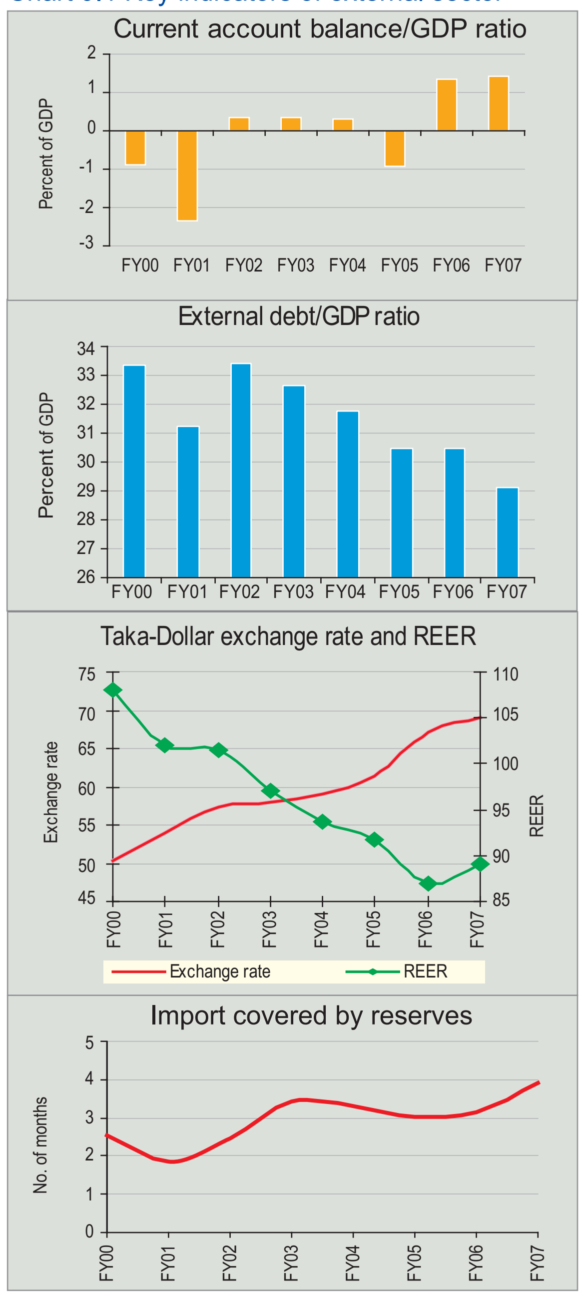
Chapter-9

External Sector

9.1 The external sector witnessed a strong performance in FY07 with both exports and imports registering a robust growth in spite of the uncertainties associated with the strike, blockade etc. in the country. The continued strong growth of exports and remittances from workers abroad widened the surplus in the current account of the balance of payments in FY07 and the foreign exchange reserves increased by 45.7 percent to USD 5.08 billion.

Chart 9.1 Key indicators of external sector



Taka-Dollar exchange rate remained moderately stable in FY07 due to cautious monetary policy by the Bangladesh Bank in spite of floating exchange rate and rising import growth. Taka depreciated by 2.8 percent during FY07.

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

External Trade and the Balance of Payments — the Overall Situation

9.2 Merchandise exports (fob) increased by USD 1641.0 million (or 15.8 percent) in FY07 to USD 12053.3 million. Except for tea, raw jute, jute goods and agricultural products (which recorded a negative growth of about 42 percent, 1 percent, 11 percent and 7 percent respectively), all other major exportables increased significantly. A substantial growth of knitwear products (19.3 percent) and woven garments (14.1 percent) continued to support the high growth of merchandise exports in FY07 over FY06. Growth of terry towel, frozen foods and fertilizer depicted an increasing trend. The growth of exports of leather declined substantially in FY07 over the preceding year. The export of miscellaneous products, subsumed under the "others" category showed a high growth of 25.0 percent in value terms during FY07. As a percentage of GDP, exports increased from 16.8 percent in FY06 to 17.8 percent in FY07.

9.3 Merchandise imports (fob) increased by USD 2210.0 million (or 16.6 percent) in FY07 to USD 15511.0 million. Increased demands and international prices induced rising imports for such products as spices, sugar, rice, wheat, capital machinery, staple fibre, edible oil, plastic and rubber & articles thereof, POL, pulses, oil seeds, yarn, raw cotton and clinker etc. On the other hand, import of crude petroleum and pharmaceutical products declined during the year. Imports as a percentage of GDP increased from 21.5 percent in FY06 to 22.9 percent in FY07.

9.4 A higher absolute increase of imports than exports widened the trade deficit from USD 2889.0 million in FY06 to USD 3458.0 million in FY07. The deficit in the services account also widened to USD 1261 million in FY07 from USD 1023 million in the previous year as payments increased relatively more than receipts. The deficit in the income account also rose to USD 883 million in FY07 from USD 702 million in FY06 for the same reason. Current transfers increased substantially from USD 5438 million in FY06 to USD 6554 million in FY07, thanks to a hefty 25 percent rise in workers' remittances. The net outcome of all these developments resulted in the current account balance from a surplus of USD 824 million in FY06 to a larger surplus of USD 952 million in FY07. Current account balances as a percentage of GDP stood at 1.4 in FY07 against 1.3 in FY06.

9.5 Receipts under the capital and financial account increased by USD 977.0 million due mainly to increase in short-term loans (related to oil imports). Thus, the overall balance recorded a higher surplus of USD 1493.0 million in FY07 against a surplus of USD 338.0 million in FY06. Table XVI at Appendix-2 of this Report shows the balance of payments statement for FY07 and FY06. Chart 9.2 portrays the trends of trade, current account and overall balances as a percentage of GDP in recent years.

Chart 9.2

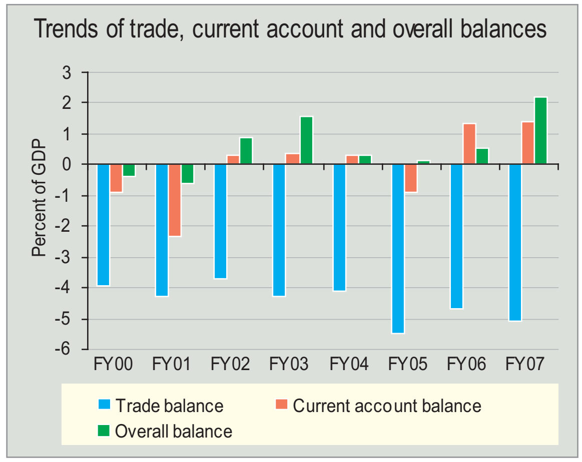


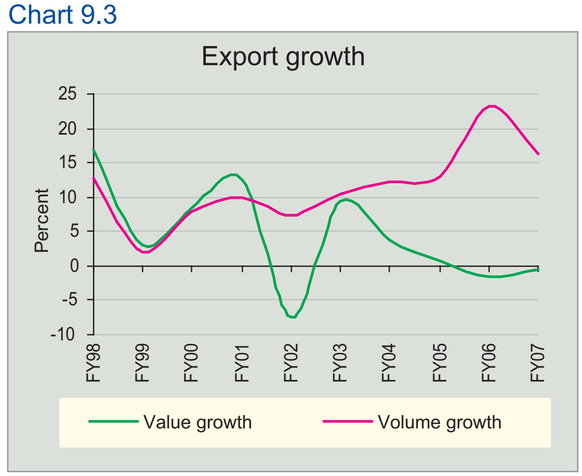
Table 9.1 Composition of merchandise exports

(million US Dollar)

Items	FY06	FY07	% change
1) Raw jute	148.3	147.2	-0.7
2) Jute goods	361.0	320.8	-11.1
3) Tea	11.9	6.9	-42.0
4) Leather	257.3	266.1	3.4
5) Frozen shrimps and fish	459.1	515.3	12.2
6) Woven garments	4083.8	4657.6	14.1
7) Knitwear products	3817.0	4553.6	19.3
8) Fertilizer	124.1	125.1	0.8
9) Terry towel	80.2	106.0	32.2
10) Others	1183.5	1479.3	25.0
Total :	**10526.2**	**12177.9**	**15.7**

Source : Export Promotion Bureau.

Chart 9.3



9.6 As a potential source of foreign exchange reserves, foreign direct investment (FDI) has been emphasized more by the Government. FDI flows increased by 2.3 percent to USD 760.0 million in FY07 from USD 743.0 million in FY06.

Exports

9.7 Table 9.1 and Chart 9.3 show that total exports in FY07 grew significantly over FY06. Aggregate exports increased by 15.7 percent in FY07 to USD 12177.9 million from USD 10526.2 million of FY06. Apparels (woven garments and knitwear products) continued to occupy an overwhelming (three fourths) share of the export basket in FY07.

Destination

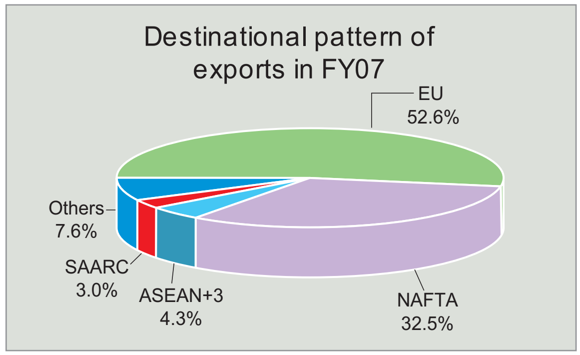
9.8 The destinational pattern of exports in FY07 showed continued heavy dependence on the markets in Europe and North America. About 52.6 percent of exports were destined for the EU bloc while another 32.5 percent entered into the NAFTA bloc. Export to the ASEAN+3 (i.e, the ASEAN bloc, China, Japan and South Korea) countries, SAARC and other regions constituted 4.3 percent, 3.0 percent and 7.6 percent respectively of total exports in FY07 (Chart 9.4).

Composition

9.9 **Readymade garments** (woven and knitwear): Woven products, which fetched about 50.6 percent of total export earnings of the apparels sector, registered a high increase in receipts, from USD 4083.8 million of FY06 to USD 4657.6 million in FY07, reflecting mainly increased shipment in the face of continued depressed level of unit price. Knitwear products showed a significant growth, fetching USD 4553.6 million in FY07 compared with USD 3817.0 million earned in FY06 due mainly to 20.9 percent increase in the volume of knitwear exports.

9.10 **Frozen food:** The frozen foods sector, comprising principally of shrimps, marked a sharp increase in earnings during FY07.

Chart 9.4



Receipts from export of shrimp and fish increased by 12.2 percent, from USD 459.1 million of FY06 to USD 515.3 million in FY07. Both average unit price and volume of shrimp increased by 7.7 percent and 5.2 percent respectively in FY07 over FY06.

9.11 **Raw jute:** In FY07, 3.4 million bales of raw jute valued at USD 147.2 million were exported against 3.4 million bales valued at USD 148.3 million in FY06. Although, the volume of export of raw jute were same but the value decreased by 0.7 percent due to decrease of unit price of raw jute in the international market.

9.12 **Jute goods:** In FY07, 0.54 million metric tons of jute products valued at USD 320.8 million were exported, against 0.61 million metric tons valued at USD 361.0 million exported in FY06. Export of jute products decreased by 11.1 percent in FY07 due to 10.8 percent decrease in volume and 0.4 percent decrease in average unit price over FY06.

9.13 **Leather:** Export earnings from leather registered an increase of 3.4 percent in FY07. In FY07, 53.8 million sft. of leather valued at USD 266.1 million were exported against the export of 76.6 million sft. valued at USD 257.3 million in FY06. The average unit price of leather increased by 47.3 percent in FY07 over FY06.

9.14 **Tea:** In FY07, 4.8 million kilograms of tea valued at USD 6.9 million were exported against 8.7 million kilograms valued at USD 11.9 million in FY06. The volume of exports of tea decreased by 44.6 percent, while average unit price increased by 5.2 percent. As a result, export of tea decreased by 42.0 percent in FY07 over FY06.

9.15 **Fertilizer:** Export earnings from fertilizer increased by 0.8 percent in FY07. In FY07, 0.44 million tons of fertilizer valued at USD 125.1 million were exported against 0.70 million tons valued at USD 124.1 million in FY06. Though volume of export of fertilizer decreased, export earnings remained almost unchanged due to 59.0 percent increase in unit price.

Export Promotion and Diversification

9.16 The main source of hard earned foreign exchange of Bangladesh is the export sector. Though the international business has been opened and easier due to the globalization, the participating countries are being faced gradual mutual competition for existence in the international market. In this respect, each country is engaged in continuous endeavour to exist in the competition using its comparative advantages in commodity production. Bangladesh is also not exceptional. The Government has taken all necessary initiatives for all out development of this sector. The Government has taken the initiative to diversify the export sector by freeing this sector from the dependence on the limited export commodities and ensuring the commodity supply at competitive price in the world market. Use of modern technology in the business, simplification of import-export policies, market expansion, capacity building activities such as growth of productivity, production of quality commodities, reducing the trading cost and improvement of governance condition etc. are the prime areas that got utmost attention. At the same time, the Government has taken the initiative to enhance the export earnings through offering all probable scopes for the development of the service sector such as information and communication technologies, consultation service, construction etc. With those end in view, Government has formulated a 3-year Export Policy (2006-2009) (Box 9.1). Under this policy, an export development strategy paper has been formulated to help achieve the goals and objectives of the export policy. Export development strategy paper has highlighted various issues like goals, strategies and scope of the export policy, steps to be undertaken for export diversification, general facilities for exports, special facilities to be provided on the basis of commodities and miscellaneous steps to export development.

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 under export L/Cs with a single borrower exposure up to a maximum limit of USD 1.0 million.

Total disbursement from EDF in FY07 stood at USD 175.22 million against USD 172.22 million in FY06. The interest rate on USD under EDF has been refixed at LIBOR+1%.

Imports

9.18 Import payments (fob) during FY07 stood at USD 15511.0 million registering a growth of 16.6 percent compared to USD 13301.0 million in FY06. Increasing consumer and industrial needs raised the import of petroleum and petroleum products. Increased import payments of sugar, rice, wheat, capital machinery, edible oil, plastic and rubber & articles thereof, POL, yarn, raw cotton, chemicals and clinker contributed in varying degrees to the rise in aggregate imports during FY07 over FY06 (Table 9.2). In particular, sugar import substantially increased by 137.1 percent to USD 294.0 in FY07 from USD 124.0 million in FY06. Rice import increased substantially by 53.8 percent to USD 180.0 million in FY07 from USD 117.0 million in FY06. Wheat, capital machinery, edible oil, plastic and rubber & articles thereof, POL, yarn, raw cotton, chemicals and clinker imports increased by 33.2 percent, 25.3

Box 9.1

Salient Features of Export Policy 2006-2009

Government announced a 3-year Export Policy (2006-2009) on 31 May 2007. The following are some of the important measures spelled out in the export policy.

1. The activities of the sector /product specific Business Promotion Councils constituted with the members both from public and private sectors to diversify exports, improve the product quality, adherence to compliance, acquisition of technology, marketing of products etc. will be strengthened and formation of such more councils will be encouraged.
2. The product sectors have been classified into two categories; namely Highest Priority Sectors and Special Development Sectors. Highest Priority Sectors will refer to the agro-products & agro-processing products, light engineering products (including auto parts & bicycles), footwear and leather products, pharmaceutical products, software & ICT products and home textile. The products included in the category of Special Development Sectors are: finished leather production, frozen fish production and processing, handicrafts, electronic products, fresh flower & foliage, jute goods, handloom products from hill areas, uncut diamond and herbal medicine & medicinal plants.
3. Sample of goods may be exported under the policy to the maximum of USD 5000 per exporter on f.o.b. basis excepting medicine. The goods sent as sample for medicine would be maximum USD 10,000 yearly without export L/Cs, and against each L/C 1 percent of total L/C value or maximum of USD 1000, whichever is lower; USD 7500 for 100 percent export oriented garment industries; any value or volume for promotional materials like brochure, poster, leaflet, banner etc.; gift parcel valued at USD 1000; baggage for bonafide travelers traveling outside Bangladesh; and relief materials exported by the Government.
4. Entre-pot and re-export are allowed. Entre-pot trade may be made if at least 5 percent value is added to normal C&F value and re-export may be made if at least 10 percent value is added to C&F value declared in the port.
5. Exports may be made without L/Cs under buying contract, agreement, purchase order or on advance payment basis subject to the submission of EXP form and shipping bill. All kinds of commodities may be exported without L/C on the basis of consignment.
6. Export-cum-import is possible for repairing, replacement or refilling of cylinder and ISO tank by submitting of indemnity bond to the customs authority. Any person can take vehicle with him in foreign tour on the conditions of reimporting under the permission of customs authority or other competent authority as *carnete* de passage.
7. Frustrated cargo may be re-exported after observing the rules and regulations of the Customs Act 1969.
8. Temporary export cum import of machinery & other equipments is allowed for construction, engineering and electrical companies under certain terms and conditions.
9. If no other conditions apply, then pre-shipment inspection certificate will not be mandatory for exporting goods.
10. Submission of quality control certificate is compulsory for those goods earmarked and that must be submitted to the customs authority at the time of export.
11. The exporters can deposit a certain amount of their export earnings in foreign currency under a retention quota in their foreign currency accounts which will be fixed by Bangladesh Bank. This foreign currency can be used to fulfill bonafide business needs like business trips abroad, participation in export fair or seminars in foreign countries, import of raw materials, machineries and spare parts and setting up of office abroad.
12. There will be an Export Development Fund in EPB to provide the facilities like: offer venture capital with lower interest rate and soft terms for production, assist in getting foreign technical assistance, service and technology for product development and diversification, assist in sending marketing missions abroad and taking part in international fairs etc.
13. The exporters can avail credit upto 90 percent of the L/C amount from the commercial banks under irrevocable L/C or confirmed contract. The commercial banks will consider such cases on priority basis and fix the cash credit limit of the exporters on the basis of their success in the preceding year.
14. The issue of providing bonded warehouse facilities for import dependent export-oriented industries will be considered by the NBR.

percent, 23.3 percent, 22.9 percent, 22.1 percent, 16.2 percent, 15.6 percent, 15.2 percent and 14.3 percent respectively to USD 401.0 million, USD 1929.0 million, USD 583.0 million, USD 643.0 million, USD 1709.0 million, USD 582.0 million, USD 858.0 million, USD 668.0 million and USD 240.0 million respectively in FY07 from USD 301.0 million, USD 1539.0 million, USD 473.0 million, USD 523.0 million, USD 1400.0 million, USD 501.0 million, USD 742.0 million, USD 580.0 million, USD 210.0 million respectively in FY06. On the other hand, crude petroleum import decreased substantially by 13.2 percent to USD 524.0 in FY07 from USD 604.0 million in FY06. Similarly, pharmaceutical products import also decreased by 2.0 percent to USD 49.0 in FY07 from USD 50.0 million in FY06. The trend of import growth is shown in Chart 9.5.

Terms of Trade

9.19 In FY07, the export price index increased by 2.5 percent, while the import price index increased also by 4.0 percent. As a result, the terms of trade deteriorated by 1.5 percent in FY07 over FY06.

Workers' Remittances

9.20 Inward remittances from Bangladeshi nationals working abroad continued to play a supporting role in strengthening the current account. Receipts on this sector increased by 24.5 percent to USD 5978.5 million in FY07 from USD 4801.9 million in FY06. The underlying reason was that Bangladesh Bank made vigorous efforts such as 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 38 Bangladeshi banks and 229 foreign banks/exchange houses situated throughout the globe. Furthermore, an annual

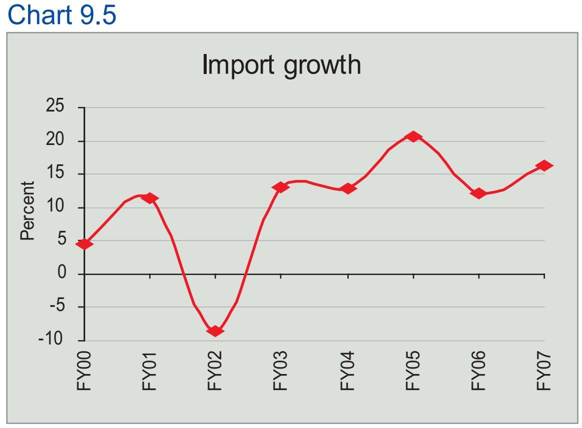
Table 9.2 Composition of merchandise imports

(million US Dollar)

Items	FY06	FY07^P	% changes
1. Foodgrains	418	581	39.0
i) Rice	117	180	53.8
ii) Wheat	301	401	33.2
2. Milk & cream	73	83	13.7
3. Spices	32	76	137.5
4. Oil seeds	90	106	17.8
5. Edible oil	473	583	23.3
6. Pulses (all sorts)	164	195	18.9
7. Sugar	124	294	137.1
8. Clinker	210	240	14.3
9. Crude petroleum	604	524	-13.2
10. POL	1400	1709	22.1
11. Chemicals	580	668	15.2
12. Pharmaceutical products	50	49	-2.0
13. Fertilizer	342	357	4.4
14. Dyeing & tanning materials	148	161	8.8
15 Plastic and rubber & articles thereof	523	643	22.9
16. Raw cotton	742	858	15.6
17. Yarn	501	582	16.2
18. Textile & articles thereof	1728	1892	9.5
19. Staple fibre	76	97	27.6
20. Iron, steel & other base metal	980	985	0.5
21. Capital machinery	1539	1929	25.3
22. Others	2887	3401	17.8
Sub total (1+···+22)	**13684**	**16013**	**17.0**
Imports by EPZ	1062	1144	7.7
Total Import (cif)	**14746**	**17157**	**16.4**
Less (-) freight & insurance charges	1445	1646	13.9
Total Import (fob)	**13301**	**15511**	**16.6**

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

Chart 9.5



remittance threshold has been fixed up amounting to USD 3.0 million for each USA-based exchange houses, GBP 2.0 million for UK-based exchange houses and 2.5 million for Canadian exchange houses. For these measures, remittances recorded a substantial increase by 24.5 percent to USD 5978.5 million during the year under report. Remittances as percentage of GDP increased by 1.08 percentage point to 8.83 in FY07 from 7.75 in FY06. The shares of major source countries in the remittance receipts of FY06 and FY07 are shown at Chart 9.7.

Foreign Aid

9.21 Total official foreign aid disbursement increased by 3.6 percent to USD 1625.0 million in FY07 from USD 1568.0 million received in FY06 (Table-9.4). Food aid disbursement decreased by 38.1 percent to USD 60.0 million in FY07 from USD 97.0 million in FY06. The disbursement of project assistance stood at USD 1565.0 million in FY07 which was USD 1471.0 million in FY06. It is mentionable that no commodity aid was received in FY07 as in the previous year.

Total outstanding official external debt as of 30 June 2007 stood at USD 19703.0 million (29.1 percent of FY07 GDP) against USD 18603.0 million as of 30 June 2006 (30.0 percent of FY06 GDP).

Repayment of official external debt stood at USD 704.0 million (excluding repurchases from the IMF) in FY07. This was USD 38.0 million or 5.7 percent higher than the repayment in FY06. Out of the total repayments, principal payments amounted to USD 525.0 million while interest payments stood at USD 179.0 million in FY07, against USD 488.0 million and USD 178.0 million respectively paid during FY06. The Debt service as ratio to exports was 5.8 percent in FY07.

Foreign Exchange Market Operations

9.22 Under floating exchange rate regime, banks are free to set their own rates for inter-

Table 9.3 Terms of trade of Bangladesh (base : FY96=100)

Year	Export price index	Import price index	Commodity terms of trade
FY00	117.49	126.64	92.77
FY01	120.31	136.17	88.35
FY02	123.15	146.41	84.11
FY03	126.23	157.76	80.01
FY04	135.19	164.15	82.36
FY05	139.60	169.96	82.14
FY 06	142.38	176.66	80.60
FY07*	145.94	183.81	79.40

Source : Bangladesh Bureau of Statistics.
* Estimated.

Chart 9.6

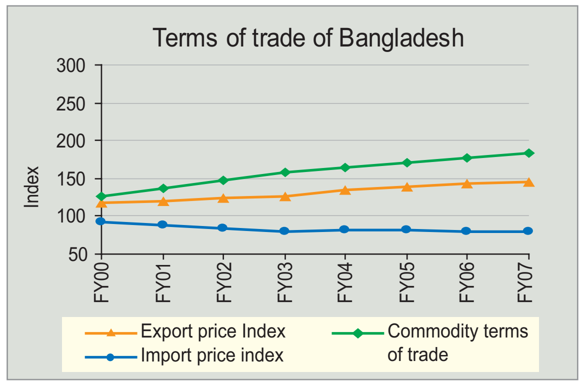
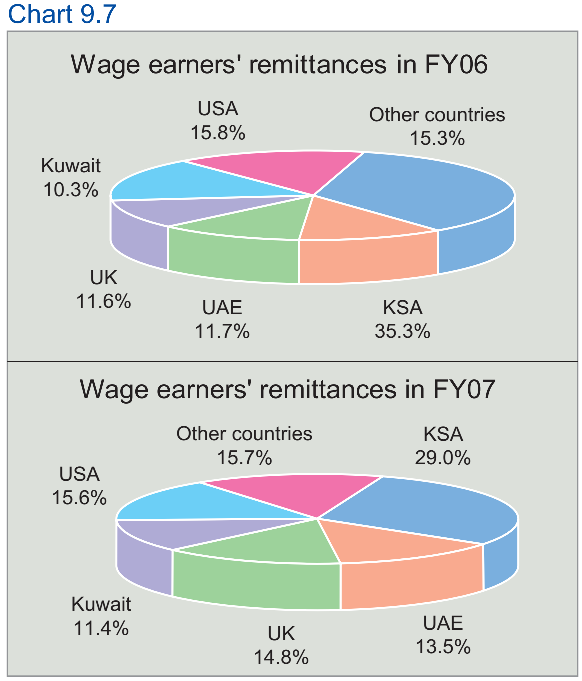


Chart 9.7



Box 9.2

Salient Features of Import Policy 2006-2009

The Government has declared a 3-year Import Policy 2006-2009 effective from 14 May 2007 keeping in view the wide ranging changes and expansion in the world trade, consistent with the free market economy, to supply commodities to the consumers at reasonable price, to expand the base of export-oriented industries, create congenial atmosphere for foreign investment, expansion and protection of local industries. The objectives which have been given more importance in the new policy are, among others, to make import policy easier, to facilitate import of technology freely in order to promote modern technology, to co-ordinate the same with industrial policy, export policy and with other development programmes. Salient features of Import Policy 2006-2009 are as follows:

1. Restrictions have been imposed on import of some commodities for religious and health reasons. These include live pig and pig related goods, obscene publications/ books and such matters which may hurt the religious beliefs, wine and wine products, poppy seeds, postadana, artificial mastered oil (ally isothiocyonate), sodium cyclamate (solid sugar), glass syringe, ghas (andropogen SPP) and bhang (cannabis sativa), all types of garbage, car more than 4 years old, 3-wheeler vehicles having double-stroke engines (tempo, auto-rickshaw etc.), poly propylene bag and old equipment.
2. All items including military weapons are importable by the Ministry of Defence. But other ordinary arms like pistol, revolver and air gun are importable by authorized dealers of fire arms subject to prior permission of the Ministry of Home Affairs. For private sector, these items shall be importable by TCB/ appointed authority/ persons on approval of the Ministry of Commerce.
3. Import of items can be made on water, land and airways on C&F, CFR, CPT, CIF and FOB basis. However, in case of import on FOB basis the concerned importer shall have to properly comply with the circular issued by Bangladesh Bank in this regard.
4. Import can be made against LCA form of any permissible item for an amount not exceeding USD 35 thousand during each financial year against remittance made from Bangladesh.
5. Importers all over Bangladesh may form one or more groups for import on joint basis according to their convenience on condition that the industrial consumers shall form group or groups with other industrial consumers only and the commercial importers may form group or groups with other commercial importers.
6. Import registration and renewal fees have been refixed at Taka 1500 to Taka 20000 for registration and Taka 1500 to Taka 15000 for renewal of the registration certificate. Provision have been made to facilitate the manufacturers and exporters of products of new designs like RMG industries allowing them to import sample up to 0.3 percent of the cloths used for exporting in the preceding year without any prior permission from the Chief Controller.
7. Import of raw materials and packaging materials against back to back L/C would be permitted if that is approved in UD (Utilization Declaration) issued by BGMEA.
8. In case of import of milk, milk food, milk products, edible oil and other food items produced in any country, test of radioactivity levels present in those items are mandatory. Besides, the date of manufacture and the date of expiry shall clearly be printed on each package/ container of such items.
9. Computer older than Pentium-3 model cannot be imported. The spare parts of old computers and old UPS shall not be imported.
10. Preshipment inspection certificate on price, quality and manufacturing date will have to be submitted to the customs authority before release of the consignment. Obtaining BSTI certificate regarding all types of food items are obligatory.
11. In case of import of live chicken of one day old from parent stock and grand parent stock, submission of Avian influenza free certificate from the appropriate authority of the exporting country to the customs authority is mandatory.
12. In case of fish import, the submission of formalin free certificate from the appropriate authority of the exporting country to the customs authority is mandatory. Besides, the expiry date, net weight etc. must be written in case of canned fish import.
13. In case of meat, mutton and fowl import, the submission of Bovine Spongiform Encephalopathy (BSE) and Avian influenza free certificate from the appropriate authority of the exporting country to the customs authority is mandatory. Besides, the expiry date, net weight etc. must be written on the tin/can.

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. During the 1st quarter of FY07, Taka-Dollar exchange rate experienced a pressure ranging within 69.49-69.85. With the starting of the 2nd quarter, Taka started to recover gradually its lost value and by mid October 2006 it appreciated up to Taka 66.00 per US dollar. But it again weakened and by end of November 2006, it depreciated up to a record high of Taka 72.95 per US Dollar. During the 3rd quarter of FY07, Taka showed somewhat appreciating trend due to improved liquidity in the market, resulting from increased inward remittances and exchange rate ranged within Taka 68.80-70.55. However, at the end of June 2007, Taka-Dollar exchange rate remained relatively stable with exchange rates at Taka 68.70-69.30.

During FY07, Bangladesh Bank purchased USD 649.50 million from banks absorbing excess liquidity from the market. The volume of inter-bank foreign exchange transactions in FY07 stood at USD 19.19 billion, which was 5.5 percent lower than the USD 20.3 billion in FY06. 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 FY07 as was in FY06.

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 5,077 million as at the end of June 2007 (Table 9.5). This represented a growth of 45.7 percent over USD 3,484 million of end June 2006.

Foreign exchange balances held abroad by the commercial banks, on the other hand, increased by USD 107.86 million to USD 368.1 million at the end of June 2007 as compared to

Table 9.4 Foreign aid receipts and debt repayments*

(million US Dollar)

Particulars	FY05	FY06^{R}	FY07^{P}
1. Receipts	1488	1568	1625
i) Food aid	32	97	60
ii) Commodity aid	22	-	-
iii) Project aid	1434	1471	1565
2. Repayments (MLT)	656	666	704
i) Principal	473	488	525
ii) Interest	183	178	179
3. Outstanding external debt as of end June	18416	18603	19703
4. Outstanding debt as percentage of GDP	30.5	30.0	29.1
5. External debt services (MLT) as percentage of exports	7.7	6.4	5.8

R= Revised. 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
30 June 2006	3,484
31 July 2006	3,245
31 August 2006	3,605
30 September 2006	3,447
31 October 2006	3,543
30 November 2006	3,534
31 December 2006	3,878
31 January 2007	3,739
28 February 2007	4,157
31 March 2007	4,200
30 April 2007	4,538
31 May 2007	4,439
30 June 2007	5,077

Source : Accounts & Budgeting Department, BB.

the preceding year's level. Total liquid foreign exchange holdings of the banking system (i.e., including the holdings of commercial banks) increased by USD 1700.86 to USD 5,445.1 million (Chart 9.8). The foreign exchange reserves represent approximately 49.6 percent 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 is 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 are 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 FY07 compared to the preceding year. As in the preceding years, Bangladesh remained a net debtor in all the six bi-monthly settlements during FY07. Export receipts decreased and import payments increased substantially with the ACU member countries during the year under report. Export of Bangladesh to ACU member countries recorded decrease of USD 13.22 million or 9.1 percent from USD 144.7 million (Taka 975.7 crore) in FY06 to USD 131.5 million (Taka 902.3 crore) in FY07. Import from the ACU member countries increased substantially by USD 368.27 million or 19.1 percent from USD 1932.8 million (Taka 13009.7 crore) in FY06 to USD 2301.06 million

Chart 9.8

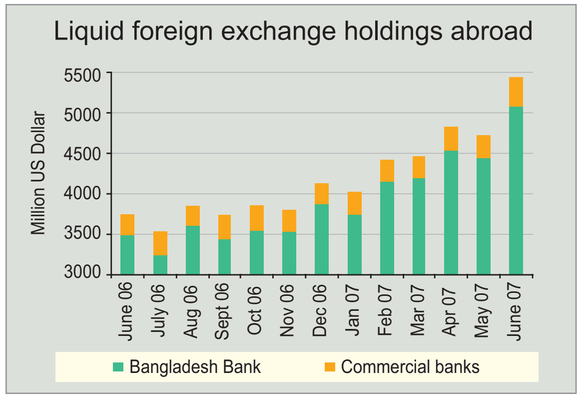


Table 9.6 Receipts and payments of Bangladesh under the ACU

(million US Dollar)

Head of transaction	FY05	FY06	FY07
1. Receipts (Export)	121.6	144.7	131.5
	(749.4)	(975.7)	(902.3)
2. Payments (Import)	2000.3	1932.8	2301.1
	(12347.8)	(13009.7)	(15808.7)
Net: Surplus (+)/	-1878.7	-1788.1	-2169.6
Deficit (-)	(-11598.4)	(-12034.0)	(14906.4)

Note: Figures in parentheses indicate Taka in crore.
1 ACUD = 1 USD; 1 USD = 68.8000 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 2006	Purchase/ drawing in FY07	Outstanding liability as of end June 2007
PRGF June 2003	316.73	283.06	33.67	316.73

Source : Forex Reserve & Treasury Management Department, BB.

(Taka 15808.7 crore) in FY07. As a result, the net debtor position of Bangladesh increased in FY07 by USD 381.5 million or 21.3 percent to USD 2169.6 million (Taka 14906.4 crore) compared to USD 1788.07 million (Taka 12034.0 crore) in the preceding year. Receipts and payments of Bangladesh under ACU arrangement during the last three years are shown in Table 9.6.

Transactions with the IMF

9.26 Bangladesh was granted a loan of SDR 347.0 million from the IMF in June 2003 under its 3-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 sixth installment under the PRGF of SDR 33.67 million was purchased in November 2006. Total purchase under PRGF stood at SDR 316.73 million at the end of June 2007. No repayment or repurchase was made to the IMF in FY07. Service charges paid to the IMF during the year amounted to SDR 3.39 million. Outstanding liabilities to the Fund at the end of June 2007 stood at SDR 316.73 million (Table 9.7).

Exchange Rate

9.27 Taka-Dollar exchange rate showed a mixed trend during FY07. Initially there was a pressure on the exchange rate due to higher demand in foreign exchange market. Taka-Dollar exchange rate remained almost stable during the 1st two months of FY07. Then it started depreciating trend from the early of September 2006 and continued to move up upto the third week of January 2007. After that Taka appreciated against Dollar up to the beginning of June 2007. Due to adoption of cautious monetary policy together with substantial inflow of foreign exchange from the sources of exports and wage earners' remittances, Taka started gaining over US Dollar in the mid January 2007. During January-June 2007, Taka appreciated by 1.57 percent (nominal monthly average) against US Dollar.

Changes in Foreign Exchange Regulations

9.28 The major changes in foreign exchange regulations in FY07 were as under:

a) Export subsidy for export of Halal meat will be given at 20 percent during FY07.

b) Cash incentives for export of selected items during FY07 is as follows; 5 percent for export oriented local textile sector, 10 percent for frozen shrimp and fishes, 15 percent for leather products, 15 percent and 20 percent (depend on using local material) for products made by hoogla, straw, coir of sugar cane, 10 percent for tobacco, 10 percent for potato, 15 percent for bicycle and crust bone, 7.5 percent for jute products, 15 percent for hatching eggs and day-old chicken of poultry industries, 10 percent for light engineering products and 20 percent for agro and agro processing products.

c) 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 1 July 2005 to 30 June 2008.

d) On August 2006, it was decided that term loans in Taka for capacity expansion/BMRE of foreign owned/controlled industrial firms may henceforth be extended/renewed by banks without prior approval of Bangladesh Bank provided that: 1) the term loan in Taka does not exceed, as percentage of total term borrowing, the percentage of equity of the firm/company held by Bangladeshi nationals and firms/companies not owned or controlled by foreigners, and 2) total debt of the firm/company does not exceed the 50:50 debt equity ratio. Besides, if requested, Bangladesh Bank may give consent to term borrowing proposals not confirming with the stipulations stated above.

e) For implementation of Uniform Customs and Practices for Documentary Credits (UCPDC-600), 2007 Revision, the Authorized Dealers (ADs) are advised to explicitly mention that UCPDC-600 shall apply for all Letters of Credit (LCs) to be opened from 1 July 2007. Similarly, in case of exports from Bangladesh against

LCs, the ADs must ensure that the terms of the LCs are in conformity with the rule of UCPDC-600. If otherwise, ADs shall get the LCs amended accordingly.

Anti-money Laundering Surveillance

9.29 Bangladesh continued its effort during FY07 to combat money laundering under the Money Laundering Prevention Act, 2002 by building awareness in the financial community and monitoring suspicious transactions and large cash transactions carry out in the banking sector as well as non-banking financial sector and disseminating information to the law enforcement agencies. During FY07, Bangladesh Bank procured analytical software, the most sophisticated tools used in the various Financial Intelligence Units (FIUs) all over the world, basically used to analyze the information on suspicious transactions from reporting organizations/ agencies to identify the ownership of actual transactions in cases of money laundering.

9.30 An administrative order was issued on 16 May 2007 to set up FIU in AMLD with a view to creating a strong database for financial crimes and fighting effectively against those crimes. All necessary steps have been taken to ensure the security and confidentiality of FIU. Now the FIU is working actively to establish relationship with other FIUs around the globe to get benefit from exchanging views, experiences and information.

9.31 Bangladesh Bank received 91 suspicious transaction reports (STR)/complaints from the banks. 17 commercial banks have been penalized under the provision of Money Laundering Prevention Act, 2002 (MLPA) for non-compliance of Bangladesh Bank instructions/guidelines.

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

9.33 As per Money Laundering Prevention Act, 2002, Bangladesh Bank has been conducting massive training programme to create awareness among the officials of commercial banks. Apart from this, almost all branch managers of all commercial banks have already been trained up under managers' conference programme in continuation of FY06.

9.34 During the year under report, Anti-Money Laundering Department represented Bangladesh in different international conferences/meetings/workshops related to money laundering, terrorist financing and strengthening co-operation with other countries in its drive against money laundering and terrorist financing.