

SOME OBSERVATIONS ON THE MONETARY STRUCTURE, MONETARY POLICY AND STABILIZATION PROBLEMS OF BANGLADESH

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I

Introduction

Although there are controversies around the efficacy of monetary policy in the developed western countries, it is often used as a means to stabilize the economy. The western economies, in general, are characterized by a well-organized and well-developed money market along with the availability of a variety of financial assets issued by both public and private authorities. Developed monetary and financial institutions, however, constitute a necessary but not sufficient condition for the successful operation of monetary policy.¹

As opposed to the western world, Bangladesh is well-known as a typical less developed country (LCD) with an ill-organized and poorly developed monetary structure. Under such conditions, the practice of monetary policy in Bangladesh is widely held to produce disappointing results. However, like many other LCD's, Bangladesh has never abandoned practicing monetary policy.

The present paper, in general, is an attempt to analyze and examine some problems and prospects of monetary policy as a means to stabilize the economy of Bangladesh in light of the historical state and current trend of the monetary structure of the country. The core of this paper focused on the political economy perspective of the Bangladesh monetary policy as a struggle to stabilize its currency and international balance of payments vis-a-vis the pressure often exerted by the International Monetary Fund (IMF), the World Bank, and several donor countries.²

II

A Historical Perspective of the Monetary Structure of Bangladesh

Bangladesh was born with a legacy of century-old set-up of financial and monetary institutions. And there has been no fundamental improvement in these institutions over the past several years, since the independence of the country.⁴ Approximately 50 percent⁵ of the gross national product (GNP) of Bangladesh still originates in the non-monetarized⁶ subsistence sector; and its predominant sources are agriculture, small enterprises, household properties and domestic services.

The most distinguishing feature of the subsistence sector of the Bangladesh economy is that a bulk of the output produced is retained for self-consumption. This portion of output is never marketed and transacted for money.⁷

The present monetary structure of Bangladesh is not capable of extracting domestic savings, especially in the remote rural areas. Furthermore, the continuous decline in the value of money gives rise to a panic among the rural poor to hold and use money in their daily economic lives.

The non-monetized sector of the economy typifies its dualistic nature, since it combines some of the characteristics of subsistence and commercialized economic activities. The economic agents in this sector act both like households on the risk-aversion principle and like firms on the profit-maximization principle.⁸

The abject poverty of the majority of the masses makes their life and consumption pattern so simple and limited that

they hardly need to involve in any transaction, particularly of monetary nature. Over and above, people living in remote rural areas, having virtually no access to modern banking facilities, do not feel the urge of developing a savings habit, even though a good savings potential among them does exist. This suggests that the present monetary structure of Bangladesh is not capable of extracting domestic savings, especially in the remote rural areas. Furthermore, the continuous decline in the value of money gives rise to a panic among the rural poor to hold and use money in their daily economic lives. Thus, the above description suggests that the monetary sector is small relative to the size of the economy of Bangladesh.

The other main feature of the monetary sector of Bangladesh is that it is dualistic, being composed of both unorganized and organized segments. The unorga-

nized segment of Bangladesh monetary sector has been in existence since time immemorial. Although it is being dwindled in cities and in some parts of rural areas, it has not disappeared altogether in Bangladesh. It consists of some heterogeneous elements such as indigenous bankers, money-lenders, traders, landlords, brokers and commission agents. Some of them combine money-lending with trade and other activities. The participants in this market are almost completely

outside the control of the central bank. It is indeed very hard to determine the exact size of the unorganized portion of the money market, but it is reasonable to assume that the unorganized segment provides the bulk of the agriculture credit in the remote rural areas of the country. The rate of interest being charged in this market is many-fold higher than that of the organized segment of the money market.

The organized money market includes nationalized commercial banks, private banks including Islami Bank Ltd.,⁹ foreign banks, Grameen Bank¹⁰ and specialized banks and financial institutions. Although the organized segment of the money market of Bangladesh cannot be regarded as developed by Western standard, nevertheless, there has been a steady improvement and expansion in this portion of the monetary sector of Bangladesh.

III

Current Trend in the Monetary Structure of Bangladesh

Soon after independence, the Bangladesh Government resorted to a remarkable expansion in the monetary aggregates such as narrow money (M1)¹¹ and broad money (M2).¹² Table 1 shows that M1 increased at an annual average rate of over 40 percent from 1971 to 1974. Then the rate declined slightly during 1975, and then increased at an average rate of 17 percent per annum thereafter.

It has been observed that M2 grew faster than M1, particularly since the mid 1970s. This implies that people were increasingly putting more money in time deposits. The factor contributing to the increased time deposits was believed to be the upward adjustment of interest rates on such deposits. This adjustment took place in several phases beginning from July of 1974. Table 2 depicts the successive increases in nominal interest rates.

For the first time, in the late 1980s, the nominal interest rate on time deposits of three months and longer duration became higher than the trend rate of inflation.¹⁴

One of the major causes of rapid monetary expansion in Bangladesh was excessive creation of credit by the commercial banks. From 1971 to 1975,

Table 1
Monetary Aggregates in Millions of Taka¹³

Date	Narrow Money (M1)	Broad Money (M2)
December 1971	3333	5460
December 1972	5626	9341
December 1973	6061	11526
December 1974	9269	13423
December 1975	9064	13891
December 1976	10193	16704
December 1977	11927	20808
December 1978	15210	26050
December 1979	17073	31232
December 1980	18651	38639
December 1981	21065	44663
December 1982	23336	52779
December 1983	31634	73896
December 1984	42268	100582
December 1985	45955	114276
December 1986	49996	132790
June 1987	50950*	138648
June 1988	50477	16408
June 1989	54607	19078

*This is a figure for December rather than June.
 Note: Data from 1971-74 are taken from A.R. Khan, *Strategy of Development in Bangladesh*, Table 5.8, p. 117, MacMillan, NY, 1989. The rest are taken from Bangladesh Bank, *Annual Report*, 1988-89, Dhaka, 1989. All the values (entries) refer to the last working days of the respective months.

Table 2
Nominal Interest Rates on Deposits

Deposits	up to 6/74	7/74 to 3/76	4/76 to 4/77	5/77 to 10/80	10/80 to 6/86	Since 7/86
Savings accounts	4.5	6.0	7.0	7.7-7.75	10.0	10.0
3-month fixed deposits	4.5	6.0	7.0	7.0-8.5	12.0	12.0
3-year fixed deposits	6.0	9.25	10.25	10.25	15.0	15.0

Note: Ranges capture only the major rates. Rates for minor purposes such as tea growing are substantially lower and hence fall outside the range. Data collected from A.R. Khan, *Strategy of Development in Bangladesh*, Table 5.9, p. 118, MacMillan, NY, 1989.

i.e., during the Awami League regime, the credit expansion can be primarily attributable to the political pressure. Along with all other major industries, the Awami League government nationalized all commercial banks soon after it was installed in office. The banks being state-owned were forced to make many big loans to politically influential parties mainly due to political pressures rather than business considerations. Over and above, the troubled nationalized manufacturing sector was recklessly borrowing from the nationalized banks, though the state owned industries had not yet proven to be economically viable. This was also

characterised as a political than an economic phenomenon.

After the fall of the Awami League government, the credit continued to expand as is shown in Table 3.

As far as bank credit is concerned, a major shift has taken place in 1982. Up until 1982, public enterprises constituted 40% of the source of demand for bank credit while 60% was coming from the private sector. Between June 1982 and March 1987, the share of public sector came down to as low as 5% while that of the private sector soared up to 95% of the increase in bank credit. The reason for

Table 3
Annual Increases in Bank Credit in Millions of Taka

Year	Total Credit	To Public Sector	To Private Sector
1976	1255.0	719.9	535.1
1977	2161.0	562.5	1598.8
1978	3358.7	1111.8	2246.9
1979	3565.8	90.7	3475.1
1980	7180.7	4503.9	2676.8
1981	7607.5	1905.2	5702.3
1982	9124.0	4539.3	4584.7
1983	7836.0	272.1	7561.9
1984	15385.0	-2080.0	17467.0
1985	23734.9	3159.9	20575.0
1986	19655.3	3553.8	16101.5
1987	17886.0	3422.5	14463.5
1988	21710.5	3575.0	18135.5
1989	23563.1	3634.3	19928.8

Note: Up to 1986, data are taken from A.R. Khan *The Strategy of Development in Bangladesh*, Table 5.10, p. 119, MacMillan, NY, 1989. From 1986 to 1989, data are taken from *Bangladesh Bank Bulletin*, July-Sept. 1989, Dhaka.

this dramatic increase in private demand for credit was attributable to the growing agricultural and manufacturing industries. Practically, demand for private agricultural credit started to increase even earlier than 1982, both the introduction of the government policy of promoting the private ownership of irrigation equipment in the mid 1970s. For the manufacturing industries the demand for agricultural credit was growing rapidly following the institution of the New Industrial Policy and accelerated privatization in 1982.

During the period of 1982-86, the demand for credit from private manufacturing industries increased at an annual rate of 46 per cent per annum in nominal terms. Credit was extended almost at the same rate to the private trade and commerce. Since 1982, these three sources—such as agriculture, industries and commerce, taken together claimed 88 per cent of the increase in credit extended to the private sector.

Along with the manufacturing industries, the banking sector of the economy were also privatized at the same time. Although, privatization is a concept more compatible with developed economies than those of the LDCs, yet the privatization initiative of Bangladesh Government was widely appreciated and encouraged by the donor countries and institu-

tions as well. Hamming and Monsoor,¹⁵ studies the World Bank supported privatization efforts of 15 LDCs, including Bangladesh. In this study, they remarked that Bangladesh is one of the two countries out of this group of 15, where a large scale sale of public enterprises took place during the early phase of privatization initiative. However, there is controversy around the overall success of this program in Bangladesh. Khan & Hossain¹⁶ argued that the nationalization program of the early 1970s did not in fact represent socialization. They further said:

The operation of the nationalized industries was driven by the objective of appropriating their surplus for the enrichment of private individuals. Thus a comparison of the performance of the nationalized industries with that of the private sector proves nothing about the relative merits and demerits of the two alternative systems. Furthermore, available evidence suggests that the big private entrepreneurs in industry and agriculture who became the beneficiaries of the program of privatization have not performed significantly better so far. Once the massive defaults on the repayment of loans are taken into account, the cost to the society of financing the acquisition by the private sector of these formerly state-owned assets becomes apparent.

(A.R. Khan and M. Hossain: 1989; p.81).

As far as the banks and financial institutions are concerned, privatization poses a different problem. One of the primary objectives of the privatization was to promote the growth of industries and agriculture. But evidence up until 1990 suggests that private bankers were more inclined towards granting credit to trade and commerce rather than industries. An owner of a private bank apprised the author that the overall socio-economic atmosphere, consisting of political instability, rampant corruption and nepotism, turbulent labour force and insufficient infrastructure etc., is not yet congenial for the growth and development of manufacturing industries. Therefore, by extending loans to potential industrialists, the private bankers do not want to take any risk.

Furthermore, in order to show the government that their credit disbursement is balanced between commerce and manufacturing, the private banks mostly issue industrial credit to their own directors (owners). In order to stop this practice, the government in the middle of 1990 issued regulation limiting the ability of private bank to extend credit to their own directors. Thus a premature privatization is not really a substitute for mis-managed public sector.

While the policy of promoting private industrialist class ended in failure as described above, small-scale producers in agriculture and small business driven by their desperate economic and social conditions have made a significant progress toward better standard of living. These small enterprises receive hardly any credit or assistance from the traditional financial institutions—public or private. Their only source of support and inspiration is a newly emerging specialized and non-traditional financial institution called the Grameen (rural) Bank.

Grameen Bank is a unique exception to the management problems of Bangladesh banks. It first originated as an experimental project in August of 1976 to test the hypothesis that if the poor people are provided with easy access to the sources of credit, they can generate productive self-employment by themselves. Based on the success of this pilot

project, in late 1983 Grameen Bank emerged as an independent bank by a government order. The recipients of credits from Grameen Bank are exclusively the landless and other very poor people of rural and urban slum areas. The potential recipients of Grameen Bank credit must form groups of five of roughly equal economic and social status. These groups elect their own leaders and maintain group discipline through peer pressure. They obtain credit based on group liability instead of any collateral. Collective rural enterprises can also borrow capital from Grameen Bank for investment in tube-wells, rice or oil mills, power looms and for leasing land for joint cultivation.

As of January 1991, Grameen Bank has been operating 808 branches covering as many as 19,984 villages. Since its inception, until June 1989, Grameen Bank disbursed in total Tk. 9681.71 million.

In addition to providing credit, the Grameen Bank has been building a rigorous savings habit among its borrowers. The total savings in the Group Fund of the member borrowers of the bank, as of January 1991, is Tk 665.85 million. The Grameen Bank has been playing an exceptionally dynamic role in extending credit to the poor, generating rural savings and increasing employment and income in the country.

In line with the privatization initiative, the Zia government for the first time opened Dhaka Stock Exchange in the early 1980s. Like many other LDCs, stock market in Bangladesh is one of the least developed part of the country's monetary structure.

As of 1988-89, the number of companies listed with the Dhaka Stock Exchange was 102. Besides, 6 Mutual Funds and 4 Debentures were enlisted too—with a total issued capital of Tk. 230 million.

During the year 1988-89, 1.667 million shares and debentures were traded, valued at Tk. 154.4 million. This was 54.6 percent higher in number and 37.7 percent higher in value of shares over the preceding year.

A recent survey of Bangladesh Bank suggests that in all 12 companies offered new shares worth Tk. 152.8 million for public subscription during 1988-89 which was 61.7 percent lower as compared to

the shares worth Tk. 398.4 million offered by 17 companies¹⁷ in 1987-88.

IV

Objective of Monetary Policy in Bangladesh

Traditionally, the role of monetary policy in LDCs, where money market has not developed, is limited to maintaining international balance of payments rather than dealing with stabilization problems.¹⁸ The balance-of-payments problems can be successfully dealt with by maintaining a certain relationship between the domestic price and that of the rest of the world. This, in turn, can be achieved with any exchange rate by making appropriate adjustment in the domestic price (i.e. money stock) or with any price level by making appropriate adjustment with the exchange rates.

However, under the fixed exchange rate regime, the monetary policy, in the long run, is conducted in a way so as to conform the domestic price with the world price on the one hand, and on the other hand to ensure the defense of the foreign reserve holding; hence, the ability to maintain the exchange rate. Even under the flexible exchange rate regime, the demand management role of monetary policy is extremely limited in LDCs.¹⁹ In line with this argument, since independence, the Bangladesh monetary policy has been aiming at preserving and protecting the international value of taka. But due to continued deficit in the balance of payments, with the exception of 1978, the taka's value relative to the U.S. dollar declined every year since 1971 (the year of independence).²⁰

In order to ease this situation, Bangladesh first used the compensatory financial facility from the IMF in fiscal year 1974. IMF, from the very beginning was insisting upon the government of Bangladesh to devalue taka, but the government was reluctant to agree with the IMF's suggestion. However, in 1975, the government had to concede to the IMF and declared a 56 percent devaluation of taka.

In the international market of foreign exchange, persistent deterioration in Bangladesh's balance of payments caused taka to decline further against the U.S. dollar during the early 1980s. Between 1985 and 1987, the taka was adjusted in frequent incremental steps, stabilizing

again around 12 percent lower in real terms against the U.S. dollar, but at the same time narrowing the difference between the official rate and preferential secondary rate from 15 percent to 75 percent. By mid 1987, the official value of taka was relatively stable, being exchanged at a rate of 31 for each U.S. dollar.

But IMF, under the structural adjustment facility (SAF) scheme, convinced the government of Bangladesh to reduce the value of taka further making one U.S. dollar = 37 taka (approximately). At this stage, the difference between the official and market rates of taka virtually diminishes to zero.

V

Causes of the Balance of Payments Crisis in Bangladesh: A Structuralist View

The experience suggests that the exchange rate policies have clearly failed to stabilize the balance of payments of Bangladesh. The perpetual crisis in the international balance of payments, according to the structuralist school,²¹ is caused, in general, by the rigidities of demand and supply in various factor and product markets of the foreign sector. More specifically, the structuralists hold that Bangladesh, being predominately a producer of primary goods, often suffers from fluctuations in its exports for periodic cycles of economic depression, followed immediately (or perhaps with a lag) by inflationary pressures. Deflationary policies (when adopted to control inflation) almost inevitably slow down economic growth, resulting in reduced exports and thus worsen the balance-of-payments situation.

Contrary to the deficit in the foreign demand may be offset (at least temporarily) by expanding domestic credit. But it is eventually likely to result in a further imbalance in the balance of payments, as imports accentuate with the pace of increased domestic demand.

Such micro-economic imbalances are often addressed by tightening monetary policy. However, in Bangladesh, according to the structuralist school, government would find it more costly to control the money supply than would their trade counterparts in the western world.

In the pursuit of a tight monetary policy, Bangladesh may enforce a higher reserve requirement upon banks or induce the banking system to hold more government securities. In a small and poor financial market, this would trigger a bigger rise in interest rate in Bangladesh than would be the case in its western counterpart. This situation, on the one hand, would prompt the private borrowers to reduce their demand for credit and hence investment, and on the other hand, would inflict financial distress on the private enterprises, and hence weaken the already fragile banking system of the country.

Administered interest rate policy, in such situations, is sometimes suggested to counteract the repressive pressures, but this may often lead to credit rationing and flight of capital out of the country.²² Thus, for Bangladesh, monetary adjustment does not seem to be a viable policy for stabilizing the economy.

Exchange rate policy, on its own, is also unlikely to be successful at stabilization. Public deficits often result in real exchange rate overvaluation, because the additional pressure on domestic demand drives up wages and prices.

Tight monetary policies reinforce this tendency by raising domestic interest rates and attracting capital inflows. Devaluations on the currency without an accompanying fiscal correction will eventually be offset by increases in domestic prices and affect the real exchange rate only temporarily. Equally, when wages and domestic prices do not fall readily in nominal terms, a fiscal contraction without a nominal devaluation is also unlikely to change the real exchange rate.

VI

Stabilization Experiences with the Structural Adjustment Facility (SAF) Scheme

In support of the structuralist's approach, the IMF suggested the government of Bangladesh to embark upon a medium-term comprehensive structural adjustment plan in order to ease its balance of payment difficulties. Accordingly, immediately after launching its second five-year plan (1980-85), Bangladesh was virtually forced to accept the IMF-sponsored structural adjustment facility (SAF) scheme. The background

and objective of the SAF program was as follows:

"... The economy of Bangladesh experienced a sharp decline in export earnings, a massive deterioration in the terms of trade (by over 30% in 1980/82 and 1981/82), and declining flows of external aid. To this was added a series of natural disasters—flood, drought and cyclones. Faced with unsustainable external and budget deficits, Bangladesh began a comprehensive adjustment program in mid-1983 with the support of the World Bank and the IMF: this was aimed at achieving significant progress towards balance of payments viability by addressing structural and sectoral problems, and at the same time achieving and maintaining a satisfactory rate of economic growth."²³

Under the SAF plan, the IMF prepares policy framework papers (PFP) which set out the medium term objectives of the policies and priorities of Bangladesh. This was a tripartite effort involving the IMF, the World Bank and the Bangladesh government.

Initially, the SAF plan proved to be quite successful in reducing the balance of payments and fiscal deficits of Bangladesh. In addition, it was found to be very effective in keeping the inflationary pressure down. These positive outcomes, in turn, resulted in sustained growth with maintained provision of social welfare.

The budget deficit, which was 9-11 percent of the gross domestic product (GDP) in the early 1980s, reduced to 8 percent in 1986-87 fiscal year.²⁴ Similarly, the current account deficit of the balance of payments was reduced from 10-12 percent to barely 6 percent of the GDP. This was achieved through tough demand management measures, exchange control, import restriction and rapid export promotion of non-traditional nature such as garments, shrimps and remittances from Bangladeshi workers abroad. The rate of inflation came down to 10 percent. GDP grew at a rate of 4 percent per annum. This rate, though higher than the growth rate of population, was well below the underlying growth potential of the economy. This rate of GDP growth was also lower than the rates of growth achieved earlier.

On the negative side, the SAF plan, which was earlier assumed to be tempo-

rary and transitional and likely to be supported by adequate flows of foreign capital, failed to achieve the target of poverty alleviation and development of human capital. Under the SAF scheme, the contractionary demand management policies put some adverse effects on the household sector. Furthermore, it caused deterioration of infrastructure and physical facilities due to inadequate budget for maintenance. This was an effect of misallocation of resources under SAF scheme. The misallocation effect also caused a decline in the offtake of fertilizer and use of irrigation equipment, following price adjustments and the imposition or restrictions on agricultural credit. The deflationary capacity of the economy was stimulated to its full potential, and the setback to human resource development have diminished long-term growth potential of the country.²⁵

One reason for this gloomy outcome of the SAF scheme was that the inflow of financial resource, specially concessional, was far below the expected level. There has been no evidence whatsoever that the SAF plan was supported by an overall transfer of additional resources. Moreover, the quality of assistance deteriorated over the adjustment years.

The share of grants in the total aid receipts fell from 53 percent in 1979-80 to 41 percent in 1986-87. As a result, outflows increased substantially for debt service payments from \$85 million in 1980-81 to \$232 million in 1986 (or to \$3,845 million including short term),²⁶ even though Bangladesh did not undertake major external borrowing like some other developing countries.²⁷

VII

The Recent Trend in Stabilization Effort

In the fiscal year of 1989-90, although the Bangladesh economy grew at a rate of 5 percent, largely the result of sharp rebound in foodgrain production, fiscal and other macroeconomic reforms were important issues for the government. The problems that require urgent attention of the government are continuing decline in development expenditure, acceleration of inflation and an alarming depletion of foreign currency reserves.

The reason for reduced development spending is the shortfall of budgeted

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revenue coupled with continued rapid growth of current expenditures and heavy deficits in food operations. In the foreign sector, the stagnation of exports, a rapid rise in import demand, decline in the remittance of workers from the Middle East caused a rapid decline in the foreign exchange reserve. This stood at the equivalent of one and one half months of imports by the end of December 1989 – down from the equivalent of four months of imports in February 1989. The government has adopted many important measures to address these pressing issues of domestic and foreign sectors of the Bangladesh economy. The measures include the devaluation of taka, liberalization of the rules regulating the import and distribution of agricultural imports, the introduction of value-added tax to take effect from January 1, 1991, and measures to restrain public expenditures.

The problem of stability of Bangladesh economy is reduced to be in a mess following the crisis and the subsequent outbreak of the war in the Gulf. Bangladesh has lost one of its major sources of foreign currency earnings from the workers in Kuwait and Iraq.²⁸ Recently, the Kuwaiti government has agreed to rehabilitate Bangladeshi workers with pre-war jobs.

VIII

Conclusion

The success of monetary policy in Bangladesh is limited not only by the structural rigidity of the economy but also by the poor and undeveloped monetary system of the economy. As expected, the stabilization performance of monetary policy in Bangladesh has been historically poor.

Through her own experience, and the insistence of the donor countries²⁹ and international institutions, Bangladesh switched its policy of socialism and increasingly started to encourage the development of the private sector. The government is also liberal in accommodating the exchange rate as warranted by the balance of payments situation.

In ensuring its external and internal balance, recently Bangladesh has been leaning towards the recommendation of the structuralist school. Apart from its minor shortcomings, the recent implementation of IMF-sponsored structural adjustment facility plan at least earned the

confidence of the donors that the economy is viable and has the potential to grow.

In a poor and structurally rigid economy like that of Bangladesh, the policy options are indeed very limited. However, import substitution would be a necessary policy to balance the external sector in the long run and regulate the domestic sector for foreign shocks in the short run.

For a similar reason, industrialization is a vital need for the economy. The economy's dependence on inelastic foreign demand for exports of primary exports from Bangladesh must be reduced as it has a direct effect on the economy from fluctuation in agricultural output caused by adverse weather. Monetary policy can hardly do anything to overcome the agricultural cycles and deteriorating terms of trade for agricultural products. Quite often, due to crop failure, large scale import of foodstuff becomes necessary, putting a heavy pressure on the capacity for adjustment of the foreign sector. This again justifies the importance of a rigorous import substitution policy.

The skewed distribution of income and increasing number of landless in Bangladesh are often held to be the sources of social and political instability which, in turn, jeopardize the congenial atmosphere for investment, growth and development. In the rural areas, increased poverty is driving people out of land at an alarming rate. This group of people is substantial. They should be provided access to credit and employment. Grameen Bank is playing a dynamic role in this regard.³⁰

In the urban areas, there is a very high degree of concentration of capital in the hands of a few capitalists. Unfortunately, these are mainly in trade and not making productive investment.³¹ This class of capital must be properly encouraged to make investment in both import substituting and export-promoting sectors of the economy. Irresponsible increase in government expenditures resulting in budget deficits, inefficient government machineries, wastage of public funds, widespread corruption and nepotism in administering the government projects are held to cause, at least to some extent, the destabilization of the economy. Government's anti-corruption machinery must be geared up to its full capacity to

substantially reduce the abuse of public resources.

In addition, further efforts are clearly necessary to improve the macroeconomic situation, improve external competitiveness, and ensure the more effective utilization of aid resources.

To sum up, without a concerted effort to defuse and absorb shocks emanating from structural sources, Bangladesh can hardly achieve economic stability. Even if it can achieve stability, it will be more difficult to maintain it because of the complexities of the policies needed to cope with structural shifts.

Notes

1. In order to evaluate the success and failure of monetary policy in Bangladesh, one must be aware of the fact that monetary policy has been carried out in Bangladesh under a rudimentary monetary structure.
2. It should be noted that the development projects of Bangladesh are funded primarily by the contributions from IMF, World Bank, and some donor countries of the West.
3. The structural adjustment facility (SAF) is a tripartite venture of IMF, World Bank and the country in question. Under this venture, LDC'S are eligible to receive assistance from IMF and World Bank through the preparation of policy framework papers (PFP). PFP sets out a medium term (usually for a three-year period) objective of the country's policies and priorities. Bangladesh enjoyed SAF for three years from 1985-86 fiscal year.
4. Bangladesh became independent in December 16, 1971, after fighting a bloody war (for nine months) against Pakistan (the then West Pakistan).
5. Bureau of Bangladesh Statistics, *Statistical Pocketbook of Bangladesh*. 1990.
6. It does not necessarily mean that no monetarized input is used in the production process or that no part of output is sold for money. The share of the total output exchange for money relative to that of home consumption is very little.
7. Products like foodgrains, domestically grown fruits and vegetables, poultry, livestock, seeds being used from previous harvest, locally grown raw materials for constructing dwelling houses and agricultural tools and appliances, etc., fall in this category.
8. The combination of these two makes it difficult for the policy-makers to deal with this situation.
9. Islami Bank considers deposit holders as

- equity holders and conducts business on the basis of profit and loss sharing rather than on interest.
10. Grameen Bank is a specialised financial institution designed and developed to provide credits exclusively to the poor people living in both rural and urban areas.
 11. Narrow money (M1) is defined as currency in circulation and demand deposits.
 12. Broad money (M2) includes M1 and time or fixed deposits.
 13. Taka is the name of the local currency of Bangladesh. At present its exchange rate is TK 40 = 1 U.S. \$.
 14. In October 1980, Bangladesh Bank set the nominal rates of interest on 3 month and 3 year fixed deposits at 12 percent and 15 percent respectively, while the inflation rate was slightly below 12 percent per annum.
 15. For details, see R. Hamming and A.M. Monsoor, "Is Privatization the Answer?", in *Finance and Development*, IMF, Washington, DC, Sept. 1988, p. 32.
 16. For details, see A.R. Khan and M. Hossain (1989), *The Strategy of Development in Bangladesh*, MacMillan, NY, p. 180.
 17. This includes 5 companies whose applications for enlistment were under consideration in 1987-88.
 18. Coats and Khatkate (1983), "Monetary Policy in Less Developed Countries: Survey of Issues and Evidence," in Coats and Khatkate (et al) *Money and Monetary Policies in Less Developed Countries: Survey of Issues and Evidence*, Pergamon Press, NY, pp. 3-33.
 19. *Ibid.*, pp. 3-33.
 20. J. Heitzman and R.L. Worden (1983), et al, *Bangladesh: A Country Study*, Federal Research Division of the Library of Congress, Washington DC, p. 99-148.
 21. Structuralism is a school of thought in development economics. Members of this school in explaining the growth stagnation of LDCs do emphasize upon supply inelasticities, infrastructural bottlenecks and instability of export earnings, Among others, Paul Rosenstein Rodan, Ragnar Nurkse, W. Arthur Lewis, Paul Prebisch, Hans Singer and Gunnar Myrdal are the leading members of this school.
 22. Flight of capital already poses a serious threat to the economy of Bangladesh.
 23. The United Nations Conference on Trade and Development, (1988). *The Least Developed Countries 1988 Report*, NY, p. 12.
 24. In Bangladesh, the fiscal year runs from July 1 to June 30.
 25. In the long term, Bangladesh, which is very poor in physical capital, heavily depends on its human capital for economic growth and development.
 26. But excluding IMF purchases (= repayments).
 27. Like Mexico, Argentina and Brazil.
 28. Bangladesh used to earn about \$ 300 million foreign currency from workers' remittances every year.
 29. The development projects of Bangladesh are overwhelmingly supported by grants and loans from Western governments and international institutions.
 30. For details, see J. Heitzman and R.L. Worden (1988) et al, *Bangladesh: A Country Study*, Federal Research Division of the Library of Congress, pp. 99-148.
 31. Some of them have made small-scale investment in garment industries.