

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

RESTRICTED
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(95-0357)

Committee on Balance-of-Payments Restrictions

1995 CONSULTATION WITH BANGLADESH
(SIMPLIFIED PROCEDURES)¹

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures taken for Balance-of-Payments purposes (BISD 26S/205) to assist the Committee in taking the decision referred to in paragraph 8 of that Declaration. It updates the paper prepared for the 1992 consultation (BOP/W/134).

I. **Previous consultations with Bangladesh**

2. Bangladesh has held ten simplified consultations in the Committee (1973, 1976, 1978, 1980, 1982, 1984, 1986, 1988, 1990 and 1992). No full consultations have been held.

II. **Recent changes in Trade Policy**

3. Since the last consultation, Bangladesh has continued its import liberalization programme. The main objective of the new provisions of the Import Policy Order, 1993-95 is to enhance competitiveness and export performance of the economy. Progress has been made in dismantling non-tariff barriers and reducing the level of tariff protection and liberalization measures have included a substantial reduction in the exchange controls on current account transactions.²

(a) **Import restrictions**

4. The Import Policy Order, 1993-95 has reduced the number of four-digit HS categories from 193 to 114 in the Control List³, however, a small number items has been newly included in the Control list.⁴ Annex I of Bangladesh Statement for this consultation (BOP/323) indicates the reasons for which different import restrictions are maintained. As stated in the document, imports of sugar, dextrose and saline, salt, a number of textile items and single phased electric meters are restricted for balance-of-payments (trade) reasons.

¹Consultation postponed from 1994.

²For a comprehensive description of Bangladesh foreign trade policy and trade system see GATT (1992), Trade Policy Review, Bangladesh, Volumes I,II.

³The Control List includes items the import of which is banned or restricted.

⁴The newly introduced items include: chicks, eggs, deep frozen semen of oxen, gas in cylinder, petroleum gases and other gaseous hydro-carbons and chemical fertilizers.

(b) Import duties

5. Bangladesh has accelerated the implementation of its tariff reduction programme in 1991. According to World Bank calculations, the average rate of unweighted nominal tariff protection declined from 50 per cent in FY 1993 to 40 per cent in FY1994. The number of HS eight digit tariff lines with customs duty rates above 100 per cent declined from 274 in FY1991 to 17 in FY1994. There has been considerable compression of duty rates. Capital goods for export oriented industries have been altogether exempted from all taxes and duties, whereas duty on other capital machinery has been fixed at 7.5 per cent. Duty on raw materials has also been reduced. In the current year's budget the declining trend has been maintained with a further reduction in average tariff to 26 per cent, as calculated by Bangladeshi authorities, with the highest rate of customs duty set at 60 per cent.

6. Customs valuation methods at fixed standard tariff values above international prices continue to play an important rôle as the use of higher tariff value raises the actual import tax rate. According to the authorities, customs valuation methods have recently been streamlined. Preshipment inspection has been allowed to override tariff valuation. A committee with representatives of traders has also been set up to advise the Board on tariff valuation.

(c) Exchange regulations affecting trade

7. In 1992, the official exchange rate and the secondary exchange rate were merged into one rate of exchange. Recent liberalization measures have resulted in a substantial reduction in the exchange controls on current account transactions for the private sector. The practice of allocating foreign currency at official rate of exchange has been abolished. Exporters can now retain proceeds in foreign currency, but only up to 5 per cent for service exports and so-called low value added exports, and 15 per cent for other exports. This foreign exchange may only be used for some purposes determined by the authorities. Foreign investors may not import against direct payment, they must bring in the funds and open letters of credit.

III. Macroeconomic and Trade Developments

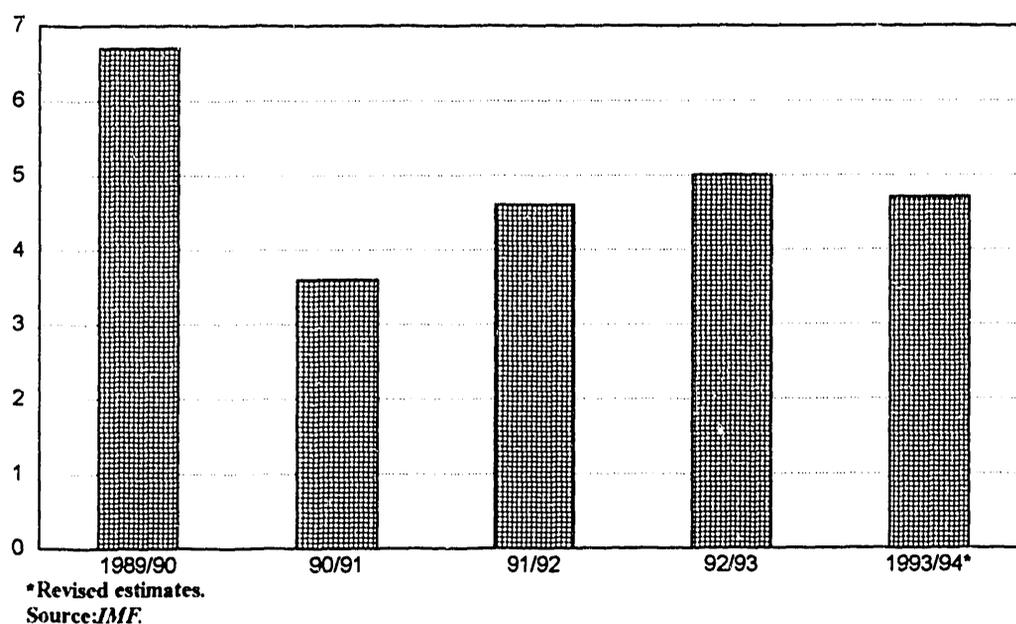
8. Two important (and related) macroeconomic characteristics of the Bangladesh economy are the large government budget deficit and the large merchandise trade deficit. However, the budget deficits, have remained manageable in recent years, with the deficit to GDP ratio kept below 6 per cent. Moreover, the deficits have been financed in large part with foreign resources, and recourse to domestic financing has been small. While the trade deficits have remained large, this has not precluded an improvement in the overall balance of payments situation. Especially in recent years, worker remittances have financed a substantial part of the trade deficit, and in 1993/94 it is estimated that the current account deficit declined to well under 2 per cent of GDP. In each of the four fiscal years beginning with 1990/91, foreign aid inflows have provided Bangladesh with a surplus on the capital account well in excess of the deficit on current account.

9. The trade sector has significant structural problems. Despite attempts to diversify, export revenue continues to depend almost entirely on a few products. Concurrently, the country imports a wide range of products, including food, manufactured goods and fuel.

Output and Prices

10. The overall rate of economic growth in Bangladesh, still highly dependent on the performance of the agricultural sector, was estimated to be 4.7 per cent in the 1993/94 fiscal year (ending June 30), a slight decline from the growth rate of 5 per cent achieved in 1992/93 (Chart 1). Agricultural growth was estimated to have accelerated in 1993/94 after an estimated increase of 1.9 per cent in 1992/93. Industry, which achieved annual rates of growth of around 7-8 per cent in recent years, was estimated to have grown less quickly in 1993-94 because of longstanding problems in the jute and cotton textile sectors, and sluggishness in private investment.

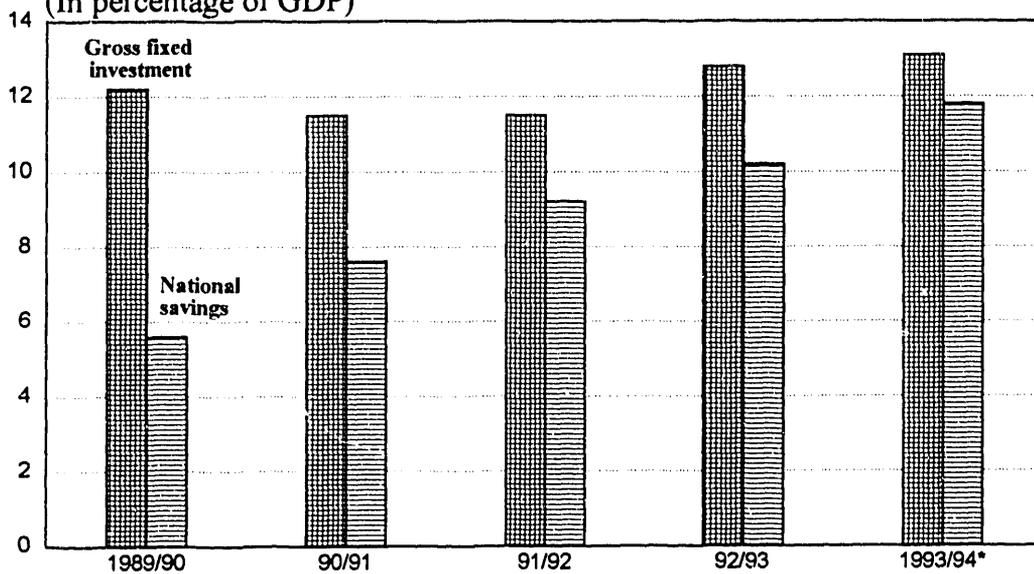
Chart 1 - Bangladesh - Growth of GDP at constant market prices, 1989/90-1993/94
(Annual percentage change)



11. Gross fixed investment has consistently exceeded national savings, but the gap between the two has narrowed in recent years (Chart 2). While gross fixed investment increased from 12.8 per cent of GDP in 1992/93 to an estimated 13.1 per cent of GDP in 1993/94, national savings increased over the same period from 10.2 per cent of GDP to 11.8 per cent of GDP, largely due to an increase in the savings of private and public enterprises.

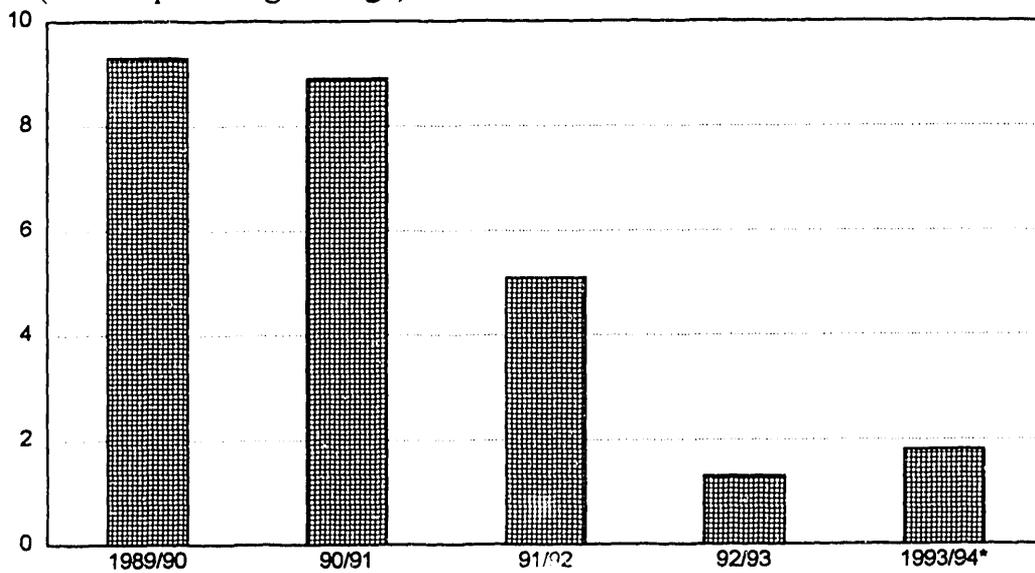
12. Average annual inflation (as measured by the consumer price index), which had declined from some 10 per cent in the late 1980s to 1.3 per cent in 1992/93, is estimated have increased slightly in 1993/94 to 1.8 per cent, in part due to the increase in prices of sugar and edible oils (Chart 3).

Chart 2 - Bangladesh - Gross fixed investment and national savings, 1989/90-1993/94
(In percentage of GDP)



*Revised estimates.
Source: IMF.

Chart 3 - Bangladesh - Consumer prices, 1989/90-1993/94
(Annual percentage change)



*Revised estimates.
Source: IMF.

Money and Credit

13. There has recently been an acceleration in monetary growth. Broad money grew by 15.4 per cent in 1993/94 compared to 11.4 per cent the previous year. The acceleration was attributable to an increase in growth rates over the period of both net foreign assets (from 7.2 per cent to 9.2 per cent) and net domestic assets (from 4.9 per cent to 7.7 per cent). While domestic credit to the Government declined, reflecting the increased reliance of the Government on non-bank financing, the credit to the private sector increased, though at a slower rate in 1993/94 than in 1992/93.

Public Finance

14. Government expenditure has consistently exceeded government revenues (Table 1). The budget deficit is estimated to have widened slightly to 5.6 per cent of GDP in 1993/94. Development expenditure of the Government is largely financed by foreign aid inflows, which amounted to 4.6 per cent of GDP in 1993/94 - compared to 5.2 per cent of GDP in the previous year. In both 1992/93 and 1993/94, high levels of domestic non-bank financing of the Central Government allowed a substantial retirement of bank credit.

Table 1 - Bangladesh: Summary of Government Budget, 1989/90 - 1993/94
(Percentage of GDP)

	1989/90	1990/91	1991/92	1992/93	1993/94*
Total revenue	8.9	9.2	10.4	11.1	11.2
Tax	7.4	7.5	8.3	8.9	8.7
Nontax	1.5	1.7	2.0	2.2	2.5
Total expenditure	16.3	15.7	15.1	16.3	16.9
Current expenditure	8.4	8.3	7.9	8.3	8.3
Food account	1.1	0.9	0.6	0.6	-0.4
Annual Development Program (ADP) ¹	6.1	5.9	6.0	6.6	7.9
Other capital expenditure and net lending	0.7	0.6	0.6	0.8	1.1
Residual	0.1	0.3	0.9	0.2	-0.2
Overall budget balance	-7.5	-6.8	-5.6	-5.4	-5.6

*Revised estimates.

Source: IMF.

15. Government revenues stagnated at a little over 11 per cent of GDP in 1992/93 and 1993/94. The decline in tax revenues in 1993/94 was offset by an increase in non-tax revenues. This reversed the recent trend of increasing tax revenues brought about by a widening in the tax base and improvements in tax administration. The tax system is characterized by a low share of direct taxes in total tax revenue and an increasing share of consumption taxes in total tax revenue.

16. Aggregate Government expenditures increased slightly from 16.3 per cent of GDP in 1992/93 to 16.9 per cent in 1993/94. The consolidated central Government budget includes, in addition to current expenditure and the Annual Development Programme (ADP), the food account and other capital expenditure. Current expenditures, which include subsidies and transfers, were unchanged at 8.3 per cent of GDP in 1992/93 and 1993/94. The food account, which reflects the difference between consumer ration prices and procurement prices and the changes in Government stockholding of foodgrains, moved from a slight deficit in 1992/93 to a small surplus in 1993/94. There was, however, a significant increase in expenditure on the ADP, from 6.6 per cent of GDP in 1992/93 to 7.9 per cent of GDP in 1993/94, partly reflecting progress in project implementation. The increase in expenditure on ADP was concentrated on education, transportation and communication.

Exchange Rate

17. The nominal exchange rate has been relatively stable in recent years, depreciating slightly from a period average of 38.2 taka per U.S. dollar in 1991/92, to 39.2 taka per U.S. dollar in 1992/93 and then to 40 taka per U.S. dollar in 1993/94.

Balance of Payments

18. Worker remittances have enabled Bangladesh to run large merchandise trade deficits, and inflows of foreign aid have more than covered the current account deficits.

Current account

19. The current account deficit narrowed in 1993/94 to 1.4 per cent of GDP, compared to 2.6 per cent in the previous year (Chart 4). Over the same period, the merchandise trade deficit declined slightly from close to US\$1.75 billion to a little less than US\$1.6 billion (Table 2). The decline in growth of exports of garments and jute was not fully offset by the improved performance of exports of fertilizers and frozen foods, leading to a decline in the rate of growth of exports from 19.6 per cent in 1992/93 to 6.3 per cent in 1993/94. There was, however, a larger decline in the rate of growth of merchandise imports, from 17.5 per cent in 1992/93 to 0.1 per cent in 1993/94, with the recent stagnation attributable to the reduced need for foodgrain imports, the stable price of oil and sluggish demand in the domestic economy.

Table 2 - Bangladesh: Balance of Payments, 1989/90 - 1993/94
(In millions of U.S. dollars)

	1989/90	1990/91	1991/92	1992/93	1993/94*
Trade balance	-2,258	-1,788	-1,519	-1,746	-1,598
Exports	1,524	1,718	1,993	2,383	2,534
Imports	-3,782	-3,506	-3,513	-4,129	-4,132
Foodgrain	-343	-254	-264	-241	-155
Petroleum	-312	-420	-320	-354	-290
Other	-3,127	-2,832	-2,929	-3,534	-3,687
Net services	-108	-27	-20	5	-17
Private transfers	802	846	975	1,065	1,244
Of which: Workers' remittances	(761)	(764)	(847)	(944)	(1,090)
Current account balance¹	-1,564	-969	-565	-676	-371
Aid disbursements ²	1,810	1,718	1,691	1,724	1,557
Food aid	(188)	(254)	(241)	(170)	(118)
Commodity aid	(457)	(408)	(386)	(372)	(453)
Project aid	(1,165)	(1,056)	(1,064)	(1,182)	(986)
Amortization payments	-186	-197	-210	-239	-272
Short- and medium-term loans (net) ³	-99	-81	-161	-182	-239
Foreign direct investment	3	2	10	16	69
Capital account balance, net	1,529	1,443	1,330	1,319	1,115
Net errors and omissions ⁴	-89	-121	-179	-56	-85
Overall balance	-125	352	586	587	659

* Revised estimates.

1 Excluding official grants.

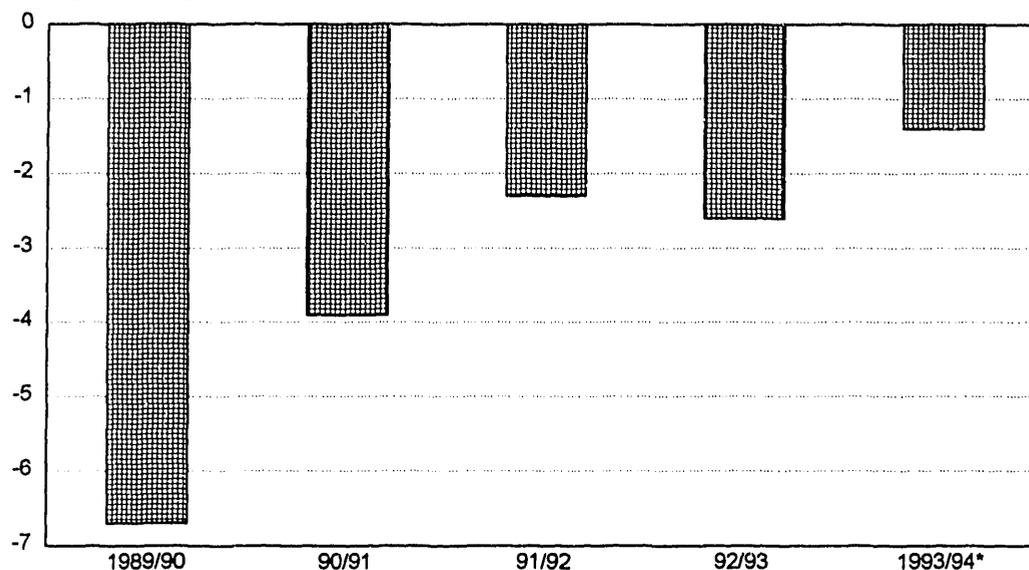
2 Including official grants.

3 Includes IMF Trust Fund, aircraft loans, food loans, trade credits, short-term petroleum loans (net), and other commercial borrowing.

4 Includes valuation adjustments.

Source: IMF.

Chart 4 - Bangladesh - Current account, 1989/90-1993/94
(In percentage of GDP)



*Preliminary.

Source: IMF.

20. The net balance on services account, which had shown a small surplus of US\$5 million in 1992/93, turned into a deficit of US\$17 million in 1993/94. In recent years, the positive balance of earnings from non-factor services, such as transportation and travel, has been similar in magnitude to the negative balance on investment income.

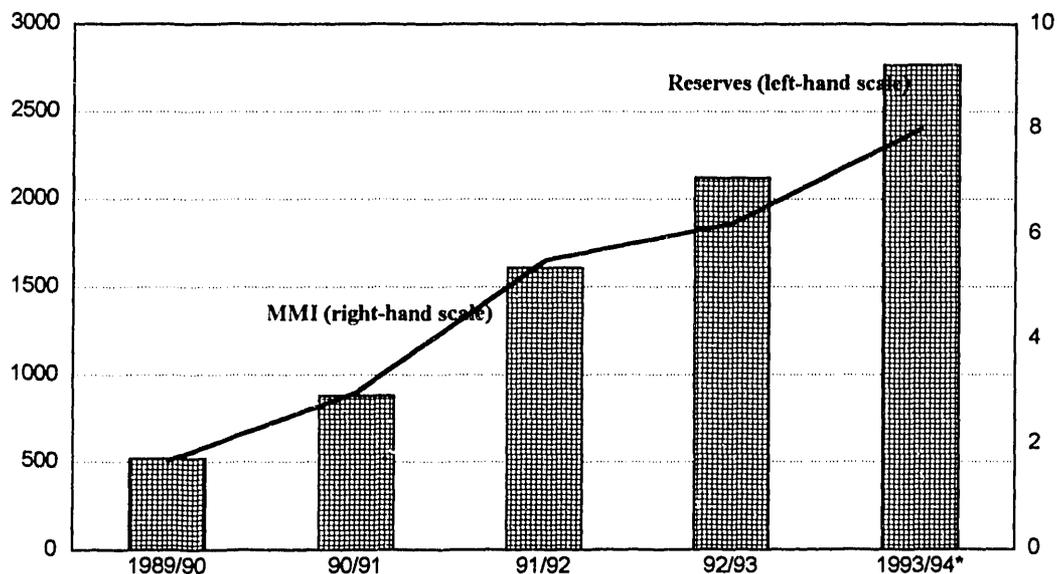
21. The narrowing of the current account deficit 1993/94 was partly due to the increase in workers' remittances, which have displayed sustained growth in recent years. The level of remittances increased from US\$0.94 billion in 1992/93 to a nearly US\$1.1 billion in 1993/94.

Capital Account

22. The positive balance on capital account is largely due to the magnitude of aid disbursements. The small reduction in the capital account balance from US\$1.3 billion to US\$1.1 billion between 1992/93 and 1993/94 was due, on the one hand, to the decline in aid disbursements, from over US\$1.7 billion to less than US\$1.6 billion, and on the other, to an increase in both amortization payments, from US\$239 million to US\$272 million, and net outflows of short and medium term loans, from US\$182 million to US\$239 million. Project aid accounted for the largest part of aid disbursements, with commodity aid and food aid of relatively smaller magnitudes. Foreign direct investment has not been significant, but has recently increased, from US\$16 million in 1992/93 to US\$69 million to 1993/94

23. In the last few years, the narrowing trade deficit and the increasing workers' remittances, as well as the steady level of aid disbursements, have led to a significant increase in gross foreign reserves (Chart 5). At the end of 1993/94, gross reserves of Bangladesh Bank, excluding non-resident foreign currency deposits and other special accounts, stood at close to US\$2.8 billion (equivalent to 8 months of imports), compared to US\$2.1 billion (equivalent to a little over 6 months of imports) at the end of 1992/93.

Chart 5 - Bangladesh - Gross official reserves, 1989/90-1993/94
 (End of period; in million US dollars and months of imports)

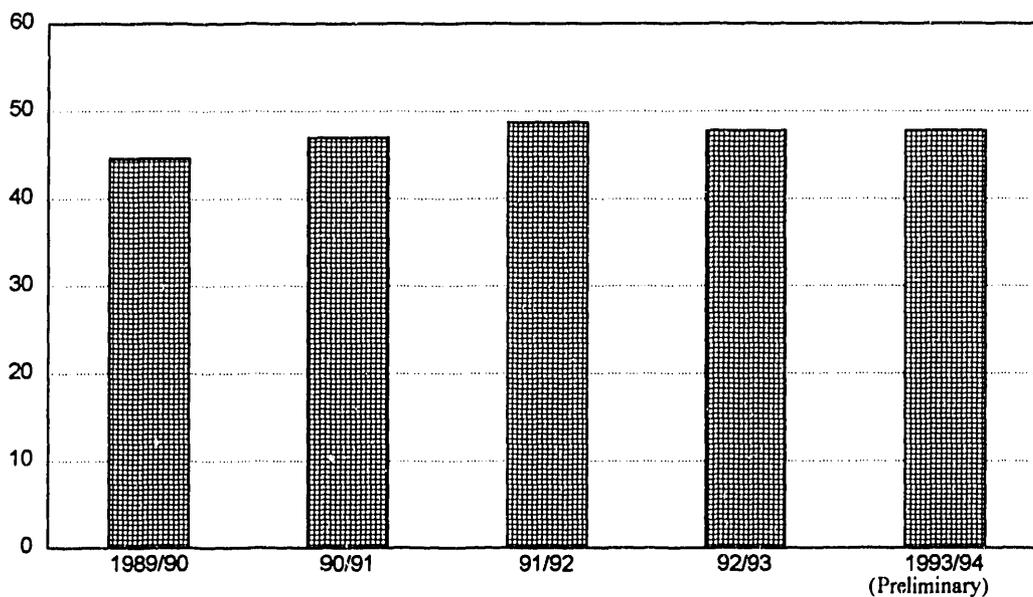


*Revised estimates.

Note: MMI refers to equivalent months of merchandise imports.

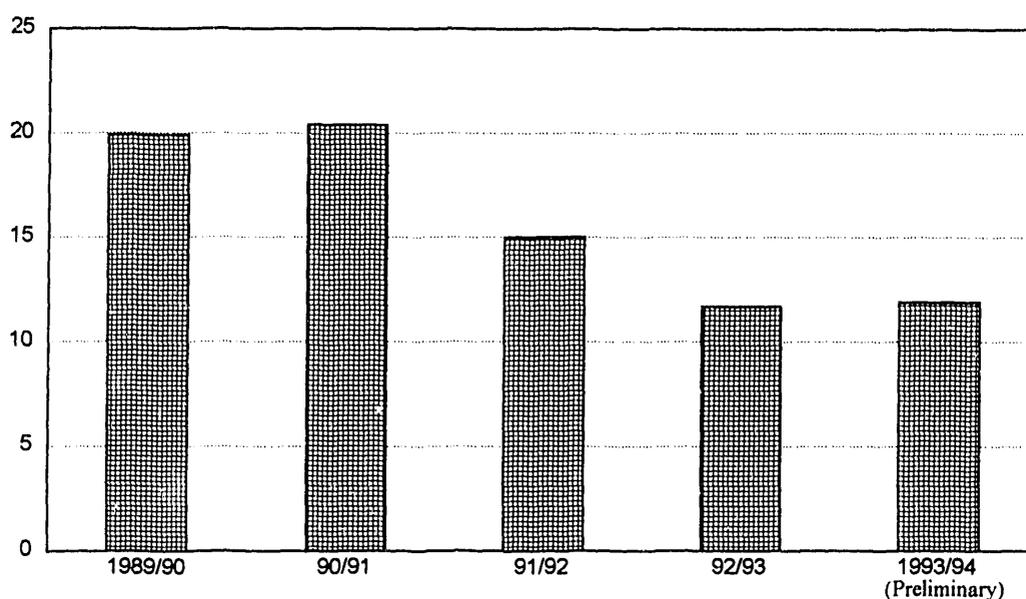
Source: IMF.

Chart 6 - Bangladesh - External public debt, 1989/90-1993/94
 (In percentage of GDP; end of period)



Source: IMF.

Chart 7 - Bangladesh - Debt service, 1989/90-1993/94
(In percentage of current foreign exchange receipts)



Source: IMF.

24. At the end of 1993/94, external public debt was close to 48 per cent of GDP, unchanged from the level at the end of the previous year, and not much higher than the level of 45 per cent at the end of the 1980s (Chart 6). The debt service ratio (as a percentage of current receipts), however, declined to 11.1 per cent in 1993/94 from 11.7 per cent in 1992/93 and 20 per cent at the end of the 1980s (Chart 7).

Pattern of Trade

Commodity composition

25. In the 1980s, Bangladesh experienced a significant change in its pattern of trade, as non-traditional exports (some with significant imported input requirements) grew rapidly, while traditional exports stagnated. However, Bangladesh's attempts to diversify its export base have had limited success, with four broad categories still accounting for nearly 80 per cent of total exports (Table 3). Ready-made garments alone contributed to more than half the export earnings in 1992/93, compared to a little over a third in 1987/88. An important question is whether this growth can be sustained when rival producers cease to be constrained by quotas as the MFA is phased out over the next decade. Exports of raw jute and jute goods have declined in relative importance, from about a third of total exports in 1987/88 to around 15 per cent in 1992/93. Frozen shrimp and frogs legs, and leather and leather products each accounted for over 6 per cent of total exports in 1992/93 but the relative importance of each has almost halved since 1987/88. Naptha and furnace oil, and tea each accounted for less than 2 per cent of export earnings.

Table 3 - Bangladesh - Merchandise exports by main product categories, 1987/88-1992/93
(Percentage of total merchandise exports)

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93 Estim.
Raw jute	6.58	7.54	8.20	6.05	4.26	3.11
Jute goods	24.53	21.77	21.52	16.59	14.70	11.92
Tea	3.17	3.11	2.56	2.50	1.61	1.72
Leather and leather products	11.94	10.65	11.75	7.80	7.28	6.21
Frozen shrimp and frog legs	11.37	10.96	9.06	7.57	6.17	6.55
Ready-made garments	35.26	36.63	39.96	42.84	53.39	52.08
Naphtha and furnace oil	0.97	1.24	1.12	1.86	0.40	1.55
Other (incl. hosiery)	6.26	8.09	5.84	14.73	12.24	16.83
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

Source: IMF.

26. Bangladesh continues to import a wide range of capital goods, raw materials and food (Table 4). Investment is highly import-intensive, and capital goods imports accounted for nearly 36 per cent of total imports in 1992/93, compared to around 29 per cent in 1987/88. Imports of textiles, an intermediate input for the garment sector, have nearly doubled in relative importance, and accounted for over 20 per cent of total imports in 1992/93. The increase in domestic foodgrain production has led to a steady decline in foodgrain imports, and they accounted for only around 5 per cent of total imports in 1992/93, less than a third of their share in 1987/88. Other significant imports include crude petroleum, petroleum products, edible oil, yarn, fertilisers and cement.

Table 4 - Bangladesh - Merchandise imports by main product categories, 1987/88-1992/93
(Percentage of total merchandise imports)

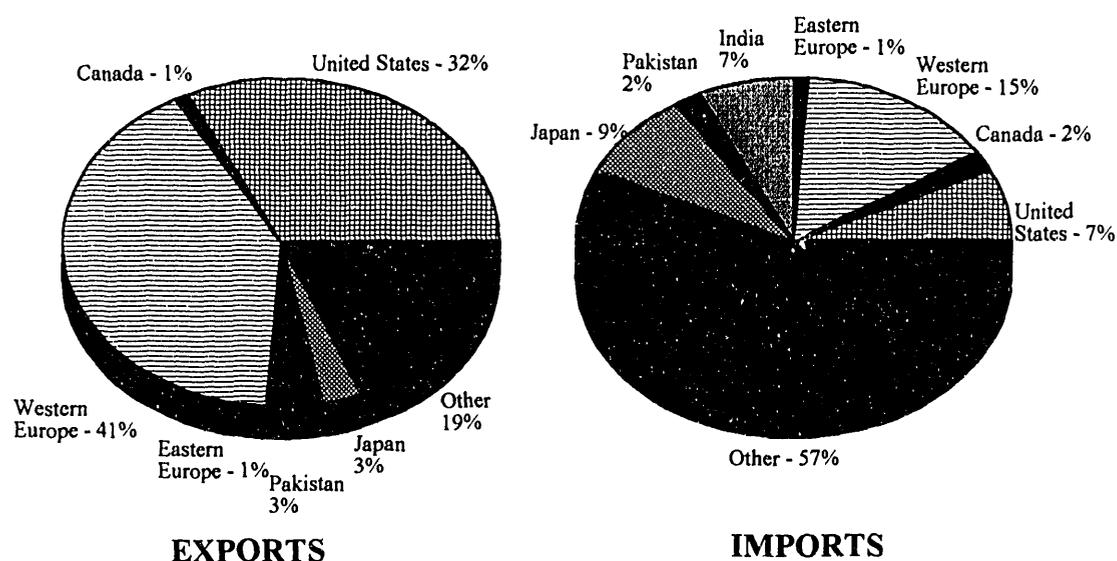
	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93 Estim.
Foodgrains	16.37	11.08	9.07	7.62	7.54	5.09
Edible oil	5.89	5.04	3.94	4.89	4.64	3.77
Oilseeds	1.31	0.33	0.32	0.37	0.26	0.94
Petroleum products	4.49	4.53	4.97	5.80	4.78	4.38
Crude petroleum	4.55	3.79	3.28	6.14	4.33	4.66
Cotton	2.95	2.76	2.30	2.19	2.02	2.11
Staple fiber	0.23	0.27	0.16	0.23	0.60	0.81
Yarn	1.47	1.19	1.43	2.05	2.62	3.64
Fertilizer	1.54	3.20	1.22	2.50	3.33	3.13
Cement	2.24	2.46	2.59	2.93	3.02	2.75
Textiles	10.88	10.46	12.08	11.14	14.57	20.49
Capital goods	28.66	30.31	34.27	34.99	36.68	35.90
Other	19.38	24.56	24.41	19.13	15.62	12.32
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

Source: IMF

Regional pattern of trade

27. The growth in importance of garment exports has led to a corresponding increase in the importance of the United States and the European Union as markets for Bangladesh's exports. Together they accounted for 73 per cent of total exports (Chart 8). The European Union (15 per cent of total imports), Japan (9 per cent) and the United States (7 per cent) are the principal sources of machinery, transport equipment and chemical imports. The United States is also a major source of raw cotton and cereals imports. However, countries like Republic of Korea, Singapore and Hong Kong have grown in importance as sources of textiles imports as a consequences of the relocation of garment production to Bangladesh.

Chart 8 - Bangladesh - Geographical distribution of foreign trade, 1991/92
(In percentage of total)



Source: IMF.