

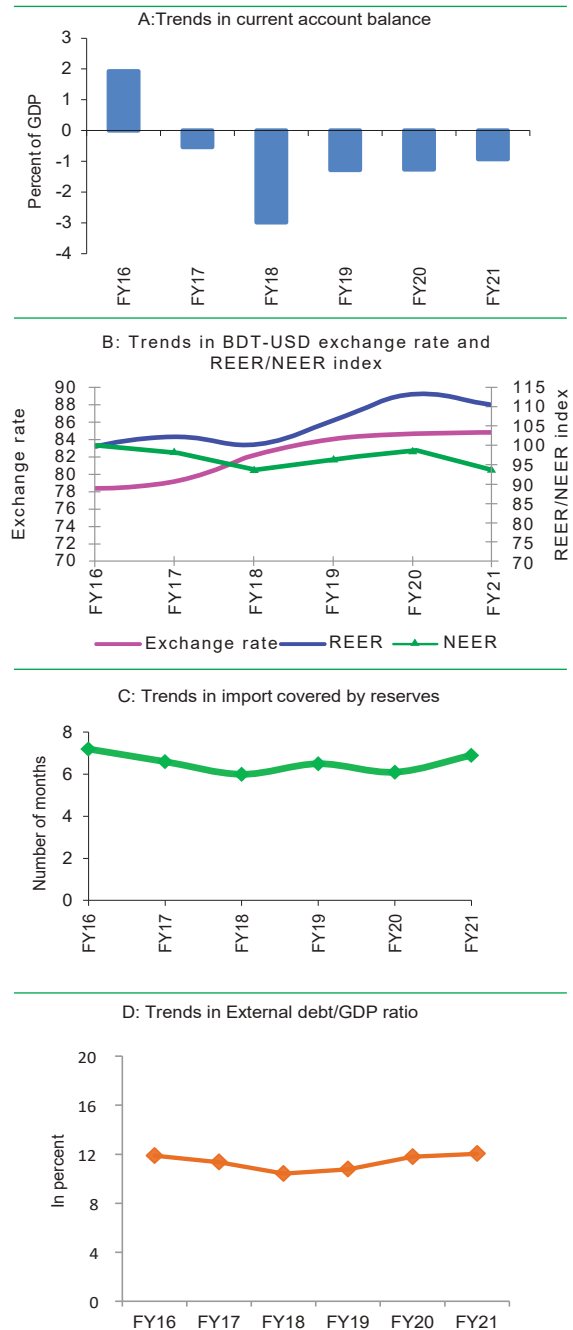
## External Sector Developments

### External Trade and the Balance of Payments

11.01 In FY21, the global economic activities rebounded from unprecedented halt created by the COVID-19 pandemic. With the implementation of massive vaccination drives especially in the advanced economies of the world and resumption of international trade and communication, the global trade volumes are projected by the World Bank to expand 9.7 percent in 2021, though emerging markets and developing economies are still struggling for desired recovery. In this backdrop, almost all the external sector accounts and indices in Bangladesh received significant impetus in FY21 mainly supported by prompt and effective policy measures taken by the government and Bangladesh Bank.

11.02 The current account deficit as a percentage of GDP stood at 1.1 in FY21 against 1.5 in FY20 (Chart 11.01: A). Nominal exchange rate marginally depreciated to BDT 84.81 as of end June 2021 from BDT 84.78 as of end June 2020. The nominal effective exchange rate (NEER) index of BDT, calculated against a trade weighted 15-currency basket (Base: FY16=100), declined by 4.85 percent in FY21. Similarly, the real effective exchange rate (REER) index of BDT also declined by 2.73 percent in FY21 (Chart 11.01: B). The declining trends of the NEER and REER indices signify that BDT faced some-what appreciation pressure in FY21, though the elevated stance of the REER index from the base level suggests that BDT was appreciated as compared to its trade weighted basket of currencies. In order for

**Chart 11.01 Key Indicators of External Sectors**



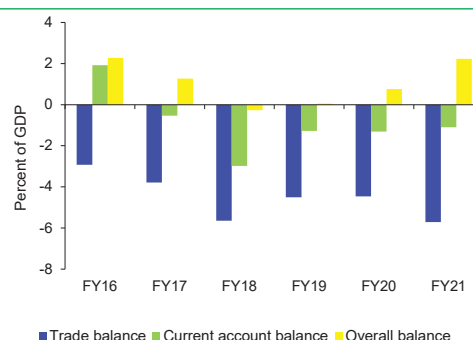
Source: Statistics Department, Bangladesh Bank.

maintaining stability in exchange rate, BB net purchased a significant amount of USD from the interbank foreign exchange market in FY21. As a result, BB's foreign exchange reserves increased to USD 46.39 billion at the end of June 2021 from USD 36.04 billion at the end of June 2020, which was broadly adequate at around 7 months of Bangladesh's prospective imports (Chart 11.01: C). Outstanding external debt stock of Bangladesh also slightly increased at the end of FY21 reaching at 12.04 percent of GDP in FY21 from 11.79 percent in FY20 (Chart 11.01: D).

### Balance of Payments

11.03 The current account deficit narrowed in FY21, supported by the secondary income mainly from the strong growth in workers' remittances. The trade deficit increased by 28.05 percent in FY21 owing to high growth in import payments relative to the growth in export earnings which was culminated by widening of the trade deficit from USD 18569 million in FY20 to USD 23778 million in FY21. The deficit in both service and primary income accounts increased to USD 3002 million (16.45 percent) and USD 3172 million (3.32 percent) respectively in FY21. However, the secondary income increased significantly by 35.11 percent to USD 25377 million in FY21 from USD 18782 million in FY20, due to dramatic increase in private transfers mostly in workers' remittance inflows. As a result, the deficit of current account declined to USD 4575 million in FY21 from USD 5435 million in FY20. The balance in the capital account decreased slightly to USD 221 million in FY21 from USD 256 million in FY20 while balance in financial account increased drastically to USD 13093 million in FY21 from USD 8654 million in FY20 due mainly to substantial amount of term loans

**Chart 11.02 Trends in Trade, Current Account and Overall Balances**



Source: Statistics Department, Bangladesh Bank.

received from the global development partner agencies. The net outcome of all of these made the overall balance a surplus of USD 9274 million in FY21 which was significantly higher than USD 3169 million surplus in FY20 (Table XVI of Appendix 3). The latest developments/trends in various external sector accounts of BoP including FDI, exports, imports and other relevant external sector issues are highlighted in the subsequent sections of this chapter.

11.04 Foreign direct investment (FDI) inflow, a major component of spurring growth in a developing economy like Bangladesh along with other development tools, may play a big role in transferring technology, creating employment opportunities, and transforming traditional skills into high-end technology. Realising this fact, the government of Bangladesh has given special emphasis in its 8th five-year plan for creating an investment-friendly environment through widespread infrastructure developments, including power, ICT and communication sectors. Although the inflow of FDI is still very negligible in amount, but it is noteworthy to mention that recently various sectors of our economy have shown some signs of receiving encouraging responses from the global

investors. As a result, the net FDI inflow increased significantly by 6.61 percent to USD 1355 million in FY21, though surprisingly net portfolio investment was outflowed by USD 269 million in FY21 while it was inflowed by USD 44 million in the preceding year (Table XVI of Appendix 3).

## Exports

11.05 Export performance by its nature is widely linked to the trade policy orientation of an economy. Bangladesh has always been following an outward oriented trade policy since after its independent in 1971. Export growth momentum was seriously impeded in the last financial year due to the pandemic situation and its containment measures taken both at home and abroad. However, almost all of the export items have experienced a strong growth in FY21. According to EPB figures in spite of existing COVID-19 scenario, total export earnings increased by 15.10 percent to USD 38758.31 million in FY21 from USD 33674.09 million in FY20 (Table 11.01). This improvement aided by different prudential role and policy measures taken by the government and Bangladesh Bank throughout FY21, some of which were: allowing moratorium facilities and extended time for realising export receipts and import payments, enhancing the export development fund (EDF), etc. Apparels (woven garments and knitwear products) continued to occupy an overwhelming (above four fifths) share of the total export earnings.

### Composition of Export Items

11.06 Woven and knitwear products, which jointly fetch about 81.16 percent of total export earnings, registered an increase in receipts from USD 27949.19 million in FY20 to USD 31456.73 million in FY21. Export receipts of

**Table 11.01 The Composition of Top 10 Merchandise Exports**

Items	(In million USD)		
	FY20	FY21	% Changes in FY21
1. Knitwear products	13908.00	16960.03	21.94
2. Woven garments	14041.19	14496.70	3.24
3. Home textiles	758.91	1132.03	49.16
4. Agricultural products	862.06	1028.10	19.26
5. Jute goods (Excluding carpets)	752.46	1023.33	35.99
6. Footwear (Including leather footwear)	755.88	914.34	20.96
7. Engineering products	292.92	529.00	80.60
8. Frozen shrimps and fish	407.94	444.41	8.94
9. Leather and leather products (Other than leather footwear)	318.86	371.79	16.59
10. Chemical products	198.86	280.58	41.09
11. Others	1377.01	1578.00	14.60
<b>Total</b>	<b>33674.09</b>	<b>38758.31</b>	<b>15.10</b>

Source: Export Promotion Bureau.

these two sectors grew by 3.24 and 21.94 percent respectively in FY21. From the item-wise composition of merchandise exports, it is observed that almost all the export items received higher earnings in FY21 than that of FY20. Although, woven and knitwear products played a dominant role in the total exports, but the items like engineering products (80.60 percent growth), chemical products (41.09 percent growth), jute goods (35.99 percent growth), footwear (20.98 percent growth), leather and leather products (16.59 percent growth) emerged as fast-growing merchandise export items in FY21. The composition of top 10 merchandise export items which covers around 96 percent of total exports are given in Table 11.01. An extended composition of item-wise merchandise exports is also given at Table XVII of Appendix 3.

### Destination of Exports

11.07 Considering the percentage shares of Bangladesh's total exports to various regions of the world, it has been observed that our exports shares to the NAFTA, SAARC, ASEAN and other regions increased while it decreased to

the EU region in FY21. In FY21, 45.06 percent (55.5 percent in FY20) of exports were destined for the EU area while 21.44 percent (20.8 percent in FY20) entered into the NAFTA bloc. Total exports shares to the SAARC, ASEAN and other regions were 3.87, 1.84 and 27.78 percent respectively in FY21 (Chart 11.03).

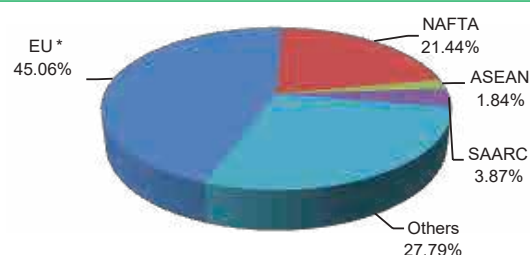
### Export Development Fund (EDF)

11.08 In order to facilitate exports of the country, Bangladesh Bank enhanced the volume of the export development fund (EDF) from time to time. To overcome the COVID-19 related disruptions in export business, Bangladesh Bank has enhanced the fund to USD 6.00 billion from USD 5.50 billion on 24 June 2021.

11.09 In order for recovering the loss of export disruptions due to the devastation of the second wave of the COVID-19 pandemic, a number of policy support, measures and incentive packages have been declared by Bangladesh Bank and the government and an important policy support is lowering the EDF interest rate to 2 percent from USD LIBOR+1.5 percent. Apart from these, a new window has been opened for settlement of import payments against back-to-back L/Cs under supplier's/buyer's credit for which extension of usance period/refinancing for extendable tenure is not available. The refinancing period under such credit is maximum 180 days.

11.10 In general, the reimbursement from the EDF is initially made for a tenor of 180 days with a provision for further extension up to 90 days, if requires for delay in repatriation of related export proceeds of the exporter concerned. But for pandemic situation it has been allowed to extend up to 360 days from the initial disbursement.

**Chart 11.03 Destination Pattern of Total Exports Shares (%) in FY21**



\* Including Great Britain.

Source: Export Promotion Bureau and Statistics Department, Bangladesh Bank.

**Table 11.02 Composition of Merchandise Import Payments** (Based on customs records)

Items	FY20 <sup>R</sup>	FY21 <sup>P</sup>	(Million USD)
			% changes in FY21
<b>A. Food grains</b>	<b>1672.05</b>	<b>2680.43</b>	<b>60.31</b>
1. Rice	21.51	850.87	3855.70
2. Wheat	1650.54	1829.56	10.85
<b>B. Consumer goods</b>	<b>3705.11</b>	<b>4155.59</b>	<b>12.16</b>
1. Milk & cream	341.19	344.09	0.85
2. Spices	351.05	404.38	15.19
3. Edible oil	1617.28	1926.38	19.11
4. Pulses (all sorts)	662.21	681.03	2.84
5. Sugar	733.38	799.71	9.04
<b>C. Intermediate goods</b>	<b>31912.47</b>	<b>38306.84</b>	<b>20.04</b>
<b>I) Petroleum goods</b>	<b>5357.48</b>	<b>8985.10</b>	<b>67.71</b>
1. Crude petroleum	730.86	2616.37	257.99
2. POL	4626.62	6368.73	37.65
<b>II) RMG related goods</b>	<b>13024.54</b>	<b>14069.27</b>	<b>8.02</b>
1. Raw cotton	2960.59	3186.02	7.61
2. Yarn	1900.95	2435.90	28.14
3. Textile & articles thereof	6380.19	6552.99	2.71
4. Staple fibre	1085.50	1039.48	-4.24
5. Dyeing and tanning materials	697.31	854.88	22.60
<b>III) Other intermediate goods</b>	<b>13530.45</b>	<b>15252.47</b>	<b>12.73</b>
1. Clinker	878.57	1048.16	19.30
2. Oil seeds	1182.68	1406.07	18.89
3. Chemicals	2533.35	2973.74	17.38
4. Pharmaceutical products	293.83	363.05	23.56
5. Fertilizer	1035.24	1360.42	31.41
6. Plastics & rubber articles thereof	2609.80	3168.11	21.39
7. Iron, steel & other base metals	4996.98	4932.92	-1.28
<b>D. Capital goods</b>	<b>11108.86</b>	<b>13011.94</b>	<b>17.13</b>
1. Capital machinery	3581.31	3824.47	6.79
2. Other capital goods	7527.55	9187.47	22.05
<b>E. Others</b>	<b>6386.20</b>	<b>7439.91</b>	<b>16.50</b>
<b>Total Import (cif)</b>	<b>54784.69</b>	<b>65594.71</b>	<b>19.73</b>
<b>Total Import (fob)</b>	<b>50690.40</b>	<b>60681.10</b>	<b>19.71</b>
Of which: EPZ	3487.70	3488.58	0.03

<sup>P</sup> Provisional

Source: Compiled by Statistics Department, Bangladesh Bank using data of National Board of Revenue.

11.11 The total disbursement from EDF, on revolving basis stood at USD 9.29 billion in FY21 which was USD 6.18 billion in FY20. The outstanding balance at the end of June 2021 stood at USD 5.86 billion which was USD 4.45 billion in the previous year. A total of 56 banks are now availing EDF refinancing facilities and total number of borrowers was 1380 at the end of June 2021.

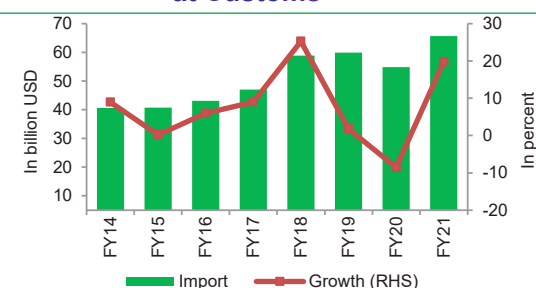
### Imports

11.12 In spite of the global pandemic situation of COVID-19, total imports (fob) experienced a sharp increase by 19.71 percent to USD 60681.10 million in FY21 from the USD 50690.40 million in FY20. Import of food grains experienced a high growth due mainly to an exceedingly high growth of rice import in FY21. Similarly, import payment for petroleum goods increased sharply in FY21 due mainly to escalation of crude petroleum price in the global market. Import payments for almost all the other items also substantially increased in FY21 excepting very few items such as staple fibre and iron, steel and other base metal where the import payments declined by 4.24 percent and 1.28 percent respectively. The composition of item-wise import payments and their percentage changes during FY21 are given at Table 11.02.

### Terms of Trade

11.13 The terms of trade exhibits the relative price of exports in terms of imports. The terms of trade stood at 84.87 in FY21 which was 86.38 in FY20. The export price index and the import price index grew by 3.23 percent and 5.06 percent respectively during the reported financial year (Table 11.03). The faster growth of the import price index relative to the export price index indicates that the price of the import

**Chart 11.04 Trends of Imports Recorded at Customs**



Source: Compiled by Statistics Department, Bangladesh Bank using data of National Board of Revenue.

**Table 11.03 Trends in Terms of Trade of Bangladesh**

(Base: FY06=100)

Year	Export price index	Import price index	Commodity terms of trade
FY09	125.13	140.35	89.16
FY10	132.64	148.32	89.43
FY11	146.41	166.51	87.93
FY12	151.71	176.44	85.98
FY13	163.04	189.62	85.98
FY14	172.09	200.37	85.89
FY15	182.40	212.37	85.89
FY16	195.95	224.94	87.11
FY17	206.61	237.18	87.11
FY18	214.31	246.03	87.11
FY19	225.95	259.38	87.11
FY20	232.98	269.73	86.38
FY21	240.50	283.38	84.87

Source: Bangladesh Bureau of Statistics.

items has grown faster than the price of the export items which also indicates that the terms of trade was not favourable for Bangladesh in FY21.

### Workers' Remittances

11.14 The overall balance of payment in FY21 witnessed a healthy surplus, supported by a relatively low current account deficit due mainly to record high inward remittances from the Bangladeshi nationals working in abroad. Remittance receipts increased by 36.10 percent to USD 24777.71 million in FY21 from USD 18205.01 million in FY20.

11.15 The stronger inflows in the wage earners' remittances in FY21 was the result of government's supportive policy measures like sending remittances through formal banking

channels and preventing the informal channels by allowing 2.0 percent incentives to the beneficiaries of the overseas wage earners' along with the BB's initiatives of time and cost-effective money transfer process. To facilitate the formal channel, Bangladesh Bank reduced the security deposit requirement for the exchange houses abroad to establish drawing arrangements with local banks.

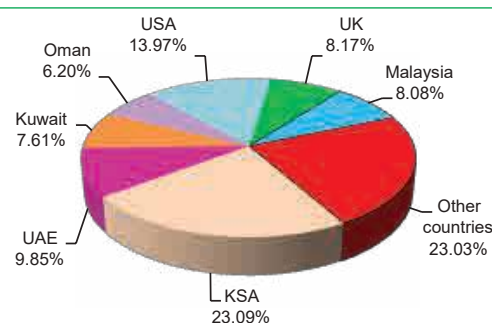
11.16 During FY21, as usually the highest share of total remittances was sent from Saudi Arabia (23.09 percent of total amount) followed by the United States of America (13.97 percent), United Arab Emirates (UAE) (9.85 percent), United Kingdom (8.17 percent), Malaysia (8.08 percent), Kuwait (7.61 percent), and Oman (6.20 percent). All other countries contributed to 23.03 percent of total remittances in FY21. Country-wise percentage shares of total wage earners' remittances in FY21 are shown in Chart 11.05.

### Foreign Aid

11.17 Total official foreign aid receipts decreased by 2.30 percent and stood at USD 7212.13 million in FY21 from USD 7381.71 million in FY20 (Table 11.04). During FY21, total foreign aid commitment was USD 9349.90 million. There was no food aid disbursement in FY21 against the disbursement of USD 10.71 million in FY20. The disbursement of project aid stood at USD 7212.13 million in FY21 which was USD 7371.00 million in FY20.

11.18 Total outstanding official external debt as of 30 June 2021 stood at USD 49457.66 million (12.04 percent of GDP in FY21) against USD 44095.12 million as of 30 June 2020 (11.79 percent of GDP in FY20). Repayment of official external debt and services amounted to USD 1914.81 million (excluding IMF credits,

**Chart 11.05 Country-wise Shares (%) of Total Wage Earners' Remittances in FY21**



Source: Statistics Department, Bangladesh Bank.

**Table 11.04 Foreign Aid Receipts and Debt Repayments\***

Particulars	(In million USD)		
	FY19	FY20 <sup>R</sup>	FY21 <sup>P</sup>
<b>1. Receipts</b>	6542.57	7381.71	7212.13
i) Food aid	22.61	10.71	0.00
ii) Project aid	6519.96	7371.00	7212.13
<b>2. Repayments (MLT)</b>	1593.78	1733.98	1914.81
i) Principal	1202.31	1256.54	1418.63
ii) Interest	391.47	477.44	496.18
3. Outstanding external debt (MLT) as of end June	37835.94	44095.12	49457.66
4. Outstanding debt as percentage of GDP	10.77	11.79	12.04
5. External debt services payment (MLT) as percentage of exports	4.02	5.28	5.05

Note: Debt outstanding is not equal to loan disbursed minus loan paid due to other adjustment such currency fluctuation, loan writes off etc.

\* Repayment does not include loan write-offs, IMF credits and some special borrowings by Ministry of Food, Bangladesh Shipping corporation, Bangladesh Biman, Bangladesh Petroleum Corporation, Defense and Private sector.  
<sup>P</sup> Provisional, <sup>R</sup> Revised.

Source: Economic Relations Division, Ministry of Finance.

loan write-offs and some special borrowings by Ministry of Food, Bangladesh Shipping Corporation, Bangladesh Biman, Bangladesh Petroleum Corporation, Defense and Private sectors) in FY21 which was USD 180.83 million or 10.43 percent higher than the repayment of USD 1733.98 million in FY20. Out of the total repayments, principal repayments amounted to USD 1418.63 million while interest payments stood at USD 496.18 million in FY21 against USD 1256.54 and USD 477.44 million respectively in FY20. The debt service payment as percentage of exports stood at 5.05 percent in FY21 which was 5.28 percent in FY20.

## Foreign Exchange Market Operations and Exchange Rate Movements

11.19 BB's foreign exchange management and operations were effective in maintaining the external competitiveness of BDT and ensuring stability in the interbank foreign exchange market throughout FY21. During FY21, BB sold USD 235 million in the local interbank market, while purchased USD 7937 million during the same period.

## Foreign Exchange Reserves

11.20 Foreign exchange reserves are maintained and managed by a country's regulatory body of the financial sector and are widely used to adjust temporary external imbalances. BB's gross foreign reserves comprise major currencies (G-7), gold and special drawing rights (SDR). At the beginning of FY21 foreign exchange reserves stood at USD 37.29 billion which reached to a historical high of USD 46.39 billion at the end of June 2021.

11.21 Total outstanding of principal liability to the IMF stood at SDR 1408.00 million whereas SDR holding was 693.43 million at the end of FY21.

11.22 The global currency markets always face the challenges of uncertainty due to fluctuations in the exchange rates as well as interest rates. So, diversification of foreign asset portfolio is required to avoid risk. Therefore, BB has diversified its foreign asset portfolio into bonds (issued by sovereign, supranational and highly rated foreign commercial banks), US government treasury bills and notes, and short-term deposits with globally reputed foreign commercial banks to ensure optimum return on foreign exchange

**Table 11.05 Trends of Gross Foreign Exchange Reserves of Bangladesh Bank**

(End month, in million USD)

Months	FY17	FY18	FY19	FY20	FY21
July	30225.89	33182.30	32105.45	32093.25	37288.43
August	31351.98	33786.28	32926.51	32775.77	39040.14
September	31573.24	33005.62	31957.74	31831.92	39313.98
October	32079.01	33640.95	32077.96	32437.74	41005.79
November	31551.95	32813.79	31056.04	31728.99	41269.22
December	32271.32	33416.97	32016.25	32689.18	43166.52
January	31905.56	32889.81	31279.69	32381.20	42862.52
February	32737.81	33563.38	32235.68	32986.51	44016.54
March	32397.58	32598.58	31753.29	32570.16	43440.79
April	32702.38	33094.27	32122.87	33111.06	44950.42
May	32430.68	32348.10	31344.79	33409.89	44960.52
June	33679.38	32943.46	32716.51	36037.03	46391.44

Source: Statistics Department, Bangladesh Bank.

**Table 11.06 Receipts and Payments of Bangladesh Under the ACU**

(In million USD)

Head of transaction	FY19	FY20	FY21	% Change in FY21
1. Receipts	193.54 (1635.37)	194.12 (1648.08)	246.18 (2088.42)	26.82%
2. Payments	7,042.90 (59512.52)	5,680.90 (48230.83)	8651.35 (73392.49)	52.29%
Net surplus (+)/	-6,849.36	-5,486.78	-8405.17	53.18%
Deficit (-)	(-57,877.15)	(-46,582.75)	(-71304.07)	

1. Figures in parentheses indicate amount of Taka in crore.

2. Closing Weighted Average Exchange rate as of 30-06-2021 i.e. 1 ACU = 1 USD, USD/BDT = 84.8336

Source: Forex Reserve and Treasury Management Department, Bangladesh Bank.

**Table 11.07 Outstanding Principal Liabilities against the Facilities Received from the IMF**

(In million SDR)

Facilities	Amount drawn/purchased up to June 2021	Outstanding principal liabilities as of end June 2020	Installment Repayment in FY 21	Outstanding principal liabilities as of end June 2021
ECF	639.96	466.2563	109.7075	356.5488
RFI	355.53	Nil	Nil	355.53
RCF	177.77	Nil	Nil	177.77
Total	1173.26	466.2563	109.7075	889.8488

Source: Forex Reserve and Treasury Management Department, Bangladesh Bank.

reserve investments. BB is also active in the New York Fed's repo process which yields fair returns at a very low-risk rate. Moreover, BB offers foreign exchange refinance schemes to local exporters through the Export Development Fund (EDF) and the Green Transformation fund (GTF). In addition, with the assistance of the

International Development Association (IDA), BB provides long-term support to Bangladesh's manufacturing sector through a separate window called the long term financing facility (LTFF).

### Reserve Management Strategy

11.23 BB adopts its reserve management strategy based on some important elements of the policy framework like the monetary policy structure, the exchange rate policy and regime, the external debt situation, and the geopolitical scenario. Currently, the reserve management operations of BB are carried out following the reserve management guidelines (RMG) approved by the Board of Directors of BB. Generally, reserves are held to absorb external shocks, to ensure smooth payment obligations and to maintain the stability of the domestic currency. To contain counterparty risks at a minimum level, BB maintains current account with major central banks and invests in money market through commercial banks having strong credit ratings assigned by the international rating agencies (e.g. Standard and Poor, Moody and Fitch). Reserves have been divided into two tranches i.e., liquidity tranche and investment tranche to meet payment obligations of government and others by maintaining adequate liquidity and generate optimum returns. To minimise exchange rate risk and ensure the value of reserves, currency composition has been diversified among the major currencies and is being reviewed periodically to keep pace with the developments in the monetary and exchange rate policies around the world.

11.24 Investment duration and currency benchmark, as set out in the RMG, are carefully followed to minimise interest rate risks and

exchange rate risks, while reserve management and investment functions have been segregated among three independent reporting units viz., front office, middle office and back office to mitigate operational risks. However, in line with the stipulated liquidity restrictions, and market and credit risk limits, BB diversified its portfolio investments into gold, T-bills, repos, short-term deposits, and high-rated sovereign, supranational, and corporate bonds. BB has always been maintaining a prudent and vigilant approach regarding the placement of funds with reputed overseas commercial banks and investments in securities out of its foreign exchange reserves.

### Transactions under the Asian Clearing Union (ACU)

11.25 During FY21, transactions with Asian Clearing Union (ACU) member countries substantially increased in terms of net volume compared to the preceding year. Receipts increased from ACUD 194.12 million to ACUD 246.18 million and payments increased by 34.72 percent from ACUD 5,680.90 million to ACUD 8,651.35 million during the period. In ACU transaction scenario, the overall position of Bangladesh remained a net debtor during FY21. Transactions with ACU member countries during the last three years are shown in Table 11.06.

### Transactions with the IMF

11.26 After receiving full amount of SDR 639.96 million under the extended credit facility (ECF), the IMF Executive Board has approved an amount of SDR 355.53 million under the rapid financing instrument (RFI) and disbursed SDR 177.77 million under the rapid credit facility (RCF) on 29 May 2020 for Bangladesh. During FY21, the total amount of repayment of



ECF stood at SDR 109.7075 million. The total principal outstanding liability of ECF to the IMF stood at SDR 356.5488 million at the end of FY21 (Table 11.07). The service charge paid to the IMF amounting to SDR 3.2456 million in FY21. Total outstanding to the IMF stood at SDR 889.8488 million at the end of June 2021. After the 14th General Review of Quotas, Bangladesh's quota in the IMF stood at SDR 1066.6 million with effect from 26 February 2016 and remained unchanged till FY21.

### Major changes in foreign exchange regulations

11.27 During FY21, in order to mitigate the impact of COVID-19 pandemic on foreign exchange, Bangladesh Bank in its ongoing endeavor to further ease the foreign exchange regulations embarked upon the following notable circulars:

- **Export subsidy/cash incentive for the FY21:** Government issued a circular to continue incentive favoring different items of shipping goods for FY21 to foster the export growth of the country.
- **Use of international cards for travels outside Bangladesh:** International cards may be used for online purchase of air tickets by cardholders having visa, where applicable, for traveling of such destinations outside Bangladesh as per circular declared by BB.
- **Repatriation of royalty, technical know-how and technical assistance of industrial enterprises in domestic processing areas (DPAs) of economic zones (EZs):** Authorised dealers may, on behalf of industrial

enterprises in DPAs of EZs, effect outward remittance on account of royalty, technical know-how and technical assistance fees from Taka account subject to observance of some specific instructions.

- **Waiver of quarterly repayments against imports permissible under supplier's/buyer's credit:** To facilitate smooth settlement of imports payments, the exemption from quarterly installment repayments will apply for other permissible deferred payments imports.
- **Import of gold jewellery:** In view of the trade regulatory framework, now it has been declared that import of gold jewellery is to be executed by authorised gold dealers (AGDs) within the purview of the Gold Policy, 2018.
- **Collection of demurrage, detention, handling or equivalent charges by the foreign shipping lines/their agents for calculation of their remittable surplus:** It has now been declared that the above mentioned charges collected prior to FY18 shall be considered for calculation of surplus earnings subject to deduction of applicable taxes.
- **Relaxation of foreign exchange regulation for trade transactions-extended facilities:** Given the ongoing situation due to COVID-19 pandemic, the extended period for realisation of exports proceeds was allowed for all sectors, depending on the necessity, till 31 March 2021. It was declared to continue till 30 June 2021 for the following

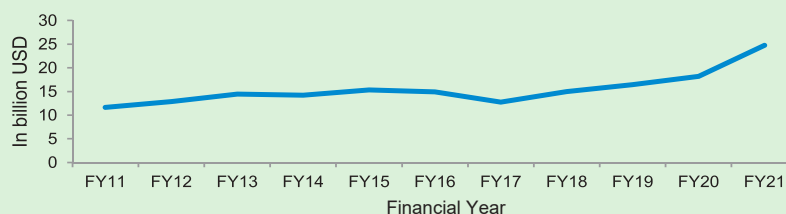
- counts: advance payment up to USD 500,000.00 or equivalent for import of COVID-19 related life-saving drugs, medical kits/equipment and other essential medical items, usance period up to 360 days instead of 180 days for input imports by industrial importers, usance periods up to 360 days instead of 180 days against imports of agricultural implements and chemical fertilisers for the same.
- **Remittance against current account transactions:** It has been declared to include other current account payments like audit fee, certification fee, commissioning fee, testing fee, valuation fee, etc. within the purview of Para 27, Chapter 10 of GFET-2018. These facilities shall equally be applicable to industrial enterprises operating in domestic processing areas of EZs having sales in BDT.
  - **Outward remittances on account of software maintenance/support fees:** ADs are accorded general authorisation to effect remittances, on account of software maintenance/support fees. Accordingly, ADs shall, no longer need to seek a first time approval from Bangladesh Bank subject to observance of some specific instructions.
  - **Import of ophthalmic medical equipment including intraocular Lens on deferred/usance basis:** To facilitate the imports of ophthalmic medical equipment including intraocular lens, the deferred/ usance period under supplier's/ buyer's credit is extended up to 180 days from existing 90 days.
  - **Business-to-consumer export through sales orders received on internet:** To bring wider scope for business-to-consumer export, ADs may allow such exports of each sale on e-commerce website up to USD 500 or equivalent under cash on delivery/payment on shipment terms subject to observance of some specific instructions.
  - **Transfer of remunerations to foreign currency (FC) accounts maintained by foreign nationals employed in Bangladesh:** To bring flexibility in executing transactions from FC accounts, it has been declared that up to 75 percent of net monthly income in equivalent foreign currency may be credited to FC accounts of the expatriate employees from BDT accounts and exporters' retention quota (ERQ) accounts of the employers.
  - **Advance payments against imports under buyer's credit:** Advance payments against permissible imports may also be executed directly by external financiers and/or offshore banking operation of scheduled banks; subject to repayment guarantees irrespective of amount acceptable to ADs receive from banks abroad and compliance of other relevant instruction.
  - **Endorsement of foreign exchange on passports:** Endorsement on passport is applicable against release of foreign exchange either in cash or in non-cash form like international cards, etc. both within eligible entitlement of travels. The endorsement is equally applicable for

- release of foreign exchange in cash irrespective of entitlement/source to persons other than those holding foreign passports.
- **Repatriation facilities by MFSPs to ITES (information technology enabled services) exporters:** To facilitate small value ITES exports, it has been declared to allow mobile financial service providers (MFSPs) licensed by Bangladesh Bank for repatriation of export proceeds in association with internationally recognised OPGSPs/digital wallets and/or aggregators having operation in multiple countries.
  - **Purchase of foreign currency from digital wallets of incoming tourists/passengers:** To facilitate the transaction for incoming tourists/passengers bringing money through digital wallets, it has been declared that ADs may provide acquiring services to facilitate their transaction while visiting Bangladesh subject to observance of several relevant conditions. ADs shall purchase foreign currency from wallets of incoming tourists/passengers by making payment in equivalent BDT in cash and/or one time issuance prepaid card in BDT.
  - **Outward remittance for payment of subscription fees for local distribution of satellite channel through DTH technology:** To facilitate the payment of receiving satellite channels through newly evolved DTH (direct to home) technology it has now been declared that Bangladesh Bank will also consider applications from ADs on behalf of their customers for remitting subscription fees abroad.
  - **Agency commission for handling vessels:** To bring rationalisation in line with mode of transportation, it has been declared to revise minimum agency commission as stated hereafter: (a) export on CFR or similar terms–2.50 percent on total transportation charges; (b) export on FoB or similar terms–5.00 percent on total transportation charges; (c) import on CFR or similar terms–5.00 percent on total transportation charges; (d) import on FoB or similar terms–2.50 percent on total transportation charges.
  - **Issuance of letters of credit (LCs) with realisation clause:** ADs may continue to issue back to back LCs/usance LCs with realisation clause for input procurements on behalf of exporters, subject to compliance with the instructions contained in FE circular letter (No. 22/2020).
  - **Settlement of payment against admissible inland transactions in foreign exchange:** Given the ongoing situation, it has been declared that ADs may continue settlement of payments through their nostro accounts against the eligible inland foreign exchange transactions.
  - **Transfer of bank officials involved in foreign exchange transaction reporting:** It has been declared to extend the eligible time for transfer of bank officials involved in foreign exchange transaction reporting from 3 to 5 years.

### Box 11.01 Recent Steps towards Encouraging Inflow of Wage Earners' Remittances in Bangladesh

Bangladesh economy has been enjoying an outstanding growth of inward remittances especially since after the FY17. In spite of globally outrage of COVID-19, Bangladesh earned its highest ever remittances in FY21 (Chart A) which was enormously helpful in reducing current account deficit and achieving huge surplus in overall BoP.

Chart A : Trends in Inflow of Wage Earners' Remittances during FY11-FY21



A series of recent concerted and comprehensive steps undertaken by the Government of Bangladesh (GoB) and Bangladesh Bank (BB) played an instrumental role in achieving this phenomenal growth. The noteworthy key initiatives recently taken by the GoB and BB are highlighted below.

#### Cash incentive on wage earners' remittances sent through legal channels

On 06 August 2019, the government of Bangladesh issued a circular announcing 2 percent cash incentive on wage earners' remittances sent through legal channels, which became effective from 01 July 2019. Initially, it was decided that wage earners' remittances not more than USD 1500 or BDT 0.15 million will instantly get the cash incentive. For any amount more than USD 1500 or BDT 0.15 million, incentive will be provided after verification of the required documents. Later on it has been decided that any remittance amount not exceeding BDT 0.5 million or USD 5000 will instantly get the cash incentive. The Foreign Exchange Policy Department (FEPD) of BB issued required operational guidelines and circulars regarding cash incentives. BB has been monitoring, supervising and maintaining required communication with the Ministry of Finance of GoB for this purpose.

#### CIP award for the highest foreign currency remitters

The GoB issued 'Commercially Important Person (Non-resident Bangladeshi) Selection Guidelines, 2018' to recognise the contribution of non-resident Bangladeshi nationals to the national economy and foreign currency reserves. Accordingly, every year a number of non-resident Bangladeshi nationals have been received CIP status from the GoB depending on their highest contribution of sending remittances through valid channels. This recognition is also an influential factor of recent increasing inflow of remittances to Bangladesh.

#### Increasing the number of drawing arrangements

The Foreign Exchange Policy Department (FEPD) of Bangladesh Bank has been working relentlessly to ease the procedures of drawing arrangements of foreign currency. As a result, until June 2021 the scheduled banks of Bangladesh have established 1462 drawing arrangements with the foreign banks and exchange houses for easing the remittances sending process to Bangladesh by the non-resident Bangladeshi working across the world.

#### Establishment of exchange houses abroad owned by Bangladeshi banks

In addition to establishing drawing arrangements by the Bangladeshi banks, a number of local banks have set up their own exchange houses abroad specially in the areas where the Bangladeshi workers are concentrated. At the end of June 2021, there were 26 exchange houses operating abroad owned by Bangladeshi banks.

**Box 11.01 (Continued)****Extension of remittance disbursement channels**

Besides, the conventional cash and account credit systems, BB has taken numerous steps for broadening the remittance disbursement channels. In addition to expansion of traditional remittance distribution through banking and agent banking channels, microfinance institutions (MFIs) have been allowed to distribute remittances especially in the remote rural areas of the country where banking services have not yet reached. Currently, 21 microfinance institutions along with their numerous branches are working as remittance disbursement points across the country.

**Setting up a time limit for disbursement of remittances at the beneficiary level**

In order to making a compulsion of timely distribution of inward remittances, to its intended beneficiary, the maximum time limit has been set at two working days by BB which has to be complied by banks and all other alternative remittance distribution channels. This step has become helpful for enhancing the wage earners' trust on sending their hard-earned money through the formal channels.

**Investment facilities for NRBs**

Bangladesh Bank, after consultation with the government of Bangladesh, has created various investment instruments and opportunities for the NRBs. The investment instruments and opportunities created for them are:

1. Wage Earners' Development Bond,
2. US Dollar Investment Bond;
3. US Dollar Premium Bond;
4. Allowing NRBs to open a 'Non-Resident Investor's Taka Account (NITA)' for trading in the stock market; and
5. BB facilitates having reservation of 10 percent of shares for the NRBs to invest in the IPOs.

**Bangladesh Bank Remittance Award**

BB introduced remittance award in 2013 to recognise the outstanding contribution to the country's inward remittances under following categories:

1. The highest remitter of foreign currency among general service holders,
2. The highest remitter of foreign currency among specialized service holders;
3. The highest remitter of foreign currency among business personnel;
4. The highest remitter of foreign currency among exchange houses owned by Bangladeshi banks; and
5. The highest remittance receiving scheduled bank operating in Bangladesh.

**Encouraging FinTech-based IMTOs to apply for drawing arrangements**

BB considers that FinTech-based IMTOs may not only reduce the costs associated with sending remittances but may also encourage sending remittances through legal channels. Therefore, BB has currently been encouraging local banks establishing drawing arrangements with FinTech-based International Money Transfer Operators (IMTOs). Recently, a number of FinTech-based IMTOs, namely Terra Payment Services, Trans-Fast, Digital Wallet Corporation, Pyypl-Payment Card for Everyone, etc., have been given permission to send remittances in Bangladesh.

**House-building finance facility for NRBs working abroad**

In order to enhancing the housing finance facility for the NRBs working abroad, BB has instructed all banks and financial institutions to create a credit line for their borrowing. Currently, NRBs may avail the housing finance facility at a maximum debt-equity ratio of 75:25.

All the aforementioned policies and initiatives helped in enhancing inflow of wage earners' remittances in Bangladesh in recent years.

- **Payment of royalty, fees for technical knowledge or technical assistance and franchise fees to foreign persons or institutes:** ADs shall observe the instructions of the GFET 2018 and latest guidelines of BIDA in case of payment of royalty, fees for technical knowledge or technical assistance and franchise fees to foreign persons or institutes.
- **Use of international remittance cards as alternative payment channel for permissible remittances:** To facilitate transactions, it has been declared that ADs may use international card channels as alternative to traditional banking channel to affect outward remittances on behalf of customers for permissible payments in accordance with GFET and its subsequent circulars.
- **Indicative cost for access to short term permissible trade finance in foreign exchange:** To bring flexibility in a wider scope for short term export financing in foreign currency at post shipment stages, it has been declared that: (a) besides LIBOR, alternative reference/benchmark rate in the currency of financing, declared by competent bodies, may be applied with prescribed mark up of 3.50 percent per annum for discounting/early payment of export bills; (b) the tenure like 1-month, 3-month and so on will be flexible, depending on the credit period for financing; (c) in absence of tenure-linked rate, the relative rate applied as reference/benchmark rate for financing usance/credit export bills in the form of discounting/early payment including payment guarantee may be compounded in advance to calculate effective interest for the specified tenure. In case of Islamic *Shariah*-based financing, globally recognised reference/benchmark rate should be applied instead of traditional one, with the prescribed mark up.
- In addition to the aforesaid major changes in foreign exchange regulations, a highlight on 'major policy announcements/ guidelines/ circulars related to external sector development is also given in Section C at Appendix 1.

#### Anti-money Laundering Surveillance

11.28 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 financing of terrorism and proliferation in FY21. Notable initiatives are mentioned below:

#### Reporting Agencies and their Regulatory Regime

11.29 BFIU has instructed (via letter no. BFIU (Policy-2)-5/2021-394 dated 10 February 2021) all the scheduled banks not to establish relationship with Shell Bank to prevent trade based money laundering and take special precautions in this regard.

#### Receiving Suspicious Transaction Report (STR) and Dissemination for Action

11.30 BFIU received 5110 suspicious transaction reports and suspicious activity reports in FY21. After analyzing those, BFIU

forwarded 42 intelligence reports to the relevant law enforcement agencies (LEAs) for further actions.

### National Initiatives

11.31 To enhance cooperation and exchange of information relating to money laundering (ML), terrorist financing (TF) and proliferation financing (PF), BFIU signed memorandum of understanding (MoU) with the Insurance Development and Regulatory Authority (IDRA) on 31 March 2021.

### International Cooperation

- BFIU has signed Memorandum of Understanding (MoU) with the Financial Intelligence Unit (FIU) of United Arab Emirates (UAE) in FY21. With this MoU, BFIU has altogether signed 78 MoUs with the FIUs/ agencies of FIUs of different countries till June 2021.
- During FY21 BFIU received 22 (twenty two) requests from the foreign FIUs for ML, TF & PF related information and provided information accordingly. BFIU also made 191 (one hundred ninety one) requests to the FIUs/ agencies of FIUs of different countries and disseminated the received responses to the appropriate LEAs.

### Impart Domestic Training and Workshop

- BFIU in cooperation with United Nations Capital Development Fund (UNCDF) organised a Workshop on 'Enabling AML/CFT Compliance' in expanding agent banking for MSMEs and low income segments in March 2021 for the agent banking service provider banks of Bangladesh.

- To strengthen the AML/CFT compliance environment of correspondent banking relationship, BFIU organised a virtual meeting with the correspondent banking service providing banks/representative offices in Bangladesh on 14 December 2020.
- BFIU organised a coordination meeting with law enforcement agencies (LEAs) regarding money laundering offence investigation on 21 January 2021. Officials from Anti Corruption Commission, Criminal Investigation Department (CID) of Bangladesh Police, Customs Intelligence and Investigation Directorate (CIID), Central Intelligence Cell (CIC) of NBR and Department of Narcotics Control (DNC) participated in the meeting.
- BFIU provided required resource persons on 30 occasions while different relevant stakeholder organisations including Bangladesh Police, Department of Narcotics Control, National Security Intelligence, Bangladesh Securities and Exchange Commission organised for capacity building programmes on financial crime investigations.

### Participation in Different International and Local Conference/Meeting/Workshop

11.32 Bangladesh as a founder member of the Asia/Pacific Group (APG) on money laundering, the Financial Action Task Force (FATF) style regional body for Asia and the Pacific region, led the organisation as Co-Chair for the period 2018-2020. Other than APG, BFIU has been maintaining continued engagement with all the international bodies such as Egmont Group,

FATF, the Bay of Bengal Initiatives for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), United Nations Office on Drugs and Crime (UNODC), World Bank, International Monetary Fund (IMF), Asian Development Bank (ADB), US Department of Justice (USDOJ), etc. to boost international efforts in this arena. Delegates from Bangladesh participated in a number of international workshops/ seminars/ meetings undertaken by these organisations and other foreign FIUs in FY21.