External Sector

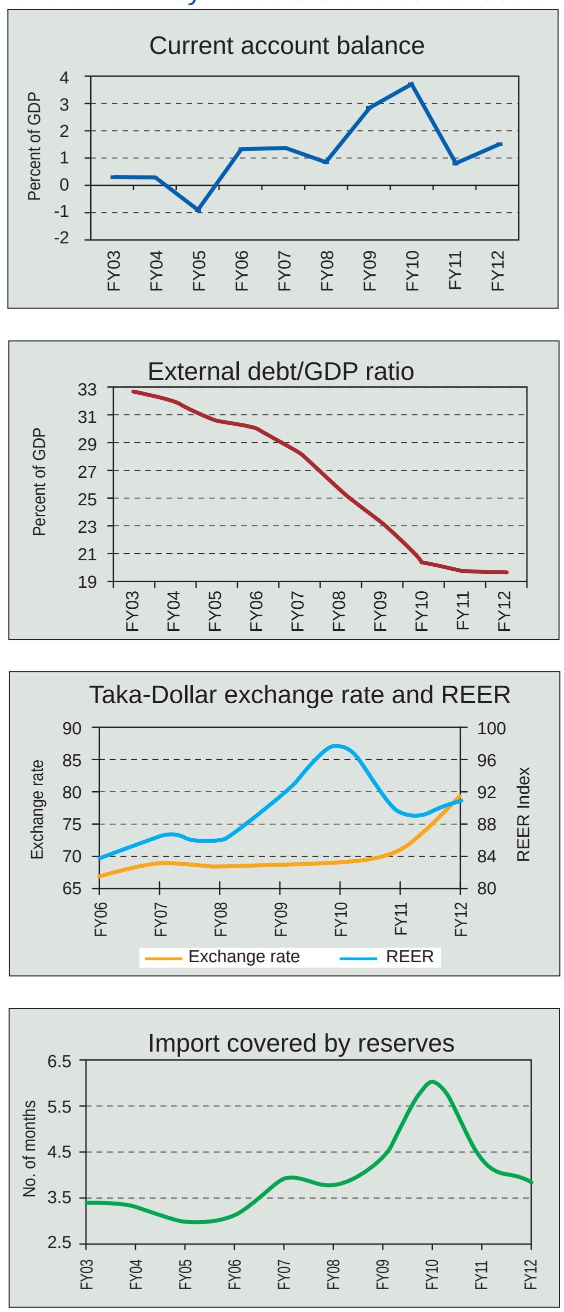
International Economic Environment

10.1 Global prospects are gradually strengthening again after experiencing a major setback during 2011, though the downside risks remain elevated. Improved activity in the United States during the second half of 2011 and better policies in the Euro area in response to its deepening economic crisis have reduced the threat of a sharp global slowdown. However, the recent improvements are very fragile. The Euro area is still projected to go into a mild recession in 2012 owing to the sovereign debt crisis and a general loss of confidence, the effects of bank deleveraging on the real economy and the impact of fiscal consolidation in response to market pressures. Because of the problems in Europe, performance of the advanced economies may deteriorate as a group. The West including the trading partners of Bangladesh (the US and the Euro area) are still facing an era of austerity due to the need for people and firms to reduce their debt.

External Trade and the Balance of Payments - the Overall Situation

10.2 The overall performance of the external sector somewhat improved by a higher current account surplus during FY12 compared to that of FY11. Despite the domestic and international inflationary pressure and ongoing spillover effects of the turbulent external economic conditions, Bangladesh has been able to maintain her export competitiveness in major export products. Output and investment activities in

Chart 10.1 Key indicators of external sector



the economy paced up in FY12 rather faster than anticipated. Both exports and imports maintained growth rates above five percent. Imports remained growth oriented in FY12; only about one eighth of total imports was of food grains and other consumption goods, the remainder being fuel oil, production inputs and capital goods. Trade deficit kept widening despite strong export growth from a lower base.

Despite strong inflows of foreign exchange through higher export receipts and remittances, Bangladesh economy could not pace up with the higher import payments. The trade deficit together with weak net capital account inflows forced the exchange rate to depreciate. Trends of some major external sector indicators may be seen in Chart 10.1.

10.3 The surplus in current account balance and the less financial outflows led the Balance of Payments (BoP) to record a surplus of USD 494.0 million in FY12. Nonetheless, the acceleration of productive demand has provided an impetus for the growth in gross imports, leading to a higher trade deficit in recent months. To strengthen BoP in the medium to long term, non-debt creating and long term financial flows such as FDI need to be encouraged. Towards this end, progressive measures have already been taken to promote financial openness and enhance the investment climate.

10.4 Merchandise exports (fob) increased by USD 1400.0 million (or 6.2 percent) in FY12 to USD 23992.0 million (Appendix-2, Table-XVI). Though fertiliser, raw jute and terry towel recorded negative growth of about 55.4, 25.5 and 23.3 percent respectively, all other major exportable items showed positive growth. Growth of export of engineering products (21.3 percent), woven garments (13.9 percent), footwear (12.7 percent), leather (10.9 percent), tea (6.3 percent) and knitwear (0.1 percent) contributed to increase the growth of merchandise exports in FY12 over FY11. The export of miscellaneous products, subsumed under the "others" category showed a positive growth of 13.6 percent in value terms during FY12. However, as a percentage of GDP, exports increased by 0.6 percentage point from 20.2 in FY11 to 20.8 in FY12.

10.5 Merchandise imports (fob) increased by USD 1651.0 million (or 5.4 percent) in FY12 to USD 31987.0 million. Imports of staple fibre, sugar, oil seeds, edible oil, milk and cream, POL, textile & articles thereof, clinker, tanning & dyeing extracts, fertiliser and crude petroleum increased in FY12. On the other hand, import payments declined for rice (65.3 percent), wheat (43.3 percent), raw cotton (22.5 percent), pulses (all sorts) (16.8 percent) and capital machinery (13.7 percent). Imports (fob) as a percentage of GDP increased by 0.6 percentage point from 27.1 in FY11 to 27.7 in FY12.

10.6 The trade deficit widened slightly by 3.2 percent in FY12 owing to the relatively larger expansion in import expenditure compared to the increase in export earnings. It increased from USD 7744.0 million in FY11 to USD 7995.0 million in FY12. The deficit on the services account, however, widened by USD 197.0 million to USD 2566.0 million in FY12 from USD 2369.0 million in the previous year. The deficit on the primary income accounts widened slightly to USD 1508.0 million in FY12 from USD 1454.0 million in FY11. Secondary income increased substantially from USD 12452.0 million in FY11 to USD 13699.0 million in FY12. Workers' remittances increased by USD 1193.0 million to USD 12843.0 million in FY12 from USD 11650.0 million in FY11. The net outcome of all these

Box 10.1

Financial Intelligence: Bangladesh Aspect

Bangladesh Financial Intelligence Unit, as Bangladesh's AML/CFT regulator, is responsible for implementing the provisions of respective laws assessing the overall picture of current level of ML/TF activities, vulnerabilities and emerging threats. BFIU, in collaboration with other government agencies, has continued its effort to establish an AML/CFT regime fully compliant with the international standards and best practices including the UN Conventions and Resolutions. One of the key elements of strong AML/CFT regime is timely collection, analysis and dissemination of financial intelligence. In this regard, Bangladesh has made some significant developments in recent years.

Legal framework: To make the country's AML/CFT legal framework in line with the international requirements, the Government has enacted Money Laundering Prevention Act (MLPA), 2012, repealing the MLPA 2009. The Government has also updated the Anti Terrorism Act 2009 and enacted the Anti Terrorism (Amendment) Act, 2012 amending some provisions of the earlier act. Mutual Legal Assistance in Criminal Matters Act, 2012 has also been enacted for smooth cooperation among the government authorities and with the agencies of foreign countries in ML/TF issues. Moreover, money laundering and terrorist financing have been included in the schedule of the Extradition Act, 1974. Besides, the AML/CFT legal framework is also supported by many other laws including the Code of Criminal Procedures, 1898, Anti Corruption Commission Act, 2004, Customs Act, 1969, and Banker's Book Evidence Act, 1891.

Domestic co-operation: As per MLPA 2012, BFIU analyses the suspicious transaction report submitted by different reporting agencies and disseminates the financial intelligence obtained from these reports to its partner agencies to assist them in their investigation. To reinforce the sharing of financial intelligence, BFIU has been arranging regular meeting with Anti Corruption Commission, Bangladesh Police and other government agencies.

International co-operation: BFIU works closely with its international counterparts to contribute in international AML/CFT efforts. As per MLPA, BFIU can exchange financial intelligence with its international counterparts. BFIU has made 68 requests to foreign FIUs and received 14 requests from foreign FIUs for financial information during 2009-2011. To enhance further cooperation, BFIU has signed MoU with 11 countries. Moreover, BFIU has taken necessary steps to become a member of Egmont group (the association of FIUs). This membership will allow BFIU to access a wider global platform and will establish a healthy relationship with 117 countries by exchanging views, experiences and information.

Supervision: BFIU supervises the reporting agencies' AML/CFT activities as per the circulars and guidance notes issued by it. BFIU acquires financial intelligence through onsite and offsite supervision over its reporting agencies. As a part of off-site supervision, BFIU receives Cash Transaction Report (CTR) and Suspicious Transaction Report (STR) from the reporting agencies and then analyses these reports to find out whether any of those is involved in ML/TF activities. It also conducts onsite inspection to appraise reporting agencies' compliance and to collect financial information from them.

Capacity & awareness building: BFIU has developed a rich database of financial intelligence relating to Suspicious Transaction Report (STR), Cash Transaction Report (CTR) and the data received from other sources. It has also established MIS to preserve and update all the information and to generate necessary reports using the MIS. It has already finalised the procurement process of 'goAML' software for online reporting of CTRs and STRs and analysis of those. BFIU's financial intelligence is much dependent on the capacity and awareness of the persons involved in financial transactions. In this regard, BFIU is also carrying out a capacity building programme for other regulatory authorities and reporting agencies. To build awareness on AML/CFT issues, BFIU is also arranging various training programmes, workshops, seminars, road shows etc. Last year, 3235 officials from different reporting agencies attended various programmes arranged by BFIU.

Formulation of national AML/CFT strategy: A time bound national AML/CFT strategy has been formulated to set comprehensive medium term goals, objectives and action agenda in strengthening the country's AML/CFT capacities and facilities for full implementation of FATF Standards, UN Conventions and Resolutions.

Scope of further developments: There is scope to further develop a system for gathering and analysing financial intelligence in the country. In this regard, the following steps may be taken:

- Develop IT infrastructure of BFIU for automated reporting and analysis.
- Increase co-operation among the relevant authorities.
- Manage the database of relevant agencies electronically so that AML/CFT related information can be shared timely with other relevant agencies.
- Increase cooperation with international counterparts through signing more MoUs.
- Continue effort to obtain Egmont Group Membership.

widened the current account surplus from USD 885.0 million in FY11 to USD 1630.0 million in FY12. Current account balance as a percentage of GDP stood at 1.4 in FY12 against 0.8 in FY11.

10.7 The surplus in current account balance with the huge increase in both FDI (net) and portfolio investment in the financial account contributed to convert the BoP deficit of USD 656.0 million in FY11 into a surplus of USD 494.0 million in FY12. Table XVI of Appendix-2 shows the balance of payments statement for FY12 and FY11. Chart 10.2 portrays the trends of trade, current account and overall balances as a percentage of GDP in recent years.

10.8 The FDI is a potential source of foreign exchange reserves. Despite global financial turmoil, domestic power and energy shortages, as per primary estimation net FDI inflows in Bangladesh increased by 28.4 percent to USD 995.0 million in FY12 from USD 775.0 million in FY11.

10.9 The external sector is expected to strengthen further in FY13 with the gradual recovery in the global economy, easing global market liquidity and improved growth prospects in the domestic economy.

Exports (fob)

10.10 Total exports in FY12 had a satisfactory growth over FY11 despite global economic slowdown. Aggregate exports increased by 5.9 percent in FY12 to USD 24287.7 million from USD 22924.4 million in FY11.

Destination

10.11 The destination pattern of exports excluding those from EPZs in FY12 showed continued heavy dependence on the markets in Europe. 52.5 percent of exports were

Chart 10.2

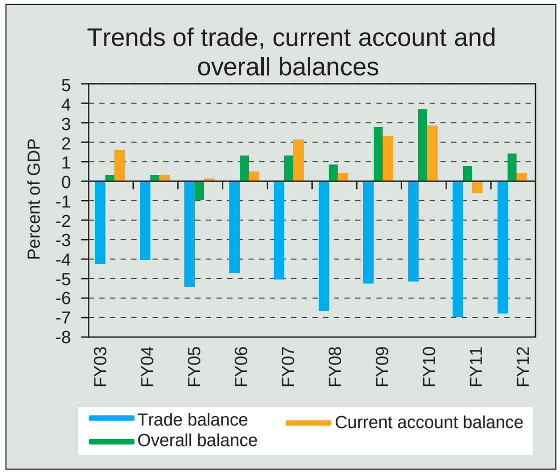


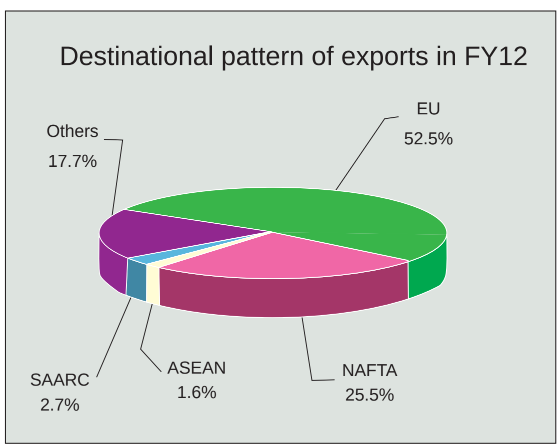
Table 10.1 Composition of merchandise exports

(million US Dollar)

Items	FY11	FY12	% change
1) Raw jute	357.3	266.3	-25.5
2) Jute goods	757.7	701.1	-7.5
3) Tea	3.2	3.4	6.3
4) Leather and leather products	297.8	330.2	10.9
5) Frozen shrimps and fish	611.3	579.8	-5.2
6) Woven garments	8432.4	9603.3	13.9
7) Knitwear products	9482.1	9486.4	0.1
8) Fertiliser	39.5	17.6	-55.4
9) Petroleum by-product	260.7	275.4	5.7
10) Engineering products	309.6	375.5	21.3
11) Terry towel	120.1	92.1	-23.3
12) Footwear	297.8	335.5	12.7
13) Others	1958.7	2221.0	13.4
Total:	**22928.2**	**24287.7**	**5.9**

Source: Export Promotion Bureau.

Chart 10.3



destined for the EU bloc while another 25.5 percent entered into the NAFTA bloc. Of the total exports in FY12, 1.6 percent went to the ASEAN countries, 2.7 percent to the SAARC countries and 17.7 percent went to other regions (Chart 10.3).

Composition

10.12 **Readymade garments (woven and knitwear):** Woven and knitwear products, which constituted about 78.6 percent of total export earnings, registered a high increase in receipts, from USD 17914.5 million in FY11 to USD 19089.7 million in FY12. Woven and knitwear products grew at 13.9 percent and 0.1 percent respectively in FY12.

10.13 **Frozen food:** The frozen food sector, comprising principally of shrimps registered a decrease in earnings during FY12. Receipts from exports of shrimp and fish decreased by 5.2 percent from USD 611.3 million in FY11 to USD 579.8 million in FY12.

10.14 **Raw jute:** In FY12, raw jute export declined by 25.5 percent to USD 266.3 million from USD 357.3 million in FY11.

10.15 **Jute goods (excluding carpets):** The export of jute goods declined by 7.5 percent from 757.7 million in FY11 to USD 701.1 million in FY12.

10.16 **Leather:** Export earnings from leather increased by 10.9 percent to USD 330.2 million in FY12 from USD 297.8 million in FY11.

10.17 **Tea:** Export earnings from Tea increased by 6.3 percent to USD 3.4 million in FY12 from USD 3.2 million in FY11.

10.18 **Fertiliser:** Export earnings from fertiliser decreased by 55.4 percent to USD 17.6 million in FY12 against USD 39.5 million in FY11.

Export Promotion and Diversification

10.19 The Government has taken all necessary initiatives for further strengthening the external sector to improve its resilience, competitiveness and responsiveness to changing external conditions. The Government has taken initiative to diversify the export sector in order to reduce dependence on the limited export commodities and to ensure commodity supply at competitive price in the world market. Use of modern technology in the business, simplification of export-import 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 received the 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.

10.20 In order to facilitate export of the country, Export Development Fund (EDF) was increased from USD 400.0 million to USD 500.0 million in 21 July 2011. The revolving EDF is used to provide refinancing facilities to the AD banks in financing direct & deemed exporters in garments, textile, bi-cycle and BTMA member mills for import of primary and intermediary raw materials, accessories and packaging materials with a single borrower exposure up to a maximum limit of USD 10.0 million. The interest rate on USD under EDF was changed to six-month LIBOR+2.5 percent. Out of that LIBOR+1 percent is for EDF and the rest 1.5 percent is for the concerned AD banks. Total disbursement from EDF in FY12 stood at USD 1261.9 million as against USD

998.6 million in FY11. The outstanding balance at the end of June 2012 stood at USD 498.9 million, which was USD 400.0 million in FY11.

Imports (fob)

10.21 Import payments (fob) in FY12 increased from USD 30336.0 million in FY11 to USD 31987.0 million registering a growth of 5.4 percent with double digit positive growth for some of importables like staple fibre (137.8 percent), sugar (80.0 percent), oil seeds (71.8 percent) and edible oil (54.1 percent), milk & cream (37.3 percent), POL (21.8 percent) (Table 10.2). There was significant growth in other food items, which increased by 49.7 percent to USD 3600.0 million in FY12 from USD 2404.0 million in FY11. There was significant negative growth in imports of capital machinery (13.7 percent). Import of capital goods and others increased by 5.7 percent to USD 12118.0 million in FY12 from USD 11461.0 million in FY11 (iron, steel & other base metal increased by 11.0 percent and others by 10.6 percent). However, food grains import decreased substantially by 52.9 percent to USD 901.0 million in FY12 from USD 1911.0 million in FY11 mainly due to the 65.3 percent and 43.3 percent negative growth in rice and wheat import respectively. Consumer and intermediate goods import increased by 6.6 percent to USD 16783.0 million in FY12 from USD 15741.0 million in FY11. Import by EPZs decreased by 1.2 percent to USD 2114.0 million in FY12 from USD 2140.0 million in FY11.

Terms of Trade

10.22 The terms of trade decreased marginally by 0.7 percent in FY12 over FY11

Chart 10.4

Table 10.2 Composition of merchandise imports

(million US Dollar)

Items	FY11	FY12^{P}	% change
A. Food grains	**1911**	**901**	**-52.9**
1. Rice	830	288	-65.3
2. Wheat	1081	613	-43.3
B. Other food items	**2404**	**3600**	**49.7**
1. Milk & cream	161	221	37.3
2. Spices	127	138	8.7
3. Oil seeds	103	177	71.8
4. Edible oil	1067	1644	54.1
5. Pulses (all sorts)	292	243	-16.8
6. Sugar	654	1177	80.0
C. Consumer and intermediate goods	**15741**	**16783**	**6.6**
1. Clinker	446	504	13.0
2. Crude petroleum	888	987	11.1
3. POL	3221	3922	21.8
4. Chemical	1254	1210	-3.5
5. Pharmaceutical products	116	119	2.6
6. Fertiliser	1241	1381	11.3
7. Tanning & dyeing extracts	333	375	12.6
8. Plastics & rubber articles thereof	1302	1366	4.9
9. Raw cotton	2689	2084	-22.5
10. Yarn	1391	1384	-0.5
11. Textile & articles thereof	2680	3023	12.8
12. Staple fibre	180	428	137.8
D. Capital goods and others	**11461**	**12118**	**5.7**
1. Iron, steel & other base metal	2004	2224	11.0
2. Capital machinery	2324	2005	-13.7
3. Others	7133	7889	10.6
E. Imports by EPZ	**2140**	**2114**	**-1.2**
Total import (c&f)	33657	35516	5.5
Less (-) freight & others	3321	3529	6.3
Total import (fob)	**30336**	**31987**	**5.4**

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

due to significant increase in import prices over export prices. Both the import price index and export price indices have increased by 8.0 and 7.0 percent respectively in FY12.

Workers' Remittances

10.23 Even in the face of global economic slowdown the inflow of remittances remained strong in FY12 and continued to play an important role in strengthening the current account. Remittance inflows increased by 10.2 percent to USD 12843.4 million in FY12 from USD 11650.3 million in FY11. One of the reasons of this growth was that Bangladesh Bank had simplified the approval policy of drawing arrangements between foreign exchange houses and domestic banks. 39 banks have been permitted for establishing more than 1000 drawing arrangements with 262 exchange houses all over the world for collecting remittances. For better control of the remittance collection, establishment of exchange houses/branch offices abroad by local banks is being encouraged. Under this arrangement, some banks have already established 25 exchange houses/subsidiaries abroad to collect remittances on their own. Some Micro Finance Institutions (MFIs) have been involved for smooth delivery of inward remittances. Banks are now using the branch networks of the MFIs and Bangladesh Post Office as the sub-agents for remittance distribution. Till date 19 MFIs are allowed to perform the job of remittance distribution. These institutions are acting as facilitator in the process by their branches in remote areas. Banks are instructed again to ensure the delivery of remittance to the beneficiary within 72 hours as per existing policy. Several banks are now allowed to distribute remittance using the countrywide outlets of

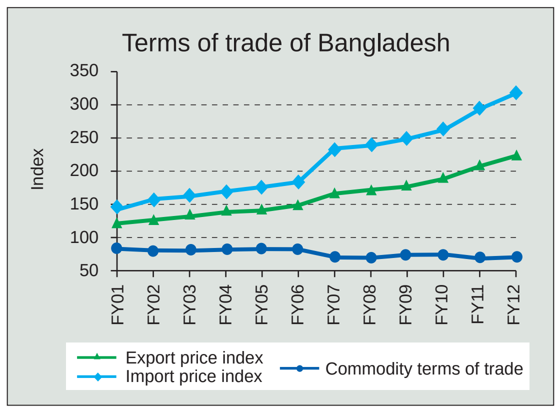
Table 10.3 Terms of trade of Bangladesh

(base: FY96=100)

Year	Export price index	Import price index	Commodity terms of trade
FY00	120.3	136.2	88.4
FY01	123.2	146.4	84.1
FY02	126.2	157.8	80.0
FY03	135.2	164.2	82.4
FY04	139.6	170.0	82.1
FY05	142.4	176.7	80.6
FY06	149.3	183.1	81.5
FY07	165.7	232.5	71.3
FY08	171.3	241.2	71.0
FY09	178.2	248.3	71.8
FY10	188.9	262.4	72.0
FY11	208.5	294.6	70.8
FY12[p]	223.1	318.2	70.1

P= Provisional.
Source: Bangladesh Bureau of Statistics.

Chart 10.5



mobile operators like Grameenphone, Banglalink & Robi. The shares of major source countries in the remittance receipts of FY11 and FY12 are given at Chart 10.6.

Foreign Aid

10.24 Total official foreign aid disbursement increased by 14.4 percent to USD 2033.0 million in FY12 from USD 1777.0 million received in FY11 (Table 10.4). Food aid disbursements stood at USD 69.0 million which was USD 55.0 million in FY11. The disbursement of project assistance stood at USD 1964.0 million in FY12, which was USD 1722.0 million in FY11. It should be mentioned that no commodity aid was received in FY12 as in the preceding year. Total outstanding official external debt as of 30 June 2012 stood at USD 22775.0 million (19.7 percent of GDP in FY12) against USD 22086.0 million as of 30 June 2011 (19.7 percent of GDP in FY11). Repayment of official external debt stood at USD 967.0 million (excluding repurchases from the IMF) in FY12. This was USD 38.0 million or 4.1 percent higher than the repayment of USD 929.0 million in FY11. Out of the total repayments, principal payments amounted to USD 770.0 million while interest payments stood at USD 197.0 million in FY12 against USD 729 million and USD 200.0 million respectively in FY11. The debt-service ratio as percentage of exports was 4.0 in FY12.

Foreign Exchange Market Operations

10.25 Under the managed floating exchange rate regime, banks are free to set their own rates for inter-bank and customer transactions. The exchange rate is being determined based on market demand and supply forces of the respective currencies. Bangladesh Bank may purchase and sell US dollar as and when it deems necessary to maintain stability in the foreign exchange market. During July-September 2011, Taka-Dollar exchange rate was almost stable. However, from October 2011-January 2012, export growth decreased significantly. Whereas, there was huge payment pressure and Taka-Dollar exchange rate showed a depreciating trend and reached up to 84.5 on 29 January 2012. From the middle of FY12, inward remittances had a robust growth and Taka-Dollar exchange rate appreciated to 81.5 on 23 February 2012 and remained almost stable. In FY12, Taka-Dollar exchange rate moved within the range of 73.4 to 84.5 and during the period it depreciated by 10.0 percent and reached at 81.8 at the end of the year. During FY12, BB intervened in both sides of the foreign exchange market, which helped to prevent erratic undue movements in the exchange rates, to ensure adequate liquidity in the domestic foreign exchange market and to build official reserves.

Bangladesh Bank purchased USD 157.0 million (net) and sold USD 781.0 million in the year to make the foreign exchange market stable. As a part of better liquidity support in the domestic foreign exchange market, BB also provided overdraft facility to a few banks through F/C Clearing Accounts which had been recovered within the year. The volume of inter-bank foreign exchange transactions in FY12 stood at USD 29696.6 million which included spot, forward, swap transactions and was 97.7 percent higher than that of the USD 15020.3 million in FY11.

Foreign Exchange Reserves

10.26 The gross foreign exchange reserves held by Bangladesh Bank comprise holdings of gold and foreign exchange, the reserve position with the IMF and holding of Special Drawing Rights (SDR) with the IMF. The net international reserves remained above USD 10000.0 million in FY12. Despite the quantitative easing in the US economy, worries about debt crisis and austerity plan of euro-zone, downgrading of sovereign rating of a number of euro-zone economies by major rating agencies; Bangladesh Bank maintained stability in retaining foreign exchange reserves. The gross foreign exchange reserves of Bangladesh Bank had reached a high level of USD 10995.0 million as on 24

August 2011. At the end of FY12, it was USD 10364.4 million which was 5.02 percent lower than that of USD 10912.0 million at the end of FY11 (Table 10.5). In order to strengthen the long term stability of the country's reserves and diversify the external asset portfolio the BB invested in sovereign/supranational/ highly reputed corporate bonds, Treasury bills of the US Government and in short term deposit with highly reputed commercial banks.

Reserve Management Strategy

10.27 The BB's reserve management strategy and operational procedures are strongly influenced by developments of the financial markets and by various aspects of the policy environment in which the BB operates. The most relevant elements of policy environment in which reserve management operates are monetary policy framework, the exchange rate policy & regime and external debt position. After switching over from pegged exchange rate regime to floating regime in May 2003, BB brought about significant changes in the monetary management in relation to its reserve management mechanisms. Reserve management operations are currently performed by Reserve Management Guidelines duly approved by the Board of Directors of the Bangladesh Bank. Main objectives of the BB for holding foreign exchange reserves include maintenance and safety of adequate level of reserves to cover imbalances in the balance of payment, to maintain confidence in the external value of Taka and as a store value to protect the economic well being of the country. Other integral parts of reserve management are to meet foreign debt obligations, liquidity of reserves for the purpose of exchange rate management, stimulating exports and growth, minimising exchange rate volatility and finally, earning optimal return from the reserves assuming controlled risks in a prudent manner that will

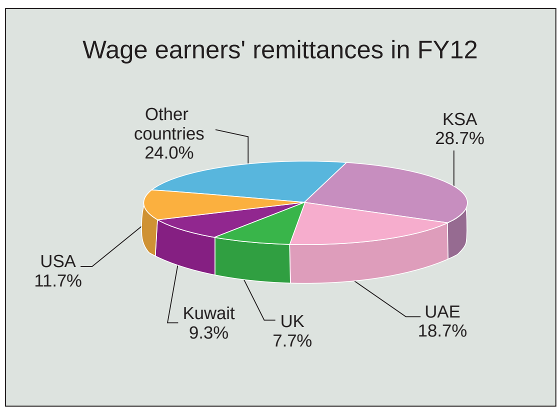
Table 10.4 Foreign aid receipts and debt repayments*

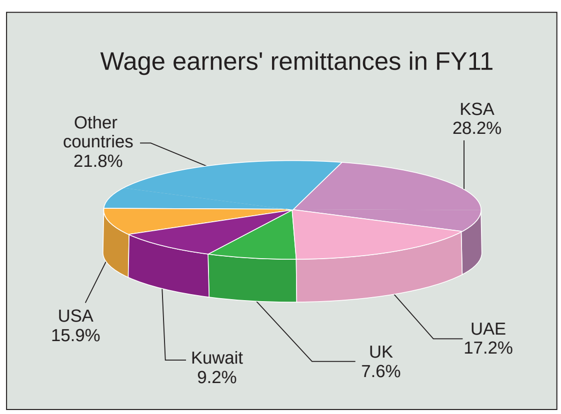
(million US Dollar)

Particulars	FY10	FY11^R	FY12^P
1. Receipts	2228	1777	2033
i) Food aid	93	55	69
ii) Commodity aid	-	-	-
iii) Project aid	2134	1722	1964
2. Repayments (MLT)	878	929	967
i) Principal	687	729	770
ii) Interest	191	200	197
3. Outstanding external debt as of end June	20336	22086	22775
4. Outstanding external debt as percentage of GDP	20.3	19.7	19.7
5. External debt services (MLT) as percentage of exports	5.4	4.1	4.0

P= Provisional, R= Revised.
* Excluding transactions with the IMF.

Chart 10.6





preserve the nominal value of the reserves. To contain counterparty risk, BB diversifies its investments out of its reserves among a number of internationally reputed central and commercial banks' bonds and bills having good credit ratings assigned by the international rating agencies (Standard and Poor's, Moody's & Fitch). With a view to minimising exchange rate risk, currency composition has been diversified among the major currencies. Investment duration and currency benchmark are carefully followed to minimise interest rate risks, while reserve management and investment functions have been segregated among three independent reporting units viz., front office, middle office and back office to mitigate operational risks. However, keeping in view the stipulated liquidity restrictions and market & credit risk limits, BB diversified its portfolio investment into gold, T-bills, repos, short-term deposits including other money market instruments and high rated sovereign, supranational and corporate bonds. BB has been remaining cautious and vigilant regarding placement of funds in banks affected by global financial crisis and are under threat of downgrading by major rating agencies.

Transactions under Asian Clearing Union (ACU)

10.28 Total transactions of Bangladesh under the Asian Clearing Union (ACU) decreased in terms of volume during FY12 compared to the preceding year. Bangladesh remained a net debtor during FY12. Export receipts increased substantially than import payments with the ACU member countries during the year under report. Export of Bangladesh to ACU member countries recorded a decrease of USD 73.96 million or 26.16 percent from USD 282.66 million (Taka 2098.27 crore) in FY11 to USD 208.70 million (Taka 1707.71 crore) in FY12. Import from the ACU member countries also decreased by USD 533.84 million or 10.07 percent from USD 5299.84 million (Taka 39342.25 crore) in FY11 to USD 4766.0 million (Taka 38997.87 crore) in FY12. As a result, the net debtor position of Bangladesh decreased by USD 459.88 million or 9.16 percent to USD 4557.30 million (Taka 37290.16 crore) in FY12 from USD 5017.18 million (Taka 37243.98 crore) in the preceding year. Receipts and payments of Bangladesh under ACU arrangement during the last three years are shown in Table 10.6.

Transactions with the IMF

10.29 In April 2012, the IMF Executive Board approved a loan of SDR 639.96 million for Bangladesh under the Extended Credit Facility (ECF) to be staggered across seven equal instalments in three years. Bangladesh has received SDR 91.42 million under the ECF in 11 April 2012.

In FY12, repayment was made against the Poverty Reduction and Growth Facility (PRGF) loan amounting to SDR 59.98 million to the IMF. The outstanding principal liabilities under the PRGF stood at SDR 185.67 million at the end of FY12. On the other hand, in FY12, repayment against the Emergency Natural Disaster Assistance Programme (ENDA) loan was amounting to SDR 66.66 million to the IMF and outstanding principal liabilities under the facility stood at SDR 66.67 million at the end of FY12. The total principal outstanding liabilities to the IMF at the end of June 2012 stood at SDR 343.76 million. Service charges paid to the IMF during FY12 amounted to SDR 2.95 million (Table 10.7).

Exchange Rate Movement

10.30 Since the adoption of floating exchange rate system with effect from 31 May 2003, exchange rate is being determined on the basis of demand and supply of the respective currencies. Banks are now free to set their own rates for interbank and customer transactions. However, in order to maintain orderly market conditions Bangladesh Bank remains vigilant over the developments in the foreign exchange market. Bangladesh observed overall 10.0 percent depreciation against US dollar in FY12 due to higher import demand for enhanced domestic investment activities (caused huge foreign exchange demand for import of capital goods) and increase in fuel price. The weighted average interbank rate stood at Taka 81.83 per USD as on end June 2012 against 74.23 as on end June 2011. Bangladesh Taka remained almost stable in first, third and fourth quarter of FY 12. Bangladesh experienced 8.16 percent depreciation of Taka against USD in the second quarter of this fiscal year. But at the third and fourth quarter of this fiscal year, Taka has regained its strength and appreciated due to prudent monetary policy. Strong growth of remittance from wage earners abroad (10.2 percent) and flow of foreign aid with rationalisation of import payment and moderate growth of export (6.2 percent) helped to keep Bangladesh Taka competitive in this fiscal year. Bangladesh Bank remained vigilant in its role in the foreign exchange market in order to achieve its monetary policy goal and to ensure stability in the foreign exchange market

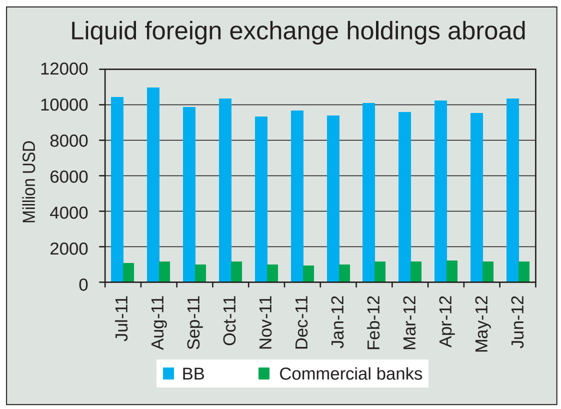
Table 10.5 Gross foreign exchange reserves of the Bangladesh Bank

(end month, million USD)

Months	FY08	FY09	FY10	FY11	FY12
July	5042	5820	7741	10749	10381
August	5225	5966	9156	10992	10914
September	5158	5863	9363	10834	9884
October	5410	5551	9545	11160	10338
November	5095	5245	10336	10700	9285
December	5515	5788	10345	11174	9635
January	5387	5577	10098	10382	9386
February	5978	5872	10555	11159	10067
March	5302	5953	10142	10731	9579
April	5773	6509	10602	11316	10193
May	5335	6563	10146	10431	9520
June	6149	7471	10750	10912	10364

Source: Accounts and Budgeting Department, BB.

Chart 10.7



Changes in Foreign Exchange Regulations

10.31 Bangladesh Bank in its ongoing endeavour to ease the foreign exchange restrictions has embarked upon the following notable changes on exchange arrangements during FY12:

a) To facilitate inflow of foreign exchange from export of services like information technology enabled services, business process outsourcing, business services, professional services, research/consultancy/advisory to services, authorised dealers have been instructed to accommodate the proceeds of inward remittances received from abroad against services rendered from Bangladesh in non-physical forms subject to observance of simple formalities. Moreover, it has been clarified that up to 50 percent of such proceeds may be retained in exporters' retention quota account in the name of concerned exporter.

b) In light of recent usance interest rate trends on public sector import financing, it has been decided that for private sector imports on usance terms the interest rates may bear mark ups over LIBOR according to the prevailing market conditions subject to overall interest cost not exceeding 6.0 percent per annum. Besides obtaining trade credit from suppliers, the revised interest level will be applicable also for buyers' credits from foreign banks and financial institutions arranged through designated authorised dealers of the importers in Bangladesh. To encourage obtaining overseas short-term loan for financing import, it has been decided that interest rate to be applicable for importing under usance basis or against buyers' credits from banks and financial institutions abroad arranged through designated authorised dealer banks may be up to 6.0 percent p.a.

c) To facilitate the export sector, Government decided to continue cash incentive/export subsidy against export of various items under 19 categories for FY12. The categories are (i) textile (ii) products made by hoogla, straw, coir of sugar cane (iii) agriculture and agro processed products (iv) bicycle (v) crust bone (vi) hatching eggs and day old chicks (vii) light engineering products (viii) liquid glucose manufactured in Ishwardi EPZ (ix) halal meat (x) frozen shrimp and other fishes (xi) leather goods (xii) ship (xiii) new product/new market (other than USA, Canada, EU) (xiv) finished leather (xv) crust leather (xvi) additional incentive for SME in textile sector (xvii) potato (xviii) plastic pet bottle flex (xix) jute goods.

d) Bangladesh Bank has allowed International Credit Card (ICC) for online payment of membership fees of foreign professional and scientific institutions and fees for application, registration, admission, examination (TOEFL, SAT etc.) in connection with admission into foreign educational institutions through internet. BB has also allowed that individuals not holding ICCs in their names may also make such online payment through internet using 'Virtual Card' for the required amount by an ICC issuing bank for use through its designated bank branch.

e) Decision has been made that along with the opportunity of maintaining foreign currency clearing account with Bangladesh Bank in US Dollar, Pound Sterling, Euro and Japanese Yen, ADs may open foreign currency clearing account with Bangladesh Bank in Canadian Dollar also.

Table 10.6 Receipts and payments of Bangladesh under the ACU

(million US Dollar)

Head of transaction	FY10	FY11	FY12	% change
1. Receipts (export)	144.81	282.66	208.70	26.16%
	(1006.50)	(2098.27)	(1707.71)	
2. Payments (import)	3175.37	5299.84	4766.00	10.07%
	(22069.28)	(39342.25)	(38997.87)	
Net : surplus (+)/	-3030.56	-5017.18	-4557.30	9.16%
deficit (-)	(-21062.78)	(-37243.98)	(-37290.16)	

Note: Figures in parentheses indicate Taka in crore.
1 ACUD = 1 USD; 1 USD = 81.83 Taka.

Table 10.7 Outstanding principal liabilities against the facilities received from the IMF

(million SDR)

Facility	Amount Drawn/ purchased up to June 2008	Outstanding principal liability as of end June 2011	Instalment repayment in FY12	Outstanding principal liability as of end June 2012
PRGF, June 2003	316.73	245.65	59.98	185.67
Emergency/ Natural Disaster Assistance, April 2008	133.33	133.33	66.66	66.67
ECF April 2012	91.42	-	--	91.42
Total :	**541.48**	**378.98**	**126.64**	**343.76**

Source: Forex Reserve and Treasury Management Department, BB.

f) To facilitate smooth repatriation of remittance against Off-shore IT/business process outsourcing services provided by Bangladeshi freelancers in non-physical form, Bangladesh Bank has allowed ADs to offer the facility of repatriation of remittances against such service exports through Online Payment Gateway Service Providers (OPGSPs). The facility is available for service export of value not exceeding USD 500 per instance.

g) For administrative reason, it has been decided that ADs operating in the districts of Kushtia, Meherpur and Chuadanga will come under the jurisdiction of Bangladesh Bank Rajshahi Office instead of Bangladesh Bank Khulna Office. ADs operating in those districts have been instructed to submit statements/ returns of foreign exchange transactions to Bangladesh Bank, Rajshahi Office.

h) In order to be compliant with international standard in declaration of foreign exchange by incoming passengers, necessary amendments have been made in FMJ Form. The amended FMJ Form consists of 3 (three) sheets - the original copy for Bangladesh Bank, the second copy for customs authority and the third copy for the concerned passenger.

i) According to the 'Ship Breaking and Ship Recycling Regulation-2011', issued by the Ministry of Industry, permission has to be taken from 'Ship Building and Ship Recycling Board (SBSRB)' before opening of letter of credit for import of any scrapped vessel.

j) It has been clarified that non-authorised dealer bank branches and non-bank financial institutions may provide term loans in Taka for capacity expansion/BMRE of foreign owned/ controlled industrial firms only in association with AD bank branches without prior Bangladesh Bank approval provided that (i) the term loan in Taka does not exceed, as percentage of total term borrowing the percentage of equity of the firm/company held by Bangladesh nationals and firms/companies are not owned or controlled by foreigners and (ii) total debt of the firm/company does not exceed the 50:50 debt equity ratio. The prevailing credit norms and regulatory provisions regarding lending including single party exposure limits etc. will have to be duly compiled with.

k) Bangladesh Bank has published a booklet titled ' Bangladesh Bank rules for opening and maintaining of FC accounts" since many people have expressed their interest to know the above rules in easy language. Rules for opening and maintaining of Private FC Accounts, Non-Resident Foreign Currency Deposit (NFCD) Account, and Resident Foreign Currency Deposit (RFCD) Accounts have been described in the booklet which is also available at the website of the Bangladesh Bank.

Anti-money Laundering Surveillance

10.32 Pursuant to section 24 (1) of the Money Laundering Prevention Act, 2012, an independent unit named "Bangladesh Financial Intelligence Unit (BFIU)" has been established, to execute the power and responsibilities conferred to Bangladesh Bank, abolishing the Anti-Money Laundering Department of Bangladesh Bank through an administrative circular of Human Resources Department, dated 25 January 2012. Under the provision of the Money Laundering Prevention Act (MLPA) and Anti Terrorism Act (ATA) BFIU has taken various initiatives and steps to prevent money laundering and terrorist financing throughout the country in FY12.

Reporting Agencies and Their Regulatory Regime

10.33 Insurance Companies, Money Changers, Money Remitters, Securities Market Intermediaries, NGOs/NPOs, Real Estate Developers, Dealers in precious metals and/or stones, Trust and Company Service Providers, Lawyers, Notary, other legal Professionals and Accountants have been included as reporting agencies .

BFIU has issued separate guidance notes on prevention of money laundering for the Insurance Companies and Money Changers on 05/07/2011 and 27/09/2011 respectively.

A number of cases have been disseminated to the Anti-Corruption Commission (ACC) for necessary action after prima facie inspection. BFIU has been monitoring the update of those cases.

A number of bank accounts have been suspended by Bangladesh Bank on suspicion of money laundering and TF under the provisions of MLPA and ATA.

One scheduled bank has been penalised during FY12 for non-compliance with the provisions of the MLPA, 2009. The total number of penalised banks is 22 so far.

Legal System

10.34 The BFIU has performed a major role in drafting the Money Laundering Prevention Act (MLPA), 2012 and Anti-Terrorism (Amendment) Act (ATA), 2012.

BFIU has performed significant role in drafting Mutual Legal Assistance Act 2012 on Criminal Matters for better international cooperation.

Digitalisation and Database Maintenance

10.35 BFIU has received 103 STRs during FY12 and a total of 835 till 24 June 2012. BFIU has finalised the procurement process of 'goAML' software for online reporting of CTR and STR.

BFIU has established a MIS in 20/07/2011 to preserve and update all the information and to generate necessary reports using the MIS.

International Co-operation

10.36 According to the rating of the 2nd Mutual Evaluation Report prepared by Asia Pacific Group on Money laundering (APG), Bangladesh is under International Cooperation and Review Group (ICRG) process since October 2010. As part of the ICRG process Bangladesh has developed a time bound national action plan for the period of 2011-13 to upgrade its AML/CFT regime at par with the international standard. Bangladesh with the dynamic leadership of BFIU has already completed most of the actions properly. As a result, among the ICRG affected countries, only Bangladesh was able to maintain statuesque in improving global compliance.

Bangladesh Financial Intelligence Unit has signed one more MoU this year with Singapore in 14 December 2011, increasing the total number to 11.

Awareness Building Programme

10.37 Bangladesh Financial Intelligence Unit has continued its effort to create awareness among the bank officials; furthermore, it has extended its programme for the officials of other reporting organisations. It has encouraged the banks to conduct a number of training programmes for their officials on AML/CFT in 56 districts and provided support to make the programme successful. It has also encouraged and provided support to other reporting organisations to arrange training programmes for their officials.

Furthermore it has arranged workshops for other law enforcing agencies.

Separate annual conferences for Chief Anti-Money Laundering Compliance Officer (CAMLCO) of banks, financial institutions and insurance companies were held in FY12.

Other Major Initiatives

10.38 BFIU has developed 'National Strategy for Anti Money Laundering and Combating Financing of Terrorism 2011-2013'.

BFIU in collaboration with the Anti Corruption Commission has conducted the AML/CFT risk and vulnerabilities assessment in Bangladesh and drafted the National AML/CFT Risk and Vulnerability Assessment Report.

BFIU is performing the duties as the secretariat of the Finance Minister headed National Coordination Committee (NCC), to formulate top level policy on AML/CFT issues and to determine the work procedure to implement the policies. Three meeting of this committee were held in FY12.

The Government of Bangladesh restructured the inter agency task force on stolen asset recovery headed by the Governor, Bangladesh Bank with a view to repatriate the stolen assets from abroad. BFIU is working as the secretariat of the task force.

As a whole, Bangladesh Financial Intelligence Unit has taken appropriate initiatives to meet the core objectives of MLPA and ATA during FY12. BFIU is strengthening itself in order to face the extended challenges of upcoming years.