ANNUAL REPORT

1988-89

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 GOVERNOR

Mr. Mahbubur Rahman Khan

Mr. A.S.M. Fakhrul Ahsan

EXECUTIVE DIRECTOR

Mr. Kamaluddin Ahmad

Mr. M.A. Quasem

Mr. Md. Saleh Ahmed

ECONOMIC ADVISER

Mr. A.B.M. Mahbubul Amin Khan

DEPARTMENTS* AND HEADS OF DEPARTMENTS

Computer Department	Dr. Md. Sohrab Uddin
Agricultural Credit Department	Mr. B.A. Khan Mr. A.H. Tawfique Ahmed
Agricultural Credit Inspection Department	Mr. S.M. Khalilur Rahman
Department of Research	Mr. A.H.M. Nurul Islam Choudhuri Mr. Muhammad Mohasin Ali Mr. Md. Walul Islam
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. M.Ruhul Amin
Statistics Department	Mr. Nurul Islam Mr. Abu Omar
Rural Credit Project Department	Mr. Md. Harun-ur-Rashid Bhuiyan
Engineering Department	Mr. Md. Mohibur Rahman
Personnel Department	Mr. Sultan Ahmed Mollah
Training Academy	Mr. I.I. Khan
Expenditure Administration Department	Mr. R.K. Sengupta
Banking Control Department	Mr. Syed Ashraf Ali Mr. Harinarayan Majumder
Department of Banking Inspection	Mr. Mohammad Ruhul Amin
Exchange Control Department	Mr. Nizamuddin Ahmed Mr. Syed Feda Hossain
Industrial Credit Department	Mr. A.T.M.I. Mridha
Secretary's Department	Mr. Santi Ranjan Karmaker
Accounts Department	Mr. A.K. Matlub Ahmed Mr. Ashrafullah

* As per alphabetical arrangement in the Bengali version of the Annual Report.

BRANCH OFFICES*
AND
HEADS OF BRANCH OFFICES

Khulna Office	Mr. Abdus Sobhan
Chittagong Office	Mr. Kazi Anwarul Mahbub
Bogra Office	Mr. Ataul Huq
Motijheel Office, Dhaka	Mr. Walayet Hossain
Rajshahi Office	Mr. Mohiuddin Zahur Amin
Sadarghat Office, Dhaka	Mr. Abul Quasem
Sylhet Office	Mr. Abdur Raquib

* As per alphabetical arrangement in the Bengali version of the Annual Report.

LETTER OF TRANSMITTAL
BANGLADESH BANK

Dhaka;
Agrahayan 9, 1396
November 23, 1989

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, 1989.

Yours faithfully,
S. B. Chaudhuri
GOVERNOR

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CHAPTER I

TRENDS IN THE ECONOMY OF BANGLADESH

1.1 The Bangladesh economy could sustain its growth during 1988-89 despite unprecedented natural calamities during the last two consecutive years. The especially notable aspect of the economy was its resilience in overcoming the crises emanating from the natural disasters, in achieving growth in the GDP and in reducing the rate of inflation. This manifested the fact that the economy has acquired the capacity to achieve growth by absorbing unexpected shocks.

1.2 Despite too many odds faced by the economy during 1988-89, substantial progress was achieved in monetary and macro financial management through the implementation of adjustment and stabilization programmes. The implementation of a three-year Structural Adjustment Facility (SAF) programme was successfully completed during the year. The Government quickly adopted some pragmatic measures to bring about improvement in the overall supply situation. As a result, total output of foodgrains increased from 164.61 lakh tons in the preceding year to 165.66 lakh tons in 1988-89 after recouping the expected losses in the agricultural sector. This included record production of 58.31 lakh tons of the Boro crop. Output of a number of industrial items including cotton yarn and cloth, chemical fertilizer, cement, steel, petroleum products, natural gas and readymade garments increased during the year, following arrangements for supply of necessary bank credit and adoption of other supportive measures for rehabilitation of the industrial sector. Thus, the apprehension of having a negative growth in the GDP in the face of extensive losses caused by the floods proved to be unreal and it was possible to sustain the growth rate in the GDP at 2.1 percent.

1.3 Total export earnings of the country increased by 11.1 percent to Tk. 4,116.10 crores during the year under report. Remittances made by the overseas Bangladeshi nationals also increased from $ 737 million (Tk. 2,303.90 crores) in 1987-88 to $ 771 million (Tk. 2,477.43 crores) in 1988-89. This helped in raising the foreign exchange reserves (including reserves with the IMF) of the country to a record level of $ 1,161 million (Tk. 3,747.40 crores) at the end of February, 1989. Foreign exchange reserves which stood at the level of $ 913 million (Tk. 2,945.40 crores) at the end of June, 1989 was $ 57 million (Tk. 249.10 crores) higher than the level at the end of June, 1988. Following further liberalisation of the import policy, total import payments increased by $ 389 million (Tk. 1,519.10 crores) over the level of the preceding year to $ 3,375 million (Tk. 10,847.70 crores) during the year under report. A record level of 29.41 lakh tons of foodgrains was released from the Government stocks for public distribution during the year. Alongwith the above supply augmentation measures, a pragmatic and cautious monetary policy was pursued for maintaining the overall effective demand at an appropriate level. The Government also showed utmost restraints in its fiscal management by avoiding taking recourse to any deficit financing during the year. These supply and demand management measures had a salutary impact on the overall price situation. The rate of inflation, which was recorded to be 11.4[@] percent in the preceding year, declined to 8.0 percent during 1988-89.

1.4 Total production of foodgrains in the country increased by 0.64 percent to 165.66 lakh tons in 1988-89. Among other agricultural crops, production of jute, sugarcane, pulses, oil-seeds and tobacco recorded some increases during the year. However, as a result of the colossal damages caused by the floods, overall production in the agricultural sector declined by 0.4 percent during 1988-89 as against the increase of 0.7 percent during the preceding year. The rate of growth in the industrial sector increased by 1.4 percentage points to 5.4 percent during the year under report. Growth rate in the 'power and gas' sector decelerated by 3.5 percentage points to 14.4 percent, while a higher growth rate of 11.4 percent, compared to 9.9 percent in the preceding year, was recorded in the 'construction' sector during 1988-89. The combined growth rate of other sectors declined from 5.1 percent in the preceding year to 3.5 percent in 1988-89.

1.5 Some new steps aimed at generation of effective demand and augmentation of supplies were taken during the year, keeping in force the reformative measures already introduced in overall economic management. These helped in maintaining some balance among different sectors of the economy. Total domestic credit

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[@] Source: Bangladesh Bureau of Statistics.

expanded by 13.1 percent during the year under report which was lower as compared to 14.2 percent projected for the year and 13.4 percent recorded in the preceding year. The rate of expansion in Broad Money (M_2) declined from 18.3 percent in the preceding year to 16.3 percent during 1988-89. This was, however, higher than 13.7 percent projected for the year. The deceleration in the rate of expansion in Broad Money together with an increase in the asset demand for money helped in containing the rate of inflation during the year. Sustained efforts for augmenting supply of essential commodities including distribution of a record quantity (29.41 lakh tons) of foodgrains from the Government stocks also played important role in easing pressure on the price level. On the external trade front, despite an increase of $ 121 million (Tk. 505.10 crores) in net inflow of capital, surplus in the overall balance of payments declined from $ 136 million (Tk. 425.90 crores) recorded in the preceding year to only $ 6 million (Tk. 17.60 crores) during 1988-89. This occurred due mainly to further widening of the current account deficit by $ 251 million (Tk. 913.40 crores) following a substantial increase of $ 389 million (Tk. 1,519.10 crores) in import payments during the year under report. Despite prevalence of unfavourable circumstances, export earnings increased by 11.1 percent in Taka terms and by 8.0 percent in Dollar terms following the pursuance of a flexible exchange rate policy and adoption of other supportive measures during the year. The increase in export earnings coupled with higher remittances ($ 771 million or Tk. 2,477.43 crores) by the Bangladeshi nationals abroad helped the convertible foreign exchange reserves (including reserves with the IMF) of the country to reach the record level of $ 1,161 million (Tk. 3,747.40 crores) at the end of February, 1989. The level of foreign exchange reserves held by the Bangladesh Bank stood higher at $ 913 million (Tk. 2,945.40 crores) at the end of June, 1989 as compared to $ 856 million (Tk. 2,696.30 crores) at the end of June, 1988. With a view to maintaining Bangladesh's international competitiveness in the light of developments in the world exchange market, the exchange rate of Taka vis-a-vis U.S. Dollar was re-adjusted three times during the year. As a result, the Taka-Dollar exchange rate depreciated by 2.43 percent to Tk. 32.27 per U.S. Dollar as on June 30, 1989.

Structural Adjustment and Supportive Measures

1.6 The three-year adjustment programme which was launched under the Structural Adjustment Facility (SAF) of the International Monetary Fund was successfully completed during the year under report.

1.7 With a view to ensuring mobilisation of domestic resources at an accelerated rate and providing adequate finances for developmental activities, the national budget for 1988-89 envisaged an additional revenue collection of Tk. 603.10 crores. Total revenue receipts were estimated at Tk. 6,172.10 crores, showing a revenue surplus of Tk. 922.10 crores. Fiscal measures adopted for raising additional revenue during the year included: (i) enhancement of the existing rates of import duties and sales tax in respect of some selected commodities and imposition of new taxes in the cases of few others; (ii) rationalisation of the tariff value of few items and determination of the same in respect of some new items; (iii) enhancement of the development surcharge imposed on the C & F value of dutiable goods from 5 percent to 6 percent; (iv) enhancement of the rates of excise duty on a number of locally manufactured/assembled goods and imposition of the same on some new items; (v) a 15 percent increase in the price of gas supplied to all sectors other than that for metered household consumption; (vi) imposition of regulatory duty at the rate of 10 percent and 5 percent respectively on locally produced cigarettes and services rendered by hotels and restaurants; (vii) imposition of 10 percent surcharge on taxes payable on income; (viii) provision for deduction of tax at source in respect of bills payable to contractors, suppliers/persons rendering services, payment of house rent to the landlords by the government/semi-government organisations, service charges of the exporters of manpower, commission earned by travel/shipping agents, remuneration paid to film actors/ actresses and proceeds from goods or property sold through public auctions; (ix) enhancement of the air ticket tax from Tk. 100 to Tk. 150 on international routes; and (x) imposition of a new tax called 'Insurance Premium Tax' at the rate of 5 percent on the premium of general insurance policies. Besides, a number of measures were taken for checking tax evasion and improving the efficiency of tax administration. Despite the above measures, revenue receipts fell short by Tk. 349.92 crores due to a slowdown in the overall economic activities during the post-flood period. This coupled with an increase in expenditure on account of food subsidy and provisions for the post-flood relief and rehabilitation programme and a decline in the net inflow of foreign aid necessitated the Annual Development Programme to be pruned by Tk. 719.66 crores or 13.5 percent.

1.8 The objective of building up of a self-reliant economy through rapid industrialisation, protection of indigenous industries, acceleration of exports and reduction of dependence on imports was being pursued during the last few years. A number of measures were adopted in the budget for 1988-89 for supporting development and expansion of indigenous industries. The rates of import duty and sales tax on different raw materials and intermediate products used by steel and engineering industries were reduced substantially. In addition to extensive incentives allowed in the budget for 1986-87 for expansion of textile industry for achievement of self-sufficiency in textiles, substantial reduction was made in the import duties on a number of specific raw materials and spares used by this industry, with total exemption of sales tax in certain cases. In order to facilitate expansion and protection of the chemical industry, import duty and sales tax on various raw materials used by it were reduced/readjusted. For supporting local production of industrial commodities, the rates of import duty and sales tax on rubber belt and belting used in different industries, metallic parts of audio and video cassettes, raw materials of ballpoint pen, and raw materials and components used for manufacture of electrical goods were readjusted. In order to bring about improvement in the qualitative standards of various industrial commodities produced in the country, the rates of import duty on quality moulds and dies were totally exempted from sales tax. With a view to facilitating expansion of science and technology, development of education and scientific research and easy availability of medical requisites, the rates of import duty and sales tax on various materials and equipments used in these sectors, including computers/microcomputers, were also readjusted.

1.9 With a view to accelerating the pace of industrialisation through introduction of easy and expeditious approval and implementation procedures for industrial projects, a 'Board of Investment' was constituted on January 1, 1989 with the Honourable President as its Chairman by abolishing a number of organisations and committees/sub-committees which were hitherto related to the industrialisation process. The Board of Investment has been vested, as a single authority, with all powers for providing various facilities to the industrial project, such as, recommendation for sanction of loans, extension of import facilities, approval for appointment of foreign experts, permission for issuance of share capital, granting of permission for payment of royalty and technical fees, approval of terms and conditions for foreign loans, making arrangement for necessary infrastructural facilities, etc. With the establishment of the Board of Investment, the entrepreneurs would be able to get all facilities and assistance relating to setting up of industrial projects from a single centre. As a result, implementation of industrial projects would be much easier and quicker.

1.10 The policy of expansion and strengthening of the private sector industry as for building up a strong economic base continued during the year under report. Some important measures were taken during the year for boosting up investments in the private sector. In order to encourage channelisation of resources from unproductive sectors to productive industrial investments, the opportunity allowed earlier in respect of income of any size from 'other sources' declared by an assessee, other than a company, for assessment without any accountability about the source on payment of income tax at the rate of 20 percent was also kept in force during the year under report. In addition, an extra opportunity for payment of tax at the rate of 10 percent instead of 20 percent was allowed, provided 90 percent of the declared income would be invested in selected industrial sectors within two years from July 1, 1988. In a bid to encourage inflow of foreign private investments, the requirement in the industrial policy of 1986 for prior permission of the Government for setting up joint-venture industrial projects was abolished, provided such projects were not included in the 'Discouraged List', the share of foreign equity would not exceed 49 percent and total investment would not be more than Tk. 10 crores. However, such projects would need to be registered with the Board of Investment. Subject to fulfilment of the above conditions, financial institutions would be free to extend loans to such joint-venture industrial projects according to their ability. The tax-holiday period for established industries was extended further, while facilities in respect of re-investment of profits for setting up new industries or expansion of the existing units, or for repatriation of the same were enhanced during the year. There will be no discrimination between public and private sectors in providing financial or infrastructural facilities for setting up of similar industrial projects. For providing protection to the newly established industries, customs duty at high rates were imposed on the import of goods similar to those being produced by them. For encouraging entrepreneurs to undertake BMRE programme for the sick industrial units, the relevant investments were allowed the facility of tax-holiday. The Bangladesh Bank adopted some realistic measures in the field of industrial finance during the year under review. Development financial institutions/commercial banks were advised not to ask for any additional collateral security from the entrepreneurs for extension of long term industrial project loans as also for sanction of working capital loans against pledge of goods. The development financial institutions would be required to make arrangements with the commercial banks for ensuring supply of working capital for the projects approved by them. The Bangladesh Bank has also formulated detailed sectoral norms for supply of working capital loans in respect of as many as 20 industries.

1.11 As a positive outcome of the various facilities and opportunities made available to the private sector industries, total investment sanctioned and registered in this sector showed a substantial increase during the year under report. A total of 3,597 industrial units involving a total investment outlay of Tk. 1,631.91 crores were sanctioned and registered during 1988-89. This compared with 3,049 industrial units involving a total investment outlay of Tk. 963.01 crores sanctioned and registered during the preceding year.

1.12 The wide range of facilities and opportunities for encouraging development and expansion of small and cottage industries in the country were also continued during the year under report. Considering the bright prospects for electronics for development as a cottage industry in the country, the earlier provisions for applying reduced rate of import duty on necessary components used by this industry and concessionary rate of excise duty on the products of this industry were kept unchanged during the year. Besides, under the arrangement for self-assessment of income taxes, the ceiling for initial capital investment in the small and cottage industries was fixed at Tk. 3 lakhs during the year. A small industries bank named 'Bank of Small Industries and Commerce, Bangladesh Limited' which was set up to specially cater to the credit requirements of small and cottage industries started its formal operations from January 21, 1989.

1.13 Along with the efforts for expansion of the private sector, efforts were also made for effecting improvement in the management and efficiency of the public sector. With a view to improving the operational efficiency of the public sector commercial enterprises, a Council Committee on Autonomous Bodies was set up during the year. The Executive Committee of the Council will exercise the supervisory responsibility and control over the day-to-day operations of these enterprises on behalf of the Government.

1.14 A number of important steps were taken for supporting development and expansion of export trade during 1988-89. These, inter alia, included: (i) transformation of the 'Export Credit Monitoring Committee', set up under the Chairmanship of the Governor, Bangladesh Bank, into a permanent committee; (ii) adoption of a 4-year 'Crash Programme' for development and expansion of four non-traditional products, viz. toys, luggage and fashion articles, electronic items and leather goods; (iii) provision for issuing 'Bid Bonds' by commercial banks in favour of the suppliers of locally manufactured engineering goods considering the same as 'deemed exports'; (iv) incorporation of some new commodities under the XPB Scheme and enhancement/restructuring of the rates of XPB entitlement in respect of certain items; (v) provision for payment of cash assistance at the rate of 15 percent of the F.O.B. value of exports of hosiery goods and specialised textiles; (vi) decision for refixation of the rates of Duty-Drawbacks on annual basis, inclusion of new commodities under the flat rates and making necessary arrangements for simplifying and expediting the process of determining commodity-wise flat rates in respect of the 'deemed exports'; (vii) permission for export of surplus molasses; (viii) attachment of priority to the production of 'geo textiles'; (ix) introduction of an integrated credit programme for cultivation of shrimps and frogs; and (x) adoption of measures for improvement in the sizes and qualitative standard of exportable leather. Besides, as an additional encouragement to export trade, the existing facility of income tax rebate was allowed to cover supply of locally produced raw materials and other accessories to the export-oriented industries against back-to-back L/Cs considering the same as 'export sales'.

1.15 In order to meet the demand for industrial raw materials/spares as also the requirements of other essential consumer goods, the import policy for 1988-89 was liberalised further. The freely importable list of items was expanded by excluding 103 items from the 'Restricted List' and 73 items from the 'Conditional List.' To meet increased demand of the textile industries, arrangements were made for import of raw cotton without any restriction. To facilitate the setting up of new industries or for balancing, modernisation and replacement (BMR) of the existing ones, the ceiling for import of old/reconditioned machinery was raised from Tk. 25 lakhs to Tk. 35 lakhs and that for equipments/spare parts for industrial use from Tk. 5 lakhs to Tk.10 lakhs. The existing requirement for obtaining approval of the Government for import of raw materials by industries in the private sector was withdrawn even if the value of importable raw materials was 50 percent higher than the value of required raw materials. With a view to making export-import trade more dynamic to suit the requirement of the times by making collection, comparison and analysis of trade statistics, standardisation of trade documents and exchange of trade information more easy, the Harmonised System of Nomenclature was introduced during the year under report.

1.16 In order to make necessary recommendations to ensure proper management and to improve efficiency of the nationalised banks, and especially to create better environment for smooth disbursement and recovery of loans, a high-level 'Task Force' was set up under the Chairmanship of the Governor, Bangladesh Bank. The terms of reference of the 'Task Force' were : (i) to review the existing administrative and organisational structure of banks and identify the areas of weakness; (ii) to examine the existing loan giving procedures of banks and recommend measures for devising ways for quick decision in sanctioning of loans; (iii) to examine and review the unsatisfactory recovery situation of bank loans; (iv) to review the existing system of appointment and arrangements for training of officers and staff; (v) to review the existing state of discipline as also the union activities in banks; and (vi) to analyse the causes for sanctioning of loans without commercial considerations and in contravention to the Government instructions and to recommend measures to help contain such tendency.

Monetary and Credit Situation

1.17 Efforts were continued to sustain the achievements made in the field of macro monetary management during the last few years. In order to ensure that production processes in the agricultural as well as industrial sectors are not hampered, some liberal credit measures were adopted during the post-flood period. Important measures which were introduced in the field of agricultural credit, inter alia, included: Extension of the disbursement period of loans for the transplanted Aman crop, arrangement for providing fresh loans to the borrowers who received loans earlier but suffered losses due to floods, and re-scheduling of the repayment instalments together with extension of the time period for repayment of loans. In addition, a Taka-100 crore Land Mortgage Loan Programme was launched for helping the farmers who were seriously affected by the cyclonic storms and tidal bores. A special credit programme was adopted for rehabilitation of the industrial units affected by the floods. The financing banks were given adequate autonomy in determining the amount and terms and conditions for extending credit. For supporting continued production in the industrial sector, banks were instructed to arrange supply of additional working capital, subject to observance of some usual norms. Besides, the requirement for obtaining prior approval of the Bangladesh Bank for sanction, renewal or rescheduling of time-period in respect of credit facilities for Tk. 3 crores and above by the nationalised commercial banks and for Tk. 1 crore and above by other commercial banks was withdrawn. Four new non-traditional items, namely, toys, luggage and fashion articles, electronic items and leather goods were brought under the existing concessional export credit facility with 7.0 percent rate of interest per annum. Refinance facility at 3.5 percent rate of interest from the Bangladesh Bank was also allowed in such cases. Banks were allowed more discretion in providing finance for industrial projects under the Industrial Policy of 1986, with further simplification of the terms and conditions. The enhancement of the rates of cash reserve and liquid asset requirement of deposit money banks during the previous year together with the measures for liberalisation of credit management taken during the year under report had a particularly favourable influence in solving the excess liquidity problem of the banks which was created during the preceding years.

1.18 In order to reduce the burden of various types of debts of the farmers and for determining policy, making review and taking decision for protecting them from possible loss of their landed property in the process of realisation of usurious loans by the Money Lenders, the Government formed an eighteen member 'Jatiya Rin Shalishi Board'. The scope of operation of the Board would be: (i) to review the credit problems of small and marginal farmers and share-croppers; (ii) to examine and review the existing system and amount of non-institutional agricultural loans; (iii) to review and take decision regarding the non-institutional interest rates including compound rates of interest relating to agricultural credit; (iv) to review, in phases, performances and proper implementation of activities of the 'Rin Shalishi Board'; (v) to review the question of prevention or reduction of the transfer of land by small and marginal farmers at the time of financial crisis; (vi) to review any other issues relating to agricultural and rural credit; and (vii) to take decision and initiate action relating to all the cited measures. The 'Rin Shalishi Board' has also been formed at the Upazilla levels.

1.19 With a view to broadening the scope of the money market of the country, 'Industrial Promotion and Development Company of Bangladesh Limited', a non-bank financial institution which was set up with the approval of the Bangladesh Bank, was allowed to participate in the Inter-bank Call Money Market during the year under report.

1.20 As a result of the measures adopted under the monetary, banking and credit policies, total domestic credit during 1988-89 expanded at a lower than projected rate. The rate of expansion in total domestic credit during the year was 13.1 percent which was lower than the projected rate of 14.2 percent and the actual rate of 13.4 percent during the preceding year. Credit to the Private Sector which expanded by, as much as, 22.7 percent was the main contributory factor for the expansion in total domestic credit during the year. Credit to the Public Sector increased by 6.3 percent while a substantial decline of 20.6 percent occurred in credit to the Government Sector during the year. The rate of expansion in total liquidity or Broad Money (M_2) at 16.3 percent during 1988-89 stood higher, compared to 13.7 percent projected for the year, but was well below 18.3 percent expansion recorded during the preceding year. Despite Bangladesh Bank's policy for providing increased financial support to economic activities in both private and public sectors, abstinence from taking recourse to any deficit financing in overall fiscal operations of the Government had a positive role in keeping the expansion of domestic credit and broad money within the desired limits.

Price Situation

1.21 The rate of inflation in the country decelerated during 1988-89 as compared to that in the preceding year. In view of the colossal damages to crops caused by the devastating floods at the beginning of the year and subsequent cyclones and tidal bores and disruptions in the transport system, a deterioration was apprehended in the overall price situation. However, following adoption of proper and timely steps by the Government for increasing the supply of essential consumer goods including importation and distribution of a record quantity of foodgrains, the rate of inflation actually decelerated during the year. A total of 29.41 lakh tons of foodgrains was released from the Government stocks during the year under report for distribution through the Food for Works Programme (FWP), Vulnerable Group Development (VGD) Programme including Test Relief, Open Market Sales and Statutory and Rural Rationing systems which played a significant role in keeping the overall level of prices stable. Besides, the expansion in liquidity did not exert excess pressure on prices as it remained close to the desired rate and the share of financial assets in total liquidity increased during the year. As a result, the rate of inflation, as measured by the twelve-month average of the consumer price indices for middle income families in Dhaka city prepared by the Bangladesh Bureau of Statistics, denoted an increase of 8.0 percent in 1988-89 as compared to 11.4 percent during the preceding year. The increase in prices during the year was more pronounced in the non-food than in the food items. The sub-index for 'non-food' items recorded an average increase of 11.9 percent, while that for 'food' increased by an average of 5.7 percent during the year.

Balance of Trade and Payments

1.22 The increasing trend in export earnings which had become manifest following adoption of a package of measures for expansion and diversification of exports during the last few years lost some of its momentum due to adverse circumstances during 1988-89. This resulted in widening of the trade gap by \$ 294 million (Tk.1,107.60 crores) during the year. The increase in export earnings declined from \$ 186 million (Tk. 640.30 crores) in 1987-88 to \$ 95 million (Tk. 411.50 crores) during 1988-89. On the other hand, import payments recorded an increase of \$ 389 million (Tk.1,519.10 crores) during the year. As a result, the deficit in the trade balance increased from \$ 1,800 million (Tk.5,624.00 crores) to \$ 2,094 million (Tk.6,731.60 crores) in 1988-89. A 15.1 percent increase in the import price index against an increase of 3.4 percent only in the export price index contributed to the increase in trade deficit and led to a deterioration in the terms of trade. Export earnings would have been higher if the terms of trade had not deteriorated.

1.23 The main heads of import under which increased payments took place during 1988-89 were : Capital goods and other accessories (+ $ 234 million or Tk. 828.80 crores), petroleum crude and petroleum products (+ $ 56 million or Tk. 198.50 crores), fertilizers (+ $ 12 million or Tk. 38.70 crores), cement (+ $ 12 million or Tk. 43.10 crores), sugar (+ $ 10 million or Tk. 33.50 crores), chemicals (+$ 10 million or Tk. 48.40 crores) and raw cotton (+ $ 2 million or Tk. 8.20 crores). In addition, import payments in 'other' sectors increased by $ 168 million or Tk. 629.80 crores, a substantial portion of which may be deemed as payments for imports by the export-oriented readymade garments industry. In terms of value, the growth rate in the import sector decelerated from 14.0 percent in the preceding year to 13.0 percent during the year under report. On the other hand, the growth rate in the export sector decelerated from the previous year's 18.6 percent to 8.0 percent in 1988-89. However, the increased contribution of non-traditional items, particularly of readymade garments, in total export earnings continued during the year. The share of non-traditional exports in total export earnings increased from 66.1 percent in the preceding year to 66.9 percent during 1988-89. Among the non-traditional items, notable increases in earnings were recorded by fertilizers, frozen food, leather and readymade garments. On the other hand, although the proportionate share of traditional items (jute, jute goods and tea) in total export earnings declined somewhat, the absolute level of their combined earnings increased by 5.5 percent as compared to the level recorded in the preceding year.

1.24 Commitments of foreign aid to Bangladesh during 1988-89 amounted to $ 1,865 million (Tk.5,994.09 crores). Total commitment of foreign aid since independence till the end of June, 1989 stood at $ 23,928 million (Tk.77,215.66 crores), of which $ 11,258 million (Tk.36,329.57 crores) or 47.0 percent represented grants. Total disbursement of foreign aid during the above period stood at $ 18,919 million (Tk.61,051.61 crores) which was 79.1 percent of the total commitments. One of the major factors responsible for the shortfall in aid disbursements was dearth of supplementary resources in local currency. Of the total disbursements made during the year, $ 9,583 million (Tk. 30,924.34 crores) or 50.7 percent was accounted for by loans, while the remaining $ 9,336 million (Tk.30,127.27 crores) represented grants. Total outstanding external debt* of Bangladesh as on June 30, 1989 stood at $ 9,480 million (Tk. 30,591.96 crores). The same had stood at $ 8,675 million (Tk.27,326.25 crores) as on June 30, 1988. Repayment of external debt (principal and interest) during 1988-89 amounted to $ 341 million (Tk.1,094.30 crores) or 26.6 percent of the country's export earnings. This compared with debt repayment of $ 289 million (Tk. 902.90 crores) or 24.4 percent of export earnings during the preceding year. There is need for careful monitoring of the increasing debt-service liabilities.

1.25 The effects of damages caused to the economy by the devastating natural calamities during 1988-89 were also reflected in the country's overall balance of payments. Due mainly to widening of the export-import gap, deficit in the current account balance widened by $ 251 million (Tk.913.40 crores) during the year. As a result, the overall balance of payments of the country recorded a smaller surplus of $ 6 million (Tk.17.60 crores) during 1988-89 as compared to $ 136 million (Tk.425.90 crores) in 1987-88, despite an increase of $ 121 million or Tk. 505.10 crores in the net inflow of capital. A deterioration in the terms of trade due to higher rate of increase in the import prices than in the export prices also contributed to the reduction of surplus in the overall balance. But for the increased receipt of $ 117 million (Tk.498.10 crores) under commodity aid and project aid including 'deferred food aid' and a receipt of $ 57 million (Tk.182.60 crores) as loan for purchase of aircraft, the overall balance would have recorded a deficit instead of surplus during the year.

Short-term Prospects

1.26 Bangladesh will implement the Annual Development Programme for the terminal year of the Third Five-Year Plan during 1989-90. The target for GDP growth in the year has been set at 5.91 percent. Although growth could not be achieved at the desired rates due to recurrence of unprecedented natural calamities during the-last two years, a number of measures which have already been taken for structural adjustment programme are expected to increase mobilisation of resources and investments in the private and the public sectors and thereby accelerate the pace of growth during 1989-90.

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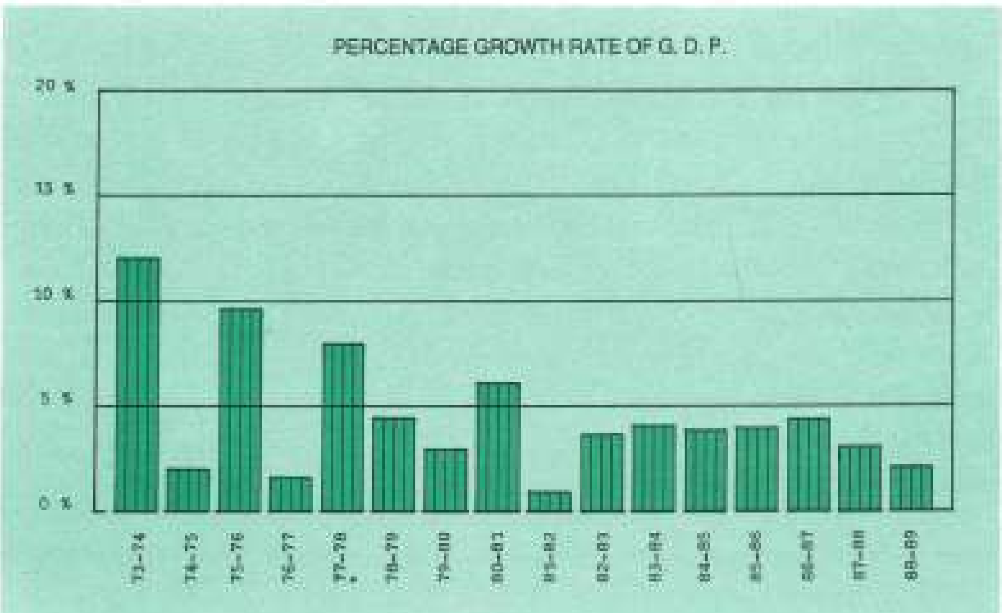
* Excluding IMF and short-term loans.

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.) of Bangladesh increased by 2.1 percent during 1988-89 as compared to 3.0 percent during the previous year. Due to extensive damages of crops by the unprecedented devastating floods at the very beginning of the year, production in the agricultural sector declined by 0.4 percent during the year as against the increase of 0.7 percent during the preceding year. Growth rate in the industrial sector, however, increased from 4.0 percent in the preceding year to 5.4 percent during the year under report. The 'construction sector' also recorded a higher growth rate of 11.4 percent during 1988-89 as compared to 9.9 percent in the preceding year. On the other hand, the growth in the 'power and gas' sector declined marginally from 14.9 percent in the preceding year to 14.4 percent during the year under report. The combined growth rate for other sectors taken together declined to 3.5 percent during 1988-89 as compared to 5.1 percent in the preceding year.



Agricultural Sector

2.2 Output of agricultural production declined by 0.4 percent during 1988-89 as against the increase of 0.7 percent during 1987-88. Output of foodgrains stood at 165.66 lakh tons* during 1988-89 which was 0.64 percent higher than 164.61 lakh tons during 1987-88. Production of Aus declined by 4.6 percent to 28.56 lakh tons during the year as compared to 29.93 lakh tons in 1987-88 due to damages of crops by excessive rainfall during May, 1988 and subsequent devastating floods. The country's principal food crop Aman was most severely affected by the floods as a result of which its production declined by 10.8 percent to 68.57 lakh tons during 1988-89. Production of Boro at 58.31 lakh tons during the year was 23.3 percent higher as compared to 47.31 lakh tons in 1987-88. The significant increase in production of Boro during the year was attributable to expansion of its acreage under the post-flood Agricultural Rehabilitation Programme. Total production of rice at 155.44 lakh tons during 1988-89 was 0.8 percent higher than the production of 154.13 lakh tons in 1987-88. Due to adverse weather conditions output of wheat declined marginally by 2.5 percent to 10.22 lakh tons during the year as compared to 10.48 lakh tons in 1987-88. Among other important agricultural crops output of jute, oilseeds, pulses and tobacco recorded some increase during the year.

Industrial Sector

2.3 The desired rate of growth in the industrial sector could not be achieved during the year due to extensive damages caused by the floods. Industrial production was particularly hampered as production in a large number of industrial units discontinued due to accumulation of flood waters; resumption of normal production in a large number of industrial units took a long time as their machinery were damaged and became unusable. In some cases, stocks of raw materials and manufactured goods were also damaged. The export-import programmes also suffered a set-back as a result of disruption in transport and communication by the floods. Moreover, the demand for industrial goods also declined to some extent due to reduction in income of the people in the rural areas on account of floods. Despite the above adverse conditions, rate of growth on the industrial sector increased from 4.0 percent in the

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* In metric tons.

preceding year to 5.4 percent in 1988-89 following adoption of necessary steps for restoration of production programmes including rehabilitation of the affected industrial units after the floods.

2.4 Output of major industrial goods showed an increasing trend during 1988-89. The goods which recorded increases in output during the year over their respective levels in the preceding year were: cotton yarn (+4.8% to 10.74 crore pounds), cotton textiles (+5.5% to 7.08 crore yards), cigarettes (+2.7% to 1,440.80 crore sticks), chemical fertilizers (+4.3% to 14.70 lakh tons), cement (+11.0% to 3.44 lakh tons), steel (+13.5% to 1.94 lakh tons), transport equipments (+21.6% to 38,815 Nos.), petroleum products (+10.3% to 10.48 lakh tons), natural gas (+5.8% to 4,413 million cubic metres) and matches (+8.0% to 1.49 crore gross boxes). On the other hand, items recording declines in production were jute goods (– 6.7% to 5.44 lakh tons), paper (– 1.4% to 41.8 thousand tons), newsprint (– 12.0% to 44.00 thousand tons), tea (– 0.9% to 41.23 million kg.), sugar (– 38.2% to 1.10 lakh tons) and chemicals (– 4.5% to 21.00 thousand tons).

2.5 For rapid industrialisation of the country, some new measures were adopted during the year in addition to continuation of various incentives introduced earlier. With a view to minimising the institutional complexities involved in setting up industrial projects, the Board of Investment was constituted on January 1, 1989. All powers relating to sanction of facilities necessary for setting up of an industrial project has been entrusted with the Investment Board. Besides arrangements for import of required machinery and raw materials and for providing infrastructural facilities for an approved industrial project, the Board will also recommend for sanction of credit by financial institutions. With a view to providing protection to domestic industries as well as for increasing their production, some re-adjustments were made in the tax proposals for 1988-89 budget. In order to encourage foreign private investments in the country, the various incentives and facilities were further widened and strengthened. The requirement of the Government approval for setting up joint-venture industrial projects was waived by amending the Industrial Policy, 1986, provided such projects are not included in the Discouraged List, foreign equity does not exceed 49 percent and the total investment outlay is not more than Tk.10 crores. Subject to fulfilment of the above conditions, financial institutions may provide credit facilities to the joint-venture industrial projects according to their ability. The tax-holiday period for the established industrial projects were further extended. Facilities were enhanced in respect of re-investment of profits for setting up of new industries or expansion of the existing ones, as also for repatriation.

2.6 In order to ensure necessary bank credit for the industrial sector, certain measures were taken during the year under report. It was made obligatory for the Development Financial Institutions (DFIs) to make arrangements for working capital from the commercial banks for the industrial projects financed by them at the time of their approval. Banks were advised not to ask for any additional collateral security for sanctioning industrial term loans as well as for working cápital if extended against pledge of goods. The requirement of obtaining prior permission from the Bangladesh Bank for sanctioning loans of Tk. 3 crores and above by the nationalised commercial banks and Tk. 1 crore and above by the private commercial banks was withdrawn. Banks were specially instructed to ensure supply of term loans and working capital to the flood affected industrial units for rehabilitation and restoration of their production programmes. Existing facilities for the export-oriented industries were further strengthened and streamlined during the year. With a view to increasing the export of finished/crust leather, arrangements were made to provide credit upto Tk. 2 crores for the BMRE programme of each of the 25 selected tannery units against 100 percent refinance facility from the Bangladesh Bank.

Public Sector Outlay

2.7 The Annual Development Programme (ADP) for 1988-89 originally envisaged a total public sector development outlay of Tk. 5,315.00 crores. Domestic output of dutiable goods remained below the expected level as industrial units all over the country suffered a set-back in production of account of floods. Import of dutiable goods also lagged behind during the year due to depressed effective demand in the country. Allocations in the revised ADP, for 1988-89 had to be scaled down by Tk. 719.66 crores or 13.5 percent to Tk. 4,595 crores as a result of shortfall in revenue receipts from all kinds of taxes including custom duties. The revised allocation was lower by Tk.55.27 crores or 1.2 percent than the revised outlay in the preceding year's ADP. Of the total revised outlay for the year under report, the shares of domestic resources and foreign aid were Tk. 401.34 crores or 8.7 percent and

Tk.4,194.00 crores or 91.3 percent respectively. In the revised public sector development outlay of the Annual Development Programme for the preceding year, the shares of domestic resources and foreign aid had stood at Tk. 279.00 crores or 6.0 percent and Tk. 4,371.61 crores or 94.0 percent respectively.

2.8 The sectoral allocations in the revised ADP for 1988-89 were as follows : Power Tk. 663.66 crores, Water Resources Tk. 661.82 crores, Transport* Tk. 604.49 crores, Agriculture Tk. 363.36 crores, Industries Tk. 286.10 crores, Education and Religion Tk. 257.61 crores, Self-finance Schemes of Autonomous Bodies Tk. 257.04 crores, Population Control and Family Planning Tk. 214.14 crores, Upazilla Infrastructure and Assistance for Upazilla Parishad Tk. 200.00 crores, Physical Planning, Water Supply and Housing Tk. 179.43 crores, Gas and Natural Resources Tk. 149.95 crores, Communications Tk. 127.73 crores, Technical Assistance Programme Tk.106.59 crores, Health Tk. 102.99 crores and Flood Prevention Project for Metropolitan Dhaka Tk. 100.00 crores. Allocations for other sectors aggregated to Tk. 189.60 crores. Allocations for sectors directly related with 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 34.2 percent of the total development outlay for the year. The combined allocations for all these sectors had accounted for 33.8 percent in the revised budget for 1987-88.

Investments in Private Sector Industries

2.9 A total of 3,597 industrial units (small and medium) involving a total investment outlay of Tk. 1,631.91 crores including a foreign exchange component of Tk. 628.96 crores were sanctioned and registered in the private sector during 1988-89. This compared with 981 industrial units involving total investments of Tk. 899.22 crores including a foreign exchange component of Tk.393.64 crores sanctioned and registered during the preceding year. The major industries sanctioned and registered during 1988-89 included: Engineering Industries (Tk.396.15 crores); Chemicals, Pharmaceuticals and Allied Industries (Tk.117.86 crores); Textile Industries (Tk.456.03 crores); Agro-based Industries (Tk.102.79 crores); Printing Publishing, Paper Converting and Packaging (Tk.107.91 crores);

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* Excluding Railway.

Food and Allied Products (Tk. 133.86 crores); Service Industries (Tk.28.09 crores); Tannery, Leather Goods and Rubber Products (Tk.55.58 crores); Glass, Ceramics and other Non-metal Mineral Products (Tk.62.68 crores); Miscellaneous Industries (Tk.11.45 crores); and Industries Not Classified Elsewhere (Tk.159.51 crores).

Food Situation

2.10 The overall availability of foodgrains in the country remained satisfactory during 1988-89 due to increased domestic production and higher releases of foodgrains from the Government stocks. Total availability of foodgrains during the year stood at 174.34 lakh tons as shown in Table 2.1. This was 4.91 lakh tons or 2.9 percent higher than 169.43 lakh tons in the preceding year. Taking population increase into account, the daily average per capita availability of foodgrains denoted an increase of 0.75 gram or 0.2 percent from 435.45 grams in the preceding year to 436.20 grams during 1988-89.

TABLE 2.1

TOTAL AND DAILY AVERAGE PER CAPITA AVAILABILITY OF FOODGRAINS IN BANGLADESH

(In lakh metric tons)

Sources of Availability of Foodgrains	1987-88	1988-89
1. Net Domestic production (After 10% Seed, Feed and Wastage)	148.15	149.09 (+0.64)
2. Total Off-take	25.03	29.41 (+17.50)
3. Internal Procurement	3.75	4.16 (+10.93)
4. Total Availability (1+2-3)	169.43	174.34 (+2.90)
5. Total Population (In million)	106.60	109.50 (+2.72)
6. Daily Average Per Capita Availability (In gram)	435.45	436.20 (+0.17)

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

Sources : (1) Ministry of Food. (2) Bangladesh Bureau of Statistics.

2.11 Despite a satisfactory level of availability, prices of foodgrains showed some fluctuations during 1988-89. An upward pressure was noticeable in the prices of foodgrains after December, 1988 as a result of the loss of crops and disruption in transportation/distribution system on account of floods. The average minimum retail price of coarse rice increased from Tk. 865.00 per quintal at the end of June, 1988 to Tk. 894.00 per quintal at the end of July, 1988, indicating 1.1 percent decline over the level a year ago. Production of Aus as well as Aman crops suffered extensive damages due to floods during the period from end-August to mid-September, 1988. On the other hand, movement and processing of foodgrains were hindered due to disruption of road transportation. As a result, the price of rice increased considerably and stood at Tk.926.00 per quintal by the end of September, 1988. Following release of large quantities of foodgrains from Government stocks through the various channels of public distribution in a bid to forestall the upward trend in prices and the arrival of Aman crop in the market, the prices eased somewhat to Tk. 897.00 per quintal by the end of November, 1988. The decline was, however, extremely shortlived. Due to reduced harvest of the Aman crop, the prices started increasing after December, 1988 and gradually rose to Tk. 995.00 per quintal at the end of March, 1989. The market situation of foodgrains witnessed some deterioration at the backdrop of severe drought in the northern areas and in few other districts of the country from end-March to April and the price rose further to the year's peak-level of Tk. 1,015.00 per quintal at the end of April, 1989. At this level, the price was 13.5 percent higher than the year's lowest level recorded in July, 1988. However, following huge supplies of foodgrains by the Government under different distribution channels including Food for Works Programme, VGD/VGF programme and other priority sectors, the prices started to ease and gradually came down to Tk.897.00 per quintal by the end of June, 1989. The average minimum retail price of coarse rice thus denoted an increase of 3.7 percent during 1988-89 as against a decline of 0.6 percent during the preceding year.

2.12 In view of the extensive damages to crops caused by the floods the annual target for import of foodgrains during 1988-89 was revised upward from 18.50 lakh tons to 26.00 tons. A total of 21.38 lakh tons of foodgrains (rice 0.62 lakh ton and wheat 20.76 lakh tons) was imported during the year as compared to 29.22 lakh tons (rice 5.93 lakh tons and wheat 23.29 lakh tons) imported during 1987-88.

2.13 Internal procurement of foodgrains increased to 4.16 lakh tons (rice 3.64 lakh tons and wheat 0.52 lakh ton) during 1988-89 from 3.75 lakh tons (rice 2.88 lakh tons and wheat 0.87 lakh ton) during the previous year.

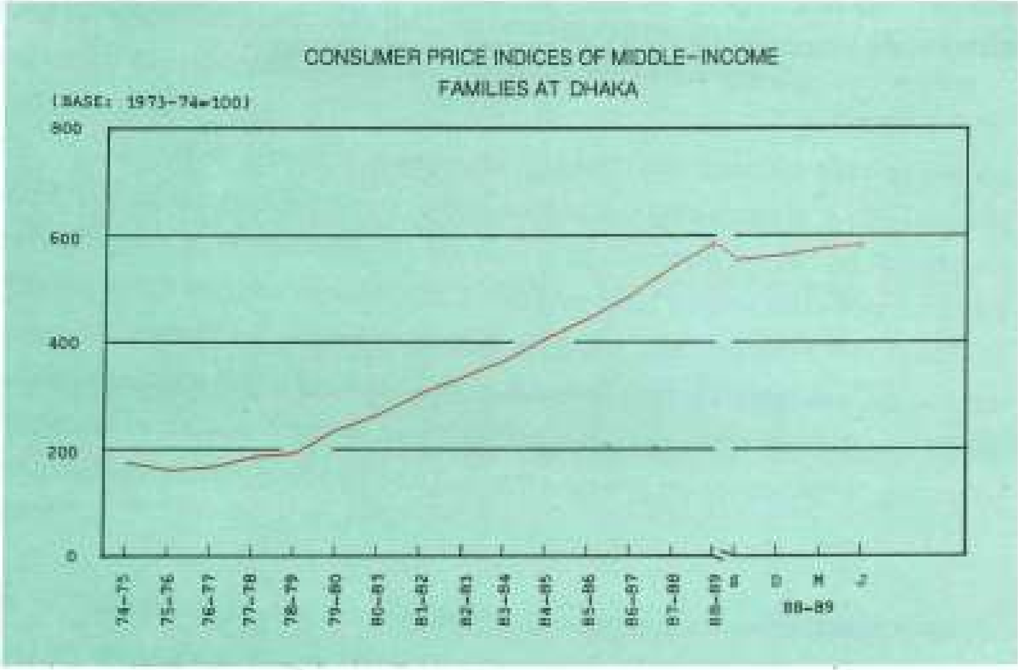
2.14 The procurement prices of Aman paddy and rice were increased to Tk. 562.80 and Tk.866.71 per quintal respectively on November 15, 1988 from Tk.536.00 and Tk.825.44 per quintal respectively which were fixed on November 15, 1987. The procurement price of wheat was increased to Tk.562.80 per quintal on March 15, 1989 from Tk.536.00 per quintal which was fixed on March 15, 1988. Prices of IRRI/Boro paddy and rice were also enhanced to Tk. 562.80 and Tk. 866.71 per quintal respectively on April 20, 1989 from Tk. 536.00 and Tk.825.44 per quintal respectively which were fixed on April 20, 1988.

2.15 In order to keep prices of foodgrains under control, the Government released sufficient quantities of foodgrains in the market during 1988-89 through different public distribution channels. A total of 29.41 lakh tons of foodgrains (rice 6.92 lakh tons and wheat 22.49 lakh tons) was released from Government stocks during the year which included 6.11 lakh tons for the Food for Works Programme (FWP), 5.06 lakh tons for the Vulnerable Group Development (VGD) Programme, 4.23 lakh tons for Priority Sectors, 3.33 lakh tons for Modified Rationing System (MRS), 2.73 lakh tons for Open Market Sale (OMS) and 2.03 lakh tons for the Statutory Rationing (SR) system. This was 17.5 percent higher than 25.03 lakh tons (rice 4.68 lakh tons and wheat 20.35 lakh tons) released during 1987-88.

2.16 Due to lower imports and increased public distribution the stock of foodgrains with the Government declined by 32.4 percent to 10.12 lakh tons at the end of June, 1989. This compared with 14.98 lakh tons at the end of June, 1988.

Price Situation

2.17 The overall price situation in the country depicted some improvement during 1988-89. This was reflected in the Consumer Price Indices (1973-74=100) for middle income families in Dhaka city as prepared by the Bangladesh Bureau of Statistics. 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 a smaller increase of 8.0 percent during 1988-89 as compared to 11.4 percent in the preceding year. The increase in prices during the year was more pronounced in 'non-food' items than in 'food' items. The sub-index for 'food' recorded an average increase of 5.7 percent, while that for 'non-food' items increased by an average of 11.9 percent during the year. As against this, the sub-index for 'food' recorded an average increase of 10.8 percent and that for 'non-food' items by 12.5 percent during 1987-88. The average consumer Price Indices for rural people in Dhaka district recorded an increase of 5.7 percent during 1988-89 as compared to the increase of 7.9 percent during the previous year.



Wages

2.18 The index of wages for different categories of labourers in the country increased slightly during 1988-89. The average of the 'general' index (1969-70=100) of wages, as compiled by the Bangladesh Bureau of Statistics, increase from 1200.61 in 1987-88 to 1,288.32 in 1988-89 indicating an increase of 7.3 percent over the year. The following sub-indices for wages, namely "Manufacturing" increased by 8.6 percent (from 1,219.93 to 1,325.02), "Construction" by 9.5 percent (from 1,326.38

to 1452.10), "Agriculture" by 6.3 percent (from 1,048.66 to 1,114.50) and "Fisheries" by 3.0 percent (from 1,188.92 to 1,224.97) during 1988-89.

Savings and Investments

2.19 According to provisional estimates of the Planning Commission, gross domestic savings at current prices declined by Tk. 1,314 crores to Tk. 1,424 crores during 1988-89. As a result the gross domestic savings as percentage of the GDP came down from 5.68 in the previous year to 2.67 during the year under report. Gross investments at current prices declined by Tk. 779 crores to Tk. 6,165 crores in 1988-89. The ratio of gross domestic investments to the GDP declined from 14.40 percent in the preceding year to 11.57 percent during 1988-89.

CHAPTER III

MONEY AND BANKING

3.1 Money supply (both M_1 and M_2) increased at a lower rate during 1988-89 as compared to the previous year. Narrow Money (M_1) expanded by Tk.413.00 crores or 8.2 percent to Tk. 5,460.70 crores during the year. This compared with the expansion of 16.0 percent during the preceding year. Similarly, Broad Money (M_2) expanded by Tk. 2,670.10 crores or 16.3 percent to Tk. 19,078.10 crores during 1988-89 which was higher than the programmed expansion rate of 13.7 percent, but lower than the expansion rate of 18.3 percent recorded during the preceding year.

3.2 The rate of growth in reserve money*decelerated substantially during the year under report. Reserve Money increased by 8.1 percent to Tk.5,468.80 crores during the year as compared to the increase of 35.2 percent in 1987-88. The money multiplier which had decreased by 0.5 in the preceding year increased by 0.3 to 3.5 during 1988-89. The decline in currency/deposit ratio from 0.17 to 0.16 and deceleration in the rate of growth in excess reserves (from 4.0 percent to 2.0 percent) contributed to the rise in money multiplier during the year. As a result, Broad Money expanded at a much higher rate than that of the reserve money during the year under report.

3.3 The rate of growth in domestic credit decelerated somewhat during 1988-89. Total domestic credit expanded by 13.1 percent to Tk.19,718.80 crores during the year which was lower as compared to the programmed expansion of 14.2 percent for the year and actual expansion of 13.4 percent in the preceding year.

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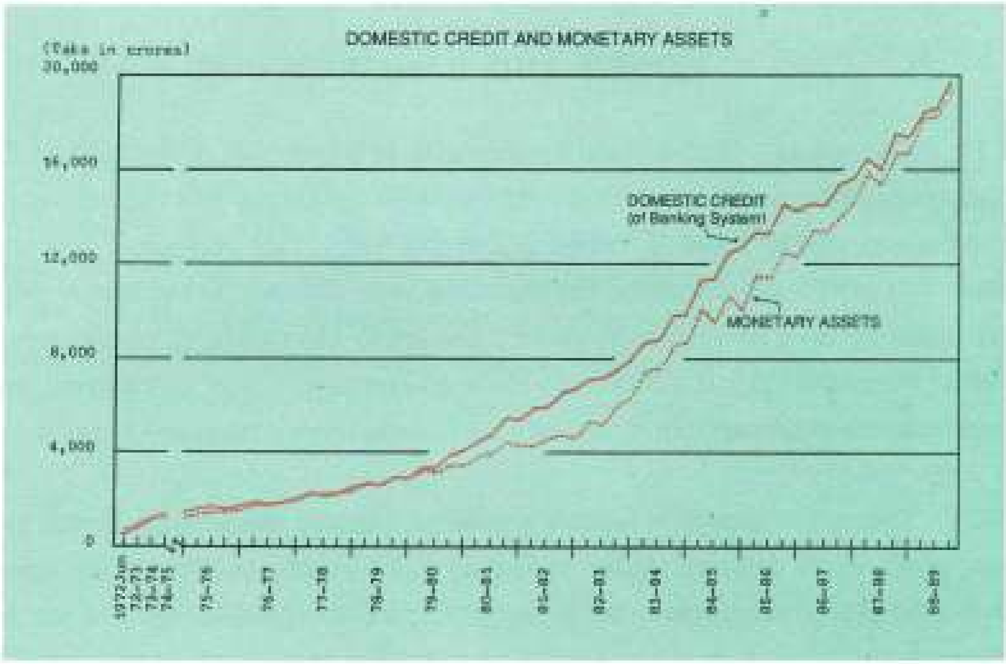
* Reserve Money = Currency outside banks + Deposit money banks' deposits with the Bangladesh Bank (including balances in the Wage Earners' Clearing Accounts) + Cash in tills of the deposit money banks + Deposits of other financial institutions with the Bangladesh Bank.



MONEY SUPPLY (M_1)

3.4 Of the components of money supply (M_1), currency outside banks went up by Tk. 200.60 crores or 8.3 percent to Tk. 2,615.60 crores during 1988-89, while demand deposits increased by Tk. 212.40 crores or 8.1 percent to Tk. 2,845.10 crores. The quarterly movements of money supply and its components during 1988-89 are shown in Table 3.1.

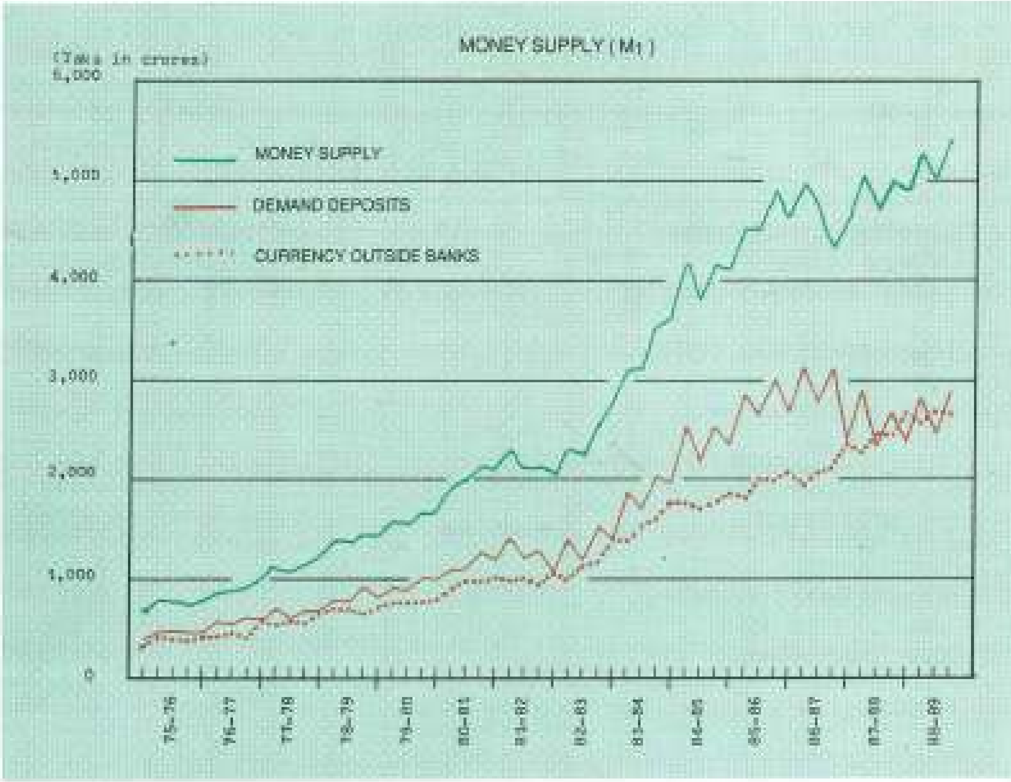
TABLE 3.1

MONEY SUPPLY (M_1)

(Taka in crores)

As on	Currency Outside Bank	Demand Deposits*	Money Supply(M_1)	Changes in Supply, Increase(+) Decrease(-)
June 30, 1988	2,415.00	2,632.70	5,047.70	—
September 30, 1988	2,625.60	2,340.70	4,966.30	– 81.40
December 31, 1988	2,528.20	2,788.30	5,316.50	+350.20
March 31, 1989	2,653.10	2,414.00	5,067.90	–248.60
June 30, 1989	2,615.60	2,845.10	5,460.70	+392.80

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



Causative Factors of the Change in Money Supply

3.5 An analysis of the causative factors of the change in money supply (M_1) reveals that the factors responsible for expansion of Tk.413.00 crores in money supply during 1988-89 were: increases of credit to the private sector (+Tk. 2,463.40 crores) as well as to the public sector (+Tk.274.00 crores), surplus in the foreign sector (net) (+Tk. 205.90 crores) and increase in other assets (net) (+Tk.173.90 crores). These factors exerted an expansionary impact of Tk. 3,117.20 crores which was largely offset by the combined contractionary influences of accruals in time deposits (–Tk. 2,257.10 crores) and decrease in net credit to the Government (–Tk. 447.10 crores). The causative factors of the changes in money supply are shown in Table 3.2.

TABLE 3.2

CAUSATIVE FACTORS OF THE CHANGE IN MONEY SUPPLY

(Taka in crores)

Particulars	As on 30.6.89	As on 30.6.88	Changes
1. Currency Outside Banks	2,615.60	2,415.00	+ 200.60
2. Demand Deposits*	2,845.10	2,632.70	+ 212.40
Total Money Supply :	**5,460.70**	**5,047.70**	**+ 413.00**
CAUSATIVE FACTORS:			
Expansion (+)			
Contraction (–)			
1. Government Sector (Including Public)			**–173.10**
i) Government (Net)			– 447.10
ii) Public Sector			+ 274.00
2. Private Sector			+ 2,463.40
3. Time Deposits (Increase –)			– 2,257.10
4. Foreign Sector (Net)			+ 205.90
5. Other Assets (Net)			+ 173.90
Total:			**+ 413.00**

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

BROAD MONEY (M_2)

3.6 Broad Money (M_2) increased by 16.3 percent to Tk. 19,078.10 crores during 1988-89 as compared to the increase of 18.3 percent in the preceding year. Of the components of Broad Money, time deposits rose by 19.9 percent, demand deposits by 8.1 percent and currency outside banks by 8.3 percent in 1988-89 as compared to the increases of 19.4 percent, 15.7 percent and 16.4 percent respectively in the preceding year. The percentage shares of time deposits, demand deposits and currency outside banks in Broad Money stood at 71.4, 14.9 and 13.7 respectively at the end of June, 1989 as compared to 69.2, 16.1 and 14.7 respectively at the end of the preceding year. The increase in the share of time deposits in Broad Money (M_2) during the year is indicative of an increase in the asset demand for money which helped in containing of the inflation rate. The changes in Broad Money (M_2) as also its different components during 1987-88 and 1988-89 are shown in Table 3.3.

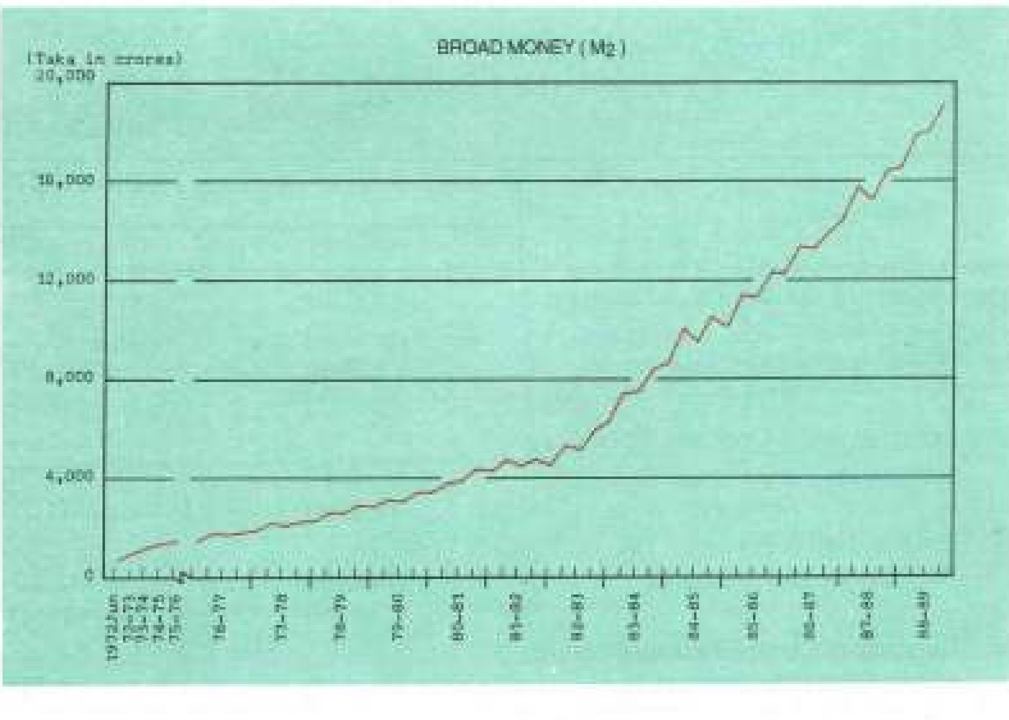
TABLE 3.3

BROAD MONEY (M_2)

(Taka in crores)

Particulars	June, 1987	June, 1988	June, 1989	% changes	
				1987-88	1988-89
1. Currency Outside Banks	2,075.60	2,415.00	2,615.60	+16.4	+ 8.3
2. Demand Deposits*	2,276.00	2,632.70	2,845.10	+15.7	+ 8.1
3. Time Deposits*	9,513.20	11,360.30	13,617.40	+19.4	+19.9
Total :	**13,864.80**	**16,408.00**	**19,078.10**	**+18.3**	**+16.3**

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



Reserve Money

3.7 Reserve money increased by Tk. 411.30 crores or 8.13 percent during 1988-89 as compared to the increase of Tk. 1,315.70 crores or 35.2 percent in the preceding year. All the components contributed to the growth of reserve money during the year under report. Currency outside banks increased by Tk. 200.60 crores or 8.31 percent as compared to the increase of Tk. 339.40 crores or 16.4 percent in the preceding year. A surplus in the country's foreign sector and increased refinance to the deposit money banks by the Bangladesh Bank led to the expansion of currency outside banks. Deposit money banks' balances with the Bangladesh Bank increased by Tk. 180.50 crores or 8.06 percent as compared to the increase of Tk. 935.30 crores or 71.7 percent in the preceding year. Cash-in-tills of the deposit money banks increased by Tk. 30.20 crores or 7.51 percent during the year as compared to the increase of Tk. 41.00 crores or 11.4 percent in the previous year. A comparative statement of the components of reserve money and its sources is given in Table 3.4.

TABLE 3.4

GROWTH OF THE COMPONENTS OF RESERVE MONEY AND ITS SOURCES

(Taka in crores)

Particulars	Yearly change: Increase (+) Decrease (–)	
	1988-89	1987-88
Components of Reserve Money	**+411.30**	**+1,315.70**
	(+ 8.13)	(+35.2)
1. Currency Outside Banks	+200.60	+ 339.40
	(+8.31)	(+16.4)
2. Deposits of the Deposits Money Banks with the Bangladesh Bank*	+180.50	+ 935.30
	(+ 8.06)	(+71.7)
3. Cash-in-Tills of the Deposits Money Banks	+30.20	+41.00
	(+7.51)	(+11.4)
4. Deposits of Other Financial Institutions with the Bangladesh Bank	(0)	(0)

* Including balances in the Wage Earner's Clearing Account.

(Taka in crores)

Particulars	Yearly change: Increase (+) Decrease (–)	
	1988-89	1987-88
Sources of Reserve Money		
1. Bangladesh Bank's claims on Account of:		
(a) Net Credit to Government	– 250.00	+ 281.60
	(–20.23)	(+10.3)
(b) Credit to Deposit Money Banks	+568.20	+ 418.50
	(+22.12)	(+ 19.6)
(c) Credit to Other Financial Institutions	+ 1.60	+ 19.80
	(+ 0.17)	(+ 2.3)
2. Foreign Assets (Net)	+138.40	+611.10
	(+43.55)	(+800.0)
3. Other Assets (Net)	– 46.90	– 15.30
	(–1421.2)	(– 1.4)

Note : Figures in the parentheses indicate percentage changes.

Income-Velocity of Money

3.8 The income-velocity of money (GDP ÷M_2) during 1988–89 declined to 2.78 from 2.94 in 1987-88 as shown in Table 3.5.

TABLE 3.5

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
1987-88	48,220	16,408.00	2.94
1988-89	52,987	19,087.10	2.78

* According to provisional estimates of the Planning Commission.

Domestic Credit

3.9 Total domestic credit increased by Tk. 2,290.30 crores or 13.1 percent to Tk. 19,718.80 crores during 1988–89 as compared to the increase of 13.4^R percent in the preceding year. The increase was due entirely to the expansion of Tk.2,463.40 crores (22.61%) and Tk. 274.00 crores (6.28%) in credit to the private and public sectors respectively. This was, however, neutralised to some extent by the decline of Tk. 447.10 crores (–20.6%) in credit to the government sector. Expansion of credit to the private and public sectors had stood at 21.56 percent and 4.76 percent respectively, while credit to the Government sector had declined by 3.13 percent in the preceding year.

Bank Credit

3.10 The outstanding level of bank credit (excluding inter-bank items) of the deposit money baks increased by Tk. 2,557.00 crores or 18.48 percent during 1988-89 as compared to the increase of Tk. 2,114.30 crores or 18.0 percent in the preceding year. Of the components of bank credit, advances increased by Tk. 2,549.00 crores or 19.07 percent, while bills purchased and discounted rose by Tk. 8.00 crores or 1.71 percent during the year. The quarterly movement of bank credit is shown in Table 3.6.

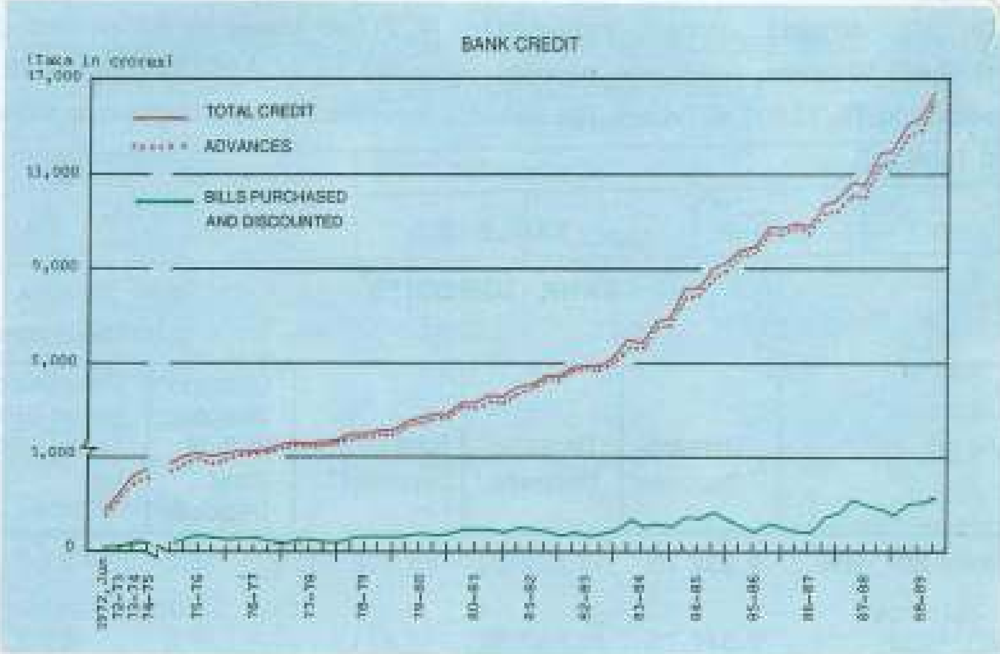
TABLE 3.6

BANK CREDIT

(Taka in crores)

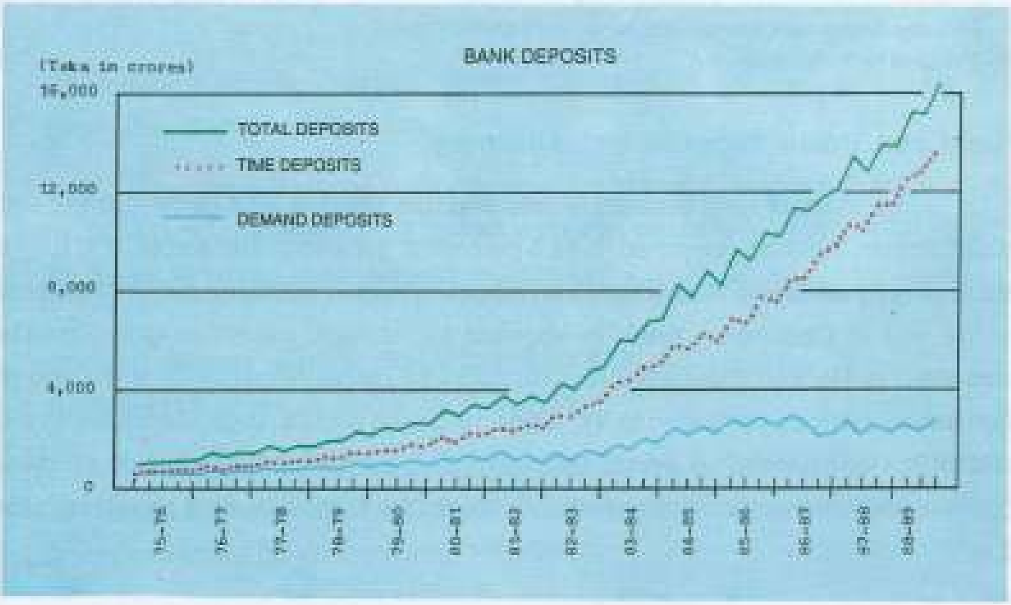
As on	Advances	Bills	Total	Advances as % of Total Credit	Bills as % of Total Credit
June 30,1988	13,369.00	469.00	13,838.00	96.6	3.4
September 30, 1988	13,560.70	394.40	13,955.10	97.2	2.8
December 31, 1988	14,540.70	523.90	15,064.60	96.5	3.5
March 31, 1989	14,760.30	534.90	15,295.20	96.5	3.5
June 30, 1989	15,918.10	477.00	16,395.10	97.1	2.9

R = Revised.



Bank Deposits

3.11 Bank deposits (excluding inter-bank items and Government deposits) registered an increase of Tk. 2,467.40 crores or 17.6 percent during 1988-89 as



compared to the rise of Tk. 2,175.40 crores or 18.4 percent in the preceding year. Of this, demand deposits increased by Tk. 212.40 crores or 8.1 percent to Tk. 2,845.10 crores, while time deposits expanded by Tk. 2,257.10 crores or 19.9 percent to Tk. 13,617.40 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, 1988	2,632.70	11,360.30	13,996.50	18.8	81.2
September 30, 1988	2,340.70	11,585.30	13,931.50	16.8	83.2
December 31, 1988	2,788.30	12,595.50	15,385.80	18.1	81.9
March 31, 1989	2,414.00	12,924.10	15,339.20	15.7	84.3
June 30, 1989	2,845.10	13,617.40	16,463.90	17.3	82.7

* Excludes 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 20.4 percent at the end of December, 1988 as compared to 19.6 percent at the end of December, 1987. The share of rural advances in total banks advances remained unchanged at 23.1 percent at the end of December, 1988. In absolute terms, rural advances and deposits amounted to Tk. 3,513.12 crores and Tk. 3,494.61 crores respectively at the end of December, 1988 as compared to Tk. 2,964.10 crores and Tk. 2,880.74 crores at the end of the corresponding period last year. The percentage distribution of bank deposits and advances in rural and urban areas for the last few years is shown in Table 3.8.

TABLE 3.8

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

As on	Advances %		Deposits %	
	Rural	Urban	Rural	Urban
June 30, 1985	28.5	71.5	17.3	82.7
June 30, 1986	26.7	73.3	19.1	80.9
June 30, 1987	23.2	76.8	19.1	80.9
December 31, 1987	23.1	76.9	19.6	80.4
June 30, 1988	23.1	76.9	19.7	80.3
December 31, 1988	23.1	76.9	20.4	79.6

Credit/Deposit Ratio

3.13 The credit/deposit ratio (excluding BKB, RAKUB, BSB and BSBL) of the deposit money banks which had stood at 0.75 at the end of June, 1988 remained unchanged on September 30, 1988. However, the ratio decreased to 0.74 on December 31, 1988, but increased to 0.76 on March 31, 1989. The ratio declined to 0.75 on June 30, 1989.

Borrowings of the Deposit Money Banks from the Bangladesh Bank

3.14 The deposit money banks' borrowings from the Bangladesh Bank increased by Tk. 665.30 crores to Tk. 3,254.40 crores as on June 30, 1989 from the level of Tk. 2,589.10 crores as on June 30, 1988.

Deposit Money Banks' Balances with the Bangladesh Bank & Cash in their Tills

3.15 The deposit money banks' balances with the Bangladesh Bank increased by Tk. 164.90 crores to Tk. 1,950.10 crores, while cash in their tills rose by Tk. 30.20 crores to Tk. 432.50 crores during 1988-89.

Bank Rate

3.16 The Bank Rate remained unchanged at 10.75 percent per annum during 1988-89.

Interest Rates

3.17 Keeping in view the importance of rational and careful use of interest rate as a tool for encouraging savings, controlling inflation, stabilising commodity prices and augmenting mobilisation of domestic resources, certain adjustments were made in the interest rates structure during 1988-89.

Cash Reserve Requirement and the Liquid Asset Requirement of the Bank

3.18 The Cash Reserve Requirement (CRR) and the Statutory Liquidity Requirement (SLR) of the scheduled banks remained unchanged at 10.0 percent and 25.0 percent respectively of their total deposit liabilities during the year under report. 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 and they also continued to be exempted from the requirement of maintaining liquid assets. The Cash Reserve Requirement of the Islamic Bank Bangladesh Limited and the Al-Baraka Bank Limited also remained unchanged at 10.0 percent. Following the enhancement of Cash Reserve Requirements of the scheduled banks with the Bangladesh Bank from 5.0 percent to 10.0 percent of their total deposit liabilities from October, 1987, arrangement was made for payment of interest at the rate of 5.0 percent per annum by the Bangladesh Bank to the banks on the additional 5.0 percent of their cash reserve. This was, however, not applicable in the cases of two banks which operate on Islamic principles for whom an alternative arrangement was made for payment of profit at a rate not exceeding 5.0 percent per annum from the year under report.

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 1988-89. Total amount of interest subsidy allowed to banks during the year on account of their financing of non-traditional exports stood at Tk. 9.54 crores.

Deposit Pension Scheme

3.20 The nationalised banks and some private sector banks participated in the Deposit Pension Scheme during 1988-89. 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

(Tk. 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	399.40	+138.23 (+52.92)
June 30, 1989*	486.90	+87.50 (+21.90)

* Provisional.
N.B : Figures in the parentheses indicate percentage changes.

Credit Policy and Control Measures

3.21 The credit policy of the country during 1988-89 was geared to ensure proper use of scarce bank resources for increasing production, employment and real income and, at the same time, to keep 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:

(1) Deduction of Development Levy

With a view to procuring additional funds for financing development activities in the country, banks were instructed to deduct levy at the rate of 4.0 percent on interest or profit payable as on or after 1.7.1988 on all savings and fixed/term deposits maintained with the banks.

(2) Special Credit Facility for Import of Duty-free Car by the Honorable Members of the Jatiyo Sangsad

Banks were advised to extend credit facility to the members of Jatiyo Sangsad only and open import L/C for import of cars under the Wage Earners' Scheme with the approval of the Board of Directors of the respective bank. The bankers will determine the L/C margin on the basis of their own judgement.

(3) Issuance of 'Bid Bond' for encouraging marketing of engineering items supplied locally as 'deemed export'

The banks will issue 'Bid Bond' in favour of the suppliers of engineering items supplied locally as 'deemed exports' under international tender against foreign exchange depending on banker-customer relationship. However, banks shall use their usual prudential considerations in fixing the rate of margin.

(4) Credit for Salt Growers during 1988-89

Banks were instructed to extend loans to the salt growers up to Tk. 9,375.00 per borrower at the rate of Tk. 3,750.00 per acre for a maximum of 2.5 acres of land to cover the cost for preparation of land and construction of dams. Banks were advised to disburse this loan to the borrowers, subject to repayment of 80 percent of their previous outstandings, if any, upto April 4, 1989 at an interest rate of 13.0 percent per annum.

(5) **Special Credit Scheme for the Rehabilitation of the Flood Affected Industrial Units during 1988**

A number of industrial units in different flood affected areas of the country were damaged and production of some units were disrupted. In order to rehabilitate these industrial units, specially to restore their production to the pre-flood level, banks were advised to provide adequate credit. The banks were also asked to determine the amount and conditions for the loan in each case on the basis of the extent and nature of loss, and banker-customer relationship. However, banks were instructed to arrange additional working capital on the basis of some general norms.

(6) **Interest Rate for Non-traditional Export Credit**

It was decided that in the cases where banks have charged normal rate of interest on pre-shipment export credit/working capital loan for non-traditional items instead of the concessional rate on account of failure to effect shipments within 180 days from the date of advance, interest at the Bank Rate shall be realised from the banks by the Bangladesh Bank on the corresponding amount of refinance allowed to them at concessional rate of interest. In the case of interest subsidy paid to banks, they will have to pay the entire amount of subsidy alongwith penal interest to the Bangladesh Bank.

(7) **Credit Norms for the Road Transport Sector**

As per Import Policy of 1988-89, banks were allowed to extend loan facility at 30 percent rate of margin and 14.0 percent rate of interest for purchase of both imported and locally assembled buses, minibuses etc. and for import of reconditioned passenger vehicles. However, credit facility without margin or collateral security may be extended to the borrowers for purchase of new buses assembled in the country on production of guarantee from the Sadharan Bima Corporation for 100 percent repayment of the principal and interest. In the interest of the development of road transport, specially passenger transport system, the banks may extend loan for purchase of buses, minibuses, etc. without collateral security depending on their relationship with the borrower and on the basis of their credit-worthiness and repayment capacity. However, in each cases, vehicles procured with bank-finances must be taken as security.

(8) Levy on Bearer Certificate of Deposits

Instructions were issued to deduct levy for the Jamuna Multipurpose Bridge Scheme and development surcharges at the time of encashment of bearer Certificate of Deposits from the respective owner. Instructions were also given to print the following sentence on the prescribed form of the bearer Certificate of Deposits: "Subject to the deduction of levy, taxes, if any, imposed by the Government from time to time".

(9) Decisions Relating to Jute Credit for 1988-89 Jute Season

(a) Instructions were issued to banks on 10.11.88 to the effect that credit facility may be allowed to the jute mills/spinning mills according to their requirements, within their credit ceilings but without additional collateral security as an interim arrangement up to 31.12.88. Generally, excess drawing beyond c.c limit would not be allowed to any jute mills/spinning mills, but the same could be allowed to them upto 31.12.88 upto the extent of their export earnings i.e. the amount deposited in their account as bills.

(b) As per the Government decision the banks were instructed to provide credit to the jute mills/spinning mills for meeting their expenses on account of wage/salary, Eid-bonus, etc.

(10) Modification of the Industrial Policy-1986

Following modifications/alterations in the investment procedure of Industrial Policy-1986, several changes were made in the Circular which was issued in October, 1986 in respect of credit facility for industrial units to be set up. The decisions which were taken as per the modified Circular are enumerated below:

(a) No prior approval of the Board of Investment will be required for setting up joint venture industrial projects with foreign equity participation and with capital outlay not exceeding 49 percent and Tk. 10.00 crores respectively, provided the relevant industry is not included in the "Discouraged list". Banks/financing institutions will be free to sanction loans to these projects.

(b) No approval of the Investment Board will be required for setting up industrial projects which are eligible to be financed/approved by the commercial banks/financial institutions even if the value of importable raw materials of these projects exceed 50 percent of the value of required raw materials.

(c) The Bangladesh Shilpa Bank and the Bangladesh Shilpa Rin Sangstha shall have to make arrangements with the commercial banks for supply of working capital finance for the projects financed by them. In the cases of projects financed by the commercial banks, arrangements are also to be made by them for working capital finance while sanctioning the projects.

(d) Financial institutions and commercial banks shall not ask for any additional collateral security from the entrepreneurs while sanctioning term loans for any project.

(e) No collateral security can be demanded against working capital finances in the cases where goods are pledged with the banks. However, the entrepreneur may be asked to provide margin. The rate of margin however, shall not be more than 20 percent in the case of small industries and 30 percent for the medium and large industries. In the cases where working capital is supplied on the basis of hypothecation collateral security may be demanded on the basis of banker-customer relationship.

(11) Credit Scheme for Small and Cottage Industries Sector

The norms relating to recovery of credit in the small and cottage industries sector were partially modified. It was decided that disbursement of loans will be postponed by the authorised bank branches in those districts where the recovery rate falls bellow 30 percent. However, applications from the promising entrepreneurs may be considered on the basis of merit of the cases.

(12) Prior Approval of Bangladesh Bank for Large Loans

The requirement of obtaining prior approval of the Bangladesh Bank for sanction/renewal or re-scheduling of loan/credit facility of Tk. 3.00 crores and above by the nationalised commercial banks and Tk.1.00 crores and above by other commercial banks was withdrawn.

(13) Financing for BMRE of Selected Tannery Units

The banks were advised to provide loans on the basis of proper assessment of the requirement mentioned in the applications of the tannery units finally selected by the Government for their balancing, modernisation, replacement and expansion (BMRE) programme which have been undertaken to increase receipt through increased exports of finished leather instead of wet-blue leather. Generally, a tannery unit may apply for the above loan to the same bank from which it is currently enjoying credit facilities. However, application may be made to any other bank on repayment of the loans of the present banker or on obtaining NOC from it. Other terms and conditions of this loan are as follows:

(a) The ceiling of loan for each of the units shall be limited to Tk. 2.00 crores.

(b) The debt-equity ratio will be 80:20.

(c) Assets belonging to the project may be taken as security. No additional collateral security shall be required.

(d) The repayment period of the loans may be fixed at 10 years including 2 years' grace period.

(e) The rate of interest of this loan will be the same as in the case of term loans, i.e., 13.5 percent per annum.

(f) In case there are overdue loans in the name of any of the tannery units, a satisfactory understanding between the banker and the borrower must be arrived at before making any sanction under this credit facility.

(14) Export Facility: Interest Rebate of 2.0 Percent Per annum on Export Credit for Non-traditional Items

The rebate of 2.0 percent per annum as was allowed to the exporters of non-traditional items who might exceed their respective annual targets remained in force during 1987-88 and 1988-89.

(15) Extension of Bank Credit to the Four Non-traditional Export Items Under the 4-Year Crash Programme

The following new directives, along with some modifications in the instructions which were issued earlier for allowing credit facilities on easy term to the four non-traditional items namely, (i) toys, (ii) luggage and fashion articles, (iii) electronic goods, and (iv) leather goods by the Government in the Export Policy for 1988-89 with the objective of accelerating the pace of non-traditional exports, were issued to the banks:

(a) Banks will extend export credit facility to the exporters against export of the above mentioned items in completely manufactured forms as per existing credit norms on production of irrevocable export L/C or firm export order. Credit facilities may, however, be extended without irrevocable export L/C or firm export order in special cases subject to observation of the usual credit norms upon recommendation by the Export Promotion Bureau.

(b) The rate of interest on bank credit extended for export of the above four items in completely manufactured form shall be fixed at 7.0 percent per annum.

(c) Refinance facility at 3.5 percent rate of interest will be allowed to the banks in view of fixation of interest at a reduced rate on loans extended by them in the above sector.

(d) Back-to-back L/C facility will be provided for collection of raw materials both from domestic and foreign sources as required in connection with production of the above four items. The extent of value addition of the importable raw materials in respect of leather goods shall be 30 percent, while that in respect of the other three items shall be 25 percent.

(16) Permission for the IPDC to participate in the Inter-bank Call Money Market

The Industrial Promotion and Development Company of Bangladesh Limited (IPDC) was permitted to participate in the Inter-bank Call Money Market during the year under report.

(17) Rate of Margin on Internal Trading

The rate of margin for sanction of bank credit for lifting goods by the approved dealers of the BTMC and the TCB was reduced from 50 percent to 25 percent.

(18) 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 adequate additional collateral there-against, and repayment in full of the outstandings against which there is a shortfall in stocks; (3) satisfactory understanding between the borrowers and the bankers in respect of repayment of the segregated loans within specified time-schedule.

Refinance Policy

3.22 The Bangladesh Bank's policy in respect of refinance to the scheduled banks continued to be aimed at encouraging the banks to rely mainly on their own resources for their credit operations. However, keeping in view the increasing demand for credit in the priority sectors, 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. The refinance programme for 1988-89 was as follows:

(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 additional refinance accommodation on this account in case of need.

(ii) Refinance against Tea (Other than Packet Tea)

Refinance for export sales of tea (other than packet tea) was allowed to the extent of 100 percent of the 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 and not exceeding 180 days in respect of tea sent to the London auction on consignment basis.

(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 pre-shipment export credit (less overdues), including packing credit or loans extended against firm export contract in respect of non-traditional items.

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

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

(c) Arrangements were made for extension of refinance facility at an interest rate of 3.5 percent per annum to the extent of 100 percent of the export credit allowed by banks in respect of the four fully manufactured non-traditional items: (i) toys, (ii) luggage and fashion articles, (iii) electronics, and (iv) leather goods.

(d) Refinance against Export-oriented Fish Freezing Units under Custom Bonded Warehouse 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 the working capital advances in the above-mentioned areas. The requirement 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 the 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 the banks to the industries commissioned on or after July 1, 1987.

(vi) Refinance against Export Bills

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

(vii) Refinance under the Duty-Draw-back 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 was allowed to the banks at 2 percent below the rate of interest charged by them against term/project loans sanctioned on or after July 1, 1988.

(ix) Refinance against BMRE Finance of the Existing Tannery Units

100 percent refinance was allowed to the banks at the Bank Rate against loans extended by them for balancing, modernisation, replacement and expansion (BMRE) 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 the 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 for 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 emergency requirements in specific areas, subject to observance of the purpose of credit by the banks and enforcement of credit discipline upon the borrowers or under any other special circumstances. However, the rate of interest in such cases may be fixed 4.0 percent above the Bank Rate per annum.

CHAPTER IV

BANKING FACILITIES AND FINANCE

Branch Expansion

4.1 A total of 109 new branches were opened by the scheduled banks in Bangladesh during 1988-89. One rural branch of the Bangladesh Krishi Bank and one rural and one urban branch of the Pubali Bank Limited were merged with their respective nearest branches during the same period. The total number of bank branches thus increased by 106 to 5,451 as on June 30, 1989 from 5,345 as on June 30, 1988. Of these, the branches of the nationalised banks (including Rupali Bank Limited) increased by 36 to 3,522, the specialised banks by 18 to 1,122 and the private banks by 52 to 785. The number of foreign bank branches operating in Bangladesh, on the other hand, remained unchanged at 22 during the year. The scheduled banks opened 52 rural branches during the year, raising the total number of bank branches in rural areas to 3,621 (66.4% of total bank branches in the country) by the end of June, 1989. The number of Bangladeshi commercial bank branches operating abroad remained unchanged at 13 as on June 30, 1989. As a result of opening of a new bank named "Bank of Small Industries and Commerce-Bangladesh Limited" in the private sector, the number of private sector banks increased to 10 by the end of June, 1989. The number of foreign banks operating in Bangladesh remained unchanged at 7 as on June 30, 1989.

Bank of Small Industries and Commerce-Bangladesh Limited

4.2 A new scheduled bank in the private sector under the name "Bank of Small Industries and Commerce-Bangladesh Limited" was approved during the year with the specific objective of ensuring timely supply of necessary funds for accelerating expansion of small and cottage industries in the country. The bank started formal business from January 21, 1989. The authorised and paid-up capital of the Bank are Tk. 10.00 crores and Tk. 8.00 crores respectively. The BCC foundation subscribed 70.0 percent of the paid up capital, while the rest 30.0 percent has been retained by the Government of Bangladesh. The bank is under statutory obligation to deploy at least 50.0 percent of its loanable funds to the Small and Cottage Industries (SCI) sector. Mobilisation of deposits and advances made by the bank stood at Tk. 21.16 crores and Tk. 2.09 crores respectively as on June 30, 1989. The number of branches of the Bank remained limited to 1 upto the end of June, 1989.

Islami Banking

4.3 Total deposits of the Islami Bank Bangladesh Limited (IBBL) increased by Tk.36.57 crores to Tk. 278.67 crores as on June 30, 1989 as compared to Tk. 242.10 crores at the end of June, 1988. Disbursement of credit and financing of investments by the bank increased by Tk. 38.33 crores to Tk. 203.70 crores at the end of June, 1989 from Tk. 171.29 crores at the end of June, 1988. The total number of branches of the IBBL increased to 27 at the end of June, 1989 from 22 at the end of June, 1988. Total deposit resources of the Al-Baraka Bank Bangladesh Limited (ABBL) increased by Tk. 103.80 crores to Tk. 198.00 crores at the end of June, 1989. The deposits of the bank had stood at Tk. 94.20 crores at the end of June, 1988. The outstanding level of credit investment extended by the ABBL increased by Tk.135.39 crores to Tk. 220.79 crores during the year as compared to the increase of Tk. 85.48 crores during 1987-88. The number of branches of the ABBL increased to 13 at the end of June, 1989 from 5 at the end of June,1988.

Group-wise Comparative Position of Scheduled Banks

4.4 The share of the Nationalised Banks, private banks, Islami banks, foreign banks, and the specialised banks to total deposit liabilities stood at 62.4 percent, 21.4 percent, 3.1 percent, 8.3 percent and 4.8 percent respectively at the end of June, 1989. The share had stood at 63.6 percent, 23.5 percent, 2.4 percent, 8.2 percent and 4.7 percent respectively at the end of June, 1988. Similarly, the group-wise shares of the above banks in total bank credit stood at 51.6 percent, 17.6 percent, 2.6 percent, 6.6 percent and 21.7 percent respectively at the end of the year under report as compared to 52.7 percent, 16.2 percent, 1.9 percent, 6.9 percent and 22.3 percent respectively during the preceding year. Group-wise share of the banks at the end of the year under report and the preceding two years are shown in Table 4.1.

TABLE 4.1

PERCENTAGE SHARES OF THE GROUP-WISE BANKS IN TOTAL BANK DEPOSITS AND BANK CREDIT

Group-wise Banks	Total Bank Deposits*			Total Bank Credit		
	June '89	June'88	June' 87	June, '89	June, '88	June, '87
1. N C Bs	62.43	63.56	64.76	51.55	52.65	53.45
2. Private Banks (Including Islami Banks)	21.37	21.13	20.24	17.58	16.20	14.96
3. Islami Banks	3.14	2.40	1.72	2.58	1.92	1.43
4. Foreign Banks	8.28	8.23	8.82	6.64	6.94	7.02
5. Specialised Banks	4.78	4.68	4.46	21.65	22.29	23.14
Total :	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

* Excluding Government Deposits.

4.5 As bank-wise data on Government Sector deposits are not compiled, these have not been included in the above table. However, total deposits of the Government Sector with banks are shown in Table 4.2.

TABLE 4.2

GOVERNMENT SECTOR DEPOSITS WITH BANKS

(In crore Taka)

Period	Demand Deposits	Time Deposits	Total Deposits
June, 1987	1,000.8	2,853.6	3,854.4
June, 1988	987.4	2,983.8	3,971.2
June, 1989	883.0	3,924.4	4,807.4

Inspection of Banks

4.6 The Bangladesh Bank, under its routine programme of inspection, carried out comprehensive inspection of 931 branches of the scheduled banks during 1988-89.

In addition, summary inspection of 131 branches and special inspection of 830 branches of the scheduled banks were also carried out during the year. Comprehensive inspection of 14 Bangladeshi bank branches operating abroad was also taken up during the year.

Investment Companies

4.7 Two investment companies, namely, the National Credit Limited (NCL) and the Bangladesh Commerce and Investment Limited (BCIL) have been functioning in the country with effect from October 31 and December 11, 1985 respectively. Though these institutions have been set up to function mainly as non-bank financial intermediaries in investment, they are also working in the meantime, as alternative sources of credit. 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 Saudi-Bangladesh Industrial and Agricultural Investment Company Limited (SABINCO) are also functioning as financial intermediaries in investment in different ways. The IPDC was allowed to participate in the Inter-bank Call Money Market during the year under report.

Inspection of Non-Bank Financial Institutions

4.8 With a view to ensuring overall monetary discipline through supervision of the activities of non-bank financial institutions, it was decided to bring them under the inspection network of the Bangladesh Bank during the year. Accordingly, inspection of 3 such institutions were completed during the year under report.

Counter-Finance for Food

4.9 For financing procurement and disbursement of foodgrains a sum of Tk.75.00 crores was made available to the Government by the nationalised banks and a counter finance limit of the same amount was allowed by the Bangladesh Bank during 1988-89. An amount of Tk. 50.00 crores remained outstanding against the above counter-finance limit at the end of June, 1989.

Counter-Finance for Fertilizer

4.10 The Bangladesh Bank sanctioned counter-finance limits of Tk. 120.00 crores to the nationalised bank including the Pubali, Uttara and Rupali Bank Limited during 1988-89 for financing procurement and distribution of fertilizers by the Bangladesh Agricultural Development Corporation (BADC). Outstanding counter-finance against the same stood at Tk. 89.00 crores as on June 30, 1989 as compared to Tk. 74.00 crores as on June 30, 1988. Another counter-finance limit of Tk. 20.00 crores was sanctioned to the Sonali Bank for financing procurement of pumps, engines and spare parts of shallow tubewells (STW) by the BADC against which there was no outstanding as on June 30, 1989.

Refinance for Jute

4.11 Arrangements for providing adequate finance from the banking sector to the jute trade and jute mills were continued during 1988-89 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. Peak-level utilisation of bank credit by the jute sector stood at Tk. 2,303.77 crores as on April 6, 1989 as compared to the peak-level of Tk. 1,928.79 crores as on December 30, 1987. The peak-level utilization of refinance facilities by the banks from the Bangladesh Bank stood at Tk. 703.38 crores as on June 29, 1989 as compared to the peak-level of Tk. 622.56 crores as on June 30, 1988.

Refinance against Exports Bills

4.12 The maximum outstanding amount of refinance by way of overdraft/ rediscounting facilities allowed to banks by the Bangladesh Bank against export bills stood at Tk. 32.00 crores as on July 7, 1988 which came down to Tk. 22.89 crores as on June 29, 1989. The outstanding amount of refinance in this sector was Tk. 16.86 crores as on June 30, 1988.

Refinance for Non-traditional Exports

4.13 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. 150.28 crores as on December 22, 1988 which came down to Tk. 133.36

crores as on June 29, 1989. The outstanding amount of refinance against this was Tk. 134.43 crores as on June 30, 1988.

Refinance for the Sugar Mills

4.14 The highest amount of outstanding refinance against financing of the sugar mills during 1988-89 stood at Tk. 24.66 crores as on May 18, 1989 which came down to Tk. 14.66 crores as on June 30, 1989. Outstanding refinance against the same had stood at Tk. 22.50 crores as on June 30, 1988.

Other Refinance*

4.15 Other refinance facilities allowed by the Bangladesh Bank to the scheduled banks on various accounts stood higher at Tk. 121.98 crores as on June 29, 1989 as compared to Tk. 58.78 crores as on June 30, 1988.

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* Details of refinance in the agricultural sector provided by the Bangladesh Bank to the scheduled banks have been given in Chapter VI.

CHAPTER V

CAPITAL MARKET AND INDUSTRIAL FINANCE

Dhaka Stock Exchange@

5.1 Transactions in shares on the floor of the Dhaka Stock Exchange (DSE) continued to exhibit a bearish trend during 1988-89. Seven new companies applied for enlistment of their names with the Exchange. As a result, the total number of companies listed with the Dhaka Stock Exchange increased from 97(R) in 1987-88 to 102* in 1988-89. Besides, 6 Mutual Funds and 4 Debentures were also enlisted with the Dhaka Stock Exchange during the year with total issued capital of Tk. 23.00 crores.

5.2 Total turnover of shares on the floor of the Dhaka stock Exchange during the year stood at 16.67 lakh shares and debentures, worth Tk. 15.44 crores. This was 54.6 percent higher in terms of number and 27.7 percent higher in terms of value of shares as compared to that in the preceding year. In all, 12** companies offered new shares worth Tk. 15.28 crores for public subscription during 1988-89 which was 61.7 percent lower as compared to shares worth Tk. 39.84 crores offered by 17 companies in 1987-88.

Commercial Banks

5.3 The commercial banks' active role in promoting the country's capital market continued during 1988-89. The outstanding balance of scheduled banks' (nationalised banks, private banks and foreign banks operating in Bangladesh) financing of debentures issued by the sector corporations at the end of June, 1989 remained unchanged at the preceding year's end-June level of Tk. 1,066.77 crores. Besides, the scheduled banks made advances to members of the Stock Exchange

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@ = Source : Dhaka Stock Exchange.
R = Revised.
* Excluding 2 companies whose previous enlistments were cancelled during 1988-89.
** Including 5 companies whose applications for enlistment with the Exchange were under consideration.

against security of their shares of the listed companies with the Exchange upto 80 percent of the face value of such shares. Scheduled banks' advances against stock exchange securities (including Government and other trustee securities) stood at Tk. 221.47 crores at the end of December, 1988. This compared with Tk. 244.20 crores at the end of June, 1988.

Investment Corporation of Bangladesh

5.4 The Investment Corporation of Bangladesh (ICB) made a total commitment of Tk. 0.35 crores for bridge financing* only during 1988-89. The corporation had committed a total of Tk. 2.46 crores including Tk. 1.46 crores for bridge financing and Tk.1.00 crore for underwriting public issues of shares by companies during 1987-88. Total investment commitments made by the ICB and other consortium partners declined to Tk.0.35 crore during 1988-89 as compared to Tk.6.07 crores during 1987-88. The outstanding commitments made by the ICB and consortium partners at the end of June, 1989 stood at Tk. 46.19 crores (ICB Tk.12.40 crores and consortium partners Tk. 33.79 crores). This compared with the outstanding commitments of Tk.47.20 crores (ICB Tk. 13.06 crores and consortium partners Tk. 34.14 crores) at the end of June, 1988. Since inception upto June 30, 1989 the ICB made a total commitments of Tk. 93.44* crores against 295 projects.

5.5 The ICB and its consortium partners made a total investment of Tk. 2.02 crores (ICB Tk. 0.45 crore and consortium partners Tk. 1.57 crores) during 1988-89. This compared with investments of Tk. 4.96 crores (ICB Tk. 3.91 crores and consortium partners Tk. 1.05 crores) during 1987-88. The outstanding amount of investments by the ICB and its consortium partners stood at Tk. 69.17[P] crores at the end of June, 1989. This compared with the investments of Tk. 69.59 crores at the end of June, 1988.

The Bangladesh Shilpa Bank

5.6 The Bangladesh Shilpa Bank (BSB) received a total of 75 loan applications during 1988-89 as compared with 71 applications received during 1987-88. The BSB sanctioned a total loan of Tk. 120.21 crores against 39 projects during the year which

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* Excluding cancellation of project/reduction of investments.

P = Provisional.

included Tk.78.08 crores in foreign currency and Tk. 42.13 crores in local currency. The BSB had sanctioned a total loan of Tk. 52.01 crores against 27 projects during 1987-88, of which Tk. 43.88 crores were in foreign currency and Tk.8.13 crores in local currency. As in the previous year, the entire amount of loans sanctioned during 1988-89 was against industrial projects in the private sector.

5.7 Total disbursement of loans by the BSB during 1988-89 amounted to Tk. 46.82 crores, of which Tk. 30.19 crores were in foreign currency and Tk. 16.63 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. 30.90 crores in 1987-88 which included a foreign currency component of Tk. 24.53 crores and local currency amount of Tk. 6.37 crores. The BSB recovered an amount of Tk. 73.56 crores during 1988-89 as compared to Tk. 66.72 crores during 1987-88. The outstanding amount of BSB loans, including overdue loans of Tk. 365.52 crores (49.0%), amounted to Tk. 746.76 crores as on June 30, 1989. This compared with the outstanding loan of Tk.700.38 crores, including overdue loans of Tk. 347.62 crores (49.6%) as on June 30, 1988.

Bangladesh Shilpa Rin Sangstha

5.8 Credit operations of the Bangladesh Shilpa Rin Sangstha (BSRS) during 1988-89 were conducted basically in line with the redefined role and changed objectives of the Sangstha. The BSRS sanctioned fresh loans totalling Tk. 17.90 crores for Balancing, Modernisation, Replacement and Expansion (BMRE) of 8 projects under its own portfolio and Tk. 5.32 crores as additional loans against 6 projects under implementation during 1988-89. This compared with loans amounting to Tk. 0.22 crore against 2 projects under implementation sanctioned during the preceding year. The amount of loans disbursed by the Sangstha during 1988-89 stood higher at 3.55 crores as compared to Tk. 2.96 crores during 1987-88. The entire amount of loans disbursed during the year was in local currency.

5.9 The BSRS strengthened its efforts to recover its overdue loans during 1988-89. A number of measures were taken by the Sangstha for improving the operational efficiency and loan repayment programme of the projects set up with its financial assistance through better co-ordination of its recovery activities and effective application of supervisory methods. With a view to encouraging repayment of loans within or even before the scheduled time period, the Sanstha allowed some concessional facilities to the borrowers. Apart from motivating the borrowers in repaying loans through a programme of visit to the projects and direct consultation between the Chief Executive/other high officials of the Sangstha and promoters of the projects in finding solutions to their specific problems, some pressurising measures like non-issuance of NOC for getting working capital advances, issuance of warning notices, publication of names of the defaulter loanees in the daily newspapers, etc. were also taken by the Sangstha. Legal actions were initiated against those defaulter borrowers who were unwilling to repay their loans even after the above measures. Despite all these measures, total amount of loans recovered by the Sangstha during 1988-89 declined to Tk. 36.26 crores as compared to Tk. 49.74 crores during the previous year. The outstanding loans of the BSRS increased to Tk.835.92 crores as on June 30, 1989 as compared to Tk.759.40 crores as on June 30, 1988.

CHAPTER VI

AGRICULTURAL AND RURAL FINANCE

Annual Agricultural Credit Programme

6.1 The Annual Agricultural Credit Programme of the Bangladesh Bank for the crop year (October-September) 1988-89 envisaged a disbursement of Tk. 1,250.00 crores keeping in view the increased requirement of finances for supporting major crop production in the country as well as for overall development of the agricultural sector. This was 19.1 percent higher than Tk. 1,050.00 crores envisaged in the programme for the preceding year. Of the total programme for the year under report an amount of Tk. 631.50 crores (50.5%) was earmarked for crop loan (other than tea), Tk. 80.50 crores (6.4%) for financing purchase and installation of irrigation equipments and Tk. 538.00 crores (43.0%) for other agricultural activities. Allocation for these sectors during 1987-88 were Tk. 479.38 crores (45.7%), Tk. 102.85 crores (9.8%) and Tk.467.77 crores (44.5%) respectively.

6.2 With a view to making disbursement and recovery of agricultural credit more easy and realistic, some procedural changes were introduced during 1988-89. These were :

(a) Enhancement of the maximum limit of land for the purpose of crop loan from 2 acres to 2.5 acres per crop;

(b) Arrangement for payment of credit for purchase of fertilizer in cash instead in "Credit Vouchers" as before; and

(c) Provision for supplying a definite repayment schedule to each of the borrowers by the bank branches at the time of disbursement of the loan

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N.B. : The Annual Agricultural Credit Programme has been prepared on the basis of crop year, but the data relating to disbursement and recovery of credit have been shown on the basis of financial year (July-June). Figures relating to 1988-89 are provisional.

so as to facilitate smooth and timely repayment of loans. The portion of principal and interest against each of the instalments falling due on particular dates must be shown separately, so that the loanee might be aware in advance of the exact amount of his liabilities.

6.3 For simplification of the procedures for disbursement of crop loans, the Bangladesh Bank instructed the schedule banks to introduce a precise application 'form' involving less formalities as introduced by the Bangladesh Krishi Bank. In the new system, arrangement has been made for receiving loan application together with the hypothecation deed in a single 'form' instead of six different Forms as before. From this year, any borrower of the bank would be acceptable as identifier of a loanee in lieu of Chairman of the Union Parishad.

Credit Pass Book

6.4 During 1988-89, it was made compulsory for all the credit giving institutions to carry out all their transactions relating to agricultural loans through Credit Pass Books as introduced since 1984-85. A total of 40.24 lakh out of 65.32 lakh loanees were issued Pass Books upto June 30, 1989. These included 14.91 lakh Pass Books issued by the participating Commercial Banks, 3.01 lakhs by the Bangladesh Rural Development Board, 16.31 lakhs by the Bangladesh Krishi Bank, 4.38 lakhs by the Rajshahi Krishi Unnayan Bank and 1.63 lakhs by the Bangladesh Samabaya Bank Limited.

Matrix of Interest Rates on Bangladesh Bank's Refinances to the Agricultural Sector

6.5 For conducting credit programmes in the agricultural sector, the Bangladesh Bank provides refinance facilities to the Participating Credit Institutions (Commercial Bank, Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, Bangladesh Samabaya Bank Ltd. and Bangladesh Rural Development Board). Different rates of interest are applied on the basis of ratio of the amount of loan disbursed to the amount of refinance drawn by the Participating Credit Institutions as shown in Table 6.1.

TABLE 6.1

MATRIX OF INTEREST RATES ON BANGLADESH BANK'S REFINANCE TO THE AGRICULTURAL SECTOR (Effective from 30-6-88)

Annual Rate of Interest on Refinance	Refinance as percentage of Loans Disbursed		
	For Commercial Banks	For BKB and RKUB	For Bangladesh Samabaya Bank Limited (BSBL)/IDA Credit No. 1147-BD
7.5	Less than 50%	upto 50%	The rate of interest is 8.5% for all types of Refinance
8.5	50% to less than 60%	Over 50% upto 90%	
9.5	60% to less than 80%	Over 90% upto 95%	
10.75	80% upto 100%	Over 95% upto 100%	

Land Mortgage Loan Programme

6.6 With a view to giving financial support to the middle, small and marginal farmers of the flood and tidal bore affected areas facing the threat of becoming Landless, the Bangladesh Bank launched a Land Mortgage Loan Programme for Tk.100.00 crores in October, 1988 for disbursement through the Bangladesh Krishi Bank, the Rajshahi Krishi Unnayan Bank and the Nationalised Commercial Banks. The main characteristics of this programme are: (a) Disbursement of loans will be made for a maximum amount of Tk. 5,000.00 per borrower on the basis of Tk. 2,000.00 per bigha of agricultural land, the amount being lower in proportion to the size of land to a minimum of Tk.1,000.00; (b) Individuals owning not more than 5 bighas of land who were forced to mortgage their lands elsewhere after the floods and were apprehending loss of the same will be eligible to get this loan for releasing their lands; (c) Farmers who received loans by mortgaging their lands in 1984 will also be eligible to get this loan by mortgaging additional lands; (d) Keeping in view the conditions of the farmers, the rate of interest on this loan has been fixed at 13% per annum without any 'service charge' and (e) The loan will be provided through Pass Books as per the existing system for disbursement of agricultural credit. Repayable in 9 equal half-yearly instalments including interest, the first instalment is payable after one year from the date of receipt of the loan. The deadline for disbursement of the loan, though initially set at December 31, 1988, was subsequently extended upto June 30, 1989. Despite higher priority for expediting disbursement activities, total disbursement of loans under the programme upto June 30, 1989 stood at Tk. 21.70 crores only. The bank-wise disbursement of loans under the programme has been shown in Table 6.2.

TABLE 6.2

LAND MORTGAGE LOAN PROGRAMME
(October, 1988-June, 1989)

(In Crore Taka)

Credit Disbursing Banks	Allocation under the programme	Amount of disbursement (Upto June, 1989)
Sonali Bank	25.00	6.00 (24.00)
Janata Bank	16.00	3.43 (21.44)
Agrani Bank	15.00	3.44 (22.93)
Rupali Bank	9.00	2.21 (24.56)
Bangladesh Krishi Bank	25.00	4.74 (18.96)
Rajshahi Krishi Unnayan Bank	10.00	1.88 (18.80)
Total :	**100.00**	**21.70**

N.B. : Figures in the parentheses indicate the percentages of disbursements to allocations of the respective banks.

Rin Shalishi Board

6.7 With a view to reducing the burden of various kinds of debt of the farmers, formation of a 18 member 'Jatiya Rin Shalishi Board' was announced by the Honourable President on January 1, 1989 in exercise of the powers conferred on him by the Bangladesh Rin Shalishi Ordinance (Ordinance No. 36, 1988 Ministry of Law, dated December 31, 1988). The area of operation of the Board will be: (i) to review the credit problems of small and marginal farmers and sharecroppers; (ii) to examine and review the existing system and amount non-institutional agricultural loans; (iii) to review and take decision regarding the existing non-institutional interest rates including compound rates of interest relating to agricultural credit; (iv) to review, in phases, performances and proper implementation of activities of the Rin Shalishi Board; (v) to review the question of protection or reduction of transfer of landed property by small and marginal farmers at the time of crisis; (vi) to review any other issues relating to agricultural and rural credit; and (vii) to take decision and necessary action relating to all the measures mentioned above. The Rin Shalishi Board has also been formed at the Upazilla levels.

6.8 The Rin Shalishi Board shall have the authority to take decisions in respect of seven clearly defined issues. These are: (i) Prayer for exemption/reduction of the cash loans, crop loans or seed loans given by individuals or Mahajons; (ii) Prayer for getting back the signed or thumb impressioned blank papers given by the loanees; (iii) Prayer for cancellation of sale deed of landed property and conversion of the sale proceeds into interest free loan if the same has been purchased at less than the market price; (iv) Prayer for transformation of sale deeds of specific price into usufructuary mortgage deeds (Khaikhalshi Bandhaki Dalil) within specific time period (v) Prayer for reasonable reduction in the rate of interest in the case of exorbitant rates; (vi) Prayer for rational rescheduling of the instalments of loans payable by the farmers; and (vii) Prayer for return of mortgaged or usufructuary (Khaikhalshi) lands to its owners from Mahajons in appropriate cases. A more detailed description of the "Jatiya Rin Shalishi Board" has been given in Annexure-A.

Disbursement of Loan under Annual Agricultural Credit Programme

6.9 In view of the extensive damages to crops as a result of the devastating floods, cyclone, tidal-bores and severe drought in 1988-89, the repayment periods of loans received against the major crops during 1985-86, 1986-87 and 1987-88 crop years were extended by 1 year to 18 months together with rescheduling of the repayment instalments. The affected farmers were allowed to receive fresh loans even if they failed to repay the previous outstandings. The repayment periods in respect of the borrowers who failed to repay upto two instalments of their loans against irrigation equipment, fishery and plough animals were also extended by one year and banks were instructed to gear-up disbursement of loans on easy terms in these sectors. Besides, the disbursement periods for different crop loans were extended in view of the floods and drought. As a result of the above measures for expediting disbursement activities, total amount of agricultural loans disbursed by the Participating Credit Institutions (PCIs) during 1988-89 stood at Tk. 807.62 crores (64.6% of total programme) which was 23.1 percent higher than Tk.656.31 crores disbursed in 1987-88. An amount of Tk. 353.73 crores (56.0% of total allocation) was disbursed as crop loan (other than tea) during 1988-89 which was 29.0 percent higher than Tk.274.28 crores during the preceding year. Disbursement of Tk.36.98 crores (45.9% of total allocation) for installation and purchase of irrigation equipments was 94.0 percent higher than Tk. 19.06 crores in the previous year. Disbursement of Tk. 416.91 crores (77.5% of total allocation) for 'other agricultural activities', on the other hand, was 14.9 percent higher than Tk. 362.97 crores disbursed in 1987-88.

Recovery of Agricultural Credit

6.10 As in the previous year, the repayment periods for crop loans were extended by 1 year to 18 months together with rescheduling of the instalments for repayment during the year under report also in view of the decline in repayment capacity of farmers following a reduction in their incomes due to the damages caused by devastating floods in 1987-88 and 1988-89. The repayment periods for overdue instalments in respect of loans against irrigation equipments, plough animals and fishery were also enhanced by one year. As a result of the above relaxations, the recovery of agricultural loans declined substantially during 1988-89. Total recovery of agricultural credit during the year stood at Tk. 577.96 crores or 19.7 percent of Tk. 2,933.66 crores due for recovery as on June 30, 1989. This was 3.0 percent lower than Tk. 595.78 crores recovered during the preceding year. As a result of the decline in recovery, the outstanding balance of agricultural credit increased by 22.0 percent from Tk. 3,863.49 crores at the end of June, 1988 to Tk. 4,711.66 crores at the end of June, 1989. The outstanding level of overdue agricultural loans at Tk. 2,355.68 crores (50.0% of total outstandings) as on June 30, 1989 was 21.9 percent higher than Tk. 1,932.38 crores as on June 30, 1988.

6.11 A comparative position of credit operations under the Annual Agricultural Credit Programmes for 1987-88 and 1988-89 is shown in the Table 6.3.

TABLE 6.3

COMPARATIVE POSITION OF ANNUAL AGRICULTURAL CREDIT PROGRAMMES FOR 1987-88 AND 1988-89

(In Crore Taka)

Particulars	1987-88	1988-89 (Provisional)	Changes over the year
1. Programme for Disbursement	**1,050.00**	**1,250.00**	**+200.00** (+19.05)
a) Crop Financing (Other than tea)	479.38	631.50	+152.12 (+31.73)
b) Financing of Irrigation Equipments	102.85	80.50	−22.35 (−21.73)
c) Financing of Other Agricultural Activities (including tea)	467.77	538.00	+70.23 (+15.01)
2. Actual Disbursement	**656.31**	**807.62**	**+151.31** (+23.05)
a) Crop Financing (Other than tea)	274.28	353.73	+79.45 (+28.97)
b) Financing of Irrigations Equipments	19.06	36.98	+17.92 (+94.01)
c) Financing of Other Agricultural Activities (including tea)	362.97	416.91	+53.94 (+14.86)
3. Loans Due for Recovery	2,528.16	2,933.66	+405.50 (+16.04)
4. Recovery of Loans	595.78	577.96	−17.82 (−2.99)
5. Overdue Loans	1,932.38	2,355.68	+423.30 (+21.91)
6. Outstanding Balance	3,863.49	4,711.66	+848.17 (+21.95)

N. B. : Figures in parentheses indicate percentage changes over the year.

6.12 Of the total loans disbursed during 1988-89, short-term loans accounted for Tk. 608.42 crores or 75.3 percent as compared to Tk. 503.84 crores or 71.1 percent during the previous year. Disbursement of term loans increased by Tk.46.73 crores to Tk. 199.20 crores which was 24.7 percent of total disbursements during the year as compared to Tk.152.47 crores during 1987-88. Disbursement of short-term crop loans (other than tea) increased by 29.0 percent while that for tea increased by 17.7 percent during the year under report. Term loans disbursed for purchase and installation of irrigation equipments during 1988-89 increased by 94.0 percent over the level in the preceding year. On the other hand, term loans disbursed for other agricultural activities including animal husbandry increased by 21.6 percent during 1988-89 as compared to the preceding year. A comparative position of disbursement of agricultural loans by terms and types is given in Table 6.4.

TABLE 6.4

DISBURSEMENT OF AGRICULTURAL CREDIT BY TERMS AND TYPES

(Taka in crore)

Particulars	1987-88	1988-89 (Provisional)	Changes over the Year
Total Disbursement	**656.31**	**807.62**	**+151.31**
1. Short Term Loans	**503.84** (76.77)	**608.42** (75.33)	**+104.58**
a) Crop Loans (Others than tea)	274.28	353.73	+79.45
b) Loans for Other Agricultural Activities	**229.56**	**254.69**	**+25.13**
i) Production loans for tea	92.46	108.79	+16.33
ii) Other loans	137.10	145.90	+8.80
2. Terms Loans	**152.47** (23.23)	**199.20** (24.67)	+ 46.73
a) Loans for purchase of Irrigation Equipments	19.06	36.98	+ 17.92
b) Loans for Other Agriculture Activities	**133.41**	**162.22**	+ 28.81
i) Loans for animal husbandry	59.01	74.55	+ 15.54
ii) Other loans	74.40	87.67	+ 13.27

Note : Figures in the parentheses indicate percentages of total credit.

6.13 The Bangladesh Krishi Bank remained as the single larger source of agricultural credit. Although the role of this bank in providing crop loans had weakened somewhere during 1987-88, there was significant improvement during the year under report. Disbursement of crop loans by the Krishi Bank increased by 117.1 percent to Tk. 93.74 crores during 1988-89. As a result, the share of Krishi Bank in total disbursement of crop loans increased from 15.7 percent in the preceding year to 26.5 percent during the year under report. The Participating Commercial Banks were the second largest sources of agricultural credit during 1988-89. Disbursement of agricultural loans by the Participating Commercial Banks increased by 36.7 percent to Tk. 240.87 crores during 1988-89. As a result, their collective contribution in total agricultural loans as well as in crop loans increased from 27.1 percent and 49.3 percent respectively in 1987-88 to 29.8 percent and 52.2 percent in 1988-89. In fact, as the previous year, the Participating Commercial Banks jointly were the largest source for crop loans during 1988-89 also. The role of the Rajshahi Krishi Unnayan Bank and the Bangladesh Samabaya Bank Limited in disbursing agricultural credit diminished to some extent during 1988-89. Their respective shares in total agricultural loans as well as in crop loans stood at 5.8 percent and 3.9 percent and 2.2 percent and 3.2 percent respectively during 1988-89. The share of the Bangladesh Rural Development Board in both total agricultural loans and crop loans also declined substantially from 13.0 percent and 23.9 percent in 1987-88 to 7.7 percent and 12.1 percent respectively in 1988-89. The source-wise disbursement of agricultural loans is shown in Table 6.5.

TABLE 6.5

DISBURSEMENT OF AGRICULTURAL CREDIT BY SOURCES

(Taka in crores)

Sources/ Credit Agencies	1987-88		1988-89 (Provisional)	
	Total	Crop Loan (Other than tea)	Total	Crop Loan (Other than tea)
Bangladesh Krishi Bank	336.23 (51.23)	43.18 (15.74)	440.35 (54.52)	93.74 (26.50)
Rajshahi Krishi Unnayan Bank	42.99 (6.55)	19.92 (7.26)	46.49 (5.76)	20.89 (5.91)
Participating Commercial Banks	177.54 (27.05)	135.11 (49.26)	240.87 (29.82)	184.75 (52.23)
Bangladesh Rural Development Board	85.58 (13.04)	65.56 (23.90)	62.26 (7.71)	42.96 (12.14)
Bangladesh Samabaya Bank Limited	13.97 (2.13)	10.51 (3.84)	17.65 (2.19)	11.39 (3.22)
Total :	**656.31**	**274.28**	**807.62**	**353.73**

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

Bangladesh Bank's Refinance in the Agricultural Sector

6.14 Refinance availed of by the Participating Credit Institutions from the Bangladesh Bank during 1988-89 upto June 30, 1989 stood at Tk.633.82 crores which was 43.5 percent higher than Tk.441.63 crores as on June 30, 1988. Details of the Bangladesh Bank's refinance to the different credit giving agencies are shown in Table 6.6.

TABLE 6.6

BANGLADESH BANK'S REFINANCE IN THE AGRICULTURAL SECTOR

(Taka in crores)

Credit Agencies	1987-88		1988-89	
	Sanction	Disbursement	Sanction (Provisional)	Disbursement
BKB	343.50	214.13	480.00 (+39.74)	426.76 (+99.30)
RKUB	101.08	48.20	110.00 (+8.82)	42.97 (−10.85)
PCBs	69.52	75.46	112.87 (+62.36)	105.18 (+39.39)
BRDB	102.28	90.90	49.80 (−51.31)	43.39 (−47.73)
BSBL	29.00	12.94	38.50 (+32.76)	15.52 (+19.94)
Total :	**645.38**	**441.63**	**791.17 (+22.59)**	**633.82 (+43.52)**

Note : Figures in parentheses indicate percentage changes.

Outstanding Borrowings of the PCIs

6.15 The outstanding balance of refinances provided by the Bangladesh Bank to the Participating Credit Institutions (PCIs) stood at Tk. 1,857.30 crores at the end of June, 1989 which was Tk. 407.9 crores or 28.1 percent higher than Tk. 1,449.40 crores at the end of June, 1988. The position of outstanding balance of Bangladesh Bank's refinances to the PCIs during 1987-88 and 1988-89 is shown in Table 6.7.

TABLE 6.7

OUTSTANDING BALANCE OF REFINANCES TO THE PARTICIPATING CREDIT INSTITUTIONS

(Taka in crores)

Participating Credit Institutions	1987-88	1988-89 (Provisional)	%Changes over the year
Bangladesh Krishi Bank	1,190.26 (82.12)	1,263.85 (68.05)	+6.18
Rajshahi Krishi Unnayan Bank	52.96 (3.65)	316.38 (17.03)	+497.39
Participating Commercial Banks	71.86 (4.96)	102.30 (5.51)	+42.36
Bangladesh Rural Development Board	98.70 (6.80)	132.92 (7.15)	+34.67
Bangladesh Samabaya Bank Limited	35.62 (2.46)	41.85 (2.25)	+17.49
Total :	**1,449.40 (100.00)**	**1,857.30 (100.00)**	**+28.14**

Note : Figures in parentheses indicate percentage of total.

Projects under the Supervision of the Agricultural Credit Department

6.16 Some special programmes and projects are financed under the supervision and guidance of the Agricultural Credit Department of the Bangladesh Bank. Different projects introduced with a view to helping the small farmers and other poor people in rural areas who have no access to institutional credit, were continued during the year. A brief review of the important projects is given below :

i) **Loan for Pond Fishery**

Under a Tk. 13.00 crores programme for financing Pond Fishery in the country, the PCIs disbursed an amount of Tk. 2.41 crores during 1988-89 which was 5.2 percent higher than Tk. 2.29 crores disbursed in

1987-88. Of the total disbursements made during the year, the PCBs disbursed Tk.0.32 crore, the Bangladesh Krishi Bank Tk.1.96 crores and the Rajshahi Krishi Unnayan Bank Tk. 0.13 crore. The above credit agencies had disbursed Tk. 0.24 crore, Tk. 1.91 crores and Tk. 0.14 crore respectively in 1987-88.

ii) Loan for Cold Storage

With a view to improving cold storage facilities for preservation of potatoes in the country, the PCIs disbursed Tk. 48.59 crores during 1988-89 which was 22.1 percent higher than Tk. 25.11 crores disbursed in 1987-88. Of the total disbursements during the year, the Participating Commercial Banks disbursed Tk. 17.92 crores, the Bangladesh Krishi Bank Tk. 25.92 crores and Rajshahi Krishi Unnayan Bank Tk. 4.75 crores.

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

Under this project, the participating credit institutions disbursed Tk. 1.62 crores and recovered Tk. 1.48 crores or 91.4 percent of the amount disbursed upto June, 1989. Of this, Sonali Bank disbursed Tk. 0.72 crore, Agrani Bank Tk. 0.02 crore, Rupali Bank Tk. 0.83 crore and the Rajshahi Krishi Unnayan Bank Tk. 0.05 crore. The amount of loans recovered by the above institutions stood at Tk. 0.67 crore, Tk. 0.02 crore, Tk. 0.77 crore and Tk. 0.02 crore respectively.

iv) Swanirvar Credit Programme

Under the Swanirvar Credit Programme, a total of Tk. 81.61 crores was disbursed among 4,84,227 loanees upto June, 1989 which included Tk. 46.60 crores disbursed by Nationalised Commercial Banks, Tk. 9.89 crores by three participating private commercial banks (Pubali Bank, Rupali Bank and Uttara Bank), Tk. 21.39 crores by Bangladesh Krishi Bank and Tk. 3.73 crores by Rajshahi Krishi Unnayan Bank. The amount of loans recovered under the scheme upto June, 1989 stood at Tk. 54.14 crores or 66.3 percent of the amount disbursed. Of the total amount recovered, the shares of the above institutions were Tk. 30.01

crores, Tk. 7.03 crores, Tk. 14.82 crores and Tk. 2.28 crores respectively. The outstanding balance and overdue amount of loans under the programme stood at Tk. 43.57 crores and Tk. 33.93 crores respectively as at the end of June, 1989.

v) ASARRD Project

The second phase of the project known as 'Asian Survey on Agricultural Reforms and Rural Development (ASARRD) introduced under the joint sponsorship of the FAO/UNDP with the aim of improving the socio-economic conditions of small farmers and the landless poor remained in operation during 1988-89 also. Total disbursement of loans under the project stood at Tk. 2.20 crores against which Tk. 2.32 crores (including interest) were recovered upto June, 1989.

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

The term of the Second Rural Development project (RD-II Project) which was started with the assistances of the International Development Association (IDA), the Canadian International Development Agency (CIDA) and the United Nations Development Programme (UNDP), though scheduled to expire at the end of June, 1988, was extended upto June, 1989. A total of Tk. 194.22 crores was provided as refinance to Sonali Bank, the only credit agency involved in the project, against disbursement of Tk. 213.89 crores upto June, 1989.

vii) North-West Rural Development Project

Under this project, the Sonali Bank disbursed a total of Tk. 11.19 crores upto June, 1989 against which the amount recovered stood at Tk. 5.13 crores. The outstanding balance and overdue amount of loans under the project stood at Tk. 6.84 crores and Tk. 1.64 crores respectively at the end of June, 1989. Refinance provided by the Bangladesh Bank under this project since its inception upto June 30, 1989 stood at Tk. 5.62 crores.

viii) Rural Finance Project

Rural Finance Project (RFP) which was introduced from October 2, 1984 under a grant agreement for US $ 75 million between the Government of Bangladesh and the United States Agency for International Development (US-AID) was extended upto June 30, 1989.

ix) Second Deep Tube-Well Project (IDA Credit No. 1287 BD)

The Bangladesh Bank provides refinance facility to the Sonali Bank. The Sonali Bank provides term loans in the project areas under this project to members of the UCCA-KSS under control of the Bangladesh Rural Development Board for purchasing Deep Tube-Wells with 90 percent refinance facility from the Bangladesh Bank. The Bangladesh Bank, on the other hand, gets 100 percent reimbursement of the amount provided by it as refinance from the IDA. The IDA had sanctioned a credit line for SDR 15.75 million in December, 1982. The term of the project has been extended upto December, 1989. Initially, a target for installation of 4,000 Deep-Tube Wells was set under the project which was subsequently revised to 2,750. In order to achieve the target for production of 2 crore tons of foodgrains by 1992, a decision has now been taken for installation of 4,000 Deep Tube-Wells. The Bangladesh Bank provided a sum of Tk. 12.61 crores as refinance to the Sonali Bank against loans disbursed by it for installation of 1,308 Deep Tube-Wells under the project upto March 31, 1989.

Projects under the Supervision of the Rural Credit Project Department

6.17 During 1988-89 the Rural Credit Project Department of the Bangladesh Bank performed the responsibilities of implemtation, monitoring, supervision and/or providing refinance facilities for the following projects/schemes drawn under the financial assistance of the IDA, the Asian Development Bank (ADB) and the International Fund for Agricultural Development (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. Of this, an amount equivalent to SDR 5.5 million has been allocated for disbursement as term loans among the farmers through the Sonali Bank, Agrani Bank and the Bangladesh Krishi Bank under the supervision of the Bangladesh Bank for financing the capital expenditure for Scientific Shrimp Culture Projects covering a total area of about 9,500 hectares as well as for establishment of hatchery and marketing of fishlings. The scheme also provides for short-term loans for meeting production expenses to be supplied by the participating credit institutions from their own resources against which refinance facility will be available if necessary from the Bangladesh Bank. A total of Tk. 12.93 crores was disbursed under the project upto June, 1989 against which a sum of Tk. 10.55 crores was provided by the Bangladesh Bank as refinance. The project is expected to be completed by June 30, 1991.

ii) **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 agreed to provide a loan equivalent to SDR 38.31 million for aquaculture development projects in Bangladesh. In accordance with the terms of the loan agreement, the Government of Bangladesh, under a subsidiary loan agreement signed between the Government of Bangladesh and the Bangladesh Bank lend to the Bangladesh Bank an amount equivalent to SDR 17.78 million for investment in the private sector through Agrani Bank, Rupali Bank and Bangladesh Krishi Bank. Preparation of programmes relating to the above credit was finalised during the year under report which have already been approved by the ADB.

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

An amount equivalent to SDR 8 million allocated for financing different projects in the greater Faridpur and Jessore districts under IFAD credit No. 73-BA. The Bangladesh Bank provided Tk. 72.30 lakhs as refinance to Sonali Bank, the only participating credit institution under the project during 1988-89. The Sonali Bank repaid a sum of Tk. 1.30 crores during the year under report. Total refinance provided and the amount recovered under the project since its inception upto June, 1989 amounted to Tk. 12.05 crores and Tk. 3.10 crores respectively. The tenure of the project was extended upto December, 1989 after the expiry of its initial term on December 31, 1988.

Projects under the Rural Credit Project Department

6.18 Projects undertaken by the Rural Credit Project Department of the Bangladesh Bank remained in operation during 1988-89. The Participating Credit Institutions (PCIs) provide finances under refinance facility and/or from their own resources in these projects. Brief review of the important project are given below :

i) **Rural Housing Financing Scheme**

Under the Rural Housing Financing Scheme introduced in January,1984, Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank disbursed a total of Tk. 23.45 crores for construction of 4,327 housing units in rural areas upto June 30, 1989. As against this, the Bangladesh Bank provided refinance amounting to Tk. 8.45 crores against construction of 1,474 houses. The Bangladesh Bank also provided Tk. 18.63 crores as refinance to the Grameen Bank under its own rural housing loan scheme during 1988-89 and recovered an amount of Tk. 0.15 crore during the same period.

ii) **Banana Plantation Financing Scheme**

Under the Banana Plantation Financing Scheme, the Participating Credit Institutions disbursed a sum of Tk. 0.01 crore in 172 Upazilas of the country and recovered Tk. 0.13 crore during 1988-89. Total loans disbursed and recovered under the scheme since its introduction in 1980 upto the end of June, 1989, stood at Tk. 2.81 crores and Tk. 1.99 crores respectively.

iii) **Shrimp Culture Financing Scheme**

Under the Shrimp Culture Financing Scheme, the PCIs disbursed an amount of Tk. 5.86 crores and recovered Tk. 5.05 crores during 1988-89. Total loans disbursed and recovered under the scheme since its introduction in 1980 upto June 30, 1989 amounted to Tk. 48.83 crores and Tk.37.65 crores respectively.

iv) **Rural Transport Financing Scheme**

Under the Rural Transport Financing Scheme, the PCIs disbursed a total of Tk.0.16 crore as short and medium term loans and recovered a sum of Tk. 0.21 crore during 1988-89. The cumulative disbursement of loans since introduction of the scheme in 1981 upto June 30, 1989 amounted to Tk.8.63 crores against which Tk. 3.30 crores were recovered.

v) **Rower Pump Financing Scheme**

The Rower Pump Financing Scheme is now in operation in 128 Upazillas of 37 Districts. The PCIs disbursed a sum of Tk. 1.39 lakhs and recovered Tk.0.70 lakh under the scheme during 1988-89. Cumulative disbursement and recovery of loans since introduction of the scheme in 1982 upto June 30, 1989 amounted to Tk. 11.69 lakhs and Tk. 5.45 lakhs respectively.

vi) **Commercial Poultry (Broiler) Farm Financing Scheme**

Under the Commercial Poultry (Broiler) Farm Financing Scheme, a sum of Tk.1.00 lakh was disbursed while a sum of Tk.0.93 lakh was recovered during 1988-89. The cumulative disbursement of loans under the scheme since its introduction in 1983 upto June 30, 1989 amounted to Tk. 24.39 lakhs against which a sum of Tk. 5.04 lakhs was recovered.

Inspection of Bank Branches and the Co-operatives

6.19 The Agricultural Credit Inspection Department of the Bangladesh Bank carried out comprehensive inspection in 731 branches of the nationalised commercial banks and 171 branches of the private commercial banks during 1988-89. In addition, inspection was also carried out in 259 branches of the Bangladesh Krishi Bank, 90 branches of the Rajshahi Krishi Unnayan Bank and 243 branches/offices of the Bangladesh Samabaya Bank Limited and the Upazilla Central Cooperative Associations (UCCAs) during the year under report.

Grameen Bank

6.20 The Grameen Bank opened 149 new branches during 1988-89, thus raising the total number of its branches to 602. A total of 12,755 villages including 3,795 new villages was brought under the purview of Grameen Bank operations upto June, 1989. The Grameen Bank disbursed a total of Tk.154.66 crores during 1988-89 which was 50.5 percent higher than Tk. 102.75 crores disbursed during the preceding year. Total loans recovered by the Grameen Bank amounted to Tk.124.17 crores or 80.3 percent of disbursements during 1988-89. The amount of loans recovered during 1987-88 had stood at Tk. 82.27 crores or 80.1 percent of the amount disbursed.

6.21 Since its inception as a project in June, 1976, the Grameen Bank extended collateral free loans amounting to Tk. 441.64 crores, of which Tk. 352.56 crores or 79.8 percent of total disbursements were repaid by the borrowers in weekly instalments. The number of borrowers of the Grameen Bank increased from 4.02 lakhs at the end of June, 1988 to 5.57 lakhs at the end of June, 1989, of which 4.86 lakhs or 87.3 percent were women.

6.22 The Grameen Bank disbursed Tk. 47.22 crores as housing loans and Tk. 17.70 crores as technical loans during 1988-89.

6.23 Total savings in the Group Fund and Emergency Fund of member-borrowers of the Grameen Bank increased from Tk.10.79 crores in 1987-88 to Tk.15.75 crores during 1988-89. The cumulative total of saving in the above two Funds thus amounted to Tk. 43.84 crores as at the end of June, 1989 which was 56.1 percent higher than Tk. 28.09 crores at the end of June, 1988.

CHAPTER VII

FINANCING OF SMALL AND COTTAGE INDUSTRIES

Bangladesh Bank's Credit Policy for Small and Cottage Industries

7.1 The Bangladesh Bank's policy which aims at ensuring adequate finance for the development of industrial sector, specially the small and cottage industries in the country continued during 1988-89. In the light of the overall guideline as provided in the Industrial Policy of the country, Bangladesh Bank carried out restructuring of the rates of interest on bank finances and also took some specific steps for ensuring a more effective role of the commercial bank. These included the following:

i) To gear up term lending activities for the Small and Cottage Industries Sector (SCIs);

ii) Arrangement for financing the SCIs (industries sanctioned on or after July 1, 1986 and outside the purview of any foreign loans/grants, etc.) at 10 percent interest per annum without any 'service charge' or 'fee' ;

iii) Arrangement for disbursement by banks at least 5 percent of their fresh loanable funds to be determined on annual basis to the SCI sector;

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

v) Arrangement for opening of separate 'Cells' in the main offices of banks to specially cater to the financial needs of the SCIs and maintaining a separate 'Desk' with at least one experienced officer in each of their district level main branches;

vi) Provision for supplying necessary working capital loans to sanctioned projects at 14.0 percent rate of interest per annum;

vii) Provision for according special priority to women entrepreneurs in sanctioning project loans in the SCI sector;

viii) Provision for relaxation of the requirement of collateral security in respect of entrepreneurs having special skill and technical education;

ix) Requiring banks to take decision about sanction or otherwise of industrial loan proposals within a period not exceeding 3 months from the date of receipt of the applications for such proposals;

x) Putting emphasis on making allout efforts for recovering the overdue industrial loans.

7.2 The limit for individual loans under the special credit programme for the SCIs has been enhanced by the Bangladesh Bank from Tk. 2 lakhs to Tk. 4 lakhs. Banks were advised to take, as far as possible, assistance of the Bangladesh Small and Cottage Industries Corporation in recovering loans and in respect of evaluation of projects to be financed by them under special credit programms as well as other programmes.

Credit Guarantee (Small Loan) Scheme

7.3 The Credit Guarantee (Small Loan) Scheme introduced for reducing the risk of providing bank finances to the SCIs remained in operation during 1988-89.

Disbursement of Loans to the SCI Sector

7.4 In accordance with the directives of the Bangladesh Bank, the scheduled banks continued to extend at least 5 percent of their fresh loanable funds as determined on annual basis, to the SCI sector during 1988-89. 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 SCI sector. The scheduled banks disbursed a total of Tk. 87.67 crores during the first six months of 1988-89 (i.e., July-December, 1988). Disbursement of loans to this sector had stood at Tk.107.95(R) crores during 1987-88.

(R) =Revised.

Special Credit for Small Engineering Enterprises of Dholaikhal-Zinzira Areas

7.5 The Bangladesh Bank granted a term loan of Tk. 5.0 crores to the Bangladesh Small and Cottage Industries Corporation (BSCIC) during the period from October, 1986 to June, 1987 for providing working capital and term loans to the small engineering enterprises located at the Dholaikhal and Zinzira areas of Metropolis Dhaka. Disbursement of the above loan was completed by the end of September, 1988. The loan was disbursed against a total of 250 projects. As against this, the amount of loans recovered upto June 30, 1989 stood at Tk. 1.28 crores.

Small Industries Bank

7.6 A small industries bank named 'Bank of Small Industries and Commerce, Bangladesh Limited' set up with the special objective of providing credit facilities to the SCI sector, as approved by the Bangladesh Bank last year, started formal operations with effect from January 21, 1989. It is obligatory for the bank to reserve at least 50% of its loanable funds for disbursement to the SCI sector.

Projects under the Supervision of the Bangladesh Bank

7.7 The Bangladesh Bank continued to supervise 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 1988-89. 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 Industries 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 implementation of projects under 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 in the private sector 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 sub-loans disbursed by them.

A total of 683 sub-projects involving total sub-loans of Tk. 61.07 crores was approved by the Bangladesh Bank for financing under the scheme. Of this, 394 sub-projects involving Tk. 39.29 crores or 64.0 percent of the total sub-loans were in urban areas while the remaining 289 sub-projects involving 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 products, 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 due mainly to the conditionalities set by the IDA for extending at least 40.0 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 (Norwegian Agency for International Development) 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 refinances against financing of appropriate small and cottage industrial projects in Bangladesh. Under the programme, the Bangladesh Bank provided a total refinance of Tk. 1.54 crores against financing of 3,055 SCI projects by the two participating credit institutions, namely, the Sonali Bank and the Janata Bank upto June 30, 1989.

iii) 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 was entrusted with the responsibility of co-ordination and supervision of projects to be implemented under the Credit. Scheduled to be completed within the next two years after it became effective from July 31, 1986, the Credit provided for one additional year as a drawdown period. The maximum size of loan for a project under the Credit was set at US $ 1.0 million for financing the foreign exchange cost of the sub-projects only. In order to make the Credit realistic for operation, the ADB 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. The ADB also accorded its approval in December, 1986 in respect of using the funds of the Credit for financing local currency cost of projects. Besides, the ADB enhanced the free limit for sanction of foreign exchange by financing banks from US $ 50,000 to US $ 1,50,000 as also the admissible size of total expenditure of a project from US $ 1,50,000 to US $4,50,000. A total of US $ 3.935 million was approved against 30 sub-projects under the programme upto June 30, 1989 which included US $ 1.633 million against 13 sub-projects by Agrani Bank and US $ 2.302 million against 17 sub-projects by Rupali Bank. As against this, a sum of US $ 0.127 million against one sub-project was disbursed by Rupali Bank only. The validity of the Credit has been extended by the ADB upto July 31, 1991.

CHAPTER VIII

HOUSE BUILDING FINANCE

Disbursement of Institutional Loan in the Housing Sector

8.1 The flow of institutional credit in the housing sector depicted a declining trend during 1988-89. Total amount of institutional credit disbursed in this sector declined by 23.7 percent to Tk. 116.62 crores during the year under report from Tk. 152.89 crores in the previous year. The sources of credit disbursed during the year were : House Building Finance Corporation Tk. 72.84 crores, Grameen Bank Tk. 18.63 crores, Nationalised Commercial Banks Tk. 8.78 crores, Bangladesh Bank* Tk. 8.45 crores and Private Commercial Banks Tk. 7.92 crores. Disbursement of housing loans by the above sources during the preceding year had stood at Tk. 109.57 crores, Tk. 23.25 crores, Tk. 8.12 crores, Tk. 6.45 crores and Tk. 5.50 crores respectively. A comparative statement of institutional credit disbursed in the housing sector during 1987-88 and 1988-89 is given in Table 8.1.

TABLE 8.1

DISBURSEMENT OF INSTITUTIONAL CREDIT IN THE HOUSING SECTOR

(In Crore Taka)

Sources/Institutions	1987-88	1988-84 (Provisional)	Changes
1. House Building Finance Corporation	109.57	72.84	−36.73 (−33.5)
2. Grameen Bank	23.25	18.63	−4.62 (−19.9)
3. Nationalised Commercial Banks	8.12	8.78	+0.66 (+8.1)
4. Bangladesh Bank*	6.45	8.45	+2.00 (+31.0)
5. Private Commercial Banks	5.50	7.92	+2.42 (+44.0)
Total :	**152.89**	**116.62**	**−36.27 (−23.7)**

* Disbursement of loans by the Participating Commercial Banks with 100 percent refinance facility of the Bangladesh Bank under its Rural Housing Financing Scheme.

The House Building Finance Corporation

8.2 During 1988-89, 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 1988-89. 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 remaining Tk. 2 lakhs. Under this programme, the HBFC sanctioned 1,221 loan cases for a total of Tk. 44.90 crores during 1988-89 as compared with 1,256^{R} loan cases sanctioned for a total of Tk. 42.03^{R} crores in the previous year. Total disbursement of loans under this programme during 1988-89 stood at Tk. 41.77 crores as against Tk. 55.81 crores during 1987-88. The outstanding amount of loans (including interest) under this programme stood at Tk. 638.80 crores at the end of June, 1989 as compared to Tk. 579.63 crores at the end of June, 1988.

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 sft. and 1000 sft. respectively in each floor. The rate of interest also remained unchanged at 10.5 percent (simple) per annum. Under this programme, the HBFC sanctioned a total of Tk. 23.16 crores against 330 loan cases comprising 1,256 housing units during 1988-89. This compared with 594 loan cases comprising 2,274 housing units sanctioned for total of Tk. 40.26 crores during 1987-88. Of the total loans sanctioned during 1988-89, Tk. 15.90 crores or 68.7 percent was sanctioned for construction of 871 housing units in Dhaka zone. The amount of loan and number of housing units sanctioned for Chittagong, Rajshahi and Khulna zones were Tk. 5.41 crores for 295 housing units, Tk. 1.27 crores for 66 housing units and Tk. 0.58 crore for 24 housing units

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R = Revised.

respectively. Total disbursement of loans under the programme during 1988-89 stood at Tk. 31.07 crores as compared to Tk. 53.76 crores during 1987-88. Total loans disbursed under this programme since its introduction in July, 1977 upto June 30, 1989 stood at Tk. 569.35 crores against which Tk. 701.41 crores (including interest) remained outstanding.

Concessionary Loan Facility for Construction of Pucca Houses in Upazillas

8.5 In addition to the above two main programmes, the House Building Finance Corporation 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 headquarters. Under this facility, the HBFC sanctioned 195 loan cases for a total of Tk. 3.70 crores during 1988-89 as compared with 209 loan cases sanctioned for a total of Tk. 4.08 crores in 1987-88.

Sanction, Disbursement, Recovery and Outstanding of the HBFC Loans

8.6 The total amount of loans sanctioned and disbursed by the HBFC under all the above programmes during 1988-89 stood at Tk. 68.06 crores and Tk. 72.84 crores respectively. These compared with the sanction and disbursement of Tk. 82.29 crores and Tk. 109.57 crores respectively during 1987-88. Upto June, 1989, the HBFC sanctioned a total of Tk. 1,262.56 crores for construction of 78,740 housing units against which an amount of Tk. 1,116.97 crores was disbursed. The Corporation recovered a total amount of Tk. 70.55 crores during 1988-89 as compared to Tk. 55.15 crores during the preceding year. The amount of HBFC loans outstanding against all the programmes as on June 30, 1989 stood at Tk. 1,340.21[p] crores as compared to Tk. 1,231.77 crores as on June 30, 1988. The amount of overdue HBFC loans stood at Tk. 184.21[p] crores or 13.7 percent of the outstanding at the end of June, 1989 as compared to Tk. 160.00 crores or 13.0 percent of the outstanding at the end of June, 1988.

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p = Provisional.,

Sale of HBFC Debentures

8.7 Total funds raised by the HBFC upto June 30, 1989 through sale of debentures to the Bangladesh Bank, the commercial banks and the Sadharan Bima Corporation stood at Tk. 1,243.80 crores which included Tk. 92.50 crores raised during 1988-89. The Bangladesh Bank's financing of the HBFC debentures amounted to Tk. 768.85^{p} crores upto June 30, 1989 while the remaining amount of Tk. 474.95^{p} crores was financed by the commercial banks and the Sadharan Bima Corporation.

Expert Committee for the House Building Finance Corporation

8.8 With a view to finding out the causes of various problems faced by the Bangladesh House Building Finance Corporation and recommending solutions for overcoming them, an Expert Committee was constituted by the Government on September 19, 1988 consisting of representatives from the Ministry of Law and Parliamentary Affairs and the Bangladesh House Building Finance Corporation with Mr. Mahbubur Rahman Khan, Deputy Governor of the Bangladesh Bank, as its Chairman. After elaborate deliberations and discussions, the Committee submitted to the Ministry of Finance its report containing a good number of recommendations relating to loan recovery situation, and laws and principles governing financing of house building by the Corporation.

Commercial Banks' Financing of House Building

8.9 The commercial banks continued to provide house building finance 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 1988-89 amounted to Tk. 8.78 crores as compared to Tk. 8.12 crores during the preceding year. The private banks extended housing loans totalling Tk. 7.92 crores including Tk. 0.06 crore provided by the foreign banks operating in Bangladesh during 1988-89 as compared to Tk. 5.50 crores in 1987-88. The total amount of outstanding house building loans extended by the nationalised

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p = Provisional..

commercial banks, private banks and the foreign banks operating in Bangladesh stood at Tk. 189.14 crores as on June 30, 1989 as compared to Tk. 60.00 crores at the end of June, 1988.

Rural Housing Financing Scheme of the Bangladesh Bank

8.10 The 'Rural Housing Financing Scheme' of the Bangladesh Bank introduced in January, 1984 remained in force during 1988-89. Under this scheme, the Bangladesh Bank continued to provide 100 percent refinance to the Participating Commercial Banks (PCBs), namely, Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank Limited at 3.0 percent rate of interest per annum. Since introduction of the scheme upto June 30, 1989, the PCBs disbursed a total of Tk. 23.45 crores for construction of 4,327 houses in the rural areas. Of this, the Bangladesh Bank provided a total of Tk. 8.45^{p} crores as refinance for construction of 1,474^{p} houses against the claims of Tk. 18.51^{p} crores for construction of 3,263^{p} houses by the PCBs. Claims for Tk. 5.99 crores shown against loans extended for construction of 1,058 houses were cancelled on account of irregularity of the cases, while that for Tk. 4.07 crores against 731 houses were under consideration upto the end of June, 1989.

Housing Loan of Grameen Bank

8.11 During 1988-89, Tk. 18.63 crores were disbursed by Grameen Bank to its member borrowers for construction of semi-pucca houses as compared to Tk. 23.25 crores during 1987-88. The maximum amount of loan payable to each borrower was raised from Tk. 18,000 to Tk. 20,000 during the year under report. A refinance limit of Tk. 25.00 crores at 3.0 percent rate of interest per annum was sanctioned to Grameen Bank under the Rural Housing Financing Scheme of the Bangladesh Bank during the year under report. The amount refinanced shall be repayable together with interest in quarterly instalments within a period of 20 years. Grameen Bank will disburse this loan to the borrowers at 5.0 percent rate of interest per annum. A total of Tk. 18.63 crores was provided to Grameen Bank under the above facility during 1988-89, of which Tk. 0.15 crore was recovered.

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p = Provisional.

CHAPTER IX

PUBLIC FINANCE

Main Objectives of the National Budget for 1988-89

9.1 The fiscal policy for 1988-89 was formulated keeping in view the main objectives of development of the agricultural and industrial sectors, enhancement of savings, investments and exports, creation of additional employment opportunities, stabilisation of prices and alleviation of poverty. Tax proposals for the year were prepared in the light of certain basic principles of taxation, such as taxation according to ability, rational distribution of the burden of tax, simplification of tax collection procedures and evolving a strong structural base for taxation, etc. The desired targets for achievement under the above policies were : increasing production through encouraging investment and accelerating the pace of industrialisation, protecting domestic industries, reducing dependence on imports and checking smuggling. To encourage increased industrial production, the rates of import duty and sales tax on industrial raw materials were substantially reduced in the budget. In fact, the policy of carrying out modifications and re-adjustments in the rates of import duty and sales tax was being pursued in the budgetary measures during the last few years not merely for raising revenue but also for harmonising the same with other policy-measures adopted for overall economic development.

Budget for 1988-89

9.2 The budget estimates for 1988-89 envisaged total revenue receipts at Tk. 6,172.10 crores and total revenue expenditures at Tk. 5,250.00 crores, leaving a revenue surplus of Tk. 922.10 crores. The budget estimates were subsequently revised, placing revenue receipts Tk. 349.92 crores lower at Tk. 5,822.18 crores and revenue expenditures higher at Tk. 6,170.00 crores. As a result, there was a deficit of Tk. 347.82 crores instead of a surplus of Tk. 922.10 crores. The rise in revenue expenditures occurred mainly due to increase in food subsidies and higher expenditures for social services, education and defence. On the other hand, total revenue receipts declined due to lower yield from all kinds of taxes as compared to the budget estimates.

9.3 The major heads of revenue receipts in the revised budget for 1988-89 which showed increases over the original budget estimates were as follows: Economic Services (+Tk. 40.02 crores to Tk. 92.30 crores), Dividend and profit from Nationalised Financial Institutions (+Tk. 22.00 crores to Tk. 185.00 crores), Transport and Communication* (+Tk. 18.81 crores to Tk. 42.00 crores), Agriculture and Allied Services (Tk. 13.83 crores to Tk. 78.00 crores), Other Non-tax Revenue (+Tk. 7.28 crores to Tk. 88.50 crores) and Community and Social Welfare (+Tk. 4.88 crores to Tk. 44.35 crores). On the other hand, the important heads under which revenue receipts declined were : Income Tax (–Tk. 130.55 crores to Tk. 750.00 crores), Sales Tax (–Tk. 97.50 crores to Tk. 540.00 crores), Import Duties (–Tk. 47.50 crores to Tk. 1,820.00 crores), Excise Duties (–Tk. 47.30 crores to Tk. 1,400.00 crores), Other Taxes and Duties (–Tk. 31.75 crores to Tk. 30.80 crores), General Administration and Services (–Tk. 13.81 crores to Tk. 104.11 crores), Telegraph and Telephone (–Tk.13.08 crores to Tk. 110.00 crores), Motor Vehicle Tax (–Tk. 11.50 crores to Tk. 20.00 crores), Interest Income (–Tk. 10.00 crores to Tk. 220.00 crores), Land Development Tax (–Tk. 10.00 crores to Tk. 85.00 crores) and Capital Revenue (–Tk. 9.59 crores to Tk. 13.00 crores).

9.4 The major heads of revenue expenditures with increased allocations in the revised budget for 1988-89 were : Subsidies (+Tk. 538.31 crores to Tk. 715.65 crores), Social and Community Services (+Tk. 347.96 crores to Tk. 720.15 crores), Education (+Tk. 108.43 crores to Tk. 948.51 crores), Defence (+Tk. 90.37 crores to Tk. 1,014.87 crores), Assistances and Grants (+Tk. 30.61 crores to Tk.119.35 crores), Water, Power and Fuel (+Tk. 27.07 crores to Tk. 78.28 crores), Transport and Communication* (+Tk. 19.17 crores to Tk. 97.57 crores), Pension and Retirement Benefits (+Tk. 18.20 crores to Tk. 144.20 crores), General Services (+Tk. 5.71 crores to Tk. 161.44 crores) and Police and BDR (+Tk. 6.48 crores to Tk. 368.99 crores). These increases were partly offset by declines in Unexpected Expenditures (–Tk. 194.00 crores to zero), Interest on Foreign Debt (–Tk. 54.00 crores to

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* Excluding Railway.

Tk. 483.00 crores), Foreign Affairs (–Tk. 24.32 crores to Tk. 66.56 crores) and Secretariat (–Tk. 1.17 crores to Tk. 45.62 crores).

ADP for 1988-89

9.5 The size of the Annual Development Programme (ADP) for 1988-89 which was originally placed at Tk. 5,315.00 crores was subsequently revised downward by Tk. 719.66 crores to Tk. 4,595.34 crores. Total foreign assistance in the revised budget for financing the ADP was placed Tk. 360.00 crores lower at Tk. 4,194.00 crores. On the other hand, the net deficit in domestic capital in the ADP declined to Tk. 297.96 crores. As a result of the deficit of Tk. 347.82 crores in revenue receipts and decrease of extra-budgetary resources to Tk.154.01 crores, the deficit in total available resources stood at Tk.399.68 crores (deficit in net capital receipts Tk. 297.96 crores, revenue deficit Tk. 347.82 crores, surplus in food budget Tk. 92.09 crores and own financing of autonomous bodies Tk. 154.01 crores).

Budget Estimates for 1989-90

9.6 The budget estimates for 1989-90 placed revenue receipts at Tk. 7,180.53 crores and revenue expenditures at Tk. 6,900.00 crores, thus showing a revenue surplus of Tk. 280.53 crores (including effects of new taxes Tk. 659.73 crores). Of the total revenue receipts, Custom Duties are estimated to yield Tk. 2,100.00 crores, Excise Duties Tk. 1,600.00 crores, Income Tax Tk. 880.00 crores, Interest Income Tk. 750.00 crores, Sales Tax Tk. 620.00 crores, Dividend and Profits from Public Financial Institutions Tk.190.00 crores, Non-Judicial Stamps Tk. 180.00 crores, Telegraph and Telephone Tk. 170.86 crores, General Administration and Services Tk. 111.34 crores, Land Development Tax Tk. 90.00 crores, Agriculture and Allied services Tk. 79.00 crores, Dividend and Profits from Non-financial Public Enterprises Tk. 75.00 crores, Registration Tk. 70.00 crores and Residual Items Tk. 264.33 crores. Of the total revenue expenditures, Defence and Education account for Tk. 1,009.42 crores and Tk. 970.19 crores respectively. Other major heads of expenditures are : Interest on Foreign Debt Tk.508.00 crores, Social and Community Services (including VGD and Test Relief) Tk. 430.18 crores, Health and Population Control Tk. 335.62 crores, Interest on Internal Debt Tk. 258.77 crores, Police and BDR

Tk.394.00 crores, Unexpected Expenditures Tk.768.12* crores, General Administration Tk. 185.46 crores, Subsidies Tk. 868.85 crores, General Services Tk. 157.21 crores, Agriculture and Allied services Tk. 156.11 crores, Fiscal Services Tk.146.88 crores, Pension and Retirement Benefit Tk. 156.35 crores, Foreign Affairs Tk. 69.13 crores and Other Items Tk. 485.71 crores.

ADP for 1989-90

9.7 The size of the Annual Development Programme (ADP) for 1989-90 has been estimated at Tk. 5,803.02 crores. This shows an increase of Tk. 1,207.61 crores or 26.3 percent over Tk. 4,595.34 crores of the revised ADP for 1988-89. Of the total outlay, Tk. 743.63 crores (12.8%) has been allocated for Water Resources, Tk. 700.60 crores (12.1%) for Power, Tk. 598.15 crores (10.3%) for Transport, Tk. 490.27 crores (8.5%) for Agriculture, Tk. 405.97 crores (7.0%) for Industries, Tk. 230.00 crores (4.0%) for Upazilla Infrastructures and Assistances to Upazilla Parishads. Allocations for Education and Religion, and Self-finance Schemes of Autonomous Bodies are Tk. 344.79 crores (5.9%) and Tk. 342.82 crores (5.6%) respectively. Other allocations are : Population Control and Family Planning Tk. 303.00 crores (5.2%), Physical Planning , Water Supply and Housing Tk. 270.32 crores (4.7%), Rural Development Tk. 265.33 crores (4.6%), Oil, Gas and Natural Resources Tk. 233.00 crores (4.0%), Greater Dhaka Flood Control Project Tk. 150.00 crores (2.6%) and Other Sectors Tk. 724.84 crores (12.5%). The Annual Development Programme for 1989-90 envisages a total foreign assistance of Tk. 5,050.00 crores or 87.0 percent of the total outlay as against 91.3 percent in the revised ADP for 1988-89.

Government Borrowings

Two-year Special Treasury Bills

9.8 The outstanding balances of borrowings by the Government against 'Two-year Special Treasury Bills' stood at Tk. 1.12 crores as on June 30, 1989 as compared to Tk. 1.17 crores as on June 30, 1988.

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* Including Lump-sum allocations for completed development projects.

Government of Bangladesh (11.0 percent) Loan-1992

9.9 The outstanding amount against the 11.0 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, 1989.

Non-Bank Treasury Bills @11.5 percent Discount

9.10 The outstanding balance of the Non-Bank Treasury Bills @11.5 percent discount stood at Tk. 5.08 crores as on June 30, 1989 as compared to Tk. 1.13 crores as on June 30, 1988.

'National Bond' for Non-Bank Investors

9.11 The outstanding balances of the 'National Bond' for Non-Bank Investors stood at Tk. 116.44 crores as on June 30, 1989 as compared to Tk. 129.90 crores as on June 30, 1988. The bond was issued for sale from December 1, 1985 and remained on sale till September 15, 1986.

5.0 percent 'Income Tax Bond'

9.12 The outstanding amount of 5.0 percent Income Tax Bonds of the erstwhile Pakistan Government held by Bangladeshi nationals and institutions as on June 30, 1989 remained unchanged at the level of Tk. 0.76 crore as on June 30, 1988.

G.P Notes/Stock Certificates

9.13 The outstanding amount of 5 percent G.P Notes/ Stock Certificates of the erstwhile Pakistan Government and its Provincial Government held by Bangladeshi nationals and institutions, liabilities of which have been accepted by the Government of Bangladesh but awaiting redemption stood at Tk. 2.31 crores as on June 30, 1989 as compared to Tk. 2.32 crores as on June 30, 1988.

5.0 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. 13.66 crores as on June 30, 1989 as compared to Tk. 13.61 crores as on June 30, 1988. As against the total bonds issued, an amount of Tk. 13.24 crores was paid as maturity value, leaving an outstanding balance of Tk. 0.42 crore as on June 30, 1989.

8.0 percent Savings Bonds

9.15 The amount of 8.0 percent Savings Bonds issued by the Government of Bangladesh against 100 Taka demonetised notes as on June 30, 1989 remained unchanged at the preceding year's end level of Tk. 1.88 crores. Out of this, payment of maturity value was made for a total of Tk. 1.75 crores, leaving an outstanding balance of Tk. 0.13 crore as on June 30, 1989.

Instruments for Mobilisation of Savings

Pratirakkha Shanchaya Patras

9.16 The Sale of Bangladesh Pratirakkha Shanchaya Patras through the banking sector amounted to Tk. 449.77 crores as on June 30, 1989 as against Tk. 369.93 crores as on June 30, 1988. Sale and encashment of Pratirakkha Shanchaya Patras during the year under review were Tk. 110.34 crores and Tk. 30.50 crores respectively.

Bonus Shanachaya Patras

9.17 The net sale of Bonus Shanchaya Patras through the banking sector amounted to Tk. 44.38 crores as on June 30, 1989 compared to Tk. 28.42 crores as on June 30, 1988. Sale and encashment of Bonus Shanchaya Patras during the year were Tk. 20.98 crores and Tk. 5.00 crores respectively.

5-year Bangladesh Shanchaya Patras

9.18 The net sale of 5-year Bangladesh Shanchaya Patras through the banking sector amounted to Tk. 80.26 crores as on June 30, 1989 compared to Tk. 44.04 crores as on June 30, 1988. Sales and encashment of 5-year Bangladesh Shanchaya Patras during 1988-89 were Tk. 39.30 crores and Tk. 3.08 crores respectively.

Bangladesh Prize Bonds

9.19 The cumulative net sale of 10-Taka Bangladesh Prize Bonds amounted to Tk. 15.15 crores as on June 30, 1989 as compared to Tk. 14.55 crores as on June 30, 1988. The sale and encashment of 10-Taka Prize Bonds during the year stood at Tk. 8.14 crores and Tk. 7.54 crores respectively. Eighty six bi-monthly draws for 57 series of the Bond were held upto June 30, 1989.

9.20 The 50-Taka Prize Bonds were introduced on October 31, 1989. The cumulative net sale of 50-Taka Prize Bonds amounted to Tk. 29.99 crores as on June 30, 1989 compared to Tk. 22.65 crores as on June 30, 1988. The sale and encashment of 50-Taka Prize Bonds during the year stood at Tk. 18.13 crores and Tk. 10.79 crores respectively. Twenty one bi-monthly draws for 13 series of the Bond were held upto June 30, 1989.

Sale of Savings Instruments to Bangladeshi Wage Earners Working Abroad

9.21 The sale of Prize Bonds and Shanchaya Patras to Bangladeshi wage earners in the U.A. E and the U. K. during the year remained unchanged at the preceding year's level of Tk. 0.61 crore.

Wage Earners' Development Bonds

9.22 The amount of Wage Earners' Development Bonds sold by different banks stood at Tk. 110.43 crores as on June 30, 1989 as compared to Tk. 84.61 crores as on June 30, 1988. Out of this, payment of surrender value has been made for a total of Tk. 15.41 crores, leaving a balance of Tk. 95.02 crores as on June 30, 1989.

CHAPTER X

BALANCE OF TRADE AND PAYMENTS

Trade Balance

10.1 The balance of trade (visible exports less visible imports) of the country showed some deterioration during 1988-89. The deficit in the trade balance increased by $ 294 million or Tk. 1,107.6 crores to $ 2,094 million or Tk. 6,731.6 crores in 1988-89 as compared to $ 1,800 million or Tk. 5,624.0 crores in 1987-88. This was due mainly to larger import payments of $ 3,375 million during the year under report which represented 13.0 percent increase over $ 2,986 million in 1987-88. In Taka terms, import payment stood at Tk. 10,847.7 crores during 1988-89 which was 16.3 percent higher than Tk. 9,328.6 crores in the preceding year.

Import Payments

10.2 During 1988-89, imports financed by Cash, Barter and Special Trade, Wage Earners' Scheme, Loans/ Credits and Grants amounted to Tk. 1,358.7 crores (12.5%), Tk. 584.1 crores (5.4%), Tk. 4,613.1 crores (42.5%), Tk. 2,311.0 crores (21.3% and Tk. 1,980.8 crores (18.3%) respectively. Long-term loans/credit received from foreign governments/institutions, etc. were utilised for import under food (Tk. 176.8 crores), non-food project (Tk. 1,708.1 crores) and non-food non-project (Tk. 426.1 crores). Food and non-food imports under Grants during 1988-89 stood at Tk. 729.4 crores and Tk. 1,251.4 crores respectively. Import payments under major heads during 1987-88 and 1988-89 are shown in Table 10.1.

TABLE 10.1

MERCHANDISE IMPORTS (PAYMENTS)*

Commodity	1987-88		1988-89 (Provisional)	
	Crore Tk.	Million US $	Crore Tk.	Million US $
1. Food grains	1,527.7	489	1,224.5	381
a) Rice	(468.6)	(150)	(54.6)	(17)
b) Wheat	(1,059.1)	(339)	(1,169.9)	(364)
2. Edible oil and oil seeds	413.1	132	407.6	127
3. Petroleum crude and petroleum products	624.5	200	823.0	256
4. Cotton	160.1	51	158.9	49
5. Textile yarn	110.2	35	118.4	37
6. Fertilizers	104.4	33	143.1	45
7. Chemicals	563.0	180	611.4	190
8. Cement	148.4	48	191.5	60
9. Sugar	49.7	16	83.2	26
10. Capital goods and other accessories	2,673.3	856	3,502.1	1,090
11. Others	2,954.2	946	3,584.0	1,114
Total Imports (C&F)	**9,328.6**	**2,986**	**10,847.7**	**3,375**

* Source : Statistics Department, Bangladesh Bank.

Export Receipts

10.3 Receipts from exports at Tk. 4,116.1 crores during 1988-89 were Tk. 411.5 crores or 11.1 percent higher than Tk.3,704.6 crores during 1987-88. In dollar terms, export earnings increased by $ 95 million or 8.0 percent to $ 1,281 million during 1988-89. The higher export receipts during 1988-89 were attributable mainly to increased earnings from fertilizers, jute goods and readymade garments. Earnings from fertilizers increased by Tk. 118.6 crores or 236.7 percent to Tk. 168.7 crores, from jute goods Tk. 83.9 crores or 9.6 percent to Tk. 959.7 crores and from readymade garments Tk. 89.9 crores or 7.0 percent to Tk. 1,378.0 crores during 1988-89. Export earnings from raw jute and jute goods during the year stood at Tk. 268.3 crores and Tk. 959.7 crores respectively as compared to Tk. 263.1 crores and Tk. 875.8 crores respectively in the preceding year. Although export earnings from jute and jute goods together increased by Tk. 89.1 crores or 7.8 percent during the year under report, their contribution in the total export earnings declined from 30.7 percent in the previous year to 29.8 percent during 1988-89. Export receipts under the major heads during 1987-88 and 1988-89 shown in Table 10.2.

TABLE 10.2

MERCHANDISE EXPORTS (RECEIPTS)*

Commodity	1987-88		1988-89	
	Crore Tk.	Million US $	Crore Tk.	Million US $
1. Raw Jute	263.1	84	268.3	83
2. Jute Goods	875.8	280	959.7	299
3. Tea	119.2	38	135.2	42
4. Leather	422.8	136	450.1	140
5. Fish, Shrimps and Frog legs	504.1	162	535.3	167
6. Readymade Garments	1,288.1	412	1,278.0	429
7. Naphtha, Furnance oil and Bitumen	44.9	14	51.8	16
8. Newsprint	19.2	6	13.5	4
9. Fertilizers	50.1	16	168.7	52
10. Others	117.3	38	155.5	49
Total Exports (f.o.b)	**3,704.6**	**1,186**	**4,116.1**	**1,281**

* Source : Statistics Department, Bangladesh Bank.

The Services Account

10.4 The deficit in the Services Account (i.e. invisible receipts less invisible payments) increased to Tk. 478.8 crores ($ 149 million) in 1988-89 from Tk. 448.1 crores ($ 144 million) in 1987-88. This was due mainly to increased payments under the heads 'Interest Payments' and 'Travel' during 1988-89.

Overall Balance of Payments

10.5 The overall balance of payments of the country showed a surplus of Tk. 17.6 crores ($ 6 million) during 1988-89 as compared to the surplus of Tk. 425.9 crores ($ 136 million) during 1987-88. Net receipts under Private Unrequited Transfers during the year under report increased by Tk. 224.9 crores ($ 48 million) to Tk. 2,686.0 crores ($ 836 million) from Tk. 2,461.1 crores ($ 788 million) in 1987-88. The deficit in the current account balance increased by Tk. 913.4 crores ($ 251 million) to Tk. 4,524.4 crores ($ 1,407 million) during 1988-89 from Tk. 3,611.0 crores ($ 1,156 million) in 1987-88 due mainly to an increase in deficits in the commodity as well as the services account. The overall balance thus recorded the above contraction in surplus despite an increase in the net inflow of capital from Tk. 4,036.9[1] crores ($ 1,292 million) in the preceding year to Tk. 4,542.0[2] crores ($ 1,413 million) during 1988-89.

Remittances by Bangladeshi Nationals Abroad

10.6 Foreign exchange remittances by Bangladeshi nationals working abroad, specially in the Middle-East, have been playing a vital role in providing substantial support to the country's balance of payments during the last few years. Remittances by overseas Bangladeshis increased by 7.5 percent to Tk. 2,477.4 crores ($ 771 million) during 1988-89 as compared to Tk. 2,303.9 crores ($ 737 million) in 1987-88. Remittances by Bangladeshi nationals working abroad during the last 10 years have been shown in Appendix Table 17.

Foreign Exchange Reserves

10.7 Convertible foreign exchange reserves held by the Bangladesh Bank (including reserves with the IMF) increased from $ 856 million (Tk. 2,696.3 crores) at the end of June, 1988 to a record level of $ 1,161 million (Tk. 3,747.4 crores) at the end of February, 1989. The reserves, however, declined to $ 913 million (Tk. 2,945.4 crores) by the end of June, 1989. Data relating to the levels of foreign exchange reserves held by the Bangladesh Bank during the last 10 years have been shown in the Appendix Table 15.

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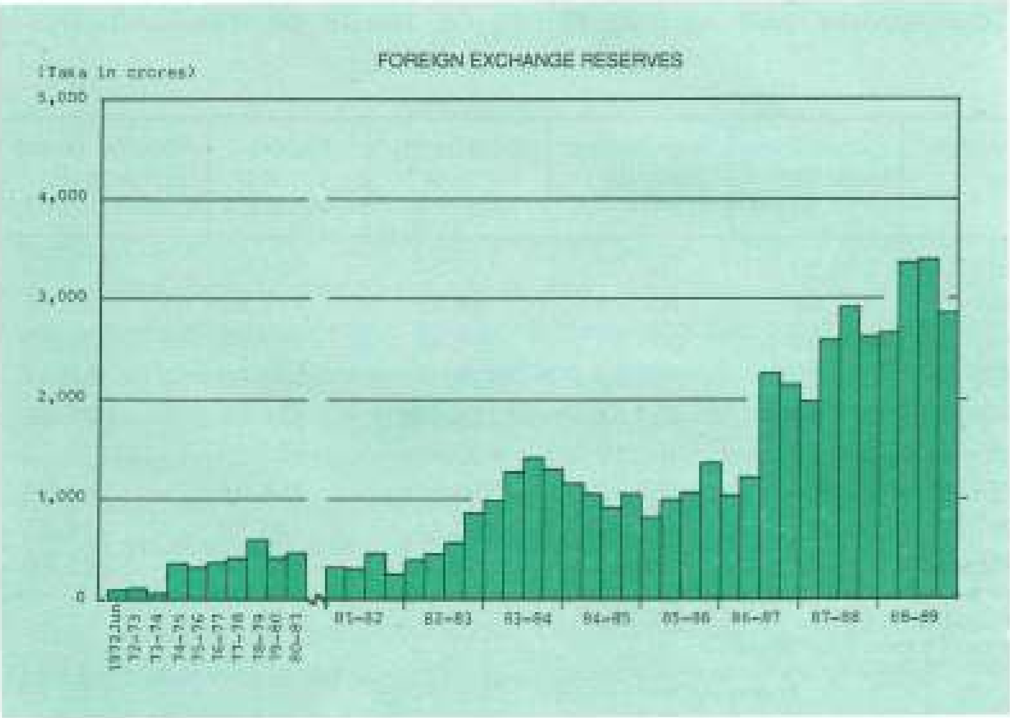
[1] Includes Grant of Tk. 2,578.5 crores ($ 825 million) under 'Official Unrequited Transfers'.

[2] Includes Grant of Tk. 2,185.4 crores ($ 680 million) under 'Official Unrequited Transfers'.



Terms of Trade

10.8 An analysis of the terms of trade of Bangladesh reveals that the Commodity Terms of Trade recorded some improvement due to higher increase in export prices than in import prices during 1987-88 as compared to those in 1986-87. However, the Income Terms of Trade denoted a deterioration of 11.78 percent due to a decrease in the export volume. On the contrary, the commodity terms of trade deteriorated by 10.13 percent due to much higher increase in import prices than in export prices during 1988-89. As a result, despite an increase in export volume, the Income Terms of Trade recorded a deterioration of 4.74 percent due to deterioration in the Commodity Terms of Trade during the year under report. Export earnings would have been higher if the above deterioration in the terms of trade had not taken place. The trend in terms of trade of Bangladesh is shown in Table 10.3

TABLE 10.3

COMMODITY AND INCOME TERMS OF TRADE OF BANGLADESH
(BASE : 1975-76=100)

Period/ Year	Export Price Index (A)	Import Price Index (B)	Commodity[1] Terms of Trade (C)	Export Volume Index (D)	Income[2] Terms of Trade (E)
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
1988-89*	311.02	215.57	144.28	142.64	205.80

* Provisional.

Source : Planning Commission.

Formulae :

1. Commodity Terms of Trade (C) = $\frac{A}{B} \times 100$.
2. Income Terms of Trade (E) = $\frac{C X D}{100}$.

CHAPTER XI

FOREIGN AID

11.1 Foreign aid commitments to Bangladesh during 1988-89 stood at $ 1,865 million as compared to $ 1,530 million during the preceding year. Total commitments made since independence till the end of June, 1989 stood at $ 23,928 million, of which $ 11,258 million or 47.0 percent represented grants. Total disbursement of foreign aid during the same period stood at $ 18,919 million or 79.1 percent of the total commitments. Of the total disbursement, $ 9,583 million or 50.7 percent represented loans and the remaining $ 9,336 million or 49.3 percent grants. Total outstanding level of Bangladesh's external debt as on June 30, 1989 stood at $ 9,480 million as compared to $ 8,675* million at the end of June, 1988.

11.2 Although the level of foreign aid commitments during 1988-89 stood 19.4 percent higher than in the preceding year, actual disbursements at $ 1,669 million indicated an increase of 1.8 percent only compared to $ 1,640 million disbursed during the previous year. Estimates of food aid at $ 227 million during 1988-89 was 24.3 percent lower than $ 300 million received during the preceding year. Estimates of commodity aid at $ 538 million during the year was 5.7 percent higher than $ 509 million received during the previous year. Estimates of project aid during 1988-89 at $ 904 million was 8.8 percent higher than $ 831 million received during the preceding year. Category-wise disbursement of foreign aid during the last five years and projection for 1989-90 are shown in Table 11.1.

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* Revised.

TABLE 11.1

DISBURSEMENT OF FOREIGN AID

(Million US Dollar)

Category	Year					
	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90 (Projection)
Food Aid	244	203	225	300	227	326
Commodity Aid	432	393	403	509	538	469
Project Aid	591	710	967	831	904	1,066
Total :	**1,267**	**1,306**	**1,595**	**1,640**	**1,669**	**1,861**

11.3 Bangladesh made payments of $ 191 million as principal (excluding repurchases from the IMF), and $ 150 million as interest during 1988-89. Thus, the net inflow of foreign aid into the country during 1988-89 stood at $ 1,328 million which was $ 23 million or 1.7 percent lower than $ 1,351* million during the previous year.

* Revised.

CHAPTER XII

TRANSACTIONS WITH THE IMF

12.1 Bangladesh purchased, in two phases, SDR 38.81 million and SDR 18.69 million respectively, totalling SDR 57.50 million as the third instalment under the Structural Adjustment Facilities (SAF) of the International Monetary Fund (IMF) during 1988-89. It may be mentioned that Bangladesh received an additional drawing facility of SDR 18.69 million as a result of enhancement of the third instalment from 13.5 percent to 20.0 percent. Besides, Bangladesh purchased SDR 71.87 million as Emergency Assistance during the year. As a result, the total amount of SDR purchased by Bangladesh from the IMF stood at SDR 129.37 million.

12.2 Bangladesh repurchased a total of SDR 80.52 million against purchases made under various facilities of the Fund during 1988-89. During the same period, Bangladesh paid SDR 33.39 million as charges to the Fund. Thus, the net receipt of Bangladesh from the Fund stood at SDR 19.50 million equivalent to $ 24.20 million during the year. Bangladesh's transactions with the IMF are shown in Table 12.1.

TABLE 12.1

TRANSACTIONS WITH THE IMF

(In million SDR)

Facilities	Drawings	Outstanding Liabilities as on 30.6.88	Purchase during 1988-89	Repurchase during 1988-89	Outstanding Liabilities as on 30.6.89
1. Stand-by Arrangement, 1983	68.40	5.70	—	5.70	—
2. Extended Fund Facility, 1980	110.00	50.23	—	18.34	31.89
3. Trust Fund, 1977-81	121.79	27.80	—	17.00	10.80
4. Structural Adjustment Facility, 1987	201.25	143.75	57.50	—	201.25
5. Compensatory Financing Facility, 1987	88.90	88.90	—	—	88.90
6. C. F.F.-Cereal Facility, 1985	54.95	54.95	—	27.48	27.47
7. Stand-by Arrangement, 1985	180.00	180.00	—	12.00	168.00
8. Emergency Assistance, 1988	71.87	—	71.87	—	71.87
Total :		**551.33**	**129.37**	**80.52**	**600.18**

12.3 As a result of the above transactions, the outstanding level of liabilities of Bangladesh to the IMF at the end of June, 1989 stood at SDR 600.18 million equivalent to US $ 748.06 million. The outstanding level of liabilities had stood at SDR 551.53 million equivalent to US $ 722.58 million at the end of June, 1988.

SDR 1 =$ 1.24639 as on June 30, 1989.

CHAPTER XIII

TRADE POLICY

Export Policy and Target

13.1 The trade policy of Bangladesh for 1988-89 was formulated keeping in view the objectives of assisting productive activities and reducing deficit in the current account of the country. Accordingly, the policy sought to make further simplification and liberalisation of import trade as well as diversification and expansion of the export sector. Export earnings* during 1988-89 stood at Tk.4,079.00 crores ($ 1,286.94 million) which was 7.2 percent higher than the earnings of Tk. 3,806.76 crores ($ 1,231.20 million) during the preceding year, but 9.3 percent lower than the target of Tk.4,495.00 crores for the year. The export target for 1988-89 could not be achieved due mainly to decline in earnings from jute goods, leather and agricultural products. Economic activities in the country were seriously disrupted during 1988-89 due to unprecedented floods in the beginning of the year and severe cyclonic storm and the subsequent tidal bore. As a result, export programme of the country also suffered a setback. Moreover, the instability and increasing competitiveness in the international market also adversely affected our export trade. The export price index denoted an increase of 3.4 percent, while the export volume index increased by 6.0 percent during the year under report.

13.2 With the aim of achieving the overall objectives for development of exports, the following measures were adopted in the export policy for 1988-89 :

1) The high-powered 'Export Credit Monitoring Committee' constituted under the Chairmanship of the Governor, Bangladesh Bank would continue to work as a permanent committee from 1988-89;

2) Adoption of a 4-year crash programme for the development and expansion of four non-traditional items, namely, toys, luggage and

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* Source : Export Promotion Bureau.

fashion articles, electronics and leather goods with a view to accelerating the pace of export earnings;

3) Continuation of priority to frozen foods and electronics as "Thrust Sectors' during 1988-89;

4) To encourage the sale of locally manufactured engineering goods as 'deemed exports' against foreign exchange under international tender, necessary arrangements were made for issuance of 'Bid Bonds' at a reasonably reduced margin by the commercial banks in favour of suppliers of such goods;

5) Decision to bring some new non-traditional export items, such as, waste cotton, button, industrial alcohol and drop-out fuse under 100 percent and tooth paste and snow under 70 percent XPB entitlements respectively on the basis of value addition. Besides, provisions were made for payment of XPB at the rate of 70 percent to electronic goods, toys and luggage and fashion articles in case of use of local raw materials;

6) Realignment of the XPB rates on export of readymade garments, hosiery and knitwear, silk products and specialised and household textiles. Provisions were also made for making commodity-wise realignments of the XPB rates, in case of need, by the Ministry of Commerce upon recommendation of the XPB committee, subject to a maximum entitlement not exceeding 100 percent. Besides, as in the case of readymade garments, provision was also made for payment of cash subsidy as an alternative arrangement, at the rate of 15 percent of the FOB value of exports of hosiery and specialised textiles;

7) To bring 'Project Exports' under the purview of 'deemed exports';

8) To place greater emphasis upon increasing activities of the concerned authorities for readjustment of the rates of duty-draw-back payable in the cases of all kinds of traditional and non-traditional items at the end of the year, as also for bringing new items under the flat rates. Simultaneously, decision was taken for simplifying and expediting the process of

determining commodity-wise flat rates with a view to encouraging sale of locally produced industrial goods as 'deemed exports' against foreign exchanges under international tender;

9) Relaxation of the ban on de-oiled rice bran and wheat bran;

10) Decision to allow export of surplus molasses;

11) Facility to import wet-blue leather by the export-oriented tannery units producing finished leather;

12) Higher priority attached to the commercial production of 'geo textile' as a measure of product diversification;

13) Introduction of an integrated credit programme for the cultivation of shrimps and frogs;

14) Decision to impose a ban on slaughtering of cattle, goats and sheep below a certain age-limit except during the Eid-ul-Azha with a view to increasing the size and improving the quality of exportable leather;

15) Imposition of ban on the export of unsplit bamboo, cane and wood log.

Import Policy

13.3 The Import Policy for 1988-89 provided for import target of Tk.7,278.00 crores which was 29.0 percent higher than the allocation of Tk.5,641.00 crores in 1987-88. The value* of imports during 1988-89, however, stood at Tk.8,637.98^P crores which was 7.18 percent higher than the actual imports of Tk.8,059.00 crores in the preceding year. Of the total allocation of Tk.7,278.00 crores during the year, Tk. 5,125.00 crores (70.42%) were to come from Wage Earners' Scheme/Secondary Exchange Market and Cash, Tk. 1,579.00 crores (21.70%) from Commodity Assistance and Tk. 574.00 crores (7.88%) from Barter and Counter Trade. The sectoral shares of the import allocation were : Private Sector industries Tk. 3,405.85 crores, Public Sector industries Tk. 895.00 crores, Commercial imports (Private)

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* Source : Bangladesh Bureau of Statistics.
P =Provisional.

Tk. 1,600.00 crores, Commercial imports (Public) Tk. 347.15 crores, POL Tk.1,000.00 crores and Cash Reserve Fund Tk.30.00 crores.

13.4 The main features of the Import Policy for 1988-89 were:

1) Substantial contraction of the 'Banned List' and the 'Restricted List' of importable items by necessary modification/revision and withdrawal of 103 out of 292 items in the Banned list and 73 out of 226 items in the Restricted List of the Import Policy for 1987-88;

2) Introduction of the Harmonised System of Nomenclature from 1988-89 instead of the existing system of classifying import commodities on the basis of ITC schedule;

3) Imposition of a ceiling of Tk.10.00 lakhs in respect of the import of 8 selected items in order to check their monopoly business by big importers, thereby protecting the interest of the small importers;

4) Provision for free import of powdered milk in bags;

5) Provision for free import of raw cotton;

6) Provision for free import of crude rubber by the recognised industrial units upto 85 percent of their entitlements and the rest 15 percent upon permission by the Bangladesh Forest Development Corporation;

7) Fixation of the target for salt import at 3 lakh metric tons and arrangement to import sugar through the TCB;

8) Enhancement of the limit for import of used and reconditioned machinery from Tk. 25 lakhs to Tk. 35 lakhs for the purpose of setting up of new plants and modernisation and expansion of the existing ones;

9) Enhancement of the ceiling for import of capital machinery and accessories for industrial use from Tk. 5 lakhs to Tk.10 lakhs;

10) Permission for import of G.P. sheets and C.I. sheets upto 26 gauge and over based on their manufacturing ingredients freely;

11) Provision for free import of M.S. billet on commercial basis;

12) Provision for free import of facsimile machine;

13) Prohibition of the import of ships made of steel and wood upto 2,000 DWT, keeping import of refrigerated ships outside the ban as the same are not built in the country;

14) Reimposition of the ban on import of cycle and rickshaw tyres of 28"X $1\frac{1}{2}$" with C&F value upto Tk. 85 instead of existing Tk. 61 per tyre.

Import Licences

13.5 The value of import licences[1] issued during 1988-89 stood at Tk.7,372.21 crores (101.3% of total allocation). This compared with licences issued worth Tk.5,553.42 crores or 98.4 percent of total allocation during 1987-88. Of the total value of licences issued during the year, Tk.5,784.33 crores (78.5%) were financed from Secondary Exchange Market (SEM), Tk.1,240.08 crores (16.8%) under Aid/Loan/Credit/Grant, Tk.347.18 crores (4.7%) under Barter/STA and Tk.0.62 crore under Cash. The sectoral shares in the licences issued were as follows : commercial importers Tk.2,428.99 crores (33.0%), industrial consumers (private) Tk.2,952.59 crores (40.1%), POL Tk.933.43 crores (12.7%), Sector Corporations Tk.776.94 crores (10.5%) and TCB Tk.280.26 crores (3.8%)

Value of Imports

13.6 Total value of merchandise imports[2] (including food and imports under project aid, but excluding imports made through land customs) during 1988-89 stood at Tk. 8,637.98* crores ($ 2,687.40 million) as compared to Tk. 8,059.00 crores ($ 2,579.52 million) during 1987-88. Of the total imports during the year, the shares of food and live animals stood at Tk. 1,591.84 crores, crude materials inedible except fuel Tk. 394.68 crores, mineral fuels, lubricants and related materials Tk. 1,117.03 crores, animal and vegetable oils and fats Tk. 662.15 crores, chemicals, drugs and

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[1] Source : Chief Controller of Imports and Exports.

[2] Source : Bangladesh Bureau of Statistics.

* Excluding POL import value.

medicines Tk. 953.65 crores, manufactured goods classified chiefly by materials Tk. 2,441.20 crores, machinery and transport equipments Tk.1,284.36 crores and others Tk.193.07 crores.

CHAPTER XIV

TRADE AND PAYMENTS AGREEMENTS

14.1 A total of 10 (ten) new trade agreements were signed between Bangladesh and other countries during 1988-89. These compared with 12 (twelve) agreements signed during the preceding year. Of the agreements signed during 1988-89, the barter agreement with Poland (Barter Protocol No. 7) became effective from September 24, 1987 and will remain valid upto June 30, 1990. The barter agreement signed with the Soviet Union (Barter Protocol No. 17) became effective from December 31, 1987 and remained valid till December 31, 1988. Three Special Trade Agreements (STA) signed with Switzerland, namely, BEXIMCO-COMTRADE STA, Transcom Andre STA and Elite-COMTRADE STA as also two other agreements namely, Nisu-Abdur Razzak STA signed with Singapore and Meenhar-Slopefield STA signed with the United Kingdom became effective from February 14, 22, 23, 27 and March 1, 1988 respectively and these will remain valid upto December 31, 1989. Besides, the special trade agreements TCB-Voest Alpine STA, Austria and TCB-Elders, STA-2, Australia signed on September 16, 1987 and March 6, 1988 respectively will remain valid upto September 15, and 30, 1989. On the other hand, the STAs viz., TCB-CGL STA, Austria, TCB-Mitsui STA, Japan and TCB-ACSA STA-4, Switzerland which became effective on January 6, 1988, March 20, 1988 and April 18, 1988 respectively expired on June 30, 1989, May 9, 1989 and April 19, 1989.

14.2 Under the agreements signed during 1988-89, exports from Bangladesh consisted mainly of raw jute, jute goods, jute rope/twine, jute carpet, jute yarn, jute bag, jute cloth, jute handicrafts, frozen shrimps, frozen fish and sea food (excluding shrimp), leather (wet blue, crust and finished), leather products, tea and packet tea, readymade garments, specialised textiles, handloom products, cloth, tobacco and tobacco products, telephone and electric cables, super enamelled copper wire, transformer, bicycle tyre and tubes, urea fertilizer, tea processing machinery, stainless razor blade, G.I. pipe, ceiling fan, synthetic fibre, drugs and medicinal herbs, spices, plastic sheet, nylon yarn, viscose yarn, diesel engine, ceramic products, tooth paste, cosmetics, stainless steel, cutleries, padlocks, jelly, jam, fruits and fruit juice, handicrafts, glycerine, shark fins, newsprint, household utensils and stationery products, books and periodicals, cinematographic films, etc. Imports into Bangladesh consisted mainly of wheat, sugar, salt, cement, coal, soybean oil, palm oil, milk food, drugs and medicinal herbs, TSP fertilizers, bitumen, raw cotton, light industrial products, pig iron, steel billet, B.P. sheet, aluminium ingot, M.S. billet, tyre and tubes, chemical products, paints and varnishes, bleaching powder, soda and caustic soda, sulphur and phosphoric acid, high speed diesel, scientific and surgical instruments, scientific equipments, radio transmitter, X-ray films, tools used in building roads, machinery and tools for Bangladesh railway, dried and fresh fruits, books and periodicals, cinematographic films, etc.

14.3 Table 14.1 gives a brief description of the agreements signed during 1988-89.

TABLE 14.1

TRADE AGREEMENTS

Sl. No.	Date of Agreement	Country/Party	Value of commodity for exchange each way (million US $)	
1.	19.7.88	Bangladesh-China Barter Protocol No. 11	30	Million
2.	1.8.88	Bangladesh-Hungary Special Account No. 10	48	"
3.	1.8.88	TCB-Khater (Hongkong) CPA	2.34	"
4.	1.9.88	Bangladesh-Bulgaria Barter No. 12	75	"
5.	16.1.89	Nisu-Slopefield STA, Singapore	11.27	"
6.	22.2.89	TCB–LDC STA, London	8	"
7.	27.3.89	Bangladesh–USSR Barter Protocol No. 18	*	
8.	30.3.89	TCB–HERCROSS STA	15	"
9.	15.5.89	Sonali/AAsh-COMTRADE STA, Switzerland	4	"
10.	15.5.89	Nipa-Slopefield STA, Singapore	4	"

* Value not determined.
Source : Exchange Control Department, Bangladesh Bank.

CHAPTER XV

MAJOR EXPORT COMMODITIES

15.1 Non-traditional exports continued to play a dominant role in the export trade of Bangladesh during 1988-89. However, the pace at which contributions of these export items had been increasing slowed down to some extent during the year due to increasing protectionist trend and an increase in the supply of relevant commodities in the international market. The contributions of non-traditional exports (excluding raw jute, jute goods and tea) in total export earnings in 1980-81 which had stood at 32.1 percent only increased to 45.9 percent by 1985-86 due mainly to substantial increase in the export of readymade garments and frozen foods (fish, shrimps and frog-legs). The ratio increased to 57.8 percent in 1986-87 and further to 66.1 percent in 1987-88 due, particularly, to the large scale expansion of the readymade garments industry. But, the export growth of readymade garments became relatively slackened due to introduction of 'quota' restriction as well as increased competitiveness in the international market. As a result, the contributions of non-traditional exports increased only marginally to 66.9 percent during 1988-89. Export earnings from traditional items, on the other hand, recorded an increase of 5.5 percent although their relative contribution in total export earnings declined somewhat during 1988-89.

Traditional Export Items

Raw Jute*

15.2 Production of raw jute was severely affected by floods during 1988-89. The area under jute cultivation increased by 7.0 percent from 12.5 lakh acres in the previous year to 13.4 lakh acres during 1988-89. Standing jute crop in 0.18^{P} lakh acre was completely washed away by the floods. However, total raw jute production in the country recorded a modest increase of 2.3 percent to 44.40 lakh bales during 1988-89 as compared to 43.40 lakh bales during the preceding year. Total availability

* Sources: Ministry of Jute, Export Promotion Bureau and Bangladesh Bank.
P =Provisional.

of raw jute (including a carryover stock of 32.10 lakh bales) stood 7.2 percent lower at 76.50 lakh bales during the year as compared to 82.40 lakh bales during 1987-88.

15.3 Export of raw jute increased by 20.5 percent to 16.17 lakh bales during 1988-89. An increase in demand and rise in price in the international market were the main contributory factors for the increase in raw jute exports during the year. The public and private sector export of raw jute during the year under report stood at 2.93 lakh bales (18.1 percent) and 13.24 lakh bales (81.9 percent) respectively as compared to 2.58 lakh bales (19.2 percent) and 10.84 lakh bales (80.8 percent) respectively during 1987-88. The average export price of raw jute at Tk.1,908.16 per bale during 1988-89 was 3.0 percent higher than Tk.1,851.98 per bale during the previous year. As a result of increase in both price and quantity, export earnings from raw jute increased by 24.0 percent to Tk.308.55 crores during the current year as compared to Tk.249.09 crores earned during 1987-88.

15.4 The annual average price of raw jute at the growers' level stood 16.0 percent lower at Tk.251.00 per maund during 1988-89 as compared to Tk.299.00 during the previous season. Despite a decline in the overall supply of raw jute in the internal market, the growers' level average price appears to have ruled lower than in the previous year due mainly to a lack of proper and timely decision and planning for purchase of jute. Of course, an upward trend, though nominal, was discerned in the average price from October, 1988.

15.5 With a view to bringing down the huge stocks of raw jute, efforts for accelerating the pace of exports were strengthened from the beginning of the year 1987-88. A a result, export sales registration during 1988-89 increased to 24.32 lakh bales which was 15.5 percent higher than 21.06 lakh bales during the preceding year. Actual exports of raw jute also increased to 16.17 lakh bales in 1988-89 from 13.45 lakh bales in the preceding year.

15.6 In the kutcha bale[1] section, the price of white X-Bottom raw jute stood at Tk. 965.00 per bale, while in the Pucca bale[2] section the price of BWD raw jute ruled at

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

Tk.2000.00 per bale on July 1, 1988. The prices ruled at the same levels till June 30, 1989.

15.7 The Indicative Export Prices of raw jute remained unchanged throughout the year under report.

Jute Goods*

15.8 Total output of jute goods stood at 5.44 lakh tons during 1988-89 which was 6.7 percent lower than 5.83 lakh tons produced during 1987-88. Of the total production, public sector and private sector accounted for 3.16 lakh tons (58.0 percent) and 2.28 lakh tons (42.0 percent) respectively.

15.9 Due to adverse situation in the international market, export sales registration and actual export of jute goods stood lower at 5.72 lakh tons and 4.97 lakh tons respectively during 1988-89 as compared to 5.97 lakh tons and 5.25 lakh tons respectively in the previous year.

15.10 Earnings from the export of jute goods during 1988-89 stood at Tk.887.71 crores (Public sector: 544.88 crores or 61.4 percent and private sector : Tk.342.83 crores or 38.6 percent) as compared to 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) during 1987-88. The average export price of jute goods stood at Tk.17,861.44 per ton during 1988-89 which was 0.6 percent higher than Tk.17,751.28 per ton during the previous year. In dollar terms, the average export price of jute goods stood 1.9 percent lower at US $ 563.10 per ton than US $ 573.92 per ton during 1987-88.

15.11 Stocks of jute goods (sold, unsold, stock-in-transit and shut-out)stood lower at 1.48 lakh tons as on June 30, 1989. This compared with 1.54 lakh tons as on June 30, 1988.

* Sources : Ministry of Jute, Export Promotion Bureau and Bangladesh Bank.

Tea*

15.12 Production of tea in the country stood at 41.23 million kgs. during 1988-89 which was 1.1 percent lower than the revised target for the year, and 0.9 percent lower than the production of 41.62 million kgs. in 1987-88. Tea production suffered setback during the year under report due to severe drought at the beginning of the season and subsequently by devastating floods. Total availability of tea, including a carryover stock of 18.55 million kgs. from the preceding year stood at 59.78 million kgs. during the year. Total availability of tea had stood 60.11 million kgs. (including a carryover stock of 18.49 million kgs.) in the preceding year. Due to lower exports, the closing stock of tea at the end of 1988-89 stood 11.4 percent higher at 20.66 million kgs. than 18.55 million kgs. in 1987-88.

15.13 Prices of tea in the internal market showed a mixed trend during 1988-89. In the Chittagong tea auction market, the average price of tea which stood at Tk.48.49 per kg. in July, 1988 increased to Tk.50.09 per kg. in October, 1989. Thereafter, the prices showed a declining trend and, amidst minor fluctuations, came down to Tk.35.08 per kg. in March, 1989. Thereafter, the prices showed a rising trend and closed the year at Tk.51.25 per kg. In all, 45 auctions were held in the Chittagong market during 1988-89, in which 38.29 million kgs. of tea were sold at an average price of Tk.46.21 per kg. as compared to 37.05 million kgs. sold at an average price of Tk.41.00 per kg. in the preceding year.

15.14 Exports of tea during 1988-89 stood at 25.12 million kgs. which was 8.85 percent lower than 27.56 million kgs. during 1987-88. The decline in the volume of tea exports during the year could be attributed to lower demand from some major buyers like Pakistan, U.K., Afghanistan, Egypt and Iran. Exports of tea to these countries declined to 15.00 million kgs. during the year from 20.00 million kgs. recorded in the preceding year. However, due to an increase in price in the international market, export earnings from tea increased by 4.9 percent to Tk.126.35 crores during 1988-89 as compared to Tk.120.48 crores in the preceding year. The average export price of tea stood at Tk.50.30 per kg. during the year showing a 15.05 percent increase over Tk.43.72 per kg. in 1987-88.

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* Source : Bangladesh Tea Board.

Non-traditional Export Items*

Readymade Garments

15.15 Readymade garments occupies an important position as major foreign exchange earning industrial item in the list of export commodities of Bangladesh. Earnings from this item during 1988-89 stood at Tk.1,494.28 crores which were 11.3 percent higher than Tk.1,342.13 crores earned during the previous year. During the year under report, the three largest buyers of Bangladeshi readymade garments were U.S.A. Tk.883.12 crores (55.8 percent), West Germany Tk. 136.32 crores (9.1 percent) and Italy Tk.91.12 crores (6.1 percent). During 1987-88 also, the largest buyers of readymade garments from Bangladesh were U.S.A. Tk.846.90 crores (63.1 percent), West Germany Tk.136.15 crores (10.1 percent) and Italy Tk.67.38 crores (5.0 percent).

Hides and Skins

15.16 The prices of hides and skins depicted a mixed trend during 1988-89. At the beginning of the year, the prices of cow-hides (wet, salted, heavy) stood at Tk.70,000-Tk.77,000 per hundred pieces which, amidst some fluctuations, remained almost unchanged (Tk.70,000-Tk.76,000) till the end of the year. Prices of buffalo hides and goat-skins (big and heavy) per hundred pieces opened the year at Tk.48,000-Tk.53,000 and Tk.17,000-Tk.18,500 respectively and, amidst some fluctuations, stood at Tk.40,000-Tk.45,000 and Tk.14,000-Tk.16,000 respectively at the end of the year. The price of sheep-skins which stood at Tk.7,000-Tk.7,500 per 100 pieces at the beginning of the year rose gradually to Tk.7,400-Tk.7,700 at the end of the year.

15.17 Export earnings from leather (tanned and semi-tanned) declined to Tk.434.50 crores in 1988-89 from Tk.455.20 crores in 1987-88, denoting a 4.5 percent decrease over the year.

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* Source : i) Export Promotion Bureau.
ii) Directorate of Agricultural Marketing.

Frozen Food

15.18 Export earnings from frozen food (fish, shrimps and frog-legs) stood 3.8 percent higher at Tk.448.45 crores during the year as compared to Tk.431.94 crores during 1987-88.

Naptha and Bitumen

15.19 Export earnings from Naptha and Bitumen went up by 48.8 percent to Tk.38.18 crores during 1988-89 as compared to Tk.25.65 crores during the previous year.

Newsprint

15.20 Export earnings from newsprint declined by 35.7 percent to Tk.14.03 crores during the year as compared to Tk.21.83 crores earned during 1987-88.

Handicrafts

15.21 The value of handicrafts exported during 1988-89 went up by 7.4 percent to Tk. 12.48 crores as compared to Tk. 11.62 crores during the previous year.

CHAPTER XVI

EXCHANGE RATE POLICY AND DEVELOPMENTS IN EXCHANGE CONTROL

Exchange Rate Policy

16.1 The world exchange market continued to remain unstable during 1988-89. Wide fluctuations occurred in the value of US dollar vis-a-vis major currencies during the year. The dollar recorded substantial depreciation upto November, 1988 due to apprehension about the ability of the new US administration to tackle fiscal and trade deficits. However, at the back-drop of political uncertainties in a number of major industrial countries and tightening of the US monetary policy, increase in interest rate of dollar-denominated financial assets and better growth performance of the US economy, the dollar regained substantial strength by the end of the year under report. In order to maintain Bangladesh's international competitiveness at appropriate level in the light of above developments in the world exchange market, the external value of Taka in relation to the US dollar, our intervention currency, was re-adjusted downwards three times during 1988-89 on the basis of a trade-weighted 'basket of currencies'. As a result, the Taka-Dollar exchange rate depreciated by 2.43 percent over the year. The date-wise re-fixation of Taka-Dollar official exchange rate during 1988-89 is shown in Table 16.1.

TABLE 16.1

TAKA-DOLLAR OFFICIAL EXCHANGE RATE

Date of Fixation	Bangladesh Bank's Taka Rate per US dollar	
	Buying	Selling
July 14, 1988*	31.76	31.84
August 1, 1988	31.96	32.04
November 12, 1988**	32.23	32.31

* These rates were Tk. 31.47 and Tk.31.53 respectively as on June 30, 1988.

** Remained unchanged till June 30, 1989.

Taka-Dollar Rate in the Secondary Exchange Market (SEM)

16.2 In the Secondary Exchange Market (SEM), where buying and selling of foreign currencies consisting mostly of remittances by Bangladeshi wage earners takes place, the Taka-Dollar exchange rate remained unchanged throughout the year under report. The buying and selling rates of the US dollar remained unchanged at Tk. 32.90 and Tk. 32.95 respectively. Table 16.2 shows the Taka-Dollar exchange rate as prevailed in the Secondary Exchange Market during 1988-89.

TABLE 16.2

SECONDARY EXCHANGE MARKET RATE

Period	(Taka per U.S. dollar)	
	Buying	Selling
June 30, 1988–June 30, 1989	32.90	32.95

XPB Premium Rate

16.3 The rate of premium on XPB declined during 1988-89 as a result of depreciation of the official exchange rate of Taka in relation to the US dollar, while the Secondary Exchange Market rate remained unchanged. The rate of premium declined by Tk. 0.78 from Tk. 1.36 to Tk. 0.58 per US dollar on June 30, 1989.

Exchange Control

16.4. The following measures were adopted in the field of exchange control during 1988-89:

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

Importers were earlier required to deposit the full value of L/C in advance at the time of opening import L/C under the Secondary Exchange Market/Wage Earners' Scheme. It was decided with effect from July 5, 1988 that the margin of advance foreign exchange required to be deposited by an importer at the time of opening import L/Cs under the above source will be determined by the concerned banks in accordance with the normal banking principles and practices and on the basis of banker-customer relationships. However, required margin of advance deposit should be determined in such a manner so that the same does not become harder than earlier system.

ii) Arrangements for Imports on Deferred Payment Basis

In accordance with different clauses of the Import Policy Order, 1988-89, it has been decided that raw and packing materials can be imported by export-oriented industrial units operating under bonded-warehouse arrangement through back-to-back L/Cs on 180 days' deferred payment basis against confirmed and irrevocable export Letters of Credit received by them. It may be mentioned that there is no such arrangement for imports on deferred payment basis at official rate. However, the following goods can be imported on deferred payment basis at Secondary Exchange Market rate:

i) Import of capital machinery on deferred payment basis not exceeding 360 days.

ii) Import of coastal vessels (including oil tankers) and ocean going vessels (including those for scrapping purposes) on deferred payment basis not exceeding 360 days.

iii) Import of raw materials by industrial consumers as per their pass book entitlements on deferred payment basis not exceeding 180 days.

iii) Hajj-1989

Each ballottee pilgrim was sanctioned 3,400 Saudi Riyals at official rate for meeting incidental expenses including Muallim Fees to perform Hajj during 1989. Each of the non-ballottee pilgrims were also allowed to purchase the same amount of Saudi Riyals at the SEM rate. In addition, the ballottee and non-ballottee pilgrims were allowed to purchase a further sum of US $ 550 each under the Wage Earners' Scheme.

iv) Mode of Payment against Raw Materials Imported by the Export-oriented Readymade Garments Industries

In accordance with Government decision, units of the readymade garments industry will be entitled from July 1, 1989 to pay for the raw materials imported by them under back-to-back L/C arrangement directly out of the proceeds realised in foreign currency against the concerned exports.

Inspection of Dealings in Foreign Exchanges

16.5 The Exchange Control Department of the Bangladesh Bank carried out comprehensive inspection of the foreign exchange transactions in 121 branches of 16 Authorised Dealers, in addition to their respective Head/Main offices, during 1988-89. The distribution of the above 121 branches is shown in Table 16.3.

TABLE 16.3

Name of the Authorised Dealers	Number of Branches Inspected
1. Janata Bank	19
2. Rupali Bank Ltd.	18
3. Agrani Bank	17
4. Pubali Bank Ltd.	15
5. Uttara Bank Ltd.	13
6. Islami Bank Bangladesh Ltd.	8
7. Grindlays Bank plc	6
8. IFIC Bank Ltd.	6
9. United Commercial Bank Ltd.	6
10. BCCI (overseas) Ltd.	3
11. Bangladesh Krishi Bank	3
12. American Express Bank Ltd.	2
13. Bank Indosuez	2
14. Standard Chartered Bank	2
15. State Bank of India	1
16. Bangladesh Shilpa Bank	(Head Office only)
Total :	**121**

16.6 Final inspection reports in respect of 10, out of the above 16 Authorised Dealers, in addition to 4 others were forwarded to their respective Head/ Main offices for rectification of the irregularities pointed out in the reports, and also for implementation of the recommendations made therein. In addition to the above, special inspection of 13 branches of Authorised Dealers, 2 money changers, 1 indenting house and 3 travel agents, and verification of the original copy of 3,476 export forms of 108 branches of different Authorised Dealers were also conducted during the year under report.

CHAPTER XVII

ASIAN CLEARING UNION

17.1 The declining trend of receipts and increasing trend of payments on Bangladesh's account under the Asian Clearing Union (ACU) continued during 1988-89. As usual, six settlements took place under the ACU arrangements during the year, in which Bangladesh emerged as a net debtor. The net debtor position of Bangladesh widened further by AMU 47.04 million (Tk.195.09 crores) to AMU 115.23 million (Tk.483.00 crores) during 1988-89 as compared to the preceding year due to increase in Bangladesh's imports from and decline in exports to member countries of the ACU.

17.2 Receipts under the ACU arrangement on Bangladesh's account recorded substantial decline while payments increased sharply during 1988-89. Payments on Bangladesh's account increased by AMU[@] 34.45 million or 29.58 percent from AMU 116.46 million (Tk.490.58 crores) in 1987-88 to AMU 150.91 million (Tk.632.71[R] crores) in 1988-89. On the other hand, receipts declined by AMU 12.59 million or 26.08 percent from AMU 48.27 million (Tk.202.67 crores) in 1987-88 to AMU 35.68 million (Tk.149.71 crores) in 1988-89.

17.3 As a result of these transactions, Bangladesh was placed at a net debtor position of AMU 115.23[R] million (Tk.483.00 crores) in 1988-89 as compared to a net debtor position of AMU 68.19 million (Tk.287.91 crores) in 1987-88.

17.4 Receipts and payments of Bangladesh under the ACU arrangement during the last three years are shown in Table 17.1.

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

TABLE 17.1

RECEIPTS AND PAYMENTS ON BANGLADESH'S ACCOUNT UNDER THE ACU

(In million AMU)

Sectors	1986-87	1987-88	1988-89
1. Receipts (Exports)	60.84 (230.62)	48.27 (202.67)	35.68 (149.71)
2. Payments (Imports)	93.43 (358.89)	116.46 (490.58)	150.91 (632.71)
Net : Surplus(+) Deficit(–)	–32.59 (–128.27)	–68.19 (–287.91)	–115.23 (–483.00)

Note : Figures in brackets indicate the amount of Taka in crore.

17.5 It appears from the above transactions that Bangladesh's imports as compared to her exports under the ACU have been increasing day by day. As a result, the magnitude of deficit is also increasing gradually. The amount of deficit in 1988-89 increased to AMU 115.23 million (Tk.483.00 crores) from AMU 68.19 million (Tk.287.91 crores) and AMU 32.59 million (Tk.128.27 crores) in 1987-88 and 1986-87 respectively. The comparative position of trade and trade balance of the ACU member countries are shown in Table 17.2.

TABLE 17.2

COMPARATIVE POSITION OF TRADE AND TRADE BALANCE OF ACU MEMBERS

(In million US Dollar)

Country	Exports to ACU		Import from ACU		Surplus (+) Deficit (–)	
	1986	1987	1986	1987	1986	1987
Bangladesh	85.8	70.0	107.0	138.5	– 21.2	– 68.5
Mayanmar (Burma)	25.0	27.4	5.8	6.6	+ 19.2	+ 20.8
India	317.0	335.0	721.0	822.0	– 404.0	– 487.0
Iran	677.0	831.0	219.0	209.0	+ 458.0	+ 622.0
Nepal	59.3	54.6	112.0	117.9	– 52.7	– 63.3
Pakistan	168.5	224.7	168.4	242.9	+ 0.1	– 18.2
Sri Lanka	68.6	67.5	181.1	171.1	– 112.5	– 103.6
Total :	**1,401.2**	**1,610.2**	**1,514.3**	**1,708.0**	**–113.1**	**–97.8**

Note : (i) Export (f.o.b); (ii) Imports (c.i.f).
Source : ACU Annual Report, 1988.

CHAPTER XVIII

CURRENCY AND COINAGE

Bank Notes

18.1 10-Taka Bank Notes of existing design bearing the signature of Governor Mr. S.B. Chaudhuri and portrait of Atia Zam-e-Masjid was put into circulation with effect from February 11, 1989.

Other Notes and Coins

Two-Taka Notes

18.2 Newly designed Two-Taka Notes under the signature of Ex-Finance Secretary Mr.Ghulam Kibria was put into circulation for the first time with effect from December 29, 1988. 100 mm x 60 mm in size, the note bears pictorial symbol of the great Language Movement—the 'Central Shahid Minar' in Dhaka–on its front and picture of the national bird 'Doyel' on the back. On the right side of the note lies the security thread and on the left lies water mark of raised head of the 'Royal Bengal Tiger'. The amount of Two-Taka Notes in circulation as on June 30, 1989 stood at Tk. 9.23 crores.

One-Taka Notes and Coins

18.3 One-Taka Notes of the existing design bearing the signature of Finance Secretary Mr. M.K. Anwar was put into circulation with effect from May 30, 1989. The amount of One-Taka Notes and Coins in circulation as on June 30, 1989 stood at Tk. 63.41 crores which was higher by Tk.12.61 crores than Tk.50.80 crores as on June 30,1988.

Subsidiary Coins

18.4 Subsidiary coins in circulation as on June 30, 1989 stood at Tk.45.16 crores which was higher by Tk.2.76 crores than Tk.42.40 crores as on June 30, 1988. No newly designed coins were issued during the year ended on June 30, 1989.

CHAPTER XIX

ADMINISTRATION

Board of Directors/Executive Committee Meetings

19.1 During 1988-89, 8 meetings of the Board of Directors and 5 meetings of the Executive Committee were held.

Co-ordination Committee Meetings

19.2 The Co-ordination Committee of the Bank held a total of 8 meetings during the year under report.

Appointments in Different Grades

19.3 The following appointments in different grades of employment were made by the Bank during 1988-89:

i)	Chief Medical Officer	1
ii)	Deputy Director (Department of Public Relations and Publications)	1
iii)	Deputy Director (Engineering)	1
iv)	Assistant Director	102
v)	Officer	111
vi)	Coin/Note Examiner and other Staff	185
	Total :	**401**

Total Number of Officers and Staff

19.4 The total number of officers and staff of the Bangladesh Bank increased by 198 to 5,756 during the year ended on June 30, 1989.

19.5 Effective from January 1, 1989 Mr. A.B.M. Mahbubul Amin Khan, Economic Adviser, Bangladesh Bank was entrusted with the additional responsibility of the Chief of the Special Implementation Cell set up by the Government for implementation of the recommendations made by the National Commission on Money, Banking and Credit.

Officer on Deputation in the Bank's Service

19.6 Mr. Mohibur Rahman, Superintending Engineer of Public Works Department of the Government of the People's Republic of Bangladesh was appointed on deputation basis as General Manager, Engineering Department of the Bank, with effect from March 23, 1989.

Bank Officers on Deputation

19.7 One General Manager of the Bank was on deputation with Bahrain Monetary Agency and One Deputy General Manager with Oman Central Bank during 1988-89. Besides, one Deputy Director of the Bank was on deputation with the External Resources Division of the Ministry of Finance and Planning, one Deputy Director with the President's Secretariat and one Deputy Director with the National Board of Revenue during the year under report.

Improvement of Terms of Service

19.8 As approved by the Board of Directors, organisational structure and pay scales of personnel of the Computer Department of the Bank was reorganised during the year.

Foreign Training

19.9 During 1988-89, 21 officers of the Bank were sent abroad for participation in different Training Courses/Seminars/Meetings.

Domestic Training

19.10 A total of 140 officials of the Bank participated in training courses organised by different training institutions during 1988-89.

19.11 With a view to raising professional skill and efficiency of the Bank's officers and staff, the Bangladesh Bank Training Academy arranged the following training programmes during 1988-89.

i) A total of 27 Assistant Directors/Assistant Managers and 34 Officers were trained by organising 5 regular in-service courses of two months' duration each.

ii) A total of 70 Assistant Directors and 76 Officers were trained by organising 7 courses of 3 months' duration each.

iii) A one-and-half months' training course was organised for Assistant Managers and Officers of the Cash Department wherein 18 trainees participated.

iv) To ensure correct reporting of foreign exchange transactions by the Authorised Dealers, 4 courses of 4-day duration on 'Reporting of Foreign Exchange Transactions' were conducted at Dhaka, Chittagong, Khulna, Sylhet and Bogra Offices of the Bank wherein a total of 114 officials of the Bangladesh Bank and other commercial banks participated.

v) A total of 7 Deputy Directors and 20 Assistant directors were imparted training by organising two special courses, namely, 'Technique of Bank Inspection' and 'Technique of Agricultural Credit Inspection'.

vi) For imparting training on the technique of computerisation, storage and retrieval of banking statistics to the officers of concerned department, two short courses each of 5 days' duration of 'Computer Familiarisation' were organised in which 20 Officers of the Bank participated.

vii) A total of 105 Officers of the commercial banks were trained by organising 2 training courses each of 4 days' duration on 'Collection of New Data on Agricultural Loan'

viii) A short workshop of two days' duration on 'Training Facilities for the Agricultural (Rural) Banking, Co-operatives and Rural Development personnel in Bangladesh' was organised with the assistance of 'CIKTAB' in which 24 senior officials from different banks and other organisations participated.

ix) With a view to broadening the outlook of the Trainee Officers, an educational field trip to the Ganaswastha Pharmaceuticals Limited, Nayarhat was arranged in which a total of 10 Trainee Officers participated.

Bank's Publications

19.12 The Bank's different regular publications containing reviews and statistics of the monetary and banking sector were continued during 1988-89.

Office/Residential Accommodation and other Development Work

19.13 Construction of underground water reservior, overhead water tank, water pipe-line and pump house for 'A' 'B' 'C' and 'D' type quarters and supply of gas to the additional units of 'A' 'B' 'C' and 'D' type quarters at Faridabad, Dhaka were completed during 1988-89. Construction of hostel type accommodation on the roof of the Bangladesh Bank Club and installation of Air-conditioning Plant at the Main Building of the Head Office were completed during the year under report. Besides, construction of the 2nd multi-storied building at Head Office premises, 6-storied office building with 15-storied foundation at Chittagong, 6-storied annexe building with 15-storied foundation in the Bank premises, Khulna, 3-storied office building with 5-storied foundation in the Bank premises, Rajshahi and construction of staff quarters at Bogra, Sylhet and Agrabad, etc. were in progress during the year. Construction work of the boundary wall and guard room in the staff quarter premises of Nasirabad, Chittagong was suspended at near completion stage due to some legal complications.

Welfare Activities and Sanction of Stipends

19.14 An amount of Tk. 40.00 lakhs was sanctioned to different Offices of the Bank to meet the expenses relating to welfare and recreational activities, and for awarding stipends to the eligible children of 'C' and 'D' category employees of the Bank during 1988-89.

CHAPTER XX

ANNUAL ACCOUNTS

Issue Department

20.1 The Balance Sheet of the Issue Department of the Bank as on June 30, 1989 appears on pages 142-143 of the Report.

20.2 The value of notes issued upto June 30, 1989 stood at Tk.2,930.93 crores. This was higher by Tk.206.16 crores than Tk.2,724.77 crores issued upto June 30, 1988. Assets against the notes included Gold worth Tk.68.01 crores, Approved Foreign Exchange of Tk.200.00 crores, Taka Coin worth Tk.6.54 crores, Government of Bangladesh Securities worth Tk.367.31 crores and Internal Bills of Exchange and other Commercial Papers worth Tk.2,289.08 crores. The corresponding figures of assets against notes issued upto June 30, 1988 were 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.

Banking Department

20.3 The Balance Sheet of the Banking Department as on June 30, 1989 appears at pages 144-145. One the liabilities side, balances in the Statutory Funds* increased from Tk.341.00 crores as on June 30, 1988 to Tk.367.22 crores as on June 30, 1989 due to appropriation of Tk.38.00 crores from the Profit and Loss Account. Government Deposits decreased by Tk. 0.42 crore to Tk.0.62 crore as on June 30, 1989 from Tk.1.04 crores as on June 30, 1988. Deposits from banks increased by Tk.118.20 crores to Tk.1,922.59 crores as on June 30, 1989 from Tk.1,804.39 crores as on June 30, 1988. Other Deposits increased by Tk.352.87 crores to Tk.2,608.54 crores as on June 30, 1989 from Tk.2,255.67 crores as on the same day a year ago. Other Liabilities decreased by Tk. 53.67 crores to Tk.1,194.98

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* Excluding Credit Guarantee Fund.

crores as on June 30, 1989 from Tk.1,248.65 crores as on June 30, 1988. The amount of SDRs remained unchanged at Tk.91.74 crores.

20.4 On the assets side of the Banking Department, Bills Purchased and Discounted—Internal increased by Tk.30.00 crores to Tk.139.00 crores as on June 30, 1989 from Tk.109.00 crores as on June 30, 1988. The balance of rediscounted Government Treasury Bills increased by Tk.446.35 crores to Tk.498.10 crores as on June 30, 1989 from Tk.51.75 crores as on June 30, 1988. The amount under Balance Held Outside Bangladesh increased by Tk.258.19 crores to Tk.2,587.33 crores as on June 30, 1989 from Tk.2,329.14 crores as on June 30, 1988. Other Loans and Advances (loans and advances to banks and other financial institutions) declined by Tk.58.07 crores to Tk.1,070.96 crores as on June 30, 1989 from Tk.1,129.03 crores as on June 30, 1988. The balances under 'Investments' decreased by Tk.312.45 crores to Tk.595.58 crores as on June 30, 1989 from Tk.908.03 crores as on June 30, 1988. The balances under Loans and Advances to the Government which had stood at Tk.20.00 crores as on June 30, 1988, stood nil as on June 30, 1989. Other assets increased by Tk.99.44 crores to Tk.1,300.44 crores as on June 30, 1989 from Tk.1,201.00 crores as on June 30, 1988.

20.5 The Profit and Loss Account of the Bank for the year ended on June 30, 1989 appears at page 146.

Comparative Position of Profit and Loss Account

20.6 The comparative position of Profit and Loss Account of the Bank for the years 1987-1988 and 1988-89 is summarised below :

(Taka in Crores)

Particulars	1987-88	1988-89	Changes
Gross Income	464.39	572.34	+ 107.95
Total Expenditure	250.57	309.85	+ 59.28
Net Profit :	**213.82**	**262.49**	**+ 48.67**

20.7 It appears from the above account that the net profit of the Bank during 1988-89 was larger by Tk. 48.67 crores as compared to that during 1987-88. Although total expenditures increased by Tk.59.28 crores, net profit of the Bank during 1988-89 went up due mainly to increase of Tk.107.95 crores in gross income as a result of larger refinance and investments in foreign currencies.

20.8 Out of the above profit of Tk.262.49 crores, a sum of Tk.40.00 crores was appropriated towards different Statutory Funds as detailed below; the remaining amount of Tk.262.49 crores is payable to the Government Exchequer :

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 Payable to the Government	Tk.	222,48,68,473.86
Total :	**Tk.**	**262,48,68,473.86**

Appointment of Auditors

20.9 In terms of Article 65(i) of the Bangladesh Bank Order, 1972, the Government was pleased to appoint two Chartered Accountants, namely, M/S. S.F.Ahmed & Co. and M/S. K.M. Alam & Co. to audit the accounts of the Bank for the year 1988-89.

Appreciation

20.10 The Board of Directors of the Bank was pleased to place on record its appreciation of the loyal and devoted services rendered by the Officers and Staff of the Bank during the year under report.

BALANCE SHEET

AND

PROFIT AND LOSS ACCOUNT

LIABILITIES

Particulars	As on June 30, 1989		As on June 30, 1988	
	Taka	Taka	Taka	Taka
Notes held in the Banking Department	67,85,155		67,30,390	
Notes in Circulation*	2930,25,39,270		2724,09,32,800	
Total Notes Issued		2930,93,24,425		2724,76,63,190
TOTAL LIABILITIES		**2930,93,24,425**		**2724,76,63,190**

* 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, 1989		As on June 30, 1988	
		Taka	Taka	Taka	Taka
A.	Gold Coin and Bullion	68,00,53,000		74,66,40,000	
	Silver Bullion	Nil		Nil	
	Special Drawing Rights held with the International Monetary Fund	Nil		Nil	
	Approved Foreign Exchange	200,00,00,000	268,00,53,000	200,00,00,000	274,66,40,000
B.	Taka Coin	6,53,86,534		3,37,05,299	
	Government of Bangladesh Securities*	367,30,74,686		580,49,11,686	
	Internal Bills of Exchange and other Commercial Papers	2289,08,30,205	2662,92,71,425	1866,24,06,205	2450,10,23,190
TOTAL ASSETS :			2930,93,24,425		2724,76,63,190

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

LIABILITIES

Particulars	As on June 30, 1989		As on June 30, 1988	
	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		133,21,91,250		130,00,00,000
Industrial Credit Fund		44,00,00,000		40,00,00,000
Export Credit Fund		45,00,00,000		41,00,00,000
Agricultural Credit Stabilisation Fund		145,00,00,000		130,00,00,000
Deposits :				
(a) Government	62,03,082		1,04,03,969	
(b) Banks	1922,59,03,192		1804,39,19,515	
(c) Others	2608,53,58,538	4531,74,64,812	2255,66,97,358	4061,10,20,842
Allocation of Special Drawing Rights		91,74,31,206		91,74,31,206
Bills Payable		38,99,453		11,49,740
Other Liabilities		1194,98,29,317		1248,64,92,354
TOTAL LIABILITIES :		**6192,08,16,038**		**5748,60,94,142**

DEPARTMENT

ASSETS

Particulars	As on June 30, 1989		As on June 30, 1988	
	Taka	Taka	Taka	Taka
Note		67,85,155		67,30,390
Taka Coin		234		173
Subsidiary Coin		173		127
Bills Purchased and Discounted				
(a) Internal	139,00,00,000		109,00,00,000	
(b) External	Nil		Nil	
(c) Government Treasury Bills	498,10,28,672	637,10,28,672	51,74,69,609	160,74,69,609
Balances held out side Bangladesh**		2587,32,61,032		2329,13,59,994
Special Drawing Rights held with the International Monetary Fund		Nil		Nil
Loans and Advances to Government		Nil		20,00,00,000
Other Loans and Advances		1070,95,67,249		1129,02,62,793
Investments		595,57,86,840		908,02,63,840
Other Assets		1300,43,86,683		1201,00,07,216
TOTAL ASSETS :		**6192,08,16,038**		**5748,60,94,142**

** Includes Cash and Short-term securities.

PROFIT AND LOSS ACCOUNT

	As on June 30, 1989 Taka	As on June 30, 1988 Taka
INCOME :		
Interest, Discount, Exchange, Commission, etc.	572,33,50,112	464,39,06,044
EXPENDITURE:		
Salaries and Allowances	29,73,00,949	27,47,96,529
Directors' Fees and Expenses	33,476	22,588
Auditors' Fees	57,722	57,722
Rent , Taxes, Insurance, Lighting, etc.,	2,53,16,592	2,38,85,040
Law Charges	2,78,148	2,52,932
Postage and Telegram Charges	25,50,047	19,41,590
Remittance of Treasure	52,93,002	34,07,686
Printing and Stationaries	1,15,56,337	1,27,15,733
Security printing (Cheques, Notes, Forms, etc.)	10,13,88,440	12,46,70,754
Depreciation on Bank's Property	3,02,57,402	2,43,12,531
Repairs to Bank's property	1,33,34,609	99,46,471
Agency charges	7,37,06,574	8,51,68,113
I.M.F.charges	148,00,69,864	116,94,63,976
Interest Subsidy to Banks and Financial Institutions	8,26,12,022	6,55,11,933
Interest on deposits	80,89,70,316	59,23,28,508
Interest on Staff Provident Fund	3,62,24,962	2,95,76,580
Interest on General Provident Fund	49,54,190	39,67,162
Interest paid on ACU Transactions	3,82,54,460	1,45,07,039
Miscellaneous Expenses	8,63,22,526	6,91,48,822
Net Profit :	262,48,68,474	213,82,24,335
Total Taka :	**572,33,50,112**	**464,39,06,044**
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 Government	222,48,68,474	173,82,24,335
Balance	NIL	NIL
Total Taka :	**262,48,68,474**	**213,82,24,335**
RESERVE FUND ACCOUNT :		
Balances as on June 30,1988	3,00,00,000	3,00,00,000
By transfer from Profit and Loss A/C	NIL	NIL
Total Taka :	**3,00,00,000**	**3,00,00,000**

ASHRAF ULLAH
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 two Balance Sheets (Issue Department and Banking Department) of the Bangladesh Bank as at 30th June, 1989 and the Profit & Loss Account of the Bank for the year ended on that date with the related books of account and records maintained by the Bank's Head Office and other seven branches. Our examination was made in accordance with the generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We report that we have obtained all the information and explanations we required and such information and explanations have been given satisfactorily. In our opinion, the Balance Sheets are full and fair Balance Sheets and as such include all necessary particulars. According to the information and explanations given to us and as shown by the books of account of the Bank, the Balance Sheets exhibit a true and fair view of the state of the Bank's affairs.

Dated, Dhaka:	K.M. Alam & Co.	S.F. Ahmed & Co.
The 17th August, 1989	Chartered Accountants	Chartered Accountants

APPENDICES

BANGLADESH: SOME SELECTED STATISTICS

BANGLADESH : SOME SELECTED STATISTICS

I. AREA AND POPULATION

1. Area			1,43,999 km^2
2. Population		1987-88	1988-89*
		106.6 Million	109.1 Million
3. **Density of Population :**			
a)	Per Km^2 of Total Land Area	740	758
b)	Per Km^2 of cultivable Land	1,126	—

* Estimated.
Source : Bureau of Statistics

II. NATIONAL INCOME, INVESTMENT AND SAVINGS

(Tk. in crores)

Items/Sectors	1987-88	% Change	1988-89 (Estimated)	%Change
1. GDP (At Constant 1984-85 Factor Cost)	36,777	+ 2.95	37,547	+ 2.09
2. GDP (At Current Market Prices)	48,220	+ 11.14	52,987	+ 9.88
3. Per Capita GDP (In Taka at Current Prices)	4,523	+ 10.00	4,857	+ 7.38
4. Gross Investment (At Current Prices)	6,944	14.40*	6,165	11.57*
5. Gross Domestic Savings (At Current Prices)	2,738	5.68*	1,424	2.67*
6. Sectoral Break-up of GDP (At Constant 1984-85 Factor Cost)		% Share of G.D.P.		% Share of G.D.P.
a) Agriculture	17,924	48.73 (+ 0.65)	17,847	47.53 (–0.43)
b) Industry	3,599	9.78 (+ 3.95)	3,794	10.10 (+ 5.41)
c) Housing	967	2.63 (+ 9.88)	1,077	2.87 (+ 11.38)
d) Power and Gas	346	0.94 (+ 14.95)	396	1.05 (+ 14.45)
e) Others	13,941	37.91 (+ 5.05)	14,435	38.45 (+ 3.54)
Total :	**36,777**	**100.00**	**37,547**	**100.00**

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

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

(Tk. in crores)

Items/Sectors	1987-88	%	1988-89 (Revised)	%
1. Revenue Receipts:	**5,146.00**	**100**	**5,822.18**	**100**
a) Tax	4,367.00	85	4,895.70	84
b) Non-Tax	779.00	15	926.48	16
2. Revenue Expenditure	4,730.00	92	6,170.00	106
3. Revenue Surplus (+) Revenue Deficit (–)	(+) 416.00	8	(–) 347.82	(–) 6
4. Capital Receipts :	**5,766.35**	**100**	**5,450.51**	**100**
a) Capital Expenditure	1,081.09	19	1,085.94	20
b) Capital Surplus	4,685.26	81	4,364.57	80
5. Size of ADP:	**4,650.61**	**100**	**4,595.34**	**100**
a) Domestic	92.70	2	(–) 391.68	(–) 8
b) Foreign	4,371.61	94	4,194.00	91
c) Additional Resources	186.30	4	801.02	17

Source : Budget Summary Statements of 1988-89 and 1989-90, Ministry of Finance.

IV. MONEY, CREDIT AND PRICE INDEX

(Tk. in crores)

	Heads	1987-88	1988-89
1.	Broad Money (M_2)	16,408.00 (+ 18.34)	19,078.10 (+ 16.27)
2.	**Total Domestic Credit**	**17,428.50** (+ 13.41)	**19,718.80** (+ 13.14)
	a) Govt. Sector (Including Public Sector)	6,532.20 (+ 1.99)	6,359.10 (– 2.65)
	b) Govt. Sector	2,172.50 (– 3.13)	1,725.40 (– 20.58)
	c) Public Sector	4,359.70 (+ 4.76)	4,633.70 (+ 6.28)
	d) Private Sector	10,896.30 (+ 21.56)	13,359.70 (+ 22.61)
3.	Broad Money as % of GDP (At Current Market Prices)	34.15	36.13
4.	**Consumer Price Index for Dhaka Middle Income Families**		
	(Twelve-month Average)	536.02 (+ 11.40)	578.89 (+ 8.00)

Note : (i) Figures in brackets indicate annual percentage changes.

(ii) The amount of I.M.F. Treasury Account in domestic credit has been estimated at Tk.352.50 crores both for 1988-89 and 1987-88.

Sources : (i) Bangladesh Bank.

(ii) Bangladesh Bureau of Statistics.

(iii) Planning Commission.

V. RESERVE MONEY AND ITS COMPONENTS

(Tk. 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	162.80	0.10	856.20
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
1988-89	2615.60	432.50	2420.70	NIL	5468.80

@ Include Deposits under Wage Earners' Fund Clearing Account.

VI. SOURCES OF RESERVE MONEY

(Tk. in crores)

Period (End-June)	Bangladesh Bank's claim on Govt.	Scheduled banks	Other Official Entities & Financial Institutions	Net Foreign Assets	Other Asset (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	1043.80
1980-81	1477.90	912.30	242.70	– 622.20	– 675.40	1335.30
1981-82	1581.10	1335.60	309.70	–1359.60	– 586.40	1280.40
1982-83	1420.80	1251.00	365.80	– 752.70	– 660.40	1624.50
1983-84	1351.60	1377.30	529.50	– 214.70	– 807.80	2235.90
1984-85	1424.60	2167.50	677.40	– 352.60	– 1241.40	2675.50
1985-86	1789.50	2443.80	870.60	– 420.90	– 1411.50	3271.50
1986-87	1963.60	2134.30	854.60	– 76.40	– 1134.30	3741.80
1987-88	2245.20	2552.80	874.40	534.70	– 1149.60	5057.50
1988-89*	986.00	3136.40	933.80	456.20	– 43.60	5468.80

* Figures have been prepared on the basis of changed classification.

VII. OUTSTANDING REFINANCE OF SCHEDULED BANKS WITH THE BANGLADESH BANK (END-JUNE POSITION)

(Tk. in crores)

Sectors	1983	1984	1985	1986	1987	1988	1989
Agriculture	705.53	928.28	1402.53	1370.86	1201.71	1449.40	1,914.73
Jute	100.00	150.00	170.00	560.00	620.00	620.00	703.38
Foodgrains	40.00	60.00	80.00	10.00	—	40.00	50.00
Imports	30.00	50.00	60.00	—	—	—	—
Internal Procurement	10.00	10.00	20.00	10.00	—	40.00	50.00
Petroleum	240.00	70.00	20.00	20.00	—	—	—
Fertilizer	40.00	10.00	20.00	90.00	20.00	70.00	89.00
Textile	40.00	—	—	—	—	—	—
Export bill	30.00	10.00	10.00	10.00	10.00	20.00	22.89
Other Refinances	80.00	100.00	110.00	150.00	140.00	240.00	270.00
Total :	**1315.53**	**1388.28**	**1892.53**	**2220.86**	**1991.71**	**2479.40**	**3,050.00**

VIII. DEPOSITS OF PUBLIC AND PRIVATE SECTOR

(Tk. in crores)

Period	Demand Deposits			Time Deposits		
	Public*	Private	Total	Public*	Private	Total
June, 1983	509.4 (31.48)	1108.8 (68.52)	1618.2	1120.0 (33.64)	2209.8 (66.36)	3329.8
June, 1984	645.0 (29.74)	1524.0 (70.26)	2169.0	1731.6 (35.21)	3186.5 (64.79)	4918.1
June, 1985	748.9 (27.64)	1960.2 (72.36)	2709.1	2232.9 (34.73)	4197.0 (65.27)	6429.9
June, 1986	853.7 (26.10)	2417.6 (73.90)	3271.3	2350.5 (31.22)	5177.9 (68.78)	7528.4
June, 1987	1000.8 (28.42)	2521.1 (71.58)	3521.9	2853.6 (30.74)	6428.8 (69.26)	9282.4
June, 1988	987.4 (31.44)	2152.7 (68.56)	3140.1	2983.8 (24.86)	9020.0 (75.14)	12003.8
June, 1989	883.3 (26.63)	2433.9 (73.37)	3317.2	3924.4 (26.89)	10668.8 (73.10)	14593.2

*Include deposits of the Government.

Note : Figures in parentheses represent percentage of total deposits.

IX. COMPARATIVE POSITION OF SCHEDULED BANKS

(Tk. in crores)

Particulars	As on 30.6.1988	As on 30.6.1989
1. Bank Deposits (excluding inter-bank items)	**13,996.50**	**16,463.90**
a) Demand Deposits	2,632.70	2,845.10
b) Time Deposits	11,360.30	13,617.40
c) Restricted Deposits	3.50	1.40
2. Borrowings from the Bangladesh Bank	2,589.10	3,254.40
3. Cash in Tills	402.30	432.50
4. Balances with the Bangladesh Bank	1,785.20	1,950.10
5. Balances with other Banks in Current Account in Bangladesh	248.90	555.10
6. Money at Call and Short Notice in Bangladesh	516.70	345.40
7. Scheduled Banks' Investment	**2,118.20**	**2,346.30**
a) Government Securities	1,072.90	1,340.60
b) Others	1,045.30	1,005.70
8. Bank Credit (Excluding inter-bank items)	**13,838.00**	**16,395.10**
a) Advances in Bangladesh	13,369.00	15,918.10
b) Inland Bills purchased and Discounted in Bangladesh	469.00	477.00
9. Credit/Deposit Ratio (excluding the BKB, the RKUB and the BSB)	0.75	0.75

Note : Figures relating to June, 1989 have been revised as per changed format of SBS-1.

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	From July 1, 1987
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

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

Particulars	2	3	4	5	6	7
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

** 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.

Particulars	2	3	4	5	6	7
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++	√ √

\+ In rural areas for accounts of individuals only with effect from October 1, 1978.
++ In rural areas for accounts of individuals only effective form January 1, 1985.
√ Abolished since July 9, 1987.

(Continued)

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	From July 1, 1987
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]	12.0	12.0	12.0	12.0	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
e) Certificate of Deposits						7.0-13.0

(Continued)

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	From July 1, 1987
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
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 electronic goods, handicrafts and hand loom products	10.5	9.0[5]	7.0 (Effective from July 1, 1985)	7.0	7.0	70 *
d) Agriculture including forestry and fishery (including service charge)	—	16.0[6]	16.0	16.0	16.0	16.0

[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.

[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.

* Export credit for toys, luggage and fashion items, electronic items and leather goods from September 25, 1988.

[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.

(Continued)

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	From July 1, 1987
1	2	3	4	5	6	7
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

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%.

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

(Continued)

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	From July 1, 1987
1	2	3	4	5	6	7
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

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)

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	From July 1, 1987
1	2	3	4	5	6	7
h) Loans for construction of house in rural areas and urban areas	—	5.0 (Rural areas w. e. f. January, 1984)	5.0	5.0	5.0	5.0
		16.0 (Urban areas w. e. f. December 22, 1983)	16.0	16.0	16.0	16.0
i) Advances for internal trading	—	16.0 (w. e. f. Dec. 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) Interest on Import letters of credit	—	—	—	—	1.70 (Maximum)	1.70 (Maximum)
k) Advances against FDR	—	20.0 (w. e. f. December 1,1984)	Effective from March 1, 1985 the rate is 3% above the rate of interest allowed on the relevant FDR upto Tk. 1 lakh. Exceeding Tk. 1 lakh the interest rate is 20%.			
l) Inter-Bank call Money Rate	—	—	—	—	—	10.75-15.0

(Continued)

X. INTEREST RATES STRUCTURE OF THE BANKING SECTOR IN BANGLADESH

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[2] 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[3]	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 Projects with investment expenditure upto Tk 1.50 crores.

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

(Continued)

X. INTEREST RATES STRUCTURE OF THE BANKING SECTOR IN BANGLADESH

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 (Effective from 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 electronic goods, handicrafts and handloom products (100% of the pre-shipment export finance of banks less overdues)	3.5
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 Loans 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

(Continued)

C. Rates of Interests on Bangladesh Bank's Refinance/Counter Finance to Scheduled Banks

(Percent per annum)

Commodities/Sectors	Rates of interest on Refinance (Effective from 30.6.1988)
9. Tannery Units (BMRE finance of the existing tannery units to the extent of 100% of such finance)	10.75 (Bank Rate)
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 upto Tk. 15 lakhs	6.0
c) Above Tk. 15 lakhs upto 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)

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

Rates of Interest on Refinance (in percent per annum)	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%	Upto 50%	Flat rate of 8.5 percent for all categories of refinance
8.5	50% to below 60%	Above 50% upto 90%	
9.5	60% to below 80%	Above 90% upto 95%	
10.75	From 80% upto 100%	Above 95% upto 100%	

(Continued)

X. INTEREST RATES STRUCTURE OF THE BANKING SECTOR IN BANGLADESH

D. Rates of Interest on Non-Resident Foreign Currency Deposit (NFCD) Account*

(Percent per annum)

Maturity of Deposits	June 30, 1988		June 30, 1989	
	U.S. Dollar	Pound Sterling	U.S. Dollar	Pound Sterling
1 month	7.50	8.25	9.62	13.62
3 months	7.62	8.81	9.40	13.81
6 months	7.81	9.18	9.44	13.75
1 year	8.25	9.62	9.41	13.56

* These rates are generally refixed every month.

XI. BALANCE OF PAYMENTS

Items/Sectors	1987-88		1988-89	
	In crore Tk.	In million US $	In crore Tk.	In million US $
Export (F.O.B)	3,704.6	1,186	4,116.1	1,281
Import (C & F)	-9,328.6	-2,986	-10,847.7	-3,375
Of which: foodgrains	(1,527.7)	(489)	(1,224.5)	(-381)
Trade Balance	**-5,624.0**	**-1,800**	**-6,731.6**	**-2,094**
Services (net)	-448.1	-144	-478.8	-149
a) Inflows	968.6	310	1,255.7	391
b) Outflows	-1,416.7	-454	-1,734.5	-540
Of which : Interest Payments	(-562.2)	(-180)	(-668.9)	(-208)
Private Unrequited Transfers	2,461.1	788	2,686.0	836
Current Account Balance	**-3,611.0**	**-1,156**	**-4,524.4**	**-1,407**
Capital Account (Net)	**4,036.9**	**1,292**	**4,542.0**	**1,413**
Aid Disbursement	5,129.8	1,641	5,364.3	1,669
Food	(938.7)	(300)	(729.4)	(227)
Commodity[1]	(1,593.9)	(510)	(1,729.8)	(538)
Project	(2,597.2)	(831)	(2,905.1)	(904)
Amortization Payments	-518.6	-166	-617.2	-192
Food Credits (net)	19.7	6	136.8	43
a) Borrowings	(122.5)	(39)	(176.8)	(55)
b) Repayments	(-102.8)	(-33)	(-40.0)	(-12)
Trust Fund (net)	-97.5	-31	-73.5	-23
Aircraft Loan (net)	-35.4	-11	142.7	44
Short-term Loan to BPC (net)	-63.1	-20	—	—
Other Capital	-294.4	-94	-280.9	-87
Errors and Ommissions	-103.6	-33	-130.2	-41
Overall Balance	**425.9**	**136**	**17.6**	**6**
Monetary Movements (increase –)	-425.9	-136	-17.6	-6
Bangladesh Bank	-455.3	-146	-86.2	-27
Foreign Exchange	-367.9	-118	-378.9	-118
Liabilities	-87.4	-28	292.7	91
Of which: Fund Credit	(41.2)	(13)	(292.7)	(91)
a) Disbursements	(361.3)	(115)	(557.6)	(173)
b) Repayments	(-320.1)	(-102)	(-264.9)	(-82)
Commercial Banks	29.4	10	68.6	21
a) Assets	-11.8	-3	65.8	20
b) Liabilities	41.2	13	2.8	1

[1] Includes IMF subsidy of $ 0.7 m and $ 0.6 m in 1987-88 and 1988-89 respectively.

Source : Statistics Department, Bangladesh Bank.

XII. MERCHANDISE EXPORTS (RECEIPTS)

Commodity/Sectors	1987-88		1988-89	
	In crore Tk.	In million US $	In crore Tk.	In million US $
Total Exports (FOB)	**3,704.6**	**1,186**	**4,116.1**	**1,281**
1. Raw Jute	263.1	84	268.3	83
2. Jute goods	875.8	280	959.7	299
3. Tea	119.2	38	135.2	42
4. Leather	422.8	136	450.1	140
5. Fish, shrimps and frog legs	504.1	162	535.3	167
6. Readymade garments	1,288.1	412	1,378.0	429
7. Naptha, Furnace oil & bitumen	44.9	14	51.8	16
8. Newsprint	19.2	6	13.5	4
9. Fertilizer	50.1	16	168.7	52
10. Others	117.3	38	155.5	49

Source : Statistics Department, Bangladesh Bank.

XIII. MERCHANDISE IMPORTS (PAYMENTS)

Commodity/Sectors	1987-88		1988-89	
	In crore Tk.	In million US $	In crore Tk.	In million US $
Total Imports (C & F)	**9,328.6**	**2,986**	**10,847.7**	**3,375**
1. Foodgrains	1,527.7	489	1,224.5	381
a) Rice	(468.6)	(150)	(54.6)	(17)
b) Wheat	(1,059.1)	(339)	(1,169.9)	(364)
2. Edible oil and oil seeds	413.1	132	407.6	127
3. Petroleum crude and petroleum products	624.5	200	823.0	256
4. Cotton	160.1	51	158.9	49
5. Textile yarn	110.2	35	118.4	37
6. Fertilizers	104.4	33	143.1	45
7. Chemicals	563.0	180	611.4	190
8. Cement	148.4	48	191.5	60
9. Sugar	49.7	16	83.2	26
10. Capital goods and other accessories	2,673.3	856	3,502.1	1,090
11. Others	2,954.2	946	3,584.0	1,114

Source : Statistics Department, Bangladesh Bank.

XIV. FOREIGN AID, ÉXTERNAL DEBT AND DEBT SERVICE

(In million US $)

Particulars	1987-88	1988-89
1. Foreign Aid :		
a) Gross disbursement during the year	1,640	1,669
b) Gross Commitment during the year	1,530	1,865
c) Total commitment since 1972	22,063	23,928
d) Total disbursement since 1972	17,250	18,919
2. Debt Service	289	341
3. Debt Service/Export Ratio	24.37	26.62

Source : Planning Commission.

XV. INTERNATIONAL RESERVES

Period	Total Reserves (Including IMF Reserve Position)	
	In million Taka	In million US Dollar
1977-78	4048	269
1978-79	5940	393
1979-80	4053	275
1980-81	4523	250
1981-82	2698	122
1982-83	8765	358
1983-84	13595	539
1984-85	11068	395
1985-86	14408	476
1986-87	22151	715
1987-88	26963	856
1988-89	29454	913

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
1988-89	32.1425
	(Monthly Average)
July, 1988	31.65
August, 1988	32.00
September, 1988	32.00
October, 1988	32.00
November, 1988	32.17
December, 1988	32.27
January, 1989	32.27
February, 1989	32.27
March, 1989	32.27
April, 1989	32.27
May, 1989	32.27
June, 1989	32.27

XVII. WAGE EARNERS' REMITTANCE

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	1480.15
1983-84	596.40	1491.00
1984-85	439.10	1146.54
1985-86	555.10	1661.11
1986-87	696.40	2136.25
1987-88	737.00	2303.90
1988-89	771.00	2477.43

XVIII. OFFICES OF THE BANGLADESH BANK

(As on June 30, 1989)

Head Office

DHAKA

Offices at

MOTIJHEEL (DHAKA)

SADARGHAT (DHAKA)

CHITTAGONG

KHULNA

BOGRA

RAJSHAHI

SYLHET

XIX. LIST OF THE SCHEDULED BANKS

(As on June 30, 1989)

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 (10)

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
10. Bank of Small Industries and Commerce (BASIC) 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. Grindlays Bank plc.
5. The Standard Chartered Bank
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.

Rin Shalishi Board (Debt Settlement Board)

In order to reduce the burden of various kinds of debt of the farmers and for determining policy, making review and taking decisions to protect them from the possibility of losing their landed property in the process of realisation of usurious loans extended by Money Lenders (Mohajons) the Government formed an eighteen member 'Jatiya Rin Shalishi Board'. The scope of operation of the Board will be: (i) to review the credit problems of small and marginal farmers and sharecroppers; (ii) to examine and review the existing system and amount of non-institutional agricultural loans; (iii) to review and take decision regarding the non-institutional interest rates including compound rates of interest relating to agricultural credit; (iv) to review, in phases, performances and proper implementation of activities of the Rin Shalishi Board; (v) to review the question of prevention or reduction of the transfer of land by small and marginal farmers at the time of financial crisis; (vi) to review any other issues relating to agricultural and rural credit; and (vii) to take decision and initiate action relating to all the cited measures. The Rin Shalishi Board has also been formed at the Upazilla levels.

2. The Rin Shalishi Board shall have the authority to take decisions in respect of seven clearly defined issues. These are :

i) Prayer for exemption/reduction of the cash loans, crop loans or seed loans given by individuals or Mohajons;

ii) Prayer for getting back the signed or thumb impressioned blank papers given by the loanees;

iii) Prayer for cancellation of sale deed of landed property and conversion of the sale proceeds into interest free loan if the same has been purchased at less than the market price;

iv) Prayer for transformation of sale deeds of specific price into usufructuary mortgage deeds (Khaikhalshi Bandhaki Dalil) within specific time period;

v) Prayer for reasonable reduction in the rate of interest in the case of exorbitant rates;

vi) Prayer for rational rescheduling of the instalments of loans payable by the farmers; and

vii) Prayer for return of mortgaged or usufructuary (Khaikhalshi) lands to its owners from Mohajons in appropriate cases.

3. The Rin Shalishi Board shall give its arbitration (Roedad) or decision through compromise between the debtor and the Mohajon. An appeal may be filed to the Board against its decisions, but no case could be filed in the Court. Another important aspect of the activities of the Board is that the debtors would not be subjected to unnecessary harassment of coming to the city for consideration of any of their prayers. The Board will conduct hearing of both the parties, examine the papers and arrive at a settlement in a summary manner at the Union Parishad Office.

4. As Chairman of the Board, the Honourable President gave some important decisions about institutional credit in the first meeting of the Board held on February 1, 1989. The decisions are : (i) The contents of the Circular issued by the Ministry of Finance in 1986 regarding remission of penal and general interests will also cover agricultural loans, specially crop loans and banks shall allow remission/exemption of interest upon application by the borrowers. (ii) Banks shall arrange meeting of their Board of Director/Executive Committee at regional levels so that prayer of the distressed farmers for remission/exemption of their loans could be dispensed with instantaneously; and (iii) Banks shall arrange, upon application by the borrowers, disposal of certificate cases not exceeding Tk. 3,000.00 outside the Court.

5. A four-member Upazilla Rin Shalishi Board was formed in all the Upazillasof the country. The Assistant Commissioner (Land) of the concerned Upazilla will act as Chairman of such Board. The second and third members of the Board will be nominated by the Government in consultation with members of the parliament. The Chairman of the Union Parishad of the Union in which the case occurred shall act as the fourth member for the concerned case. A fifth member will be nominated from amongst the representatives of local Farmers Association of the concerned Upazilla.