

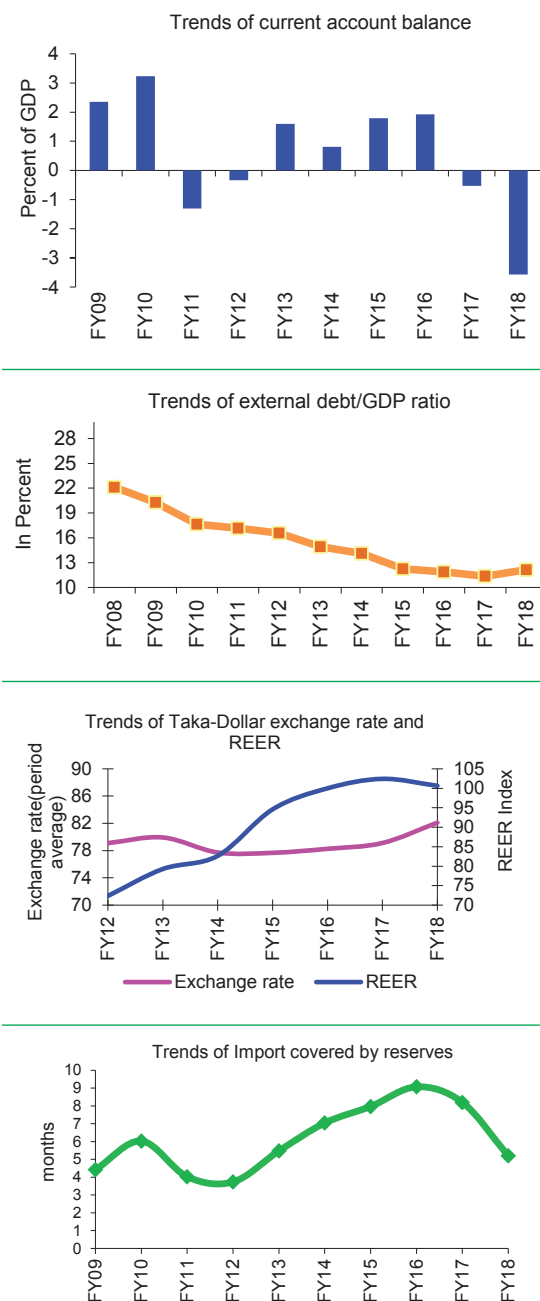
External Sector

External Trade and the Balance of Payments

11.1 Global economies trade situation as well as increasing oil price, and market pressures on the currencies of some economies still experienced unstable. As a consequence, the external sector of Bangladesh delves into a setback during FY18. Overall balance turned into a deficit due to massive current account deficit. Higher import growth along with a meagre exports growth led to higher trade deficit. As a result, current account deficit widened significantly. However, the sharp increase in import reflects higher demand for investment goods and food imports due to flood related weather shocks.

11.2 The current account deficit, which was 0.5 percent of GDP in FY17, expanded to 3.6 percent of GDP in FY18. Nominal exchange rate stood at BDT 82.1 as of end June 2018 compared to BDT 79.1 as of end June 2017 (period average). The nominal effective exchange rate (NEER) of BDT, calculated against a trade weighted 15 currency basket (base: FY16=100), depreciated by 4.5 percent in FY18. Similarly, the real effective exchange rate (REER) of BDT depreciated by 1.7 percent in FY18. Foreign exchange reserve stood at USD 32.94 billion at the end of June 2018; reserve coverage of imports decreased but remains broadly adequate at around 5.5 months prospective imports. Outstanding external debt stock of Bangladesh increased at the end of FY18. The external debt (public) to GDP ratio demonstrates decreasing trend but it started to increase from FY18 (12.1 percent) from 11.3 percent in FY17. The overall scenario of major external sector indicators in FY18, are shown in Chart 11.1.

Chart 11.1 Key Indicators of External Sectors



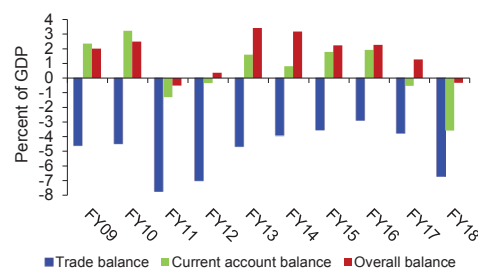
Source: Statistics Department, Bangladesh Bank.

Balance of Payment

11.3 The deficit of current account widened and stood at USD 9780 million during FY18 which was USD 1331 million in FY17. The current account deficit mainly occurred by the huge deficit in services and trade balance. However, the notable increase recorded in the financial account in FY18, with a surplus of USD 9076 million. The capital account surplus decreased to USD 292 million in FY18 from USD 400 million in FY17. During the same period, overall balance recorded a deficit of USD 885 million compared to a surplus of USD 3169 million in FY17 (Chart 11.2 and Table XVI of Appendix-3).

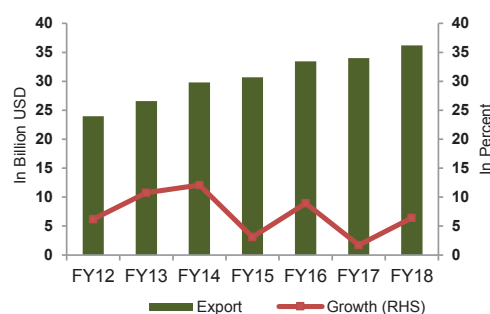
11.4 Trade Balance showed a higher deficit of USD 18258 million during FY18 compared to the deficit of USD 9472 million in FY17. Higher growth of import along with insufficient exports growth led to higher trade deficit. The services account deficit increased by 39.10 percent to USD 4573.7 million in FY18 from USD 3288.0 million in FY17. The deficit on the primary income account also widened (27.91 percent) to USD 2392.0 million in FY18 from USD 1870.0 million in FY17. Secondary income increased by 16.13 percent from USD 13299.0 million in FY17 to USD 15444.0 million in FY18. Workers' remittances increased by 17.33 percent in FY18 due to some progressive measures taken by Bangladesh Bank and the government for reducing the cost of remittances transfer and to encourage formal channel for sending remittances. The net outcome of all of these, the overall balance recorded a deficit of USD 885 million in FY18 compared to the surplus of USD 3169 million in FY17 (Table XVI of Appendix-3).

Chart 11.2 Trends in Trade, Current Account and Overall Balances



Source: Statistics Department, Bangladesh Bank.

Chart 11.3 Trends in Export Earnings



Source: Export promotion bureau.

11.5 Foreign Direct Investment (FDI) is recognized as one of the important components of Bangladesh's foreign exchange reserves in recent years. It contributes as the second largest component of the financial account. As a potential source of foreign exchange reserves, FDI need to be encouraged. For this reason, progressive measures have been taken to promote the financial openness and enhance the investment climate. FDI has been emphasized by the Government in its 7th five year plan and has undertaken various policies for adequate incentives in attracting foreign investors. However, net FDI inflow decreased slightly by 4.23 percent to USD 1583.0 million in FY18. Portfolio investment also decreased significantly by 20.13 percent to USD 365 million in FY18 compared to USD 457 of preceding year.

Box 11.1 Recent Widening of Current Account Deficit in Bangladesh: Causes and Consequences

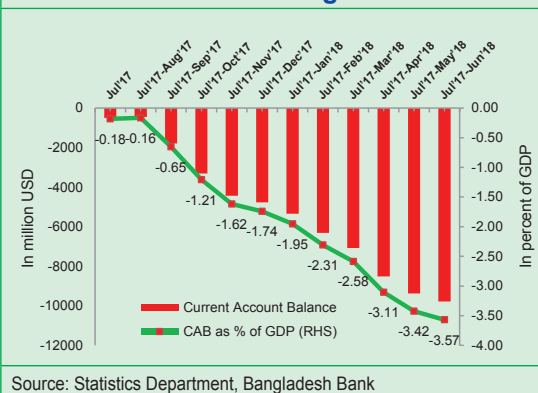
Bangladesh has experienced a record high in current account balance (CAB), a deficit of US\$ 9,780 million in FY18. As per Balance of Payment Manual 6 (BPM6), the components of current account balance are trade balance, net services, net income and unilateral transfers (remittances). In FY18 export grew by 6.4 percent while growth of import payment was 25.2 percent. As import grew faster than export current account deficit widened (Chart) to 3.6 percent (0.06 percent in FY17) of GDP despite a strong and broad based rebound in remittances growth (17.3 percent). Import decomposition in FY18 reflected a high import of capital goods (43.1 percent), food imports (140.9 percent) due to flood-related weather shocks. Additionally, import of fertilizer, oil seeds, iron, steel & other base metals, raw cotton, milk & cream, POL, yarn, clinker, chemicals, and staple fiber also experienced higher growth (36.4%, 32.1%, 28.1%, 27.9%, 26.9%, 26.0%, 19.2%, 18.9%, 17.2%, and 16.0% respectively).

The surge in import has put in pressure on the exchange rate and foreign exchange reserves. In FY18 BDT depreciated by 3.7 percent against US dollar. In order to maintain stability in the foreign exchange market BB intervenes in the foreign exchange market by selling foreign currency amounted to USD 2311 million in FY18. On the other hand, now the country has capacity of foreign exchange reserves for settling import payments for around six months which was eight months a year ago. Besides, in FY18, About 86 percent of CA deficit was financed by capital and financial account surplus. Such a deficit may potentially stimulate growth and development if the financial system is efficient and the foreign capital is used efficiently.

CAB may also be expressed as the difference between national savings and investment. A current account deficit reflects a low level of national savings relative to investment or a high rate of investment. Bangladesh has more investment opportunities than it could afford to undertake due to low level of savings, a current account deficit may be expected.

Now the question is whether CA deficit good or bad for Bangladesh? The answer depends on factors that increase the deficit at a given point of time. A deficit in CAB could be benefit, if the deficit stems from imports of capital machineries and raw materials for export-related intermediate goods to boost up economic growth. If the deficit implies an excess of investment over savings, it may point to the evaluation of rapidly growing economy. However, the net position of CA reflects the health of the economy in terms of competitiveness in the international market. Bangladesh should take necessary steps to increase export earnings and remittance to halt the upward trend of CA deficit at this moment.

Chart : Trends of Current Account Balance during FY18



11.6 Merchandise exports (fob) increased by 6.43 percent to USD 36205.0 million and imports (fob) increased by 25.23 percent to USD 54463.0 million in FY18 (Chart 11.3). The balance of payments position is given in Table XVI of Appendix-3.

Exports

11.7 Export earnings increased slightly by 5.81 percent to USD 36668.17 million in FY18 from USD 34655.9 million in FY17 (Table 11.1). Readymade Garments (woven garments and knitwear products) continued to occupy a lion share (above four fifths) of the total export.

Composition of Exports

11.8 Ready Made Garments (woven and knitwear): Woven and knitwear products, which fetch about 83.49 percent of total export earnings, registered an increase in receipts from USD 28149.8 million in FY17 to USD 30614.8 million in FY18. Woven and Knitwear products showed a higher growth of 7.2 and 10.4 percent respectively in FY18 compared to FY17.

11.9 Leather: During FY18 export earnings from leather and leather products decreased significantly to USD 519.9 million in FY18 from USD 697.0 million in FY17.

11.10 Frozen food: Earnings from frozen foods comprises mainly of shrimps, decrease during FY18. Receipt from export of shrimp and fish decreased by 4.7 percent to USD 467.0 million in FY18 from USD 490.1 million in FY17.

11.11 Footwear: Export earnings from footwear products increased by 4.1 percent to USD 809.7 million in FY18 from USD 777.8 million in FY17.

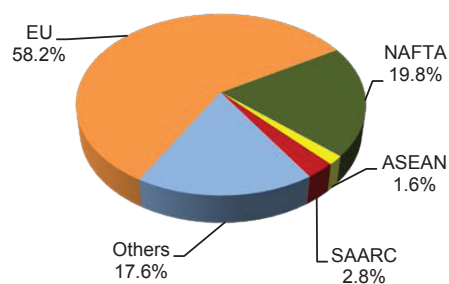
11.12 Chemical Products: Export earnings

Table 11.1 Composition of Merchandise Exports

Items	(In million USD)		
	FY17	FY18	% change
1) Raw jute	167.8	155.7	-7.2
2) Jute goods	794.6	869.9	9.5
3) Tea	4.47	2.8	-38.0
4) Leather and leather products	697.0	519.9	-25.4
5) Frozen shrimps and fish	490.1	467.0	-4.7
6) Woven garments	14392.6	15426.3	7.2
7) Knitwear products	13757.3	15188.5	10.4
8) Chemical products	140.0	150.7	7.7
9) Petroleum by-product	243.8	33.7	-86.2
10) Engineering products	688.8	356.0	-48.3
11) Specialised textiles	106.1	110.0	3.7
12) Footwear	777.8	809.7	4.1
13) Others	2574.7	2578.1	0.1
Total	34835.1	36668.2	5.3

Source: Export Promotion Bureau.

Chart 11.4 Destinal Pattern of Exports in FY18



Source: Statistics Department, BB.

from chemical products achieved a growth of 7.7 percent to USD 150.7 million in FY18 against USD 140.0 million in FY17.

11.13 Tea: During FY18 export earnings from tea decreased drastically (38.0 percent) compared to the previous fiscal year's growth.

11.14 Jute goods (excluding carpets): Export earnings from jute goods increased by 9.5 percent to USD 869.9 million in FY18 against USD 794.6 million in FY17.

11.15 Raw jute: Raw jute valued at USD 155.7 million was exported in FY18, against USD 167.8 million in FY17.

Destination of Exports

11.16 One important feature of export diversification is the geographical diversity of export destination countries. By looking at the share of different regions, it is observed that over the years Bangladesh's exports to EU and Asia region increased but it decreased in American region. In FY18, 58.2 percent (55.5 percent in FY17) of exports were destined for the EU area while 19.8 percent (20.3 percent in FY17) entered into the NAFTA bloc. Exports to the SAARC, ASEAN and other countries were 2.8, 1.6 and 17.6 percent respectively of the total exports in FY18 (Chart 11.4).

Export Development Fund (EDF)

11.17 The EDF commenced its operation in 1989 with the participation of International Development Association (IDA) and Government of Bangladesh (GOB) having an initial fund amounting to USD 30.16 million to provide foreign exchange refinance facilities to boost up export sector. As export posted a significant growth, the volume of the EDF fund was enhanced by Bangladesh Bank from time to time. In November 2017, the fund was enhanced to USD 3.00 billion from USD 2.50 billion to meet the growing demand of the exporters.

11.18 The exporters as well as deemed exporters can avail EDF loan for input imports against export LC/firm export contract/inland back to back L/C through Authorized Dealer (AD) banks. The EDF refinancing covers sectors like textile, garments, accessories/ packaging material, plastic goods, leather goods & footwear, ceramic wares, dyed yarn, agro-food processing, bicycle, etc.

11.19 A borrower-wise maximum exposure limit is followed to streamline the credit discipline. At present, maximum USD 25.00 million is allowed to a single party except leather goods & footwear, ceramic wares, dyed yarn, agro-food processing, bicycle, accessories & packaging and plastic goods manufacturer. However, this limit is fixed at maximum USD 15.00 million for leather goods & footwear, ceramic wares, dyed yarn, agro-food processing, bicycle and USD 2.00 million for accessories and packaging and USD 1.00 million for plastic goods manufacturers.

11.20 The interest rate on Export Development Fund (EDF) is six month USD LIBOR+2.5%. Out of that, Bangladesh Bank's portion is LIBOR + 1% and the rest 1.5% is for commercial banks. In general, the reimbursement from the EDF is initially made for a tenor of 180 days with a provision for further extension of 90 days, if required for delay in repatriation of related export proceeds of the exporter concerned.

11.21 On revolving basis, the total disbursement from EDF in FY18 stood at USD 5.76 billion which was USD 5.34 billion in FY17. The outstanding balance at the end of June, 2018 stood at USD 2.99 billion which was USD 2.46 billion in the previous year.

Imports

11.22 Imports recorded at customs (fob) in FY18 increased markedly from USD 43491 million in FY17 to USD 54463.2 million registering a growth of 25.2 percent. Import of food grain recorded a significant growth of 140.9 percent in FY18 mainly due to increase of rice import. Import (landed) for food grains stood at USD 3098.8 million in FY18 compared

to USD 1286.4 million in FY17. Import of other food items increased by 3.4 percent to 4385.3 million in FY18 from USD 4240.4 million in FY17. Except negative growth of pulse (all sorts, 35.4 percent) and sugar (7.6 percent), all other food items of imports showed positive growth. Consumer and intermediate goods increased by 17.2 percent to USD 34419.4 million in FY18 from USD 29371.2 million in FY17. All items of capital goods and others categories recorded a high growth of 30.6 percent to USD 21347.1 million in FY18 from USD 16347.6 million in FY17. Imports by EPZ increased by 17.7 percent to USD 3756.0 million in FY18 compared to USD 3190.7 million in FY17 (Table 11.2).

Terms of Trade

11.23 The terms of trade was 87.11 in FY18 which was the same as in FY17. The growth of export price index and import price index remained unchanged at 3.6 percent during the year (Table 11.3).

Workers' Remittances

11.24 Inward remittances from Bangladeshi nationals working abroad continued to play an important role in strengthening the current account balance. Remittance receipts increased by 17.3 percent to USD 14981.69 million in FY18 from USD 12769.45 million in FY17. Countries like Kingdom of Saudi Arabia (KSA) opened their labor market for Bangladesh in 2017 which helped to increase remittance inflows again. To ease the formal channel, Bangladesh Bank reduced the security deposit requirement for the exchange houses abroad to establish drawing arrangement with local banks. Presently, commercial banks

Table 11.2 Composition of Merchandise Imports

(based on customs records)

(In million USD)			
Items	FY17	FY18 ^P	% changes
A. Food grains	1286.4	3098.8	140.9
1. Rice	89.3	1604.5	1696.8
2. Wheat	1197.1	1494.3	24.8
B. Other food items	4240.4	4385.3	3.4
1. Milk & cream	253.6	321.7	26.9
2. Spices	268.9	282.4	5
3. Oil seeds	432.4	571.1	32.1
4. Edible oil	1625.6	1863.2	14.6
5. Pulses (all sorts)	671.4	433.9	-35.4
6. Sugar	988.5	913	-7.6
C. Consumer and intermediate goods	21359.8	25202.2	18
1. Clinker	643.8	765.7	18.9
2. Crude petroleum	477.6	365.2	-23.5
3. POL	2897.6	3652.3	26
4. Chemical	1975.5	2315	17.2
5. Pharmaceutical products	245.6	252.7	2.9
6. Fertiliser	737.4	1005.6	36.4
7. Tanning & dyeing extracts	606.7	695	14.6
8. Plastics & rubber articles thereof	2220.3	2525.1	13.7
9. Raw Cotton	2528.9	3235.4	27.9
10. Yarn	1971.8	2351	19.2
11. Textile & articles thereof	6038	6859.5	13.6
12. Staple fibre	1016.6	1179.7	16
D. Capital goods and others	20118.6	26179	30.1
1. Iron, steel & other base metal	3771	4831.9	28.1
2. Capital machinery	3816.8	5462.4	43.1
3. Others	12530.8	15884.7	26.8
Total Import (cif)	47005.2	58865.3	25.2
Of which EPZ	3190.7	3756	17.7
Total Import (fob)	43491	54463.2	25.2

^P Provisional

Source: Compiled by Statistics Department, BB using data of NBR.

Table 11.3 Trends in Terms of Trade of Bangladesh

(Base FY06=100)

Year	Export price index	Import price index	Commodity terms of trade
FY08	116.34	131.42	88.53
FY09	125.13	140.35	89.16
FY10	132.64	148.32	89.43
FY11	146.41	166.51	87.93
FY12	151.71	176.44	85.98
FY13	163.04	189.62	85.98
FY14	172.09	200.37	85.89
FY15	182.40	212.37	85.89
FY16	195.95	224.94	87.11
FY17	206.61	237.18	87.11
FY18	214.05	245.72	87.11

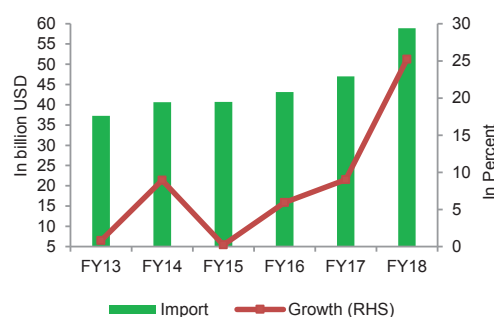
Source: Bangladesh Bureau of Statistics.

have 1214 drawing arrangements with more than 250 exchange houses all over the world for collecting remittances. For better control on the remittance collection, establishment of exchange houses/branch offices abroad by local banks is being encouraged. Under this arrangement, some banks have already established 29 exchange houses/ subsidiaries abroad to collect remittances by their own.

11.25 In addition to their own bank branches and ATM booths, banks are now using the branch networks of the MFIs and Post Offices as the sub agent for remittance distribution. Remittances are also distributed through Agent Banking like Singer Bangladesh Limited outlets. Furthermore, Bangladesh Bank has established a separate department titled 'Financial Integrity and Customer Services Department' to handle any complaints and suggestions by the customers or any stakeholders at home and abroad to ensure the smooth and hassle free services. Banks are instructed to ensure the delivery of remittance to the beneficiaries within 2 (two) working days. However, the measures taken by the Government and the Bangladesh Bank for reducing cost of remittance transfer and curbing the role of unauthorized intermediaries in transferring remittances will continue to support inflows through the official channels.

11.26 There is always a high demand for loans by the NRBs. Bangladesh Bank recently allowed loan facility upto 75 percent of the Bond holdings of NRBs (Wage Earners Development Bond, US Dollar Investment Bond, US Dollar Premium Bond). Moreover, NRBs also allowed for getting housing loan from commercial banks. Banks are instructed to open "Remittance Help Desk" in all branches for better remittance services.

Chart 11.5 Trends in Imports Recorded at Customs



Source: Compiled by Statistics Department, BB using data of NBR.

11.27 Bangladesh receives a lion share of remittances from the Middle East countries. During FY18, the highest amount (17.3 percent) of remittances came from Saudi Arabia followed by the United Arab Emirates (UAE) (16.2 percent), United States of America (13.3 percent), Kuwait (8.0 percent), Malaysia (7.4 percent), United Kingdom (7.4 percent) and Oman (6.4 percent). All other countries contributed to 24.0 percent of total remittances over the same period. Country wise remittances inflows in FY18 is shown in Chart 11.6.

Foreign Aid

11.28 Total official foreign aid receipts increased by 66.6 percent to USD 6125.5 million in FY18 from USD 3677.3 million in FY17 (Table 11.4). Total foreign aid commitment during FY18 was USD 14875.8 million. Food Aid disbursement stood at USD 26.5 million in FY18, which was USD 28.8 million in FY17. The disbursement of project aid stood at USD 6099.0 million in FY18 which was USD 3648.5 million in FY17. Total outstanding official external debt as of 30 June 2018 stood at USD 33110.7 million (12.1 percent of GDP in FY18) against USD 28337.4 million as of 30 June 2017 (11.3 percent of GDP in FY17). Repayment of official external debt and services

Box 11.2 A note on Introduction of International Factoring in Bangladesh

In open account method of trade transaction, the buyer usually pays the seller within 30-90 days after receiving the goods. Factoring is a method of financing the seller under open account against invoice during this interim period.

The prevailing Export Policy encourages factoring services for export financing. In 2015, an international seminar on factoring was arranged by the International Chamber of Commerce, Bangladesh and participated by different stakeholders. Following the seminar, Bangladesh Bank (BB), at the request of stakeholders, formed a Core Committee consisting of representatives from all the relevant stakeholders to formulate an effective factoring policy.

The first meeting of the Core Committee attended by the representatives of all stakeholders was held on 18 August, 2015. According to the decision of the meeting, a Technical Committee consisting of seven members was formed to prepare a report with specific recommendations about factoring by consulting all the stakeholders. Upon receipt, the report was published on BB website as draft guidelines on factoring to be reviewed by the banks and all the concerned stakeholders. To conduct an in-depth discussion about the opinions and observations provided by the banks, a meeting of the Core Committee was held on June 13, 2017. The Committee decided to discuss the practical difficulties of factoring with the officials of the trade services departments banks conducting majority of import and export trade.

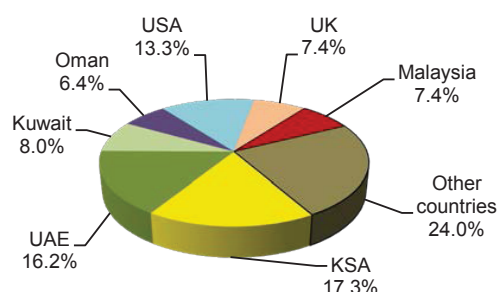
Accordingly, a meeting was held on July 13, 2017 where the requirement of bills of exchange in international trade under factoring mechanism was discussed in light of the Section 17 and 19 of the Stamp Act, 1899 and transport documents title to cargo. It was unanimously decided in the meeting that a legal expert be consulted on the matter of applicability of stamp duty on invoice assignment under factoring and comments for stakeholders (BGMEA & BKMEA) could be sought. The subsequent steps would be taken after receiving the opinion of the legal expert and from BGMEA & BKMEA.

amounted to USD 1391.7 million (excluding repurchases from the IMF) in FY18. This was USD 268.4 million or 23.9 percent higher than the repayment of USD 1123.3 million in FY17. Out of the total repayments, principal payments amounted to USD 1096.8 million while interest payments stood at USD 294.9 million in FY18, against USD 894.1 and USD 229.2 million respectively in FY17. The debt service payment as percentage of exports stood at 3.8 percent in FY18 which was 3.3 percent in FY17.

Foreign Exchange Market Operations and Exchange Rate Movements

11.29 Bangladesh Bank (BB) introduced floating exchange rate since 2003. Under the floating exchange rate regime, exchange rate

Chart 11.6 Country-wise Remittances Inflows in FY18



Source: Statistics Department, Bangladesh Bank.

is being determined based on market demand and supply of currencies. Bangladesh Bank intervenes in the foreign exchange market when deems necessary to maintain stability

in the market. In FY18 no purchase of foreign currency was required from domestic inter-bank foreign exchange market. On the other hand, to facilitate the foreign exchange liquidity, BB sold USD 2.31 billion in domestic inter-bank market during FY18.

11.30 The domestic foreign exchange market experienced a bit contrasting picture during FY18 compared to previous years. The market showed a depreciating trend of BDT against USD from the beginning of the FY18. In FY18 significant import growth (mostly capital machinery, food grain and fuel) resulted in additional demand for foreign exchange which created depreciating pressure. In FY17, exchange rate was 79.12 and at the end of June 2018 it stood at 82.10, resulting in a 3.8 percent depreciation of BDT, which was 2.7 percent in the previous year. Thus, careful liquidity management and proper supervision of Bangladesh Bank ensured stability with adequate liquidity in the foreign exchange market in FY18.

Foreign Exchange Reserves

11.31 The gross foreign exchange reserves held by BB comprises major currencies (G-7), gold and Special Drawing Rights (SDR). At the beginning of FY18 foreign exchange reserves was USD 32.99 billion which slightly decreased to USD 32.94 billion at the end of the year (Table 11.5). BB applies best efforts to ensure optimum return from forex reserve investment by diversifying the foreign asset portfolio in bonds (issued by sovereign, supranational and highly reputed foreign commercial banks), Treasury Bills and Notes of US Government and in short term deposits with internationally reputed foreign commercial banks. BB also

Table 11.4 Foreign Aid Receipts and Debt Repayments*

Particulars	(In million USD)		
	FY16	FY17 ^R	FY18 ^P
1. Receipts	3563.6	3677.3	6125.5
i) Food aid	31.9	28.8	26.5
ii) Project aid	3531.7	3648.5	6099.0
2. Repayments (MLT)	1050.6	1123.3	1391.7
i) Principal	848.5	894.1	1096.8
ii) Interest	202.1	229.2	294.9
3. Outstanding external debt as of end June	26305.7	28337.4	33110.7
4. Outstanding debt as percentage of GDP	11.9	11.3	12.1
5. External debt services (MLT) as percentage of exports	3.1	3.3	3.8

^P Provisional, ^R Revised.

*Excluding transactions with the IMF.

Source: Economic Relations Division, Ministry of Finance.

Table 11.5 Gross Foreign Exchange Reserves

Months	(End month, in million USD)				
	FY14	FY15	FY16	FY17	FY18
July	15534	21384	25469	30039	32994
August	16252	22070	26175	31165	33596
September	16155	21837	26379	31386	32817
October	17346	22313	27058	31895	33453
November	17106	21590	26408	31371	32624
December	18095	22310	27493	32092	33227
January	18119	22042	27139	31724	32695
February	19151	23032	28059	32557	33369
March	19295	23053	28266	32215	32402
April	20370	24072	29106	32519	33096
May	20268	23708	28803	32246	32349
June	21508	25026	30168	33493	32944

Source: Accounts and Budgeting Department, BB.

participates in Repo operation of New York Fed which yields reasonable returns with a very low level of risk. Apart from these, BB provides foreign exchange support from reserves to exporters to bolster export through Export Development Fund (EDF) and Green Transformation Fund (GTF). In addition, with the assistance of International Development Association (IDA), BB provides long term funds to the manufacturing sector of Bangladesh by a separate window named Long Term Financing Facility (LTFF). Apart from that BB also participates in the syndications of ITFC (a sister concern of IDB) as an investment partner.

Reserve Management Strategy

11.32 The reserve management strategy and operational procedures of BB are influenced strongly by developments in both the domestic & international financial markets as well as various key aspects of the macroeconomic policy stances. The most relevant elements of policy framework are: monetary policy framework, the exchange rate policy & regime, external debt position and geo-political scenario. Currently, reserve management operations are carried out following the Reserve Management Guidelines (RMG) approved by the Board of Directors of BB. Reserves are held to absorb external shocks, to ensure smooth payment obligations and to maintain stability of the domestic currency. To contain counterparty risks at minimum, BB has invested reserves in a number of internationally reputed central and commercial banks having strong credit ratings assigned by the international rating agencies (Standard and Poor's, Moody's & Fitch). With a view to minimizing exchange rate risk and ensuring the value of reserves, currency composition has been diversified among the major currencies and is being reviewed periodically to keep pace with the developments in the monetary and exchange rate policies of international arena. Reserves have been divided into two distinct tranches viz: liquidity tranche and investment tranche to meet payment obligations of government and others by maintaining adequate liquidity, as well as to achieve overall duration to generate optimum returns.

11.33 Investment duration and currency benchmark, as set out in the RMG, are carefully followed to minimize interest rate risks and exchange 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, in line with the stipulated liquidity restrictions and market & credit risk limits, BB diversified its portfolio investments into gold, T-bills, repos, short-term deposits, and high-rated sovereign, supranational, and corporate bonds. BB has always been maintaining a prudent and vigilant approach regarding placement of funds with reputed overseas commercial banks and investments in securities out of its foreign exchange reserves.

Transactions under the Asian Clearing Union (ACU)

11.34 During FY18, total transactions of Bangladesh under the Asian Clearing Union (ACU) increased substantially in terms of net volume compared with the preceding year. Receipts increased significantly from ACUD 183.60 million in FY17 (BDT 14.80 billion) to ACUD 189.21 million (BDT 15.84 billion) in FY18 and import payments also increased significantly from ACUD 5996.92 million in FY17 (BDT 483.34 billion) to ACUD 8088.52 million (BDT 677.18 billion) with the ACU member countries during FY18. The ACU transaction scenario shows that the overall position of Bangladesh remained a net debtor during FY18. The debtor position of Bangladesh decreased by ACUD 361.23 million or 6.63 percent to ACUD 7899.31 million (BDT 661.34 billion) in FY18 compared to ACUD 5813.32 million (BDT 468.54 billion) in the preceding year. Receipts and payments of Bangladesh under ACU arrangement during the last three years are shown in Table 11.6.

Transactions with the IMF

11.35 The IMF Executive Board approved a total amount of SDR 639.958 million a three-

years arrangement for Bangladesh under the Extended Credit Facility (ECF) in April 2012. Bangladesh had received the full amount of ECF. The total amount of repayment under ECF stood at SDR 18.6734 million during FY18. The total principal outstanding liability of ECF to the IMF is SDR 621.673 million at the end of FY18 (Table 11.7). The service charge paid to the IMF amounted to SDR 3.452 million in FY18. At the end of FY18, IMF allocation of SDR stood at SDR 510.4 million and quota was SDR 1066.60 Million. Holding of SDR with IMF at the end of FY18 was SDR 946.57 million.

Major Changes in Foreign Exchange Regulations

11.36 During FY18, to ease the foreign exchange regulations, Bangladesh Bank has taken some policy measures. The notable changes on exchange arrangements during FY18 are given below:

- **Foreign Exchange Transactions by the Units of Export Processing Zones (EPZs) in Bangladesh:** Industrial units, EPZ developers and different service providing units (water supply/ treatment, dust management, cleaning, effluent treatment plant, etc.) are allowed to operate in EPZs to serve the industrial units therein. Developers and different service providing companies of EPZs, exclusively formed and registered to serve a particular EPZ will be treated as industrial units of EPZs. Existing foreign exchange regulations applicable for EPZ units shall be applicable for such entities also.
- **Operations of BDT Accounts for enterprises of Export Processing**

Table 11.6 Receipts and Payments of Bangladesh Under the ACU

(In million USD)				
Head of transaction	FY16	FY17	FY18	% change
1. Receipts (Export)	127.79 (10.02)	183.60 (14.80)	189.21 (15.84)	3.06%
2. Payments (Import)	5579.88 (437.46)	5996.92 (483.34)	8088.52 (677.18)	34.88%
Net: Surplus (+)/ Deficit (-)	-5452.09 (-427.44)	-5813.32 (-468.54)	-7,899.31 (-661.34)	35.88%

1 ACUD = 1 USD; 1 USD = 83.7217 BDT.

Note: Figures in parentheses indicate BDT in billion.

Table 11.7 Outstanding Principal Liabilities Against the Facilities Received from the IMF

(In million SDR)				
Facility	Outstanding Principal liabilities as of end June 2017	Amount Drawn/ purchased upto June 2018	Installment repayment in FY'18	Outstanding Principal liabilities as of end June 2018
ECF April, 2012	639.96	639.96	18.67	621.673

Source: Forex Reserve and Treasury Management Department, BB.

Zones (EPZs) and Economic Zones (EZs):

To encashment from foreign currency (FC) accounts and BDT accounts of Type B & Type C industrial units of EPZs are allowed to be credited with authorized payment received in BDT. This clarification is also applicable for transactions in BDT accounts by Type B and Type C enterprises of EZs.

- **Use of share capital and authorized loans through foreign currency/ local currency accounts by industrial enterprises operating in Export Processing Zones (EPZs):** Equity from foreign shareholders of 'Type A' and 'Type B' enterprises and authorized loan received in foreign currency from external sources by EPZ enterprises are permitted to be credited in their FC accounts. 'Type C' enterprises of EPZs are allowed to obtain foreign exchange from ADs to settle obligations for importing capital

machinery by the conversion of equivalent equity and/or authorized loan received in local currency. Similarly, 'Type B' enterprises are allowed to convert their local equity/authorized loan received in local currency into foreign exchange to settle obligations for importing capital machinery if equity/authorized foreign loan received from abroad falls short to meet such obligations.

- **BDT loans to Non-Resident Bangladeshi (NRBs) working abroad:** BDT loans to Non-Resident Bangladeshi (NRBs) working abroad for housing finance facility has been enhanced to a maximum debt equity ratio of 75:25 from existing debt equity ratio of 50:50.
- **Release of foreign exchange for study abroad:** ADs are allowed to release foreign exchange to make some required payments such as health coverage/ health insurance/ medical insurance fee of overseas students for permissible courses as a pre-requisite of visa/ admission. This type of fees is mandatory for visa/admission in permissible courses supported by documentary evidence from the concerned educational institution for the overseas students.
- **Issuance of bank guarantees against import under buyer's credit:** To facilitate short term import finance, Authorized Dealers (ADs), on behalf of industrial importers, are allowed to issue repayment bank guarantees without Bangladesh Bank approval favouring International Islamic Trade Finance Corporation (IITFC) extending short term buyer's credit up to 180 days for import of industrial raw materials for own use by importers, on sight basis.
- **Release of foreign exchange on account of Overseas Allowance in favour of the cockpit and cabin crews of Biman Bangladesh Airlines Ltd.:** ADs and Licensed Money Changers are allowed to release foreign exchange on account of overseas allowances of the cockpit and cabin crews of Biman Bangladesh Airlines Ltd.
- **Import and export of Bangladeshi currency notes:** An outgoing/ incoming passenger is allowed to carry with at the time of departure from/arrival into Bangladesh upto BDT 10000 which was BDT 5000 earlier.
- **To avail 360 days deferred payment facility to import 4 (four) basic raw materials of steel industry for their own use:** Import of HR Coil, scrap, pig iron & sponge iron used for manufacturing of flat steel and long steel under steel industries for being used in own factories on upto 360 days usance basis is allowed.
- **Family remittance facility for foreign nationals who are resident in and have income in Bangladesh:** Foreign nationals who are resident in and have income in Bangladesh are permitted to make monthly remittances to the country of their domicile out of their current savings up to 75% of their net income to cover their commitments abroad. Besides their country of domicile, such monthly remittances are also allowed to send to other countries where the family members live in as declared by them in the prescribed application form.

- **Regarding Imports of Spare Parts Under Deferred Payment LCs.:** LCAFs issued for the import of Spare Parts will remain valid for remittances for 30 months following the month of issuance. Authorized Dealers (ADs) are allowed to open LCs on behalf of industrial units to import necessary spare parts of capital machineries for own industrial use up to 360 days usance basis. For such deferred payment imports, the prices must be internationally competitive and all in cost including usance interest must not exceed 6% p.a.
- **Application of Bangladesh Investment Development Authority Act, 2016 for remittance on account of payment of royalty, fees for technical knowledge or technical assistance and franchise fees:** Private sector industrial enterprises approved by Bangladesh Investment Development Authority (BIDA) are allowed to release foreign exchange on account of royalty, fees for technical knowledge or technical assistance and franchise fees to foreign persons or institutes in accordance with the prescribed manner as defined by BIDA through AD banks.
- **Collection of demurrage, detention, handling or equivalent charges by the foreign shipping lines/ their agents as source of fund for calculation of their remittable surplus:** In view of scope of wider sources of fund in Bangladesh, the legitimate charges (charges of demurrage, detention, handling or equivalent charges) in addition to freight charges are also allowed to consider for calculation of remittable surplus of foreign shipping lines/their agents working in Bangladesh subject to deduction of taxes and commission.
- **Payments through Asian Clearing Union (ACU):** To facilitate transactions under ACU mechanism, along with 'ACU Dollar', ADs are advised to resume transactions in 'ACU Euro' to settle current account transactions among ACU member countries and 'Japanese Yen (JPY)' has also been incorporated as a settlement currency in ACU mechanism.
- **Outward remittance facilities for exporters:** To facilitate export trade in meeting urgent needs, ADs are allowed to provide remittance facilities to the exporters for bonafide service payments to beneficiary's bank account abroad upto USD 5,000 or equivalent, subject to observance of some specific terms and conditions.
- **Drawing of shipping documents:** If the shipment is made against full payment received in advance through normal banking channel in that case ADs can allow carrier companies to draw railway receipts, bills of lading, airway bills and other documents of title to cargo to the order of importer or other designated parties as per stipulations of export letter of credit/valid sales contract. In this context, designated AD shall issue a certificate to the exporter to be produced to the carrier company, enabling them to draw the shipping documents accordingly.
- **Use of balances held in single pool for 30 days:** Exporters are allowed to use the unencumbered balances held in the single pool within 30 days to

- meet the import payments of exporters' subsidiaries/sister concerns.
- **Enhancement of loan limit from Export Development Fund (EDF):** The limit of the loan from EDF against the foreign currency financing of input procurement for member mills of BGMEA and BTMA has been enhanced from USD 20.00 million to USD 25.00 million.
 - **Foreign Exchange Transactions by the Enterprises of Economic Zones (EZs) in Bangladesh:** National Board of Revenue (NBR) amended the customs (Economic Zones) Procedures, 2017 to waive export/import formalities for transactions between enterprises operating in Domestic Processing Area (DPA) of EZs and in Tariff Area (TA) of Bangladesh. In accordance with the revised order, it has been decided to allow such transactions to be settled in BDT without observance of regulatory procedures such as EXP Form for export and IMP Form for import. To support the transactions by EZ enterprises irrespective of their ownership status, their liabilities for imports and other permissible expenses may be settled out of the fund held in their BDT accounts.
 - **Remittance on account of head office expenses by branches of foreign banking companies operating in Bangladesh:** To facilitate smooth operations of branches of foreign banking companies in Bangladesh, ADs are allowed to remit head office expenses without prior approval from Bangladesh Bank subject to observance of some instructions which is allocated by the head office to their branches in accordance with standard practices.
 - **Business-to-consumer export through sales orders received on internet:** In order to promote business-to-consumer export by hosting goods on e-Commerce website accessible through internet to foreign buyers, ADs are allowed to provide acquiring services to eligible exporters for repatriation of export proceeds against sales orders of exportable goods received on e-Commerce website subject to observe some operational procedures.
 - **Issuance of guarantee on behalf of foreign owned/controlled companies in favour of residents against foreign back to back guarantee:** ADs are allowed to issue guarantee in BDT or equivalent convertible foreign currency on behalf of foreign owned/controlled companies operating in Bangladesh, favouring concerned authorities in Bangladesh against foreign back to back guarantee acceptable to them subject to observance of some instructions.
 - **Validity of LCAF for importation of HR coil, scrap, pig iron & sponge iron under deferred payment basis:** LCAFs issued for the import of HR coil, scrap, pig iron & sponge iron for manufacturing of flat and long steel for being used in own factories of steel industries under 360 days deferred payment basis shall remain valid for remittances for 18 months following the month of issuance.
- Anti-money Laundering Surveillance**
- 11.37 To achieve the financial stability in the modern economy, Money Laundering (ML) operations and financial crimes has become an important issue, due to huge innovation of instruments and vast activities of financial

sector. Money launderers attempt to conceal their real identity to financial sectors with their polished, articulated and disarming behavior convert their dirty money into white money. Therefore, strong anti money laundering and combating the financing of terrorism (AML & CFT) measures prevent money launderers to abuse financial channels.

Being the national central agency and coordinator of all kinds of anti-money laundering and combating financing of terrorism (AML & CFT) activities, Bangladesh Financial Intelligence Unit (BFIU) has taken a number of initiatives in order to prevent money laundering and combat financing of terrorism during FY18. Notable of them are mentioned below:

Legal Framework

- Under the Mutual Legal Assistance in Criminal Matters Act, 2012, Bangladesh Government has determined the 'Ministry of Home Affairs' as the Central Authority to receive requests for assistance from any foreign State and to make a request to the foreign State for giving the assistance.

Reporting Agencies and their Regulatory Regime

- BFIU issued a comprehensive circular for commercial banks for prevention of money laundering, terrorist financing and proliferation financing of weapons of mass destruction.
- BFIU issued a comprehensive circular for the institutions engaged in the mobile financial services for prevention of money laundering, terrorist financing.
- BFIU issued a circular letter for Insurance Companies to use a uniform Know Your Customer (KYC) profile form.

- BFIU has developed a Risk Based Supervision Manual for Reporting Organizations (ROs) and this will help to better implement the risk based on-site supervision and off-site supervision of ROs.
- Apart from banks, financial institutions, money changers of Bangladesh have been given user ID of goAML software to submit Suspicious Transaction Report (STR) and Suspicious Activity Report (SAR) in real time.

Receiving and Dissemination of Suspicious Transaction Report (STR)

11.38 BFIU received 3865 Suspicious Transaction Reports (STRs) and 546 requests for banking related information from law enforcement agencies during FY18. Out of those BFIU disseminated 678 to LEAs for further actions and 475 requests has been answered with proper banking information. BFIU has been monitoring the status of these cases from time to time.

National Initiatives

- National Board of Revenue (NBR) of Bangladesh and Bangladesh Financial Intelligence Unit (BFIU) has signed a Memorandum of Understanding (MoU) on 4 February 2018 to exchange information related to AML & CFT and increase cooperation between the organizations.
- BFIU has also taken initiatives to sign MoU with Anti-Corruption Commission (ACC), Bangladesh Police, Department of Narcotics Control (DNC), Bangladesh Securities and Exchange Commission (BSEC) and the Insurance Development and Regulatory Authority (IDRA).

- National Money Laundering and Terrorist Financing Risk Assessment Report of Bangladesh have been reviewed jointly by the Anti-Corruption Commission (ACC), Bangladesh Police and BFIU.
- A committee has been formed by Financial Institutions Division, Ministry of Finance to formulate the National Strategy Paper on Anti-Money Laundering and Combating Terrorist Financing for the year of 2018-2020. The committee is headed by the Head of BFIU and Deputy Governor of Bangladesh Bank.

International Cooperation

- BFIU has signed 60 (till June, 2018) Memorandum of Understanding (MoU) so far to exchange of information with FIUs of other countries, among them 9 (nine) MoU have been signed in FY18 with FIUs of Monaco, Venezuela, Solomon Islands, Vanuatu, Papua New Guinea, New Zealand, Tanzania, Namibia and Cuba.
- During FY18, BFIU received 28 (twenty eight) requests from the FIU of different countries for ML & TF related information and provided the information accordingly. BFIU also made 56 requests to the FIU of different countries.
- BFIU is providing Technical Assistance (TA) to the FIUs of Bhutan and Maldives for getting Egmont group membership as the co-sponsor with the FIUs of Korea and Sri Lanka respectively.
- BFIU has provided 3 (three) expert assessors to APG to assess AML & CFT measures of Indonesia, Chinese Taipei and Solomon Island.

Impart Domestic Training and Workshop

- BFIU and UN Counter-Terrorism Implementation Task Force/ UN Counter Terrorism Center (CTITF-UNCTC) arranged a workshop on 'Promoting Regional Cooperation on Targeted Financial Sanctions' for BIMSTEC member countries.
- BFIU organized 3 days Chief Anti Money Laundering Compliance Officers (CAMLCO) Conference for all Banks, in which 114 senior compliance officers were attended. The conference focused on regional ML/TF risk & vulnerabilities for banks;
- BFIU organised two days Chief Anti Money Laundering Compliance Officers (CAMLCO) Conference for Non-bank Financial Institutions, in which 76 senior compliance officers were attended. The conference focused on corporate governance of the financial institutions;
- BFIU organised two regional conferences and 11 regional training for banks and 732 branch compliance officers were attended those programmes;
- BFIU organized training programme through Bangladesh Bank Training Academy (BBTA) for Financial Institutions (FIs), Capital market Intermediaries (CMIs), Insurance Companies and DNFBPs. 78 participants from FIs, 180 participants from CMIs, 50 participants from insurance companies and 90 participants from DNFBPs were attended those training programmes;
- Bangladesh Institution of Bank Management (BIBM) arranged 12 AML

& CFT Training programme and BFIU provided required resources persons for those programme;

- BFIU also provided required resource persons on 56 occasions while reporting organizations arranged training on AML & CFT issues.
- UNODC (TPB) has arranged a workshop on targeted financial sanction focus on proliferation financing for Government officials; the organisation has also arranged a workshop for relevant custom officials of Bangladesh; UNODC (TPB) also has arranged a workshop on targeted financial sanction for the private sector of Bangladesh;
- BFIU trained 300 investigators of Criminal Investigation Department (CID) of Bangladesh Police about anti money laundering and combating financing of terrorism;

- 20 BFIU officials have attended 'Basic Intelligence Course on Combating Financing of Terrorism' organised by Directorate General of Forces Intelligence (DGFI);

Participation in Different International and Local Conference/Meeting/Workshops

11.39 For acquiring knowledge and build expertise on prevention of money laundering (ML) and combating terrorist financing (TF) and proliferation financing (PF) BFIU, as the central agency of the country, has been maintaining continued engagement with all the international bodies such as APG, Egmont Group, FATF, BIMSTEC, UNODC, World Bank, IMF, etc.. Bangladesh actively participated in various international initiatives undertaken by these organizations and other foreign FIUs in FY18. Furthermore, as the main coordinating agency for prevention of ML, TF and PF, BFIU actively participated in a number of local conference/ meeting/ workshops arranged by other government agencies.