

The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in white serif font on a black square background.

ADB

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NOTES

- (i) The fiscal year (FY) of the government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2009 ends on 30 June 2009.
- (ii) In this report, "\$" refers to US dollars, "EUR" refers to euro and "Tk" refers to Bangladesh taka.

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MACROECONOMIC DEVELOPMENTS

Highlights

- The late unfolding of the effects of the global economic recession, and severe energy and power shortages affected growth outlook.
- GDP growth in FY2010 is projected at 5.5%.
- Unfavorable weather conditions negatively affected agricultural growth.
- Industry sector growth is slowly picking up.
- Inflationary pressures remain a policy concern.
- Measures need to be continued to contain excess liquidity.
- Revenue grows robustly in response to reforms.
- ADP utilization needs to be stepped up.

Sector Performance and Economic Growth

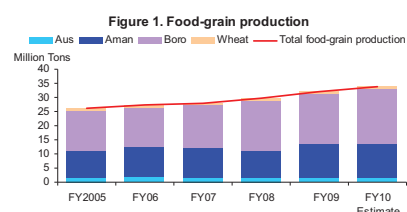
1. The lagged effects of the global economic crisis and acute power and energy shortages have affected Bangladesh's short-term growth prospects. The decline in exports and sluggish investment response, along with the moderated growth of remittance inflows (affecting private consumption) are the contributing factors. Inflation in recent months picked up with accelerating international oil and food-grain prices. Excess liquidity in the domestic banking system also contributed. Although an increasing number of import letters of credit (L/Cs) are being opened, signaling an increase in business activity, a full recovery from the effects of the global economic crisis is likely to be slow. In agriculture, aus (summer crop) and aman (monsoon crop) were affected by unfavorable weather, although strong government support for aman helped largely offset the impact. The production of boro (dry season crop) was affected by flash floods and pest attacks in some areas, although the outlook is generally good. Industry sector growth, despite showing modest improvement in recent months, is severely affected by shortages of power, gas, and other infrastructure. Services sector growth, which primarily derives from growth in agriculture and industry, is affected by the weak performance in trade, transport, and construction activities.

To improve short-term growth prospects, acute power and gas shortages must be addressed urgently. The government needs to invest heavily in energy and other infrastructure, including by implementing the new public-private partnership (PPP) scheme. Capacity and efficiency of the line ministries need to be expanded to ensure effective use of aid funds. Containing inflation is also important for raising growth prospects. Finally, Bangladesh could reap huge benefits from its strategic location by improving regional connectivity and regional integration.

Agriculture

2. Despite the government's broad-based support for agriculture, the growth rate of agriculture in FY2010 is expected to be lower than in FY2009 because of the effects of weather, and weak supply response by farmers to lower farm-gate prices after last year's harvesting season. Although the authorities channeled electricity from the cities to rural areas during the boro season, supply was not adequate to meet the full demand for irrigation. Production of staple food grains, i.e., rice and wheat, is estimated to grow by 5.5% in FY2010 over the 32.2 million tons of actual production in FY2009 (Figure 1). Production of rice is estimated to rise by 5.1%, from 31.3 million tons in FY2009 to 32.9 million tons in FY2010. Wheat production is targeted to increase by 20.1%, from 0.85 million tons in FY2009 to 1.02 million tons in FY2010. Substitution of cultivated land to nonrice crops is expected to increase production of maize, potatoes, and other crops. Despite the unusually large production of potatoes, the lack of storage facilities caused a huge loss for farmers. The outputs of fishery, poultry, and livestock sectors, although growing, are unable to meet rising demand from the growth in population and income.

3. Production of aus was lower at 1.7 million tons, down by 9.8% from 1.9 million tons in FY2009, because of the decline in planting area caused by the drought. The area under aman cultivation rose by 3.6% (5.7 million hectares) in FY2010 compared with 5.5 million hectares in FY2009. Production of aman rose from 11.6 million tons in FY2009 to 12.2 million tons, up by 5.2%, slightly lower than the target of 12.7 million tons. The production target for boro in FY2010 is set at 19 million tons, up by 6.7% from the actual production of 17.8 million tons in FY2009. Wheat production is targeted to rise to 1 million tons in FY2010 from the actual production of 0.9 million tons in FY2009.



4. Procurement of food grains plays a dual role of stabilizing the market price and supporting social safety net programs. The food-grain procurement target for FY2010 is 1.6 million tons compared with actual FY2009 procurement of 1.5 million tons, up by 7.9%. The government has set the FY2010 aman procurement target (in terms of rice) at 0.3 million tons. As of 3 April 2010, aman procurement totaled 14,700 tons. By 30 April 2010, 34,800 tons of wheat had been procured compared with 34,000 tons during the same period of FY2009.

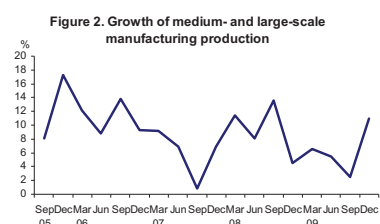
5. The overall food-grain import target for FY2010 is set at 3.7 million tons, of which, the target for rice is 0.8 million tons, and for wheat 2.9 million tons. In FY2010, the target for public sector food-grain import is 1.2 million tons, of which rice is 0.3 million tons and wheat 0.9 million tons. Up to 30 April 2010, the public sector had commercially imported 7,000 tons of rice and 268,000 tons of wheat. The target for food-grain import by the private sector is 2.5 million tons: 0.5 million tons of rice and 2.0 million tons of wheat. Up to 30 April 2010, the private sector had imported 36,600 tons of rice and 2.6 million tons of wheat.

6. Despite the declining contribution of agriculture to national income (about 20% of GDP), more than 60% of the population are dependent for their livelihoods on agriculture and related farm and nonfarm activities. With the incidence of poverty higher in rural areas, sustained growth in productivity is key to strengthening agriculture's contribution to poverty reduction. Given the rising demand for food in the faster growing developing countries like the People's Republic of China, India, and Brazil, together with continued depletion of domestic and international cropland, increasing agricultural productivity is important to ensure national, regional, and household food security. The government has demonstrated commendable commitment to supporting agriculture by ensuring producer-oriented support services through research institutes, extension and training services, animal and poultry health services, distribution of fertilizer and pesticide, preservation and distribution of seeds, and provision of broad-based subsidies to farmers. Nevertheless, agricultural research organizations need to invent appropriate technology for withstanding climate change impacts; extension services need to be more efficient and demand-driven; and fertilizers, pesticides, and seeds need to be timely supplied at affordable prices. The sector also needs critical investment in irrigation, flood protection, river dredging, and riverbank protection.

7. The government's medium-term budgetary framework¹ (MTBF) FY2010–FY2012 outlines spending priorities for agriculture that are expected to augment domestic food production and ensure greater stability in producer and consumer food markets. These measures include (i) expanding agricultural research capacity to increase production of major crops including paddy, wheat, and sugarcane (during FY2010–FY2012, the number of agricultural research programs is targeted to increase from 400 to 450); (ii) increasing the supply of better quality wheat seed from 1.2 million to 1.3 million tons, and paddy seed from 6,000 to 6,800 tons during the MTBF period; (iii) taking concerted efforts to innovate, conserve, and distribute the improved variety of crops; (iv) increasing productivity and creating employment in fisheries by developing habitat, creating sanctuaries, and bringing floodland under social management; (v) developing farm management for poultry, livestock, and dairy farms; (vi) modernizing the land management system; (vii) increasing computerization of land records for *upazilas* and metropolitan cities; (viii) improving irrigation facilities, excavating and reexcavating rivers and canals, and building and maintaining infrastructure; (ix) building and maintaining flood control embankments (during FY2010–FY2012, flood control embankments will be increased from 230 to 300 km and coastal embankments from 1,875 to 3,070 km); and (x) reducing environmental pollution by implementing the Environmental Protection Act, 2008, and taking measures to limit adverse effects of climate change.

Industry

8. The industry sector is gradually picking up, with the general index of industrial production (medium- and large-scale manufacturing) recording a rise of 6.6% during July–December FY2010 over the corresponding period of FY2009 (Figure 2). Given the slow global recovery, external demand is still weak in the country's major export destinations. Apart from sluggish external demand, performance of the industry sector has been held back by inadequate power and energy supply. Small- and medium-sized enterprises (SMEs), which are unable to install their own generators, have been most seriously affected by power shortages. The production cost of industrial units has significantly increased across the board, and new investment in industry has been postponed due to lack of energy and power. Some evidence suggests that



¹ This section draws on information provided in the government's Medium-Term Budget Framework: http://www.mof.gov.bd/en/index.php?option=com_content&view=article&id=58&Itemid=1.

production of the country's main export item, ready-made garments (RMG), has been severely affected by lack of power supply. This has also reduced the country's external competitiveness.

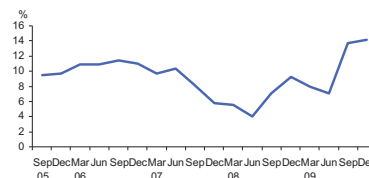
9. The country's 354 units in 44 power stations generate a daily average of 3,700 megawatts (MW); this is eroded by chronic system loss and shutdown of power plants for repair and maintenance. The estimated daily demand for electricity stands at 7,000 MW. To meet the excess demand, the government recently took several short-term measures, including (i) a proposed project to build 10 peaking power plants costing Tk72 billion, which are expected to produce 830 MW of power by the end of 2011; (ii) a project costing Tk10.3 billion to modify and renovate units 3, 4, and 5 of Ashuganj Power Plant; and (iii) bids approved for two companies for four power plants with a combined capacity of 270 MW to use furnace oil and come onstream by June 2011. Additional measures identified include (i) importing liquefied natural gas (LNG) from Qatar to respond to the gas shortage; (ii) installing nuclear power plants; (iii) importing electricity from Bhutan, India, Myanmar and Nepal; (iv) erecting transmission lines from Bahrapur in West Bengal to Bheramara in Kushtia to allow importation of electricity from India; (v) shutting down some fertilizer factories and diverting gas for power generation; (vi) rationing the use of air conditioners in private homes and offices; and (vii) encouraging use of alternate sources of energy. Nevertheless, the government needs to act decisively to increase investment in power and gas, especially to create an enabling investment climate to invite foreign direct investment (FDI) in these priority areas. At the same time, the government needs to expedite institutional reforms to encourage private sector investment in power and energy. The authorities recently increased power tariffs by an average of 6%–7%.

10. For July–December FY2010, the major industrial category of medium- and large-scale manufacturing—jute, cotton, wearing apparel, and leather—posted a decline of 2.9% compared with the corresponding period of FY2009. Chemicals, petroleum, and rubber increased by 35.8%; food, beverages, and tobacco by 9.3%; fabricated metal products by 6.4%; nonmetallic products by 2.4%; paper and paper products by 3.4%; and wood products including furniture by 3.9%. Basic metals were down by 44%. A major implication of these numbers is that export-oriented industries have been more affected by the global crisis than domestic demand-driven industries. To cushion against potential external shocks, Bangladesh needs to

diversify its export structure and align production capacity more with domestic and regional demand.

11. The general index for small-scale manufacturing rose by 13.9% during July–December FY2010 (Figure 3). Food, beverages, and tobacco increased by 38.6%. Production of other industrial categories also increased, including wood and wood products up 1.6%; textiles, leather, and apparel up 10.6%; metal products and machinery up 7.4%; chemicals, rubber, and plastic up 3.5%; basic metal industries up 14.6%; nonmetallic products up 18.6%; and paper, printing, and publishing up 1.1%. Other manufacturing industries were down by 1.2%.

Figure 3. Growth of small-scale manufacturing production



12. Bangladesh needs to step up efforts to broaden export markets. At present, more than three-fourths of RMG exports are destined for markets in the United States and the European Union. This makes the country's exports more vulnerable to external shocks. To reduce vulnerability, destinations and products will need to be diversified. Attracting FDI is a potential means to diversify the production base for exports. This requires an improved business climate, with better infrastructure, supported by a sound regulatory regime to reduce transaction costs. Communication, infrastructure, and port services need to be improved. Higher FDI inflows will contribute to diversification of product space and integration of market chains, and will augment overall competitiveness of the sector. Bangladesh needs to explore new export destinations for RMG products based on market size, per capita income and RMG consumption, and competitive advantage in those countries. Strengthening forward market integration is important to face challenges from emerging competitors such as Cambodia and Viet Nam. Regional cooperation and integration needs to be promoted by removing tariff and nontariff barriers, paring down sensitive lists, removing institutional inertia, enhancing trade facilitation measures, encouraging joint ventures, and tapping potential benefits of the country's strategic location through higher regional connectivity.

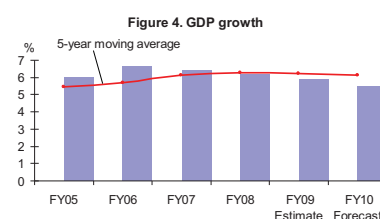
Services

13. Performance of the services sector largely depends on the outcomes of the agriculture and industry sectors. The global economic crisis has impacted growth of the services sector in a variety of ways. Contraction in trade and investment activities affected performance of transport and communication services. Subdued trade and investment activities affected financial services. Moderation in remittance inflow also dampened demand

for services affecting wholesale and retail trade and community, social, and personal services. Lack of infrastructure and power supply has constrained new investment in health care and education services. The telecommunications sector is also affected by the slowdown in economic activities, particularly trade.

Economic Growth

14. GDP growth in FY2010 is projected at 5.5%, lower than in FY2009 (Figure 4). The lagged effects of the global economic crisis on the Bangladesh economy became evident in the last quarter of FY2009, as reflected in the performance of the country's two main growth drivers—exports and remittances. Exports continued to decline during July–March FY2010, primarily due to the decrease in RMG exports; and the slowing of the growth of remittance inflows with the decline in the export of human resources. Supply-side factors, especially acute shortages of power and energy, also adversely impacted aggregate growth performance. Despite progress in implementing the FY2010 fiscal stimulus package, continued underperformance of the annual development program (ADP) in terms of adding to key infrastructure, affected complementary private investment. With the global economic recovery gradually gaining momentum and the domestic growth drivers picking up in response, GDP is expected to grow at 6.3% in FY2011, in line with the growth pattern observed before the onset of the global crisis.



15. To make a significant impact on poverty reduction, the country's main development goal, Bangladesh needs to accelerate GDP growth. To accomplish this, the major strategic thrusts of the government will be to strengthen domestic demand, diversify exports, and increase investment to generate needed supplies to respond to rising demand. To make economic growth more inclusive, job opportunities will need to be created by promoting new growth drivers across a broader product space. Reforms need to be accelerated to address economic inefficiencies. Along with enhancing allocational efficiency, emphasis is required on raising total factor productivity². Given its weak

² The growth decomposition analysis, undertaken by Mujeri and Sen, reveals that during 1997–2006, the annual growth rate of capital stock was 6.8%, while the growth of quality-adjusted labor was 3.7%. Total factor productivity growth was low at 0.4%. M.K. Mujeri and B. Sen. 2006. *Economic Growth in Bangladesh, 1970-2000*, in K.S. Parikh (ed.) *Explaining Growth in South Asia*. New Delhi: Oxford University Press.

research and development capacity, Bangladesh should still be able to raise total factor productivity by welcoming larger FDI inflow, which embodies modern technology. Over the longer term, a strategic thrust of development policy will be to heavily invest in research and development and basic science education. Enhanced regional integration can play a supportive role by harnessing regional resources and taking advantage of the complementarities among regional economies.

16. Although substantial gains in poverty reduction were realized until 2005, progress in reducing poverty has been uneven across geographic regions. The largest decline in poverty incidence occurred in the eastern part of the country, while the poverty headcount ratio stagnated or rose slightly in the western region, where half of the population remains poor. People in the country's western region have limited access to the growth poles because of lesser connectivity. Reducing spatial inequalities in the western region will need greater investments in infrastructure, especially in roads, bridges, electricity, gas, and water. Construction of the Padma Bridge is expected to reduce the prevailing east–west divide. Developing the Mongla port as a regional hub will enhance trade and commerce. The government needs to make greater investment in human capital and create job opportunities in the lagging regions. Investment in infrastructure and services in urban areas in the western region will help improve diversified household activities and raise living standards.

17. With existing technological capacity, Bangladesh's aim of attaining 8% GDP growth by FY2014 will depend on the country's ability to increase investment—both public and private, including foreign investment. The growing savings–investment gap suggests that translating the excess savings into productive investment activities will be a challenge. Total investment in FY2010 is projected at 24.6% of GDP, slightly higher than 24.2% in FY2009. Private investment is projected to decline to 19.4% of GDP in FY2010, from 19.6% in FY2009, while public investment is projected to grow from 4.6% to 5.2% of GDP in FY2010. Given the prevailing investor sentiment as reflected in application for registration at the Board of Investment³, along with severe shortages of energy and power, private investment remains sluggish and public investment is

³ Total investment proposals including local and foreign investment at the Board of Investment declined to Tk169 billion during July–February FY2010 from Tk252.3 billion during the same period of FY2009. *The Financial Express*. 3 May 2010. <http://www.fe-bd.com>.

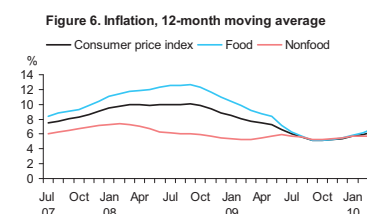
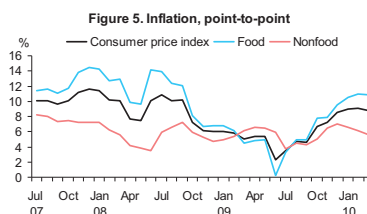
expected to fall short of target because of underimplementation of the ADP. The majority of existing industries have involuntarily postponed expansion of productive capacity due to lack of energy and power supply.

18. Provisional estimates indicate that FDI inflow during July–February FY2010 fell sharply to \$262 million, from \$722 million in the same period of FY2009, down by 63.7%. During July–February FY2010, FDI proposals at the Board of Investment decreased to \$608 million from \$2.1 billion during the corresponding period of FY2009. Along with the adverse effects of the global economic recession, the main reason for the dip in FDI inflow is the lack of energy, power, and other basic infrastructure. Compared with the comparator countries like Cambodia and Viet Nam, the cost of doing business is quite high in Bangladesh; this erodes the country's competitiveness. Bangladesh needs to exploit the potential provided by its strategic geographic location. Access to neighboring markets through higher connectivity will induce potential foreign investors to reap economies of scale stemming from a bigger market and other dynamic gains. Bangladesh also needs to augment capacity and efficiency of port facilities to manage higher trade volume because of regional and subregional cooperation and increased FDI inflow.

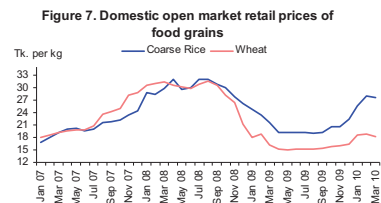
19. To mobilize investment in infrastructure, the government, in the FY2010 budget, initiated the PPP scheme. It allocated Tk2.5 billion to accelerate the process of investment through PPP. The allocation is to be used to set up an infrastructure investment fund from which the government will provide equity or loans to private investors to ensure government participation. In addition, the government plans to provide different financial incentives from the fund to encourage investment. Currently, the revised guidelines for PPP await cabinet approval, and institutional capacity needs to be developed to operationalize the scheme. International best practices, especially the experience of India, the Republic of Korea, and Viet Nam, in developing institutional setups and operationalizing PPP can provide valuable lessons for Bangladesh.

Inflation

20. Inflation has been steadily rising in FY2010, reaching 8.8% year-on-year in March 2010 up from 3.5% in July 2009 (Figures 5 and 6), largely because of an increase in domestic food prices. The price of the main



staple food, rice (coarse), reached Tk28.0/kilogram (kg) in February 2010, a 16-month high, from Tk19.2/kg in July 2009. Domestic production was affected by unfavorable weather. The price of wheat reached Tk18.7/kg from Tk15.2/kg during the same period (Figure 7). The continued rise in international commodity prices, including oil (Figure 8), along with higher-than-targeted money supply growth contributed to the recent price escalation. While food inflation surged to 10.8% in March 2010 from 3.3% in July 2009, nonfood inflation marginally rose to 5.6% from 3.7%.



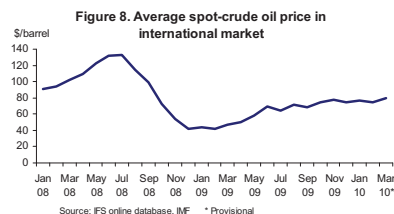
21. In the coming months, several underlying factors will determine the inflation outlook. Rising commodity prices, including oil, food, and fertilizer, in the international market will be a key factor. The size of domestic boro production will also be important. The excess liquidity in the banking system and higher-than-targeted broad money growth could fuel inflation.

22. The government and Bangladesh Bank (the central bank) continue to take measures to contain inflation. The government imposed a ban on rice exports in early December 2009; issued “*krishi cards*” (agricultural cards) to 18.2 million farmers for fertilizers, agricultural loans, and subsidies for diesel and other inputs; started open market sales of rice in Dhaka, the capital city, and adjoining districts in January 2010; and introduced fair price cards in February for 2.5 million ultrapoor families across the country.

23. Bangladesh Bank raised the interest rates on government securities, particularly bonds, and resumed the auction of 30-day Bangladesh Bank bills as a step to reduce the excess liquidity. To curb inflationary pressure, it raised the rates on the cash reserve ratio (and statutory liquidity ratio) by 0.5 percentage points. Also, as a precautionary step, Bangladesh Bank directed all commercial banks to cap interest rates at 12.0% on import finance for essential items, edible oil, gram, lentils, pulse, onions, spices, dates, fruits, and sugar to ensure an adequate supply of these items and to keep prices under control during the ensuing Ramadan.

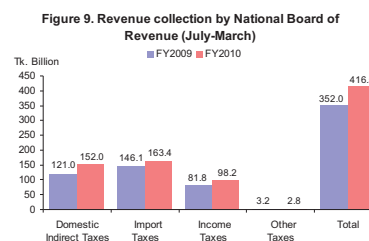
Fiscal Management

24. The government's medium-term macroeconomic framework (MTMF) envisages a fiscal policy that will help attain pro-poor growth along with maintaining macroeconomic balance and debt sustainability. It seeks to safeguard the economy from potential external shocks and



natural disasters, ensure food security, and encourage social inclusion. To attain these, the MTMF identifies several strategic thrusts including raising revenue, allocating public expenditure to more productive and social sectors, and improving efficiency of public expenditure.

25. During July–March FY2010, total tax revenue, collected by the National Board of Revenue, which accounts for more than 95% of total revenue, rose by 18.3% over the same period of the previous year (Figure 9). This commendable performance, especially during the economic recession is mainly due to implementation of ongoing tax reform measures. The government seeks to improve tax collection by implementing reform measures including widening the tax base; decreasing tax evasion and leakages; enhancing transparency, accountability, and efficiency in the revenue administration and tax collection system; simplifying tax rules; curbing discretionary power in tax laws; and implementing reforms and capacity building of the National Board of Revenue.



26. Tax collection from import-based taxes started to improve with the recovery of imports after a lull during the first half (July–December) of the current fiscal year. Collections rose by 11.8% during July–March FY2010 over the same period of FY2009. During July–March FY2010, customs duty grew by 4.3%, import stage value-added tax by 13.4%, and supplementary duty by 36.1%. Revenue from domestic indirect taxes rose by 25.7%, with value-added tax growing by 27.1%, supplementary duty by 22.4%, and excise duty by 41.9%. Turnover tax experienced a decline of 6.4%. Income tax, which constitutes slightly more than one-fourth of total tax revenue, grew by 20.1%.

27. Through the revised Second National Strategy for Accelerated Poverty Reduction, the government announced a fast-track poverty reduction strategy, requiring a sustained increase in public expenditure. The FY2010 budget targets an increase in total expenditure from 15.3% of GDP in FY2009 to 16.5% in FY2010. Higher expenditures include a fiscal stimulus package to address the global economic crisis; support agriculture; finance infrastructure, particularly power and gas; achieve greater regional balance; and support comprehensive social safety net programs. In parallel, the government emphasizes mobilizing external grants and concessional loans to finance development activities and to offset the impacts of the global economic recession. During July–January, 33.9% of total current expenditure allocated for the FY2010 budget was spent. The utilization rate is 4% less

than the corresponding period of FY2009. The sector utilization pattern shows that education (21.5%) has the largest share followed by interest payment (21.1%), public order and safety (10.0%), and defence (9.8%).

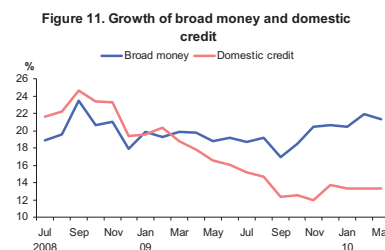
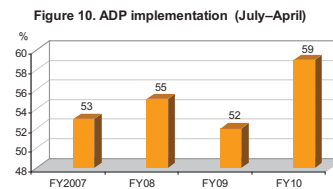
28. To enhance efficiency of current expenditure, the government needs to prioritize resource allocation. The incremental increase of current expenditure during each fiscal year needs to be replaced by an efficiency- and productivity-based resource allocation system. The government also needs to review the subsidy policy for various sectors to prevent overuse and wastage of scarce resources. Rationalization of subsidy use will free up resources to invest in priority sectors with higher economic and social returns. To enhance social inclusion, the safety net programs need to be strengthened.

29. Poor implementation of the ADP is a major problem. Despite isolated reforms, utilization of the ADP is still low because of institutional weaknesses, especially the weak implementation capacity of the line ministries. During July–April FY2010, the ADP utilization rate was 59.0% compared with 52.0% during the same time of FY2009 (Figure 10). The top 10 ministries account for 81.9% of total allocation and have spent 61.0% of their allocation. The Local Government Division spent 71.0% of its allocation, Roads and Railway Division 55.0%, Power Division 47.0%, Ministry of Health and Family Welfare 56.0%, Ministry of Primary and Mass Education 69.0%, Ministry of Education 54.0%, Ministry of Water Resources 43.0%, Ministry of Agriculture 59.0%, Energy and Mineral Resources Division 69.0%, and Ministry of Housing and Public Works 65.0%.

30. The fiscal deficit remains within limits. During July–February FY2010, the total deficit financing was Tk52.8 billion, down from Tk143.5 billion during the same period of FY2009. Foreign financing was higher at Tk64.8 billion compared with Tk50.4 billion in the corresponding period of the previous year. The government repaid Tk12 billion net to domestic lenders compared with net borrowing of Tk93.1 billion in the same period of FY2009.

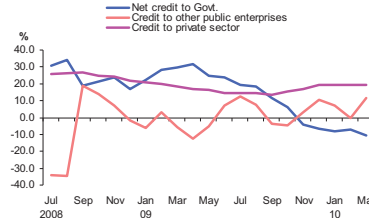
Monetary and Financial Developments

31. Broad money growth has been rising since the beginning of FY2010, reaching 21.3% year-on-year in March 2010 (Figure 11), up from 18.6% in July 2009 and also significantly exceeding the target growth of 15.5% in FY2010. This was caused by the rapid growth in net



foreign assets (70.0%) resulting from the large purchase of foreign exchange by the central bank from the interbank market. Growth in domestic credit dropped below the annual target of 15.6%, moderating to 13.3% in March 2010 from 15.2% in July 2009, because of the sharp deceleration in credit growth to the public sector. Private sector credit growth exceeded the annual target of 16.7%, reaching 19.5% in March 2010, up from 14.2% in July 2009. Net credit to the government declined by 10.6% in March 2010, significantly down from 19.3% growth in July 2009, as the higher revenue growth reduced the need for public sector borrowing (Figure 12).

Figure 12. Growth of domestic credit components

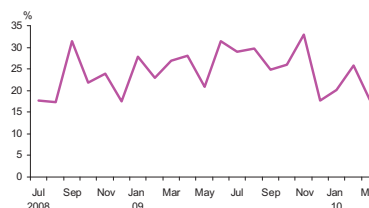


32. Reserve money growth showed a volatile trend during FY2010, falling year-on-year to 17.7% in December 2009 from 33.0% the month before and again declining to 17.9% in March 2010 (Figure 13). The growth remains well above the June 2010 target of 7.0%. The rise in net foreign assets of Bangladesh Bank contributed to this rapid growth in reserve money, although net domestic assets declined sharply (53.3%). The reserve money multiplier rose slightly to 4.9 at the end of March 2010 from 4.4 in July 2009.

33. Excess liquidity of the scheduled banks remains a concern for Bangladesh Bank, as it reached Tk325.2 billion at the end of March 2010, up from Tk237.4 billion in March 2009, reflecting subdued investment demand. Excess liquidity (measured as a percentage of deposits) rose to 11.0% in March 2010 from 9.8% in March 2009. The outstanding stock of government treasury bills, bonds, and national savings directorate certificates stood at Tk571.9 billion at the end of February 2010, significantly up from Tk481.3 billion in February 2009.

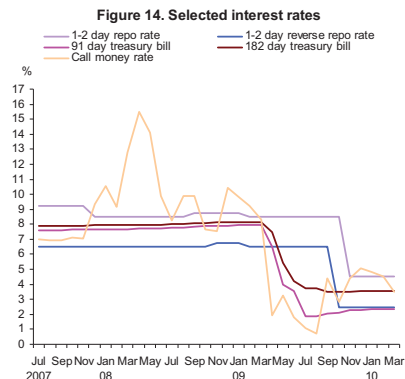
34. In conducting monetary policy, Bangladesh Bank has been relying mostly on open market operations through regular auctions of its 182-day and 364-day treasury bills (T-bills) with little adjustment in their yields to limit growth of liquidity in the banking system. The auctions of 28-day T-bills has been suspended since July 2008 and the auction of 91-day T-bills was suspended during February–March 2010. However, auctions of the 30-day Bangladesh Bank bills took place with slight upward movement in their yield. Both the policy rates remained unchanged at 4.5% for repo and 2.5% for reverse repo.

Figure 13. Growth of reserve money

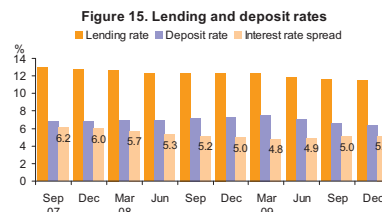


35. The weighted average yield on 91-day T-bills remained unchanged at 2.3% in January 2010, the same as December 2009. In March 2010, the yield on 182-day T-bills was 3.5% and for 364-day T-bills 4.6%, unchanged

from December 2009. The yield on 30-day Bangladesh Bank bills rose gradually to 2.5% in March 2010 from 1.0% in August 2009. After dropping to less than 1.0% in the first quarter of FY2010, because of the large excess liquidity in the banking system, the interbank call money rate rose to 5.1% by December 2009 because of Bangladesh Bank's attempt to withdraw excess money from the banking system and high credit demand, but fell again to 3.5% in March 2010 with fresh accumulation of excess liquidity (Figure 14).



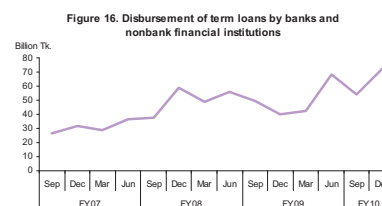
36. The weighted average lending rate declined to 11.5% in December 2009 from 12.3% a year earlier, and the deposit rate declined to 6.4% from 7.3% in the same period. Real deposit rates turned negative, as inflation edged up. The interest rate spread widened marginally to 5.1 percentage points in December 2009 from 5.0 percentage points in December 2008 (Figure 15).



37. Following Bangladesh Bank's direction, disbursements of industrial term lending and agricultural credit picked up. The disbursement of industrial term lending stood at Tk126.1 billion during July–December 2009, 41.1% higher over the same period of 2008 (Figure 16). Of the Tk115.1 billion targeted for disbursement as fresh agricultural credit in FY2010, Tk81.6 billion (70.9%) was disbursed until the third quarter of FY2010, a growth of 18.1% over the corresponding period of FY2009.

38. The commercial banks stepped up lending to SMEs following Bangladesh Bank's policy directives. Outstanding loans to SMEs reached Tk511.5 billion in December 2009, 17.7% higher than in December 2008. However, the ratio of SME loans to total loans (19.9%) in the banking system has not increased since December 2008. Foreign banks recorded the highest growth in outstanding loans at 107.1%, followed by nonbank financial institutions with 44.0%, and state-owned commercial banks (SCBs) with 24.0%. Nevertheless, private commercial banks still have the highest share (50.3%) in total SME loans, followed by SCBs with 36.4%.

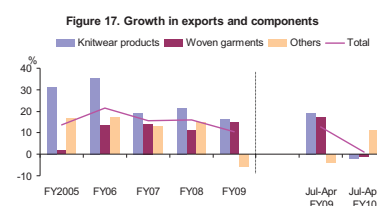
39. In March 2010, Bangladesh Bank announced a comprehensive SME credit policy and program aiming to address constraints faced by SMEs and prospects for SME development in Bangladesh. Under this policy, for the first time, Bangladesh Bank set a disbursement target of Tk24.0 billion in SME loans in 2010 for all banks and financial institutions extending such loans. The policy allows banks to provide Tk2.5 million of collateral-free loans to small enterprises and enterprises run by women.



40. Although the financial soundness indicators of the financial sector have improved and are generally favorable, reform initiatives in certain areas need to accelerate for overall financial sector development. The asset quality of the commercial loan portfolio remains weak, with a significant share of loans classified in the substandard, doubtful, and loss categories⁴. The high nonperforming loan ratio, especially of the SCBs, remains a concern despite progress in reducing it. The SCBs' weak structure is a result of the low capitalization and distortions. To increase the efficiency of financial markets, nonprudential interventions and directed lending to certain sectors must be prevented.

Balance of Payments

41. Export earnings continue to decline although the speed of decline has been slowing as the year progresses. Exports declined by 11.7% during the first quarter, 6.2% in the first half, and 0.8% during the first 9 months of FY2010. Slowly bottoming out with the global recovery gaining momentum, export earnings posted a 1.0% growth in the first 10 months of FY2010 (Figure 17). With only 2 months of the fiscal year remaining, the prospects of attaining the annual export target of \$17.6 billion (12.8% growth over FY2009) remain dim, as only 73.3% of the annual target was achieved by April. The fall in key export items such as RMG, frozen foods, and chemical products reflecting the delayed impact of the global recession and the domestic power crisis contributed to the decline in overall exports.



42. Among the RMG export items, woven garments declined by 1.4% and knitwear by 2.1% in the first 10 months because of the continued weak demand in export destination countries. Other major exportable items experiencing a decline are frozen food (13.7%) and chemical products (31.9%). Products still showing robust growth include raw jute (44.4%), jute goods (69.8%), and engineering products (40.6%), which benefitted from the lower base in the previous year.

43. The export of primary products experienced marginal growth of 0.4% and export of manufactured products rose by 1.0%. Although improving during the year, downward pressures on prices of export items continued as the price index for primary products declined

⁴ International Monetary Fund (IMF). 2010. Bangladesh: 2009 Article IV Consultation, Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion, IMF Country Report No. 10/55. Washington DC: IMF.

by 6.4% and manufacturing products by 6.3%. The volume index of primary products rose by 6.8% and manufacturing products by 2.3%.

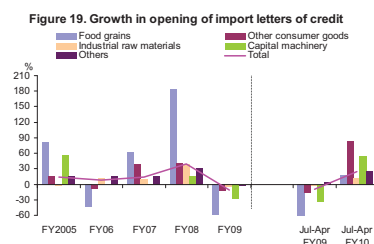
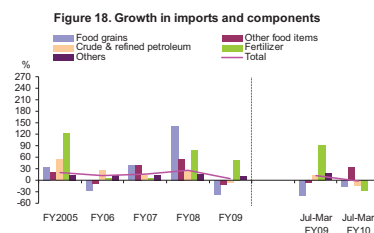
44. After allocating Tk18.0 billion in FY2010 as various subsidies to boost the export sector through benefits such as loan rescheduling, reduction of interest rates for export loans, and cash subsidy, the government announced a bailout package for 270 RMG industries with an allocation of Tk10 billion to help waive interest payments on their bank loans. The government is also providing stimulus for the RMG export sector including an additional 5.0% cash incentive as well as special benefits to SMEs linked to the sector.

45. Bangladesh became the top export performer in the European Union market in 2009, as it exported products worth EUR5.8 billion with growth of 6.3%, outperforming its global competitors such as People’s Republic of China, India, and Viet Nam. Bangladesh received benefits worth EUR493 million using the generalized system of preferences facility (over 80% of export products) in 2009, while India received EUR456 million and Viet Nam EUR153 million. Bangladesh urgently needs to improve its infrastructure bottlenecks, especially power and gas shortages to meet the deadline for export orders so that it is more competitive globally.

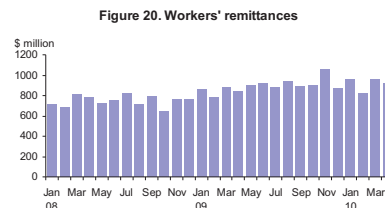
46. Since the beginning of FY2010, import payments have been declining because of the fall in import prices of food grains, and the import of consumer, intermediate, and capital goods. This reflects the continued weak investment outlook. During July– March FY2010, imports declined by 1.3% over the same period of FY2009 (Figure 18). Among the leading import items, rice imports experienced a sharp fall (86.0%), followed by fertilizer (27.1%), petroleum (17.9%), yarn (17.0%), and capital goods (0.5%). Among food items, imports of wheat rose by 16.6%, edible oil by 18.1%, and sugar by 69.9%.

47. During the first 10 months of FY2010, the value of L/Cs opened grew significantly (24.9%) because of the rise in commodity prices in the international market and gradual onset of the recovery (Figure 19). Among the major categories, L/Cs rose by 84.5% for consumer goods other than food grains, 54.0% for capital machinery, 28.0% for other machinery, and 19.0% for petroleum and petroleum products. Food grain L/Cs rose by 19.1%.

48. Remittance inflows continued to grow robustly, although the rate of growth decelerated with the decline in



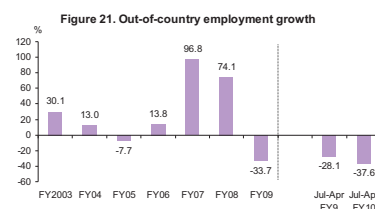
overseas jobs. A total of \$9.2 billion was remitted in the first 10 months of FY2010, 16.7% more than for the same period of FY2009 (Figure 20). Bangladesh Bank adopted a series of measures to encourage expatriate Bangladeshis to send money through legal channels, e.g., approving the establishment of exchange houses and drawing arrangements abroad, issuing clearance to local banks to establish contacts with international exchange houses, introducing mobile banking, and setting up a Bangladesh automated clearinghouse. A recent study by the International Monetary Fund (IMF) suggests that the continued strong growth of remittances in Bangladesh is related to the resilience of non-oil GDP growth in member countries of the Gulf Cooperation Council (GCC) and the surge in their hiring of migrant workers from South Asia during 2006–2008⁵.



49. Overseas employment for Bangladeshi workers declined sharply by 37.6% in the first 10 months of FY2010 (Figure 21). A total of 359,165 Bangladeshis found jobs during this period, the lowest in the last 4 years, because of the massive decrease in recruitment by GCC countries, led by Saudi Arabia, the largest destination for Bangladeshi overseas workers. In the first 10 months of FY2010, Saudi Arabia recruited only 9,316 Bangladeshi workers and Malaysia (the third largest market of Bangladeshi workers) only 366 workers.

50. The government needs to explore alternative markets for overseas jobs. High migration costs, lack of adequate information about destinations, and workers' lack of skills are priority areas for improvements. A recent study found that Bangladeshi migrant workers spend on average \$2,300 to ensure overseas jobs, the highest among South Asian countries⁶.

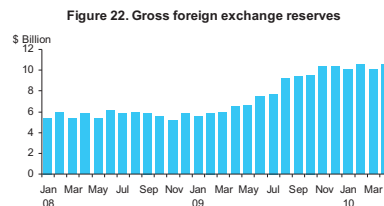
51. Recently, Bangladesh has been unsuccessful in attracting major FDI, partly because of the global economic recession and domestic infrastructure constraints. During July–February FY2010, foreign assistance (net of repayments) totaled \$935.3 million, compared with \$733.2 million during the same period of FY2009.



⁵ G. Almekinders and Z. Abenoja. 2010. Remittances in South Asia and the Philippines: Determinants and Outlook. In *Bangladesh: Selected Issues*, IMF Country Report No. 10/56. Washington: International Monetary Fund.

⁶ P. Martin. 2010. Managing Labor Migration: Implications for Bangladesh. Paper presented at a seminar organized by the Bangladesh Institute of Development Studies, 21 March 2010.

52. The trade deficit narrowed marginally to \$3.9 billion during July– March FY2010, down from \$4.1 billion during the same period a year earlier due to the larger decline in imports compared with the decline in exports. With the lower deficit in trade, services, and income payments, and the still healthy remittance growth (17.6%), the current account surplus rose to \$2.6 billion during the first 9 months of FY2010, from \$1.0 billion in the same period of the previous year. As a result, the surplus in the overall balance rose to \$2.3 billion, significantly up from \$1.0 billion during the first 9 months of FY2009, despite marginal widening of the capital and financial account deficit.



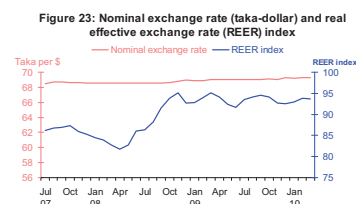
53. The country's foreign exchange reserves have been rising after achieving the \$10.0 billion mark in November 2009. Gross foreign exchange reserves of Bangladesh Bank reached \$10.6 billion (over 5 months of imports) at the end of April 2010, up from \$6.5 billion a year earlier (Figure 22). The continued healthy remittance growth accompanied by lower import demand contributed to the high growth of foreign reserves. In addition, the purchase of foreign exchange by Bangladesh Bank from the interbank market added to its foreign reserves.

Exchange Rate

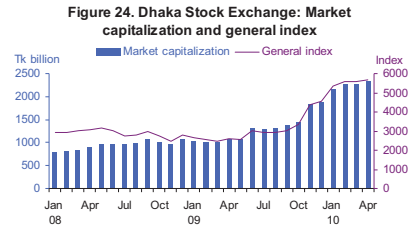
54. The weighted average nominal (taka-dollar) exchange rate remained mostly stable, from Tk69.1:\$1 to Tk69.3:\$1 during the first three quarters of FY2010 (Figure 23), reflecting the country's healthy foreign reserve position. Bangladesh Bank's intervention continues in the foreign exchange market to stabilize the exchange rate. While the real effective exchange rate has been appreciating over the past couple of months mostly because of higher domestic inflation, it had depreciated by 1.5% year-on-year in March 2010.

Capital Markets

55. The major stock market indicators rose during FY2010, except for a brief period during mid-February to mid-April, when the market experienced some instability. The index rose 118.2% year-on-year in April 2010, reaching 5,654.9 points, because of the listing of Grameenphone (the country's largest mobile phone company) on the stock exchange in November 2009, and significant involvement of institutional participants in daily transactions. The active participation of a large number of retail investors along with the coincidence with bonus share (cash, stock, right) declaration contributed to the

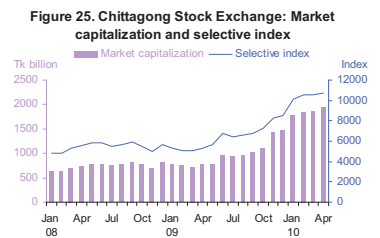


recent rise in the index. Market capitalization of the Dhaka Stock Exchange rose by 120.7%, from Tk1,062.4 billion in April 2009 to Tk2,345.0 billion by the end of April 2010, reflecting the listing of a large number of companies (a total of 21 companies listed since January 2009) (Figure 24).



56. The Chittagong Stock Exchange (CSE) selective categories index followed the same trend as the Dhaka Stock Exchange index. While, the CSE index rose by 100.6% year-on-year in April 2010, reaching 10,730.2 points by the end of April 2010, CSE market capitalization rose by 150.0% in the year to April 2010 (Figure 25).

57. The continued rise in share prices in the stock market remains a concern for maintaining stability in the overall financial sector. As more and more financial institutions are engaging themselves in stock market transactions because of the excess liquidity in the banking system, risk to capital from a sudden fall in the market could be large. The government needs to take quick steps to offload the shares of state-owned companies to offset excess demand in the market and to stabilize share prices. Although the regulatory authority intervenes in the market to restore stability from time-to-time through administrative measures, attention needs to be paid to attract companies to list in the stock market by reducing the cost of listing.



REMITTANCES AND HOUSEHOLD WELFARE⁷

58. Remittance inflows, a major source of foreign exchange income, accounted for 10.9% of GDP in FY2009. Although lower than export earnings (17.5% of GDP in FY2009), they are much higher than FDI (1.1%) and official development assistance (1.2%). Being one of the top 10 remittance recipient countries in the world⁸, Bangladesh has been able to maintain respectable foreign reserves and meet its international payments obligations because of the robust flow of remittances. They are considered a more stable source of foreign exchange. The joint World Bank-IMF low-income country debt sustainability framework now takes into account remittances in evaluating the ability of countries to repay external obligations and their ability to receive nonconcessional borrowing from private creditors. IMF Article IV assessments include remittance as a variable alongside FDI and portfolio flows.

59. The recent global economic crisis raised the apprehension that remittance flows into Bangladesh could be seriously affected, causing a slowdown in the economy and decline in household welfare status. However, remittance growth held up well in FY2009, still posting respectable growth (22.4%) helped by the large outflow of workers in previous years and steps taken by Bangladesh Bank (Box: Recent Policies to Boost Remittance Inflows), although growth slowed significantly (16.7%) in the first 10 months of FY2010.

Trends of Migration and Remittances

General Trends

60. Remittance flows are directly dependent on international migration⁷ from Bangladesh and the number of workers leaving for overseas jobs. From 1976 to June 2009, about 6.5 million workers went abroad, and remitted a cumulative \$62.3 billion. Categorized by destination, three phases of the migration process could be identified. During FY1976–FY1990, migration was characterized by mostly unskilled workers going to the Middle Eastern countries predominantly to work in construction following the oil price boom in the early-1970s⁹. About 0.8 million workers or about 52,000 workers per year went abroad and remitted \$6.5 billion or nearly \$0.44 million per year (Table 1).

61. During FY1991–FY2000, Bangladeshi workers went in large numbers to the newly industrialized countries of Southeast Asia, e.g., Malaysia, Republic of Korea and Singapore when these countries experienced a phase of rapid industrial and infrastructural expansion requiring cheap and unskilled workers¹⁰. This new trend, combined with the continued outflow of workers to the Middle East, nearly quadrupled the size of annual migration to more than 200,000. Remittances increased nearly three-fold to around \$1.3 billion per year. Finally, during FY2001–FY2009, with the opening of new markets for Bangladeshi workers in the East European countries and Italy, the annual migration received a further boost and doubled to

⁷ This chapter is based on the study: S. Raihan, B.H. Khondker, G. Sugiyarto, and S. Jha. 2009. Remittance and Household Welfare: A Case Study of Bangladesh. *ADB Economics Working Paper Series*. No. 189. Manila: Asian Development Bank.

⁸ D. Ratha, S. Mohapatra, and A. Silwal. 2010. Outlook for Remittance Flows 2010-11, *Migration and Development Brief 12*, Development Prospects Group, World Bank, April 23.

⁹ In 1976, the share of total overseas employment of Bangladesh especially in six Gulf States, i.e., Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates was 74.2%, which rose to 97.3% in 1991, but dropped again to 78.5% in 2009.

¹⁰ See, for example, T. de Bruyn and U. Kuddus. 2005. Dynamics of Remittance Utilization in Bangladesh. *International Organization for Migration Research Series*. No. 18. Geneva: International Organization for Migration.

about 405,000 workers per year. Remittance inflows increased four times to nearly \$4.8 billion annually.

62. Several causes could be cited for the continuing healthy growth in remittances. Workers are likely repatriating savings to presumably safer locations away from the crisis-affected financial markets abroad. Returnee migrant workers could also be transferring their accumulated savings to the home country. Further, migrants have been found to remit more money to their families when economic shocks lower earnings in the home country. Strict enforcement of the Anti-Money Laundering Act, making it difficult to remit money through informal channels, also helped divert remittances into the official channel.

Recent Policies to Boost Remittance Inflows

The Government of Bangladesh adopted various measures to ensure a smooth flow of migrant workers and to encourage inflow of remittances. In 2001, it established the Ministry of Expatriates' Welfare and Overseas Employment to protect the rights and interests of migrant workers in the host country.

In 2006, the government formulated an overseas employment policy to (i) promote opportunities at reasonable costs for short- and long-term migration; (ii) recognize migration-related fraudulent practices as an offense and formulate new laws to deal with such offences; (iii) encourage remittances through formal channels; and (iv) help returning migrants with social and economic reintegration within the country.

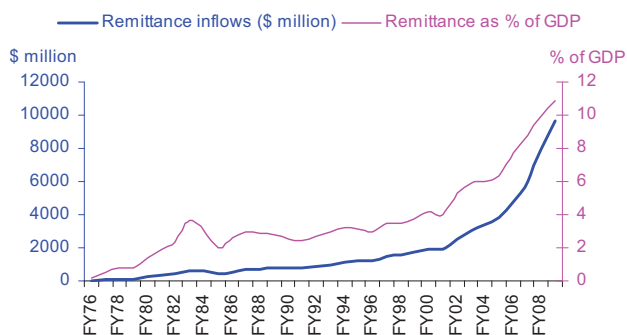
The new incentives (in addition to existing facilities to purchase wage earner's development bonds, and operate nonresident foreign currency deposit accounts and national savings accounts¹¹) introduced to encourage remittances through formal channels include the facility of an operating nonresident investor taka account for investment in shares and securities by out-of-country workers with foreign exchange earned abroad.

Bangladesh Bank approved the establishment of 295 exchange houses and set up 840 drawing arrangements abroad. In addition, it allows local banks to establish contacts with international exchange houses through drawing arrangements. It set up the Bangladesh automated clearinghouse to improve the remittance channel and payment system, and allowed mobile banking, using mobile phones, for prompt delivery of remittances through the countrywide area agent networks of mobile phone companies. These networks cover rural areas distant from bank branches. It introduced a remittance card for existing and prospective migrants that allows nominees of migrant workers to withdraw the remittance money through the point-of-sale terminals of bank branches and automatic teller machines.

Source: Economic Trends, Bangladesh Bank.

¹¹ Asian Development Bank. 2007. Overseas Worker's Remittances. *Bangladesh Quarterly Economic Update*, Asian Development Bank Bangladesh Resident Mission, pp. 21-28, Dhaka.

Figure 26. Remittance inflows into Bangladesh



Source: Economic Trends, Bangladesh Bank.

Figure 27. Growth of remittances and out-of-country employment

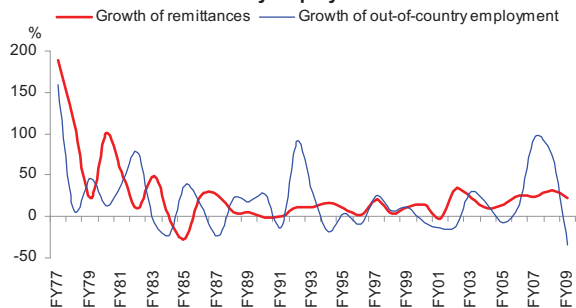


Table 1: Growth of Remittance Inflows and Number of Workers Leaving for Overseas Employment (FY1976–FY2009)

Period	Average remittance inflow (\$ million)	Remittance as % of GDP	Average annual growth of remittance	No. of workers leaving for overseas employment	Average annual increase of workers leaving for overseas employment	Remittance per worker (\$/year)
FY1976–FY1990	434.5	2.0	40.6	52,653	29.1	7,621
FY1991–FY2000	1,271.7	3.2	10.1	208,230	11.9	6,175
FY2001–FY2009	4,785.7	7.2	20.0	405,097	17.7	12,562

Source: Economic Trends, Bangladesh Bank.

Characteristics of Migration

63. Three distinct types of Bangladeshi migrants send remittances home: (i) migrants with higher education and earning high or middle income, who are living mainly in the United States and the United Kingdom; (ii) low-income migrants living in other industrialized countries; and (iii) low-skilled and low-wage workers residing for a given period in Middle Eastern countries such as Kuwait, Saudi Arabia and United Arab Emirates, or Southeast Asian countries such as Malaysia and Singapore.

64. A basic feature of Bangladeshi migrant workers is that they are mostly unskilled and semiskilled. From FY1976 to FY2009, about 70% could be classified as unskilled and semiskilled; the remaining 30% are classified as skilled and professionals (Figure 2). The unskilled and semiskilled workers have less than 10 years of schooling with no ability to communicate in languages other than Bangla. They have no institutional training on any specific subject, compelling them to seek employment in low-paying jobs, such as working in restaurants and shops, construction, farming, manufacturing, driving, cleaning, and maintenance. In any crisis, these workers are the first to be laid off and most have to quickly return home.

65. The skilled migrant workers receive training such as on light engineering, electrical works, and plumbing, and other industries, which helps them acquire more remunerative

overseas jobs. They are also better able to switch jobs and survive in a crisis. Professional workers including engineers, doctors, accountants, pharmacists, agriculturists, and teachers earn several times more than the unskilled workers. This category of migrant mostly live with their families abroad and spend a large part of their income there; they are thus unlikely to remit any major share of their earnings back to Bangladesh.

Figure 28. Migration by skills (FY1976–FY2009)

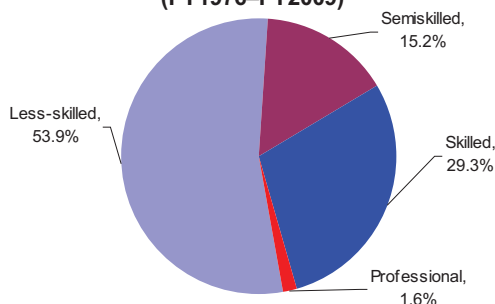
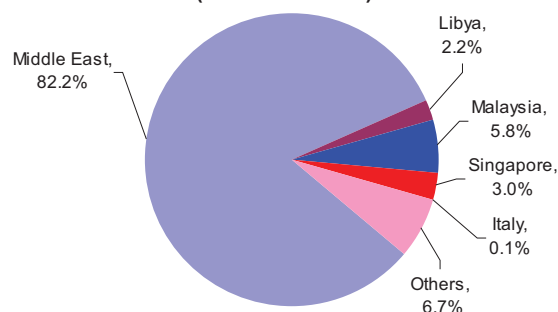


Figure 29. Migration by country of destination (FY1976–FY2009)



66. Among the destination countries, Saudi Arabia recruited the highest number of Bangladeshi workers, followed by the United Arab Emirates, Kuwait, Oman, Malaysia, and Singapore. Although Malaysia and Singapore started recruiting Bangladeshi workers only since the beginning of 1990s, these countries have already become important destinations. Qatar has also become a major destination; and more recently, the Republic of Korea, Libya, and the East European countries are hiring many Bangladeshi semiskilled and skilled workers.

Table 2: Share of Bangladeshi Migrant Workers by Country of Destination (%)

Period	Middle East	Libya	Malaysia	Singapore	Italy	Others
FY1976–FY1990	83.6	4.8	0.2	0.5	0.0	10.9
FY1991–FY2000	82.4	0.7	12.0	3.5	0.0	1.5
FY2000–FY2009	80.7	1.2	5.3	4.9	0.3	7.6

Note: Middle Eastern countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

Source: S. Raihan, B.H. Khondker, G. Sugiyarto, and S. Jha. 2009. Remittance and Household Welfare: A Case Study of Bangladesh. *ADB Economics Working Paper Series*. No. 189. Manila: Asian Development Bank.

67. The share of the Middle Eastern countries in terms of hiring Bangladeshi workers still remains high although it has declined over time (Table 2). New markets have been opening up for Bangladeshi workers. Malaysia and Singapore account for more than 10% of Bangladeshi migrant workers, and Italy and Libya have started recruiting them.

68. Bangladeshi female workers have also been finding jobs abroad (e.g., in Lebanon, Saudi Arabia and the United Arab Emirates) over the past few years. The number of female workers leaving for overseas jobs rose from about 10,000 in 2004 to more than 20,000 in 2008. Over the past 20 years, more than 100,000 Bangladeshi female workers have gone abroad for jobs.

Impact of Remittances on Poverty

69. A 2009 study used (i) a computable general equilibrium (CGE)-based modeling approach and (ii) a survey-based microeconomic approach to examine the impact of remittances on poverty (footnote 7).

Impact Based on a CGE Modeling Analysis

70. The CGE model captured the detailed accounts of circular flows of receipts and outlays in the Bangladesh economy involving sectors, factors of production, commodities, and institutions¹². A total of 26 sectors in the production activity and commodity accounts, nine factors of production, four current account transactions, and two consolidated capital accounts were considered.

71. The model simulated the impact on economic growth and poverty of a sharp decline in remittances. The simulation results are grouped into three subsections according to impact on (i) macroeconomics and sectors; (ii) factor markets; and (iii) household consumption, welfare, and poverty.

72. The model results show that following the shock, real GDP declined slightly compared with the base year. Manufacturing output rose robustly as exports were helped by the depreciation of the taka, with the decline in remittances reducing the supply of foreign exchange. The services sector contracted as resources were reallocated to the more productive export sector. Imports fell as imports became more expensive following the nominal depreciation and also because of lower domestic demand with the decline in remittances.

73. With regard to the returns to the factors, wage rates declined with the decline being more pronounced for agriculture. The decrease in returns to agricultural capital such as land, ponds, poultry, and cattle is higher than for nonagricultural capital.

74. The model results show that household consumption declined because of the remittance shock. The adverse impact is uniformly distributed across the representative household groups indicating the broad-based role of remittances in the economy.

75. The study examined the impact on poverty status of households in rural and urban areas using the Foster-Greer-Thorbecke (FGT) poverty measure—a poverty line defined as the minimum income required for subsistence consumption¹³. The study finds that the poverty situation of all household groups worsened because of the remittance shock through the fall in their income and consumption through direct and indirect effects. The headcount ratio, poverty gap index, and squared poverty gap index rose. The model results also confirm that poorest households suffer less because of their minimal involvement in migration, as various barriers prevent them from exploiting migration opportunities.

¹² The model was solved in comparative static mode, was developed using the social accounting matrix (SAM) 2005, based on (i) SAM 2000 prepared by the International Food Policy Research Institute, Washington, DC; (ii) *Bangladesh Economic Review*, the Ministry of Finance; (iii) *Export Receipts and Import Payments*, Bangladesh Bank; and (iv) *National Account Statistics*, Bangladesh Bureau of Statistics.

¹³ For details, J. Foster, J. Greer, and E. Thorbecke. 1984. A Class of Decomposable Poverty Measures. *Econometrica* 52 (3). pp. 761–766.

76. The study found that nonfarm rural households appear to suffer most, followed by urban low-educated, urban, and rural landless farmers because of their higher concentration among migration workers. The impact of remittance inflow was found to be lower for higher-educated households as the remitted income has an insignificant role in their total income.

Impacts Based on Microeconomic Analysis

77. The study examined the impact of remittances on poverty in Bangladesh using the Household Income and Expenditure Survey 2005 data. According to survey, the proportion of migrant households is only about 9.0% (905 of 10,080 sampled households) of the total sample. Table 3 shows that migrant households have higher expenditure than nonmigrant households as the mean expenditures in all individual categories of migrant households are higher than those of nonmigrant households. Another study found that the remittance dependency ratio among receiving households in Bangladesh is 61%, similar to that in other regions of the world¹⁴. Sharma and Zaman (2009) also found that migrant households consume higher quality food (such as fish and meat), dress better, buy more household appliances, and save a good part of their remittance receipts¹⁵.

Table 3: Summary Statistics of Household Expenditures by Commodity Category and Migrant Status in Bangladesh, 2005

Category	Without Remittances		With Remittances	
	Mean Expenditure (Tk/month)	Expenditure Share (%)	Mean Expenditure (Tk/month)	Expenditure Share (%)
Food	3,115.2	52.2	3,202.9	53.2
Education	432.3	7.2	479.7	8.0
Health care	196.0	3.3	243.4	4.0
Durables	55.3	0.9	61.1	1.0
House rent and repair	603.0	10.1	732.8	12.1
Others	1,566.7	26.3	1,301.1	21.6
Total expenditure	5,969.3	100.0	6,021.1	100.0

Source: S. Raihan, B.H. Khondker, G. Sugiyarto, and S. Jha. 2009. Remittance and Household Welfare: A Case Study of Bangladesh. *ADB Economics Working Paper Series*. No. 189. Manila: Asian Development Bank.

78. The study conducted a series of cross-section regressions to examine the link between remittance and expenditure patterns. The results confirm that international remittances have a positive and significant impact on food and house-related expenditures. In a recent survey, nearly 82% of migrant households reported using remittances for educational purposes, about 72% for obtaining treatment, and another 81% for purchasing medicines¹⁶.

¹⁴ M. Orozco. 2010. Migration, Remittances and Assets in Bangladesh: Considerations about their Intersection and Development Policy Recommendations. Paper presented at the National Seminar on The Bangladesh Household Remittance Survey 2009 organized by the International Organization for Migration on 12 May 2010.

¹⁵ M. Sharma and H. Zaman. 2009. Who Migrates Overseas and is it Worth Their While? An Assessment of Household Survey Data from Bangladesh. *Policy Research Working Paper 5018*. Washington, DC: World Bank.

¹⁶ International Organization for Migration. 2010. Bangladesh Household Remittance Survey 2009: Migration, Remittances and Assets in Bangladesh.