



# Regulatory Updates

December 2024



Given the current condition of foreign currency and domestic stock market, the government of Bangladesh has introduced new regulations or amended existing regulations for more effective management of economic conditions of the country. This update presents some of our picks from the major updates which any professional should be aware of.

## Major regulatory updates

### Foreign Exchange (Bangladesh Bank)

#### 1. Revised interest rates on Export Development Fund (EDF)

Bangladesh Bank has revised the interest rate for disbursement of EDF loans to Authorised Dealers (ADs) from 3% per annum to Secured Overnight Financing Rate (SOFR) plus 0.5% per annum.

Simultaneously interest rates charged by ADs have been revised from 4.5% to SOFR plus 1.5% per annum.

*FEPD Circular No. 15 dated 1 September 2024*

#### 2. Issuance of payment commitments as collaterals against surplus earnings payable to airlines/shipping companies abroad

Authorised Dealers (ADs) can issue payment commitments on behalf of their agent/customers in favour of foreign airlines/shipping companies. ADs have to ensure conditions such as ensuring compliance with credit norms, providing collateral documentation, obtaining approval from the bank's board, and verifying document authenticity. In case of encashment, payments will be made based on surplus earnings. ADs are required to submit transaction reports to Bangladesh Bank after remittance.

*FEPD circular no 19 dated 3 October 2024*

#### 3. Simplification of declaration process for small value export under business-to-consumer on e-commerce website

Bangladesh Bank simplifies the export process for small-value e-commerce exports (up to USD 500). It removes the requirement for an EXP Form declaration if payment is received before

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shipment. ADs must ensure exporters comply with applicable regulations, provide shipment details, and retain payments in margin accounts until relevant documents (e.g., Bill of Export) are received. ADs must also verify customers' compliance with KYC norms, maintain transaction records, and report to Bangladesh Bank. Additionally, ADs may allow home delivery exports if transport costs are prepaid.

*FE circular no 20 dated 14 October 2024*

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#### **4. Registration of agreements for remittances by star-rated hotels**

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Bangladesh Bank simplifies remittance procedures for star-rated hotels by requiring the registration of agreements with Bangladesh Bank (BB) through the Authorised Dealer instead of seeking remittance permissions on case to case basis. It is to be noted that ADs should not apply for registration of items which fall under BIDA's guidelines (e.g. royalty, technical fees).

Applications must include agreements, financial statements, tax and regulatory compliance documents, and justification for obtaining international services etc. Existing agreements must be registered by 31 January 2025, and Authorised Dealers (ADs) must ensure all transactions comply with BB's registration terms.

*FEID Circular No. 01 dated 20 November 2024*

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#### **5. Guidelines for Operations of Joint Ventures/Consortiums/Associations (JVCA) with Foreign Partners**

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Guideline is introduced for outlining the operations of Joint Venture/Consortium/Associations (JVCA) for foreign partners to streamline the process and make it more transparent. Please refer to our *TaxNewsFlash* for further details.

*FEID Circular No 2 dated 20 November 2024*

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#### **6. Phase-out of document submission for advance import payments**

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Authorised Dealers (ADs) are no longer required to submit documents in support of advance import payments to Bangladesh Bank. Instead, ADs must preserve these documents electronically and in paper form for inspection when needed.

*FE Circular No. 32 dated 19 November 2024*

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#### **7. Updated guidelines for timely settlement of import payments**

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Considering the current foreign exchange crisis, Bangladesh Bank has provided guidelines to encourage timely settlement of import payments. In this regard, ADs have to follow the outlined framework:

- Before issuing Letters of Credit (LCs), ADs must ensure that importers have sufficient credit lines.
- If importers don't have credit facilities, LCs can only be issued if there are adequate cash flows and future fund arrangements to cover the payments.
- Usance imports (deferred payment imports) should be financed through buyer's credit from offshore banking or the AD's own funds, as per the guidelines.

*FEPD Circular No. 30 dated 12 November 2024*

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#### **8. More flexible interest/ profit on Resident Foreign Currency Deposit (RFCD) accounts**

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Bangladesh Bank brought consistency of interest rate/profit on RFCD account in line with the market-based interest rates applicable in Bangladesh.

Previous structure of interest rate based on benchmark rate + premium is now revised to discretionary rate determined by the ADs based on customer-banker relations.

*FE Circular No. 28 dated 31 October 2024*

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#### **9. Remittances of aircraft lease rental by airlines incorporated in Bangladesh**

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Bangladesh Bank further deregulates the process for Bangladeshi Airlines to remit lease payments for aircraft, reducing the need for time-consuming case-by-case approval from Bangladesh Bank. It enables airlines to more efficiently manage their financial obligations related to leased aircraft.

Airlines are required to file for repatriation of remittances with the relevant documentation in addition to the compliance of all the required regulations. If all conditions are met, remittances will be approved by the AD bank.

*FEPD circular no. 21 dated 17 October 2024*

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#### **10. Outward remittances on account of cloud and other related service usage fees.**

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Bangladesh Bank broadens the scope of *software maintenance/support fees* to include cloud services, IT infrastructure services, and remote software applications. For the remittance of such fees, Bangladesh Bank (BB) approval is not needed as Authorised Dealer (AD) can examine and effect remittances.

Bangladesh Bank also permits ADs to effect remittances on behalf of arranger-customers routing respective services to the ultimate users. This allows the arranger of the service to pay rather than limit it to customers/ end users.

*FE Circular Letter No. 22, dated 17 October 2024*

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#### **11. Usance import under purchases/sales contract**

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In line with the Import Policy Order, Bangladesh Bank has issued a formal circular to guide and explain the process of the import through purchase/sales contracts without LCs on a usance basis.

*FEPD circular no. 24 dated 24 October 2024*

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#### **12. Import of capital machinery on usance term**

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Bangladesh Bank announced a revision in the guidelines for importing capital machinery in Bangladesh, extending the usance term from 360 days to 3 years for industrial enterprises. This revised term applies not only to regular industries but also to those operating in export processing zones, economic zones, hi-tech parks, and other specialised zones.

The cost of financing during the usance period must not exceed the rate allowed for short-term import finance under supplier's/buyer's credit.

*FE Circular No. 35 dated 1 December 2024*

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### 13. Support for import-dependent industries facing exchange rate losses

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Local manufacturing industries have faced significant exchange rate losses when importing raw materials. Given that most of them are contracted with the government at fixed prices, this has led to forced loans, reduced production capacity, and working capital deficits, particularly in the steel and cement sectors.

To support these industries and maintain financial growth, a term loan facility has been introduced amounting to the *exchange rate loss* which is repayable over 8 years with a 1-year grace period.

*BRPD Circular Letter No- 50 dated 27 November 2024*

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This newsletter is a periodic publication of KPMG Bangladesh. If you need more detailed explanation, please feel free to contact us.



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