Recent Trends in the Accounts of Balance of Payment

Bangladesh Economic Update

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1. INTRODUCTION

The current issue of Bangladesh Economic Update attempts to understand the recent trends in external sector against the backdrop of increased trade deficit and resultant negative current account balance coupled with negative growth in inflow of remittance, and their impact on the country's balance of payment.

The Update reveals that unsatisfactory performance in export shipment in the starting months of FY 2016-17 is likely to exert immense pressure on the country's balance of payments. In addition, decrease in remittance and export of manpower, increasing deficit in service and trade balance are likely to impede the rate of growth of the economy.

Inflows of remittance has become negative in recent times mainly because of the decline in labour migration in major markets of the Middle East countries. This declining inflow of remittance 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 abroad.

2. EXPORT EARNINGS

Export earnings declined by 32 percent in September 2016 compared to the previous month of August 2016. Merchandise export shipments in September 2016 decreased by USD 1.06 billion or 32.16 percent at USD 0.22 billion compared to USD 0.33 billion in August 2016, according to EPB data, which is also 5.63 percent lower than that of September 2015.

Total merchandise export shipments during July-September 2016 increased by USD 0.32 billion or 4.12 percent at USD 0.81 billion compared to USD 0.78 billion during July-September 2015.

Actual performance of merchandise export shipments during July-September 2016 was lower by 9.69 percent than the Strategic target of USD 0.89 billion. 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.

Figure 1: Export earnings in December 2015 – September 2016 (in million USD)

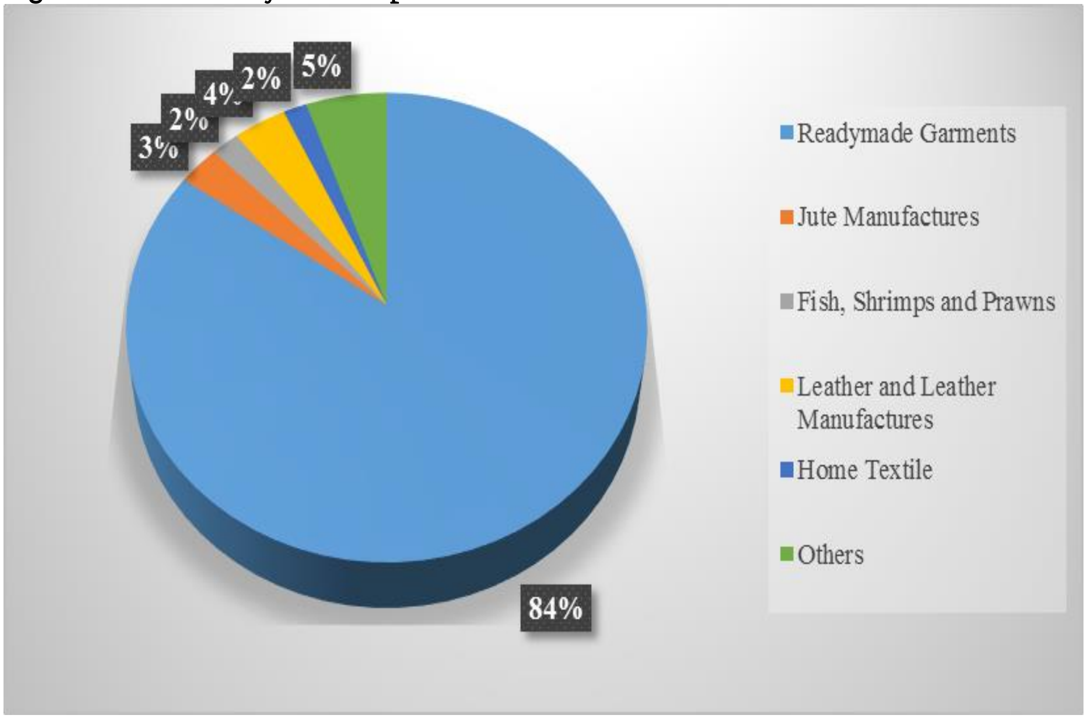
Source: Bangladesh Bank, 2016a

In addition, lack of product diversification in export is posing serious challenge to the commitment toward maintaining a healthy balance in external sector. Data for the period of Jaunary-March'2016 suggests that the dependence on readymade garments for export earning has been rising day by day. As high as 84.6 percent of the total export earnings came from readymade garments during this period implying the challenge of putting all eggs into one basket.

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) contributed to the overall decrease in 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 showed a positive trend.

Figure 2: Commodity-wise Export



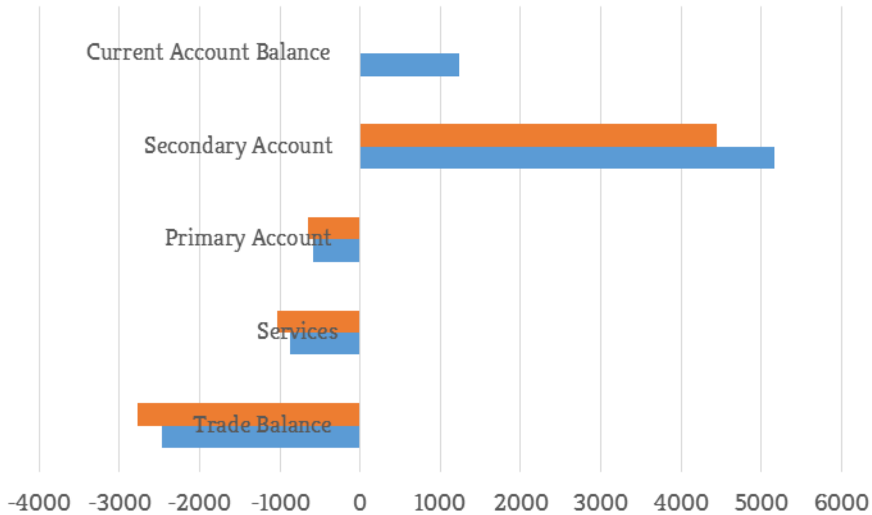
Source: Bangladesh Bank, 2016b

3. CURRENT ACCOUNT BALANCE

The current account balance declined substantially in July-October 2016 compared to the corresponding period of the previous fiscal year. The current account balance exhibited a surplus of 1241 million USD in July-October 2015, whereas it shows a deficit of 16 million USD in July-October 2016. The country has been experiencing a negative balance of trade, importing more goods than export. 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 deficit increased by 12.52 percent to 2777 million USD in July-October 2016 from 2468 million USD in July-October, 2015 since export increased by 6.78 percent whereas import increased by 7.93 percent during July-October 2016.

The other three components of current account balance – services, primary income and secondary income – also exhibit declining trends. The balance of services further declined from negative 865 million USD in July-October 2015 to negative 1036 million USD during the corresponding period of the current fiscal year. Both of the balances of primary and secondary income accounts declined in July-October 2016 compared to the corresponding period of the previous fiscal year. The balance of primary income declined from negative 590 million USD to 651 million USD while that of secondary income declined from 5164 million USD to 4448 million USD.

Figure 3: Trends in Current Account Balance (in Million USD)



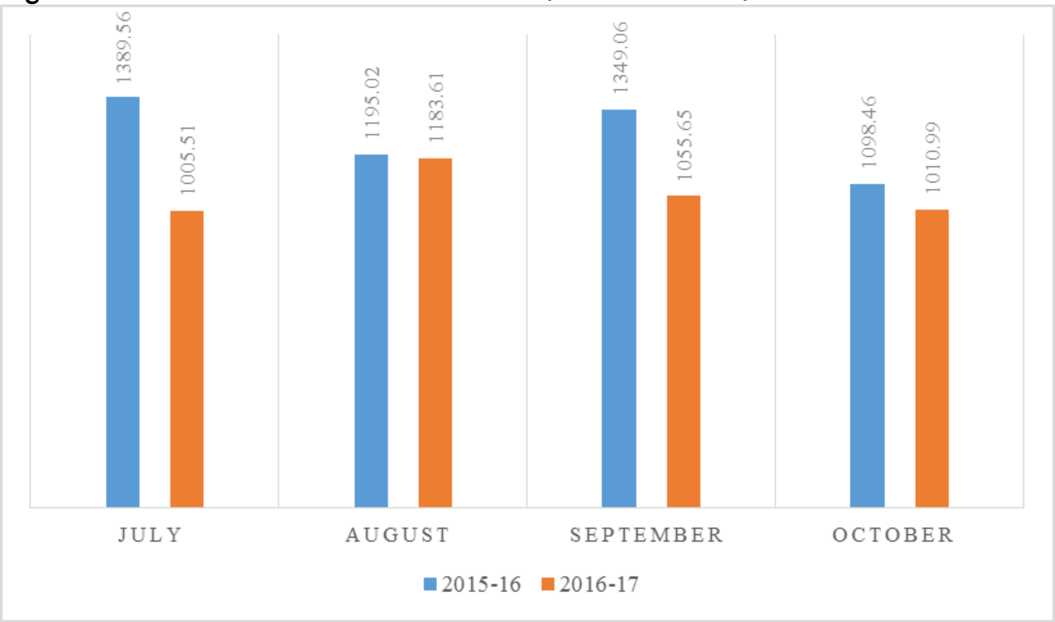
	Trade Balance	Services	Primary Account	Secondary Account	Current Account Balance
July-October 2016	-2777	-1036	-651	4448	-16
July-October 2015	-2468	-865	-590	5164	1241

Source: Bangladesh Bank, 2016b

4. REMITTANCE

Receipts of workers' remittance inflow in October 2016 decreased by 8.56 percent and stood at USD 1.01 billion as compared to September 2016. It also decreased by 11.88 percent in September compared to August 2016 and by 22.69 percent compared to the corresponding month of the previous year. Total receipts of workers' remittance decreased by 15.43 percent during July-October, 2016 and stood at USD 4.26 billion as compared to the same period of the previous fiscal year. 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 to decreasing inflows of remittances, recent incidences of restriction to overseas employment of Bangladeshi unskilled workers (e.g., 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 4: Trends in inflows of remittance (in million USD)



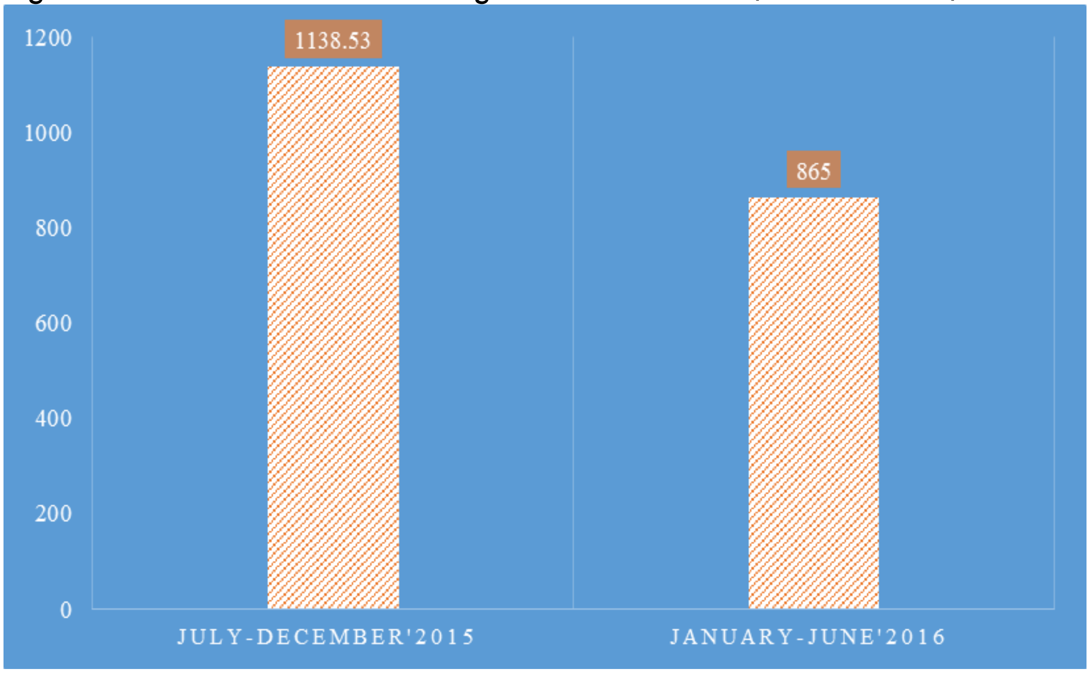
Source: Bangladesh Bank, 2016b

5. FOREIGN DIRECT INVESTMENT

Total FDI inflows (net) reached to US$ 865.00 million during January-June, 2016 which was decreased by US$ 273.53 million or 24.02% compared to FDI inflows (net) during July-December, 2015 (US$ 1138.53 million). While in July-December, 2015 FDI inflows (net) was increased by US$ 41.67 million or 3.80% compared to January-June, 2015 and an increase of US$ 359.85 million or 48.83% during the January-June, 2015 compared to July-December, 2014.

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



Source: Bangladesh Bank, 2016c

Both the investors and the recipients 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 experienced 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.

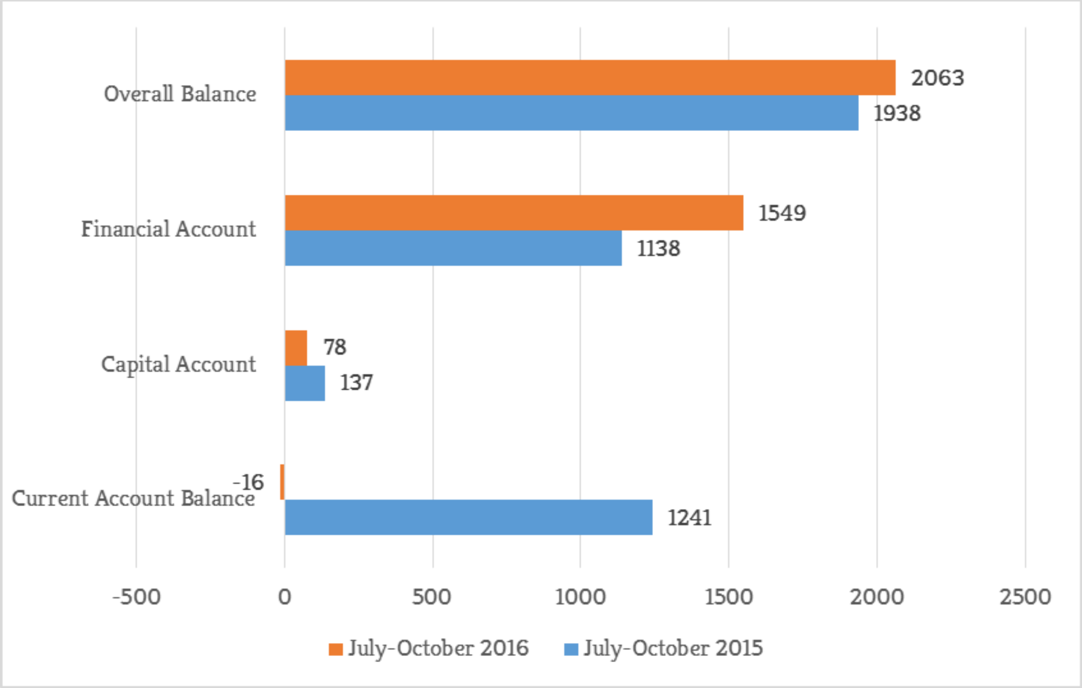
In addition, FDI decreased after FY 2005-06 from 845million to 792million in FY 2006-07, and then to 692 million in FY 2007-08.FDI increased to1086 million in FY 2008-09. After showing a negative growth rate in 2009 of -35.54 flow of FDI followed a positive growth rate of 30.4 and 24.4 percent in FY 2010 and FY 2011 respectively.

Most importantly, the rate of growth in FDI (net) has been seen a negative trend in FY 2013 (January-June) of -28 percent. In a developing country like Bangladesh, the current amount of FDI is insufficient for inclusive growth, and more incentive should be given to foreign partners to increase the inflow of capital through FDI.

6. OVERALL BALANCE

The trade balance recorded a deficit of USD 2.8 billion during July-October, 2016 as compared to the deficit of USD 2.5 billion during July-October, 2015. Despite a trade deficit and a primary income shortfall, a significant surplus in secondary income helped to maintain a current account surplus during the period under review. Current account balance was also at deficit of USD 0.016 billion during July-October, 2016 as compared to the surplus of USD 1.2 billion during the corresponding period of 2015. Because of a financial account surplus of USD 1.5 billion during July-October, 2016 against 1.1 billion in the same period of the previous year, the surplus in overall balances of USD 2 billion during July-October, 2016 was slightly higher than the surplus of USD 1.9 billion during the same period of 2015.

Figure 6: State of Balance of Payments (in Million USD)



Source: Bangladesh Bank, 2016b

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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