

Do we really have a crisis on the remittance front?

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WORKERS' remittance is the most important source of foreign exchange earning in Bangladesh. Although remittances account for about 60% of gross export receipts, in terms of net value addition and contribution to domestic demand it probably has more impact on the overall economy. It is also the fastest growing component, recording an average growth rate of 21.5% since 2000 and accounting for about 12% of GDP in 2008/09. Thus, the potential adverse impact of the global economic crisis on Bangladesh's remittance inflows is a legitimate concern.

Many countries are already experiencing the negative impact of the global crisis. This is occurring primarily in two forms; lower inflow of remittances in dollar terms and returning of workers from abroad in large numbers.

So far Bangladesh has not experienced any significant rise in workers returning from abroad and the inflow of remittances has also remained strong. On a net basis, workers are still going abroad in sizable numbers, albeit at a pace much slower than the record migration reported during the last two years (Fig 1). The days of workers going abroad in record numbers are certainly over, and the current record high growth in inflow of remittances (in excess of 20% per year) may not last very long. The real issue is how severe the slowdown or decline in migration and remittances will be.

Many countries in Eastern Europe and Central Asia have experienced severe remittance

shocks due to the movements of exchange rates among major currencies. The fall in euro relative to the dollar has hurt remittance income from the EU countries. Many former Soviet Union countries have experienced a drop in remittances due to a sharp depreciation of the Russian ruble. Remittances coming from the dollar-pegged Gulf Cooperation Council (GCC) region and the United States, accounting for 82.4% of the inflows into Bangladesh (Fig. 2), are not subject to such exchange rate movements. Remittances from countries like Malaysia and Singapore, with less exchange rate volatility, also helped protect Bangladesh's remittance inflows. However, remittances coming from the United Kingdom, Germany, Italy, and Australia suffered significantly due to the weakening of their currencies against the dollar. In particular, remittances from the UK and Germany declined by 15% and 26% during the July-February period, primarily due to the exchange rate factor. Remittance from Italy declined only modestly (3.7%) despite a much sharper depreciation of the euro against the dollar, indicating that the inflows increased significantly in terms of the euro. The same will be the case if we measure the inflows from the UK in terms of pound sterling. We do not expect workers to return from industrial countries like the USA, the UK, other European countries, and the industrialised Asia (Singapore, Hong Kong, South Korea and Japan). Essentially, the threat lies in the GCC and Malaysian markets. The GCC economies comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) — while homogeneous in many respects, are at different stages of construction boom. The Dubai market is certainly vulnerable. With the busting of the real estate bubble, property

prices have already fallen significantly and are likely to decline further in the coming months. The over-expansion that has already happened in Dubai certainly puts it in a different category. This may not even apply to Abu Dhabi, the largest oil producer in the UAE, which also has a much bigger resource base (with Abu Dhabi Investment Authority holding more than a trillion dollars in assets). Construction activity in Abu Dhabi also expanded at a measured pace compared with Dubai. Investment projects in Dubai may be temporarily halted or even abandoned, but those in Abu Dhabi are likely to continue for the most part. The rest of the GCC countries, accounting for 75% of GCC remittance to Bangladesh, are at early stages of the construction boom. In particular, Saudi Arabia the largest economy in the GCC has a long way to go in building its infrastructure. At the current \$52 per barrel oil price and cost of production ranging between \$1.5-3.0 per barrel, the Saudi budget is in good shape to continue with their massive social and physical infrastructure programs. We have to remember that the overall investment program in the GCC region was about \$2 trillion in 2008. Completion of this investment boom, even if curtailed significantly, will require another 5-10 years. The other important factor is the firmness of crude prices despite the severity of the current global economic crisis. Crude oil prices have already rebounded from their bottom of \$34 per barrel to more than \$52 within a short time. The moment the industrial economies start showing some signs of recovery, crude prices may very easily increase to about \$75 per barrel. Unlike the previous times, almost all-excess oil production capacity is in the Opec countries primarily with Saudi Arabia.

Thus, economic recovery in industrial countries, even if it happens after 2010, will certainly put the GCC

countries once again back into a large surplus position. The GCC governments are not likely to cancel major

infrastructure projects. In the meantime, what we can expect is continuation of the ongoing projects and some

delays in starting new ones.

Based on the considerations noted above, while Bangladesh should not be complacent, there is no need to panic.

The government should keep focusing on its medium-term objectives to broaden the market for Bangladeshi

workers, enhance the skill level and general knowledge of the workers through technical and language training;

and improve the understanding of workers' rights and responsibilities through general orientation programs.

Greater efforts must be made to attract remittances through the formal channel by reducing cost of transfers,

having faster and more convenient delivery services in rural areas, and making the presence of Bangladeshi

financial institutions or their representatives much more widespread in the GCC and other regions.

Attractive investment opportunities should be created in Bangladesh so that workers and other non-resident

Bangladeshis in the USA and Europe are attracted to invest their savings in their home country. Launching

infrastructure investment funds and popularising special bonds for the NRBs would be important in this regard.

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