INTERNSHIP REPORT

ON

“FOREIGN EXCHANGE & FOREIGN TRADE: PROBLEMS & PROSPECTS”

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Internship Report

On

“Foreign Exchange & Foreign Trade: Problems & Prospects”

Supervised by:

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Submitted By:

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Submission Date: 17 January, 2013.
Letters of transmittal

Date: 17 January, 2013

Rehana Fozia
Assistant Professor
Department of Business administration
Stamford University Bangladesh

Subject: Submission of Internship Report.

Dear Madam,
In order to your advice I have prepared Internship report on “Foreign Exchange & Foreign Trade: Problems & Prospects” an exploratory study on Islami Bank Bangladesh Limited (IBBL). It has been a great contentment for me to have the opportunity to apply my academic knowledge in practical field. Unless theory is not applied in reality, the theoretical knowledge is not worth nothing. The report has been prepared on the basis of the theoretical and practical learning from the Islami Bank Bangladesh Bank (IBBL).

I have tried my best to put careful effort for the preparation of this Report. Any shortcomings or flaw may arise as I am very much learner in this aspect. I shall wholeheartedly welcome any clarification and suggestion about any view and conception disseminated in this Report.

Sincerely Yours

Md. Alamgir Hossain
ID no: BBA 03912608
Major in Accounting
Department of Business Administration
Stamford University Bangladesh


**Letter of endorsement**

The Internship Report entitled *Foreign Exchange and Foreign Trade: Problems and Prospects* is submitted to the Office of Department of Business Administration, in partial fulfillment of the requirements for the degree of Bachelor of Business Administration, Major in Accounting and Faculty of Business Administration by **Md. Alamgir Hossain, ID# BBA-03912608**. The report may be accepted and may be presented to the Internship Defense Board for evaluation.

Academic supervisor

_________________________
(Signature)

Rehana Fowzia
Assistant Professor
Department of Business administration
Stamford University Bangladesh
**Student’s declaration**

I hereby announce that the extensive study entitled “**Foreign Exchange & Foreign Trade: Problems & Prospects**” (Conducted on behalf of Islami Bank Bangladesh Limited, Local Office branch) Prepared in partial accomplishment of the requirements for the award of the degree in Bachelor of Business Administration (BBA) From **Stamford University Bangladesh, Department of Business administration**.

Is my original work and not put forward for the award of the any other degree/fellowship Or other similar designation or accolade.

____________________
Md.Alamgir Hossain  
Student id: BBA 03912608.  
Department of Business administration,  
Stamford University Bangladesh
Acknowledgement

At first I would like to express our gratitude to my creator Almighty Allah (SWT) for giving me the great opportunity to do the internship report and finish it on time. Then I would like to thank to my internship supervisor Rehana Fowzia, Assistant Professor (Accounting) Department of Business administration, and Stamford University Bangladesh.

Time to time they have employed me practical work experience such as –Investment operation related work such as create investment, Disbursement procedure, Deal set fill up, various investment related law practices, Foreign exchange related work, Foreign remittance related work, General Banking related work. I also have to put our heartened feelings and gratitude for the kindness and assistance that was provided to me to complete on assigned report as on the topic “Foreign exchange and Foreign Trade: Problem and Prospects.” In preparing the proposed report I have taken also great assistance support and guidance from the Islami Bank Bangladesh Limited.

I express my hearty thanks to all the faculty members of Islami Bank Training and Research Academy (IBTRA) especially to Abu Taher Mohammad Saleh, Director General, (Training), Md. Hadayat Ullah, Director, (IBTRA) and from the branch Md. Najibur Rahman (EVP), General Banking, Sayed Sirajul Haque (SVP), General Banking. K.M. Monirul Alam Al-Mamun (SVP), Foreign Exchange. Md. Mahbub-Al-Alam (VP), Investment, Local office, Dhaka. &, all other faculty members as well as all the employees from top to bottom of IBTRA and IBBL, who gave me necessary information and excellent guidance to prepare this internship report.

I am very grateful to Muhammad Hossain Akhter (SPO), Md. Khurshid Alam (SO), Md. Jahurul Haq (SO), Md. Sajawar Hossain Meer (SO), Local office Branch, for their heartily co-operation to learn about different department of IBBL.
Executive summary

This report is prepared as requirement of the internship of BBA program of Stamford University Bangladesh. This report focuses two months working experiences in Local Office branch of Islami Bank Bangladesh Limited. This report will give a clear idea about Foreign Exchange and Foreign Trade: problems and prospects of IBBL as well as conventional Banks and also worldwide perspective.

Importance of banking system in country is increasing day by day. It is quite impossible for any country to develop in industrial and commercial sector without sound banking system in modern economic era.

Foreign exchange operation is one of the significant functions of the bank. It plays a vital role in overall economy of the country. Bank collects information from numerous sources relating to cost and revenue from foreign exchange operation through export, import, and foreign remittance. Foreign Exchange department of the banks earns their profit. Banks is the intermediary of all export, import, and remittance activities.

Globalization of national economies has given a boost to international trade. The seller and the buyer in an international trading transaction must agree for a product or its quality, price etc. enter into a sales contract, spelling out precisely shipping and delivery details, terms of payment, required documentation and other related issues including dispute settlement procedure and legal framework available.

The impact on trade transactions currency policies of the importing and exporting countries and risks associated with them, fraud possibilities in the transaction or in documents are also necessary. A country cannot long continue to have a deficit on foreign current account but a favorable balance of payments on current account may conceal a heavy adverse balance of payments with one individual country or group of countries.

Foreign Exchange Market allows currencies to be exchanged to facilitate international trade and financial transactions. After passing a lot of phases, present foreign exchange market has established and performing to benefit all the parties incorporated here. There are basically three players in the foreign exchange market of Bangladesh. Those are the Bangladesh Bank, authorized dealers, and customers. This paper discussed regarding the related issues of foreign exchange activities and its problem and prospects.
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Chapter-01

Introduction
1.1 ORIGIN OF REPORT:

Despite structural limitations in the Bangladesh economy, the export sector performed well throughout the 1990s. The export growth rate of Bangladesh was higher than that of the world and the SAARC countries. However, the balance of trade of Bangladesh was always in deficit and the trade deficit with India is huge. The export share of primary commodities has decreased while that of manufactured commodities has increased over the years. The growth rate of manufactured commodities is better than that of primary commodities. The import share of principal primary commodities has declined while that of principal industrial and capital goods has slightly increased over the past years. The striking features of Bangladesh’s exports are commodity and market concentration. To overcome the problem, there is no alternative but to diversify exports and improve quality. To improve the country’s overall trade balance, especially trade balance with India, some policy recommendations are offered in this paper.

1.2 BACKGROUND OF THE REPORT:

Practical orientation in different organization is the final term requirement of BBA and MBA degree. Hence we were selected for the Islamic Bank Bangladesh Limited (IBBL). As instructed by Md. Hedayet Ullah, Senior Principal Officer & Deputy Director (Training) assigned to work in Islamic Bank Bangladesh Limited, local office Branch. And since then we have started our practical orientation program in Foreign Exchange department. At the end of this Internship we have prepared this report titled “Foreign exchange and foreign trade: problems and prospects.

1.3 METHODOLOGY:

Both primary and secondary data are used here in this study for make the report fruitful. As my related topic is more narrative I have used the primary source as the main of information.

Primary sources of data

- Face to face conversation with the bank officers & staffs.
- Informal conversation with the clients.
Secondary sources of data

- Annual report of Islami Bank Bangladesh Ltd.
- Different papers/manuals of Islami Bank Bangladesh Ltd.
- Unpublished data.
- IBBL website.
- Bangladesh Bank Website.
- Export information bureau.
- Export and Import police (2009-2012)
- Foreign exchange policy (1947)
- Different books of Foreign Exchange.

1.4 SCOPE OF STUDY:

There are eight chapters in this report. The first chapter represents the origin, background, objective, methodology, scope, limitation of overall report. Then second chapter represents literature review and analysis of different report in this title. Third chapter explains theoretical framework of foreign exchange and foreign trade. Fourth chapter describes different functions of foreign exchange. Fifth chapter describes foreign exchange practice in Islami banking system and conventional banking system. In Sixth chapter, the total overview of foreign exchange has been explained. Then chapter Seven describes Findings and analysis and lastly chapter eight focuses Recommendations and conclusion.

1.5 LIMITATIONS:

Actually, the truth is that, the limitations of this report are well concrete. They have stated below:

- Time:

It was one of the major limitations of this report. Nevertheless, according to Parkinson’s Law: “Works tend to expand to fill the time available”. The subject matter of this report was so vast that despite of the time given, I have not included all the aspects of credit policy as I
expected earlier. However, I tried my best to present this report before the submission deadline.

➢ Inadequate Discussion:
As a newcomer to banking service, I have taken considerable time to understand this business. To make a solid report I felt the urgency of communication with high-level employees but in commercial bank time is money and there is no opportunity to make appointments with them. I believe, inadequate discussion is one of the limitations of the report.

➢ Restricted Disclosure:
The report will be very information worthy if I get the opportunity to make a comparative analysis of credit policy and default culture. Nevertheless, the fact is, most of the banks do not disclose consumer loan data in a separate heading in the annual report. Moreover, trend analysis of EBL consumer’s loan also lacks the historical data necessary to make a valid forecast. Most of the loans have launched in recent times.

➢ Lack of knowledge and experience:
Honestly, I agree that making a compliance study on foreign exchange policy procedure consumer requires a great deal of experience and current banking knowledge. As a BBA student, I do not possess that kind of knowledge and experience.
Chapter-02

Literature review
The Omnibus Trade and Competitiveness Act of 1988 (the "Act") requires the Secretary of the Treasury to provide semiannual reports on the international economic and exchange rate policies of the major trading partners of the United States. Under Section 3004 of the Act, the Report must consider "whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustment or gaining unfair competitive advantage in international trade." This Report covers developments in the second half of 2011, and where pertinent and available, data through mid-May 2012. Treasury has concluded that no major trading partner of the United States met the standards identified in Section 3004 of the Act during the period covered in the Report. The pace of annualized U.S. economic growth accelerated in the fourth quarter of 2011 to 3.0 percent, but moderated to 2.2 percent in the first quarter 2012. Private final domestic demand, however, increased at an annual rate of 2.7 percent in both the fourth and first quarters. Labor market conditions continue to improve; 4.25 million private sector jobs have been added since February 2010; and the unemployment rate has fallen to 8.1 percent, its lowest level in more than three years. Boosting growth, creating jobs, and putting public finances on a sustainable path are priorities of the Administration. The Administration's American Jobs Act proposal and the extension of payroll tax cuts and unemployment benefits are designed to provide support to the economy, while not jeopardizing longer-term efforts to rein in the federal budget deficit. The Administration's deficit reduction plan would cut the deficit to less than 3 percent of GDP by FY2018, and would put the debt-to-GDP ratio on a declining path for the remainder of the 10-year budget window. (Report to Congress on International Economic and Exchange Rate Policies, publication- May 25, 2012)

Strains from Europe's sovereign debt crisis and stresses in some European banking sectors weighed on confidence and economic activity. In addition, the rise in oil prices in the first half of 2011 weighed on the pace of growth in the latter half of 2011. In emerging markets, the effects of the policy tightening that was introduced in 2011 in response to concerns about inflation also reduced growth. In early 2012, the global environment improved as a result of efforts by central banks, such as the ECB’s long-term refinancing operations (LTRO) liquidity injection, and extended policy stimulus from the Federal Reserve, the Bank of Japan, and the Bank of England. In late April, tensions in the euro area sovereign debt market rose again and conditions worsened through mid-May. Risks to the outlook remain elevated. Conditions in Europe continue to pose a risk to the U.S. recovery. European first quarter GDP numbers showed a stabilization in activity across the euro area as a whole, but with marked divergence between the core countries, where output returned to modestly positive growth after a weak fourth quarter, and the periphery, which remained mired in recession. However, the latest high-frequency business surveys (e.g., Purchasing Managers Index (PMI)) indicate that, even in the core economies, growth momentum has begun to slow again. Amidst this deteriorating macro backdrop and ongoing political uncertainty in Greece, market pressures on Spain and Italy have renewed, pushing Spanish longer-term borrowing rates up close to the peaks achieved in the fourth quarter of 2011. While oil prices have moderated recently, the price of oil remains elevated. A reversal of the recent moderation remains a risk to the global outlook. (Foreign Exchange Settlement Risk Survey, Contributors: Rodgers, Andrew, Publication: The Reserve Bank of New Zealand Bulletin, Vol. 64, No. 4, December 2001) Global economic growth weakened in the second half of 2011. Global growth has also been hindered by insufficient demand rebalancing. There has been a significant reduction in current account surpluses and deficits. But as noted in the IMF’s April 2012 World Economic Outlook, this reflects in part a sharp drop in consumption relative to pre-crisis trends in countries with external deficits and the...
decline has not been offset by higher domestic demand growth in countries with external surpluses. The net result has been a decline in the pace of global demand growth relative to its pre-crisis trend, slowing the recovery. This report reviews the exchange rate policies of nine economies accounting for 70 percent of U.S. foreign trade. All of the major advanced economies have fully flexible exchange rates. Japan has not intervened since its unilateral operations last October/November. Among major emerging market economies, a select few, notably in East Asia, have more tightly managed exchange rates, with varying degrees of management. This Report highlights the need for greater exchange rate flexibility in these economies and particularly in China. (Foreign Exchange Volatility Is Priced in Equities Contributors: Guo, Hui Neely, Christopher J. Higbee, Jason. Publication: Financial, Management, Vol. 37, No. 4, 2008)

Over the past decade, China resisted very strong market pressures for RMB appreciation, reflected in the substantial accumulation of foreign currency reserves. Over that period, China's real effective exchange rate exhibited persistent and substantial undervaluation, although the extent of misalignment appears to have narrowed since the RMB resumed its appreciation against the U.S. dollar in June 2010. Significantly, China's current account surplus has fallen markedly over the past four years, from 9.1 percent of GDP in 2008 to 2.8 percent of GDP in 2011. Some of the reduction reflects weaker demand growth in China's major trading partners, the large impact of rising commodity prices on China's trade surplus and unsustainably high rates of domestic investment in China. However, some of the improvement reflects structural adjustments in the Chinese economy, continued wage increases in the manufacturing sector, and the effects of RMB appreciation. China is gradually allowing necessary external adjustments to take place, as indicated by the decline in China's current account surplus together with real appreciation of the RMB since June 2010 and China's steps to gradually open its capital account. Nevertheless, the underlying factors that distort China's economy and constrain global demand growth remain. China accumulated $373.1 billion in additional foreign exchange reserves in the first three quarters of 2011. Reserve accumulation slowed in the fourth quarter to $11.7 billion, but increased again to $74.8 billion in the first quarter of 2012. At the end of March 2012, China held $3.3 trillion in foreign reserves, equivalent to 45 percent of China's GDP in 2011.

From June 2010, when China moved off its peg against the dollar, through May 15, 2012, the RMB appreciated by a total of 8.0 percent against the dollar, and by 12.5 percent bilaterally on an inflation-adjusted basis. Since China initiated currency reform in July 2005, the RMB has appreciated 40 percent bilaterally against the dollar after adjusting for inflation. Nonetheless, in 2012, through May 15, the RMB has been virtually flat against the dollar. At the May 2012 U.S.-China Strategic and Economic Dialogue (S&ED), Chinese authorities stated that China will continue to enhance exchange rate flexibility, letting supply and demand play a more basic role, and re-iterated their determination to implement fully their G-20 commitments to move more rapidly to a market-determined exchange rate system and avoid persistent exchange rate misalignments. Recently, China widened the daily RMB trading band, a move that has the potential to increase exchange rate flexibility and adjustment if it is 4. Implemented in a way that allows the value of the exchange rate to better reflect market forces. China has also taken steps to liberalize its capital account, including by increasing the ability of portfolio investors to invest in Chinese assets and the ability to externally raise and use renminbi funds for investment in China. With the global economy continuing to face headwinds as it recovers from the financial crisis, it is important that China follow through on these commitments. Greater RMB flexibility would encourage increased exchange rate flexibility in other Asian economies and thus further promote a strong and
sustained global recovery. (Foreign Exchange Operations and the Federal Reserve Contributors: Broaddus, J. Alfred, Jr. Good friend, Marvin, Publication: Economic Quarterly - Federal Reserve Bank of Richmond, Vol. 82, No. 1, Winter 1996) Based on the appreciation of the RMB against the dollar since June 2010, the balance of payments adjustment evidenced in the decline in China's current account surplus, and China's commitments in the G-20 and S&ED that it will move more rapidly to a more market-determined exchange rate system, Treasury has concluded that the standards identified in Section 3004 of the Act during the period covered in this Report have not been met with respect to China. Nonetheless, the available evidence suggests the RMB remains significantly undervalued and we believe further appreciation of the RMB against the dollar and other major currencies is warranted. Treasury will continue to closely monitor the pace of RMB appreciation and press for policy changes that yield greater exchange rate flexibility, level the playing field, and support a pronounced and sustained shift to domestic-demand led growth.
Chapter-03

Theoretical framework of foreign exchange and foreign trade
Trade is an integral part of the total developmental effort and national growth of all economies including Bangladesh. It particularly plays a central role in the development plan of Bangladesh where foreign exchange scarcity constitutes a critical bottleneck. Export trade can largely meet ‘foreign exchange gap’, and export growth would increase the import capacity of the country that, in turn, would increase industrialization, as well as overall economic activities.

Bangladesh’s import needs are substantial; hence the need to rapidly increase exports is immediate. In order to finance the imports and also to reduce the country’s dependence on foreign aid, the Government of Bangladesh has been trying to enhance foreign exchange earnings through planned and increased exports. However, the global trade scenario has exposed structural limitations of the Bangladesh economy, posing a variety of challenges for the country that has underdeveloped technology and a low capital base.

In this paper we discuss the composition, performance and trends of foreign trade of Bangladesh. In the process, we examine Bangladesh’s export and import performance compared to those of various countries, regions and the world over the years. We also discuss the sources of Bangladesh’s imports and directions of Bangladesh’s exports and the dynamic changes over the years, and highlight the trends of export and import shares to GDP and trade balance positions with different countries, regions as well as the world. Trade policy reforms of Bangladesh and major issues, challenges and policy options are also discussed briefly.

3.1 History of Foreign exchange:

The 1990s gave us what might prove to be the two biggest changes in foreign exchange market structure since World War II: electronic brokers were introduced into the interbank market in 1992, and in the late 1990s the Internet became available as a trading channel for customers. What are the consequences for the market of these innovations? Is there any reason to believe that these technological developments have influenced the market in any significant way? Do not dealers in the foreign exchange market still fulfill their function as liquidity providers and aggregate information in their price setting? And, do not basic macroeconomic variables still drive exchange rates, irrespective of trading technology? In an ideal world with perfect information, these changes to the institutions of trading probably would not matter that much at the macroeconomic level. In such a world, exchange rates would be determined by expectations regarding macroeconomic fundamentals like inflation, productivity growth, and interest rates. Exchange rates will be efficient asset prices when all market participants observe these fundamentals and agree on how they influence exchange rates. Furthermore, provision of liquidity would be much less risky than in a situation with imperfect information. However, as empirical evidence has shown all too clearly, models of an ideal world with perfect information do not hold, at least not for horizons shorter than a year or so. The microstructure approach to foreign exchange has made some promising steps toward solving some of these puzzles (see Lyons, 2001a). This approach differs from the
traditional macroeconomic approach by allowing for imperfect information and heterogeneous agents and, thereby, leaving a role for trading institutions as such. In such a world, technological changes such as the introduction of electronic brokers and Internet trading may be significant because they change the structure of the market.

A different market structure changes the game played between the market participants. This may influence information aggregation capabilities and incentives for liquidity provision and, thereby, different aspects of market quality like efficiency (price discovery), liquidity, and transaction costs. We are interested in understanding market structure because a well-functioning foreign exchange market is important for the macro economy. This chapter considers the impact of technological advances on the foreign exchange market by focusing on these properties of market quality. The new economy and foreign exchange markets are a vast subject. We limit ourselves to the two major innovations in trading technology because trading institutions are an important part of a financial market’s structure. Furthermore, several studies show that trading is important for the determination of exchange rates. There is particular focus on a property of market structure called transparency, i.e., how much of the trading process market participants can observe. Because trading is an important determinant of exchange rates, observation of the trading process is important to enable dealers to set the “correct” exchange rates. On a more General level, transparency relates to how efficiently dealers can aggregate information. There are of course many other uses of information and communication technology (ICT) that have obviously influenced the markets that we do not address here. These include information providers such as Reuters and Bloomberg, computers’ calculation capabilities and the importance for option trading, and of course network technologies and computers in general. Two other technological innovations deserving special attention that we do not consider are the newly started settlement service CLS Bank (Continuous Linked Settlement), which went live on September 9, 2002, and the netting technology FXNet. The former links all participating countries’ payment systems for real-time settlement. With such a system in place in 1974, the famous Bankhaus Herstatt default would never had happened. FXNet is a technology for netting out gross liabilities. Both are very important for the handling of counterparty credit risk.

3.2 Foreign Trade:

Foreign trade is the exchange of capital, goods, and services across international borders or territories.[1] In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history (see Silk Road, Amber Road), its economic, social, and political importance has been on the rise in recent centuries.

Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is, in principle, not different from domestic trade as the motivation and the behavior of parties involved in a trade do not change fundamentally regardless of whether
trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture.

Another difference between domestic and international trade is that factors of production such as capital and labor are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labor or other factors of production. Trade in goods and services can serve as a substitute for trade in factors of production.

Instead of importing a factor of production, a country can import goods that make intensive use of that factor of production and thus embody it. An example is the import of labor-intensive goods by the United States from China. Instead of importing Chinese labor, the United States imports goods that were produced with Chinese labor. One report in 2010 suggested that international trade was increased when a country hosted a network of immigrants, but the trade effect was weakened when the immigrants became assimilated into their new country.

International trade is also a branch of economics, which, together with international finance, forms the larger branch of international economics.

### 3.3 Importance of Foreign Exchange:

The importance of foreign exchange is described in brief as under:

1. Foreign exchange reserves show the financial strength and the stage of development of the economy.
2. The acceptance of currency at a predetermined rate makes the international trade easy.
3. The foreign exchange ratio shows direct relationship between the prices of the commodities in the national and international market.
4. The foreign exchange balances of a country directly affect the rates of exchange. A hard currency nation has stability in foreign exchange rate.
5. The rising foreign exchange balances of a nation increases its credit worthless in the international capital market.
3.4 Role of central bank in case of Foreign Exchange:

Foreign investors are free to make investments in Bangladesh in the industrial enterprises except for a few reserved sectors.

An industrial venture may be set up in collaboration with local investors or may even be wholly owned by the foreign investors. Similarly, there is no restriction under the Foreign Exchange Regulations Act on the import of securities into Bangladesh. However, no securities can be exported or taken out of Bangladesh without general or special permission from Bangladesh Bank (the central bank).

Here are the foreign exchange regulations regarding foreign direct and portfolio investment issued by Bangladesh Bank.

- Convertibility of taka
- Foreign exchange guideline volume 1
- Foreign exchange guideline volume 2
- Policy for drawing arrangements
- FAQ in foreign exchange transactions
Chapter-04

Operations of foreign exchange
4.1 Definition of Foreign exchange:

The exchange of one currency for another or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around-the-clock.

According to Mr. H. E. Evitt. Foreign Exchange is that section of economic science which deals with the means and method by which right to wealth in one country's currency are converted into rights to wealth in terms of another country's currency. It involved the investigation of the method by which the currency of one country is exchanged for that of another, the causes which rented such exchange necessary the forms which exchange may take and the ratio or equivalent values at which such exchanges are affected. Foreign exchange is the rate of exchange in the both country's currency.

Foreign Trade and Foreign Exchange:

International trade refers to trade between the residents of two different countries.

Each country functions as a sovereign State with its set of regulations and currency. The difference in the national of the exporter and the importer presents certain peculiar problems in the conduct of international trade and settlement of the transactions arising there from. Important among such problems are:

- Different countries have different monetary units
- Restrictions imposed by countries on import and export of goods;
- Restrictions imposed by nations on payment from and into their countries;
- Differences in legal practices in different countries.
Foreign exchange means foreign currency and includes:

(i) All deposits, credits and balances payable in any foreign currency and any drafts, travelers cheques, letters of credit and bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency;

(ii) Any instrument payable, at the option of the drawee or holder thereof or any other party thereto. Either in Indian currency or in foreign currency or partly in one and partly in the other. Thus, foreign exchange includes foreign currency, balances kept abroad and instruments payable in foreign currency.

Activation Of Foreign Exchange Market:

Bangladesh Bank has taken the following steps to help stimulate/activate the interbank foreign exchange market:

1) Bangladesh Bank has stopped sales and purchases with ADs of any currency other than the US Dollar, to encourage interbank cross currency transactions.

2) To encourage inter-bank deals and to dissuade frequent recourse to transactions with the central bank, Bangladesh Bank has raised its transaction threshold to US$ 50,000 with values in multiples of US$ 10,000, for its deal with ADs. The exchange rates for the Bangladesh Bank’s spot purchase and sales transactions of US Dollars with ADs is decided on a case to case basis, Bangladesh Bank does not undertake any forward transaction with ADs. The ADs are free to quote their own spot and forward exchange rates for inter-bank transactions and for transactions with non-bank customers.

3) To provide greater flexibility in the foreign exchange transactions of ADs, Bangladesh Bank has abolished their foreign exchange holding limits; they are, however, required to be within the open position limits prescribed by Bangladesh Bank in respect of exposure to exchange rate fluctuation risk.

4) Bangladesh Foreign Exchange Dealers Association (BAFEDA) has been formed and a “Code of Conduct” for treasury operations and interbank foreign exchange market has been formulated.

5) ADs have been allowed to maintain with Bangladesh Bank FC Clearing Accounts in Euro, Japanese Yen, as well as US Dollar & Pound Sterling.
Convertibility On Trade Account:

Bangladesh Taka is fully convertible for settlements of trade related transactions. Import license is not required for import of items not in the control list. An importer has automatic access to foreign exchange for import of all items outside the control list, and also for import of control list items as per general or specific authorization of the office of the Chief Controller of Imports and Exports.

Declaration of Foreign Exchange on From FMJ:

Incoming passengers may bring in amount of foreign exchange with declaration on form FMJ at the time of arrival. No declaration is necessary for amounts up to US$ 3,000. For non-residents, the entire amount brought in with declaration, or up to US$ 3,000 brought in without declaration may be freely taken out at the time of departure. Up to US$ 3,000 brought in without declaration may also be retained and taken out freely by a person ordinarily resident in Bangladesh.

FOREIGN CURRENCY ACCOUNTS:

NFCD Accounts: Non-resident Foreign Currency Deposit (NFCD) accounts may now be maintained as long as the account holder’s desire. Amounts brought in by non-resident Bangladeshis can be deposited in foreign currency account any time after return to Bangladesh.

F.C Accounts of non-resident Bangladeshis: Foreign currency accounts opened in Bangladesh in the names of Bangladesh nationals or persons of Bangladesh origin working or self employed abroad can now be maintained as long as the account holders desire.

Accounts: Persons ordinarily resident in Bangladesh may maintain foreign currency accounts with foreign exchange brought in at the time of their return to Bangladesh from visits abroad. These accounts are termed as Resident Foreign Currency Deposit (RFCD) accounts. The amount brought in with declaration to customs authorities on form FMJ and up to US $ 5000 brought in without declaration may be credited to this account. However, proceeds of export of goods or services from Bangladesh and commission earnings arising from business deals in Bangladesh cannot be credited to such accounts. Balances of such accounts are freely remittable abroad. Balances of RFCD accounts may also be used by the accounts holders for their travel abroad in the usual manner. RFCD accounts may be opened in US Dollar, Euro, Pound Sterling, Deutsche Mark or Japanese Yen and may be maintained as long as the account holders desire. Interest may be paid on these deposits if these are for a term of not less than one month and the balance is not
less than US $ 1000 or Pound Sterling 500 equivalent.

F.C Accounts of other entities:

ADs do not require prior permission of Bangladesh Bank for opening of foreign currency accounts of:

- non-resident foreign persons/firms;
- diplomatic missions in Bangladesh and their expatriates;
- diplomatic bonded warehouses (duty free shops);
- local and joint venture contracting firms employed to execute projects financed by foreign donors/international donor agencies;
- Bangladesh nationals working in the international bodies in Bangladesh and drawing pay and allowances in foreign currency.

Maintaining of bank accounts abroad:

Bank accounts outside Bangladesh opened by Bangladesh nationals while working abroad may now are maintained even after their return to Bangladesh.

VISITS ABROAD:

Booking of Passage: No Bangladesh Bank approval is needed for booking of passage for Bangladesh nationals against payment in Taka. Prepaid Ticket Advice (PTA) in favour of foreign guests invited by Government, Semi-Government, autonomous organizations or bodies affiliated with UN agencies or other internationally recognized agencies may be issued without prior approval of Bangladesh Bank. Air tickets may be issued against payment in Taka to foreigners working in Bangladesh if they draw salaries in Bangladesh Taka or if the cost of the ticket is to be borne by the employer, as per terms of the work permits approved by Bangladesh Government.

Private Travel: Annual travel quota entitlement of Bangladesh nationals is US$ 1000 per person for visits to SAARC member countries and Myanmar (US$ 500 for overland visits), and US$ 3000 per person for visits to other countries. Bonafide requirements beyond these limits are accommodated by Bangladesh Bank on written request supported by satisfactory documentation. International credit cards may also be issued against such travel entitlements. Release of foreign exchange in excess of US$ 200, requires valid visa
Business travel quota for importers and manufacturers producing for domestic markets:

i) Subject to an annual upper limit of US $ 5000, importers are entitled to business travel quotas @ 1% of their imports settled during the previous financial year.

ii) Subject to an annual upper limit of US $ 5000, non-exporting producers are entitled to business travel quotas @ 1% of their turnover of the preceding financial year as declared in their tax returns.

The same business organization engaged in imports as well as production shall, however, draw business travel entitlement only on one count.

Education: Prior permission of Bangladesh Bank is not required for releasing foreign exchange in favor/on behalf of Bangladesh students studying abroad or intending to proceed abroad for studies. Remittances may be made through Authorized Dealers (ADs) for all regular courses.

Seminars and workshops: ADs may release allowance not exceeding US$ 200 per day for countries in the SAARC region and Myanmar and not exceeding US$ 250 per day for all other countries to private sector participants for attending seminars, conferences and workshops arranged by Recognized bodies.

Medical treatment: ADs may release foreign exchange up to US$ 10000 for medical treatment abroad on the basis of recommendation of Medical Board constituted by the Health Directorate or on the basis of the need established through recommendation of appropriate medical specialists and the cost estimate from a foreign medical institution. Bonafide requirements in excess of US$ 10000 are accommodated by Bangladesh Bank on written request along with satisfactory documentation supporting the bonafides of the expenses.

Taking out/bringing in of Bangladesh Taka: Incoming/outgoing passengers may bring in/take out up to Taka 500 per person in Bangladesh currency.

Taking out/ bringing in of personal jewelers: Incoming/outgoing adult female passengers may take out/bring in any quantity of personal jewellery worn on their person or as part of their personal baggage.

HOTEL BILLS: Payment of hotel bills of foreign guests may be accepted in local currency.
OTHERS: Funds from non-resident Taka accounts can be freely withdrawn regardless of the amounts involved.

- Declaration in Form C is not required in case of remittances sent by Bangladesh nationals working abroad. However, persons other than Bangladesh nationals are required to declare in Form C if the inward remittance is US $ 2000 or above.

4.2 Functions of Foreign Exchange:

The Bank actions as a media for the system of foreign exchange policy. For this reason, the employee who is related of the bank to foreign exchange, specially foreign business should have knowledge of these following functions :-

**EXPORT**
- Pre-shipment Advances
- Post-shipment Advances
- Export Guarantees
- Advising/Confirming Letter of Credit
- Facilitating project exports
- Bills for collection

**IMPORTS**
- Opening letters of credit
- Advance bills
- Import loans and guarantees.

**EXCHANGE DEALINGS**
- Rate computation
- Nostro/Vostro Accounts
- Forward contracts
- Derivatives
- Exchange position and cover operations

**REMITTANCES**
- Issue of DD, MT, TT etc.
- Encashment of cheques, DD, MT, TT etc.
- Issue and encashment of travelers' cheques
- Sale and encashment of foreign currency notes
- Non-resident deposits
STATISTICS

- Submission of returns
- Collection of credit information

Areas of Foreign Exchange

Foreign exchange has three wings that are below

- **Import**
  A good or service brought into one country from another. Along with exports, imports form the backbone of international trade. The higher the value of imports entering a country, compared to the value of exports, the more negative that country's balance of trade becomes.

- **Export**
  Buying of goods & services from foreign countries for sales is considered as import.

- **Remittance**
  The process of sending money to remove an obligation. This is most often done through an electronic network, wire transfer or mail. The term also refers to the amount of money being sent to remove the obligation.

Description of this area is described in details in the later Chapter.
4.3 Import:

Buying of goods & services from foreign countries for sales is considered as import. The person or organization who import the goods & services from foreign countries is known Importer and from which goods & services are imported is known as Exporter. In case of Import, the importers are asked by their Exporters to open a Letter of Credit (L/C). So that there payment against goods & services is ensured.

The main objectives of the Import Policy:-

(a) to make the Import Policy Compatible with the changes in the world market that have occurred as a result of the introduction of market economy and signing of the GATT Agreement;
(b) to simplify the procedures for import of capital machinery and industrial raw materials with a view to promoting exports, and
(c) To ensure growth of the indigenous industry and availability of high quality goods to the consumers at a reasonable price.

Different Ways of Import:

- **Import License not required:** No import license will be necessary for import primarily against cash foreign exchange.

- **Import against LCA Form:** Unless otherwise specified, all imports transacted through a bank (L/Cs, bank drafts, remittance etc.) shall require LCA forms irrespective of the source of finance.

- **Import against L/C:** Unless otherwise specified, import shall be made only by opening irrevocable letter of credit (L/C)

- **Import against LCA Form but without opening of Letter of Credit (L/C):** Import against LCA Form may be allowed without opening of letters of credit in the following cases:
(a) Import of books, journals, magazines and periodicals on sight draft issuance bill basis;
(b) Import of any permissible item for an amount not exceeding US Dollars Five thousand only during each financial year against remittance made from Bangladesh. However, consignment from Myanmar shall be importable.
(c) Import under commodity aid, grant or such other loan for which there are specific procurement procedures for import of goods without opening any L/C;
(d) Import of “international chemical references” through Bank drafts by recognized pharmaceuticals (allopathic) industry on the approval of Director, Drugs Administrators for the purpose of quality control of their products.

- Imports against Import and in special cases against Clearance Permit (for clearance of goods on payment of fine):
  In the following cases, neither LCA Form nor opening of L/C will be necessary; but Import Permit (IP) or Clearance Permit (CP) will have to be obtained by the importer for
  (a) Import of books, magazines, journals, periodicals and scientific and laboratory equipment against surrender of UNESCO Coupons;
  (b) Import under Pay-As-You-Earn-Scheme in the following cases only on the basis of clearance of the Bangladesh Bank:

- Import on Deferred Payment Basis or Against Supplier’s Credit:
  Subject to restriction and prohibitions contained in this order, import on deferred payment basis against suppliers. Credit may be allowed on the basis of procedure laid down by the Bangladesh Bank in this behalf.

- Import against direct payment abroad: Only Bangladeshi national living abroad may send any importable item irrespective of value ceiling against direct payment abroad in the name of any Bangladeshi living in Bangladesh. The name and address of the consignee shall be mentioned in the import documents. For such import, no permission or import permit from the Import Control Authority shall be necessary.
Time limit for opening of L/C: Unless otherwise specified, for import under cash foreign exchange, letter of credit shall be opened by all importers within one hundred and fifty days from the date of its issue or from the date of its registration. The above time limit may be extended up to such time as deemed fit by the Chief Controller. For import under foreign aid/grant and barter/STA, L/C shall be opened within the limit as may be notified by the Chief Controller.

Procedures of Opening the Letter Of Credit (L/C) for Import:

The importer after receiving the Performa invoice from the exporter, by applying for the issue of a documentary credit, the importer request his Bank to make a promise of payment to the supplier. Obviously, the bank will only agree to this request if it can rely on reimbursement by the applicant. As a rule accepted as the sole security for the credit particularly if they are not the short of commodity that can be traded on an organized market, such an arrangement would involve the bank in excessive risk outside specialist field. The applicant must therefore have adequate funds in the bank account or a credit line sufficient to cover the required amount.

Banks deal in documents and not in goods. Once the bank has issued the credits its obligation to pay is conditional on the presentation of the stipulated documents within the prescribed time limit. The applicant cannot prevent a bank from honoring the documents on the grounds that the beneficiary has not delivered goods on reorder reissues as contracted.

Procedures of open an L/C in the IBBL

Step one: Requirement of document before opening L/C or importer criteria

1. Open a Bank Account
To import goods & services the prospective importer requires a bank account, it may be current account or Short term deposit account (STD). Unknown person will not be allowed to open L/C.

To open a bank account following document have to submit
- Trade license
- Value added tax (VAT)
- Tax identification number (TIN)

2. Import Registration Certificate (IRC)
3. Tax Identification Number (TIN)
4. Valid Trade License.
5. Chamber of commerce Certificate
6. National ID Card

The above document is required for applying L/C to the bank

Step Two: Bank will supply the following documents before opening of the L/C

- LCAF form.
- Application and Agreement form.
- IMP form
- Charge documents for documentation.

The above documents/papers must be completed duly signed and filled in by the party according to the instruction of the banker.

Step Three: Document submit to open L/C

The client will approach to open the L/C in Bank’s prescribed form, duly stamped & signed, along with the following paper & documents: Such as

i. Application for opening of the L/C
ii. Indent / Performa invoice.
iii. Insurance cover note with money receipt.
iv. LCAF (letter of authorization form) duly filled in & signed.
v. Membership certificate form chamber of commerce / Trade Association.
vi. Tax payment certificate / declaration.
vii. Charge documents

Step Four: Bank Verify about the Importer

Bank verifies or collects information about the importer in the following way

Credit Report: Bank collects credit report of the applicant (importer) from Credit Information Bureau (CIB) of Bangladesh bank.
Permissible item: The item to be imported must be permissible and not banned item. If the item is from conditional list, the condition must fulfill to import the same.

Market Report: Bank will verify the marketability of the item & market price of the goods. Sometimes the importer may misappropriate the Bank’s money through over invoicing.

Sufficient Security or margin: Price of some items fluctuates frequently. In case of those items Bank will be more careful to take sufficient cash margin or other security.

Restricted Country: Goods are not to be imported from Israel.

Permission from Ministry of Commerce: If the goods to be imported under CIF (cost insurance & freight), then permission form ministry of commerce to be obtained.

Creditability of the Client: In consideration of all the above points, if Bank becomes satisfied regarding the client then L/C may be opened on behalf of the client.

Step Five: Requirement of Head office Approval:
The AD branch upon receipt of same (document-step-4) from the applicant, sent proposal to head office for approval to open L/C. when head office give approval then AD branch can open L/C.

Step Six: Sent Document to Negotiating/Confirming Bank:
After getting the approval from the head office the AD branch open the L/C in favor of applicant and send it to the negotiating or confirming through SWIFT (society for worldwide interbank financial telecommunication). Authorized Dealer will scrutinize the documents and open the L/C in favor of the exporter by converting the Bangladesh Taka into foreign currency at the existing B.C selling rate of exchange. Care must be taken so that the limit of Bangladesh Taka is not exceeded in any way. The foreign currency value of the L/C must correspond the equivalent amount of Bangladesh Taka if LCA registered with Bangladesh Bank.

The Authorized Official of the Authorized Dealer will check the L/C very carefully and signed the same jointly and forward the 1st and 2nd copy to their foreign correspondent situated at the nearest place of the exporter. Thus Bank is known as Advising Bank. On receipt of the L/C the Advising Bank after verification of the duplicate copy at their end.
The negotiating bank will scrutinize the documents with terms and conditions of the L/C very carefully. If everything is in order the bank will make payment of the amount of L/C to exporter in their local currency by debiting to their own account. Subsequently the negotiating bank will claim the L/C with whom the Head Office of L/C opening bank maintained foreign currency amount.

This is known as Reimbursing Bank. Reimbursing Bank will make payment to the negotiating bank by debit to L/C opening Bank's Head Office A/C. Simultaneously the negotiating bank will forward all the documents submitted by the exporter to the L/C opening bank as per instruction of the L/C. The date of forwarding letter of negotiating bank should be date of negotiation of documents.

After taking delivery of documents from the L/C opening bank, the importer will clear the goods which has already been arrived or due to arrive from the customs authority on submission of these documents along with the custom purpose copy of LCA From. And also on the marketability of the goods.

**Lodgments and Retirement of Import Bills**

**4.3.1 Lodgment Of Import Bill:**

The documentary letter of credit (L/C) constitutes of the important methods of financing trade. Because of the phenomenal growth in world trade and commodity wise diversification of trade its importance has significantly increased.

On receipt of the documents from the negotiating bank, the L/C opening bank will make entry the particulars of the documents into Inward Foreign Bill Register and prepare the voucher by converting the foreign currency into Bangladesh Taka. This stage is known as lodgment of import bills.

The full sets of documents which are submitted by the exporter to his bank as per terms and conditions of the L/C are known as shipping documents. The L/C opening bank may receive these shipping documents from his foreign correspondent (Bank) in two ways.

**i) Documents on collection Basis:** The shipping documents which are not negotiable by the exporter's bank due to some discrepancies will be sent to L/C opening bank on collection basis. The collection bank (exporter's bank) will mention the discrepancies on their forwarding schedule.

On receiving the documents the L/C opening bank will further scrutinize the documents
with the L/C and inform the importer regarding discrepancies found in the documents. If these are acceptable to the importer and or permissible with the existing exchange control Regulation, the documents will be lodged and L/C opening bank will send the payment instruction to the collecting bank.

ii) Negotiated Documents: The documents which have already been negotiated i.e. the exporter’s bank (this bank is known as negotiating bank) has made payment to the exporter against the documents submitted by him may be termed as negotiated documents. Generally these documents are free from discrepancies. Though these documents are supposed to be free from any discrepancy, the L/C opening bank must scrutinize and confirm that there is no discrepancy in the documents.

In case of documents which has no discrepancy and documents with minor discrepancy (if accepted by the importer) are to be lodged, where the major discrepancy is found, it is the duty of the L/C opening banks to send a SWIFT to the negotiating bank with instruction to credit the amount to the L/C opening banks A/C which was paid to the exporter, because the documents are not accepted and also to seek instruction regarding disposal of the documents. The particulars of these documents to be entered are separate column or separate Inward Foreign Bill Register under the head Foreign Bill under Reserve.

4.3.2 Procedures of Lodgment
After securitization, if it is fund in order the officer concerned will brand a rubber stamp "Checked and Found Correct" which will be followed by his initial. Amount in foreign currency to be converted into Bangladesh Taka with the exchange rate (B.C selling) prevailing on the date of lodgment. Particulars of documents to be entered in the "Inward Foreign Bills Register"

Preparation of Vouchers: The following vouchers are to be prepared:-
a) Lodgment voucher:
Dr. PAD
Cr. H.O A/C

B) Liability voucher to be reversed which was originated at the time of opening L/C
Dr. Barker's liability on L/C (Cash)
Cr. Customers liability on L/C (Cash)

4.3.3 Retirement of Documents
On receipt of the copy of lodgment voucher from the Bank, the importer will deposit the required amount and taka delivery of the shipping documents. This stage is known as
Retirement of Impart Bills. Before retirement of import bills, the L/C opening bank will calculate the charges which are to be realized from the importer.

**Retirement vouchers to be prepared:**

Dr. Party A/C  
Dr. Margin on L/C A/C  
Cr. PAD / Draft Amount

### 4.4 Export:

The goods and services sold by Bangladesh to foreign households, businessmen and Government are called export. The export trade of the country is regulated by the Imports and Exports (control) Act, 1950. There are a number of formalities, which an exporter has to fulfill before and after shipment of goods. The exports from Bangladesh are subject to export trade control exercised by the Ministry of Commerce through Chief Controller of Imports and Exports (CCI&E). No exporter is allowed to export any commodity permissible for export from Bangladesh unless he is registered with CCI &E and holds valid Export Registration Certificate (ERC). The ERC is required to be renewed every year. The ERC number is to be incorporated on EXP forms and other documents connected with exports.

**Export Procedures:**

- Registration of Exporters  
- Securing Export Order  
- Signing the Contract  
- Receiving the Letter of Credit  
- EXP form for the declaration of exports.  
- Shipment of goods.  
- Preparation/Procurement of Export Documents.  
- Submission of Export Documents for Negotiation.

**Practices of Export in IBBL Islamic Bank Bangladesh Ltd.**

Bangladesh exports a large quantity of goods and services to foreign households. Readymade textile garments (both knitted and woven), Jute, Jute-made products, frozen shrimps, tea are the main goods that Bangladeshi exporters exports to foreign countries. Garments sector is the largest sector that exports the lion share of the country’s export.
Bangladesh exports most of its readymade garments products to U.S.A and European Community (EC) countries. Bangladesh exports about 40% of its readymade garments products to U.S.A. Most of the exporters who export through ICBIBL are readymade garment exporters. They open export L/Cs here to export their goods, which they open against the import L/Cs opened by their foreign importers.

Export L/C operation is just reverse of the import L/C operation. For exporting goods by the local exporter, bank may act as advising banks and collecting bank (negotiable bank) for the exporter.

As an advising bank  
It receives documents from the foreign importer and hands it over to the exporter. Sometimes it adds confirmation on the L/C on request from the Opening Bank. By adding confirmation, it assumes the responsibility to make payment to the exporter.

As Negotiating Bank  
It negotiates the bill and other shipping documents in favor of the exporter. That is, it collects the proceeds of the export-bill from the drawer and credits the exporter’s account for the same. Collection proceed from the export bill is deposited in the bank’s NOSTRO account in the importer’s country. Sometimes the bank purchases the bills at discount and waits till maturity of the bill. When the bill matures, bank presents it to the drawer to in cash it.

In our country, Export and Import operation of bank is very much related with one another because of use of Back to Back and maturity of payment for Back to Back L/C is set in such that it can be paid out of export proceeds.

Export Documents Negotiation:  
The most common method of financing exporters is negotiation of documents under L/C. It is a post-shipment credit. Here the bank acts as a negotiating bank. After the shipment of the goods, the exporter submits the relative documents to the branch for negotiation. After approval of negotiation of the bill the full particulars of the documents are branch with a forwarding letter. The branch claim reimbursement from the issuing bank or from the reimbursing bank, giving clear instructions to credit the proceeds of the bill to the ICBIBL head office NOSTRO A/C maintained with the named correspondent bank
abroad under telex intimation to the Principal branch and Head Office.

Negotiation stands for payment of value to the exporter against the documents stipulated in the L/C. If documents are in order, ICBIBL purchases (negotiates) the same on the basis of banker-customer relationship. This is known as Foreign Documentary Bill Purchase (FDBP).

If the bank is not satisfied with the documents submitted to ICBIBL gives the exporter reasonable time to remove the discrepancies or sends the documents to L/C opening bank for collection. This is known as Foreign Documentary Bill for Collection (FDBC) entered into the Foreign Bill purchased (FBP) register. The documents are sent to the L/C opening.

Presentation of export documents for negotiation:

After shipment, exporter submits the following documents for negotiation.

• Bill of exchange
• Bill of Lading
• Insurance Policy/ Certificate
• Certificate of Origin
• Inspection Certificate
• Consular Invoice
• Packing List

Foreign documentary bill for collection (FDBC)

IBBL forwards the documents for collection due to the following reasons:

• If the documents have discrepancies.
• If the exporter is a new client

FDBC signifies that the exporter will receive payment only when the issuing bank gives payment ICBIBL make regular follow up with the L/C opening bank in case of any delay in getting payment.
Settlement of Local Bills

The settlement of local bills is done in the following ways:

1. The customer submits the L/C to IBBL along with the documents to negotiate
2. IBBL official scrutinizes the documents to ensure the conformity with the terms and conditions.
3. The documents are then forwarded to the L/C opening bank. The L/C issuing bank gives the acceptance and forwards an acceptance letter.
4. Payment is given to the customer on either by collection basis or by purchasing the documents.

Mode of payment of export bill under L/C

- **At Sight Payment Credit:** In a Sight Payment Credit, the bank pays the stipulated sum immediately against the exporter’s presentation of the documents.
- **Deferred Payment Credit:** In deferred payment, the bank agrees to pay on a specified future date or event, after presentation of the export documents.
bill of Exchange is involved. Payment is given to the party at the rate of D.A 60-90-120-180 as the case may be. But the Head Office is paid at T.T clean rate. The difference between the two rates is the exchange trading for the branch.

- **Negotiation Credit**: In Negotiation Credit, the exporter has to present a bill of exchange payable to him in addition to other documents that the bank negotiates.

- **Acceptance Credit**: In Acceptance Credit, the exporter presents a bill of exchange payable to him and drawn at the agreed tenor (that is, on a specified future date or event) on the bank that is to accept it. The bank signs its acceptance on the bill and returns it to the exporter. The exporter can then represent it for payment on maturity. Alternatively he can discount it in order to obtain immediate payment.

**Discrepancies of Documents:**

The followings are a few of the commonly observed discrepancies in documents:

- Credit expired
- Late Shipment
- Clause bill of landing
- Presentation after permitted time from the date of issue of shipping documents
- Short Shipment
- Credit amount exceeded
- Under insured
- Description of goods on invoice differ from that of credit
- Marks and numbers differ between documents
- Goods shipped on deck
- Bill of lading, insurance documents, bill of exchange not endorsed correctly
- Insurance certificate submitted instead of policy
- Weight in various documents differ
- Bill of lading is not of acceptable class
- Insurance cover expressed in currency other than that of credit
- Absence of signature, where required on documents
- Bill of exchange drawn on wrong party
- Bill of exchange not drawn as per tenor stated in the credit
Bill of exchange payable on an undetermined date
- Insurance risk specified in credit not covered
- Bill of lading does not bear ‘Shipped on Board’ stamp
- Amount shown on invoice and bill of exchange differ
- Shipment made between ports other than those stated in the credit
- Documents inconsistent with each other
- Trans-shipment/ part-shipment effected although not authorized by credit

Export Incentives:

The Government’s export policy incorporates a package of incentives, which can be divided into 3 broad heads namely- Fiscal Incentives, Financial Incentives and General Incentives.

- Fiscal Incentives
  - Duty free import of capital machinery by 100% export-oriented industry outside the EPZ.
  - Provision for bonded warehouse to facilitate duty-free import of raw materials for export production.
  - Provision for duty drawback, if the bonded warehouse facility is not availed of.
  - Provision for sale of 20% of the products of the 100% export-oriented industries in the local market on payment of duties and taxes.
  - Exemption of Income Tax by 50% on income arising out of export business.
  - Provision for tax holiday
  - Provision for duty-free import of samples.

- Financial incentives
  - Provision for local currency export credit at a concessional rate of interest within a band (the present band is 8-10%)
  - Provision for foreign currency export credit under EDF at a concessional rate of interest (the rate of interest applicable is LIBOR + 1%)
c) provision for back-to-back letter of credit for importation of raw materials for export production, on deferred payment basis,
d) Retention of export earning by the exporters in their own foreign currency accounts to the extent of 40% in general cases and 7.5% in lower value added items like RMG.
e) Facility for use of US$ 25.00 mn. Credit line for CIS markets
f) 25% compensatory cash benefit to the producers and suppliers of fabrics and other textile products for ultimate purpose of export, in lieu of bonded warehouse and duty draw-back facilities.
g) Provision for 10% MDA for export of jute yarn & twine

3. General Incentives:

a) Recognition of leather industries exporting at least 80% of their products as 100% export oriented industries
b) Banning the export of crust leather with effect from July 1998
c) Facility for entrepot export
d) Enhancing the financial limit for dispatch of export samples abroad
e) National Trophy for Export
f) Recognition of CIP

Exchange Facility for Exporter:

New Exporters: Annual foreign exchange quota for business travel abroad for new exporters has been set at US $ 6000. Bonfire requirement beyond US $ 6000 is accommodated by Bangladesh Bank upon written request submitted with supporting documentation. Retention Quota for merchandise exporters: Merchandise exporters may retain up to 50% of realized FOB value of their exports in foreign currency accounts in US$, Euro, Japanese Yen. For export items with high import contents (such as naptha, furnace oil, bitumen, readymade garments etc.), the retention quota is 10%. The computer software and data entry/processing service exporters may also retain up to 50% of realized export proceeds in foreign currency accounts. Funds from these accounts may be used to meet bonfire business expenses, such as business visits abroad, participation in export fairs and seminars, import of raw materials, machineries and spares etc. Funds from these accounts may also be used to set up offices abroad without prior permission of Bangladesh Bank. Exporters may, at their option, retain the foreign currency in interest bearing renewable term deposit accounts in Bangladesh with a minimum amount of USD 2,000 or Pound Sterling 1,500 equivalent. Retention quota for service exporters: Service exporters may retain 5% of their repatriated income in foreign currency accounts. Funds may be drawn from these accounts to meet expenses for bonfire business expenses abroad. This quota may also be kept in interest bearing renewable term deposit accounts.
However, foreign exchange earnings on account of indenting commission or agency commission for export from Bangladesh may not be credited to such accounts since these incomes originate from Bangladesh sources.

4.5 Definition of Foreign Remittance:

The process of sending money to remove an obligation. This is most often done through an electronic network, wire transfer or mail. The term also refers to the amount of money being sent to remove the obligation.

This bank is authorized to deal in foreign exchange business. As an authorized dealer, a bank must provide some services to the clients regarding foreign exchange and this department provides these services. Remittance procedures of foreign currency.

There are two types of remittance:

1. Foreign Outward Remittance: The sending country, where the wage earner is located. The sender uses a bank or foreign exchange company to send money to foreign country. Many of the receiving banks have established remittance relationships with currency houses and banks in other countries to better facilitate the flow of remittances into the country.

2. Foreign Inward Remittance: The receiving country, where the beneficiary resides. The bank receives the money that has been sent from the sending person in the country in which the money has been earned.

Activities of this Department

1. Issuance of TC, Cash Dollar/Pound
2. Issuance of FDD, FTT & purchasing, payment of the same
3. Passport endorsement
4. Encashment Certificate
5. F/C Account opening & filing
6. Opening of Export FC Retention Quota A/C & maintain
7. Maintenance of ledger of Cash Dollar, FC Deposit A/C & TC
8. Maintain FBC register & follow up FBC
9. Opening of Student file & maintain
10. Preparation of all related statement, Voucher & posting

Medium of Remittance

The remittance process involves the following four modes:
<table>
<thead>
<tr>
<th>Cash Remittance Dollar/ pound</th>
<th>Sell</th>
<th>Bank sells Dollar/pound for using in abroad by the purchaser. The maximum amount of such sell is mentioned in the Bangladesh Bank publication of ‘Convertibility of Taka for Currency Transactions in Bangladesh’.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Purchase</td>
<td>Bank can purchase dollar from resident and non-resident Bangladeshi and Foreigner. Most dollars comes from realization of Export Bill of Exchange.</td>
</tr>
<tr>
<td>Traveler’s Cheque (TC)</td>
<td>Issue of TC</td>
<td>TC is useful to traveler abroad. Customers can incash the TC in abroad from the drawee bank. TC is alternative to holding cash and it provides better security than holding cash in hand.</td>
</tr>
<tr>
<td></td>
<td>Buying of TC</td>
<td>If any unused leaf of TC is surrendered bank buys it from the customer. All payments are made in local currency. Banks generally buy only those TC.</td>
</tr>
<tr>
<td>Telex Transfer</td>
<td>Outward TT</td>
<td>It remits fund by tested TT via its foreign correspondence bank in which it is maintaining its NOSTRO Account.</td>
</tr>
<tr>
<td></td>
<td>Incoming TT</td>
<td>It also makes payment according to telegraphic message of its foreign correspondence bank from the corresponding VOSTRO Account.</td>
</tr>
<tr>
<td>Foreign Demand Draft</td>
<td>Bank issue Demand Draft in favor of purchaser or any other according to instruction of purchaser. The payee can collect it for the drawee bank in which the Issuing bank of Demand Draft holds its NOSTRO Account.</td>
<td></td>
</tr>
</tbody>
</table>

In this process of remittance, bank must have to make profit as a business institution. Profit is made in two ways:
1. Commission Charge
2. Difference in the buying and selling rate.

**Remittance of profits:**

Branches of foreign firms/companies including foreign banks, insurance companies and financial institutions are free to remit their post-tax profits to their head offices through banks authorized to deal in foreign exchange (Authorized Dealers) without prior approval of Bangladesh Bank.

**Remittance of dividend/capital gain:**

Prior permission of Bangladesh Bank is not required for remittance of dividend income to non-residents in respect to their investments in Bangladesh; remittance of dividend declared out of previous year's accumulated reserves; and dividend and sale proceeds (including capital gains) of shares of companies listed in a Stock Exchange in Bangladesh. Such remittance may be affected prior to actual payment of taxes provided that the amount payable to the tax authorities at the applicable tax rate is withheld by the company. Remittance of sale proceeds of shares of companies not listed in Stock Exchange requires prior Bangladesh Bank permission, which is accorded for amounts not exceeding the net asset values of the shares.

**Remittance of salaries and savings by expatriates:**

Expatriates working in Bangladesh with the approval of the Government may remit through an Authorized Dealer (AD) 50% of salary and 100% of leave salary as also actual savings and admissible pension benefits. No prior Bangladesh Bank approval is necessary for such remittances.

**Remittance of royalty/technical fees:**

Industrial enterprises may enter into agreements for payment of royalties, technical know-how/technical assistance fees abroad without prior permission if the total fees and other expenses connected with technology transfer do not exceed (a) 6% of the previous year’s sales of the enterprises as declared in their tax returns, or (b) 6% of the cost of imported machinery in the case of new projects. These agreements, however, need to be registered with the Board of Investment (BOI). Agreements not in conformity with these general guidelines require prior permission of the BOI. ADs may remit the royalties, technical know-how/technical assistance fees payable as per agreements registered with/approved by BOI, without prior approval of Bangladesh Bank.

**Remittance on account of training and consultancy:**

Industrial enterprises producing for the local market may remit through ADs up to 1% of their sales as declared in their previous year's tax returns for the purpose of training and consultancy services without prior approval of Bangladesh Bank.
Remittance by shipping lines, airlines, courier service companies:

Foreign shipping lines, airlines and courier service companies may send abroad, through an AD, funds collected in Bangladesh towards freight and passage, after adjustment of local costs and taxes, if any.

FOREIGN AND LOCAL BORROWINGS:

Foreign loans:

Industrial enterprises in Bangladesh (local, foreign or joint venture) may borrow abroad with prior Board of Investment (BOI) approval. Remittances towards payment of interest and repayment of principal as per terms of BOI approved borrowing may be made through ADs without prior Bangladesh Bank approval.

Local borrowings:

Banks in Bangladesh may extend working capital loans or term loans in local currency to foreign-controlled or foreign-owned firms/companies (manufacturing or non-manufacturing) operating in Bangladesh on the basis of normal banker-customer relationship, without reference to Bangladesh Bank.

Banks in Bangladesh are free to grant local currency loans to joint venture industries in EPZ up to the amount of short term foreign currency loans obtained from abroad.

MISCELLANEOUS REMITTANCES:

Remittance of membership fees: ADs may remit membership fees of foreign professional, scientific institutions and fees for application, registration, admission, examination (TOEFL, SAT etc.) in connection with admission into foreign educational institutions as per estimate of the concerned institution.

Evaluation and Visa Processing Fee: ADs may remit evaluation and visa processing fee on behalf of Bangladeshi desiring immigration to foreign countries, as per demand note of the foreign immigration authorities.

Visa fee: Intending travelers may send visa fees through ADs to the embassies of countries that do not have consular offices in Bangladesh.

Consular/visa fees collected by foreign embassies in Bangladesh Taka may be remitted abroad by the ADs without prior approval of Bangladesh Bank.
**Family maintenance**: Remittance of moderate amounts of foreign exchange for maintenance abroad of family members (spouse, children, parents) of Bangladesh nationals are allowed by Bangladesh Bank, on written request supported by certificates from the Bangladesh mission in the concerned country.

**COMMERCIAL REMITTANCES:**

Prior permission of Bangladesh Bank is not required by the ADs for:

- opening back-to-back import LCs on account of manufacture-exporters for their input imports as per prescribed input-output coefficients;

- issue of bank guarantee/performance bond on account of the merchandise exporters of Bangladesh in favor of foreign buyers;

- remittance on account of short weight, quality claim, partial shipment etc. upto 10% of realized export proceeds.

- payment of discount not exceeding 10% of the invoice value at the request of the exporter where foreign importers refuse to clear goods due to discrepant documents etc.,

- remittance of premium on foreign currency policies taken by Bangladesh nationals while residing abroad,

- remittance of premium on account of re-insurance,

- remittance of “General Average” collected from consignees in Bangladesh,

- remittance of pre-shipment inspection fees,

- remittance of bonafide expenses incurred by Bangladesh Biman and Bangladesh Shipping Corporation in foreign ports/stations,

- remittance on account of charter hire of foreign ships,

- remittance of purchase price of ships acquired by private firms/companies,

- remittance of royalty/honoraria/fees to non-residents including foreign news agencies for features, articles etc. subscribed by local newspapers/magazines,

- advertising of Bangladeshi commodities in mass media abroad.
4.6 Definition Letter of Credit (L/C):

A letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase.

Letters of credit are often used in international transactions to ensure that payment will be received. Due to the nature of international dealings including factors such as distance, differing laws in each country and difficulty in knowing each party personally, the use of letters of credit has become a very important aspect of international trade. The bank also acts on behalf of the buyer (holder of letter of credit) by ensuring that the supplier will not be paid until the bank receives a confirmation that the goods have been shipped.

Contents of the Letter Of Credit

Banks normally issued letter of credit (L/C) on forms, which clearly indicate the banks name and extent of the banks obligation under the credit. The contents of the L/C of different Banks may be different. In general L/C contains the following information:

i) Name of the buyer: Who is also known as the account since it is for his account that the credit has been opened?

ii) Name of the seller: Who is also known as the beneficiary of the credit?

iii) Moment of the credit: Which should be the value of the merchandise plus any shipping charges intent to be paid under the credit?

iv) Trade Terms: Such as F.O.B and CIF

v) Tenor of the Draft which is normally dependent upon the requirements of the buyer.

vi) Expiration Date: This is specified the latest date documents may be presented. In this manner or by including additionally a latest shipping date, the buyer may exercise control over the time of shipment.

vii) Documents required: Which will normally include commercial invoice consular or customers invoice, insurance policies as certificates, if the source is to be effected by the beneficiary and original bills of lading.

viii) General description of the merchandise: This briefly and in a general manner duly describes the merchandise covered by a letter of credit.
Classification of L/C:

There are many kinds of L/C. Few of them are briefly discussed below:

1. **Irrevocable L/C:** Irrevocable credit means the credit cannot be amended or cancelled without the agreement of all parties (the beneficiary, the applicant, the issuing bank and the confirming bank if the letter of credit is confirmed). A credit therefore should clearly indicate whether it is revocable or irrevocable; however, in the absence of such indication, the credit shall be deemed to be irrevocable.

2. **Revocable L/C:** A revocable letter of credit may be cancelled or modified after its date of issue, by the issuing bank.

3. **Standby Letters of Credit:** These types of credits are not specifically related to the movement of goods. They are used as a form of payment guarantee in the case of non-performance of the applicant under contractual obligation between the applicant and the beneficiary. A standby letter of credit allows the beneficiary to draw in the event of default on a contract.

4. **Back-to-Back L/C:** Where the beneficiary under a letter of credit is intermediary processing goods from supplier and likes the supplier to set the benefit under the credit, transferring the credit in favor of the supplier does it. But transfer of the credit is possible only if it is authorized by the beneficiary remaining his bank to open another letter of credit in favor of the supplier on the original credit. Such as ancillary Letter of credit is know as Back to back Credit.

5. **Red Clause and Green Clause Credit Also:** known as packing or anticipatory credit, a red clause letter of credit contains a clause printed in red, authorizing the negotiating bank to grant advance to the exporters for the purchase and processing, packing and arranging for movement of goods up to the port for shipment.

6. **Sight versus Deferred:** At sight means the beneficiary is paid as soon as the paying bank has determined that all necessary documents are in order. Deferred time can be between 30 and 180 days after the bill of lading date. This is a form of delayed payment, and should be avoided.
Parties of Letter of Credit:

There is a list of parties belongs to the letter of credit (L/C).

1. **Applicant:**

   The person/Body who requests the bank (opening bank) to issue the letter of credit. As per instruction and on behalf of applicant, the bank opens L/C in line with the terms and condition of the seller contract between the buyer and the seller.

2. **Opening /Issuing Bank:**

   The Bank which open /issue letter of credit on behalf of the applicant/importer. Issuing bank obligation is to make payment against presentation of documents drawn strictly as per terms of the L/C.

3. **Advising /Notifying Bank:**

   The Bank through which the L/C is advised / forward to the beneficiary (exporter). The responsibility of advising bank is to communicate the L/C to the beneficiary after checking the authority of the credit. It acts as an agent of the issuing bank without having any engagement on their part.

4. **Beneficiary:**

   Beneficiary of the L/C is the party in whose favor the letter of credit is issued. Usually they are the seller or exporter.

5. **Confirming Bank:**

   The Bank which under instruction the letter of credit adds confirmation of making payment in addition to the issuing Bank. It is done at the request of the issuing having arrangement with them. This confirmation constitutes a definite undertaking on the part of confirming bank in addition to that of issuing bank.

6. **Reimbursing/Paying Bank:**

   The Bank nominated in the letter of credit by the issuing bank to make payment stipulated in the document, complying with reimbursing bank.
Advantages of Letter of Credit for Importer and Exporter

Advantages for the Importer (Buyer)

The advantages of the LC to the Buyer are short listed below-

- Reduce the commercial risk by ensuring that supplier will not be paid until evidence has been provided that the goods have been dispatched.
- Import LC also helps by assuring bank will refuse payment to the seller if the documents presented do not comply with the terms and conditions of the Letter of Credit.
- Conserve company's cash flow by eliminating the need to make advance payments or deposits.
- Demonstrate your creditworthiness to the supplier. The letter of credit protects the buyer because he knows that the seller will not be paid until he has presented documents to the bank evidencing shipment of the merchandise.

Documentary Letter Of Credit (Import/Export Documentation)

Documentary letter of credit is such kinds of commercial letter which a Bank issue on behalf of foreign seller (exporter) according to the direction of the (importers) purchasers. The documents shown under are known as export documents from the importer's side. These are:-

The exporter submits the following papers/documents to the Negotiating bank:

(i) Bill Of Exchange: The bill of exchange is that particular instrument through which payment is effected in trade deals internal and international. The payment for the goods is received by the seller through the medium of a bill of exchange drawn on the buyer for the amount depending on the contract. It is a negotiable instrument. There are five main parties involved in a bill of exchange. They are:

(a) Drawer (b) Drawee (c) Payee (d) Endorser (e) Endorsee

(ii) Bill of lading: A bill lading is a document of title to goods entitling the holder to receive the goods as beneficiary or endorsee and it is with the help of this document on receipt from the exporter that the importer takes possession of the goods from the carrying vessel at the port of destination.
(iii) Airway bill / Railway receipt: When goods to be transported are small in bulk or requiring speedy delivery or those are perishable in nature on the deal is in between the neighboring countries then mode of transports other than shipping may be resorted to for the carriage of the goods Airways bill / Railway receipt take place of Bill of lading depending on the nature of the carrier.

(iv) Commercial Invoice: It is the seller's bill for the merchandise. It contains a description of goods, the price per unit at a particular location, total value of the goods, packing specifications, terms of sale, letter of credit, bill of lading number etc. There is no standard form for a commercial invoice. Each exporter designs his own commercial invoice form. The invoice is made out by the seller under his signature in the name of the buyer and must be submitted in a set of at least 3 copies. Its main purpose is to check whether the appropriate goods have been shipped and also that their unit price, total value, marking on the package etc. are consistent with those given in other documents.

(v) Insurance Policy: In the international trade insurance policy is a must to cover the risk of loss on consignments while they are on seas, roads, airways. The insurance is the responsibility of the buyers (consignee) under FAS, FOB and C&F contracts and of the seller (consignor) under CIF contract. The policy must be of the type as specified in the relative contract / credit. The policy would be for the value of CIF price plus 10 (ten) percent to cover the expenses and that is required to be obtained in the same currency as that of the credit and dated not later than the date of shipment with claims* being payable at the destination. It must be properly stamped. Like a bill lading it must be negotiable and be endorsed where it is payable to order.

(vi) Certificate of Origin: This is a certificate issued by a recognized authority in exporting country certifying the country of origin of the goods. It is usually by the Chambers of commerce. Sometimes, it is certified by local consul or Trade Representative of the importing country as per terms of the credit.

(vii) Packing list: The exporter must prepare an accurate packing list showing item by item, the contents of the consignment to enable the receiver of the shipment to check the contents of the goods, number and marks of the package, quality, per package net weight, gross weight, measurement etc.

(viii) Weightman and Measurement: Issued by recognized authority (like chambers of commerce and industry) in exporting country certifying correct weightiest and measurement of the goods exported.

(ix) Bill of entry: A bill of entry is documents which contain the particulars of
the imported goods as well as the amount of customs duty payable.

The negotiating bank after received the above documents / papers then this bank scrutiny the documents. The negotiating bank sends the original shipping documents to the L/C opening bank and keeping the second copy with the negotiating bank.

**Graphical process of Letter of Credits**

In the aforementioned discussion it is quite clear that documentation of a LC is very important as the banks don’t deal with the physical commodity rather they deal with some particular documents. Throughout the transaction period bank deals with these documents. Hence maintain documents in a proper manner is must increase of international trade.

The graph below can give us an overall picture of a Letter of Credit process (Both Import and Export LC)

As my concerning bank is ICB Islamic Bank Limited here I am going to discuss the L/C operation from the viewpoint of this Bank. International shipping isn't as simple as putting something in a box and affixing a stamp on it. For million-dollar freights that affect the fortunes of businesses worldwide, a number of logistical procedures via letters of credit (LC) provide a sense of security and safety.
Chapter-05

Foreign exchange practice in Islamic and conventional banking system
1.1 Trade Service Products:

Import Services:
1. Cash L/C Foreign (Sight/usance)
2. Cash L/C Inland (Sight /usance)
3. Cash L/C EPZ (Sight/usance)
4. BB L/C Foreign (Sight/usance)
5. BB L/C Inland (Sight/usance)
6. BB L/C EPZ (Sight/usance)
7. Cash Bills (Foreign)
8. Cash Bills (Inland)
9. Cash Bills (EPZ)
10. Back to Back Bills (Foreign)
11. Back to Back Bills (Inland)
12. Back to Back Bills (EPZ)

Export Services:
1. Advising Letter of Credit
2. Transferring Letter of Credit
3. Collection export Bills (Inland & Foreign)
4. Advance Receipt against Export
5. Add Confirmation
6. Others Services related to export.
### 1.2 Commission and charges on major import services.

<table>
<thead>
<tr>
<th>SL</th>
<th>Types of services/commission</th>
<th>Nature of charge commission</th>
<th>Rate of charge/ commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>L/C Opening Commission for Cash L/C (at sight) including Inland Cash L/C</td>
<td>1.1 General Rate</td>
<td>0.40% for each quarter.</td>
</tr>
<tr>
<td></td>
<td>N.B. If in a calendar year a client reaches a certain slab, special rate/rebate may be allowed on total performance. For fresh year, rate to be applied on the basis of previous years performance.</td>
<td>1.2 Special Rate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.2.1 For clients having yearly import performance of Tk.200 million and above.</td>
<td></td>
<td>For 1st qtr: 0.40% For each subsequent qtr. or part thereof 0.20%</td>
</tr>
<tr>
<td></td>
<td>1.2.2 For clients having yearly import performance of Tk.400 million and above.</td>
<td></td>
<td>For 1st qtr: 0.35% For each subsequent qtr. or part thereof 0.20%</td>
</tr>
<tr>
<td></td>
<td>1.2.3 For clients having yearly import performance of Tk.600 million and above.</td>
<td></td>
<td>For 1st qtr: 0.30% For each subsequent qtr. or part thereof 0.20%</td>
</tr>
<tr>
<td></td>
<td>1.2.4 For clients having yearly import performance of Tk.1000 million and above.</td>
<td></td>
<td>For 1st qtr: 0.25% For each subsequent qtr. or part thereof 0.15%</td>
</tr>
<tr>
<td>2</td>
<td>L/C opening Commission under Loan/Aid/Barter/STA etc. (where designated by Bangladesh Bank to handle transaction under such sources.)</td>
<td></td>
<td>For 1st qtr: 0.60% For each subsequent qtr. or part thereof 0.30% Min. Tk.500/-</td>
</tr>
<tr>
<td>3</td>
<td>Back to Back L/C opening com. (Foreign/Inland/EPZ)</td>
<td></td>
<td>0.40% for each quarter</td>
</tr>
<tr>
<td>4</td>
<td>L/C opening commission under deferred payment/warehouse L/C including L/C (other than Back to Back)</td>
<td></td>
<td>0.50% for each quarter</td>
</tr>
<tr>
<td>5</td>
<td>L/C opening commission when 100% cash security realized prior to opening L/C</td>
<td></td>
<td>0.25% per quarter or part thereof.</td>
</tr>
</tbody>
</table>
### 1.3 Commission and charges on major export services.

<table>
<thead>
<tr>
<th>SL</th>
<th>Types of services/commission</th>
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<th>Rate of charge/commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Advising of L/Cs.</td>
<td>Advising of all types of L/Cs including re-advising and advising of pre-advice L/C.</td>
<td>Tk. 750/- per L/C</td>
</tr>
<tr>
<td>2.</td>
<td>Advising of Amendments.</td>
<td>Advising of Amendments of All types of L/Cs.</td>
<td>Tk. 750/- per Amendment.</td>
</tr>
<tr>
<td>3.</td>
<td>Authentication of transfer of L/Cs/Amendment.</td>
<td>For Transfer/Authentication of all types of L/c &amp; amendments</td>
<td>Tk. 750/- for each transfer/authentication</td>
</tr>
<tr>
<td>4.</td>
<td>Adding confirmation to Foreign Bank L/Cs Locally.</td>
<td>For all types of L/C</td>
<td>0.20%</td>
</tr>
<tr>
<td>5.</td>
<td>Issuance/Certifying of Exp. Form</td>
<td></td>
<td>Tk. 200/- per set.</td>
</tr>
<tr>
<td>6.</td>
<td>Charges for encashment of TT against Export.</td>
<td>For Advance Payment Receipt</td>
<td>Tk. 500/- per case</td>
</tr>
<tr>
<td>7.</td>
<td>Bai-as-Sarif (Negotiation/Purchase) against Export Bills under export LC/Contract (Inland and Foreign).</td>
<td>Commission</td>
<td>0.15%</td>
</tr>
<tr>
<td>8.</td>
<td>Commission for Collection of Local Export Bills under Inland Bills for Collection (IBC) including IBC against which MDB allowed</td>
<td></td>
<td>0.15%</td>
</tr>
<tr>
<td>9.</td>
<td>Documentary Collection under export LC/Contract (IBC)</td>
<td>Commission</td>
<td>0.15%</td>
</tr>
<tr>
<td>10.</td>
<td>Mailing of export documents (Local/Foreign)</td>
<td>13.1 By post/Mail</td>
<td>At actual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13.2 By courier</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>13.3 For Local Mailing</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Issuance of PRC</td>
<td>Cash Assistance and for any other purpose</td>
<td>Tk. 500/- per instance</td>
</tr>
</tbody>
</table>
2.1 **Guarantee related product & Services:**

1. Performance Bond
2. Bid Bond,
3. Advance Payment Guarantee
4. Counter Guarantee

---

2.2 **Commission for opening different type of Foreign Bank Guarantee.**

<table>
<thead>
<tr>
<th>SL</th>
<th>Types of services/commission</th>
<th>Nature of charge commission</th>
<th>Rate of charge/commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Advising of guarantee in original by adding our confirmation</td>
<td>3.1 Advising charges</td>
<td>Tk. 750/-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.2 Commission</td>
<td>0.50% Min. Tk. 2000/-</td>
</tr>
<tr>
<td>2.</td>
<td>Issuance of Bid Bonds /Performance Guarantee/Stand by letter(s) of credit favoring local beneficiary against 100% and irrevocable counter Guarantee of Foreign Correspondents /banks</td>
<td>4.1 Commission</td>
<td>0.50% per quarter Min. $ 75/-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.2 Stamp duty &amp; other expenses (if any)</td>
<td>At actual.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.3 Swift</td>
<td>At actual</td>
</tr>
<tr>
<td>3.</td>
<td>Issuances of bid bonds / performance guarantee favoring overseas beneficiary (s) through foreign correspondents at the request of local customers.</td>
<td>5.1 Commission</td>
<td>0.50% Per quarter Min. Tk. 5000/-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5.2 Foreign Bank Charges</td>
<td>At Actual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5.3 Swift</td>
<td>At actual</td>
</tr>
<tr>
<td>4.</td>
<td>Commission for Bank guarantee of Foreign bank against which addition is required for ship building industry.</td>
<td>6.1 Commission</td>
<td>1.50% PA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6.2 Foreign Bank Charges</td>
<td>At Actual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6.3 Swift</td>
<td>At actual</td>
</tr>
</tbody>
</table>
3.0 Trade Finance Product:

Import Finance:
1. Murabaha Import Bills (MIB)
2. Murabaha Porst Import (MPI)
3. Murabaha Foreign Currency Investment (MFCI)
4. Baim- Muajjal Back to Back Bills
5. Import under Mudaraba
6. Import under Musharaka
7. Import Under HPSM

Export Finance:
1. Bai-Salam
2. Bai-as-Sarf
3. MDB (Musharaka Documentary Bill) Inland
3.1 Murabaha Import Bills (MIB): Salient Features

<table>
<thead>
<tr>
<th>Underlying Islamic Mode</th>
<th>Murabaha mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of product</td>
<td>Corporate and SME</td>
</tr>
</tbody>
</table>
| Purpose of financing    | 1. This is an interim investment under Bai Murabaha mode.  
                            2. This investment is created while client’s fail to place fund in time.  
                            3. MIB is not an intended investment rather this a situational or forced investment.  
                            4. The governing rules and procedures of MIB are as same as MPI. |
| Rate of Return (Profit) | Rate of Return will be determined as per ECAI's rating grade/unrating of the client i.e. within the range of 14.00% to 16.00% p.a. or as determined by the banks time to time and deal to deal basis within profit rage fixed by Bangladesh bank. |
| Target Customers        | All Customers falling under corporate, SME sector. |
| Security and Collateral | Cash, Collateral, Pledge, Mortgage of hypothecation of assets or as per Bangladesh Bank and financing bank requirement. |

3.2 Salient Features of Murabaha Post Import (MPI):

1. This is an import mechanism under Bai Murabaha mode.
2. Murabaha means sale on agreed upon profit.
3. This is also known as Cost Plus Sale
4. It involves purchase of a commodity by an islamic bank on behalf of it's client and resale the same to the latter on Cost-plus-profit basis.
5. Usually trading items and working capital for raw materials are dealt under Murabaha
6. The subject commodity must be lawful
7. The profit in Murabaha can be determined by mutual consent, either in lump sum or through an agreed ratio of profit to be charged over the cost
8. Being a sale not a loan, the Murabaha must fulfill all the necessary conditions of valid sale
9. The price once fixed as per agreement cannot be further increased i.e. goods once sold cannot be resold.
10. Sale of Murabah goods may be of cash or credit basis
11. If client fails to payback on maturity, it is allowed to charge compensation subject to use of such compensation amount to be on benevolent projects i.e. bank cannot account for compensation as revenue
12. Rate of Return of MPI investment will be determined as per ECAI's rating grade/unrating of the client i.e. within the range of 14.00% to 16.00% p.a.
3.3 Murabaha Foreign Currency Investment (MFCI): Salient Features

<table>
<thead>
<tr>
<th>Underlying Islamic Mode</th>
<th>Murabaha mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of Fund</td>
<td>1. This investment is created while client's need payment of import bills against EDF obtained from Bangladesh Bank Export Development Fund under restricted Mudaraba agreement. 2. This investment is created while the bank allowed F.C investment against own Foreign currency fund particularly 50% balance of MFCD/NFCD account as per provision of Bangladesh Bank.</td>
</tr>
<tr>
<td>Purpose of Investment</td>
<td>To finance for input imports or input procurements against back to back import L/c / inland back to back L/c in foreign exchange to execute export order of manufacturer producing final output for direct export or a producer of local delivery of intermediate outputs to manufacturer of the final export.</td>
</tr>
<tr>
<td>Investment in Currency</td>
<td>USD or as per provision of financing bank and Bangladesh bank</td>
</tr>
<tr>
<td>Rate of Return (Profit)</td>
<td>1. For EDF as determined in Mudaraba agreement. As determined by the banks within profit rage fixed by Bangladesh bank. In case Balance of MFCD A/c as determined by the Bank from time to time and deal to deal basis.</td>
</tr>
<tr>
<td>Target Customers</td>
<td>All Customers falling under corporate and eligible as per criteria of Guidelines of Foreign Exchange Transactions 2009 and F.E Circular of Bangladesh Bank.</td>
</tr>
<tr>
<td>Security and Collateral</td>
<td>Cash, Collateral, Pledge, Mortgage of hypothecation of assets or as per Bangladesh Bank and financing bank requirement.</td>
</tr>
</tbody>
</table>

3.4 Bai Muajjal Back to Back Bills

General Features and Rules for Import under Bai- Muajjal Mode


b. The imported goods should be permissible by the Islamic Shariah and law of the land
c. The Bank must import the goods as per specifications of the Client to acquire ownership of the same before signing the Bai-Muajjal agreement with the Client.

d. The Bank must deliver the specified Goods to the Client on specified date and at specified place of delivery as per Contract.

e. In case of import /Purchase / Lifting or import against permit/License /IRC/Allotment(s) which is in the name of the Client, the Bank must obtain valid Letter of Authority from the allottee/permittee/IRC holder to import/purchase/lift the goods by the Bank before opening LC/making payment. Otherwise, import/purchase of those goods by the Bank will not be valid as per Islamic Shariah.

f. Title of goods in all transport and delivery document should be in the name of bank /branch to acquire ownership of the goods by Bank.

g. All agreement and contract must be filled up accurately. Blank and unsigned agreement and contract do not complete the formalities of Islamic shariah.

h. The bank will create the investment on single deal system i.e. the bank will pay all dues against the LC/Bill from a single account.

i. Profit on the bank’s investment in purchase of Foreign Currency Fund or involvement of Bank’s Fund as the case may be should not be charged separately.

j. The sale price should include cost price as per indent/proforma invoice plus other anticipated items of costs/expenses upto the time to delivery of consignment plus profit of the bank.

k. For early adjustment of the Import under Bai-Muajjal Investment, bank may/will allow rebate at the calculated rate of profit for the unexpired period.

l. Rate of Return of baim BB Bills Investmet is 11.00% p.a.

3.5 Features for Import under Hire Purchase and Shirkatul Meelk mode

In order to import capital Machinery and Equipments through Letter of Credit under Hire Purchase and Sirkatul Milk transactions with provision that the Asset/ Property is imported/purchased jointly by Hiree (Bank) and the Hirer (Client) with specified equity
participation under an Agreement in which the amount of equity and share in ownership of imported asset/property of the parties are clearly mentioned. Simultaneously the Hiree (Bank) promise to sell the imported asset/property to the Hirer part by part only. The imported asset/property is put at the possession of the Hirer (client) keeping ownership with the Hiree for a agreed fixed period of time against agreed amount of rent.

Rate of Return of HPSM investment will be determined as per ECAI's rating grade/unrating of the client i.e. within the range of 14.00% to 16.00% p.a.

All the features and terms of Hire Purchase under Shirkatul Milk General Investment of this Manual will be applicable in this case.

3.6 Bai- as - Sarf

Bai-as-Sarf (FDB) and Bai-as-Sarf (FCD) are the modes that are exercise for purchase/negotiation of foreign currency bills and cheque/drafts/instruments respectively.

"Bai-as-Sarf (FDB) " is practiced for providing post shipment finance facility against Foreign Currency export Bills and "Bai-as-Sarf (FCD) " is done for providing advance finance facility against Foreign Currency Cheque /Draft.

Salient Features of Bai-as-Sarf

a. This is a post-shipment finance mechanism under Bai mode.

b. Bai-as-Sarf means 'sale of price for price' and each price is consideration of the other. It also means sale of monetary value for monetary value i.e. currency exchange.

c. This is also known as purchase/sale of Foreign Currency to earn Exchange income under the Bai-as-Sarf agreement.

d. Usually exchange of one currency into another currency is dealt under Bai-as-Sarf mode.

e. The related foreign currency will be received by the bank as the client sold out the same to the bank at agreed upon exchange rate.

f. Since no law in this regard is prevalent in Bangladesh to govern such Bai- As-Sarf agreement, the relationship between the Client and the Bank shall be treated as seller and buyer.
g. In case of any dispute arising out of Bai-As-Sarf agreement or regarding the terms and conditions of the agreement, the Banks decision shall be final and binding upon the parties.

h. In the event of the Client's failure to repatriate the export proceeds by any consequence even for which the client is not responsible, the Client shall be liable to pay back the amount paid to him in connection with the said documents with Compensation/Fine/Penalty to the Bank.

i. Exchange rate is determined by Head Office on daily basis.

3.7 Musharka Documentary Bills (MDB)

General Features and Rules for Musharaka Documentary Bills (MDB)

a) The MDB investment will be allowed for local/deemed exporters against the deferred/usance export bills under deferred/usance Inland/Back to Bank LCs. MDB investment will be allowed only to the exporters/deemed exporters who are availing investment limit with IBBL approved by the Head Office.

b) The MDB is allowed only against Acceptance of the local Export Bills receive from the other Banks/issuing Bank branches and on maturity the MD liability and profit will be adjusted on realizing the proceeds of Export Bills from the issuing Bank/Branches.

c) The MDB investment will be allowed to clients as equity participation of the Bank in the client business as per agreed ratio which should be ensured at the time of disbursement and equity will be calculated as per example mentioned in this Manual at the chapter of operational procedures.

d) The client should declare the actual profit of the proposed deal/export bills and mention the same in application.

e) Bank will calculate /Share the profit as per agreed ratio mentioned in the client application ensuring existing Rate of Return of MDB Investment.

f) The client who has no outstanding liability may be allowed 100% of fund under MD investment.

g) The related MDB investment must be adjusted upon realization of concerned export bills.
Here we represent the leading Islami Bank in Bangladesh namely Islami Bank Bangladesh Limited (IBBL).

**Share of remittance:**

![Graph-1](image-url)
Comparative position of remittance of IBBL:

![Graph 2: Comparative Position of Remittance of IBBL: 2003-2011](image)

Market share of remittance:

![Graph 3: Market Share of Remittance(%)](image)
Import, Export & Remittance:

**Graph-4**

**Import, Export & Remittance (Million Taka)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Remittance</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>66,990</td>
<td>84,143</td>
<td>137,086</td>
</tr>
<tr>
<td>2008</td>
<td>93,962</td>
<td>140,404</td>
<td>223,329</td>
</tr>
<tr>
<td>2009</td>
<td>106,424</td>
<td>194,716</td>
<td>241,130</td>
</tr>
<tr>
<td>2010</td>
<td>184,421</td>
<td>214,629</td>
<td>399,040</td>
</tr>
<tr>
<td>2011</td>
<td>236,607</td>
<td>178,244</td>
<td>301,207</td>
</tr>
</tbody>
</table>

**Foreign exchange practice in conventional banking system:**

Though there is no visual differences between conventional and Islami bank in case of foreign exchange practice, there are some differences we can locate that are the change of their foreign exchange product name. For example there are some product name of Eastern Bank Limited are situated below:
Regular Trade Service Products are:

- Letter of Credit (Documentary Credit)
- Back-to-back Letter of Credit
- Shipping Guarantee
- Delivery Order
- Export LC (Advising & Transfer)
- Letter of Guarantee
- Import Bill Handling
- Export Bill Negotiation/Collection
- Import Loan
- Letter of Trust Receipt (LTR)
- Time Loan

Specialized Trade Service Products are:

- EDF loan
- BU Financing
- Packing Credit
- Demand Loan
- Tailor made Structured LC
Chapter-06

Total overview of Foreign exchange
Recent status of export, import and remittance:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Export</th>
<th>Total Import</th>
<th>Foreign Remittance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008–2009</td>
<td>$15.56b</td>
<td>$22.00b+</td>
<td>$9.68b</td>
</tr>
<tr>
<td>2009–2010</td>
<td>$16.7b</td>
<td>~$24b</td>
<td>$10.87b</td>
</tr>
<tr>
<td>2010–2011</td>
<td>$22.93b</td>
<td>$32b</td>
<td>$11.65b</td>
</tr>
<tr>
<td>2011–2012</td>
<td>$24.30b</td>
<td>$35.92b</td>
<td>$12.85b</td>
</tr>
</tbody>
</table>

Table-01  
Source: Export information bureau

Total export from Bangladesh during 2006-2007 amounted US Dollar12177.86 million (Taka 841003.01 million) as against US$ 10526.16 million (Taka 707463.51 million) during 2005-2006 showing an increase of US dollar 1651.70 million i.e. (+) 15.69%.

A statement of comparative year wise export-import earnings given below:
Table-02

<table>
<thead>
<tr>
<th>Product-Wise &amp; Region wise Export</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>01. Woven Garments</td>
<td>36.62%</td>
<td>38.02%</td>
<td>52.3%</td>
</tr>
<tr>
<td>02. Knitwear</td>
<td>39.21%</td>
<td>41.34%</td>
<td>33.3%</td>
</tr>
<tr>
<td>03. Frozen Food</td>
<td>3.78%</td>
<td>2.92%</td>
<td>2.5%</td>
</tr>
<tr>
<td>04. Jute Goods</td>
<td>2.26%</td>
<td>1.73%</td>
<td>8.8%</td>
</tr>
<tr>
<td>05. Leather</td>
<td>2.02%</td>
<td>1.13%</td>
<td>0.6%</td>
</tr>
<tr>
<td>06. Raw Jute</td>
<td>1.17%</td>
<td>0.95%</td>
<td>0.3%</td>
</tr>
<tr>
<td>07. Chemical Products</td>
<td>1.53%</td>
<td>1.80%</td>
<td>0.3%</td>
</tr>
<tr>
<td>08. Tea</td>
<td>0.11%</td>
<td>0.08%</td>
<td>1.8%</td>
</tr>
<tr>
<td>09. Other</td>
<td>13.30%</td>
<td>12.04%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product-Wise &amp; Region wise Export</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>01. european Union (E-U)</td>
<td>52.69%</td>
<td>52.3%</td>
<td></td>
</tr>
<tr>
<td>02. American Region</td>
<td>31.61%</td>
<td>33.3%</td>
<td></td>
</tr>
<tr>
<td>03. Asian Region</td>
<td>7.34%</td>
<td>8.8%</td>
<td></td>
</tr>
<tr>
<td>04. Middle East Region</td>
<td>1.52%</td>
<td>2.5%</td>
<td></td>
</tr>
<tr>
<td>05. African Region</td>
<td>0.97%</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>06. Oceania Region</td>
<td>0.62%</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>07. East European Region</td>
<td>2.51%</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>08. Other</td>
<td>2.74%</td>
<td>1.8%</td>
<td></td>
</tr>
</tbody>
</table>
01. Woven Garments 37.11%
02. Knitwear 40.01%
03. Frozen Food 2.73%
04. Jute Goods 4.86%
05. Leather 1.40%
06. Agricultural Products 1.50%
07. Engineers Products 1.92%
08. Footwear 1.26%
09. Other 9.21%

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (E-U)</td>
<td>52.3%</td>
</tr>
<tr>
<td>American Region</td>
<td>33.3%</td>
</tr>
<tr>
<td>Asian Region</td>
<td>8.8%</td>
</tr>
<tr>
<td>Middle East Region</td>
<td>2.5%</td>
</tr>
<tr>
<td>African Region</td>
<td>0.6%</td>
</tr>
<tr>
<td>Oceania Region</td>
<td>0.3%</td>
</tr>
<tr>
<td>East European Region</td>
<td>0.3%</td>
</tr>
<tr>
<td>Other</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

**Table-03**

**Graph-5**

Export Trend of Bangladesh During 1972-73 to 2006-2007
Bangladesh Export By Major products:

**Major Product - Wise Export of Bangladesh**

<table>
<thead>
<tr>
<th>Product</th>
<th>2009-10</th>
<th>2010-11 (July-April)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Jute</td>
<td>196</td>
<td>357</td>
</tr>
<tr>
<td>Agricultural Products</td>
<td>242</td>
<td>334</td>
</tr>
<tr>
<td>Frozen Foods</td>
<td>445</td>
<td>625</td>
</tr>
<tr>
<td>Leather</td>
<td>226</td>
<td>298</td>
</tr>
<tr>
<td>Jute Goods</td>
<td>592</td>
<td>758</td>
</tr>
<tr>
<td>Home Textiles</td>
<td>402</td>
<td>789</td>
</tr>
<tr>
<td>Chemicals</td>
<td>103</td>
<td>105</td>
</tr>
<tr>
<td>Specialized Textiles</td>
<td>186</td>
<td>165</td>
</tr>
<tr>
<td>Footwear</td>
<td>204</td>
<td>298</td>
</tr>
<tr>
<td>Knitwear</td>
<td>6483</td>
<td>9482</td>
</tr>
<tr>
<td>Woven Garments</td>
<td>6013</td>
<td>8432</td>
</tr>
<tr>
<td>Others</td>
<td>1113</td>
<td>1281</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16205</strong></td>
<td><strong>22924</strong></td>
</tr>
</tbody>
</table>

Table-04
Graph-6
Graph-7
Major importing countries of Bangladesh exportables during 2006-07

Graph-8

Bangladesh export by major Regions

Graph-9
Figure 5: Export of Bangladesh FY 2008-09

*Source: Export Promotion Bureau (EPB)*

Figure 6: Annual export growth of major items of Bangladesh (FY 2008-09)

*Source: Export Promotion Bureau (EPB)*
Bangladesh foreign exchange reserves: 

Graph-12 

Graph-13
Bangladesh: Export, Import, and Remittances Performance:

Bangladesh’s exports have been performing better than in other Asian countries coming out of the global crisis... led by garments, with other exports also performing well until recently.
Bangladesh’s market share of U.S. garment imports continues to rise slowly following some pullback in 2009.

Its share in Europe also remains significantly larger than regional competitors and is rising, buoyed recently by a Relaxation of rules of origin.
At the same time, growth in remittances slowed in 2010, although a modest uptick was observed in the first half of 2011... ...given an earlier pick up in the pace of Bangladeshi workers moving abroad.
Composition and Performance of Imports of Bangladesh:

Import Composition and Growth:

To analyze the import composition of Bangladesh it is observed that the import share of principal primary commodities (in total imports) showed a declining trend in recent years. On the other hand, the shares of principal industrial goods and capital goods reported a slight increase. The import payments for principal primary commodities, in FY 1998-99, were US$ 1,448 million representing 18.06% of total import payments. These figures decreased to US$ 980 million and $ 1,098 million (11.66% and 11.73% of total import payments) in FY 1999-2000 and 2000-01 respectively. The import shares of principal industrial goods increased to 14.58% and 15.34% in FY 1999-2000 and FY 2000-01 from 13.77% in FY 1998-99. The share of import payments for capital goods in total imports increased to 25.63% in FY 2000-01 from 24.56% in FY 1998-99. Import payments for rice and wheat significantly decreased in FY 1999-2000 and FY 2000-01 compared to FY 1998-99, which implies that the country is making progress in food production. The share of import payments for petroleum products increased significantly in FY 2000-01 compared to FY 1998-99. Total import payments stepped up to US$ 9363 million in FY 2000-01 from US$ 8403 million in FY 1999-2000 recording an increase by 11.42% (GOB 2002; Bangladesh Bank 2002-03).

GOB (2002) also reports that against the total import growth rate of 4.80%, the import growth rates for primary, industrial and capital goods were –32.32%, 10.96% and 8.33% respectively in FY 1999-2000. The import growth rates for all categories have increased in FY 2000-01, where the figures were 12.04% for primary goods, 17.22% for industrial goods and 12.52% for capital goods. Among the primary products, crude petroleum and
cotton recorded the higher import growth, 96.62% and 18.88% in FY 1999-2000 and 17.67% and 35.38% in FY 2000-01 respectively. The import growth rates of petroleum product were 50.37% and 41.63% in FY 1999-2000 and 2000-2001 respectively.

**Import Shares of Consumer and Capital Goods:**

The variations in the share of consumer and capital goods are not notable for the period 1995/96-1998/99 except for consumer goods in FY 1996-97, when the share dropped to 28% from 39% in FY 1995-96. The shares of consumer goods dominate throughout the period recording 38% to 39% of total import payments. Capital goods, on the other hand, registered 13% to 16% of total import payments during this time. The share for combination of consumer goods and materials represented 63% to 68% of total import payments, whereas the same for capital goods and materials together was 32% to 37% during the stated period (BBS 2000: 251).

**Current situation of Foreign exchange in Bangladesh**

1. **Bangladesh Bank buys $45m from 3 banks to stabilize foreign exchange market:**

The central bank Tuesday purchased $45 million from three commercial banks to keep the inter-bank foreign exchange market stable, officials said.

The Bangladesh Bank (BB) has taken the latest move against the backdrop of increased supply of the greenback in the market in recent times, following lower import payment for fuel oil. The Islamic Development Bank (IDB) made the payment on behalf of the Bangladesh Petroleum Corporation (BPC) under the existing credit line.

Besides, the country's overall import pressure has decreased at the end of the fiscal year, they added.

"We've intervened in the market to protect the interest of exporters and remitters through keeping the exchange rate of the local currency against the US dollar stable," a BB senior official told the FE.

He also said stability in the local currency exchange rate is essential for continuing the growth of remittance inflow and export earnings.

"We've bought the US dollar from banks at market rate to keep the exchange rate of the local currency stable against the greenback," a senior official of the Bangladesh Bank (BB) told the FE.
The US dollar was quoted at Tk 81.83 - Tk 81.87 in the inter-bank foreign exchange market on the day against Tk 81.73 - Tk 81.83 of the previous working day.

"We may continue our intervention in line with the market requirement," he said, adding that the central bank is closely monitoring the country's overall forex market.

Bangladesh's foreign exchange reserve rose to $10.12 million Tuesday from $10.059 billion of the previous day, following the purchase of the US dollar for the banks.

The central bank has gradually reduced its intervention in the country's foreign exchange market in the current fiscal year (2011-12), following improvement in foreign exchange supply situation, officials said.

Only US$ 70 million was bought from different banks so far this fiscal, as part of the market intervention. The central bank pumped $ 781 million directly to the commercial banks to meet higher demand for the greenback in the fiscal, according to the statistics.

"Lower import payment pressure, steady growth of inward remittance, and rising trend of export proceeds have contributed to improve the supply of foreign exchange in the market," the central banker said.

He also said the BB has provided the foreign currency support through selling the US dollar to the commercial banks to settle payment of import bills on account of essential items, including fuel oil, wheat, fertiliser and scrap vessel.

In the FY11, the central bank bought $ 316.50 million directly from the commercial banks, against $ 2.161 billion of the previous fiscal. On the other hand, the BB sold $ 1.279 billion directly to the commercial banks in the 2010-11 fiscal, compared to only $61.50 million in the previous fiscal.

"There was substantial inflow of the US dollar during the last two weeks, mainly in the telecom sector that eased the BDT/USD rate in the market," a senior treasury official of a commercial bank said.

He also said the exchange rate of the local currency against the US dollar may come under pressure again in the next month ahead of the Eid-ul-Fitr festival.
2. Hassle in issuing foreign trade licenses alleged:

The office of the Chief Controller of Import and Export (CCI&E) creates severe hurdles for businesses in issuing foreign trade licences and giving permissions, businessmen said Saturday.

They said that it is very difficult to get any export-import registration licence or 'no objection certificate' on foreign trade from the controller offices without giving bribe.

Besides, the controller makes delay in providing import registration certificate (IRC) and export registration certificate (ERC) and permission for export and import without letter of credit (LC) impeding foreign trade of local businessmen, they said. The CCI&E has set up 14 regional offices across the country to issue IRC, ERC and no objection certificate on foreign trade.

Usually, the CCI&E issues the IRC, ERC and permit import and export of products without opening letter of credit (LC) and monitor the import statistics.

A new garment entrepreneur said he had faced severe hassle in getting IRC and ERC from the chief controller's office in Dhaka.

"I had waited for long after applying for the IRC and ERC. I did not get those in time. When I paid bribe, I obtained the same," he told the FE requesting anonymity.

Some businessmen outside Dhaka alleged that the regional controller offices take much time to give decision as they have no controller posted there.

Dhaka Chamber of Commerce & Industry (DCCI) President Asif Ibrar told the FE that the businessmen face hurdles to obtaining foreign trade permission from the CCI&E.

"It has a lack of efficiency. We have requested the government to issue the export-import permit by the commercial banks to avoid the hassles at the CCI&E," he said.

A businessman said: "The government has appointed a controller as the acting chief controller at the CCI&E office who has been working there for the last three years. Since no person has been appointed as a regular chief at the office, it is not running well."

Hassle in issuing foreign trade licenses alleged

Published: Sunday, 18 November 2012

He said the government should appoint a regular chief controller to boost its efficiency as well as check corruption in providing import and export permissions.

Acting Chief Controller MA Sabur refuted the allegations and said they usually issue the licences within a day.

"There could be delay in the process in the regional offices. However I directed those offices too to issue the licenses within a day," he told the FE.

Former caretaker government adviser Dr Akbar Ali Khan said this type of certification is not consistent with the World Trade Organization (WTO).

If one needs to take such licences from a separate office, it will create hurdles for the
foreign business, he told the FE.

"I think there is no need to get licences for import or export separately by the businessmen. I believe trade licence is okay for even foreign trade," Akbar Ali Khan said.

FHM Humayan Kabir, Published: Sunday, 18 November 2012, (Vol 20 no 157 REGD DA 1589, Dhaka, Sunday, November 18, 2012)
Chapter-07

Findings and analysis
7.1 Procedure based mistakes:

❌ Get rich quick mentality:
Novice traders often see Foreign exchange as a simple way to become rich in a short period of time, without actually considering the risks and effort that must be put in to achieve such a goal. Placing very large trades in proportion to your account balance in an attempt to make a huge profit is unlikely to be successful in the long term because eventually a trade is likely to go against you, leading to severe losses.

❌ Random decision-making:
Traders should know where they intend to open and close their position before entering any market, based on a particular system they are following. Setting this ahead of time helps traders to focus on their system and eliminate second-guessing. It can also reduce losses by having stop loss orders in place. It's important to keep in mind that the market may not always agree with where you place an order.

❌ Using too much leverage:
One aspect of the Foreign exchange market that attracts many traders is the opportunity to trade on margin, in other words, leveraged trading. Trading with a small initial deposit will still make it possible for you to open relatively large positions, so it is important not to overdo it when selecting a trade size. Foreign exchange is usually traded with a high degree of leverage, which means you are able to provide 1% or less of the actual amount you are investing whilst sustaining profit/losses as if you had invested the whole nominal amount yourself. This can work for you as well as against you. The possibility does exist that you could sustain a loss equaling to some or even all of your initial investment. It is also possible to lose more than you initially invested in your trading account. We do have risk management systems that are designed to help prevent unmanageable losses although these measures still require a responsible approach to trading.

❌ Not using a stop loss:
Many new traders hold on to losing positions far too long thinking, or hoping, in some cases that the market will turn around. They also tend to get out of winning positions far too quickly to lock in an immediate profit, which eliminates the chance for greater gains. Although it is tempting to have this mind frame, you must have the patience to enter only those trades which you think are opportunistic and follow this up with the discipline to either cut this trade quickly if it turns against you or run with it because you believe in the trade.

❌ Trading on emotion:
Keeping calm and maintaining a balanced state of mind is crucial when trading in order to remain focused on relevant events. It’s important to always remember that the market's actions are nothing personal. It’s quite an easy thing to say but very difficult to do especially in the heat of the moment when you have to make a split second decision. Novice traders tend to trade with their emotions and they forget all the things that they've learned.

❌ No discipline:
Disciplined traders who stick with a tested trading plan consistently will, more often than not, profit over those who trade inconsistently because constant second-guessing ruins the profitability and eliminates the benefits of having a trading plan in the first place. It is crucial that you plan your trades
and trade your plan rather than randomly picking out trades on a whim because the latter is no more than punting with only the hope of winning as opposed to having an edge in the markets through the use of a solid, consistent trading system. It's important to maintain consistency with your trading system and follow it up with good analysis of your own processes in order to have a better idea of where you are going wrong.

**No money management:**
The main difference between an amateur and an experienced trader is their approach to money management. Professional traders recommend risking a set percentage of capital and never altering that percentage. Risking a set percentage of your total capital on each trade is an advantage in times of repeated losses because it reduces their impact. Amateur traders often disregard this and increase their stakes as they begin to lose more. This type of scenario inevitably leads to loss after loss.

**Not knowing your market:**
A common mistake made by novice Forex traders is to begin trading without having sufficient knowledge of their chosen currency pair(s) and how currencies are influenced by global events. Learn as much as you can about how different financial markets impact each other and how they intercorrelate, i.e. stocks, bonds, commodities and Forex. This knowledge will enable you to make better informed trading decisions when various economic figures are released. It is also important to identify the type of market that is prevailing to allow you to adjust your strategy accordingly and thus avoid entering into losing trades. The more informed you are, the better your chances of trading successfully. Be aware that some market participants have different intentions from the ones you have, for example, hedgers will sell into a market that is rising because hedgers often look for good average prices on large orders in order to risk manage their portfolios. This is in contrast to individual traders who seek to maximize profit on each trade.

**Not monitoring your positions:**
It is crucial that you monitor any exposure you have in the Forex market. Having a close eye on how your trade(s) is/are doing will help you maintain control of your trade(s) and help you to follow market movements as they happen. Staying up to date with market developments is a good way to maintain and expand your level of knowledge and understanding of the Foreign exchange market. Be aware that the Foreign exchange market trades 24 hours a day, so making use of pending orders will be crucial if you want to leave your PC.

**Trading without a strategy:**
A significant amount of time should be spent on deciding on your strategy before you place your first trade because this will make it easier for you to concentrate on market events. Most novice Forex traders begin trading without having sufficient knowledge of their chosen currency pair(s), how currencies are influenced by global events and how they plan to take advantage of price movements. It is crucial that you observe the market price action and try to identify trading patterns before risking your capital, with your observations helping you formulate a trading plan and a trading style.

Your trading strategy should take the following into account:

- Planned frequency of trading
- Time of day when you plan to trade
• Technical indicators you plan to use
• Buy/sell signals you plan to use
• Estimated risk and reward for each trade
• A daily stop limit to protect your total capital base

Your motivation to trade is a key aspect because most successful traders do not have profit in mind when trading because thinking about the potential future profit or potential future losses will cloud your decisions in the present. Instead, experienced traders focus on the process of trading rather than worrying about the amount they could win or lose in a trade.

1. Introduce new customer to foreign exchange business:
2. Customer dissatisfaction
3. Product barriers
4. Inefficient client
5. Security issues:
6. Excess legal bindings
7. Efficient and time reducing initiatives
8. Lacking of flexible rules
9. Banker’s perception regarding on the problem and prospect in foreign exchange dealing.

7.2 Major Issues, Challenges and Policies Option:

Despite the striking export growth rate, 13.83% in FY 2004-05 (GOB 2006), the commodity-concentration and market-concentration of exports have emerged as matters of concern. This excessive dependence on a few export items and markets reflects the vulnerability of Bangladesh’s external sector. So export diversification and market diversification continue to remain major challenges.

Domestic supply side constraints are major reasons for a narrow export base. To realize Bangladesh’s potential export opportunities, supply-side constraints need to be addressed immediately. Supply-side bottlenecks relate to infrastructure, communications, ports,
capacity in implementing export incentive regime, functioning of export-related institutions, and proper governance.

Other reasons for a narrow export base might be the role of real exchange rate and Dutch disease type problems caused by a surge of garment exports and remittances. For example, between 1991 and 1998, the real effective exchange rate in Bangladesh depreciated by a mere 5 percent while depreciation was much faster in some of the competitor neighboring countries; remittances increased to US$ 1949 million in 1999 from US$ 764 million in 1991 (Islam, 2003). The nation’s major investment efforts were diverted to readymade garment industries and manpower exports especially since the 1980s which seriously hampered the export opportunity of other sectors.

Competitive devaluation of Bangladesh’s currency can help increase the export base while tax concession to other potential export sectors can mitigate the Dutch disease-type problem.

The reasons for market concentration of Bangladesh trade is not easy to explain with a particular model such as the gravity model. The basic gravity model explains that trade between two nations is positively related to their income and negatively related to distance between them. Bangladesh’s recent import trade especially with India can be analysed from the distance point of view of the gravity model, but not from the income point of view. On the other hand, export trade cannot be analysed from the distance point of view, but may be analysed from the income point of view of the gravity model. A Heckcher–Ohlin type model may also be useful to explain Bangladesh’s trade though detailed study and application of these models is beyond the scope of this paper.

Chronic trade deficit is also of great concern. Bangladesh has to take bold steps to improve the situation. Specifically, the huge trade deficit with India is a sensitive issue with a great proportion of the population. To meet these challenges, Bangladesh must adopt appropriate policies. The overall policy framework may be as follows.

i) An open international trading system must be ensured which would offer fullest access of Bangladesh exports to international markets. The government should play a major role through dialogue with foreign trading partners.

ii) Appropriate macroeconomic policies including price stability and an appropriate exchange rate must be ensured. Bangladesh Bank, the central bank of Bangladesh, must take appropriate steps independently in this regard. The government must also contribute by playing a helping role to maintain the price stability. Prudent fiscal policy, for example, would be helpful in this regard.

iii) Hassle-free regulatory framework in terms of transparent business regulations and simplified export and import procedures must be determined.
iv) Adequate infrastructure must be built to facilitate the country’s exports. Sufficient investments, both from internal and external sources, are vital to improve the existing infrastructure facilities. Foreign direct investment can play a contributory role in this regard. The government must create a favourable investment environment by improving law and order situation and controlling corruption.

v) Proper quality of exportable items must be maintained to meet foreign demand. Better education and training to the workers and managers in the export industries, establishment of more technical schools and colleges, import of improved technology for export industries, and closed and regular product supervision can ensure the quality of exportable items.

vi) Government backed trade related services, such as export financing scheme, marketing and distribution services and trade promotion activities are essential. The government must be more supportive of these efforts.

vii) Close partnership between the Government and the business community is crucial. Honest businessmen, who are really contributing to the economy, deserve all kinds of cooperation from the government. A clear and constructive understanding between these two groups can undoubtedly improve the country’s export performance.

viii) Effective negotiations must be undertaken to have zero-tariff market access with the three developing countries of the SAARC, especially with India. Bangladesh can persuade India by raising the point that Bangladesh is a big market for Indian commodities. India is the largest import trading partner of Bangladesh. So the import capacity of Bangladesh must be increased for more trade with India. Easy access of Bangladesh’s exportable items to the Indian market will increase Bangladesh’s export earnings and enhance import capacity, which will be beneficial for the Indian economy, as Bangladesh can use these earnings for increased imports from India.

ix) Policy must be pursued for removal of all non-tariff barriers with respect to trade amongst countries of South Asia.

x) The government and the business community must work hard for export and market diversification. Efforts must be made to increase the export of traditional items. Frequent export fairs through the foreign missions can be helpful to introduce new exportable items to foreign buyers. The search for new markets for Bangladesh’s exports should be a continuous task for both the government and businessmen.
Chapter-08

Recommendations and conclusion
8.1 Improving customer services through Internet facilities:

INTERNET TRADING:

Internet trading represents a possible structural change in the bank–customer relationship. Through the 1990s, customers’ trading was an important source of both income and information for banks. Internet trading has made the customer segment much more competitive and may increase the transparency of customers’ trading, thereby changing the information role of customers. In this section we discuss the evolution of customer trading, the consequences of Internet trading, and what may lie ahead. In the early 1990s, customers’ access to information on interbank market activity was low, and they were relatively loyal to their banks. Customers requested quotes from banks over the telephone. A Reuter’s service called FXFX provided customers with information on interbank prices, but spreads on FXFX were much wider than in the interbank market. The midpoint was quite accurate, though. Banks used this screen as an advertising channel to customers. In this period, customer trading was very profitable for banks. During the 1990s, price transparency for customers increased, partly as a result of electronic brokers that made interbank transaction prices easier to collect and publish on-line. This, together with a increasing concern on the part of customers about noncompetitive terms and being locked in with heir banks, led customers to start shopping around at several banks for quotes. The customer segment became more competitive.

INTERNET TRADING WITH BANKS:

Banks’ initial response to the nonbank Internet trading sites for customers was to establish their own customer sites. In these sites, pricing is still given on request, but the administration of orders is easier for both customers and banks. The first network-based trading opportunity offered to customers by a bank was a closed network called FX Connect, introduced by State Street in August 1996. The introduction of the bank independent Currenex, which started trading in April 2000, was a turning point. This was the first multibank site, meaning that several banks were invited to provide prices. Immediately afterward, FX Connect opened up its system to other dealers as liquidity providers. FX all followed with their first trading in May 2001, established initially with seven major banks as owners in June 2000. The last addition was Atriax, started in December 2000 and backed by Reuters and three of the biggest banks. The big four sites quickly became FXConnect, Currenex, FXall, and Atriax, but Atriax was later closed down in early April 2002. More details on the four multibank sites are provided in Table 6. According to a survey made by Tower Group in March 2002, volumes traded through banks’ Internet portals are still limited. FX Connect by State Street is the largest with $6 billion as a daily average for March 2002. FX all was second with $1.5 billion and Currenex was third with $1.1 billion, whereas Atriax had $0.3 billion (just before they closed down). The volume of banks’ proprietary customer sites was estimated to be $5.5 billion aggregated. This should be compared with the total volumes of other financial institutions ($329 billion) and nonfinancial customers ($156 billion) from the most recent survey by BIS. The total Internet bank volume of $14.4 billion is small, so far, compared to the traditional volume. The aggregate volume of the nonbank independent portals is probably lower. Euro money reports strong growth for these sites since and reports $10 billion and $4 billion on normal days in November 2002 for FX Connect and FXall, respectively. The lack of convincing success (several portals have closed down about security with Internet-based trading (FX Connect started as a closed network) and (ii) the portals are struggling with high
costs, as true straight through processing (STP) is expensive to install. STP means that the trades enter directly into the customers’ systems without any manual work. In a survey by Euro money after the demise of Atriax, a majority believed that there would be only two multibank portals within a short time. Which of the three remaining big ones will disappear is difficult to say from banks’ practices. Today most banks participate in two or three of the multibank portals in addition to running their own (single-bank) portal. So far the main consequence of Internet trading is limited to transaction costs for customers. As Table 6 shows, requesting quotes, as in market making, as opposed to trading through brokers is still the most common. Compared with earlier practice, multibank portals enable the customer to obtain quotes from more banks, more efficiently, and this increases the competition. With pricing on request, customer order flow will still be private information held by banks. With an electronic broker for customers, as with interbank brokers, customer trading would, to a lesser extent, be private information. More recently, at least two of the portals have started working with structures more similar to those of crossing networks, with prices feeding into the system automatically.

POSSIBLE SCENARIOS:

Lyons (2002) suggests three possible scenarios with regard to the bank–customer relationship. In the first, Internet trading proves so successful that banks lose their entire customer trading. Hence, interbank trading will also vanish because customer trading is the primary reason for interbank trade in the first place. Because there is a positive externality with centralized trading, a network benefit, a centralized electronic broker that reaps all network benefits will probably emerge. Customers trade with each other, while the banks act as legal middlemen for the counterparties in the settlement of the trade. Lyons believes that a centralized electronic broker would be more efficient in providing liquidity than the current dealership structure, where dealers, acting as market makers, fill orders from their own inventory. The reason for this is that the risks associated with such trading are high, and the efficient matching performed by electronic brokers makes them very efficient for risk sharing. Furthermore, the banks have an advantage in settling the trades because they are better at credit management. This centralized electronic broker will offer much higher transparency than there is at present, but customer order flow will still be informative. The second scenario is a continuation of the current state of affairs, with banks having all customers trading. In this scenario, banks give customers favorable terms so as to keep away the competition from nonbank sites. Banks are willing to do this because they are able to profit from the information in their customer order flows. In the final scenario, one of the interbank electronic brokers allows customers to trade alongside dealers. If a nonbank site acquired considerable liquidity, the owners of EBS, one of the interbank electronic brokers, could open their system to customers and offer much higher liquidity than their nonbank competitor. In this scenario, the banks again would be middlemen between customers. This third scenario implies higher transparency than there is in today’s structure, but unless the electronic broker in which customers participate is an open one, customer order flow will remain private information because one cannot tell identities from the electronic brokers.

Information about market wide order flow will be much better, however. Of these scenarios, the second, the continuation of the current bank–customer structure, is most likely. If the first were about to emerge, the third scenario would certainly put a stop to it. However, of the three scenarios, it is the second that the banks prefer. They would rather keep information about their customer flows private than share it. So banks quote tight spreads to customers,
keep the nonbank sites at a low level, and gain by their informational advantage. We see that this is how FX all and FX Connect are set up: price competitively, so as to gain customer flow and keep the nonbank sites away, but within a dealership structure so as to keep the customer order flow private information. Let us end this section by drawing attention to the CLS Bank mentioned in the Introduction. Currently, banks are better at handling counterparty risk than nonbank sites. Because only banks can participate in the CLS Bank, this system will give banks an even larger advantage in handling counterparty risk, making it even more difficult for nonbank sites to attract large flows.

8.2 Introduce green banking:

If we visit any bank in Bangladesh it will help us to become amazed with the volume of papers which is used for different banking product work. It hampers the management and the customers also. Give those papers a suitable store house is also a problem.

To get rid out of this problem we need to improve more software by which we can easily find out and collect data. These initiatives should take with the shortest possible time by the government.

Banks can do much more to help the environment than just promote online banking. A truly green bank can reduce their carbon footprints by building more efficient branches, implementing more energy-efficient operational procedures, offering transportation services for their employees, and carefully screening their lending in environment-sensitive industries. Banks can also support eco-friendly groups, green lending, and raise money for local environment initiatives. Banks that go these significant lengths to be eco-friendly are a little more difficult to find than the banks that claim to be green by merely offering online services. Banks that offer rate incentives on CDs, money market accounts, savings accounts, and checking accounts for online banking help the green banking cause by rewarding online banking customers.

8.3 How to improve our Foreign exchange Trading:

Every Foreign exchange trader wants to improve their Foreign exchange trading success. By following the some simple steps outlined in this article you will gain great insight into some concrete strategies you can begin implementing immediately to take your Foreign exchange trading success to a new level. For all those traders who are struggling to make money in the markets each month and are looking for some no-nonsense ideas to get on the path towards profitable Foreign exchange trading, this one’s for you!

• Treat your trading like a business…not a casino or hobby.

Stop and think for a few minutes about how you have been behaving in the Foreign exchange market for the past month. Have you been viewing each trade as a business transaction with risk and reward associated with it? If not, you should be, there is risk associated with any
business; a restaurant runs the risk of having slow customer turnout and thus poor sales, if a restaurant’s total costs are more than the total revenue it brings in, it will have a loss at the end of the month. Similarly, if the costs of your losses are greater than the revenue from your winners each month, you will lose money in the market at the end of the month.

The example above is meant to get you thinking in terms of business transactions. When you view each interaction with the Foreign exchange market as a potential cost to your trading business, you will be more cautious of the trades you take and you will use more discretion. Foreign exchange trading is a business, unfortunately many; if not most Foreign exchange traders treat their Foreign exchange trading not as a business but as a trip to the casino. This would be analogous to the owner of a restaurant literally going to the casino each day and gambling away the revenue his restaurant brought in for the month instead of continuing to run his business as effectively and efficiently as possible. Starting right now you are to begin viewing your interactions with the Foreign exchange market in terms of costs (losing trades) and revenue (winning trades). The aim of any business is to keep costs as low as possible and revenue as high as possible. In Foreign exchange trading this is done by effectively managing the risk to reward on every trade you take.

• Use position sizing to manage your risk and reward effectively.

Positing sizing and risk to reward scenarios are how a Foreign exchange trader effectively keeps track of and manages his or her Foreign exchange trading business. Understanding how many lots to trade for every trade setup you take so that you can maintain your pre-determined risk amount is crucial to making your Foreign exchange business grow consistently and without massive drawdowns. Many traders make the mistake of risking more than they should or want to on a trade simply because they forget or don’t understand how to adjust their position size to meet the necessary stop loss. Stop loss distance should always be determined first and then position size should be adjusted accordingly to maintain desired risk amount.

Foreign exchange traders must use position sizing to not only manage their risk but also their reward on each trade. When you know before entering a trade how much you will have at risk (your cost of doing business with the market), you can then define a logical and obtainable reward as a multiple of your risk (revenue). Typically a reward of at least 2 times your risk amount is what you want to aim for, a reward of 3 or 4 times risk is even more preferable. This way you can make sure that you are using position sizing and risk to reward to effectively make your Foreign exchange business grow each month. The only other catch to be aware of here is that you must learn to not over trade and to pick only high probability trade setups. If you over trade and have many more losers than winners, even a risk to reward scenario of 1:4 will lose money over time, this is why it is critical to pick and choose your trades and wait for the most obvious ones. Check out this article for help on understanding risk reward & position sizing in Foreign exchange trading.

• Over-trading; a real problem for most traders and how to stop it.

As we alluded to in the above paragraph, over-trading is a big problem for most traders and it is critical that you stop it if you have been guilty of it and to be aware so that you don’t start if you are currently not over-trading. Over-trading in the Foreign exchange market is
analogous to a business running up their costs unnecessarily; this would work to reduce their monthly revenue and thus their monthly profit. As Foreign exchange traders we want to do everything we can to make as much profit each month as possible. When traders over-trade they invariably reduce the strike rate or accuracy of their trading strategy, this works to lower their monthly risk to reward and thus lower their profit or even cause them to incur losses. There are certainly times when the Foreign exchange market provides more high-probability trade setups than other times. However, many traders end up forcing trades when no real setup is present, as a result of either over confidence after a string of winners or anger after a string of losses. We want to keep our winning percentage as high as possible each month and take full advantage of the power of risk to reward scenarios, this can only be done by using sharply honed chart reading skills in order to enter into only the best trade setups.

• **Learn a handful of simplistic price action based strategies and master them.**

This step is critical for learning how to not over trade. Learning to trade off simplistic price action based strategies, and truly mastering them, will give you the discretionary skill required to not fall victim to the over-trading bug that plagues so many Foreign exchange traders. When you learn to master such price action based strategies you will also drastically improve your overall trading accuracy which will work to maximize the power of position sizing and risk to reward scenarios. It is important to demo trade for a few months before trying to trade with real money so that you obtain some discretionary skill taking only the best price action setups. Mastering these setups is something you will get better at overtime so it is critical that you have patience in the beginning while you learn the different between a high probability setup and one of lesser quality.

• **Have a trading plan.**

Having a pre-defined Foreign exchange trading plan is a necessary component to treating your Foreign exchange trading likes an actual business and drastically improving your trading success. Any profitable business has a business model or plan that the business was built around and continues to function off of. The reason businesses have pre-defined plans is because they must know how to properly react to all possible situations that might arise in order to create and maintain consistency within the company. Similarly, in a Foreign exchange trading business you must pre-define all aspects of your Foreign exchange trading if you wish to develop consistency and profitability in your Foreign exchange trading. It is possibly even more important in Foreign exchange trading than in other businesses to pre-define all aspects of your interaction with the markets because this is the only way you can guarantee that you don’t fall victim to emotion based trading mistakes like over-trading and over-leveraging.

Here is a good article on developing a Foreign exchange trading plan.

• **Use printed affirmations to keep your mindset on track, put them on your office wall or computer monitor.**

Daily affirmations can be a great way to keep your trading mindset in the realm of objective thinking so that you don’t fall prey to the many emotional pitfalls waiting for you as you trade the Foreign exchange market. It is important that you print out or physically write down these affirmations so that you have a tangible reminder of what you need to do to stay on
track. There is a difference between actually reading something and just thinking about it. Many traders think they don’t need to physically write out their trading plan or daily affirmations because they can just mentally rehearse them. However, this often leads to slacking and forgetting to follow your plan or affirmations due to the simple fact that there is no tangible evidence. Posting up daily affirmations and your trading plan somewhere obvious so that you almost force yourself to read it every day is a really good way to maintain conscious awareness of correct trading practices. Make it a trading habit to remind yourself every day before interacting with the market what you need to do to stay on the right track and you will very likely see a turn for the better in your Foreign exchange trading.

Example: Use Post it Notes and stick them on the side of your computer monitor or office wall. Affirmations as they relate to successful Foreign exchange trading might include things like:

- “Remember to manage my risk on every trade”
- “Foreign exchange trading is a business not a trip to the casino, treat it as such”
- “Be Patient, you don’t have to trade today, the market will still be here tomorrow”
- “Don’t fight the trend”
- “Take profits when they are 2 times my risk or slightly greater, don’t hold out of greed”

- You can really make your affirmations say whatever you want. The idea is to write them down when you are thinking objectively and NOT trading, that way you will have an objective reminder to read before you trade so that you are consciously aware of what you need to do to not fall into a habit of emotional trading mistakes. The other big thing with affirmations is to make sure you actually read them after you write them.

- **Trade what you see and believe in, don’t doubt yourself or become a “hindsight trader meaning does not enter a trade due to regret or for no logical reason.**

Beginning Foreign exchange traders very often make the mistake of trading off of an emotional feeling about the Foreign exchange market rather than an objective observation on price movement. Before entering any trade it is important to stop and take a deep breath and really ask yourself why you are entering the trade. Is there an obvious and strong price action signal on the chart or are you just trading because you want to be in a trade? It is very easy to jump into the market on a whim for any number of reasons…you might feel regret because you let a good trade setup get away, or maybe you just had a losing trade and are feeling angry with yourself or with the market and as a result you decide to jump right back in on a less than quality trade setup. There are a number of emotional reasons like these that cause traders to trade for no real logical reason instead of trading based solely on the objective price action on the chart in front of you.

Remember to implement the above 7 steps every time you interact with the market, and above all, when it comes to your trading method, focus on always using a non-cluttered approach such as price action trading which will greatly increase not only your ability to trade successfully, but will help keep you in a clear mindset so that you can better follow the concepts in this article.
8.4 Increase foreign exchange reserve:

An increase in foreign exchange reserves helps an economy by increasing the "cushion" it has against excessive variations of the exchange rate. This is particularly important for fixed exchange regimes where it is vital for an economy to keep its exchange rate constant, so the greater the reserves the easier it is for this given economy to defend its parity because it can conduct market operations (selling or buying foreign exchange) to maintain their parity.

It can also be important for floating regimes when the variations in the exchange rate are so great that they can disrupt the international trade of this economy and, obviously, destabilize the economy. Once again, the greater the reserves, the better off the central bank are to intervene the foreign exchange market.

Establishing strict rules and regulation regarding collateral and fund recovery:

We have enough rules and regulations for fund recovery. But still we have to consider it as a big problem of banking sector of Bangladesh because of proper management and regulator who will maintain this kind of activates. For some fraudulent in banking sector we paid a lot in previous and still do the same what our seniors do but in a big sense. That’s why Shonali Bank issue is the most famous issue in today’s news.

That’s why we have to impose some rules and regulations which will help us to overcome this problem.

Strategies and Export Promotion Measures:

Some strategies have been incorporated in the new Export Policy to achieve the objectives. Some useful export promotion measures have also been undertaken. These are briefly highlighted.

• Use of foreign currency

The exporters can deposit a certain amount of their export earning in foreign currency under a retention quota in their foreign currency account in the form of US dollar, pound sterling, Japanese yen or euro. The amount of the retention (in terms of percentage) will be fixed by the government/ Bangladesh Bank. This foreign currency can be used to fulfill real business needs like business trips abroad, participation in export fairs or seminars in foreign countries, import of raw materials and spare parts, and setting up of offices abroad (GOB 2003).

• Export Fund

Interest free loans will be provided under duty-draw-back credit scheme for 180 days and 100 percent of the loan amount will be provided in advance; import process of raw materials and
related products will be made easier under the export promotion fund (EPF); facilities will be provided to open back- to- back LCs for all exportable; and the proposals for importing capital machineries with soft term loan with lower interest rate may be considered for export promotion.

• **Export Loan**

The exporters can get 90 percent of the LC amount from commercial banks under irrevocable letter of credit or confirmed contract. The commercial banks will consider such cases on priority basis; Bangladesh Bank will take steps to continue normal flow of loans in the export sector; the cash credit limit of the exporters will be fixed in view of their success in the previous year; and Bangladesh Bank will launch an export credit cell while commercial banks will set up special units to provide funds for exports.

• **Other facilities**

Among these facilities, exemption of insurance premium, incentives for non-traditional industrial products, bond facilities for export oriented industries, facilities for duty free import of capital machineries for export-oriented industries, tax holiday, duty drawback scheme, easing VAT return on export supplementary services, permission for selling rejected products of export industries, strengthening export related training, setting up of world trade centers, country fair with international standard, relaxing restrictions on importing raw materials for export products, etc. are notable (GOB 2003).
Conclusion:

Despite the structural limitations of the Bangladesh economy, the export sector performed well throughout the 1990s. The export growth rate of Bangladesh was higher than the export growth rate of the world and the SAARC countries. The import growth rate of Bangladesh was also higher than that of the world and the SAARC countries during the 1980s and 1990s. Bangladesh’s import share as percentage of world and SAARC countries’ imports has also increased over the years.

The export-GDP ratio, import –GDP ratio and trade-GDP ratio have increased over the years. The growth rate of export- GDP ratio of Bangladesh was the highest during 1980-2002 among the SAARC countries. However, the balance of trade of Bangladesh remained in deficit. The country also had trade deficits with all SAARC countries while the trade deficit with India is huge.

The export composition of Bangladesh has been changing over the years. The share of primary commodities has decreased, and that of manufactured commodities has increased over the years. In terms of growth rate the performance of manufactured commodities is better than that of primary commodities.

The analysis of import composition revealed that import share of principal primary commodities has declined while that of principal industrial and capital goods has slightly increased over the past years. The import growth rate for principal industrial goods is the highest, followed by capital goods and principal primary goods in FY 1999-2000 and 2001-01. The import share of consumer goods and materials is around two-thirds of total imports and that of capital goods and materials is around one-third of total import over the years. Though import payments also increased with export earnings, the import growth was not as robust as export growth.

The striking features for the Bangladesh’s exports are commodity and market concentration. This is the main concern. To address it, there is no alternative but to initiate diversification and quality improvements. New markets for the country’s exports must also be explored to secure more stability in the export sector. To reduce the dependence on imported inputs for the readymade garments and knitwear industries, Bangladesh must make massive investments in both yarn and fabric manufactures. This would create forward and backward linkages; and current trade deficit would improve. Furthermore, openness of Bangladesh and its trading partners, infrastructural development, adequate trade related services, appropriate macroeconomic policy and close partnership between the government and the business community are crucial to improve the country’s overall trade balance. To improve the trade balance with the SAARC countries, especially with India, further currency devaluation, measures to stop border smuggling, removal of tariff and non-tariff barriers on Bangladesh’s exports, arrangement for more Indian investment in Bangladesh and political harmony in the region are vital. A customs union within the SAARC region is likely to offset many of the existing trade related problems.
Bibliography

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4. FOREIGN TRADE REVIEW (By Indra Nath Mukherji, VOL. XLVI, JULY-SEPTEMBER 2011, NO. 2)
5. Hedging of Foreign Exchange Risk by Corporate in India ( By Dr.Hiren Maniar, INSTITUTE: - L&T Institute of Project Management, Vadodara )
6. Bangladesh Bank (website)
Appendix

**Questionnaires**:

Foreign exchange dealings of IBBL, problem and prospect.

Name of respondent:

Designation:

A. Please give your valuable opinion regarding the problems in foreign exchange dealings of your bank:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Never</th>
<th>Seldom</th>
<th>Sometimes</th>
<th>Often</th>
<th>Always</th>
<th>WAS</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient profit rate</td>
<td></td>
<td></td>
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<td>Lack of qualified and experienced personal logistic support</td>
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<td>Confusion about profit and interest</td>
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<td>Sequence of activity is not positive</td>
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<td>Inefficiency of government authentication</td>
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<td>Modes of mechanism is not universalized</td>
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</table>
B. Please give your valuable opinion regarding the problems in foreign exchange dealings of your bank:

<table>
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<tr>
<th>Statement</th>
<th>Very low</th>
<th>Low</th>
<th>Neutral</th>
<th>High</th>
<th>Very high</th>
<th>WAS</th>
<th>Remark</th>
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<tbody>
<tr>
<td>Higher growth rate</td>
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<td>Huge portion of total income</td>
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<td>Challenging work force</td>
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<td>New research about FX dealings</td>
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<td>Update logistic support</td>
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<td>Employee training</td>
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<td>People like to avoid interest</td>
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Note: WAS-Weighted average scale.