External Sector, Inflation and Standard of Living

Bangladesh Economic Update

October 2017

উন্নয়ন অন্বেষণ

UNNAYAN ONNESHAN

Bangladesh Economic Update
Volume 8, No. 10, October 2017

Acknowledgement

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

For orders and request, please contact:
UNNAYAN ONNESHAN
16/2, Indira Road, Farmgate Dhaka-1215, Bangladesh
Tell: + (880-2) 8158274, 9110636
Fax: + (880-2) 8159135
E-mail: info@unnayan.org
Web: www.unnayan.org

1. INTRODUCTION

The current issue of Bangladesh Economic Update attempts to understand the current status of external sector against the backdrop of high import-induced inflationary pressure, falling growth in export and declining wage earner's remittance, resulting in monumental deficit in current account. The Update reveals that cost-push induced by recent rise in import of consumer goods results in price hike in commodity market on the one hand and further upset the balance of payment on the other.

The Update further analyses how 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 was showing positive balance in recent past 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.

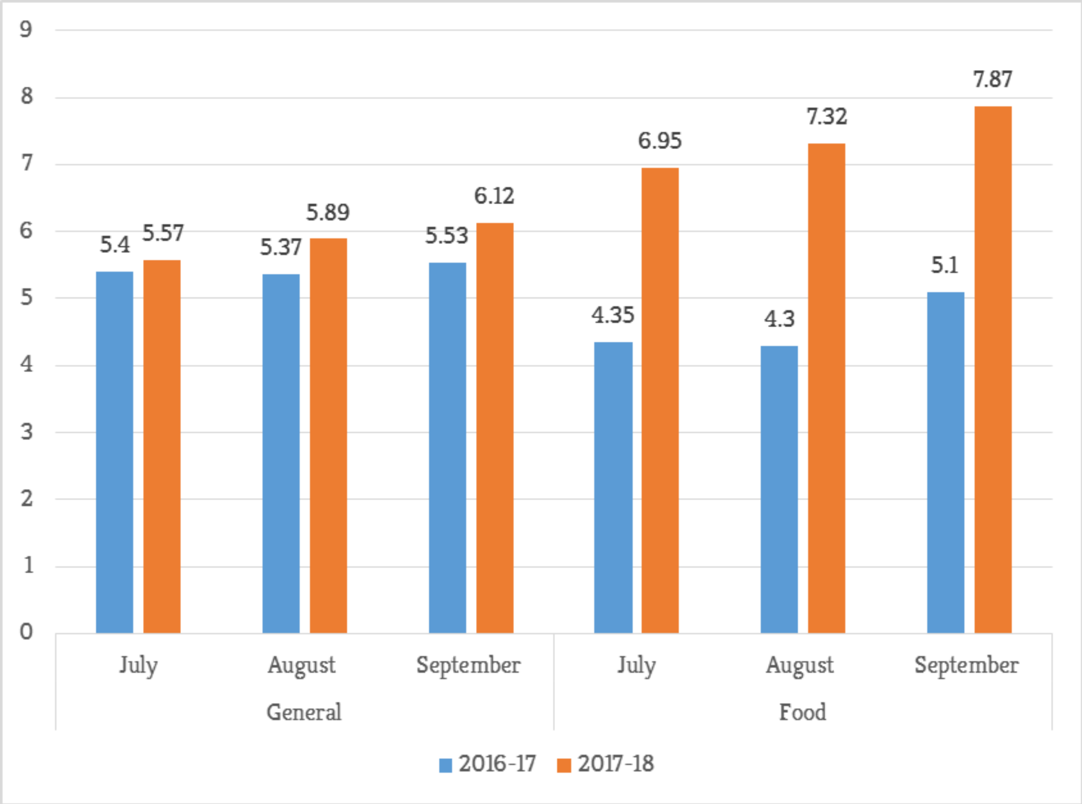
In addition, declinig inflow of remitance is likely to exert adverse impact on rural economy since consumption and expenditure of people living in rural areas are largely contingent upon remittance sent by their household members living aborad.

2. IMPORT OF CONSUMER GOODS AND INFLATIONARY PRESSURE

As regards the monumental increase in Letter of Credits (LCs) for the consumer goods, e.g. rice, and consequential price hike in recent time, it can be shown that during the period of July-August, 2017, fresh opening, settlement and outstanding of LCs increased by 74.27 percent, 77.14 percent and 41.32 percent respectively compared the corresponding period of the previous year.

As a consequence, on point-to-point basis, food and general inflation stood at 7.87 and 6.12 percent respectively in September 2017, which are the highest monthly inflation rates since July 2016. Comparative statistics suggest that food inflation became 6.95, 7.32 and 7.87 percent in July, August and September of 2017 respectively compared to 4.35, 4.30 and 5.10 percent in the corresponding months of 2016.

Figure 1: Rate of inflation at national level on point-to-point basis



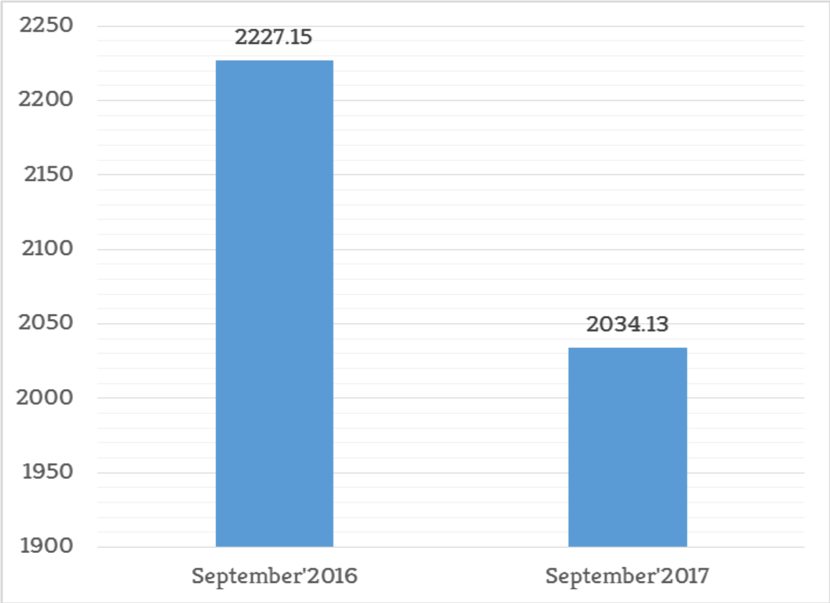
Source: Bangladesh Bank, 2017a

3. EXPORT EARNINGS

With increasing export concentration of readymade garments (RMG), growth in total export earnings exhibit a significant decline by 8.67 percent in September 2017 compared to August 2017. Total export stood at 2.03 USD in the month of September which is, in fact, lower than the first two months of the current fiscal year. In view of the target of export earnings of 2.78 billion for September 2017, the actual earnings fell short by 26.72 percent, signalling the continuation of failure in mobilizing revenue at the end of the fiscal year. In addition, non-diversification of export markets and lack of export competitive products may pose serious challenge to the performance of external sector.

However, 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.

Figure 2: Export earnings over recent periods (in million USD)



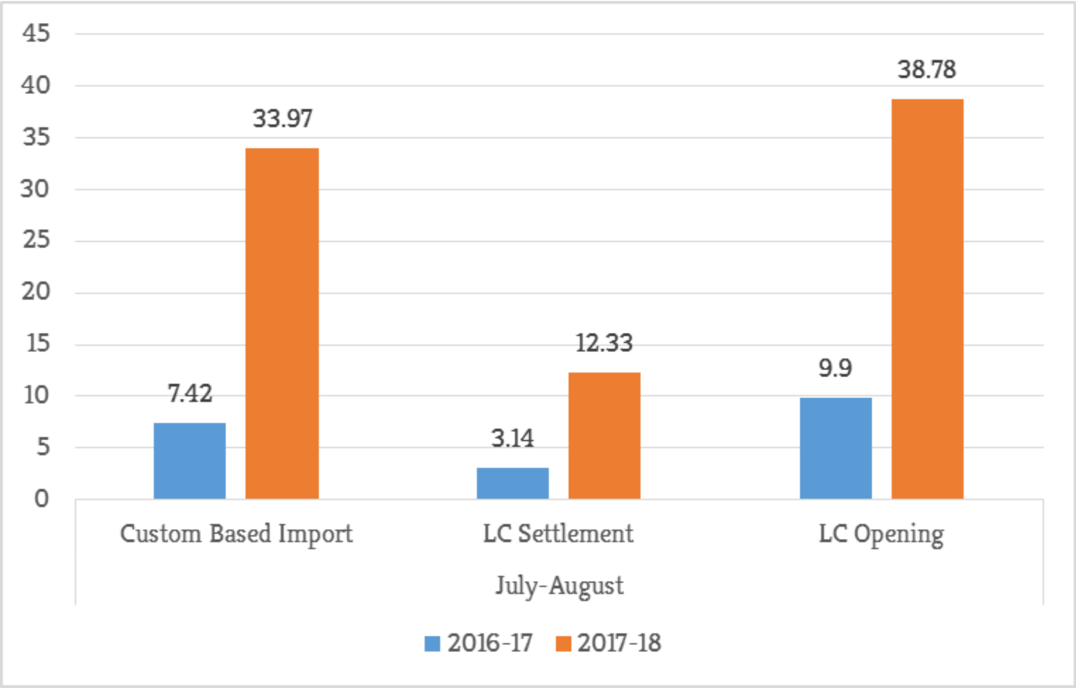
Source: Bangladesh Bank, 2017a

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.

4. OVERALL IMPORT PAYMENT

As put forth by Bangladesh Bank (2017a), custom based import during July-August, 2017-18 stood higher by USD 2.29 billion or 33.97 percent and stood at USD 9.03 billion against USD 6.74 billion during July-August, 2016-17. Settlement of import LCs during July-August, 2017-18 increased by 12.33 percent and stood at USD 8.04 billion against USD 7.16 billion during July-August, 2016-17. Fresh opening of import LCs during July-August, 2017- 18 increased by 38.78 percent and stood at USD 10.13 billion compared to USD 7.30 billion during July-August, 2016-17.

Figure 3: Rate of growth in custom based imports, opening and settlement of LCs



Source: Bangladesh Bank, 2017a

Sector-wise analysis suggests that fresh opening of import letter of credits (LCs) for industrial raw materials has, however, registered a growth of 23.66 percent during July-August of FY 2017-18 compared to the corresponding period of FY 2016-17. 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, outstanding LCs for industrial raw materials has registered a negative 2.38 percent growth during the same period of FY 2017-18 compared to the corresponding period of the preceding fiscal year.

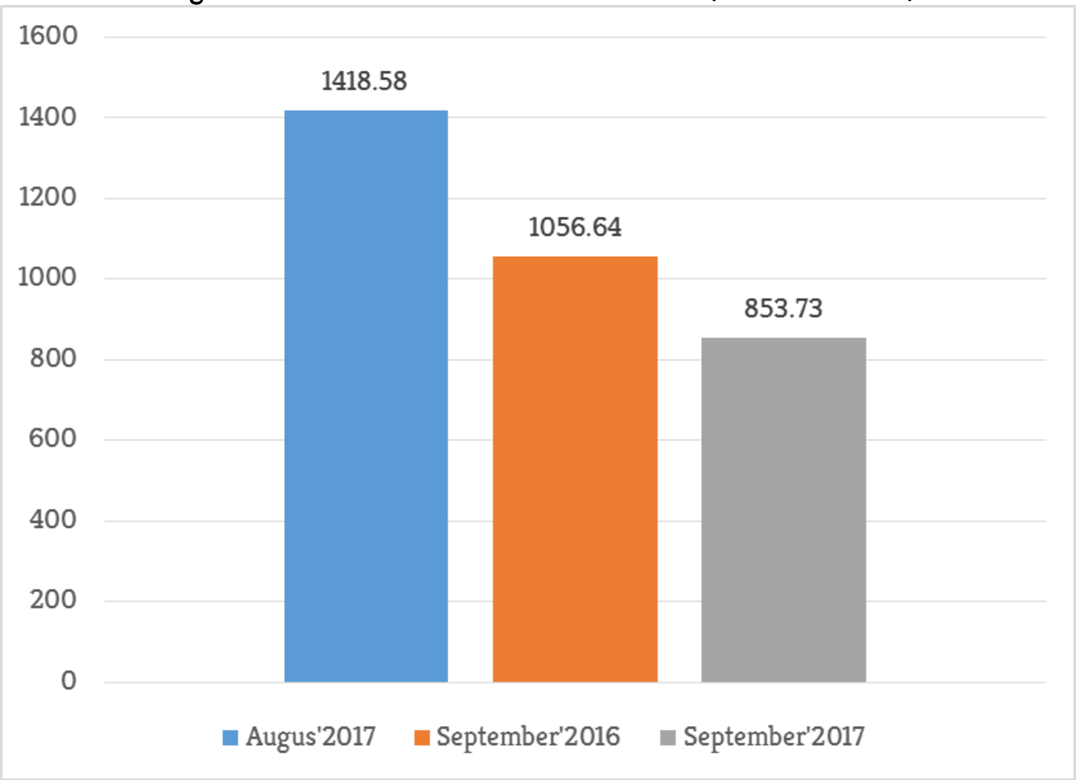
5. REMITTANCE

In regard to declining rate of growth in inflows of wage earner's remittance, it is shown that the inflow of remittance stood at USD 853.73 million in September 2017, declined by 39.82 percent against August 2017 and 19.20 percent against September 2016. On yearly basis, the inflow of remittance also 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

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. 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.

Figure 4: Trends in inflows of remittance (in million USD)



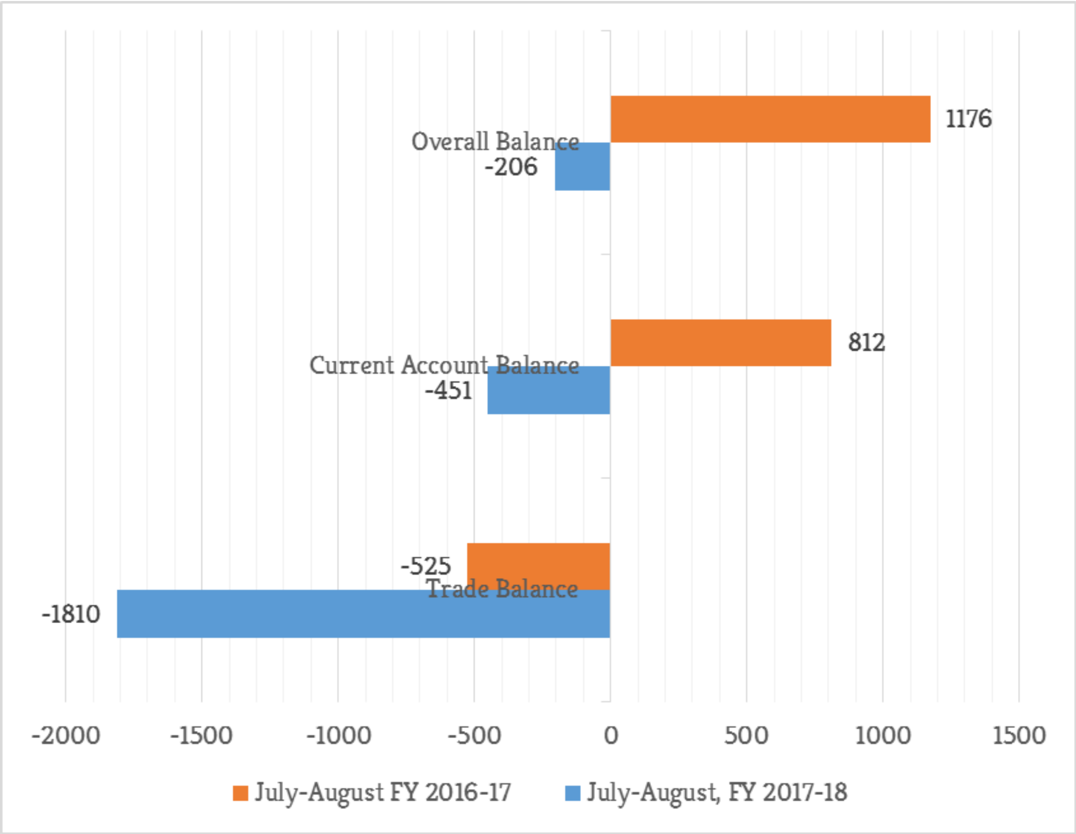
Source: Bangladesh Bank, 2017a

6. OVERALL BALANCE

It is important to note that with decline in the 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 deficit of USD 451 million during July-August of 2017 compared to a surplus of USD 812 million during the corresponding months of 2016. As a consequence, the total balance of payment experiences a deficit of USD 206 million in July-August of FY 2017-18 compared to a surplus of USD 1176 million in the corresponding period of FY 2016-17.

The current account balance further 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 5: State of balance of payments (in million USD)



Source: Bangladesh Bank, 2017a

In addition, trade balance recorded a deficit of USD 1.81 billion during July-August, 2017-18 as compared to the deficit of USD 0.53 billion during July-August, 2016-17. Despite financial account surpluses of USD 0.42 billion, current account balance deficit contributed to a deficit of USD 0.21 billion in overall balances during July-August, 2017- 18. The deficit in current account was mainly due to high import payables along with the shortfall in the primary income and income from services.

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.

REFERENCES

Bangladesh Bank, 2017a. Major Economic Indicators, Monthly Update: February 2017, Dhaka: Bangladesh Bank.

Bangladesh Bank, 2017b. Economic Data, Dhaka: Bangladesh Bank.

Bangladesh Bank, 2016c. Quarterly Review on Foreign Direct Investment (January-March, 2016), Dhaka: Bangladesh Bank.

Bangladesh Bank, 2017d. Selected Indicators, Dhaka: Bangladesh Bank.

Ministry of Finance (MoF). 2016, Bangladesh Economic Review 2016. Dhaka, Bangladesh: Finance Division, Ministry of Finance, Government of Bangladesh.

Unnayan Onneshan. 2015, Half Yearly Assessment of Economy of Bangladesh, Bangladesh Economic Update Volume 6, No. 12, December 2015. Dhaka: Unnayan Onneshan.

UNNAYAN ONNESHAN
16/2 Indira Road, Farmgate
Dhaka-1215, Bangladesh
Tel.: +880 (2) 58150684, +880 (2) 9110636
Fax: +880 (2) 58155804
Email: info@unnayan.org
Web: www.unnayan.org