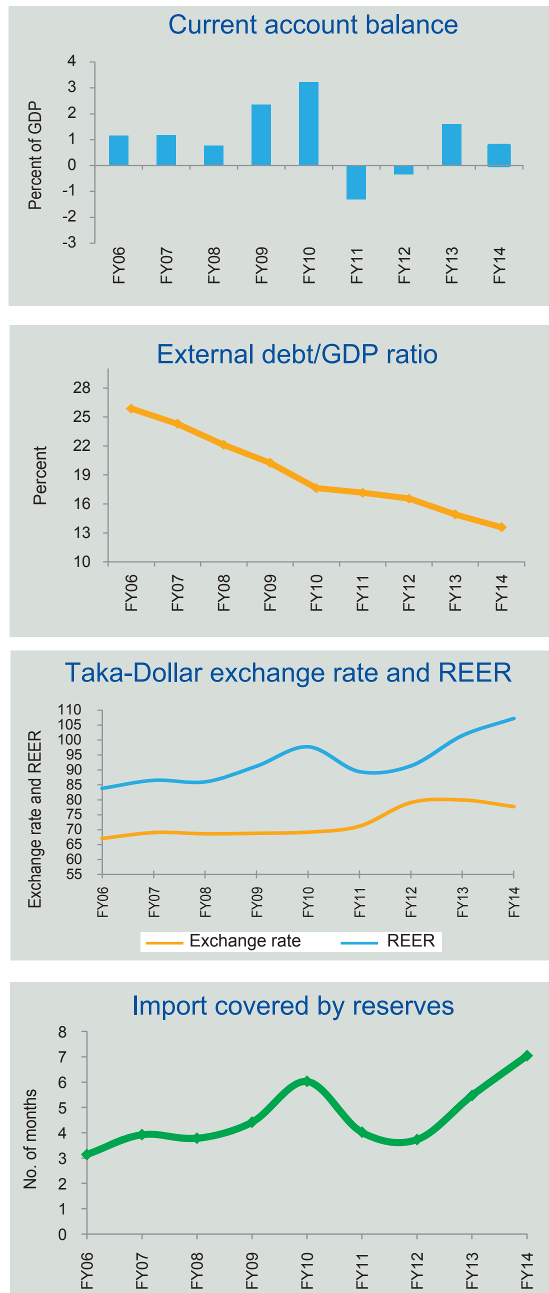
External Sector

External Trade and the Balance of Payments - the Overall Situation

Chart 11.1 Key indicators of external sector



11.1 The performance of external sector during FY14 was satisfactory; with both exports and imports registering higher growth despite the political unrests in the country. Bangladesh has been maintaining export competitiveness in her major export items, and exports maintained growth rates of above 10 percent while imports remained production and growth oriented. Only about one seventh of total imports were of food grains and other food items, the rest were petroleum product, raw materials and capital goods. Trade deficit kept lessening with strong export growth from a narrow base. Lower growth of import payments compared to export receipts coupled with remittance resulted in significant increase of foreign exchange reserve in FY14. Taka-Dollar exchange rate remained almost stable during FY14.

11.2 Large deficits in the services & primary income and decline in the secondary income led to a significant downfall in the current account balance in FY14, despite improvements in trade balance. Decline of trade deficit, huge increase in the financial account mainly due to notable rise in portfolio investment and slight increases in the capital account altogether increased the overall balance to USD 5483 million during FY14 from USD 5128 million in FY13. 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. Trends of some major external sector indicators are reported in Chart 11.1.

11.3 Merchandise exports (fob) increased by USD 3198 million (or 12.0 percent) in FY14 to USD 29765.0 million (Appendix-3, Table-XV). Despite negative growth of petroleum by-product, raw jute, jute goods and specialised textile, other major exportable items showed positive growth. Exports of tea, leather and leather products, frozen shrimp and fish, knitwear and woven garments contributed significantly to increase the growth of merchandise exports in FY14 over FY13. The export of miscellaneous products, summed as the "others" category showed a positive growth of 6.8 percent in value terms during FY14. However, as a percentage of GDP , exports decreased by 0.6 percentage point from 17.7 percent in FY13 to 17.1 percent in FY14.

11.4 Merchandise imports (fob) increased by USD 2995 million (8.9 percent) in FY14 to USD 36571 million. Significant growth of imports of oil seeds, food grain, tanning & dyeing extracts, milk & cream, plastics & rubber articles thereof, clinker , edible oil, capital machinery and sugar etc. induced to increase overall import during the year despite negative import growth of crude petroleum and fertiliser. Imports (fob) as a percentage of GDP decreased by 1.34 percentage point from 22.38 percent in FY13 to 21.04 percent in FY14.

11.5 Satisfactory growth of gross imports along with strong export growth led to a lower trade deficit during FY14 compared with FY13. Trade deficit came down from USD 7009.0 million in FY13 to USD 6806.0 million in FY14. The deficit on the services account, however, widened significantly by USD 1027.0 million (32.5 percent) to USD 4189.0 million in FY14 from USD 3162.0 million in FY13. The deficit on the primary income accounts also widened by 8.5 percent to USD 2571.0 million in FY14 from USD 2369.0 million in FY13. Secondary income decreased (0.11 percent) from USD 14928.0 million in FY13 to USD 14912.0 million in FY14. The current account portion of workers' remittances recorded 1.56 percent decrease in FY14. The net outcome of all these, is a fall in the current account balance from USD 2388 million in FY13 to USD 1346.0 million in FY14. Current account balance as a percentage of GDP stood at 0.77 in FY14 compared to 1.59 in FY13. Table XV of Appendix-3 of this report shows the balance of payments statement for FY14 and FY13. Chart 11.2 shows the trends of trade, current account and overall balances as a percentage of GDP in recent years.

11.6 As a potential source of foreign exchange reserves, foreign direct investment (FDI) has been emphasised by the Government. Due to domestic political unrests and energy shortages, as per primary estimation, net FDI inflow in Bangladesh decreased by 12.9 percent to USD 1504.0 million in FY14 from USD 1726.0 million in FY13.

Exports

11.7 Table 11.1 shows that total exports in FY14 had a strong growth over FY13. Aggregate exports increased by 11.7 percent in FY14 to USD 30176.8 million from USD 27027.4 million in FY13. Apparels (woven garments and knitwear products) continued to occupy an overwhelming (above four fifths) share of the export basket in FY14.

Destination

11.8 The destination markets of exports, excluding those from EPZs, in FY14 are dominated by EU and NAFTA blocs. The EU bloc accounted for 54.3 percent while NAFTA bloc accounted for 22.6 percent of total export of the country. Export to the ASEAN, SAARC and other regions accounted for about 1.5, 1.9 and 19.7 percent respectively (Chart 11.3).

Composition

11.9 **Readymade garments** (woven and knitwear): Export earnings from woven and knitwear products, which accounts for about 81.2 percent of total export earnings, registered as increase from USD 21515.8 million in FY13 to USD 24491.9 million in FY14. Woven and knitwear products showed the growth of 12.7 percent and 15.0 percent respectively in FY14 compared to FY13.

11.10 **Leather and leather products:** Export earnings from leather and leather products increased by 32.8 percent to USD 745.6 million in FY14 from USD 561.3 million in FY13.

11.11 **Frozen food:** The export earnings of frozen foods sector comprising mainly of shrimps registered a significant increase in

Chart 11.2 Trends of trade, current account and overall balances

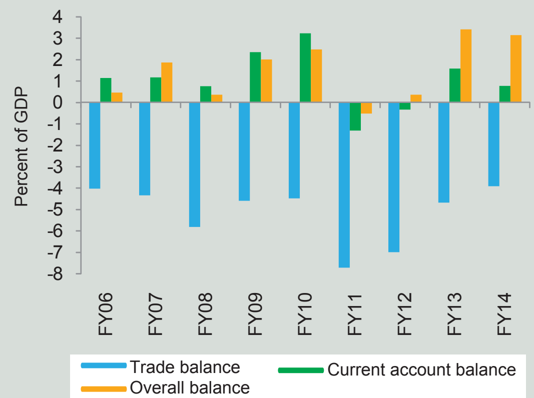


Chart 11.3 Destinational pattern of exports in FY14

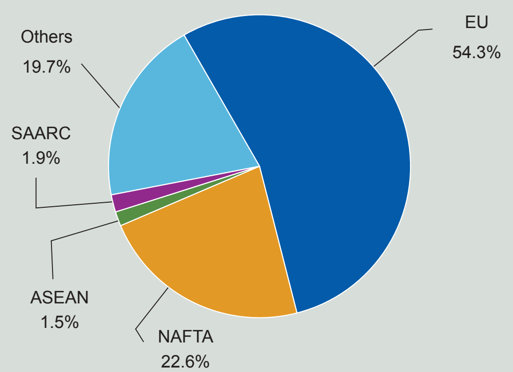


Table 11.1 Composition of merchandise exports

(million US Dollar)

Items	FY13	FY14	% change
1) Raw jute	229.9	126.4	-45.0
2) Jute goods	800.7	698.1	-12.8
3) Tea	2.4	3.7	52.1
4) Leather and leather products	561.3	745.6	32.8
5) Frozen shrimps and fish	512.9	602.7	17.5
6) Woven garments	11039.9	12442.1	12.7
7) Knitwear products	10475.9	12049.8	15.0
8) Chemical products	93.0	93.2	0.2
9) Petroleum by-product	314.0	162.3	-48.3
10) Engineering products	367.5	366.6	-0.2
11) Specialised textiles	124.5	108.8	-12.7
12) Footwear	419.3	550.1	31.2
13) Others	2238.6	2227.5	6.8
Total:	**27027.4**	**30176.8**	**11.7**

Source: Export promotion bureau.

FY14. Receipts from export of shrimp and fish increased by 17.5 percent from USD 512.9 million of FY13 to USD 602.7 million in FY14.

11.12 **Footwear:** Export earnings from footwear products increased by 31.2 percent to USD 550.1 million in FY14 from USD 419.3 million in FY13.

11.13 **Chemical Products:** Export earnings from chemical products increased by 0.2 percent to USD 93.2 million in FY14 against USD 93.0 million in FY13.

11.14 **Tea:** Tea valued at USD 3.7 million were exported in FY14 against USD 2.4 million in FY13.

11.15 **Jute goods (excluding carpets):** In FY14, jute products valued at USD 698.1 million was exported against USD 800.7 million in FY13.

11.16 **Raw jute:** In FY14, raw jute valued at USD 126.4 million was exported against USD 229.9 million in FY13.

Export Development Fund

11.17 In order to facilitate export of the country, the size of the Export Development Fund (EDF) was increased to USD 1.5 billion from USD 0.8 billion. The revolving EDF is used to provide refinancing facilities to the AD banks in financing direct & deemed exporters in garments, textile, bi-cycle sectors 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 15.0 million. Moreover, member mills of the Bangladesh Plastic Goods Manufacturers and Exporters Association (BPGMEA), manufacturer-exporters of Leather Product & Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB) and Bangladesh Ceramic W ares Manufacturers' Association (BCWMA) have also been brought under EDF loan for bulk imports. The limit of single customer of LFMEAB and BCWMA member mills against their estimated requirements is determined on the basis of their export performance over the preceding year. On the other hand, the limit of single customer of BPGMEA member mills shall not exceed (i) the value realised in foreign exchange against inland back to back LCs over the past twelve months, or (ii) USD 500,000 (five hundred thousand), whichever is lower. Besides, Interest rate against EDF loan has been reduced from six-months LIBOR + 2.50 percent to six-months LIBOR + 1.50 percent for a period of six months from 15 December 2013. Accordingly, interest rates on EDF loans to ADs will be charged by Bangladesh Bank at six-months LIBOR + 0.50 percent, while ADs will charge interest on the exporter-borrowers at six-months LIBOR + 1.50 percent for disbursements.

Imports

11.18 Import payments (fob) increased to USD 36571.0 million in FY14 (T able 11.2) from USD 33576.0 million in FY13 registering a growth of 8.9 percent. Except crude petroleum and fertiliser, import bills of all other imports increased in FY14 compared to FY13. Import of food grain and other food items significantly grew by 101.8 percent and 31.0 percent respectively.This was mainly due to rise in wheat import. The import bill for food grains stood at USD 1465 million in FY14 compared to USD 726 million in FY13 (rice

Box 11.1

GSP Facilities for Bangladesh's RMG Export

The Generalised System of Preferences (GSP) programme provides non-reciprocal, duty free tariff treatment to certain products imported from designated beneficiary developing countries (BDCs), following certain conditions for the member countries. GSP allowed exemption to WTO member countries from the obligation of Most Favoured Nations (MFN) principle for lowering tariffs for LDCs. The United States, European Union and other developed countries have implemented similar programmes since the 1970s.

The USA introduced Generalised System of Preferences (GSP) on 1 January 1976 by the Trade Act of 1974 subject to periodic renewal by Congress for providing preferential duty-free entry for up to 5,000 products when imported from one of 123 designated beneficiary developing countries and territories. Bangladesh as an LDC enjoyed duty free access, until this was suspended more than a year ago, for its exports like tobacco, plastic bags and articles, golf equipment, sleeping bags, bone china and porcelain kitchen/tableware, cereal based prepared foods, hand-loomed woven cotton carpets and other textile floor coverings, spectacles and goggles, headgear other than rubber and plastics, etc. to USA under GSP programme. However, USA had never provided any duty free access to Bangladesh's main export, i.e., readymade garment (RMG). Import duty on RMG exports of Bangladesh to USA in some cases is as high as 32 percent (as of June 2013).

Some European countries started providing duty free access to its market by developing and least developed countries (LDCs) under GSP programme since 1971. The number of countries providing duty free access to developing countries has been increasing with the formation of custom union, i.e., European Union (EU) in 1993. Bangladesh is one the beneficiary nation of EU GSP programme from the beginning. The EU has issued its revised Generalised System of Preference (GSP) on 31 October 2012 which came into effect from 1 January 2014. The new scheme included 90 beneficiaries instead of previous 176 countries to ensure more impact on countries most in need. The Everything but Arms Arrangement (EBA) offers full duty free, quota free access for all products except arms and ammunition for 49 LDCs on 99 percent of all tariff lines. Bangladesh is a beneficiary of EBA initiative of the EU. In the revised EU GSP, Brazil, one of the major readymade garment exporters, dropped from the list. This provides a competitive edge to Bangladesh in global RMG market.

The European Parliament is involved in all changes affecting the GSP list of beneficiaries. The criterion for providing duty free access to a country under GSP programme is amended from time to time. However, such amendments enter into force only if no objections are expressed by the European Parliament. Following some recent incidences like collapse of Rana Plaza and fire in different factories, European Parliament became more vigilant on Bangladesh now to monitor country's human rights, labour law, working environment, wages, worker's safety net, health conditions etc.

As Bangladesh never had any duty free access for its RMG export to USA, the economic cost of GSP withdrawal by that destination country does not deem to be significant. However, from reputational point of view, it has tarnished the image of Bangladesh as a source country in the global market and may affect the demand of the Bangladeshi exports and business. Acknowledging this reputational risk, Government of Bangladesh, BGMEA, BKMEA have been working to improve the working environment and labour standard in the RMG sector of the country.

1056.7 percent and wheat 61.8 percent). The import bill for other food items' increased to 4098.0 million in FY14 from USD 3128.0 million in FY13 (oil seeds 109.9 percent, spices 55.1 percent, milk & cream 35.0 percent, edible oil 25.6 percent, sugar 23.4 percent and pulses 7.8 percent). Consumer and intermediate goods import increased by 11.4 percent to USD 18602.0 million in FY14 from USD 16694.0 million in FY13 (T anning and dyeing extracts 34.8 percent, plastic & rubber article thereof 31.3 percent, clinker 27.1, raw cotton 21.0 and chemical 15.1 percent). Import of capital goods and others items registered a growth by 23.2 percent; from USD 1 1031 million in FY13 to USD 13592 million in FY14 (capital machinery 27.1 percent, iron, steel & other base metal 13.8 percent and others 25.4 percent). Imports by EPZ increased by 18.8 percent to USD 2975.0 million in FY14 compared to USD 2505.0 million in FY13.

Terms of Trade

11.19 The terms of trade remained the same at 85.98 in FY14 as like FY13 (base year 2005-06.) Both the export price index and import price index increased by 7.2 percent during the year.

Bilateral and Multilateral Relations

11.20 Bangladesh continued strengthening its foreign trade ties in FY14 through bilateral, regional and multilateral negotiations and agreements. Bangladesh participated in a number of key negotiations with a view to protecting the country's trade and economic interests, including the high level policy dialogue on "Bangkok Declaration on

Chart 11.4 Import growth

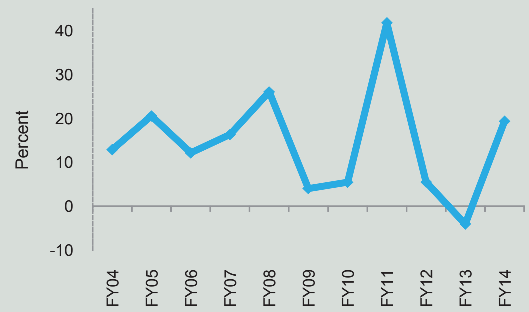


Table 11.2 Composition of merchandise imports payment

(million US Dollar)

Items	FY13	FY14P	% change
A. Food grains	**726**	**1465**	**101.8**
1. Rice	30	347	1056.7
2. Wheat	696	1118	60.6
B. Other food items	**3128**	**4098**	**31.0**
1. Milk & cream	214	289	35.0
2. Spices	118	183	55.1
3. Oil seeds	242	508	109.9
4. Edible oil	1402	1761	25.6
5. Pulses (all sorts)	422	455	7.8
6. Sugar	731	902	23.4
C. Consumer and intermediate goods	**16694**	**18602**	**11.4**
1. Clinker	487	619	27.1
2. Crude petroleum	1102	929	-15.7
3. POL	3642	4070	11.8
4. Chemical	1302	1498	15.1
5. Pharmaceutical products	119	120	0.8
6. Fertiliser	1188	1026	-13.6
7. Tanning & dyeing extracts	399	538	34.8
8. Plastics & rubber articles thereof	1366	1793	31.3
9. Raw cotton	2005	2426	21.0
10. Yarn	1356	1506	11.1
11. Textile & articles thereof	3273	3584	9.5
12. Staple fibre	455	493	8.4
D. Capital goods and others	**11031**	**13592**	**23.2**
1. Iron, steel & other base metal	2335	2657	13.8
2. Capital machinery	1835	2332	27.1
3. Others	6861	8603	25.4
E. Imports by EPZ	**2505**	**2975**	**18.8**
Total import (cif)	**34084**	**40732**	**19.5**
Total import (fob)	**33576**	**36571**	**8.9**

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

Regional Economic Cooperation and Integration in Asia and Pacific".

11.21 The Joint Co-operation Strategy (JCS) 2010-2015 has been prepared under Paris Declaration to improve the way to work together with development partnrs to enhance in Bangladesh.

11.22 There are some bilateral joint economic commissions between Bangladesh and other countries continued economic and financial co-operation through Ministry of Finance.

11.23 Bangladesh continued to achieve sovereign rating of Ba3 (Moody's) and BB- (S&P) by two international rating agencies viz. Standard and Poor (S&P) and Moody's Investors Service respectively for the 5th consecutive years (2010-14). The above rating with 'stable outlook' reflects strong growth prospects and ongoing donor support, which ensure low-cost and long-maturity external debt and minimise refinancing risk. Bangladesh is rated second highest in South Asia only behind India (BBB-) and ahead of Sri Lanka (B+) and Pakistan (B-). In the global economic arena, other countries in the BB- category along with Bangladesh are V ietnam, Mongolia and Nigeria.

Workers' Remittances

11.24 The flow of inward remittances from Bangladeshi nationals working abroad recorded a slight fall in FY14, but still playing an important role in strengthening the current account balance of the country. Receipts from this sector have decreased by 1.61 percent from USD 14461.2 million in FY13 to USD 14228.3 million in FY14 (Apeendix-3, Table XXI) due mainly for the huge expenses made by the Bangladeshi workers in Saudi Arabia for their change of work permit (AKAMA change). Bangladesh Bank is continuously trying to simplify the remittance distribution networks including easing approval policy of drawing arrangements between foreign exchange houses and domestic banks. As a result, 39 banks have been granted permission establish more than 1200 drawing arrangements with more than 320 exchange

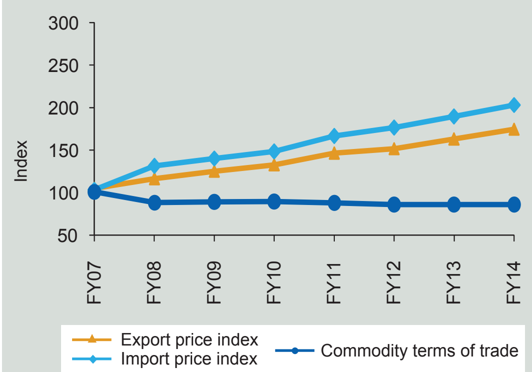
Table 11.3 Terms of trade of Bangladesh

(Base: FY06=100)

Year	Export price index	Import price index	Commodity terms of trade
FY07	104.85	103.64	101.17
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	174.71	203.19	85.98

Source: Bangladesh Bureau of Statistics.

Chart 11.5 Terms of trade of Bangladesh



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 30 exchange houses/ subsidiaries abroad to collect remittances by 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-agent for remittance distribution. Till 30 June 2014, 27 MFIs are allowed to perform the job of remittance distribution through their branches in remote areas. Recently banks are instructed to ensure the delivery of remittance to the beneficiaries within 2 (two) working days. Several banks are now allowed to distribute remittance using the countrywide outlets of mobile operators like Grameenphone, Banglalink & Robi. Some banks are given permission to distribute remittances through designated outlets of Singer Bangladesh Ltd. To increase the competition among the money transmitters, commercial banks are always instructed to make the contracts with Multinational Money Remitters/ Exchange Houses to avoid "Pay Cash Exclusivity Clause" or any other such clauses. The share of major source countries in the remittance receipt of FY13 and FY14 are given in Chart 11.6a and 11.6b.

Foreign Aid

11.25 Total official foreign aid disbursement increased by 6.72 percent to USD 3000 million in FY14 from USD 2811 million received in FY13 (Table 11.4). Food aid

Table 11.4 Foreign aid receipts and debt repayments*

(million US Dollar)

Particulars	FY12	FY13R	FY14P
1. Receipts	**2126**	**2811**	**3000**
i) Food aid	69	50	31
ii) Commodity aid	-	-	-
iii) Project aid	2057	2761	2970
2. Repayments (MLT)	**967**	**1106**	**1234**
i) Principal	770	908	1032
ii) Interest	197	198	202
3. Outstanding external debt as of end June	22095	22381	23627
4. Outstanding debt as percentage of GDP	16.6	14.9	13.6
5. External debt services (MLT) as percentage of exports	4.0	4.2	4.2

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

Chart 11.6a Wage earners' remittances in FY13

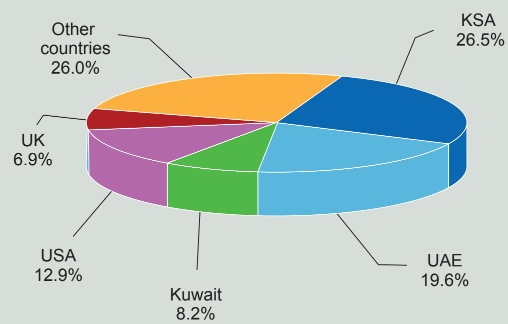
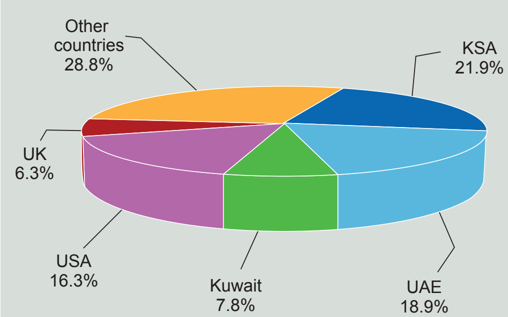


Chart 11.6b Wage earners' remittances in FY14



disbursements stood at USD 31.0 million in FY14 which was USD 50.0 million in FY13. The disbursement of project assistance stood at USD 2970 million in FY14, which was USD 2761 million in FY13. It is noteworty that, no commodity aid was received in FY14 like the previous year. Total outstanding official external debt as on 30 June 2014 stood at USD 23627 million (13.6 percent of GDP in FY14) against USD 22381 million as on 30 June 2013 (14.9 percent of GDP in FY13). Repayment of official external debt stood at USD 1234 million (excluding repurchases from the IMF) in FY14, which was USD 128 million or 11.6 percent higher than the repayment of USD 1106 million in FY13. Out of the total repayments, principal payments amounted to USD 1032 million while interest payments stood at USD 202 million in FY14 against USD 908 million and USD 198 million respectively during FY13. The debt-service ratio as percentage of exports was 4.2 percent in FY14.

Foreign Exchange Market Operations

11.26 Bangladesh Bank introduced floating exchange rate in 2003 allowing the market to determine the exchange rate for inter-bank and customer transactions. The local foreign exchange market of the country remained sufficiently liquid during FY14 mainly because of improved inflows from export proceeds and stable wage earners remittances. At the end of June 2014, exchange rate of Bangladesh Taka against US dollar stood at Taka 77.63, which is 0.18 percentage point appreciation from its level of Taka 77.77 at the end of June of 2013, indicating a fairly stable foreign exchange market.

Table 11.5 Gross foreign exchange reserves of the Bangladesh Bank

(End month, million USD)

Months	FY10	FY11	FY12	FY13	FY14
July	7741	10749	10381	10570	15534
August	9156	10992	10914	11435	16252
September	9363	10834	9884	11252	16155
October	9545	11160	10338	12340	17346
November	10336	10700	9285	11754	17106
December	10345	11174	9635	12751	18095
January	10098	10382	9386	13077	18119
February	10555	11159	10067	13848	19151
March	10142	10731	9579	13971	19295
April	10602	11316	10193	14829	20370
May	10146	10431	9520	14531	20268
June	10750	10912	10364	15315	21508

Source: Accounts and Budgeting Department, BB.

Chart 11.7 Liquid foreign exchange holdings abroad

In FY14, the volume of inter-bank foreign exchange transactions stood at equivalent to USD 17.24 billion including spot, forward and swap transactions, which about 7.0 percent lower than USD 18.6 billion in FY13. Bangladesh Bank purchased a total of USD 5.2 billion from local inter-bank foreign exchange market to absorb excess liquidity against USD 4.5 billion in the preceding fiscal year.

Foreign Exchange Reserves

11.27 The gross foreign exchange reserves held by Bangladesh Bank comprises holdings of gold and foreign exchange, the reserve position with the IMF and holding of Special Drawing Rights (SDR). The gross foreign exchange reserves of Bangladesh Bank reached at USD 21508 million (T able 11.5) at the end of FY14, which is 40.4 percent higher than USD 15315 million at the end of FY13. The gross foreign exchange reserve is sufficient to meet more than seven months import bills. In order to strengthening the long term stability of the country's reserves and diversifying the external asset portfolios, BB invested foreign exchange reserves in sovereign/ supranational/ highly reputed corporate bonds, Treasury Bills of US Government and in short term deposit with highly reputed commercial banks.

Reserve Management Strategy

11.28 The developments of the financial markets and various elements of policy environment specially monetary policy framework, the exchange rate policy regime and external debt position are strongly influence the reserve management strategy of Bangladesh Bank. BB's reserve management operations are currently follows the Reserve Management Guidelines duly approved by the Board of Directors of Bangladesh Bank. Main objectives of the BB for holding foreign exchange reserves include maintenance of safety and 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, minimising exchange rate volatility and finally , earning optimal return from the reserves assuming controlled risks in a prudent manner that will 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

Table 11.6 Receipts and payments of Bangladesh under the ACU

(million US Dollar)

Head of transaction	FY12	FY13	FY14	% change
1. Receipts (Export)	208.70 (1707.71)	161.10 (1252.74)	79.74 (619.05)	-50.50
2.Payments(Import)	4766.00 (38997.87)	4419.54 (34366.02)	5706.90 (44302.66)	29.13
Net: Surplus (+)/ Deficit (-)	-4557.30 (-37290.16)	-4258.44 (-33113.28)	-5627.16 (-43683.61)	32.14

Note: Figures in parentheses indicate Taka in crore.
1 ACUD = 1 USD; 1 USD = 77.63 Taka.

Table 11.7 Outstanding principal liabilities against the facilities received from the IMF

(million SDR)

Facility	Amount drawn/ purchased up to June 2014	Outstanding principal liability as of end June 2013	Instalment repayment in FY14	Outstanding principal liability as of end June 2014
PRGF June 2003	316.73	122.32	53.45	68.86
ECF April 2012	457.11	274.26	--	457.11
Total :	**773.84**	**396.58**	**53.45**	**525.97**

Source: Forex Reserve and Treasury Management Department, BB.

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 remained cautious and vigilant regarding placement of funds in banks affected by global financial crisis and under threat of downgrading by major rating agencies.

Transactions under Asian Clearing Union (ACU)

11.29 Total transactions of Bangladesh under the Asian Clearing Union (ACU) decreased in terms of volume during FY14 compared to the previous year . Bangladesh remained a net debtor during FY14. Receipts decreased from ACUD 161.1 million (Taka 1252.7 crore) to ACUD 79.7 million (Taka 619.1 crore) and import payments increased from ACUD 4419.5 million (Taka 34366.0 crore) to ACUD 5706.9 million (Taka 44302.7 crore) with the ACU member countries during FY14. As a result, the net debtor position of Bangladesh increased by ACUD 1368.7 million or 32.1 percent to ACUD 5627.2 million (Taka 43683.6 crore) in FY14 compared to ACUD 4258.4 million (Taka 33113.3 crore) 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

11.30 The IMF Executive Board approved a three-year arrangement for Bangladesh under the Extended Credit Facility (ECF) in April 2012. A total amount of SDR 640.0 million is to be disbursed in seven equal installments under the facility . Bangladesh has already received SDR 457.11 million in five equal installments under ECF at the end of FY14. In FY14, repayment against PRGF loan amounted to SDR 247.87 million to the IMF. The outstanding principal liabilities under PRGF and ECF stood at SDR 68.86 million and SDR 457.11 million respectively at the end of FY14. The total principal outstanding liabilities to the IMF at the end of June 2014 stood at SDR 525.97 million (Table 11.7). Service charges paid to the IMF during FY14 amounted to SDR 0.48 million.

Changes in Foreign Exchange Regulations

11.31 Bangladesh Bank in its ongoing endeavour to ease the foreign exchange regulations has embarked upon the following notable changes on exchange arrangements during FY14.

- The ceilings on import value (through LC or contract) for applying to obtain mandatory credit report of foreign suppliers (in case of import into Bangladesh) by the ADs have been enhanced to USD 10000 (earlier it was Taka 0.5 million) in cases where proforma invoices are issued directly by foreign suppliers and USD 20000 (earlier it was Taka 1.0 million) in cases where they are issued by local agents of the foreign suppliers.

- Different items received export sabsidy/ cash incentives at dif ferent rates during FY14 as follows: (1) local textile products (5 percent); (2) goods made of hoogla, straw, coir of sugar cane (15 percent to 20 percent); (3) agro (vegetables/fruits) and agro processing goods (20 percent); (4) crushed bone (15 percent); (5) light engineering goods (10 percent); (6) 100 percent halal meat (20 percent); (7) frozen shrimp (10 percent); (8) leather goods (15 percent); (9) ship (5 percent); (10) textile products as new market exploration assistance (other than USA, Canada, EU) (2 percent); (1 1) additional cash incentive for small and medium industries in textile sector (5 percent); (12) potato (20 percent); (13) pet bottle flex (10 percent) and (14) jute goods: finished jute goods (other than jute yarn) (10 percent) & jute yarn (7.5 percent).
- To bring viability and usefulness in the activities of MCs, ADs have been advised to cooperate them in operating FC accounts so that they can deposit foreign currency beyond the specified limit of USD 25000.
- ADs, on behalf of Omrah Agents, have been allowed to issue bank guarantee/performance bonds for maximum 100,000 Saudi Rial in favor of official omrah service providers in KSA.
- ADs are allowed to af fect remittances on account of membership/af filiation fees payable by local business/professional entities to the professional/scientific institutions abroad.
- ADs have been allowed to remit advance payment of USD 5000 against import without prior permission from Bangladesh Bank. Earlier the facility of advance payment was USD 2500 against import of books, journals and life saving medicines.
- An incoming/outgoing passenger may bring in/take out up to Taka 5000 which was Taka 2000 earlier.
- ADs may, without prior approval of Bangladesh Bank, hold collaterals on behalf of overseas bank branches or correspondents in respect of external borrowing by industrial enterprises approved by Board of Investment. This action will ease obtaining/handling borrowing from abroad.
- Service sector firms which are within the purview of Industrial Policy in force are allowed to remit up to 1 percent of annual sales as declared in their previous years' income tax returns costs of training and consultancy services as per relevant contract with the foreign trainer/ consultant. Earlier this facility was available only for manufacturing industries.
- ADs are allowed to encash inward remittances against agency services on one-off basis without permission of Bangladesh Bank after satisfying themselves with the genuineness and authenticity of the requests from their customers.

- To facilitate foreign exchange transactions against transportation services for import and export, general authorisation has been accorded to shipping lines/air lines/licensed freight forwarders to open and maintain foreign currency accounts. The accounts will be used to deposit foreign currency against handling of FoB exports. Payment for FoB imports can be met from these accounts. Importers can make payment of freight charges as declared in LCAF issued for FoB import to shipping lines/airlines/licensed freight forwarders in foreign currency . Shipping lines/airlines may also accept payment in foreign currency from freight forwarders against handling of FoB exports. The procedures will ease transport service sectors to conduct foreign exchange transactions at minimal documentation.

- The business travel quota entitlement has been revised. Under the revised instruction exporters, importers and producers for the local market will be entitled to foreign exchange quota USD 400 per diem, subject to limits of USD 4000 per trip and USD 10000 over a calendar year for travel abroad. Besides, exporters will also be entitled to use balances in their foreign currency retention quota account for their business visits abroad. Moreover, senior level (top two tiers) expatriate foreign nationals employed in business organisations in Bangladesh with valid visas and work permits are entitled to the same business travel quota as Bangladesh nationals; which can be used through international credit/debit cards held by them. Earlier annual business travel quota was maximum USD 6000 for new exporters and USD 5000 for importers and producers for the local market.

- Restrictions to access of foreign owned/controlled companies in Bangladesh to term loans in Taka from the local market have been waived. Under the new instructions, foreign owned/controlled companies engaged in manufacturing or services output activities for three years or longer in Bangladesh can access Taka term loans from the domestic market regardless of local content in their equity; subject to adherence by banks/financial institutions to all applicable credit norms and prudential parameters including single borrower exposure limit, debt-equity ratio and so on.

- Foreign owned/controlled industrial enterprises in Bangladesh have been allowed to access interest free loans for working capital other than input procurements from parent companies/ shareholders abroad for upto one year without any prior approval. This facility will be available for those companies which have not yet been linked up for working capital financing from the local market.

- Undertaking procedure in regulatory declaration form (EXP Form) for export has been rationalised. In the amended EXP Form, exporters will undertake to repatriate full proceeds of the export within the period specified by the Bangladesh Bank in terms of FER Act. ADs will undertake that in the event of non-realisation or short realisation of export proceeds against shipment within the stipulated period, it will obtain from the exporter(s) and furnish to the Bangladesh Bank the full explanation of the circumstances resulting in non-realisation/short realisation.

- Global private travel entitlement has been enhanced to USD 12000 per adult passenger during a calendar year with up to USD 5000 or equivalent for travel to SAARC member countries and Myanmar and up to USD 7000 or equivalent for travel to other countries. As before, for minors (below 12 years in age) the applicable quota will be half the amount admissible for adults. The limit of foreign exchange in the form of cash is up to USD 3000 per person per trip.

- ADs are allowed to issue bid bonds/performance bonds/guarantees on behalf of residents in foreign currency favoring local project authorities against goods/services procurement tenders financed by Government subject to the condition that in case the guarantee is invoked the claim would be paid only in equivalent Taka and not in any other currency.

- AD bank may continue to ef fect remittance of periodical maintenance/ support fee for software during the tenure of the agreement for which maiden approval was accorded from Bangladesh Bank. In this context, the AD banks shall satisfy themselves with the authenticity of the subsequent requests through invoices and validity of the relevant agreement and comply with the instructions contained in first time approval letter of Bangladesh Bank.

- Students are allowed travel entitlement (entire unused travel quota) against one way ticket proceeding abroad for study . Earlier the allowable limit of releasing foreign exchange for expenses in transit was USD 200 or equivalent.

- International Credit Card issuing banks have been allowed to issue 'V irtual Card' to individual developers/ freelancers of mobile apps and games having acknowledgements/ training/ boot camps/ hackathons/ course participation certificates on mobile application development not exceeding USD 300 in a calendar year.

Anti-money Laundering Surveillance

11.32 Bangladesh Financial Intelligence Unit (BFIU) has taken various initiatives and steps to prevent money laundering and terrorist financing throughout the country in FY14.

Reporting Agencies and their Regulatory Regime

11.33 BFIU has issued separate Guidance Notes on prevention of money laundering and terrorist financing for the designated non-financial businesses and professions and NPO/NGO sector on 29 October 2013 and 20 November 2013 respectively.

BFIU has circulated instructions to be followed by all reporting agencies for compliance of freezing accounts of listed individuals or institutions and other issues under the sanction list of dif ferent resolutions of United Nations Security Council on 5 November 2013.

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 terrorist financing under the provisions of MLPA, 2012 and ATA, 2009.

All the reporting agencies have started to submit online reporting of Cash Transaction Report (CTR) and Suspicious Transaction Report (STR) through goAML software procured by BFIU. 616 STRs during FY14 and in total 1929 reports have been received by BFIU till 30 June 2014.

Legal System

11.34 BFIU has performed a major role in drafting the Anti Terrorism Rules, 2013 and Money Laundering Prevention Rules, 2013 that have been published in the Official Gazette on 9 November 2013 and 29 January 2014 respectively.

International Cooperation

11.35 In the plenary meeting of Financial Action Task Force (FATF) held on 13 February 2014 in Paris, France, it was decided that AML/CFT regime has achieved the international standard and as a result Bangladesh has got rid of the International Cooperation Review Group (ICRG) process.

BFIU has signed 25 Memorandum of Understanding (MoU) so far, among them 11 MoU have been signed in FY14 (with Argentina, Denmark, UK FIU, Trinidad & Tobago, Belgium, Saudi Arabia, Peru, India, Aruba, Turkey and Albania).

BFIU has achieved access to wider global platform by getting membership of Egmont group in July 2013 which will help to establish relationship with other FIUs of different countries by exchanging views, experiences and information via Egmont secure web-site.

Awareness Building Programme

11.36 BIFU has continued its effort to create awareness among the bank officials; furthermore it has extended awareness programmes for the officials of other reporting organisations. BFIU has encouraged the banks to conduct a number of training programs for their officials on AML/CFT in 56 districts. It has arranged training programmes for their officials and 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 FY14.

Participation in Different International and Local Conferences/Meetings/Workshops

11.37 During FY14, BFIU has represented Bangladesh in different international conferences/meetings/workshops related to money laundering and terrorist financing and strengthened co-operation with other countries in its drive against money laundering and terrorist financing.