
COUNTRY REPORT

Bangladesh

1st quarter 1996

The Economist Intelligence Unit
15 Regent Street, London SW1Y 4LR
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For over 40 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide.

The EIU delivers its information in four ways: through subscription products ranging from newsletters to annual reference works; through specific research reports, whether for general release or for particular clients; through electronic publishing; and by organising conferences and roundtables. The firm is a member of The Economist Group.

London The Economist Intelligence Unit 15 Regent Street London SW1Y 4LR United Kingdom Tel: (44.171) 830 1000 Fax: (44.171) 499 9767	New York The Economist Intelligence Unit The Economist Building 111 West 57th Street New York NY 10019, USA Tel: (1.212) 554 0600 Fax: (1.212) 586 1181/2	Hong Kong The Economist Intelligence Unit 25/F, Dah Sing Financial Centre 108 Gloucester Road Wanchai Hong Kong Tel: (852) 2802 7288 Fax: (852) 2802 7638
---	--	--

Electronic delivery

EIU Electronic Publishing

New York: Lou Celi or Lisa Hennessey Tel: (1.212) 554 0600 Fax: (1.212) 586 0248

London: Moya Veitch Tel: (44.171) 830 1007 Fax: (44.171) 830 1023

This publication is available on the following electronic and other media:

Online databases

FT Profile (UK)
Tel: (44.171) 825 8000

DIALOG (USA)
Tel: (1.415) 254 7000

LEXIS-NEXIS (USA)
Tel: (1.800) 227 4908

M.A.I.D./Profound (UK)
Tel: (44.171) 930 6900

CD-ROM

Knight-Ridder Information
Inc (USA)

SilverPlatter (USA)

Microfilm

World Microfilms Publications (UK)
Tel: (44.171) 266 2202

Copyright

© 1996 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

All information in this report is verified to the best of the author's and the publisher's ability. However, the EIU does not accept responsibility for any loss arising from reliance on it.

ISSN 0269-431X

Symbols for tables

"n/a" means not available; "-" means not applicable

Summary

Bangladesh 1st quarter 1996

January 23, 1996

Political and economic structures

Pages 2-3

Outlook: The February general election will be boycotted by the two main opposition parties, diluting the political legitimacy of a re-elected BNP administration. GDP growth will remain below 5% in 1995/96, but some recovery in agriculture should push the rate close to 6% in 1996/97. The trade gap will widen again in 1996/97.

Pages 4-6

The political scene: The 145 by-elections to the seats boycotted by the opposition have been postponed to a date close enough to the next general election for the prime minister to opt for an early dissolution. The AL and JP will not participate in the February poll. The campaign of sit-in strikes and street demonstrations has continued unabated. The truce in the Chittagong Hill Tracts has been extended again. Only a few of the Rohingya refugees await repatriation.

Pages 7-12

Economic policy and the economy: The World Bank has urged the government to speed up implementation of the public-sector reform programme and cease its intervention in the labour market. The central bank is maintaining last year's money and inflation targets through 1995/96. The taka has been devalued by 1.3%.

Pages 12-14

Sectoral trends: The government's open-market sales of rice have had limited impact and widespread hunger has been reported in the north and west. Jute output has fallen sharply but stocks are adequate to sustain exports. Thousands of child workers have been identified in garments factories. A new gas reserve has been found in Bhola. The country's largest digital telephone exchange has been opened.

Pages 14-18

Banking and finance: The bank rate has been raised. The Chittagong Stock Exchange has started operation. Standard Chartered has opened an offshore banking unit in the Chittagong EPZ.

Pages 18-19

Foreign trade and payments: Export earnings rose by one-third in 1994/95 but import growth was even faster. Remittances were up one-fifth in 1994/95. Rising prices have brought a sharp improvement in raw jute export earnings. SAPTA tariff reductions have been agreed.

Pages 19-22

Aid and development: The IDA is aiding flood prevention. The WFP and the EU have provided wheat as food aid. The ADB has given loans for fisheries, irrigation and a cement factory. Donors are considering \$729m funding for the electricity sector.

Pages 22-24

Statistical appendices

Pages 25-26

Editorial queries: Howard Smith Tel: (44.171) 830 1000 Fax: (44.171) 499 9767
Subscription queries: Jan Frost Tel: (44.171) 830 1007 Fax: (44.1708) 371 850

Political structure

Official name: People's Republic of Bangladesh

Form of government: parliamentary democracy following a constitutional amendment in September 1991

The executive: the prime minister is the chief executive and appoints cabinet (Council of Ministers); the president now holds a largely ceremonial post but still appoints members of the judiciary and has the power to dissolve parliament

National legislature: Jatiya Sangshad, unicameral legislature; 300 members directly elected from single territorial constituencies, another 30 seats reserved for women; legislature sits for five years unless dissolved sooner by the president

Last national election: February 1991 (parliamentary)

Next national election: February 15, 1996 (parliamentary)

National government: following the election in February 1991, Begum Khaleda Zia's Bangladesh National Party and its allies emerged with 170 seats in parliament, giving it a majority, and Mrs Zia became prime minister; the last cabinet reshuffle was in June 1995

Main political organisations: Bangladesh National Party (BNP); Awami League (AL—leads alliance of eight parties); Jamaat-e-Islami; Jatiya Party (JP)

President

Abdur Rahman Biswas

Prime minister & minister of defence & establishment

Begum Khaleda Zia

Key ministers

commerce & information

Shamsul Islam

communications, railways, roads & highways

Oli Ahmed

education

Zamiruddin Sirkar

energy

Khondaker Mosharrif Hossain

environment & forest

Akbar Hossain

finance

Saifur Rahman

food & agriculture

Abdul Mannan Bhuiyan

foreign affairs

A S M Mustafizur Rahman

health & family welfare

Chowdhury Kamal Ibne Yusuf

home affairs

Abdul Matin Chowdhury

irrigation, flood control & water resources

Majid ul-Huq

jute

A S M Hannan Shah

labour & manpower

Mir Shawkat Ali

law & justice

Mirza Gholam Hafiz

local government, rural development & cooperatives

Abdus Salam Talukdar

post & telecommunications

Tariq ul-Islam

religious affairs

Keramat Ali

science, technology, civil aviation & tourism

Abdul Mannan

Governor of Bangladesh Bank

Khorshed Alam

Economic structure

Latest available figures

Economic indicators	1991	1992	1993	1994	1995 ^a
GDP at current market prices ^b Tk bn	834.4	906.5	947.9	1,030.4	1,133.0
Real GDP growth ^b %	3.4	4.2	4.5	4.6	4.8
Consumer price inflation %	7.2	4.3	0.0	3.6	5.2
Population m (mid-year)	110.3	112.7	115.2	117.7	120.3
Rice production ^b m tons	17.80	18.27	18.34	18.40	17.00
Jute production ^b m tons	1.0	1.0	0.9	0.9	0.6
Exports fob ^b \$ m	1,670	1,904	2,138	2,450	3,269 ^c
Imports cif ^b \$ m	3,470	3,374	3,984	4,190	5,838 ^c
Current account ^b \$ m	-149.3	214.0	41.2	280.0	50.0
Reserves excl gold \$ m	1,278.2	1,824.6	2,410.8	3,139.0	2,614.0 ^d
Public external debt \$ m	11,961	12,224	13,048	n/a	n/a
Exchange rate (av) Tk:\$	36.60	38.95	39.57	40.21	40.20 ^c

January 19, 1996 Tk40.50:\$1

Origins of gross domestic product 1993/94	% of total	Components of gross domestic product 1993/94	% of total
Agriculture	30.4	Private consumption	79.1
Manufacturing	9.9	Public consumption	13.9
Construction	5.8	Gross capital formation ^e	14.0
Trade	7.9	Exports of goods & services	12.0
Transport & communications	12.5	Imports of goods & services	-19.0
Public administration & defence	5.3	GDP at market prices	100.0
Banking & insurance	2.1		
GDP at market prices incl others	100.0		

Principal exports 1994/95	\$ m	Principal imports 1994/95	\$ m
Clothing	1,851.4	Textiles	1,321.4
Jute goods	339.7	Machinery & transport equipment	724.3
Fisheries products	329.3	Fuels	355.9
Leather	218.0	Chemicals	344.0
Fertiliser	77.4	Food	245.9
Raw jute	64.0	Iron & steel	206.1

Main destinations of exports 1992/93	% of total	Main origins of imports 1992/93	% of total
USA	36.4	South Korea	8.9 ^f
Germany	8.2	Hong Kong	7.2
UK	7.2	Singapore	7.2
France	5.1	Japan	6.9
Italy	4.9	India	6.4
Belgium	3.6	China	6.3
Singapore	2.9	USA	5.0
Japan	2.7	EU	11.9

^a EIU estimates. ^b Fiscal years ending June 30 of year stated. ^c Actual. ^d October actual. ^e Includes stockbuilding. ^f 1991/92 figure.

Outlook

Polling to go ahead without the main opposition parties—

The general election is now scheduled for February 15. However, the main opposition parties, the Awami League (AL) and the Jatiya Party (JP), are not likely to participate. Talks aimed at resolving the political impasse created by the opposition's boycott of the legislature have been going on through a variety of channels for more than a year, and there is no prospect of any sudden breakthrough now. The president, Abdur Rahman Biswas, does not feel able, under the parliamentary system of government adopted in 1991, to force the prime minister, Begum Khaleda Zia, to resign before the poll—as demanded by the opposition. But a large number of candidates (2,000) have applied to stand for the 300 parliamentary seats, as many independents and members of small parties have come forward to contest the election against the ruling Bangladesh National Party (BNP). Small parties which have announced their intention to fight the election include the Bangladesh Awami Krishak Sramik League, the Bangladesh Gono Oikya Front, the Jatiyatabadi Jatiya Party and the Bangladesh Jatiya League.

—as the AL sees a boycott as the best way of defeating the BNP—

The AL, led by Sheikh Hasina, seems to have calculated that its best chance of defeating the BNP lies in a boycott of the election, as the incoming government will be perceived as lacking legitimacy. Sheikh Hasina is trying to repeat the history of the Ershad presidency (1982-90), when the BNP's refusal to take part in elections (in contrast to the AL, which did contest some) eventually resulted in the general's overthrow and the BNP's victory at the subsequent freely and fairly conducted general election in February 1991. However, the circumstances of this general election are rather different. Foreign observers are in the country to monitor the polling, just as they were in 1991, and the BNP will take pains to ensure that the elections are conducted as impeccably as possible.

—while the JP wants to get its leader out of prison

While the AL's boycott of the poll is due to its judgment that it would be unable to beat the BNP at the ballot, the JP's refusal to participate is a tactic to secure the release from prison of its leader, General Ershad. Since his illness in November, when the general's wife went on hunger strike in an unsuccessful effort to force his transfer to a private hospital, JP leaders have indicated that the party would participate in the general election only if the former president were set free and allowed to stand. Assuming that the government does not accede to this demand before the February poll, the JP will attack the credibility of the election result and continue in its attempts to bring down the BNP government.

The prospect for law and order is not good

Against this background, the outlook for law and order during the election and afterwards is poor. Throughout the run-up to the poll there has been a series of opposition-inspired *hartals* (sit-in strikes) and demonstrations, in a last attempt to force Mrs Zia to step down. The attempt by the Election Commission to crack down on illegal weapons has not been very successful. In the aftermath of the general election, which the EIU expected the BNP to win even if all the opposition parties had contested it, the incoming BNP government can expect that strikes and demonstrations will intensify and, in contrast to its previous position, it will be unable to claim that it defeated the opposition in an open

contest. There is thus a real possibility that the new BNP government will not remain in office for the full five-year term, if a solution to the political impasse can be reached with the AL and JP to allow a further election in which all parties agree to participate. However, unless the armed forces intervene, we do not expect the opposition strikes against the government after the election to be any more successful than they were before. So the BNP government will remain in office, although in a rather weakened state.

Economic growth is being depressed by the political situation—

The outlook for the economy is bound up with the country's political future, and it is the deleterious economic effect of the current political deadlock that may eventually force the BNP and AL into a compromise. The strikes are estimated to be costing the country \$30m-60m per day in lost output, while the failure to implement the public-sector reform programme because the BNP has to keep an eye on the adverse political fallout is holding up the use of aid funds.

—and natural disasters

The effect of adverse weather on foodgrain production in 1995 has also depressed economic growth. The EIU's estimate for GDP growth in 1994/95 (July-June) is only 4.8%, slightly lower than the government's own estimate of 5%, with agricultural growth estimated at a mere 0.2%. In the current fiscal year, 1995/96, GDP growth is forecast to be still lower at 4.6%, because of the disruption being caused by the strikes and stoppages before the election. The slackening will be greater if the law and order situation deteriorates after the election. Agriculture, despite early reports of a poor *aman* (main) harvest, is forecast to grow by 1.5%, while industrial growth should continue buoyant, at 10%, despite the repeated interruptions to production as a result of the strikes. In 1996/97, provided political unrest subsides, GDP growth should rebound to nearly 6% as businesses are able to concentrate on producing and marketing their goods rather than on mitigating the effects of strikes; agriculture can be expected to stage a small recovery, with jute in particular putting in a strong performance as farmers respond to the recent rise in international prices.

The trade gap is widening—

The trade deficit, which widened to more than \$2.5bn in 1994/95, will deteriorate further in 1995/96, to reach \$3.6bn. The main reason will continue to be the very rapid rate of import growth. In 1994/95 imports rose by 39% to \$5.8bn, with food imports a very significant item at nearly \$500m because of the poor harvests, and in 1995/96, despite a slowing in purchases in the second half of the year as the food situation in the country improves, total imports are forecast to reach \$7.3bn, a rise of 25%. Moreover, much of the import growth is due to "success" in the economy, with big increases recorded in capital goods and production inputs (fuels, chemicals and textiles, the latter due to external demand for Bangladesh's garments manufactures). But the pace of export growth is likely to ease in 1995/96 and 1996/97, as economic growth in the major market, the USA, slackens, reaching 11-12% per year in dollar terms compared with the 33% rate recorded in 1994/95. This will take some of the steam out of import demand, as will the continued depreciation of the taka and official measures to discourage "unnecessary" imports. So import growth is likely to slacken to around 10% in 1996/97, and the trade deficit will consequently increase only slightly, to \$3.8bn.

—keeping the current account in deficit—

Mainly as a result of the widening trade gap, and despite continued healthy growth in remittances from Bangladeshis working abroad, the current account, which had been in surplus from 1991/92 to 1993/94, is estimated to have gone into a \$200m deficit in 1994/95. This year the deficit is forecast to reach \$800m, the worst outturn since 1989/90. In 1996/97 the slower deterioration in the trade deficit will feed through to a slight improvement on the current-account balance, with a forecast deficit of \$700m. Grant aid is assumed to remain constant at around \$800m during this fiscal year and next, with remittances growing by around 15% in both years, to reach \$1.7bn in 1996/97.

—with a further weakening in the taka

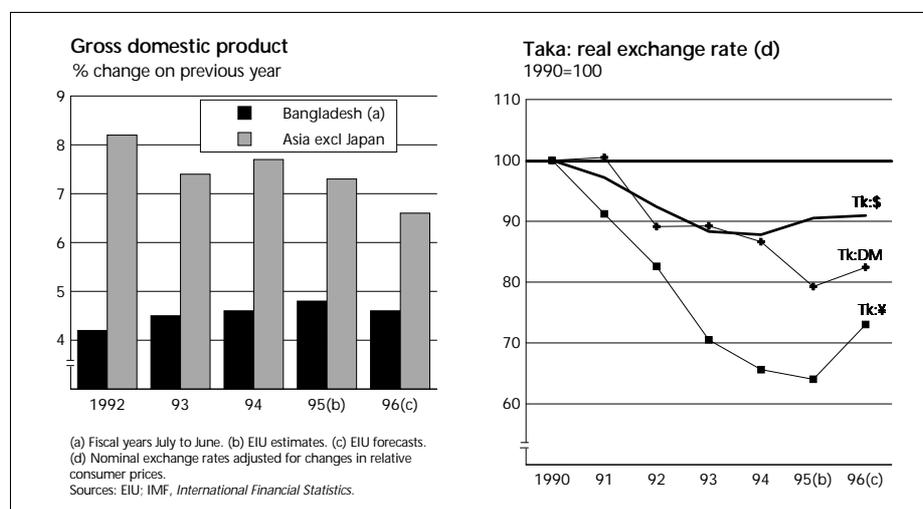
Reflecting the deterioration in the current account and the unlikelihood of any improvement in capital inflows until the political situation improves, the currency will remain under pressure. After falling in value very slightly in the last months of 1995, the taka is expected to continue its gradual downward path against the US dollar, particularly after the devaluation of both the Indian and Pakistani currencies against the dollar in late 1995.

Forecast summary^a

(% real change on previous year unless otherwise indicated)

	1993/94 ^b	1994/95 ^c	1995/96 ^c	1996/97 ^d
GDP	4.6	4.8	4.6	5.7
of which:				
agriculture	1.8	0.2	1.5	2.0
industry	9.1	11.0	10.0	11.5
Merchandise exports (\$ m)	2,450	3,269 ^b	3,660	4,200
Merchandise imports (\$ m)	4,190	5,838 ^b	7,300	8,000
Current-account balance (\$ m)	280	50	-400	-300
Average exchange rate (Tk:\$)	40.01	40.20 ^b	41.50	42.50

^a Fiscal years July-June. ^b Actual. ^c EIU estimates. ^d EIU forecasts.



Review

The political scene

The 145 by-elections are postponed—

By-elections had been due to be held in the parliamentary seats of the absent opposition members of parliament (MPs) within 90 days of June 20, 1995, the day on which the MPs' absence from parliament exceeded 90 consecutive sitting days (4th quarter 1995, pages 7-8), ie by September 20. In what was seen in opposition quarters as another attempt by the government to play for time, a 90-day postponement to the by-elections was announced in August by the chief election commissioner because of the severity of the monsoon flooding (an "Act of God" under Article 123 of the constitution). This left them scheduled for December 15, just weeks before the general election itself was due (it must be held according to the constitution by March 1996).

The seats of the opposition MPs had been declared vacant by the parliamentary speaker in July 1995, although the original walkout from parliament had taken place in March 1994, followed nine months later by the *en masse* formal resignation of all 145 opposition MPs from parliament. The aim of the opposition's moves was to force the Bangladesh National Party (BNP) government to resign from office without having to defeat it on a vote of no confidence in parliament (an impossibility given that the BNP had a overall majority there) and hold a general election under the auspices of a neutral caretaker government. The opposition parties said that they would boycott any elections held while a BNP government remained in power. The government, led by the prime minister, Begum Khaleda Zia, refused to countenance the opposition's demands for its immediate resignation, dismissing them as an unconstitutional attempt to eject a democratically elected government from office before the next general election was due. However, Mrs Zia did say she would be prepared to hand over power to an interim government 30 days before the general election was due. For their part, the opposition parties, headed by the Awami League (AL), led by Sheikh Hasina, justified their stance by alleging that there had been irregularities in a by-election in Magura-2 constituency in January 1994, and that the government was riddled with corruption and incapable of holding free and fair elections.

—prompting the prime minister to ask for a dissolution of parliament

On November 22 the Election Commission (EC) formally announced that the by-elections would be held on December 15. Two days later Mrs Zia asked the president, Abdur Rahman Biswas, for a dissolution of parliament. This meant, according to the constitution, that a general election had to be held within 90 days. The government's decision to ask for a dissolution of parliament just before the by-elections were due to be held had been widely predicted, as the holding of so many by-elections followed so soon by a general election would have caused a number of law and order problems, as well as being a financial drain. On December 4 the EC set the date of the general election as January 18, just before the start of the holy month of Ramadan, when most of the population would be fasting. Nominations were to close on December 17.

Caretaker government
issue remains unresolved—

The opposition parties were predictably jubilant at Mrs Zia's request for parliament to be dissolved. They immediately demanded that she step down from office so that free and fair elections could be held under a neutral, caretaker government. However, despite the widespread desire that an acceptable way out of the deadlock be found, the AL continued to demand that Mrs Zia should resign first and a caretaker government should then be appointed, while the prime minister argued that, according to the constitution, she could step down only after agreement had been reached on the exact details of the government which would replace her.

There was general agreement on the government side that Mrs Zia should hand over power to the president, who would head a non-party advisory council charged with overseeing the general election. In this way the government could accede to the demand that Mrs Zia stand down from office 30 days before the poll. Many members of the BNP acknowledged that if the election took place without the participation of the opposition parties the resulting BNP government would lack legitimacy.

But the opposition parties remained insistent that no discussions about an interim government could take place until after Mrs Zia had stepped down from office, and that a non-party prime minister should head the caretaker government; the president was not acceptable as an interim leader.

—and the opposition takes
to the streets to maintain
pressure

Throughout the final quarter of 1995, while informal talks between the two sides continued, the opposition parties kept up pressure on the BNP for a settlement on their terms by organising *hartals* (sit-in strikes) and transport blockades. A record six-day *hartal* on November 11-16 disrupted life and business throughout the country, and erupted into violence in Dhaka, with 300 people, including police and opposition activists, receiving injuries. In addition, four deaths were reported in Mirpur as a result of a bomb blast.

But the government was not in danger of being overthrown by the action taking place on the streets, however damaging this was to the economy. Opposition to the stoppages from the business community became more focused as the disruption increased. On November 2 the president of the Bangladesh Federation of Chambers of Commerce and Industry, Salman Rahman, asked all businessmen to stop work for 15 minutes and go out on to the streets to demonstrate their disgust at the unending political crisis, which was ruining their business prospects. Mr Rahman laid the blame for the situation on all the political parties.

The EC puts back the date
of the general election
twice—

On December 15, just as nominations for the January 18 general election were about to close, the EC announced that it would be prepared to put off the election by a few weeks to give the government and opposition parties more time to resolve their differences. Up to that point, the opposition parties had refused all offers of talks with the Chief Election Commissioner to avert their threatened boycott of the election. Initially, the election date was put back to February 7, but at the time of writing the date has been put back again by a further week to February 15, allowing more time for talks and for candidate registration (due to close on January 17). The election date now falls during Ramadan, but there is no constitutional bar to this. Under the terms of the

constitution, polling must be held within 90 days of parliament being dissolved, ie by February 22. It was thought advisable to have a few days in hand in case it was necessary to rerun the ballot. The postponement of the general election date for the second time coincided with another opposition-led strike, for 48 hours, which paralysed much of the country.

—takes a firm line on conduct during the campaign—

In an attempt to be seen as a firm, impartial adjudicator, the EC had issued a 34-point code of conduct in November for the general election. This restricted a candidate's expenditure to Tk300,000 (\$7,500) and barred bank defaulters from contesting the poll. In addition, the EC said that voting would not be allowed to take place if it found evidence of votes being bought either for money or by threats of violence. Later it banned the use of multicoloured posters and banners made from cloth, the setting-up of gates or arches using party symbols, and the daubing of walls with election slogans. An electoral inquiry committee was appointed in each district, headed by judicial officials, to look into any alleged irregularities and offences. The penalty for failing to comply with the EC's orders was imprisonment for between two and seven years, with no warrant required and no bail considered. Other measures taken by the EC were designed to give all parties equal access to the media, with the media to remain strictly neutral.

—and confiscates illegal arms, with help from the security forces

In addition, the EC enlisted the help of the armed forces for the confiscation of illegally held arms and the maintenance of law and order during the election. The commissioner initially asked for unauthorised weapons to be surrendered voluntarily before December 20; when this request went unheeded, he sent in the police for a crackdown. During the first three days of the searches 2,000 people were arrested for the manufacture, possession and use of illegal arms; 250 firearms and a large quantity of explosives was seized. In subsequent raids the army and paramilitary troops were also drafted in to help the police. This hardline approach is to continue right up to the day of the vote.

The US ambassador tries to mediate

On December 31 leading members of the BNP, AL and the Jatiya Party (JP, the party of the former president, Lieutenant-General Hossain Mohammad Ershad) met for talks at the residence of the US ambassador to Bangladesh, David Merrill, in an attempt to break the political deadlock. Mr Merrill also met the leaders of the fundamentalist Jamaat-e-Islami party separately. The talks lasted for two hours and discussion was reported to have centred on whether a caretaker prime minister would have all the executive powers of the head of government. Sheikh Hasina once again made it clear that the appointment of the president to head an interim government was unacceptable to the AL because of Mr Biswas's long association with the BNP. In addition she also attacked the drive to confiscate illegally held arms, saying that opposition activists were being harassed.

Jute and textile workers keep up the pressure on the government—

The 300,000 private-sector jute and textile workers staged a 48-hour strike and road and rail blockade on December 6-7 in pursuit of the implementation of the Wages Commission award for private-sector workers, and were joined in some places by public-sector workers from those industries. The strikers were undoubtedly encouraged to take action by the opposition parties, and their

action coincided with an unsuccessful attempt by the opposition parties to march on the prime minister's office in Dhaka. Wages in private jute and textile mills are only half that paid to workers in state-owned mills; the basic minimum monthly salary for a public-sector worker is Tk1,100 compared with Tk560 for a worker in a privately owned mill.

—but the Prokrichi movement draws back from the brink—

The Prokrichi movement—professional cadres within the civil service, such as doctors and engineers, who are seeking the same pay and prospects as the privileged administrative cadre—staged a walkout from work on September 28. Two weeks later, a mass meeting was held to protest at the government's action in promoting 201 high-ranking members of the administrative cadre. Earlier in October the Prokrichi movement scented victory in its longrunning dispute when the prime minister was reported to have accepted the recommendations of the Bhuiyan committee to remove the salary anomalies of the nine professional cadres, which were introduced during the Ershad years. The recommendation was to take effect from January 6, 1994. However, no instructions were ever given to the finance ministry to implement the order (which is estimated to cost Tk200m/\$5m), and Prokrichi members therefore stayed away from work for a week in protest at the end of November. In December a further stoppage was threatened, but was postponed after assurances had been given that the movement's demands were still receiving consideration.

—while non-government primary school teachers threaten to disrupt polling

At the end of December the Bangladesh Non-government Primary Teachers Association issued an ultimatum to the government saying that if all primary schools were not taken into the public sector and nationalised by January 30, their members would not work during the forthcoming election as polling officers. The 70,000 primary school teachers, who work in non-government schools and receive about half the salary of their state-school counterparts, staged a three day sit-in outside the National Press Club in Dhaka on December 23 and announced more plans for action in January. Realisation of the teachers' demands would cost Tk1.4bn (\$35m).

The Nasreen trial is adjourned again

The trial of Taslima Nasreen, the feminist writer accused of offending the feelings of Muslims (4th quarter 1995, page 9), has been adjourned for the second time on the application of government lawyers to the Supreme Court. Ms Nasreen is living in exile after fleeing the country in August 1994 after threats to her life were made.

Plan for Dhaka's development is criticised

The draft of the Dhaka Metropolitan Development Plan for 1995-2015, prepared by the UN Development Programme (UNDP) and the World Bank, was presented to a national seminar on December 3-5, for review and suggestions. According to the study, the population of Dhaka Metropolitan Area will grow to 12.6 million by 2006 and to 15.7 million by 2016, in an area of 1,530 sq km. The last master plan for Dhaka was drawn up in 1959, since when the city has grown massively, from only 1 million people spread over 829 sq km to an estimated 8.7 million people in 1995. The rapid growth of the population has inevitably shown up a wide range of infrastructural inadequacies.

Major criticisms were made of the new plan, including that it lacked any economic perspective and failed to acknowledge the vital part that Dhaka plays

in the economy of the whole country. Moreover, it gives no indication of how the enlarged population is to support itself, or how communications within the metropolitan area are to be achieved. The plan was also criticised for lacking a democratic quality, giving the impression, for example, that the solution to the widespread problem of squatters was to suggest that they should not be there.

Population growth is falling—but not as fast as hoped

According to data in the Bangladesh Demographic and Health Survey for 1993/94, the annual growth rate of the population is now 1.9%. The average couple have 3.4 children, compared with 6.3 children in the 1970s and 4.3 children in 1989-91. This fall in family size is a direct result of the success of family planning programmes; in 1975 only 8% of married women used contraception compared with 45% in 1993/94. Another linkage is with the reduction in the mortality rate of children under five, down from 180 deaths per 1,000 live births in 1979-83 to 133 for 1989-93, as a result of increased immunisation. On these trends, Bangladesh will achieve a net reproduction rate (NRR) of one by 2005, as had been hoped by some demographers. The population is now forecast to reach 140 million by 2000, requiring foodgrain supply of 27m tons, compared with the current average domestic production of 20m tons. Some pessimistic forecasts of population trends predict that levelling-off will not occur until there are 300 million people in the country.

The Iranian head of state visits Bangladesh

In October the president of Iran, Ali Akbar Hashemi Rafsanjani, paid the first-ever official visit by an Iranian head of state to Bangladesh. The president had visited India in April, and he followed his visit to Bangladesh by continuing to Vietnam and the Philippines. A memorandum of understanding between Iranian officials and their Bangladeshi counterparts signed at the end of the four-day stay contained pledges by the Iranians to build an oil refinery, liquefied petroleum gas plant and cement factory. The pledges represent investment of about \$1bn, and the plants are planned to be in operation by mid-1999.

The truce is extended again in the Chittagong Hill Tracts

The truce between the government and the Shanti Bahini (tribal rebels) in the Chittagong Hill Tracts (CHT) was extended at the end of September until October 31, and then later to December 31. In early December there was a report of a shooting of a rebel by government troops when villagers in the CHT were being forced to pay protection money to the insurgents. Later on in the month up to 60 people were reported to have been hurt when members of the Hill Students Council, who support the Shanti Bahini, ambushed a police convoy at Panchbari, which was taking 13 leading tribesmen to court to be tried for barricading a road.

A shortage of funds slows the Rohingya repatriation

By December the number of Rohingya refugees still remaining in camps around the Cox's Bazar area of Bangladesh had fallen to 53,000, only 20% of the number who had fled from Myanmar to escape persecution by the military authorities. As a result, only six camps remained open, down from 20. But earlier hopes that all the refugees would have returned home by the end of 1995 have been disappointed because of a slowdown in the pace of repatriation in the final months of the year. The new target is for all the refugees to have returned to their homes in the Arakan region of Myanmar by the end of 1996.

The UN High Commissioner for Refugees (UNHCR) attributed the slower pace of repatriation recently to a lack of funds. The rehabilitation and reintegration programme within Myanmar is being run by the UNHCR with a World Food Programme (WFP) Food for Work component. According to the UNHCR, the costs of the programme during 1994 and 1995 were \$38m, of which \$34.5m had been paid by the end of October 1995. In 1996-97 expenditure is forecast to be \$23.9m. The UNHCR therefore appealed to donors for more aid so that the rest of the refugees could be repatriated and rehabilitated as soon as possible, a request that resulted in a grant of £1m (\$1.5m) from the UK government in December.

Economic policy and the economy

The World Bank criticises the slow pace of the reform programme—

The World Bank, as the representative of the country's foreign donors, warned the Bangladeshi government at the end of September about the slow pace of reforms, particularly in the industrial sector. According to the Bank's resident representative in Dhaka, Pierre Landell-Mills, talks with all the political parties indicated that they were all in favour of the reform programme. This plans to eliminate the losses of public-sector firms mainly by slimming down their workforces and improving their working practices before selling them into the private sector. However, such was the fear of each political party that one of its opponents would take advantage of any stand it took, for example on reducing overmanning, that none was prepared to back change publicly or even criticise the position of its political opponents on the issue. Mr Landell-Mills was particularly critical of the poor implementation of the Jute Sector Reform Programme. This was allocated funds of \$250m by the Bank, but the second tranche of \$75m was suspended last July after the government had failed to sell off a single mill (4th quarter 1995, page 18). He made it clear that the programme would not be resumed unless the government carried out the reforms to which it had agreed.

At the end of December Mr Landell-Mills again spoke of the need for any future government of Bangladesh to push ahead with the reform programme. He expressed his disappointment that no political party perceived any electoral advantage in supporting a policy of privatisation, an attitude which he attributed to the strength of the trade unions in the formal sector, despite the fact that every job in the loss making state-owned industries was costing the country Tk57,000 (\$1,400) per year in public funds.

—urges the government to disengage from the labour market—

A recent report from the World Bank, *Labour Market Policies for Higher Employment*, urges the government to cease its intervention in the labour market, in the interests of the country's workforce as a whole. According to the study only 12% of the workforce, which is estimated at 59 million, is employed in the formal sector, with government employees accounting for between one-third and one-half of this segment. A small but significant proportion of the workforce is thus employed on terms set by the government, leading to the politicisation of industrial relations and inequitable and inefficient wage levels for these workers. A direct consequence is that the 88% of the workforce in the informal sector (employed in both agriculture and small industries), who have

no safeguards against unfair employment practices, have even less hope of obtaining a better job in the formal sector. As an example, the report noted that the introduction of a minimum wage of Tk900 per month in the formal sector had led to a reduction in the real wage level in the informal sector of around 2.5%, as employment in the formal sector shrank because of the higher wage costs and as more people were forced into the informal sector. The World Bank therefore reiterated that public-sector enterprises producing essentially private-sector goods (such as jute and textiles) should be privatised and that government safeguards should be introduced to protect the most vulnerable workers, particularly women and children. It also advocated an expansion of the Food for Work programme, which helps the most disadvantaged members of the workforce without taking away jobs from others.

—and blames political chaos for the slow growth rate

In another report, published in early November, the World Bank blamed Bangladesh's sluggish rate of growth on the strikes and transport blockades which have regularly paralysed the country during the lengthy political impasse (see The political scene). The cost of each day in lost output of the strikes has been estimated at between \$30m and \$60m by publications such as the *Far Eastern Economic Review* and *The Economist*, and the strikes have undoubtedly deterred many potential foreign investors. Some analysts believe that, in the absence of the strikes, GDP growth could be as much as 3.6 percentage points higher than at present. This estimate is almost certainly too high since most businesses manage to catch up on some lost production once the stoppages are over, but the irretrievable cost is certainly substantial. In addition, the report was pessimistic about whether an incoming government of either party would have the political will to carry through the reform programme.

The one bright spot in the report related to the growing collaboration of government and non-governmental organisations (NGOs), which is particularly important in improving the access of the poorest groups to credit and in monitoring development programmes on the ground.

The Central Bank governor sticks to money and inflation targets

At a meeting of the Economic Reporters' Forum in early January, the governor of the Bangladesh Bank (the central bank), Khorshed Alam, was optimistic about achieving the Bangladesh Bank's targets for money growth and inflation during the current fiscal year (to end-June 1996). These are the same as those for 1994/95: broad money growth of 13% and a 4% ceiling for inflation. He admitted that in 1994/95 domestic credit had risen by rather more than planned, by 17.6% compared with the target of 11.6%, while broad money had risen by 16% and consumer prices by 5.2%. However, the latter result was largely due to higher food prices (up by 8.6% in 1994/95) because of disappointing crops. Mr Alam went on to point out that the central bank had recently taken measures to remove excess liquidity (see Banking and finance).

During the meeting the central bank governor reported that the Bangladesh Bureau of Statistics (BBS) had recently used a new method to calculate the rate of inflation, which would have yielded a rate of 4.4% in 1993/94, compared with the previous figure of 1.8%, and 8.7% in 1994/95, compared with 5.2%. However, the BBS, having produced figures which were widely criticised, then withdrew the new basis for calculation, making the excuse that it was not

intended to be used immediately. (The whole episode illustrates the fallibility of measures of inflation in an economy with a large unrecorded sector.) Mr Alam said that, using the old method, the annualised rate of inflation in September was 5.8%, and in October 6%, and he was confident that the rate would fall to 5.8% by the end of December as a result of lower food prices. This seems a reasonable expectation, but the rate is not likely to edge down much more through the rest of this fiscal year because of the recent weakening of the taka.

The taka resumes its downward path

After maintaining a steady rate of Tk40.10:\$1 since March, the taka was devalued against the dollar in two stages in September and October, to Tk40.75:\$1. This represented a nominal devaluation of 1.3% on the year-earlier parity. Many commentators expect the value of the taka to fall further against the dollar, particularly after the 10% devaluation of the Indian rupee against the dollar in the last quarter of 1995. Some further adjustment is therefore likely in the next few months, but it will not be the double-digit fall that some international agencies are reported to advocate.

Agriculture

Foodgrain production suffers from drought and floods—

Foodgrain production in many areas of the country has been adversely affected by both drought and floods in recent months. In the north-west of the country, around Dinajpur, a record 21 inches (535 mm) of rain fell in 24 hours at the end of September, causing massive flash-flooding, while in Mymensingh, Comilla, Dhaka and Manikganj the *aman* (main crop) paddy fields were flooded for the third time, ruining the late crop there. The floods meant that the harvest of the transplanted *aman* rice crop, sown between July and September, could not make up for the disappointing harvest of the *aman* crop sown by traditional broadcasting in March and April, which had been badly affected by the very hot, dry summer.

According to early reports, up to 1.6m tons of the *aman* rice crop were lost in the northern districts, representing 35% of the 4.6m tons forecast to be grown in the area and about 17% of the country's total *aman* rice crop. Altogether about 810,000 ha of the standing rice crop were destroyed, with losses reported in 51 out of the country's 64 districts. Overall, *aman* losses were estimated at more than 2.6m tons, because the floods took place at the end of September, giving farmers no chance of replanting.

—and a serious shortfall is expected

In August the World Food Programme (WFP) had estimated total rice production in Bangladesh in 1995/96 at 16.7m tons and the total foodgrain requirement for the country at 20.5m tons. At that time, the WFP estimated the total foodgrain production shortfall at 753,000 tons. The *aman* losses of 2.6m tons in September mean that the shortfall will have risen to around 3.3m tons, a figure confirmed by the food ministry at the beginning of November.

Later in the month the food minister, Abdul Mannan Bhuiyan, said that the deficit may turn out to be less than 3.3m tons, because the area planted to *aman* rice had increased this year by 1.4%, and wheat production had risen by 200,000 tons to 1.4m tons. Consequently he forecast a maximum shortfall of 2.9m tons, possibly falling to 2.5m tons.

Announcing measures to deal with the food shortage, Mr Bhuiyan said that the donors had committed 900,000 tons of grain as food aid and that the government would be importing a further 725,000 tons, with the private sector expected to import 1m tons. The government would pay for whatever food the country needed this season from its own resources or from normal food aid and would not be seeking special foreign assistance.

However, the high price of rice and wheat on the international market underlines the seriousness of the situation. Even if the food is available, it might be too expensive for many of the people most in need, unless its price is heavily subsidised.

Open-market sales of rice
have little impact—

As a result of the poor harvests, the government had already been forced to start open-market sales (OMS) of rice throughout the whole country in August, at Tk10.5/kg (25 cents/kg) in rural parts and Tk11/kg in metropolitan areas (4th quarter 1995, page 15). At the beginning of October it was reported that the food ministry had 900,000 tons of rice and wheat in store. The ministry hoped to stop its OMS programme in mid-November, except in districts very severely hit by floods, and restart it again in mid-February.

Critics of the programme said that its impact on rice prices generally was small; the prices of better grades of rice remained virtually untouched by the sales of coarse rice by the government, and even the open-market price of coarse rice only fell a little when OMS began. Some dealers blamed widespread corruption in the food ministry for the sales' lack of impact, while others blamed shortages on hoarders, hoping to make big profits when the price rose.

—and widespread hunger
is reported in northern
and western districts

By December there were several reports of hunger in the regions most adversely affected by the floods in September. In these areas, much of the land had remained unsown and houses which had been damaged went unrepaired, since many farmers had no crops to sell and therefore no money with which to buy food for their families, seeds for the next crop or to rebuild their houses. As winter approached the cold became another threat. Government assistance consisted of 12 kg of wheat per month for each affected family in November and December and a small grant of between Tk500 and Tk1,000 (\$12.50-25.00) for housebuilding in the 15 worst-affected districts. In addition, 4,100 tons of wheat seed and 2,000 tons of *boro* (dry season) rice seed was made available by the agriculture ministry to those farmers most badly affected. Some poor farmers were able to borrow money from traditional moneylenders or from non-governmental organisations (which in turn receive money from aid organisations), or sold their labour at a substantial discount to larger farmers for work to be done during the *boro* season (January-April) in return for some immediate cash.

Jute output is also
hard-hit—

Jute production in the current fiscal year (July 1995-June 1996) is estimated to be 23% lower than in 1994/95 as a result of the adverse weather conditions during the growing season. According to early figures from the Jute Directorate, 445,000 ha of land have been planted to jute this year, down by 21% on 1994/95, while production is estimated at 660,000 tons, a 35% fall. But 90,000 tons of the crop was later estimated to have been destroyed by the

drought and floods, leaving total production at only 570,000 tons. The reduction in crop yield was most marked in traditional high yield areas, while the result in low yield areas was better than usual.

—but stocks should be adequate

However, with carryover stocks of 250,000 tons, domestic raw jute stocks should be adequate this season, leaving 265,000 tons available for export. Moreover, the reduced crop this year has pushed up the price of jute, encouraging farmers to grow more of the crop next year, although it will also boost the market for synthetic substitutes to jute.

The Flood Action Plan is presented

The fourth and concluding conference on the Flood Action Plan (FAP), the programme drawn up by the government and the donors after the catastrophic floods of 1987 and 1988 to mitigate the scale of such devastation in the future, was held in Dhaka between November 30 and December 2. The final draft of the main report was presented. The examination of possible ways of managing the annual flood waters has taken five years, at a cost of \$150m and appears in the form of 11 main studies and 15 supporting studies. The final draft, *Bangladesh Water and Flood Management Strategy*, recommends a five-year development programme costing Tk45bn (\$1.13bn), which would include projects for river management; coastal protection; flood proofing; flood forecasting, warning and disaster management; urban protection and the environment; and socio-economic development. The key to achieving the aims of the programme is the development of a water management system which will control floods and keep the rivers navigable in the dry season. The direction of water management strategy has moved away from a single grandiose, ambitious and expensive plan to a series of smaller and more limited projects, and the outcome of the FAP deliberations reflects this change.

Industry and energy

Industrial growth rises

The industrial production index was reported to have risen by 6.6% during the four-month period July-October 1995, up from the 4.8% growth achieved in the same period in 1994. This is both encouraging and surprising, given the politically-inspired disruption during this period.

11,000 under-age workers are found in garments factories

The tripartite memorandum of understanding (MOU) reached last July between the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the UN Children's Fund (Unicef) and the International Labour Office (ILO) provided for the phasing-out of child labour (ie children under 14 years) in the garment industry as of the end of October (4th quarter 1995, pages 17-18). The investigation team was reported to have found 11,000 under-age workers in 1,830 garment factories in Dhaka, Chittagong and Khulna. These children will be placed in a special education programme, while the ILO and Unicef are arranging for the families who were dependent on their wages to be given food aid. This is only the tip of the iceberg. Independent surveys of the total number of child workers in Bangladesh put their number at 3 million.

Hard-rock drilling begins at Maddhyapara

The first steps to extract hard rock from the Maddhyapara mine were taken in October. Operation is expected to begin in 1998, with full production scheduled for 2000 at 1.7m tons. The rock will be used in addition to bricks in infrastructural developments and represents saving of up to Tk1.5bn (\$37m) per year in imports.

A new gas reserve is found in Bhola

New gas reserves were found at Shahbazpur in the island district of Bhola in November, making it the 18th gas reserve in the country. Exploration work in the area by Bangladesh Petroleum Exploration Company (BAPEX), a subsidiary of Petrobangla, began in early 1994. The gas was struck at a depth of over 3,000 metres and the reserves are expected to be 1trn standard cu ft of natural gas. The find takes the country's natural gas reserves to 10.7trn standard cu ft.

Transport and communications

Bangladesh Biman makes a reduced profit in 1994/95

The national airline, Bangladesh Biman, made a profit of Tk60m (\$1.5m) in the fiscal year 1994/95. Profits were down from Tk68m the previous year, the result of difficult trading conditions, including a plague scare in Calcutta which led to a cancellation of all flights to that city for its duration. In 1994/95 Biman carried 1.25 million passengers, up by 8.3% on 1993/94, and 30,000 tons of cargo, up by 21.9%. Biman flies to 27 international destinations using five DC-10-30s and to seven domestic destinations using two ATPs and two Fokker-27s. In 1996 two new airbuses (A-310s) will be added to the fleet.

Work starts on the expansion of Chittagong airport

The prime minister, Begum Khaleda Zia, laid the foundation stone of the expanded Chittagong airport in November. The project is expected to cost around Tk6bn (\$149m), of which Japan will provide Tk3.4bn and the UK Tk2.4bn. The expansion, which upgrades the existing facilities, has been necessitated by increased trade and passenger traffic, partly as a result of the success of the Chittagong Export Processing Zone. It is also designed to enable the airport to handle disaster management operations and act as an alternative international airport to Zia international airport in Dhaka. Works scheduled include the building of new passenger and cargo terminals on newly acquired land, boarding bridges, and a meteorological observation system. Completion of the expanded airport is due in 1999, by which time it will be able to handle 520,000 passengers and 5,650 tons of cargo annually.

The country's largest digital telephone exchange starts up

In December Mrs Zia inaugurated a 20,000 digital exchange, the country's largest, at Motijheel in Dhaka. The commercial centre of Dhaka is now entirely served by a digital telephone system. The project is part of the 150,000 line digital telephone project, costing \$320m and financed from domestic resources, which will install 100,000 new lines in Dhaka, 15,000 each in Sylhet and Khulna, and 10,000 each in Chittagong and Rajshahi by December 1996.

Chittagong port comes to a near-standstill

Chittagong, the country's main port, has been brought close to a standstill recently by the unplanned and unregulated growth of traffic on both land and sea. The result of this has been a slowing of trade, with the situation exacerbated by the frequent opposition-led blockades and *hartals* (sit-down strikes). Garment exporters complain that the turnaround time for ships docking at the

port is eight to 14 days, while the sea journey from Singapore is only six to seven days. This has led to garment manufacturers incurring higher costs as they have been charged a congestion surcharge from the shipping lines on imported raw materials and have been forced to send their exports by air freight to avoid serious delays. Another problem afflicting the port is rampant pilferage, suspected of being carried out by organised gangs with the collusion of corrupt port and customs officials.

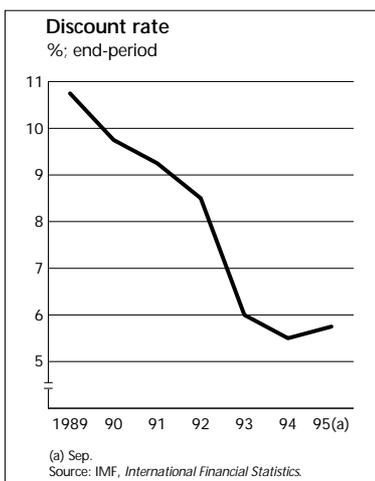
The Jamuna bridge project is behind schedule

As construction work began in October on the main component of the Jamuna multi-purpose bridge (JMB), the communications minister, Oli Ahmed, admitted that it was behind schedule but said that the government still hoped that the bridge would be completed by the end of 1997. About one-quarter of the river training work had been finished by mid-October (30% should have been completed by August 1995, according to the plan), while the preliminary work on the main bridge and the approach viaduct was only 8% complete, compared with 21% in the plan. By December Mr Ahmed reported that the work on the first two contracts had caught up, although progress on the third and fourth contracts was still a little behind.

On the technical side, a potentially serious problem was that the rocks imported from India to strengthen the foundations of the bridge were of poor quality, according to tests on them conducted in the UK. Already 400,000 tons of these rocks have been imported and paid for by the World Bank. The Construction Supervision Consultant (CSC) for the bridge also came in for criticism as it was alleged that its field organisation lacked delegation and a chain of command, and that it had committed irregularities such as allowing contractors to start work without first obtaining the permission of the JMB Authority. Meanwhile, the project to set up a railway link to the eastern side of the Jamuna bridge has received approval. The 85 km track will go from Joydevpur via Tangail to the Jamuna bridge and is estimated to cost Tk3.25bn (\$81m).

Banking and finance

The bank rate is raised



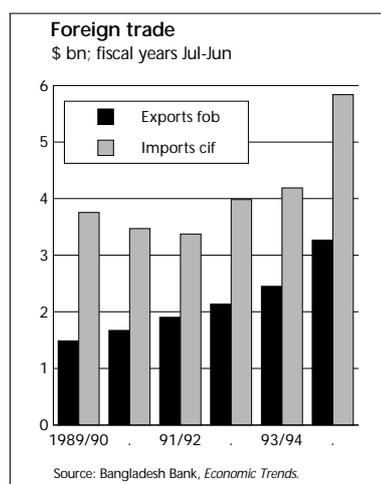
In September the Bangladesh Bank (BB, the central bank) raised the bank rate by 0.25%, to 5.75%, to curb credit expansion, particularly to the private sector, and thus dampen inflationary pressure. At the same time, rates for depositors were raised by a higher margin, 0.5%, to encourage savings. The rise in interest rates was the first since the government came to power in 1991 and follows a long series of rate reductions since then. According to the governor of the BB, credit to the private sector rose by 24% in 1994/95, while credit to the public sector increased by 4.5%, statistics which seemed to place the cause of the inflationary pressures squarely on private-sector credit growth. However, a spokesman for the Metropolitan Chamber of Commerce and Industry said in September that the BB had been forced to raise interest rates because of a fourfold increase in lending to the government during July and August (the first two months of fiscal 1995/96), to Tk12bn (\$299m), compared with the same period last year.

- The Chittagong Stock Exchange starts operation—
- The Chittagong Stock Exchange (CSE), the country's second bourse, began operations on October 10. Initially, only 33 stocks were traded (as against 195 securities on the Dhaka Stock Exchange), but by November the number had increased to 50, with a further 40 likely to be listed by the end of this June. Market capitalisation in November reached \$198m. Screen-based trading should be introduced in 1996, replacing the traditional market outcry system, with a central depository system and satellite systems planned for 1997 and 1998. Chittagong is the site of the country's biggest export processing zone (EPZ), but because of legal restrictions it is not possible for foreign firms in the EPZ to have their shares traded on the CSE. The chairman of the exchange, Amir Khasru Mahmud Chowdhury, has expressed the hope that this situation will change soon.
- and Standard Chartered plans to open an offshore banking unit
- Standard Chartered Bank announced in November that it would soon be opening an offshore banking unit in the Chittagong EPZ. Standard Chartered already has a similar unit in the Dhaka EPZ. Offshore banking units can accept deposits from outside Bangladesh, borrow from abroad and carry out transactions in specified foreign currencies. Offshore loans are permitted for both foreign-owned and joint-venture firms setting up manufacturing plants in EPZs.
- There is a clampdown on indebted commercial bank directors
- As part of its drive to tighten up the regulation of the banking system, the BB has ordered directors of private commercial banks who have not been servicing their outstanding loans to be dismissed. In cases where the loan was greater than the value of the director's shares in the bank (the majority of cases), legal proceedings have been threatened if the credit is not repaid within two months. Of the directors who were implicated, 13 paid off their loans totalling Tk120m (\$3m) and a further 13 (owing Tk480m or \$12m) applied to the High Court to stay the order. Four other directors resigned; one owed over Tk30m, and the other three together owed Tk800m. However, the scale of these outstanding loans pales beside reports that two of the country's largest business groups (no names were given) have borrowed Tk4.75bn (\$118m) from three private commercial banks, IFIC Bank, Uttara Bank and AB Bank "by disregarding banking practice and existing laws". As a result, the managing directors of those banks have been dismissed. The most recent reports indicate that these loans are being serviced.

Foreign trade and payments

- Export receipts surged in 1994/95—
- In the fiscal year 1994/95 (July-June) exports reached \$3.27bn, up a spectacular 33% on 1993/94. Exports of garments once again put in a good performance, growing by 32% in 1994/95 to reach \$1.85bn, while jute goods rose by 43% to \$340m. High rates of growth were also recorded by fish and prawns (up by 31% to \$329m), hides and skins (up 39% to \$218m), and fertiliser (up 75% to \$77m). The only disappointing performance was that of tea, earnings from which were down by 26% at \$32m.
- Although garments thus continued to account over half of export receipts (57%), in terms of domestic value added they are of much less significance. Between 70% and 75% of the value of garments exports represents imported

—but were outpaced by growth in imports—



—and deterioration continues into the first five months of 1995/96—

—hitting foreign exchange reserves

fabric, yarn, packing materials and other essentials, and barely 10% of the fabric required by the clothing industry is domestically produced.

The excellent performance by exports was eclipsed by even stronger growth of imports, which rose after two years of stagnation when their value hovered around the \$4bn mark. Imports rose by 39% to reach \$5.84bn in 1994/95. Spending on textiles rose by 31%, in line with the growth in garments exports, to \$1.3bn, machinery and transport equipment was up by 71% as firms expanded their output, and imports of fuels and chemicals rose by 24% and 50% respectively. However, by far the largest increase was registered in food imports which reached \$476m (including the value of food aid) as shortages developed in response to the disappointing harvest. The result was a marked deterioration on the merchandise trade balance, with the deficit rising by almost half, to \$2.57bn.

Foreign trade
(\$ m)

	1992/93	1993/94	1994/95
Exports fob	2,138	2,450	3,269
of which:			
clothing	1,227	1,411	1,851
jute goods	268	239	340
fish products	203	253	329
Imports cif	-3,984	-4,190	-5,838
of which:			
textiles	928	1,008	1,321
machinery & transport equipment	369	423	724
cereals & dairy products	128	74	476 ^a
fuel	353	284	356
Balance	-1,862	-1,740	-2,569

^a Wider measure, covering all food and including imports under food aid.

Sources: Bangladesh Bank, *Economic Trends*; press reports.

According to the governor of the Bangladesh Bank (BB, the central bank), Khorshed Alam, the outpacing of the rate of export growth by that of imports was much more pronounced in the first five months of fiscal 1995/96. In the period July-November 1995 the value of imports rose by 40% year on year, to \$2.8bn, while exports rose by only 7% during the same period, to \$1.6bn. Moreover, according to Mr Alam, the rise in imports would have been even greater if the central bank had not intervened to request commercial banks to discourage finance and foreign exchange for non-essential imports. The import surge evidently owed much to foodgrain imports (\$200m in the period July-September) to counter the serious supply shortfall (see Agriculture). For the same reason, the rate of growth in the import bill should slacken in the second half of 1995/96.

The widening in the trade gap in the second half of 1995 was reflected in the sharp fall in foreign exchange reserves during this period. Excluding SDRs and the reserve position in the IMF, at end-June they were \$2.98bn; by end-October they were down to \$2.46bn and by December a reported \$2.30bn, equivalent to about four months of imports at the current rate.

International reserves

(\$ m; end-period)

	Foreign exchange	SDRs & reserve position in IMF	Total
1993	2,388	23	2,411
1994	3,103	36	3,139
1995			
Jan	3,089	37	3,125
Feb	3,139	57	3,197
Mar	3,258	60	3,318
Apr	3,381	61	3,442
May	3,095	79	3,174
Jun	2,980	68	3,047
Jul	2,726	98	2,825
Aug	2,539	153	2,692
Sep	2,492	154	2,646
Oct	2,461	153	2,614

Source: IMF, *International Financial Statistics*.

Raw jute export earnings rise

The growth in exports so far in the current fiscal year is unusually low, but in the absence of a comprehensive breakdown it is not possible to identify the cause. However, raw jute earnings are reported to have risen by 21% year on year in taka terms during July-September. This was entirely due to higher international prices which reflected the decline in jute supply this year due to adverse weather conditions (see Agriculture). In this period 44,000 tons of raw jute were exported, down by 12% on the year earlier.

As a result of the shortage of raw jute, the government issued a directive in late August to ban overland jute exports (ie to India), a measure which provoked dismay among many jute exporters in Bangladesh as virtually no jute is exported to India by sea. This measure was taken to stop smuggling of raw jute to India, which has also experienced a large production shortfall this year.

Remittances continue to rise

A major offset on the current account to the deficit on merchandise trade is the inflow of workers' remittances. In 1994/95 remittances from Bangladeshis working abroad were estimated to have grown by over 29%, to \$1.3bn, sufficient to cover half the merchandise deficit. Another \$500m-600m is thought to be sent back through unofficial channels, where a more favourable rate of exchange can be obtained. The growth in remittances was reported to have continued in July and August last year, although at around half the overall 1994/95 rate.

Malaysia is now the most popular destination for Bangladeshi workers, with an estimated 161,000 working there legally. In order to keep up with demand, the Ministry of Labour and Manpower is stepping up worker-training schemes and the Institute of Foreign Languages is providing courses for workers to obtain a basic knowledge of English, Arabic and Bahasa Malay.

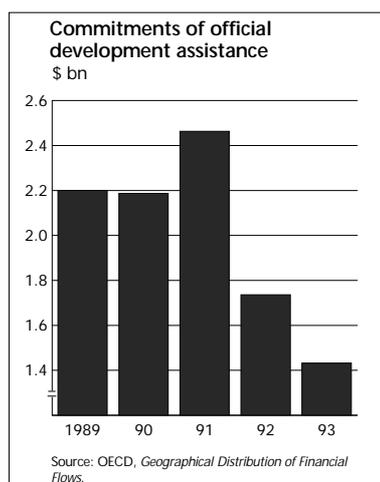
SAPTA tariff reductions are agreed

The five members of the South Asian Association for Regional Cooperation (SAARC), Bangladesh, India, Pakistan, Bhutan and the Maldives, have taken the first step in liberalising trade among their countries. At a meeting in Kathmandu in December the South Asia Preferential Trading Association

(SAPTA) was launched with the agreement to reduce tariffs on 224 goods by 10%. There are no immediate plans to dismantle non-tariff barriers, although it is intended to tackle these in the future. The economic effects of SAPTA are likely to be very small while the physical infrastructure for regional trade remains inadequate and there are major non-tariff barriers in place (including foreign exchange restrictions).

Aid and development

The aid consortium meeting is postponed to July—



—when aid commitments are likely to level out

In mid-December the World Bank announced that the 1996 meeting of the Bangladesh aid consortium of international agencies and donor countries was to be put back from its usual time, at the end of April, to July. This postponement was due to the impending general election and is intended to give the incoming Bangladeshi government time to prepare its position for the meeting. Some commentators thought that the change in the date might in fact cause difficulties for the government, since it traditionally presents its budget to parliament in mid-June, but a government official denied that this was the case.

More worrying was the warning by the World Bank's representative in Dhaka, Pierre Landell Mills, that the country's longrunning political crisis could scare off potential donors. Foreign direct investment has already been holding off: in the last fiscal year inflows were a meagre \$20m and no recovery is to be expected until the political deadlock has been resolved. The failure to implement reforms in the state-owned jute sector or to press ahead with the privatisation of the telecommunications sector has caused donors to delay the release of some aid funds. However, as long as the government takes up these programmes again soon after the election, their funding should not be a problem.

The expectation is that commitments by the aid club in July will be broadly the same as in April 1995, when they were \$1.95bn, slightly down on the year-earlier level of \$2.1bn. Mr Landell-Mills has warned that a lower level of aid pledges may be expected in 1997, as donors foresee an increase in foreign direct investment once the current political impasse is solved, which would reduce the aid requirement.

Meanwhile, although foreign aid disbursement is reported to have fallen during the first five months of fiscal 1995/96 to \$490m, down from \$642m in the year-earlier period, over the full year it is expected to be similar to that in 1994/95 (\$1.6bn) as government agencies present their bills for disbursements made.

The World Bank lends for flood prevention—

The World Bank's soft-loan affiliate, the International Development Association (IDA), is to provide a loan of \$121.9m for work to prevent the erosion of river banks at two locations on the west bank of the Brahmaputra and to strengthen the flood defences around Sirajganj. The credit will cover 78% of the total project cost of \$156m, with the rest financed by the government. Up to 3 million people should benefit from the project, with 125,000 people living in Sirajganj being protected from property loss.

—and coastal embankments	The IDA is also to provide a \$53m loan for building and strengthening coastal embankments around the Bay of Bengal, which is prone to tidal waves and cyclones. In the 1991 cyclone up to 140,000 people lost their lives in a cyclone as the poorly maintained coastal embankments were breached in many places. The loan will cover 65% of the \$88m cost of the project, and 1.2 million people living along the coast should benefit from it.
The WFP and the EU provide wheat—	The World Food Programme (WFP) signed an agreement with the government on November 30 to give the country 114,500 tons of wheat and 3,750 tons of vegetable oil as a grant under its food assistance programme. The wheat is to be used in the Food for Work programme. In the same month, the European Union (EU) was reported to have sold Bangladesh 155,000 tons of soft wheat as food aid for shipment between December and March.
—but Bangladesh is not given food debt waiver by the USA	The USA was reported to have waived the food debts of many developing countries in November, but Bangladesh was not among them. The total amount of Bangladesh's food aid debt outstanding with the USA is currently \$729m, repayable over the next 27 years. Payments due in 1995 and 1996 are estimated by US sources at \$9m and \$27m respectively, of which \$3.3m for 1995 had been remitted by November. Officials in the foreign ministry had hoped that Bangladeshi participation in the Haiti crisis might have resulted in some food debt waiver, but this had clearly not proved a relevant consideration.
The ADB extends a \$30m loan for irrigation and fisheries—	The Asian Development Bank (ADB) has granted a \$30m loan to improve the Pabna and Meghna-Dhonagoda irrigation facilities and boost fish output. The highly concessional loan has a grace period of ten years, a repayment term of 40 years and an annual service charge of 1%. It will cover 60% of the total project cost, and 300,000 people are expected to benefit from the improvement.
—and \$18.5m to a cement plant	In December the ADB announced a \$18.5m loan to a private-sector firm, Islam Cement, and a \$4m investment in equity. The funds are to be used to build the country's largest cement plant, with a 600,000-ton capacity, sited in Sylhet district. Currently 80% of cement has to be imported and domestic production is concentrated in the public sector.
Japan gives \$85m loan for rural development	In October accords were signed for Japan to provide \$85m in credits for rural development projects. The funds will help to provide electricity to rural areas, build the Paksey bridge across the Ganges and supply rural development credits for the poor through the Grameen Bank.
Donors consider \$729m in new loans to the electricity sector	<p>Following a significant improvement in both the rate of system loss and the ratio of electricity paid for to that generated, a number of donors announced in September that they were considering new funding to the electricity sector totalling \$729m. The donors and projects are:</p> <ul style="list-style-type: none"> ● the World Bank: \$300m for two power infrastructure development projects and the rationalisation of distribution; ● the ADB: \$150m for the Meghanghat power project and other schemes under the ninth power project;

- Japan: \$222m for a loss reduction scheme, the 103-mw Haripur extension project and rural electrification; and
- Germany: \$57m for the construction of the Comilla-Chittagong transmission line.

System losses were down to 36%, from 44% in 1990, while the collection/generation ratio has increased from 50% to about 70%. Before committing new loans, however, the donors have asked for the price of electricity to be raised to reflect the substantial increase in the costs of fuel and manpower over recent years, as well as the depreciation in the value of the taka.

Appendix 1

Quarterly indicators of economic activity in Bangladesh

		1993			1994				1995		
		2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Prices: Dhaka	Monthly av										
Consumer prices:	1990=100	111	112	114	113	115	116	119	120	122	n/a
change year on year	%	-2.0	-1.1	2.3	2.8	2.8	3.9	4.4	6.2	6.3	n/a
Wholesale: jute ^a	\$/ton	235.0	228.3	386.7	362.3	307.7	282.7	230.0	256.7	n/a	n/a
Money	End-Qtr										
M1, seasonally adj:	Tk bn	86.07	88.92	89.87	101.63	105.95	108.38	111.94	123.95	125.04	129.61 ^b
change year on year	%	9.5	16.2	16.2	12.9	23.1	21.9	24.6	22.0	18.0	n/a
Foreign trade	Qtrly totals										
Exports fob	Tk bn	21.29	25.06	23.50	21.89	23.44	30.10	31.59	31.35	30.04	n/a
Imports cif	%	47.47	35.96	38.68	42.04	46.14	45.92	54.97	60.41	38.05 ^c	n/a
Exchange holdings	End-Qtr										
Foreign exchange	\$ m	2,056.0	2,273.1	2,387.9	2,719.3	2,719.1	2,930.7	3,102.6	3,258.0	2,979.5	2,492.2 ^d
Exchange rate											
Market rate	Tk:\$	39.80	39.85	39.85	40.25	40.25	40.25	40.25	40.10	40.10	40.25 ^e

Note. Annual figures of most of the series above will be found in the Country Profile.

^a Raw Bangladesh BWD, fob; Chittagong/Chalna. ^b End-August. ^c Total for April-May. ^d End-October, 2,460.9. ^e End-October, 40.75.

Appendix 2

Foreign trade of Bangladesh

(\$ m)

	Total		USA		Germany		UK		Italy	
	Jul-Jun									
	1991/92	1992/93	1991/92	1992/93	1991/92	1992/93	1991/92	1992/93	1991/92	1992/93
Exports fob	233.6	261.6	49.3	74.4	15.4	17.9	30.5	34.0	2.9	0.3
of which:										
fish & preparations	166.5	207.4	44.6	74.1	15.0	16.6	23.5	22.8	2.9	0.3
tea	48.9	37.7	0.0	0.0	0.4	1.2	0.2	4.2	0.0	0.0
Textile fibres & waste	105.7	75.5	1.9	0.8	0.4	0.1	8.0	3.1	0.0	0.0
of which:										
jute raw	105.4	74.3	1.9	0.3	0.4	0.1	8.0	3.0	0.0	0.0
Chemicals	15.3	50.2	0.0	0.0	0.2	0.4	0.0	0.0	0.0	0.0
Leather & manufactures	128.9	143.5	1.7	2.1	4.1	4.6	3.7	3.1	34.7	29.5
Textile yarn, cloth & manufactures	323.5	309.1	36.9	41.6	8.9	8.2	20.9	17.7	3.5	4.8
of which:										
jute fabrics	154.1	124.7	15.4	12.7	0.7	0.7	11.8	9.1	0.6	0.5
twine, cord etc	39.4	48.8	2.8	6.4	1.6	1.0	2.0	1.7	0.5	1.0
sacks, bags etc	63.1	61.2	1.6	1.3	1.5	1.0	0.6	0.6	0.9	0.9
Clothing	1,045.9	1,244.2	507.9	620.1	139.4	158.6	71.0	110.4	92.9	86.6
Total incl others	1,902.8	2,137.6	605.7	747.4	170.2	191.7	137.9	171.2	135.3	122.6

continued

Foreign trade of Bangladesh (continued)

(\$ m)

	Total		India		Hong Kong		Singapore		China	
	Jul-Jun 1991/92	Jul-Jun 1992/93								
Imports cif										
Food & live animals	166.1	226.3	21.8	21.1	0.4	1.6	13.4	7.0	3.3	2.3
of which:										
dairy products	65.2	68.2	1.0	4.2	0.0	1.5	7.0	1.8	0.7	0.1
cereals & preparations	32.6	66.6	0.2	0.4	0.0	0.0	0.0	0.2	0.0	0.0
Textile fibres & waste	477.7	627.2	86.4	125.2	105.7	134.3	17.8	9.8	19.1	34.3
of which:										
raw cotton	302.4	412.9	71.8	105.9	76.9	103.9	3.5	4.7	11.7	21.1
Crude fertilisers & minerals	111.6	122.4	15.8	20.4	19.8	22.1	22.1	7.2	9.4	16.2
Petroleum & products	313.4	259.5	3.7	17.3	0.9	0.7	136.9	92.7	2.1	2.3
Animal & vegetable oils & fats	119.1	146.5	0.0	0.0	0.4	0.7	15.3	15.5	0.0	0.0
Chemicals	218.5	248.8	12.5	21.8	12.2	14.1	24.0	25.0	18.7	21.2
of which:										
elements & compounds	75.1	95.2	7.2	10.9	3.1	2.6	5.5	5.5	12.1	13.0
Textile yarn, cloth & manufactures	163.8	235.2	34.8	34.9	55.4	66.5	2.7	3.7	2.8	6.0
Iron & steel	106.2	105.9	1.6	8.5	1.6	0.0	1.9	3.0	5.2	1.2
Non-ferrous metals	46.0	61.9	5.5	16.8	0.3	0.5	5.0	4.1	0.4	0.8
Metal manufactures	5.1	18.5	0.2	1.1	0.7	1.1	0.4	0.8	2.5	5.2
Machinery & transport equipment	304.9	368.5	25.4	26.4	16.8	15.3	18.0	17.1	43.4	49.9
of which:										
road vehicles	34.6	50.9	6.8	8.5	0.0	0.0	0.6	0.4	2.3	4.7
ships	47.1	70.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total incl others	2,251.5	2,708.8	231.3	341.5	247.0	298.5	274.7	211.0	119.2	157.3