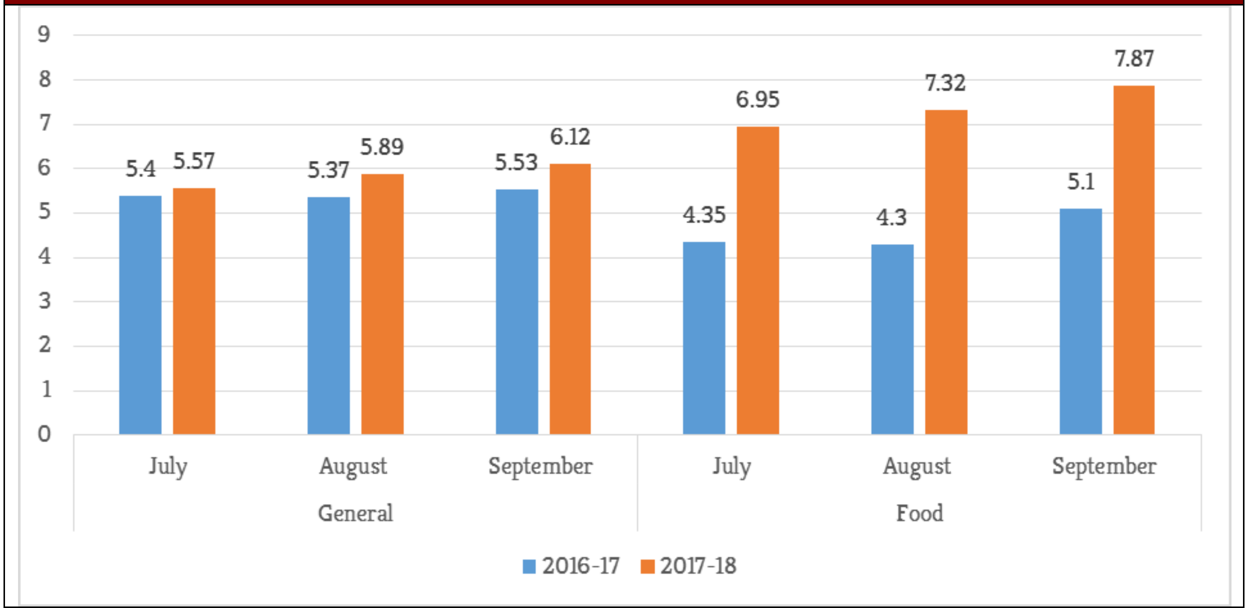
Bangladesh Economic Update

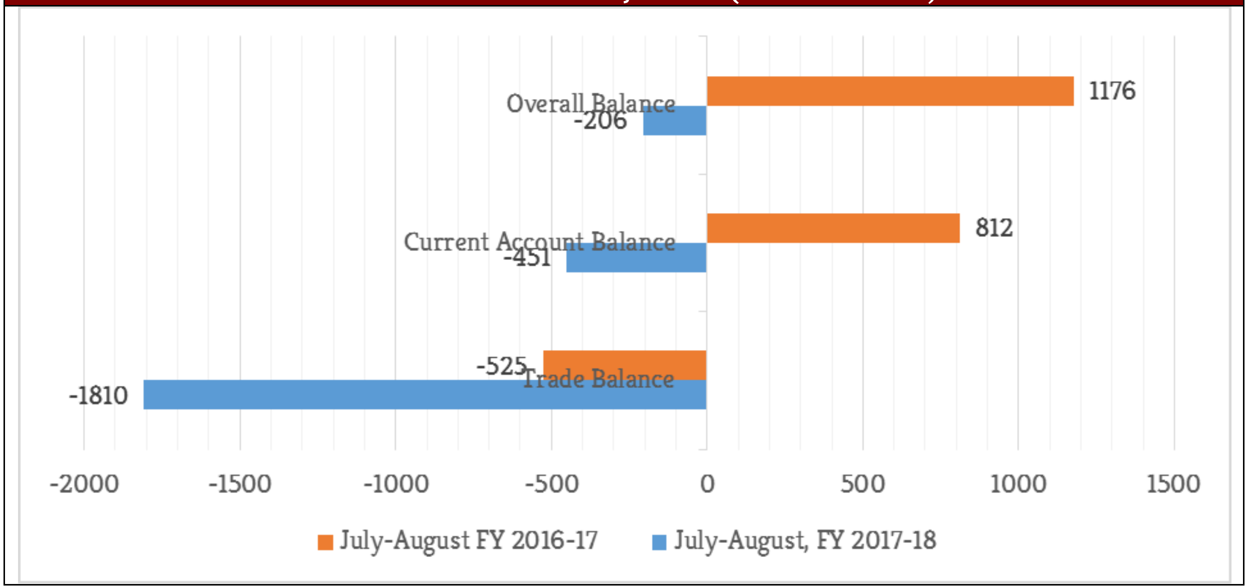
External Sector, Inflation and Standard of Living

October, 2017

Rate of Inflation on Point-to-Point Basis



Trends in Balance of Payments (in million USD)



Source: Unnayan Onneshan, "External Sector, Inflation and Standard of Living", October, 2017

Recent rise in import, particularly import of consumer goods, vis-à-vis export earnings is likely to spell trouble for low income people whose standard of living deteriorates amid frequent price hikes in the commodity market.

The Unnayan Onneshan (UO), an independent multidisciplinary think-tank, in its monthly publication of the 'Bangladesh Economic Update' October 2017, fears so.

Taking account of the increasing trend in inflation rate, the research organization projects that at the end of the current fiscal year, food inflation is likely to stand at 9.4 percent in the absence of immediate price stabilization measures.

Such increase in price in the commodity market coupled with reduced production of food grains, decline in real wage, and lack of employment opportunities is likely to adversely affect people's standard of living on the one hand and threaten overall food security in the country, comments the research organization.

Urging for the expansion of country's productive capacities that enhance utilization of available resources through efficient entrepreneurial capabilities and increased production linkages, the UO recommends adoption of measures to stabilize price in the short run and strategies to foster employment augmenting growth in the medium run.

Referring to the monumental increase in Letter of Credits (LCs) for the consumer goods, e.g. rice, and consequential price hike in recent time, the think tank evinces 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.

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.

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, finds the think tank.

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, cautions the UO.

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

Decline in the inflow of remittance coupled with recent inflationary pressure is likely to upset the rural economy 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 gap in the 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 UO.

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.