

Bangladesh Economic Update
REMITTANCE
October 2012



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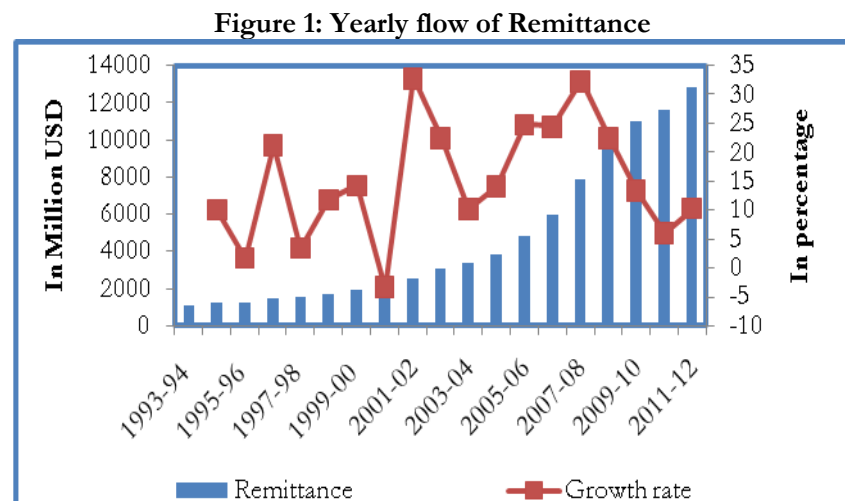
1. INTRODUCTION

A discussion on remittance is warranted not only because of its sustained contribution towards growth, and role in maintaining overall balance, of the economy, but also because of depressed demand arising out of political instability in some Middle Eastern countries, the region receiving most of the temporary migrant workers, prohibition in issuance of visa in U.A.E., and the recent spat between recruiting agencies and the government. The situation has been further challenged by the existing structural problems such as increase in less-skilled labour migration instead of skilled and professionals and failure in adding new destination in the current decade. The economy has witnessed a decreasing trend in per capita remittance after the month of February, 2011. Although the flow of remittance has increased in the local currency, the amount declined in terms of dollar due to the depreciation of local currency against dollars.

2. REMITTANCE INFLOWS IN BANGLADESH

Over the years, the flow of remittance in Bangladesh is increasing in volume, but the rate of growth in remittance has decreased since FY 2008-09 except in the last fiscal year.

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Source: Bureau of Manpower, Employment and Training, Foreign Exchange Policy Department, Bangladesh Bank, 2012

In FY 2011-12, the rate of growth in remittance was 10.24 percent, which was 4.21 percent more than that of FY 2010-11.

The peaks in rate of growth of remittance were in FY 1996-97, FY 2001-02 and FY 2007-08. Again, the rate of growth in remittance was the lowest in FY 1995-96, FY 2000-01, 2003-04 and FY 2010-11.

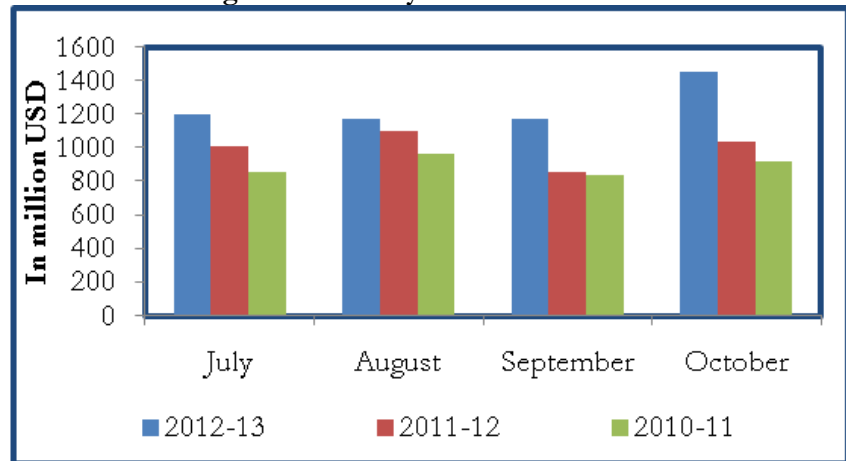
In FY 2011-12, the rate of growth in remittance was 10.24 percent, which was 4.21 percent more than that of FY 2010-11. In FY 2010-11, the rate of growth in remittance was 6.03 percent, which was respectively 7.36, 9.02 and 9.97 percent less than those of FY 2009-10, FY 2008-09 and FY 2007-08. In FY 2011-12, Bangladesh received remittances of USD 12843.43 million which was 1193.11 million more than that of FY 2010-11. Especially, the inflow of remittance had been increasing from the FY 2001-02 (Figure: 1).

The peaks in rate of growth of remittance were in FY 1996-97, FY 2001-02 and FY 2007-08. Again, the rate of growth in remittance was the lowest in FY 1995-96, FY 2000-01, 2003-04 and FY 2010-11. During FY 2002-03 - FY 2004-05, the yearly average rate of growth in remittance was 15.56 percent whereas it was only 9.89 percent during FY 2009-10 to 2011-12.

According to newspaper reports,¹Bangladesh received remittances of BDT 68,437.80 million in total in December, 2010 including BDT 3.5 million from the Bangladeshis in Libya. The remittance from Libya was the highest in August, 2010 with BDT 6.9 million. As the political crisis in Libya along with some other Middle-Eastern countries continues for long, remittance inflow to the country have come down drastically. Bangladesh is considered one of the major labour exporting countries of the world.

In the month of October 2012, total inflow of remittance was USD 1453.60 million which was 24.04 percent more than that of the previous month of the current fiscal year due to Eid-ul-Azha and Durga Puja.

Figure 2: Monthly flow of Remittance



Source: Source: Bureau of Manpower, Employment and Training; Foreign Exchange Policy Department, Bangladesh Bank, 2012

Inflow of remittance in the current fiscal year exhibits an erratic trend, going down in a month while increasing in the other, suggesting no definitive trend. The inflow of remittance in the

¹ http://newagebd.com/newspaper1/archive_details.php?date=2011-03-03&nid=10218

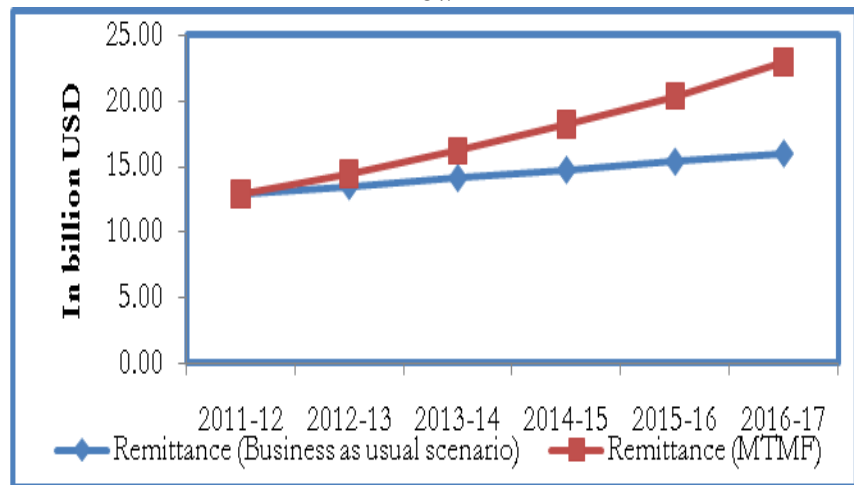
In FY 2012-13 (During July to October), the rate of growth on remittance was 24.75 percent which was 11.99 percent in FY 2011-12.

In FY 2012-13, the receipt of remittance might be USD 13.46 billion in total than that of the MTMF projection of USD 14.50 billion, which indicates a gap of USD 1.04 billion.

months of July, August, September and October in 2012 are USD 1201.15 million, 1178.65 million, 1171.90 million, and 1453.6 million respectively. The receipt of remittances, however, in October has peaked as usual, coinciding Eid-ul-Adha and Durga Puja. Considering FY 2010-11, FY 2011-12 and 2012-013, remittance inflow shows a decreasing trend during July to September. In FY 2012-13 (During July to October), the rate of growth on remittance was 24.75 percent which was 11.99 percent in FY 2011-12.

As the incremental growth rate of remittance is decreasing, the gap between the actual flow of remittance and the target made in the Medium Term Macroeconomic Framework (MTMF) of the government in the upcoming fiscal years might grow. In FY 2011-12, the actual receipt of remittance was USD 12.84 billion than that of the MTMF target of USD 12.90 billion. In FY 2012-13, the receipt of remittance might be USD 13.46 billion in total than that of the MTMF projection of USD 14.50 billion, which indicates a gap of USD 1.04 billion. The gap might increase further in FY 2016-17, if a projection is made on the basis of historical track record. In a business as usual scenario, the flow of remittance might stand at USD 15.94 billion against the MTMF target of USD 23.00 billion. According to the new target of MTMF, the inflow of remittance were USD .0.30 billion, USD 0.30 billion, USD 0.80 million and USD 0.40 million respectively in FY 2012-13, FY 2013-14, FY 2014-15 and FY 2015-16 which is more than that of the previous target. Considering the new target, the gap between MTMF and historical track record might be increased.

Figure 3: Comparison between MTMF projection and remittance flow



Source: Authors' calculation based on Bangladesh Bank and finance division of Ministry of Finance, 2012

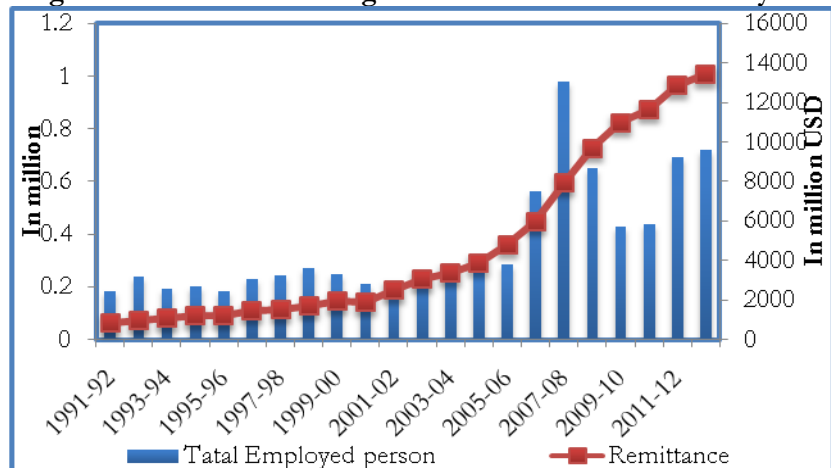
3. FLOW OF LABOUR MIGRATION

The flow of labour migration has been following an increasing trend over the years until FY 2007-08. Later, it continued to decline over the next three successive fiscal years. The reason is that the global economic recession and collapse of the construction sector in the Middle East due to which the demand for external labour declined. Again, the flow of labour migration increased in FY 2011-12 in comparison with the preceding years though with an erratic trend over the months of entire fiscal year. In addition, earnings from remittance followed an increasing trend in volume over FY 2011-12. However, the rate of growth on remittance witnessed a decreasing rate because of the decreasing trend of skilled labour migration from Bangladesh to different developing and developed countries.

In FY 2011-12, the total labour migration was 0.69 million which increased by 57.86 percent than that of the previous fiscal year due to the better economic condition, fuelled by recovery in Saudi Arabia and the UAE.

In FY 2011-12, the total labour migration was 0.69 million which increased by 57.86 percent than that of the previous fiscal year due to the better economic condition, fuelled by recovery in Saudi Arabia and the UAE. In the mean time, remittance increased by only 10.24 percent than that of FY 2010-11 though the depreciation of Taka against US dollar is observed for a few months of FY 2011-12. The rate of growth in labour migration was only 2.85 percent in FY 2010-11 due to the effects of the crisis in Libya and Egypt. Moreover, the flow in the migration of workers shows a significant growth in FY 2007-2008 due to increase in the employment of skilled manpower in the construction sector in some countries such as Malaysia, Singapore, Oman, KSA and UAE. Later, it declined in FY 2009-10 by 56.46 percent due to the worldwide financial crisis.

Figure 4: Flow of labour migration and remittance over the years



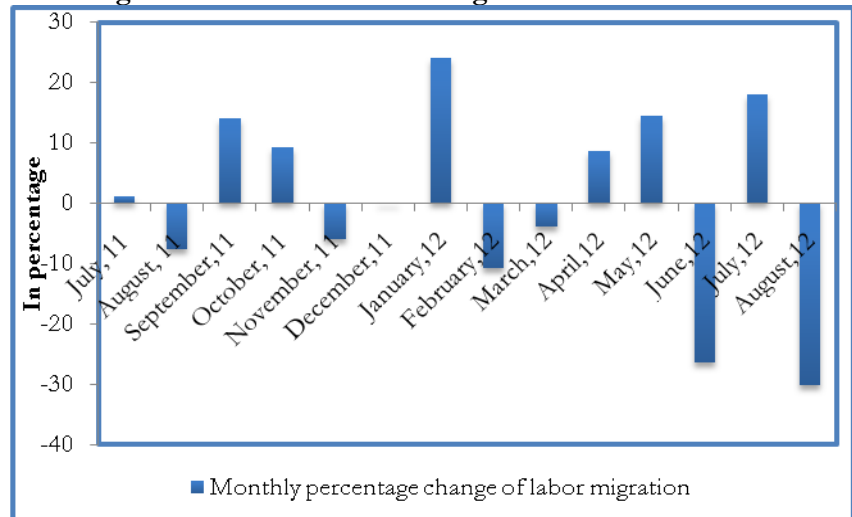
Source: Authors' calculation based on Bureau of Manpower, Employment & Training, Foreign Exchange Policy Department, Bangladesh Bank, 2012

4. MONTHLY SCENARIO OF LABOUR MIGRATION

In the second month of the current fiscal year, the total number of labour migration declined to 0.04 million which was 30.20 percent lower than that of the first month of the current fiscal year.

The flow of labour migration is following an erratic trend over the months of FY 2011-12 because of the unrest in some Middle Eastern countries such as Libya. During the first two months of the current fiscal year (2012-13), total exports of manpower were 0.11 million which was 10.08 percent higher than that of the same period of FY 2011-12. In the second month of the current fiscal year, the total number of labour migration declined to 0.04 million which was 30.20 percent lower than that of the first month of the current fiscal year. In January 2012, the migration of labour was the highest at 0.07 million which was 24.17 percent higher than that of December, 2011. Again, it declined astonishingly in June, 2012 by 26.51 percent.

Figure 5: Scenario of labour migration over the months



Source: Authors' calculation based on Bureau of Manpower, Employment & Training, Bangladesh Bank, 2012

According to Bangladesh Association of International Recruiting Agencies (BAIRA), over 0.08 million Bangladeshi people worked in Libya in FY 2011-12². The recent crisis in Libya has forced to quit many of the Bangladeshi workers from the strife-torn country. The labour migration might further reduce in the rest of the months of the current fiscal year because of the prohibition of VISA by the authorities in the UAE. According to newspaper reports,³ The UAE has stopped issuing all kinds of entry permits for Bangladeshi passport holders due to security concerns in case of identification and fake documents which showed a decline in manpower export

² http://newagebd.com/newspaper1/archive_details.php?date=2011-03-03&nid=10218

³ <http://news.priyo.com/2012/10/06/business-61148.html>

to the UAE in the month of August, 2012. However, this restriction is assumed to have a drastic fall in manpower export in UAE. According to newspaper reports,⁴ Bangladesh exported 23,025 people to UAE in June 2012 whereas it was 27,535 in July 2012. However, the migration of labour came down at 15,771 in August, 2012.

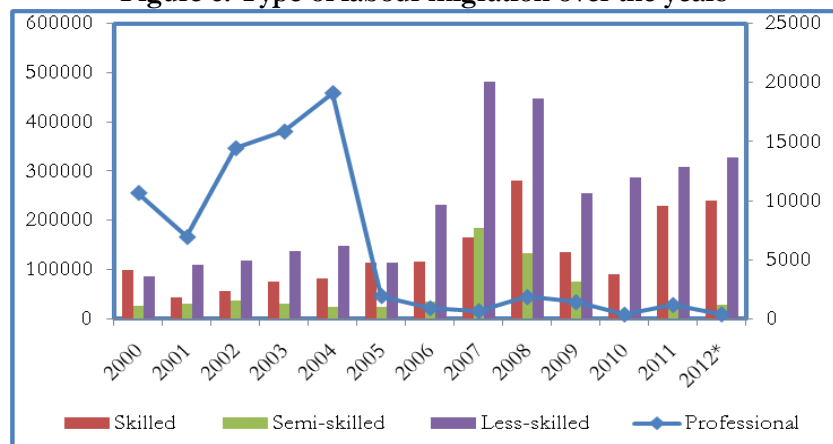
5. TYPES OF LABOUR MIGRATION

Less skilled labours have the highest share of the total labour migration than those of skilled and semi-skilled labour.⁵ Moreover, the flow of less-skilled labour migration is increasing more than that of skilled labour.

In calendar year 2011, the total labour migration was 0.57 million whereas the less-skilled, skilled and professional labour migration increased by 7.6, 152.9 and 208.0 percent respectively than that of the previous calendar year of 2010.

The gap between the skilled and professional labours along with less-skilled labours has increased over the years. In calendar year 2011, the total labour migration was 0.57 million whereas the less-skilled, skilled and professional labour migration increased by 7.6, 152.9 and 208.0 percent respectively than that of the previous calendar year of 2010. An estimate made on the basis of past data reveals that the labour migration with less-skilled and skilled might increase by 4.7 and 6.0 percent while professional labour migration might decrease by 66.3 percent in the current calendar year.

Figure 6: Type of labour migration over the years



Source: Authors' calculation based on Bureau of Manpower, Employment & Training, Bangladesh Bank, 2012

⁴ <http://www.thedailystar.net/newDesign/news-details.php?nid=252497>

⁵ The Bureau of Manpower Employment and Training (BMET) divides migrants into four categories - professional, skilled, semi-skilled and unskilled labourers. Professionals are identified as doctors, engineers, nurses and teachers. Skilled labours are classified as manufacturing or garments workers while tailor, mason etc. are termed as semi-skilled workers. The major part of the migrated labour is unskilled who are considered as housemaid, cleaner, labourers etc.

The increasing trend of labour migration however cannot raise the bar of remittance as the gap between skilled and less skilled labour is on a rising trend. The crisis in Middle Eastern countries and decline in the demand of labour from Bangladesh to Malaysia, Saudi-Arabia, Kuwait and Singapore made the demand of less-skilled labours slower in the calendar year 2011. In calendar year 2011, out of 0.57 million labour migration, 54.39 percent were less-skilled, 5.06 percent were semi-skilled, 40.34 percent were skilled and only 0.21 percent were professionals while the share of less-skilled, skilled and semi-skilled labour migration were 73.52, 23.19 and 3.19 percent respectively in the previous calendar year of 2010.

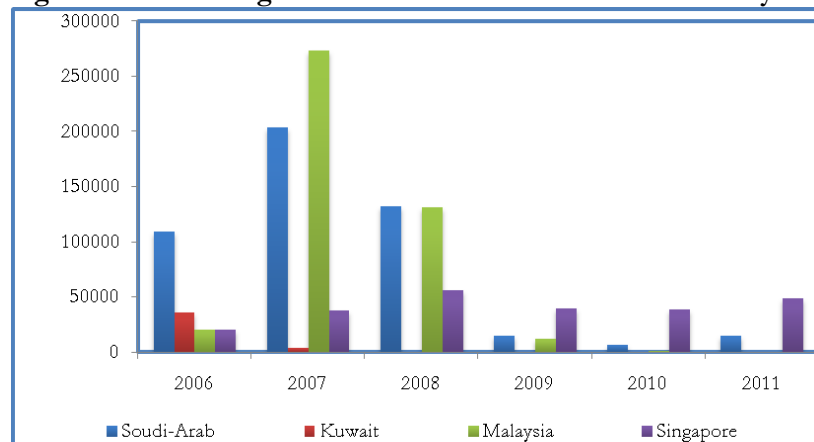
Although the share of skilled labour of the total labour migration has increased compared to the less-skilled one, it may decline in the upcoming calendar years if the government does not take necessary measures.

6. COUNTRY WISE LABOUR MIGRATION

In calendar year 2011, labour migration to Saudi Arabia, Kuwait, Bahrain, and Malaysia dropped by 92.63, 99.31, 14.83 and 99.73 percent respectively than those of 2007.

The crisis in Middle Eastern countries and reduction in the demand for labour of Bangladesh from Malaysia, Saudi-Arabia, Kuwait and Singapore have declined the rate of growth in remittance receipt over the years. In calendar year 2011, labour migration to Saudi Arabia, Kuwait, Bahrain, and Malaysia dropped by 92.63, 99.31, 14.83 and 99.73 percent respectively than those of 2007. Labour migration to Kuwait, Bahrain and Malaysia lessened in the calendar year of 2011 by 39.58, 35.87 and 19.26 percent respectively than those of the previous year due to the political instability and economic recessions. The 2007 witnessed high growth of migration in Malaysia, Singapore, Oman, KSA and UAE in 2007 due to higher demand of labour in the construction sector of those countries.

Figure 7: Labour migration from different countries over the years



Source: Bureau of Manpower, Employment & Training, Bangladesh Bank, 2012

The rate of growth in labour migration, however, decreased substantially in 2009 and 2010 due to worldwide financial crisis. A prohibition was imposed on Bangladeshi workers by Kuwait in 2008. According to newspaper reports,⁶ Malaysia banned Bangladeshi workers in 2009 due to the reports of arising labour exploitation including malpractices in the recruitment process. Furthermore, the largest overseas labour market, Saudi Arabia is reportedly trying to reduce the number of Bangladeshi resident since 2008, though it has not moved to impose ban.⁷ According to the Bangladesh Association of International recruiting Agencies (Baira), about 1.5 million Bangladeshis are employed in the UAE.⁸ The suspension of all types of new visa by UAE might decline the flow of remittance in the upcoming fiscal years. In addition; the recruiting process for the Bangladeshi workers has virtually stopped by Kuwait and Qatar.

Increase in the labour migration from Bangladesh is highly dependent on the Middle Eastern countries. The ten countries where the highest numbers of Bangladeshi workers have been migrated are Saudi Arabia, UAE, Qatar, Oman, Bahrain, Kuwait, Libya, Iraq, Singapore and Malaysia. Labour migrations to the Middle Eastern countries were more than 70 percent of the total labour migration between the calendar years of 2002 and 2011. The political unrest in these Middle Eastern countries however might create an adverse effect on migration as well as flow of remittance into the country.

7. REMITTANCE FLOW FROM MIDDLE-EASTERN COUNTRIES

Most of the countries of the Middle Eastern regions have seen a downward trend of remittance flow in the beginning of current the fiscal year. In the recent past, most of the remittance came to the country from the expatriates working in the Middle Eastern countries. The global economic recession and Middle Eastern political unrest has changed this scenario. The receipt of remittance from two of the known remittance sending countries, Kuwait and K.S.A. have squeezed respectively by USD 12.82 million and USD 10.82 million in the month of August, 2012 than those of July, 2012. Remittance inflow was lower by USD 1.24 million from Bahrain, USD 5.21 million from Qatar, USD 7.42 million from U.A.E. and USD 0.43 million from Libya during the month of August, 2012 compared to the previous month.

The receipt of remittance from two of the known remittance sending countries, Kuwait and K.S.A. have squeezed respectively by USD 12.82 million and USD 10.82 million in the month of August, 2012 than those of July, 2012.

⁶ <http://www.thedailystar.net/newDesign/news-details.php?nid=251247>

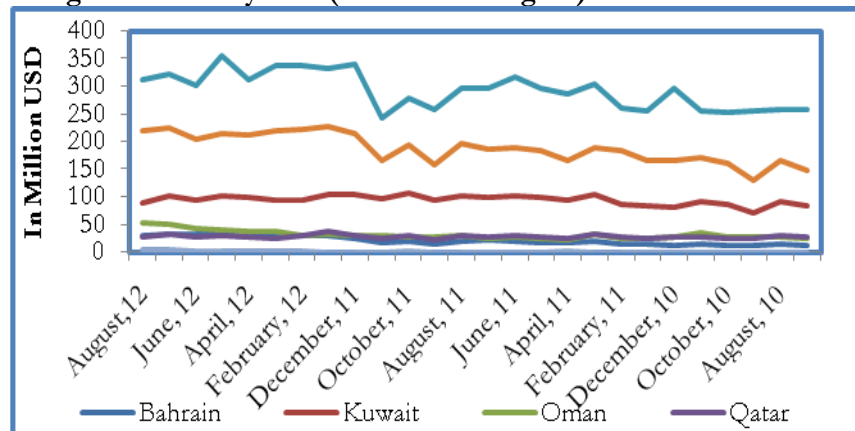
⁷ <http://www.migrationinformation.org/profiles/print.cfm?ID=848>

⁸ <http://news.priyo.com/2012/10/06/business-61148.html>

In FY 2011-12, total remittance earning from Middle Eastern regions was USD 8328 million which was 15.42 percent more than that of the previous fiscal year.

Except Oman, most of the Middle Eastern countries have faced negative growth which is alarming for the economy in terms of labour migration and receipt of remittance. In FY 2011-12, total remittance earning from Middle Eastern regions was USD 8328 million which was 15.42 percent more than that of the previous fiscal year. However, the rate of growth in ramittance from Middle-Eastern region were 28.24 percent in FY 2008-09 and 33.22 percent in FY 2007-08. The rate of labour migration from Bangladesh after 2008 has witnessed a comparatively lower rate of growth which has also affected the flow of remittance in the country. In FY 2001-02, 46 percent (USD 1,147.95 million) of the total remittance receipt of the country had come from Saudi Arabia, which fell by 28.65 percent (USD 3684.37 million) in FY 2011-12.

Figure 8: Country wise (middle east region) flow of remittance



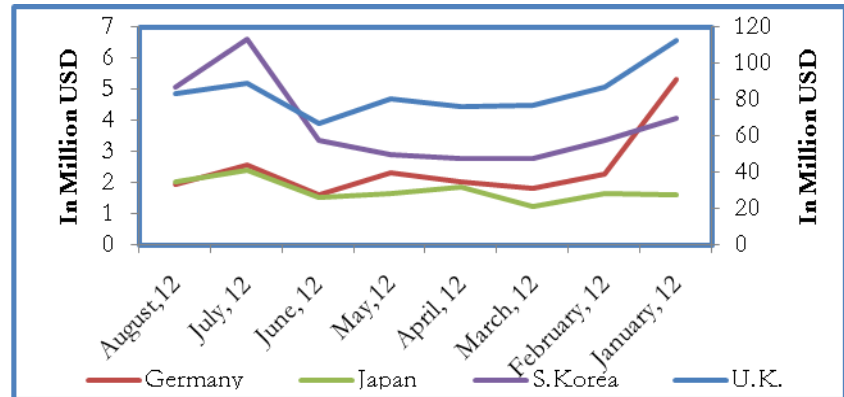
Source: Bangladesh Bank, Economic data, 2012

8. REMITTANCE FLOW FROM NON-MIDDLE EASTERN REGION

In August 2012, flow of remittance declined by USD 5.58 million, USD 0.65 million, USD 0.39 million and USD 1.54 million respectively from U.K., Germany, Japan and South Korea.

The labour market of Non-Middle Eastern regions has not increased as much as it is expected. The flow of remittance from Non-Middle Eastern countries, however, has witnessed comparatively significant growth till FY 2007-08. In August 2012, flow of remittance declined by USD 5.58 million, USD 0.65 million, USD 0.39 million and USD 1.54 million respectively from U.K., Germany, Japan and South Korea. In the FY 2011-12, remittances earning from U.S.A. and Iran reduced by respectively 10.13 and 45.56 percent than those of FY 2010-11. In FY 2001-02, some new countries were added to the list such as Australia, Italy, South Korea and Hong Kong etc. Receipt of remittance from Italy, Malaysia, Singapore, and USA increased by significant amount of USD 2.81, USD 3.87 million, USD 2.03 million, and USD 9.81 million respectively in FY 2011-12 than those of FY 2010-11.

Figure 9: Country wise (non-middle eastern region) flow of remittance

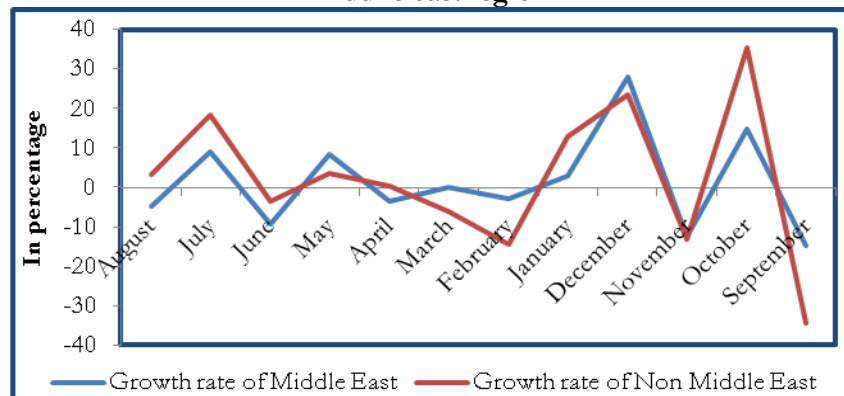


Source: Bangladesh Bank, Economic data, 2012

9. COMPARISON OF THE RATE OF GROWTH OF MIDDLE EAST AND NON-MIDDLE EASTERN REGIONS

The rate of growth in remittance from the Middle Eastern regions followed a decreasing trend after FY 2007-08. Political upheavals in the Middle Eastern region, commonly known as ‘Jesmin Revolution,’ that started from Tunisia have a probability of squeezing labour market in the region. Recently, the U.A.E. has banded issuance of all kind of new visa for Bangladeshi people. Saudi Arabia had prohibited new labour visa as well. Moreover, after FY 2001-02, no new remarkable countries have been included to the existing list of remittance sending countries.

Figure 10: Compared the rate of growth of middle east and non-middle east region



Source: Bangladesh Bank, Economic data, 2012

In August 2012, total remittance inflow to Bangladesh from Middle Eastern region was USD 730.39 million which was 13.78 percent lower than that of the previous month. During July and August of 2012, total inflow of remittance from Middle Eastern region

totalled USD 1497.51 million which was only USD 167.71 million higher than that of the same time of the previous year. During July and August of 2011, the receipt of remittance from the region was USD 191.05 million higher than that of the same time of the previous fiscal year.

In FY 2011-12, total remittance earning from non-Middle Eastern regions was USD 4515.40 million as well as the rate of growth was only 1.82 percent.

During July and August of 2012, total inflow of remittance from non-Middle Eastern regions was USD 882.30 million which was only USD 94.74 million higher than that of the same time of 2011. Between July and August of 2011, it was USD 105.08 million higher than that of the same time of the previous year. Considering the monthly trends, remittance inflow in Bangladesh from non-Middle Eastern regions was USD 448.26 million and the rate of growth was 3.28 percent in August, 2012 which was 14.97 percent lower than that of the previous month. In FY 2011-12, total remittance earning from non-Middle Eastern regions was USD 4515.40 million as well as the rate of growth was only 1.82 percent which was respectively 15.98, 11.95 and 29.19 percent lower than those of the FY 2010-11, 2009-10 and FY 2007-08.

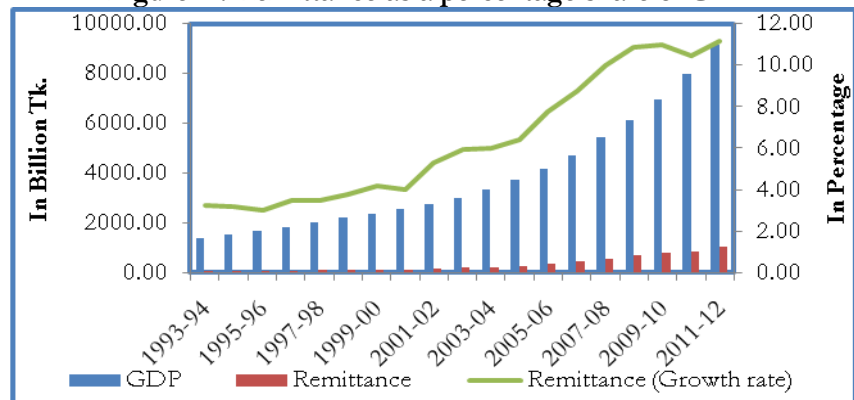
10. REMITTANCE AND ITS IMPACT ON MACROECONOMIC PERFORMANCE

10.1 Remittance as Percentage of GDP

The share of remittance to gross domestic product (GDP) has been increasing over the years but the incremental rate of growth is following a downward trend after FY 2004-05. In FY 2011-12, the GDP was BDT 914780 million and remittance as percentage of GDP was 11.14 percent which was 0.72 percent higher than that of FY 2010-11. Since FY 2006-07, the incremental rate of growth of remittance as percentage of GDP has been decreasing. The incremental rate of growth of remittance as percentage of GDP was -0.53 percent and 0.10 percent respectively in FY 2010-11 and FY 2009-10, from 1.38 percent in 2005-06.

In FY 2011-12, the GDP was BDT 914780 million and remittance as percentage of GDP was 11.14 percent which was 0.72 percent higher than that of FY 2010-11.

Figure 11: Remittance as a percentage share of GDP

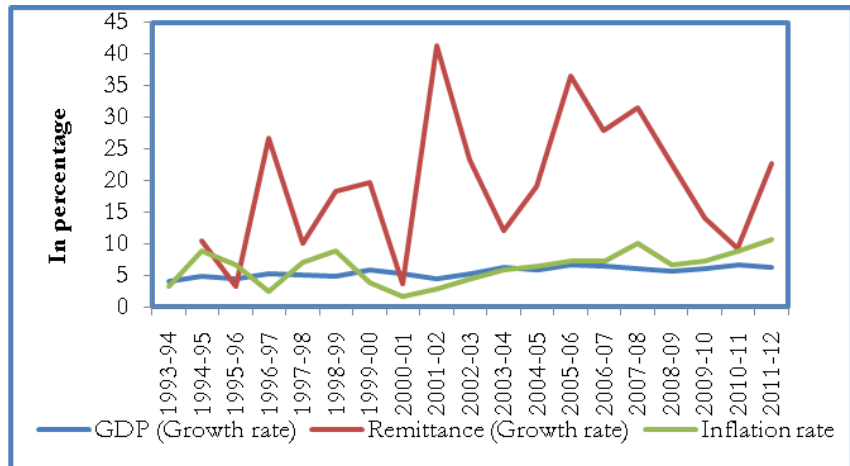


Source: Bangladesh Bank and Ministry of Finance, 2012

10.2 Comparison between the rate of growth in remittance, inflation and GDP

In FY 2011-12, the rate of growth in remittance was 22.74 percent while the rate of growth in GDP remained at 6.32 percent and the rate of inflation increased to 10.62 percent. In FY 2003-04, the rate of growth in remittance and GDP were respectively 12.08 percent and 6.27 percent whereas, the rate of growth in inflation was only 5.83 percent.

Figure 12: Comparison between growth rate of remittance, inflation and GDP



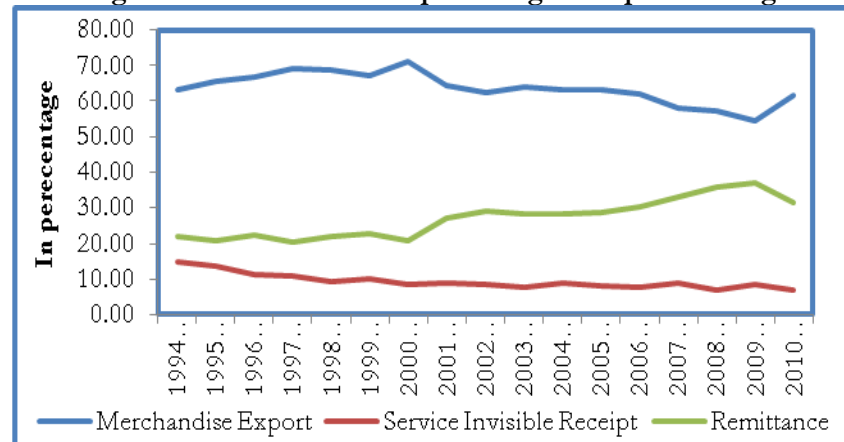
Source: Bangladesh Bank and Ministry of Finance, 2012

In FY 2011-12, the rate of growth in remittance was 22.74 percent while the rate of growth in GDP remained at 6.32 percent and the rate of inflation increased to 10.62 percent.

10.3 Remittance as a Percentage of Export Earning

In FY 2011-12, export and remittance as a percentage of export earning were respectively USD 12843.43 million and 52.84 percent which was only 2.04 percent more than that of FY 2010-11. On the other hand, merchandise export, remittance and service invisible receipt as a percentage of total exports of goods and services were 61.72, 31.36 and 6.92 percent in FY 2010-11. In FY 2010-11, remittance and service invisible receipt as a percentage of total exports of goods and services were 5.67 and 1.43 percent respectively less than those of FY 2009-10. An upward trend of remittance as percentage of export earning was observed after FY 2000-01. In FY 2000-01, remittance as percentage of export earning was only 20.64 percent whereas it stood at 37.03 percent in FY 2009-10.

Figure 13: Remittance as a percentage of export earning



Source: Economic Relation Division, 2012

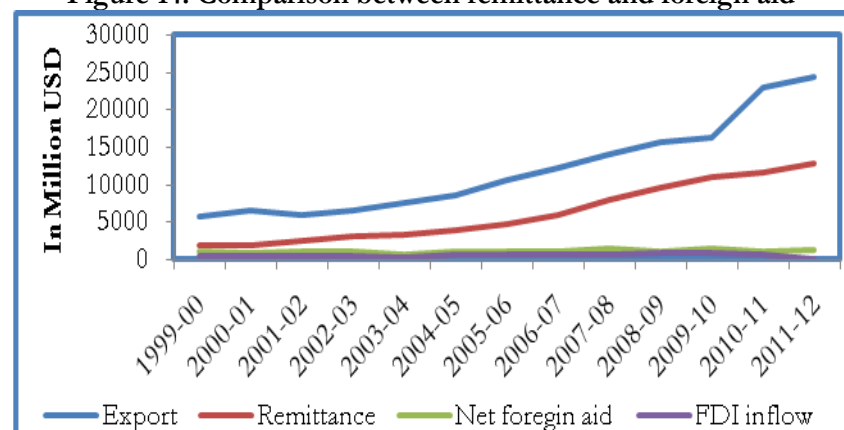
In FY 2011-12, export and remittance as a percentage of export earning were respectively USD 12843.43 million and 52.84 percent which was only 2.04 percent more than that of FY 2010-11.

10.4 Comparison among the External Sectors

Considering the external sources, the relative share of foreign aid and Foreign Direct Investment (FDI) is very low compared to the percentage share of remittance. In terms of foreign currency inflow, the contribution of foreign aid and Foreign Direct Investment (FDI) are very negligible compared to the contribution of export earnings as well as remittance. Moreover, about half of the amount of total disbursement of loan and grants goes for the payment of interest and principal payment over the years. On the other hand, export is highly dependent upon the import of raw materials. As a consequence, remittance might be the most secured source of foreign exchange in the economy of Bangladesh.

About half of the amount of total disbursement of loan and grants goes for the payment of interest and principal payment over the years.

Figure 14: Comparison between remittance and foreign aid



Source: Economic Relation Division, 2012

In FY 2011-12, the amount of export, remittance and net foreign aid were USD 24301.90 million, USD 12843.43 million and USD 1247.82 million respectively whereas Foreign Direct Investment (FDI) might be USD 806.52 million.

In FY 2011-12, the amount of export, remittance and net foreign aid were USD 24301.90 million, USD 12843.43 million and USD 1247.82 million respectively whereas Foreign Direct Investment

(FDI) might be USD 806.52 million. Remittance earnings were 929.27 percent and 1492.45 percent more than those of the amount of foreign aid and FDI.

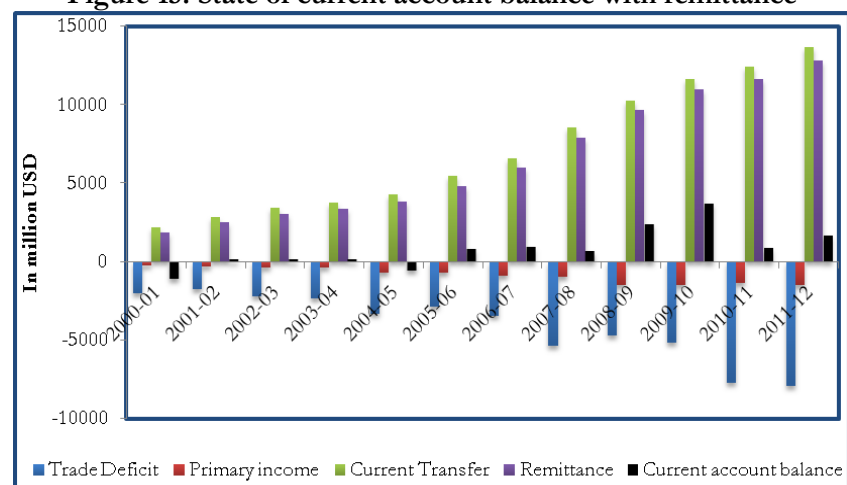
10.5 Current Account Balance and Remittance

Increase in the remittance helped the current account balance to remain positive, despite the increase in the trade deficit and deficit in services over the years. In FY 2011-12, current account balance showed a positive trend after observing a declining trend in the previous fiscal year which increased by 84.18 percent. The main reason behind this increase in current account balance was the slower rate of trade deficit, service deficit and higher rate of remittance inflow as various measures are taken by the government to decrease the import payments.

In FY 2011-12, trade deficit and service deficit increased by only 2.38 and 8.02 percent respectively whereas remittance increased by 10.24 percent.

In the mean time, trade deficit and service deficit increased by only 2.38 and 8.02 percent respectively whereas remittance increased by 10.24 percent in FY 2011-12. The current account balance suddenly dropped by 76.38 percent in FY 2010-11 than that of FY 2009-10 due to increase in the trade deficit and interest payments at 50.32 and 60.47 percent respectively as well as the slower rate of remittances at only 6.03 percent. The current account balance started to increase significantly from FY 2005-06 while it reached at the highest in FY 2009-10 at USD 3737 million which increased by 56.68 percent because of the increase in remittance and secondary income by 13.40 and 13.56 percent respectively and decline in interest payment by 9.66 percent.

Figure 15: State of current account balance with remittance



Source: Statistics Department, Bangladesh Bank, 2012

Capital transfer is one of the helping hands to make the overall balance positive. To resolve the problem in balance of Payment

In FY 2011-12, capital transfer was only USD 469 million which decreased by 26.95 percent than that of the previous fiscal year.

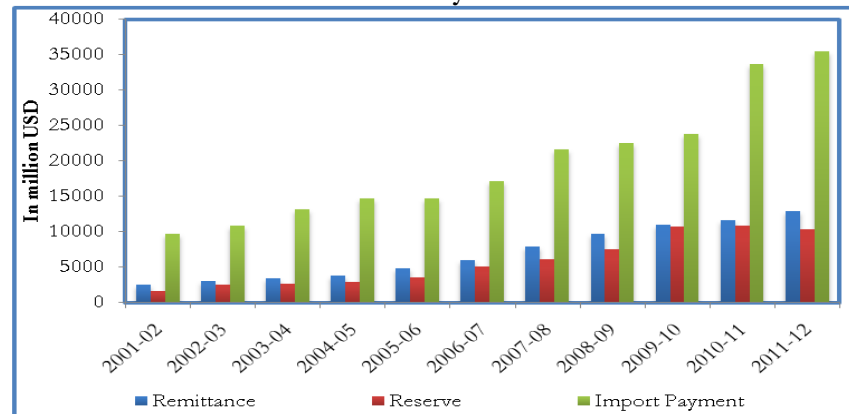
Contribution of remittance in financing the import payment rose from 25.90 percent in FY 2001-02 to 36.24 percent in FY 2011-12.

(BoP), the government has taken loan from the International Monetary Fund. In FY 2011-12, capital transfer was only USD 469 million which decreased by 26.95 percent than that of the previous fiscal year. However, the share of capital transfer and current account balance on overall balance were 94.94 and 329.96 percent respectively in FY 2011-12 than those of the previous fiscal year.

10.6 Foreign Exchange Reserve

In spite of increase of remittance over the years, reserves are increasing at a decreasing rate due to the increase in import bills for quick rental power plants. In FY 2011-12, foreign exchange reserve was USD 10364.4 million which was 5.01 percent lower than that of the previous fiscal year. The foreign exchange reserve declined because of the increase in the import bills for the quick rental power plants, despite the rate of growth on remittance increased by 10.24 percent. Remittance mainly used to pay the import payments after export earnings. Its contribution in financing the import payment rose from 25.90 percent in FY 2001-02 to 36.24 percent in FY 2011-12.

Figure 16: Situation of Remittance, reserve and import payments over the years



Source: Foreign Exchange Policy, Bangladesh Bank, 2012

At the end of October 2012, reserves have reached at the record of USD 12.31 billion⁹ because of surge in inflow of remittance coinciding Eid-ul-Adha, purchase of US dollar by the Bangladesh Bank in the last few months and drop in import of capital machineries due to tightened monetary policy. During July-August 2012, the growth in settlement of letters of credit (LCs) or actual import payments for capital machinery and petroleum registered a negative growth of 17.45 and 5.73 percent, compared to those of 44.23 and 130.48 percent in the same period of the previous fiscal

⁹ <http://www.bdnews24.com/bangla/details.php?cid=4&id=209300&hb=2>

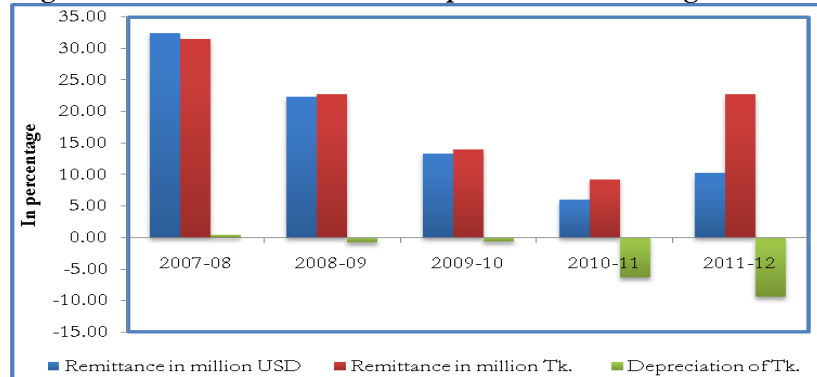
year (i.e. July and August of 2011). The settlements of LCs in these months for capital machinery were worth USD 334.19 million against USD 404.72 million in the corresponding period of 2011. The expatriates send more money for the biggest occasion of Eid-ul-Azha. During July-October 2012, expatriates remitted USD 5005.30 million which was nearly 24.75 percent higher than of the same period of the previous fiscal year.

11. REMITTANCE AND DEPRECIATION

Remittance inflow was also following an increasing trend over the months of FY 2011-12 due to the depreciation of Taka against US dollar. In FY 2011-12, depreciation of BDT against dollar was 6.48 percent, which was 6.34 percent in FY 2010-11. In the mean time, remittance increased by 10.34 percent. Remittance in terms of dollar increased by 10.24 percent while remittance in terms of BDT increased by 23.74 percent. Depreciation of BDT against dollar encourages the expatriates to send more money in the home country.

In FY 2011-12, depreciation of BDT against dollar was 6.48 percent, which was 6.34 percent in FY 2010-11.

Figure 17: Remittance in terms of depreciation of BDT against USD



Source: Statistics Department, Foreign Exchange policy, Bangladesh Bank, 2012

12. CONCLUSION

Inflow of remittance exhibits an erratic trend, going down in a month while increasing in the other, suggesting no definitive trend. The receipt of remittances, however, peaks as usual, in the month of festivals. After the prohibition in the labour markets of Saudi Arabia, Kuwait and Malaysia, the U.A.E. was the main labour market for the last four years. Inability to re-open the market by the government in these countries as well as current prohibition of new visa in the U.A.E. might create crisis in exporting labour force in the upcoming years. Maintaining the overall external balance as well as considering the importance of remittance in the economic growth, the country needs a well thought strategy for reopening old markets, establishment of new markets and upskilling of labour force, without any delay. An additional emphasis also to be placed with respect to rights of workers in the countries of destinations.

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