

# Export data correction was long overdue

GDP growth could be lower than estimated due to export data mismatch

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Bangladesh Bank's latest data on the balance of payments has remarkably altered the narrative on the drivers of external stress without changing the signal on the overall stress. The bottom line on persistent external imbalance remains pretty much the same but the composition is palpably different. The corrections made by the BB were long overdue. Hopefully, BB would appropriately correct the entire historic series to make sure the BOP data remain comparable over time.

The most significant correction is in the merchandise export data. The Export Promotion Bureau numbers on monthly exports in FY24 showing significant growth have been raising eyebrows among the exporters. The media did several stories highlighting the discrepancy between EPB, NBR and BB data. Stories on multiple counting of exports and discrepancies between data from different customs documentations proliferated. It appears BB has finally made a laudable attempt to present export values plausibly close to reality.

## SURPLUS IS DEFICIT

Contrary to what was hitherto believed, merchandise exports declined 6.8 percent in July-April FY24 relative to the same period in FY23, driven primarily by a 6.7 percent decline in RMG exports.

Note that EPB reported 3.9 percent growth in exports during the same period, driven by 5 percent growth in garments. Exporters as well as economists tortured their hairs trying to explain such growth amidst weak global demand and severe gas shortage, loadshedding and import controls. The corrected BB numbers may not restore the lost hairs, but they have alleviated the head aching puzzles.

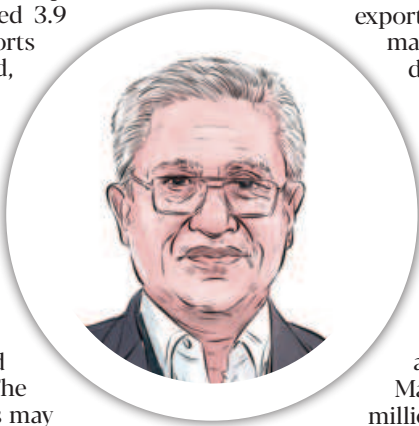
The correction has dramatically altered the lay of the land on the subcomponents of external balance. The most remarkable is the transformation of the current account surplus into a large current account deficit. BB's previous data release reported a current account surplus of \$5.8 billion during July-March of FY24. The latest data release shows a current account deficit of \$4.1 billion during the same period, a correction of nearly \$10 billion, reflecting almost entirely the difference in export data between the corrected and uncorrected data releases.

So much for the complacent claims of having resolved the current account deficit problem through import compression. The latter helped reduce the current account deficit that exceeded \$10 billion in July-March FY23, but the deficit, which grew to over \$5.7 billion in July-April, is still large. It would not have been worrisome if driven by a surge in investment induced imports. But the deficit came from a decline in exports, notwithstanding a 12.3 percent decline in merchandise imports. The decline in imports in turn reflected not just a 6.3 percent decline in RMG related goods but also 20.7 percent decline in import of capital goods. Weaknesses in both



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PHOTO: STAR/FILE



exports and investments make the current account deficit a big concern.

## DEFICIT IS SURPLUS

The correction in export data had a countervailing effect on the financial account. It transformed the previously reported \$9.25 billion financial account deficit in July-March FY24 to \$653 million surplus! How did that happen?

The answer is in the trade credit line in the financial account. The standard practice is to treat the excess of the shipment value of exports over the payments received against exports as a debit entry in the trade credit account. The over-reporting of the shipment value of exports resulted in huge debit entries in the trade credit account, amounting to \$12.2 billion (net outflows) during July-March. The correction in exports has reduced this to slightly over \$2.1 billion (net outflows), a decrease of about \$10 billion that closely matches the size of the correction in exports.

The cumulative net outflows via trade credit narrowed to \$1.68 billion during July-April as exports in April amounted to \$2.72 billion, well below the nearly \$3.4 billion monthly average in the first ten months of FY24. Exports receipts in April may have exceeded export shipments. Additionally, import shipments—\$5.67 billion in April (above the monthly \$5.24 billion average during July-April)—may have exceeded import payments. Both result in outflow reducing credit entries in the trade account.

## DEFICIT IS DEFICIT

The opposing changes in the current and financial account balances washed each other, leading to virtually no change in the overall deficit in the balance of

payments. It increased slightly from \$4.44 billion in the uncorrected to \$4.75 billion in the corrected BOP during July-March, FY24. The overall deficit increased to over \$5.5 billion during July-April, compared with \$8.8 billion during the same period of FY23. The decrease relative to the previous fiscal year is attributable entirely to the decrease in the current account deficit.

Does this mean that all the hue and cry about the external payment pressures and capital flight were just statistical artifacts? The answer is both yes and no.

It is yes in that the size of the problem pertaining to the non-repatriation of export receipts is a lot less than previously thought. The 6.6 percent increase in net aid flows despite a 21.7 percent increase in amortization payments also helped cutting the overall BOP deficit.

The answer is no because the \$2.4 billion net inflows on account of trade credit in July-April FY23 morphed into net outflows of \$1.68 billion in July-April FY24. So, the problem of non-repatriation of export proceeds has not disappeared. Net outflows on account of other short-term loans remained large and slightly higher in FY24, indicating the drying out of new short-term loans. Unaccounted outflows have remained persistently large at around \$2.4 billion, symptomatic of capital flight.

## IMPLICATIONS

The most pressing implication of the correction of the shipment value of exports is for the GDP growth estimate. Recall that BBS has projected GDP growth at 5.8 percent for FY24. In making this calculation, they projected 5.63 percent growth in the real exports of goods and services. According to the corrected BOP data, the fob value (in US dollars) of the exports of goods and services declined by 7.5 percent during July-April in FY24 relative to the same period in FY23. If the decline in the real value of export of goods and services equals the decline in dollar value, and remained at 7.5 percent for the entire FY24, it means GDP growth

is about 1 percentage point lower than BBS's preliminary estimate. Thus the 5.8 percent GDP growth could be 4.8 percent due to the shortfall in actual export growth relative to the export growth projected, other things equal.

There is also the possibility of under invoicing for exports motivated by capital flight and/or undervalued official rate for export dollars. The best way of detecting under invoicing is to check the data from the export destination countries.

According to the US Census Bureau data, the dollar value of US imports from Bangladesh during January-April 2024 was 13.7 percent lower than the corresponding period of 2023. US imports from Bangladesh was 23.8 percent lower in 2023 relative to 2022. One suspicion is that more apparel imports came into the US through the de minimis (the minimum value of goods below which no duties are charged by customs). According to Euromonitor, about 40 percent of US apparel retail sales were achieved through e-commerce in 2023, a substantial increase from 9.4 percent in 2010. However, US customs tightened controls on "small package shipments" leading to entering through the standard procedure in recent months.

I could not readily find similar data on EU imports from Bangladesh except that their imports from Bangladesh declined 21.2 percent in FY23. Imports of textiles and clothing into the EU from countries outside the EU declined in value and volume in 2023 calendar year as well, according to Textiles Intelligence. There is therefore no patently obvious evidence of export under invoicing. Capital flight may nevertheless have happened through other channels and the exporters are likely to have managed the exchange rate undervaluation problem through other means. The point is BB's corrected export data seem quite credible.

The writer is the former lead economist of the World Bank's Dhaka office.

## Shun Shing Edible Oil merges with Bangladesh Edible Oil

STAR BUSINESS REPORT

Shun Shing Edible Oil has officially merged with Bangladesh Edible Oil, giving the latter a bigger edge in operating in the country's edible oil market where annual sales amount to around 30 lakh tonnes.

Bangladesh Edible Oil, a joint venture of Wilmar International of Singapore and Adani Group of India, is one of the 11 major players operating in the market.

And four companies – TK Group, City Group, S Alam Group and Meghna Group – account for most of the sales in the market, roughly 90 percent of which is based on imports.

Shun Shing Edible Oil was established in 2010 in Mongla, a port town in the southwestern coast of Bangladesh, with an annual edible oil refining capacity of 3 lakh tonnes.

Bangladesh Edible Oil had first acquired Shun Shing Edible Oil and its brands – Veola and Olein – for refined soya and super refined olein in 2016 for Tk 150 crore, a senior official of the former said earlier.

In an announcement last Thursday, Bangladesh Edible Oil said all businesses and operations of Shun Shing Edible Oil have been transferred to it as a result of the June 3 merger.

"This merger marks a significant milestone in the edible oil industry of Bangladesh, aimed at consolidating our business operations and enhancing efficiency in a competitive environment," it added.

A top official of another leading edible oil importer and processor said the merger would give an edge to Bangladesh Edible Oil to market its cooking oil in the southwestern region of the country.

In its announcement published in newspapers last week, Bangladesh Edible Oil said it has emerged as the surviving entity following the merger.

It also said there would be no disruption in the supply chain or customer services during this transition period.

"Going forward, all products of SSEOL (Shun Shing Edible Oil Limited) will be marketed and sold under the banner of BEOL (Bangladesh Edible Oil Limited)," it said.

Mohd Dabirul Islam Didar, head of finance and accounts at Bangladesh Edible Oil, could not be reached for comments despite repeated attempts.

## Gold prices rise

REUTERS

Gold prices extended gains on Friday to their highest level in over a month following key US jobs data that showed the labor market was softening, lifting expectations around a Federal Reserve interest rate cut in September.

Spot gold was up 1.3 percent at \$2,385.63 per ounce as of 2:10 p.m. (1810 GMT). Bullion is up more than 2 percent for the week so far.

US gold futures settled 1.2 percent higher to \$2,397.7.

"Gold is trading at one-month highs as lower payroll revisions and yet another uptick in the unemployment rate help 'cement' a September rate cut," said Tai Wong, a New York-based independent metals trader.

"Bulls are eyeing a return to \$2,450 all-time highs if the Fed starts openly hinting at September," he added.

Data showed US non-farm payrolls grew by 206,000 jobs in June, slightly higher than the 190,000 new jobs estimated by economists polled by Reuters.

Meanwhile, estimated job growth for May was revised down to 218,000 new jobs from 272,000, while April's job growth was revised down to 108,000 new jobs from a previous 165,000. The unemployment rate rose to 4.1 percent, slightly higher than the estimated 4 percent.

## India targets 27% higher onion production

ANN/THE STATESMAN

The target area under kharif onion this year is 3.61 lakh hectares which is 27 percent higher than last year, the Ministry of Food said on Friday.

The availability of onion in the domestic market is comfortable, notwithstanding the marginally lower production of onion in the rabi-2024 season compared to last year's production, the Ministry of Food said.

It further said that in Karnataka, the top kharif onion-producing state, sowing is completed in 30 percent of its targeted area of 1.50 lakh hectares, and sowing is making good progress in other major producing states.

Good and timely monsoon rains this year have provided a big boost for kharif crops, the Ministry of Food highlighted.

As per the assessment of the Ministry of Agriculture with the state governments, the area targeted for the kharif sowing of major vegetables namely, onion, tomato, and potato has seen a significant increase over last year.

It is to be noted that the onion crop is harvested in three seasons: rabi in March-May; kharif in September-November and late kharif in January-February.

In terms of production, rabi crop accounted for roughly 70 percent of the total production while kharif and late kharif together constitute 30 percent. Kharif onion plays an important role in maintaining price stability during the lean months between rabi and peak kharif arrivals.

As per the data shared by the Union government, the onion currently available in the market is a rabi-2024 crop, harvested during March-May, 2024.

## New UK government faces tough economic challenge

AFP, London

Britain's new Labour government on Friday pledged immediate action to grow the economy after the centre-left party won a landslide general election victory.

However, its task could be hampered by strained state finances following huge spending by the previous Conservative administration to protect millions of jobs during the Covid pandemic.

Labour, led by new Prime Minister Keir Starmer after it ended 14 years of Conservative rule, has promised investment in key areas such as health and education but also stresses the need to balance the books.

This after government coffers were further hit by subsidies for energy bills after Russia's invasion of Ukraine sent oil and gas prices rocketing.

"Economic growth was the Labour Party's mission. It is now a national mission. Let's get to work," Britain's new finance minister Rachel Reeves said Friday after Starmer made her the country's first female chancellor of the exchequer.

Starmer will want to avoid a repeat of October 2022, when the then-Conservative government's proposed unfunded tax cuts spooked markets and

tanked the pound.

It also sank the chaotic premiership of Liz Truss, who lasted just 49 days before she was replaced by Rishi Sunak.

Truss lost her parliamentary seat in Thursday's election.

Britain's economy is currently on a

more stable footing after exiting a mild recession, as inflation returns to normal and with Bank of England interest-rate cuts on the horizon.

"Labour talked a lot about wanting to boost the economy and help businesses during its election campaign," noted



Britain's Prime Minister Keir Starmer holds a press conference at the end of his cabinet's first meeting in Downing Street in London yesterday. Keir has promised investment in key areas such as health and education but also stresses the need to balance the books.

PHOTO: AFP