilised for import under non-food project (Tk. 1745.0 crores) and non-food non-project (Tk. 228.7 crores). Food and non-food imports under grants during 1986-87 stood at Tk. 690.4 crores and Tk. 1221.2 crores respectively. Import payments under major heads during 1985-86 and 1986-87 are shown in Table 11.1.

TABLE 11.1
MERCHANDISE IMPORTS (PAYMENTS)*

Commodity	1985-86 Crore Tk.	1985-86 Million US $	1986-87 Crore Tk.	1986-87 Million US $
1. Foodgrains	656.0	220	833.1	272
a) Rice	(24.5)	(8)	(150.1)	(49)
b) Wheat	(631.5)	(212)	(683.0)	(223)
2. Edible oil & oil seeds	354.0	118	319.8	104
3. Petroleum crude and petroleum products	964.3	323	615.9	201
4. Cotton	105.3	35	82.4	27
5. Textile yarn	145.6	49	115.7	38
6. Fertilizers	306.5	103	47.8	16
7. Chemicals	424.8	142	447.6	146
8. Cement	167.7	56	177.4	58
9. Capital goods and other accessories	2066.2	691	3070.7	1003
10. Others	1874.7	627	2315.6	755
Total Imports (C&F)	**7065.1**	**2364**	**8026.0**	**2620**

* Figures relate to Statistics Department, Bangladesh Bank.

Export Receipts

11.3 Receipts from exports at Tk. 3064.3 crores during 1986-87 was Tk. 347.7 crores higher than Tk. 2716.6 crores during 1985-86. In dollar terms, the receipts increased by $ 91 million or 10.0% to $ 1000 million during 1986-87 . The higher export receipts during the year 1986-87 was attributable mainly to enhanced earnings from readymade garments and leather. While the earnings from readymade garments increased by Tk. 347.1 crores ($ 110 million) or 78.2 percent to Tk. 791.0 crores during 1986-87 the same from leather went up by Tk. 95.6 crores or 38.3 percent to Tk. 345.5 crores during the same period. Export earnings from raw jute and jute goods during the year stood at Tk. 297.7 crores and Tk. 906.5 crores respectively. These two sectors accounted for about 39.3 percent of the total export earnings during the year 1986-87. Receipts under the major heads during 1985-86 and 1986-87 are shown in Table 11.2.

TABLE 11.2

MERCHANDISE EXPORTS (RECEIPTS)*

Commodity	1985-86		1986-87	
	Crore Tk.	Million US $	Crore Tk.	Million US $
1. Raw Jute	352.5	118	297.7	97
2. Jute Goods	1014.0	339	906.5	296
3. Tea	103.8	35	89.2	29
4. Leather	249.9	84	345.5	113
5. Fish, Shrimps and Frog Legs	382.4	128	443.6	145
6. Naphtha, Furnace Oil and Bitumen	48.4	16	29.3	10
7. Readymade Garments	443.9	148	791.0	258
8. Others	121.7	41	161.5	52
Total Exports (fob)	**2716.6**	**909**	**3064.3**	**1000**

* Figures relate to Statistics Department, Bangladesh Bank.

The Services Account

11.4 The deficit in Services Account (i.e., invisible receipts less invisible payment) during 1986-87 increased to Tk. 463.4 crores from Tk.374.0 crores during 1985-86. The increase in deficit on the Services Account during 1986-87 occurred mainly due to lower receipts under "Travel" and increased payments under the heads "Other Transportation" and "Other Services and Income".

Balance of Payments

11.5 The country's overall balance of payments showed a larger surplus of Tk. 291.0 crores ($ 95 million) during 1986-87 as compared to a surplus of Tk. 137.9 cores ($ 46 million) during 1985-86. The improvement in the overall balance was due mainly to larger receipts under private unrequited transfers and increased inflow under capital account. Receipts under unrequited transfers increased from Tk. 3208.3 crores in 1985-86 to Tk. 4022.4 crores in 1986-87,of which net receipts under official transfers and private transfers stood at Tk.2032.4 crores (664 million) and Tk. 1990.0 crores ($ 649 million) respectively during 1986-87. Net capital inflow during the year increased to Tk. 1830.8 crores ($ 598 million) from Tk. 1635.6 crores ($ 548 million) during 1985-86.

Bangladeshi Wage Earners' Remittances

11.6 Remittances from Bangladeshi 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. New employment for Bangladesh nationals in foreign countries declined significantly during calendar year 1986. Total number of Bangladesh nationals leaving on employment abroad declined to 68,658 in 1986 from 77,694 in 1985. Compared to calendar year 1986, the proportionate overseas employment during the half-year January – June, 1987 also stood lower at 31,334. Wage earners' remittances, however, increased during the period. Table 11.3 shows new employment of Bangladesh nationals abroad alongwith corresponding remittances for the period from 1976 to 1987.

TABLE 11.3

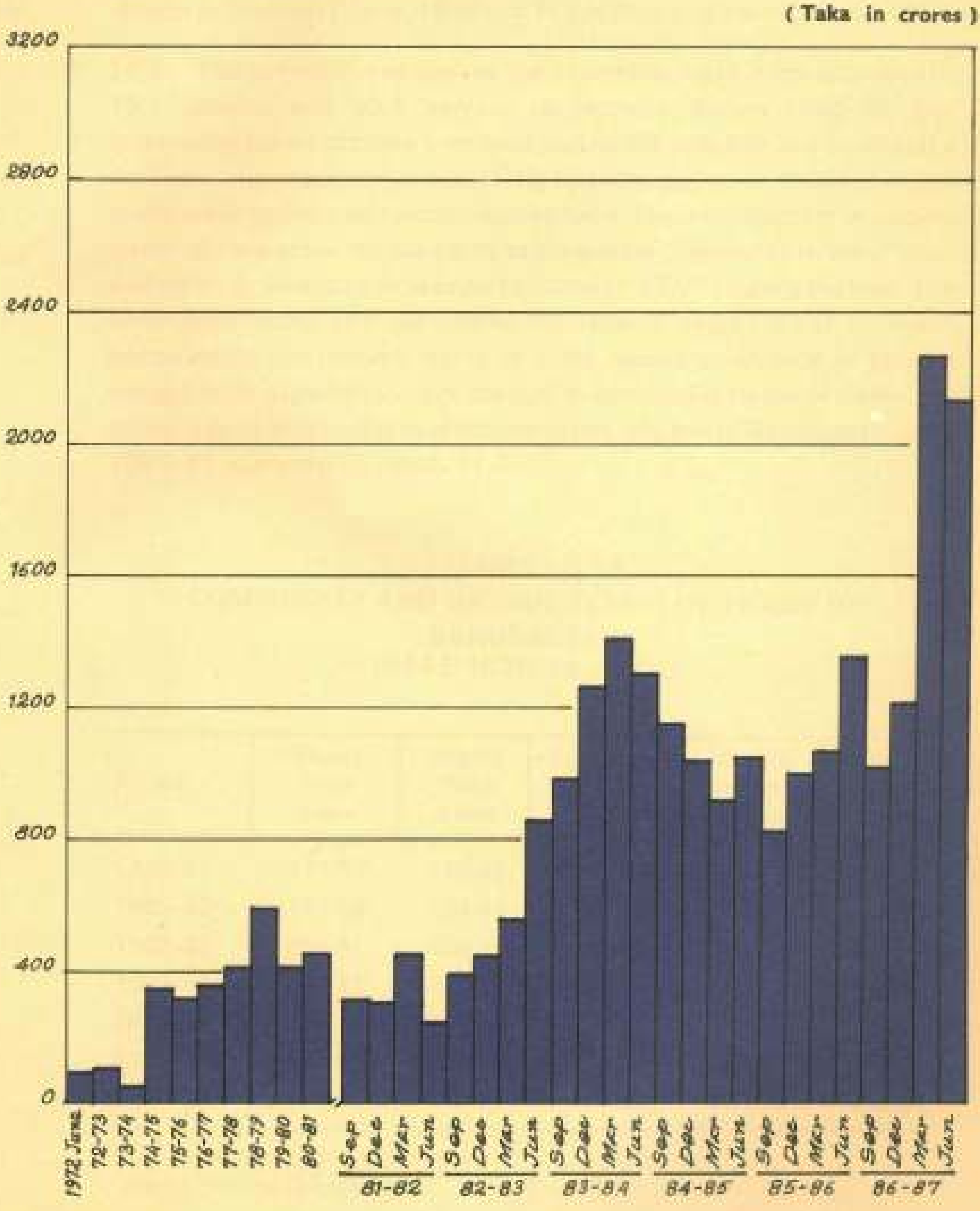
YEAR-WISE NEW EMPLOYMENT ABROAD OF BANGLADESH NATIONALS FROM 1976 TO JUNE 1987

(Amount in crore Tk.)

Period (Calendar Year)	Type					Remittances of Wage Earners Abroad
	Professional	Skilled	Semi-Skilled	Un-Skilled	Total Number	
1976 to 1980 (5 years)	11,266	35,626	6,111	46,676	99,679	1,084.98
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	2,210	25,862	9,697	30,889	68,658	1,752.85
1987 (Upto June)	986	9,988	4,208	16,152	31,334	1,216.78
Grand Total:	**29,284**	**1,78,865**	**44,142**	**2,59,597**	**5,11,888**	**10,064.87**

Source : (1) Bureau of Manpower, Employment and Training, Dhaka; and
(2) Exchange Control Department, Bangladesh Bank.

FOREIGN EXCHANGE RESERVES



Foreign Exchange Reserves

11.7 The convertible foreign exchange reserves held by the Bangladesh Bank(including reserves with the IMF) increased from $ 476 million at the end of June, 1986 to $ 715 million at the end of June, 1987.

Terms of Trade

11.8 The commodity as well as the income terms of trade improved by 15.1 percent and 36.3 percent respectively during 1986-87. The commodity terms of trade improved during the year due to a substantial decline in the import price index (-19.1%) although some decline (-6.9%) in the export price index partly neutralised it. The improvement in income terms of trade occurred due partly to the gain in commodity terms of trade and partly to an increase in export volume (+ 17.6%) during the year. The commodity terms of trade shows the ratio of export prices to import prices while the income terms of trade measures change in income earned from exports through change in commodity terms of trade. The trend in both commodity and income terms of trade of Bangladesh since 1980-81 is shown in Table 11.4.

TABLE 11.4

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
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	253.65	201.31	175.67	106.21	186.58
1985-86	279.90	206.12	135.79	131.61	178.72
1986-87*	260.46	166.68	156.26	154.76	241.84

* Figures relating to 1986-87 are provisional.

Source : Planning Commission.

CHAPTER XII

FOREIGN AID

FOREIGN AID

12.1 Foreign aid commitments to Bangladesh during 1986-87 amounted to \$ 1,603 million which was 3.5 percent lower as compared to \$ 1,662 million in 1985-86. Total commitment of foreign aid since independence till the end of June, 1987 stood at \$ 20,996 million of which \$ 9,777 million or 46.6 percent represented grants. Total disbursement of aid since independence till June, 1987 stood at \$ 15,606 million or 74.3 percent of total commitment. Of the total disbursement, \$ 7,769 million or 49.8 percent represented loans and the remaining amount of \$ 7,837 million was grant. Total outstanding external debt as on June 30, 1987 stood at \$ 6,919 million as compared with \$ 6,140 million at the end of June, 1986.

12.2 Disbursement of foreign aid during 1986-87 was \$ 1,595 million which was 22.1 percent higher than the level of \$ 1,306 million in 1985-86. Food aid at \$ 225 million during 1986-87 was 10.8 percent higher than \$ 203 million in the preceding year. An amount of \$ 403 million was disbursed as commodity aid during the year which was 2.5 percent higher than \$ 393 million in 1985-86. Disbursement of project aid at \$ 967 million in 1986-87 was 36.2 percent higher than the previous year's level of \$ 710 million. The disbursement of foreign aid during 1986-87 alongwith the comparative figures of previous years are shown in Table 12.1.

TABLE 12.1

DISBURSEMENT OF FOREIGN AID

(Million U.S. Dollar)

Category	Year				
	1982-83	1983-84	1984-85	1985-86	1986-87
Food Aid	255	277	244	203	225
Commodity Aid	452	439	432	393	403
Project Aid	470	552	591	710	967
Total :	**1,177**	**1,268**	**1,267**	**1,306**	**1,595**

12.3 The figures in Table 12.1 refer to gross foreign aid disbursements. The repayment of foreign aid (excluding repurchases in respect of drawings from the IMF) made by Bangladesh during 1986-87 was placed at $ 154 million. This was in addition to the interest payment of $ 108 million during the year. Thus, the net inflow of foreign aid into the country during 1986-87 which amounted to $ 1,333 million, was higher than $ 1,122 million during 1985-86.

CHAPTER XIII

TRANSACTIONS WITH THE IMF

TRANSACTIONS WITH THE IMF

13.1 During 1986-87, Bangladesh entered into an arrangement with the IMF under the Structural Adjustment Facility (SAF) for an amount of SDR 135.1 million (47.0% of our present Quota) to be disbursed in three instalments over a three-year period ending June 30, 1989. The access under the SAF has subsequently been enhanced to SDR 182.6 million (63.5% of Quota). The present Quota of Bangladesh is SDR 287.5 million. Under the arrangement, Bangladesh purchased SDR 57.50 million as first instalment during the year under report. In addition, Bangladesh also purchased SDR 88.90 million under the Compensatory Financing Facility and a total of SDR 96 million in four instalments under the Stand-by Arrangement of 1985. Thus, during 1986-87 Bangladesh purchased a total of SDR 242.40 million from the Fund.

13.2 During 1986-87, Bangladesh repurchased a total of SDR 138.51 million under various facilities of the Fund. The detailed position of Bangladesh's transactions with the Fund during the year under report is given in Table 13.1.

13.3 As a result of the transactions shown in Table 13.1 Bangladesh's outstanding liability to the Fund stood higher at SDR 564.63 million, equivalent to $ 721.61 million at the end of June, 1987 as against SDR 460.74 million equivalent to $ 542.55 million at the end of June, 1986.

13.4 During 1986-87 Bangladesh paid SDR 31.46 million as charges to the IMF.

TABLE 13.1

TRANSACTIONS WITH THE IMF

(Million SDR)

Facilities	Drawing/ Purchase	Outstanding on 30.6.86	Purchase during 1986-87	Repurchase during 1986-87	Outstanding on 30.6.87
1. Compensatory Financing Facility of February, 1982	36.90	13.85	—	13.85	—
2. Supplementary Financing Facility of 1980	110.00	47.87	—	27.50	20.37
3. Extended Fund Facility of 1980	110.00	86.91	—	18.34	68.57
4. CFF-Cereal Facility of August, 1982	71.20	32.43	—	25.96	6.47
5. Stand-by Arrangement of March, 1983	68.40	65.55	—	28.50	37.05
6. Trust Fund of 1977-81	121.79	75.18	—	24.36	50.82
7. CFF-Cereal Facility of April, 1985	54.95	54.95	—	—	54.95
8. Stand-by Arrangement of December, 1985	180.00	84.00	96.00	—	180.00
9. Compensatory Financing Facility of February, 1987	88.90	—	88.90	—	88.90
10. Structural Adjustment Facility of 1987	57.50	—	57.50	—	57.50
Total :	**—**	**460.74**	**242.40**	**138.51**	**564.63**

CHAPTER XIV

TRADE POLICY

TRADE POLICY

14.1 Trade policy for 1986–87 continued to be aimed at achieving the twin objectives of maximising the country's foreign exchange earnings and to utilise the same in financing imports of goods and services, keeping in view the imperative need to reduce the adverse current account balance. Accordingly, emphasis was placed on diversification and expansion of exports as well as improvement of bilateral trade relations with other countries. The export target for the year was fixed at Tk. 3150.00 crores ($ 1 billion), indicating an increase of 18.64 percent over the target of Tk.2655 crores ($ 965.45 million) in the preceding year. Total value@ of exports at Tk.3225.66 crores during 1986–87 exceeded the target by 2.4 percent due mainly to increased earnings from leather, frozen food and readymade garments. The export price index was estimated to have declined by 6.9 percent while the export volume index denoted an increase of 17.6 percent during the year.

Export Policy and Target

14.2 In line with the overall policy of making all out efforts for maximising foreign exchange earnings through increased exports the following specific measures were taken in the export policy for 1986–87 to broaden the country's export base :

(i) to earmark the frozen food sector as the "Thrust Sector" for 1986–87;

(ii) to establish Export Houses in both public and private sectors and devise a package of incentives for these Houses;

(iii) to exempt overdue interest on bank finance if exports were effected under irrevocable and confirmed Letters of Credit on the basis of sight payment;

@ Source : Export Promotion Bureau.

(iv) to set up a High Level Committee with the Governor of the Bangladesh Bank as its chairman to review the existing condition and suggest, wherever necessary, appropriate measures for ensuring smooth flow of export credit;

(v) to provide working capital finance to the finished leather and leather goods industries at an interest rate of 9 percent per annum;

(vi) to make obligatory for the Development Financing Institutions (DFIs) to provide highest priority to the export sector in matters of investment loans earmarking at least 80 percent of their financial resources for new as well as BMRE projects;

(vii) to provide concessionary rate of interest on working capital finance to industries set up in the Export Processing Zone (EPZ) under 100 percent local investment;

(viii) to include some new non-traditional items under 100 percent Export Performance Benefit (XPB) entitlement;

(ix) to allow the export-oriented industries to import raw materials under banned/negative list against export order under bank guarantee on certification by the Export Promotion Bureau (EPB);

(x) to encourage backward integration by allowing enhanced XPB entitlement of 100 percent in the case of readymade garments/hosiery goods/silk products/specialised textiles manufactured by local fabrics and reducing the same to 40 percent for those having used imported fabrics; and

(xi) to introduce a Shrimp Culture Insurance Scheme to encourage scientific culture of shrimp.

Export Earnings

14.3 Total value of exports at Tk. 3225.66 crores during 1986-87 was 32.7 percent higher than Tk. 2431.40 crores during 1985-86. Of the total exports, jute and jute goods accounted for Tk. 301.73 crores (9.4%) and Tk. 914.49 crores (28.4%) during 1986-87 as against exports worth Tk. 367.70 crores (15.1%) and Tk. 865.92 crores (35.6%) respectively during 1985-86. The value of tea exports stood lower at Tk. 90.13 crores during 1986-87 as compared with Tk. 97.31 crores in the preceding year. Earnings from frozen food and tanned and semi-tanned leather stood substantially higher at Tk. 406.70 crores and Tk. 409.70 crores respectively during the year as compared to Tk.335.87 crores and Tk.180.24 crores respectively during 1985.86. Earnings from exports of readymade garments also picked up substantially from Tk. 392.35 crores in 1985-86 to Tk. 910.82 crores during 1986-87. The value of other items of exports totalled Tk. 192.09 crores during 1986-87 as compared to Tk. 192.01 crores during the preceding year.

Import Policy

14.4 The Import Policy for 1986-87 envisaged a total allocation of Tk. 5534.00 crores which was 19.8 percent higher than the allocation of Tk. 4620.00 crores for 1985-86. Of the total allocation, Tk. 3684.88 crores (66.6%) was to come from the Secondary Exchange Market Tk.1504.12 crores (27.2%) from Commodity Assistance and Tk. 315.00 crores (5.7%) from Barter and Counter Trade. Besides, the Government had a reserved cash allocation of Tk. 30.00 crores (0.6%) which was to be utilised as and when required.

14.5 The main features of the Import Policy for 1986-87 were :

(i) to reduce the list of banned and conditional import items by eliminating nearly 140 items;

(ii) to make provision for import of some items with special permission from the CCI & E which are essential but not listed in the Industrial Pass book;

(iii) to make provision for import of some essential items by the export-oriented industries with special permission from the CCI&E and the Export Promotion Bureau which were earlier in the banned/conditional list;

(iv) to discontinue the import permit system applicable to export-oriented industries under the bonded warehouse arrangement;

(v) to allow pharmaceutical industries to import raw and packaging materials through proforma invoice in addition to imports through indentors;

(vi) to allow doctors, scientists and engineers to import professional equipments upto US $ 20,000 without import permit;

(vii) cotton and textile mills producing upto 60 counts of yarns would be bound to purchase 10 percent of their import entitlement of raw cotton from local producers/dealers at Government rates subject to which they will be permitted to import 90 percent cotton from abroad;

(viii) to fix the limit for import of cotton and synthetic fabrics during 1986-87 at 5 crore yards;

(ix) to make provision for import of bus, trucks, jeeps (4 wheeler) in completely builtup (CBU) condition by commercial importers and in CKD and SKD condition by the assembling industrial units;

(x) to make provision for import of diesel engine (all sorts) in CKD or CBU condition, indicator paper, comparator paper, E.C.G. paper, meteorological graph paper, baby cycle (upto 18"), lathe machine, spectacles wares, tyre cord, super enamelled wire and sports goods freely;

(xi) to withdraw restriction on import of dye manufacturing and pot manufacturing machines;

(xii) to allow limited import of G.P. sheet, coconut oil and mosquito coil with approval from the CCI&E; and

(xiii) to ban the import of stainless steel razor blades, lead pencils valued upto Tk. 24 per dozen and steel ribs upto 80 'S' size.

Import Licences

14.6 The value of import licences@ issued during 1986-87 stood at Tk. 3509.40 crores or 63.4 percent of total allocations for the year. This compared with licences issued worth Tk. 3850.93 crores or 83.4 percent of total allocations during 1985-86. Of the total value of licences issued during the year, Tk. 2641.35 crores (75.3%) were financed from WES/SEM, Tk. 704.60 crores (20.1%) under Aid/Loan/Credit/Grant,

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@ Source : CCI&E.

Tk. 145.49 crores (4.1%) under Barter/STA and Tk. 17.96 crores (0.5%) under cash foreign exchange resources. The sectoral shares in the licences issued were as follows : commercial importers Tk. 1166.21 crores (33.2%); industrial consumers (private) Tk. 1310.68 crores (37.3%); sector corporations Tk. 340.37 crores (9.7%); POL Tk. 646.48 crores (18.4%); and the TCB Tk. 45.63 crores (1.3%).

Value of Imports

14.7 Total value of merchandise imports@ (including food and imports under Projects Aid, etc. but excluding imports made through land custom) during 1986-87 stood at Tk. 5927.59 crores* as compared with Tk. 5183.12 crores during 1985-86. Of the total imports during the year, the share of food and live animals stood at Tk. 1014.63 crores; crude materials inedible, except fuels, Tk. 333.02 crores; mineral fuels, lubricant and related materials Tk. 759.70 crores; animal and vegetable oils and fats Tk. 421.52 crores; chemical drugs and medicine Tk. 475.67 crores; manufactured goods classified chiefly by materials Tk. 1482.75 crores; machinery and transport equipment Tk. 1276.60 crores; and others Tk. 163.70 crores.

@ Source : Bangladesh Bureau of Statistics and based on customs returns.

* Since POL imports were not reflected in the customs returns, total value of imports was actually higher than the above figure.

CHAPTER XV

TRADE AND PAYMENTS AGREEMENTS

TRADE AND PAYMENTS AGREEMENTS

15.1 Bangladesh signed 5 new trade agreements with other countries during 1986-87 as compared to 12 agreements signed during the preceding year. Of the agreements signed during 1985-86, the one with the DPR Korea (Barter No. 4) became effective from October 21, 1985 and will remain valid upto October 31, 1987. The agreement with Bulgaria (Barter No. 11) effective from November 18, 1985 will remain valid upto March 31, 1988 while that with China (Barter No. 9) effective from December 13, 1985 expired on June 30, 1987. The Barter protocol No. 15 with the USSR, effective from March 31, 1986 will remain valid upto September 30, 1987. The agreements in respect of the TCB-ACSA Switzerland STA-3(3rd year), the TCB-NTL Nepal STA, the TCB-MITCO STA, Malayasia and the TCB-Sukab, Sweden 3rd TPA which became effective respectively from April 3, 1986, April 23, 1986, November 6, 1985 and April 20, 1986 respectively will remain valid upto September 30, 1987, November 5, 1987, April 22, 1988 and August 30, 1987 respectively. The TCB-MTC STA with the USA effective from May 26, 1986 expired on May 25, 1987. The agreements in respect of the TCB-Topaz CTA, Turkey, and the TCB-INTEREXPORT Yugoslavia CTA and the TCB-Otto Sumari-CTA, Finland effective from October 14, 1985, October 4, 1986 and September 15, 1985 respectively expired on March 31, 1987, June 30, 1987 and December 31, 1985.

15.2 Under the agreements signed during 1986-87, exports from Bangladesh consisted mainly of raw jute, jute goods, jute twine/yarn, jute rope, tea and packet tea, crust and finished leather, hides and skins, goat skins, frozen food, readymade garments, hosiery products and specialised textiles, jute carpet, glycerine, agricultural products, newsprint, particle board, telephone cables, books and periodicals, cinematographic films, chemicals, ceramics, fruits, handicrafts, light industrial products, tobacco, etc. Imports into Bangladesh consisted

CHAPTER XVI

TRENDS IN EXPORT COMMODITIES

TRENDS IN EXPORT COMMODITIES

Raw Jute

16.1 Raw jute@ production during 1986-87 season stood 36.9 percent lower at 54.61 lakh bales as compared to the record production of 86.58[R] lakh bales during 1985-86. Both production and acreage of raw jute declined during the year due mainly to unattractive price of jute compared to other alternative crops, particularly paddy. The area under jute cultivation stood substantially lower at 16.35 lakh acres during 1986-87 as compared to 25 lakh acres during 1985-86. The yield per acre also stood lower at 3.34 bales during the season as compared to 3.46 bales in the preceding season. Total availability of raw jute (including a carryover stock of 42.65 lakh bales) during 1986-87 stood at 97.26 lakh bales or 0.92 lakh bale higher than 96.34 lakh bales in 1985-86.

16.2 Due to depressed demand in the international market, both the export volume as well as the average export price of raw jute declined during 1986-87. The average export price of raw jute at Tk. 1,346.41 per bale during 1986-87 was 15.7 percent lower than Tk. 1,598 per bale during the previous year. The volume of export at 22.41 lakh bales during 1986-87 was lower by 2.6 percent than 23.01 lakh bales in 1985-86. The fall in both the volume and the price of exports resulted in lower foreign exchange earnings by 17.9 percent to Tk. 301.73 crores in 1986-87 from Tk. 367.70 crores in 1985-86.

16.3 The impact of continued slump in the international market of raw jute during the last two years was also reflected in the internal market. The growers' level price of raw jute which had stood at a low level of Tk. 175.00 per maund in June, 1986 came down sharply to Tk. 110.79 per maund in July, 1986. However, following liberal credit facilities

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@ Source : Ministry of Jute, BJC, EPB & BJA.

R = Revised.

allowed by the Bangladesh Bank for stepping up raw jute purchases, the growers' level price firmed up significantly as the year progressed and stood at Tk. 238.75 per maund in June, 1987. The annual average price of raw jute at growers' level declined by 21.9 percent to Tk. 153.37 per maund during the year from Tk. 196.38 in 1985-86.

16.4 Arrival of raw jute in the country's secondary markets during 1986-87 stood substantially lower at 52.61 lakh bales as compared to 84.58 lakh bales in the preceding season.

16.5 Despite all out efforts for attaining a high level of raw jute exports and thereby reducing the huge inventory built up during the last two years the export sales registration of raw jute during 1986-87 stood slightly lower at 30.08 lakh bales as compared to 30.71 lakh bales in the preceding season. Actual exports of raw jute during 1986-87 also stood lower at 22.41 lakh bales as compared to 23.01 lakh bales in 1985-86.

16.6 The declining trend in Kutcha bale prices of raw jute in the Narayanganj terminal market which was set in motion last year persisted during the first six months of FY 1986-87. Thereafter, the trend reversed and the prices picked up gradually during the latter half of the year. In the Kutcha bale* section the price of white X-Bottom grade of raw jute declined from Tk. 455 per bale on July 1, 1986 to Tk. 402 per 100 kg. on August 9, 1986 and remained unchanged till end-December, 1986. Following some revival of demand and prices in the international market, the price started rising from January 1, 1987 and gradually increased to Tk. 697 on June 30, 1987. In the pucca bale** section, the price of B.W.D. grade jute which had stood at Tk. 1200 per bale on July 1, 1986 declined to Tk. 1100 per bale on August 9, 1986 and remained unchanged at that level till the end of December, 1986. The price rose again to Tk. 1200 per bale on January 1, 1987 and gradually reached at the level of Tk. 1700 per bale on June 30, 1987.

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* Kutcha bale = 100 kg. = 2.679 maunds.

** Pucca bale = 180 kg. = 4.822 maunds.

16.7 The suspension of the indicative export price of B.W.D. grade jute effected during the preceding season continued till November 29, 1986. Indicative prices of all grades of raw jute were quoted on November 30, 1986 and with several upward revisions the quoted prices were sustained till the end of the year. The indicative export price of B.W.D. grade jute at $ 250 per metric ton fixed on November 30, 1986 was increased by steps to $ 300 on January 22, 1987, $ 310 on May 7, 1987 and finally to $ 320 per metric ton on June 11, 1987.

Jute Goods

16.8 The country's jute industry made appreciable progress during 1986-87 due mainly to the substantial reduction in production losses which had been incurred during the last few years. Jute industries in the public sector were able to reduce their production losses to the extent of 44.4 percent while those in the private sector by 20.0 percent during 1986-87. The substantial elimination of lay-off/strike problems achieved following increased wages allowed to public sector industrial labourers in 1985, better worker-management relationship effected through a number of internal management reforms and some reduction in losses on account of power failures enabled the jute mills bringing down their production losses.

16.9 The production of jute manufactures* during 1986-87 stood 21.2 percent higher at 5.83 lakh tons@ as compared to 4.81R lakh tons during 1985-86. Of the total production, the public sector (BJMC) and the private sector (BJMA and others) accounted for 3.31 lakh tons (56.8%), and 2.52 lakh tons (43.2%) respectively during 1986-87 as compared to 2.71 lakh tons (56.3%) and 2.10 lakh tons (43.7%) respectively during 1985-86

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* Source : BJMC,BJMA, EPB and Ministry of Jute.

@ All figures relate to metric measures.

R = Revised.

16.10 Export sales registration of jute goods with the Bangladesh Bank stood lower at 5.91 lakh tons during 1986-87 as compared to 6.79 lakh tons in the preceding season. However, actual exports of jute goods stood 7.4 percent higher at 5.25 lakh tons as compared to 4.89^{R} lakh tons in the preceding season. Total foreign exchange earnings from the export of jute goods during the year was 5.6 percent higher at Tk.914.49 crores as compared to Tk. 865.92 crores in 1985-86. The public sector and the private sector Jute Mills exported 3.05 lakh tons (58.1%) and 2.20 lakh tons (41.9%) respectively during 1986-87 as compared to 2.78 lakh tons (56.9%) and 2.11 lakh tons (43.1%) respectively in the preceding year. Their foreign exchange earnings amounted to Tk. 533.11 crores (58.3%) and Tk. 381.38 crores (41.7%) respectively in 1986-87 as compared to Tk. 543.47 crores (62.5%) and Tk. 326.57 crores (37.5%) respectively in 1985-86. The average export price of jute goods declined by 2.1 percent to Tk. 17,418.86 per ton in 1986-87 from Tk. 17,792.23 per ton in 1985-86. However, in terms of US dollar the export price was lower by 4.5 percent than the level of 1985-86.

16.11 Stock of jute goods in the country (sold, unsold, stock in transit and shut-out) as on June 30, 1987 stood higher at 1.24 lakh tons as compared to 1.22 lakh tons at the end of the preceding year.

Tea

16.12 Tea@ production at 40.08 million kgs. during 1986-87 was marginally higher than the target of 40.00 million kgs. but 3.3 percent higher than the actual production of 38.80 million kgs. in 1985-86. Favourable weather conditions particularly in the concluding months of the season, helped boost tea production. With a comparatively smaller carryover stock of 11.45 million kgs. from the previous year, total availability of tea during 1986-87 stood lower at 51.53 million kgs. as compared to 53.27 million kgs. (including a carryover of 14.47 million kgs.) in 1985-86. With lower volume of exports, the closing stock of tea, however, stood higher at 17.12 million kgs. at the end of 1986-87 as compared to 11.45 million kgs. at the end of the previous year.

@ Source : Bangladesh Tea Board.

R = Revised.

16.13 The internal prices of tea as quoted in the Chittagong auction market depicted a generally easy to firm trend during 1986-87. The average price of tea which stood at Tk. 40.46 per kg. in July, 1986, amidst some fluctuations, came down to Tk. 31.86 per kg. in February, 1987. Thereafter, the price showed a firm trend and stood at Tk. 34.83 per kg. in June, 1987. Prices of most varieties of tea, however, ruled substantially higher than those in the previous year. In all, 45 auctions were held in the Chittagong auction market during 1986-87 in which 31.22 million kgs. of tea were sold at an average price of Tk. 36.23 per kg. as compared to 36.95 million kgs. sold at an average price of Tk. 27.52 per kg. during 1985-86. The higher average price of tea during the year was due mainly to the substantially higher prices fetched by superior grades/export quality tea throughout the year.

16.14 Tea exports during 1986-87 at 21.41 million kgs. was lower by 28.2 percent than 29.82 million kgs. in 1985-86. The marked decline in the volume of tea exports during the year was largely attributable to setback suffered in negotiation of export deals with some of our major buyers of tea, namely, Pakistan, Egypt, Poland and Afganistan. These countries together purchased 10.35 million kgs. of tea or 48 percent of total tea exports during 1986-87 as against 19.90 million kgs. or 67.0 percent in 1985-86. Despite a 28.2 percent decline in the volume, earnings from tea exports during 1986-87 declined by only 7.38 percent to Tk. 90.13* crores from Tk. 97.31 crores in 1985-86 due to 7.4 percent increase in the average export price from Tk. 32.63 per kg. in 1985-86 to Tk. 42.10 per kg. in 1986-87.

Hides and Skins

16.15 Prices of hides and skins@ maintained an uptrend during 1986-87. The price of cow-hides (wet salted heavy) which opened at Tk. 32,000 — Tk. 36,000 per hundred pieces increased, amidst fluctuations to Tk. 42,000 — Tk. 47,000 on November 2, 1986 and further to Tk. 46,000 — Tk. 51,000 on January 29, 1987. The price, however, began to recede from February 7, 1987 and, amidst fluctuations closed the year at Tk. 36,000 - Tk.43,000.

@ Source : Directorate of Agricultural Marketing.

* Source : Bangladesh Tea Board.

16.16 The price of buffalo hides which opened at Tk. 29,000 — Tk. 32,000 per hundred pieces, amidst minor fluctuations, increased sharply to Tk. 45,000 — Tk. 50,500 on January 24, 1987. The price started declining from January 29 and, amidst fluctuations, closed the year at Tk. 40,000 — Tk. 45,000.

16.17 The price of goat skins (large and heavy) which opened at Tk.8,500 - Tk. 9,000 per hundred pieces, amidst fluctuations, declined to Tk. 6,000 - Tk. 7,500 on November 24, 1986. The price started rising from November 26, 1986, and gradually reached the peak level of Tk. 11,000 - Tk. 12,000 on January 29, 1987. Thereafter, the price of goat-skins started declining and, amidst some fluctuations, closed the year at Tk. 9,000 - Tk. 11,000.

16.18 Opening at Tk. 4,500 - Tk. 5,000 per hundred pieces, the price of sheep-skins increased, amidst some fluctuations, to Tk. 6,000 - Tk. 6,300 on October 27, 1986. After declining to Tk. 5,300 - Tk. 5,800 by December 4, 1986, the price started rising again from December 28, 1986 and reached the peak level of Tk. 7,100 - Tk. 7,600 on May 10, 1987. The closing quotation of sheep-skins, however, stood lower at Tk. 6,800 - Tk. 7,200.

Leather

16.19 Export earnings from leather@(tanned and semi-tanned) picked up substantially to Tk. 409.70 crores in 1986-87 from Tk. 180.24 crores in 1985-86, denoting an increase of 127.3 percent over the year.

Frozen Food

16.20 Export earnings from frozen foods@ which include shrimps, frog legs and fish rose by 21.1 percent to Tk. 406.70 crores during 1986-87 from Tk. 335.87 crores in the preceding year.

Naptha and Bitumen

16.21 Export earnings from naptha and bitumen@ during 1986-87 declined by 33.9 percent to Tk. 32.88 crores as compared to Tk. 49.73 crores during 1985-86.

@ Export Promotion Bureau.

Readymade Garments

16.22 Exports of readymade garments@ recorded spectacular improvement during 1986-87. Earnings from exports of readymade garments at Tk. 910.82 crores during 1986-87 showed a rise of 132.1 percent over the earnings of Tk. 392.35 crores in 1985-86.

Newsprint

16.23 Export value of newsprint@ stood slightly higher at Tk. 23.24 crores during 1986-87 as compared to Tk. 21.78 crores during the preceding year.

Handicrafts

16.24 The value of handicrafts@ exported during 1986-87 stood 109.6 percent higher at Tk. 12.03 crores as compared to Tk. 5.74 crores in 1985-86.

@ Export Promotion Bureau.

CHAPTER XVII

EXCHANGE RATE POLICY AND DEVELOPMENTS IN EXCHANGE CONTROL

EXCHANGE RATE POLICY AND DEVELOPMENTS IN EXCHANGE CONTROL

Exchange Rate Policy

17.1 Bangladesh continued to pursue a flexible exchange rate policy keeping in view the need for strengthening the country's international competitiveness and for improving the current account position in the balance of payments. In view of the continued depreciation of the U.S. Dollar, our intervention currency, in the world exchange market, particularly against the Yen and other major European currencies, the Taka-Dollar exchange rate was adjusted downwards three times during 1986-87 on the basis of trade-weighted 'basket currency' method. As a result of these adjustments, the external value of Taka in relation to U.S. Dollar depreciated by 2.3 percent over the year. The date-wise re-fixation of Taka - Dollar official exchange rate during 1986-87 is shown in Table 17.1.

TABLE 17.1
BANGLADESH BANK'S TAKA RATE PER U.S. DOLLAR

Date of Fixation	Buying	Selling
June 30, 1986*	30.27	30.33
November 20, 1986	30.77	30.83
April 13, 1987	30.87	30.93
June 7, 1987	30.97	31.03

* Fixed on February 11, 1986

Developments in Exchange Control

(i) Authorised Dealers' Buying Rate for Export Bills

17.2 With effect from July 1, 1986 the two separate buying rates for export bills relating to traditional and non-traditional commodities were abolished and the rates for non-traditional export bills were made applicable for all export commodities.

(ii) Import of Vessels on Deferred Payment Basis under WES/SEM

17.3 Authorised Dealers were allowed with effect from July 8, 1986 to open L/Cs for import of coastal vessels including oil tankers and ocean going vessels including those for scrapping purposes under WES/SEM on deferred payment basis upto 360 days.

(iii) Trade with the Republic of Turkey-Settlement of Payment

17.4 The special arrangement for settlement of export and import trade transactions between Bangladesh and Turkey in accordance with the terms of the agreement signed on May 5, 1986 by the central banks of the two countries was made effective from July 15, 1986.

(iv) Release of Foreign Exchange to Exporters for Business Travels Abroad

17.5 The limit for sanction of foreign exchange for business travel of exporters (in proportion with the export earnings) were enhanced with effect from July 1, 1986. However, it was decided that the entire amount of foreign exchange sanctioned would be released at the SEM rate instead of the previous system of releasing the same at official rate of exchange.

(v) Release of Foreign Exchange under the Wage Earners' Scheme (WES) for Travelling Abroad

17.6 Annual quota for release of foreign exchange under the WES to Bangladeshi nationals for travel by air on personal ground to neighbouring countries viz. India, Pakistan, Sri Lanka, Burma, Nepal, Bhutan and Maldives was enhanced from US $ 200 to US $ 400 per person with effect from October 18, 1986. However, release of foreign exchange for personal visit to India by land route or to countries other than the above mentioned neighbouring countries by air remained unchanged at US $ 150 and US $ 1,800 per person (maximum US $ 1000 at a time) respectively in a Calendar year.

(vi) Education Foreign Currency Account

17.7 It was decided with effect from February 4, 1987 that the interest accrued on balances in Education Foreign Currency Accounts opened in Bangladesh by the wage earners abroad would neither be eligible for repatriation outside Bangladesh nor would the same be compounded with the principal. The accrued interest will be payable in local currency when due after deduction of usual Government taxes/levies.

(vii) Import on Deferred Payment Basis

17.8 With effect from February 10, 1987 the Authorised Dealers were allowed to open Letters of Credit on deferred payment terms upto 180 days (instead of 90 days as allowed previously) for import of industrial raw materials under the WES/SEM by industrial consumers as per their pass book entitlements.

(viii) Exchange Rate Fluctuation Burden Absorption Scheme (EFAS)

17.9 According to earlier decisions the benefit of the Exchange Rate Fluctuation Burden Absorption Scheme was applicable only to term loans in foreign currency disbursed by Development Financing Institutions. In partial modification of above scheme, it was further decided on March 28, 1987 that the facility of the EFAS will also be extended to cover foreign currency term loans channelled through nationalised commercial banks on the basis of re-lending by the Government.

(ix) Hajj - 1987

17.10 The Government made arrangements for sending 10,000 persons through ballot from Bangladesh to perform the holy Hajj-1987. The ballotee pilgrims were granted 3,069 Saudi Riyals each at official rate for enabling them to meet expenses during the Hajj. Arrangements were also made for sanctioning 3,300 Saudi Riyals each at SEM rate for performance of Hajj by pilgrims outside the ballot. In addition to the above amounts, the ballotee and non-ballotee pilgrims were allowed to purchase a further sum of upto US $ 400 per person from Foreign Currency Accounts under the Wage Earners' Scheme.

Inspection of Dealings in Foreign Exchange

17.11 The Exchange Control Department carried out comprehensive inspection of the 89 branches of 12 Authorised Dealers during 1986-87. The inspected branches included 31 of the Janata Bank, 15 of the Agrani Bank, 3 of the Bangladesh Krishi Bank, 2 of the Sonali Bank and 1 of the Bangladesh Shilpa Bank. Irregularities detected during the inspection were communicated to the Head/Main Office of the concerned branches for necessary rectification. In addition, special inspection of 69 branches of Authorised Dealers, 11 money changers, 65 indenting houses, 7 travel agents and 15 business organisations was also conducted during the year.

CHAPTER XVIII

ASIAN CLEARING UNION

ASIAN CLEARING UNION

18.1 The volume of transactions under the Asian Clearing Union (ACU) on Bangladesh's account recorded some decline during 1986–87. As usual, six settlements took place under the ACU arrangements during the year in which Bangladesh emerged as net creditor in one settlement and net debtor in the remaining five settlements. This reflected that Bangladesh's import from other member countries was larger than its exports.

18.2 Both receipts and payments under the ACU on Bangladesh's account recorded decline during 1986–87. Payments on Bangladesh's account came down by AMU 28.89 million or 23.6 percent from AMU 122.32 million (Tk. 410.26 crores) in 1985–86 to AMU 93.43 million (Tk. 358.89 crores) in 1986–87. Receipts declined by AMU 26.65 million or 30.5 percent from AMU 87.49 million (Tk. 290.85 crores) in 1985–86 to AMU 60.84 million (Tk. 230.62 crores) in 1986–87.

18.3 As a result of these transactions, Bangladesh was placed at a net debtor position of AMU 32.59 million (Tk. 128.27 crores) in 1986–87 as compared to a higher net debtor position of AMU 34.83 million (Tk. 119.41 crores) in 1985–86.

18.4 The UNCTAD and the ESCAP have played a more active role in expanding the activities of the ACU. The UNCTAD is designing a "Reserve Fund" and a "Swap Arrangement" within the framework of the ACU. Total trade and trade balance of the ACU members are shown in Table 18.1.

TABLE 18.1

TOTAL TRADE AND TRADE BALANCE OF ACU MEMBERS
(Millions of US Dollars)

Country	Exports to ACU		Imports from ACU		Surplus (+) or Deficit (-)	
	1984	1985	1984	1985	1984	1985
Bangladesh	187.5	160.3	120.9	115.6	+66.6	+44.7
Burma	23.0	30.3	16.4	12.9	+ 6.6	+17.4
India	373.0	318.0	974.0	1191.0	-601.0	-873.0
Iran	911.0	1224.0	549.0	283.0	+362.0	+941.0
Nepal	17.5	46.3	109.8	92.0	—92.3	—45.7
Pakistan	354.6	203.8	178.7	215.8	+175.9	—12.0
Sri Lanka	96.5	64.2	188.9	283.8	—92.4	—219.6
Total :	**1963.1**	**2046.9**	**2137.7**	**2194.1**	**-174.6**	**-147.2**

Source : Direction of Trade Statistics, Year Book 1986, International Monetary Fund

Note: (i) Exports (f.o.b.) ; (ii) Imports (c.i.f.)

CHAPTER XIX

CURRENCY AND COINAGE

CURRENCY AND COINAGE

Bank Notes

19.1 No newly designed Notes or Coins were issued during the period from July 1, 1986 to June 30, 1987.

Coins

19.2 Subsidiary Coins in circulation as on June 30, 1987 at Tk. 39.55 crores was larger by Tk. 2.76 crores than Tk. 36.79 crores as on June 30, 1986. This was in addition to Taka One Notes and Taka One Coins worth Tk. 51.07 crores in circulation as on June 30, 1987 as against Tk. 49.06 crores as on June 30, 1986.

CHAPTER XX

ADMINISTRATION

ADMINISTRATION

Reconstitution of the Bank's Board of Directors

20.1 The Board of Directors of the Bank was reconstituted thrice during 1986-87. Mr. A. K. M. Khalilur Rahman, Deputy Governor, was appointed Director on February 1, 1987 in place of Mr. M. A. Beg, Deputy Governor, who proceeded on L. P. R. with effect from December 31, 1986. Mr. Shafiqur Rahman and Mr. Syed Manzur Elahi were appointed Directors in place of Mr. S. A. Mahmud and Mr. Nuruddin Ahmed with effect from April 2, 1987. Consequent upon the appointment of Mr. S. B. Chaudhuri as Governor of the Bank, he became Chairman of the Board with effect from April 13, 1987 in place of Mr. M. Nurul Islam and the post of Director held by the former fell vacant from the same date. Mr. A.K.M. Khalilur Rahman died on June 18, 1987 and the post of Director held by him remained vacant till the end of the year.

Board/ Executive Committee Meetings

20.2 During 1986-87, 4 meetings of the Board of Directors and 3 meetings of the Executive Committee were held.

Co-ordination Committee Meetings

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

Retirement of Governor

20.4 Mr. M. Nurul Islam was relieved of his responsibilities as Governor of the Bangladesh Bank by the Government at his own request on health grounds with effect from April 13, 1987. After his first appointment on December 7, 1976 as Governor of the Bank, on an ad-hoc basis, he was appointed for a fixed term of 3 years with effect from March 1, 1978. Mr. Islam's tenure as Governor was subsequently renewed four times for varying terms, the last one was scheduled to end on September 30, 1987.

Appointment of Governor

20.5 Mr. S. B. Chaudhuri, Secretary, Internal Resources Division and Chairman, National Board of Revenue was appointed as Governor of the Bank on an ad-hoc basis, on April 11, 1987. He assumed the office of the Governor in addition to his own responsibilities on April 13, 1987. Subsequently, Mr. Chaudhuri was appointed as Governor of the Bank for a fixed term beginning from July 14, 1987 and ending of December 31, 1990.

Appointment of Deputy Governors

20.6 Mr. Ashraful Haque, former Managing Director of the Sonali Bank, was appointed as Deputy Governor of the Bangladesh Bank on a contract basis for a period beginning from September 22, 1986 and ending on June 30, 1988. Mr. Haque passed away on April 13, 1987.

20.7 Mr. Mahbubur Rahman Khan was appointed as Deputy Governor of the Bank with effect from January 13, 1987.

Appointment of Executive Directors

20.8 Mr. A. B.M. Mahbubul Amin Khan, Mr. Kamaluddin Ahmed and Mr. M. A. Quasem were appointed as Executive Directors of the Bank with effect from March 16, 1987.

Other Appointments

20.9 The following appointments in different grades of employment were made by the Bank during the year ended on June 30, 1987 :-

i)	Assistant Directors	19
ii)	Officers	15
iii)	Coin/Note Examiners and other staff	149
	Total:	**183**

Officers on Deputation

20.10 One General Manager and one Deputy General Manager of the Bank were on deputation with two Central Banks/Monetary Agencies of the Middle Eastern countries during 1986-87, while one Deputy Director of the Bank was on deputation with the Ministry of Planning (ERD) during the year.

Absorption in Bank's Service

20.11 One of the two Government Officers, who were serving on deputation as Heads of the Departments of the Bank, has been absorbed in the Bank's service during the year.

Total Number of Officers & Staff

20.12 The total number of officers and staff of the Bank stood at 5,568 on June 30, 1987 as compared to 5,524 on June 30, 1986.

Foreign Training

20.13 During the year 1986-87, arrangements were made for participation of 14 officers of the Bank in different Training Courses/Seminars abroad.

Domestic Training

20.14 A total of 215 officials of the Bank participated in training programmes organised by different training institutions other than the Bank's Training Academy during 1986-87.

Seminars

20.15 The Bangladesh Bank in collaboration with the Ohio State University, U.S.A. organised two international seminars on "Mobilisation of Rural Savings" and "Recovery of Agricultural Credit" under the Rural Finance Project (RFP).

Bank's Training Academy

20.16 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 programme during 1986-87 :

i) as many as 90 Assistant Directors/Assistant Managers and 64 Officers were trained by organising 6 in-service courses.Two courses were also organised for Assistant Managers and Officers of the Cash Department of the Bank wherein 31 trainees participated;

ii) in order to improve the efficiency and expertise of the Officers of the Agricultural Credit Inspection Department (ACID) and Department of Banking Inspection (DBI) 2 special courses namely, "Technique of Inspection" and "Technique of Bank

Inspection" were conducted by the Academy wherein 33 officials from the ACID and 31 officials from the DBI of the Bank's different Offices took part;

iii) a 3-month 'Foundation Course' for directly recruited Assistant Directors and Officers of the Bank was conducted during 1986-87 wherein 9 Assistant Directors and 7 Officers participated;

iv) a 15-day theoretical training course was organised for 12 officials (from Assistant Director to Deputy General Manager) of the Research and Statistics Departments who opted to the General Side. Another such theoretical Training Course was organised for 7 Officers of the Specialised Department (Transferred to the General Side) for a period of 15 days during 1986-87;

v) a 10-day special training course on "Analysis of Rural Credit and Project" for 15 Assistant Directors drawn from the Rural Credit Project Department (RCPD), the Agricultural Credit Department (ACD) and the Agricultural Credit Inspection Department (ACID) of different Offices of the Bank was conducted during the year;

vi) to ensure correct reporting of foreign exchange transactions by the Authorised Dealers to the Bangladesh Bank, a short course was conducted at the Bank's Sylhet Office in which 22 officials of the Bangladesh Bank and commercial banks participated;

vii) a short training course on 'Computerisation of Banking Statistics, Storage and Retrieval' was organised by the Academy in which 14 Assistant Directors from different Offices of the Bank participated;

viii) with a view to broadening the outlook of Trainee Officers as also to help them gain practical knowledge about institutions directly involved in nation building activities, a number of educational field trips were arranged by the Academy during 1986-87; and

ix) a special workshop on "Islamic Banking and its Future in Bangladesh" was held on December 7, 1986 in the Academy Building. In addition, the Academy arranged a seminar on "Ten Years of Grameen Bank" on January 27, 1987 in collaboration with the Bangladesh Institute of Bank Management (BIBM).

Activities of the Computer Division

20.17 The Computer Division continued its regular data processing activities during 1986-87. Steps were taken to computerise several new jobs. Salary bills of the Head Office employees were computerised during the year. The programmes of the Employees' Provident Fund accounting system were prepared and test runs were conducted. Computerisation of loan ledger of the House Building Finance Corporation was undertaken. The Division also took steps for computerisation of reconciliation of inter-branch transactions of the Sonali Bank. Systems report and programme writing for the job were completed. Training in programme writing, computer operation and data encoding was also imparted to selected employees of the Reconciliation Division of the Sonali Bank.

MIS for Agricultural Credit

20.18 The Agricultural Credit Department of the Bank has introduced six new coded forms with a view to collecting information on agricultural and rural credit in a scientific manner. Information received from the banks have been computerised.

Public Relations and Publications

20.19 The up-dated Exchange Control Manual was printed and circulated in February, 1987 by the Department of Public Relations and Publications. In addition to its 12 regular publications (four annual, nine quarterly and four monthly) the Department also published the Seniority List of Officers during 1986-87. The volume of the Parikrama, the house magazine of the Bank, has been increased from 8 pages to 12 pages to improve its presentation and coverage. The Department also arranged adequate coverage of the seminars and meetings organised by the Bank, including the 16th SEANZA Central Banking Course, in the press, radio and television.

Special Implementation Cell

20.20 The Bangladesh Bank provided necessary officers and staff and other logistical support to the Special Implementation Cell set up by the Government with Mr. Kazi Badrul Alam, former Deputy Governor of the Bank, as its Chief to advise on matters relating to implementation of the recommendations of the National Commission of Money, Banking and Credit.

Office/ Residential Accommodation and Other Development Work

20.21 The piling work for construction of staff quarters at Agrabad, Chittagong and Malatinagar, Bogra was completed. In addition, work relating to the following were in progress during the year:

i) construction of boundary wall and Police Barrack at Head Office premisses, Dhaka;

ii) construction of additional units of A,B,C and D type quarters at Bank Colony, Faridabad, Dhaka, and modernisation and extension of Officers' quarters at Banani, Dhaka;

iii) construction of 6-storied office building with 15-storied foundation, 3-storied annexe building with power sub-stations, internal roads, boundary walls, etc. at Bank premises, Chittagong;

iv) construction of 6-storied annexe building with 15-storied foundation at Bank premises, Khulna;

v) construction of 3-storied office building with 5-storied foundation, and 3-storied annexe building and power sub-station building at Bank premises, Rajshahi;

vi) construction of Group-I, Group-II and Group-III staff quarters in Bogra; and

vii) earth filling, piling and construction of boundary walls at proposed staff quarters premises, Sylhet.

Welfare Activities

20.22 An amount of Tk. 20.75 lakhs was sanctioned for allocation of funds to the different Offices of the Bank to meet the expenses relating to welfare and recreational activities during 1986-87.

Sanction of Stipend

20.23 An amount of Tk. 4.25 lakhs was sanctioned for awarding stipends to the eligible children of 'C' and 'D' category employees of the Bank during 1986-87.

CHAPTER XXI

ANNUAL ACCOUNTS

ANNUAL ACCOUNTS

21.1 The Balance Sheet of the Issue Department of the Bank as on June 30, 1987 appears at pages 194–195 of the Report.

Issue Department

21.2 Total notes issued as on June 30, 1987 at Tk. 2,346.50 crores was larger by Tk. 139.99 crores than Tk. 2,206.51 crores as on June 30, 1986. Assets against the notes issued included Gold worth Tk. 69.99 crores, Approved Foreign Exchange of Tk. 200 crores, Taka Coin worth Tk. 3.10 crores, Government of Bangladesh Securities worth Tk. 475.16 crores and Internal Bills of Exchange and other Commercial Papers worth Tk. 1,598.24 crores. The corresponding figures of assets against note issue as on June 30, 1986 were Gold worth Tk. 50.03 crores, Approved Foreign Exchange of Tk. 200 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. 1,609.24 crores.

Banking Department

21.3 The Balance Sheet of the Banking Department as on June 30, 1987 appears at pages 196–197. On the liabilities side, balances in the Statutory Funds* increased by Tk. 38 crores from Tk. 265 crores to Tk. 303 crores due to appropriation of the same amount from the 'Profit and Loss Account'. 'Government Deposits' marginally increased to Tk. 0.81 crore as on June 30, 1987 from Tk. 0.57 crore as on June 30, 1986. Bank's Deposits increased by Tk. 318.97 crores to Tk. 937.73 crores as on June 30, 1987 from Tk. 618.76 crores as on June 30, 1986. "Other Deposits" also increased by Tk. 208.26 crores to Tk. 2,439.71 crores as on June 30, 1987 from Tk. 2,231.45 crores as on the same day last year. "Other Liabilities" increased by Tk. 62.95 crores to Tk. 1,030.70 crores as on June 30, 1987 from Tk. 967.75 crores as on June 30, 1986. The allocation of SDRs remained unchanged at Tk. 91.74 crores.

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* Excluding Credit Guarantee Fund.

21.4 On the Assets side of the Banking Department, "Bills Purchased and Discounted-Internal" decreased substantially by Tk. 119 crores to Tk. 20 crores as on June 30, 1987 from Tk. 139 crores as on June 30, 1986. The balance of re-discounted Government Treasury Bills decreased to Tk. 49.46 crores as on June 30, 1987 from Tk. 108.19 crores as on June 30, 1986. The amount under "Balances Held Outside Bangladesh" increased by Tk. 746.73 crores to Tk. 1,857.67 crores as on June 30, 1987 from Tk. 1,110.94 crores as on June 30, 1986. Other Loans and Advances (Loans and Advances to Banks and other Financial Institutions) came down by Tk. 215.09 crores to Tk. 1,112.11 crores as on June 30, 1987 from Tk. 1,327.20 crores as on June 30, 1986. The balances under "Investments" decreased by Tk. 56.59 crores to Tk. 749.94 crores as on June 30, 1987 from Tk. 806.53 crores as on June 30, 1986.

Profit and Loss Account

21.5 The Profit and Loss Account of the Bank for the year ended on June 30, 1987 appears at page 198.

21.6 The comparative Profit and Loss position of the Bank for the years 1986-87 and 1985-86 is summarised as under :

(In crores Taka)

	1986-87	1985-86	Changes
Gross Income	390.84	427.31	(-) 36.47
Total Expenditure	206.01	192.45	(+) 13.56
Net Profit :	**184.83**	**234.86**	**(-) 50.03**

The net profit of the Bank during 1986-87 was lower by Tk. 50.03 crores as compared to that during 1985-86. This was due to decline in gross income by Tk. 36.47 crores and increase of total expenditure by Tk.13.56 crores. The decline in income was attributable mainly to the downward revision of the Bank Rate by 0.75 percentage points to 10.75 percent, reduced earnings from external investment of the Bank following the fall in interest rates in the international markets and the lower level of refinance.

21.7 Out of the above profit of Tk. 184.83 crores, a sum of Tk. 40 crores has been appropriated towards different Statutory Funds including credit guarantee fund as detailed below and the balance of Tk.144,82,62,086.96 has been paid to the Government Exchequer as surplus profit :

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. 144,82,62,086.96
Total :	**Tk. 184,82,62,086.96**

Interest Subsidy to Banks and other Financial Institutions

21.8 For financing the Special Housing Scheme for the low and middle income people at a concessional rate of interest, the Bangladesh Bank continued to allow interest subsidy to the Bangladesh House Building Finance Corporation. With a view to boosting up export of non-traditional items, the Bangladesh Bank also allowed more interest subsidy on export credit to the financing banks during the year. A sum of Tk. 6.88 crores was paid as interest subsidy during 1986-87 as against Tk. 3.52 crores paid last year.

Appointment of Auditors

21.9 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 1986-87.

Appreciation

21.10 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.

BALANCE SHEET
AND
PROFIT AND LOSS ACCOUNT

BANGLADESH
BALANCE
ISSUE
LIABILITIES

PARTICULARS	As on June 30, 1987		As on June 30, 1986	
	TAKA	TAKA	TAKA	TAKA
Notes held in the Banking Department	22,84,115		91,42,260	
Notes in Circulation*	2346,26,88,135		2205,59,90,290	
Total Notes Issued		2346,49,72,250		2206,51,32,550
TOTAL LIABILITIES:	TAKA	2346,49,72,250	TAKA	2206,51,32,550

* 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

PARTICULARS	As on June 30, 1987		As on June 30, 1986	
	TAKA	TAKA	TAKA	TAKA
A. Gold Coin and Bullion	69,99,27,000		50,03,27,000	
Silver Bullion	Nil		Nil	
Special Drawing Rights held with the International Monetary Fund	Nil		Nil	
Approved Foreign Exchange	200,00,00,000	269,99,27,000	200,00,00,000	250,03,27,000
B. Taka Coin	3,10,14,355		86,80,909	
Government of Bangladesh Securities**	475,16,24,690		346,37,18,436	
Internal Bills of Exchange and other Commercial Papers	1598,24,06,205	2076,50,45,250	1609,24,06,205	1956,48,05,550
TOTAL ASSETS:		TAKA 2346,49,72,250	TAKA	2206,51,32,550

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

LIABILITIES

PARTICULARS	As on June 30, 1987		As on June 30, 1986	
	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		115,00,00,000		100,00,00,000
Industrial Credit Fund		36,00,00,000		32,00,00,000
Export Credit Fund		37,00,00,000		33,00,00,000
Agricultural Credit Stabilisation Fund		115,00,00,000		100,00,00,000
Deposits :				
(a) Government	81,19,214		57,04,672	
(b) Banks	937,72,86,024		618,75,82,206	
(c) Others	2439,70,70,915	3378,24,76,153	2231,44,71,748	2850,77,58,626
Allocation of Special Drawing Rights		91,74,31,206		91,74,31,206
Bills Payable		15,95,566		23,76,853
Other Liabilities		1030,70,39,609		967,75,37,052
TOTAL LIABILITIES :	TAKA	4809,85,42,534	TAKA	4181,51,03,737

DEPARTMENT

ASSETS

PARTICULARS	As on June 30, 1987		As on June 30, 1986	
	TAKA	TAKA	TAKA	TAKA
Notes		22,84,115		91,42,260
Taka Coin		2,113		175
Subsidiary Coin		67		19
Bills purchased and Discounted				
(a) Internal	20,00,00,000		139,00,00,000	
(b) External	Nil		Nil	
(c) Government Treasury Bills	49,46,28,290	69,46,28,290	108,18,79,677	247,18,79,677
Balances held out side Bangladesh***		1857,66,69,958		1110,93,58,606
Special Drawing Rights held with the International Monetary Fund		Nil		Nil
Loans and Advances to Government		20,00,00,000		Nil
Government's Debtor Balances		Nil		Nil
Other Loans and Advances		1112,10,75,014		1327,20,39,384
Investments		749,93,86,840		806,52,72,840
Other Assets		1000,44,96,137		688,74,10,776
TOTAL ASSETS:	**TAKA**	**4809,86,42,534**	**TAKA**	**4181,51,03,737**

*** Includes Cash and Short-Term Securities.

PROFIT AND LOSS ACCOUNT

	AS ON JUNE 30, 1987 TAKA	AS ON JUNE 30, 1986 TAKA
INCOME:		
Interest, Discount, Exchange, Commission, etc.	390,84,00,687	427,31,71,627
EXPENDITURE:		
Establishment	23,09,17,047	24,50,04,316
Directors' Fees and Expenses	15,552	16,896
Auditors' Fees	62,970	52,475
Rent, Taxes, Insurance, Lighting, etc.	2,10,29,695	1,34,78,766
Law Charges	1,34,700	1,69,276
Postage and Telegram Charges	19,52,249	18,23,380
Remittance of Treasure	50,12,687	26,36,382
Stationary, etc	1,28,10,070	90,09,130
Security Printing (Cheques, Note, Forms, etc.)	2,12,66,916	11,65,16,567
Depreciation on Bank's Property	2,19,32,812	2,06,79,632
Repairs to Bank's Property	90,19,776	74,72,182
Agency Charges	3,31,59,391	3,23,12,913
I.M.F. Charges	111,36,34,400	88,85,70,466
Interest Susidy to Banks and Financial Institutions	6,87,97,598	3,51,76,455
Interest on Deposits	42,55,31,379	46,36,82,628
Interest on Staff Provident Fund	2,17,33,715	2,60,45,177
Interest on General Provident Fund	46,56,116	8,40,658
Interest paid on ACU Transactions	1,15,49,212	1,03,14,123
Miscellaneous Expenses	5,72,23,334	5,06,31,268
Net Profit	184,82,62,087	234,86,38,917
Total Taka :	**390,84,00,687**	**427,31,71,627**
APPROPRIATION OF PROFITS		
Amount transferred to Reserve Fund	Nil	Nil
Amount transferred to Rural Credit Fund	15,00,00,000	15,00,00,000
Amount transferred to Industrial Credit Fund	4,00,00,000	4,00,00,000
Amount transferred to Export Credit Fund	4,00,00,000	4,00,00,000
Amount transferred to Agricultural Credit Stabilisation Fund	15,00,00,000	15,00,00,000
Amount transferred to Credit Guarantee Fund	2,00,00,000	2,00,00,000
Surplus payable to Govt.	144,82,62,087	194,86,38,917
Balance Carried Forward	Nil	Nil
Total Taka :	**184,82,62,087**	**234,86,38,917**
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. Matlub Ahmed
General Manager (Accounts)

Mahbubur Rahman Khan
Deputy Governor

S. B. Chaudhuri
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, 1987 and the Profit and Loss Account of the Bank for the year ended on that date.

We have examined the foregoing Balance Sheets(Issue & Banking Departments) as at June 30,1987 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 explanation and information, such explanation and information have been given satisfactorily. In our opinion, the Balance Sheets are full and fair Balance Sheets containing all necessary particulars and are 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,
July 26, 1987

**Khan Wahab Shafique
Rahman & Co.,**
Chartered Accountants.

APPENDICES

BANGLADESH : SOME SELECTED STATISTICS

I. AREA AND POPULATION

1. Area		1,43,999 Km²
2. Population	1985-86	1986-87 P
	101.7 Million	104.1 Million
3. Density of Population :		
a) Per Km² of Total Land Area	702	719
b) Per Km² of Cultivable Land	1,109	1,130

Source : Bangladesh Bureau of Statistics.

P = Provisional.

II. NATIONAL INCOME, INVESTMENT AND SAVINGS

(Taka in crores)

Item/Sectors	1985-86	% Change	1986-87 (Estimated)	% Change
1. GDP (At Constant 1984-85 Factor Cost)	34,205	+ 4.0	35,720	+ 4.4
2. GDP (At Current Market Prices)	38,536	+ 10.6	43,926	+ 14.0
3. Per Capita GDP (In Taka at Current Prices)	3,789	+ 7.9	4,220	+ 11.4
4. Gross Investment (At Current Prices)	6,547	17.0@	6,526	14.9@
5. Gross Domestic Savings (At Current Prices)	1,835	4.8@	2,734	6.2@
6. Sectoral Break-up of GDP (At Constant 1984-85 Factor Cost) :		% share		% share
a) Agriculture	17,268	51	17,808	50
b) Trade and Transport	9,338	27	9,756	27
c) Housing and Public Services	3,363	10	3,513	10
d) Industry	3,163	9	3,462	10
e) Construction	815	2	880	2
f) Power and Gas	258	1	301	1
Total :	**34,205**	**100**	**35,720**	**100**

Source : Planning Commission.

@ As percentage of GDP at current market prices.

III. GOVERNMENT FINANCE AND ANNUAL DEVELOPMENT PROGRAMME

(Taka in crores)

Sl. No.	Heads	1985-86	%	1986-87 (Revised)	%
1.	**Revenue Receipts:**	**4,073.00**	**100**	**4,717.00**	**100**
	a) Tax	3,228.00	79	3,853.00	82
	b) Non-Tax	845.00	21	864.00	18
2.	Revenue Expenditure	3,420.53	84	3,956.00	84
3.	Revenue Surplus	652.47	16	761.00	16
4.	**Capital Receipts:**	**5,038.22**	**100**	**5,354.51**	**100**
	a) Capital Expenditure	1,272.11	25	1,155.35	22
	b) Capital Surplus	3,766.11	75	4,199.16	78
5.	**Size of ADP**	**4,095.54**	**100**	**4,513.38**	**100**
	a) Domestic	703.73	17	811.89	18
	b) Foreign	3,391.81	83	3,701.49	82

Source : Budget Summary Statements ; Ministry of Finance.

IV. MONEY, CREDIT AND PRICES

(Taka in crores)

Sl. No.	Heads	1985-86	1986-87
1.	Broad Money (M_2)	12,338.10	14,353.10
2.	**Domestic Credit**	**14,534.70**	**15,660.80**
	i) Public Sector(including Govt.)	6,178.50	6,686.80
	ii) Private Sector	8,356.20	8,974.00
3.	Broad Money as % of GDP (At Current Market Prices)	32.02	32.68
4.	Consumer Price Index* For Dhaka Middle Income Families		
	i) Point to Point	464.67	490.25
	ii) Yearly Average	436.03	481.16
5.	Annual Percentage Changes in		
	i) Consumer Price Index for Dhaka Middle Income Families*		
	a) Point to Point	+12.90	+5.50
	b) Yearly Average	+9.95	+10.35
	ii) Credit to Public Sector (excluding Govt.)	+23.02	+9.64
	iii) Credit to Private Sector	+21.27	+7.39

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

* Base = 1973 - 74 = 100.

V. COMPARATIVE POSITION OF SCHEDULED BANKS

(Taka in crores)

Particulars	As on 30.6.1986	As on 30.6.1987
1. Bank Deposits (excluding inter-bank items)	**10,384.50**	**12,276.60**
a) Demand Deposits	2,974.30	3,186.30
b) Time Deposits	7,410.20	9,090.30
2. Borrowings from the Bangladesh Bank	2,277.50	1,953.10
3. Cash in Tills	338.40	361.30
4. Balances with the Bangladesh Bank	675.80	968.20
5. Balances with other Banks in Current Account in Bangladesh	205.90	290.40
6. Money at Call and Short Notice in Bangladesh	183.00	285.20
7. Scheduled Banks' Investment	**1,855.20**	**2,279.30**
a) Government Securities	956.70	1,258.00
b) Others	898.50	1,021.30
8. Bank Credit (excluding inter-bank items)	**10,763.40**	**11,611.80**
a) Advances in Bangladesh	10,456.40	11,289.10
b) Inland and Foreign Bills Purchased and Discounted in Bangladesh	307.00	322.70
9. Credit/Deposit Ratio (excluding the BKB, the RKUB and the BSB)	0.83	0.77

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH

A. Bank Rate and Scheduled Banks'Interest Rates on Deposits and Loans/Advances

(Percent per annum)

Particulars	May 1,1977 to Oct.15, 1980	October 16, 1980 to Dec. 31,1984	January 1 1985 to Sept. 15, 1985	Sept. 16, 1985 to June,30, 1986	July 1, 1986 to June 30, 1987
1	2	3	4	5	6
1. Bank Rate: (Bangladesh Bank's lending/discount rate)	8.0	10.5	11.0	11.25	10.75
2. Scheduled Bank's Interest Rates on Deposits					
a) Call Deposits and Special Notice Accounts i.e. deposits withdrawable at notice	4.0—4.25	4.5*	4.5	4.5	4.5
* No interest on call deposits effective from December 2, 1982.					
b) **Savings Bank Accounts**					
i) With chequing facilities	6.0 (upto July 31,1977 and 4.5 from Aug. 1, 1977)	a) 8.5 b) 9.5**	a) 8.5 b) 10.5@	a) 8.5 b) 10.5@	a) 8.5 b) 10.5@
**In rural areas for accounts of individuals only with effect from July 1, 1984.					
@ In rural areas for accounts of individuals only effective from January 1, 1985.					
ii) Without chequing facilities	a) 7.0 b) 7.75[1]	10.0	a) 10.0 b) 11.0[2]	a) 10.0 b) 11.0[2]	a) 10.0 b) 11.0[2]
[1] In rural areas for accounts of individuals only with effect from October 1, 1978.					
[2] In rural areas for accounts of individuals only effective from January 1, 1985					

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH (continued)

(Percent per annum)

Particulars	May 1,1977 to Oct.15, 1980	October 16, 1980 to Dec. 31,1984	January 1 1985 to Sept. 15, 1985	Sept. 16, 1985 to June,30, 1986	July 1, 1986 to June 30 1987
1	2	3	4	5	6
c) Fixed (or term) Deposits					
i) For 3 months and over but less than 6 months	a) 7.0 b) 8.5[1]	12.00	12.00	12.00	12.00
[1] In rural areas for accounts of individuals only with effect from October 1, 1978.					
ii) For 6 months and over but less than 1 year	a) 7.5 b) 9.0[1]	13.0	13.0	13.0	12.5 Effective from Jan. 17, 1987
[1] In rural areas for accounts of individuals only the rate was 8.5% during December 15, 1977 to September 30, 1978 which was raised to 9.0% effective from October 1, 1978					
iii) 1 year and over but less than 2 years	a) 8.25 b) 9.25[2]	14.0	14.0	14.0	13.25 Effective from Jan. 17, 1987
[2] In rural areas for accounts of individuals only with effect from December 15, 1977					
iv) For 2 years and over but less than 3 years	9.25	14.5	14.5	14.5	13.75 Effective from Jan. 17,1987
v) For 3 years and over	10.25	15.0	15.0	15.0	14.25 Effective from Jan. 17, 1987

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH (continued)

(Percent per annum)

Particulars	May 1,1977 to Oct.15, 1980	October 16, 1980 to Dec. 31,1984	January 1 1985 to Sept. 15, 1985	Sept. 16, 1985 to June,30, 1986	July 1, 1986 to June 30 1987
1	2	3	4	5	6
d) Current Account	Nil	Nil	Nil	Nil	Nil
3. **Scheduled Banks' Interest Rates on loans and Advances:**					
a) Export Credit for traditional Items i.e. Jute, jute goods and loose tea	10.5	12.0 [1]	12.0	12.0	9.0

[1] For all advances against jute including those relating to internal trade, rate of interest was 12.0% upto Dec. 25, 1984. Since then it is 12.0% for external trade (upto June 30, 1986) and 16.0% for internal trade.

Particulars	May 1,1977 to Oct.15, 1980	October 16, 1980 to Dec. 31,1984	January 1 1985 to Sept. 15, 1985	Sept. 16, 1985 to June,30, 1986	July 1, 1986 to June 30 1987
b) Export credit for non-traditional items including packet tea and jute carpet	10.5	9.0 [1]	9.0	9.0	9.0

[1] The rate was 12.0% during October 16, 1980 to July 4, 1982 which was reduced to 11.5% effective from July 5, 1982 and further to 9.0% with effect from July 1, 1983

Particulars	May 1,1977 to Oct.15, 1980	October 16, 1980 to Dec. 31,1984	January 1 1985 to Sept. 15, 1985	Sept. 16, 1985 to June,30, 1986	July 1, 1986 to June 30 1987
c) Export credit for 3 non-traditional items viz. light engineering and electric goods, handicrafts and hand-loom products	10.5	9.0	7.0 (Effective from July 1, 1985)	7.0	7.0

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH (continued)

(Percent per annum)

Particulars	May 1,1977 to Oct.15, 1980	October 16, 1980 to Dec. 31,1984	January 1 1985 to Sept. 15, 1985	Sept. 16, 1985 to June 30, 1986	July 1, 1986 to June 30 1987
1	2	3	4	5	6
d) Agriculture including forestry and fishery (including service charge)	—	16.0 [2]	16.0	16.0	16.0

[2] The rate was 12.0% upto September 30, 1983. Thereafter service charge at 4.0% over the normal interest of 12% on short-term (upto 18 months) loans and service charge at 3% over normal rate of 13% on other term (more than 18 months) loans are applied with effect from October 1, 1983.

e) Industry	11.0-12.0	14.0 [3] (Effective from August 1,1981 the rate was 14.5)	14.5 [4]	12.0-14.5 [5]	9.0-14.0 [6]

3. Effective from July 1, 1983 the rate of interest on working capital loans to export oriented fish-freezing units and export-oriented industries operating under customs-bonded arrangement exclusively for export sales would be 9.0%.
4. In case of working capital finance to jute mills including jute spinning mills effective from February 1, 1985 the financing bank would refund interest @ 2.5% as per prescribed procedure to the mills concerned as and when shipment of the jute goods was effected.
5. The rate of interest on working capital loans to industries (excluding jute industries) and also the rate on term finance for industrial projects extended for a period of 5 years and above have been reduced to 14.0% from 14.5% with effect from March 1, 1986. The rate of interest on term finance for industrial projects extended for a period of less than 5 years would be 14.5% effective from March 1, 1986. The rate of interest on working capital finance to jute mills and jute spinning mills was reduced from 14.5%

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH (continued)

(Percent per annum)

Particulars	May 1,1977 to Oct.15, 1980	October 16, 1980 to Dec. 31,1984	January 1 1985 to Sept. 15, 1985	Sept. 16, 1985 to June,30, 1986	July 1, 1986 to June 30 1987
1	2	3	4	5	6

to 14.0% with effect from March 1, 1986 with the provision that financing bank would refund interest @ 2% as per prescribed procedure to the mills concerned as and when shipment of the jute goods was effected. The rate of interest on working capital loans to jute industries including jute spinning mills was further reduced to 12.0% w.e.f. June 1, 1986 and it was decided that no refund of interest would be allowed on shipments made on or after June 1, 1986.

6. The rate of interest on working capital loans to industries (excluding jute industries and industries in the EPZ) remained unchanged at 14.0%. The rate of interest on working capital loans to jute industries (including jute spinning mills) has been reduced to 9.0% from 12.0% w.e.f. July 1, 1986. The rate of interest on working capital loans to industries in the EPZ with 100% Bangladeshi ownership would be 9.0% w.e.f. October 1, 1986. The rate of interest for export oriented fish-freezing units & export-oriented industries remained unchanged at 9%.

f) For other industries in less developed areas	11.5	13.0	13.0	13.0	10.0 – 13.5 (Details given at sub-head 'B')
g) **Special Credit**					
i) Loans given in the Special Economic Zone (SEZ) of Chittagong Hill Tracts region.	11.0	5.0[1]	5.0	5.0	5.0
ii) Small loan scheme, special credit for salt growers self-employment programme, etc.	–	13.0[2]	13.0	13.0	13.0

1. Effective from April 18, 1984 excepting the loans on trading purpose. The rate was 13% during October 16, 1980 to April 17, 1984.
2. Service charge at 2% over the normal interest rate of 13% are applied with effect from April 1, 1984.

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH (continued)

(Percent per annum)

Particulars	May 1,1977 to Oct.15, 1980	October 16, 1980 to Dec. 31,1984	January 1 1985 to Sept. 15, 1985	Sept. 16, 1985 to June,30. 1986	July 1, 1986 to June 30 1987
1	2	3	4	5	6
h) Loans for construction of houses in rural areas and urban areas	—	5.0 (Rural areas effective from January, 1984)	5.0	5.0	5.0
		16.0 (Urban areas effective from December 22, 1983)	16.0	16.0	16.0
i) Advances for internal trading purpose	—	16.0 (Effective from December 5, 1981)	a) 16.0 (upto Tk. 1, lakh)	16.0	16.0
			b) 18.0 (Exceeding Tk. 1, lakh)	18.0	18.0
j) Advances against FDR	—	20.0 (Effective from December 1, 1984)	Effective from March 1, 1985 the rate is 3% above the rate of interest allowed on the relevant FDR upto Tk. 1 lakh. Exceeding Tk. 1 lakh the interest rate is 20%		

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH (continued)

B. Rates of Interest on Term Loans[1] (effect from July 1, 1986)

(Percent per annum)

Debt-equity ratio	Developed/Less developed areas	Least developed areas	For industries using domestically produced capital goods	Small and cottage industries
60 : 40	12.0	11.0	10.0	10.0
70 : 30	13.0	12.0	11.0	(irrespective of debt-equity ratio
80 : 20[2]	13.5	12.5	11.5	and place of location of the project.)

[1] It was decided on October 1, 1986 that the banks may realise service charge (not applicable for small and cottage industries) on term loans at a rate not exceeding 2% provided the loans are extended from their own resources.

[2] Debt-equity ratio of 80 : 20 is not applicable for developed areas.

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH (continued)

C. Rates of Interests for the Bangladesh Bank's Refinance/Counter-Finance to Scheduled Banks:

(Percent per annum)

Commodities/Sectors	Rates of interest on Refinance as on 30.6.87
A. **Refinance**	
1. Jute (To the extent of 30% of the total credit extended by banks to the jute sector)	2.5
2. Export Credit for Loose Tea (To the extent of 100% outstanding advances less overdues)	5.5
3. i) Pre-shipment Export Credit for Non-traditional Items (100% of the pre-shipment export finance of banks less overdues)	5.5
ii) Pre-shipment Export Credit for three Non-traditional Items only viz., light engineering and electrical goods, handicrafts and handloom products (100% of the pre-shipment export finance of banks less overdues)	3.5

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH (continued)

C. Rates of Interests for the Bangladesh Bank's Refinance/Counter-Finance to Scheduled Banks:

(Percent per annum)

Commodities/Sectors	Rates of interest of Refinance as on 30.6.87
4. Sugar Mills (50% of the credit extended by banks to sugar mills)	10.75 (Bank Rate)
5. Working Capital Loans to Industries (50% of the credit extended by banks as working capital loans to industries established on or after July 1, 1985)	10.75 (Bank Rate)
6. Export Bills (To the extent of 50% and 100% of the bills in respect of traditional and non-traditional exports respectively)	5.5
7. Duty Draw-back Credit Scheme (to the extent of 100% of loans extended under Duty Draw-back Credit Scheme)	Free of Interest
8. Term Loan for Project Finance (Against term loans sanctioned on or after July 1, 1986 for project finance)	2 percent below the normal rate of interest charged by the banks.
9. Tannery Units (BMRE finance of the existing tannery units to the extent of 100% of such finance)	10.75 (Bank Rate)

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH (continued)

C. Rates of Interests for the Bangladesh Bank's Refinance/Counter-Finance to Scheduled Banks:

(Percent per annum)

Commodities/Sectors	Rates of interest of Refinance as on 30.6.87
10 100% of local currency advances in SEZ of Chittagong Hill Tracts Region (The financing banks would disburse these loans at an interest rate of 5% per annum)	1.5
11. Refinance under IDA Credit No. 1065–BD	
a) Upto Tk. 5 lakhs	5.0
b) Above Tk. 5 lakhs to Tk. 15 lakhs	6.0
c) Above Tk. 15 lakhs to Tk. 30 lakhs	7.0
B. **Counter-Finance**	
Government Food Department and the BADC (To the extent of the total credit allocated by the Bangladesh Bank)	10.75 (Bank Rate)

VI. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH (concld.)

C. Rates of Interests for the Bangladesh Bank's Refinance/Counter-Finance to Scheduled Banks:

(Appendix VI continued)

(Percent per annum)

Commodities/Sectors	Rates of interest of Refinance as on 30.6.87

C. **Matrix of Interest Rates on Refinance against Agricultural Loan**

Rates of Interest on Refinance (in percentage)	Refinance Scale in Percentage of Disbursement		
	Commercial Banks	B. K.B.	BSBL/IDA Credit No. 1147-BD
7.5	Below 50	Bellow 50	Flat rate
8.5	50 to below 60	50 to below 80	Of 8.5 for all categories
9.5	60 to below 80	80 to below 95	
10.75	80 to 100	95 to 100	

VII. BALANCE OF PAYMENTS

Items/Period	1985-86		1986-87	
	In crore Tk.	In million US $	In crore Tk.	In million US $
Exports(f.o.b.)	2716.6	909	3064.3	1000
Imports(c & f)	-7065.1	-2364	-8026.0	-2620
Of which : Food grains	(-656.0)	(-220)	(-833.1)	(-272)
Trade balance	**-4348.5**	**-1455**	**-4961.7**	**-1620**
Services (net)	-374.0	-125	-463.4	-151
Inflows	777.0	260	802.1	262
Outflows	-1151.0	-385	-1265.5	-413
Of which: Int. payments	(-433.4)	(-145)	(-450.3)	(-147)
Private Unrequited Transfers	1569.3	525	1990.0	649
Current account balance	**-3153.2**	**-1055**	**-3435.1**	**-1122**
Aid disbursements	3911.4	1309	4891.9	1597
Food	605.9	203	690.4	225
Commodity	1184.1	396[1]	1238.9	405[1]
Project	2121.4	710	2962.6	967
Amortization payments	-349.7	-117	-471.8	-154
Food credits (net)	-198.9	-67	-294.0	-96
Borrowings	44.8	15	—	—
Repayments	-243.7	-82	-294.0	-96
Trust Fund	-76.1	-25	-93.1	-30
Aircraft loan (net)	-4.4	-1	-21.4	-7
Short-term to BPC	3.0	1	-2.9	-1
Other capital	-10.7	-4	-145.5	-48
Errors and omissions	16.5	5	-137.1	-44
Overall balance	**137.9**	**46**	**291.0**	**95**
Monetary movements (- increase)	-137.9	-46	-291.0	-95
Bangladesh Bank	-189.4	-63	-236.4	-77
Foreign exchange	-188.7	-63	-615.7	-201
Liabilities	-0.7	—	379.3	124
Of which: Fund credit	(-8.6)	(-3)	(500.5)	(163)
Commercial banks	51.5	17	-54.6	-18
Assets	12.2	4	-12.7	-4
Liabilities	39.3	13	-41.9	-14

1. Includes IMF subsidy $ 3 m and $2 m in 1985-86 and 1986-87 respectively.

VIII MERCHANDISE EXPORTS (RECEIPTS)

Commodity	1985-86		1986-87	
	In crore Tk.	In million US $	In crore Tk.	In million US $
Total Exports (f.o.b.)	**2716.6**	**909**	**3064.3**	**1000**
1. Raw jute	352.5	118	297.7	97
2. Jute goods	1014.0	339	906.5	296
3. Tea	103.8	35	89.2	29
4. Leather	249.9	84	345.5	113
5. Fish, shrimps and frog legs	382.4	128	443.6	145
6. Naptha, Furnace oil and bitumen	48.4	16	29.3	10
7. Readymade garments	443.9	148	791.0	258
8. Others	121.7	41	161.5	52

IX. MERCHANDISE IMPORTS (PAYMENTS)

Commodity	1985-86		1986-87	
	In crore Tk.	In million US $	In crore Tk.	In million US $
Total imports (c & f)	**7065.1**	**2364**	**8026.0**	**2620**
1. Food grains	656.0	220	833.1	272
a) Rice	(24.5)	(8)	(150.1)	(49)
b) Wheat	(631.5)	(212)	(683.0)	(223)
2. Edible oil & oil seeds	354.0	118	319.8	104
3. Petroleum crude and petroleum products	964.3	323	553.3	181
4. Cotton	105.3	35	82.4	27
5. Textile yarn	145.6	49	115.7	38
6. Fertilizers	306.5	103	47.8	16
7. Chemicals	424.8	142	447.6	146
8. Cement	167.7	56	177.4	58
9. Capital goods & other accessories	2066.2	691	3070.7	1003
10. Others	1874.7	627	2315.6	755

X. FOREIGN AID, EXTERNAL DEBT AND DEBT SERVICE

(In Million U.S. Dollar)

Particulars	1985-86	1986-87
1. Foreign Aid		
a) Gross Disbursement during the year	1,306	1,595
b) Gross Commitment during the year	1,662	1,603
c) Total Commitment since 1972	19,393	20,996
d) Total Disbursement since 1972	14,011	15,606
2. Debt Service	189	260
3. Debt Service-Export Ratio	20.2	23.5

Source : Planning Commission.

XI. INTERNATIONAL RESERVES

(Amount in million)

Period (End-June Position)	Total Reserves including IMF Reserve Position	
	Amount in Taka	US Dollar equivalent
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
1986-87	22151	715

XII. EXCHANGE RATES

(Period Average of Official Rates)

Period		Taka per U.S. Dollar
		(Annual Average)
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
1986-87		30.6294
		(Monthly Average)
July	1986	30.30
August	"	30.30
September	"	30.30
October	"	30.30
November	"	30.50
December	"	30.80
January	1987	30.80
February	"	30.80
March	"	30.80
April	"	30.80
May	"	30.90
June	"	30.98

XIII. WAGE EARNERS' REMITTANCE

Year/Period	Remittance	
	In Million U.S. Dollar	In Crore Taka
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
1986-87	696.40	2136.25

XIV. OFFICES OF THE BANGLADESH BANK

(As on June 30, 1987)

Head Office

DHAKA

Offices at

MOTIJHEEL (DHAKA)

SADARGHAT (DHAKA)

CHITTAGONG

KHULNA

BOGRA

RAJSHAHI

SYLHET

XV. LIST OF SCHEDULED BANKS

(As on June 30, 1987)

A. NATIONALISED BANKS (7)

a) Commercial Banks (4)

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

b) Specialised Banks (3)

1. Bangladesh Krishi Bank
2. Rajshahi Krishi Unnayan Bank
3. Bangladesh Shilpa Bank

B. PRIVATE COMMERCIAL BANKS (9)

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

C. FOREIGN COMMERCIAL BANKS (7)

1. American Express Bank Limited.
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 Limited.
7. State Bank of India

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