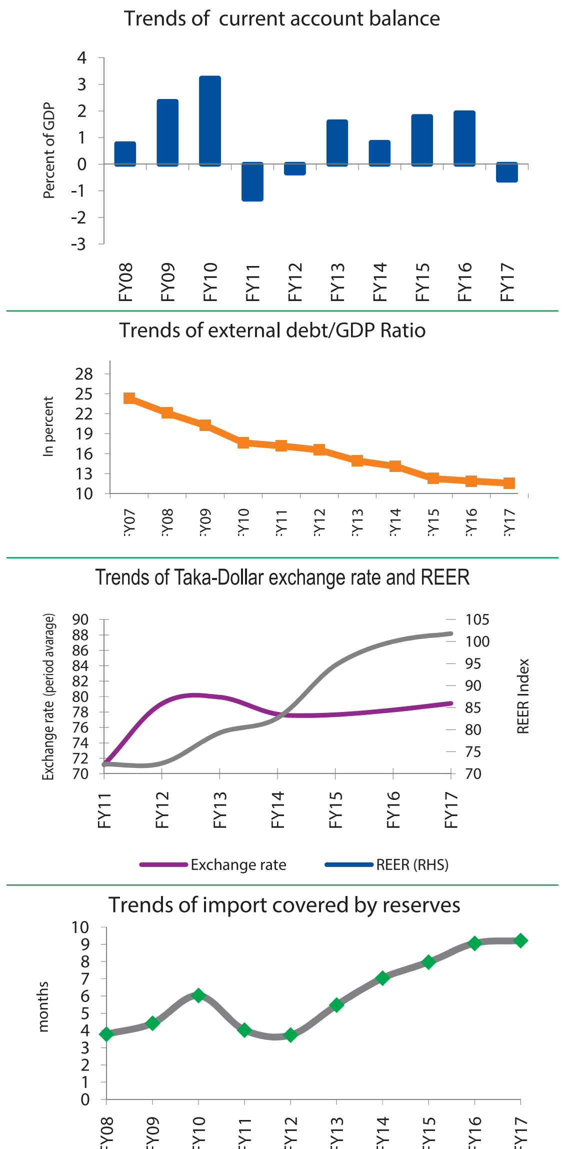
External Sector

External Trade and the Balance of Payments

11.1 In the light of relatively strong recovery of global economy and steadily progress of China on its One-Belt-One- Road initiative, Bangladesh economy also kept up its macroeconomic stability by pursuing proactive regulations and policies which helped bouyant activities in external sector in FY17. However, current account balance shifted from a surplus to a deficit due mainly to the trade balance deficit with lesser contribution of services and primary income account. In spite of current account deficit, financial account surplus was moved enough to maintaining a positive overall balance. During the period, the foreign reserves showed continued upward trend while foreign exchange market also displayed mixed trend.

11.2 Though the economy's growth momentum picked up, major external sector indicators showed mixed trends (Chart 11.1) in FY17. Current account balance as percentage of GDP decreased at 0.6 in FY17 against 1.9 in FY16. Decreasing trend of external debt GDP ratio still continued in FY17 and stood at 11.6 percent. In FY17, according to the new base (FY16=100, 15 currency basket) REER index appriciated by 1.81 percent in FY17, while nominal exchange rate depreciated by 1.1 percent (period average) at the end of June 17 and stood at BDT 79.12. The foreign exchange reserves stood at USD 33.41 billion during the same period, which was enough to cover about 8 months of import payments.

Chart 11.1 Key indicators of external sectors



Source:Bangladesh Bank.

Balance of Payment

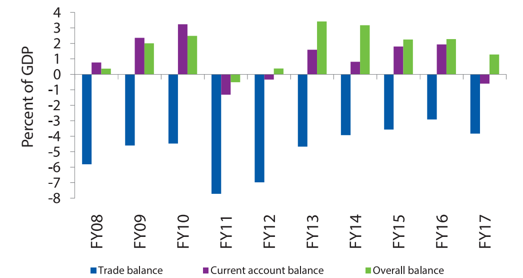
11.3 Bangladesh's balance of payments (BoP) recorded a surplus in FY17, despite unfavourable global economic condition. The BoP surplus was supported mainly by financial account. Current account showed a significant amount of deficit of USD 1480 million during FY17 which was a surplus of USD 4262 million in FY16. Large deficit in the services and primary income and decline in the secondary income led to be a significant downfall in the current account balance in FY17. The capital accounts surplus decreased to USD 314 million and the financial accounts surplus increased to USD 4179 million respectively in FY17. During the same period, overall balance recorded a surplus of USD 3169 million compared to USD 5036 million in FY16 (Chart 11.2 and Table XVI of Appendix-3.).

11.4 Trade Balance showed a record high deficit of 47 percent to USD 9472 million during FY17 as compared to the deficit of USD 6460 million during FY16. Higher growth of import along with a slight exports growth led to higher trade deficit. The deficit in the services account increased by 21.3 percent to USD 3284.0 million in FY17 from USD 2708.0 million in FY16. The deficit of primary income accounts also widened by 4.8 percent to USD 2007.0 million in FY17 from USD 1915.0 million in FY16. Secondary income decreased by 13.4 percent from USD 15345.0 million in FY15 to USD 13283.0 million in FY17. The workers' remittances fell by 14.5 percent in FY17. The net outcome of all these, the current account balance worsened significantly from a surplus of USD 4262 million in FY16 to a deficit of USD 1480 million deficit in FY17. (Table XVI of Appendix-3)

11.5 Foreign Direct Investment (FDI) is recognised as one of the important components of Bangladesh's foreign reserves in recent years. It contributes as the 2nd largest component of financial account. As a potential source of foreign exchange reserves, FDI has been emphasised by the Government in its 7th five year plan assuming that USD 10.0 billion would be received and accordingly has undertaken various policies for adequate incentives in attracting foreign investors. For those initiatives, net FDI inflow increased significantly by 32.8 percent to USD 1706.0 million in FY17. Portfolio investment also increased significantly to USD 458 million in FY17 compared to the preceding year.

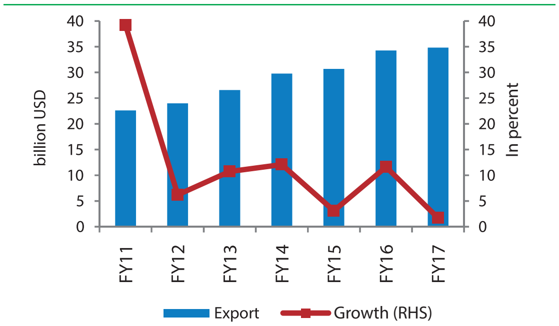
11.6 Merchandise exports (fob) increased by 1.7 percent to USD 34019.0 million and imports (fob) increased by 9.0 percent to USD 43491.0 million in FY17 (Chart 11.3 and 11.4). The balance of payments position is given in Table XVI of Appendix-3.

Chart 11.2 Trends of trade, current account and overall balances



Source: Bangladesh Bank.

Chart 11.3 Trends of export earnings

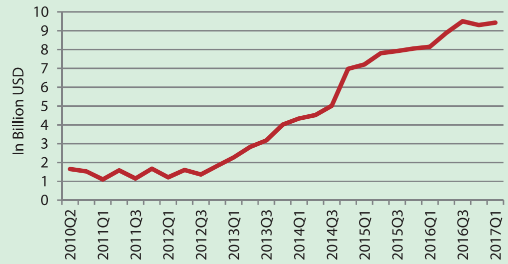


Source: Export Promotion Bureau.

Box 11.1 Impact of Private Commercial Borrowing from Foreign Sources in Bangladesh

Private foreign borrowing increased significantly during the last several years. The outstanding foreign loan by private sector stood at USD 9.43 billion (about 10.15 percent of total private credit and 4 percent of GDP) at the end of March 2017 from USD 1.65 billion (about 4.0 percent of total private credit and 2.0 percent of GDP) at June 2010 (Chart). This rising private foreign borrowing impacted on the financial market in various ways. Firstly, it reduced the wedge between domestic and foreign credit market for export oriented firms for cheaper financing. As a result, lending rate in domestic credit market faced competition with foreign interest rate which helped moderate domestic lending rate. Investment cost of a firm would decline and competitiveness would improve. The lending rate eased to single digit (9.7 percent) in FY17 from double digit (13.2 percent) in FY12. Secondly, private sector foreign borrowing helped to build up foreign exchange reserve to mitigate external shock in the economy and stabilize exchange rate during the last several years. On the other hand, it created foreign liability of the firms and created some risk in the financial system.

Chart : Trend of private sector foreign borrowing



Source: Statistics Department, Bangladesh Bank

Nevertheless, closer monitoring of the opening up the process of borrowing from foreign sources will be essential in order to manage exposure to international capital market and vulnerability to economic contagion.

Exports

11.7 Export earnings increased slightly by 1.7 percent in FY17 to USD 34835.1 million from USD 34257.2 million in FY16 (Table 11.1). Apparels (woven garments and knitwear products) continued to occupy a very large share (above four fifths) of the export.

Composition of Exports

11.8 Readymade garments (woven and knitwear): Woven and knitwear products, which contributing about 81 percent of total export earnings, registered slight increase in receipts from USD 28094.2 million in FY16 to USD 28149.8 million in FY17. Knitwear products showed a growth of 3.0 percent in FY17 compared to FY16.

11.9 Leather: Export earnings from leather and leather products increased by 4.6 percent to USD 697.0 million in FY17 from USD 666.1 million in FY16.

11.10 Frozen food: The frozen foods sector comprises mainly of shrimps. Receipt from export of shrimp and fish decreased by 1.8 percent to USD 510.0 million in FY17 from USD 519.4 million in FY16.

11.11 Footwear: Export earnings from footwear products increased by 8.9 percent to USD 777.8 million in FY17 from USD 714.0 million in FY16.

11.12 Chemical Products: Export earnings from chemical products achieved a large growth of 13.2 percent to USD 140.0 million in FY17 against USD 123.7 million in FY16.

11.13 Tea: During the fiscal year export earnings from tea increased significantly to USD 4.5 million in FY17 from USD 1.8 million in FY16.

11.14 Jute goods (excluding carpets): In FY17, export earnings from jute goods increased by 6.5 percent to USD 794.6 million as against USD 746.4 million in FY16.

11.15 Raw jute: Raw jute valued at USD 167.8 million was exported in FY17, against USD 173.2 million in FY16.

Destination of Exports

11.16 One important feature of export diversification is the geographical diversity of export destination countries. Bangladesh's exports are now destined for some 200 countries. In FY17, 55.5 percent of exports were destined for the EU bloc while 20.3 percent entered into the NAFTA bloc. Export to the OIC, SAARC, ASEAN and other countries was 5.5, 2.4, 2.2 and 14.1 percent respectively of total exports in FY17 (Chart 11.4).

Export Development Fund (EDF)

11.17 The EDF commenced its operation in 1989 with the participation of International Development Association (IDA) and Government of Bangladesh (GOB) having an initial fund amounting to USD 30.16 million to provide foreign exchange refinance facilities to boost up the export sector. As export posted a significant growth, the volume of the EDF fund was enhanced by Bangladesh Bank from time to time. In November 2016, the fund was enhanced to USD 2.5 billion from USD 2.0 billion to meet the growing demand of the exporters.

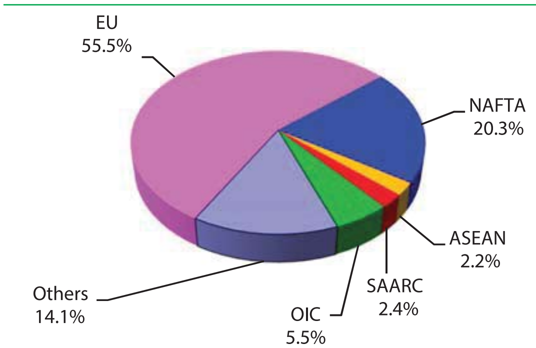
Table 11.1 Composition of merchandise exports

(million USD)

Items	FY16	FY17	% change
1) Raw jute	173.2	167.8	-3.1
2) Jute goods	746.4	794.6	6.5
3) Tea	1.8	4.5	150.0
4) Leather and leather products	666.1	697.0	4.6
5) Frozen shrimps and fish	519.4	510.0	-1.8
6) Woven garments	14738.7	14392.6	-2.3
7) Knitwear products	13355.4	13757.3	3.0
8) Chemical products	123.7	140.0	13.2
9) Petroleum by-product	297.0	243.8	-17.9
10) Engineering products	510.1	688.8	35.0
11) Specialised textiles	108.7	106.1	-2.4
12) Footwear	714.0	777.8	8.9
13) Others	2302.6	2554.8	11.0
Total	34257.2	34835.1	1.7

Source: Export Promotion Bureau.

Chart 11.4 Destinational pattern of exports in FY17



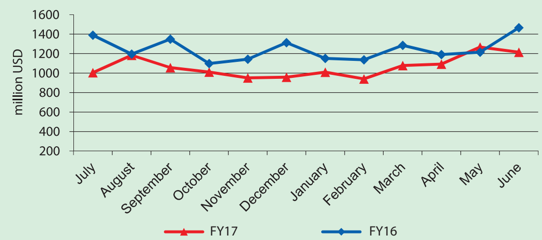
Source: Statistics Department, BB.

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

11.19 A borrower-wise maximum exposure limit is followed to streamline the credit discipline. At present, maximum USD 20.00 million is allowed to a single party except leather goods & footwear, ceramic wares, dyed yarn, agro-food processing, bicycle, accessories & packaging

Box 11.2 Recent Slowdown of Inflows of Foreign Remittance: Effects on the Bangladesh Economy and Way Out

Chart : Trends of Remittance Inflows



Source: Statistics Department, Bangladesh Bank

Remittance is the second largest source of foreign currency earnings of Bangladesh after exports. World Bank ranked Bangladesh 5th[1] as the stock of migrants and 8th[2] as the remittance earrings country in the world. Remittances plays an important role in the overall economy, particularly lowering poverty, improving current account balance, building up foreign exchange reserves and stabilizing exchange rate. The inflows of remittances show decreasing trend since FY16. Remittance earnings decreased by 14.5 percent and 2.5 percent in FY17 and FY16 respectively compared to the previous fiscal years. Monthly data on remittance inflows show that remittances decreased in every month during FY17 except the month of May as compared to those in FY16 (chart). Recent slowdown of remittance inflows is not just because of weakened demand for workers in major labor hosting countries, but also fall of oil revenues in Middle East countries, increase of digital hundi (using apps and softwares) and depreciation of foreign currencies against dollar in many labor importing countries.

The slowdown in remittances has some implications in the economy of Bangladesh. The repeated fall of remittances in last two years has affected the current account balance (CAB) negatively. CAB showed a significant amount of deficit of USD 1480 million in FY17 from a surplus of USD 4262 million in FY16. In foreign exchange market, the decline in remittances has partly led to an excess demand which pushed up depreciation of exchange rate. Exchange rate depreciated by 2.81% and 0.77% in FY17 and FY16 respectively. Remittances as a share of GDP also exhibits a declining trend in recent years due to decreasing growth, worsening its significant role on the economy. Remittances as percentage of GDP declined gradually from 8.2 in FY14 to 5.17 in FY17.

For boosting up remittances, Bangladesh Bank has recently taken some steps include simplifying the approval policy of drawing arrangements between foreign exchange houses and domestic banks, permitting banks to distribute remittances through countrywide different outlets of mobile operators, instructing banks to establish Remittance Help Desk in all branches, enhancing housing finance facilities for the expatriates, etc. All these steps alongwith the legal actions taken by the Government of Bangladesh in some source countries against using informal channel for sending remittance might have positive impact to increase remittance in formal channel to Bangladesh.

1 Migration and Remittances Factbook, 2016, World Bank.
2 Migration and Development Brief 27, April 2017, World Bank.

and plastic goods manufacturer. However, this limit is maximum USD 15.00 million for leather goods & footwear, ceramic wares, dyed yarn, agro-food processing, bicycle and USD 2.00 million for accessories and packaging and USD 1.00 million for plastic goods manufacturers.

11.20 The interest rate on Export Development Fund (EDF) is six month USD LIBOR+2.5 percent. Out of that, Bangladesh Bank's portion is LIBOR + 1 percent and the rest 1.5 percent is for commercial banks.

11.21 In general, the reimbursement from the EDF is initially made for a tenor of 180 days with a provision for further extension of 90 days, if required for delay in repatriation of related export proceeds of the exporter concerned.

11.21 On revolving basis, the total disbursement from EDF in FY17 stood at USD 5.34 billion which was USD 3.84 billion in FY16. The outstanding balance at the end of June 2017 stood at USD 2.46 billion which was USD 1.69 billion in the previous year.

Imports

11.22 Import (fob) in FY17 stood at USD 43491.0 million (Table 11.2) achieving a higher growth of 9.0 percent compared to USD 39901.0 million in FY16. Import of food grain recorded a significant growth of 21.2 percent in FY17 mainly due to increase of wheat import. Import (landed) for food grains stood at USD 1286.4 million in FY17 compared to USD 1061.8 million in FY16. Import of other food items increased by 19.9 percent to 4240.4 million in FY17 from USD 3536.0 million in FY16. Except negative growth of oil seeds (19.0 percent), all other items showed positive growth. Consumer and intermediate goods increased by 4.5 percent to USD 21359.8 million in FY17 from USD 20432.3 million in FY16. All items of capital goods and others categories recorded a high growth of 11.2 percent to USD 20118.6 million in FY17 from USD 18092.4 million in FY16. Imports by EPZ decreased by 2.9 percent to USD 3190.7 million in FY17 compared to USD 3286.9 million in FY16.

Table 11.2 Composition of merchandise imports

(based on customs records)

(million USD)

Items	FY16	FY17^{P}	% changes
A. Food grains	1061.8	1286.4	21.2
1. Rice	112.8	89.3	-20.8
2. Wheat	949	1197.1	26.1
B. Other food items	3536	4240.4	19.9
1. Milk & cream	216	253.6	17.4
2. Spices	199.6	268.9	34.7
3. Oil seeds	534.1	432.4	-19.0
4. Edible oil	1450	1625.6	12.1
5. Pulses (all sorts)	479.9	671.4	39.9
6. Sugar	656.4	988.5	50.6
C. Consumer and intermediate goods	20432.3	21359.8	4.5
1. Clinker	573.9	643.8	12.2
2. Crude petroleum	385.8	477.6	23.8
3. POL	2275.4	2897.6	27.3
4. Chemical	1853.1	1975.5	6.6
5. Pharmaceutical products	237.2	245.6	3.5
6. Fertiliser	1116.9	737.4	-34.0
7. Tanning & dyeing extracts	586.7	606.7	3.4
8. Plastics & rubber articles thereof	1951.1	2220.3	13.8
9. Raw Cotton	2244.9	2528.9	12.7
10. Yarn	1968.7	1971.8	0.2
11. Textile & articles thereof	6220.5	6038	-2.9
12. Staple fibre	1018.1	1016.6	-0.1
D. Capital goods and others	18092.4	20118.6	11.2
1. Iron, steel & other base metal	3235.7	3771	16.5
2. Capital machinery	3555.5	3816.8	7.3
3. Others	11301.2	12530.8	10.9
Total Import (cif)	43122.5	47005.2	9.0
Of which EPZ	3286.9	3190.7	-2.9
Total Import (fob)	39901.0	43491.0	9.0

^{P} Provisional

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

Terms of Trade

11.23 The terms of trade was 87.11 in FY17 which was the same as in FY16. The growth of export price index and import price index remained same at 5.5 percent during the year (Table 11.3).

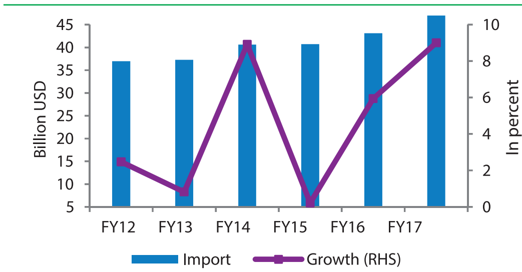
Table 11.3 Trends of Terms of Trade of Bangladesh

(FY06=100)

Year	Export price index	Import price index	Commodity terms of trade
FY08	116.34	131.42	88.53
FY09	125.13	140.35	89.16
FY10	132.64	148.32	89.43
FY11	146.41	166.51	87.93
FY12	151.71	176.44	85.98
FY13	163.04	189.62	85.98
FY14	172.09	200.37	85.89
FY15	182.40	212.37	85.89
FY16	195.95	224.94	87.11
FY17	206.76	237.36	87.11

Source: Bangladesh Bureau of Statistics.

Chart 11.5 Trends of Import Payments



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

Workers' Remittances

11.24 For the external sector development finance, workers' remittance is an important phenomenon. To strengthening the current account balance of the country, the inflow of remittance from Bangladeshi nationals working abroad has been playing an essential role. The remittance registered an amount of USD 12591.0 million in FY17 which was 14.5 percent lower compared to USD 14717.0 million in FY16. The shortfall of remittance was mainly due to the decrease of oil revenues, increase of digital hundi (using apps and software) and fiscal tightening in the GCC countries. To encourage and in sending money in the formal channel, Bangladesh Bank has reduced the security deposit requirement for the exchange houses abroad to establish drawing arrangements with local banks. Presently, commercial banks have 1159 drawing arrangements with more than 250 exchange houses all over the world for collecting remittances. For better control on the remittance collection, establishment of exchange houses/branch offices abroad by local banks is being encouraged. Under this arrangement, some banks have already established 29 exchange houses/ subsidiaries abroad to collect remittances by their own.

11.25 In addition to their own bank branches and ATM booths, banks are now using the branch networks of the MFIs and Post Offices as the sub agent for remittance distribution. Remittances are also distributed through agent banking like Singer Bangladesh Limited outlets. Furthermore, Bangladesh Bank has established a separate department titled 'Financial Integrity and Customer Interest Protection Department' to handle any complaints and suggestions by the customers or any stakeholders at home and abroad to ensure smooth and hassle free services. Banks are instructed to ensure the delivery of remittance to the beneficiaries within 2 (two) working days.

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

11.27 Bangladesh receives the lion's share of remittances from the Middle East

Box No. 11.3 A note on introduction of international factoring in Bangladesh

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

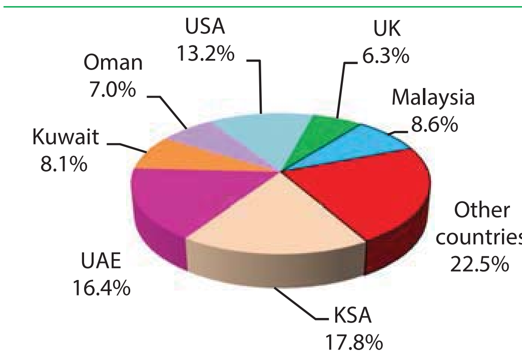
The prevailing Export Policy encourages factoring services for export financing. In 2015, an international seminar on factoring was arranged by the International Chamber of Commerce, Bangladesh and participated by different stakeholders. Following the seminar, Bangladesh Bank (BB), at the request of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

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

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

countries. During FY17, the highest amount (17.8 percent) of remittance came from Saudi Arabia followed by the United Arab Emirates (UAE) (16.4 percent), United States of America (13.2 percent), Malaysia (8.6 percent), Kuwait (8.1 percent), Oman (7.0 percent) and United Kingdom (6.3 percent). All other countries contributed to 22.5 percent of total remittances over the same period. Country wise wage earners' remittances during FY17 is shown in Chart 11.6

Chart 11.6 Country wise Wage earners' remittances in FY17



Source: Bangladesh Bank.

Foreign Aid

11.28 Total official foreign aid receipts decreased by 0.9 percent to USD 3531 million in FY17 from USD 3564 million received in FY16 (Table 11.4). Total foreign aid commitment during FY17 was USD 17849 million. Food Aid disbursement stood at USD 20 million in FY17, which was USD 32 million in FY16. The disbursement of Project Aid stood at USD 3512 million in FY17 which was USD 3532 million in FY16. Total outstanding official external debt as of 30 June 2017 stood at USD 28566 million (11.4 percent of GDP in FY17) against USD 26306 million as of 30 June 2016 (11.9 percent of GDP in FY16). Repayment of official external debt and services amounted to USD 1144 million (excluding repurchases from the IMF) in FY17. This was USD 93.8 million or 8.9 percent higher than the repayment of USD 1051 million in FY16. Out of the total repayments, principal payments amounted to USD 913 million while interest payments stood at USD 231 million in FY17, against USD 848 and USD 202 million respectively in FY16. The debt service payment as percentage of exports stood at 3.4 percent in FY17 which was 2.0 percent in FY16.

Foreign Exchange Market Operations and Exchange Rate Movements

11.29 The domestic foreign exchange market remained stable up to the first quarter of the FY17 and Bangladesh BDT started to depreciate against US Dollar from the second quarter due to downturn of wage earners remittance and export receipts vis-à-vis growth of import payments. At the beginning of FY17, exchange (end period) rate was BDT 78.40 and at end June it stood at BDT 80.59, resulting 2.81 percent depreciation of BDT against USD. To minimize the abrupt movement of exchange rate, as a facilitator in the market, Bangladesh Bank (BB) intervened in the domestic foreign exchange market through buying US Dollar from the scheduled commercial banks and selling US Dollar to ensure the legitimate payment of the scheduled commercial banks. As a result, the scenario started to change from November 2016. However, with prudent management and oversight of Bangladesh Bank, stability and smooth operation of the market was maintained with adequate liquidity throughout FY17. In FY17, BB purchased USD 1.93 billion from domestic inter-bank foreign exchange market with a view to ensure stability of exchange rate of BDT by absorbing excess liquidity as against USD 4.13 billion in the previous fiscal year. To meet the payment obligations of government and others, BB also sold USD 0.18 billion in the domestic inter-bank market during FY17 whereas no sale of foreign currency was required in FY16.

Table 11.4 Foreign aid receipts and debt repayments*

(million USD)

Particulars	FY15	FY16R	FY17P
1. Receipts	3043	3564	3531
i) Food aid	38	32	20
ii) Project aid	3006	3532	3512
2. Repayments (MLT)	1097	1051	1144
i) Principal	909	848	913
ii) Interest	188	202	231
3. Outstanding external debt as of end June	23901	26306	28566
4. Outstanding debt as percentage of GDP	12.3	11.9	11.4
5. External debt services (MLT) as percentage of exports	2.2	2.0	3.4

P Provisional, R Revised.
*Excluding transactions with the IMF.
Source: Economic Relations Division, Ministry of Finance.

Table 11.5 Trends of Gross foreign exchange reserves of the Bangladesh Bank

(End month, million USD)

Months	FY13	FY14	FY15	FY16	FY17
July	10570	15534	21384	25469	30039
August	11435	16252	22070	26175	31165
September	11252	16155	21837	26379	31386
October	12340	17346	22313	27058	31895
November	11754	17106	21590	26408	31371
December	12751	18095	22310	27493	32092
January	13077	18119	22042	27139	31724
February	13848	19151	23032	28059	32557
March	13971	19295	23053	28266	32215
April	14829	20370	24072	29106	32519
May	14531	20268	23708	28803	32246
June	15315	21508	25026	30168	33407

Source: Accounts and Budgeting Department, BB.

Foreign Exchange Reserves

11.30 The gross foreign exchange reserves held by BB comprises foreign exchanges, holdings of gold and Special Drawing Rights (SDR) with the IMF. At the beginning of FY17, foreign exchange reserves was 30.13 billion which grew steadily (10.89 percent) throughout the year and touched the mark of USD 33 billion on 21 June 2017 and reached at USD 33.41 billion at the end of FY17. BB applies its best efforts to ensure optimum return from forex reserve investment by diversifying the foreign asset portfolio in bonds (issued by sovereign, supranational and highly reputed foreign commercial banks), treasury bills and notes of US Government and in short term deposits with internationally reputed foreign commercial banks. BB also participates in Repo operation of New York Fed which attracts reasonable returns with very low level of risk. Apart from these, BB provides foreign currency support from reserves to exporters to bolster export through Export Development Fund (EDF). In addition, with the assistance of International Development Association (IDA), BB provides long term financing needs of the manufacturing sector of Bangladesh by a separate window named Long Term Financing Facility (LTTF).

Reserve Management Strategy

11.31 BB's reserve management strategy and operational procedures influence strongly in both the developments of domestic and international financial markets as well as various key aspects of the macroeconomic policy stances (such as- monetary policy framework, the exchange rate policy & regime, external debt position and geo-political scenario). Currently, reserve management operations are carried out following the Reserve Management Guidelines (RMG) approved by the Board of Directors of BB.

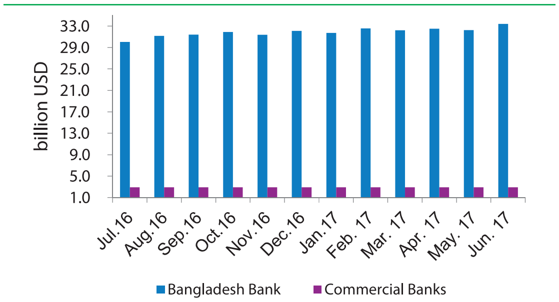
Table 11.6 Receipts and payments of Bangladesh under the ACU

(million USD)

Head of transaction	FY15	FY16	FY17	% change
1. Receipts (Export)	115.49 (8.99)	127.79 (10.02)	183.60 (14.80)	43.67
2. Payments (Import)	5748.87 (447.26)	5579.88 (437.46)	5996..92 (483.34)	7.47
Net: Surplus (+)/ Deficit (-)	-5633.38 (-438.28)	-5452.09 (-427.44)	-5813.32 (-468.55)	6.63

1 ACUD = 1 USD; 1 USD = 80.5988 BDT.
Note: Figures in parentheses indicate BDT in billion.

Chart 11.7 Movements of Liquid foreign exchange holdings abroad in FY17



Source: Bangladesh Bank.

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

(million SDR)

Facility	Outstanding Principal liabilities as of end June 2016	Amount Drawn/ purchased during FY17	Installment repayment in FY17	Outstanding Principal liabilities as of end June 2017
PRGF, June 2003	3.38	0.00	3.38	0.00
ECF , April 2012	639.96	0.00	0.00	639.96
Total :	643.33	0.00	3.38	639.96

Source: Forex Reserve and Treasury Management Department, BB.

Reserves are held to provide external stability, to ensure smooth payment obligations and to maintain stability of the domestic currency. To contain counterparty risks at minimum, BB has invested its reserves with a number of internationally reputed central and commercial banks having strong credit rating assigned by the international rating agencies (Standard and Poor's, Moody's & Fitch). With a view to minimizing exchange rate risk and ensuring the value of reserves, currency composition has been diversified among the major currencies and is being reviewed periodically to keep pace with developments in monetary and exchange rate policy of international arena. Reserves have been divided into two distinct tranches viz: liquidity and investment tranche to meet payment obligations of government and others by maintaining adequate liquidity as well as to achieve overall duration to generate optimum return.

11.32 Investment duration and currency benchmark, as set out in the RMG, are carefully followed to minimize interest rate and exchange rate risks, while reserve management and investment functions have been segregated among three independent reporting units viz., Front Office, Middle Office and Back Office to mitigate operational risks. However, in line with the stipulated liquidity restrictions and market & credit risk limits, BB diversified its portfolio investments into gold, Treasury bills, repos, short-term deposits, and high-rated sovereign, supranational, and corporate bonds. BB has always been maintaining a prudent and vigilant approach regarding placement of funds in reputed overseas commercial banks and investments in securities out of its foreign exchange reserves.

Transactions under the Asian Clearing Union (ACU)

11.33 Total transactions of Bangladesh under the Asian Clearing Union (ACU) during FY17 decreased in terms of net volume compared with the preceding year. Receipts significantly increased from ACUD 127.79 million (BDT 10.02 billion) to ACUD 183.60 million (BDT 14.80 billion) and import payments decreased from ACUD 5579.88 million (BDT 437.46 billion) to ACUD 5996.92 million (BDT 483.34 billion) with the ACU member countries during FY17. The ACU transaction scenario shows that the overall position of Bangladesh remained a net debtor during FY17. The debtor position of Bangladesh decreased by ACUD 361.23 million or 6.63 percent to ACUD 5813.32 million (BDT 468.55 billion) in FY17 compared to ACUD 5452.09 million (BDT 427.44 billion) in the preceding year. Receipts and payments of Bangladesh under ACU arrangement during the last three years are shown in Table 11.6.

Transactions with the IMF

11.34 The IMF Executive Board approved a three-year arrangement equivalent to a total of SDR 640.0 million for Bangladesh under the Extended Credit Facility (ECF) in April 2012. The IMF has released 6th installment (amount of SDR 182.85 million) of ECF in FY16 while the outstanding principal liabilities of ECF stood at SDR 639.96 million as on June 30, 2017. Under the PRGF loan facility, Bangladesh repaid the total outstanding amount and made the PRGF liability zero at the end of the FY17. The total principal outstanding liabilities to the IMF at the end of June 2017 stood at SDR 639.96 million and total service charges paid to the IMF during FY17 amounted to SDR 0.96 million (Table 11.7). At the end of FY17, IMF allocation of SDR stood at SDR 510.4 million and quota was SDR 1066.60 million. Holding of SDR with IMF at the end of FY17 was SDR 968.93 million.

Changes in Foreign Exchange Regulations

11.35 Bangladesh Bank in its ongoing endeavor to further ease the foreign exchange regulations embarked upon the following notable changes during FY17:

- **Release of foreign exchange to private sector participants for attending seminars, conference, workshops etc. abroad:** The limit of releasable foreign exchange to private sector participants for attending seminars, conferences, workshops, training, etc. abroad on per diem basis has been enhanced to USD 350 for SAARC member countries or Myanmar and USD 400 for other countries.

- **Payments through Asian Clearing Union (ACU): As the payment :** Channel for processing 'ACU Euro' transactions has been suspended by some correspondents, Authorised Dealers are advised to suspend operations in 'ACU Euro' temporarily. Accordingly, permission has been given to all eligible current account transactions in 'ACU Euro' to be settled outside the ACU mechanism until further notice.

- **Repatriation of export proceeds through Online Payment Gateway Service Providers:** The maximum limit per transaction of the repatriation of service export related payment through Online Payment Gateway Service Providers (OPGSPs) has been enhanced from USD 2000 to USD 5000.

- **Release of foreign exchange against cost of agent services of legal process under The USA PATRIOT Act of 2001:** Authorised Dealers can remit towards cost of agent services of legal process under the USA PATRIOT Act of 2001 to open a nostro account in the USA.

- **Facilitating establishment of Drawing Arrangement between the Exchange House abroad and the Bank operating in Bangladesh:** To facilitate the establishment of drawing arrangement between the exchange house abroad and the bank operating in Bangladesh, the minimum limit for security deposit to establish drawing arrangement by Electronic Fund Transfer (EFT) method has been decreased from USD 25000 to USD 10000 in foreign currency and from BDT 500,000 lakh to BDT 200,000 lakh.

- **Issuance of International Debit/ Prepaid Card against balances held in Foreign Currency Accounts of Export Processing Zones (EPZs) and Economic Zones (EZs) Enterprise:** In order to enhance the scope of business travel abroad by officials of enterprises located in EPZs and EZs, card issuing banks are allowed to issue International Debit/Prepaid card upto three (3) top tier officials of concerned enterprise against balances held in foreign currency accounts. EPZs and EZs enterprises can avail such card facility from one card issuing bank only.

- **Access of short term foreign currency borrowing by Type A industries in Export Processing Zones (EPZs)/ Economic Zones (EZs):** Type A industries in Export Processing Zones (EPZs)/

Economic Zones (EZs) are allowed to access short term foreign currency loans from parent companies/shareholders abroad and other Type A subsidiaries/ associates operating in EPZs/EZs.

- **Use of balances held in Exporter's Retention Quota Accounts:** In order to keep minimum involvement of Authorised Dealers (AD's) own fund for settlement of import, ADs maintaining Exporter's Retention Quota (ERQ) accounts are allowed to transfer fund from ERQ accounts to other ADs of same exporters or their subsidiaries/sister concerns for settlement of import payment. The transferable fund can be used only for the settlement of import payments.

- **Opening of Non-Resident Foreign Currency Deposit Accounts:** Non-resident Bangladesh nationals (NRBs), after their return to Bangladesh, are allowed to open Non-Resident Foreign Currency Deposit (NFCD) accounts with ADs to credit their retirement benefits, periodical pensions, superannuation benefits etc. as per employment agreement with employers while on service abroad. The balances held in the accounts can be used for settlement of legitimate payment abroad.

- **Remitting fee on account of medical check-up for migrant workers:** ADs are allowed to remit the fee to the Bank Account of the beneficiaries on account of registration fee for medical check-up services to migrant workers subject to production of invoices specifying details of the check-up by persons and deduction of applicable taxes.

- **Validity of Letter of Credit Authorization Form (LCAF):** To facilitate the remittances for import payment against expired LCAF which are restricted without obtaining its revalidation, ADs are allowed to effect remittances within 30 months of LCAF issuance against import of capital machinery without obtaining its revalidation. Revalidation of LCAF will not be required for remittances against import out of fund held in foreign currency accounts of importers maintained under general or special authorisation from Bangladesh Bank.

- **Re-conversion of unspent BDT into foreign exchange by foreign tourists:** In order to facilitate the re-conversion by foreign tourists, any licensed Money Changers (MC) whether it encashed earlier or not are allowed to reconvert the unspent Bangladesh BDT belonged to the tourist within the permissible limit.

- **Issuance of shares in favour of non-residents by debit to non-resident BDT accounts of overseas branches and correspondents:** Authorised Dealers maintain non-resident BDT accounts in the names of their overseas branches and correspondents against inward remittance in convertible foreign currencies are allowed to issue shares in favour the non-residents by debiting the non-resident BDT accounts. ADs will issue certificate in support of the payment from such account for purchase of shares in Bangladeshi companies.

- **Issuance of guarantee on behalf of non-residents in favour of residents in Bangladesh:** Authorised Dealer banks are allowed to issue guarantee, bid bond or performance bond in local currency against BDT equivalent on behalf of a non-resident firm/company favouring residents in Bangladesh provided a back to back foreign currency guarantee with suitable coverage for exchange rate fluctuation from counter guarantee issuing banks abroad.
- **Lending in BDT working capital loans to foreign owned/controlled companies in Bangladesh:** To widen the scope of BDT working capital loans for foreign owned/controlled companies operating in Bangladesh, resident persons/companies are allowed to purchase commercial papers (CPs) issued by such companies.
- **Foreign exchange transactions for IT/Software firms:** Besides, usage from the usual exporters' retention quota (ERQ), remittable limit of IT/Software firms to meet their bonafide expenses has been enhanced from USD 25000 to USD 30000 in a calendar year. Within the limit of USD 30000, the limit for payment through international cards has also been enhanced from USD 2500 to USD 6000.
- **Purchase by Bangladesh residents of BDT bonds issued by foreign owned/controlled companies in Bangladesh:** Individuals and institutions resident in Bangladesh are allowed to purchase BDT bonds issued with permission from the Bangladesh Securities and Exchange Commission by foreign owned/controlled companies in Bangladesh.
- **Repatriation of ICT related service income through international card:** Authorized Dealers (ADs) are permitted to issue and repatriate inward remittances against ICT related services through international card against the services provided by individual developers/ freelancers.
- **Use of balances held in exporter's retention quota (ERQ) accounts:** ADs are allowed to use balances held in ERQ accounts or by fund of unencumbered foreign currency transferred from ERQ accounts maintained with other ADs of the same borrowers on account of repayment of foreign loan. Such remittances may also be effective by nominated ADs out of fund transferred from ERQ accounts of borrowers' subsidiaries/sister concerns.
- **Release of foreign exchange for study abroad:** For study of Bangladeshi students, ADs are allowed to release foreign exchange in permissible courses abroad in favour of the designated intermediary payment processing entity provided. They can remit their fees, charges, etc. according to their designated entity.
- **Operations of BDT Accounts for enterprizes of Export Processing Zones (EPZs) and Economic Zones (EZs):** Besides, encashment from FC accounts, BDT accounts of Type B & Type C industrial units of EPZs are allowed

to be credited with authorised payment received in BDT. This clarification is also applicable for transactions in BDT accounts by Type B and Type C enterprizes of EZs.

Anti-money Laundering Surveillance

11.36 To achieve the financial stability in the modern economy, Money Laundering (ML) operations and financial crimes has become an important issue, due to the increasing instruments and vast activities of financial sector. Money Launderers attempt to conceal their real identity to financial sectors with their polished, articulated and disarming behaviour convert their dirty money into white money. Therefore, strong Anti Money Laundering and Combating the Financing of Terrorism (AML & CFT) measures prevent money launderers to abuse financial channels.

Being the national central agency and coordinator of all kinds of AML/CFT activities, Bangladesh Financial Intelligence Unit (BFIU) has taken a number of initiatives in order to prevent Money Laundering and combat against Terrorism Financing during FY17. Notable of them are mentioned below:

Reporting Agencies and their Regulatory Regime

- For all scheduled banks, BFIU has revised Uniform Account Opening Form that includes a new format for Know Your Customer (KYC), Transaction Profile, Customer's Risk Grading and Account Opening Form.
- BFIU has drafted Uniform Account Opening Form for all Insurance Companies which is going to be circulated within a short span of time.
- BFIU is in the process of revising its Master Circular (BFIU Circular No. 10) for banks incorporating some technical gaps mentioned in Mutual Evaluation Report (MER), 2016 of Asia Pacific Group on Money Laundering (APG).

Receiving and Dissemination of Suspicious Transaction Report (STR)

11.37 BFIU received 1655 Suspicious Transaction Reports (STRs) and 272 complaints during FY17. Out of those BFIU disseminated 282 to LEAs for further actions. BFIU has been monitoring the status of these cases from time to time.

National Initiatives

- BFIU along with all stakeholders conducted ML & TF risk assessment on Mobile Financial Services.
- BFIU with the technical assistance from World Bank conducted risk assessment on Financial Inclusion Product like School Banking, 10 BDT Farmer's Account and Account for Street Children.
- National Board of Revenue (NBR), Anti-Corruption Commission (ACC) and Ministry of Home Affairs (MoHA) have taken initiatives to formulate risk assessment of 'Smuggling and Trade Based ML', 'Corruption and Public Procurement' and 'TF including Foreign Terrorist Fighter' respectively with the help of BFIU as per recommendations mentioned in Bangladesh MER, 2016.

International Cooperation

- BFIU has signed 51 (till June, 2017) Memorandum of Understanding (MoU) so far to exchange of information related to ML/TF with FIUs of other countries, among them 8 (eight) MoU have been signed in FY17 (Surinam, Canada, Cyprus, Portugal, Finland, Egypt, Poland and Iceland).

- During FY17, BFIU has received 17 requests from the FIU of different countries and provided the information accordingly. BFIU also made 31 requests to the FIU of different countries.

Awareness Building Programmes

- Bangladesh Financial Intelligence Unit has continued its effort to create awareness among the officials of different reporting organisations. It has encouraged the banks to conduct a number of training programmes for their officials on AML/CFT in 56 districts and provided its support to make the programme successful.

- To encourage and provide its support to other reporting organisations, BFIU has organised Chief Anti Money Laundering Compliance Officers (CAMLCO) Conference for all banks, all financial institutions and Capital Market Intermediaries (CMI), regional conferences/ trainings for banks, joint training programmes for insurance companies and CMIs, and workshops/ trainings for law enforcement agencies (LEAs), regulators and other stakeholders in FY17.

Participation in different International and local conference/meeting/workshops

11.38 For prevention of money laundering (ML) and combating terrorist financing (TF) and proliferation financing (PF) BFIU, as the central agency of the country, has been maintaining continued engagement with all the international bodies such as APG, Egmont Group, FATF and BIMSTEC to boost international efforts in this arena. Bangladesh actively participated in various international initiatives undertaken by these organisations and other foreign FIUs in FY17. Furthermore, as the main coordinating agency for prevention of ML, TF and PF, BFIU actively participated in a number of local conference/ meeting/ workshops arranged by other government agencies.