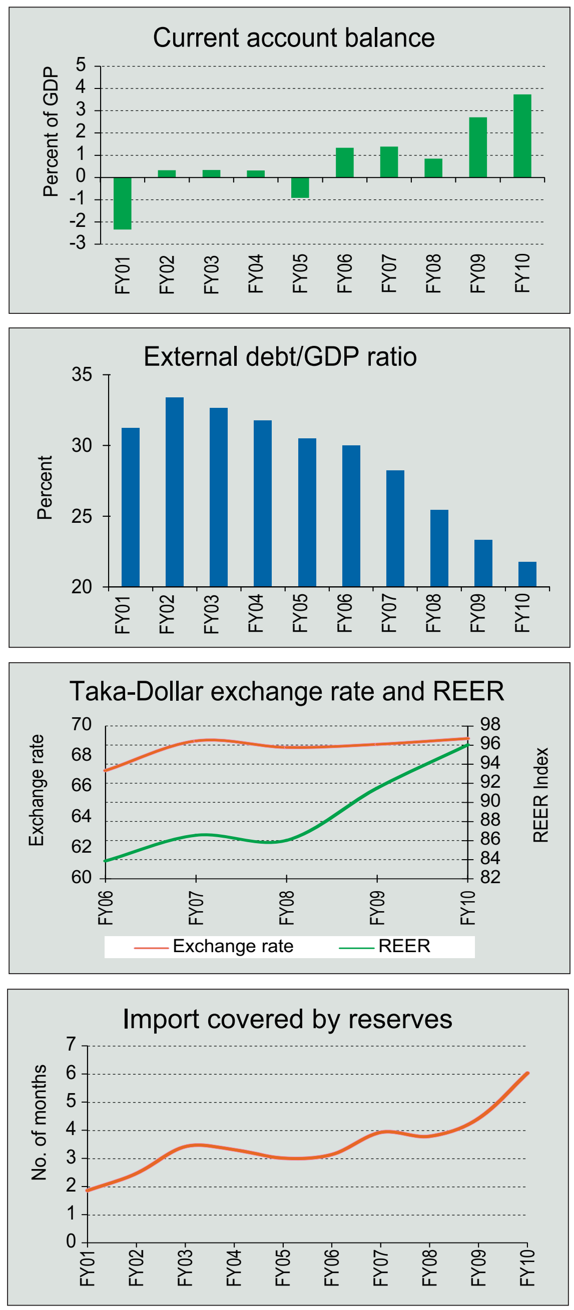
# External Sector

9.1 The overall performance of the external sector witnessed a moderate growth during FY10. Despite spillover effects of the turbulent external economic conditions as well as the global liquidity crunch, adequate inflow of foreign exchange through export and remittance channels kept the foreign exchange market stable. Besides, the bumper production in rice sector together with sluggish external demand for RMG have lowered import of rice, fabrics, cotton, yarn etc.. In addition to that slowdown of new investment also lowered input demand, which all together are responsible for the lower 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 7.5 billion at the end of FY09 which increased further and stood at 10.8 billion at the end of June 2010 with a remarkable growth of 43.9 percent compared to FY09. However, Taka depreciated against US Dollar by a mild 0.6 percent during the FY10.

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 The higher current account surplus and the lower financial flows led the balance of payments (BOP) to a record high surplus of USD 2865 million in FY10. Merchandise exports (fob) increased by USD 639.5 million (or 4.1 percent) in FY10 to USD 16204.7 million, though fertiliser, tea and frozen shrimps & fish, which recorded a negative growth of about 64.1 percent, 53.7 percent and 4.0 percent respectively; all other major exported items increased significantly. A substantial growth of export of jute goods (64.5%), petroleum by-products (62.3%), engineering products (54.6%), raw jute (32.5%), leather (26.9%), footwear (11.6%), woven garments (1.6%) and knitwear (0.8%), contributed to increase the growth of merchandise exports in FY10 over FY09. The export of miscellaneous products, subsumed under the "others" category showed a negative growth of 0.5 percent in value terms during FY10. However, as a percentage of GDP, exports decreased by 1.2 percentage point from 17.4 percent in FY09 to 16.3 percent in FY10.

9.3 Merchandise imports (fob) increased by USD 1097.0 million (or 5.4 percent) in FY10 to USD 21388.0 million. Import of spices¸ sugar, pulses (all sorts), pharmaceutical products, edible oil, wheat, plastic and rubber & articles thereof, capital machinery, raw cotton, tanning & dying extracts, clinker induced to increase overall import. On the other hand, there is significant fall in import payments for rice (68.6 percent) because of bumper production, import restriction from India and increased price in International market. Decreased import payments is showed for fertiliser (24.9 percent), oil seeds (18.2 percent), yarn (9.3 percent), crude petroleum (8.4 percent), textile & articles thereof (5.4 percent), iron, steel & other base metal (3.3 percent). Imports (c&f) as a percentage of GDP decreased by 1.4 percentage points from 25.2 percent in FY09 to 23.8 percent in FY10

9.4 The trade deficit widened by 9.4 percent in FY10 owing to the relatively larger expansion in import payment compared to the increase in export earnings. Therefore, a higher increase in imports than export somewhat widened the trade deficit from USD 4710.0 million in FY09 to USD 5152.0 million in FY10. The deficit on the services account, however, narrowed down to USD 1237.0 million in FY10 from USD 1616.0 million in the previous year. On the contrary, the deficit on the income accounts rose slightly to USD 1487.0 million in FY10 from USD 1484.0 million in FY09. Current transfers increased substantially from USD 10226.0 million in FY09 to USD 11610.0 million in FY10, thanks to a hefty 13.4 percent rise in workers' remittances. The net outcome of all these developments widened substantially the current account surplus from USD 2416.0 million in FY09 to USD 3734.0 million in FY10. Current account balance as a percentage of GDP stood at 3.7 in FY10 against 2.8 in FY09.

Chart 9.2

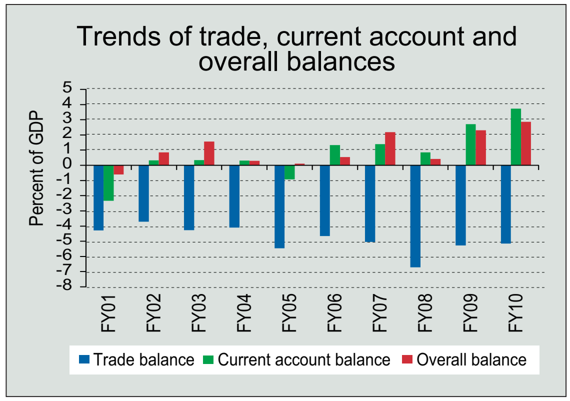



Table 9.1 Composition of merchandise exports

(Million US Dollar)

| Items | FY09 | FY10 | % change |
|---|---|---|---|
| 1) Raw jute | 148.2 | 196.3 | 32.5 |
| 2) Jute goods | 324.9 | 534.5 | 64.5 |
| 3) Tea | 12.3 | 5.7 | -53.7 |
| 4) Leather and leather products | 178.2 | 226.1 | 26.9 |
| 5) Frozen shrimps and Fish | 455.6 | 437.4 | -4.0 |
| 6) Woven garments | 5919.0 | 6013.4 | 1.6 |
| 7) Knitwear products | 6429.3 | 6483.3 | 0.8 |
| 8) Fertiliser | 107.5 | 38.6 | -64.1 |
| 9) Petroleum by-product | 185.6 | 301.2 | 62.3 |
| 10) Engineering products | 201.2 | 311.1 | 54.6 |
| 11) Terry towel | 117.7 | 157.1 | 33.5 |
| 12) Footwear | 182.9 | 204.1 | 11.6 |
| 13) Others | 1302.8 | 1295.9 | -0.5 |
| Total: | 15565.2 | 16204.7 | 4.1 |

Source : Export Promotion Bureau.

9.5 Despite huge decline in both FDI (net) and portfolio investment, and other investment in the financial account, the surplus in overall balance increased substantially by USD 807.0 million to USD 2865.0 million in FY10 from USD 2058.0 million in FY09. Table XVI of Appendix-2 of this report shows the balance of payments statement for FY10 and FY09. Chart 9.2 portrays the trends of trade, current account and overall balances as a percentage of GDP in recent years.

9.6 As a potential source of foreign exchange reserves, foreign direct investment (FDI) has been emphasised by the Government. However, global financial turmoil, power and energy shortages had some negative effects on FDI. As a result, as per primary estimation net FDI flows in Bangladesh decreased by 33.8 percent to USD 636.0 million in FY10 from USD 961.0 million in FY09.

9.7 The external sector is expected to strengthen further in FY11 with the gradual recovery in the global economy, easing global market liquidity and improved growth prospects in the domestic economy.

### Exports (fob)

9.8 Table 9.1 and Chart 9.3 show that total exports in FY10 had a moderate growth over the same period of FY09. Aggregate exports increased by 4.1 percent in FY10 to USD 16204.7 million from USD 15565.2 million in FY09. Apparels (woven garments and knitwear products) continued to occupy an overwhelming (about three fourths) share of the export basket in FY10. However, in FY10 Jute and jute goods recorded a phenomenal growth and contributed as the highest singlemost source of export growth. Infact, Raw jute, jute goods, leather and leather products combinedly contributed about 1.5 percent out of 4.1 percent total export growth recorded in FY10.

Chart 9.3

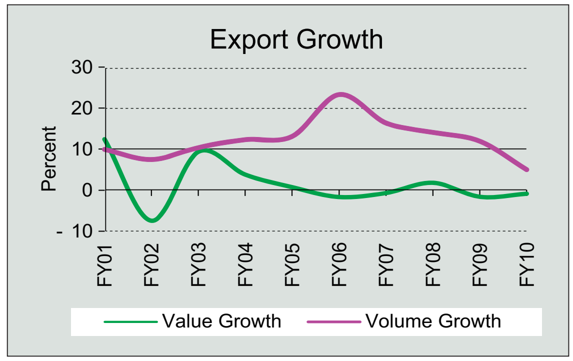
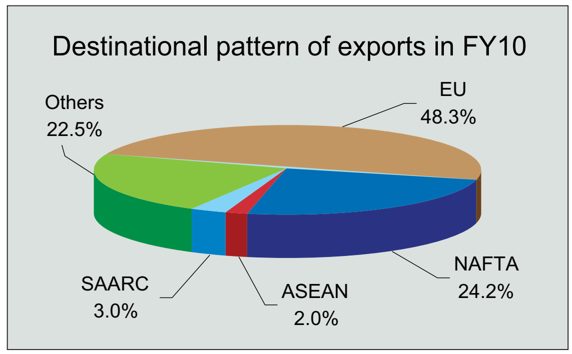



Chart 9.4




### Destination

9.9 The destinational pattern of exports excluding those from EPZs in FY10 showed continued heavy dependence on the markets in Europe, 48.3 percent of exports were destined for the EU bloc while another 24.2 percent entered into the NAFTA bloc. Export to the ASEAN countries, SAARC and other regions constituted 2.0 percent and 3.0 percent respectively of total exports in FY10 (Chart 9.4).

### Composition

9.10 **Readymade garments (RMG)** (woven and knitwear): RMG products, which fetch about 77.1 percent of total export earnings, registered a marginal increase in receipts, from USD 12347.8 million of FY09 to USD 12496.7 million in FY10. Woven and knitwear products showed slight growth of 1.60 percent and 0.84 percent respectively in FY10 compared to FY09.

9.11 **Frozen food** : The frozen foods, comprising principally of shrimps, marked a decrease in earnings during FY10. Receipts from export of shrimp and fish decreased significantly by 4.0 percent from USD 455.6 million of FY09 to USD 437.4 million in FY10. Despite the increase of volume of shrimp by 45.1 percent, average unit price decreased substantially by 36.0 percent in FY10 over FY09.

9.12 **Raw jute**: In FY10, raw jute valued at USD 196.3 million was exported against USD 148.2 million in FY09. Both the volume of export of raw jute and unit price increased by 29.7 percent and 2.0 percent respectively in FY10 over FY09.

9.13 **Jute goods** (excluding carpets) : In FY10, jute products valued at USD 534.5 million against USD 324.9 million exported in FY09. Both the volume of export of jute goods and unit price increased by 63.4 and 0.7 percent respectively in FY10 and FY09.

9.14 **Leather**: Export earnings from leather increased by 26.9 percent to USD 226.1 million in FY10 from USD 178.2 million in FY09. The volume of export of leather increased by 57.8 percent and unit price decreased by 19.6 percent in FY10 over FY09.

9.15 **Tea**: Tea valued at USD 5.7 million were exported in FY10 against USD 12.3 million in FY09. Despite the average unit price increased by 19.4 percent, volume of exports of tea decreased markedly by 61.5 percent in FY10 over FY09.

9.16 **Fertiliser:** Export earnings from fertiliser decreased substantially by 64.1 percent to USD 38.6 million in FY10 against USD 107.5 million in FY09. Both the volume and unit price of export of fertiliser decreased by 40.0 percent and 40.3 percent respectively in FY10 over FY09.

**Export Promotion and Diversification**

9.17 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 crisis 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 further strengthening the external sector to improve its resilience, competitiveness and responsiveness to changing external conditions. 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 and construction etc..

9.18 In order to facilitate export of the country, Export Development Fund (EDF) consisting USD 300.00 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 packaging materials under export L/Cs with a single borrower exposure increased up to a maximum limit of USD 10.0 million. Total disbursement from EDF in FY10 stood at USD 478.8 million against USD 287.3 million in FY09. The outstanding balance at the end of June 2010 stood at USD 256.6 million, which was USD 93.5 million in FY09.The interest rate on USD under EDF changed at LIBOR+2.50 out of that LIBOR+1% part is for EDF and the rest 1.50% for concerned AD banks.

**Imports (fob)**

9.19 Import payments (fob) in FY10 stood at USD 21388.0 million registering a growth of 5.4 percent compared to USD 20291.0 million in FY09. Other food items indulge varying degrees of rise in the aggregate imports during FY10 over FY09 (Table 9.2). Increasing consumer and industrial needs raised the import of industrial raw materials in the country (chemicals, raw cotton, staple fibre etc.). Other food items increased by 30.9 percent to USD 2395.0 million in FY10 from USD 1829.0 million in FY09 (spices 75.8 percent, sugar 57.4 percent, pulses 49.6 percent, edible oil 21.4 percent, milk & cream 10.4 percent). There is significant growth in imports of capital machinery (12.3 percent), import of capital goods and others increased by 8.5 percent to USD 8910.0 million in FY10 from USD 8211.0 million in FY09 (others 10.8 percent, and iron, steel & other base metal decreased by 3.3 percent). However, food grains import decreased by 5.2 percent to USD 836.0 million in FY10 from USD 882.0 million in FY09 (of which rice 68.6 percent) due mainly for bumper production of rice. Consumer and intermediate goods import decreased by 1.0 percent to USD 10183.0 million in FY10 from USD 10283.0 million in FY09 (fertiliser 24.9 percent, yarn 9.3 percent, crude petroleum 8.4 percent, textile and textile articles thereof 5.4 percent). Imports by the EPZs increased by 8.6 percent to USD 1414.0 million in FY10 from USD 1302.0 million in FY09.

**Table 9.2 Composition of merchandise imports**

(million US Dollar)

| Items | FY09 | FY10P | % changes |
|---|---|---|---|
| **A. Food grains** | **882** | **836** | **-5.2** |
| 1. Rice | 239 | 75 | -68.6 |
| 2. Wheat | 643 | 761 | 18.4 |
| **B. Other food items** | **1829** | **2395** | **30.9** |
| 1. Milk & cream | 96 | 106 | 10.4 |
| 2. Spices | 62 | 109 | 75.8 |
| 3. Oil seeds | 159 | 130 | -18.2 |
| 4. Edible oil | 865 | 1050 | 21.4 |
| 5. Pulses (all sorts) | 234 | 350 | 49.6 |
| 6. Sugar | 413 | 650 | 57.4 |
| **C. Consumer and intermediate goods** | **10283** | **10183** | **-1.0** |
| 1. Clinker | 314 | 333 | 6.1 |
| 2. Crude petroleum | 584 | 535 | -8.4 |
| 3. POL | 1997 | 2021 | 1.2 |
| 4. Chemical | 960 | 972 | 1.3 |
| 5. Pharmaceutical products | 80 | 103 | 28.8 |
| 6. Fertiliser | 955 | 717 | -24.92 |
| 7. Tanning & dyeing extracts | 259 | 275 | 6.2 |
| 8 Plastics & rubber articles thereof | 840 | 966 | 15 |
| 9. Raw Cotton | 1291 | 1439 | 11.5 |
| 10. Yarn | 792 | 718 | -9.3 |
| 11.Textile & articles thereof | 2099 | 1986 | -5.4 |
| 12. Staple fiber | 112 | 118 | 5.4 |
| **D. Capital goods and others** | **8211** | **8910** | **8.5** |
| 1. Iron, steel & other base metal | 1502 | 1453 | -3.3 |
| 2. Capital machinery | 1420 | 1595 | 12.3 |
| 3. Others | 5289 | 5862 | 10.8 |
| **E. Imports by EPZ** | **1302** | **1414** | **8.6** |
| **Total Import (c & f)** | **22507.0** | **23738** | **5.5** |
| Less (-) freight & others | 2216 | 2350 | 6.05 |
| **Total Import (fob)** | **20291.0** | **21388.0** | **5.41** |

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

Chart 9.5


**Terms of Trade**

9.20 In FY10, both the export price index and import price index have increased by 6.6 and 6.4 percent respectively. As a result, the terms of trade improved slightly by 0.2 percent in FY10 over FY09.

## Box 9.1

### Global Slowdown and Its Impact on Bangladesh's Balance of Payments

The world economy was in a perilous condition, experiencing one of the worst financial crisis and economic recessions since the Great Depression. The global financial crisis started in 2007 as an aftermath of the housing sector bubble coupled with aggressive lending practices in the US sub-prime mortgage market and lax regulation of the financial sector. Given the size of the American economy and its share in world's trade and finances, the financial crisis, once affected in the US, has spread out to other countries. This had been evident from the fact that the American financial crisis had left everyone in a state of shock. Within a short time, the crisis engulfed the global financial system as well as the real economy and worked its way through Europe and the Asia-Pacific region. Although the countries in the South-East Asian region had acquired resilience against financial and real economy vulnerabilities, especially learning from the experience of the Asian financial crisis of 1997, the global slowdown had created significant impact on these economies through finance, trade, investment, and remittance channels especially in view of the significant integration with the global economy. The global recession of 2008-09 was not an unmixed curse for Bangladesh though its economy was more resilient compared to other countries due to its limited openness and restrained capital account.

**Growth outcome and outlook:** Unlike most other economies in the region and elsewhere, output growth in Bangladesh has thus far been only mildly affected by the global economic slowdown, posting real GDP growth of almost 6.0 percent during FY09 and FY10 compared to 6.2 percent growth in FY08. Persistent efforts have been made by the government and the Bangladesh Bank to adopt growth supportive macroeconomic policies for attaining the higher real GDP growth and to contain inflation within tolerable levels. Financial markets and institutions in Bangladesh remained free of toxic assets and contagion afflicting the global financial markets, and output activities meeting domestic demand remained robust in FY09 and FY10. The lagged effects of the global financial crisis on the Bangladesh economy became evident in FY10, as the performance of the country's two main growth drivers exports and remittances registered decelerated growth. Amidst the risks of export earnings and the remittances inflows, coupled with the easing domestic demand, Bangladesh's economic growth showed a satisfactory performance during FY 09 and FY10. However, the lagged effects of the global financial crisis and acute power and energy shortages have affected Bangladesh's short-term economic prospects. The Government's 2010-2011 (FY11) budget document projects 6.7 percent FY11 real GDP growth for Bangladesh economy, and spells out public expenditure and support measure programmes aimed at attaining the projected growth.

**External Sector Performance and BOP:** Weakening of demand in markets abroad in recession caused decline in FY09 export of most items other than textiles and apparels; the later (comprising more than three fourths of overall export) suffered some growth slowdown. Overall, during FY10, the external sector of the country experienced a strong performance. A significant surplus in current account balance and a surplus in capital account more than offsetting a deficit in financial account led to a sizeable surplus in overall balance, which helped improve the international reserve position. Trade deficit increased by 9.4 percent in FY10 compared to 11.6 percent decrease in FY09. In FY10 import growth increased by 5.4 percent compared to 4.2 percent in FY09. Export earnings of the country registered an increase of 4.2 percent in FY10 which was 10.1 percent in FY09 due to the slower growth of key export items readymade garments, frozen foods and chemical products declined reflecting the delayed impact of the global recession. Among the RMG export items, woven garments and knitwear grew only by 1.6 percent and 0.84 percent respectively because of the weak demand in the export destination countries. Workers' remittance inflows boomed in FY09 despite recession in markets hosting Bangladeshi workers increased by 22.3 percent to a record of USD 9.7 billion which stood at about 11.0 billion with 13.4 percent growth in FY10. Healthy inflows in workers' remittances and exports vis-à-vis low growth in imports for consumption and investment meant swelling surpluses in BOP current account; capital account also maintained positive trend and significant inflows in MLT loans along with other short-term loans which somewhat off-setted the negative trend in the financial account. Foreign exchange reserve soared to record spiral at USD 7.47 billion at the end of FY09 which again jumped at USD 10.75 billion in FY10.

## Box 9.1

### Global Slowdown and Its Impact on Bangladesh's Balance of Payments *(Contd.)*

Though it is clear that the global slowdown had a significant impact on Bangladesh economy, its impact is still assumed to less severe than in most other countries. The reasons for these include:

- Bangladesh's relatively limited exposure to the global economy, particularly in export (about 16.3 percent of GDP in FY10);
- Bangladesh largely exports garments which are mainly low-priced products for the lower end of the market, demand for which has been relatively recession resistant;
- The continued importance of domestic agriculture as a driver of economic growth, which performed relatively in a robust manner;
- The presence of a large informal sector that comprises of domestic trade and commerce which creates some inbuilt resilience in the economy;
- The minimal exposure of Bangladesh to international capital markets making the economy less vulnerable to the withdrawal of foreign capital;
- The strong macroeconomic fundamentals underpinned by sustainable levels of budget deficit and public debt;
- Relatively low retrenchment of Bangladeshi workers in the Gulf and Middle Eastern countries, because Bangladeshi workers are engaged mainly in less-skilled and low-paid jobs, not affected by the recession.
- Supportive macroeconomic measures took by the government and the Bangladesh Bank helped to sustain higher economic growth.

**Bilateral and multilateral Relations**

9.21 Bangladesh expanded its foreign trade relations in FY10 through bilateral, regional and multilateral negotiations and agreements. At the multilateral level, continued to engage in the Doha Round trade negotiation of the World Trade Organisation (WTO) and participated in a number of key negotiations with a view to protecting the country's trade and economic interests, particularly in the areas of agricultural, non-agricultural market access (NAMA), Trade Related Aspect of Intellectual Property Rights (TRIPS), rules and services. However, in view of the sluggish progress of the Doha Round negotiation in 2009, the importance of concluding it by 2010 was reiterated at the seventh WTO Ministerial Conference held in Geneva in December 2009.

Bangladesh also continued to get preferential access to the European Market under the GSP+ scheme in 2009. There is also great potential to further growth in bilateral trade and involvement under the free trade agreements (FTAs) with India and Pakistan.

The improved foreign exchange position, with the highest ever level of foreign reserves, and the improved rating outlooks of the country by the Standard and Poor and Moody's, have facilitated borrowing from foreign banks at competitive rate and issuing of sovereign bonds at the international market. Overall, the business and investment climate of the country and the favourable macroeconomic environment would be improved, which will undoubtedly help business sector to prosper.

Bangladeshi exporters have proven their resilience amidst difficulties on earlier occasions. The apparel sector, in particular, resisted strong competitions from low cost garments producers of other countries during the phasing out of the Multi-fibre Agreement (MFA). At that time, not only did they adjust to the new and challenging circumstances but also actually emerged stronger to appropriately deal with the various risks and expand their share in the world market. In a similar manner, it is likely that the Bangladeshi industries would overcome a possible non GSP+ challenges too, and emerge stronger than before.

## Workers' Remittances

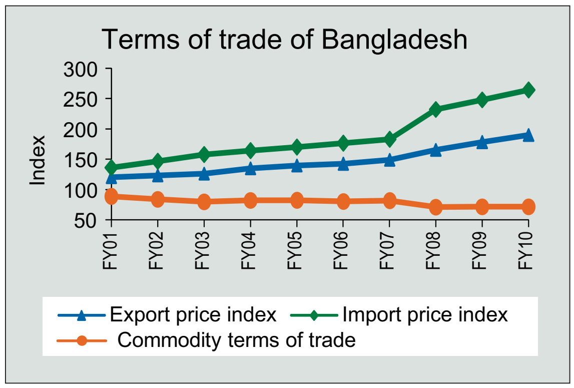
9.22 The Inward remittances from Bangladeshi nationals working abroad remained strong in FY10 even in the face of global economic slowdown and continued to play an important role in strengthening the current account. Receipts on this sector increased by 13.4 percent to USD 10987.1 million in FY10 from USD 9689.3 million in FY09. 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 885 drawing arrangements with 300 exchange houses all over the world for collecting remittances, (of which approximately 650 drawing arrangements with 250 exchange houses are operative now). To have 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 their offices abroad to collect remittances by their own. This is to mention here that 36 exchange houses/branch offices/representative offices abroad of 18 local banks are permitted for onward sending of remittances to the country. For enhancing the distribution network, to accelerate and simplify the delivery process some Micro Finance Institutions (MFIs) have been involved for smooth delivery of inward remittances. Besides, when automated clearing house will be fully operational, it will encouraged remitter to use formal channel. Challenge fund by BB which is contributing towards development of delivery channels of remittances reducing time and cost of remittances and thereby helping increased use of formal channels. Due to these measures, remittances have recorded a significant growth of 13.4 percent to USD 10987.1 million during the year under report. Remittances as percentage of GDP increased by 0.19 percentage points to 11.03 in FY10 from 10.84 in FY09. The shares of major source countries in the remittance receipts of FY09 and FY10 are given at Chart 9.7.

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

| Year | Export price index | Import price index | Commodity terms of trade |
|---|---|---|---|
| FY00 | 120.31 | 136.17 | 88.35 |
| FY01 | 123.15 | 146.41 | 84.11 |
| FY02 | 126.23 | 157.76 | 80.01 |
| FY03 | 135.19 | 164.15 | 82.36 |
| FY04 | 139.60 | 169.96 | 82.14 |
| FY05 | 142.38 | 176.66 | 80.60 |
| FY06 | 149.28 | 183.09 | 81.53 |
| FY07 | 165.70 | 232.52 | 71.26 |
| FY08 | 171.29 | 241.15 | 71.03 |
| FY09 | 178.23 | 248.33 | 71.77 |
| FY10* | 190.07 | 264.27 | 71.92 |

Source : Bangladesh Bureau of Statistics.
* estimated.

Chart 9.6




## Foreign Aid

9.23 Total official foreign aid disbursement increased by 20.0 percent to USD 2216.9[p] million in FY10 from USD 1847.0 million received in FY09 (Table-9.4). Food aid disbursements stood at USD 88.0 million which was USD 52.0 million in FY09. The disbursement of project assistance stood at USD 2128.9 million in FY10, which was USD

1795.0 million in FY09. It is mentionable that, no commodity aid was received in FY10 as in the preceding year. Total outstanding official external debt as of 30 June 2010 stood at USD 21792.0 million (21.9 percent of GDP in FY10) against USD 20859.0$^{R}$ million as of 30 June 2009 (24.3 percent of GDP in FY09).

Repayment of official external debt stood at USD 879.0 million (excluding repurchases from the IMF) in FY10. This was USD 48.0 million or 5.8 percent higher than the repayment of USD 831.0 million in FY09. Out of the total repayments, principal payments amounted to USD 687.0 million while interest payments stood at USD 192.0 million in FY10, against USD 641.0 million and USD 190.0 million respectively paid during FY09. The debt-service ratio as percentage of exports was 5.3 percent in FY10.

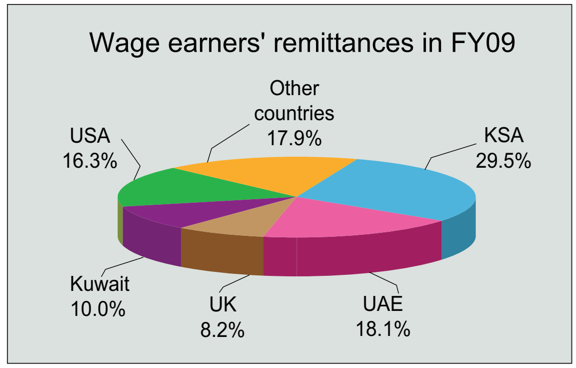
### Foreign Exchange Market Operations

9.24 Under the managed floating exchange rate regime, banks are free to set their own rates for inter-bank and customer transactions. The exchange rate is being determined based on market demand and supply forces of the respective currencies. 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. BB's judicious steps facilitated in achieving stability in foreign exchange rate.

During July-September 2009, Taka-Dollar exchange rate was almost unchanged at 69.06. However from October 2009-January 2010 Taka depreciated by 0.67 percent and reached as high as Taka 69.52 against US Dollar at end of FY10.

During FY10, BB intervened in both sides of the foreign exchange market, which helped prevent erratic undue movements in the exchange rates, to ensure adequate liquidity in the domestic foreign exchange market and to build official reserves. Bangladesh Bank purchased USD 2161.00 million (net) to make the foreign exchange market stable.

Chart 9.7



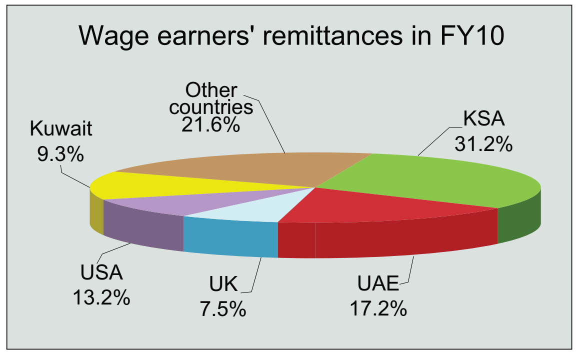




**Table 9.4 Foreign aid receipts and debt repayments***

(million US Dollar)

| Particulars | FY08 | FY09$^{R}$ | FY10$^{P}$ |
|---|---|---|---|
| 1. Receipts | 2062.0 | 1847.0 | 2216.9 |
| i) Food aid | 111.0 | 52.0 | 88.0 |
| ii) Commodity aid | - | - | - |
| iii) Project aid | 1951.0 | 1795.0 | 2128.9 |
| 2. Repayments (MLT) | 767.0 | 831.0 | 879.0 |
| i) Principal | 580.0 | 641.0 | 687.0 |
| ii) Interest | 187.0 | 190.0 | 192.0 |
| 3. Outstanding external debt as of end June | 20266.0 | 20859.0 | 21792.0 |
| 4 Outstanding debt as percentage of GDP | 25.5 | 24.3 | 21.9 |
| 5 External debt services (MLT) as percentage of exports | 5.4 | 6.4 | 5.3 |

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

The volume of Inter-bank foreign exchange transactions in FY10 stood at USD 6924.06 million including spot, forward and swap transactions, which is 53.47 percent higher than the USD 4511.78 million in FY09.

**Foreign Exchange Reserves**

9.25 The gross foreign exchange reserves of the Bangladesh Bank touched the yardstick of USD 10,000 million while the global economy was combating to overcome the recession. Bangladesh economy showed its robustness in the period of global economic crisis by retaining upward trends in foreign exchange reserves. The gross foreign exchange reserves of Bangladesh Bank stood at USD 10,750 million in FY10 which is 43.89 percent higher than the USD 7471 million in FY09. Current foreign exchange reserve of Bangladesh Bank is sufficient to meet four months import obligations. Foreign exchange balances held by the commercial banks, on the other hand, increased by USD 65.0 million or 16.2 percent to USD 465.5 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 11215.3 million (Chart 9.8). The foreign exchange reserves represent approximately 70.15 percent of the BB's balance sheet and the income from these reserves is one of the most significant revenues of the BB. In order to strengthen the long term stability of the country's reserves and diversify the external asset portfolio, BB increased its gold holdings by purchasing 10 metric tons gold from the IMF in September 2010.

**Reserve Management Strategy**

9.26 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 operators are monetary policy framework, the exchange rate policy & regime and external

**Table 9.5 Gross foreign exchange reserves of the Bangladesh Bank**

(end month, million US Dollar)

| Months | FY06 | FY07 | FY08 | FY09 | FY10 |
|---|---|---|---|---|---|
| July | 2829 | 3245 | 5042 | 5820 | 7741 |
| August | 2869 | 3605 | 5225 | 5966 | 9156 |
| September | 2761 | 3447 | 5158 | 5863 | 9363 |
| October | 2796 | 3543 | 5410 | 5551 | 9545 |
| November | 2417 | 3534 | 5095 | 5245 | 10336 |
| December | 2826 | 3878 | 5515 | 5788 | 10345 |
| January | 2824 | 3739 | 5387 | 5577 | 10098 |
| February | 3030 | 4157 | 5978 | 5872 | 10555 |
| March | 2910 | 4200 | 5302 | 5953 | 10142 |
| April | 3140 | 4538 | 5773 | 6509 | 10602 |
| May | 3089 | 4439 | 5335 | 6563 | 10146 |
| June | 3484 | 5077 | 6149 | 7471 | 10750 |

Source : Accounts and Budgeting Department, BB.

Chart 9.8

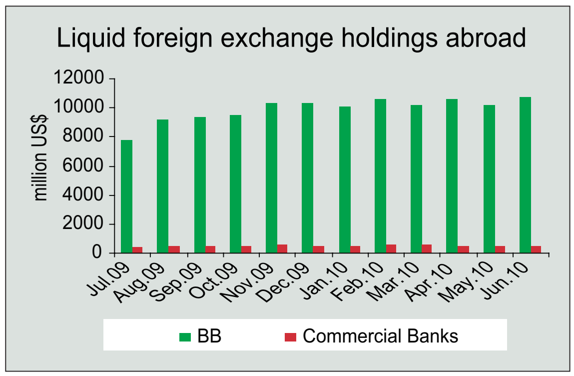



**Table 9.6 Receipts and payments of Bangladesh under the ACU**

(million US Dollar)

| Head of Transaction | FY08 | FY09 | FY10 | % age Increase/ Decrease |
|---|---|---|---|---|
| 1. Receipts (Export) | 153.01 (1048.57) | 135.20 (933.7) | 144.81 (1006.50) | 7.11% |
| 2.Payments(Import) | 3737.33 (25611.81) | 3035.94 (20966.17) | 3175.37 (22069.28) | 4.59% |
| Net: Surplus (+)/ Deficit (-) | -3584.34 (-24563.24) | -2900.74 (-20032.47) | -3030.56 (-21062.78) | 4.48% |

Note: Figures in parentheses indicate Taka in crore.
1 ACUD = 1 USD; 1 USD = 69.50 Taka.

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 reserves include maintenance and safety of adequate level of reserve to meet foreign obligations, liquidity of reserves for the purpose of exchange rate management, stimulating exports and growth, minimise exchange rate volatility and finally, 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 having good credit ratings assigned by the international rating agencies (Standard and Poor, Moody's etc). 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 to mitigate operational risks.

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 FY10, BB had to keep a vigilant eye on placement/investment of funds with banks affected by global financial crisis.

With a view to using a part of the foreign exchange reserve for financing industrial units operating in EPZ, funds in the form of short term deposits are placed with Offshore Banking Units (OBU) of different local commercial banks in FY10. However, despite the aforesaid global financial crises, BB's foreign exchange reserve increased to USD 10750 million as of 30 June 2010 compared to USD 7471 million as of 30 June 2009.

**Transactions under Asian Clearing Union (ACU)**

9.27 Total transactions of Bangladesh under the Asian Clearing Union (ACU) increased in terms of volume during FY10 compared to the preceding year. Bangladesh remained a net debtor in all the six bi-monthly settlements during FY10. Import payments increased substantially than export receipts with the ACU member countries during the year under report. Export of Bangladesh to ACU member countries recorded a increase by USD 9.61 million or 7.11 percent from USD 135.20 million (Taka 933.70 crore) in FY09 to USD 144.81 million (Taka 1006.50 crore) in FY10. Import from the ACU member countries increased by USD 139.43 million or 4.59 percent from USD 3035.94 million (Taka 20966.17 crore) in FY09 to USD 3175.37 million (Taka 22069.28 crore) in FY10. As a result, the net debtor position of Bangladesh increased by USD 129.82 million or 4.47 percent to USD 3030.56 million (Taka 21062.78 crore) in FY10 compared to USD 2900.74 million (Taka 20032.47 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**

9.28 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.

Box 9.2

## SAARCFINANCE Activities in Bangladesh

The head of the States of SAARC Region agreed in the $10^{th}$ SAARC Summit held at Colombo on 29 July 1998, to create a Network of Central Bank Governors and Finance Secretaries named as SAARCFINANCE in the SAARC Region with a view to aperture dialogues on macroeconomic policies of the region and sharing mutual experiences and ideas. Accordingly, the Central Bank Governors and Finance Secretaries of Bangladesh, India, Nepal, Pakistan and Sri Lanka (representatives from Bhutan and Maldives were unable to attend) met in Washington D.C. on 5 October 1998 and took the decision to establish SAARCFINANCE. The secretariat of the network is set up on a rotation basis with the central bank of the country that holds chairmanship of SAARC. At present, the SAARC chair is with the Bhutan and the Governor of the Royal Monetary Authority of Bhutan is the current chairperson of the Network. Each central bank establishes a cell and nominates a coordinator to coordinate the activities of SAARCFINANCE. The SAARCFINANCE Group meets twice a year concurrently with the IMF/WB annual and spring meetings. To facilitate the working of the SAARCFINANCE network, Coordinators also meet twice a year. The broad objectives of the network are as follows:

- To promote cooperation among central banks and finance ministries in SAARC member countries through staffs visits and regular exchange of information.
- To consider and propose harmonisation of banking legislations and practices within the region.
- To work towards a more efficient payment system mechanism within the SAARC region and strive for higher monetary and exchange cooperation.
- To forge closer cooperation on macro-economic policies of SAARC member countries and to share experiences and ideas.
- To undertake training of staff for the central banks, ministries of finance and other financial institutions of the SAARC member countries in subjects relating to economics and finance.
- To promote research on economic and financial issues for the mutual benefit of SAARC member countries.
- To consider any other matter on the direction/request of the SAARCFINANCE, Council of Ministers for SAARC or other SAARC bodies.

Bangladesh Bank always privileges the activities of SAARCFINANCE. In line with the broad objectives of SAARCFINANCE, BB has already organised three seminars and two Governors' symposiums since its inception in 1998. Twenty officials from Bangladesh Bank also participated in the seminars/Governors' symposiums organised by other SAARC member countries. Under the staff exchange programme, seventeen officials from Bangladesh visited to other SAARC member countries and fifteen officials from other SAARC member countries also visited Bangladesh so far. Under the information sharing activities, Bangladesh Bank has provided information on a wide range of issues desired by the member countries. Bangladesh Bank has created a web link within its website and published the first issue of SAARCFINANCE e-Newsletter, an electronic halfyearly highlighting activities of the Network.

In FY10, Bangladesh Bank organised a two-day Governors’ Symposium on 'Food Security: The Role of Central Bank in SAARC region' in October 2009. Bangladesh Bank also organised the $7^{th}$ Meeting of SAARC Payments Council (SPC) on 28 March 2010. Three officials from Bangladesh Bank participated in a seminar on "Global Financial Crisis-Implications and Policy Responses of SAARC Countries" held in Islamabad, Pakistan during 10-12 June 2010.

As part of its ongoing efforts the Network is now working on the issues like preparing guidelines of currency swap arrangements for SAARC members, modernising of the payments systems etc..

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 against the total loan facilities of SDR 400.33 million. In FY10, repayment was made against PRGF loan amounting to SDR 24.75 million and outstanding liabilities of PRGF loan stood at SDR 282.08 million at the end of FY10. Service charges paid to the IMF during the FY10 amounted to SDR 3.43 million. Outstanding liabilities to the Fund at the end of June 2010 stood at SDR 415.40 million (Table-9.7).

**Exchange Rate Movement**

9.29 The exchange rate policy in FY10 was focused on maintaining the stability in the domestic foreign exchange market. During the 1st quarter of FY10, Taka-Dollar exchange rate was Taka 69.06 per US Dollar, then it depreciated by 0.13 percent and stood at Taka 69.15 per US Dollar in the beginning of 2nd quarter, up to end of 2nd quarter Taka depreciated again and stood at Taka 69.26 per US Dollar. At the beginning of the 3rd quarter of FY10, Taka appreciated to Taka 69.22 per Dollar. However, at the end of FY10, Taka depreciated slightly and stood at Taka 69.50.

**Changes in Foreign Exchange Regulations**

9.30 Bangladesh Bank in its ongoing endeavor to ease the foreign exchange restrictions has embarked upon some changes on exchange arrangements during FY10 which are as follows:

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

(million SDR)

| Facility | Amount Drawn/ Purchased up to June'08 | Outstanding principal liability as of end June 2009 | Instalment repayment in FY10 | Outstanding principal liability as of end June 2010 |
|---|---|---|---|---|
| PRGF June 2003 | 316.73 | 306.83 | 24.75 | 282.08 |
| Emergency Natural Disaster Assistance Programme April 2008 | 133.32 | - | - | 133.32 |
| **Total :** | **450.05** | **-** | **24.75** | **415.40** |

Source : Forex Reserve and Treasury Management Department, BB.

a) In terms of section 18A of Foreign Exchange Regulations Act, Bangladesh Bank is required for any person (which includes individuals, firms, business organisations or concerns incorporated or not) to accept an appointment to act as an agent in trading and commercial transactions or as a technical or management adviser of any person resident outside Bangladesh or of a person resident in Bangladesh but not citizen of Bangladesh.

b) Bangladesh Bank has issued Guidelines for Foreign Exchange Transactions, 2009 (Vol-1) [the successor of the earlier edition 1996] compiling the core contents of FE Circulars and Circular Letters issued up to 31 May 2009 in accordance with authority given to Bangladesh Bank under Section 20(3) of the Foreign Exchange Regulation Act.

c) The ceiling amount of Bangladesh Taka (currency notes and coins) for carrying by incoming/outgoing passengers (at the time of entering into Bangladesh or departure from Bangladesh, as the case may be) has been enhanced to not exceeding Taka 2000 (two thousand) from Taka 500 ( five hundred).

d) To facilitate the exporters for meeting emergency import payments ADs (Authorised Dealer) have been allowed to effect advance payment not exceeding USD 10,000 (USD Ten

Thousand) or its equivalent from the Exporters Retention Quota (ERQ) accounts against bonafide business purposes subject to observance of the relevant contract/proforma invoice and compliance of some other stipulated terms and conditions for such payment .

e) Decision has been taken that after preliminary scrutiny of cash incentive/export subsidy as submitted by the exporter, 70% of the payable amount, may be released immediately by the ADs concerned before completion of audit formalities on such claims.

f) To include in the 'Balance of Payment Accounts' the foreign exchange transactions of resident entities undertaken through their foreign currency accounts maintained with ADs new summary statements S-9 & S-13 respectively are to be submitted to Bangladesh Bank by ADs with their monthly returns.

g) It has been decided that all money changers licensed by Bangladesh Bank shall have to furnish return of all foreign exchange transactions undertaken by them in prescribed proforma to BB on monthly basis.

h) As a part of deepening the foreign exchange market, regulations on foreign exchange forward transactions has been relaxed. Banks are now free to undertake foreign exchange forward transactions, when it was at least 50% of their forward sales .

i) Private sector enterprises in Bangladesh having Foreign Direct Investment (FDI) and/or Private Sector External Debt (PSED) have been instructed to submit Returns of FDI and/or PSED to the Statistics Department, Bangladesh Bank, Head Office, Dhaka through their nominated ADs/OBUs using formats prescribed by Foreign Exchange Policy Department.

j) Government has decided to provide export subsidy against export of Pet Bottle Flakes 10%, Finished Leather 7.5%, Crust Leather 5%, Ship export 5% in order to encourage export trade.

k) With effect from 1 January 2010 the ADs may release foreign exchange up to USD 1500 or equivalent per person during a calendar year to Bangladesh nationals proceeding to destinations in SAARC member countries and Myanmar.

l) Master Circular on Export Development Fund (EDF) was issued for ease and strict compliance of AD Banks.

m) Following the BASEL-II guidelines, it has been decided to amend the existing calculation method of daily exchange position and new format has been designed to calculate the same. ADs have been instructed to start using of new format for submission of their daily exchange position on trial basis from 10 January 2010.

n) To import coal through land port, the limit of setting L/C (without SWIFT mechanism) has been increased from USD5000 to USD6000.

o) Any person may bring into Bangladesh from any place outside Bangladesh without any limit foreign currency notes or bank notes. Provided that the concerned person makes a written declaration to the Customs Authorities at the time of arrival, in amended FMJ form.

p) Importer has to be declared that foreign exchange mentioned in the IMP form represents the current prevailing market price and banker has to certify after verifying the submitted documents.

q) 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), potato (from 10 percent to 20 percent) and frozen foods and fishes (from 10 percent to 12.5 percent).

r) Subsidies/cash incentives for export of selected items during FY10 are 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, 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.

s) Banks have been instructed to settle all transactions with Maldives under the Asian Clearing Union (ACU) mechanism from 1 January 2010 since the Maldives Monetary Authority (the central bank of Maldives) got the membership of ACU.

**Anti-money Laundering Surveillance**

9.31 Bangladesh has achieved significant success in anti-money laundering activities in FY10. Bangladesh Bank has performed a major role through implementing the orders of Money Laundering Prevention Act, 2009. As a consequence, foreign exchange reserve has exceeded USD 10.0 billion during this financial year. It is widely considered that one of the major reasons for achieving this feature is that inward remittances are channeled mostly through legitimate remitting organisations. Awareness of money laundering and effective implementation of the MLP Act has restricted alternative illegitimate channels for remitting money into the country.

The MLP Act has empowered Bangladesh Bank (and thus Anti-Money Laundering Department, the Financial Intelligence Unit of Bangladesh) to perform the anchor role in combating money laundering through building awareness among the financial community and monitoring suspicious transactions and large cash transactions carried out in the banking as well as non-banking financial sector (Financial Institutions, Insurance Companies, Money Changers, Money remitting/transferring organisations and other business entities registered by Bangladesh Bank) and disseminating information to the law enforcement agencies.

9.30 Under the provision of the said Acts Anti Money Laundering Department (AMLD) has taken various initiatives and actions to prevent money laundering and terrorist financing throughout the country in FY10. Some important actions taken under the provisions of MLPA, 2009 and ATA, 2009 are mentioned below:

- A number of cases have been sent to the Anti-Corruption Commission (ACC) for necessary action after prima facie inspection. AMLD has been monitoring the update of those cases.
- A number of bank accounts have been freezed by Bangladesh Bank (AMLD) on suspicion of money laundering and TF under the provisions of MLPA and ATA. In a particular case, the freezed money has been returned to the respective country.
- Initiatives have been taken to repatriate the stolen/laundered money from different countries.

9.32 AMLD has received 555 Suspicious Transaction Reports (STRs) from the banks up to June 2010 in FY10.

22 Commercial banks have been penalised so far under the provision of MLP Act for non-compliance of the Act. Some of the banks have been penalised for more than once.

Anti-Money Laundering Department has continued its effort to create awareness among the bank officials. It has encouraged the banks and other reporting organisations to conduct massive training programs for the officials. AMLD has arranged workshop for other law enforcing agencies.

The Financial Intelligence Unit (FIU) of AMLD has been maintaining a rich database of financial information such as Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs). All necessary steps have been taken to ensure the security and confidentiality of that information.

9.33 The FIU of Bangladesh has taken necessary steps to become a member of **Egmont group** (the association of FIUs) that will give access to a wider global platform and will establish relationship with 117 countries to get benefit by exchanging views, experiences and information. In the process of getting membership of Egmont group, Malaysia has proposed and Thailand has given consent for the membership of Bangladesh. Meanwhile representatives from Bangladesh Bank have attended the plenary of Egmont Group as observer.

9.34 The ***AML/CFT Mutual Evaluation*** has been conducted by the Asia Pacific Group on Money Laundering (APG) early in 2008. The report of the Mutual Evaluation has been finalised in the APG plenary held in July 2009 in Brisbane, Australia. AMLD team has succeeded to upgrade evaluation in 6 areas. AMLD has taken various steps to comply with the Mutual Evaluation Recommendations:

9.35 From the inception of Asia Pacific Group on Money Laundering (APG), AMLD has been representing Bangladesh and performing an important role in different meeting of APG.

During FY10, Anti-Money Laundering Department (FIU) 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.

Separate annual conferences for ***Chief Anti-Money Laundering Compliance Officer (CAMLCO)*** of banks, financial institutions and insurance companies were held in FY10. The honourable Finance Minister of the Peoples Republic of Bangladesh inaugurated the CAMLCO conference of bank.

As a whole, Anti-Money Laundering Department has taken appropriate initiatives to meet the core objectives of MLPA 2009 and ATA 2009 during FY10 and has been preparing by building capacity to face the extended challenges of upcoming years.