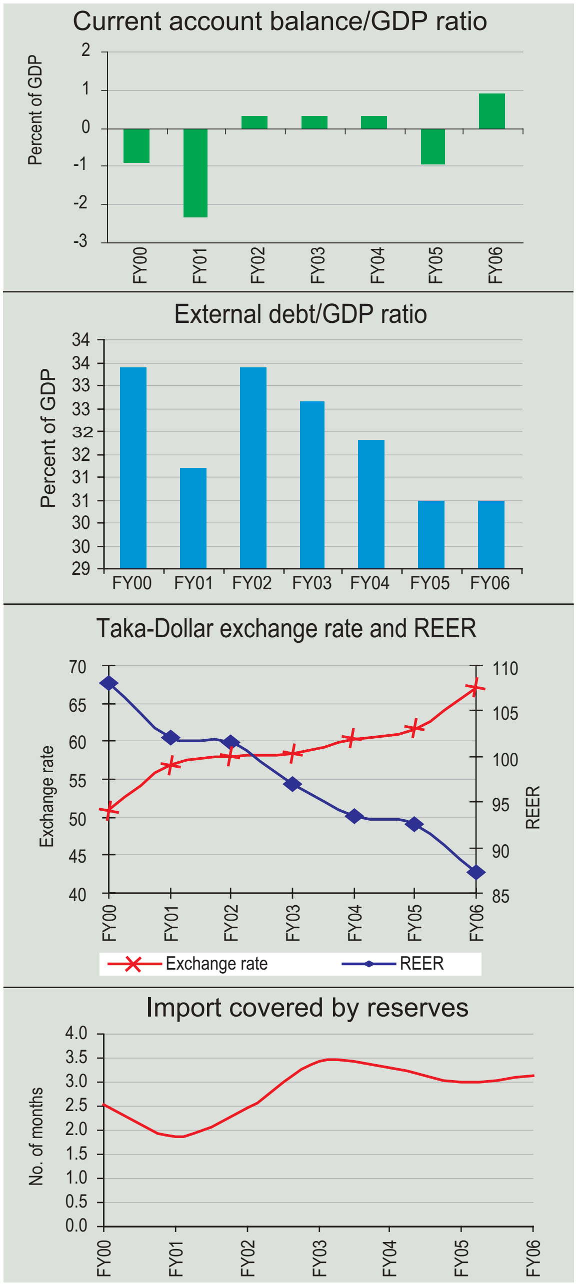
External Sector

9.1 During FY06, the external sector underwent a turnaround from a deficit to a surplus in the current account of the balance of payments. This outcome was largely underwritten by a robust growth in exports and workers' remittances and a fairly sharp fall in the growth rate of imports, despite higher global oil prices.

The exchange rate of Bangladesh Taka *vis-à-vis* US Dollar came under pressure throughout most of the year, to taper off somewhat towards the closing months. It appears that leveling of import demand due to tight monetary policy is finally impacting on the exchange rate. Taka depreciated by 8.6 percent during FY06.

Trends of some major external sector indicators may be seen in Chart 9.1.

Chart 9.1 Key indicators of external sector



External Trade and the Balance of Payments – the Overall Situation

9.2 Merchandise exports (fob) increased by USD 1849.0 million (or 21.6 percent) to USD 10422 million in FY06. Except for tea (which recorded a decline of about 25 percent) and fertilizer, all other major exportables increased significantly. The export of woven garments, which had increased marginally in FY05, witnessed a sharp rise of 13.5 percent in FY06. Knitwear products continued to increase at a fast pace of about 35.0 percent. Growth of raw jute, jute goods, leather, frozen foods and terry towels depicted an increasing trend. The export of miscellaneous products, subsumed under the "others" category showed a high growth of 25.8 percent in value terms during FY06. As a percentage of GDP, exports increased from 14.2 percent in FY05 to 16.8 percent in FY06.

9.3 Merchandise imports (fob) increased by USD 1431 million (or 12.1 percent) to USD 13301 million in FY06. Increased demands and international prices induced rising imports for such products as oil (both crude and refined), clinker, pharmaceutical products, raw cotton, yarn, iron, steel and other base metal, and capital machinery. On the other hand, imports of food grains, milk and cream, spices, and sugar declined markedly. Imports as a percentage of GDP increased from 19.7 percent in FY05 to 21.4 percent in FY06.

9.4 The balance of trade improved as exports posted a higher rate of growth than that of imports. The trade deficit in FY06 stood at USD 2879 million against the corresponding figure of USD 3297 million in FY05. The deficit on the services account, however, widened to USD 1110 million in FY06 from USD 870 million in the previous year as payments increased relatively more than receipts. The deficit on the income account also rose to USD 786 million in FY06 against USD 680 million in FY05 for the same reason. Current transfers increased substantially from USD 4290 million in FY05 to USD 5347 million in FY06, thanks to a hefty 25 percent rise in workers' remittances. The net outcome of all these developments resulted in a reversal of the current account balance from a deficit of USD 557 million in FY05 to a surplus of USD 572 million in FY06. Current account balances as a percentage of GDP stood at 0.92 in FY06 against -0.92 in FY05.

9.5 The transformation of the large deficit on the current account in FY05 to an equally large surplus on this account in FY06 led to an increase in surplus in the overall balance from a modest USD 67 million in FY05 to USD 365 million in FY06, despite large net outflow in trade credit and short-term loans (related to oil imports). Table XVI at Appendix-2 of this *Report* shows the balance of payments statement for FY06 and FY05. Chart 9.2 portrays the trends of trade, current account and overall balances as a percentage of GDP in recent years.

9.6 As a potential source of foreign exchange reserves, foreign direct investment (FDI) has

Chart 9.2

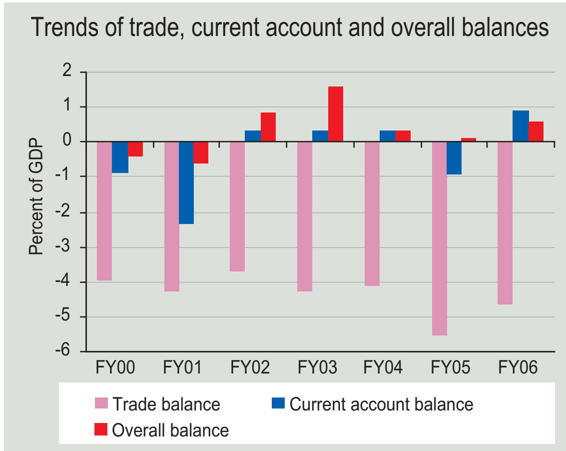


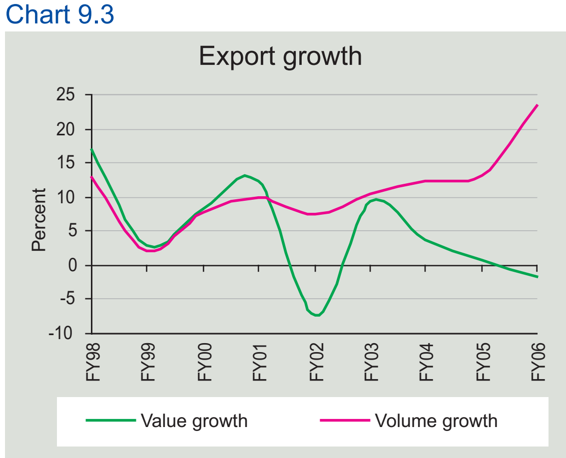
Table 9.1 Composition of merchandise exports

(million US Dollar)

Items	FY05	FY06	% change
1) Raw jute	96.2	148.3	54.2
2) Jute goods	307.5	361.0	17.4
3) Tea	15.8	11.9	-24.7
4) Leather	220.9	257.3	16.5
5) Frozen shrimps and fish	420.7	459.5	9.2
6) Woven garments	3598.2	4083.8	13.5
7) Knitwear products	2819.5	3817.0	35.4
8) Fertilizer	130.3	124.1	-4.8
9) Terry towels	64.8	80.2	23.8
10) Others	980.6	1183.2	20.7
Total:	**8654.5**	**10526.3**	21.6

Source : Export Promotion Bureau.

Chart 9.3



been emphasized more by the Government. FDI flows decreased by 15.6 percent in FY06 to USD 675.0 million from USD 800.0 million in FY05.

Exports

9.7 Table 9.1 and Chart 9.3 show that total exports in FY06 had a significant growth over FY05. Aggregate exports increased by 21.6 percent in FY06 to USD 10526.3 million from USD 8654.5 million of FY05. Apparels (woven garments and knitwear products) continued to occupy an overwhelming (three fourths) share of the export basket in FY06.

Destination

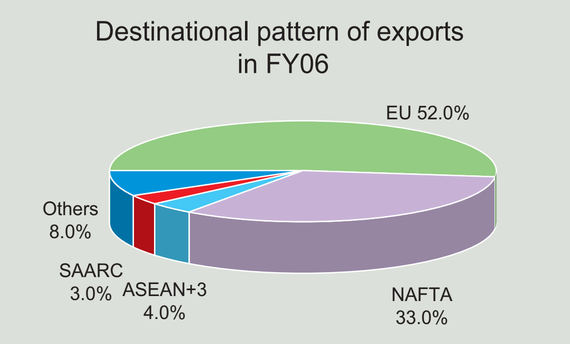
9.8 The destinational pattern of exports in FY06 showed continued heavy dependence on the markets in Europe and North America. Fifty two percent of exports were destined for the EU bloc while another 33.0 percent entered into the NAFTA bloc. Export to the ASEAN+3 (i.e. the ASEAN bloc, China, Japan and South Korea) countries, SAARC and other regions constituted 4.0 percent, 3.0 percent and 8.0 percent respectively of total exports in FY06 (Chart 9.4).

Composition

9.9 **Readymade garments** (woven and knitwear): Woven products, which fetch about 51.7 percent of total export earnings of the apparels sector, registered a high increase in receipts, from USD 3598.2 million of FY05 to USD 4083.8 million in FY06, reflecting mainly increased shipment in the face of continued depressed level of unit price. Knitwear products showed a significant growth, fetching USD 3817.0 million in FY06 compared with USD 2819.5 million earned in FY05 due mainly to 37.4 percent increase in the volume of knitwear exports. The high growth in RMG exports in the post-MFA era shows the competitive strength of the sector (Box 9.1)

9.10 **Frozen food**: The frozen foods sector, comprising principally of shrimps, marked a sharp increase in earnings during FY06. Receipts from export of shrimp and fish increased by 9.2 percent, from USD 420.7 million of FY05 to USD 459.5 million in FY06, driven by a 12.9 percent rise in export volume whereas there was a 2.0 percent decrease in the unit price of shrimp.

Chart 9.4



9.11 **Raw jute**: In FY06, 3.41 million bales of raw jute valued at USD 148.3 million were exported against 2.27 million bales valued at USD 96.2 million in FY05. Both average unit price and volume of raw jute increased by 2.4 percent and 47.8 percent respectively in FY06 compared to FY05.

9.12 **Jute goods**: Export earnings from jute goods registered an increase of 17.4 percent in FY06 due to 7.8 percent increase in average unit price and 9.0 percent increase in volume. About 0.61 million metric tons of jute products valued at USD 361.0 million were exported in FY06, against 0.56 million metric tons valued at USD 307.5 million exported in FY05.

9.13 **Leather**: Export earnings from leather registered a significant increase of 16.5 percent in FY06. In FY06, 76.6 million sft. of leather valued at USD 257.3 million were exported against the export of 59.7 million sft. valued at USD 220.9 million in FY05. The average unit price of leather decreased by 8.1 percent in FY06 over FY05.

9.14 **Tea**: In FY06, 8.7 million kilograms of tea valued at USD 11.9 million were exported against 11.1 million kilograms valued at USD 15.8 million in FY05. The volume of exports of tea decreased by 21.6 percent and average unit price remained unchanged.

Box 9.1

Impact of Termination of the Multi-Fibre Arrangement (MFA) on the RMG sector in Bangladesh

Success in the context for global trade is vital to Bangladesh's economic growth prospects and its hopes of meeting the MDG of halving poverty by 2015. As global competition in the readymade garments (RMG) industry heats up, Bangladesh cannot remain seated in the sideline. Presently, about three-fourths of Bangladesh's export earnings come from the RMG sector (knitwear and woven) of which about 81 percent are destined for the US and the EU markets. The export earnings from apparel sector, as percentage of GDP was 12.74 in FY06. The RMG sector along with the accessories industry is the biggest source of industrial jobs; it provides direct employment for over 2 million workers, mostly women. Moreover, RMG export is the major source of foreign exchange earnings of the country (Table-1).

Bangladesh is a major player in the global RMG export market. Under the Multi-Fibre Arrangement, textiles and garment quotas were finally terminated (effective from January 1, 2005) in accordance with the WTO Agreement on Textiles and Clothing (ATC) in 1994. Although the termination of the MFA is predicted to result in an increase in global trade, the impact is likely to differ among countries and regions. For each individual country, quota-free market environment represents both an opportunity and a threat. Under the MFA, some large exporting countries have gained, while some small countries have lost. Bangladesh is a small country which has been able to retain her market share after MFA phase out.

Table-1 Bangladesh's RMG exports and its growth

	RMG				Total RMG in Value	Share of RMG in total exports	Exports growth	RMG growth in value		
	Woven		Knitwear							
Year	Volume (million Dozen)	Value (million USD)	Volume (million Dozen)	Value (million USD)				Woven	Knitwear	Total
FY00	66.64	3082.56	45.30	1269.83	4352.39	75.66	8.27	3.28	22.65	8.27
FY01	71.50	3364.20	52.50	1496.36	4860.56	75.16	12.43	9.14	17.84	11.68
FY02	77.10	3124.56	63.40	1459.24	4583.80	76.57	-7.44	-7.12	-2.48	-5.69
FY03	82.84	3258.27	69.20	1653.83	4912.10	75.01	9.39	4.28	13.34	7.16
FY04	90.49	3538.07	91.60	2148.02	5686.09	74.79	16.10	8.59	29.88	15.76
FY05	92.26	3598.20	120.10	2819.50	6417.70	74.15	13.83	1.70	31.26	12.87
FY06	108.81	4083.82	165.02	3816.98	7900.80	75.06	21.63	13.50	35.38	23.11

Source : Export Promotion Bureau.

It is revealed from the Table-1 that RMG export growth slowed down from 15.76 percent in FY04 to 12.87 percent in FY05, of which woven exports growth slowed down to 1.70 percent while knitwear export showed robust growth by 31.26 percent. The reason is that the export prices of woven garments declined as suppliers have come under pressures to be more competitive with India and China as well as fulfilling some compliance criteria imposed by the importers (foreign buyers). As a result, Bangladesh's woven exports growth came down from 8.59 percent in FY04 to 1.70 percent in FY05 whereas, knitwear export growth increased to 31.26 percent in FY05 from 29.88 percent in FY04. In FY06, RMG exports increased substantially to 23.11 percent compared with the preceding year.

In the quota free environment, Bangladesh's RMG exports are mainly destined for two markets, the USA market (29 percent) and the EU market (52 percent) in FY06. After MFA phase out, RMG exports from Bangladesh to the US market as well as the EU markets have increased in terms of both volume and value during FY06.

RMG exports from the Asian countries to the US and the EU are shown in Table-2. From the Table, it is seen that the growth rate of Bangladesh's RMG to the US was 18.77 percent, whereas those of China and India were 42.62 percent and 24.56 percent respectively in 2005. In the first half of 2006, the growth rate of Bangladesh's RMG export to the US was 24.80 percent, whereas those of China declined by 3.50 percent and

Box 9.1

Impact of Termination of the Multi-Fibre Arrangement (MFA) on the RMG sector in Bangladesh

Contd.

for India increased by 15.20 percent. On the other hand, the growth rate of Bangladesh's RMG to the EU decreased by 19.16 percent, whereas that of China increased by 25.48 percent and that of India declined by 2.15 percent in 2005. In the first half of 2006, the growth rate of Bangladesh's RMG export to the EU was 35.64 percent, whereas those of China and India were 5.70 percent and 18.42 percent respectively. It means that the MFA phase out has a positive impact on Bangladesh's RMG export than some other Asian countries as the sector improved its competitiveness through enhancing productivity, upgrading human capital, design and marketing skills, rationalizing cost of production, enhancing supply chain management and developing backward linkage industries.

Table-2 The US and the EU imports of textile, textile products & apparels, top 10-Asian countries

(million US Dollar)

	2006 (up to June)		2005		2004	
	US	EU	US	EU	US	EU
1. China	11899.80	12183.35	26017.50	25475.62	18242.20	20302.55
2. India	2957.90	3963.78	5131.10	5918.55	4119.40	6048.41
3. Indonesia	1808.20	1082.55	3069.50	1794.32	2607.10	2388.99
4. Pakistan	1643.30	1374.51	3010.50	2231.99	2656.30	3196.82
5. Vietnam	1584.10	610.85	2793.20	916.63	2637.00	989.73
6. Hong Kong	1431.60	1741.24	3643.10	2123.46	4025.30	2768.28
7. Bangladesh	1404.00	2783.77	2485.70	4283.49	2092.90	5298.44
8. Philippines	988.80	186.35	1911.10	291.39	1900.90	500.10
9. Thailand	1043.10	711.32	2151.30	1399.12	2183.00	1597.04
10. Sri Lanka	846.20	594.17	1704.20	975.61	1606.70	657.06
			Growth in percent*			
1. China	-3.50	5.70	42.62	25.48	22.23	12.34
2. India	15.20	18.42	24.56	-2.15	13.18	5.81
3. Indonesia	18.80	32.84	17.74	-24.89	11.60	1.31
4. Pakistan	19.90	11.65	13.33	-30.18	14.52	10.15
5. Vietnam	30.50	63.66	5.92	-7.39	9.14	24.39
6. Hong Kong	20.50	239.39	-9.49	-23.29	3.59	-1.84
7. Bangladesh	24.80	35.64	18.77	-19.16	6.75	29.48
8. Philippines	18.20	32.66	0.54	-41.74	-3.94	20.72
9. Thailand	2.90	15.27	-1.45	-12.39	7.08	-0.43
10. Sri Lanka	2.40	30.74	6.07	48.48	7.12	-32.79

Source : i) US Department of Commerce, Census Bureau, Foreign Trade Division.
ii) European Commission Trade Statistics and EUROSTAT.
* Growth over the same period.

9.15 **Fertilizer:** Export earnings from fertilizer decreased by 4.8 percent in FY06. In FY06, 0.70 million tons of fertilizer valued at USD 124.1 million were exported against 0.90 million tons valued at USD 130.3 million in FY05.

Export Promotion and Diversification

9.16 Bangladesh has been following a three-year Export Policy (2003-2006) since March 13, 2003, which has been formulated keeping in view the phasing out of the Multi-Fibre Arrangement (MFA). It provides a number of facilities to exporters with a view to fostering export growth and diversification. In the policy export products have been classified as "maximum priority sector" and "special development sectors" which are addressed as potential areas to increase the export income. Software, information and communication technologies, agro-products and agro-processing products, light engineering products (auto parts and bi-cycle), leather products and RMG (in the high value-added spectrum) are listed as maximum priority sectors. The products whose current export base, production and supply are weak but showing potentials for growth in future are categorized as special development sectors.

9.17 In order to facilitate export of the country, Export Development Fund (EDF) is used to provide rediscounting facilities to the scheduled commercial banks in financing the exporters for imports of raw materials, accessories, spare parts and packing materials used in export production. EDF loan facilities have also been extended for financing in the import L/Cs opened against export contract in addition to the existing facilities of back-to-back L/Cs opened against master L/Cs.

Total disbursement from EDF in FY06 stood at USD 172.22 million against USD 216.37 million in FY05, where lion share is provided for RMG exporting. The interest rate on USD under EDF has been refixed at LIBOR+1%.

Imports

9.18 Import payments (fob) during FY06 stood at USD 13301.0 million registering a growth of 12.1 percent compared to USD 11870.0 million in FY05. Increasing consumer and industrial needs raised the import of petroleum and petroleum products. Increased import payment of crude petroleum, iron, steel and other base metal, yarn, clinker, pharmaceutical products, and capital machinery contributed in varying degrees to the rise in aggregate imports during FY06 over FY05 (Table 9.2). In particular, crude petroleum import increased substantially by 72.6 percent to USD 604.0 million in FY06 from USD 350.0 million in FY05. Iron, steel and other base metal import increased by 44.3 percent to USD 980.0 million in FY06 from USD 679.0 million in FY05. Yarn, clinker and pharmaceutical products imports increased by 27.5 percent, 23.5 percent and 22.0 percent to USD 501.0 million, 210.0 million and 50.0 million respectively in FY06 from USD 393.0 million, 170.0 million and 41.0 million in FY05. On the other hand, rice import decreased substantially by 55.3 percent to USD 117.0 million in FY06 from USD 262.0 million in FY05 due mainly to higher production of Aman and Boro. Similarly,

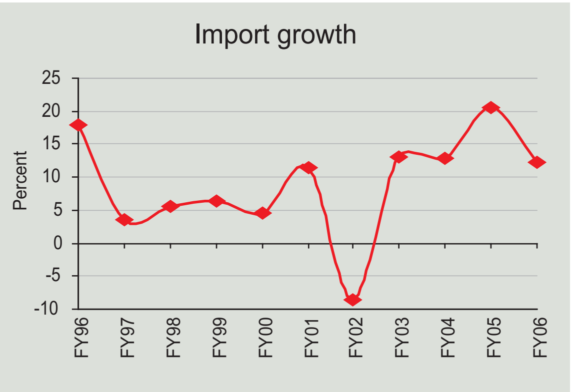
Table 9.2 Composition of merchandise imports

(million US Dollar)

Items	FY05	FY06[P]	% changes
1. Foodgrains	574	418	-27.2
i) Rice	262	117	-55.3
ii) Wheat	312	301	-3.5
2. Milk & cream	86	73	-15.1
3. Spices	42	32	-23.8
4. Oil seeds	86	90	4.7
5. Edible oil	440	473	7.5
6. Pulses (all sorts)	159	164	3.1
7. Sugar	220	124	-43.6
8. Clinker	170	210	23.5
9. Crude petroleum	350	604	72.6
10. POL	1252	1400	11.8
11. Chemical	510	580	13.7
12. Pharmaceutical products	41	50	22.0
13. Fertilizer	332	342	3.0
14. Dyeing & Tanning materials	132	148	12.1
15 Plastics and rubber & articles thereof	477	523	9.6
16. Cotton	666	742	11.4
17. Yarn	393	501	27.5
18. Textile & articles thereof	1571	1728	10.0
19. Staple fibre	75	76	1.3
20. Iron, steel & other base metal	679	980	44.3
21. Capital machinery	1211	1539	27.1
22. Others	2729	2887	5.8
Sub total (1+ --+22)	12195	13684	12.2
Imports by EPZ	952	1062	11.6
Total Import (cif)	**13147**	**14746**	12.2
Less (-) freight & insurance charges	1277	1445	13.2
Total Import (fob)	**11870**	**13301**	12.1

Source : Statistics Department, Bangladesh Bank.
P= Provisional.

Chart 9.5



sugar import also decreased by 43.6 percent to USD 124.0 in FY06 from USD 220.0 million in FY05. The trend of import growth is shown in Chart 9.5.

Terms of Trade

9.19 In FY06, both the export price index and import price index have increased by 4.1 and 3.9 percent respectively. As a result, the terms of trade improved by 0.1 percent in FY06 over FY05.

Workers' Remittances

9.20 Inward remittances from Bangladesh nationals working abroad continued to play a supporting role in strengthening the current account. Receipts on this sector increased by 24.8 percent to USD 4801.9 million in FY06 from USD 3,848.3 million in FY05. The underlying reason was that Bangladesh Bank made vigorous efforts for preventing flow of remittances through unofficial channels. These include expansion of activities of drawing arrangements, review of statements received from foreign banks/exchange houses, close monitoring and supervision of banks etc. Besides, the concerned scheduled banks had ensured quick delivery of remittances by reducing lead-time to the beneficiaries in Bangladesh, which brought substantial development in the delivery system. It is to be mentioned that, drawing arrangements have been made between 35 Bangladeshi banks and 380 foreign banks/exchange houses situated throughout the globe. Furthermore, an annual remittance threshold has been fixed up amounting to USD 3.00 million for each USA-based exchange houses, GBP 2.00 million for UK-based exchange houses and 2.5 million for Canadian exchange houses. For these measures, remittances recorded a substantial increase by 24.8 percent to USD 4801.9 million during the year under report. Remittances as percentage of GDP increased by 1.37 percentage point to 7.74 in FY06 from 6.37 in FY05. The shares of major source countries in the remittance receipts of FY05 and FY06 may be seen at Chart 9.7.

Table 9.3 Terms of trade of Bangladesh (Base : FY89=100)

Year	Export price index	Import price index	Commodity terms of trade
FY97	153.24	151.53	101.12
FY98	168.04	162.99	103.09
FY99	178.54	178.50	100.02
FY00	178.46	180.07	99.11
FY01	182.75	193.62	94.39
FY02	187.06	208.18	89.85
FY03	191.74	224.31	85.48
FY04	199.51	240.24	83.05
FY05	206.57	248.08	83.27
FY06*	214.98	257.80	83.39

Source : Bangladesh Bureau of Statistics.
* estimated.

Chart 9.6

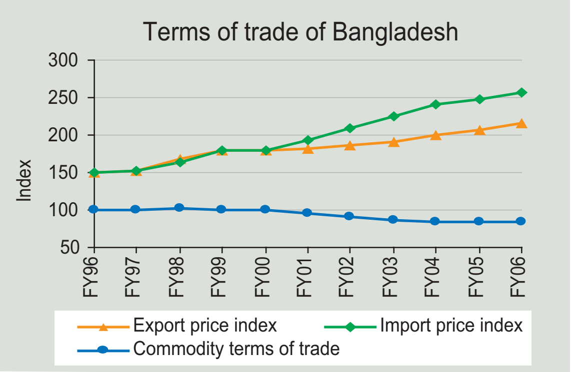
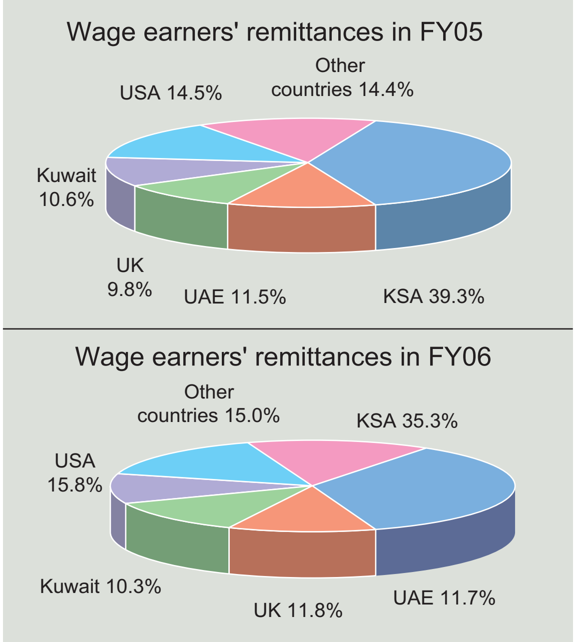


Chart 9.7



Foreign Aid

9.21 Total official foreign aid disbursement decreased by 13.9 percent to USD 1281 million in FY06 from USD 1488 million received in FY05 (Table 9.4). Food aid disbursement decreased by 50.0 percent to USD 16 million from USD 32 million in FY05. The disbursement of project assistance stood at USD 1265 million in FY06 which was USD 1434 million in FY05. It is mentionable that, no commodity aid was received in FY06 while it was USD 22 million in FY05.

Total outstanding official external debt as of 30 June 2006 stood at USD 18908 million (30.5 percent of FY06 GDP) against USD 18416 million as of 30 June 2005 (30.5 percent of FY05 GDP).

Repayment of official external debt stood at USD 644 million (excluding repurchases from the IMF) in FY06. This was USD 11 million or 1.7 percent lower than the repayment in FY05. Out of the total repayments, principal payments amounted to USD 473 million while interest payments stood at USD 171 million in FY06, against USD 473 million and USD 183 million respectively paid during FY05. The external debt services as percentage of exports was 6.2 percent in FY06.

Foreign Exchange Market Operations

9.22 Under floating exchange rate regime, banks are free to set their own rates for inter-bank and customer transactions. The exchange rate is being determined on the basis of market demand and supply forces of the respective currencies. For avoiding unusual volatility in the exchange rate, Bangladesh Bank may purchase and sell US Dollar as and when it deems necessary to maintain stability in the forex market.

Pressure on Taka-Dollar exchange rate that started at the continued price hike for import of petroleum and many other major commodities in the world market coupled with higher growth in lending to the private sector (which led to higher demand for importation of capital machinery) in the FY05 continued in FY06 as well. Taka-Dollar exchange rate depreciated to Taka 69.73 at the end June 2006 from Taka 63.75 at the end June 2005; it however, showed an upward trend during the first two months of the FY06, then remained almost stable up-to the first week of December 05. Taka depreciated substantially against US Dollar up-to the beginning of April 2006 (almost 9.66 percent from July 2005 to March 2006, nominal monthly average). But due to adoption of contractionary monetary policy measures together with substantial inflow of foreign exchange from the sources of export earnings and wage earners, Taka started gaining over US Dollar in the early April 2006. During March-June 2006, Taka appreciated by 1.18 percent (nominal monthly average) against US Dollar while the exchange rate remained almost stable towards the end of FY06.

The volume of Inter-bank foreign exchange transactions in FY06 stood at USD 20.3 billion, which was 2.0 percent higher than the USD 19.9 billion in FY05. As authorized dealer banks were instructed not to undertake any non-real cross currency forward and swap transactions, volume of inter-bank forward transactions were almost nil in the FY06 against USD 0.3 billion in FY05.

Foreign Exchange Reserves

9.23 The gross foreign exchange reserves of the Bangladesh Bank continued to grow in the backdrop of steadily increasing export earnings and workers' remittances, and stood at USD 3,484 million as at the end of June 2006 (Table 9.5). This represented a growth of 18.9 percent over USD 2930 million of end June 05.

Foreign exchange balances held abroad by the commercial banks, on the other hand, declined by USD 199.17 million to USD 608.8 million over the same period. Total liquid foreign exchange holdings of the banking system (*i.e.,* including the holdings of commercial banks) increased to USD 4092.8 million (Chart 9.8). The foreign exchange reserves represent approximately 45.1% of the BB's balance sheet and the income from these reserves is one of the BB's most significant revenues.

Reserve Management Operations

9.24 The BB holds foreign currency reserves to invest for higher return and to facilitate its intervention in the foreign exchange market. Decisions involving the pattern of investments are influenced by the developments in foreign exchange outlook and interest rate scenario in the international financial markets. However, overall approach to management of reserves is driven by broad objectives of reserve management with strong emphasis on preserving capital and maintaining liquidity of the reserves.

The bulk of the reserves are invested in short term money market instruments keeping in view the objectives of preservation of capital, maintaining liquidity and optimum return. However, to take the opportunity of enhancing rate of return on investment, BB has been trying to diversify its portfolio investment into longer-term bonds and other types of securities subject to compliance with the stipulated liquidity restrictions and market & credit risk limits

Credit risks arising out of potential default in payment is addressed by placing explicit limits on various counterparties with whom BB deal in foreign exchange and money market. The counterparty limits are set mainly based on rating provided by international rating agencies.

Transactions under Asian Clearing Union (ACU)

9.25 Total transactions of Bangladesh under the Asian Clearing Union (ACU) increased during FY06 compared to the preceding year. As in the preceding years, Bangladesh remained a net debtor in all the six bi-monthly settlements during FY06. Bangladesh did not avail swap facility for FY06 due to satisfactory reserve position. Export receipts increased slightly and import payments decreased considerably with the ACU member countries during the year under report. Export of Bangladesh to ACU member countries recorded increase of USD 23.12 million or 19.0 percent from USD 121.6 million (Taka 749.4 crore) in FY05 to USD 144.70 million (Taka 975.7 crore)

Table 9.4 Foreign aid receipts and debt repayments*

(million US Dollar)

Particulars	FY04	FY05	FY06^{P}
1. Receipts	1034	1488	1281
i) Food aid	32	32	16
ii) Commodity aid	-	22	-
iii) Project aid	1002	1434	1265
2. Repayments (MLT)	589	655	644
i) Principal	423	473	473
ii) Interest	166	183	171
3. Outstanding external debt as of end June	17953	18416	18908
4. Outstanding debt as percentage of GDP	31.8	30.5	30.5
5. External debt services (MLT) as percentage of exports	7.7	7.6	6.2

P=Provisional.

* Excluding transactions with the IMF.

Table 9.5 Gross foreign exchange reserves of the Bangladesh Bank

(million US Dollar)

Date	balance
30 June 1996	2,039
30 June 1997	1,719
30 June 1998	1,739
30 June 1999	1,523
30 June 2000	1,602
30 June 2001	1,307
30 June 2002	1,583
30 June 2003	2,470
30 June 2004	2,705
30 June 2005	2,930
31 July 2005	2,829
31 August 2005	2,869
30 September 2005	2,761
31 October 2005	2,796
30 November 2005	2,417
31 December 2005	2,826
31 January 2006	2,824
28 February 2006	3,030
31 March 2006	2,910
30 April 2006	3,140
31 May 2006	3,089
30 June 2006	3,484

Source : Accounts & Budgeting Department, BB.

in FY06. Import from the ACU member countries decreased slightly by USD 67.51 million or 3.4 percent from USD 2000.3 million (Taka 12347.8 crore) in FY05 to USD 1932.79 million (Taka 13009.7 crore) in FY06. As a result, the net debtor position of Bangladesh decreased in FY06 by USD 90.6 million or 4.8 percent to USD 1788.1 million (Taka 12034.0 crore) compared to USD 1878.70 million (Taka 11598.4 crore) in the preceding year. Receipts and payments of Bangladesh under ACU arrangement during the last three years are shown in Table 9.6.

Chart 9.8

Liquid foreign exchange holdings abroad

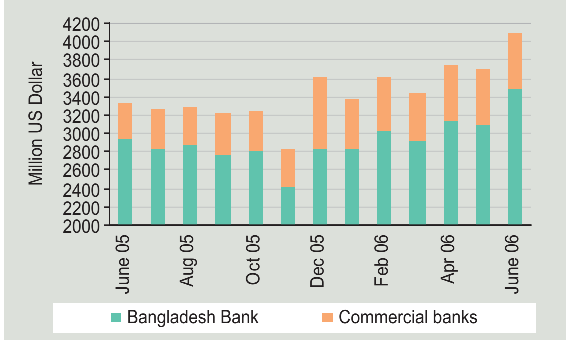


Table 9.6 Receipts and payments of Bangladesh under the ACU

(million US Dollar)

Head of Transaction	FY04	FY05	FY06
1. Receipts (Export)	100.4	121.6	144.7
	(594.8)	(749.4)	(975.7)
2. Payments (Import)	1629.3	2000.3	1932.8
	(9653.3)	(12347.8)	(13009.7)
Net: Surplus (+)/	-1528.9	-1878.7	1788.1
Deficit (-)	(-9058.5)	(-11598.4)	(-12034.0)

Note: Figures in parentheses indicate Taka in crore.
1 ACUD = 1 USD; 1 USD = 69.4900 Taka.

Table 9.7 Outstanding liabilities against the facilities received from the IMF

(million SDR)

Facility	Cumulative drawing/ purchase	Outstanding liability as of end June 2005	Purchase/ drawing in FY06	Outstanding liability as of end June 2006
PRGF June 2003	283.06	148.50	134.56	283.06

Source : Forex Reserve & Treasury Management Department, BB.

Transactions with the IMF

9.26 Bangladesh was granted a loan of SDR 347.0 million from the IMF in June 2003 under its three-year arrangement of Poverty Reduction and Growth Facility (PRGF). As per the request of Bangladesh, the PRGF was augmented and Bangladesh was granted a loan of SDR 53.33 million under the Trade Integration Mechanism (TIM) in July 2004. As a result, the total loan approved under the PRGF arrangement amounted to SDR 400.33 million. The fourth and fifth instalments under the PRGF of SDR 134.56 million were purchased in July 2005 and February 2006. Total purchase under PRGF stood at SDR 283.06 million at the end of June 2006. Service charges paid to the IMF during the year amounted to SDR 2.56 million. Outstanding liabilities to the Fund at the end of June 2006 stood at SDR 283.06 million (Table 9.7).

Exchange Rate

9.27 Taka-Dollar exchange rate showed a mixed trend in FY06. It gradually depreciated in the first quarter and stood at Tk. 65.75 per US Dollar due to increased demand for foreign exchange resulting from a deficit on current account in the 4th quarter of FY05. During the 2nd quarter, it remained relatively stable, while lost its value again in the 3rd quarter reaching at Tk.71.65 per USD. This severe pressure again came down and Taka gained some lost value in the 4th quarter. USD/BDT stood at 69.82 (Taka slightly appreciated by 2.55 percent) at the end of June 2006. The weighted average Taka-Dollar exchange rate depreciated from Taka 61.39 per USD at end June 2005 to Taka 67.08 at end June 2006.

Changes in Foreign Exchange Regulations

9.28 The major changes in foreign exchange regulations in FY06 were as under:

a) In order to attract more investment "The US Dollar Premium Bond Rules 2002" and "The US Dollar Investment Bond Rules 2002" have been revised with effect from 3

July 2005. According to the revised US Dollar Premium Bond Rules and Investment Bond Rules, non-resident account holder means an individual of Bangladesh or foreign national residing abroad and holding a non-resident foreign currency account in a bank branch in Bangladesh with Authorized Dealership in foreign exchange.

b) It has been decided that prior Bangladesh Bank approval will, however, not be required for Taka advances by way of purchase of cheques in freely convertible currencies drawn by foreign embassies/ international organizations/foreign nationals employed therein on their bank accounts abroad, provided that (i) the Authorized Dealer is fully satisfied about collectibility of cheque proceeds in foreign currency within four weeks of purchase, (ii) the expected collection period is fully factored in while deciding the purchase price in Taka, and (iii) the purchases are with recourse to drawers of the cheques for any difficulty in collection.

c) It has been clarified that balance in the Non-resident Investors Taka Account (NITA) held for investment in Bangladeshi shares and securities may be transferred to the Foreign Currency Account (FCA) of the same person with the respective AD without prior approval of Bangladesh Bank. Similarly, balance in the FCA may also be transferred to NITA without prior approval of Bangladesh Bank. However, in both the cases a written request of the account holder will be required.

d) To attract investment in agro-based industry in Ishwardi EPZ it has been decided that subsidy facility would be given for the export of liquid glucose produced in this EPZ and the rate of subsidy will be 20 percent of net repatriated fob value. This facility will be applicable for liquid glucose shipped during July 1, 2005 to June 30, 2006.

e) A decision has been taken by the government of Bangladesh that subsidy facility will be given against export of light engineering products (Carbon Rod for battery, UM-1/R-20/D size battery, UM-3/R-06/AA size battery and locally manufactured glassware, manufacturing machinery, moulds and parts) produced within the country. This facility will be applicable for the export products where shipment will be made during 1 July 2005 to 30 June 2006. If these products have value addition of more than 50 percent, then subsidy will be given at the rate of 10 percent of repatriated of net export value under prescribed conditions. In this connection, some guidelines have been issued to the ADs for compliance.

f) Authorized Dealers are instructed that besides bills of lading and Air Way Bills issued by the concerned carriers, negotiation of export bills may also take place against Forwarders' Cargo Receipts (FCRs) and House Air Way Bills (HAWBs) issued by freight forwarders provided that i) the export letter of credit and the export sale contract specifically provide for negotiation of export bill against FCR/HAWB (as the case may be) issued by a freight forwarder, and ii) the freight forwarder issuing the FCR/HAWB is operating in Bangladesh with authorization from the Bangladesh Bank under Section 18A of the FER Act 1947.

g) Under Export Development Fund (EDF) pre-shipment credit facility in US Dollar was initially introduced for import of raw materials, accessories, spare parts and packing materials against export letter of credits on sight basis. Now it has also been extended for import of the same items on sight basis against export contract, provided that if any export proceeds becomes overdue for not being repatriated within four months after the shipment, the concerned exporter and/or business entity is not allowed to avail further facility under Export Development Fund. A single borrower exposure limit is fixed up to a maximum of USD 1.00 million.

Anti-money Laundering Surveillance

9.29 In the conduct of its activities under the Money Laundering Prevention Act, 2002, Bangladesh Bank received 102 suspicious transaction reports (STR)/complaints from the banks. 14 commercial banks have been penalized under the provision of MLPA, 2002 for non-compliance of Bangladesh Bank instructions/guidelines.

9.30 Cash Transaction Reporting (CTR) system has been introduced from April 2006 for reporting cash transactions up to Taka 0.50 million and above in any account in a particular day. Bangladesh Bank has already developed a software for CTR and imparted training to commercial banks' representatives on the subject.

9.31 A Financial Intelligence Unit (FIU) has already been established in the AMLD to work on CTRs and to keep contract with international bodies and FIUs of other countries on different anti-money laundering issues.

9.32 As per Money Laundering Prevention Act, 2002, Bangladesh Bank is conducting massive training programme for officers of commercial banks and financial institutions. In this connection, it is to be mentioned that a training programme on ML Prevention Awareness is going on for the managers of all branches of 48 commercial banks all over the country. Since January 2006, about 80 percent of this programme was completed upto end June 2006 and the programme was almost fully completed by September 2006 (Box 9.2).

9.33 During the year under report, Anti-Money Laundering Department represented Bangladesh in different international conferences/ meetings/workshops related to money laundering and terrorist financing issues and workshops for the FIUs.

Box 9.2

Alternative Remittance System (ARS) and Anti-Money Laundering Drive in Bangladesh

Alternative Remittance System (ARS)

The banking system is the main channel to remit money in Bangladesh. It is also permissible to remit money through the postal system. The Alternative Remittance System (ARS) which usually takes place in the form of hundi or hawala is not permissible. The ARS not only helps illegal inflow of remittances into the country but also facilitates the illegal transfer of local fund and resources abroad.

The unofficial channel to remit fund into Bangladesh has grown in stature over time. A study by the IMF reveals that during 1981-2000 share of private remittances through unofficial channels was 59 percent of the total remittances. The reason of stronger unrecorded private remittances to Bangladesh is the easy suitability of hawala or hundi system to the needs of the remitters. Compared with formal banking channels, the hawala system is not only generally less expensive but can also be a more accessible and convenient option for easy remittance of funds. Another study conducted by the International Labor Organization (ILO) reveals that "In Bangladesh, 46 percent of the total volume of remittance has been channeled through the official sources, around 40 percent through hundi, 4.61 percent through friends and relatives and about 8 percent of the total was hand carried by migrant workers themselves when they visited home. Others include sell of work visas."

Considering the above statistics of the IMF and ILO it is evident that 40 to 59 percent of remittances were made into Bangladesh through hundis. If this amount of remittance were made through the official banking channel, the foreign exchange reserves of the country would have been much higher. So, there is a need to strengthen efforts for prevention of illegal financial transactions through the ARS.

Anti-Money Laundering Drive

Money Laundering is now a serious issue and has become more organized, sophisticated, technical and increasingly international in nature In the Money Laundering Prevention Act promulgated in Bangladesh in April 2002, illegal acquisition of assets and the act of, or aiding and abetment of transfer, transformation and concealment of such assets are identified as money laundering offences. Thus, Money Laundering has potentially devastating economic, security, and social consequences. As an implementing authority under the Act, Bangladesh Bank has set up Anti-Money Laundering Department to carry out its responsibilities and has taken various measures to protect the banking industry from being used for money laundering.

Money Laundering has been identified as one of the five core risk areas where the commercial banks need to exercise special caution. In order to enable the banks to prevent the banking system from abuse by money launderers, BB has formulated detailed guidelines for the commercial banks to follow. To ensure that the banks to follow the guidance notes, the BB conducts system audit of the commercial banks.

The Money Laundering (Prevention) Act 2002 refers the BB to train the officials of the banking industry with regard to Money Laundering issues. Since January, 2006 total number of 5,752 branch managers participated to managers' conference all over the country up to end-June 2006 and this programme was almost fully completed by September 2006. The total number of bank officials covered by the BB training programme is 790 up to end-June 2006.

Bangladesh Bank is in the process of setting up an FIU with the Anti-Money Laundering Department. As a first step in this direction, a database is being created for CTRs and STRs. The BB works for close collaboration with the government departments and law enforcement agencies to track ML offences.