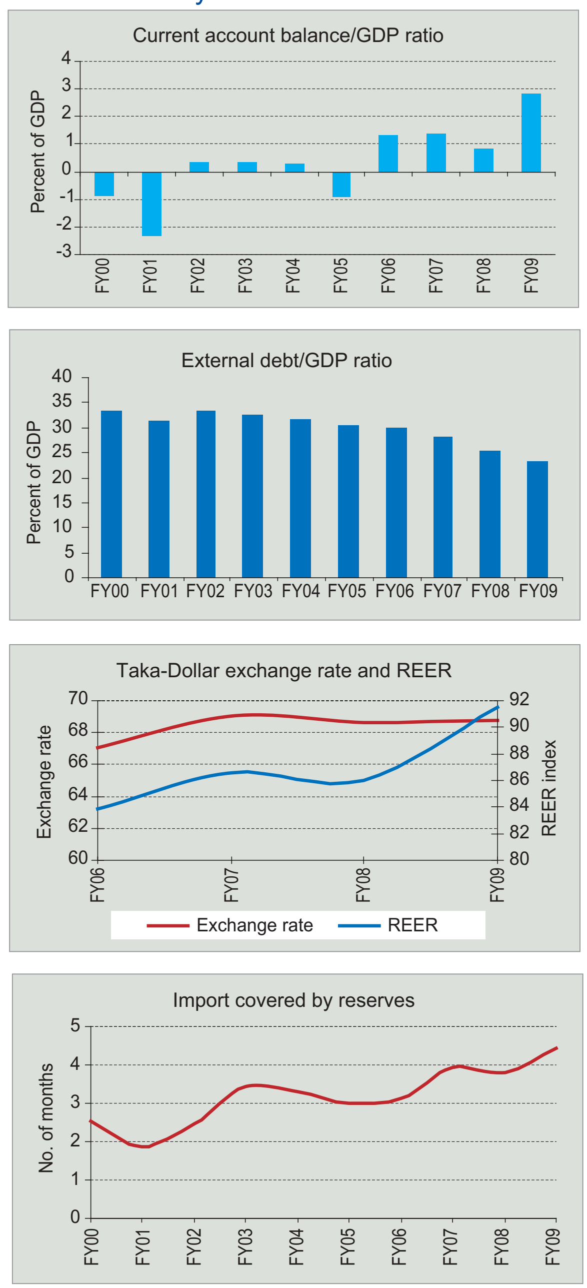
External Sector

9.1 The external sector witnessed a moderate growth during FY09. Despite global economic meltdown and devastating impacts of cyclone Aila in the southwest region of the country, adequate inflow of foreign exchange through exports and remittances kept the foreign exchange market stable. Reduced international market prices of food items and petroleum products have lowered the demand for foreign exchange and helped Taka-Dollar exchange rate almost stable. Double-digit growth rate of remittances and moderate export receipts helped increase gross foreign exchange reserve by USD 1.3 billion (or 21.5 percent) to USD 7.47 billion at the end of FY09.

A record amount of remittance receipts and moderate export growth along with fall in prices of import items in the international market have decreased the demand for foreign exchange that kept the market stable in the wake of global financial meltdown. As a result, Taka-Dollar exchange rate remained almost stable during FY09. Taka depreciated against US Dollar by 0.29 percent during the year.

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

Chart 9.1 : Key indicators of external sector



External Trade and the Balance of Payments - the Overall Situation

9.2 Merchandise exports (fob) increased by USD 1432 million (or 10.1 percent) in FY09 to USD 15583 million. Though raw jute, jute goods, tea, leather and frozen shrimps and fish (which recorded a negative growth of about 10.2, 15.7, 17.5, 37.7 and 14.9 percent respectively), all other major exportable items significantly increased. A substantial growth of export of knitwear products (16.2 percent) and woven garments (14.5 percent) continued to increase the growth of merchandise exports in FY09 over FY08. The export of miscellaneous products, subsumed under the "others" category showed a negative growth of 0.4 percent in value terms during FY09. As a percentage of GDP, exports decreased by 0.4 percentage point from 17.8 percent in FY08 to 17.4 percent in FY09.

9.3 Merchandise imports (fob) increased by USD 810.0 million (or 4.2 percent) in FY09 to USD 20291.0 million. Decreased international prices resulted in falling of import payments for rice, milk & cream, pulses, crude petroleum, edible oil, capital machinery, POL and clinker. On the other hand, import of fertiliser, pharmaceutical products, iron, steel & other base metal, wheat, dying & tanning materials, yarn, oil seeds, chemicals, raw cotton, plastic and rubber & articles thereof, and textile & articles thereof induced to increase overall import. Imports (cif) as a percentage of GDP decreased by 1.8 percentage points from 24.5 percent in FY08 to 22.7 percent in FY09.

9.4 A higher absolute increase in exports than imports somewhat narrowed down the trade deficit from USD 5330.0 million in FY08 to USD 4708.0 million in FY09. The deficit on the services account, however, widened to USD 1621.0 million in FY09 from USD 1525.0 million in the previous year. The deficit on the income accounts also rose to USD 1361.0 million in FY09 from USD 994.0 million in FY08. Current transfers increased substantially from USD 8551.0 million in FY08 to USD 10226.0 million in FY09 for which thanks to a hefty 22.4 percent rise in workers' remittances. The net outcome of all these developments widened substantially the current account balance surplus from USD 702.0 million in FY08 to USD 2536.0 million in FY09. Current account balance as a percentage of GDP stood at 2.8 in FY09 against 0.9 in FY08.

9.5 Despite decline of portfolio investment and other investment in the financial account, the surplus in overall balance substantially increased by USD 1727.0 million to USD 2058.0 million in FY09 from USD 331.0 million in FY08. Table XVI of Appendix-2 of this Report shows the balance of payments statement for FY09 and FY08. Chart 9.2 portrays the trends of trade, current account and overall balances as a percentage of GDP in recent years.

Chart 9.2

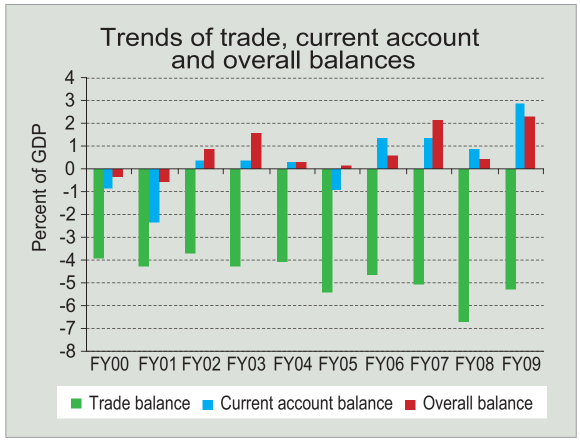


Table 9.1 Composition of merchandise exports

(Million US Dollar)

Items	FY08	FY09	% change
1) Raw jute	165.1	148.2	-10.2
2) Jute goods	313.5	264.3	-15.7
3) Tea	14.9	12.3	-17.5
4) Leather	284.4	177.3	-37.7
5) Frozen shrimps and Fish	534.1	454.5	-14.9
6) Woven garments	5167.3	5918.5	14.5
7) Knitwear products	5532.5	6429.3	16.2
8) Fertiliser	91.3	140.2	53.6
9) Terry towel	112.9	132.6	17.4
10) Others	1894.8	1887.9	-0.4
Total :	14110.8	15565.2	10.3

Source : Export Promotion Bureau.

9.6 As a potential source of foreign exchange reserves, foreign direct investment (FDI) has been emphasised by the Government. Despite global financial turmoil, as per primary estimate, net FDI flows in Bangladesh increased by 25.8 percent to USD 941.0 million in FY09 from USD 748.0 million in FY08.

Exports (fob)

9.7 Table 9.1 and Chart 9.3 show that total exports in FY09 had a moderate growth over FY08. Aggregate exports increased by 10.3 percent in FY09 to USD 15565.2 million from USD 14110.8 million in FY08. Apparels (woven garments and knitwear products) continued to occupy an overwhelming (about four-fifths) share of the export basket in FY09.

Destination

9.8 The destinational pattern of exports excluding those from EPZs in FY09 showed continued heavy dependence on the markets in Europe and North America. 55.6 percent of exports were destined for the EU bloc while another 29.1 percent entered into the NAFTA bloc. Export to the ASEAN+3 (i.e. the ASEAN bloc, China, Japan and South Korea) countries, SAARC and other regions constituted 1.4 percent, 3.0 percent and 10.8 percent respectively of total exports in FY09 (Chart 9.4).

Composition

9.9 **Readymade garments** (woven and knitwear): Woven products, which fetched about 47.93 percent of total export earnings of the apparels sector, registered a high increase in receipts, from USD 5167.3 million of FY08 to USD 5918.5 million in FY09, contributing mainly by increased shipment (15.02%), while unit price decreased slightly (0.43%). Despite unit price decrease (3.49%), Knitwear products showed a significant growth (16.21%), fetching

Chart 9.3

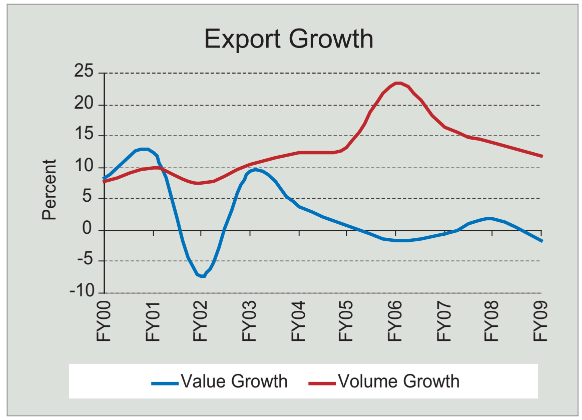
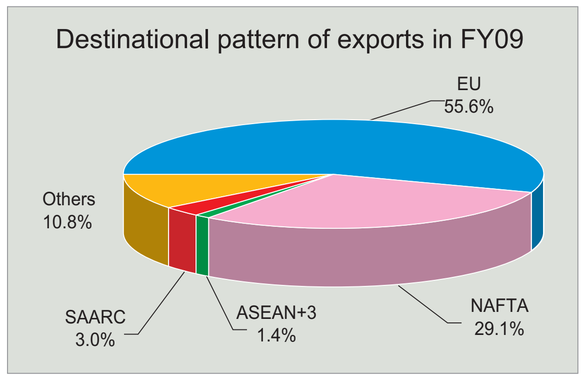


Chart 9.4



USD 6429.3 million in FY09 compared with USD 5532.5 million earned in FY08 due mainly to increase in shipment (20.4%).

9.10 **Frozen food:** The frozen food sector, comprising principally of shrimps, marked a decrease in earnings during FY09. Receipts from export of shrimp and fish decreased significantly by 14.90 percent from USD 534.1 million of FY08 to USD 454.5 million in FY09. Despite the increase of volume of shrimp by 3.08 percent, average unit price decreased substantially by 23.08 percent in FY09 over FY08.

9.11 **Raw jute:** In FY09, raw jute valued at USD 148.2 million was exported against USD 165.1 million in FY08. Both the volume of export of raw jute and unit price decreased by 9.19 percent and by 1.15 percent respectively in FY09 over FY08.

9.12 **Jute goods (excluding carpets):** In FY09, jute products valued at USD 264.3 million were exported in FY09 against USD 313.5 million exported in FY08. Both the volume of export of jute products and unit price decreased by 15.39 and 0.34 percent respectively in FY09 over FY08.

9.13 **Leather:** Export earnings from leather declined by 37.7 percent to USD 177.3 million in FY09 from USD 284.4 million in FY08. Both the volume and unit price of export of leather decreased by 30.73 percent and by 10.00 percent respectively in FY09 over FY08.

9.14 **Tea:** Tea valued at USD 12.3 million were exported in FY09 against USD 14.9 million in FY08. Despite the average unit price increased by 39.58 percent, volume of exports of tea decreased markedly by 40.91 percent in FY09 over FY08.

9.15 **Fertiliser:** Export earnings from fertiliser increased substantially by 53.6 percent to USD 140.4 million in FY09 against USD 91.3 million in FY08. Both the volume and unit price of export of fertiliser increased by 26.61 and 21.34 percent respectively in FY09 over FY08.

Export Promotion and Diversification

9.16 The main source of hard-earned foreign exchange of Bangladesh is the export sector. Though the international business has been opened and easier due to the globalisation, the participating countries are being faced gradual mutual competition in the wake of recent financial tsunami for existence in the international market. In this respect, each country is engaged in continuous endeavour to exist in the competition using its comparative advantages in commodity production. Bangladesh is also not exceptional. The Government has taken all necessary initiatives for all out development of this sector. The Government has taken the initiative to diversify the export sector by freeing this sector from the dependence on the limited export commodities and ensuring the commodity supply at competitive price in the world market. Use of modern technology in the business, simplification of import-export policies, market expansion, capacity building activities such as growth of productivity, production of quality commodities, reducing the trading cost and improvement of governance condition etc. are the prime areas that got utmost attention. At the same time, the government has taken the initiative to enhance the export earnings through offering all probable scopes for the development of the service sector such as information and communication technologies, consultation service, construction etc.

9.17 In order to facilitate export of the country, Export Development Fund (EDF) consisting USD 150.0 million revolving fund is used to provide rediscounting facilities to the scheduled commercial banks in financing the exporters for imports of raw materials, accessories, spare parts and packing materials under export L/Cs with a single borrower exposure increased up to a maximum limit of USD 2.0 million from USD 1.5 million in FY09.

Total disbursement from EDF in FY09 stood at USD 287.32 million against USD 215.97 million in FY08. The outstanding balance as on end June 2009 stood at USD 93.45 million, which was USD 75.58 million in FY08. The interest rate on USD under EDF remained unchanged at LIBOR+1%.

Imports (fob)

9.18 Import payments (fob) in FY09 stood at USD 20291.0 million registering a growth of 4.2 percent compared to USD 19481.0 million in FY08. Except food grains & other food items, all other importable items indulge varying degrees of rise in the aggregate imports during FY09

Box 9.1

Measures for Strengthening Export Competitiveness in the face of Global Economic Downturn

The present global financial crisis started in 2007 in the aftermath of the crisis in the US subprime mortgage market created shockwaves though the global financial system. Consequently, the global economy entered its deepest recession since World War-II frustrating the prospects of stability, growth and equity. As a result, global demand decreased substantially. The spillovers from the global crisis affected Bangladesh economy especially the external sector (trade sector) due mainly to Bangladesh's integration of about 43 percent of GDP with the global economy. The rapid expansion of trade over the past decades integrated Bangladesh to the business cycle of advanced economies.

Bangladesh's linkages with the global economy have increased markedly over time through exports, imports and remittance channels. Bangladesh's trade exposure in terms of export with the global economy is about 17 percent of GDP in FY09. As the performance of the Bangladesh's export is correlated to the global economy, the impacts of the ongoing global economic downturn on Bangladesh's export sector remain a matter of great concern. In this perspect, we discuss here the competitiveness of Bangladesh's export in the face of on-going global economic downturn.

The major item of Bangladesh's export is readymade garments (Woven and knitwear products) which occupied about 79 percent of total export in FY09. In spite of global economic downturn, export of Bangladesh's readymade garments increased double digit due mainly to remarkable increase of export volume despite unit price decreased slightly. So the garment sector kept its competitiveness by declining unit price. On the other hand, exports of raw jute, tea, jute goods, frozen foods and fishes, and leather and leather products declined substantially. Exports of these items declined due mainly to decrease in volume as well as in unit price. Government increased subsidies/cash incentives on these sectors to keep up them more competitive. Alongside fiscal support, policy and institutional reforms will be implemented in two stages as immediate action plan for FY09 and medium and long-term plan for FY10-FY12.

Under the immediate action plan for FY09, government has increased subsidies/cash incentives on export for Jute Goods (from 7.5 percent to 10 percent), Leather and Leather Products (from 15 percent to 17.5 percent) and Frozen Foods and Fishes (from 10 percent to 12.5 percent) to make them competitor with the world market. Under the medium and long-term plan for FY10-FY12, government's measures included VAT reduction on exports, and financial supports to various textile institutes, Bangladesh Institute of Fashion Technology and Youth Development Directorate to supply trained workers for readymade garment sector.

In addition to the above programmes, Government also has declared a new pay scale that increased wages of labours in the public sector. It helped to raise the wages in the private sector too and to develop the skill of labours. Government has taken necessary steps to bring all the government offices under computer network. Under this program, Chittagong port and most of the offices of NBR relating to export and import have come under computer network that helped exporters and importers free from bureaucracy hazards and in tax payments.

BB's measures to keep the export sector competitiveness

- The rate of interest on loans and advances for financing agriculture, term loan and working capital to large and medium scale industries, housing loan, trade financing has been lowered and fixed up to a maximum at 13%.
- Concessional interest rate (7%) on export credit for all products has been extended and repayment time has been extended up to 120 days.
- Rescheduling of bank loans without necessary down payment has been allowed up to September 30, 2009 on the banker-customer relationship for the crisis-hit export oriented industries especially Frozen Food, Leather and Leather Products, Jute and Jute Goods, Textiles (including spinning) and RMG industry.
- BB has issued necessary instructions for rationalization of different service charges received by banks that reduced the cost of doing business.
- Directives have been issued to the banks and financial institutions to provide loans based on the business prospects of a project rather than based on collateral.
- In FY09, Taka depreciated marginally by 0.29 percent against US Dollar that kept the export sector more competitive.

Box 9.1

Measures for Strengthening Export Competitiveness in the face of Global Economic Downturn

Table-1 : Export competitiveness (unit price in USD) *(Contd.)*

	FY08				FY09			
	July-Sep	Oct-Dec	Jan-Mar	April-June	July-Sep	Oct-Dec	Jan-Mar	April-June
1. Raw Jute (per bale)	43.00	43.00	43.14	45.13	43.50	45.46	42.68	42.55
2. Tea (per Kg)	1.37	1.40	1.49	1.67	2.05	1.00	1.89	1.87
3. Leather (per square feet)	4.63	4.63	4.63	6.56	4.88	2.30	3.88	4.22
4. Frozen Shrimp (per pound)	5.40	5.75	9.01	7.74	5.50	4.10	5.50	3.88
5. Woven Garments (per dozen)	34.00	34.00	34.00	38.24	34.10	36.20	34.10	37.61
6. knitwear Products (per dozen)	22.00	22.00	22.73	24.64	22.12	23.04	21.75	22.39
7. Jute Goods (per metric ton)	584.98	585.00	588.23	594.56	590.02	396.09	578.54	588.87
8. Chemical Fertiliser (per metric ton)	268.93	268.10	266.55	465.27	747.67	336.00	212.95	279.67

Source : Export Promotion Bureau.
Note : These products represent about 86 % of total exporting items of Bangladesh.

From the above Table, we see that Government and BB's measures somewhat have positive effect on export sector, because it helped the exporters competitive in the international market. It covered somewhat their losses in exporting goods. As a result, unit prices of Bangladesh's products did not fall sharply. The export of raw jute, jute goods, tea, leather and frozen shrimps decreased due mainly to fall in world demand resulted from global economic meltdown. After fall of Lehman Brothers in mid September 2008, global commodity price fell sharply, but Bangladesh's export price declined marginally as is shown in Table-1. It indicates that measures taken by Bangladesh for strengthening export competitiveness in the face of global economic downturn have a positive effect.

over FY08 (Table 9.2). Increasing consumer and industrial needs raised the import of industrial raw materials in the country (chemicals, raw cotton, yarn etc.). However, food grains import decreased substantially by 37.5 percent to USD 882.0 million in FY09 from USD 1411.0 million in FY08 (rice 72.7 percent) due mainly to bumper domestic production of rice. Other food items decreased by 12.2 percent to USD 1829.0 million in FY09 from USD 2082.0 million in FY08 (milk & cream 29.9 percent, pulses 28.4 percent, spices 22.5 percent and edible oil 14.0 percent). Consumer and intermediate goods import increased by 6.9 percent to USD 10283.0 million in FY09 from USD 9616.0 million in FY08 (fertiliser 51.1 percent, pharmaceutical products 29.0 percent, tanning & dyeing maretials 18.8 percent, yarn 14.6 percent, textile & articles thereof 10.9 percent, chemicals 7.9 percent, raw cotton 6.4 percent, plastics & rubber and articles thereof 4.0 percent and staple fibre 1.8 percent). Despite the decrease in imports of capital machinery, import of capital goods and others

Table 9.2 Composition of merchandise imports

(Million US Dollar)

Items	FY08	FY09	% changes
A. Food grains	**1411**	**882**	**-37.5**
1. Rice	874	239	-72.7
2. Wheat	537	643	19.7
B. Other food items	**2082**	**1829**	**-12.2**
1. Milk & cream	137	96	-29.9
2. Spices	80	62	-22.5
3. Oil seeds	136	159	16.9
4. Edible oil	1006	865	-14.0
5. Pulses (all sorts)	327	234	-28.4
6. Sugar	396	413	4.3
C. Consumer and intermediate goods	**9616**	**10283**	**6.9**
1. Clinker	347	314	-9.5
2. Crude petroleum	695	584	-16.0
3. Petrolium products	2058	1997	-3.0
4. Chemical	890	960	7.9
5. Pharmaceutical products	62	80	29.0
6. Fertiliser	632	955	51.1
7. Tanning & dyeing materials	218	259	18.8
8. Plastics rubber and articles thereof	808	840	4.0
9. Raw Cotton	1213	1291	6.4
10. Yarn	691	792	14.6
11.Textile & articles thereof	1892	2099	10.9
12. Staple fibre	110	112	1.8
D. Capital goods and others	**7226**	**8211**	**13.6**
1. Iron, steel & other base metal	1180	1502	27.3
2. Capital machinery	1664	1420	-14.7
3. Others	4382	5289	20.7
E. Imports by EPZ	**1294**	**1302**	**0.6**
Total Import (cif)	**21629.0**	**22507.0**	**4.1**
Less (-) freight & others	2148	2216	3.2
Total Import (fob)	**19481.0**	**20291.0**	**4.2**

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

increased by 13.6 percent to USD 8211.0 million in FY09 from USD 7226.0 million in FY08 (others 20.7 percent, and iron, steel & other base metal 27.3 percent). Imports by EPZs increased by 0.6 percent to USD 1302.0 million in FY09 from USD 1294.0 million in FY08.

Terms of Trade

9.19 In FY09, both the export price index and import price index have increased by 3.4 and 3.7 percent respectively. As a result, the terms of trade deteriorated slightly by 0.3 percent in FY09 over FY08.

Workers' Remittances

9.20 Inward remittances from Bangladeshi nationals working abroad continued to play an important role in strengthening the current account. Receipts on this sector increased by 22.4 percent to USD 9689.3 million in FY09 from USD 7914.8 million in FY08. The underlying reason was that Bangladesh Bank has simplified the approval policy of drawing arrangements between foreign exchange houses and domestic banks. As a result, 40 banks have been allowed for establishing 820 drawing arrangements with 280 exchange houses all over the world for collecting remittances. BB has been made vigorous efforts such as allowing establishment of exchange houses/branch offices abroad by local banks, the banks therefore are encouraged to have better control on the remittance collections. Under this arrangement, some banks have already established their offices abroad to collect remittances by their own. This is to be mentioned here that remittances are being sent by 28 exchange houses/branch offices/representative offices abroad of 8 local banks. For enhancing distribution network, and accelerating and simplifying delivery process, some Microfinance Institutions (MFIs) have been involved for smooth delivery of

Chart 9.5

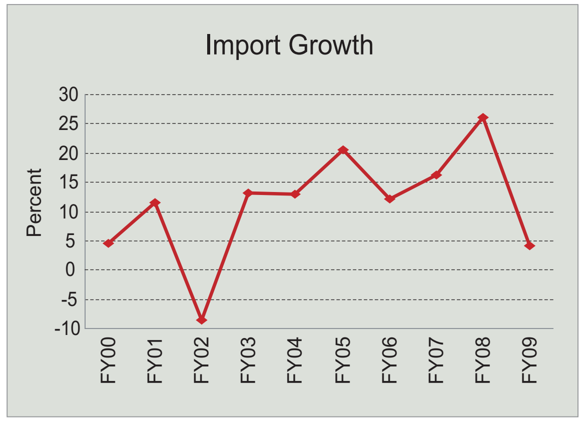


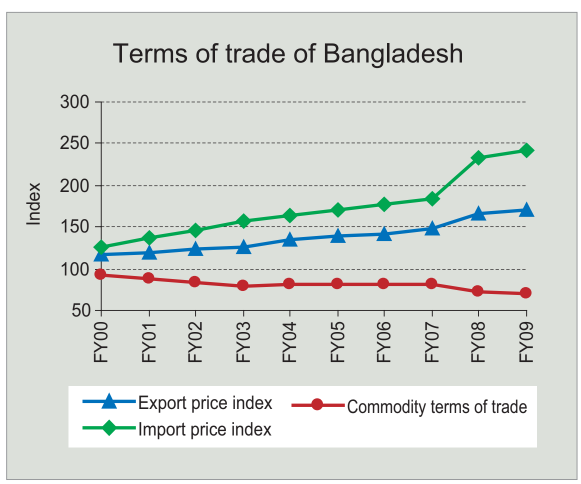
Table 9.3 Terms of trade of Bangladesh (Base : FY96=100)

(Million US Dollar)

Year	Export price index	Import price index	Commodity terms of trade
FY00	117.49	126.64	92.77
FY01	120.31	136.17	88.35
FY02	123.15	146.41	84.11
FY03	126.23	157.76	80.01
FY04	135.19	164.15	82.36
FY05	139.60	169.96	82.14
FY06	142.38	176.66	80.60
FY07	149.28	183.09	81.53
FY08	165.70	232.52	71.26
FY09*	171.29	241.15	71.03

Source : Bangladesh Bureau of Statistics.
* estimated.

Chart 9.6



remittances. Due to these measures, remittances have recorded a substantial increase by 22.4 percent to USD 9689.3 million during the year under report. Remittances as percentage of GDP increased by 0.89 percentage points to 10.84 in FY09 from 9.95 in FY08. The shares of major source countries in the remittance receipts of FY08 and FY09 are given at Chart 9.7.

Foreign Aid

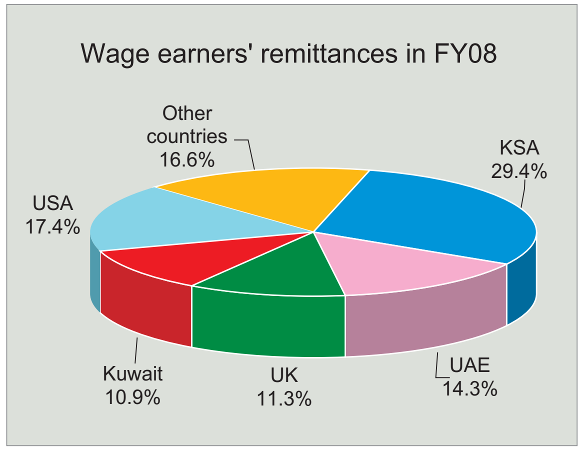
9.21 Total official foreign aid disbursement declined by 12.0 percent to USD 1815.0 million in FY09 from USD 2062.0 million received in FY08 (Table 9.4). Food aid disbursements stood USD 52.0 million which was USD 111.0 million in FY08. The disbursement of project assistance stood at USD 1763.0 million in FY09, which was USD 1951.0 million in FY08. It is mentionable that, no commodity aid was received in FY09 as in the preceding year.

Total outstanding official external debt as of 30 June 2009 stood at USD 20831.0 million (23.3 percent of FY09 GDP) against USD 20266.0 million as of 30 June 2008 (25.5 percent of FY08 GDP). Repayment of official external debt stood at USD 831.0 million (excluding repurchases from the IMF) in FY09. This was USD 64.0 million or 8.3 percent higher than the repayment in FY08. Out of the total repayments, principal payments amounted to USD 641.0 million while interest payments stood at USD 190.0 million in FY09, against USD 580.0 million and USD 187.0 million respectively paid during FY08. The debt-service ratio as percentage of exports was 5.4 percent in FY09.

Foreign Exchange Market Operations

9.22 Under floating exchange rate regime, banks are free to set their own rates for inter-bank and customer transactions. The exchange rate is being determined based on market demand and supply forces of the respective

Chart 9.7



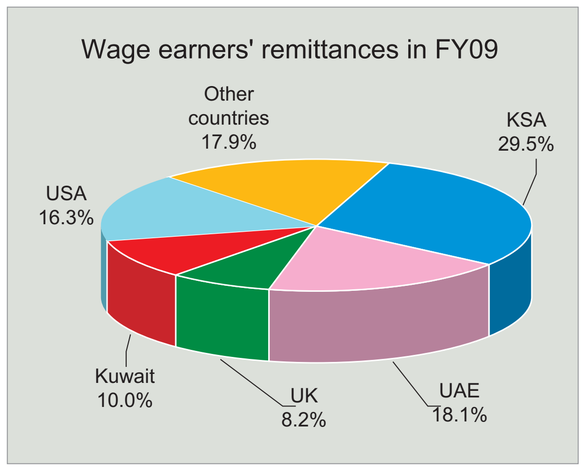


Table 9.4 Foreign aid receipts and debt repayments*

(Million US Dollar)

Particulars	FY07	FY08R	FY09P
1. Receipts	1631	2062	1815
i) Food aid	60	111	52
ii) Commodity aid	-	-	-
iii) Project aid	1571	1951	1763
2. Repayments (MLT)	704	767	831
i) Principal	525	580	641
ii) Interest	179	187	190
3. Outstanding external debt as of end June	19355	20266	20831
4. Outstanding debt as percentage of GDP	28.3	25.5	23.3
5. External debt services (MLT) as percentage of exports	5.8	5.4	5.4

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

currencies. For avoiding unusual volatility in the exchange rate, Bangladesh Bank may purchase and sell US dollar as and when it deems necessary to maintain stability in the foreign exchange market.

During June-September 2008, Taka-Dollar exchange rate was almost unchanged. During October 2008-January 2009, Taka depreciated by 0.57 percent moving from Taka 68.55 to Taka 68.94 against US Dollar due mainly to subdue inflow of remittances.

During FY09, Bangladesh Bank purchased USD 499.2 million (net) to make the foreign exchange market stable.

The volume of Inter-bank foreign exchange transactions in FY09 stood at USD 4.4 billion including spot, forward and swap transactions, which was 25.7 percent higher than the USD 3.5 billion in FY08.

Foreign Exchange Reserves

9.23 The gross foreign exchange reserves of the Bangladesh Bank continued to grow in the backdrop of steadily increasing export earnings and workers' remittances, and stood at USD 7471 million as at the end of June 2009 (Table 9.5). This represented a growth of 21.5 percent over USD 6149 million of end June 2008. Foreign exchange balances held by the commercial banks, on the other hand, decreased by USD 56.97 million or 12.5 percent to USD 400.49 million over the same period. Total liquid foreign exchange holdings of the banking system (i.e., including the holdings of commercial banks) increased to USD 7871.45 million (Chart 9.8). The foreign exchange reserves represent approximately 55.5% of the BB's balance sheet and the income from these reserves is one of the most significant revenues of the BB.

Table 9.5 Gross foreign exchange reserves of the Bangladesh Bank

(end month, million US Dollar)

Months	FY05	FY06	FY07	FY08	FY09
July	2563	2829	3245	5042	5820
August	3132	2869	3605	5225	5966
September	3075	2761	3447	5158	5863
October	3273	2796	3543	5410	5551
November	3158	2417	3534	5095	5245
December	3223	2826	3878	5515	5788
January	3039	2824	3739	5387	5577
February	3179	3030	4157	5978	5872
March	3034	2910	4200	5302	5953
April	3127	3140	4538	5773	6509
May	3066	3089	4439	5335	6563
June	2930	3484	5077	6149	7471

Source : Accounting and Budgeting Department, BB.

Chart 9.8

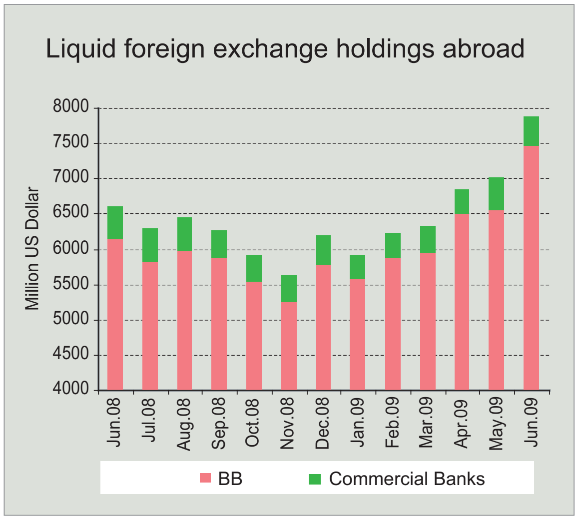


Table 9.6 Receipts and payments of Bangladesh under the ACU

(million US Dollar)

Head of Transaction	FY07	FY08	FY09
1. Receipts (Export)	131.5	153.0	135.2
	(902.3)	(1048.6)	(933.7)
2. Payments(Import)	2301.1	3737.3	3035.9
	(15808.7)	(25611.8)	(20966.2)
Net: Surplus (+)/	-2169.6	-3584.3	-2900.7
Deficit (-)	(-14906.4)	(-24563.2)	(-20032.5)

Note : Figures in parentheses indicate Taka in crore.
1 ACUD = 1 USD; 1 USD = 69.06 Taka.

Reserve Management Strategy

9.24 The BB's reserve management strategy and operational procedure are strongly influenced by developments in the financial markets and by various aspects of the policy environment in which a central bank operates. The most relevant elements of policy environment in which reserve management operates are monetary policy framework, the exchange rate policy & regime and external debt position. After switching over from a pegged exchange rate regime to a floating one in May 2003, BB brought about significant changes in the monetary management in relation to its reserve management and investment.

Main objectives of the BB for holding foreign exchange reserve including maintenance and safety of adequate level of reserve to meet foreign obligations, liquidity of reserves for the purpose of monetary exchange rate management and finally, optimal return from the reserves assuming controlled risks in a prudent manner that will preserve the nominal value of the reserve.

To contain counterparty risk, BB diversifies its investments out of its reserves among a number of internationally reputed central and commercial banks having good credit ratings assigned by the international rating agencies. With a view to minimising exchange rate risk, currency composition has been diversified among the major currencies. Duration benchmark is followed to minimise interest rate risks, while reserve management and investment functions have been segregated under three different reporting authorities.

However, keeping in view the stipulated liquidity restrictions and market & credit risk limits, BB diversified its portfolio investment into T-bills, repos, short-term deposits including other money market instruments, and high rated sovereign, supranational and corporate bonds etc. During FY09, BB had to keep a vigilant eye on placement/investment of funds with banks affected by ongoing global financial crisis. However, despite the aforesaid global financial crises, BB's foreign exchange reserve increased to USD 7470.96 million as of 30 June 2009 compared to USD 6148.82 million as of 30 June 2008.

Transactions under Asian Clearing Union (ACU)

9.25 Total transactions of Bangladesh under the Asian Clearing Union (ACU) decreased markedly during FY09 compared to the preceding year. As in the preceding years, Bangladesh remained a net debtor in all the six bi-monthly settlements during FY09. Import payments decreased substantially than export receipts with the ACU member countries during the year under report. Export of Bangladesh to ACU member countries recorded a decrease of USD 17.8 million or 11.6 percent from USD 153.0 million (Taka 1048.6 crore) in FY08 to USD 135.2 million (Taka 933.7 crore) in FY09. Import from the ACU member countries decreased substantially by USD 701.4 million or 18.8 percent from USD 3737.3 million (Taka 25611.8 crore) in FY08 to USD 3035.9 million (Taka 20966.2 crore) in FY09. As a result, the net debtor position of Bangladesh decreased by USD 683.6 million or 19.1 percent to USD 2900.7 million (Taka 20032.5 crore) in FY09 compared to USD 3584.3 million (Taka 24563.2 crore) in the preceding year. Receipts and payments of Bangladesh under ACU arrangement during the last three years are shown in Table 9.6.

Transactions with the IMF

9.26 In April 2008, Bangladesh received SDR 133.32 million for assistance/recovery of millions of people affected by Sidr and two preceding floods under 'Emergency Natural

Disaster Assistance Programme' of the IMF. Repayment of this fund will begin three years after the date of receipt of the fund.

Bangladesh was granted a loan of SDR 347.0 million from the IMF in June 2003 under its 3-year arrangement of Poverty Reduction and Growth Facility (PRGF). As per the request of Bangladesh, the PRGF was augmented and Bangladesh was granted a loan of SDR 53.33 million under the Trade Integration Mechanism (TIM) in July 2004. However, total purchase under PRGF stood at SDR 316.73 million at the end of June 2008 against the total loan facilities of SDR 400.33 million. In FY09, repayment was made against PRGF loan amounting to SDR 9.90 million to the IMF. Service charges paid to the IMF during the year amounted to SDR 6.20 million. Outstanding liabilities to the Fund at the end of June 2009 stood at SDR 440.15 million (Table 9.7).

Exchange Rate

9.27 During the 1st quarter of FY09, Taka-Dollar exchange rate started with Taka 68.47 per US Dollar, then it depreciated by 0.04 percent and stood at Taka 68.50 per US Dollar. With the beginning of 2nd quarter, Taka depreciated again and stood at Taka 68.92 per US Dollar. During the 3rd quarter of FY09, Taka further depreciated ranging within Taka 68.90-69.03. However, at the end of FY09, Taka depreciated slightly and stood at Taka 69.06.

Changes in Foreign Exchange Regulations

9.28 The major changes in foreign exchange regulations in FY09 were as under:

a) Subsidies/cash incentives have been increased on export of jute goods (from 7.5 percent to 10 percent), leather and leather products (from 15 percent to 17.5 percent) and frozen foods and fishes (from 10 percent to 12.5 percent).

Table 9.7 Outstanding principal liabilities against the facilities received from the IMF

(million SDR)

Facility	Outstanding principal liability as of end June 2008	Purchase/ drawing in FY09	Instalment repayment in FY09	Outstanding principal liability as of end June 2009
PRGF June 2003	316.73	-	9.90	306.83
Emergency Natural Disaster Assistance Programme April 2008	133.32	-	-	132.32
Total :	**450.05**	**-**	**9.90**	**440.15**

Source : Forex Reserve and Treasury Management Department, BB.

b) Subsidies/cash incentives for export of selected items during FY09 is as follows; 5 percent for export oriented local textile sector, 15 percent and 20 percent (depend on using local material) for products made by hoogla, straw, coir of sugar cane, 20 percent for agro (fruit and vegetables) and agro processing products, 10 percent for potato, 15 percent for bicycle and crust bone, 15 percent for hatching eggs and day-old chicken of poultry industries, 10 percent for light engineering products, 20 percent for liquid glucose from Ishwardi EPZ and 20 percent for halal meat.

c) The credit facility under EDF for single borrower's exposure limit has been also increased up to USD 2.0 million from USD 1.5 million.

d) It has been decided by the Board of Directors of the Asian Clearing Union that settlement of transactions among ACU member countries may also be done in EURO with effect from 1 January 2009.

e) BB has formulated a policy for non-bank financial institutions working in Bangladesh to allow them to receive foreign loans only for manufacturing industries and infrastructural sector (except house building) funding with prior approval of BB. They have to observe the terms and conditions as shown in FE circular No. 9 dated April 2009.

f) With a view to liberalising the payment system through international card, it has been decided that International Card (debit/credit/ pre-paid as the case may be) may also be issued against: (1) foreign exchange entitlement fixed by the Ministry of Finance/competent authority for official or semi official visits abroad by the officials of Government/ Autonomous/Semi-autonomous institutions etc., (2) per diem foreign exchange entitlement for private sector participants for attending seminars, conferences, workshops abroad arranged by recognised international bodies, (3) balances held in private foreign currency accounts, (4) personal entitlement fixed by the Government of Bangladesh in each year for intending pilgrims for performing Hajj and (5) payment of mobile phone roaming bill, all instructions issued so far relating to issuance. ADs are advised to comply meticulously.

g) It has been decided to allow the ADs to effect advance payment not exceeding USD 5,000 or its equivalent from the Exporter's Retention Quota (ERQ) against bonafide purposes provided the relevant contract/proforma invoice stipulate for such payment subject to observance of terms and conditions as stipulated in the FE circular.

h) With a view to simplifying the payment procedure of freight charges to foreign ship owners for ships chartered by the importers in Bangladesh, it has now been decided to authorise the ADs to remit such charges subject to observance of the stipulated terms and conditions.

i) It has been decided that authentication of Export Proceed Realisation Certificates (PRC) by Bangladesh Bank shall no longer be required for submission of the same against direct exports and deemed exports to different Government agencies. Under the new policy, authorised dealer banks are now allowed to issue PRCs by their own without prior authentication by Bangladesh Bank. However, Bangladesh Bank has prescribed separate proforma to issue PRCs against direct exports and deemed exports. ADs are also advised to exercise utmost caution in issuing PRC to avoid any possible misuse.

j) To promote tourism industry and to facilitate foreign tourists in Bangladesh, guidelines have been formulated for local tour operators in Bangladesh regarding foreign exchange transactions associated with selling of 'package tour'. ADs are advised to follow the guideline accordingly.

k) With a view to avoiding additional risks and extra costs faced by exporters in application of appropriate incoterms, ADs are advised to satisfy themselves that LCs reflect accurate terms and conditions of the incoterms stipulations before advising the same to the beneficiaries. Inconsistency, if any, should be informed immediately to the LC issuing bank for necessary amendment with intimation to the beneficiary. ADs are also advised to keep their exporter customers informed of the appropriate terms and conditions against applicable incoterms for export so that they can insist foreign buyers to get LCs issued accordingly.

l) To encourage export and establish business friendly environment, BB has taken a decision to easing applications for enlistment of new principal/approval of older ones submitted by approved buying agents. Under this process, receipt of export LC from the unapproved foreign principals would be considered and allowed to hand over if those are attached by the bank officials.

m) The minimum annual transaction target for moneychangers doing business outside Dhaka and Chittagong metropolitan areas has been re-fixed at USD 0.35 million from USD 0.50 million.

It is to be mentioned that failure to maintain the target will disqualify to renewal of business for the next year.

Anti-money laundering Surveillance

9.29 In February 2009, the Government has promulgated Money Laundering Prevention Act, 2009 by repealing Money Laundering Prevention Ordinance, 2008. The new Act includes a wider range of area to monitor compared with Money Laundering Prevention Act, 2002. The Act has empowered Bangladesh Bank with specific power for detection and prevention of terrorist financing and to take necessary measures so that banking channel can not be abused for financing of terrorism.

Bangladesh continued its effort during FY09 to combat money laundering under the Money Laundering Prevention Ordinance 2008 and Money Laundering Prevention Act, 2009. BB has mitigated building awareness programme in the financial community, monitoring suspicious transactions and large cash transactions carried out in the banking sector as well as non-banking financial sector.

9.30 The Financial Intelligence Unit (FIU) of Bangladesh has signed MoU with the FIUs of Malaysia, Indonesia, Philippines and Nepal during FY09. Signing of MoU with FIUs of Myanmar, Afghanistan, Korea, UAE and Sri Lanka is under process. It has applied for the membership of EGMONT Group (the association of FIUs).

9.31 During FY09, BB received 516 suspicious transaction reports (STR)/complains from the banks. 22 commercial banks have been penalised so far under the provision of MLPA act for non-compliance of the Act. Some of the banks have been penalised for more than once.

9.32 Uniform account opening and KYC profile form for all banks introduced in June 2008 is being followed by the banks from January 2009.