ANNUAL REPORT

1987-88

E.A.

BANGLADESH BANK

BOARD OF DIRECTORS

1. Mr. S. B. Chaudhuri	Chairman
2. Mr. Mahbubur Rahman Khan	Director
3. Mr. Nizamuddin Haider	Director
4. Dr. Mohammad Habibullah	Director
5. Major General Muhammad Abdul Latif, Psc.	Director
6. Mr. Shafiqur Rahman	Director
7. Mr. Syed Manzur Elahi	Director
8. Dr. Shaikh Maksud Ali	Director
9. Mr. Chowdhury A. K. M. Aminul Hoque	Director

Mr. Santi Ranjan Karmaker — Secretary

GOVERNOR

Mr. S. B. Chaudhuri

DEPUTY GOVERNORS

Mr. Mahbubur Rahman Khan

Mr. A. S. M. Fakhrul Ahsan

EXECUTIVE DIRECTORS

Mr. A.T. M. Hafizur Rahman
Mr. Kamaluddin Ahmad
Mr. M. A. Quasem
Mr. Md. Saleh Ahmed

ECONOMIC ADVISER

Mr. A. B. M. Mahbubul Amin Khan

HEADS OF DEPARTMENTS / GENERAL MANAGERS

Computer Division	Dr. Md. Sohrabuddin
Personnel Department	Mr. S. M. Khalilur Rahman
Agricultural Credit Department	Mr. B. A. Khan Mr. A. H. Tawfique Ahmed
Agricultural Credit Inspection Department	Mr. Sultan Ahmed Mollah
Department of Research	Mr. A. H. M. Nurul Islam Choudhuri Mr. Muhammad Mohasin Ali
Department of Public Relations and Publications	Mr. Zahid Hossain
Security Management Department	Major (Retd.) Abul Hussain
Audit and Inspection Department	Mr. Abul Khair Mia
Inspection Implementation Department	Mr. R. K. Sengupta
Statistics Department	Mr. Nurul Islam
Rural Credit Project Department	Mr. Syed Feda Hossain
Engineering Department	Mr. M. A. Mannan
Administration and Expenditure Department	Mr. A. T. M. I. Mridha
Training Academy	Mr. M. Ruhul Amin
Banking Control Department	Mr. Abdur Raquib Mr. Syed Ashraf Ali
Department of Banking Inspection	Mr. Ataul Huq
Exchange Control Department	Mr. Nizamuddin Ahmed Mr. Kazi Anwarul Mahbub
Industrial Credit Department	Mr. I. I. Khan
Secretary's Department	Mr. Santi Ranjan Karmaker
Accounts Department	Mr. A. K. Matlub Ahmed Mr. Ashrafullah

HEADS OF BRANCH OFFICES

Khulna Office	Mr. Abdus Sobhan
Chittagong Office	Mr. Manzur Rashid
Bogra Office	Mr. Mohammad Ruhul Amin
Motijheel Office, Dhaka	Mr. Walayet Hossain
Rajshahi Office	Mr. Harinarayan Majumdar
Sadarghat Office, Dhaka	Mr. Golam Mostafa
Sylhet Office	Mr. A. T. Ahmed Chowdhury

LETTER OF TRANSMITTAL*

BANGLADESH BANK

DHAKA

Agrahayan 20,1395

December 4, 1988

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

Dear Sir,

In terms of the provision contained in Article 40(2) 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 accounting year ended June 30, 1988.

Yours faithfully,

S. B. Chaudhuri

Governor

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* Translation of original letter in Bengali

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CHAPTER I

TRENDS IN THE ECONOMY OF BANGLADESH

1.1 The economy suffered severe shocks during 1987-88 due to natural calamity. The rate of growth of the economy which could be sustained over the past few years suffered a setback during the year due to devastating floods and political unrest. Repeated floods from the beginning of the year, which engulfed vast areas of the country, caused extensive damage to the principal food crop Aman paddy, livestock and physical infra structures like dwelling houses, roads and railways, communication system, etc. Industrial production also suffered a setback due to political unrest in the country during November, 1987 to March, 1988. As a result, the rate of growth in Gross Domestic Product (GDP) decelerated from 4.4 percent in the preceding year to 3.0 percent in 1987-88 and the efforts for increased mobilisation of domestic resources also received setback.

1.2 Production in the agricultural sector, which had recorded a growth of 3.1 percent in 1986-87, increased by 0.7 percent during 1987-88. With a view to recouping the losses caused by the floods, the Government made all out efforts to implement a comprehensive post-flood rehabilitation programme which included free distribution of seeds and seedlings among the farmers and arrangements for adequate credit by relaxing the restrictions imposed earlier and rescheduling the repayment instalments of the outstanding loans. Although this helped substantially to replenish the loss of the transplanted Aman crop as well as to augment the production of Boro paddy and other winter crops, total output* of foodgrains in the country during 1987-88 stood 36 thousand tons lower at 164.61 lakh tons, representing a shortfall of 6.0 percent as compared to the target of 175.00 lakh tons for the year under review. Output of jute and cotton during the year declined by 13.9 percent and 17.5 percent to 47 lakh bales and 33 thousand bales respectively as compared to their levels in the preceding year. On the whole, contribution of the agricultural sector to GDP declined from 49.9 percent in the preceding year to 48.7 percent in 1987-88. Growth performance of the industrial sector also suffered a substantial setback during the year. The rate of growth in the industrial sector declined from 9.5 percent in the preceding year to 4.0 percent in 1987-88. The construction sector, however, recorded a higher growth rate of 9.9 percent during the year as compared to 8.0 percent in 1986-87. Growth in the power and gas sector, on the other hand, decelerated to 14.9 percent from 16.7 percent in the preceding year. However, the combined growth rate of the other sectors increased from 4.5 percent in the preceding year to 5.0 percent in 1987-88.

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* In metric tons.

1.3 Although the desired growth rate could not be achieved during the year, the efforts for implementation of structural adjustment measures were continued for strengthening the dynamic forces which are important for the growth process. With a view to keeping the overall price level at the desired level in the face of an expansionary trend in Broad Money at the very beginning of the year, the scheduled banks' Cash Reserve Requirement with the Bangladesh Bank was raised from 5 percent to 10 percent at the end of October, 1987. At the same time, the rate of their Liquid Asset Requirement was also raised from 20 percent to 25 percent. But for adoption of these measures, the rate of expansion of Broad Money which was 18.3 percent during the year could have been even higher. The main reason for the higher rate of expansion in Broad Money than the projected rate of 16.5 percent during the year was the net surplus of Tk. 437.50 crores in the foreign sector against the projected amount of Tk. 159.00 crores. With a view to enabling the banking sector to provide adequate finance for revival of economic activities after the floods, the Bangladesh Bank relaxed credit restrictions in selected areas and facilitated credit arrangements for the priority sectors through its refinance windows. As a result, the rate of expansion in domestic credit increased to 13.2 percent during 1987-88 from 7.7 percent in 1986-87. This was, however, lower than 14.7 percent projected for the year. Notwithstanding prevalence of fairly strong inflationary expectations in the face of tight supply situation caused by the floods, continued efforts to keep the price level stable through cautious monetary and credit management and a record import of 29.22 lakh tons of foodgrains helped contain the rate of price-inflation at 11.4 percent during the year. Total import payments increased by $ 367 million or 14.0 percent to $ 2,987 million during the year due mainly to the increased import bill of $217 million for foodgrains. Total export earnings during 1987-88 recorded an increase of $ 186 million or 18.6 percent to $1,186 million due to increased receipts from non-traditional exports, particularly from readymade garments. Despite some increase in net deficit in the trade balance, the overall balance of payments recorded a surplus of $ 158 million during the year under review due mainly to the increase of $ 299 million in net receipts under 'unrequited transfers'. Convertible foreign exchange reserves (including reserves with the IMF) remained at comfortable levels during the year. The level of foreign exchange reserves which had stood at $ 715 million at the end of June, 1987 increased to $ 856 million by the end of June, 1988. In order to boost the country's exports by maintaining the exchange rate of Taka at competitive levels, the Taka-Dollar rate was refixed three times during the year. As a result, the Taka-Dollar exchange rate depreciated by 1.6 percent to Tk. 31.50 per U.S. Dollar at the end of June, 1988.

Structural Adjustments and Supportive Measures

1.4 The three-year comprehensive programme for structural reforms of the economy which was initiated during 1986-87 under the Structural Adjustment Facility (SAF) of the International Monetary Fund continued during the year under review.

1.5 Allout efforts for mobilisation of adequate domestic resources for implementation of the country's development programmes continued during the year under review. A number of new fiscal measures were adopted in the national budget for 1987-88 to yield additional revenue of Tk. 416.00 crores. In order to make good for the shortfall in revenue receipts that emanated from the adverse situation created by the natural calamities, certain measures were adopted which, inter alia, included: (i) imposition of 6 percent surcharge on income tax; (ii) collection of additional surcharge of 5.1 percent on excise duties in respect of selected items; (iii) deduction of 4 percent relief and rehabilitation levy from dividend/ interest incomes on balances in savings and fixed deposit accounts; and (iv) a 4 percent levy on telex and telephone bills. In addition, some measures aimed at better husbanding of resources and rationalisation of taxes were also taken during the year under review. These, inter alia, included: reduction of current expenditures in certain sectors by 8.5 percent; reduction of revenue expenditure on account of subsidies as far as possible; full-cost pricing of public sector products including gas, electricity and agricultural inputs; target oriented use of the Food for Works Programme; rationalisation of the different tax rates; strengthening of the tax administration, etc. Despite these measures, the Annual Development Programme for 1987-88 had to be pruned by Tk. 395.39 crores or 7.8 percent. In the last two years' budgetary programmes, the fiscal measures were not merely used as instruments for raising revenue; these were also coordinated with other economic policies.

1.6 In order to encourage investment in shares of companies, the rates of taxes payable by companies were lowered by 5 percentage points. Besides, all dividend incomes of shares, other than companies, were exempted from payment of taxes. Investors in shares of private companies will also be entitled to enjoy this facility of tax exemption provided such companies are converted into public limited companies within two years from July 1, 1987. In order to encourage channelisation of resources from unproductive sectors into the productive sectors, income of any size declared by an assessee, other than a company, under the head 'Income from Other Sources' in the Income Tax Return for the assessment year 1987-88 were made eligible for assessment without any accountability about the source of such incomes on payment of income tax at the rate of 20 percent.

1.7 In keeping with the expansion of the scope and importance of the private sector, necessary reforms were carried out in the export, import, monetary and industrial policies of the country. Liberal provisions were made for increased import of industrial raw materials and finished goods in the Import Policy for 1987-88. In addition, the Negative List was substantially reduced and restrictions on import of other items were relaxed. A large number of items covered under 48 ITC nomenclatures in the Negative List and 29 ITC nomenclatures in the Restricted List were made eligible for imports. Items not covered by the Negative or Restricted Lists, but included in the Pass Book of industrial enterprises, were allowed to be imported without any quantitative restrictions. Moreover, in order to meet special needs of the industrial sector, arrangements for import of contraband items were also made subject to prior approval of the competent authority.

1.8 A number of steps were taken for expansion and diversification of exports during 1987–88. These included, incorporation of some new export commodities under the XPB Scheme, enhancement of the rates of the XPB entitlement in respect of certain items, inclusion of a few export commodities under the purview of the Duty-Drawback Scheme, refixation of the rates of duty-drawback as and when necessary and provision for cash subsidy to the garments industry.

1.9 Efforts were continued during the year under review for creating adequate facilities/incentives for boosting investment and production in the private sector, especially in the export oriented industries. With a view to achieving the objectives of current industrial policy of the country, implementation of various strategies and measures were strengthened during the year under review. Comprehensive adjustments in tax rates were made in the budgetary programme for 1987-88 to provide protection to and facilitate expansion of some indigenous industries, such as, steel and engineering, textile, chemical and transport. Customs duties and sales tax on import of industrial raw materials were substantially reduced. The time limit for availing of accelerated depreciation allowance for investments in industrial machinery was extended for a further period of three years from July 1, 1987. For encouraging development of small and cottage industries (SCIs) in the country, the scope and definition of such industries were further widened by raising the maximum ceiling of investment in machinery from Taka one lakh to Taka three lakhs, keeping the existing facility for exemption of excise duties unchanged. The policy for extension of bank credit to the small and cottage industries on a priority basis and at a concessional rate of interest was also pursued during the year under review. Provisions were made for extending credit upto Taka 2 lakhs for setting up small and cottage industries to individual entrepreneurs with special skill and technical know-how and upto Taka 5 lakhs to a 'group of five' of such entrepreneurs. Besides, the Bangladesh Bank extended its approval to the proposal for setting up a small industries bank named 'Bank of Small Industries and Commerce, Bangladesh Limited' on condition that 50 percent of its loanable funds will be earmarked for the small and cottage industries sector.

1.10 In order to attract foreign private investments, the Investment Schedule under the current Industrial Policy has been further liberalised. The work relating to a programme for development of proper infrastructural facilities was taken in hand in the Chittagong Export Processing Zone, the first project of the Bangladesh Export Processing Zones Authority (BEPZA), which was set up for providing an ideal environment for foreign direct investments in the country. The decision in principle has also been taken for setting up a similar Export Processing Zone in the suburb of Dhaka city.

1.11 With a view to protecting the economy from the harmful effect of smuggling, the Government has formed an Anti-smuggling Committee at the national level. Besides, a Central Task Force alongwith four other Regional Task Forces have been constituted for suggesting appropriate actions. Some legal reforms have also been carried out to curb smuggling.

1.12 Under the Financial Sector Reforms Porgramme, importance has been accorded to the task of making allout efforts for recovering the stuck up advances of nationalised commercial banks to help them restructure their capital. Simultaneously, the Inspection Departments of the Bangladesh Bank have been geared up to keep careful watch for ensuring strict compliance of the instructions issued by the Bangladesh Bank to the scheduled banks and other financial institutions.

Money, Credit and Price Situation

1.13 The monetary and credit policies of the Bangladesh Bank during 1987-88 were formulated and implemented after making pragmatic assessment of the on-going situation with a view to ensuring adequate credit flow to productive activities, keeping in view the need for maintaining price situation under control. Arrangements were made for increased bank credit by relaxing the restrictions imposed earlier to ensure adequate flow of finance for implementation of the Post Flood Agricultural Rehabilitation Programme which was designed to recoup the crop losses caused by the floods. Special instructions/advices were given to the banks for ensuring supply of necessary credit for augmenting industrial production and expanding exports. In the case of the readymade garments industry, banks were allowed to sanction L.C / C.C limits for three months at a time on the basis of production capacity of the respective industrial units and, in special cases, for longer periods based on satisfactory banker-customer relationship. In respect of sanctioning working capital loans to industrial projects for a period of 3 months and over, for opening back-to-back L / Cs exceeding Taka one crore, the requirement for prior approval of the Bangladesh Bank was waived. Besides, banks were permitted to decide on their own about L / C margins on the basis of banker-customer relationship from July 1, 1988. This was done with the objective of allowing operation of the economy by natural forces through gradual dismantling of credit and other restrictions in financial management.

1.14 In spite of allout efforts for augmenting the flow of credit to the productive and priority sectors to accelerate the pace of economic activities of the country, the expansion of credit during the first quarter of the year remained below the desired level. As a result of the extensive damages caused by repeated floods at thebeginningof the year,disposable income in the rural areas declined and, consequently, the overall effective demand remained depressed during the year. Slower than expected growth in imports,despite substantial liberalisation of the import policy and a comfortable reserves position, impeded the desired expansion in bank credit. Efforts at enforcement of discipline in respect of extension and repayment of agricultural and industrial credit also influenced the expansion of bank credit. As a result, the problem of excess liquidity of the banks which had cropped up last year continued during the year under review. Total excess liquidity of the banks stood at Tk.884.94 crores or 7.0 percent of their total deposits as on September 24, 1987. The statutory Liquidity Asset Requirement of banks together with their Cash Reserve Requirement with the Bangladesh Bank were increased simultaneously from 20.0 percent and 5.0 percent to 25.0 percent and 10.0 percent respectively of their total deposit liabilities with effect from October 29, 1987 to forestall the possibility of the excess liquidity of banks acting as a source of inflationary pressure in the economy in the wake of the floods. This was for the first time that cash reserve requirement with the Bangladesh Bank has been used as a measure of credit control in Bangladesh. Provisions were, however, made for payment of interest on the additional 5.0 percent cash reserves with the Bangladesh Bank initially at the rate of 2.5 percent and at 5.0 percent with effect from March 1, 1988.

1.15 The rate of inflation increased somewhat during 1987-88. Pressure on prices started mounting from the middle of the first quarter of the year under review. The pressure on prices intensified due mainly to shortage of supply caused by extensive damages to crops by floods, slowdown in industrial production on account of political unrest and disruption of transport / distribution network. The rate of price-inflation as measured by twelve-month average of the consumer price indices for middle income families in Dhaka city increased by 11.4 percent during the year as compared with the increase of 10.4 percent during the preceding year.

Balance of Payments Situation

1.16 Deficits in the country's external trade account increased during 1987-88 as compared to the preceding year. The size of deficit in the trade balance increased by $ 181 million to $ 1,801 million during 1987-88 as compared to the deficit of $ 1,620 million during 1986-87. The deficit in the trade balance during the year widened mainly because of a record import of foodgrains and other essential commodities under cash as well as aid to cope with the exigencies created by the floods. Payments for import of foodgrains increased by $ 217 million or 79.8 percent to $ 489 million. Though payments for import of petroleum and petroleum products, cement and textile yarn declined somewhat and those for capital goods including accessories declined substantially, import bills for fertilizers, cotton, edible oil and oil seeds and other items increased by $ 311 million or 29.7 percent. Export earnings recorded an increase of $ 186 million or 18.6 percent to $ 1,186 million during 1987-88. The share of non-traditional items in total export earnings increased from 57.8 percent in the preceding year to 66.1 percent in 1987-88. On the other hand, due to decline in earnings from raw jute and jute goods by 13.4 percent and 5.4 percent to $ 84 million and $ 280 million respectively, the share of traditional items in total export earnings came down from 42.2 percent in the previous year to 33.9 percent during the year under review.

1.17 Inspite of increased deficit in the external trade balance, the overall balance of payments recorded a larger surplus of $ 158 million during 1987-88 as compared to the surplus of $ 95 million during the preceding year, due mainly to higher net receipts under 'unrequited transfers'. Receipts under 'unrequited transfers' increased by $ 299 million which included increased contribution of $ 41 million or 13.7 percent of remittances from the Bangladeshi wage earners abroad (total remittances stood at $ 737 million). Higher export earnings from readymade garments as also reduced deficit in the 'services account' due to increased receipts under the heads 'investments' and 'other goods and services' also made indirect contributions to the higher surplus in the overall balance of payments.

Short-term Prospects

1.18 Although the International Monetary Fund, in its forecast for probable developments in the world economy in 1988 and 1989, expressed some optimism for improvement in certain fields of international economic and financial environment, the rate of growth in primary exporting developing countries like Bangladesh has been projected to decelerate. Unless growth rates in developed countries pick up substantially, the expansion of world trade as well as flow of international aid are likely to remain subdued which may stand in the way of achieving satisfactory growth rates in developing countries like Bangladesh. Total debt-service liabilities of Bangladesh, excluding those for drawings from the IMF, short-term credits and commercial and food credit, stood at 23.6 percent of export earnings during 1987-88. There is need to be cautious about the increasing debt-service liability.

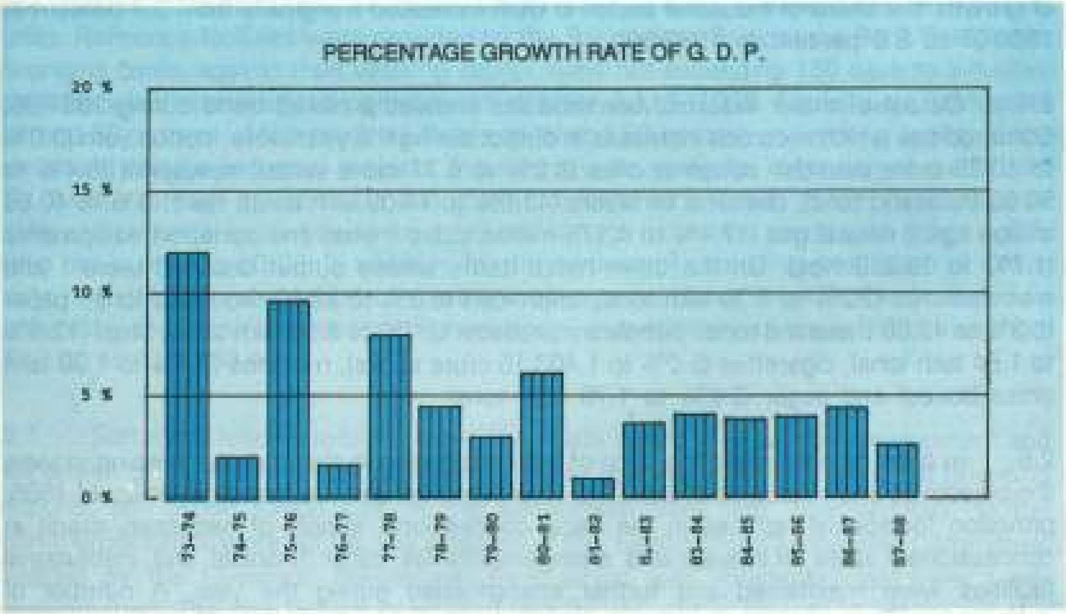
1.19 In view of the colossal damages to the economy caused by the unprecedented floods at the beginning of 1988-89, the possibility for achieving the desired growth rates in agriculture, industry and in the overall GDP appears to be slim.

CHAPTER II

THE MAJOR SECTORS

Gross Domestic Product

2.1 According to the preliminary estimate of the Planning Commission, the Gross Domestic Product (G.D.P) increased by 3.0 percent during 1987-88 as compared to the increase of 4.4 percent during the previous year. Due to extensive damages caused by devastating floods, agricultural production increased by 0.7 percent during the year as against the increase of 3.1 percent in the preceding year. The rate of increase in industrial production declined from 9.5 percent in the previous year to 4.0 percent in 1987-88 due to political unrest and prevalence of depressed effective demand in the country. The 'Construction' sector recorded a higher growth of 9.9 percent during 1987-88 as compared to 8.0 percent in the preceding year. Growth in the 'Power and Gas' sector declined from 16.7 percent in the preceding year to 14.9 percent during 1987-88. The rates of growth in other sectors during 1987-88 were: 'Public Service' 3.7 percent, 'Transport and Communication' 8.5 percent, 'Housing' 2.5 percent and 'Trade and Other Services' 5.0 percent.



Agricultural Sector

2.2 Output of agricultural crops, particularly of jute and cotton, declined substantially during 1987-88. As a result, the overall growth rate of the agricultural sector during the year was only 0.7 percent and the contribution of this sector to GDP declined from 49.9 percent in the previous year to 48.7 percent during the year under report. Production* of Aus and Aman paddy declined by 1.36 lakh tons and 5.78 lakh tons to 29.93 lakh tons and 76.89 lakh tons respectively due to damages caused by floods. However, as a result of implementation of post-flood Agricultural Rehabilitation Programme, Boro production increased by 7.21 lakh tons to 47.31 lakh tons. On the other hand, output of wheat declined by 43 thousand tons to 10.84 lakh tons. Consequently, total output of foodgrains in the country stood 36 thousand tons (0.22%) lower at 164.61 lakh tons as compared to the level recorded in the preceding year and was 6.0 percent below the target of 175.00 lakh tons for the year. Raw jute production during 1987-88 declined substantially to 47.0 lakh bales which was 13.9 percent lower than 54.6 lakh bales produced in the previous year. However, output of other agricultural crops, such as pulses, oilseeds, potatoes, tobacco, sugarcane and tea recorded some increase during the year.

Industrial Sector

2.3 Rate of growth in the industrial sector, though expected to be higher than 9.5 percent achieved in the previous year, declined to 4.0 percent during the year due mainly to reduction of effective demand in the rural economy as a result of devastations caused by the floods, and interruptions in production owing to political unrest. Despite a lower rate of growth, the share of industrial sector in GDP increased marginally from 9.7 percent in 1986-87 to 9.8 percent in 1987-88.

2.4 Output of major industrial commodities showed a mixed trend during 1987-88. Commodities which recorded increases in output during the year were: cotton yarn (3.0% to 10.25 crore pounds), cotton textiles (3.2% to 6.71 crore yards), newsprint (6.4% to 50.00 thousand tons), chemical fertilizers (43.6% to 14.09 lakh tons), tea (1.5% to 40.86 million kgs.), natural gas (17.4% to 4,175 million cubic metre) and transport equipments (1.7% to 29,213 Nos). On the other hand, items whose output declined were : jute manufactures (2.2% to 5.70 lakh tons), chemicals (8.3% to 22.00 thousand tons), paper (2.3% to 42.00 thousand tons), petroleum products (2.7% to 9.50 lakh tons), steel (12.8% to 1.84 lakh tons), cigarettes (5.0% to 1,403.10 crore sticks), matches (7.4% to 1.38 lakh gross boxes) and sugar (2.2% to 1.78 lakh tons).

2.5 In order to accelerate the pace of industrialisation in the country, keeping in view the objectives and strategies of the Third Five Year Plan and the Industrial Policy of 1986, provision for special facilities in the fiscal concessions, supply of necessary credit at concessionary rates of interest and arrangements for other financial and institutional facilities were maintained and further strengthened during the year. A number of supportive measures were incorporated in the national budget of 1987-88 for develop-

* In metric tons

ment and expansion of domestic industries. Rates of duties on import of necessary raw materials and spares by the steel and engineering, textile, chemical and road transport industries were substantially reduced to foster their development. Duty rates on import of raw materials by certain import substitution industries were also reduced while for discouraging import of items manufactured by these industries, either the relevant duty rates were increased or their imports were totally banned. The number of items included in the Negative List were substantially reduced, making them importable by the industrial sector. In order to channelise resources from unproductive / illegal activities to productive investments in the private sector, income of any size declared by an assessee other than a company under the head 'Income from Other Sources' in the Income Tax Return for the assessment year 1987-88 was made assessable without any accountability about the sources of such incomes on payment of tax at the rate of 20 percent. With a view to encouraging investment in shares of companies all dividends payable to the share purchasers other than companies, were exempted from payment of taxes. Share purchasers of the private companies would also enjoy the above facility of tax exemption if such companies are converted into public limited companies within two years from July 1, 1987. In addition, the rate of income taxes payable by a company was reduced by 5 percentage points during the year.

2.6 The wide range of credit and other financial incentives which were already in force for the industrial sector in general, and for export oriented and small and cottage industries in particular, such as provision for concessional bank finance, insurance premia and transport charges as well as rebate on income tax in respect of export commodities and priority in extending credit at concessional rate of interest for the small scale industries, etc. were maintained and further consolidated during the year under report. Banks were specially instructed to ensure necessary working capital loans to the established industrial units. Refinance facilities were provided by the Bangladesh Bank at the Bank Rate to the financing banks against their working capital loans not exceeding 180 days to industrial projects which commenced operation on or after July 1, 1986. Banks were advised to extend 50 percent of the credit as fixed capital and 50 percent as working capital to the small and cottage industrial projects. Provisions were made for extension of credit upto Tk. 2 lakhs to each entrepreneur and upto Tk. 5 lakhs for a 'group of five' having special skills and technical know-how in the small and cottage industries sector with a debt-equity ratio not exceeding 80:20. In addition, for the purpose of extending exemption of excise duty, the definition and scope of small and cottage industries were further widened by enhancing the maximum ceiling of investment in machinery of these industries from Tk.1.00 to Tk. 3.00 lakhs.

2.7 Some institutional reforms were also made during the year for development and expansion of the industrial sector. With a view to ensuring adequate credit for financing exports, an 'Export Credit Cell' in the Bangladesh Bank and 'Special Units' in the commercial banks were set up. The activities of the 'Export Credit Monitoring Committee' headed by the Governor, Bangladesh Bank which was constituted last year, were strengthened. The Bangladesh Bank also gave its consent in respect of setting up of a new bank named 'Bank of Small Industries and Commerce, Bangladesh Limited.' In order to improve the productive capacity and efficiency of public sector industries, the process of forming 'Holding Companies' in selected nationalised industrial units with private participation continued during the year.

2.8 The second phase of work at a cost of Tk.50.00 crores for infrastructural development of the Chittagong Export Processing Zone (CEPZ), which was set up to attract foreign investments in the industrial sector, was taken in hand during the year. The decision in respect of setting up of a similar Export Processing Zone in the outskirts of the Dhaka city has also been taken. A total of 18 out of 37 industrial units approved for the CEPZ went into operation by June 30, 1988. Total export earnings of these units during 1987-88 stood at $ 14.98 million. On the basis of 25 percent value addition, the net foreign exchange earnings from this source stood at $ 3.75 million during the year.

Public Sector Outlay

2.9 The Annual Development Programme (ADP) for 1987-88 originally envisaged a total public sector development outlay of Tk.5,046.00 crores. However, in the revised ADP, the allocation was pruned by Tk.395.39 crores to Tk.4,650.61 crores due mainly to lower than projected revenue receipts as a result of lower domestic production and smaller import of dutiable goods in the wake of adverse circumstances created by the floods. This was, however, higher by Tk.137.23 crores or 3.0 percent than the revised outlay in the preceding year's ADP. Of the total revised outlay for the year, the shares of domestic resources and foreign aid were Tk.279.00 crores or 6.0 percent and Tk.4,371.61 crores or 94.0 percent respectively. In the revised public sector development outlay of the Annual Development Programme for the preceding year, the domestic resources and foreign aid had stood at Tk.811.81 crores or 18.0 percent and Tk.3,701.49 crores or 82.0 percent respectively.

2.10 The sectoral allocations in the revised ADP for 1987-88 were as follows: Power Tk.798.95 crores, Flood Control and Water Resources Tk.559.68 crores, Transport Tk.468.55 crores, Industries Tk.519.87 crores, Upazilla Infrastructure and Assistances for Upazilla Parishad Tk.370.00 crores, Agriculture Tk.333.21 crores, Education and Religion Tk. 251.45 crores, Oil, Gas and Natural Resources Tk.221.40 crores, Population Control and Family Planning Tk.170.35 crores, Rural Development and Institutions Tk.137.55 crores, Communications Tk.95.82 crores and Health Services Tk.86.99 crores. Allocations for other heads aggregated to Tk.736.79 crores. Allocations for sectors directly related to rural development, such as Agriculture, Flood Control and Water Resources, Upazilla Infrastructure, Rural Development and Institutions, Population Control and Family Planning, etc. together accounted for 33.8 percent of the total development outlay for the year as against 30.0 percent in the preceding year.

Investment in Private Sector Industries

2.11 In the private sector, a total of 981 industrial units (medium and large) were sanctioned and registered during 1987-88 with a total investment outlay of Tk.899.22 crores, which included a foreign exchange component of Tk.393.64 crores. This compared with 8,254 industrial units sanctioned and registered for a total investment of Tk.1,268.54 crores, including a foreign exchange component of Tk.386.59 crores, in the preceding year. The major industries sanctioned and registered during 1987-88 included: engineering industries (Tk.198.17 crores); chemicals, pharmaceuticals and allied industries (Tk.165.05 crores); textile industries (Tk.158.36 crores); agro-based industries (Tk.121.11 crores); printing, publishing, paper converting and packaging (Tk.108.63 crores); food and allied products (Tk.30.69 crores); services industries (Tk.25.01 crores); tannery, leather and rubber products (Tk.20.81 crores); glass, ceramics and other non-metal mineral products (Tk.15.71 crores); miscellaneous industries (Tk.9.55 crores) and industries not classified elsewhere (Tk.46.13 crores).

Food Situation

2.12 Although the level of domestic production did not register any increase, the overall availability of foodgrains in the country remained generally satisfactory during 1987-88. Total availability of foodgrains during the year stood at 169.43 lakh tons as shown in Table 2.1. This was 1.63 lakh tons or 0.97 percent higher than 167.80 lakh tons in the preceding year. However, taking population increase into account, the daily per capita availability of foodgrains declined by 6.23 grams or 1.4 percent from 441.66 grams in the preceding year to 435.43 grams during 1987-88.

TABLE 2.1

PER CAPITA AVAILABILITY OF FOODGRAINS IN BANGLADESH DURING 1986-87 AND 1987-88

(In lakh metric tons)

	Sources of Availability of Foodgrain	1986-87	1987-88
1.	Net Domestic Production (After 10% Seed, Feed and Wastages)	148.47	184.15 (-0.22)
2.	Total Off-take	21.21	25.03 (+18.01)
3.	Internal Procurement	1.88	3.75 (+99.47)
4.	Total Availability (1+2−3)	167.80	169.43 (+0.97)
5.	Total Population* (Million)	104.10	106.60 (+2.40)
6.	Per Capita Availabilty (gram per day)	441.66	435.43 (-1.41)

Source: Ministry of Food.
* Bangladesh Bureau of Statistics.
Note: Figures in parentheses indicate percentage changes over the year.

2.13 Despite satisfactory availability of foodgrains during 1987-88, prices recorded wide fluctuations and ruled at significantly higher levels than in the preceding year. The pressure on market prices of foodgrains intensified due mainly to loss of crops and interruption in transport/distribution systems on account of floods. The average minimum retail price of coarse rice increased from Tk. 870.00 per quintal at the end of June, 1987 to Tk. 904.00 per quintal at the end of July, 1987, representing a 13.0 percent increase over the level a year ago. The flood-like situation created by heavy rainfalls during the period from the last week of July to mid-August, 1987 not only caused damages to the ripe Aus paddy and newly transplanted Aman crops but also interrupted the processing, movement and distribution of foodgrains. As a result, the price of rice increased further to Tk. 971.00 per quintal by the end of August, 1987. In order to contain the uptrend in prices, arrangements were made for emergency import of foodgrains both by the public and private sectors. Although no import was made by the private sector, a total amount of 11.14 lakh tons of foodgrains (including 10.42 lakh tons under cash) were imported by the public sector during September-November, 1987. During this period, a total of 8.30 lakh tons of foodgrains, consisting of 2.09 lakh tons for distribution through rationing, 1.49 lakh tons for VGD/VGF Programmes, 119 lakh tons for relief, 1.00 lakh ton for open market sales, 0.28 lakh ton for Food for Works Programme and 1.38 lakh tons for other priority sectors, was released from the Government stocks. As a result, the price of rice came down to Tk.895.00 per quintal by the end of November, 1987. The decline was, however, short-lived and, due mainly to reduced harvesting of Aman crop, the price started soaring again to reach the year's peak level of Tk.997.00 per quintal by the end of February, 1988. However, as a result of improvement in supply due to continuous imports in the following months, arrival of new wheat crop in the market and a better harvest of Irri/Boro crops, the price declined somewhat to reach the year's lowest level of Tk.834.00 per quintal by the end of May, 1988. At this level, the price was 19.5 percent lower than the year's peak-level recorded in February, 1988. However, the price again increased to Tk. 865.00 per quintal by the end of June, 1988. On the whole, the average minimum retail price of coarse rice declined by 0.6 percent during 1987-88 as against an increase of 13.1 percent during the preceding year.

2.14 In view of the extensive damages to crops caused by the floods, the annual target for import of foodgrains during 1987-88 was revised upward from 20.00 lakh tons to 35.00 lakh tons. A total of 29.22 lakh tons of foodgrains (rice 5.93 lakh tons and wheat 23.29 lakh tons) was imported during the year as compared to 17.67 lakh tons (rice 2.61 lakh tons and wheat 15.06 lakh tons) imported during 1986–87.

2.15 As a result of increased Irri/Boro production following implementation of the postflood Agricultural Rehabilitation Programme launched with a view to recouping the crop loss due to the floods, the internal procurement of foodgrains during 1987-88 increased substantially to 3.75 lakh tons (rice 2.88 lakh tons and wheat 0.87 lakh ton) as compared to 1.88 lakh tons (rice 1.37 lakh tons and wheat 0.51 lakh ton) in the previous year. The procurement prices of Irri/Boro paddy, rice and wheat which were fixed on April 22, 1987 at Tk. 536.00, Tk. 825.44 and at Tk.536.00 per quintal respectively remained unchanged up to the end of the year. However, the procurement prices of Aman paddy and rice fixed on January 10, 1987 at Tk. 495.80 and Tk. 761.12 per quintal respectively were increased to Tk. 536.00 and Tk. 825.44 per quintal respectively on November 15, 1987.

2.16 In order to contain the upward trend in prices by augmenting availability, the Government released sufficient quantities of foodgrains in the market during 1987-88 through different public distribution channels. A total of 25.03 lakh tons of foodgrains (rice 4.68 lakh tons and wheat 20.35 lakh tons) was released from the government stocks during the year which included 5.54 lakh tons for the Food for Works Programme, 5.31 lakh tons for priority sectors, 5.05 lakh tons through the rationing system, 3.11 lakh tons through VGF/ VGD Programmes, 2.47 lakh tons as relief and 2.05 lakh tons for sale in the open market. This was 18.0 percent higher than 21.21 lakh tons (rice 4.95 lakh tons and wheat 16.26 lakh tons) released during 1986-87.

2.17 Despite higher releases, stock of foodgrains with the Government remained at a record level of 14.98 lakh tons at the end of June, 1988 due to 65.4 percent increase in imports and 99.5 percent increase in internal procurement. This was 99.5 percent higher than the stock of 7.51 lakh tons at the end of June, 1987.

Price Situation

2.18 The pressure on prices continued unabated during 1987- 88. Prices of a number of essential commodities recorded substantial increases during the year. This was reflected in the Consumer Price Indices (CPIs) for middle income families in four principal urban centres of the country, viz., Dhaka, Chittagong, Khulna, and Rajshahi. The 'general' CPI (1973 - 74=100) for middle income families in the above four centres increased by different margins during the year. The twelve-month average of the consumer price indices for middle income families in Dhaka city, which is often used as a measure of price-inflation in the country, denoted an increase of 11.4 percent during 1987-88 as compared to 10.4 percent in the previous year. On a point-to-point basis, however, the index denoted an increase of 13.1 percent during the year as compared to 5.5 percent in 1986- 87. The increase in prices during the year was more pronounced in 'non-food' than in 'food' items. The sub-index for food recorded an average increase of 10.8 percent while that for 'non-food' increased by 12.5 percent. The average CPI for rural people in Dhaka district recorded an increase of 8.0 percent during 1987- 88 as compared to the increase of 14.1 percent during the previous year. On a point-to-point basis, the index denoted an increase of only 2.1 percent as against the increase of 13.6 percent in the preceding year.

2.19 As a result of the combined impact of extensive damage to agricultural crops by repeated floods, disrruption of transport and distribution channels and interruptions in industrial production due to political unrest, the overall supply situation deteriorated and the pressure on prices intensified. But for efforts at improving the supply position through increased imports of 29.22 lakh tons of foodgrains (including emergency import of 11.35 lakh tons under cash foreign exchange) and of other essential consumer items, the pressure on prices might have increased further.

Consumer Price Indices

2.20 The 'general' Consumer Price Indices (CPIs) for middle income families in Dhaka city which had stood at 490.25 in June, 1987 rose to 554.24 in June, 1988, indicating an increase of 13.1 percent over the year on a point-to-point basis.The index had indicated an increase of 5.5 percent during the preceding year. The increase in CPI during the year was

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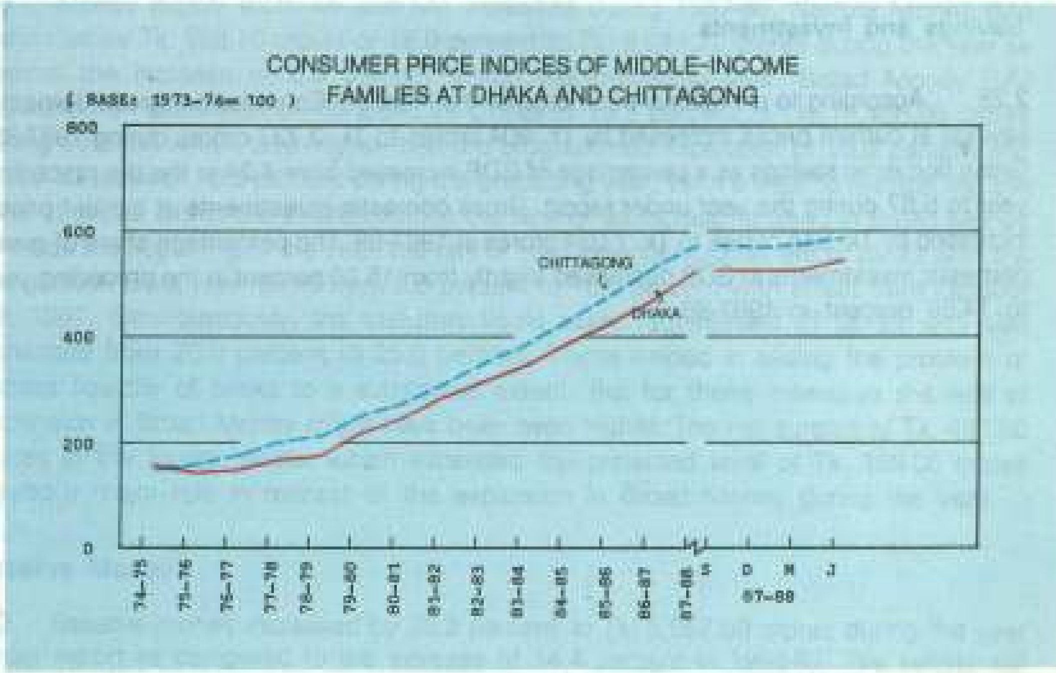
* Base : 1973-74=100.

shared by all the sub-indices, viz. 'food' (+11.2% to 545.19), 'fuel and lighting' (+5.8% to 584.53), 'housing and household requisites' (+24.5% to 399.49), 'clothing and footwear' (+10.3% to 336.61) and 'miscellaneous' (+15.8% to 551.58).

2.21 The 'general' CPI for middle income families in Chittagong increased by 8.8 percent to 580.82 in 1987-88 as compared to the increase of 6.0 percent in the previous year. The increase was reflected in all the sub-indices, viz. 'food' (+9.3% to 584.16), 'fuel and lighting' (+2.3% to 387.32), 'housing and household requisites' (+8.0% to 805.73), 'clothing and footwear' (+2.5% to 311.97) and 'miscellaneous' (+11.2% to 539.79).



2.22 The 'general' CPI for middle income families in Khulna went up by 9.9 percent to 531.66 in 1987-88 as compared to the increase of 6.7 percent in 1986-87. The increase was shared by all the sub-indices except 'housing and household requisites' viz., 'food' (+10.3% to 541.35), 'fuel and lighting' (+11.2% to 609.49), 'clothing and footwear' (+5.2% to 355.19) and 'miscellaneous' (+17.4% to 550.85). The sub-index for 'housing and household requisites,' on the other hand, declined by 0.3 percent to 476.07.

2.23 The 'general' CPI for middle income families in Rajshahi rose by 8.8 percent to 517.54 during the year as compared to the increase of 6.8 percent in 1986-87. The rise was shared by all the sub-indices viz., 'food' (+11.2% to 505.79), 'clothing and footwear' (+5.1% to 347.79), 'fuel and lighting' (+3.3% to 701.65), 'housing and household requisites' (+0.1% to 529.00) and 'miscellaneous' (+10.2% to 537.43).

Wages

2.24 Wages for different categories of labourers in the country increased substantially during 1987-88. The average of the 'general' index (1969-70=100) of nominal wages, as compiled by theBangladeshBureau of Statistics, moved up from 1,085 in 1986-87 to 1,204 in 1987-88, indicating an increase of 11.0 percent over the year. The magnitudes of increase in different sub-indices for wages during 1987-88 were as follows : 'manufacturing' 7.6 percent (from 1,154 to 1,242), 'construction' 17.3 percent (from 1,122 to 1,316), 'agriculture' 13.2 percent (from 941 to 1,065) and 'fisheries' 9.8 percent (from 1,055 to 1,158).

Savings and Investments

2.25 According to provisional estimates of the Planning Commission, gross domestic savings at current prices increased by Tk. 904 crores to Tk. 2,737 crores during 1987-88. Gross domestic savings as a percentage of GDP increased from 4.24 in the the preceding year to 5.67 during the year under report. Gross domestic investments at current prices increased by Tk. 544 crores to Tk. 7,034 crores in 1987-88. The percentage share of gross domestic investments in GDP decreased slightly from 15.00 percent in the preceding year to 14.59 percent in 1987-88.

CHAPTER III

MONEY AND BANKING

Money Supply

3.1 Money supply (both M_1 and M_2) increased during 1987-88. Narrow Money (M_1) expanded by Tk. 696.10 crores or 16.0 percent to Tk. 5,047.70 crores during the year as against the increase of 6.8 percent during the preceding year. Broad Money (M_2) registered an expansion of Tk. 2,543.20 crores or 18.3 percent to Tk. 16,408.00 crores during 1987-88 which was higher than the programmed expansion of 16.5 percent and actual increase of 16.3 percent during the preceding year. With a view to maintaining the level of prices within the desired limit in the face of an increasing trend in Broad Money towards the beginning of the year, the rate of cash reserve requirement of banks with the Bangladesh Bank was raised from 5.0 percent to 10.0 percent with effect from October 29, 1987. Simultaneously, the statutory liquid asset requirement of banks was also enhanced from 20.0 percent to 25.0 percent. These helped in easing the problem of excess liquidity of banks to a substantial extent. But for these measures the rate of expansion in Broad Money might have been even higher. The net surplus of Tk. 437.50 crores in the foreign sector which exceeded the projected level of Tk. 159.00 crores played a major role in respect of the expansion in Broad Money during the year.

Reserve Money*

3.2 Reserve money increased by 35.2 percent to Tk. 5,057.50 crores during the year under report as compared to the increase of 14.4 percent in 1986-87. The substantial expansion in reserve money occurred due to doubling of the rate of cash reserve requirement of banks with the Bangladesh Bank. This had, however, a favourable effect in reducing the value of money multiplier. The value of money multiplier which had increased by 0.1 in the preceding year declined by 0.5 to 3.2 during 1987-88. As a result, Broad Money grew at a much slower pace relative to the growth of reserve money during the year.

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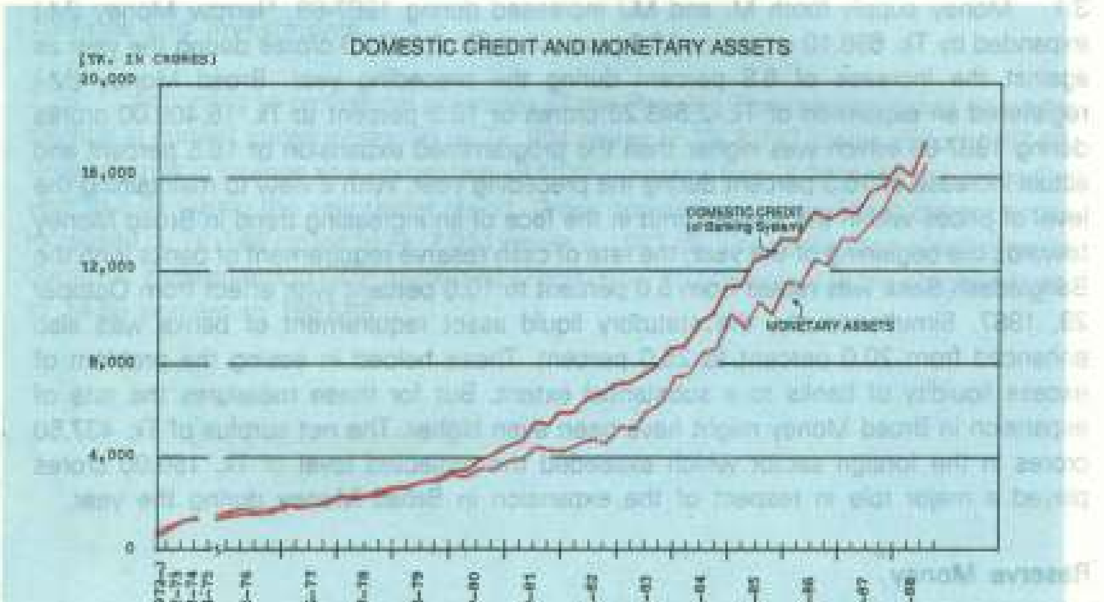
* Reserve money = Currency outside banks + scheduled banks' deposits with the Bangladesh Bank (including balances in Wage Earners' Clearing Accounts) + Cash in tills of the scheduled banks + Deposits of other financial institutions with the Bangladesh Bank.

Note: Figures relating to money and credit from June, 1987 and onwards are calculated as per revised sectoral classification of SBS I and before that the figures remained unchanged as per old format. As a result, the new figures are not fully comparable with the old figures.

Domestic Credit

3.3 The Bangladesh Bank relaxed credit control measures in specific areas and strengthened its refinancing programmes in the priority sectors so as to provide adequate finance from the banking sector for the post-flood revival of economic activities. The rate of expansion in domestic credit increased from 7.7 percent in 1986-87 to 13.2 percent in 1987-88. This was, however, lower than the projected increase of 14.7 percent for the year.



Causative Factors of the Change in Money Supply

3.4 The causative factors of the change in money supply (M_1) during 1987-88, as shown in Table 3.1, revealed that the main causes for expansion of Tk. 696.10 crores in money supply during the year were: increases of credit to the private sector (+Tk. 1,932.70 crores) and to the public sector (+Tk. 140.10 crores), surplus in the foreign sector (net) (+Tk. 437.50 crores) and increase in other assets (net) (+Tk. 73.00 crores). These factors exerted a total expansionary impact of Tk. 2,583.30 crores which was largely offset by the combined contractionary forces arising out of the accruals in time deposits (−Tk.1,847.10 crores) and decrease in credit to the Government (net) (−Tk.40.10 crores). The causative factors of the changes in money supply are shown in Table 3.1.

TABLE 3.1

CAUSATIVE FACTORS OF THE CHANGE IN MONEY SUPPLY

(Taka in crores)

Particulars	As on 30.6.88	As on 30.6.87	Changes
1. Currency Outside Banks	2,415.00	2,075.60	+339.40
2. Demand Deposits*	2,632.70	2,276.00	+356.70
Total Money Supply	5,047.70	4,351.60	+696.10
CAUSATIVE FACTORS:			
Expansion (+)			
Contraction (–)			
1. Government Sector (Including Public)			+100.00
i) Government (net)			–40.10
ii) Public Sector			+140.10
2. Private Sector			+1,932.70
3. Time Deposits (increase –)			–1,847.10
4. Foreign Sector (net)			+437.50
5. Other Assets (net)			+73.00
Total:			**+ 696.10**

* Including deposits of non-scheduled banks with the Bangladesh Bank.

3.5 Of the components of money supply (M_1), currency outside banks went up by Tk. 339.40 crores or 16.4 percent to Tk. 2,415.00 crores during 1987-88, while demand deposits increased by Tk. 356.70 crores or 15.7 percent to Tk. 2,632.70 crores. The quarterly movements of money supply and its components during 1987-88 are shown in Table 3.2.

TABLE 3.2

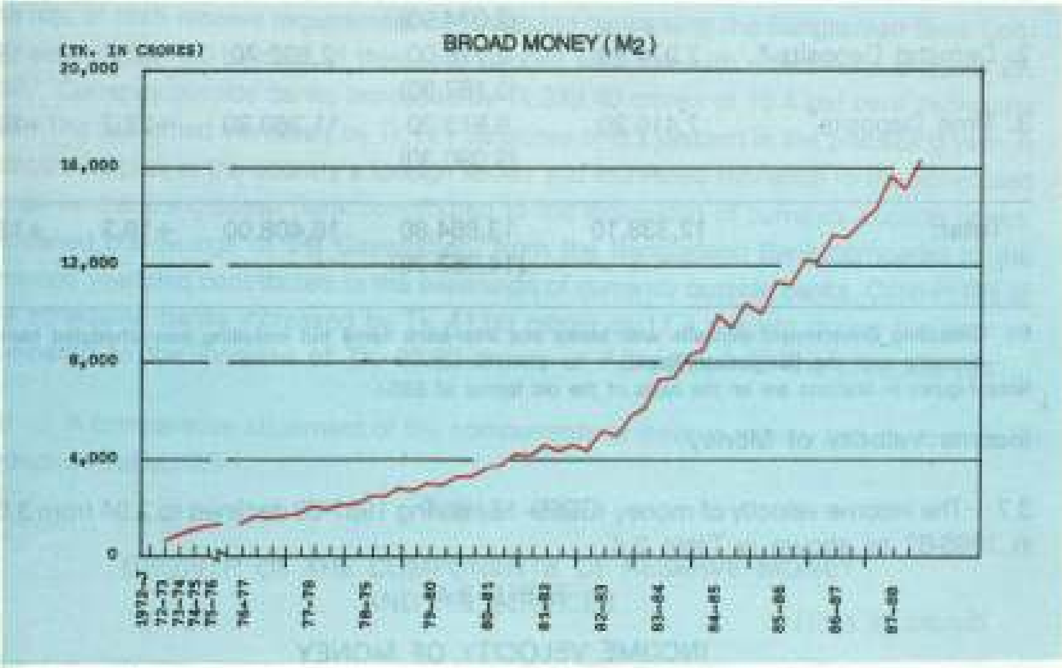
MONEY SUPPLY

(Taka in crores)

As on	Currency Outside Banks	Demand Deposits*	Money Supply (M_1)	Changes in Money Supply Increase (+) Decrease(–)
June 30, 1987	2,075.60	2,276.00	4,351.60	–
September 30, 1987	2,326.70	2,332.10	4,658.80	+307.20
December 31, 1987	2,244.00	2,851.00	5,095.00	+436.20
March 31, 1988	2,431.20	2,297.70	4,728.90	–366.10
June 30, 1988	2,415.00	2,632.70	5,047.70	+398.80

* Excluding Government deposits with banks but including non-scheduled banks' deposits with the Bangladesh Bank.

3.6. Broad Money (M_2) or total liquidity increased by 18.3 percent to Tk. 16,408.00 crores during 1987- 88 as compared to the increase of 16.3 percent in the preceding year. Of the components of Broad Money, time deposits or quasi-money rose by 19.4 percent, demand deposits by 15.7 percent and currency outside banks by 16.4 percent in 1987- 88 as compared to the increase of 22.7 percent, 7.2 percent and 6.2 percent



respectively in the preceding year. The percentage shares of time deposits, demand deposits and currency outside banks in Broad Money stood at 70.2, 15.0 and 14.7 respectively at the end of June, 1988 as compared to 63.3, 22.2 and 14.5 respectively at the end of preceding year. The changes in Broad Money (M_2) as also its different components during 1986 - 87 and 1987- 88 are shown in Table 3.3.

TABLE 3.3

BROAD MONEY

(Taka in crores)

Particulars	June, 1986	June, 1987	June, 1988	% change	
				1986-87	1987-88
1. Currency Outside Banks	1,953.10	2,075.60 (2,074.90)	2,415.00	+6.2	+16.4
2. Demand Deposits *	2,974.80	2,276.00 (3,187,90)	2,632.70	+7.2	+15.7
3. Time Deposits*	7,410.20	9,513.20 (9,090.30)	11,360.30	+22.7	+19.4
Total:	**12,338.10**	**13,864.80 (14,353.20)**	**16,408.00**	**+16.3**	**+18.3**

* Excluding Government deposits with banks and inter-bank items but including non-scheduled banks' deposits with the Bangladesh Bank.

Note: Figures in brackets are on the basis of the old format of SBS-I.

Income Velocity of Money

3.7 The income velocity of money (GDP÷ M_2) during 1987-88 declined to 2.94 from 3.01 in 1986-87 as shown in Table 3.4.

TABLE 3.4

INCOME VELOCITY OF MONEY

(Taka in crores)

Year/Particulars	GDP at Market Prices	Broad Money (M_2)	Income velocity of Money (Col.2÷3)
1	2	3	4
1986-87	43,260	14,353.20	3.01
1987-88	48,220*	16,408.00	2.94

* Provisional.

Source: Planning Commission.

Components and Sources of Reserve Money

3.8 Reserve money or 'High Powered Money' increased by Tk. 1,315.70 crores or 35.2 percent during 1987-88 as compared to the increase of Tk. 470.40 crores or 14.4 percent in the preceding year. Among the components of the reserve money, scheduled banks' deposits with the Bangladesh Bank and currency outside banks increased substantially. Scheduled Banks' deposits* with the Bangladesh Bank increased by Tk. 935.30 crores or 71.7 percent to Tk. 2,240.20 crores as compared to the increase of Tk. 323.90 crores or 33.0 percent in the preceding year. This was due to enhancement of the rate of cash reserve requirement of scheduled banks with the Bangladesh Bank from 5.0 percent to 10.0 percent of their total deposit liabilities with effect from October 29, 1987. Currency outside banks increased by Tk.339.40 crores or 16.4 per cent during the year. The same had increased by Tk.121.80 crores or 6.2 percent in the preceding year. A sizeable surplus in the country's foreign sector and increased refinance to the scheduled banks by the Bangladesh Bank contributed to the expansion of currency outside banks. Increased borrowings of the Government from the Bangladesh Bank compared to the previous year also contributed to the expansion of currency outside banks. Cash-in-tills of the scheduled banks increased by Tk. 41.00 crores or 11.4 percent during the year as compared to the increase of Tk. 23.60 crores or 7.0 percent in the previous year.

3.9 A comparative statement of the components of reserve money and its sources is shown in Table. 3.5.

TABLE 3.5

GROWTH OF THE COMPONENTS OF RESERVE MONEY AND ITS SOURCES

(Taka in crores)

Particulars	Yearly change: Increase (+) Decrease(-)	
	1987-88	1986-87
A. Components of Reserve Money	+1,315.70 (+ 35.2)	+470.40 (+ 14.4)
i) Currency Outside Banks	+ 339.40 (+ 16.4)	+121.80 (+ 6.2)
ii) Deposits of Scheduled Banks with the Bangladesh Bank*	+ 935.30 (+ 71.7)	+ 323.90 (+ 33.0)
iii) Cash in Tills of the Scheduled Banks	+ 41.00 (+ 11.4)	+ 23.60 (+ 7.0)

* Including balances in the Wage Earners' Clearing Accounts.

Particulars	Yearly change: Increase (+) Decrease (–) 1987-88	1986-87
iv) Deposits of Other Financial Institutions with the Bangladesh Bank	(0)	+ 1.10 (+220.0)
B. Sources of Reserve Money		
1. Bangladesh Bank's Claims on Account of:		
(a) Net Credit to Government	+281.60 (+ 10.3)	+163.70 (+ 9.1)
(b) Credit to Scheduled Banks	+418.50 (+ 19.6)	- 325.40 (-13.3)
(c) Credit to Other Financial Institutions	+ 19.80 (+ 2.3)	+ 10.30 (+ 1.2)
2. Foreign Assets (Net)	+611.10	+268.20
3. Other Assets (Net)	-15.30 (- 1.4)	+353.60 (+25.1)

Note:-Figures in the parentheses indicate percentage changes.

Bank Credit

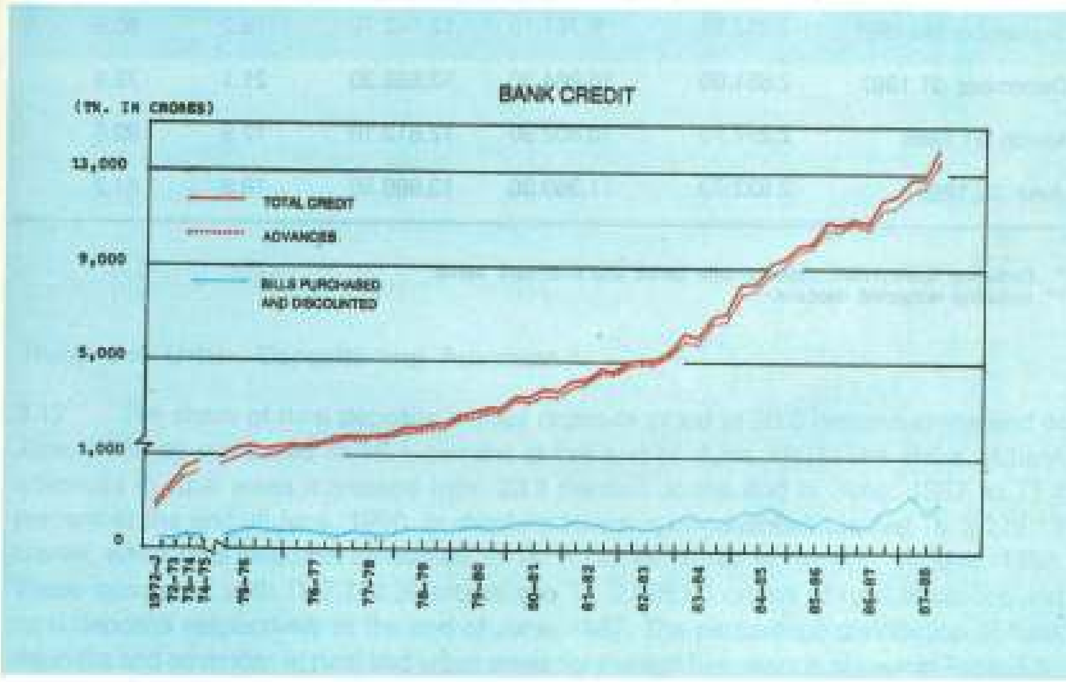
3.10 The outstanding level of bank credit (excluding inter-bank items) of the scheduled banks increased by Tk. 2,114.30 crores or 18.0 percent during 1987-88 as compared to the increase of Tk. 848.40 crores or 7.9 percent in the preceding year. Of the components of bank credit, advances increased by Tk. 2,028.40 crores or 17.9 percent while bills purchased and discounted rose by Tk. 85.90 crores or 22.4 percent during the the year. The quarterly movement of bank credit is shown in Table 3.6.

TABLE 3.6

BANK CREDIT

(Taka in crores)

As on	Advances	Bills	Total	Advances as % of Total Credit	Bills as % of Total Credit
June 30, 1987	11,340.60	383.10	11,723.70	96.7	3.3
September 30,1987	11,445.20	407.50	11,837.50	96.6	3.4
December 31,1987	12,060.20	546.50	12,606.70	95.7	4.3
March 31,1988	11,978.90	501.00	12,479.90	96.0	4.0
June 30, 1988	13,369.00	469.00	13,838.00	96.6	3.4



Bank Deposits

3.11 Bank deposits (excluding inter-bank items) of the scheduled banks registered an increase of Tk. 2,175.40 crores or 18.4 percent during 1987-88 as compared to the rise of Tk. 1,892.10 crores or 18.2 percent in the preceding year. Of this, demand deposits increased by Tk. 356.70 crores or 15.7 percent to Tk. 2,632.70 crores, while time deposits expanded by Tk. 1,847.10 crores or 19.4 percent to Tk. 11,360.30 crores. The quarterly movement of bank deposits is shown in Table 3.7.

TABLE 3.7

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 30,1987	2,276.00	9,513.20	11,821.10	19.3	80.5
September 30,1987	2,332.10	9,781.10	12,142.70	19.2	80.6
December 31,1987	2,851.00	10,664.30	13,538.30	21.1	78.8
March 31,1988	2,297.70	10,502.90	12,812.10	17.9	82.0
June 30,1988	2,632.70	11,360.30	13,996.50	18.8	81.2

* Excluding Government deposits with banks and inter-bank items.
** Including restricted deposits.

Rural and Urban Deposits and Advances *

3.12 The share of rural deposits in total deposits stood at 20.0 percent at the end of June, 1988 as compared to 19.1 percent at the end of June, 1987. The share of bank advances in rural areas increased from 23.2 percent at the end of June, 1987 to 23.4 percent at the end of June, 1988. In absolute terms, rural advances totalled Tk. 3,219.17 crores, while rural deposits amounted to Tk. 3,132.49 crores at the end of June, 1988. These compared with Tk.2,742.30 crores and Tk. 2,536.50 crores of rural advances and rural deposits respectively at the end of June, 1987. The percentage distribution of bank deposits and advances in rural and urban areas for the last five years is shown in Table 3.8.

* Data relating June 30, 1988 are projected.

TABLE 3.8

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

As on	percentage share of Advances		percentage share of Deposits	
	Rural	Urban	Rural	Urban
June 30,1984	25.8	74.5	17.1	82.9
June 30,1985	28.5	71.5	17.3	82.7
June 30,1986	26.7	73.0	19.1	80.9
June 30,1987	23.2	76.8	19.1	80.9
June 30,1988*	23.4	76.6	20.0	80.0

* Data relating to June 30,1988 are projected.

Credit / Deposit Ratio

3.13 The credit/deposit ratio (excluding BKB, RKUB, BSB and BSBL) of the scheduled banks which had stood at 0.74 at the end of June, 1987 decreased to 0.73 on September 30, 1987. However, the ratio increased to 0.74 and 0.75 on December 31, 1987 and March 31, 1988 respectively and remained unchanged at 0.75 as on June 30, 1988.

Borrowings of the Scheduled Banks from the Bangladesh Bank

3.14 The Scheduled banks' borrowings from the Bangladesh Bank increased by Tk.598.60 crores to Tk.2,589.00 crores as on June 30, 1988 from the level of Tk.1,990.40 crores as on June 30, 1987.

Scheduled Banks' Balances with the Bangladesh Bank and Cash in Their Tills

3.15 The Scheduled banks' balances with the Bangladesh Bank increased by Tk.880.50 crores to Tk.1,785.20 crores, while cash in their tills rose by Tk.41.00 crores to Tk. 402.30 crores during 1987-88.

Bank Rate

3.16 The Bank Rate remained unchanged at 10.75 percent per annum during 1987-88.

Interest Rates

3.17 As in the preceding years, an active interest rate policy was pursued during 1987-88. Keeping in view the rational and careful use of interest rate as a tool for encouraging savings, controlling inflation, stabilisation of prices and augmenting mobilisation of domestic resources, the following adjustments were made in the interest rates structure during 1987-88:

i) **Interest on Deposits**

a) The prevailing system of Savings Deposit Accounts without chequing facility was abolished with effect from July 1, 1987 and, in accordance with option of the depositors, such accounts were either closed or converted into ordinary Savings Deposit Accounts with chequing facility or into Fixed Deposits. The rate of interest on Savings Deposit Accounts with chequing facility was raised from 8.5 percent to 9.0 percent per annum, while that on personal Savings Deposit Accounts, maintained by individuals in rural areas, was fixed at 10.0 percent per annum.

b) As per Government decision, a 4.0 percent levy on interest or profit payable on all Savings and Fixed / Term Deposits maintained with banks was imposed with effect from October 1, 1987 to raise funds for implementation of relief and rehabilitation programme.

ii) **Rate of Interest on Export Credit**

It was decided to allow refund of interest at the rate of 7.0 percent per annum on export credit for raw jute shipped on or after April 1, 1988 for a period of 3 months upto the date of shipment. Banks were advised to directly apply interest at the rate of 9.0 percent per annum in respect of packing credits for shipment of raw jute.

Rates of Cash Reserve and Liquid Asset Requirement of the Scheduled Banks

3.18 The excess liquidity problem of the scheduled banks that cropped up during the second half of 1986-87 continued unabated during the beginning part of 1987-88. In order to alleviate this problem, the scheduled banks were advised by the Bangladesh Bank to increase their investments in debentures of Sector Corporations alongwith stepping up of efforts for channelising credit to new areas of financing. In addition, banks were also advised to reduce, as far as possible, their borrowings by way of refinance from the Bangladesh Bank. Inspite of these steps, the overall effective demand in the country remained depressed due to substantial reduction in disposable income of the farmers. This, in turn, slowed down the marketing of imported goods. As a result, despite substantial liberalization of the import policy and a satisfactory level of foreign exchange reserves, the pace of growth in imports remained rather slow which in turn restricted the expansion of bank credit. In the field of agricultural finance, the use of Pass Books and the condition for repayment of previous loans for obtaining new loan remained in force during the year. Despite substantial relaxation of the restrictions imposed earlier for ensuring adequate supply of credit to the farmers under the post-flood Agricultural Rehabilitation Programme, disbursements could not be made at the desired rate. Disbursement of industrial credit by banks also declined as the policy to put restrictions on extension of credit and banking facilities to industrial enterprises which failed to repay their overdue loans was pursued during the year. Consequently, the excess liquidity problem of scheduled banks, particularly of the nationalised commercial banks, became exacerbated. With the twin objectives of reducing excess liquidity of banks and, at the same time, thwarting the possible threat to price stability in the wake of inflationary expectations in the flood ravaged economy, the rates of cash reserve requirement of banks with the Bangladesh Bank together with the rate of their statutory liquid asset requirement were enhanced from 5.0 percent to 10.0 percent and from 20.0 percent to 25.0 percent of their total deposit liabilities respectively with effect from October 29, 1987. The cash reserve requirement of the Bangladesh Krishi Bank, the Rajshahi Krishi Unnayan Bank and the Bangladesh Shilpa Bank remained unchanged at 5.0 percent, while that for the Islami Bank Bangladesh Limited and the Al Baraka Bank Limited was raised to 10.0 percent. Provision was made for payment of interest at the rate of 2.5 percent per annum on the additional 5.0 percent cash reserve of banks maintained with the Bangladesh Bank. Subsequently, considering the overall situation of banks, the rate of interest was raised to 5.0 percent with effect from March 1, 1988. As no interest is payable for the additional reserves of the banks running on Islamic principles i.e. the Islami Bank Bangladesh Limited and the Al Baraka Bank Limited, the liquid asset requirement for them was kept unchanged at 10.0 percent. The Bangladesh Krishi Bank, the Rajshahi Krishi Unnayan Bank and the Bangladesh Shilpa Bank continued to be exempted from the normal liquid asset requirement.

Interest Subsidy (Export Credit) Scheme

3.19 The rate of interest subsidy under the Interest Subsidy (Export Credit) Scheme introduced in May, 1983 for encouraging financing of exports by banks remained unchanged at 5.5 percent during 1987-88. Total amount of interest subsidy allowed to banks during the year on account of their financing of non-traditional exports stood at Tk. 6.06 crores.

Deposit Pension Scheme

3.20 The nationalised banks and some private sector banks participated in the Deposit Pension Scheme during 1987-88. Year-wise outstanding balances of deposits under the Scheme are shown in Table 3.9.

TABLE 3.9

OUTSTANDING BALANCES OF DEPOSITS UNDER THE DEPOSIT PENSION SCHEME

(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)
June 30, 1988	386.66	+125.49 (+48.05)

N.B. Figures in the parentheses indicate percentage changes.

Investment Companies

3.21 The two investment companies, namely, the National Credit Limited (NCL) and the Bangladesh Commerce and Investment Limited (BCIL), though established as non-banking financial intermediaries in investment, are functioning as alternative sources of credit through their branches in different areas of the country. The above two institutions also participate in the inter-bank call money market. Besides, joint venture companies like Industrial Promotion and Development Company of Bangladesh Limited (IPDC), Industrial Development and Leasing Company Limited (IDLC) and the Saudi-Bangladesh Industrial and Agricultural Investment Company Limited (SABINCO) are also performing the intermediary functions in different ways for industrial investment. As these are non-banking financial institutions, the rates of interest as determined, and the credit control measures as adopted, by the Bangladesh Bank are not applicable for them.

Credit Guarantee Scheme

3.22 Under the Industrial Credit Guarantee Scheme of the Bangladesh Bank, only one guarantee certificate was issued covering a sum of Tk. 0.10 crore during 1987-88. Under the Credit Guarantee (Small Loan), Scheme a total of 20 guarantee certificates were issued covering a total loan of Tk. 8.14 crores during the year.

Credit Policy and Control Measures

3.23 The credit policy of the country during 1987-88 was geared to ensure proper use of the scarce bank resources for increasing production, employment and real income keeping, at the same time, the level of money supply within a safe limit through enforcement of better discipline in financial management. Important measures adopted and continued in the field of monetary and banking management during the year are summarised below:

i) Advances Against Gold / Gold Ornaments

Banks were advised to make advances against the security of gold / gold ornaments upto a maximum amount of Tk. 37,500.00 for a maximum of 15 tolas of gold calculated at the rate of Tk. 2,500.00 per tola instead of the existing rate of Tk. 1,500.00 per tola of fine gold. The rate of interest remained unchanged at 18.0 percent per annum.

ii) Jute Credit for 1988-89

The banks were advised to approve / renew credit ceiling and / or sanction C.C. limit to the jute / jute spinning mills for 1988-89 as per existing credit norms. The rate of margin for loans against raw jute, jute goods, spare parts and other items was fixed at 10 percent. The drawing limit of credit for raw jute would be determined on the basis of the market price of jute or the price fixed by the Bangladesh Jute Association (BJA) whichever is lower, while that for jute goods on the basis of the average cost of production or the average sale price whichever is lower. For items under the process of manufacturing, the drawing limit would be determined on the basis of actual cost of production.

iii) Credit to Private Sector Jute Trade for 1988-89

Banks were instructed to renew credit limit to the private jute traders / exporters for 1988-89 within the limit sactioned during 1987-88, subject to fulfilment of certain conditions. The conditions are: (1) all outstanding loans of the previous year must be cleared, but the same may be renewed provided such oustandings are backed by adequate stocks, (2) credit limit may also be renewed to the exporters of jute against separate collaterals adequate to offset any shortfall in stocks against outstanding loans.

iv) Loss of the Jute Mills / Jute Spinning Mills on Account of Exports During 1985-86

The jute mills including spinning mills were allowed to repay the segregated amount of loans relating to loss for export of jute during 1985-86 within 5 years with a grace period of 3 years with effect from December 1, 1986. After the expiry of 3 years' grace period i.e., with effect from December 1, 1989, one-fifth of the segregated loan is to be repaid every year so that the entire amount of loan is cleared within 5 years. The entire portion of interest would be exempted on annual basis if repayments are made as per the above schedule. Otherwise, interest at the rate of 10.75 percent will be realised for the entire period, including the grace period, for which the loan fell overdue.

v) Working Capital Loans to Jute Mills/Jute Spinning Mills

It was decided that the Jute Mills/ Jute Spinning Mills will make all transactions relating to their working capital requirements as per existing credit norms with the same banks from where they availed of working capital loan facility during 1986-87.

vi) L/C Margin for Import of Salt Under Cash Credit / Barter and WES (SEM) in the Private Sector

The L/C margin for import of salt by importers authorised by the Chief Controller of Imports and Exports was reduced to a minimum of 30 percent from 75 percent fixed earlier.

vii) Extension of Working Capital to Fish-Freezing Units

Banks were advised to determine the credit limit as well as the drawing facility to the exporters of frozen fish taking into account the record of their previous transactions and on the basis of banker-customer relationship, subject to margin requirement not less than 15 percent and not exceeding 25 percent.

viii) Prior Authorisation of Bangladesh Bank for Large Loan

Except for few areas, the existing requirement for obtaining prior approval of the Bangladesh Bank for sanction / renewal of large loan (Tk. 3.0 crores or above per borrower in the case of the nationalised commercial banks and Tk. 1.0 crore or above per borrower in the case of the private banks) has also been made compulsory in respect of re-scheduling of the existing loans.

ix) **Working Capital Loan to Industrial Units**

Instructions were issued to banks to the effect that supply of necessary working capital to the industrial units set up with bank finances shall have to be ensured by the respective credit sanctioning bank and in the case of units set up with own funds by the respective prime bank of the sponsors either by itself or by arranging a consortium of banks.

x) **Special Credit Facility for the Export Oriented Garment Industry**

With a view to avoiding the inconveniences of time- consuming procedures involved in the exsisting system of sanctioning separate credit limits against each export order of readymade garments, banks were advised to sanction composite C.C./ L.C. limits for meeting the cost of inputs and wages required for conducting 3 months' production programme of the concerned industrial units based on thier respective production capacity instead of sanctioning separate limits against each export order. In order to ensure supply of necessary working capital to the readymade garment industry, the existing requirement of obtaining prior permission of the Bangladesh Bank for sanctioning large loans was relaxed in the case of loans for opening Back-to-Back L/Cs over Tk. 1.00 crore.

xi) **Bank Credit for Preservation of Potatoes in Cold Storage**

Banks were instructed to extend credit facility to the cold storage units for preservation of potatoes upto 50 percent to 80 percent of the market price of potatoes as fixed by the Directorate of Agricultural Marketing plus the cost of bags. Cold storage units having previous loans were eligible for credit on repayment of 80 percent of their outstandings with provision for adjustment of the remaining 20 percent from the new loan. The cold storage units having overdue loans to the BSB/BSRS could be considered eligible for loan only on production of N.O.C/ Clearance Certificate from the concerned institution. 10 percent of the sanctioned limit could be extended as advance for procurement of potatoes upto March 31, 1988. The rate of interest was 16.0 percent per annum.

xii) **Credit Scheme for Small and Cottage Industries**

Under the credit scheme for small and cottage industries, banks were allowed to advance upto Tk. 2.0 lakhs to an entrepreneur who is an engineer or possesses technical education and upto Tk. 5.0 lakhs for a group of 5 such entrepreneurs. For financing the project, the equity of the entrepreneurs shall not be more than 20 percent. Banks were instructed to relax the requirement of any additional collaterals outside the project and, instead, accept the assets belonging to the project as security.

xiii) **Working Capital Loan to Small and Cottage Industries**

Banks were advised to advance 50 percent of their loanable funds as required to be advanced to the SCI sector according to the existing directions as fixed capital and the rest 50 percent as working capital. The ratio could, however, be varied upto 10 percentage points in special cases.

xiv) **Credit for Salt Growers**

It was decided to extend loans to the salt growers upto Tk. 2,000.00 per acre for a maximum of Tk. 10,000.00 per borrower to cover the preliminary cost for preparation of land and construction of dams. The borrowers will be eligible for new loan subject to repayment of 80 percent of their previous loans. The deadline for disbursement of the loan was set at May 5, 1988, while the last date for repayment of the loan was fixed at June 30, 1988.

xv) **Staff House Building Advance**

As per existing provisions, the employees / officers of Banks / financial institutions who could not complete their houses with loan received under the Staff House Building Advance Scheme could receive, through a second mortgage, upto a maximum of Tk. 5.0 lakhs from commercial banks / other financial institutions under the General House Building Loan Scheme. By partial modification of the above provision, it was decided that such loan could be extended upto a maximum of 50 percent of the entitlements of the concerned borrowers and, in these cases, the requirement for obtaining prior approval of the Bangladesh Bank was withdrawn.

xvi) **Margin on Import Letter of Credit**

The issue relating to fixation of the rate of margin requirements for opening import letters of credit was decided to be left upon the banks for determination on the basis of banker-customer relationship with effect from July 1, 1988.

xvii) **Credit Facility to manufacturers of Wet-Blue Leather and Semi-tanned / Tanned Leather**

Banks were instructed to allow credit facilities to the tannery units on the eve of the holy Eid-ul-Azha subject to observance of certain terms and conditions. The conditions were: (1) repayment of the previous Eid advance in full; (2) replenishment of any shortfall in stocks against usual advances other than the Eid advance or production of sufficient additional collaterals there against, and repayment in full of the outstandings against which there is a shortfall in stocks; (3) arriving at a satisfactory understanding by the borrowers with their banks in respect of repayment of the segregated loans within the specified time schedule.

Refinance Policy

3.24 The Bangladesh Bank's refinance policy continued to be aimed at encouraging banks to rely mainly on their own resources for their credit operations. However, keeping in view the increasing demand for credit in priority sectors, the requirement of seasonal credit expansion and liquidity position of the concerned banks, the Bangladesh Bank continued to provide refinance facility to the banks for meeting their genuine requirements. A brief summary of the refinance programme for 1987-88 is presented below:

i) Refinance Facility for Jute

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

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. Arrangements were made for extension of refinance at 5.5 percent rate of interest to the extent of 100 percent of the export credit not exceeding 180 days in respect of tea sent to London auction for consignment sale.

iii) Refinance Against Pre-shipment Export Credit including Packing Credit for Non-traditional Items

a) Refinance against L/C or Firm Export Contract:

As in the previous year, arrangements were made for providing 100 percent refinance at 5.5 percent interest per annum against preshipment export credit (less overdues), including packing credit for non-traditional items.

b) Refinance Against Pre-shipment Export Credit for Light Engineering and Electrical Goods, Handicrafts and Handloom Products

Refinance was allowed to the banks at an interest rate of 3.5 percent per annum upto 100 percent of the pre-shipment export credit (less overdues) extended by them for the above 3 non-traditional items of exports.

c) Refinance against export-oriented fish-freezing units under customs-bonded arrangements, export oriented industries and 100 percent export-oriented industries relating to non-traditional items.

Refinance was allowed to the banks at an interest rate of 5.5 percent per annum upto 100 percent of working capital advances in the above-mentioned areas. The condition of export L/C or firm export contract was not applicable in these cases.

iv) Refinance for Credit to Sugar Mills

Refinance facility was allowed at the Bank Rate upto 50 percent of the loans to sugar mills extended by banks within the credit ceiling prescribed by the Bangladesh Bank.

v) Refinance in Respect of Working Capital Loans to Newly Set-up Industries

Refinance was allowed at the Bank Rate to the extent of 50 percent of the working capital loans not exceeding 180 days extended by banks to industries commissioned on or after July 1, 1986.

vi) Refinance Against Export Bills

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

vii) Refinance Under Duty Drawback Credit Scheme

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

viii) Refinance Against Term Loans

Refinance against term loans sanctioned on or after July 1, 1987 for project finance was allowed at 2 percent below the rate of interest charged by the banks on such advances.

ix) Refinance Against BMRE Finance of Existing Tannery Units

100 percent refinance was allowed to the banks at the Bank Rate against their BMRE finance of the existing tannery units.

x) Refinance Against Advances in SEZ of Chittagong Hill Tracts Region

Refinance at 1.5 percent rate of interest against advances in Special Economic Zone (SEZ) of Chittagong Hill Tracts region was admissible to the banks to the extent of 100 percent of the amount of local currency loan disbursed by them at a concessional interest rate of 5.0 percent per annum.

xi) Counter Finance or Advances 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 financing the Government Food Department and the Bangladesh Agricultural Development Corporation (BADC).

xii) Refinance Against Special Emergency

Provision was made for sanctioning additional refinance limit to the banks for meeting special requirements in specific areas, subject to adherence to credit norms, maintenance of credit / deposit ratio, priority in credit deployment, enforcement of credit discipline upon the borrowers, and under any other special circumstances. However, in these cases the rate of interest may be fixed 4.0 percent above the Bank Rate.

CHAPTER IV

BANKING FACILITIES AND FINANCE

Branch Expansion

4.1 A total of 121 new branches were opened by the scheduled banks in Bangladesh during 1987-88. The total number of bank branches thus increased to 5,345 as on June 30, 1988 from 5,224 as on June 30, 1987. Of these, the branches of the nationalised banks (including Rupali Bank Limited) increased by 40 to 3,486, the specialised banks by 36 to 1,104 and the private banks by 45 to 733. The number of foreign bank branches operating in Bangladesh, on the other hand, remained unchanged at 22 during the year. The scheduled banks opened 68 rural branches during the year, raising the total number of bank branches in rural areas to 3,569 (66.8% of the total bank branches in the country) by the end of June, 1988. The number of the nationalised banks' branches operating abroad, including one branch of the Rupali Bank Limited and IFIC Bank Limited, remained unchanged at 13 as on June 30, 1988. The number of private sector banks and foreign banks operating in Bangladesh remained unchanged at 9 and 7 respectively as on June 30, 1988.

Islamic Banking

4.2 The total deposits of the Islami Bank Bangladesh Limited (IBBL) increased by Tk. 36.90 crores to Tk. 242.10 crores as on June 30, 1988 as compared to Tk. 205.20 crores at the end of June, 1987. Disbursement of credit and financing of investments by the IBBL increased by Tk. 10.39 crores to Tk. 171.29 crores at the end of June, 1988 from Tk. 160.90 crores at the end of June, 1987. The total number of branches of the IBBL increased to 22 at the end of June, 1988 from 21 at the end of June, 1987. Total deposit resources of the Al-Baraka Bank Bangladesh Limited (ABBL) increased by Tk. 85.93 crores to Tk. 94.20 crores at the end of June, 1988. Disbursement of credit by the ABBL increased by Tk. 84.35 crores to Tk. 85.48 crores as on June 30, 1988 as compared to Tk1.13 crores disbursed as on June 30, 1987 The ABBL did not make any industrial investment financing since it started functioning on May 20, 1987 upto June 30, 1988. The number of branches of the ABBL increased to 5 at the end of June, 1988 from 1 at the end of June, 1987.

Sale of Shares of the Rupali Bank Limited

4.3 As per the previous decision, shares worth Tk. 6,80,45,000 of the Rupali Bank Limited were alloted to the public and employees of the Bank (including shares worth Tk. 45,000 sold to the employees of the bank) out of the shares worth Tk. 8.00 crores offered for sale in 1987.

Rajshahi Krishi Unnayan Bank

4.4 With a view to having a comprehensive insight into local problems of the agricultural sector and facilitating prompt and appropriate action on that basis, the Government established the Rajshahi Krishi Unnayan Bank (RKUB) to function as an independent scheduled bank bifurcating the Bangladesh Krishi Bank (BKB) in March, 1987. The Rajshahi Krishi Unnayan Bank is the only bank established on regional basis whose Head Office is located outside the Dhaka city. Total deposit resources of the RKUB increased by Tk. 18.82 crores to Tk. 71.82 crores at the end of June, 1988 from Tk. 53.00 crores at the end of June, 1987. The amount of credit disbursed and investment made by the RKUB during the year also increased by Tk. 167.19 crores from Tk. 541.92 crores as on June 30, 1987 to Tk. 709.11 crores as on June 30, 1988.

Inspection of Banks and Implementation of Reports

4.5 In view of the gradual expansion of the banking sector and introduction of newer ways of bank financing, a total of 163 new posts were created in the Banking Inspection Department aimed at ensuring wider coverage and improved effectiveness of the inspection network. Moreover, in order to expedite banks' initiative in proper implementation of the inspection reports and speedy removal of the detected irregularities, the concerned Inspection Wings of the Banking Inspection Department, Agricultural Credit Department and Inspection Division of the Exchange Control Department of the Bangladesh Bank were merged and transformed into a full-fledged department called the 'Inspection Implementation Department'. The Bangladesh Bank under its routine programme of inspection carried out comprehensive inspection of 902 branches of 15 scheduled banks during 1987-88. In addition, summary inspection of 1150 branches of 6 scheduled banks and special inspection of 359 branches of 17 scheduled banks were also carried out during the year.

Counter-Finance for Foodgrains

4.6 For financing procurement and distribution of foodgrains, a sum of Tk. 75.00 crores was made available to the Government by the nationalised banks and counter-finance facility for the same amount was allowed to them by the Bangladesh Bank during 1987-88. An amount of Tk. 35.25 crores remained outstanding against the above counterfinance limit at the end of June, 1988.

Counter-Finance for Fertilizers

4.7 The Bangladesh Bank sanctioned counter-finance limits of Tk. 120.00 crores to the nationalised banks including the Pubali, Uttara and Rupali Bank Limited during 1987-88 for financing procurement and distribution of fertilizers by the Bangladesh Agricultural Development Corporation (BADC). Outstanding counter-finance against the same stood at Tk. 74.00 crores as on June 30, 1988 as compared to Tk. 19.00 crores as on June 25, 1987. Another counter-finance limit of Tk. 20.00 crores was sanctioned to the Sonali Bank for financing procurement of engines of shallow tubewells (STW), pumps and other related accessories by the BADC against which the entire amount remained outstanding as on June 30, 1988.

Refinance for Jute

4.8 Arrangements for providing adequate finance from the banking sector to the jute trade and jute mills were continued during 1987-88 jute season. The commercial banks sanctioned cash credit and packing credit limits to the jute mills for financing purchase of raw jute as well as for meeting their working capital requirements. The peak level utilisation of bank credit by the jute sector stood at Tk. 1,928.79 crores as on December 30 of 1987-88 as against Tk. 1,590.53 crores as on April 16 of 1986-87. The peak level utilization of refinance facilities by the banks from the Bangladesh Bank stood at Tk. 624.94 crores as on March 31, 1988. The outstanding amount of refinance availed of by banks stood at Tk. 622.56 crores as at the end of June, 1988 as compared with Tk. 618.19 crores as on June 25, 1987.

Refinance against Export Bills

4.9 The outstanding amount of refinance by way of overdraft/rediscounting facilities allowed to the banks by the Bangladesh Bank against export bills stood at Tk. 37.67 crores as on June 16, 1988 which came down to Tk. 16.86 crores as on June 30, 1988 as compared to Tk. 10.51 crores as on June 25, 1987.

Refinance for Non-traditional Exports

4.10 The highest amount of outstanding in respect of refinance allowed to banks by the Bangladesh Bank against pre-shipment export credit for non-traditional items stood at Tk. 134.43 crores as on June 30, 1988 as compared to Tk. 95.59 crores as on June 25, 1987.

Refinance for Sugar Mills

4.11 The highest amount of outstanding refinance against the financing of the sugar mills during 1987-88 stood at Tk. 22.50 crores as on june 30, 1988. There was no outstanding refinance against the same as on June 25, 1987.

Other Refinances

4.12 Other refinance facilities allowed by the Bangladesh Bank to the scheduled banks on various accounts stood higher at Tk. 58.78 crores as on June 30, 1988 as compared to Tk.48.30 crores as on June 25, 1987.

CHAPTER V

DEVELOPMENT OF CAPITAL MARKET AND INDUSTRIAL FINANCE

Dhaka Stock Exchange

5.1 The bullish trend which was discerned in share transactions in the Dhaka Stock Exchange during 1986-87 turned somewhat weaker during 1987-88. The daily average transactions in shares during the year indicated a decline of 11.1 percent as compared to that in the preceding year. However, following continued improvement in the overall investment climate in the country, a good number of new companies came up for enlisting their names with the Exchange. As a result, the total number of companies listed with the Dhaka Stock Exchange increased from 88 in 1986-87 to 107 in 1987-88. The investors' response to the public issues of new shares by companies listed with the Exchange seemed encouraging during the year. Total paid up capital of the listed companies stood at Tk. 353.77 crores in 1987-88 as compared to Tk. 279.14 crores in 1986-77, showing an increase of 26.7 percent over the year.

5.2 Total turnover of shares on the floor of the Dhaka Stock Exchange during the year stood at 10.78 lakh shares worth Tk. 12.09 crores. Although this was 55.8 percent larger in terms of number of shares, the same represented a 20.7 percent decline in terms of value of shares as compared to those in the preceding year. In all, 17 companies offered new shares worth Tk. 39.84 crores for public subscription during 1987-88 which was 71.3 percent higher as compared to shares worth Tk. 22.09 crores offered by 11 companies in 1986-87. As against the total shares offered during the year, public response was valued at Tk. 70.59 crores, representing an over subscription of 77.2 percent. A total of 48 companies declared dividends ranging from 5.0 percent to 80.0 percent during the year. Market capitalisation of the listed companies increased by Tk. 11.68 crores to Tk. 1,327.12 crores in 1987-88 from Tk. 1,315.44 crores in 1986-87.

Investment Corporation of Bangladesh

5.3 The Investment Corporation of Bangladesh (ICB) has been playing an important role in the promotion of investment and development of capital market in the country. Total resources of the ICB decreased to Tk.175.53 crores as on June 30, 1988 from Tk.195.08 crores as on June 30, 1987. During 1987-88, the ICB made a total commitment of Tk. 2.46 crores which included Tk. 1.46 crores for bridge financing and Tk. 1.00 crore for underwriting public issues of shares by companies. The Corporation had committed Tk. 5.37 crores for bridge financing only during 1986-87. Total investment commitments made by the ICB and other consortium partners declined to Tk.6.07 crores during 1987-88 as compared to Tk.10.40 crores committed during 1986-87. The outstanding commitments made by the ICB and consortium partners at the end of June, 1988 stood at Tk.46.39 crores (ICB Tk.11.82 crores and consortium partners Tk.34.57 crores). This compared with the outstanding commitments of Tk.46.09 crores (ICB Tk.13.82 crores and consortium partners Tk.32.27 crores) at the end of June, 1987. Since inception upto June 30, 1988 the ICB made a total commitments of Tk.93.65 crores against 297* projects.

5.4 The ICB and its consortium partners made a total investment of Tk. 6.07 crores (ICB Tk. 2.46 crores and consortium partners Tk. 3.61 crores) against 4 projects during 1987-88. This compared with investments of Tk. 10.40 crores which included Tk. 5.37 crores of the ICB and Tk. 5.03 crores of the consortium partners against 9 projects during 1986-87. The outstanding amount of investments by the ICB and its consortium partners stood at Tk. 111.75* crores (ICB Tk. 80.59 crores and consortium partners Tk. 31.16 crores) at the end of June, 1988. This compared with the investments of Tk. 97.68 crores (ICB Tk.68.21 crores and consortium partners Tk.29.47 crores) outstanding at the end of June, 1987.

Bangladesh Shilpa Bank

5.5 The Bangladesh Shilpa Bank (BSB) received a total of 71 loan applications during 1987-88 as compared with 125 applications received during 1986-87. As against this, the BSB sanctioned a total loan of Tk.52.01 crores against 27 projects which included Tk.43.88 crores in foreign currency and Tk.8.13 crores in local currency. The BSB had sanctioned a total loan of Tk.75.38 crores against 43 projects during 1986-87, of which Tk.59.04 crores were in foreign currency and Tk.16.34 crores in local currency. As in the previous year, all the loans sanctioned during 1987-88 were in the private sector.

5.6 Total disbursement of loans by the BSB during 1987-88 amounted to Tk. 40.00 crores, of which Tk. 33.63 crores were in foreign currency and Tk. 6.37 crores in local currency. As in the previous year, private sector claimed the entire amount of loans disbursed during the year. The BSB had disbursed an amount of Tk. 27.85 crores in 1986-87 which included a foreign currency component of Tk.20.86 crores. The BSB recovered an amount of Tk.66.72 crores during 1987-88 as compared to the recovery of Tk. 65.89 crores during 1986-87. The outstanding amount of BSB loans, including overdue loans of Tk. 347.62 crores (49.6%), amounted to Tk. 700.38 crores as on June 30, 1988. This compared with the outstandings of Tk.646.88 crores, including overdue loans of Tk.295.04 crores (45.6%), as on June 30, 1987.

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* Net of cancellation/reduction.

Bangladesh Shilpa Rin Sangstha

5.7 The functions and areas of operations of the Bangladesh Shilpa Rin Sangstha (BSRS) have been attuned in line with its re-defined role and re-set objectives during 1987-88. The BSRS sanctioned a total loan of Tk. 0.22 crore against 2 projects during 1987-88 as compared to Tk. 0.71 crore sanctioned against 4 projects during 1986-87. The amount of loans disbursed by the BSRS during 1987-88 stood at Tk. 2.96 crores as compared to Tk. 5.26 crores disbursed in 1986-87. Of the total disbursement during the year, foreign currency and local currency components accounted for Tk. 1.13 crores (38.2%) and Tk. 1.83 crores (61.8%) respectively. These compared with Tk. 2.96 crores (56.3%) and Tk. 2.30 crores (43.7%) respectively disbursed during 1986-87.

5.8 The BSRS launched vigorous drives for recovery of overdue loans during 1987-88. Important measures taken in this respect included: (i) provision for 2.5 percent rebate on accrued interest in case of repayment of overdue loans within scheduled time period; (ii) provision for re-scheduling of overdue loans together with exemption of penal interest, subject to repayment of 25 percent of the overdues at a particular date and, in special cases, allowing re-scheduling of loans on repayment of 10 percent of the overdues; and (iii) requesting the Bangladesh Bank and commerical banks not to sanction/renew any working capital loans to its defaulter borrowers without NOC from the BSRS. As a result, a good number of borrowers came forward to get their loan accounts re-scheduled on payment of a portion of their overdues. The total amount of loans recovered by the BSRS thus improved somewhat to Tk. 49.73 crores during 1987-88 as compared to Tk. 49.04 crores during the preceding year. The outstanding amount of loans of the BSRS as on June 30, 1988 stood higher at Tk. 760.88 crores as compared to Tk. 750.74 crores as on June 30, 1987.

Commercial Banks

5.9 The commercial banks continued to play an active role in promoting the country's capital market during 1987-88. A total of Tk. 874.77 crores was provided by the commercial banks (nationalised, private and foreign banks operating in Bangladesh) as on June 30, 1988 for financing debentures issued by the sector corporations as compared to Tk. 789.77 crores at the end of june, 1987. Besides, the commercial banks made advances to the Stock Exchange members against the security of their shares listed with the Exchange upto 80 percent of the face value of such shares. Commercial banks' advances against stock exchange securities (including Government and other trustee securities) at the end of June, 1988 stood at Tk.209.02 * crores as compared with Tk. 85.06 crores at the end of June, 1987.

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* Projected.

CHAPTER VI

AGRICULTURAL AND RURAL FINANCE*

Annual Agricultural Credit Programme

6.1 The Annual Agricultural Credit Programme of the Bangladesh Bank provided for disbursement of Tk1,050.00 crores during 1987-88. This was 2.3 percent lower than the disbursement programme of Tk. 1,075.00 crores but 57.4 percent higher as compared to the actual disbursement of Tk. 667.28 crores during 1986–87. Of the total programme for 1987–88, Tk. 479.38 crores (45.7%) were earmarked for crop financing (other than tea), Tk. 102.85 crores (9.8%) for financing purchase and installation of irrigation equipments and Tk. 467.77 crores (44.5%) for other agricultural activities. These compared with Tk. 458.00 crores (42.6%), Tk. 115.00 crores (10.7%) and Tk. 502.00 crores (46.7%) respectively during 1986–87.

Annual Crop Credit System / Credit Pass Book

6.2 In order to ensure adequate flow of credit for financing the country's major crop production, the annual crop credit system was continued during 1987–88. The system of recording all transactions relating to agricultural credit in the credit pass book of borrowers introduced with a view to ensuring disbursement of agricultural credit to the actual farmers also continued to remain in practice during the year. A total of 28,27,961 credit pass books were issued to the borrowers up to June 30, 1988. Of these, 10,66,994 pass books (excluding those of BRDB) were issued by the Participating Commercial Banks (PCBs), 12,53,116 pass books by the Bangladesh Krishi Bank (BKB), 3,82,351 pass books by the Rajshahi Krishi Unnayan Bank (RKUB) and 1,25,500 pass books by Bangladesh Samabaya Bank Ltd. (BSBL).

Disbursements under the Annual Agricultural Credit Programme

6.3 For ensuring necessary credit to farmers under the comprehensive Post Flood Agricultural Rehabilitation Programme drawn with a view to make good for the loss of crops due to flood, the restrictions imposed earlier on extension of agricultural credit were substantially relaxed during 1987–88. The borrowers who received crop loans and term loans other than crop loans in the preceding year, were allowed to receive fresh loans with re-scheduling of their outstanding loans. Arrangements were also made for re-scheduling of outstanding loans of borrowers who received crop loans for the 1987–88 Aus and Aman season as well as for disbursement of fresh loans to them at a rate 10 percent

* Figures relating to 1987–88 are provisional.

higher than the amount payable as per existing credit norms. Inspite of these liberal steps, total disbursement of agricultural credit by the PCBs stood at Tk. 656.31 crores which was 62.5 percent of the Programme for the year. Disbursement of agricultural credit had stood at Tk. 667.28 crores or 62.1 percent of the Programme during the preceding year. Of the total disbursements made during 1987–88, Tk. 260.70 crores disbursed as crop loans (other than tea) were 54.4 percent of the Programme for the year and 5.5 percent higher than Tk. 247.05 crores disbursed during the preceding year. Disbursement of loans for purchase and installation of irrigation equipments stood at Tk. 18.72 crores which was 18.2 percent of the Programme and 30.7 percent lower than Tk. 27.03 crores disbursed during 1986–87. Disbursements made for other agricultural activities, on the other hand, amounted to Tk. 376.89 crores or 80.6 percent of the Programme and 4.1 percent lower than Tk. 393.20 crores disbursed in the preceding year.

Recovery of Agricultural Loans

6.4 In view of the reduced disposable income of farmers due to losses incurred on account of floods and in consideration of their temporary inability to repay loans during 1987–88, recovery of agricultural loans was suspended for the time being with extension of repayment period and re-scheduling of outstanding loans. Borrowers were allowed repayment of 50·0 percent of the re-scheduled loans within specified time period, while the remaining 50·0 percent were required to be paid within 4 months thereafter. As a result, recovery of agricultural loans during the year declined substantially. Total recovery of agricultural loans at Tk. 595.78 crores during 1987–88 was 23.6 percent of Tk. 2,528.16 crores due for recovery and 46.2 percent lower than Tk. 1,107.56 crores recovered during the preceding year. Due to lower recovery, the outstanding level of agricultural loans as at the end of June, 1988 stood 17.3 percent higher at Tk. 3,863.45 crores as compared to Tk. 3,294.41 crores at the end of June, 1987. The amount of overdue loans as at the end of June, 1988 also stood 22.6 percent higher at Tk.1,932.38 crores as compared to Tk. 1,575.98 crores at the end of June, 1987.

6.5 A comparative position of credit operation under the Annual Agricultural Credit Programme for 1986–87 and 1987–88 is presented in Table 6.1.

TABLE 6.1

COMPARATIVE POSITION OF ANNUAL AGRICULTURAL CREDIT PROGRAMME IN 1986–87 & 1987–88

(Taka in crores)

Particulars	1986–87	1987–88	Change over the year
1. Programme for Disbursement :	1,075.00	1,050.00	−25.00 (−2.33)
a) Crop Financing (other than tea)	458.00	479.38	+21.38 (+4.67)
b) Financing of Irrigation Equipments	115.00	102.85	−12.15 (−10.57)
c) Other Agricultural Activities (including tea)	502.00	467.77	−34.23 (−6.82)
2. Actual Disbursement:	667.28	656.31	−10.97 (−1.64)
a) Crop Financing (other than tea)	247.05	260.70	+13.65 (+5.53)
b) Financing of Irrigation Equipments	27.03	18.72	−8.31 (− 30.74)
c) Other Agricultural Activities (including tea)	393.20	376.89	−16.31 (−4.14)
3. Overdue	1,575.98	1,932.38	+356.40 (+22.61)
4. Recovery	1,107.56	595.78	−511.78 (−46.21)
5. Total Outstanding	3,294.41	3,863.45	+569.04 (+17.27)

Note : Figures in the parentheses indicate annual percentage changes.

6.6 Of the total disbursement of agricultural loans during 1987–88, short–term loans accounted for Tk. 502.06 crores or 76.5 percent as compared to Tk. 476.33 crores or 71.4 percent in 1986–87. Disbursement of term loans during 1987–88 declined by Tk. 36.70 crores to Tk.154.25 crores which was 23.5 percent of total disbursements. Disbursement of short–term crop loans (other than tea), increased by 5.5 percent, while that for production of tea increased by 15.0 percent during the year. Term loans extended for purchase and installation of irrigation equipments declined by 30.7 percent during the year. Term loans extended for purchase of plough animals and other purposes, also recorded a decline of 9.2 percent during 1987–88. Disbursement of agricultural loans by terms and types is shown in Table 6.2.

TABLE 6.2

DISBURSEMENT OF AGRICULTURAL CREDIT BY TERMS AND TYPES

(Taka in crores)

Particulars	1986–87	1987–88	% Change
Total Disbursement:	**667.28**	**656.31**	**−1.64**
1. Short Term Loans:	**476.33**	**502.06**	**+5.40**
	(71.38)	(76.50)	
a) Crop loans (other than tea)	247.05	260.70	+ 5.53
b) Other Agricultural Activities	229.28	241.36	+5.27
i) Production loans for tea	80.44	92.47	+14.96
ii) Other loans	148.84	148.89	+0.03
2. Term loans	**190.95**	**154.25**	**+19.22**
	(28.62)	(23.50)	
a) Irrigation Equipment	27.03	18.72	−30.74
b) Other Agricultural Activities	163.92	135.53	−17.32
i) Plough Animals	64.52	58.57	−9.22
ii) Other loans	99.40	76.96	−22.58

Note : Figures in brackets indicate percentages of total credit.

6.7 Disbursement of crop loans during 1987– 88 recorded an increase of 5.5 percent to Tk. 260.70 crores. Although the Bangladesh Krishi Bank continued to remain the single largest source of agricultural credit, it lost much of its prominence in financing the country's crop production during the year. Crop loans disbursed by the Bangladesh Krishi Bank declined by 55.7 percent to Tk. 43.18 crores, thereby reducing its share in total disbursement of crop loans from 39.5 percent in 1986-87 to 16.6 percent in 1987–88. The Participating Commercial Banks (PCBs) played a more important role as the second largest source of agricultural loans during the year. Disbursement of agricultural loans by the PCBs during 1987–88 increased by 32.4 percent to Tk. 177.54 crores. As a result, the share of the PCBs in total agricultural loans as well as in crop loans increased from 20.1 percent and 33.8 percent respectively in 1986–87 to 27.1 percent and 46.8 percent respectively in 1987–88. Infact, the PCBs emerged as the major source of crop loans during 1987–88. The Rajshahi Krishi Unnayan Bank (RKUB) is also assuming increasing role in extending agricultural loans. Disbursement of loans by the RKUB during 1987–88 increased by 89.6 percent to Tk. 42.99 crores, of which crop loans showed an increase of 296.5 percent to Tk.19.47 crores. Thus, the share of the RKUB in total disbursement of agricultural credit as well as in crop loans increased from 3.4 percent and 2.0 percent respectively in 1986–87 to 6.6 percent and 7.5 percent respectively in 1987–88. On the other hand, although the contribution of BRDB/UCCAs increased during the year, that of the BSBL declined somewhat. Source–wise disbursement of agricultural loans is shown in Table 6.3.

TABLE 6.3

DISBURSEMENT OF AGRICULTURAL CREDIT BY SOURCES

(Taka in crores)

Sources/Credit Agencies	1986-87		1987-88	
	Total	Crop Loan (other than tea)	Total	Crop Loan (other than tea)
BKB	419.24 (62.83)	97.53 (39.48)	336.23 (51.23)	43.18 (16.56)
RKUB	22.67 (3.40)	4.91 (1.99)	42.99 (6.55)	19.47 (7.47)
PCBs	134.10 (20.10)	83.57 (33.83)	177.54 (27.05)	121.98 (46.79)
BRDB/UCCAs	74.22 (11.12)	48.17 (19.50)	85.58 (13.04)	65.56 (25.15)
BSBL	17.05 (2.56)	12.87 (5.21)	13.97 (2.13)	10.51 (4.03)
Total :	**667.28**	**247.05**	**656.31**	**260.70**

Note : Figures in parentheses indicate percentage shares in the total.

Bangladesh Bank's Refinance in the Agricultural Sector

6.8 Refinance availed of by the Participating Credit Institutions from the Bangladesh Bank increased by Tk. 209.43 crores or 90.2 percent to Tk. 441.63 crores during 1987-88. This includes a refinance of Tk. 84.97 crores to Sonali Bank during the year against its lending to the BRDB/UCCAs. Detailed position of Bangladesh Bank's refinance to the PCIs during 1986-87 and 1987-88 is shown in Table 6.4.

TABLE 6.4

REFINANCE BY THE BANGLADESH BANK

(Taka in crores)

Credit Agencies	1986-87		1987-88	
	Sanction	Disbursement	Sanction	Disbursement
BKB	171.13	119.49	343.50 (+100.72)	214.13 (+79.20)
PCBs	39.89	20.98	69.52 (+74.28)	75.46 (+259.68)
BSBL	27.90	15.80	29.00 (+3.94)	12.94 (-18.10)
Sonali Bank-BRDB	68.08	68.93	96.28 (+41.42)	84.97 (+23.27)
BRDB	6.70	2.00	6.00 (-10.45)	5.93 (+196.50)
RKUB	89.09	5.00	101.08 (+13.46)	48.20 (+864.00)
Total :	**402.79**	**232.20**	**645.38 (+60.23)**	**441.63 (+90.19)**

Note : Figures in parentheses indicate percentage change.

Outstanding Borrowings of the Participating Credit Institutions

6.9 The outstanding borrowings of the PCIs for agricultural finance from the Bangladesh Bank stood at Tk. 1,449.40 crores at the end of June, 1988 which was Tk. 247.61 crores or 20.6 percent higher than Tk. 1,201.79 crores at the end of June, 1987. The position of outstanding borrowings of the PCIs from the Bangladesh Bank is shown in Table 6.5.

TABLE 6.5

OUTSTANDING BORROWINGS OF THE PCIs

(Taka in crores)

Credit Agencies	1986-87	1987-88	% Changes over the year
BKB	1,100.40 (91.60)	1,190.26 (82.12)	+8.17
BSBL	32.81 (2.73)	35.62 (2.46)	+8.56
PCBs	2.51 (0.21)	71.86 (4.96)	+2762.95
Sonali Bank-BRDB	50.68 (4.22)	84.39 (5.82)	+66.52
BRDB	10.39 (0.86)	14.31 (0.99)	+37.73
RKUB	5.00 (0.42)	52.96 (3.65)	+959.20
Total :	1,201.79 (100.00)	1,449.40 (100.00)	+20.60

Note : Figures in parentheses indicate percentages of total.

Projects under the supervision of the Agricultural Credit Department

6.10 Some special programmes and projects are being financed under the supervision and guidance of the Agricultural Credit Department (ACD) of the Bangladesh Bank. Different projects which were introduced with a view to helping the rural peasants and other assetless people in the rural areas who have no access to institutional credit, were continued during the year. A brief review of some important projects is given below:

i) **Loan for Pond Fishery**

Under the Tk. 16.85 crores programme for financing pond fishery in the country, the PCIs disbursed an amount of Tk. 2.29 crores during 1987-88. This was 39.1 percent lower than Tk. 3.76 crores disbursed in the preceding year. Of the total disbursements made during the year, the PCBs disbursed Tk. 0.24 crore, BKB Tk. 1.91 crores and RKUB Tk. 0.14 crore. The above credit agencies had disbursed Tk. 0.70 crore, Tk. 2.62 crores and Tk. 0.44 crore respectively in 1986-87.

ii) **Loan for Cold Storage**

With a view to improving cold storage facility for preservation of potatoes in the country, the PCIs disbursed Tk. 25.11 crores during 1987-88 which was 43.6 percent lower than Tk. 44.52 crores disbursed in 1986-87. Of the total disbursements during the year, the PCBs, the BKB and the RKUB disbursed Tk. 11.92 crores, Tk. 12.63 crores and Tk. 0.56 crore respectively.

iii) **Bangladesh-Swiss Agricultural Project-II (BASWAP-II)**

Under this project, two participating credit agencies, namely, the Sonali Bank and the Rupali Bank disbursed Tk. 1.36 crores among 15,321 farmers upto June, 1988. Of this, the Sonali Bank disbursed Tk. 0.65 crore and the Rupali Bank Tk. 0.71 crore. Total recovery under the project upto June, 1988 stood at Tk. 1.22 crores, of which Tk. 0.61 crore and Tk. 0.61 crore were recovered by the Sonali Bank and the Rupali Bank respectively.

iv) **Swanirvar Credit Programme**

Under the Swanirvar credit programme, an amount of Tk. 72.43 crores was disbursed among 4,65,139 loanees upto June, 1988 which included Tk. 41.69 crores by the nationalised commercial banks (NCBs), Tk. 9.24 crores by the Pubali, Uttara and Rupali Banks, Tk. 18.16 crores by the BKB and Tk. 3.34 crores by the RKUB. As against this, the amount of loans recovered upto June 30, 1988 stood at Tk. 47.76 crores, of which the shares of the above institutions were Tk. 26.82 crores, Tk. 6.45 crores, Tk. 12.52 crores and Tk. 1.97 crores respectively. Total outstanding and overdue loans under the programme stood at Tk. 38.12 crores and Tk. 29.72 crores respectively upto June 30, 1988.

v) **ASARRD Project**

Activities in the second phase of the project styled 'Asian Survey of Agricultural Reforms and Rural Development (ASARRD)' introduced under the joint sponsorship of FAO/UNDP to improve the socio-economic conditions of small farmers and landless poor, continued in 1987-88. Total disbursement of loans under the project stood at Tk. 2.16 crores against which Tk. 2.25 crores (including interest) were recovered upto June 30, 1988.

vi) **Second Rural Development Project (RD-II Project)**

The Second Rural Development Project (RD-II Project) financed under grants arrangement from the IDA, CIDA and the UNDP was introduced in 13 districts of the country in 1984. Five more districts, namely Jessore, Faridpur, Rajshahi, Pabna and Kushtia were brought under the purview of the project in February, 1988. As on June 30, 1988 an amount of Tk. 182.87 crores was given to the Sonali Bank as refinance against its disbursement of Tk. 201.73 crores under the project.

vii) **North-West Rural Development Project**

The Sonali Bank disbursed a total of Tk. 7.94 crores under the project against which Tk. 2.88 crores were recovered upto June 30, 1988. The amount of outstanding and overdue loans under the project stood at Tk. 5.38 crores and Tk. 0.92 crore respectively at the end of June, 1988. Refinance provided by the Bangladesh Bank under this project since its inception upto June 30, 1988 stood at Tk. 2.69 crores.

Rural Finance Project

6.11 Rural Finance Project (RFP) which was introduced from October 2, 1984 under a grant agreement for US $ 75 million signed between the Bangladesh Government and the USAID was scheduled to be completed by June 30, 1988. Recommendations have, however, been made to the concerned authorities for extension of the project for another year. During 1987-88, the printing and publication of 12 Reports prepared by the Experts working under the project were completed.

Projects under the Supervision of the Rural Credit Project Department

6.12 The Rural Credit Project Department (RCPD) of the Bangladesh Bank performed the responsibilities of implementation, monitoring, supervision or providing refinance facilities for the following projects/schemes drawn under the financial assistance of the IDA, the ADB and the IFAD.

i) **Shrimp Culture Project (IDA Credit No. 1651-BD)**

For implementation of intensive shrimp culture in the coastal areas of Bangladesh, a loan agreement for SDR 20.6 million was signed between the Government of Bangladesh and the International Development Agency (IDA) in February, 1988. Out of the total loan, an amount equivalent to SDR 5.5 million has been allocated for disbursement as term loans among the farmers through the Sonali Bank and the BKB under the supervision of the Bangladesh Bank for meeting the capital expenditure in respect of establishment of scientific Shrimp Culture Projects covering a total area of about 9,500 hectares as well as for establishment of hatchery and marketing of fishlings. Arrangements are also there for short term credit for meeting production expenses which the two participating banks will provide from their own resources against which, if necessary, they will be able to avail refinance facility from the Bangladesh Bank. The two participating banks were instructed in March, 1988 to provide credit for establishment of shrimp culture farms over 1,493 hectares of land in the first phase. No disbursement has, however, been made under the scheme upto June, 1988.

ii) **Hand Tube-well Scheme (IDA Credit No. 1140-B D)**

During 1987-88, the Bangladesh Bank provided a total of Tk. 0.62 crore as refinance to the Sonali Bank, the only participating institution under the scheme. Total refinance provided under the project since its inception upto June, 1988 amounted to Tk. 5.62 crores against disbursement of loan for installation of a total of 54,294 HTWs, 10 major tool kits and 37 minor tool kits.

iii) **Second Aquaculture Development Project (ADB Loan No. 821 BAN-SF)**

As per an agreement signed between the Government of Bangladesh and the Asian Development Bank (ADB) in November, 1987 the ADB has agreed to provide a loan equivalent to SDR 38.08 million for development of aquaculture in the country. According to the terms of the above agreement the Government of Banlgadesh, under a subsidiary loan agreement, would lend to the Bangladesh Bank an amount equivalent to SDR 16.782 million for investment in the private sector through the three participating banks viz. the Agrani Bank, the Rupali Bank and the Bangladesh Krishi Bank. Preparatory work of the project under the credit is going ahead. No loan has been disbursed upto June 30, 1988 under the project.

iv) **South-West Rural Development Project (IFAD Loan No. 73-BA)**

An amount equivalent to SDR 8 million has been earmarked for disbursement as loan to different projects in greater Faridpur and Jessore districts under IFAD credit No. 73-BA. During 1987-88, the Bangladesh Bank provided refinance facility amounting to Tk. 1.39 crores to the Sonali Bank, the only participating institution under the project. Total refinance provided under the project since its inception upto June, 1988 amounted to Tk.11.32 crores. The duration of the project has been extended upto December, 1988.

Projects under the Rural Credit Project Department

6.13 The projects undertaken by the Rural Credit Project Department (RCPD) of the Bangladesh Bank continued during 1987-88. The PCIs extend credit against refinance or without refinance out of their own resources under these projects. Descriptions of projects are as under :

i) **Rural Housing Financing Scheme**

Under the Rural Housing Financing Scheme introduced in January, 1984, the four PCBs together disbursed a total amount of Tk. 20.30 crores upto June, 30, 1988.

ii) **Banana Plantation Financing Scheme**

The Participating Credit Institutions disbursed a sum of Tk. 0.06 crore in 156 Upazillas of the country and recovered Tk. 0.28 crore during 1987-88 under the scheme. Since the introduction of the scheme in 1980 upto the end of June, 1988, the PCIs disbursed a total amount of Tk. 2.80 crores and recovered an amount of Tk. 1.86 crores.

iii) **Lac Culture Financing Scheme**

The Scheme was introduced in 1981 for Lac Culture in Chapai Nowabganj district under Rajshahi Division. Since inception of the scheme, Agrani Bank, the participating institution under the scheme, disbursed a sum of Tk. 1.87 lakhs upto 1984 and recovered Tk. 2.30 lakhs including interest upto December, 1986.

iv) **Shrimp Culture Financing Scheme**

Under the Shrimp Culture Financing Scheme, the PCIs disbursed an amount of Tk.4.25 crores and recovered Tk. 5.27 crores during 1987-88. Thus the total loans disbursed under the scheme since inception in 1980 upto June 30, 1988 amounted to Tk.42.97 crores against which a sum of Tk. 32.60 crores was recovered.

v) Rural Transport Financing Scheme

Under the Rural Transport Financing Scheme, the PCIs disbursed a total of Tk. 0.24 crore as short and medium term loans and recovered a sum of Tk. 0.22 crore (excluding the amount of loan disbursed by the BKB from June, 1987 to June, 1988), during 1987-88. The cumulative disbursement of loans since inception of the scheme in 1981 upto June 30, 1988 amounted to Tk. 8.47 crores against which Tk. 3.09 crores were recovered.

vi) Rower Pump Financing Scheme

At present Rower Pump Financing Scheme exists in 145 Upazillas of 34 districts. The PCIs disbursed a sum of Tk. 1.43 lakhs and recovered Tk. 0.71 lakh during 1987-88. Cumulative disbursement and recovery since introduction of the scheme in 1982 upto June 30, 1988 amounted to Tk.10.30 lakhs and Tk. 4.75 lakhs respectively.

vii) Commercial Poultry Farm Financing Scheme

No disbursement was made during 1987-88 under the scheme for financing establishment of Commercial Poultry Farms introduced in 1983. An amount of Tk. 4.11 lakhs was recovered by the PCIs during the year against their earlier disbursement of Tk. 23.39 lakhs.

Inspection of Bank Branches and the Co-operatives

6.14 Agriculture Credit Inspection Department (ACID) carried out inspection in 595 branches of the nationalised commercial banks and 143 branches of the private commercial banks during 1987-88. In addition, inspection was also carried out in 227 branches of the Bangladesh Krishi Bank (BKB) and 80 branches of the Rajshahi Krishi Unnayan Bank (RKUB) and 337 institutions of the Samabaya Bank and the UCCAs during the year.

Grameen Bank

6.15 The Grameen Bank opened 109 new branches during 1987-88 raising its total number of branches to 453. A total of 8,960 villages including 2,702 new ones was brought under the programme of the Grameen Bank upto June, 1988. The Bank disbursed a total of Tk. 102.75 crores during 1987-88 which was 56.8 percent higher than the disbursement of Tk. 65.54 crores in the preceding year. Total recovery of Grameen Bank amounted to Tk. 82.27 crores which was equivalent to 80.1 percent of its total disbursements during 1987-88. An amount of Tk. 54.09 crores was recovered in the preceding year which was equivalent to 82.5 percent of the amount disbursed. Since its inception as a project in June, 1976, the Grameen Bank extended collateral free loans amounting to Tk. 286.96 crores, of which Tk. 228.40 crores or 79.6 percent of total disbursement were repaid by the borrowers in weekly instalments. The number of borrowers of the Grameen Bank has increased from 2.78 lakhs at the end of June, 1987 to 4.13 lakhs at the end of June, 1988, of which 3.46 lakhs or 83.8 percent were women. The ratio of overdue loans of the Grameen Bank stood at 2.8 percent at the end of June, 1988 as compared to 4.0 percent at the end of June, 1987. The Grameen Bank disbursed a sum of Tk. 24.69 crores as House Building Loans and another sum of Tk.6.24 crores as technical loans during 1987-88.

6.16 The amount saved by the loanees of the Grameen Bank in Group Fund and Emergency Fund amounted to Tk. 10.79 crores during 1987-88 raising the total savings of these funds to Tk. 28.09 crores.

CHAPTER VII

FINANCING OF SMALL AND COTTAGE INDUSTRIES

Bangladesh Bank's Credit Policy for Small and Cottage Industries

7.1 Ensuring adequate finance for development and expansion of Small and Cottage Industries (SCIs) in the country has been an important part of the Bangladesh Bank's credit policy. In conformity with the current Industrial Policy of the Government, the Bangladesh Bank has already instructed the commercial banks to gear up their term-lending activities, specially for the SCIs in the private sector, and issued some instructions/guidelines in this regard which included, among others, the following :

(i) To set-aside at least 5.0 percent of scheduled banks' fresh loanable funds on annual basis for investment in the S.C.I sector at a concessional interest rate of 10.0 percent per annum without any service charge or fee;

(ii) To open separate 'Cells' in the main offices of banks to specially cater to the financial needs of the SCIs, and to establish a separate 'Desk' with at least one experienced officer in each of the district level main branches for handling industrial loan proposals;

(iii) To give special priority to women entrepreneurs in sanctioning project loans in the SCI sector;

(iv) To relax the requirement of collaterals in respect of entrepreneurs having special skills and technical education;

(v) To take decision about sanction or otherwise of industrial loan proposals within a maximum period of 3 months from the date of receipt;

(vi) To provide necessary working capital loans to the sanctioned projects at 14.0 per cent rate of interest per annum; and

(vii) To give special priority in sanctioning project loans for less/least developed areas for ensuring appropriate and wider regional dispersal of industries.

7.2 With a view to encouraging establishment of the SCI projects with bank finances, a low debt-equity ratio of 80:20 has already been allowed as per government decision. Moreover, in view of the substantial increase in the cost of projects the definition of a small and cottage industry has been further widened by raising the maximum ceiling of investment in machinery of these industries from Tk. 1.0 lakh to Tk. 3.0 lakhs for the purpose of getting exemption of excise duty.

7.3 In the light of the above policy options, the Bangladesh Bank took some supportive measures for proper development of the SCI sector during 1987-88. The ceiling of each loan under the Special Credit Programme for small and cottage industries has already been enhanced from Tk. 2.0 lakhs to Tk. 4.0 lakhs. For evaluation of projects and recovery of loans in the SCI sector, banks were advised to take the services of the Bangladesh Small and Cottage Industries Corporation (BSCIC) as far as possible. In the case of entrepreneurs having special skills and technical know-how in the SCIs, banks were allowed to sanction upto Tk. 2.0 lakhs for each individual entrepreneurs and upto Tk. 5.0 lakhs for a group of five. Besides, the Bangladesh Bank issued special instructions to the financing banks to ensure supply of necessary working capital to the sanctioned industrial projects, in general, and small and cottage industries, in particular, during the year. Banks were advised to advance 50 percent of the loans to be extended to the SCI sector as fixed capital and 50 percent as working capital.

7.4 The Bangladesh Bank provided refinance facility to banks at the Bank Rate up to 50 percent of their working capital loans not exceeding 180 days to industrial projects, including those of small and cottage industries, commencing production on or after July 1, 1986. Refinance facility was also allowed to banks against their financing of term project loans extended on or after July 1, 1987 at an interest rate of 2.0 percent below the rate charged by banks on such loans. In addition, the Bangladesh Bank provided refinance at an interest rate of 3.5 percent per annum upto 100 percent of the export credit (excluding overdues) extended by banks for the three small and cottage industry products, namely, light engineering and electrical goods, handicrafts and handloom products.

Credit Guarantee (Small Loan) Scheme

7.5 The Credit Guarantee (Small Loan) Scheme introduced for reducing the risk of providing bank finances to the SCIs remained in operation during 1987-88.

Disbursement of Credit to Small and Cottage Industries

7.6 In accordance with the directives of the Bangladesh Bank, the scheduled banks continued to extend at least 5.0 percent of their fresh loanable funds to the SCI sector during 1987-88. After the announcement of the Industrial Policy of 1986, the Bangladesh

Bank introduced the system of allocating bank-wise targets for disbursement of loans to the SCIs. The scheduled banks extended a total of Tk. 47.80 crores during the six months from January to June, 1987 and Tk. 123.00 crores during 1987-88 to the SCI sector.

Special Credit for Small Engineering Enterprises of Dholaikhal-Zinzira Areas

7.7 The Bangladesh Bank granted a demand loan of Tk. 5.0 crores to the Bangladesh Small and Cottage Industries Corporation (BSCIC) towards the middle of 1987 for providing working capital and term loans to the small engineering enterprises within the meaning and definition of the SCIs located at the Dholaikhal and Zinzira areas of Metropolis Dhaka. Of this, Tk. 3.0 crores were to be given as working capital and Tk. 2.0 crores as term loan for BMRE of the above enterprises. The BSCIC will have to repay Tk. 3.0 crores working capital portion of the loan, together with interest @ 10.75 percent (Bank Rate) per annum, within 3 years including grace period of one year. The BMRE component (term loan) of Tk. 2.0 crores, together with interest @6.75 percent per annum, shall have to be repaid within 5 years including one year's grace period.

7.8 The BSCIC disbursed a total of Tk. 4.86 crores to 244 enterprises within the scheduled time period of loan which ended on June 30, 1988. The above deadline was extended by the Bangladesh Bank for another period of three months upon request from the BSCIC.

Consortium Fund for Small and Cottage Industries

7.9 Efforts for the creation of a Consortium Fund with the combined assistance of the Sonali Bank, the Janata Bank and the Agrani Bank for providing short and long term credit to the Small and Cottage Industries under the supervision of the BSCIC remained under active consideration during the year. Under the arrangement, the above banks shall provide financial assistance from the Fund to the appropriate small and cottage industrial projects to be approved and recommended by the BSCIC. As per existing instructions of the Bangladesh Bank, the loans will be disbursed at an annual interest rate of 10.0 percent for term loans and 14.0 percent for working capital. The Bangladesh Bank will provide refinance upto 100 percent of the term loans extended out of this Fund at an interest rate of 7.0 percent per annum.

Small Industries Bank

7.10 The Bangladesh Bank issued a 'Letter of Intent' on December 17,1987 in respect of the proposal for establishment of a new bank named 'Bank of Small Industries and Commerce, Bangladesh Limited' under the sponsorship of the BCC Foundation. The paid-up and authorised capital of the proposed bank will be Tk. 10.0 crores and Tk. 8.0

crores respectively, of which 70 percent will belong to the BCC Foundation and the remaining 30 percent will remain under the control of the Government of Bangladesh. The distinguishing characteristic of the proposed bank is that while performing normal banking business like other commercial banks it will keep at least 50 percent of its loanable funds for disbursment to the SCI sector.

7.11 The Bangladesh Bank continued to supervise the financing and implementation of a number of programmes relating to small and cottage and/or rural agro-based industrial projects under different foreign credits/grants during 1987-88. A brief review of the important programmes is given below:

i) Third Small Scale Industries Project (SSI-III)

A refinance credit scheme was drawn under the name 'Third Small Scale Industry Project (SSI-III)' for setting up small and cottage industries in the private sector with a fund equivalent to SDR 22.87 million received under IDA Credit No. 1065-BD. The Bangladesh Bank administered the project implementation work of the above scheme. The Scheme went into operation from January 15, 1981 and was concluded on December 31, 1986. The three Participating Credit Institutions (PCIs) namely, the Sonali Bank, the Agrani Bank and the Janata Bank extended term loans to a large number of small industrial projects at 13.0 percent rate of interest without any extra 'premium' or 'service charge'. The Bangladesh Bank provided 100 percent refinance to the PCIs at three different interest rates of 5.0 percent, 6.0 percent and 7.0 percent per annum depending on the size of the sub-loans disbursed by them.

A total of 683 sub-projects involving a total of Tk. 61.07 crores was approved by the Bangladesh Bank for refinance under the Scheme. Of this, 394 sub-projects involving Tk. 39.29 crores or 64.0 percent of the sub-loans were in urban areas while the remaining 289 sub-projects involving an amount of Tk. 21.28 crores or 36.0 percent of the sub-loans were in rural areas. Economic classification of the sub-projects approved for refinance shows that Tk. 50.17 crores or 82.2 percent of the sub-loans were for 532 sub-projects relating to food and allied industries, textiles, engineering, paper, board, printing and packaging and chemicals, pharmaceuticals and allied industries. The Bangladesh Bank provided a total refinance of Tk. 57.43 crores against sub-loans disbursed by the PCIs under the Scheme.

During the term of the Credit, a total of SDR 20.15 million or 88.1 percent of the total credit of SDR 22.87 million was utilised. The funds made available under the Credit remained partially unutilised mainly due to the conditionalities set by the IDA for extending at least 40.00 percent of the sub-loans against sub-projects with fixed costs upto Tk. 10.0 lakhs as also for limiting the maximum size of the sub-loans at Tk. 30.0 lakhs.

ii) NORAD Grant (Refinancing) Scheme

A revolving fund known as the 'NORAD Grant Refinancing Fund' was created in the Bangladesh Bank with a Grant of NOK 5 million equivalent to Tk. 1.67 crores on January 20, 1983 for providing refinance against financing of appropriate small and cottage industrial projects in Bangladesh. Under the programme, the Bangladesh Bank provided a total refinance of Tk. 1.51 crores against financing of 2,983 SCI projects by the two PCIs viz, the Sonali Bank and the Janata Bank upto June 30, 1988.

iii) Refinance under the Saudi Grant

A programme was drawn in 1982 for providing refinance against selected SCI projects with US $ 4 million out of a total amount of US $ 150 million received under a Grant Agreement signed with the Government of the Kingdom of Saudi Arabia. The BSCIC and the Janata Bank were jointly entrusted with the responsibility of selecting SCI projects for financing under the programme. The Janata Bank approved a total of 47 SCI projects involving Tk. 11.22 crores upto June 30, 1988. The Bangladesh Bank provided a total refinance of Tk. 8.35 crores upto June 30, 1988 against disbursements made by the Janata Bank in respect of 36 projects.

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

Under a Loan Agreement, the Asian Development Bank (ADB) agreed to provide a credit line of SDR 18.56 million for financing rural and agro-based small and medium scale industries in Bangladesh. The Bangladesh Bank has been entrusted with the responsibility of co-ordination and supervision of projects to be implemented under the Credit. The Credit became effective from July 31, 1986 and was scheduled to be disbursed in 2 years but one additional year will be available as a draw-down period. The maximum size of loan for a project under the Credit would be equivalent to US $ 1.0 million and could be used only for financing the foreign exchange cost of the sub-projects. However, only a small amount of fund of the Credit could be utilised upto June 30, 1988 due mainly to the high interest rate of 14.5 percent per annum as compared to the banking sector's existing rate of 10.0 percent fixed for the SCI sector as also to the conditionalities set for selecting sub-projects under the Credit.

In order to make the Credit realistic for operation, the ADB has recently reduced the interest rate to 10.56 percent (excluding premium for exchange rate fluctuations) and agreed to extend the Credit to cover other priority sectors as identified in the Industrial Policy of 1986. Meanwhile, the Government of Bangladesh has moved to the ADB for allowing financing of local currency cost of projects with the fund of the Credit as also for extending the validity of the Credit upto July 30, 1989.

Bangladesh Small and Cottage Industries Corporation

7.12 The Bangladesh Small and Cottage Industries Corporation (BSCIC) plays an active role in the development and expansion of small and cottage industries in the country. The principal objectives of the BSCIC are to create additional employment opportunities through setting up of new industries as well as ensuring maximum capacity utilisation of existing industries, to help increase production and income and thereby uplift the standard of socio-economic life. For successful realisation of the above objectives, the BSCIC renders all sorts of help and co-operation in various fields of industrial promotion, including development of entre-preneurship, preparation of project proposals, appraisal of projects, arrangement of credit, recovery of credit and providing necessary facilities to sick industries for making them profitable. The BSCIC also takes active part in the promotion of domestic as well as international marketing of goods produced by small and cottage industries.

7.13 The BSCIC, with resources of commercial banks and funds available for different programmes drawn under domestic and foreign credits, arranged for sanction of loans in favour of 1,111 small and 4,116 cottage industries involving total investment outlays of Tk. 155.78 crores and Tk. 1.23 crores respectively during 1987-88. These included 2,065 units of cottage industries established at a cost of Tk. 0.54 crore by women entrepreneurs. During the first three years (1985-86—1987-88) of the Third Five Year Plan, the BSCIC made arrangements for sanctioning credit to 2,911 new and 11,156 existing cottage industrial units involving investment outlays of Tk. 272.03 crores and Tk. 3.56 crores respectively.

7.14 The BSCIC offered pre-investment and post-investment consultation services in respect of project preparation and project management to 5,755 entrepreneurs during 1987-88. The BSCIC also imparted various vocational training to 8,526 unemployed youths (both men and women) with a view to making them capable of being engaged in different self-employments/income generating activities. During the first three years of the Third Five Year Plan ended in 1987-88, the BSCIC was able to create employment opportunities for a total number of 1,12,817 persons by providing training/skill development facilities as well as making credit arrangements.

Industrial Estates Programme

7.15 With a view to providing infrastructural facilities for establishment of industrial projects, the BSCIC had set up 20 industrial estates having 3,368 plots of different sizes during the sixties. Upto the end of 1987-88, 2,865 plots for setting up of a total of 1,342 industrial units were alloted by the BSCIC, of which 1,130 units have been set up while the remaining 212 units remained in different stages of implementation. The BSCIC took initiative for setting up of 9 new industrial estates embodying 1,186 plots during the

Second Five Year Plan. Upto 1987-88, 581 plots were alloted by the BSCIC for setting up of a total of 277 industrial units in these estates, of which 46 industrial units have already been set up and the remaining 231 units were in different stages of implementation. In order to create further infrastructural facilities for supporting establishment of industries through establishment of one industrial estate in each district headquarter, the BSCIC has taken up a programme for implementing setting up of 45 industrial estates during the current Five Year Plan.

CHAPTER VIII

HOUSING POLICY AND HOUSE BUILDING FINANCE

Housing Policy

8.1 There has not been any basic change in the Government Housing Policy during 1987-88. The present policy seeks to make necessary arrangements for distribution of suitable land, services/utilities and easy term finance to a large number of Government and Semi-Government employees with a view to enabling them build their own houses/flats as well as to enlarge and standardise the existing residential accommodation of Government and autonomous organisations. Construction of 'core houses' for distribution among individuals of small means is also a part of the Government's housing policy. One of the aims of the policy is to encourage construction and distribution of multi-storied flats on hire-purchase system in both the public and the private sectors. Concessionary financing for construction of multi-storied building at Upazilla headquarters and strong semi-pucca dwelling houses in rural areas has now become an important part of the Government Housing Policy.

House Building Finance

The House Building Finance Corporation

8.2 During 1987-88 the Bangladesh House Building Finance Corporation (HBFC) continued to provide house building finance under two main programmes, viz. (i) 'General Loan Programme' for single unit buildings; and (ii) 'Multistoried Loan Programme' for construction of multi-storied apartment houses.

General Loan Programme

8.3 The maximum ceiling of loan under this programme remained unchanged at Tk. 6 lakhs during 1987-88. The rate of interest also remained unchanged at 13.0 percent (simple) per annum for the first Tk. 4 lakhs and 16.0 percent per annum (simple) for the rest Tk. 2 lakhs. Under this programme, the HBFC sanctioned 1,047 loan cases for a total of Tk. 37.95 crores during 1987-88 as compared with 2,629 loan cases sanctioned for a total of Tk. 91.02 crores in the previous year. Actual disbursement of loans under this programme during 1987-88 stood at Tk. 55.81 crores as against Tk. 76.33 crores disbursed in 1986-87. The outstanding amount of loans (including interest) under this programme stood at Tk. 579.63 crores at the end of June, 1988 as compared to Tk. 502.17 crores at the end of June, 1987.

Multi-storied Loan Programme

8.4 The ceiling of loans provided under the Multi-storied Loan Programme remained unchanged at Tk. 7 lakhs and Tk. 8 lakhs for construction of multi-storied apartment buildings with covered areas of 800 sfts. and 1000 sfts. respectively in each floor during 1987-88. The rate of interest also remained unchanged at 10.5 percent (simple) per annum. Under this programme, the HBFC sanctioned a total of Tk. 40.26 crores against 594 loan cases comprising 2,274 housing units during 1987–88. This compared with 1,272 loan cases comprising 4,663 housing units sanctioned for a total of Tk. 80.86 crores during 1986-87. Of the total loans sanctioned during 1987-88, Tk. 28.82 crores or 71.6 percent was sanctioned for construction of 1,660 housing units in the Dhaka Zone. The amount of loan and the number of housing units sanctioned for Chittagong, Khulna and Rajshahi Zones were Tk. 6.02 crores for 319 housing units, Tk. 3.52 crores for 196 housing units and Tk. 1.90 crores for 99 housing units respectively. Actual disbursement of loans under the programme during 1987-88 stood at Tk. 53.76 crores as compared to Tk. 63.37 crores disbursed during 1986-87. The total amount of loans disbursed under this programme since its introduction in July, 1977 upto June 30, 1988 stood at Tk. 538.28 crores against which Tk. 652.14 crores (including interest) remained outstanding.

Concessionary Loan Facility for Construction of Pucca Houses in Upazilla Head Quarters

8.5 In addition to the above two main programmes, the House Building Finance Corporation, in accordance with the Government decision, continued to extend a maximum of Tk. 2.0 lakhs as house building loans at a concessional interest rate of 5.0 percent (simple) per annum to encourage construction of pucca houses in Upazilla head quarters. Under this facility, the HBFC sanctioned 209 loan cases for a total of Tk. 4.08 crores during 1987-88 as compared with 391 loan cases sanctioned for a total of Tk. 7.52 crores in 1986-87.

Sanction, Disbursement, Recovery and Outstanding Balance of the HBFC Loans

8.6 The total amount of loans sanctioned and disbursed by the HBFC under all the above programmes during 1987-88 stood at Tk. 82.29 crores and Tk. 109.57 crores respectively. These compared with the sanction and disbursement of Tk. 179.40 crores and Tk. 139.70 crores respectively during 1986-87. Upto June 1988, the HBFC sanctioned a total of Tk. 1,194.50 crores for construction of 76,263 housing units against which an amount of Tk. 1,044.13 crores was disbursed. The Corporation recovered a total amount of Tk. 55.15* crores during 1987-88 as compared to Tk. 44.83 crores during the preceding year. The amount of HBFC loans outstanding against all the programmes as on June 30, 1988 stood at Tk. 1,231.77 crores as compared to Tk. 1,072.28 crores as on June 30,1987. The amount of overdue loans stood at Tk. 160.00 crores or 13.0 percent of outstanding at the end of June, 1988 as compared to Tk. 151.00 crores or 14.1 percent of outstanding at the end of June, 1987.

Collection of Funds Through Sale of Debentures of the HBFC

8.7 Total funds raised by the HBFC upto June 30, 1988 through sale of debentures to the Bangladesh Bank, the commercial banks and the Sadharan Bima Corporation stood at Tk. 1,231.30 crores which included Tk. 136.97 crores raised during 1987-88. The Bangladesh Bank's financing of the HBFC debentures amounted to Tk. 768.85 crores upto June 30, 1988 and the remaining amount of Tk. 462.45 crores was financed by the commercial banks and the Sadharan Bima Corporation.

Commercial Banks' Financing of House Building

8.8 The commercial banks continued to provide house building finances upto Tk. 5 lakhs (inclusive of any loan from the HBFC) and above Tk.5 lakhs in appropriate cases with prior approval of their respective Board of Directors for construction of residential houses as well as commercial buildings at an interest rate of 16.0 percent per annum. Loans disbursed by the nationalised commercial banks in the housing sector during 1987-88 amounted to Tk. 6.16 crores as compared to Tk. 12.87 crores disbursed during the preceding year. The private banks extended Tk. 5.50 crores as housing loans during 1987–88 which included Tk. 1.89 crores provided by the foreign banks operating in Bangladesh. Total outstanding house building loans provided by the nationalised commercial banks, private banks and the foreign banks operating in Bangladesh stood at Tk. 60.00 crores as on June 30, 1988.

Rural Housing Financing Scheme of the Bangladesh Bank

8.9 The 'Rural Housing Financing Scheme' of the Bangladesh Bank introduced in January, 1984 remained in force during 1987-88. Under this Scheme, the Bangladesh Bank allocated a total of Tk. 10.0 crores for 100 percent refinance to the Participating Commercial Banks (PCBs), namely, Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank at 3.0 percent rate of interest per annum. Since introduction of the Scheme upto June 30, 1988, the PCBs disbursed a total of Tk.19.66 crores for construction of 3,571 houses in the rural areas. Of this, the Participating Commercial Banks claimed for a total refinance of Tk. 14.30 crores for construction of 2,501 houses against which the Bangladesh Bank disbursed a sum of Tk. 6.45 crores for construction of 1,114 houses as refinance. Claims for Tk. 5.09 crores extended against 881 houses were cancelled on account of irregularities of the cases, while that for Tk. 2.76 crores against 506 houses were under consideration upto the end of June, 1988.

Grameen Bank's Financing of House Building

8.10 Housing loans are also provided by the Grameen Bank. During 1987-88, a total of Tk. 23.25 crores were disbursed by the Bank to its member borrowers for construction of semi-pucca houses. The maximum amount of loan payable to each borrower is Tk.18,000.00.

CHAPTER IX

PUBLIC FINANCE

Main Objectives of the National Budget for 1987-88

9.1 The national budget for 1987-88 was prepared keeping in view the main objectives of mobilisation of increased domestic resources, creation of additional employment opportunities by augmenting productive investments, increasing agricultural and industrial production, improving supply of goods through increased production and imports, accelerating the pace of industrialisation, maintaining price stability through pursuance of appropriate fiscal measures and monetary policy, extending allout efforts and support for boosting up exports and strengthening the programme for population control. With a view to increasing revenue collections, steps were taken in the Budget for 1987-88 for restructuring/rationalising the tax rates and expanding the tax base. In order to help acceleration of the pace of industrialisation, increase production and exports of industrial goods and to make domestic products more competitive with imported goods,the rates of custom duties and sales tax for a large number of industrial raw materials/spares were reduced and rationalised. Duty rates on various imported and locally produced essential consumer goods and other manufactured commodities were also rationalised. For encouraging savings and investment, the exemption limit and rates of allowances and deductions in respect of individual tax payers were increased, the rates of company taxes were reduced and all dividends in respect of share holders other than companies were fully exempted from tax. However, as a result of reduction in purchasing power and effective demand in rural areas due to damages caused by floods, slowing down of industrial production and reduction in the import of dutiable goods, total revenue receipts in the revised budget for the year was lowered by Tk. 173.00 crores.

Budget for 1987-88

9.2 The original budget estimates for 1987-88 envisaged total revenue receipts of Tk. 5,319.00 crores and total revenue expenditures of Tk.4,481.00 crores, thus showing a revenue surplus of Tk. 838.00 crores. The budget estimates were subsequently revised, placing revenue receipts Tk. 173.00 crores lower at Tk. 5,146.00 crores and revenue expenditures Tk. 249.00 crores higher at Tk. 4,730.00 crores, thus showing a smaller revenue surplus of Tk. 416.00 crores.

9.3 The revised budget estimate for 1987-88 showed increases in revenue receipts under the following heads: Excise duties (+Tk. 39.50 crores to Tk. 1,172.00 crores);

General Administration and Services (+Tk. 14.44 crores to Tk. 121.46 crores); Other non-tax Revenue (+Tk. 29.29 crores to Tk. 65.01 crores); Sales tax (+Tk. 26.99 crores to Tk. 525.00 crores); Telegraph and Telephone (+Tk. 25.13 crores to Tk. 65.17 crores net); Non-judicial Stamps (+Tk. 8.00 crores to Tk. 170.00 crores); Interest Income (+Tk. 15.00 crores to Tk. 225.00 crores); and Other Revenue Receipts (+Tk. 25.98 crores to Tk. 279.11 crores). The above increase in revenue was more than offset by decreased revenue receipts under Import and Export duties (−Tk.161.30 crores to Tk. 1,618.00 crores); Railway (−Tk. 66.41 crores to (net) −Tk. 149.00 crores); Dividend and Profit from Public enterprises (−Tk. 50.36 crores to Tk. 135.00 crores); Income tax (−Tk. 36.00 crores to Tk. 664.00 crores); Dividend and Profit from Non-financial Public Enterprises (−Tk. 10.00 crores to Tk. 80.00 crores); Registration (−Tk.7.00 crores to Tk. 60.00 crores); Land Development tax (−Tk. 1.00 crore to Tk. 69.00 crores) and Residual Items (−Tk. 10.45 crores to Tk. 26.25 crores).

9.4 The heads under which revenue expenditures increased in the revised budget for 1987-88 were: Social and Community Services (+Tk. 182.35 crores to Tk. 524.96 crores); Defence (+Tk. 63.63 crores to Tk. 832.13 crores); Interest on Foreign Debt (+Tk. 51.59 crores to Tk. 350.38 crores); Education (+Tk. 44.58 crores to Tk. 820.20 crores); General Administration and Services (+Tk.4 3.20 crores to Tk. 324.82 crores); Police and BDR (+Tk. 35.81 crores to Tk. 331.90 crores); Interest on Domestic Debt (+Tk.21.53 crores to Tk. 240.36 crores); Pension and Retirement Benefit (+Tk. 17.23 crores to Tk. 122.73 crores); Agriculture and Allied Services (+Tk. 16.37 crores to Tk. 149.12 crores); Health and Family Planning (+Tk.15.79 crores to Tk. 304.84 crores); Organs of Government (+Tk. 14.39 crores to Tk.42.93 crores); Transport and Communication * (+Tk. 12.87 crores to Tk.85.51 crores) and Other items (+Tk.27.18 crores to Tk. 434.23 crores). These increases were partly neutralised by declines in Unexpected Expenditures (−Tk. 243.14 crores to Tk. 9.86 crores); Subsidies (−Tk. 54.30 crores to Tk. 64.99 crores); and Foreign Affairs (−Tk.0.08 crore to Tk. 91.03 crores).

Annual Development Programme for 1987-88

9.5 The size of the Annual Development Programme (ADP) for 1987-88, which was originally placed at Tk. 5,046.00 crores, was subsequently revised downward by Tk. 395.39 crores to Tk. 4,650.61 crores. The revised size of external assistance for financing the ADP stood at Tk. 4,371.61 crores which was Tk. 67.61 crores higher than the original budget estimates. The gross domestic resources available for financing the ADP, on the other hand, stood at Tk. 584.70 crores due to scaling of the revenue surplus and extra budgetary resources down to Tk. 416.00 crores and Tk. 168.70 crores respec tively. However, as a result of the deficit of Tk. 217.00 crores in domestic capital (net) and of Tk. 275.00 crores in the food budget, net domestic resources stood at Tk. 92.70 crores.

* Excluding Railway.

Budget Estimates for 1988-89

9.6 The budget estimates for 1988-89 placed revenue receipts at Tk. 5,569.00 crores and revenue expenditures at Tk. 5,250.00 crores, thus showing a revenue surplus of Tk. 319.00 crores (including effects of new taxes to the extent of Tk. 517.00 crores). Of the total revenue receipts, Custom duties are estimated to yield Tk. 1,743.00 crores, Excise duties Tk. 1,245 crores, Income tax Tk. 730.00 crores, Sales tax Tk. 612.00 crores, Non-Judicial Stamps Tk. 175.00 crores, Interest incomes Tk. 230.00 crores, Dividend and Profits from Public Financial Institutions Tk. 163.00 crores, General Administration and services Tk. 117.92 crores, Land Development tax Tk. 95.00 crores, Dividend and Profits from Non-financial Public Enterprises Tk. 75.00 crores, Telegraph and Telephone Tk. 73.08 crores, Registration Tk. 67.00 crores, Agriculture and Allied Services Tk. 64.17 crores and Residual items Tk.178.83 crores. Salient features of the new fiscal measures have been provided in Annexure 'A' of the Appendix. Of the total revenue expenditures, Defence and Education account for Tk. 924.50 crores and Tk. 840.08 crores respectively. Other major heads of expenditures are: Interest on Foreign Debt Tk. 537.00 crores, Social Community Services Tk. 372.19 crores, Health and Population Control Tk. 318.72 crores, Interest on Domestic Debt Tk. 247.63 crores, Police Tk. 242.93 crores, Unexpected Expenditures Tk. 194.00 crores, General Administration Tk. 188.82 crores, Subsidies Tk. 177.34 crores, General Services Tk. 155.73 crores, Agriculture and Allied Services Tk. 153.50 crores, Fiscal Services Tk. 129.26 crores, Pensions and Retirement Benefits Tk. 126.00 crores, BDR Tk. 119.58 crores, Foreign Affairs Tk. 90.88 crores and Other items Tk. 431.84 crores.

Annual Development Programme for 1988-89

9.7 The size of the Annual Development Programme (ADP) for 1988-89 has been estimated at Tk. 5,315.00 crores. This shows an increase of Tk. 664.39 crores or 14.3 percent over Tk. 4,650.61 crores of the revised ADP for 1987-88. Of the total outlay, Tk. 811.36 crores (15.3%) has been allocated for Power, Tk. 677.43 crores (12.7%) for Flood Control and Water Resources, Tk. 676.11 crores (12.7%) for Transport, Tk 380.01 crores (7.1%) for Industries, Tk. 366.75 crores (6.9%) for Agriculture and Tk. 340.00 crores (6.4%) for Upazilla Infrustructures and Assistances to Upazilla Parishads. Allocations for Education and Religion and self-finance schemes of Autonomous Bodies are Tk. 302.09 crores (5.7%) and Tk. 295.73 crores (5.6%) respectively. Other allocations are: Oil, Gas and Natural Resources Tk. 252.50 crores (4.8%), Population Control and Family Planning Tk. 230.00 crores (4.3%), Physical Planning, Water Supply and Housing Tk. 214.23 crores (4.0%) and Rural Development Tk. 195.43 crores (3.8%). An amount of Tk. 573.36 crores (10.8%) has been allocated for other sectors. The Annual Development Programme for 1988-89 envisages a total foreign assistance of Tk. 4,554.00 crores or 85.7 percent of the total outlay as against 94.0 percent in the revised ADP for 1987-88.

Government Borrowings

Two-year Special Treasury Bond

9.8 The outstanding balances of borowings by the Government against 'Two-Year Special Treasury Bond' including bonds worth Tk. 60.00 crores re-issued during 1985-86 stood at Tk. 1.17 crores as on June 30, 1988 as compared to Tk. 61.38 crores as on June 30, 1987.

11 Percent Government of Bangladesh Loan-1992

9.9 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, 1988.

Non-Banking Treasury Bills @ 9 Percent Discount

9.10 The outstanding balances of the Non-Banking Treasury Bills @ 9.0 percent discount stood at Tk. 1.13 crores as on June 30, 1988 as compared to Tk. 16.08 crores as on June 30, 1987.

National Bond for Non-Bank Investors

9.11 The outstanding balances of the 'National Bond for Non-Bank Investors' stood at Tk. 129.90 crores as on June 30, 1988 as compared to Tk.162.80 crores as on June 30, 1987. The bond was issued for sale from December 1, 1985 and remained on sale till September 15, 1986.

5 Percent Income Tax Bonds

9.12 The outstanding amount of the revalidated 5.0 percent Income Tax Bonds of the erstwhile Pakistan Government held by Bangladeshi nationals and institutions as on June 30, 1988 remained unchanged at the level of Tk. 0.76 crore as on June 30, 1987.

G.P. Notes / Stock Certificates and Defence Bonds

9.13 The outstanding amount of G.P Notes/Stock 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 Governement of Bangladesh but awaiting redemption stood at Tk. 2.32 crores as on June 30, 1988 as compared to Tk. 2.80 crores as on June 30, 1987.

5 Percent Non-Negotiable Bonds

9.14 The amount of 5.0 percent 'Non-Negotiable Bonds' issued by the Government of Bangladesh to the shareholders of nationalised industries as compensation stood at Tk. 13.61 crores as on June 30, 1988 as compared to Tk.13.59 crores as on June 30, 1987. As against the total bonds issued, an amount of Tk.13.23 crores has been paid as maturity value, leaving an outstanding balance of Tk. 0.38 crore as on June 30, 1988.

8 percent Savings Bonds

9.15 The amount of 8.0 percent Savings Bonds issued by the Government of Bangladesh against 100 Taka Demonetised Notes stood at Tk. 1.88 crores as on June 30, 1988 as compared to Tk. 1.87 crores as on June 30, 1987. Out of this, payment of maturity value has been made for a total of Tk.1.75 crores, leaving an outstanding balance of Tk. 0.13 crore as on June 30, 1988.

Savings Instruments

Bangladesh Saving Certificates *

9.16 The net encashment of Bangladesh Savings Certificates through the banking system stood at Tk. 18.54 crores as on June 30, 1988 as against Tk. 18.49 crores as on June 30, 1987.

Pratirakkha Sanchaya Patras

9.17 The net sale of 'Pratirakkha Sanchaya Patras' through the banking system amounted to Tk. 369.88 crores as on June 30, 1988 as against Tk. 276.84 crores as on June 30, 1987. Sale and encashment of Pratirakkha Sanchaya Patras by the banking system during the year under review were Tk. 103.63 crores and Tk. 10.59 crores respectively. The net sale of Pratirakkha Shanchaya Patras through Post Offices stood at Tk. 88.04 crores during 1987-88 as against Tk. 36.86[R] crores during 1986-87.

Bonus Sanchaya Patras

9.18 The net sale of 'Bonus Sanchaya Patras' through the banking system amounted to Tk. 28.40 crores as on June 30, 1988 against Tk. 19.27 crores as on June 30, 1987. Sale and encashment of Bonus Sanchaya Patras during 1987-88 were Tk.12.85 crores and Tk. 3.72 crores respectively. The net sale of Bonus Sanchaya Patras through Post Offices stood at Tk. 8.15 crores during 1987-88 against Tk.2.52[R] crores during 1986-87.

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* Sale of Bangladesh Savings Certificate was discontinued from December, 1977.

R=Revised.

5-Year Bangladesh Sanchaya Patras

9.19 The net sale of 5-Year Bangladesh Sanchaya Patras through the banking system amounted to Tk. 43.95 crores as on June 30, 1988 as against Tk. 24.85 crores as on June 30, 1987. Sales and encashment of 5-Year Bangladesh Sanchaya Patras during the year under report were Tk. 20.44 crores and Tk. 1.35 crores respectively. The net sale of 5-Year Bangladesh Sanchaya Patras through Post Offices stood at Tk. 29.30 crores during 1987-88 as against Tk. 12.19[R] crores during the previous year.

Bangladesh Prize Bonds

9.20 The progressive net sale of 10-Taka Bangladesh Prize Bonds amounted to Tk. 14.55 crores as on June 30, 1988 as compared to Tk. 14.73 crores as on June 30, 1987. The sale and encashment of 10-Taka Prize Bonds during 1987-88 stood at Tk. 6.08 crores and Tk. 6.26 crores respectively. Fifty three series of 10-Taka Prize Bonds were put on sale upto June 30, 1988. The progressive net sale of 50-Taka Prize Bonds amounted to Tk. 22.65 crores as on June 30, 1988 as against Tk. 16.90 crores as on June 30, 1987. Ten series of the Bonds were put on sale upto June 30, 1988. Bi-monthly prize draws are held for both the bonds in alternate months under the single common draw system. The following two decisions in respect of claims for prizes against the bonds were taken on February 29, 1988:

a) With effect from the Draw held on March 15,1988 and for all Draws thereafter, claims for prizes must be lodged within one year from the date on which draw is held.

b) The claims for prizes in respect of Draws held in between March 15, 1982 and February 15, 1988 could be lodged within March 30, 1989.

Sale of Savings Instruments to the Bangladesh Nationals Living Abroad

9.21 The sale of Prize Bonds and Sanchaya Patras to Bangladeshi Wage Earners in the U.A.E. and the U.K. during 1987-88 stood at Tk. 0.50 crore and Tk. 0.01 crore respectively.

Wage Earners' Development Bonds

9.22 The amount of Wage Earners' Development Bonds sold by different banks stood at Tk. 84.61 crores as on June 30, 1988 as compared to Tk. 55.10 crores as on June 30, 1987. Out of these, payment of surrender value has been made for a total of Tk.8.09 crores, leaving a balance of Tk. 76.52 crores as on June 30, 1988.

R=Revised.

CHAPTER X

INTERNATIONAL ECONOMIC COOPERATION

10.1 Promotion of cooperation among the international community of nations for accelerating the pace of economic development in Less Developed Countries (LDCs) has been an important part of Bangladesh's policy. Accordingly, Bangladesh participated in a number of international meetings/conferences during 1987-88 and, upholding the issues of the LDCs, demonstrated a forcefull stand for further strengthening the tempo of international economic cooperation and investment promotion.

Commonwealth Finance Ministers' Annual Meeting, 1987

10.2 Bangladesh attended the Commonwealth Finance Ministers' Annual Meeting held in the Dover Convention Centre, Barbados, on September 23 and 24, 1987. While deliberating on the principal agenda 'Current World Economic Situation & Problems,including IMF and World Bank Questions',the Bangladesh delegation highlighted its deep concern over the declining commodity prices and growing protectionism. Supporting the move for international debt relief, the delegation advocated that the United Kingdom, being the second biggest creditor country after Japan and largest recipient of invisible income, should enhance her direct foreign investment in the LDCs. The delegation also emphasised the need for increased financial support for implementation of structural adjustment programmes in developing countries.

IMF-World Bank Annual Meetings, 1987

10.3 Attending the Forty-second IMF - World Bank Annual Meetings held in Washington D.C. during September 29-October 1, 1987, the Leader of the Bangladesh delegation referred to the accentuation of reverse transfer of resources from the developing countries due to their deteriorating terms of trade and worsening debt problems. He pointed out that, despite demonstration of determined political will, structural adjustment efforts in developing countries might not be sustained for long in the face of inadequate net transfer of resources, expanding protectionism in developed countries and falling commodity prices in the world market. He deplored the fact that quota restrictions are being imposed on commodities of least developed countries like Bangladesh. Emphasising the need for relaxing the rigidity of conditionalities imposed by the IMF under the Structural Adjustment Facility (SAF), the Leader suggested some measures for reactivating the process of growth in less developed countries. These were, among others: (a) renewed priority to aid targets and their fulfilment; (b) follow-up of recommendations of the 'Task Force on Concessional Assistance'; (c) enhancement of the SAF resources to SDR 9 billion; (d) early implementation of the joint Bank-Fund Programme of Action for increasing concessional flows to low-income countries; and (e) conversion of loans into grants for low-income countries facing special difficulties.

Central Bank Governors' Meeting, 1988

10.4 The Central Bank Governors' Meeting held at the Bank of England on June 10, 1988 was attended by more than 32 Central Bank Governors including the Governor, Bangladesh Bank. The meeting provided an opportunity for an informal review of the current world financial situation, in which Governors from the developing countries expressed their concern over the existing debt problems and the implications of interest rate increase by industrial countries for curbing inflationary pressure. During a discussion with the entrepreneurial investors there, the Bangladesh Bank Governor impressed upon them that overseas investors might gain much by availing of the potential investment opportunities in Bangladesh.

CHAPTER XI

BALANCE OF TRADE AND PAYMENTS

Trade Balance

11.1 The balance of trade (visible exports less visible imports) of the country recorded some deterioration during 1987-88. The deficit in the trade balance which had stood at $ 1,620 million or Tk. 4,961.7 crores in 1986-87 increased by $181 million to $1,801 million or Tk. 5,628.2 crores in 1987-88. This was due mainly to larger import payments of $ 2,987 million during the year which represented 14.0 percent increase over $ 2,620 million in 1986-87. In Taka terms, import payments stood at Tk. 9,332.7 crores during 1987-88 which was 16.3 percent higher than Tk. 8,026.0 crores in the preceding year.

Import Payments

11.2 During 1987-88, imports financed by Cash, Barter and Special Trade, Wage Earners' Scheme, Loans/Credits and Grants amounted to Tk.1,386.7 crores (14.9%), Tk.399.0 crores (4.3%), Tk.3,406.0 crores (36.5%), Tk.1,819.7 crores (19.5%) and Tk.2,321.3 crores (24.8%) respectively. Long-term loans/credits received from foreign governments/ institutions, etc. were utilised for import under food (Tk. 135.8 crores), non-food project (Tk. 1,046.6 crores) and non-food non-project (Tk. 637.3 crores). Food and non-food imports under Grants during 1987-88 stood at Tk. 938.6 crores and Tk.1,382.7 crores respectively. Import payments under major heads during 1986-87 and 1987-88 are shown in Table 11.1.

TABLE 11.1

MERCHANDISE IMPORTS (PAYMENTS) *

Commodity	1986-87		1987-88	
	Crore Tk.	Million US $	Crore Tk.	Million US $
1. Foodgrains	833.1	272	1,527.7	489
a) Rice	(150.1)	(49)	(468.6)	(150)
b) Wheat	(683.0)	(223)	(1,059.1)	(339)
2. Edible oil & Oilseeds	319.8	104	413.1	132
3. Petroleum crude and petroleum products	615.9	201	624.5	200
4. Cotton	82.4	27	160.1	51
5. Textile yarn	115.7	38	110.2	35
6. Fertilizers	47.8	16	104.4	33
7. Chemicals	447.6	146	563.0	180
8. Cement	177.4	58	148.4	48
9. Capital goods & other acces sories	3,070.7	1,003	2,673.3	856
10. Others	2,315.6	755	3,008.0	963
Total Imports (C&F)	8,026.0	2,620	9,332.7	2,987

* Source: Statistics Department, Bangladesh Bank.

Export Receipts

11.3 Receipts from exports at Tk. 3,704.5 crores during 1987-88 was Tk. 640.2 crores higher than Tk. 3,064.3 crores during 1986-87. In dollar terms, export earnings increased by $186 million or 18.6 percent to $ 1,186 million during 1987-88. The higher export receipts during 1987-88 was attributable mainly to increased earnings from readymade garments and leather. Earnings from readymade garments increased by 62.8 percent from Tk. 791.0 crores in 1986-87 to Tk. 1,288.1 crores in 1987-88, while that from leather went up by Tk. 77.2 crores or 22.3 percent to Tk. 422.8 crores during the year. Export earnings from raw jute & jute goods during the year stood at Tk. 283.1 crores and Tk. 875.8 crores respectively.

The share of these two items together accounted for 30.7 percent of total export earnings during 1987-88. Export receipts under the major heads during 1986-87 and 1987-88 are shown in Table 11.2

TABLE 11.2

MERCHANDISE EXPORTS (RECEIPTS) *

Commodity	1986-87		1987-88	
	Crore Tk.	Million US $	Crore Tk.	Million US $
1. Raw jute	297.7	97	263.1	84
2. Jute goods	906.5	296	875.8	280
3. Tea	89.2	29	119.2	38
4. Leather	345.6	113	422.8	136
5. Fish, Shrimps and Froglegs	482.3	157	504.0	162
6. Naphtha, Furnace oil & Bitumen	29.3	10	44.9	14
7. Readymade Garments	791.0	258	1288.1	412
8. Others	122.7	40	186.6	60
Total Exports (f.o.b.):	**3,064.3**	**1,000**	**3,704.5**	**1,186**

* Source: Statistics Department, Bangladesh Bank.

The Services Account

11.4 The deficit in the Services Account (i.e., invisible receipts less invisible payments) decreased to Tk. 448.1 crores in 1987-88 from Tk. 463.4 crores in 1986-87. This was due mainly to increased receipts under the heads 'Investment Income' and 'Other Goods and Services' during 1987-88.

Overall Balance of Payments

11.5 The country's overall balance of payments showed a larger surplus of Tk. 492.5 crores ($ 158 million) during 1987-88 as compared to the surplus of Tk. 291.0 crores ($ 95 million) during 1986-87. The improvement in the overall balance was due mainly to larger receipts under the head 'Unrequited Transfers'. Receipts under 'Unreqited Transfers' increased from Tk. 4,022.4 crores in 1986-87 to Tk. 5,037.1 crores in 1987-88, of which net receipts under official transfers and private transfers stood at Tk. 2,576.0 crores ($ 824 million) and Tk. 2,461.1 crores ($ 788 million) respectively. Net capital inflow during the year decreased to Tk. 1,563.2 crores ($ 500 million) from Tk.1,830.8 crores ($ 598 million) during 1986-87.

Bangladeshi Wage Earners' Remittances

11.6 Foreign exchange remittances by Bangladeshi nationals abroad, specially in the Middle East, have been playing an important role by providing substantial support to the country's balance of payments. Remittances by overseas Bangladeshis increased by 7.8 percent to Tk. 2,303.9 crores ($ 737 million) in 1987-88 as compared to Tk. 2,136.3 crores ($ 696 million) in 1986-87. Remittances by the Bangladesh nationals abroad for the period from 1977-78 to 1987-88 are shown in Table 11.3

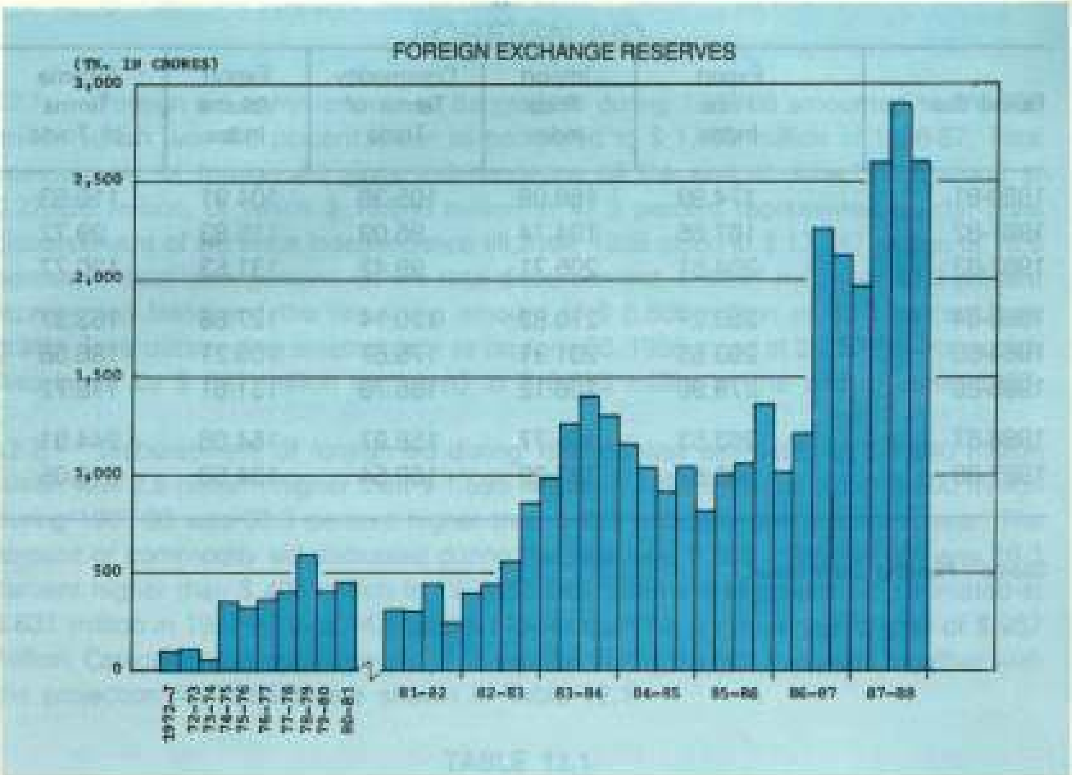
TABLE 11.3

REMITTANCES BY BANGLADESH NATIONALS ABROAD
(WAGE EARNERS' REMITTANCES)

Year/Period	Remittance	
	Million US $	Crore Tk.
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	1,480.15
1983-84	596.40	1,491.00
1984-85	439.10	1,146.54
1985-86	555.10	1,661.11
1986-87	696.40	2,136.25
1987-88	737.00	2,303.90

Foreign Exchange Reserves

11.7 Convertible foreign exchange reserves held by the Bangladesh Bank (including reserves with the IMF) increased from $ 715 million at the end of June, 1987 to a record level of $ 986 million at the end of May, 1988. The reserves, however, declined to $ 856 million by the end of June, 1988.



Terms of Trade

11.8 Although the commodity terms of trade recorded an improvement of 0.99 percent, the income terms of trade showed a substantial decline of 11.78 percent due mainly to a 12.64 percent fall in the export volume during 1987-88. The marginal improvement in commodity terms of trade during the year was the net effect of a 14.09 percent increase in export price index and a 12.98 percent increase in import price index. The terms of trade is given by the ratio of export prices to import prices. The commodity terms of trade shows the volume of imports which could be received in exchange for a given volume of exports on the basis of price relations alone. The income terms of trade, on the other hand, measures changes in income earned on account of exports through the change in commodity terms of trade. The trend in terms of trade of Bangladesh during the last few years are shown in Table 11.4.

TABLE 11.4

COMMODITY AND INCOME TERMS OF TRADE

(BASE : 1975-76 = 100)

Period/Year	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	263.53	165.77	158.97	154.06	244.91
1987-88	300.67	187.29	160.54	134.58	216.05

Source : Planning Commission.

CHAPTER XII

FOREIGN AID

12.1 Foreign aid commitments to Bangladesh during 1987-88 amounted to $ 1,530 million which was 4.6 percent lower as compared to $ 1,603 million in 1986-87. Total commitment of foreign aid since independence till the end of June, 1988 stood at $ 22,525 million, of which $ 10,658 million or 47.3 percent represented grants. Total disbursement of aid since independence till June, 1988 stood at $ 17,247 million or 76.6 percent of total commitment. Of the total disbursement, $ 8,587 million or 49.8 percent represented loans and the remaining amount of $ 8,660 million or 50.2 percent was grants. Total outstanding external debt as on June 30, 1988 stood at $ 7,576 million which was larger by $ 657 million compared to $ 6,919 million at the end of June, 1987.

12.2 Disbursement of foreign aid during 1987-88 was estimated at $ 1,640 million which was 2.8 percent higher than $ 1,595 million in 1986-87. Food aid at $ 300 million during 1987-88 was 33.3 percent higher than $ 225 million in the preceding year. The amount of commodity aid disbursed during the year was $ 509 million which was 26.3 percent higher than $ 403 million in 1986-87. Disbursement of project aid estimated at $ 831 million in 1987-88 was 14.1 percent lower than the previous year's level of $ 967 million. Category-wise disbursement of foreign aid during the last five years together with the projection for 1988-89 are shown in Table 12.1.

TABLE 12.1

DISBURSEMENT OF FOREIGN AID

(Million U.S. Dollar)

Category	Y e a r					
	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89 (Projection)
Food Aid	277	244	203	225	300	254
Commodity Aid	439	432	393	403	509	500
Project Aid	552	591	710	967	831	950
Total :	**1,268**	**1,267**	**1,306**	**1,595**	**1,640**	**1,704**

12.3 The figures in Table 12.1 refer to gross foreign aid disbursements. Repayment of foreign aid (excluding repurchases in respect of drawings from the IMF) made by Bangladesh during 1987-88 stood at $ 159 million. This was in addition to the interest payment of $ 121 million during the year. Thus, the net inflow, of foreign aid into the country during 1987-88 amounted to $ 1,360 million which was $ 3 million lower than $ 1,363 million during 1986-87.

CHAPTER XIII

TRANSACTIONS WITH THE IMF

13.1 Bangladesh purchased SDR 86.25 million as the second instalment under the Structural Adjustment Facility (SAF) of the International Monetary Fund (IMF) during 1987-88. Bangladesh had purchased a total of SDR 242.40 million under different facilities of the IMF during 1986-87. It may be mentioned that Bangladesh will be able to purchase a total of SDR 182.56 million (63.5% of Bangladesh's quota) under the SAF during the three-year period ending in June, 1989. Bangladesh has already purchased an amount of SDR 143.75 million under this facility. The remaining amount of SDR 38.81 million will be purchased during 1988-89.

13.2 During 1987-88 Bangladesh repurchased a total of SDR 99.55 million against previous purchases under various facilities of the Fund. The detailed position of Bangladesh's transactions with the IMF is given in Table 13.1.

TABLE 13.1

TRANSACTIONS WITH THE IMF

(In million SDR)

Facilities	Drawing/ Purchase	Outstanding as on 30.6.87	Purchase during 1987-88	Repurchase during 1987-88	Outstanding as on 30.6.88	Commitments for 1988-89
1. Stand-by Arrangements, 1983	68.40	37.05	—	31.35	5.70	—
2. Extended Fund Facility, 1980	110.00	68.57	—	18.34	50.23	—
3. Supplementary Financing Facility, 1980	110.00	20.37	—	20.37	—	—
4. CFF–Cereal Facility, 1982	71.20	6.47	—	6.47	—	—
5. Trust Fund of 1977-81	121.79	50.82	—	23.02	27.80	—
6. Structural Adjustment Facility, 1987	143.75	57.50	86.25	—	143.75	38.81
7. Compensatory Financing Facility, 1987	88.90	88.90	—	—	88.90	—
8. CFF–Cereal Facility, 1985	54.95	54.95	—	—	54.95	—
9. Stand-by Arrangement, 1985	180.00	180.00	—	—	180.00	—
Total :	—	564.63	86.25	99.55	551.33	38.81

13.3 As a result of the above transactions, Bangladesh's outstanding liability to the Fund stood at SDR 551.33* million equivalent to \$ 722.58 million at the end of June, 1988 as compared to SDR 564.63 million equivalent to \$ 721.60 million at the end of June, 1987.

13.4 During 1987-88 Bangladesh paid SDR 30.22 million as charges to the IMF.

* SDR 1 = \$ 1.31061.

CHAPTER XIV

TRADE POLICY

Export Policy and Target

14.1 The trade policy of Bangladesh for 1987-88 was formulated keeping in view the need for reducing deficit in the current account balance, increasing the level of foreign exchange earnings and facilitating import of essential commodities into the country. Accordingly, emphasis was placed on diversification and expansion of exports as well as improvement of bilateral trade relations with other countries. Export earnings stood at Tk. 3,806.76[@] crores which was 10.7 percent higher than the target of Tk. 3,440.00 crores during 1987-88 and 16.7 percent higher than earnings of Tk. 3,263.20 crores in 1986-87. Export earnings exceeded the target significantly due to increase in earnings from the export of readymade garments, tea and hides and skins. The export price-index denoted an increase of 14.1 percent, while the export volume-index declined by 12.6 percent during the year under report.

14.2 With the aim of achieving the overall objectives for development of exports, following measures were adopted in the export policy for 1987-88:

1) Continuation of activities of the 'Export Credit Monitoring Committee' set up in 1986-87 under the Chairmanship of the Governor, Bangladesh Bank;

2) Indentification of some public and private sector enterprises as 'Export Houses' at the beginning of 1987-88;

3) Continuation of priority to Frozen Foods as the 'Thrust Sector' alongwith identification of Electronics, as a new Thrust Sector;

4) Withdrawal of the temporary XPB and continuance of the Duty Draw-back facility in the case of 'wet-blue' leather from FY 1987-88;

5) Extension of XPB facility on 'wet-blue' leather supplied to the exporters of crust and finished leather considering the same as 'indirect exports';

6) Allocation of foreign exchanges by the Bangladesh Bank in favour of the Export Promotion Bureau, the TCB, Export Houses and Private Exporters'

@ Source: Export Promotion Bureau.

Associations alongwith continuation of this facility to intending individual exporters for advertisements of export commodities in foreign news papers/ periodicals;

7) Extension of all facilities/incentives available for exports to the indirect exporters on the basis of internal 'back-to-back' letters of credit;

8) Exemption of overdue interest on bank finances if there is no default on the part of the exporter and provided the export is effected under irrevocable and confirmed letters of credit on the basis of sight payment;

9) Provision for allocation of foreign exchanges at official rate to the producer-exporters for import of necessary raw materials and equipments up to double the amount of their Pass Book entitlements, subject to certain conditions;

10) Extension of XPB facility@100 percent on jute waste, abandoned/used cinema films and optical frame, @70 percent on galvanised rod, and @ 40 percent on loose tea as well as enhancement of XPB from 70 percent to 100 percent on Tangail and Zamdani Sarees and from 40 percent to 100 percent on pencils, wooden slates and stapler pins;

11) Increasing the benefit of value addition at least to 30 percent in the cases of readymade garments, hosiery products and specialised textiles; reduction of XPB entitlement to 40 percent in the case of readymade garments using directly imported cloth while that on garments made by using locally manufactured cloth and locally printed imported grey cloth keeping unchanged at 100 percent and 70 percent respectively; provision for 70 percent XPB on exports made outside quota in the 'quota' imposing countries as well as on other categories of exports having used imported grey cloth; and 40 percent XPB on locally purchased readymade garments exported by individuals other than producers;

12) Recognition of the textile mills supplying locally manufactured/processed fabrics to readymade garment industry as indirect export institution on the basis of their value addition and extension of XPB @ 100 percent to those supplying finished fabrics manufactured from directly imported raw cotton, @ 70 percent in the case of fabrics manufactured from imported yarn and @ 40 percent to those converting imported grey cloth into completely processed fabric,

13) Provision for extension of XPB on the export of agricultural products on the basis of the FOB value of such exports as determined by deducting from the C&F value the amount of freight charges equivalent, irrespective of the actual carrier, to that of the Bangladesh Biman;

14) Provision for duty free import of at least 10 samples per category per year by each exporter so as to help product development and product diversification in the readymade garment industry; and

15) Relaxation of restrictions imposed on the exports of rice bran and wheat bran.

Import Policy

14.3 The Import Policy for 1987-88 provided for total import target of Tk.5,641 crores which was 1.9 percent higher than the allocation of Tk. 5,534 crores in 1986-87. Total value of imports during 1987-88, however, stood at Tk. 8,059.00 crores which was 36.0 percent higher than the actual imports of Tk. 5,927.59 crores in the preceding year. Of the total allocation of Tk. 5,641 crores during 1987-88, Tk.3,794 crores (67.3%) were to come from Wage Earners' Scheme/Secondary Exchange Market, Tk. 1,487.50 crores (26.4%) from Commodity Assistance and Tk. 312.50 crores (5.5%) from Barter and Counter Trade. In addition, provision was made for keeping a reserve fund of Tk. 47.00 crores for meeting emergency imports under cash. The sectoral shares of the total import allocation were: Private sector industries Tk. 2,688.00 crores, Public sector industries Tk.550.00 crores, Commercial imports (private) Tk.1,200.00 crores, Commercial imports (public) Tk.150.00 crores, POL Tk.1,006.00 crores and cash reserve fund Tk.47.00 crores.

14.4 The main features of the Import Policy for 1987-88 were:

1) Substantial contraction of the two lists for imports namely 'The Negative List' and 'The Restricted List' by removing a large number of items under 48 ITC Headings in the former and under 29 ITC Headings in the latter;

2) Adoption of precautionary measures for prevention of the import of radioactivated food items;

3) Provision for issuance of import permits to the extent of double the pass book entitlements of respective industrial units for import of these essential industrial raw materials and spares which are not importable on commercial basis;

4) Provision for import freely by the commercial importers of all raw materials, not included in the Negative/Restricted Lists;

5) Provision for import in case of necessity of such importable items which are not included in the pass book of industrial enterprises subject to permission from the Chief Controller of Imports and Exports;

6) Provision for allowing import permit to exportoriented industries for import of essential items which are included in the Negative or Restricted List by

providing 100 percent guarantee of the C&F value of the goods to be imported and subject to approval of the competent authority;

7) Provision for import of books by actual users valued upto US $ 2,000 or its equivalents at the SEM rate;

8) Provision for import of professional equipments valued upto US $ 20,000 or its equivalents without import permit by doctors, scientists and engineers returning from abroad, subject to fulfilment of certain conditions;

9) Decision to limit the import of cotton and synthetic fabrics at 10 crore metres;

10) Provision for allowing new industrial units accepted on adhoc basis under a particular sector import facilities as are enjoyed by the regular units in the concerned sector under the same source of finance and at rates of duty to be determined by the Licencing Board;

11) Provision for sanctioning quota of Tk. 50,000.00 to each importer of second hand clothings on the basis of the district-wise quota;

12) Provision to import motor vehicles of all types;

13) Provision to import old vehicles aged not exceeding 6 years and reconditioned vehicles;

14) Withdrawal of restriction on the import of duplex board;

15) Withdrawal of restriction on import of hard rubber pump, acid pump, pump for boiler, pump with head upto 80 ft;

16) Provision for import of industrial machinery and accessories for commercial purpose upto an amount not exceeding Tk. 5 lakhs;

17) Complete ban on import of mosquito coil; and

18) Ban on import of lathe machine with bed upto 12 ft.

Import licences

14.5 The value of import licences [1] issued during 1987-88 stood at 98.4 percent of total allocation of Tk. 5,553.42 crores for the year. This compared with licences issued worth Tk. 3,509.40 crores or 63.4 percent of total allocation during 1986-87. Of the total value of licences issued during the year, Tk. 4,318.01 crores (77.8%) were financed from

1 Chief Controller of Imports and Exports.

SEM, Tk. 906.91 crores (16.3%) under Aid /Loan /Credit / Grant, Tk. 282.15 crores (5.1%) under Barter/ STA and Tk. 46.35 crores (0.8%) under cash. The sectoral shares in the licences issued were as follows: commercial importers Tk. 1,874.29 crores (33.8%), Industrial Consumers (Private) Tk. 2,062.36 crores (37.1%), sector corporations Tk. 498.95 crores (9.0%), POL Tk. 910.64 crores (16.4%) and TCB Tk. 207.18 crores (3.7%).

Value of Imports

14.6 Total value of merchandise imports [2] (including food and imports under project aid but excluding imports made through land customs) during 1987-88 stood at Tk. 8,059.00 crores * as compared to Tk. 5,927.59 crores in the preceding year. Of the total imports during the year, the shares of food and live animals stood at Tk. 1,810.70 crores, crude materials inedible except fuel Tk. 472.41 crores, mineral fuels, lubricants and related materials Tk. 921.69 crores, animal and vegetable oils and fats Tk. 636.21 crores, chemicals, drugs and medicines Tk. 754.11 crores, manufactured goods classified chiefly by materials Tk. 2,015.80 crores, machinery and transport equipments Tk. 1,179.74 crores and others Tk.268.28 crores.

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2 Bangladesh Bureau of Statistics.

* Excluding POL import value.

CHAPTER XV

TRADE AND PAYMENTS AGREEMENTS

15.1 A total of 12 (twelve) new trade agreements were signed between Bangladesh and other countries during 1987-88. These compared with 7 (seven) agreements signed during the preceding year. Of the agreements signed during 1986-87, the one with Pakistan became effective from July 27, 1986 and will remain valid upto July 26,1988. The barter agreement signed with the Soviet Union (Barter Protocol No. 16) became effective from January 18,1987 and remained valid till December 31, 1987. The barter agreement with the Republic of Korea (Barter Protocol No. 5) which became effective from January 29, 1987 will remain valid upto September 30, 1988. The special trade agreements in respect of TCB-EMARK STA-3 (2nd year) West Germany, TCB-COMTRADE STA-2 Switzerland and TCB-MITSUBISHI STA Japan signed on April 2, 1987, April 3, 1987 and May 7, 1987 respectively will remain valid upto July 31, 1988, July 30, 1988 and October 31, 1988. On the other hand, the barter agreement signed with Czechoslovakia (Barter Protocol No. 5) which became effective from April 5, 1987 expired on June 30, 1988.

15.2 Under the agreements signed during 1987-88, exports from Bangladesh consisted mainly of raw jute, jute goods, jute twine /yarn, jute carpet, jute cloth, jute bag, jute rope, frozen shrimps, leather (wet blue, crust and finished), leather products, tea and packet tea, readymade garments, handloom and hosiery products, specialised textiles, 'Zamdani Saree', telephone cables, handicrafts, ceramic products, razor blade, tobacco, cosmetics, stainless steel, crushed bone, kapok,agricultural products, crude drugs and medicinal herbs, electric products, sports shoe and shoe-upper, prayer-mat, earthen wares, vegetables, books and periodicals, cinematographic films, etc. Imports into Bangladesh consisted mainly of machinery, equipments and spares, milk products, baby food, butter oil, condensed milk, drugs and medicine, cotton and raw cotton, pesticides, pig iron, steel crafts, aluminium rod, zink ingot, petroleum products, sugar, cement, X-ray film, B.P. sheet, chemicals, bus and truck, ball-bearing, surgical, scientific and laboratory instruments, photographic films, spare parts, type-writer, tyre and tube, high speed diesel, glass sheet, raw materials and other equipments for manufacturing electric bulbs, gas-meter, pipe lines, sulphur, books and periodicals, etc.

15.3 Table 15.1 gives a brief description of the agreements signed during 1987-88.

TABLE 15.1

TRADE AGREEMENTS

Sl. No.	Date of Agreement	Country/Party	Value of commodities to be exchanged each way (Million US$)
1.	16.9.87	TCB-Voest Alpine Intertrading STA, Austria	10 Million
2.	24.9.87	Bangladesh-Poland Barter Protocol No. 7	40 "
3.	31.12.87	Bangladesh-USSR Barter Protocol No. 17	*
4.	6.1.88	TCB-CGL STA, Austria	15 "
5.	6.3.88	TCB-Elders, STA-2, Australia	24 "
6.	20.3.88	TCB-Mitsui STA, Japan	15 "
7.	18.4.88	TCB-ACSA STA-4, Switzerland	22 "
8.	14.2.88	BEXIMCO-COMTRADE STA, Switzerland	10 "
9.	22.2.88	Transcom-Andre STA, Switzerland	5 "
10.	23.2.88	Elite-COMTRADE STA, Switzerland	4.50 "
11.	27.2.88	Nisu-Abdur Razak STA, Singapore	4.50 "
12.	1.3.88	Meenhar-Slopefield STA, U.K.	4.50 "

* Value not determined.

Source: Exchange Control Department, Bangladesh Bank.

CHAPTER XVI

MAJOR EXPORT COMMODITIES

16.1 The significant structural change that occurred in the compositional pattern of Bangladesh's export trade during 1986-87 as a result of higher contribution of non-traditional items in total export receipts became more conspicuous in 1987-88. The share of non-traditional items in total export earnings of the country increased from 57.8 percent in 1986-87 to 66.1 percent during 1987-88. Earnings from readymade garments made a major contribution in it though with limited value addition. The contribution of traditional items (raw jute, jute goods and tea), on the other hand, declined not only as percentage of total export earnings but also the absolute level of their combined earnings declined over the period under report.

Traditional Export Items

Raw Jute *

16.2 During 1987-88 raw jute production declined substantially to 47.00 lakh bales. This was 13.9 percent lower than the production of 54.61 lakh bales in 1986-87 and 45.7 percent below the post-liberation record level of 86.58 lakh bales in 1985-86. Production of raw jute recorded a substantial decline due to complete loss of jute crops of 30,900 acres by floods during the year. The area under jute cultivation fell by 30.0 percent to 11.45 lakh acres in 1987-88 compared to 16.35 lakh acres in the preceding year. The per acre yield of jute also came down from 3.34 bales in the preceding year to 3.32 bales during 1987-88. Total availability of raw jute (including a carryover stock of 48.00 lakh bales) during 1987-88 stood at 86.00 lakh bales, which was 11.6 percent lower than 97.26 lakh bales in 1986-87.

16.3 Exports of raw jute declined by 40.1 percent to 13.42 lakh bales during 1987-88. Substantial stockpiling and price-decline of raw jute in the international market during the last two years, setting of the indicative export prices at relatively higher levels, emergence of China as a competitor and Singapore as a middle-trader in the export market, reduced purchase of Bangladeshi jute by China and Pakistan, etc. may be outlined as probable reasons for the slack in raw jute export during the year. The public sector and private sector export of raw jute during 1987-88 stood at 2.58 lakh bales (19.2%) and 10.84 lakh

* Source: Planning Commission, Ministry of Jute, BJA, EPB and Bangladesh Bank.

bales (80.8%) respectively as compared to 3.20 lakh bales (14.4%) and 19.21 lakh bales (86.6%) respectively during 1986-87. The average export price of raw jute which stood at Tk. 1,852.16 per bale during the year was 31.3 percent higher than Tk. 1,410.40 per bale during the preceding year. Despite increase in average export price, earnings from raw jute fell by 21.4 percent to Tk. 248.26 crores during 1987-88 from Tk. 316.07 crores in 1986-87 due to significant decline in export volume.

16.4 The annual average price of raw at the growers' level stood 81.0 percent higher at Tk. 277.53 per maund during 1987-88 as compared to Tk. 153.37 per maund during 1986-87. Although growers' level average prices of raw jute depicted an uptrend at the beginning of the season, prices dropped substantially toward the close of the season due to slack in export sales and increase in arrivals in the internal markets. The growers' level price of raw jute which gradually rose from Tk.238.75 per maund in July, 1987 to Tk.304.87 per maund in October, 1987 started falling thereafter and stood at Tk.263.00 per maund in June, 1988.

16.5 Inspite of strengthening of export programmes at the very beginning of 1987-88 for bringing down the huge stock of raw jute, export sales registration declined significantly from 30.08 lakh bales of the preceding year to 21.06 lakh bales in 1987-88. Actual export of raw jute also dropped to 13.42 lakh bales in 1987-88 from 22.41 lakh bales in 1986-87.

16.6 The uptrend of raw jute prices which was discerned in the Narayanganj terminal market during the preceding year persisted during the first six months of 1987-88. Prices of all grades of jute, however, remained unchanged during the remaining period of the year. In the Kutcha bale [1] section, the price of white X-Bottom grade of raw jute which had stood at Tk. 697.00 per bale on July 1, 1987, gradually increased to Tk. 965.00 per bale on December 20 of the same year and remained unchanged at that level till June 30, 1988. In the Pucca bale [2] section, the price of B.W.D. grade jute which stood at Tk. 1,700.00 per bale on July 1, 1987 rose to Tk. 2,000.00 per bale on December 20 of the same year and remained unchanged at that level till June 30, 1988.

16.7 The indicative export prices of raw jute were raised several times during the first half of the year. The export price of B.W.D. grade jute which stood at $ 320 per ton on July 1,1987, was revised upward to $ 335, $ 350 and $ 370 on July, 7, August 24 and December 17 of the same year respectively. As a result, the indicative export price of raw jute recorded an increase of 15.6 percent during the year. The indicative export prices for other grades of jute were also raised by different margins on the above dates.

1 Kutcha bale = 100 kgs.
2 Pucca bale = 180 kgs.

Jute Goods*

16.8 Despite setback suffered on account of labour unrest, power failure, lay-off, etc., total output of jute goods in the country stood at 5.70 lakh tons in 1987-88, though the same was 2.2 percent lower than 5.83 lakh tons in the preceding year and 5.0 percent lower than the target of 6.00 lakh tons for the year. Of the total production during the year, public sector and private sector accounted for 3.26 lakh tons (57.2%) and 2.44 lakh tons (42.8%) respectively.

16.9 The overall demand for jute goods during 1987-88 remained depressed due to low prices of synthetic substitutes in the international market. Inspite of this, export sales registration and actual export of jute goods stood higher at 5.97 lakh tons and 5.25 lakh tons during the year as compared with 5.91 lakh tons and 5.00 lakh tons respectively during the preceding year.

16.10 Earnings from export of jute goods during 1987-88 stood at Tk.931.94 crores (public sector : Tk. 459.20 crores or 49.3 percent and private sector: Tk.472.74 crores or 50.7 percent) as compared with Tk.914.49 [R] crores (public sector: Tk. 533.02 crores or 58.3 percent and private sector : Tk. 381.47 crores or 41.7 percent) during the preceding year. The average export price of jute goods stood 2.9 percent lower at Tk. 17,751.24 per ton during the year as against Tk. 18,289.80 [R] per ton during 1986-87. In dollar terms, the average export price of jute goods during 1987-88 stood at $573. 92 per ton which was 4.6 percent lower than $574.36 per ton in 1986-87.

16.11 Stock of jute goods in the country (sold, unsold, stock in transit and shut-out) stood higher at 1.47 lakh tons on June 30, 1988 as compared to 1.24 lakh tons as on June 30, 1987.

Tea**

16.12 Production of tea in Bangladesh stood at 40.86[1] million kgs. during 1987-88. Though this was lower than the target of 44.00 million kgs. for the year, it represented 1.5 percent increase over the output of 40.25 million kgs. in 1986-87. Tea production during the year suffered setback due to severe drought at the beginning of the season for growing raw leaves followed by an unprecedented flood thereafter. With a carryover stock of 18.49 million kgs. from the preceding year, total availability of tea stood at 59.35 million kgs. during the year. As exports increased, the closing stock of tea stood lower at 17.79 million kgs. at the end of 1987-88.

16.13 Despite some minor fluctuations in the internal tea market prices, it remained firm during 1987-88. In the Chittagong tea auction market, the average prices of tea which had stood at Tk. 36.34 per kg. in July, 1987, picked upto Tk. 39.01 per kg. in October and, amidst minor fluctuations, increased further to Tk. 50.63 per kg. in june, 1988. A total of 52

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

R = Revised. ** Source: Bangladesh Tea Board. 1= Provisional.

auctions were held in the Chittagong tea market in which 37.05 million kgs. of tea were sold at an average price of Tk. 40.50 per kg. in 1987-88 compared to 31.22 million kgs. sold at an average price of Tk. 36.23 per kg. in the preceding year. Improvement in the quality of tea together with increase in demand contributed to the prevalence of buoyancy in market prices of tea during the year.

16.14 Exports of tea during 1987-88 stood at 27.56 million kgs. which was 28.7 percent higher than 21.41 million kgs. in 1986-87. Tea exports were particularly supported by increased demand from Pakistan, Poland, Soviet Union and Iran during the year. Export of tea to these countries increased by 9.69 million kgs. to 19.07 million kgs. which constitutes 69.2 percent of the country's total tea exports during 1987-88. Earnings from exports of tea also stood 33.7 percent higher at Tk. 120.48 crores during 1987-88 as compared to Tk. 90.13 crores in the preceding year. The average export price of tea stood at Tk. 43.72 per kg. during the year which was 9.0 percent higher as compared to Tk. 42.10 per kg. in 1986-87.

Non-traditional Export Items*

Readymade Garments

16.15 Readymade garments emerged as the single largest manufactured item of foreign exchange earner of Bangladesh during 1987-88. Earnings from the export of readymade garments during the year stood at Tk. 1,342.13 crores which was 47.9 percent higher than Tk. 907.67 crores during 1986-87. During 1987-88, the three largest buyers of Bangladeshi readymade garments were; U.S.A. Tk. 846.10 crores (63.1%), West Germany Tk. 136.15 crores (10.1%) and Italy Tk. 67.38 crores (5.0%). During 1986-87 also, the three largest buyers of readymade garments from Bangladesh were: the United States (Tk. 720.73 crores or 78.3%), West Germany (Tk. 66.14 crores or 7.3%) and Italy (Tk. 36.24 crores or 3.9%).

Hides and Skins

16.16 The prices of hides and skins depicted an uptrend during 1987-88. The prices of cow-hides (wet salted heavy) which opened the year at Tk. 36,000/- Tk. 43,000 per hundred pieces, amidst some fluctuations, rose to Tk. 70,000/- Tk. 77,000 at the end of the year. The prices of buffalo hides, goat-skins and sheep-skins also depicted similar upward trends. The prices of buffalo hides, goat skins and sheep-skins per hundred pieces opened the year at Tk. 40,000/- Tk. 45,000, Tk. 9,000/- Tk. 11,000 and Tk. 6,800/- Tk. 7,200 respectively which gradually increased to Tk. 48,000/- Tk. 53,000, Tk. 17,000/- Tk. 18,500 and Tk. 7,000/- Tk. 7,500 respectively at the end of the year.

* Source: Export Promotion Bureau.

16.17 Export earnings from leather (tanned and semi-tanned) picked up substantially to Tk. 455.20 crores in 1987-88 from Tk. 409.70 crores in 1986-87, denoting an increase of 11.1 percent over the year.

Frozen Food

16.18 Export earnings from frozen foods (fish, shrimps and frog-legs) stood 5.9 percent higher at Tk. 431.67 crores during 1987-88 compared to Tk. 407.72 crores during 1986-87.

Naptha and Bitumen

16.19 Export earnings from Naptha and Bitumen during 1987-88 declined by 20.9 percent to Tk. 25.65 crores compared to Tk. 32.45 crores in the preceding year.

Newsprint

16.20 Export earnings from newsprint declined by 4.3 percent to Tk. 22.24 crores during 1987-88 compared to Tk. 23.24 crores during 1986-87.

Handicrafts

16.21 The value of handicrafts exported during 1987-88 declined by 4.2 percent to Tk. 11.62 crores compared to Tk. 12.13 crores in the preceding year.

CHAPTER XVII

EXCHANGE RATE POLICY AND DEVELOPMENTS IN EXCHANGE CONTROL *

Exchange Rate Policy

17.1 The world exchange market continued to remain unstable during 1987-88. Wide fluctuations occurred in the value of U.S. Dollar vis-a-vis major currencies during the year. The Dollar recorded a significant depreciation during the second quarter of 1987-88, due partly to the uncertainty about the possibility of any sizeable reduction of deficit in the U.S. budget as well as in the trade balance, and partly to the unusual decline in interest rates of dollar-denominated securities. However, the Dollar had re-gained substantial strength by the end of fourth quarter of the year under report. With a view to sustaining Bangladesh's international competitiveness in the midst of above developments in the world exchange market, the external value of Bangladesh Taka in relation to the U.S. Dollar, our intervention currency, was re-adjusted downwards three times during 1987-88 on the basis of trade weighted 'basket of currencies'. As a result of these re-adjustments, the Taka-Dollar exchange rate depreciated by 1.6@ percent over the year. The date-wise re-fixation of Taka-Dollar official exchange rate during 1987-88 together with the last rate re-fixed during the preceding year is shown in Table 17.1.

TABLE 17.1

TAKA-DOLLAR OFFICIAL EXCHANGE RATE

(Bangladesh Bank's Taka Rate per U.S. Dollar)

Date of Fixation	Buying	Selling
June 7, 1987	30.97	31.03
November 21, 1987	31.17	31.23
January 2, 1988	31.32	31.38
March 1, 1988**	31.47	31.53

* Source: 1) World Economic Outlook, 1988, I.M.F.
2) Exchange Control Department, Bangladesh Bank.

@ Based on middle value of buying and selling rates.

** Remained unchanged till June 30, 1988.

17.2 In the Secondary Exchange Market, which provides for some interaction of demand for and supply of foreign exchange, the Taka-Dollar exchange rate appreciated by 0.3 @ percent over the year. Table 17.2 shows the Taka-Dollar exchange rates as prevailed in the Secondary Exchange Market (Wage Earners' Market) during 1987-88.

TABLE 17.2

SECONDARY EXCHANGE MARKET
(WAGE EARNERS' MARKET) RATE

(Taka per U.S. Dollar)

Period	Buying	Selling
January 18- June 30, 1987 *	33.00	33.05
July 1- October 30, 1987	33.00	33.05
October 31- December 28,1987	32.95	33.00
December 29, 1987- June 30,1988	32.90	32.95

Exchange Control

17.3 The following measures were adopted in the field of exchange control during 1987-88.

i) Requirement of Advance Foreign Exchange Deposit for Opening Import Letters of Credit under SEM/WES

The requirement of 100 percent advance foreign exchange deposit at the time of opening sight letters of credit in respect of raw material imports by industrial consumers as per their pass-book entitlements under the SEM/WES was relaxed with effect from August 27,1987 to a minimum of 50 percent to be determined on the basis of banker-customer relationship.

ii) Rate of Interest for Determination of Buying rate of Usance Bills in ACU Currencies for the Usance Period

In partial modification of sub-para (b) of para 2, Chapter XV of the Exchange Control Manual (1986 Edition), it was decided with effect from November 23,1987 that, for determination of the buying rate of the Usance Bills in currencies of the ACU member countries, the margin to be loaded by Authorised Dealers on the OD

@ Based on middle value of buying and selling rates.

* Benchmark/closing rates of 1986-87.

sight buying rate of bills in the relative currency shall be equivalent to the interest for the usance period at the rate of 9 percent instead of 12 percent per annum.

iii) Application of Secondary Exchange Market Rate for Conversion of Foreign Exchanges into Taka by Industrial Units in the EPZ

With effect from March 17,1988 it was decided that conversion of export receipts as well as funds brought in from abroad for meeting local expenses into Taka by industrial units in the Export Processing Zone (EPZ) shall be made at the Secondary Exchange Market rate instead of the existing official rate.

iv) Hajj-1988

Arrangements were made by the Government for sending 10,000 pilgrims from Bangladesh through the ballot system to perform Hajj in 1988. The ballottee pilgrims were sanctioned 3,300 Saudi Riyals each at official rate for meeting incidental expenses including Muallim Fees during the Hajj. The non-ballottee pilgrims were also allowed to purchase 3,300 Saudi Riyals per head at the SEM rate. In addition, both ballottee and non-ballottee pilgrims were allowed to purchase a further sum not exceeding US $450 under the Wage Earners' Scheme.

Inspection of Dealings in Foreign Exchange

17.4 The Exchange Control Department of the Bank carried out comprehensive inspection of the foreign exchange transactions in 111 branches of 14 Authorised Dealers in addition to their respective Head / Main offices during 1987-88. The distribution of the above 111 branches is shown in Table 17.3.

TABLE 17.3

Name of the Approved Dealers	Number of Branches Inspected
1. Sonali Bank	23
2. Rupali Bank Ltd.	21
3. Pubali Bank Ltd.	14
4. Agrani Bank	11
5. National Bank Ltd.	11
6. Arab Bangladesh Bank Ltd.	9
7. I.F.I.C. Bank Ltd.	6
8. The City Bank Ltd.	6
9. Bank Indosuez	2
10. Standard Chartard Bank	2
11. Habib Bank Ltd.	2
12. B.C.C.I. (Overseas) Ltd.	2
13. Bangladesh Shilpa Rin Sangstha	1
14. State Bank of India	1
Total :	111

17.5 In addition to the above, special inspection of 39 branches of Authorised Dealers, 2 money changers, 37 indenting houses, 4 travel agents and 7 business organisations was also conducted during 1987-88.

CHAPTER XVIII

ASIAN CLEARING UNION

18.1 The volume of transactions under the Asian Clearing Union (ACU) on Bangladesh's account recorded some increase during 1987-88. As usual, six settlements took place under the ACU arrangements during the year in which Bangladesh emerged as net debtor in all the settlements. This reflected that Bangladesh's import from other member countries was larger than its export.

18.2 Receipts under the ACU arrangement on Bangladesh's account recorded some decline while that of payments increased substantially during 1987-88. Payments on Bangladesh's account increased by AMU @ 23.03 million or 24.7 percent from AMU 93.43 million (Tk. 358.89 crores) in 1986-87 to AMU 116.46 million (Tk. 490.58 crores) in 1987-88. Receipts declined by AMU 12.57 million or 20.7 percent from AMU 60.84 million (Tk. 230.62 crores) in 1986-87 to AMU 48.27 million (Tk. 202.67 crores) in 1987-88.

18.3 As a result of these transactions, Bangladesh was placed at a net debtor position of AMU 68.19 million (Tk. 287.91 crores) in 1987-88 as compared to a net debtor position of AMU 32.59 million (Tk. 128.27 crores) in 1986-87.

18.4 The UNCTAD is working on a project for constitution of a foreign exchange 'Reserve Fund' and introduction of a 'Swap Arrangement' within the framework of the ACU. Total trade and trade balance of the ACU members are shown in Table 18.1.

@ AMU = Asian Monetary Unit.
1 AMU = 1 SDR.

TABLE 18.1

TOTAL TRADE AND TRADE BALANCE OF ACU MEMBERS

(In millions of US Dollars)

Country	Exports to ACU		Imports from ACU		Surplus (+) Deficit (−)	
	1985	1986	1985	1986	1985	1986
Bangladesh	160.3	85.8	92.0	107.0	+68.3	−21.2
Burma	16.9	14.8	13.1	4.7	+ 3.8	+ 10.1
India	323.0	298.0	1,011.0	712.0	− 688.0	− 414.0
Iran	1,060.0	671.0	279.0	203.0	+ 781.0	+468.0
Japan	46.7	57.0	96.9	107.2	− 50.2	− 50.2
Pakistan	203.8	168.5	215.8	168.4	− 12.0	+ 0.1
Sri Lanka	64.2	68.6	283.8	181.1	− 219.6	− 112.5
Total :	**1,874.9**	**1,363.7**	**1,991.6**	**1,499.3**	**− 116.7**	**− 119.7**

Note : (i) Exports (f.o.b.); (ii) Imports (c.i.f.)
Source : ACU Annual Report, 1987

CHAPTER XIX

CURRENCY AND COINAGE

Bank Notes

19.1 Newly designed 50-Taka Bank Notes bearing the signature of Ex-Governor, Mr. M. Nurul Islam was put into circulation with effect from August 24, 1987. The same designed 50-Taka Notes under the signature of the present Governor, Mr. S. B. Chaudhuri was also put into circulation with effect from January 30, 1988. In addition, 5-Taka, 20-Taka, 100-Taka and 500-Taka Notes of existing designs under the signature of the present Governor, Mr. S. B. Chaudhuri were also circulated during the year.

One-Taka Notes and Coins

19.2 One-Taka Notes of existing design under the signature of Finance Secretary, Mr. Ghulam Kibria was put into circulation during the year ended on June 30, 1988. No newly designed coins were, however, issued during the year under report.

19.3 Subsidiary Coins in circulation as on June 30, 1988 at Tk. 42.40 crores was larger by Tk. 2.85 crores than Tk. 39.55 crores as on June 30, 1987. This was in addition to One-Taka Notes and One-Taka Coins worth Tk. 50.80 crores in circulation as on June 30, 1988. The amount of One-Taka Notes and One-Taka Coins in circulation as on June 30, 1987 stood at Tk. 51.07 crores.

CHAPTER XX

ADMINISTRATION

Nomination of the Directors

20.1 The Government appointed three new Directors to the Board of Directors of the Bank during 1987-88. New Directors are Mr. Mahbubur Rahman Khan, Dr. Shaikh Maksud Ali and Chowdhury A.K.M. Aminul Hoque. They are appointed in place of Late A.K.M. Khalilur Rahman with effect from September 7, 1987, in place of Dr. A. H. Sahadatullah with effect from November 1, 1987 and in place of Mr. S. B. Chaudhuri with effect from November 30, 1987 respectively.

Board of Directors/Executive Committee Meetings

20.2 During 1987-88, 8 meetings each of the Board of Directors and the Executive Committee were held.

Co-ordination Committee Meetings

20.3 The Co-ordination Committee of the Bank held a total of 14 meetings during the year under report.

Appointment of Governor

20.4 Mr. S. B. Chaudhuri, Secretary, Internal Resources Division and Chairman, National Board of Revenue assumed the additional responsibility of the Governor of the Bangladesh Bank on an ad-hoc basis on April 11, 1987. He was appointed as Governor of the Bank on fixed term beginning from July 14, 1987 and ending on December 31, 1990.

Appointment of Deputy Governor

20.5 Mr. A. S. M. Fakhrul Ahsan was appointed as a Deputy Governor of the Bank with effect from July 5, 1987.

Appointment of Executive Director

20.6 Mr. A. B. M. Mahbubul Amin Khan, Executive Director assumed the responsibilities of the Economic Adviser of the Bank with effect from August 3, 1987. Mr. Saleh Ahmed was promoted as an Executive Director of the Bank with effect from the same date.

Other Appointments

20.7 The following appointments in different grades of employment were made by the Bank during the year ended on June 30, 1988:

i)	Assistant Director	1
ii)	Officers	7
iii)	Coin/Note Examiners and other staff	72
	Total :	80

Bankers' Recruitment Committee

20.8 Arrangements were made by the Bankers' Recruitment Committee for holding the written test on November 20, 1986 and viva voce test from September 30 – November 4, 1987 for appointing officers in the 5th Batch. A total of 3,200 and 8,149 candidates participated in the written test in the scale of Tk. 1,650 and Tk. 1,350 of the National Pay Scale respectively, wherein 1,020 candidates in the scale of Tk. 1,650 and 2,373 candidates in the scale of Tk. 1,350 came out successfully. The Panel of 710 and 1,091 successful candidates in the viva voce test in the above two scales alongwith 473 other candidates was sent to the commercial banks for appointment.

Total Number of Officers and Staff

20.9 The total number of officers and staff of the Bangladesh Bank stood at 5,558 on June 30, 1988 as compared to 5,568 on June 30,1987. The total number of officers/staff declined by 10 persons due to L. P. R., retirement, resignation, termination and death of 90 officers/staff of different categories during the year under report.

Officers on Deputation

20.10 One General Manager of the Bank was on deputation with Bahrain Monetary Agency and one Deputy General Manager with Oman Central Bank during 1987-88. Besides, one Deputy Director of the Bank was on deputation with the External Resources Division of the Planning Commission, one Deputy Director was on deputation with the President's Secretariat and one Deputy Director with the National Board of Revenue during the year under report.

Foreign Training

20.11 During 1987-88, 17 Officers of the Bank were sent abroad for participation in different Training Courses / Seminars / Meetings.

Domestic Training

20.12 A total of 165 Officials of the Bank participated in training courses organised by different training institutions during 1987-88.

Bank's Training Academy

20.13 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 programmes during 1987-88:

i) As many as 66 Assistant Directors/Assistant Managers and 47 Officers were trained by organising 5 regular in-service courses of 2 months' duration each;

ii) Three courses of one and a half months' duration were also organised for Assistant Managers and Officers of the Cash Department of the Bank wherein 52 trainees participated;

iii) In order to improve the efficiency and expertise of the officers of the Agricultural Credit Inspection Department (ACID), and the Department of Banking Inspection (DBI), a total of 4 special courses with 2 courses each on 'Technique of Inspection' and 'Technique of Bank Inspection' of 3 weeks and 15 working days' duration respectively were conducted by the Academy wherein 52 officials of the Head Office and Bank's different Offices and 32 Assistant and Deputy Directors of the Banking Inspection Department participated;

iv) 3 courses on 'Rural Finance Policy and Project Evaluation' were conducted by the Academy, wherein 54 officials of the Bangladesh Bank and different commercial banks perticipated;

v) To ensure correct reporting of foreign exchange transactions by the Authorised Dealers, 5 courses of 5-day duration on 'Reporting of Foreign Exchange Transactions' were conducted at Dhaka, Chittagong, Khulna, Sylhet and Bogra Offices wherein a total of 130 officials of the Bangladesh Bank and commercial banks participated;

vi) For imparting training on the technique of computerisation, storage and retrieval of banking statistics to the officers of concerned Departments, a 5-day course on 'Computer Familiarisation' was organised by the Academy wherein 16 Officers of the Bank participated;

vii) With a view to broadening the outlook of Trainee Officers an educational field trip to the Security Printing Press, Gazipur was arranged by the Academy during 1987-88 in which 35 trainees participated;

viii) For introducing officials of the National Savings Directorate to the role of banks and techniques involved in mobilisation of savings, 3 special courses of 5-day duration each on 'Banking' were arranged during the year wherein 56 officials of the National Savings Directorate participated; and

ix) 2 special courses on 'Study of Agricultural Credit Disbursment and Recovery' and 'Collection of New Information/ Data on Agricultural Credit' for the officials of the commercial banks were arranged by the Academy. A total of 109 officials of the commercial banks participated in these courses.

Activities of the Computer Division

20.14 During 1987-88, the Computer Division of the Bank completed the job of Reconcilliation of Inter-Branch Transactions of the Sonali Bank. The Division carried out necessary changes/ modifications and extension in the respective systems and programmes corresponding to the changes introduced in the reporting forms for compilation of Banking Statistics, Export Receipts, Import Payments, Invisible Receipts and Invisible Payments. For facilitating generation of modified data on Monetary Survey and Credit Information, the relevant systems and programmes were also suitably recast. Considerable progress has also been made in the work relating to computerisation of the Bangladesh Bank Employees' Provident Fund Accounts during the year.

20.15 A mechanisation committee was constituted with Mr. Mahbubur Rahman Khan, Deputy Governor of the Bangladesh Bank as its Convenor. The Committee prepared a report examining the prospect of mechanisation in the banking sector of the country and identifying the areas of operation suitable for introducing mechanisation. The report was submitted in the bankers' meeting held on June 20, 1988 for discussion and for taking appropriate decision. It was decided unanimously in the bankers' meeting to implement the recommendations contained in the report and a committee was formed to undertake necessary steps towards the objective of speedy and smooth implementation of the recommendations of the report.

Department of Public Relations and Publications

20.16 In addition to the 12 regular publications of the Bank, the Department of Public Relations and Publications brought out a new issue of the list of the Bangladesh Bank Officers during 1987-88. Steps were also taken to publish the lectures delivered by Experts in the Sixteenth SEANZA Central Banking Course held in Dhaka from October 13-December 18, 1986.

Inspection Implementation Department

20.17 With a view to strengthening the inspection work carried on by the Department of Banking Inspection, Agricultural Credit Inspection Department and Exchange Control Department, as also to remove the irregularities pointed out in the inspection reports and for quick implementation of the recommendations made therein, the implementation divisions/sections of the above Departments were merged and a new Department called 'Inspection Implementation Department' was opened at the Head Office of the Bank during the year. Manpower was also increased significantly to strengthen the inspection, supervision and monitoring work of the Banking Inspection Department and Agricultural Credit Inspection Department.

Technical Unit

20.18 Two Technical Units, one constituted in July, 1984 and the other in November, 1985 to advise the authorities on determining the interest rates structure and to monitor and review the developments in money, credit and exchange rates respectively were merged in January, 1988 into a single Technical Unit reposing in it the responsibility, alongwith other duties and functions, of providing necessary assistance in reorganising the financial sector. Apart from its routine assignment, such as analyses of data on money and credit received from the entire banking system, preparation of statements/reviews of the data and comparing them with their targets, determinatioin of indices for effective exchange rates etc., the Technical Unit has also performed the following work during 1987-88: (1) assistance given on making recommendations to formulate market-oriented monetary policies for reorganising the financial sector of the country; (2) recommendations for working out an interest rates structure based on market forces; and (3) preparation of special econometric studies on the demand for money, inflation and forecasting of national income and distribution of the same among the Bank Executives.

Office / Residential Accommodation and other Development Work

20.19 Construction of the boundary wall, police barrack, temporary canteen and mosque at the Head Office premises, additional units of A,B,C, and D type quarters at Faridabad, modernisation and extension of Officers' quarters at Banani and sub-soil investigation for construction of high-rise staff quarters building at Motijheel Colony, Dhaka, construction of power sub-station building at the Bank premises, Rajshahi and construction of boundary wall with cast-in-site, R.C.C. piling work at staff quarters premises, Sylhet were completed during 1987-88.

20.20 Besides construction of 2nd Multi-storied building at Head Office premises, construction of School, underground water reservior, overhead water tank, water pipe-line and pump house at Faridabad Staff Quarter premises, hostel type accommodation on the roof of the Bank Club Building, Dhaka, construction of 6-storied building with 15-storied foundation at bank premises, Chittagong, construction of staff quarter at Agrabad, boundary wall with guards room at Nasirabad, Chittagong, construction of 6-storied annexe building with 15-storied foundation at the Bank premises, Khulna, construction of 3-storied Bank building with 5-storied foundation at Rajshahi, construction of staff quarters at Bogra, etc. were in progress during the year. In addition, installation of air-conditions at the Main Building of the Head Office and construction of staff quarters at Sylhet were started during 1987-88.

Welfare Activities and Sanction of Stipends

20.21 An amount of Tk.36.60 lakhs was sanctioned to different Offices of the Bank to meet the expenses relating to welfare and recreational activities as also for awarding stipends to the eligible children of 'C' and 'D' category employees of the Bank during 1987-88.

CHAPTER XXI

ANNUAL ACCOUNTS

Issue Department

21.1 The Balance Sheet of the Issue Department of the Bank as on June 30, 1988 appears at pages 126-127 of the Report.

21.2 Total notes issued as on June 30, 1988 at Tk.2,724.77 crores was larger by Tk.378.27 crores than Tk.2,346.50 crores as on June 30, 1987. Assets against the notes issued included Gold worth Tk.74.66 crores, Approved Foreign Exchange of Tk.200.00 crores, Taka Coin worth Tk.3.37 crores, Government of Bangladesh Securities worth Tk.580.49 crores and Internal Bills of Exchange and other Commercial Papers worth Tk.1,866.24 crores. The corresponding figures of assets against notes issued as on June 30, 1987 were Gold worth Tk.69.99 crores, approved Foreign Exchange of Tk.200.00 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.

Banking Department

21.3 The Balance Sheet of the Banking Department as on June 30, 1988 appears at pages 128 and 129 . On the liabilities side, balances in the Statutory Funds* increased from Tk. 303.00 crores as on June 30, 1987 to Tk. 341.00 crores as on June 30, 1988 due to appropriation of Tk. 38.00 crores from the 'Profit and Loss Account'. 'Government Deposits' increased by Tk. 0.23 crore to Tk. 1.04 crores as on June 30, 1988 from Tk. 0.81 crore as on June 30,1987. Deposits from banks increased by Tk. 866.66 crores to Tk.1,804.39 crores as on June 30, 1988 from Tk. 937.73 crores as on June 30, 1987. Other Deposits decreased by Tk. 184.04 crores to Tk. 2,255.67 crores as on June 30, 1988 from Tk.2,439.71 crores as on the same day last year. Other Liabilities increased by Tk. 217.95 crores to Tk. 1,248.65 crores as on June 30, 1988 from Tk. 1,030.70 crores as on June 30, 1987. The amount of SDRs remained unchanged at Tk. 91.74 crores.

21.4 On the Assets side of the Banking Department, 'Bills Purchased and Discounted-Internal' increased by Tk.89.00 crores to Tk.109.00 crores as on June 30, 1988 from Tk.20.00 crores as on June 30, 1987. The balance of re-discounted Government Treasury Bills increased by Tk.2.29 crores to Tk.51.75 crores as on June 30, 1988 from Tk.49.46 crores as on June 30, 1987 The amount under 'Balances Held Outside Bangladesh'

* Excluding Credit Guarantee Fund.

increased by Tk.471.47 crores to Tk.2,329.14 crores as on June 30, 1988 from Tk.1,857.67 crores as on June 30,1987. Other Loans and Advances (Loans and Advances to Banks and other Financial Institutions) went up by Tk.16.92 crores to Tk.1,129.03 crores as on June 30, 1988 from Tk.1,112.11 crores as on June 30, 1987. The Balances under 'Investments' increased by Tk.158.09 crores to Tk.908.03 crores as on June 30, 1988 form Tk.749.94 crores as on June 30,1987. The Loans and Advances to Government remained unchanged at the level of Tk.20.00 crores during the year under report. Other assets increased by Tk.200.55 crores to Tk.1,201.00 crores as on June 30, 1988 from Tk.1,000.45 crores as on June 30,1987.

21.5 The Profit and Loss Account of the Bank for the year ended on June 30,1988 appears at page 130 .

Comparative Position of Profit and Loss Account

21.6 The comparative position of Profit and Loss Account of the Bank for the years 1987-88 and 1986-87 is summerised below:

(Taka in crores)

Particulars	1987-88	1986-87	Changes
Gross Income	464.39	390.84	+73.55
Total Expenditure	250.57	206.01	+44.56
Net Profit:	**213.82**	**184.83**	**+28.99**

21.7 It appears from the above account that the net profit of the Bank during 1987-88 was higher by Tk.28.99 crores as compared to that during 1986-87. Although the total expenditure increased by Tk.44.56 crores, net profit of the Bank during 1987-88 increased as a result of increase in gross income by Tk.73.55 crores due to larger refinance investments as well as other investments in local and foreign currencies.

21.8 Out of the profit of Tk.213.82 crores, a sum of Tk.40.00 crores has been appropriated towards different Statutory Funds as detailed below:

Rural Credit Fund		Tk. 15,00,00,000.00
Industrial Credit Fund		Tk. 4,00,00,000.00
Export Credit Fund		Tk. 4,00,00,000.00
Agricultural Credit Stabilisation Fund		Tk. 15,00,00,000.00
Credit Guarantee Fund		Tk. 2,00,00,000.00
Surplus Profit Paid to the Government		Tk. 173,82,24,334.46
	Total :	**Tk. 213,82,24,334.46**

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. Acnabin & Co., Chartered Accountants, to audit the accounts of the Bank for the year 1987-88.

Appreciation

21.10 The Board of Directors wishes to place on record its appreciation for the loyal and devoted services rendered during the year by Officers and Staff of the Bank.

BALANCE SHEET
AND
PROFIT AND LOSS ACCOUNT

ISSUE
LIABILITIES

PARTICULARS	As on June 30, 1988		As on June 30, 1987	
	TAKA	TAKA	TAKA	TAKA
Notes held in the Banking Department	67,30,390		22,84,115	
Notes in Circulation*	2724,09,32,800		2346,26,88,135	
Total Notes Issued		2724,76,63,190		2346,49,72,250
TOTAL LIABILITIES :		2724,76,63,190		2346,49,72,250

* 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, 1988		As on June 30, 1987	
	TAKA	TAKA	TAKA	TAKA
A. Gold Coin and Bullion	74,66,40,000		69,99,27,000	
Silver Bullion	Nil		Nil	
Special Drawing Rights held with the International Monetary Fund	Nil		Nil	
Approved Foreign Exchange	200,00,00,000	274,66,40,000	200,00,00,000	269,99,27,000
B. Taka Coin	3,37,05,299		3,10,14,355	
Government of Bangladesh Securities**	580,49,11,686		475,16,24,690	
Internal Bills of Exchange and other Commercial Papers	1866,24,06,205	2450,10,23,190	1598,24,06,205	2076,50,45,250
TOTAL ASSETS:		2724,76,63,190		2346,49,72,250

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

PARTICULARS	As on June 30, 1988		As on June 30, 1987	
	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		130,00,00,000		115,00,00,000
Industrial Credit Fund		40,00,00,000		36,00,00,000
Export Credit Fund		41,00,00,000		37,00,00,000
Agricultural Credit Stabilisation Fund		130,00,00,000		115,00,00,000
Deposits:				
(a) Government	1,04,03,969		81,19,214	
(b) Banks	1804,39,19,515		937,72,86,024	
(c) Others	2255,66,97,358	4061,10,20,842	2439,70,70,915	3378,24,76,153
Allocation of Special Drawing Rights		91,74,31,206		91,74,31,206
Bills Payable		11,49,740		15,95,566
Other Liabilities		1248,64,92,354		1030,70,39,609
TOTAL LIABILITIES:		5748,60,94,142		4809,85,42,534

DEPARTMENT

ASSETS

PARTICULARS	As on June 30, 1988		As on June 30, 1987	
	TAKA	TAKA	TAKA	TAKA
Notes		67,30,390		22,84,115
Taka Coin		173		2,113
Subsidiary Coin		127		67
Bills Purchased and Discounted:				
(a) Internal	109,00,00,000		20,00,00,000	
(b) External	Nil		Nil	
(c) Government Treasury Bills	51,74,69,609	160,74,69,609	49,46,28,290	69,46,28,290
Balances held outside Bangladesh*		2329,13,59,994		1857,66,69,958
Special Drawing Rights held with the International Monetary Fund		Nil		Nil
Loans and Advances to Government		20,00,00,000		20,00,00,000
Other Loans and Advances		1129,02,82,793		1112,10,75,014
Investments		908,02,63,840		749,93,86,840
Other Assests		1201,00,07,216		1000,44,96,137
TOTAL ASSETS		5748,60,94,142		4809,85,42,534

* Includes Cash and Short-Term Securities.

PROFIT AND LOSS ACCOUNT

	As on June 30,1988 TAKA	As on June 30,1987 TAKA
INCOME:		
Interest, Discount, Exchange, Commission, etc.	464,39,06,044	390,84,00,687
EXPENDITURE:		
Salaries and Allowances	27,47,96,529	23,09,17,047
Directors' Fees and Expenses	22,588	15,552
Auditors' Fees	67,722	62,970
Rent, Taxes, Insurance, Lighting, etc.	2,38,65,040	2,10,29,695
Law Charges	2,82,332	1,34,700
Postage and Telegram Charges	19,41,590	19,62,249
Remittance of Treasure	34,07,688	50,12,667
Printing and Stationeries	1,27,15,733	1,26,10,070
Security Printing (Cheques, Notes, Forms, etc.)	12,48,70,754	2,12,66,916
Depreciation on Bank's Property	2,43,12,531	2,19,32,812
Repairs to Bank's Property	99,46,471	90,19,775
Agency Charges	8,51,88,113	3,31,59,391
I.M.F Charges	116,04,63,976	111,35,34,400
Interest Subsidy to Banks and Financial Institutions	8,65,11,800	6,87,97,598
Interest on Deposits	68,23,28,506	42,55,31,379
Interest on Staff Provident Fund	2,96,76,580	2,17,33,715
Interest on General Provident Fund	39,67,162	46,56,116
Interest paid on ACU Transactions	1,45,07,039	1,15,49,212
Miscellaneous Expenses	6,91,46,622	5,72,23,334
Net Profit:	213,82,24,335	184,82,62,087
Total Taka:	464,39,06,044	390,84,00,687
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.	173,82,24,335	144,82,62,087
Balance Carried Forward	Nil	Nil
Total Taka:	213,82,24,335	184,82,62,087
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 have examined the foregoing two Balance Sheets as at 30th June 1988 and the Profit and Loss Accounts for the year ended on that date. Our examination was made in accordance with the generally accepted auditing standards and accordingly included such tests of the accounting records and such other audit procedures as we considered necessary in the circumstances. We report that we have obtanined all the informations and explanations we required and such informations and explanations have been given satisfactorily. In our opinion, the Balance Sheets are full and fair Balance Sheets containing the prescribed particulars and are properly drawn up so as to exhibit true and correct view of the state of the Bank's affairs according to the best of our informations and explanations given to us and as shown by the books of accounts of the Bank's Head Office and Branch Offices.

KHAN WAHAB SHAFIQUE RAHMAN & Co.
Chartered Accountants

ACNABIN & Co.
Chartered Accountants

Dated, Dhaka
The 8th August, 1988.

APPENDICES

BANGLADESH: SOME SELECTED STATISTICS

BANGLADESH: SOME SELECTED STATISTICS

I. AREA AND POPULATION

1. Area		1,43,999 Km^2
2. Population	1986-87	1987-88[P]
	104.1 Million	106.6 Million
3. Density of Population:		
a) Per Km^2 of Total Land Area	723	740
b) Per Km^2 of Cultivable Land	1,126	

P=Provisional.
Source : Bangladesh Bureau of Statistics.

II. NATIONAL INCOME, INVESTMENT AND SAVINGS

(Taka in crores)

Item/Sectors	1986-87	%Change	1987-88 (Estimated)	% Change
1. GDP (At Constant 1984-85 Factor Cost)	35,722	+4.44	36,777	+2.95
2. GDP (At Current Market Prices)	43,260	+12.26	48,220	+11.14
3. Per Capita GDP (In Taka at Current Prices)	4,122	+9.82	4,489	+10.91
4. Gross Investment (At Current Prices)	6,490	15.00@	7,034	14.59@
5. Gross Domestic Savings (At Current Prices)	1,833	4.24@	2,737	5.67@
6. Sectoral Break-up of GDP (At Constant 1984-85 Factor Cost) :		% Share of G.D.P.		% Share of G.D.P.
a) Agriculture	17,808	49.85	17,924	48.73 (+0.65)
b) Trade & Other Services	7,881	22.06	8,275	22.50 (+4.99)
c) Industries	3,462	9.69	3,599	9.78 (+3.95)
d) Public Services	2,433	6.81	2,524	6.86 (+3.74)
e) Transport & Communication	1,875	5.25	2,033	5.52 (+8.42)
f) Housing	1,082	3.03	1,109	3.02 (+2.5)
g) Construction	880	2.46	967	2.63 (+9.88)
h) Power and Gas	301	0.84	346	0.94 (+14.95)
Total:	35,722	100.00	36,777	100.00

@ As percentage of GDP at current market prices.
Note: Figures in the brackets indicate sectoral growth rate.
Source: Planning Commission.

III. GOVERNMENT FINANCE AND ANNUAL DEVELOPMENT PROGRAMME (A.D.P)

(Taka in crores)

Item/Sectors	1986-87	%	1987-88	%
1. **Revenue Receipts:**	4,717.00	100	5,146.00	100
a) Tax	3,853.00	82	4,367.00	85
b) Non-Tax	864.00	18	779.00	15
2. Revenue Expenditure	3,956.00	84	4,730.00	92
3. Revenue Surplus	761.00	16	416.00	8
4. **Capital Receipts:**	5,354.51	100	5,766.35	100
a) Capital Expenditure	1,155.35	22	1,081.09	19
b) Capital Surplus	4,199.16	78	4,685.26	81
5. Size of ADP:	4,513.38	100	4,650.61	100
a) Domestic	811.89	18	92.70	2
b) Foreign	3,701.49	82	4,371.61	94
c) Additional Resources	—	—	186.30	4

Source: Budget Summary Statements, Ministry of Finance.

IV. MONEY, CREDIT AND PRICE INDICES

(Taka in crores)

Heads	1986-87	1987-88
1. Broad Money (M_2)	13,864.80[1]	16,408.00
2. **Domestic Credit**	**15,368.10**[1]	**17,400.80**
i) Public Sector (including Govt.)	6,404.50[1]	6,504.50
ii) Private Sector	8,963.60[1]	10,896.30
3. Broad Money as % of GDP (at Current Market Prices)	32.05	34.15
4. **Consumer Price Index for Dhaka Middle Income Families**[2] **:**		
i) 'Point to Point'	490.25	554.24
ii) Yearly Average	481.18	536.02
5. **Annual Percentage Changes in:**		
i) Consumer Price Index for Dhaka Middle Income Families:[2]		
a) 'Point to Point'	+ 5.50	+ 13.05
b) Yearly Average	+ 10.35	+ 11.40
(ii) Sectoral Distribution of Domestic Credit:		
a) Credit to Public Sector (Including Govt.)	+ 8.23[3]	+ 1.56[4]
(b) Credit to Public Sector (Excluding Govt.)	+ 9.64[3]	+ 3.37[4]
(c) Credit to Private Sector	+ 7.39[3]	+ 21.56[4]

1. Figures relating to June, 1987 have been revised as per new format.
2. Base: 1973-74=100.
3. Figures relating to June, 1986 and June, 1987 are as per old format.
4. Figures relating to June, 1987 are as per new format.

Note : The amount of I.M.F. Treasury Accounts in Domestic Credit has been estimated at Tk. 352.50 crores both for 1986-87 and 1987-88.

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

V. RESERVE MONEY AND ITS COMPONENTS

(Taka in crores)

Period (End-June)	Currency outside banks	Cash in Tills of the scheduled banks	Balances of the scheduled banks with Bangladesh Bank@	Deposits of other financial Institutions with Bangladesh Bank	Reserve Money (2+3+4+5)
1	2	3	4	5	6
1973-74	331.10	21.10	72.20	0.20	424.60
1974-75	290.20	26.60	92.50	0.10	409.40
1975-76	329.80	34.30	98.00	0.10	462.20
1976-77	356.30	65.50	124.40	0.20	546.40
1977-78	504.30	66.40	115.80	0.30	686.80
1978-79	613.30	80.00	162.60	0.10	856.00
1979-80	693.40	103.20	247.00	0.20	1043.80
1980-81	914.80	126.20	294.10	0.20	1335.30
1981-82	877.50	135.60	267.20	0.10	1280.40
1982-83	1138.60	146.50	338.70	0.70	1624.50
1983-84	1556.30	235.50	443.90	0.20	2235.90
1984-85	1722.90	275.70	676.70	0.20	2675.50
1985-86	1953.10	338.40	979.50	0.50	3271.50
1986-87	2075.60	361.30	1303.22	1.68	3741.80
1987-88	2415.00	402.30	2240.20	Nil	5057.50

@ Including Balances in the Wage Earners' Clearing Accounts.

VI. SOURCES OF RESERVE MONEY

(Taka. in crores)

Period (End-June)	Bangladesh Bank's Claims on Govt.	Scheduled Banks	Other official Entities & Financial Institutions	Net foreign Assets	Other Assets (net)	Reserve Money (2+3+4+5+6)
1	2	3	4	5	6	7
1973-74	403.20	99.70	30.60	− 39.70	− 69.20	424.60
1974-75	456.60	111.40	31.90	104.80	−295.30	409.40
1975-76	723.70	101.90	30.60	− 88.90	−305.10	462.20
1976-77	636.30	121.30	30.50	62.40	−304.10	546.40
1977-78	766.20	231.30	35.60	− 34.70	−311.60	686.80
1978-79	734.40	373.60	90.90	90.20	−432.90	856.20
1979-80	953.80	709.40	181.60	−201.10	−599.90	1,043.80
1980-81	1,477.90	912.30	242.70	−622.20	−675.40	1,335.30
1981-82	1,581.10	1,335.60	309.70	−1,359.60	−586.40	1,280.40
1982-83	1,420.80	1,251.00	365.80	−752.70	−660.40	1,624.50
1983-84	1,351.60	1,377.30	529.50	−214.70	−807.80	2,235.90
1984-85	1,424.60	2,167.50	677.40	−352.60	−1,241.40	2,675.50
1985-86	1,789.50	2,443.80	870.60	−420.90	−1,411.50	3,271.50
1986-87	1963.80	2,134.30	854.60	−76.40	−1,134.30	3,741.80
1987-88	2,245.20	2,552.80	874.40	534.70	−1,149.60	5,057.50

VII. OUTSTANDING REFINANCE
(End-June Position)

(Taka in crores)

Sectors	1983	1984	1985	1986	1987	1988
Agriculture	705.53	928.28	1,402.53	1,370.86	1,201.71	1,449.40
Jute	100.00	150.00	170.00	560.00	620.00	620.00
Foodgrains	40.00	60.00	80.00	10.00	—	40.00
Imports	30.00	50.00	60.00	—	—	—
Internal Procurement	10.00	10.00	20.00	10.00	—	40.00
Petroleum	240.00	70.00	20.00	20.00	—	—
Fertilizer	40.00	10.00	20.00	90.00	20.00	70.00
Textile	40.00	—	—	—	—	—
Export bill	30.00	10.00	10.00	10.00	10.00	20.00
Other Refinances	80.00	100.00	110.00	150.00	140.00	240.00
Total:	**1,315.53**	**1,388.28**	**1,892.53**	**2,220.86**	**1,991.71**	**2,479.40**

VIII. DEPOSITS OF PUBLIC AND PRIVATE SECTOR

(Taka in crores)

Period	Demand Deposits			Time Deposits		
	Public*	Private	Total	Public	Private	Total
June, 1983	509.4 (31.48)	1,108.8 (68.52)	1,618.2	1,120.0 (33.64)	2,209.8 (66.36)	3,329.8
June, 1984	645.0 (29.74)	1,524.0 (70.26)	2,169.0	1,731.6 (35.21)	3,186.5 (64.79)	4,918.1
June, 1985	748.9 (27.64)	1,960.2 (72.36)	2,709.1	2,232.9 (34.73)	4,197.0 (65.27)	6,429.9
June, 1986	8 53.7 (26.10)	2,417.6 (73.90)	3,271.3	2,350.5 (31.22)	5,177.9 (68.78)	7,528.4
June, 1987	1,000.8 (28.42)	2,521.1 (71.58)	3,521.9	2,853.6 (30.74)	6,428.8 (69.26)	9,282.4
June, 1988	987.4 (31.44)	2,152.7 (68.56)	3,140.1	2,983.8 (24.86)	9,020.0 (75.14)	12,003.8

* Include deposits of the Government.

Note: Figures in parentheses represent percentage of total deposits.

IX. COMPARATIVE POSITION OF THE SCHEDULED BANKS

(Taka in crores)

Particulars	As on 30.6.1987	As on 30.6.1988
1. Bank Deposits (excluding inter-bank items)	11,821.10	13,996.50
a) Demand Deposits	2,276.00	2,632.70
b) Time Deposits	9,513.20	11,360.30
c) Restricted Deposits	31.90	3.50
2. Borrowings from the Bangladesh Bank	1,990.40	2,589.00
3. Cash in Tills	361.30	402.30
4. Balances with the Bangladesh Bank	904.70	1,785.20
5. Balances with other Banks in Current Account in Bangladesh	188.60	248.90
6. Money at Call and Short Notice in Bangladesh	399.50	516.70
7. Scheduled Banks' Investment	2,269.00	2,118.20
a) Government Securities	1,258.10	1,072.90
b) Others	1,010.90	1,045.30
8. Bank Credit (excluding inter-bank items)	11,723.70	13,838.00
a) Advances in Bangladesh	11,340.60	13,369.00
b) Inland Bills Purchased and Discounted in Bangladesh	383.10	469.00
9. Credit/Deposit Ratio (excluding the BKB, the RKUB and the BSB)	0.74	0.75

Note: Figures relating to June 1987 have been revised as per changed format of SBS-I.

X. INTEREST RATES 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	July 1, 1987 to June 30, 1988
1	2	3	4	5	6	7
1. Bank Rate: (Bangladesh Bank's lending/discount rate)	8.0	10.5	11.0	11.25	10.75	10.75
2. Scheduled Banks' 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	4.5
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@	9.0 10.0
ii) Without chequing facilities	a) 7.0 b) 7.75+	10.0	a) 10.0 b) 11.0++	a) 10.0 b) 11.0++	a) 10.0 b) 11.0++	V V

* No interest on call deposits effective from December 2,1982.

** 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.

\+ In rural areas for accounts of individuals only with effect from October 1, 1978.

++ In rural areas for accounts of individuals only effective from January 1, 1985.

V Abolished since July 9, 1987.

X. 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	July 1, 1987 to June 30, 1988
1	2	3	4	5	6	7
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	12.0

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[2]	13.0	13.0	13.0	12.5 Effective from Jan. 17, 1987	12.5

2 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[3]	14.0	14.0	14.0	13.25 Effective from Jan. 17, 1987	13.25

3 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	13.75
v) For 3 years and over	10.25	15.0	15.0	15.0	14.25 Effective from Jan. 17, 1987	14.25
d) Current Account	Nil	Nil	Nil	Nil	Nil	Nil

X. 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 Sep. 15, 1985	Sep. 16, 1985 to June 30, 1986	July 1, 1985 to June 30, 1987	July 1, 1987 to June 30, 1988
1	2	3	4	5	6	7
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[4]	12.0	12.0	9.0	9.0

[4] 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 Sep. 15, 1985	Sep. 16, 1985 to June 30, 1986	July 1, 1985 to June 30, 1987	July 1, 1987 to June 30, 1988
b) Export credit for non-traditional items including packet tea and jute carpet	10.5	9.0[5]	9.0	9.0	9.0	9.0
c) Export credit for 3 non-traditional items viz. light engineering and electric goods handicrafts and hand loom products	10.5	9.0[5]	7.0 (Effective from July 1, 1985)	7.0	7.0	7.0

[5] 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.

X. 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	Sep. 16, 1985 to June, 30 1986	July 1, 1986 to June 30 1987	July 1, 1987 to June 30 1988
1	2	3	4	5	6	7
d) Agriculture including forestry and fishery (including service charge)	—	16.0[6]	16.0	16.0	16.0	16.0

[6] 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[7] (Effective from August 1, 1981 the rate was 14.5)	14.5[8]	12.0-14.5[9]	9.0-14.0[10]	9.0-14.0

[7] 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%.

[8] 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.

[9] 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% 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.

X. 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	July 1, 1987 to June 30, 1988
1	2	3	4	5	6	7
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')	10.0-13.5
g) Special Credit						
i) Loans given in the Special Economic Zone (SEZ) of Chittagong Hill Tracts region	11.0	5.0[11]	5.0	5.0	5.0	5.0
ii) Small loan scheme; special credit for salt growers, self employment programme, etc.	—	13.0[12]	13.0	13.0	13.0	13.0

10. 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%.

11 Effective from April 18, 1984 excepting the loans on trading purpose. The rate was 13% during October 16, 1980 to April 17, 1984.

12 Service charge at 2% over the normal interest rate of 13% are applied with effect from April 1, 1984.

(Continued)

(Percent per annum)

Particulars	May 1, 1977 to Oct. 15, 1980	October 16, 1980 to Dec. 31, 1984	January 1, 1985 to Sep. 15, 1985	Sept. 16, 1985 to June. 30, 1986	July 1, 1986 to June 30, 1987	July 1, 1987 to June 30, 1988
1	2	3	4	5	6	7
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	5.0
		16.0 (Urban areas effective from December 22, 1983)	16.0	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	16.0
			b) 18.0 (Exceeding Tk. 1 lakh)	18.0	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. Execeeding Tk. 1 lakh the interest rate is 20%.			

(Continued)

B. Rates of Interest on Term loans[1] (effective 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 (irrespective of debt-equity ratio and place of location of the project)
70:30	13.0	12.0	11.0	
80:20[2]	13.5	12.5	11.5	

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.

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 30.6.1988
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

X. 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 30.6.1988
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)

X. INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH

(Continued)

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

(Percent per annum)

Commodities / Sectors	Rates of Interest on Refinance as on 30.6.1988
10. 100% of local currency advances in SEZ of Chittagong Hill Tracts Region (The Financing bank 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)

(Concld)

C. Matrix of Interest Rates on Refinance against Agricultural Loan (As on 30.6.88)

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

D. RATES OF INTEREST ON NON-RESIDENT FOREIGN CURRENCY DEPOSIT (NFCD) ACCOUNT*

(Percent per annum)

Maturity of Deposits	June 30,1987		June 30,1988	
	U.S. Dollar	Pound Sterling	U.S. Dollar	Pound Sterling
1 month	6.88	8.81	7.50	8.25
3 months	7.06	8.75	7.62	8.81
6 months	7.38	8.81	7.81	9.18
1 year	8.06	8.94	8.25	9.62

* These rates are generally refixed every month.

XI. BALANCE OF PAYMENTS

Items/Period	1986-87		1987-88	
	In crore Tk.	In million US $	In crore Tk.	In million US $
Export (f.o.b.)	3,064.3	1,000	3,704.5	1,186
Import (c & f)	−8,026.0	−2,620	−9,332.7	−2,987
Of which: Foodgrains	(−833.1)	(−272)	(−1,527.7)	(−489)
Trade Balance	**−4,961.7**	**−1,620**	**(−5,628.2)**	**−1,801**
Services (net)	−463.4	−151	−448.1	−144
a) Inflows	802.1	262	968.7	310
b) Outflows	−1,265.5	−413	−1,416.8	−454
Of which: Interest Payments	(−450.3)	(−147)	(−5.62.2)	(−180)
Private Unrequited Transfers	1,990.0	649	2,461.1	788
Current Account Balance	**−3,435.1**	**−1,122**	**−3,615.2**	**−1,157**
Aid Disbursement	4,891.9	1,597	5,127.1	1,641
Food	690.4	225	938.6	300
Commodity[1]	1,238.9	405	1,593.9	510
Project	2,962.6	967	2,594.6	831
Amortization Payments	−471.8	−154	−518.6	−166
Food Credits (net)	−2.94.0	−96	26.3	8
a) Borrowings	—	—	129.1	41
b) Repayments	−297.0	−96	−102.8	−33

1. Includes IMF subsidy of $ 2m and $ 1m in 1986−87 and 1987−88 respectively.

Items/Priod	1986-87		1987-88	
	In crore Tk.	In million US$)	In crore Tk.	In million US$)
Trust Fund (net)	−93.1	−30	−97.5	−31
Aircrafts Loan (net)	−21.4	−7	−35.4	−11
Short-term Loan to BPC (net)	−2.9	−1	−63.1	−20
Other Capital	−145.5	−48	−299.6	−96
Errors and Ommissions	−137.1	−44	−31.5	−10
Overall Balance	291.0	95	492.5	158
Monetary Movements (—increase)	−291.0	−95	−492.5	−158
Bangladesh Bank	−236.4	−77	−521.9	−167
Foreign Exchange	−615.7	−201	−434.5	−139
Liabilities	379.3	124	−87.4	−28
Of which: Fund Credit	(500.5)	(164)	(41.2)	(13)
a) Disbursements	(937.6)	(306)	(361.3)	(115)
b) Repayments	(−437.1)	(−142)	(−320.1)	(−102)
Commercial Banks	−54.6	−18	29.4	9
a) Assets	−12.7	−4	−11.8	−4
b) Liabilities	−41.9	−14	41.2	13

XII. MERCHANDISE EXPORTS (RECEIPTS)

Commodity	1986–87		1987–88	
	In crore Tk.	In million US $	In crore Tk.	In million US $
Total Exports (FOB)	3,064.3	1,000	3,704.5	1,186
1. Raw jute	297.7	97	263.1	84
2. Jute goods	906.5	296	875.8	280
3. Tea	89.2	29	119.2	38
4. Leather	345.6	113	422.8	136
5. Fish,shrimps and froglegs	482.3	157	504.0	162
6. Naptha, Furnace oil & bitumen	29.3	10	44.9	14
7. Readymade garments	791.0	258	1,288.1	412
8. Others	122.7	40	186.6	60

XIII. MERCHANDISE IMPORTS (PAYMENTS)

Commodity	1986–87		1987–88	
	In crore Tk.	In million US $	In crore Tk.	In million US $
Total Imports (c & f)	**8,026.0**	**2,620**	**9,332.7**	**2,987**
1. Foodgrains	833.1	272	1,527.7	489
a) Rice	(150.1)	(49)	(468.6)	(150)
b) Wheat	(683.0)	(223)	(1,059.1)	(339)
2. Edible oil and oil seeds	319.8	104	413.1	132
3. Petroleum crude and petroleum products	615.9	201	624.5	200
4. Cotton	82.4	27	160.1	51
5. Textile yarn	115.7	38	110.2	35
6. Fertilizers	47.8	16	104.4	33
7. Chemicals	447.6	146	563.0	180
8. Cement	177.4	58	148.4	48
9. Capital goods and other accessories	3,070.7	1,003	2,673.3	856
10. Others	2,315.6	755	3,008.0	963

XIV. FOREIGN AID, EXTERNAL DEBT AND DEBT SERVICE

(In Million U.S. Dollar)

Particulars	1986–87	1987–88
1. **Foreign Aid:**		
a) Gross Disbursement during the year	1,595	1,640
b) Gross Commitment during the year	1,603	1,530
c) Total Commitment since 1972	20,996	22,525
d) Total Disbursement since 1972	15,606	17,247
2. Debt Service	262	280
3. Debt Service–Export Ratio	26.20	23.61

Source: Planning Commission.

XV. INTERNATIONAL RESERVES

Period (End-June Position)	Total Reserves including IMF Reserve Position	
	Million Taka	Million US Dollars
1977-78	4,048	269
1978-79	5,940	393
1979-80	4,053	275
1980-81	4,523	250
1981-82	2,698	122
1982-83	8,765	358
1983-84	13,59	539
1984-85	11,068	395
1985-86	14,408	476
1986-87	22,151	715
1987-88	26,963	856

XVI. EXCHANGE RATES

(Period Average of Official Rates)

Year/Month	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
1987-88	31.2467
	(Monthly Average)
July, 1987	31.00
August, 1987	31.00
September, 1987	31.00
October, 1987	31.00
November, 1987	31.06
December, 1987	31.20
January, 1988	31.35
February, 1988	31.35
March, 1988	31.50
April, 1988	31.50
May, 1988	31.50
June, 1988	31.50

XVII. WAGE EARNERS' REMITTANCES

Period	Remittance	
	In Million US 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	1,480.15
1983-84	596.40	1,491.00
1984-85	439.10	1,146.54
1985-86	555.10	1,661.11
1986-87	696.40	2,136.25
1987-88	737.00	2,303.90

XVIII. OFFICES OF THE BANGLADESH BANK

(As on June 30, 1988)

Head Office

DHAKA

Offices at

MOTIJHEEL (DHAKA)

SADARGHAT (DHAKA)

CHITTAGONG

KHULNA

BOGRA

RAJSHAHI

SYLHET

XIX. LIST OF THE SCHEDULED BANKS

(As on June 30, 1988)

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. Bangladesh Shilpa Bank
3. Rajshahi Krishi Unnayan 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) Limited
3. Banque Indosuez
4. The Chartered Bank
5. Grindlays Bank Plc.
6. Habib Bank Limited
7. State Bank of India

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* By keeping 51 percent ownership in the Government Sector, the Rupali Bank was transformed into a Public Limited Company in December, 1986.

MAIN TAX PROPOSALS IN THE NATIONAL BUDGET FOR F Y 1988-89

Import Duties and Sales Tax

i) Sales tax on M.S. billet has been reduced from 20 percent to 10 percent while that on iron and steel waste and scrap, scrap vassel, iron and steel powder and sponge has been totally exempted. Import duty on steel coils for re-rolling has been reduced from 50 percent to 30 percent.

ii) Import duty on B.P. sheet and C.R. coils has been reduced from 20 percent to 10 percent with full exemption of sales tax.

iii) Import duties on G.P. sheet and M.S. plate has been proposed to be reduced from 50 percent to 30 percent. Sales tax on G.P. sheet has been enhanced from 10 percent to 20 percent.

iv) Import duty on springs, spring leaves, bolts, nuts, washer, rivets, screws, etc. has been reduced from 150 percent to 50 percent, while that on iron and steel shot, grit and pellet has been proposed to be enhanced from 10 percent to 20 percent.

v) Import duty and sales tax on M.S. strips and hoops have been refixed at 20 percent and 10 percent respectively, while import duty on tin sheet has been reduced from 30 percent to 20 percent and that on sillicon sheet from 20 percent to 10 percent.

vi) Import duty on welding electrodes (except mild steel and cast iron electrodes) has been reduced from 150 percent to 30 percent and that on iron and steel wool from 100 percent to 50 percent. Duty on M.S. low carbon and medium carbon steel wire has been enhanced from 20 percent to 50 percent.

vii) Import duty on copper rod and brass sheet has been reduced to 10 percent and 20 percent respectively, while sales tax on brass tube has been refixed at 20 percent.

viii) Import duty on sheet, plate, strip, tube, pipe and pipe fittings of copper; brass ferrule (a raw material for lead pencil); magnesium tube, pipe, foil, and hollow bar, nichel tube, pipe and pipe fittings; lead tube and pipe; and tube, pipe and hollow bar of tin, etc. has been reduced from 50 percent to 30 percent.

ix) Import duty on lead waste and scrap has been reduced from 20 percent to 10 percent, while the sales tax on unrefined lead has been lowered to 10 percent. Import duty on Zinc annode (a raw material for electroplating) has been reduced from 50 percent to 20 percent with sales tax having been reduced from 20 percent to 10 percent. Sales tax on alluminium waste and scrap, unwrought alluminium and zinc, tin waste and scrap, unwrought tin and lead waste and scrap has been fully exempted.

x) The 5 percent import duty and 20 percent sales tax on alluminium rod has been rationalised by imposing 10 percent import duty with total exemption of sales tax. Different rates of import duty on alluminium sheet, plate, strips, bar, sections, etc. and alluminium ferrule (a raw material for lead pencil) have been unified to the lowest rate of 30 percent. Duty rates on crown cork and caps, etc. have also been reduced from the existing 100 percent and 50 percent to the unified rate of 30 percent.

xi) Import duty on stainless steel strips has been reduced from 30 percent to 10 percent with total exemption of sales tax. Duty on razor and razor blades other than stainless steel blade has been reduced from 100 percent to 50 percent. The import duty on tailor's scissors has been reduced from 150 percent to 50 percent.

xii) The various rates of import duty on a number of raw materials used by the Chemical Industry Sector, such as phenolic moulding compound, alluminium coil, caustic soda, synthetic resin, etc. have been reduced by different margins ranging from 40 percent to 80 percent compared to their existing levels.

xiii) Various duty rates for import of different types of raw materials used by the Textile Industry Sector, such as polyster or cellulose film coated with alluminium dust, synthetic top, wool top, human and animal hair, ribbon fabrics of nylon, etc. have been rationalised with total exemption of sales tax in some cases. Sales tax on cotton yarn has been reduced from 20 percent to 15 percent while the import duty and sales tax on eggs of silk worm have been fully exempted.

xiv) A 20 percent import duty has been imposed on mustard/rape seed and crude soyabeen oil.

xv) Import duty on vertical hollow shaft electric motor, cattle feed and timber have been reduced from the existing rates of 50 percent, 20 percent and 30 percent to 15 percent, 10 percent and 10 percent respectively with total exemption of sales tax. Import duty on match splint has been reduced from 150 percent to 50 percent.

xvi) Various rates of import duty and sales tax on transport vehicles have been rationalised and realigned:

a) A 10 percent import duty has been imposed on CKD bus and mini-buses.

b) Buses and mini-buses (both diesel and petrol operated) in CBU and SKD conditions have been subjected to the unified rate of 20 percent import duty and 10 percent sales tax.

c) Import duty on CKD trucks has been reduced from 20 percent to 10 percent. Petrol and diesel operated CBU/SKD trucks have respectively been subjected to 20 percent and 50 percent import duty with 10 percent sales tax.

d) Import duty on CKD Jeep and Pickup has been reduced from 20 percent to 10 percent with total exemption of sales tax. Import duty and sales tax on petrol operated CBU/SKD Jeep and Pickup has been reduced from 50 percent and 20 percent to 20 percent and 10 percent respectively.

e) Import duty and sales tax on CBU auto-rickshaw and three wheeled vehicle have been raised to 50 percent and 20 percent respectively, while a 20 percent import duty has been imposed on the same when imported in CKD condition without engine. Engines of these vehicles over 125 c.c. have been subjected to 50 percent import duty and 20 percent sales tax.

f) Import duty on main connecting bearings of marine diesel engines and ferry boats used in crossing rivers have been reduced from 100 percent and 20 percent to 20 percent and 10 percent respectively.

xvii) Import duty on unrefined POL has been increased from Tk.1,000.00 to Tk.1,300.00 per metric ton.

xviii) Import duty on micro-computers (including imports under Baggage Rules) has been reduced from 20 percent to 10 percent, while that on parts and components of computers when imported for local assembly has been exempted.

xix) Import duty on different laboratory and scientific instruments has been reduced to 20 percent. Duty on graph paper has been reduced from 100 percent to 30 percent with total exemption of sales tax.

xx) Import duties on ultra-sound and ECG gell have been reduced to the unified rate of 10 percent with total exemption of sales tax. Import duty on shadowless operation lamp has been fully exempted. Sales tax on Dentists' chair has been reduced to 10 percent.

xxi) Import duties on moulds and dyes have been reduced to the unified rate of 20 percent with total exemption of sales tax.

xxii) Import duties on metalic parts of Audio and Video Casettes for local assembly and parts of doorlocks have been reduced from 150 percent each to 50 percent and 100 percent respectively.

xxiii) Import duty on ball point pen and ball point pen ink (a raw material of Ball Point Pen) have been reduced from 50 percent and 100 percent to 20 percent and 50 percent respectively, while that on acqurium fish from 150 percent to 50 percent.

xxiv) Refund of import duty in excess of 20 percent together with the whole of sales tax has been proposed to be allowed on raw materials and components used in the manufacture of electric transformer, capacitor and train lighting control instruments, as per rules to be framed.

xxv) Import duty on heating element and varnishes including insulating varnish has been reduced from 150 percent and 100 percent to 100 percent and 50 percent respectively. Sales tax on transformer oil has been fully exempted.

xxvi) Existing tariff values of some items like palm oil, soyabin oil, coconut oil, salt, corrugated tin, etc. have been proposed to be refixed, while those for some new items like synthetic resin, fenolic moulding compound, B.P. Sheet, enamel fret, three types of tyre and tubes are to be fixed making them consistent with the international market price.

xxvii) Development surcharge on C&F value of dutiable goods has been increased from 5 percent to 6 percent.

xxviii) Amendment of the provisions of section 179 of the Customs Act has been proposed to suit changing circumstances.

Excise Duty

i) Excise duty @ 5 percent ad valorem has been imposed on butter and refractory bricks.

ii) Excise duty @ 10 percent ad valorem has been leveid on fittings and fixtures made of alluminium, sewing machines, creams and polishes for footwear and crockeries and cutleries made of stainless steel.

iii) Levy of excise duty has been proposed on the services rendered by dockyard and shipyards by withdrawing the existing 2 percent Turnover Tax. Excise duty at varying rates has been imposed on passanger launches (based on seating capacity), speed boats, cargo vessels, barges, dumb barges, tugs, ferry boats, fishing boats and inspection vessels designed and built to ply in inland waters as well as on cargo vessels, barges,tugs, tankers and trawlers designed and built to ply in coastal waters.

iv) Excise duty of Tk. 1000.00 per metric ton has been proposed on locally produced crude petroleum.

v) Excise duty on tea has been increased from Tk. 5.00 per kg. to Tk. 7.50 per kg.

vi) Existing rates of excise duty on gold and products thereof, electric fans, country made alcoholic liquor, and rectified spirits, lower brand cigarettes and biris have been increased, while licence fees on country made and foreign liquor shops together with the rates of permit fees for liquor have been rationalised and enhanced. Excise duty on locally manufactured storage batteries and mechanical lighters have been reduced. The tariff value of sugar has been increased from Tk.1,700.00 to Tk.1,900.00 per hundred kg.

vii) Excise duty @ 100 percent has been imposed on Cinema tickets of over Tk.1.00 but not exceeding Tk. 2.50 and 125 percent on those exceeding Tk.2.50. The existing capacity tax has been discontinued.

viii) Excise duty has been imposed @ Tk. 2.00 crores for every filing machine of beverage industry situated in Dhaka Division, Tk. 1.60 crores for those in Chittagong Division and Tk. 1.20 crores for those in Khulna and Rajshahi Divisions.

ix) Regulatory excise duty @ 10 percent on cigarettes and @ 5 percent on the services rendered by hotels and restaurants havebeen imposed.

x) Price of natural gas supplied for commercial/industrial use including generation of electricity and production of fertilizer as well as to the seasonal and domestic (non-metered) users has been increased by 15 percent.

Direct Taxes

i) Tax on any income of an assessee other than company under the head 'Income from Other Sources' for the assessment year 1988-89 would continue to be assessed at the rate of 20 percent without any question being asked. A lower rate of 10 percent would be applied if 90 percent of the income declared is invested in specified industries within two years.

ii) Proposal has been made for making amendments in the Income Tax Ordinance requiring tax clearance certificates for transfer of any land in municipal areas as also for non-agricultural land valued over Tk. 1.00 lakh outside municipal areas. The requirement of tax clearance certificate for transfer of immovable property except agricultural land valued not exceeding Tk. 1.00 lakh has been withdrawn.

iii) The maximum ceiling of deductible investment allowance for an assessee other than Company has been fixed at Tk. 1.00 lakh in lieu of the existing one-third of total income.

iv) Proposal has been made to confer sole authority to the National Board of Revenue for approving the companies, investment in whose new stocks and shares would qualify for exemption as investment allowance, instead of the existing dual authority of the Controller of Capital Issues and the National Board of Revenue.

v) Proposal has been made for incorporation of amendment in the Income Tax Ordinance for levy and collection of surcharge @ 10 percent of income tax payable for the assessment year 1988-89.

vi) The existing income tax rebate on income or profits from export sales has also been allowed on income derived from sale of locally manufactured machinery/equipment/finished goods to any agency against its foreign exchange quota as well as from supply of locally manufactured raw materials and other inputs through inland back-to-back L.C. to export oriented industries within the meaning of 'Export Sales.'

vii) In order to check tax avoidance by splitting income, the existing provision for not assessing income from assets in the hands of their owners, provided such income is settled for a period exceeding 6 years or for life-long and from which they do not derive any direct or indirect benefit has been withdrawn.

viii) Proposal has been made to make provision for appeal to the National Board of Revenue by legal/income tax practitioners and others against orders of disqualification made by Commissioners of Taxes.

ix) Provision has been made for advance deduction of tax in the cases of bills of contractors, suppliers or persons rendering services, 5 percent of the annual house rent exceeding Tk. 48,000.00 payable to the landlord by Government/Semi Government organisations, 6.25 percent of the service charges earned by exporters of manpower, 5 percent of commissions earned by travel agents, shipping agents and remuneration exceeding Tk. 36,000.00 a year paid to the film actors/actresses and 3 percent of the prices of goods or property sold in public auction.

x) The limit of initial capital investment for self assessement without any questions being asked has been raised from Tk. 1.50 lakhs to Tk. 2.00 lakhs. In case of investment in small and cottage industries this limit has been fixed at Tk. 3.00 lakhs.

xi) In order to check filing of bogus returns by assessees in business or profession with the ulterior motives of capital transfers, the condition of furnishing bank certificate alongwith the returns submitted by new assessees has been imposed.

Other Taxes

i) With a view to expediting collection of wealth tax, proposal has been made to impose a time limit for completing wealth tax cases by suitably amending the law.

ii) Some discretionary powers have been given to the assessing officers for expediting assessment and collection of shop tax.

iii) Air Ticket Tax on international routes has been increased from Tk. 100.00 to Tk.150.00 per ticket.

iv) A new tax called 'Insurance Premium Tax' at the rate of 5 percent has been imposed on the premium paid on general insurance policies.

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