

# Bangladesh Economic Update

## *Remittance*

September, 2011



উন্নয়ন অন্বেষণ  
Unnayan Onneshan  
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## I. INTRODUCTION

*If the current trend prevails, the gap might increase further in FY 2014-15 and under the business as usual scenario, the flow of remittance might stand at USD 15,309.996 million against the MTMF projection of USD 31,400 million.*

The remittance, a driver of growth of the economy of Bangladesh, has become a cause of concern, particularly against the backdrop of dwindling current account balance and volatility in the exchange rates, having implications over the macroeconomic stability and prospects of growth. The gap between actual flow of remittance and the government's target articulated in the medium term macroeconomic framework (MTMF) is on the rise and might grow sharply in the upcoming years. In FY 2010-11 the actual receipt of remittance totals USD 11,650.30 million than that of the MTMF projection of USD 14,000 million, a shortfall of USD 2,349.70 million. If the current trend prevails, the gap might increase further in FY 2014-15 and under the business as usual scenario, the flow of remittance might stand at USD 15,309.996 million against the MTMF projection of USD 31,400 million.

*Under the business as usual scenario, the per cent change might slide down to 7.09 but remittance as a percentage of GDP might increase to 11.12 in FY 2014-15.*

Remittance as percentage of GDP has been increasing over the years till FY 2009-10 when it was 10.95. However in FY 2010-11, the amount of remittance flow in the country totals Tk. 82,992.89 crore while the amount of remittance as a percentage of GDP drops down to 10.54. In FY 2011-12, if the current rate of decline continues, the remittance as a percentage of GDP might drop down to 9.98 while the percentage change in remittance might be 8.27. Under the business as usual scenario, the per cent change might slide down to 7.09 but remittance as a percentage of GDP might increase to 11.12 in FY 2014-15.

*The continuation of current trend might witness the declining growth rate of remittance and GDP at 6.62 and 5.46 per cent because of mounting pressure of inflation.*

The positive relation between growth of remittance and GDP is observed till FY 2003-04 when growth rate of GDP was 6.27 per cent. But after FY 2003-04, the growth rate of GDP decreased with the increase of remittance due to the higher rate of inflation, which remained higher than the growth rate of GDP. In FY 2010-11, the growth rate of remittance is 9.04 per cent while the growth rate of GDP remains at 6.66 per cent and rate of inflation increases to 8.8 per cent. The continuation of current trend might witness the declining growth rate of remittance and GDP at 6.62 and 5.46 per cent because of mounting pressure of inflation.

*Under the business as usual scenario, export earning in FY 2014-15 might increase to USD 29,699.696 million while remittance as per cent of export earnings might stand at 51.55 per cent.*

*In FY 2014-15, remittance might reach at USD 15.31 billion and foreign currency reserve at 14.64 billion.*

*Current account surplus in FY 2010-11 is only USD 995 million, which is 73.28 per cent less than that of FY 2009-10.*

*In FY 2014-15, receipt of remittance might increase at USD 20 billion, gross official reserve at USD 17.6 billion but gross official reserve (in month of import) might fall down further to 3.2 months only.*

Remittance as a percentage of export earning was on the rise since FY 2007-08 when it was 56.09 per cent. In FY 2010-11, the growth from export earnings is 41.74 per cent higher than that of previous fiscal year and remittance as percentage of export earnings has dropped down to 50.82 per cent. Under the business as usual scenario, export earning in FY 2014-15 might increase to USD 29,699.696 million while remittance as per cent of export earnings might stand at 51.55 per cent.

In FY 2010-11, flow of remittance has increased by 6.03 per cent than that of previous fiscal year and reaches at USD 11.65 billion while foreign currency reserve increases by only 1.50 per cent reaches at USD 10.91 billion. If the current trend continues, remittance and foreign exchange reserve in FY 2011-12 might reach at USD 12.56 and 11.84 billion respectively, which might be 7.85 and 8.55 per cent than that of FY 2010-11. In FY 2014-15, remittance might reach at USD 15.31 billion and foreign currency reserve at 14.64 billion.

Remittance plays a significant role for a positive current account balance in any economy. In FY 2010-11, there is a large share of remittance that is USD 11,650 million while the trade deficit is USD 7,328 million, service deficit USD 2,398 million and income deficit USD 1,354 million. Current account surplus in FY 2010-11 is only USD 995 million, which is 73.28 per cent less than that of FY 2009-10 while current account surplus was USD 3,724 million. In fiscal year 2010-11, the growth rate of merchandise export and import is 41.74 and 41.84 respectively and at the same time trade deficit has increased at the rate of 42.20 per cent.

As the rule of the thumb states that at least three months' import bill equivalent reserve is required for any economy. In FY 2010-11, gross official reserve totals USD 10.7 billion while gross official reserve (in month of import) is 3.6 months. In FY 2014-15, receipt of remittance might increase at USD 20 billion, gross official reserve at USD 17.6 billion but gross official reserve (in month of import) might fall down further to 3.2 months only. This may further fall down, if the national currency continues to devalue against the major currencies and the rate of growth in import increases at a higher pace than that of export.

In fiscal year 2010-11, the average exchange rate of taka against USD is 70.48 than that of 69.19 in FY2009-10 and the percentage change of depreciation of BDT against USD is 1.63. Taka has been further devalued. Considering eight currency

baskets, the real exchange rate has been depreciated from 97.78 in FY 2009-10 to 94.18 in FY 2010-11. For the price hike of food product as well as fuel oil, import of machineries for establishing new electricity plant and import of fuel for producing electricity, the demand of foreign reserve has increased. As a result the value of taka against USD has depreciated.

*Under the business as usual scenario, flow of remittance in FY 2014-15 net foreign aid and flow of remittance might reach at USD 1,066.69 million and USD 15,309.996 million respectively.*

The relative share of foreign aid is very low compared to the percentage share of remittance in GDP. In 2010-11, receipt of net foreign aid totals USD 1,049.63 million against total foreign aid of USD 1,777.33 million, the net foreign direct investment amounts USD 768 million while the total amount of remittance is USD 11,650.32 million. Under the business as usual scenario, net foreign aid and flow of remittance in FY 2014-15 might reach at USD 1,066.69 million and USD 15,309.996 million respectively.

The growth rate of remittance induces that rate of inflation, if the currency received is not used for purchasing capital goods rather used in buying of consumption goods. In poorer households, remittance may finance the purchase of basic consumption goods, housing, and children's education and health care. A total of 43 per cent of remittance receipt is spent on food consumption nationally while only 19.2 per cent is spent on cash savings, 6.4 per cent on investment in business.

*Under the optimistic scenario, labour migration in FY 2014-15 may increase to 0.55 million with an average growth rate of around only 4 per cent.*

With the amount of USD 11.65 billion, Bangladesh is the seventh largest economy of remittance receiver in FY 2010-11 according to the World Bank. However, the percentage of labour migration has dropped down in the recent years due to the recent economic recession, Middle Eastern political unrest and squeeze in the demand of labour markets. In FY 2010-11, a total of 0.45 million people have migrated from the country which was 6.04 per cent more than that of FY 2009-10. Under the optimistic scenario, labour migration in FY 2014-15 may increase to 0.55 million with an average growth rate of around only 4 per cent which might drop down further, if new markets of labour are not found immediately.

The labour migration scenario of Bangladesh is highly country specific. Recent political unrest in these Middle Eastern countries might cause an adverse effect on migration and remittance balance for Bangladesh. The receipts of remittances from Bangladeshi migrants during FY 2010-11 has stood at around USD 11,650.30 million or Tk. 82,992.89 crore that is 11.12

percent of GDP. In FY 2010-11, the amount of remittance from Middle Eastern country totals USD 7,215.53 million which is 0.10 per cent less than that of FY 2009-10. However, remittance from non-Middle Eastern countries in FY 2010-11 totals USD 4,434.79 million, which is 17.80 per cent more than that of the previous fiscal year.

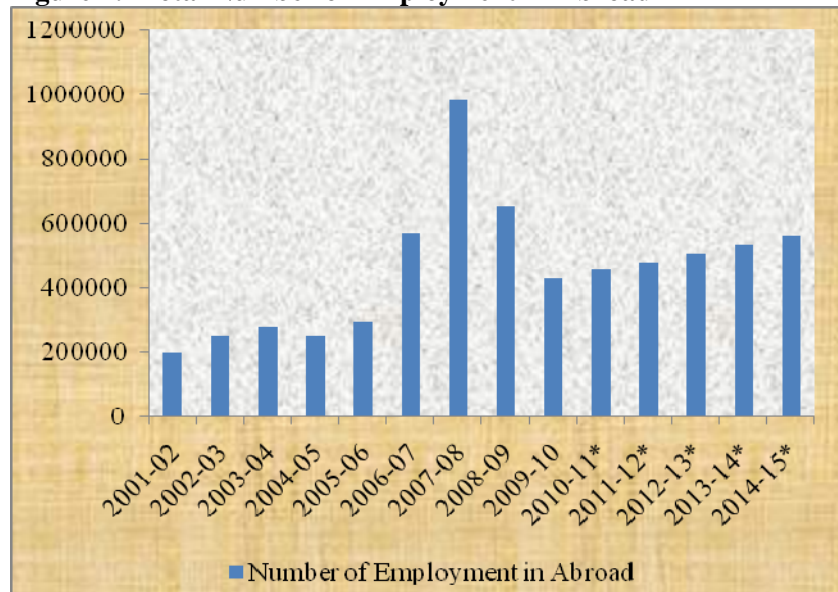
## II. LABOR MIGRATION AND FLOW OF REMITTANCE

### 2.1 Flow of Labor Migration

*In FY 2010-11, a total of 0.45 million people have migrated from the country which was 6.04 per cent more than that of FY 2009-10.*

In FY 2010-11, a total of 0.45 million people have migrated from the country which was 6.04 per cent more than that of FY 2009-10 but 116.66 per cent less than FY 2007-08 while the number of migrated people totals 0.98 million. With the increase in employment of skilled manpower and creation of manpower facilities for remittance, worker’s migration flow shows a significant growth in the fiscal year 2007-2008. However, it is evident that the percentage of labour migration has dropped down in the recent years due to the recent economic recession, Middle Eastern political unrest and squeeze in the demand of labour markets. However, the data from the Bureau of Manpower Employment and Training (BMET) reveals that the number of labour migration is increasing over the year at a diminishing rate.

**Figure 1: Total Number of Employment in Abroad**



Source: Authors’ calculation based on Bangladesh Economic Review 2011

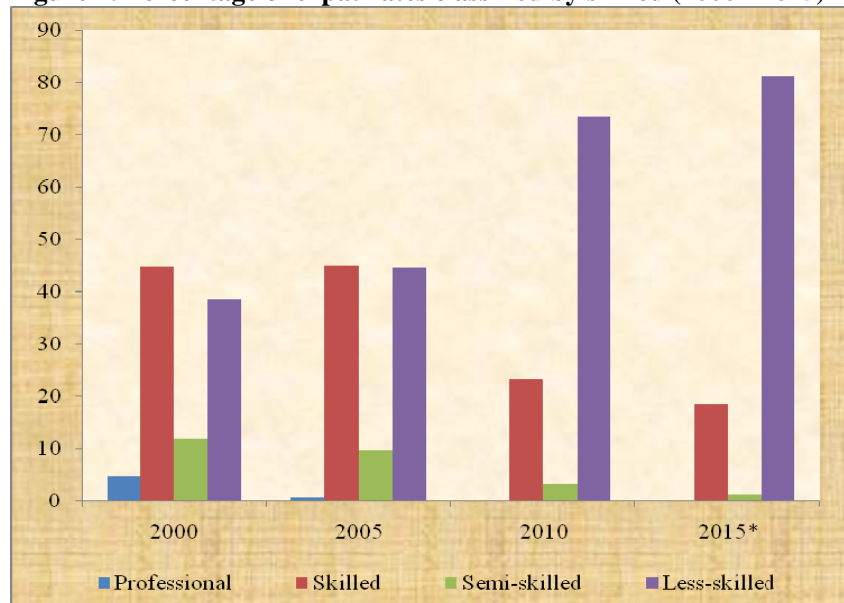
Under the optimistic scenario, labour migration in FY 2014-15 may increase to 0.55 million with an average growth rate of around only 4 per cent which might drop down further. In

addition, the rate of labour migration might decrease in the forthcoming years, if new markets of labour are not found immediately.

### 2.2 Types of Labor Migration

In calendar year 2010, out of total number of labour migration, 73.52 per cent were less-skilled, 3.19 per cent semi-skilled, 23.19 per cent skilled and 0.1 per cent professionals. The rate of labour migration is on a steady increasing trend. However, the trend cannot raise the bar of remittance as the gap between skilled and less- skilled labour is also in a vertical drift. Among 0.22 million labours migrated in 2000, 38.6 per cent were less-skilled, 11.89 per cent semi-skilled, 44.72 per cent skilled and 4.79 per cent professionals.

**Figure 2: Percentage of expatriates classified by skilled (2000 - 2015)**

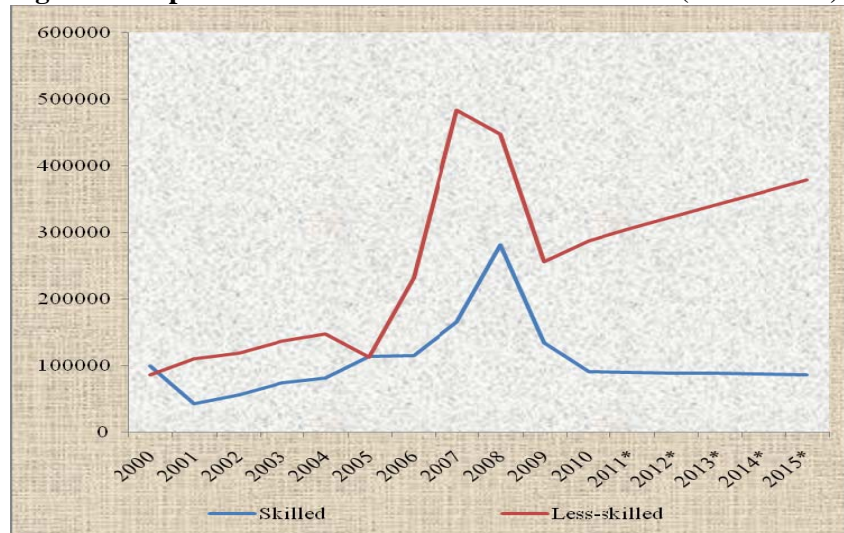


Source: Authors' calculation based on Bangladesh Economic Review 2011

*The gap between skilled and less-skilled migrated labor in 2015 might increase to 62.56 per cent than that of 50.33 per cent in 2010.*

The gap between professional and skilled labours with less-skilled labours might increase further in the upcoming years. In 2015, less-skilled labour migration might total 81.08 per cent, semi-skilled only 1.31 per cent and skilled 18.52 per cent. The gap between skilled and less-skilled migrated labor in 2015 might increase to 62.56 per cent than that of 50.33 per cent in 2010.

**Figure 3: Gap between skilled and less-skilled labour (2000 - 2015)**

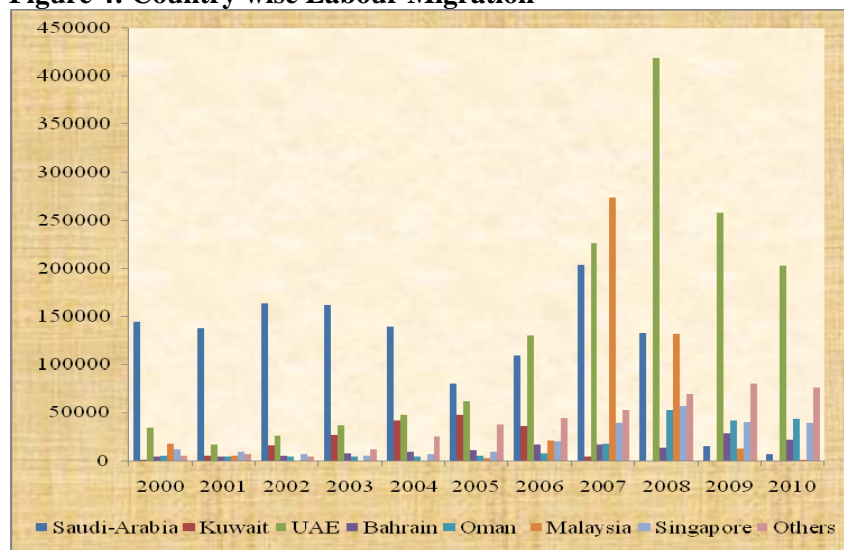


Source: Authors' calculation based on Bangladesh Economic Review 2011

### 2.3 Country Wise Labor Migration

Total labour migration from Bangladesh is increasing but it is also highly dependent on the Middle East countries. The ten highest labour migration destination countries - Saudi Arabia, UAE, Qatar, Oman, Bahrain, Kuwait, Libya, Iraq, Singapore and Malaysia - hold 96.83 per cent of total labour supplied from Bangladesh for last 31 years. This highly country specific skewed labour migration suggests largely a risky scenario for the labour migration and remittance. Current political unrest in these Middle Eastern countries might cause an adverse effect on migration and remittance balance for Bangladesh.

**Figure 4: Country wise Labour Migration**



Source: Economic Review-2011, Bureau of Manpower, Employment and Training (BMET)

*In calendar year 2010, labour migration in Saudi Arabia has dropped down by 51.80 per cent than that of 2009 and 95.11 per cent than that of 2000.*



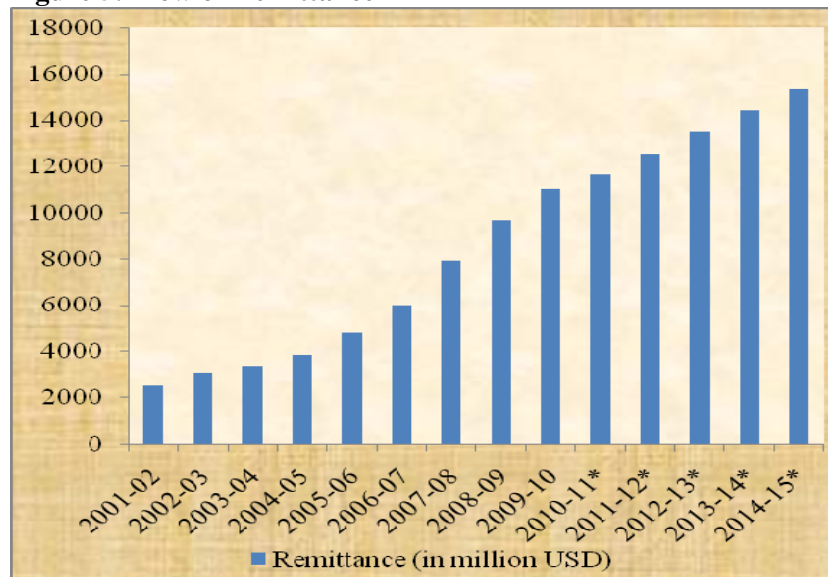
In calendar year 2010, labour migration in Saudi Arabia has dropped down by 51.80 per cent than that of 2009 and 95.11 per cent than that of 2000. Comparing to Middle Eastern countries, labour migration in non-Middle Eastern countries is on the rise.

### 2.4 Trend of Remittance Flow in Bangladesh

Bangladesh is considered as one of the major labour exporting countries of the world. Since independence over 7.4 million Bangladeshis went abroad. The receipts of remittances from Bangladeshi migrants during FY 2010-11 has stood at around USD 11,650.30 million or Tk. 82,992.89 crore that is 11.12 per cent of GDP against USD 10,987.40 million (Tk. 76,010.98 crore) of FY 2009-10. The beginning of FY 2010-11 has witnessed a decreased amount in remittance flow of UDS 857.31 million in July 2010 which has topped in March 2011 (USD 1,103 million) and the receipt of remittance in June 2011 totals USD 1,038.9 million.

*The receipts of remittances from Bangladeshi migrants during FY 2010-11 have stood at around USD 11,650.30 million that is 11.12 per cent of GDP.*

**Figure 5: Flow of Remittance**

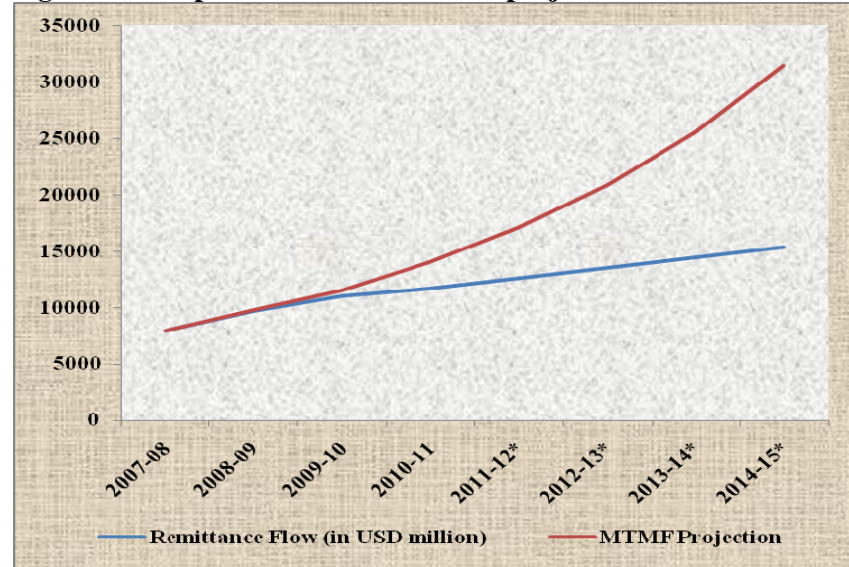


Source: Authors' calculation based on Bangladesh Bank

*In FY 2010-11 the actual receipt of remittance totals USD 11,650.30 million than that of the MTMF projection of USD 14,000 million, which means a gap of USD 2,349.70 million.*

The gap between actual flow of remittance and MTMF projection might grow sharply. In FY 2010-11 the actual receipt of remittance totals USD 11,650.30 million than that of the MTMF projection of USD 14,000 million, which means a gap of USD 2,349.70 million. The gap might increase further in FY 2014-15 and under the business as usual scenario, the flow of remittance might stand at USD 15,309.996 million against the MTMF projection of USD 31,400 million.

**Figure 6: Comparison between MTMF projection and Remittance**



Source: Authors' calculation based on Bangladesh Bank and Ministry of Finance

### **2.5 Country and Region wise Remittance Flow in Bangladesh**

The rate of labour migration from Bangladesh after 2008 has witnessed a comparatively lower growth rate which has also affected the flow of remittance in the country. In FY 2001-02, 46 per cent (USD 1,147.95 million) of total remittance receipt in the country came from Saudi Arabia, which fell to only 29 per cent (USD 3,290.03 million) in FY 2010-11. The flow of remittance from most of the Middle Eastern countries has seen a downward trend in FY 2010-11. However, the flow of remittance from Non-Middle Eastern countries has witnessed significant growth over the same period. Receipt of remittance from UK and USA has increased by significant percentage of 761.08 and 418.89 respectively in FY 2010-11. The contribution of Malaysia and Singapore in receipt of remittance has increased by the highest percentage of 1,402.09 and 1,318.79 respectively in FY 2010-11 than that of FY 2001-02.

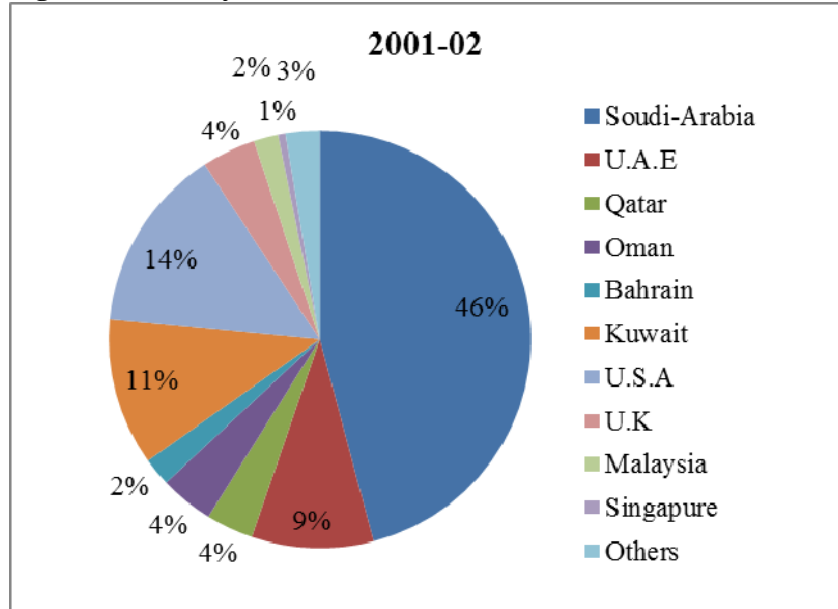
*In FY 2001-02, 46 per cent (USD 1,147.95 million) of total remittance receipt in the country came from Saudi Arabia, which fell to only 29 per cent (USD 3,290.03 million) in FY 2010-11.*

*In FY 2010-11, the amount of remittance from Middle Eastern country totals USD 7,215.53 million which is 0.10 per cent less than that of FY 2009-10.*

In recent past, most of the remittance came to the country from the contribution of expatriates working in Middle Eastern countries. The global economic recession and Middle Eastern political unrest has changed the scenario a lot. In FY 2010-11, the amount of remittance from Middle Eastern country totals USD 7,215.53 million which is 0.10 per cent less than that of FY 2009-10. However, remittance from non-Middle Eastern countries in FY 2010-11 totals USD 4,434.79 million, which is 17.80 per cent more than that of the previous fiscal year of USD

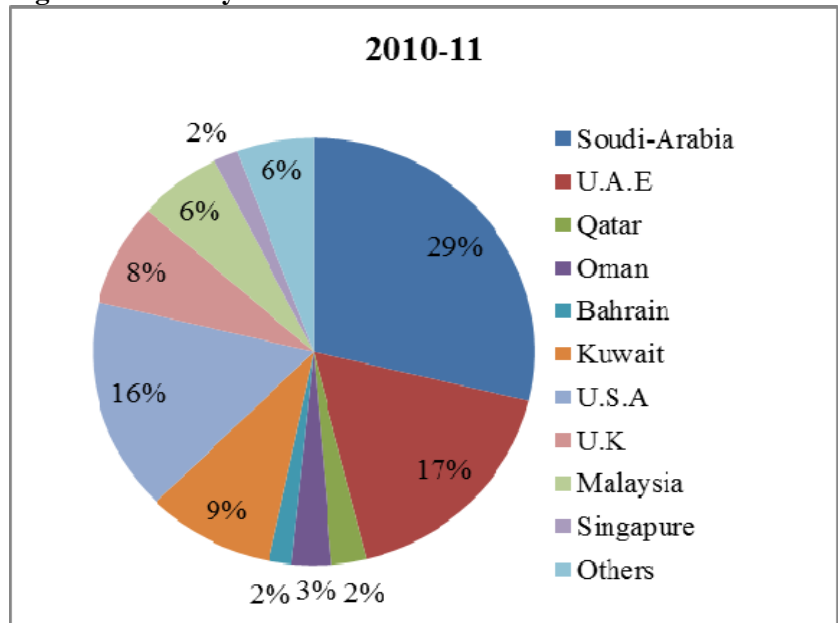
4,434.79 million. The contribution of remittance from Middle Eastern and Non-Middle Eastern countries has increased by 93.2 and 97.66 respectively in FY 2010-11 than that of FY 2006-07.

**Figure 7: Country wise Remittance Flow in 2001-02**



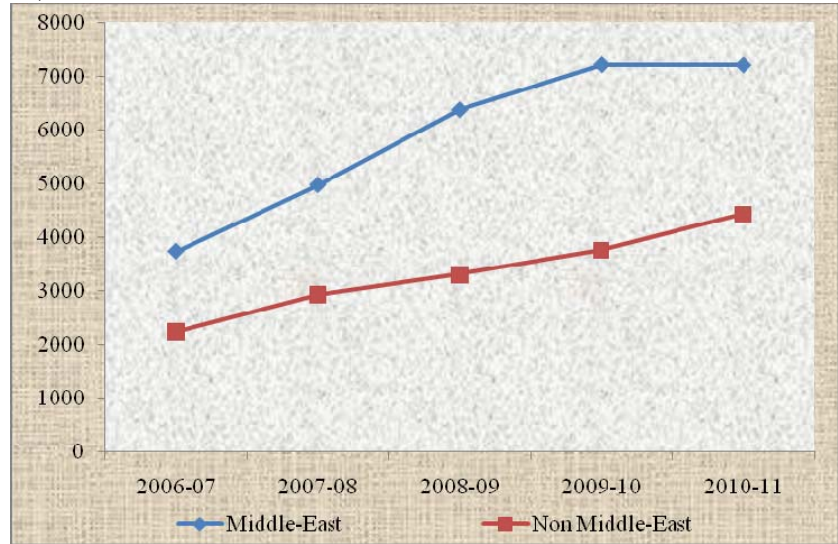
Source: Bangladesh Bank

**Figure 8: Country wise Remittance Flow in 2010-11**



Source: Bangladesh Bank

**Figure 9: Region wise Remittance Flow in (FY 2006-07 to FY 2010-11)**



Source: Bangladesh Bank

*Remittance from non-Middle Eastern countries in FY 2010-11 totals USD 4,434.79 million, which is 17.80 per cent more than that of the previous fiscal year.*

### III. REMITTANCE AND ITS IMPACT ON MACROECONOMIC ISSUES

#### 3.1 Remittance and GDP

Remittance as percentage of GDP is increasing over the years till FY 2009-10 while it was 10.95. However in FY 2010-11, the amount of remittance flow in the country totals Tk. 82,992.89 crore while the amount of remittance as a percentage of GDP drops down to 10.54 and the percentage change in remittance is 9.19.

**Table 1: GDP and Remittance as a percentage share of GDP.**

Fiscal Year	Remittance (in crore taka)	% change in Remittance	Remittance as % of GDP
2001-02	14,377.03	40.17	5.26
2002-03	17,728.82	23.14	5.898
2003-04	19,869.8	12.15	5.97
2004-05	23,646.97	18.99	6.38
2005-06	32,275.68	36.49	7.76
2006-07	41,298.53	27.96	8.74
2007-08	54,295.14	31.45	9.95
2008-09	66,675.85	22.8	10.85
2009-10	76,010.96	14.15	10.95
2010-11	82,992.89	9.04	10.54
2011-12*	89,853.16	8.27	9.98
2012-13*	96,713.43	7.63	10.86
2013-14*	1,03,573.70	7.09	10.99
2014-15*	1,10,433.97	6.62	11.12

Source: Authors' calculation based on Bangladesh Bank data

*In FY 2010-11, the amount of remittance flow in the country totals Tk. 82,992.89 crore while the amount of remittance as a percentage of GDP drops down to 10.54.*

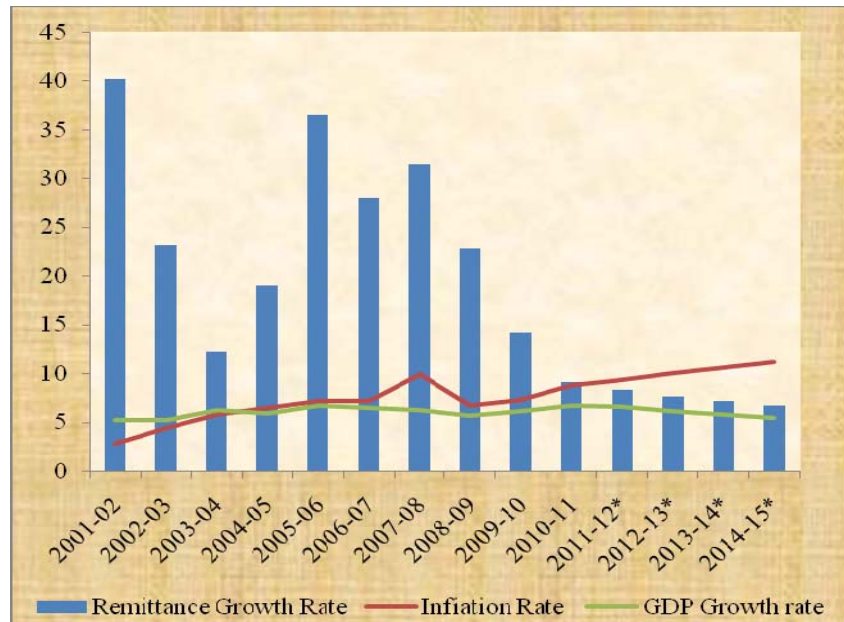
*If the current trend continues, the receipt of remittance might increase to Tk. 1,10,433.97 crore but the per cent change might slide down to 7.09 in FY 2014-15.*

In FY 2011-12, the estimated amount of remittance might increase to Tk. 89,854.48 crore, remittance as a percentage of GDP might drop down to 9.98 while the percentage change in remittance might be 8.27. If the current trend continues, the receipt of remittance might increase to Tk. 1,10,433.97 crore but the per cent change might slide down to 7.09 in FY 2014-15.

### 3.2 Remittance, Inflation and GDP

The GDP increases with the increase of the flow of remittance. The positive relation between growth of remittance and GDP is observed till FY 2003-04 while growth rate of GDP was 6.27 per cent (Figure 10). But after FY 2003-04, the growth rate of GDP decreased with the increase of remittance due to the higher rate of inflation, which remained higher than the growth rate of GDP.

**Figure 10: Comparison between growth rate of remittance, inflation and GDP**



*In FY 2010-11, the growth rate of remittance is 9.04 per cent while the growth rate of GDP remains at 6.66 per cent and rate of inflation increases to 8.8 per cent.*

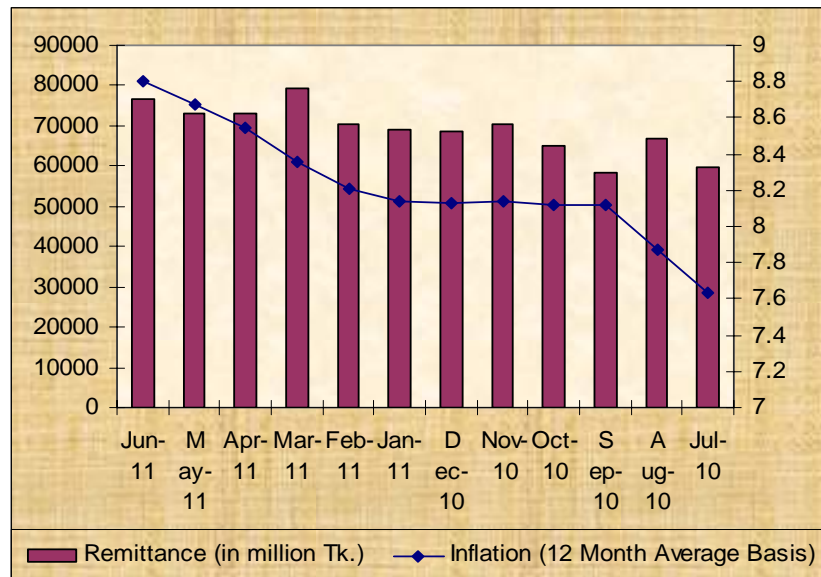
Source: Authors' calculation based on Bureau of Manpower, Employment and Training and Bangladesh Bank

In FY 2010-11, the growth rate of remittance is 9.04 per cent while the growth rate of GDP remains at 6.66 per cent and rate of inflation increases to 8.8 per cent. The continuation of current trend might witness the declining growth rate of remittance and GDP at 6.62 and 5.46 per cent because of mounting pressure of inflation.

### 3.3 The Impact of Remittance on Inflation

The growth rate of remittance induces that rate of inflation, if the currency received as remittance is not used in capital goods rather only used in consumption goods. In October to December 2010, inflation rate is lower than that of the flow of remittance because of bumper production of Boro rice. But in April to June 2011, the rate of inflation is higher than the flow of remittance because of a shortfall in domestic rice production, rising world food and fuel prices. In July-March FY 2010-11, the food inflation is 10.65 per cent and non-food inflation is only 3.92 per cent. Inflation (12-month avg.) in August 2011 is 9.43 percent.

**Figure 11: Recent trend of remittance and inflation (Twelve month average basis) in FY2010-11**



Source: Bangladesh Bank

**Table 2: Expenditure of Remittance**

	Dhaka	Chittagong	Other Regions	All Regions
Cash savings	17.2	29.6	8.3	19.2
Education related	4.3	14.1	8.3	8.1
Health related	2.6	5.6	2.1	3.4
Food consumption	53.5	38	25	43
Housing related	9.5	4.3	20.8	10.2
Consumer durables	0.9	1.4	16.7	4.3
Investment in business	5.2	5.6	10.4	6.4
Livestock purchase	2.4	0	4.8	2.3
Others	9.5	12	4.8	9.1

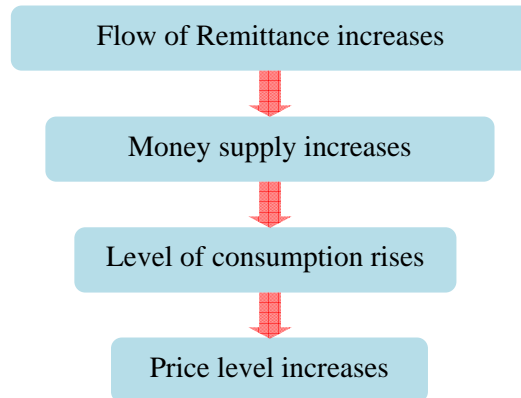
Source: Adopted from “Policy Research Working Paper-5018”, World Bank

*A total of 43 per cent of remittance receipt is spent on food consumption nationally while only 19.2 per cent is spent on cash savings, 6.4 per cent on investment in business.*

In poorer households, remittance may finance the purchase of basic consumption goods, housing, and children’s education and health care. A total of 43 per cent of remittance receipt is spent

on food consumption nationally while only 19.2 per cent is spent on cash savings, 6.4 per cent on investment in business (Table 2). The percentage share of expenditure on consumption goods is higher than that of capital goods. As a result, higher growth rate of remittance may induce the rate of inflation.

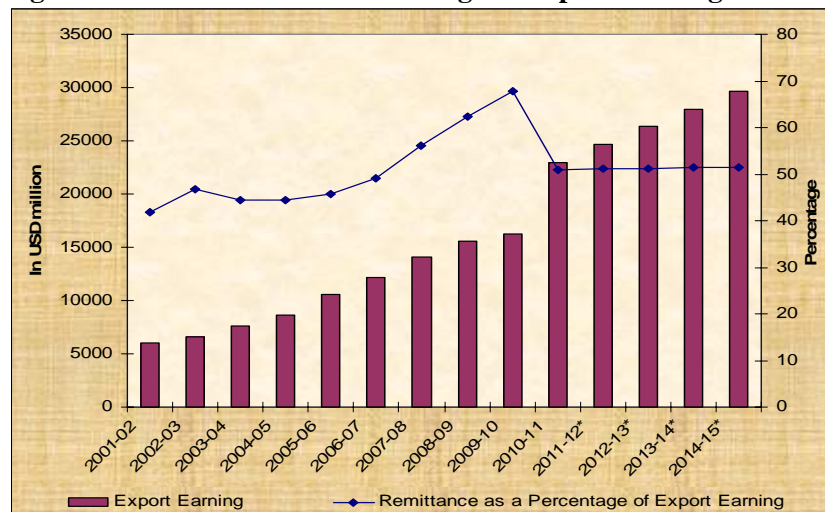
**Figure 12: Remittance induces rise of Inflation**



### 3.4 Remittance as a Percentage of Export Earning

Remittance as a percentage of export earning was on the rise since FY 2007-08 while it was 56.09 per cent and export earning was USD 14,110.8 million. The global economic recession had an adverse on export earnings. In FY 2009-10, the export earnings was only USD 16,204.65 million which was only 4.11 per cent higher that of FY 2008-09. Therefore, remittance as per cent of export earnings was the highest in the decade of 67.8 per cent.

**Figure 13: Remittance as a Percentage of Export Earning**



Source: Authors' calculation based on Bangladesh Bureau of Statistics and Bangladesh Bank

*Under the business as usual scenario, export earning in FY 2014-15 might increase to USD 29,699.696 million while remittance as per cent of export earnings might stand at 51.55 per cent.*

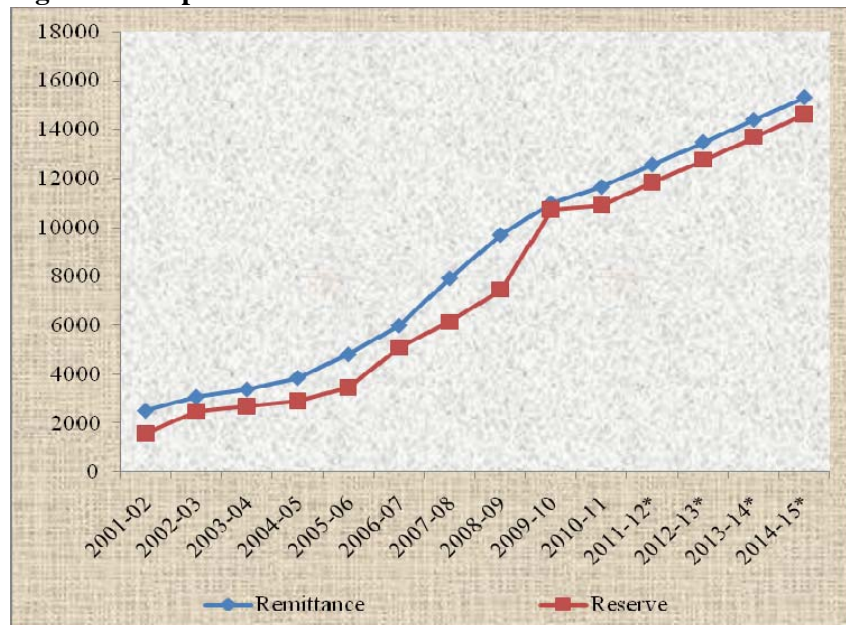
The scenario has changed in FY 2010-11 while the growth from export earnings is 41.47 per cent higher than that of previous fiscal year and remittance as percentage of export earnings has dropped down to 50.82 per cent. Under the business as usual scenario, export earning in FY 2014-15 might increase to USD 29,699.696 million while remittance as per cent of export earnings might stand at 51.55 per cent.

### 3.5 The Impact of Remittance on Reserve

In FY 2010-11, flow of remittance increases by 6.03 per cent than that of previous fiscal year and reaches at USD 11.65 billion while foreign currency reserve increases by only 1.50 per cent reaches at USD 10.91 billion. However, in FY 2009-10, remittance and foreign exchange reserve marked important milestone in the economy of Bangladesh with USD 10.98 and 10.75 billion respectively.

*In FY 2010-11, flow of remittance increases by 6.03 per cent than that of previous fiscal year and reaches at USD 11.65 billion while foreign currency reserve increases by only 1.50 per cent reaches at USD 10.91 billion.*

**Figure 14: Impact of Remittance on Reserve**



Source: Authors' calculation based on Bangladesh Bank

*In FY 2014-15, remittance might reach at USD 15.31 billion and foreign currency reserve at 14.64 billion.*

If the current trend continues, remittance and foreign exchange reserve in FY 2011-12 might reach at USD 12.56 and 11.84 billion respectively, which might be 7.85 and 8.55 per cent than that of FY 2009-10. In FY 2014-15, remittance might reach at USD 15.31 billion and foreign currency reserve at 14.64 billion.



**Table 3: Export, Import and Remittance (In USD million)**

Fiscal Year	Export Earning	Import Payment	Remittance Flow
2001-02	5,986.09	9,658	2,501.13
2002-03	6,548.44	10,903	3,061.97
2003-04	7,602.99	13,147	3,371.97
2004-05	8,654.52	14,746	3,848.29
2005-06	1,052.16	14,746	4,801.88
2006-07	12,177.86	17,157	5,978.47
2007-08	14,110.8	21,629	7,914.78
2008-09	15,565.19	22,507	9,689.16
2009-10	16,204.65	23,738	10,987.4
2010-11	22,924.38	33,657	11,650.32
2011-12*	24,618.209	36,056	12,565.24
2012-13*	26,312.038	38,455	13,480.158
2013-14*	28,005.867	40,854	14,395.077
2014-15*	29,699.696	43,253	15,309.996

Source: Authors' calculation based on Export Processing Bureau

### 3.6 The Impact of Remittance on Current Account Balance

*Current account balance in FY 2010-11 is only USD 995 million which is 73.28 per cent less than that of FY 2009-10.*

Remittance plays a significant role for a positive current account balance in any economy. In FY 2010-11, there is a large share of remittance that is USD 11,650 million while the trade deficit is USD 7,328 million, service deficit USD 2,398 million and income deficit USD 1,354 million. Current account balance in FY 2010-11 is only USD 995 million which is 73.28 per cent less than that of FY 2009-10.

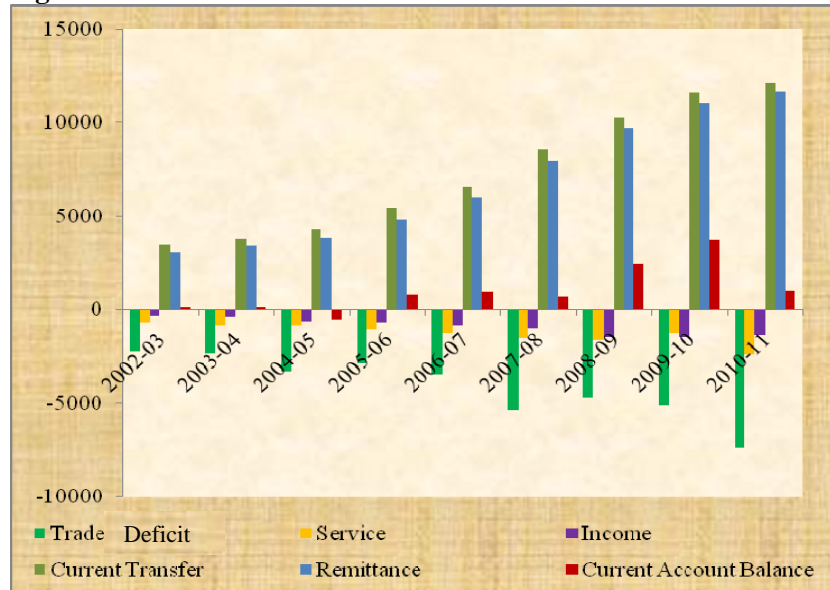
**Table 4: Remittance and Current Account Balance (In USD million)**

Fiscal Year	Current Deficit	Current Transfer	Remittance	Current Account Balance
2007-08	-7,849	85,51	7,915	702
2008-09	-7,810	10,226	9,689	2,416
2009-10	-7,872	11,596	10,987	3,724
2010-11	-11,080	12,075	11,650	995

Source: Bangladesh Bank

Generally Bangladesh is considered as a trade deficit country but current account balance since FY 2005-06 remains positive for high remittance inflow. Besides, the slower growth rate of remittance, the current account balance in FY 2010-11 is only USD 995 million. In fiscal year 2010-11, the growth rate of merchandise export and import is 40.61 and 41.14 respectively and at the same time t deficit has increased at the rate of 42.20 per cent. However, in last fiscal year 2009-10, the amount of current account balance was USD 3,724 million.

**Figure 15: Current Account Balance Scenario**



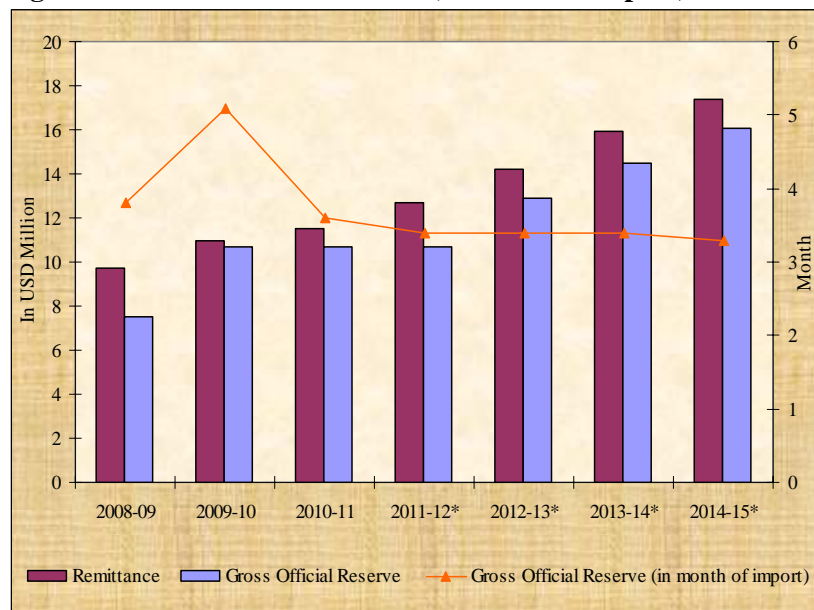
Source: Bangladesh Bureau of Statistics and Bangladesh Bank

*In FY 2010-11, total flow of remittance is USD 11.5 billion, gross official reserve totals USD 10.7 billion while gross official reserve (in month of import) is 3.6 months.*

### 3.7 Import Payment

In spite of increase in gross official reserve with the increment of remittance over the year, gross official reserve (in month of import) might fall down in the upcoming years. In FY 2010-11, total flow of remittance is USD 11.5 billion, gross official reserve totals USD 10.7 billion while gross official reserve (in month of import) is 3.6 months.

**Figure 16: Gross Official Reserve (in month of import) scenario**



Source: Finance Division and Bangladesh Bank

*In FY 2014-15, receipt of remittance might increase at USD 20 billion, gross official reserve at USD 17.6 billion but gross official reserve (in month of import) might fall down to 3.2 months only.*

At least three months import bill payment equivalent reserve is thought to be a satisfactory situation for any economy. Over the years, gross official reserve (in month of import) might drop down in the upcoming fiscal years, if huge amount of import, downward trend of foreign direct investment, foreign aid and increasing rate of food inflation prevails. In FY 2014-15, receipt of remittance might increase at USD 20 billion, gross official reserve at USD 17.6 billion but gross official reserve (in month of import) might fall down further to 3.2 months only.

### 3.8 The Impact of Remittance on Exchange Rate

For the lower rate of real effective exchange rate (REER) from nominal effective exchange rate (NEER) in the calendar year 2010, the export situation of Bangladesh is in a competitive position. Reserves have risen correspondingly to exceed USD 10 billion (5.7 months of imports) in January 2010. Due to such inflows, Bangladesh Bank was forced to accumulate net additional reserves of USD 2.1 billion in the first seven months of FY10 in order to prevent the nominal value of taka from appreciation.

**Table 5: The Impact of Remittance on Exchange Rate**

Time period	Remittance Growth Rate	Exchange rate	Real Effective Exchange rate (8 Currency Baskets)	Percentage change of depreciation of BDT against USD
2004-05	18.99	61.39	88.42	-
2005-06	36.49	67.08	83.86	9.27
2006-07	27.96	69.03	86.55	2.91
2007-08	31.45	68.6	86.02	-0.62
2008-09	22.8	68.8	91.5	0.29
2009-10	14.15	69.19	97.78	0.56
2010-11	9.04	70.32	94.18	1.63

*In fiscal year 2010-11, the average exchange rate of taka against USD is 70.48 than that of 69.19 in FY2009-10 and the percentage change of depreciation of BDT against USD is 1.63.*

Source: Bangladesh Bank, Bangladesh Bureau of Statistics and Export Promotion Bureau

In fiscal year 2010-11, the average exchange rate of taka against USD is 70.48 than that of 69.19 in FY2009-10 and the percentage change of depreciation of BDT against USD is 1.63. Considering eight currency baskets, the real exchange rate has been depreciated from 97.78 in FY 2009-10 to 94.18 in FY 2010-11. However, in 2008-09 and 2009-10 the exchange rate was stable against USD because of the availability of foreign reserve as well as remittance flow and export earnings. For the price hike of food product as well as fuel oil, import of machineries for establishing new electricity plant and import of fuel for producing electricity, the demand of foreign reserve has increased. As a result the value of taka against USD has depreciated.

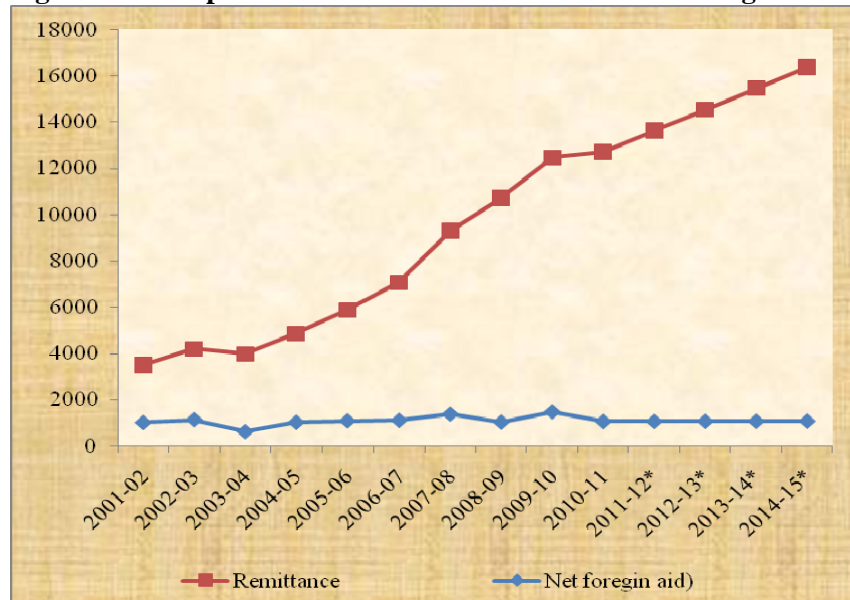
### 3.9 Comparison Between Remittance and Foreign Aid

The relative share of foreign aid is very low compared to the percentage share of remittance in GDP. In 2010-11, receipt of net foreign aid totals USD 1,049.63 million against total foreign aid of USD 1,777.33 million, the net foreign direct investment amounts USD 768 million while the total amount of remittance is USD 11,650.32 million. However, the total foreign aid in FY 2009-10 was USD 2164.45 million, payment of principal was USD 687.4 million and net foreign aid was USD 1049 million.

*In 2010-11, receipt of net foreign aid totals USD 1,049.63 million against total foreign aid of USD 1,777.33 million and the net foreign direct investment amounts USD 768 million.*

*Under the business as usual scenario, net foreign aid in FY 2011-12 might reach at USD 1,053.9 million that is only 0.41 per cent higher than that of FY 2010-11.*

**Figure 17: Comparison between Remittance and Net Foreign Aid**



Source: Bangladesh Bank

Under the business as usual scenario, flow of remittance in FY 2011-12 reach at USD 12,565.24 million and net foreign aid might reach at USD 1,053.9 million that is only 0.41 per cent higher than that of FY 2010-11.



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