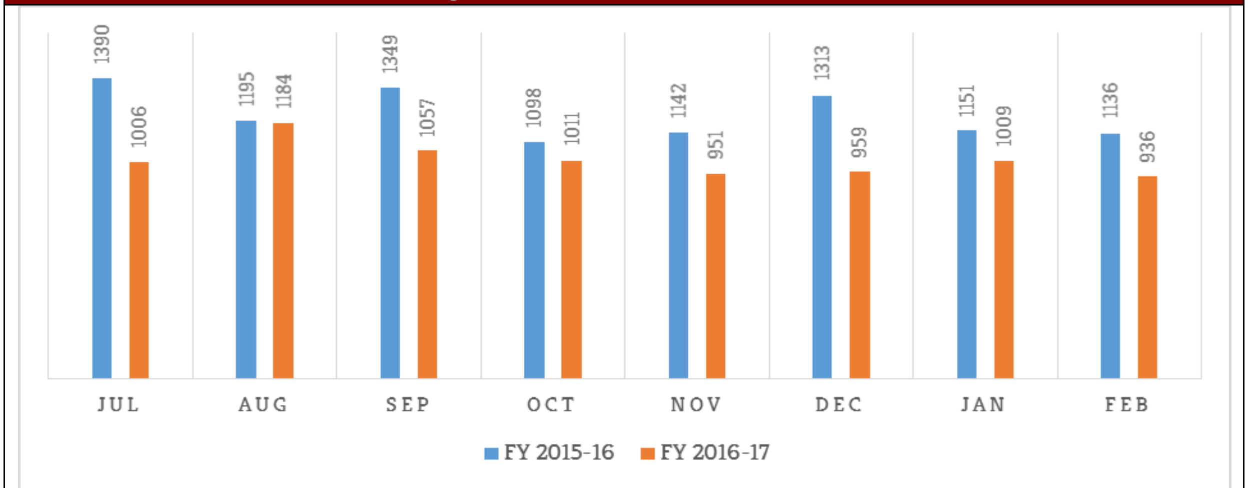
Bangladesh Economic Update

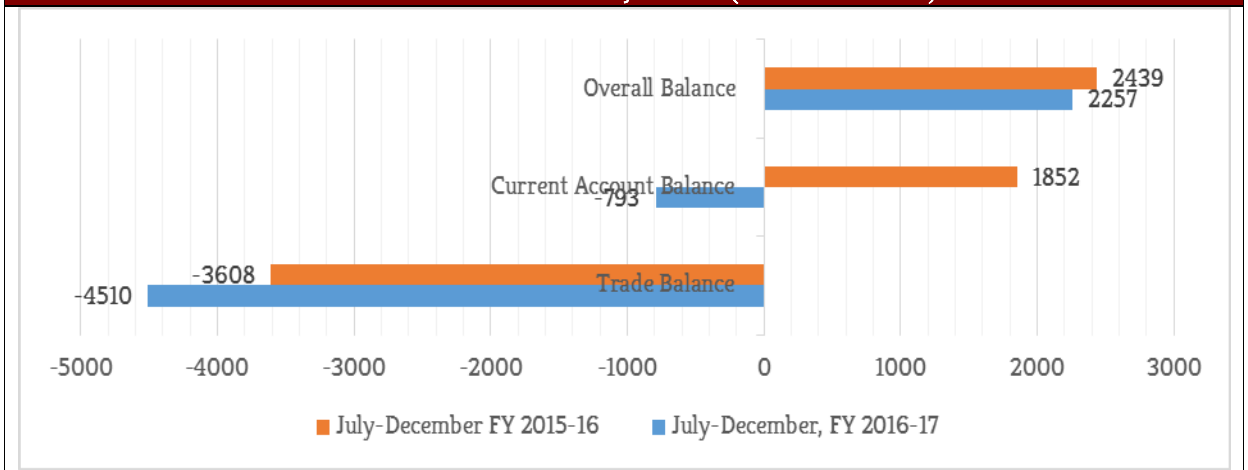
External Sector: Recent Trends and Challenges

February, 2017

Inflow of Wage Earners' Remittance (in million USD)



Trends in Balance of Payments (in million USD)



Source: Unnayan Onneshan, "*External Sector: Recent Trends and Challenges*", February, 2017

The Unnayan Onneshan (UO), an independent multidisciplinary think-tank, in its monthly publication of the 'Bangladesh Economic Update' February 2017 reveals declining growth in two major external sector indicators – export shipment and wage earner's remittance, and consequential deficit in current account balance are likely to exert pressure on the country's balance of payment.

Calling for a thorough reexamination of the current trade and industrial policies to address the structural bottlenecks and creation of 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.

Referring to declining rate of growth in inflows of wage earner's remittance, the think tank shows that the inflow of remittance declined by 17 percent and amounted to USD 8112 million in July-February of FY 2016-17 compared to the corresponding period of the preceding fiscal year. On monthly basis, the remittance inflow stood at USD 936 million in February 2017 (a decline by 17.6 percent from February 2016), which is lowest in the first eight months of the current fiscal year.

Decline in the inflow of remittance is likely to pose threat to the social infrastructure of rural Bangladesh since the remittance recipient households in rural areas expend a significant portion of their income on consumption, health and education. Given the informal system for transferring money induced by large gap in rate of US Dollars in banks and curb market, it is imperative that a conducive atmosphere for higher inflow of remittance be maintained through effective regulatory measures and diplomatic negotiations, urges the research organization.

With increasing export concentration of readymade garments (RMG), growth in total export earnings exhibit a decline in the last seven months of FY 2016-17 compared to FY 2015-16. Percentage change in the export earning in July-January of FY 2015-16 over the preceding fiscal year was 8.26 percent, which declined to 4.36 percent in the corresponding period of the current fiscal year. Non-diversification of export markets and lack of export competitive products may pose serious challenge to the performance of external sector, comments the UO.

Fresh opening of import letter of credits (LCs) for industrial raw materials has registered a negative 1.91 percent growth during July-December of FY 2016-17 compared to the corresponding period of the preceding fiscal year. This negative growth in opening LCs for industrial raw materials 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, comments the UO.

Taking account of the fact that both total and net receipt of foreign aid declined during July-December of FY 2016-17, the research organization finds that disbursement of total foreign aid decreased by 13.94 percent and stood at USD 1.32 billion in the first half of the current fiscal year compared to the corresponding period of the previous fiscal year. The net receipt of foreign aid, on the other hand, declined by 19.21 percent in July-December of FY 2016-17 over the corresponding period of FY 2015-16.

With decline in inflow of remittance, rise in import payables along with shortfall in the primary income and income from the service sector, the current account balance exhibits a continuous deficit from the third month of the current fiscal year. From a surplus of USD 1852 million during July-December of FY 2015-16, the current account balance registered a deficit of USD 793 million during July-December of the current fiscal year. As a consequence, despite the surplus in financial account, surplus in overall balance decreased from USD 2439 million in the first half of FY 2015-16 to USD 2257 million in the corresponding period of FY 2016-17.