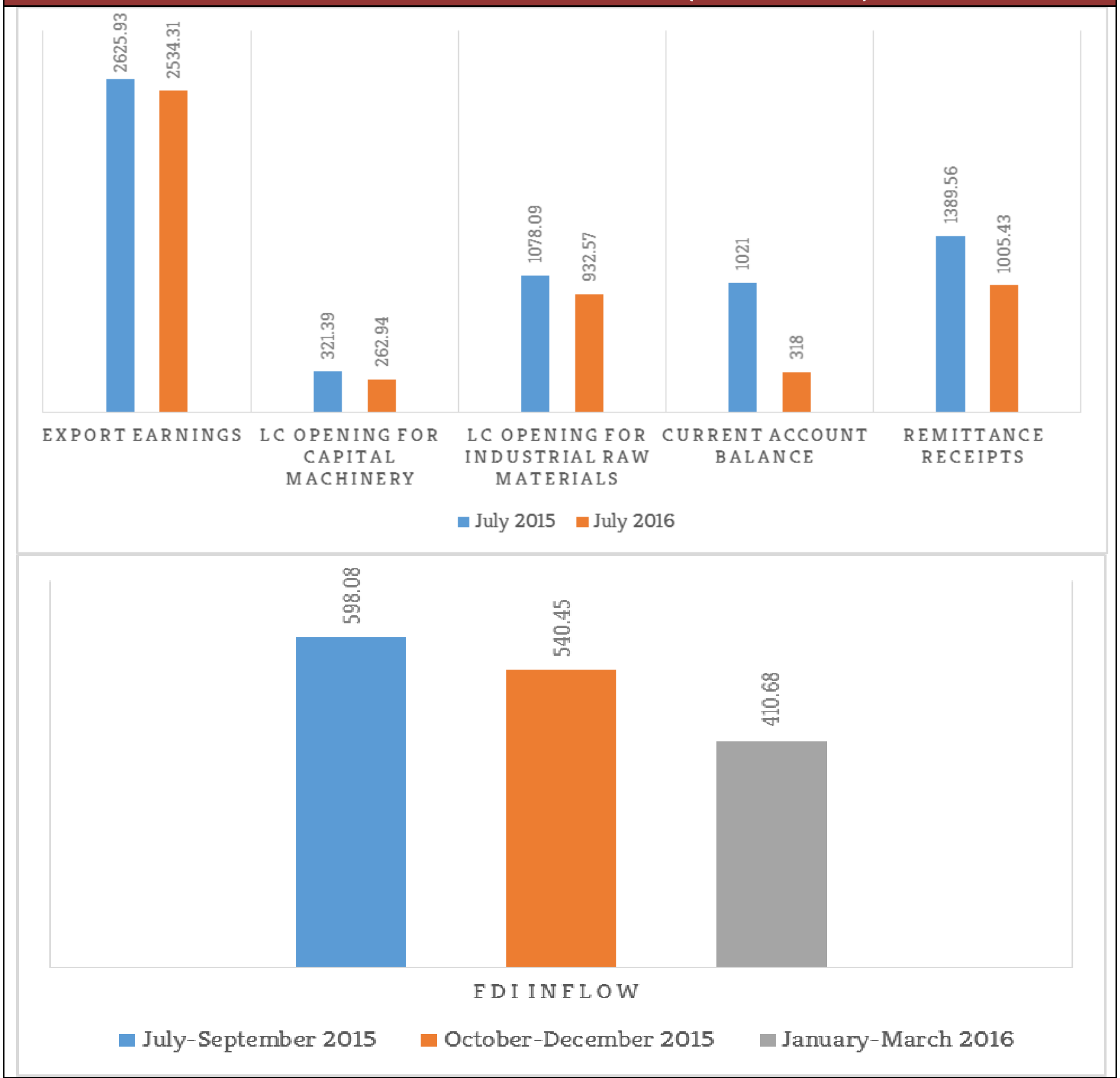
Bangladesh Economic Update

External Sector: Recent Trends and Challenges

August, 2016

Trends in External Sector Indicators (in million USD)



Source: Unnayan Onneshan, "*External Sector: Recent Trends and Challenges*", August, 2016

The Unnayan Onneshan (UO), an independent multidisciplinary think-tank, in its monthly publication of the 'Bangladesh Economic Update' August 2016 reveals negative growth in two major external sector indicators - export shipment and wage earner's remittance - in the starting month of FY 2016-17 compared to that of FY 2015-16 coupled with low business confidence is likely to exert pressure on country's external sector balance.

In addition, recent declining growth in inflow of foreign direct investment (FDI) along with lack of expansion of productive capacity particularly in the manufacturing sector may adversely impact the overall performance of the country's external sector, fears the research organizations.

Increasing export concentration of readymade garments (RMG) (from 83.9 percent in January-March 2015 to 84.6 percent in the corresponding period of 2016) together with declining growth in export earnings from RMG during the last couple of months, non-diversification of export markets, and lack of export competitive products may pose challenge to the performance of external sector, comments the UO.

Taking account of recently observed minimal increase in opening of import letter of credits (LCs), the UO comments this implies the lack of entrepreneurship and productive capacity in the economy, which together with current challenges of unemployment and low private investment may cause the rate of growth in Gross Domestic Product (GDP) to decelerate.

Export earnings declined by 3.49 percent in July 2016 compared to the corresponding month of 2015. Total export shipment stood at USD 2534.31 million in July 2016 compared to USD 2625.93 million July 2015. However, total export declined by 29.46 percent in July 2016 compared to June 2016 when export earnings stood at USD 3592.97 million, finds the research organization.

Taking account of the category-wise breakdown of exports, the UO shows that two of the main export items – woven garments and knitwear – registered negative growth in the starting month of the current fiscal year. Woven garments and knitwear experienced negative growth of 4.36 percent and 4.45 percent respectively in July 2016 over July 2015.

Referring to insignificant increase in fresh opening of import LCs, the think tank demonstrates that fresh opening of import LCs slightly increased by 0.62 percent in FY 2015-16 and stood at USD 43335.33 million compared to USD 43068.76 million in FY 2014-15. However, opening of import LCs for capital machinery and industrial raw materials assumed negative growth of 18.19 percent and 13.50 percent respectively in July 2016 over July 2015.

Pointing to declining export shipment induced reduced surplus in the current account balance, the think tank evinces that the current account balance stood at USD 318 million in July of FY 2016-17 compared to USD 1021 million in July of FY 2015-16 implying the necessity of substantive effort to restore the healthy balance in current account.

Referring to declining rate of growth in inflows of wage earner's remittance, the think tank shows that the inflow of remittance declined by 27.64 percent and amounted to USD

1005.43 million in July 2016 compared to the corresponding month of 2015. In addition, on month to month basis, remittance receipts fell by 31.41 percent in July 2016 over June 2016.

In addition to decreasing inflows of remittance, recent incidences of restriction to overseas employment of Bangladeshi unskilled workers, i.e. Kuwait's recent ban on recruitment of Bangladeshi workers only four months after the nine-year restriction to employment of Bangladeshi unskilled workers was removed, is likely to aggravate the declining remittance growth and adversely impact the country's external balance.

As regards unsatisfactory inflow of FDI, the UO shows that on quarterly basis, inflow of FDI has been gradually decreasing since July-September quarter of FY 2015-16. From USD 598.08 million in July-September of 2015, net inflow of FDI fell by 9.64% and stood at USD 540.45 million in October-December of 2015. FDI inflow further declined by 24.01 percent from October-December level and came down to USD 410.68 million in January-March of 2016.

Calling for a thorough reexamination of the current trade and industrial policies to address the structural bottlenecks and a stable business climate to attract increased inflow of private investment including FDI, the UO urges for the adoption of new strategies aimed at expanding country's productive capacities that enhance utilization of available resources through efficient entrepreneurial capabilities and increased production linkages.