What is riding on remittance?

ZAHID HUSSAIN

THINKING about the role of remittance in our economy often makes us think about growth and standard of living.

Driven by such thoughts, we tend to subscribe easily to statements such as “Bangladesh economy rides on remittances”. In what sense is this statement true and in what sense is it not, or just partially, true?

Surely, it cannot be the standard of living. The most widely used measure of a nation's standard of living is annual per capita income.

Last fiscal year, remittances added about a $100 to our $1,795 (as reported by the Bangladesh Bureau of Statistics) per capita GDP. This constituted 5.5 per cent of GDP per capita, which is not trivial. But it certainly is not a ride.

Arguably, remittance contributes to GDP growth itself. There is no consensus on the magnitude and direction of the impact of remittances on GDP growth.

However, the weight of evidence appears to favour a positive impact of remittances on growth, according to many different studies at the national and international levels.

The impact of 1 percentage point increase in the remittance share of GDP on per capita GDP growth can range between 0.12 to 0.74 percentage points.

In Bangladesh, it is very unusual for remittance-GDP ratio to rise by close to 1 per cent of GDP in any given year. In fact, the ratio has been declining since fiscal 2013-14.

While the decline may be reversed this year, recent trend in the remittance-GDP ratio hardly justifies the conclusion that GDP growth rides on remittances.

Had that been so, we would have seen a drastic fall in the GDP growth rate in fiscal 2016-17 when the remittance-GDP ratio declined from 8.1 percent in fiscal 2014-15 to 5.3 per cent in fiscal 2016-17.

Officially reported GDP growth however increased from 6.6 per cent in fiscal 2014-15 to 7.3 per cent in fiscal 2016-17.

Remittances serve as an automatic stabiliser as well.

Studies show that remittances tend to rise during downturn phases in the economic cycle. Migrants send more money home to support their financially distressed families.

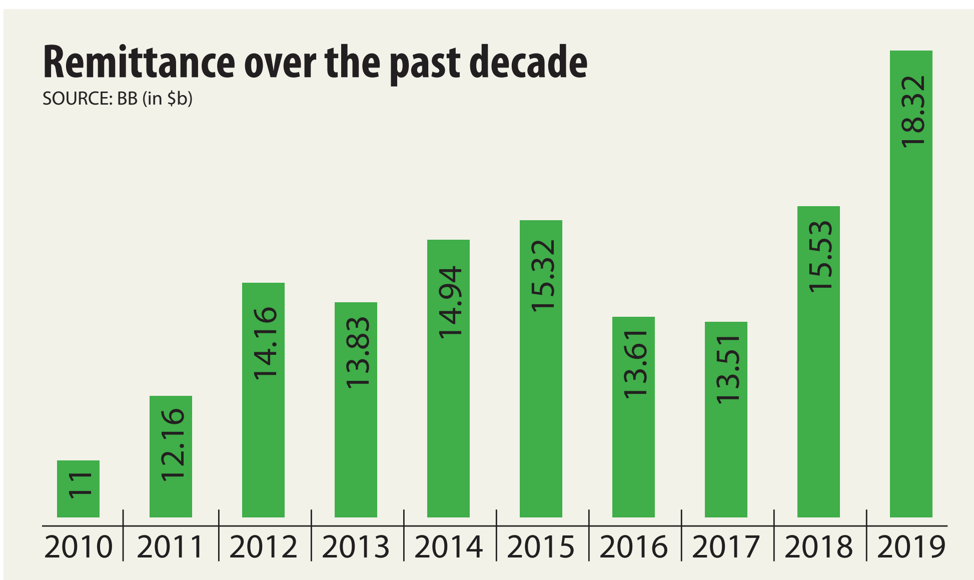
Remittances smooth consumption and contribute to the stability in the standard of living of the recipient families.

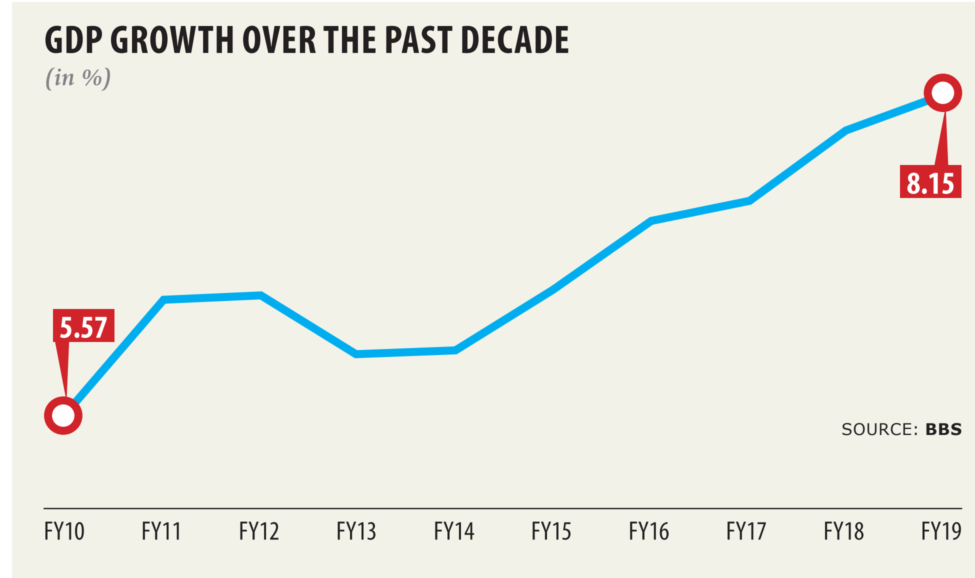
In contrast, other private financial flows frequently move pro-cyclically, raising income in good times and decreasing it in bad times.

The hypothesis of remittances being countercyclical is based on the evidence that a large portion of remittance transfers are intended for altruistic purposes or as part of an insurance arrangement under which migrant workers send more money when the family back home are hit by an adverse income or expenditure shock.

The fact that remittances rise sharply after natural disasters in Bangladesh is consistent with this view. This can partly explain why remittances are currently booming after reaching a historic high last year.

Not that the capacity to remit due to changing conditions in the host countries, cash subsidy and exchange rate depreciation (however small) have not played any role, but the slowdown evident from all growth and employment related indicators may also be playing a major role in boosting remittances this year.





The growth and consumption stabilisation roles of remittances pale when compared with the role remittances play in our balance of payments and the financial system.

Remittances finance a very large chunk of our external deficit. Understanding this requires a small digression into the details of the balance of payments.

Merchandise trade and services balance is the difference between the dollar value of sales of our goods and services to foreigners and purchases of goods and services from foreigners during a year.

This difference is called “resource balance” in the national accounts or net exports in economics textbooks.

When purchase exceed sales, we have an external resource deficit. This is equivalent to having domestic saving below domestic investment.

Net exports is always equivalent to the difference between savings and investment from an accounting perspective.

Movements in interest rates, exchange rates, prices and income ensure that the decisions to export and import and to save and invest made by a wide variety of economic agents match in the aggregate.

In Bangladesh, the excess of purchase over sales has increased from $10.1 billion in fiscal 2012-13 to $19.2 billion in fiscal 2018-19.

In addition, we typically have deficit in the income account, comprising of profit repatriation by foreign investors and interest payments on external public debt.

This increased from about $2.4 billion in fiscal 2012-13 to $2.9 billion in fiscal 2018-19. Both of these deficits needed financing.

Remittances from our workers abroad was more than sufficient to cover these deficits until fiscal 2015-16.

This, together with surplus in the financial account resulting from official medium and long-term borrowing from the development partners and short-term foreign borrowing by the private sector, contributed to rapid accumulation of foreign reserves.

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WATER SUPPLY PROJECT

Tenure extension raises cost by 92pc

STAR BUSINESS REPORT

The government yesterday extended the tenure of a water supply project by three years increasing its cost by more than 92 per cent.

The Tk 1,036-crore Bhandal Juri Water Supply Project will now cost Tk 1,995 crore, of which Tk 889 crore will come from Korea and the rest from the government.

The new deadline of the project is June 2023, according to a decision taken at a meeting of the Executive Committee of the National Economic Council (Ecnec) held at the NEC auditorium in Dhaka.

In the meeting, the planning ministry gave reasons why the project cost and deadline needed revision.

The taxes to be paid by the contractors were not included in the original project cost, but now the government will have to bear Tk 291 crore more for the purpose.

In the main project plan, the exchange rate of the US dollar was shown at Tk 77.8, which increased to Tk 85 in recent times. This has also raised the project cost.

CHATTOGRAM WATER SUPPLY PROJECT

	COST INCREASE	NEW COST (in cr Tk)
Land acquisition	x5	97
Land development	x6	15
Construction of staff quarter	x2.5	25.78
Construction of water treatment plant	x1.5	360.24
Transmission and distribution line	x2.11	580.18
Water storage reservoir	x4	114.92
Individual house connection and tertiary line	NEW	29.5
Import tax, VAT, customs duty	x2.4	236.85

The project added a new tertiary line to ensure supply of water among the inhabitants of Patiya, Anowara and Boalkhali. A proposed residential building for project officials as well as land acquisition also jacked up cost.

Some nine projects worth Tk 4,324 crore got the go-ahead at the meeting yesterday, with around one-fourth of the funds going to the revised water supply project.

The government okayed a four-lane road from Hatirjheel to Demra highway that would cost Tk 1,209 crore. The project under the public private partnership is scheduled to end in December 2024.

The road will be used as an alternative route for vehicles going to Chattogram and Sylhet via Jatrabari and Sayedabad.

The Ecnec also approved a Tk 793-crore dredging project for the Mongla channel to be completed in June 2022.

BASIS software expo starts Feb 6

STAR BUSINESS REPORT

The Bangladesh Association of Software and Information Services (BASIS) is going to organise a four-day exposition on the local software market at International Convention City Bashundhara from February 6.

President Md Abdul Hamid will inaugurate the event -- BASIS SoftExpo -- where about 300 exhibitors will showcase their products in presence of top ICT companies, personalities, key policymakers, industry leaders and other stakeholders.

“SoftExpo is the platform to showcase the capability of local software companies in the international arena,” said Syed Almas Kabir, president of the BASIS.

The event will help local IT companies expand their businesses, he told a press conference at the BASIS office yesterday.

There will be 10 individual zones, such as an Industry 4.0 Zone and an Experience Zone, highlighting the growth and development of Bangladesh's ICT sector, said Mushfiqur Rahman, convener of the expo and a vice president of the association.

The others will focus on VAT, digital education, fintech, software, mobile innovation, digital commerce and IT-enabled services, and business process outsourcing or BPO.

There will also be business to business (B2B) matchmaking sessions between local and foreign companies, including ones from Sweden, Japan and the Netherlands.

A “BASIS Top Ten Digital-Ready Company” award will be presented to recognise 10 companies from other verticals for successfully organising B2B sessions with BASIS members.

Alongside there will be about 30 seminars and sessions where thoughts will be shared by over 100 national and international speakers.

An ICT career camp will also be held with over 2,000 students from more than 45 universities showcasing their innovative projects.

The local ICT sector is contributing to developing a “Digital Bangladesh”, said Abul Kashem Khan, chief technology officer of Dutch-Bangla Bank Limited, the event's sponsor.

BASIS Senior Vice President Farhana A Rahman, Vice President Shoeb Ahmed Masud and some other top leaders were present.

COLLECTED

Syed Almas Kabir, president of the BASIS, speaks at a press conference at its office in Dhaka yesterday.

Widening job market a challenging prospect

REJAUL KARIM BYRON

The government's target to create 1.13 crore new jobs in the next five years does pose a significant challenge, despite the country's high economic growth rate, according to a revised five-year plan from the planning ministry.

The planning ministry will highlight their goal to inflate the job market in today's session of the Bangladesh Development Forum, currently taking place at Bangabandhu International Conference Centre in Dhaka.

Bangladesh's tremendous economic growth has disproportionately failed to create job opportunities over the past decade, raising questions on the actual significance of economic growth for a chunk of the population.

Besides, female participation in the labour market has shrivelled, especially in rural areas, in the last nine years, according to a government study on employment, productivity and sectoral investment.

In the eighth draft of their five-year plan, the planning ministry said about 20-22 lakh new jobs will be created each year from fiscal 2020-21 to 2024-25.

Over this course, the unemployment rate will hold at 3.1 per cent instead of the previous 4.2 per cent, according to the Bangladesh Bureau of Statistics' 2016-17 survey.

Bangladesh's future prosperity will rely heavily on how effectively the youth can take leadership roles and act accordingly for the nation's benefit. They must be well equipped with standard education and skills and be fit physically and mentally. However, a large portion of the population is yet to enjoy proper education, training or employment.

A major issue that needs addressing is how to create employment opportunities, provide training and the required skills that match market demand. Most importantly, increasing entrepreneurship would greatly impact the growth of employment.

The two-day Bangladesh Development Forum will mainly discuss the five-year plan, said Monowar Ahmed, secretary of the Economic Relations Division, at a press briefing at the NEC auditorium in Dhaka on Monday.

Development partners will extend their support after the five-year plan is finalised, he added.

The country's gross domestic product (GDP) rate will hit 8.23 per cent in fiscal 2020-21 and will further increase up to 8.51 per cent in fiscal 2024-25, according to the draft.

To help materialise their plans, the government will require Tk 7,741,800 crore in investments in the next five years, around 75 per cent of which will come from the private sector while the rest will be publicly funded.

Although public investment has surpassed targets for the past couple of years, private investment has fallen behind, which in turn downsized the overall investments as compared to the GDP. The government's aim to reach double digit growth figures is largely dependent on private investment.

The country has a considerable scope to improve in terms of the ease of doing business, enabling an environment for investment and enhancing business competitiveness.

The targets for sustaining higher growth demands effective partnership between the government and businesses to scale up investments, technology transfer, capacity building and facilitating trade.

About 40 per cent of the investment GDP ratio will require a massive drive to enhance the revenue base, which can be eventually used for public investment.

In the current seventh plan period, progress remains to be unsatisfactory despite reform measures.

In general, investments in health, education and social protection relies largely upon the size of government revenue. And so, the eighth plan will aim to put emphasis on further reform measures to address the gap between the actual results and the initial target.

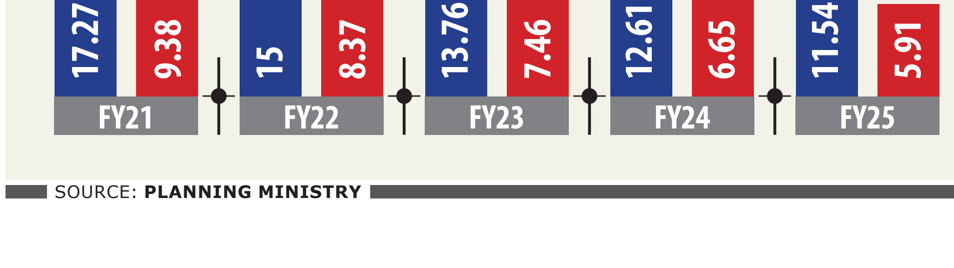
It will play a crucial role as this will require massive changes across the various institutions engaged in revenue collection, law enforcement agencies and most importantly, the mind-set of the masses.

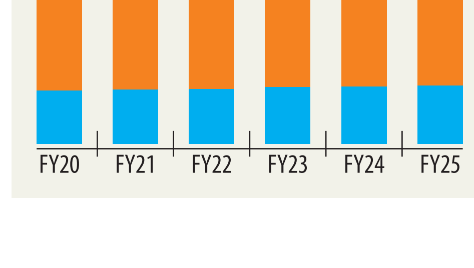
The government aims to increase revenue collection to 16.21 per cent of the total GDP in fiscal year 2025, which is currently at 10.6 per cent higher in the current fiscal year.

Tax revenue will also be increased to 14.2 per cent in fiscal year 2025, which is 9.3 per cent in the current fiscal year.

Although the role of development partners play has become less significant over time, they are still considered as major players as far as socioeconomic development is concerned.

Foreign aid and investment could provide support by strengthening the role of development partners for the localisation of their social development goals and realigning their country's strategies with increased fund provision. This can be done by building resistance to climate changes and natural disasters and implementing the Bangladesh Delta Plan 2100. Besides, they could also continue to support duty and quota free market access for developed countries as well.





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