
Committee on Balance-of-Payments Restrictions

1999 CONSULTATIONS WITH BANGLADESH (SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

I. PREVIOUS CONSULTATIONS WITH BANGLADESH

1. Starting in 1973, the GATT Committee on Balance-of-Payments Restrictions held eleven simplified consultations with Bangladesh. In 1997, the first simplified consultations were held with Bangladesh in the WTO Committee. At that time, the Committee "determined that full consultations would be desirable as a means of clarifying the balance-of-payments situation and promoting greater transparency....before May 1999".¹ In September 1998, Bangladesh requested a postponement of the full consultations citing the damage caused by unprecedented flooding in the country.² The Committee agreed to this request but decided to consult under simplified procedures in the interim.³

II. TRADE AND ECONOMIC DEVELOPMENTS

2. In line with its plan to progressively lower the maximum tariff, under the current Budget, a new tariff structure was introduced, lowering the maximum tariff from 42.5 to 40 and reducing the number of tariff bands to six.⁴ The 1998-2002 Import Policy Order removed quantitative restrictions on fertilizers, some pharmaceutical products and certain petroleum products but made no changes to the list of imports (mainly food and textiles) restricted or banned for "trade" reasons.⁵ Export bans or restrictions remain on various agricultural and manufactured goods.

3. In 1997/1998, real GDP grew by 5.1%, led by exports, of which the large majority (72%) is garments and knitwear. Severe floods between July and September of 1998 have caused considerable hardship to the population, seriously damaging infrastructure and crop production and weakening economic prospects. Output will be lower and inflation higher this year: GDP growth is expected to fall to 3.8% in the 1998/1999 fiscal year and consumer price inflation to be 7.6% at fiscal year-end. The budget deficit to widen to 4.6% of GDP.

4. Direct damage caused by the floods has been estimated at as much as US\$1.2 billion. In addition, there are the opportunity costs of lost production and exports. In response, the Government introduced a revised macroeconomic framework, reorienting development expenditures towards relief and rehabilitation. It also introduced a package of fiscal measures, including a 4% temporary surcharge on all goods. Longer-term reform measures include the strengthening of customs administration (where problems of governance exist) and the paring down of exemptions and incentives in the tax system.

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¹ WT/BOP/R/28, 28 May 1997.

² WT/BOP/18, 17 September 1998.

³ WT/BOP/R/42, 16 October 1998.

⁴ In addition to tariffs, impacts on subject to a longstanding Infrastructure Development Surcharge of 2.5%. The six tariff bands include a zero band.

⁵ See Annex I of WT/BOP/G/1.

5. In terms of structural reforms, administered prices have been increased for fertilizers, some petroleum products, electricity and natural gas. A committee has been formed to investigate ways of improving backward and forward linkages to the clothing industry. Protection for the domestic textile sector, including minimum local content requirements, remains high and the country is currently able to meet only very limited amounts of its need for inputs to the clothing sector. Elsewhere, reforms are underway in the banking system, where non-performing loans comprise a significant share of loan portfolios.

6. In spite of considerable trade liberalization in the last several years, trade contributes just 27% to GDP; foreign direct investment (0.5% of GDP) is one of the lowest in Asia. Traditional exports, jute and tea, have remained stagnant for some time whereas in fiscal year 1998, garment and knitwear exports (most of which go to the EU and US under GSP schemes) performed well, helping to narrow the current account deficit to 1.4% of GDP. Foreign direct investment inflows rose and gross official reserves increased marginally, more than US\$1.7 billion at the end of June 1998 (2.5 months of import cover).

7. In the current fiscal year, as a result of the flooding, exports are down and the current account deficit will widen as imports, mostly of food grains and equipment for reconstruction, grow. Devaluations by competitor countries in the region, in response to the Asian crisis, have led to a real effective appreciation of the taka in spite of regular, albeit small, downward adjustments in the nominal exchange rate. With respect to other components of the current account, private transfers are expected to increase modestly. Foreign exchange reserves should remain relatively stable owing to inflows of foreign aid. Flood-related grants and aid have amounted to more than US\$500 million (US\$200 million from the World Bank and US\$138 million from the IMF under emergency assistance). External debt (37% of GDP) is mostly on concessional terms and debt service runs about 8% of current receipts.

BANGLADESH: SELECTED ECONOMIC INDICATIONS
1996/1997-1998/1999e

	1996/1997	1997/1998	1998/1999e
Real GDP (percentage change)	5.3	5.1	3.8
Inflation (annual average)	2.6	7.0	8.0
Fiscal balance/GDP	-4.5	-4.2	-4.7
Exports (US\$ million) of which	4,418	5,172	5,267
garments	2,238	2,844	---
knitwear	763	937	---
Imports (c.i.f.) (US\$ million)	-7,162	-7,604	-8,209
Workers' remittances (US\$ million)	1,475	1,525	1,600
Current account balance (US\$ million)	-918	-606	-1,184
as % of GDP	-2.2	-1.4	-2.7
with grants	-0.4	-0.1	-1.2
Gross official reserves (US\$ million)	1,719	1,733	1,670
in months of imports	2.6	2.5	2.2
External debt/GDP of which	36.6	37.5	37.2
short-term	0.4	0.4	---
Debt service/current receipts	8.7	8.2	8.2
REER: (1990=100)	95.3	107.0	100.4

e = estimated.

Source: IMF