External Sector: Recent Trends and Challenges

Bangladesh Economic Update

August 2016

উন্নয়ন অন্বেষণ
UNNAYAN ONNESHAN

Bangladesh Economic Update
Volume 7, No. 8, August 2016

Acknowledgement
Bangladesh Economic Update is a monthly publication of the Economic Policy Unit of Unnayan Onneshan, a multidisciplinary research organisation based in Dhaka, Bangladesh.

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1. INTRODUCTION

The current issue of Bangladesh Economic Update attempts to understand the current status of external sector against the backdrop of declining export, falling import letter of credits (LCs) for capital machinery and industrial raw materials, decreasing rate of growth in remittance inflow, and unsatisfactory inflow of Foreign Direct Investment (FDI).

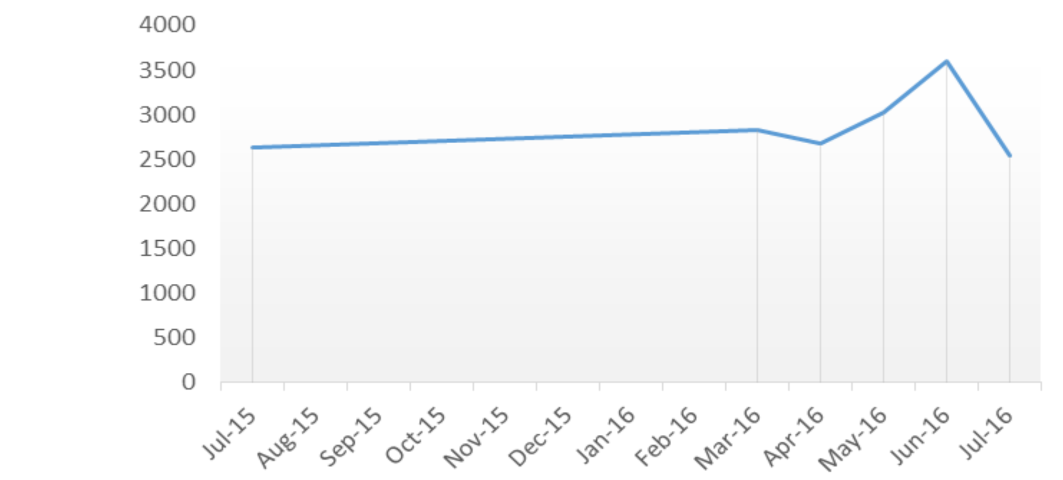
The Update reveals that negative growth in two major external sector indicators - export shipment and wage earner's remittance - in the starting month of FY 2016-17 compared to that of FY 2015-16 coupled with low business confidence is likely to exert pressure on country's external sector balance. However, overall external balance is showing positive balance because of inflow of one or two items in a huge amount, but decrease in remittance and export of manpower, increasing deficit in service and trade balance are likely to impede the growth rate of the economy. Inflows of remittance become negative in the last Fiscal Year (FY) mainly because of the decline in labour migration in major markets of the middleeast countries. This declinig inflow of remitance is likely to exert adverse impact on rural economy since consumption and expenditure of people living in rural areas are largely contingent upon remittance sent by their household members living aborad.

2. EXPORT EARNING

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. However, Export earnings declined by 13.91 percent in September 2015 compared to the month of August 2015 and stood at USD 2.37 billion. In addition, export earnings fell by 6.98 percent in September 2015 compared to that in September 2014. However, export increased slightly by 0.83 percent in July-September 2015 compared to the corresponding period of the previous year. However, export earnings showed a negative rate of growth in the first month of FY 2014-15 which was positive in same period in previous year 2013-14 for especially decreasing export in the non-traditional markets. In July'2014 Export earnings decreases to USD 2982.74 million from USD 3024.29 in FY2013-14 million represent a decrease in growth rate to -1.37 percent from 23.99 percent that is 25.36 percentage point decrease. Moreover, export earning is increasing from FY 2010-11 to FY 2013-14. In FY 2009-10, export earnings were USD 16204.7 million. In FY 2012-13, export earnings were USD 27027 million which stand to USD 30186.6 million in FY 2013-14. The consequences of global economic recession, political crisis in North Africa and the Middle East exacerbated the situation of the import expenditure and the export earnings in Bangladesh in FY 2011-12.

In FY 2011-12, the growth rate of export earning was 5.99 percent which was 41.49 percent in FY 2010-11 which implies 35.5 percentage point decrease in the growth rate in export. The decreasing rate of raw jute (25.4 percent), jute goods (7.5 percent) and ceramic products (10.2 percent) decreased the export earnings in FY 2011-12. The growth rate in export then increases to 11.22 percent in FY 2012-13 and 11.69 percent 2013-14 which shows a positive trend. Taking account the export earnings and its growth rate for five years it can be projected that in FY 20014-15 and FY2015-16 export earnings will be USD 32575 million and USD 34964.72 million.

Figure 1: Export earnings over recent periods (in million USD)



	Jul-15	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Export Earnings	2625.93	2831.42	2682.05	3026.99	3592.97	2534.31

Source: Bangladesh Bank, 2016a

2.1. Sector-wise Export Earnings

Category-wise breakdown of exports 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. However, the export items that registered positive growth in July 2016 include raw jute, jute goods (excluding carpet), and chemical products. On the other hand, knitwear, woven garments, engine and electric goods, agricultural products, leather, tea, and frozen food experienced negative growth in July 2016 compared to the same month of the previous year.

Table 1: Commodity-wise breakdown of export earnings (in million USD)

Particulars	July 2016	July 2015	Changes during July 2016 over July 2015	
			In absolute amount	In percentage
Raw Jute	25.50	14.63	+10.87	+74.30
Jute Goods	44.27	40.87	+3.40	+32.98
Tea	0.09	0.14	-0.05	-35.71
Frozen Food	37.77	37.81	-0.04	-0.11
Leather	14.96	22.16	-7.20	-32.49
Woven Garments	1040.35	1087.79	-47.44	-4.36
Knitwear	1077.23	1127.37	-50.14	-4.45
Chemical Products	13.39	8.79	+4.60	+52.33
Agricultural Products	8.90	10.31	-1.41	-3.45
Engine and Electric Goods	29.04	45.05	-16.01	-35.54
Others	242.81	231.01	+11.80	+5.11
Total	2534.31	2625.93	-91.62	-3.49

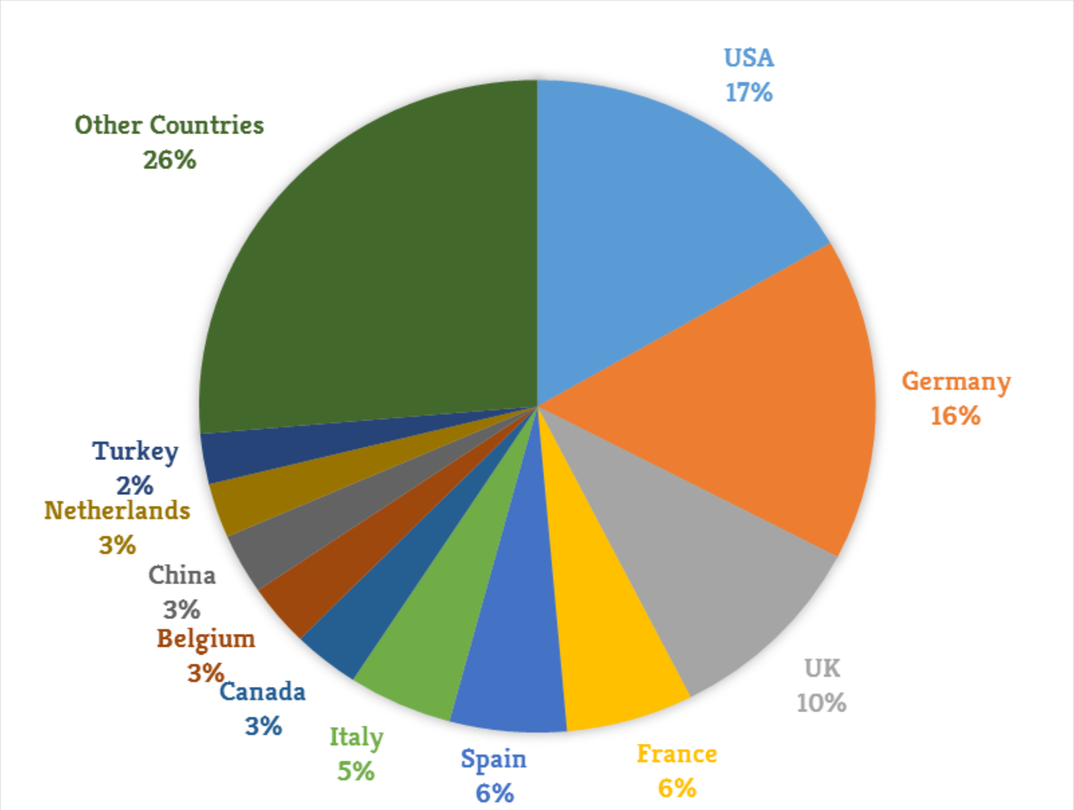
Source: Bangladesh Bank, 2016b

2.2. Destination of Exports

As regard the destination pattern of exports, the U.S.A. were the most prominent buyer which bought goods worth Tk. 31472.3 crore (16.7%) during the year under review as compared to Tk.31567.7 crore (17.7%) and Tk. 29720.0 crore (18.7%) in the previous year 2013-2014 and 2012-2013 respectively. The principal items of export to the U.S.A were readymade garments (Tk. 29812.4 crore), home textiles (Tk. 342.5 crore), fish, shrimps & prawns (Tk. 282.2 crore), jute manufactures (Tk. 141.5 crore), leather and leather manufactures (Tk. 111.6 crore), raw jute (Tk. 11.9

crore) and handicrafts (Tk. 15.2 crore). The second largest buyer of Bangladeshi goods was Germany amounted to Tk. 29994.3 crore (16.0%) during the year under review as compared to Tk. 28797.7 crore (16.1%) and Tk. 25105.0 crore (15.8%) during 2013-2014 and 2012-2013 respectively. The major items of export to Germany were: readymade garments (Tk. 27503.6 crore), home textiles (Tk.759.8 crore), leather & leather manufactures (Tk. 875.1 crore), fish, shrimps & prawns (Tk. 412.8 crore), jute manufactures (Tk. 21.9 crore), raw jute (Tk. 20.8 crore) and handicrafts (Tk. 6.1 crore). The next important trading partner was the U.K. Export earnings from U.K. amounted to Tk. 18576.6 crore (9.9%) during the year 2014-2015 as compared to Tk. 17445.9 crore (9.8%) and Tk. 16235.0 crore (10.2%) in the previous year 2013-2014 and 2012-2013 respectively. The main items of exports to the U.K. were readymade garments (Tk. 16681.8 crore), fish, shrimps & prawns (Tk.610.7 crore), home textiles (Tk.365 crore), jute manufactures (Tk. 34.2 crore), leather & leather manufactures (Tk. 54.2 crore), raw jute (Tk. 8.9 crore) and handicraft (Tk. 8.8 crore). France purchased goods worth Tk. 11394.8 crore (6.1%) during the year under review.

Figure 2: Country-wise percentage share of export earnings



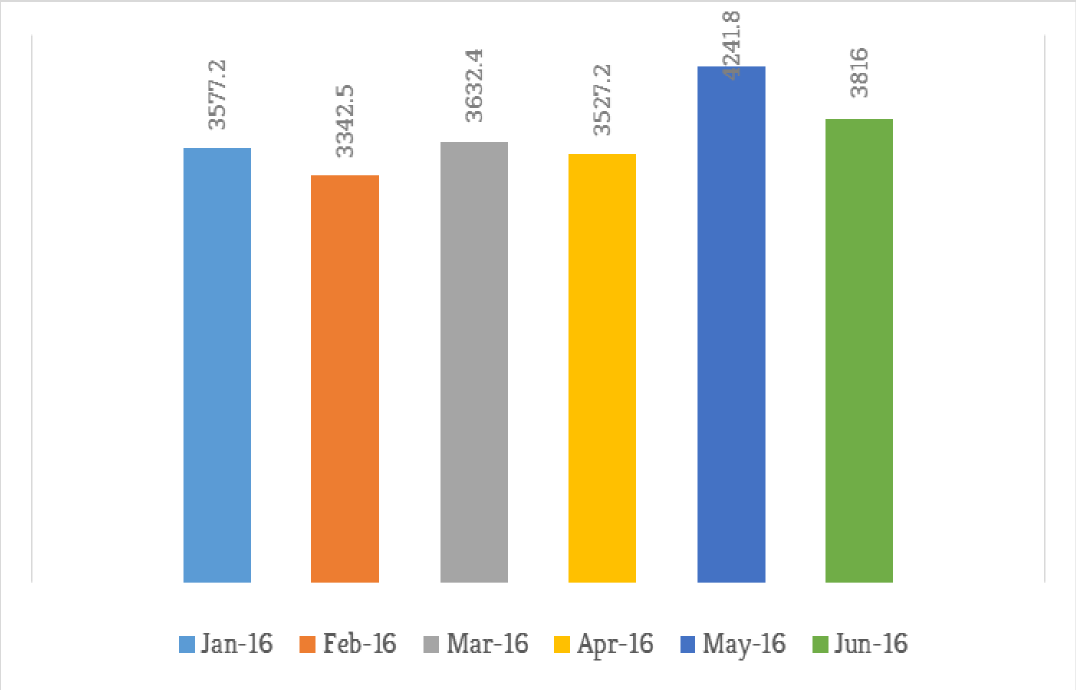
Source: Bangladesh Bank, 2016b

The shares of France in export receipts during 2013-2014 and 2012-2013 were Tk. 11308.1 crore (6.3%) and Tk.9862.0 crore (6.2%) respectively. Spain, Italy, Canada, Belgium, China, Netherlands and Turkey followed by descending order of magnitude in respect of our export earnings and accounted for Tk. 10479.9 crore (5.6%), Tk. 9330.6 crore (5.0 %), Tk.5988.6 crore (3.2%), Tk. 5857.8 crore (3.1%), Tk. 5592.6 crore (3.0%), Tk. 5003.1 crore (2.7 %) and Tk. 4701.6 crore (2.5 %) respectively.

3. IMPORT PAYMENT

Landed import of customs during FY 2015-16 increased by 5.45 percent and stood at USD 42.92 billion against USD 40.70 billion during FY 2014-15. Settlement of import LCs during FY 2015-16 increased by 4.22 percent and stood at USD 40.08 billion against USD 38.46 billion during FY 2014-15. Fresh opening of import LCs during FY 2015-16 increased by 0.62 percent and stood at USD 43.34 billion compared with USD 43.07 billion during FY 2014-15. However, the total import payments during the period of July-August 2015 decreased by 2.98 percent and stood at USD 6.56 billion compared to USD 6.76 billion during the corresponding period of 2014.

Figure 3: Trend in import payments over the recent periods (in million USD)



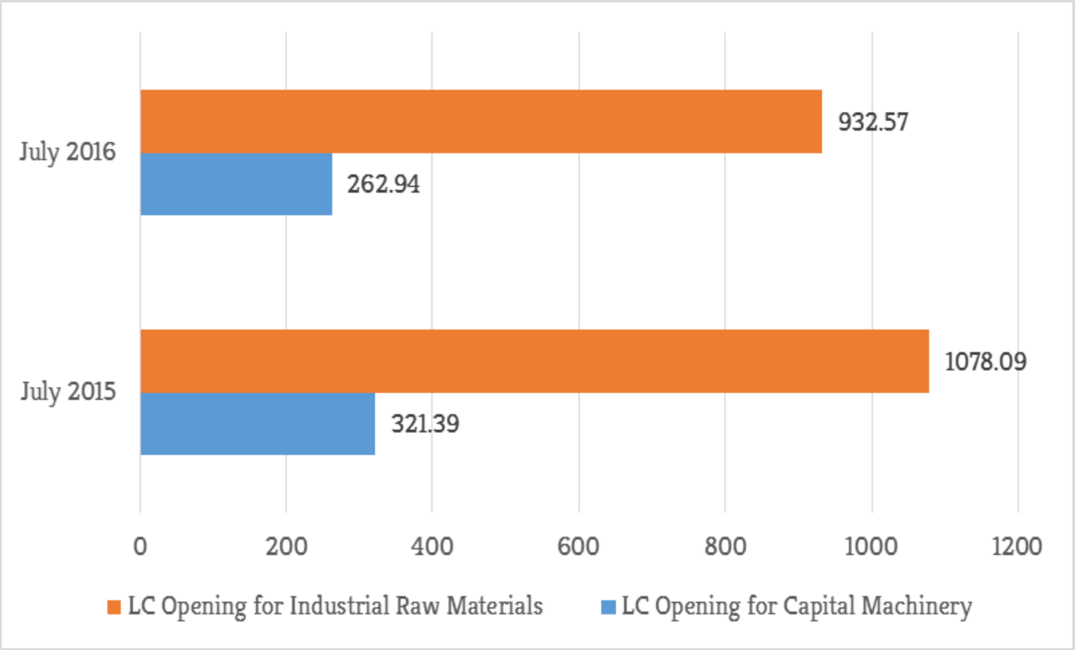
Source: Bangladesh Bank, 2016a

The import of capital machineries declined by 30.85 percent during the period of July-August 2015 and stood at USD 416.3 million compared to USD 602 million in July-August 2014. However, import payment decreased from FY 2010-11 because of lower import of food grains, capital machinery and industrial raw materials and the continuous bumper harvest of food grain. Due to the continuous contractionary monetary policy, liquidity crisis and shortage of US dollars, imports of capital machinery and industrial raw materials massively decreased in the last two fiscal years before 2013-14. In FY 2012-13, import payments were USD 34084 million which was decreased by 4.03 percent as compared to USD 35516 million with a growth rate of 5.52 percent in the corresponding previous fiscal year but in 2013-14 import payment increases to USD 40692.92 million; an increase of 19.39 percent.

3.1. Opening and Settlement of Letter of Credit

As mentioned earlier, 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.

Figure 4: Trends in opening and settlement of LCs (in million USD)



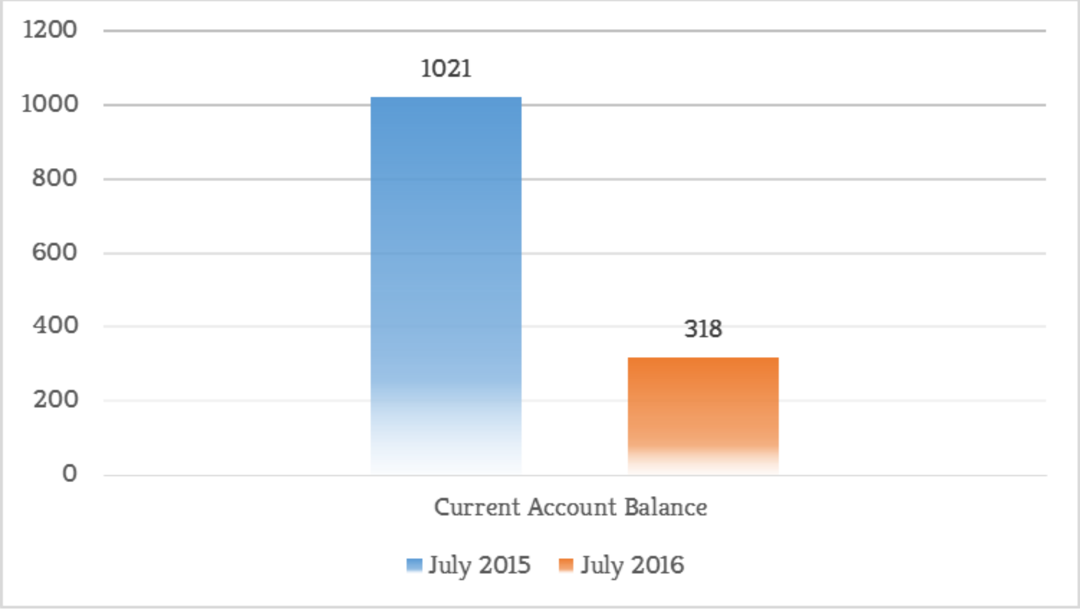
Source: Bangladesh Bank, 2016a

However, settlement of import letters of credits (LCs) during July-September, 2015 increased by 8.00 percent and stood at USD 6.94 billion against USD 6.43 billion in July-August, 2014. Fresh opening of import LCs during July-August, 2015 decreased by 6.83 percent and stood at USD 6.64 billion compared with USD 7.13 billion in July-August, 2014. Import payment shows a upward trail in FY 2013-14 compared to FY 2012-13 in terms of opening and settlement of LCs. However, import payment in July-June of FY 2013-14 was USD 37188.84 million which was USD 32358.52 million in July-June of FY 2012-13. Industrial raw materials, machineries for miscellaneous industries, petroleum and petroleum products, consumer goods, and intermediate goods rise both in terms of opening of fresh LCs and settlements. During July-June period of FY 2012-13 opening of fresh LCs was USD 35961.05 million but rises to 41818.56 in FY 2013-14 which implies a 16.29 percent increase.

4. CURRENT ACCOUNT BALANCE

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. The country has been experiencing a negative balance of trade, importing more goods than export.

Figure 5: Trends in trade balance (in million USD)



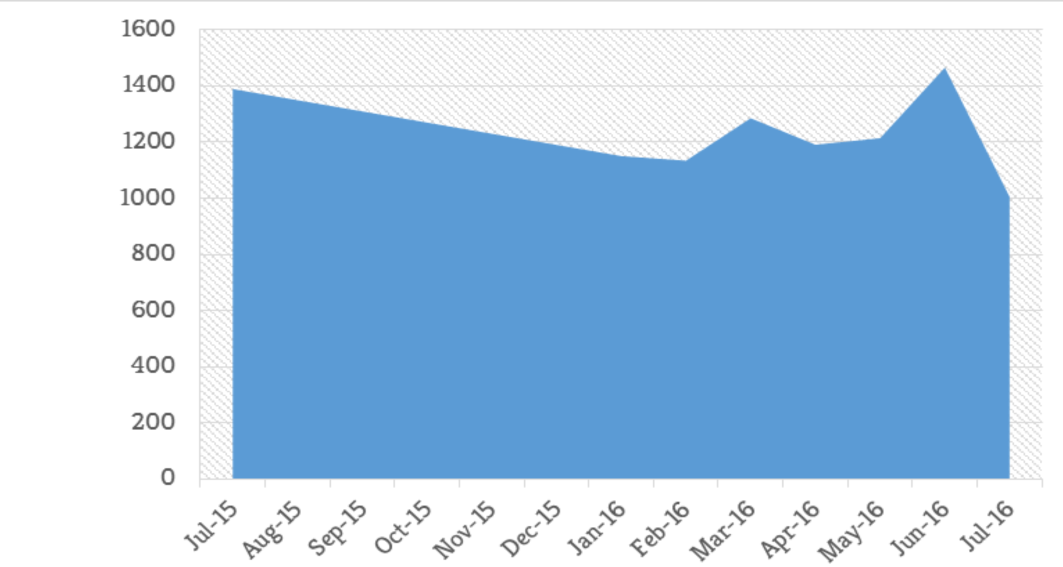
Source: Bangladesh Bank, 2016a

The deficit in trade balance increased significantly and stood at USD 9917 million in FY 2014-15, whereas the deficit was USD 6794 million in FY 2013-14. Trade balance slightly decreased to USD 6806 million in FY 2013-14 from USD 7010 million in FY 2012-13 and from USD 9310 million in FY 2011-12. The reason behind the decline in negative trade balance is that the increase in export. If the trend remains as usual, trade deficit might decline to USD 2494.33 million in 2013-14 and to USD 2667.71 million in 2015-16.

5. REMITTANCE

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.

Figure 6: Trends in inflows of remittance (in million USD)



	Jul-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Remittance Flow	1389.56	1150.64	1134.37	1285.59	1191.15	1214.48	1465.87	1005.43

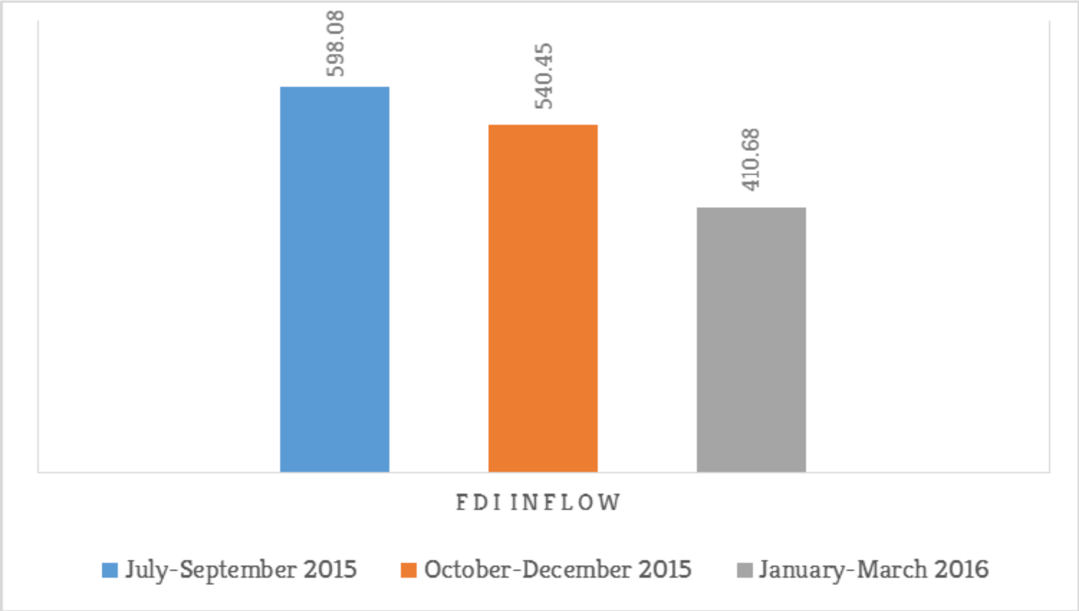
Source: Bangladesh Bank, 2016a

However, the inflow of remittance declined by 3.08 percent and amounted to USD 2584.58 million during the period of July-August of FY 2015-16 compared to USD 2666.84 million during the corresponding period of FY 2014-15. Noting the decline of inflow of remittance to -1.61 percent during the period of July-June of FY 2013-14 from the corresponding period of FY 2012-13, the finding is that total inflow of remittance during July-February of FY 2013-14 came down to USD 14227.84 million from USD 14461.15 million during the corresponding period of FY 2012-13. Remittance is increasing at a decreasing rate after FY 2007-08 because of the decrease in the labour migrations to the different destinations due to the global economic recessions and decline in the labour demand by the Middle East countries due to collapsing construction sector. In FY 2012-13, flow of remittance was USD 14461.15 million with a growth rate of 12.60 which was USD 12843.43 million with 10.24 percent growth rate in FY 2011-12.

6. FOREIGN DIRECT INVESTMENT

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.

Figure 7: Trends in inflows foreign direct investment (in million USD)



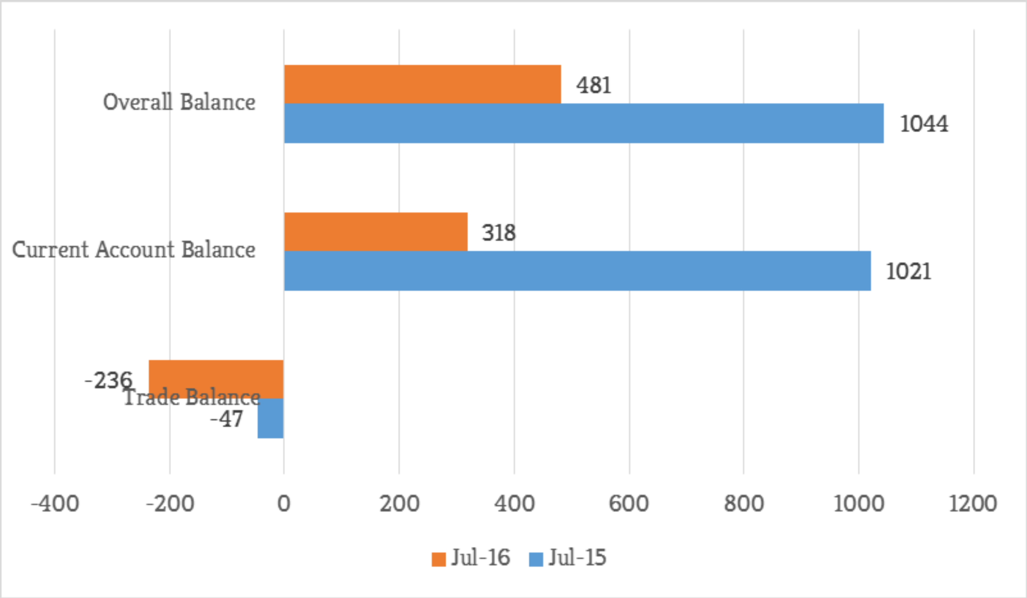
Source: Bangladesh Bank, 2016c

Both the investor and the recipient can take advantage from foreign direct investment (FDI). It allows money to go freely to whatever business has the best prospects for growth. The FDI in the country has usually observed much fluctuation. For example, inflow of FDI decreased to USD 1480.34 million in FY 2013-14 from USD 1730.63 million in FY 2012-13, although FDI inflow reached USD 1833.87 million in FY 2014-15. In addition, FDI decreased after FY 2005-06 from 845million to 792million in FY 2006-07, and then to 692 million in FY 2007-08.FDI increased to1086 million in FY 2008-09.After showing a negative growth rate in 2009 of -35.54 flow of FDI follow a positive growth rate of 30.4 and 24.4 percent in FY 2010 and FY 2011 respectively. Most importantly, rate of growth in FDI (net) has been seen a negative trend in FY 2013 (January-June) of -28 percent .In developing country like Bangladesh the current amount of FDI is insufficient for inclusive growth; more incentive should be given to foreign partners to increase the inflow of capital through FDI.

7. OVERALL BALANCE

Trade Balance recorded a deficit of USD 6274 million during FY 2015-16 as compared to the deficit of USD 6965 million during FY 2014-15. However, higher export earnings and an improvement in primary income and income from services contributed to a current account surplus of USD 3706 million during FY 2015-16 as compared to the surplus of USD 2875 million during FY 2014-15. Current account surplus along with a financial account surplus of USD 1610 million resulted in a surplus of USD 5036 million in overall balances during FY 2015-16 as compared to the surplus of USD 4373 million during FY 2014-15. The current account balance stood at USD 1406 million in FY 2013-14, whereas the balance became negative and stood at USD – 1645 million in FY 2014-15. However, current account surplus soared by 35.21 percent during July-June of FY 2013-14 than that of the same period of FY 2012-13 because of the increasing rate of import payments and slower rate of remittance. Import showed a decreasing rate over the months of calendar year 2011 and 2012 which slowed the business activities although increases in FY 2013-14. However, recent monetary policy statement (MPS) estimated that this surplus might decrease in the next six months. According to MPS, surplus in overall balance of payment might reduce by the slower rate of RMG sectors and escalating in imports for growing the confidence of investors. In the meantime, imports to crude petroleum and petroleum products decreased by 22 percent due to the hamper in transportation for continuous shutdowns and blockades in the last few months. Bangladesh will have to fulfil a number of conditions to continue enjoying the trade privilege generalised system of preferences (GSP) of the European Union. Even, European GSP might be cancelled if Bangladesh government does not fulfil many of the conditions of GSP. To reduce the imbalances in balance of payment, government has set up various steps to manpower exports, upgrading skills of migrants and enhanced incentives to use formal channels to remit and invest funds (Byron, 2014). The financial account increased to USD 5150 million in FY 2014-15 from USD 2813 million in FY 2013-14 because of the increase in FDI and other investment.

Figure 8: State of balance of payments (in million USD)



Source: Bangladesh Bank, 2016b

8. CONCLUSIONS

Although the economy observed a comfortable current account balance, the decreasing rate of remittance and manpower exports might cause a serious hamper to the economy by reducing employment opportunities and output levels. In addition, declining industrial term loan will decrease the investment demand-induced import of capital machinery and industrial raw goods which may further aggravate the current declining growth in the manufacturing sector. After exploring the implications of unsatisfactory performances of the external sector, the Update concludes that the declining growth in GDP may persist if the indicators of external sector continue assuming current trends although the overall balance demonstrates surplus.

However, in order to address the current structural bottlenecks that impede developments in the external sector of economy, a thorough re-examination of the current trade and industrial policies is pressing. Adoption of a new policy regime aiming at expansion of productive capacities of the country that enhances utilisation of productive resources through enhanced entrepreneurial capabilities and increased production linkages may be fruitful in achieving developments in this sector, thereby fostering growth of the economy.

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