

Bangladesh Economic Update
External Sector: Recent Trends and Challenges
August, 2017



Source: Unnayan Onneshan, "External Sector: Recent Trends and Challenges", August, 2017

The Unnayan Onneshan (UO), an independent multidisciplinary think-tank, in its monthly publication of the 'Bangladesh Economic Update' August 2017, reveals that monumental deficit in current account together with declining wage earner's remittance and foreign aid disbursement exerts immense pressure on the country's balance of payment.

Calling for a thorough reexamination of the current trade and industrial policies to address the structural bottlenecks and creation of a stable business climate to attract increased inflow of private investment including FDI, the UO urges for the adoption of new strategies to expand country's productive capacities that enhance utilization of available resources through efficient entrepreneurial capabilities and increased production linkages.

Referring to declining rate of growth in inflows of wage earner's remittance, the think tank shows that 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, urges the research organization.

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. Non-diversification of export markets and lack of export competitive products may pose serious challenge to the performance of external sector, cautions the UO.

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, comments the UO.

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.

Taking account of the fact that both total and net receipt of foreign aid declined in FY 2016-17, the research organization finds that 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.