

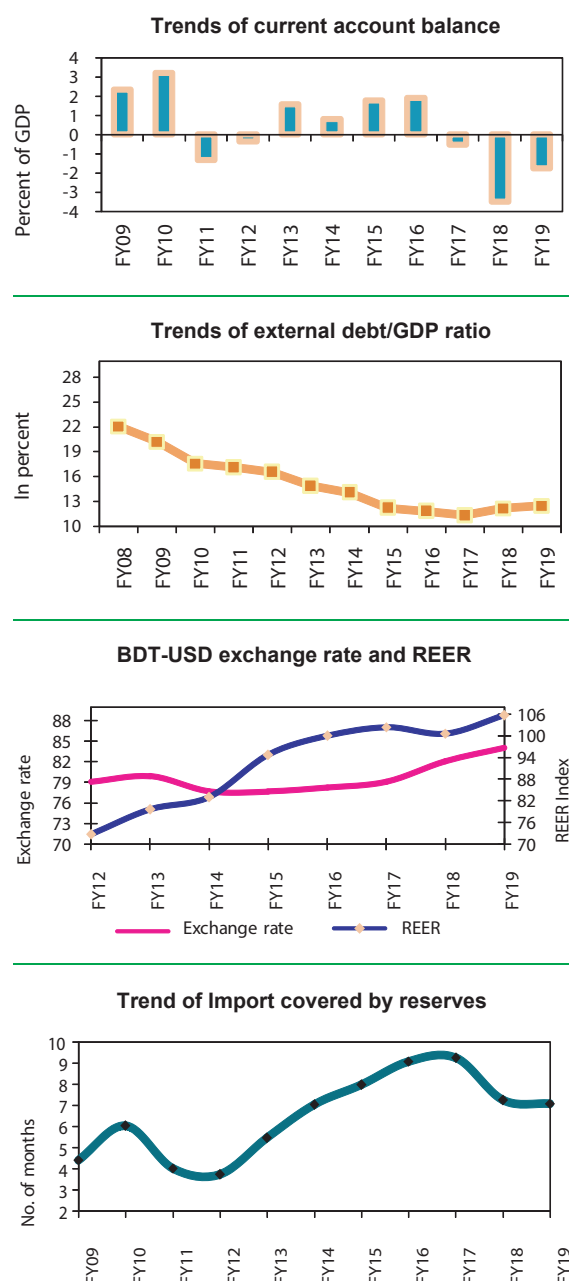
External Sector

External Trade and the Balance of Payments

11.1 Global trade grew slower in 2018 compared to 2017, due to the increase in trade restrictions and geopolitical tensions. However, Bangladesh economy trade balance deficit slowly eased up during FY19. Satisfactory growth of gross imports along with strong export growth led to a lower trade deficit during FY19 compared with FY18. Therefore, the overall balance gained a surplus.

11.2 The current account deficit, which was 3.5 percent of GDP in FY18, decreased to 1.7 percent of GDP in FY19. Nominal exchange rate stood at BDT 84.03 in FY19 compared to BDT 82.10 in FY18 (period average). The nominal effective exchange rate (NEER) of BDT, calculated against a trade weighted 15 currency basket (base: FY16=100), appreciated by 2.6 percent in FY19. Similarly, the real effective exchange rate (REER) of BDT appreciated by 5.1 percent in FY19. Foreign exchange reserve stood at USD 32.7 billion at the end of June 2019; reserve coverage of imports decreased but remains broadly adequate at around 6.3 months prospective imports. Outstanding external debt stock of Bangladesh increased at the end of FY19. The trend of outstanding external debt to GDP ratio increased to 12.5 percent in FY19

Chart 11.1 Key Indicators of External Sectors



Source: Statistics Department, Bangladesh Bank.

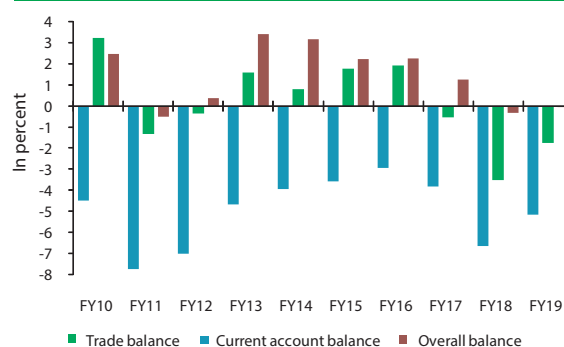
from 12.2 percent in FY18. The overall scenario of major external sector indicators in FY19, are shown in Chart 11.1.

Balance of Payment

11.3 The deficit of current account reduced to USD 5254 million during FY19 which was USD 9567 million in FY18. The decrease in current account deficit was mainly attributed to the decline deficit in trade balance and services account. Moreover, secondary income balance surplus increased due to the improvement of worker's remittances. However, the surplus in the financial account decreased to USD 5738 million in FY19 from USD 9145 million in FY18. The capital account surplus decreased to USD 233 million in FY19 from USD 331 million in FY18. During the same period, overall balance recorded a surplus of USD 12 million compared to a deficit of USD 857 million in FY18 (Chart 11.2 and Table XVI of Appendix-3).

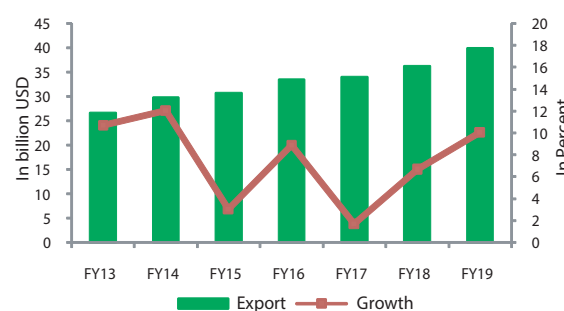
11.4 The trade deficit decreased by 14.8 percent to USD 15494 million during FY19 from USD 18178 million in FY18. Higher growth of export along with lower import growth led to the decrease in trade deficit. The services account deficit was narrowed by 11.6 percent to USD 3715 million in FY19 from USD 4201 million in FY18. The deficit on the primary income account also widened (10.9 percent) to USD 2930 million in FY19 from USD 2641 million in FY18. Secondary income increased by 9.3 percent from USD

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.

15453 million in FY18 to USD 16885 million in FY19. The net outcome of all of these, the overall balance achieved a surplus of USD 12 million in FY19 compared to a deficit of USD 857 million in FY18 (Table XVI of Appendix-3).

11.5 Foreign Direct Investment (FDI) plays positive role for developing the Bangladesh economy. FDI is not only an important source of financing but more importantly it is an excellent source of new technology and modern management. As a potential source of foreign exchange reserves, FDI needs to be encouraged. For

Box 11.1 Impact of USA-China Trade War on Bangladesh Economy

A trade war emerges from extreme protectionism in which states raise or create tariffs or other trade barriers on each other. Increased protection in any form causes both nations' output as well as consumption compositions and volume to move towards their autarky position, keeping them away from taking comparative advantage in international trade. The ongoing trade war, initiated by Mr. Donald Trump, President of the United States of America, has been characterized by increasing tariffs and other trade barriers with the goal of forcing China to make changes to what the U.S. says are "unfair trade practices".

Whatever the reasons, the conflicting countries have to bear huge costs in terms of loss of production and consumption, be directly or indirectly. As Bangladesh is being increasingly integrated with the rest of the world, especially USA and China, trade war between the two largest trade partners will certainly impact Bangladesh through three key channels namely (a) Export, (b) Import, and (c) Investment. Impact of trade war between US and China on the Bangladesh economy arises, in fact, from triangular relationship among the conflicting countries and Bangladesh. After imposing tariff on China's export items to US, China's export to US will be reducing; and other exporting countries (like Bangladesh) of the same items to US will be benefited by taking relative advantage of prices; and their exports in US will be increasing. Similarly, US's exports to China will be harmed off/ impaired; and other exporting countries of the same items (if any) to China will try to increase their exports in China.

USA's total import, on average in 2018, is US\$3.1 trillion of which US\$539.5 billion (17.3 percent of total import) from China and total export is US\$2.5 trillion of which US\$120.3 billion (4.8 percent of total export) to China. Thus trade deficit of USA with China is US\$419.2 billion (67 percent of total USA deficit).

To bring down larger trade deficit with China as well as to increase domestic production, employment and investment, USA imposed 25 percent tariff on steel and aluminum imported from China by accusing that China is cheating in technological patent rights. Similarly, China has also imposed same portion tariff on wine, nuts, fruits, soybean, shrimp and car imported from USA. Researchers have opined, this trade has multi-dimensional impacts on world economy. Total growth rate of the world economy and world trade may fall by 1 percent and 6 percent respectively. Small economy may fall in trade risk. Regional treaty may collapse. This trade war between super powers has already started to impact on the small economy like Bangladesh in a mixed way.

- It is reportedly said by the industry leaders in the RMG sector that many US and other overseas buyers have started coming back to Bangladesh though it is still insignificant. Bangladesh's share in the total US RMG market has grown from 6.4 per cent to 6.5 per cent in 2017. In an article of the Economist titled 'Asia and the Trade War', it has been said that Bangladesh will gain mostly in the RMG sector, although that is also likely to be less than Vietnam. According to BGMEA, total number of RMG buyers of USA to Bangladesh has increased by 25 percent and Bangladesh's RMG export to USA has increased by 4.5 percent in 2018.
- Bangladesh is also likely to be benefited by a lowering of tariff for Bangladesh, India and two other countries by China. But China has already started depreciating her currency in order to retain her global competitiveness as much as possible which is, in turn, going to cut away some of the export

benefits Bangladesh might otherwise get in the Chinese market. For instance, gold price has gone up globally including Bangladesh.

- Recent collapse in leather industry is another consequence of trade war. Bangladesh used to export about 300 square feet crore (60 percent of total leather export of the country) to China and China exports leather final product to USA. As USA imposed 25 percent tariff on leather product of China, China also reduced 25 percent price of raw leather imported from Bangladesh, resulting the recent collapse in leather industry of Bangladesh.
- Let us consider the impact of the trade war on imports by Bangladesh. Chinese tariff on the US cotton and soybean has reduced their international market price by around 10 per cent. But we import only around 20 per cent of our cotton from the US, and the rest from India. However, Bangladesh's cotton import from US has recently grown at the back drop of China's decline of cotton import from US. For instance, before July 2018, China used to import 45 percent of its total annual requirement of cotton from the US while it is now only 15 percent. On the other hand, China has started shifting orders for cotton to India along with imposition of tariff on the US cotton. Taking advantage of this higher demand, India has increased the price of her cotton by 10-12 per cent. So, Bangladesh does not seem to have much edge here unless she diverts her cotton procurement widely to the US.
- Soybean consumers might get some benefits in the form of lower prices as Chinese tariff on the US soybean has already depressed its global price. Imports of all kinds from China would now be cheaper compared to that in the recent past as she has depreciated her currency. The danger is that the cheaper Chinese goods might flood Bangladesh markets as they will remain still cheaper, and China would likely be pushing for their enhanced sale in countries like Bangladesh.
- The principal raw materials of our steel industry are steel scraps. The major source of this is the US. US tariff on Chinese steel should make them easily available to Bangladesh at a relatively lesser cost. But its price has started going up for no clearly understandable reason.
- Another important impact of US- China trade war on investment could happen through factory relocation. But US has been so far very careful about avoiding imposition of any new tariff on Chinese RMG as it would most certainly affect almost everybody in the US. However, some other industries like steel or electronics might be relocated to Bangladesh. This will require developed infrastructure and lower cost of doing business. But if Bangladesh cannot quickly improve her infrastructure and substantially reduce the cost of doing business here, the dream of relocation of Chinese or any other industry would only be a mirage.
- Now, if USA devalue its currency to increase their export, there will be an adverse impact on export and remittance sector of Bangladesh.

Above all, if the trade war persists for a long, global supply chain will get distorted and raise cost of production. Consumer demand may be shifted harming Bangladesh's exports. The worst of all fears for Bangladesh is that if the trade war actually does not end soon, its economy might take a battering and face all the undesirable consequences. Hopefully, the trade war will be mitigated in the near future through the ongoing dialogue, reaching a successful deal/agreement between the two counter parties.

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. Net FDI inflow increased significantly by 38.6 percent to USD 2650 million in (as per BPM6 shown in BOP) FY19. On the other hand, portfolio investment decreased significantly by 50.7 percent to USD 172 million in FY19 compared to USD 349 million of preceding year.

11.6 Merchandise exports (fob) increased by 10.1 percent to USD 39945 million and imports (fob) increased slightly by 1.8 percent to USD 55439 million in FY19 (Chart 11.3). The balance of payments position is given in Table XVI of Appendix-3.

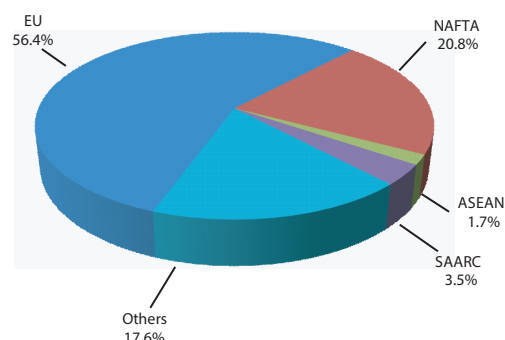
Exports

11.7 According to EPB's statement, export earnings increased by 10.5 percent to USD 40535.0 million in FY19 from USD 36668.2 million in FY18 (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 accounts for about 84.2 percent of total export earnings, registered an increase

Chart 11.4 Destinal Pattern of Exports in FY19



Source: Statistics Department, Bangladesh Bank.

Table 11.1 Composition of Merchandise Exports (In million USD)

Items	FY18	FY19	% change
1) Raw jute	155.7	112.5	-27.7
2) Jute goods	869.9	703.8	-19.1
3) Tea	2.77	2.82	1.8
4) Leather and leather products	519.9	411.9	-20.8
5) Frozen shrimps and fish	467.0	425.0	-9.0
6) Woven garments	15426.3	17244.7	11.8
7) Knitwear products	15188.5	16888.5	11.2
8) Chemical products	150.7	205.2	36.1
9) Petroleum by-product	33.7	203.7	504.5
10) Engineering products	356.0	341.3	-4.1
11) Specialized textiles	110.0	143.9	30.8
12) Footwear	809.7	879.4	8.6
13) Others	2578.1	2972.3	15.3
Total:	36668.2	40535.0	10.5

Source: Export Promotion Bureau, (EPB).

in receipts from USD 30614.8 million in FY18 to USD 34133.2 million in FY19. Woven and Knitwear products showed a higher growth of 11.8 and 11.2 percent respectively in FY19 compared to FY18.

11.9 Leather: During FY19 export earnings from leather and leather products decreased by 20.8 percent to USD 411.9 million in FY19 from USD 519.9 million in FY18.

11.10 Frozen food: Earnings from frozen foods comprises mainly of shrimps, decreased during FY19. Receipt from export of shrimp and fish decreased by 9.0 percent to USD 425.0 million in FY19 from USD 467.0 million in FY18.

11.11 Footwear: Export earnings from footwear products increased by 8.6 percent to USD 879.4 million in FY19 from USD 809.7 million in FY18.

11.12 Chemical Products: Export earnings from chemical products achieved a significant growth and stood at USD 205.2 million in FY19 against USD 150.7 million in FY18.

11.13 Tea: Export earnings from tea increased slightly by 1.8 percent to USD 2.82 million in FY19 compared to USD 2.77 million in FY18.

11.14 Jute goods (excluding carpets): Export earnings from jute goods decreased by 19.1 percent to USD 703.8 million in FY19 from USD 869.9 million in FY18.

11.15 Raw jute: Raw jute valued at USD 112.5 million was exported in FY19, against USD 155.7 million in FY18.

Destination of Exports

11.16 As an 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 NAFTA, SAARC and ASEAN+3 regions

Table 11.2 Composition of Merchandise Imports (based on customs records)
(In million USD)

Items	FY18 ^R	FY19 ^P	% changes
A. Food grains	3098.8	1551.6	-49.9
1. Rice	1604.5	115.1	-92.8
2. Wheat	1494.3	1436.5	-3.9
B. Other food items	4385.3	4312.6	-1.7
1. Milk & cream	321.7	360.8	12.2
2. Spices	282.4	327.1	15.8
3. Oil seeds	571.1	796.4	39.5
4. Edible oil	1863.2	1656.3	-11.1
5. Pulses (all sorts)	433.9	469.5	8.2
6. Sugar	913.0	702.5	-23.1
C. Consumer and intermediate goods	25202.2	27565.7	9.4
1. Clinker	765.7	993.3	29.7
2. Crude petroleum	365.2	415.5	13.8
3. POL	3652.3	4561.5	24.9
4. Chemical	2315.0	2472.0	6.8
5. Pharmaceutical products	252.7	245.9	-2.7
6. Fertiliser	1005.6	1301.4	29.4
7. Tanning & dyeing extracts	695.0	779.2	12.1
8. Plastics & rubber articles thereof	2525.1	2757.2	9.2
9. Raw Cotton	3235.4	3082.2	-4.7
10. Yarn	2351.0	2444.9	4.0
11. Textile & articles thereof	6859.5	7284.4	6.2
12. Staple fibre	1179.7	1228.2	4.1
D. Capital goods and others	10294.3	10658.9	3.5
1. Iron, steel & other base metal	4831.9	5246.3	8.6
2. Capital machinery	5462.4	5412.6	-0.9
E. Others	15884.7	15825.9	-0.4
Total Import (c.i.f)	58865.3	59914.7	1.8
Of which EPZ	3756.0	4031.5	7.3
Total Import (f.o.b)	54463.2	55438.5	1.8

^P provisional

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

increased but it decreased in EU and others region. In FY19, 56.4 percent (58.2 percent in FY18) of exports were destined for the EU area while 20.8 percent (19.8 percent in FY18) entered into the NAFTA bloc. Exports to the SAARC, ASEAN and other countries were 3.5, 1.7 and 17.6 percent respectively of the total exports in FY19 (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 refinances facilities to boost up the export sector. As export posted a significant growth, the volume of the EDF fund was enhanced by Bangladesh Bank from time to time. In February 2019, the fund was enhanced to USD 3500 million from USD 3000 million to meet the growing demand of the exporters.

11.18 The exporters as well as deemed exporters may 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 materials, plastic goods, leather goods & footwear, ceramic wares, dyed yarn, etc. Recently to facilitate export in a wider scope, it has been decided that refinance from EDF will also be admissible to ADs for bulk imports by manufacturer-exporters irrespective of sectors against eligible requirements, based on their export performance over the preceding twelve months or USD 500,000 whichever is lower.

11.19 A borrower-wise maximum exposure limit of EDF is followed to streamline the credit discipline. At present, maximum USD 25.0 million is allowed to a single party except leather goods & footwear, ceramic wares, dyed yarn, accessories & packaging and plastic goods

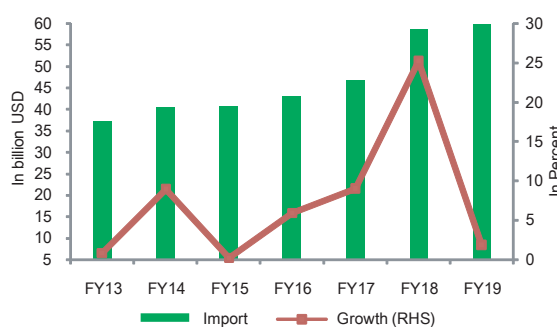
Table 11.3 Trends in Terms of Trade of Bangladesh

(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	214.31	246.03	87.11
FY19	225.95	259.38	87.11

Source: Bangladesh Bureau of Statistics.

Chart 11.5 Trends in Imports Recorded at Customs



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

manufacturer. However, this limit is maximum USD 20.0 million for leather goods & footwear and 15.0 million for ceramic wares, dyed yarn and USD 2.0 million for accessories and packaging and USD 1.0 million for plastic goods manufacturers and USD 0.5 million for exporters irrespective of sectors.

11.20 The present interest rate on 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

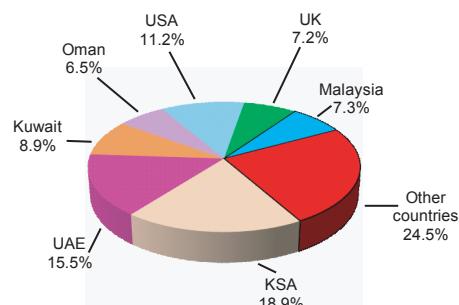
provision for further extension up to 90 days, if requires for delay in repatriation of related export proceeds of the exporter concerned.

11.21 On a revolving basis, the total disbursement from EDF in FY19 stood at USD 6.08 billion which was USD 5.76 billion in FY18. The outstanding balance at the end of June, 2019 stood at USD 3.29 billion which was USD 2.99 billion in the same time of the previous year.

Imports

11.22 Imports recorded at customs (fob) in FY19 increased markedly from USD 54463.2 million in FY18 to USD 55438.5 million registering a growth of 1.8 percent. Import of oil seeds recorded a significant growth of 39.5 percent in FY19. Import (landed) for food grains decreased to USD 1551.6 million in FY19 from USD 3098.8 million in FY18. Import of other food items decreased slightly by 1.7 percent to 4312.6 million in FY19 from USD 4385.3 million in FY18. Except negative growth of edible oil (11.1 percent) and sugar (23.1 percent), all other food items of imports showed positive growth. Consumer and intermediate goods imports increased by 9.4 percent to USD 27565.7 million in FY19 from USD 25202.2 million in FY18. Imports of capital goods and others categories recorded a slight growth of 3.5 percent to USD 10658.9 million in FY19 from USD 10294.3 million in FY18. Imports by EPZ increased by 7.3 percent to USD 4031.5 million in FY19

Chart 11.6 Country-wise Wage Earners' Remittances in FY19



Source: Statistics Department, Bangladesh Bank.

compared to USD 3756.0 million in FY18 (Table 11.2).

Terms of Trade

11.23 The terms of trade was 87.11 in FY19 which was the same as in FY18. The growth of export price index and import price index remained unchanged at 5.4 percent during the year (Table 11.3).

Workers' Remittance

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 9.6 percent to USD 16419.63 million in FY19 from USD 14981.69 million in FY18. Due to government incentive, simplification of sending remittances in formal channel and different supportive policies regarding remittances helped expatriates to increase remittance inflows again. To facilitate 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 have 1233 drawing arrangements with more than 259 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 remittances to the beneficiaries within 2 (two) working days. However, the measures taken by the Government and the Bangladesh Bank for reducing cost and curbing the role of unauthorized intermediaries in transferring remittances will

Table 11.4 Foreign Aid Receipts and Debt Repayments* (In million USD)

Particulars	FY17	FY18 ^R	FY19 ^P
1. Receipts	3677.3	6369.4	6210.8
i) Food aid	28.8	13.5	5.71
ii) Project aid	3648.5	6355.9	6205.1
2. Repayments (MLT)	1123.3	1409.2	1593.8
i) Principal	894.1	1110.4	1202.3
ii) Interest	229.2	298.8	391.5
3. Outstanding external debt (MLT) as of end June	28337.4	33511.8	37835.9
4. Outstanding debt as percentage of GDP	11.4	12.2	12.5
5. External debt services payment (MLT) as percentage of exports	3.2	3.8	3.9

^PProvisional, ^R Revised.

*Excluding transactions with the IMF.

Source: Economic Relations Division (ERD), Ministry of Finance and Statistics Department, Bangladesh Bank.

Table 11.5 Trends in Gross Foreign Exchange Reserves of Bangladesh Bank

(End month, in million USD)

Months	FY15	FY16	FY17	FY18	FY19
July	21384	25469	30039	32994	32106
August	22070	26175	31165	33596	32927
September	21837	26379	31386	32817	31958
October	22313	27058	31895	33453	32078
November	21590	26408	31371	32624	31056
December	22310	27493	32092	33227	32016
January	22042	27139	31724	32695	31280
February	23032	28059	32557	33369	32236
March	23053	28266	32215	32403	31787
April	24072	29106	32519	33094	32123
May	23708	28803	32246	32348	31345
June	25026	30168	33493	32944	32717

Source: Accounts and Budgeting Department, BB.

support inflows continued through the official channels.

11.26 There is a 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 are also allowed for getting housing

loans from commercial banks. Banks are instructed to open "Remittance Help Desk" in all branches for better remittance services.

11.27 Bangladesh receives a lion's share of remittances from the Middle Eastern countries. During FY19, the highest amount (18.9 percent) of remittances came from Saudi Arabia followed by the United Arab Emirates (UAE) (15.5 percent), United States of America (11.2 percent), Kuwait (8.91 percent), Malaysia (7.3 percent), United Kingdom (7.2 percent) and Oman (6.5 percent). All other countries contributed to 24.5 percent of total remittances over the same period. Country wise remittances inflow in FY19 is shown in Chart 11.6.

Foreign Aid

11.28 Total official foreign aid receipts decreased by 2.5 percent and stood at USD 6210.8 million in FY19 from USD 6369.4 million in FY18 (Table 11.4). Total foreign aid commitment during FY19 was USD 8248.8 million. Food aid disbursement decreased to USD 5.7 million in FY19, from USD 13.5 million in FY18. The disbursement of project aid decreased at USD 6205.1 million in FY19 from USD 6355.9 million in FY18.

Total outstanding official external debt as of 30 June 2019 stood at USD 37835.9 million (12.5 percent of GDP in FY19) against USD 33511.8 million as of 30 June 2018 (12.2 percent of GDP in FY18). Repayment of

official external debt and services stood at USD 1593.8 million (excluding repurchases from the IMF) in FY19 which was USD 184.6 million or 13.1 percent higher than USD 1409.2 million in FY18. Out of the total repayments, principal payments stood at USD 1202.3 million while interest payments was USD 391.5 million in FY19, against USD 1110.4 and USD 298.8 million respectively in FY18. The debt service payment as percentage of exports stood at 3.9 percent in FY19 which was 3.8 percent in FY18.

Foreign Exchange Market Operations and Exchange Rate Movements

11.29 During FY19, BB sold USD 2.34 billion in the local interbank market to facilitate the foreign exchange liquidity which was USD 2.31 billion in the previous year. BB's proactive foreign exchange liquidity management and supervision ensured stability and smooth market activities throughout the FY19.

Foreign Exchange Reserves

11.30 BB's net foreign reserves comprises of major currencies (G-7), gold and Special Drawing Rights (SDR). FY19 started with USD 32.91 billion in foreign exchange reserves which slightly fell to USD 32.72 billion at the end of the year. The total outstanding principal liability to the IMF stood at SDR 557.68 million at the end of June 2019 whereas SDR holding was 621.68 million at the end of FY18. Through diversifying the foreign asset portfolio into

bonds (issued by sovereign, supranational and highly reputed foreign commercial banks), US Government Treasury Bills and Notes, and short-term deposits with globally reputed foreign commercial banks, BB puts best efforts to ensure optimum return on foreign exchange reserve investments. BB is also active in the New York Fed's Repo process which yields fair returns at a very low-risk rate. Moreover, BB offers foreign exchange refinance schemes to local exporters through the Export Development Fund (EDF) and the Green Transformation Fund (GTF). In addition, with the assistance of the International Development Association (IDA), BB provides long-term support to Bangladesh's manufacturing sector through a separate window called the Long Term Financing Facility (LTFF).

Reserve Management Strategy

11.31 BB's reserve management strategy and operational procedures were strongly influenced by developments in both domestic and international financial markets as well as various key aspects of macroeconomic policy stances. The most important elements of the policy framework are - the monetary policy structure, the exchange rate policy and regime, the external debt situation, and the geopolitical scenario. Currently, reserve management operations are carried out following the Reserve Management Guidelines (RMG) approved by the Board of Directors of BB.

Table 11.6 Receipts and Payments of Bangladesh under the ACU

(In million USD)

Head of transaction	FY17	FY18	FY19	% Changes
1. Receipts	183.60 (1479.77)	189.21 (1584.09)	193.54 (1635.37)	2.29%
2. Payments	5996.92 (48334.48)	8088.52 (67718.48)	7042.90 (59512.52)	-12.93%
Net surplus (+)	-5813.32	-7,899.31	-6,849.36	
Deficit (-)	(-46854.71)	(-66134.39)	(-57877.15)	-13.29%

1. Figures in parentheses indicate amount of BDT in crore.
2. Closing Weighted Average Exchange rate as of 30-06-2019 i.e. USD/BDT = 84.5000

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

(In million USD)

Facilities	Amount drawn/ purchased up to June 2019	Outstanding principal liabilities as of end June 2018	Installment Repayment in FY19	Outstanding principal liabilities as of end June 2019
ECF April, 2012	639.96	621.6754	63.9961	557.6793

Source: Forex Reserve and Treasury Management Department, BB.

Reserves are held to absorb external shocks, to ensure smooth payment obligations and to maintain the stability of the domestic currency. To contain counterparty risks at a minimum level, BB maintains current account with major central banks and invests in money market through commercial banks having strong credit ratings assigned by the international rating agencies (e.g. Standard and Poor's, Moody's & Fitch). To minimize exchange rate risk and ensure 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 policy of the international arena. Reserves have been divided into two tranches viz: liquidity tranche and investment tranche to meet payment obligations of

government and others by maintaining adequate liquidity and generate optimum returns as well.

11.32 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 the 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)

11.33 Transactions with ACU (Asian Clearing Union) member countries during FY19 have substantially decreased in terms of net volume compared to the preceding year. Though receipts slightly increased from ACU\$ 189.21 million to ACU\$ 193.54 million, payments decreased by 12.93 percent to ACU\$ 7,042.90 million during the period. In ACU transaction scenario, the overall

position of Bangladesh remained a net debtor during FY19. Transactions with ACU member countries during the last three years are shown in Table 11.6

Transactions with the IMF

11.34 The IMF Executive Board approved a total amount of SDR 639.96 million a three-year arrangement for Bangladesh under the Extended Credit Facility (ECF) in April 2012. Bangladesh already received the full amount of ECF. The last installment of ECF amounted at SDR 182.845 million received in October 2015. The repayment installment of ECF was started in October, 2017. The total amount of repayment of ECF stood at SDR 63.9961 million during FY19. The total principal outstanding liability of ECF to the IMF was SDR 557.6793 million at the end of FY19 (Table 11.7). The service charge paid to the IMF amounted to SDR 5.2942 million in FY19. Under the 14th General Review of Quotas, Bangladesh's Quota in the IMF is SDR 1066.6 million.

Major Changes in Foreign Exchange Regulations

11.35 Bangladesh Bank in its ongoing endeavor to further ease the foreign exchange regulations embarked upon the following notable changes during FY19:

- **Clearing arrangement with Bangladesh Bank in Chinese Yuan Renminbi (CNY):** AD banks are maintained foreign currency clearing accounts with

Bangladesh Bank in US Dollar, Pound Sterling, Euro, Japanese Yen and Canadian Dollar to economize the time and cost involved in settlements through correspondents abroad for international trade transactions. Along with the above settlement currencies, ADs are also allowed to open foreign currency clearing account with Bangladesh Bank in Chinese Yuan Renminbi (CNY).

- **Endorsement of shipping documents:**

It is observed that in some cases export proceeds is received after shipment but before sending export documents abroad for collection. To facilitate such practice in particular trade, ADs are allowed to endorse transport documents of title to cargo in favor of importer or other designated parties and deliver the same as per stipulations of export letter of credit/valid sales contract only if full export proceed is received through normal banking channel before sending export documents to counterpart bank abroad for collection.

- **Issuance of transferable letters of credit (LCs) under cash LCAF:** Paragraph 19(iii), chapter 7 of the GFET-2018, Vol.-1 permits Authorized Dealers (ADs) to open transferable LCs for imports into Bangladesh under cash LCAF without reference to Bangladesh Bank. Cash LCAF shall mean those LCAFs issued for imports other than

under non-project commodity loans/credits/grants as referred to section iv, chapter 7 of GFET-2018.

- **Collection of bill of entry against import through land ports:** ADs are advised to follow usual procedure to match import payment with bill of entry as per stipulation of paragraph 31, chapter 7 of GFET-2018, Vol.-1 applicable only for those land custom houses using electronic system (ASYCUDA) for import clearance.
- **Export subsidy against export of charcoal produced from jute stick:** In accordance with the government decision and partial amendment of Section-4a of FE circular no-26, date-21/09/2016, it is to inform that certificate of Bangladesh Charcoal Manufacturers Association in lieu of Export Promotion Bureau (EPB) should be submitted with the application for export subsidy against export of charcoal produced from jute stick from now on Form-Kha attached with the aforesaid circular has been amended in this regard.
- **Opening of branch offices abroad:** In terms of paragraph 24, chapter 10 of the GFET-2018, Vol.-1, prior approval of Bangladesh Bank is not required by the residents in Bangladesh for opening of branch offices/subsidiary companies abroad. This paragraph permits annual remittance of up to USD 30,000 or

equivalent to meet current expenses of such offices opened abroad.

- **Performing Hajj 1440 hijri/ 2019 under Government and Private Management:** Each Pilgrim is allowed to carry 1000 USD or equivalent foreign currency in addition to the overall cost of pilgrimage. ADs are advised to follow existing rules and regulations accordingly for release of foreign currency in this regard.
- **Export policy of 2018-2021** has been issued by gazette notification of Commerce Ministry on 28 November, 2018. It will be effective from the gazette notification date and valid up to 30 June, 2021; however validity will continue until further notification.
- **Import of industrial raw materials on usance terms on behalf of exporters:** Export Policy 2018-21 stipulates to provide facilities for back to back LCs/usance LCs to all export products. In the context of usance LCs, ADs can open usance LCs on behalf of manufacturer-exporters for import of industrial raw materials in terms of paragraph 33(a), chapter 7 of GFET-2018, Vol.-1.
- **Introduction of electronic option of EXP Form submission for export of goods from Bangladesh:** It has been decided to introduce electronic option to submit EXP Form, with flexibility of

necessary amendments by exporters through Bangladesh Bank online reporting portal for export of goods prior to customs formalities. Accordingly, ADs shall accept EXP Form submitted electronically by their exporter-customers, information of which will subsequently be available in customs electronic system for onward formalities.

- **Foreign exchange transactions by the Enterprises of Hi-Tech Parks (HTPs) in Bangladesh:** To facilitate foreign exchange transactions for enterprises located at Hi-Tech Parks (HTPs) established by Bangladesh Hi-Tech Park Authority (BHTPA) under The Bangladesh Hi-Tech Park Authority Act, 2010 (Act No. 8 of 2010), it has been decided to formulate a separate set of instructions for Authorized Dealers (ADs) including off-shore banking units (OBUs). The circular contains detail instructions regarding enterprises of HTPs and their category/type, foreign investment in HTPs, temporary non-resident Taka/foreign currency account for foreign investors, maintaining FC accounts and Taka accounts by enterprises of HTPs, export/selling of goods/services from HTPs, selling of Bangladeshi goods or raw materials or non-physical contents to enterprises of HTPs, import by enterprises of HTPs, import by enterprises of HTPs, repatriation of dividend to non-resident

shareholders of 'Type A' and 'Type B' enterprises of HTPs, repatriation of disinvestment proceeds by non-resident shareholders, repatriation of royalty, technical know-how and technical assistance fees, remittances by foreign nationals working in HTPs and reporting.

- **Business-to-consumer export through sales orders received on internet:** It has been decided that electronic declaration by exporters submitted in accordance with FE Circular No. 17/2019 shall be acceptable to ADs providing acquiring services for repatriation of proceeds against export of goods concluded on E-Commerce website.
- **Export subsidy in export oriented RMG/Textile sector:** The power of issuing certificate related to cash incentive by Bangladesh Specialized Textile Mills and Powerloom Industries Association (BSTMPIA) had been withdrawn. Now government has decided to reinstate the power of issuing certificate by BSTMPIA in favor of its member organization.
- **Temporary non-resident Taka account (NRTA) for foreign investors:** Temporary NRTA may also be opened by scheduled bank branches apart from authorized dealers for inward remittance for direct investment in proposed

companies in Bangladesh. In this case, banks branch shall have suitable arrangement with ADs/Central Processing Centers (CPCs) to receive the foreign exchange in their nostro accounts abroad.

- **Business travel quota entitlements for local agents:** According to GFET-2018, Vol.-1 exporters, manufacturers for domestic markets and importers are entitled to foreign exchange quota for business travel abroad. It will also be applicable for local agents operating in Bangladesh on behalf of foreign principals without limiting to licensed indenting agents and buying agents.

Anti-money Laundering Surveillance

11.36 Financial sector is a major target of Money Laundering (ML) operations and financial crimes throughout the world. Money Launderers attempt to conceal their real identity to financial sectors with their polished, articulated and disarming behavior whereby convert their dirty money into white money.

Money laundering (ML) is the processing of criminal, "dirty" money to disguise their illicit origin and make them appear legitimate and "clean." Evidence also shows that ML finances terrorist attacks worldwide. So, anti-money laundering (AML) is very important issue to national financial stability and

international security. ML behavioral patterns and ML network structural features are essential to AML.

Strong Anti Money Laundering and Combating the Financing of Terrorism (AML & CFT) measures prevent money launderers to abuse financial system. These measures include formulating respective laws, regulations, directives and other policies; conducting proper supervision on reporting agencies, exchanging information at both domestic and international level; conducting prosecutions of the criminals accordingly and building awareness among reporting agencies, regulatory authorities and mass people. Proper KYC policy, strong customer due diligence system along with significant punishment measures for criminals keep launderers away from the legitimate financial channels. These measures have some explicit effects in reducing capital flight from the country and also have impact on the stability of the financial sector.

Being the national central agency and coordinator of all kinds of AML/CFT activities, Bangladesh Financial Intelligence Unit (BFIU) took a number of initiatives in order to prevent Money Laundering and combat against Terrorism Financing during FY19. Notable of them are mentioned below:

Legal Framework

- As per section 29 of Money Laundering Prevention Act 2012, Financial Institutions Division of Ministry of

Finance issued Money Laundering Prevention Rules 2019 on 31 January, 2019.

Reporting Agencies and their Regulatory Regime

- BFIU has issued guidance notes on Suspicious Transaction Report (STR), Beneficial Owner, Political Exposed Persons (PEPs) and Prevention of Terrorist Financing and Financing of Proliferation of Weapons of Mass Destruction for the reporting organizations.
- BFIU issued a circular regarding Internal Control and Foreign Branches and Subsidiaries of "Financial Institution Group" on 31 January, 2019.
- BFIU issued a circular regarding Exchange of Information among the reporting organizations on 31 January, 2019.
- BFIU issued a circular regarding issuance of Money Laundering Prevention Rules 2019 on 24 February, 2019.
- BFIU has developed a Risk Based Supervision Manual for supervision of Reporting Organizations (ROs) and this will help better implement the risk based on-site and off-site supervision of ROs.
- Money remitters and Insurance companies 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 Suspicious Transaction Report (STR) and Dissemination of the Same

11.37 In FY19, BFIU received 3546 Suspicious Transaction/Activity Reports (STRs/SARs) and out of those BFIU disseminated 26 to Law Enforcement Agencies (LEAs) for further actions. In addition, BFIU received 723 requests for banking related information from law enforcement agencies and responded all the requests during FY19. BFIU has been monitoring the status of these cases from time to time.

National Initiatives

- To formulate the National Strategy Paper on Anti-Money Laundering and Combating Terrorist Financing for the year of 2019-2021, Financial Institutions Division of Ministry of Finance formed a committee headed by Head of BFIU. The committee has formulated the National Strategy Paper and the National Coordination Committee approved it on 16 May, 2019.
- BFIU has taken initiatives to sign MoU with Anti-Corruption Commission (ACC), Bangladesh Police, Department of Narcotics Control (DNC), Bangladesh Securities and Exchange Commission (BSEC) and Insurance Development and Regulatory Authority (IDRA).

International Cooperation

- BFIU signed 68 (till June, 2019) Memorandum of Understanding (MoU)

so far to exchange of information with FIUs of other countries, among them 8 (eight) MoUs were signed in FY19 with FIUs of Maldives, Timor Leste, Lao PDR, Palau, Bermuda, Montenegro, Cook Islands and Isle of Man.

- During FY19, BFIU received 33 (thirty three) requests from the FIU of different countries for ML & TF related information and provided the information accordingly. BFIU also made 62 (sixty two) 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. For preservation and review of Cash Transaction Reports (CTRs) BFIU has provided a software (FID Portal) to Bhutan FIU. Moreover, a delegation of BFIU has visited Maldives for providing Onsite Technical Assistance in April, 2019.
- In FY19, BFIU provided Technical Assistance (TA) to the Nepal Financial Intelligence Unit in two occasions. In February, 2019 a BFIU delegation visited Nepal FIU for providing technical assistance regarding goAML implementation. In April, 2019 under "APG-BFIU Joint Technical Assistance to Nepal Government" program BFIU has conducted workshop for the capacity

building of law enforcement agencies of Nepal. In addition to that BFIU also extended cooperation regarding formulation of deliverables like framework for establishing law enforcement agency cooperation, compliant screening procedures and corruption related indicators.

- BFIU provided an expert assessor to APG to assess AML & CFT measures of Solomon Island.

Impart Domestic Training and Workshop

- BFIU in collaboration with US Embassy Dhaka and Police Staff College, Dhaka organized two "Financial Investigation Workshop" in September and December, 2018.
- BFIU organized a conference on Anti Money Laundering and Combating Financing of Terrorism for the Chief Executive Officers (CEO) of all scheduled banks in Bangladesh.
- BFIU organized a three day Chief Anti Money Laundering Compliance Officers (CAMLCO) Conference for all Banks in March, 2019. 114 senior compliance officials of all scheduled banks participated in the conference. "Use of AML & CFT Measures to Deter Corruption Induced Money Laundering: Special Focus on Illicit Out Flow" was the theme of the conference. On the second day of the conference a panel discussion

"Guidelines for Prevention of TBML: Focused on RBA" was held. In addition to CAMLCO and Deputy CAMLCO, the Trade Head/Head of International Division of all scheduled banks were participated in that session.

- BFIU organized a two day Chief Anti Money Laundering Compliance Officers (CAMLCO) Conference for Non-bank Financial Institutions in which 75 senior compliance officers including Chief Executive Officers were attended. "Abuse of Corporate Vehicle for Money Laundering: Special Focus on Loan Scam" was the theme of the conference;
- Bangladesh Institution of Bank Management (BIBM) arranged 17 AML & CFT Training program and BFIU provided required resource persons for those programs;
- BFIU also provided required resource persons on 74 occasions while reporting organizations arranged training on AML & CFT issues.
- BFIU trained 310 investigators of Criminal Investigation Department (CID) of Bangladesh Police about Anti Money Laundering and Combating Financing Of Terrorism;

Participation in different International and local conference/meeting/ workshops

11.38 For 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, ADB and other Donor and Provider (DAP) groups to boost international efforts in this arena. Bangladesh actively participated in

various international initiatives undertaken by these organizations and other foreign FIUs in FY19. Furthermore BFIU, as the main coordinating agency for prevention of ML, TF and PF, actively participated in a number of local conference/ meeting/ workshops arranged by different government agencies.