External Sector: Recent Trends and Challenges

Bangladesh Economic Update

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উন্নয়ন অন্বেষণ

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1. INTRODUCTION

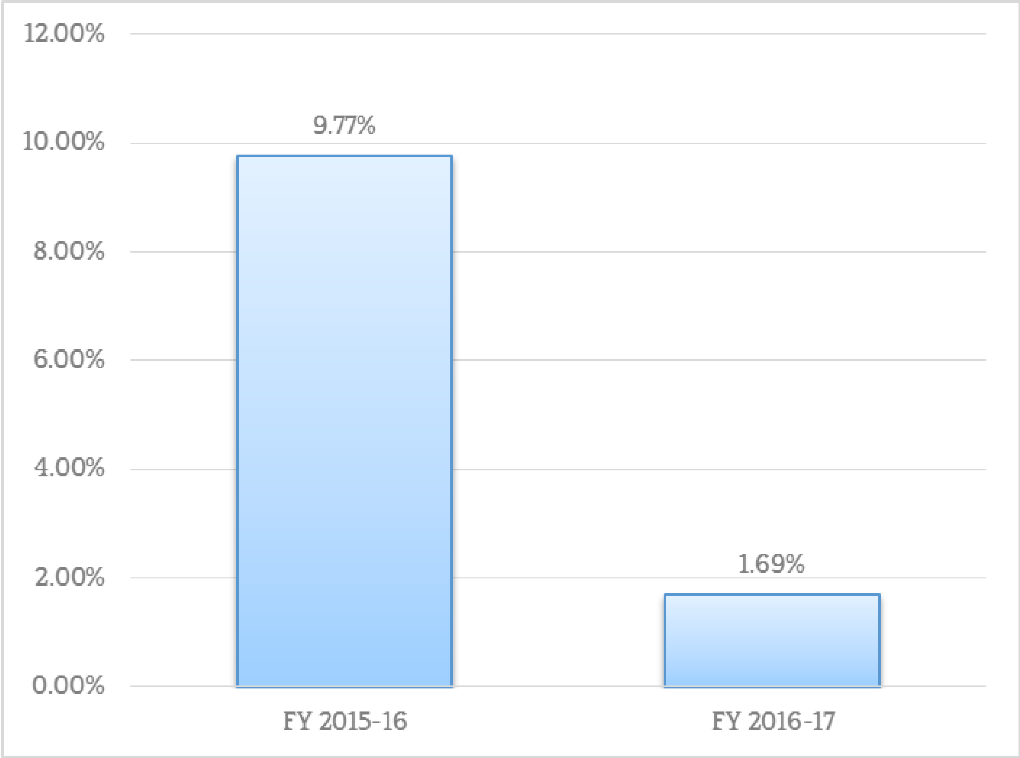
The current issue of Bangladesh Economic Update attempts to understand the current status of external sector against the backdrop of falling growth in export and declining wage earner's remittance, resulting in monumental deficit in current account. The update further notes the current declining trend in foreign aid disbursement, and assesses the overall performance of the external sector.

The Update 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. However, overall external balance is showing positive balance because of inflow of one or two items such as financial account of the balance of payment in large amount, but decrease in remittance and increasing deficit in service and trade balance are likely to impede the growth of the economy. Inflows of remittance is declining since 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 EARNINGS

With increasing export concentration of readymade garments (RMG), growth in total export earnings exhibit a significant decline by 8.08 percentage points in FY 2016-17 compared to FY 2015-16. Rate of growth in export earning stood at 9.77 percent in FY 2015-16, whereas at the end of June 2017, export growth declined to 1.69 percent for the last fiscal year resulting in a shortfall in the year's target (USD 37000 million) by USD 2165 million. Merchandise export in June 2017 decreased by USD 0.024 billion or 0.80 percent to USD 3.04 billion from USD 3.07 billion in May 2017 according to EPB data, that was 16.52 percent lower than the target of 3.65 billion for the said month. However, total merchandise export during July-January 2016-17 increased by USD 0.84 billion or 4.36 percent to USD 20.11 billion compared to USD 19.27 billion during July-January 2015-16. Actual performance of merchandise export shipments during July-January 2016-17 was 4.43 percent lower than the target of USD 21.04 billion. 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. 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.

Figure 1: Growth in export earnings over recent periods



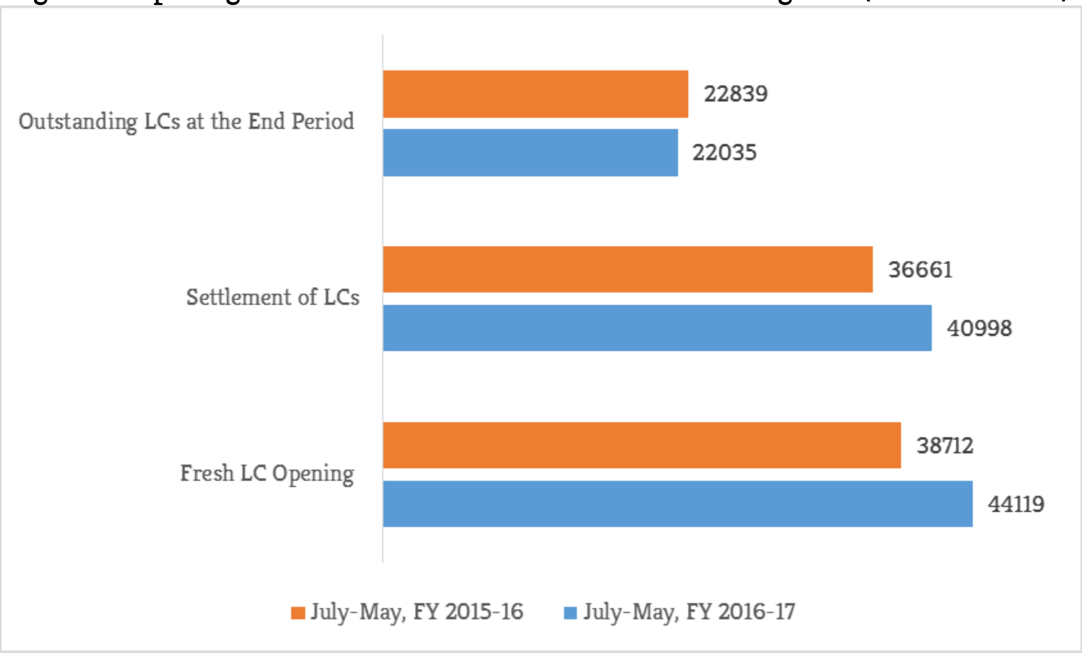
Source: Bangladesh Bank, 2017a

As shown by category-wise breakdown of exports, during FY 2016-17, exports of tea (144.26%), engineering products (including electric goods) (35.05%), chemical products (13.21%), jute goods (6.45%) and knitwear (3.01%) experienced a positive growth compared to that of the same period of the previous fiscal year. On the other hand, frozen & live fish (1.74%), raw jute (3.08%), woven garments (2.35%), leather (16.30%), and agricultural products (27.41%) experienced a negative growth during FY, 2016-17 compared to the same period of the previous year.

3. IMPORT PAYMENT

Fresh opening of import letter of credits (LCs) for industrial raw materials has, however, registered a growth of 6.11 percent during July-May of FY 2016-17 compared to the corresponding period of FY 2015-16. This growth in opening of LCs for industrial raw materials cannot be capitalized on until the lack of entrepreneurship and productive capacity in the economy are dealt with in order to rise to the challenges of unemployment and low private investment. However, 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.

Figure 2: Opening and settlement of LCs for industrial raw goods (in million USD)



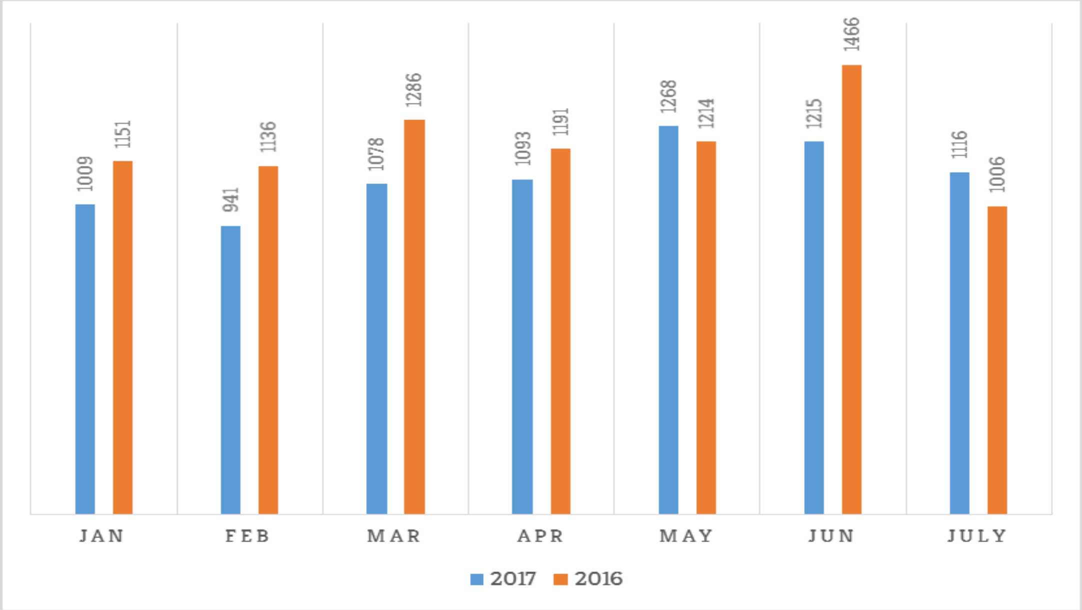
Source: Bangladesh Bank, 2017a

Custom based import during July-May, 2016-17 stood higher by USD 4.20 billion or 10.69 percent and stood at USD 43.51 billion against USD 39.31 billion during July-May 2015-16. Settlement of import LCs during July-May, 2016-17 increased by 11.83 percent and stood at USD 41.00 billion against USD 36.66 billion during July-May 2015-16. Fresh opening of import LCs during July-May, 2016-17 increased by 13.97 percent and stood at USD 44.12 billion compared to USD 38.71 billion during July-May 2015-16.

4. REMITTANCE

The inflow of remittance declined by 14.48 percent and stood at USD 12769 million in FY 2016-17 compared to the previous fiscal year. On monthly basis, the remittance inflow declined by 4.18 percent in June 2017 compared to May 2017 and stood at USD 1214.61 million, which further declined by 8.15 percent to USD 1115.57 million in July 2017. 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

Figure 3: Trends in inflows of remittance (in million USD)



Source: Bangladesh Bank, 2017a

Previously, the inflow of remittance, was on the decline and decreased 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.

The inflow of remittance further 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 was 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.

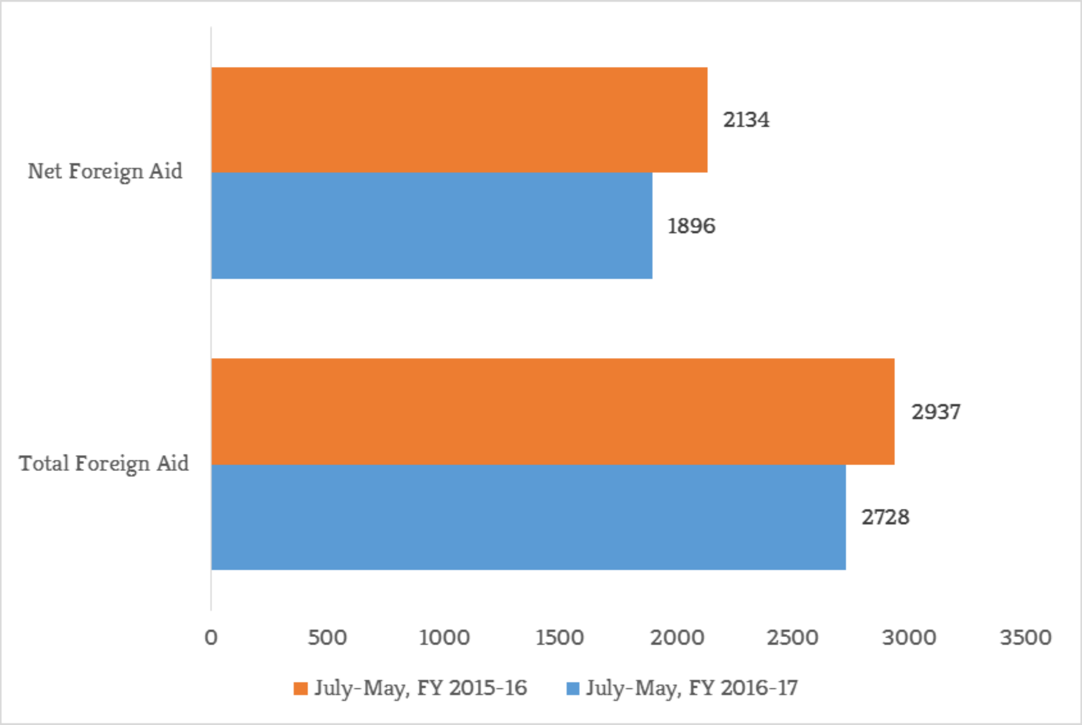
5. FOREIGN AID AND FOREIGN DIRECT INVESTMENT

Both total and net receipt of foreign aid are in decline. Disbursement of total foreign aid decreased by 7.11 percent and stood at USD 2728.20 million during July-May of FY 2016-17 compared to a 7.71 percent increase during the corresponding period of the previous fiscal year. The net receipt of foreign aid, on the other hand, also declined by 11.16 percent and stood at USD 1896.16 million in July-May of FY 2016-17 compared to an increase of 14.74 percent during the corresponding period of FY 2015-16.

On half-yearly basis, the total foreign aid disbursements during July-December, 2016 decreased by USD 0.21 billion or 13.94 percent and stood at USD 1.32 billion.

After principle repayment of USD 0.45 billion, the net receipt of foreign aid stood at USD 0.88 billion during July-December, 2016 as compared to USD 1.09 billion of the same period of the previous year.

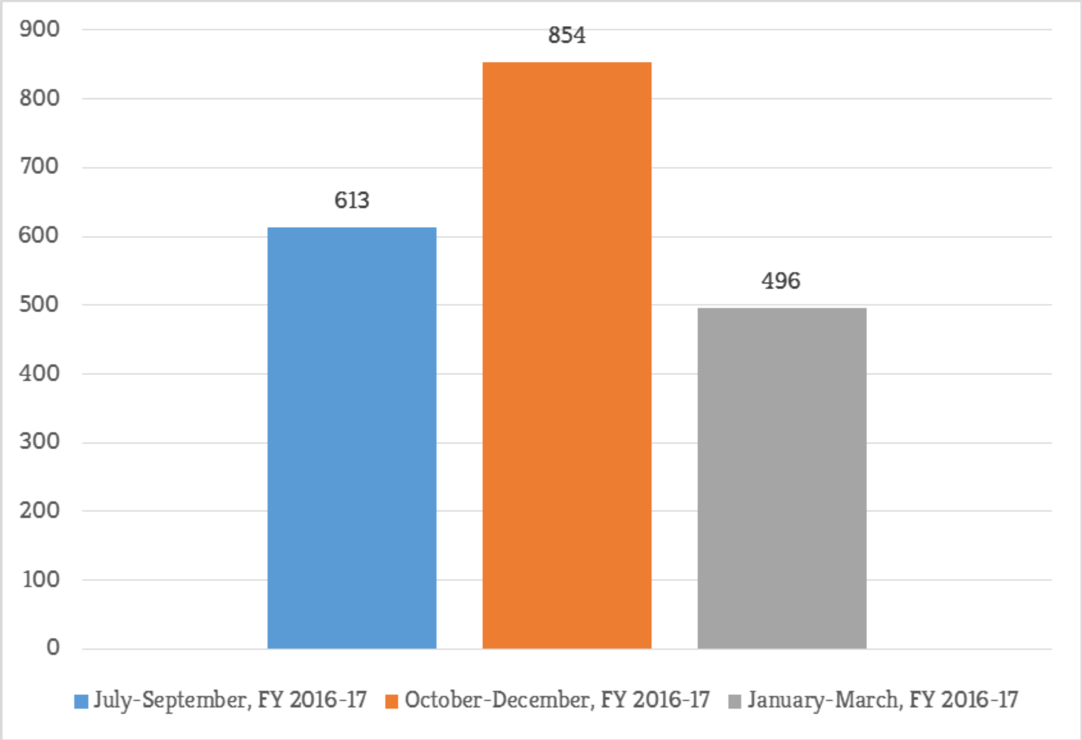
Figure 4: Trend in disbursement of foreign aid (in Million USD)



Source: Bangladesh Bank, 2017a

On quarterly basis, net inflow of FDI has declined from October-December to January-March quarter of FY 2016-17. From USD 853.73 million in October-December of FY 2016-17, net inflow of FDI fell by almost 42 percent and stood at USD 495.84 million in January-March of the same fiscal year. Findings from a survey by Bangladesh Bank suggest that, gross FDI inflows during the fiscal year 2015-16 reached US$ 2502.41 million. The size of disinvestment (including capital repatriation, reverse investment, loans to parents, and repayments of intra-company loans to parents) during the fiscal year 2015-16 recorded US$ 498.88 million which was 19.93% of gross FDI inflows. Hence, net FDI inflows in Bangladesh during the fiscal year 2015-16 were US$ 2003.53 million. Gross FDI inflows during the quarters July-September, October-December, January-March and April-June of fiscal year 2015-16 were US$ 738.71 million, US$ 676.16 million, US$ 547.28 million and US$ 540.26 million respectively. Disinvestment during the quarters July-September, October-December, January-March and April-June of fiscal year 2015-16 were US$ 140.63 million, US$ 135.71 million, US$ 136.60 million and US$ 85.94 million respectively. Net FDI inflows during the quarters July-September, October-December, January-March and April-June of fiscal year 2015-16 were US$ 598.08 million, US$ 540.45 million, US$ 410.68 million and US$ 454.32 million respectively.

Figure 5: Trends in net inflows foreign direct investment (in million USD)



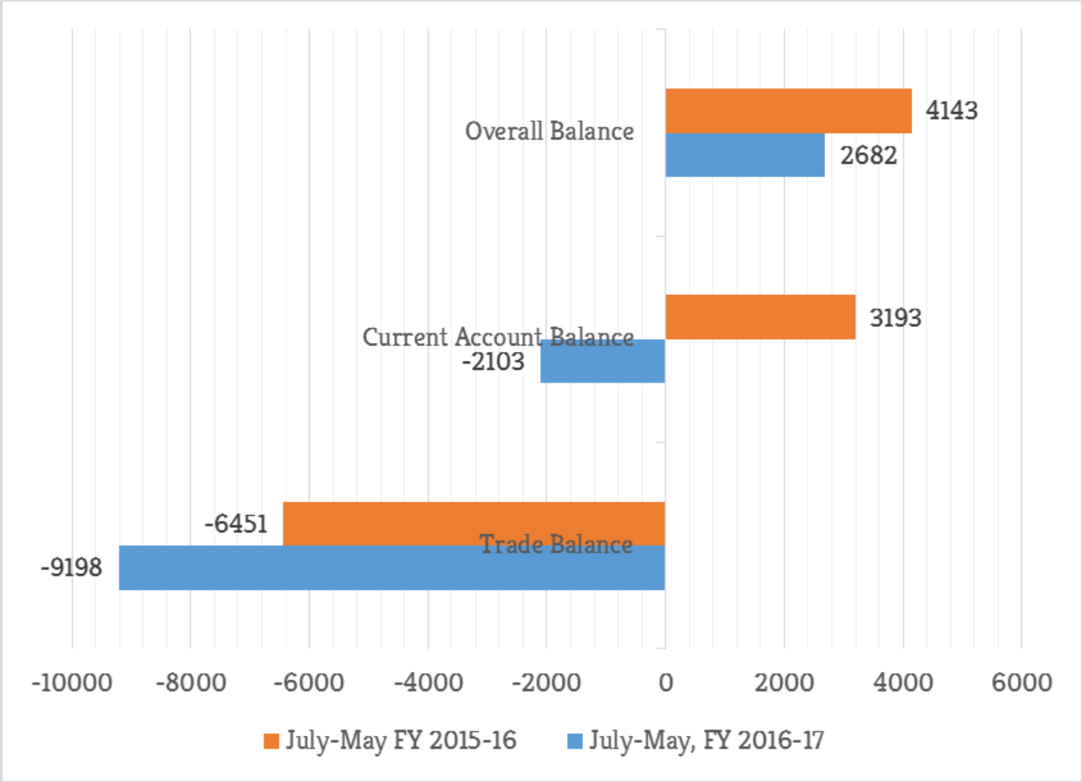
Source: Bangladesh Bank, 2017b

6. OVERALL BALANCE

With decline in inflow of remittance and export growth, rise in import payables along with shortfall in the primary income and income from the service sector, the current account balance exhibits a monumental deficit of USD 2103 million during July-May of FY 2016-17 compared to a surplus of USD 3193 million during the same period of the previous fiscal year. Deficit in current account balance has been continuing since the third month of the last fiscal year. As a consequence, the total balance of payment declined to USD 2682 million in July-May of FY 2016-17 compared to USD 4143 in the corresponding period of FY 2015-16.

Previously, trade balance recorded a deficit of USD 4.51 billion during July-December, 2016 as compared to the deficit of USD 3.61 billion during July-December, 2015. Current account balance continued with deficit during July-December 2016. Despite the current account deficit, financial account surplus of USD 2.70 billion contributed to an overall surplus of USD 2.26 billion in overall balances during July-December, 2016. The deficit in current account of July-December, 2016 was mainly due to the rise in import payables along with the shortfall in the primary income and income from the service sector as well as slow growth in remittance inflow.

Figure 6: State of balance of payments (in million USD)



Source: Bangladesh Bank, 2017b

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.

7. 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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