



Impact of Remittance on Economic Growth in Bangladesh

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ABSTRACT

In Bangladesh, remittance is one of the most important economic variables in recent times as it has an impact on economic growth, helps in balancing balance of payments, increasing foreign exchange reserves, enhancing national savings and increasing velocity of money. For about two decades remittance has been contributing around 35% of export earnings. Moreover, it is greater than foreign aid and thus helps in lessening dependence on foreign aid remittance gets momentum in recent time in Bangladesh and is the second largest sector of foreign currency earnings after the garment; sector. If cost of imported raw materials is deducted from the foreign currency earning of the garments sector than it becomes the largest sector of foreign currency earnings. Remittance earning ; increasing day by day but at a lower rate than the increase in emigration from Bangladesh due to the increasing share of unskilled or semi-skilled labors than the professionals in international migration. The share of remittance in GNI (Gross National Income) is increasing day by day. Remittance affects almost all the macro-economic indicators of a country positively. Though there are also negative sides of remittance earning e.g. brain drain, its overall contribution to Bangladesh economy is very much effective.

Keywords: Remittances, Economic growth, GDP, Bangladesh

INTRODUCTION

The importance of foreign remittance in the economy of Bangladesh is widely recognized and requires little reiteration. Along with the readymade garment (RMG) sector and non-farm activities in the agriculture sector, remittance have been identified as one of the three key factors that have been responsible for reducing the overall incidence of poverty as well as maintain a healthy balance of payments in Bangladesh. Bangladesh joined in the 10 billion USD of remittance inflow in fiscal year 2010. The contribution of remittance inflow to balance of payment makes surplus balance to reduce deficit its and remittance inflow to GDP is also rising. The share of remittance inflow in balance of payment in the export earnings and import remittance of Bangladesh are 49.22% and 29.36% respectively which rise in economic growth.

Remittance is the second highest source of foreign currency earnings of Bangladesh after exporting of readymade garments. The World Bank ranked Bangladesh as eighth positions in the world for remittance inflow in 2015. If expatriates earnings are invested in productive field, they

can contribute to the output, growth and employment opportunities etc. remittance can play a supportive role in the boosting increase current account surplus. According to a recent study by the World Bank, remittance has helped to reduce the poverty level in Bangladesh by 1.5 percent. But the gross remittance decreased by 14.5 percent to USD 12769.5 million in fiscal year 2017 as compared to US 14931.16 million of fiscal year 2016. The remittance was lost in 5.17 percent of GDP, 49.2 percent of total export earnings and 29.4 percent of import payments in fiscal year 2017 [Bangladesh Bank 2017]. So it is a matter of concern, we should find out the reasons and find out the perfect solution.

Definition of remittance

The word remittance originates from the word "remit" which means to transmit money or funds in banking terminology. A remittance is a transfer of money by a foreign worker to an individual in his or her home country. Money sent home by migrants competes with international aid as one of the largest financial inflows to developing countries. A remittance is the funds an expatriate sends to his/her country of origin via



wire, mail, or online transfer. These peer-to-peer transfers of funds across borders are economically significant for many of the countries that receive them.

Types of remittance

The remittance can be classified into four types including – Family remittances, Community remittance, Migrant worker remittances and Social remittances.

- **Family remittances:** It refers to remittances that are sent by individual immigrants working in the foreign locations to their family, relatives or friends in their home country. These remittances are sent every month and they assist the families of the migrants to survive.
- **Community remittances:** It refers to the remittance that is sent by individual immigrants generally and also includes the remittance sent by various hometown associations to organizations and communities in their home country. This money has been used for the developmental activities of communities such as in building infrastructure, church, parks, and roads. It also offers health care to the poor.
- **Migrant worker remittances:** These remittances refer to the cash transfers done by migrant workers for sending the money to the families, friends and relatives back home. The migrant worker remittances make up a large chunk of money inflows into home country by the people who have migrated to foreign locations in the search of money, job or education.
- **Social remittances:** These remittances basically comprise of various ideas, practices, and social capital that make up the backbone of many remittances that flows from worker of one country to another. Thus social remittances assist the traditions and culture of one race or community, to socialize with the cultures and traditions of another community.

Remittance and economic growth

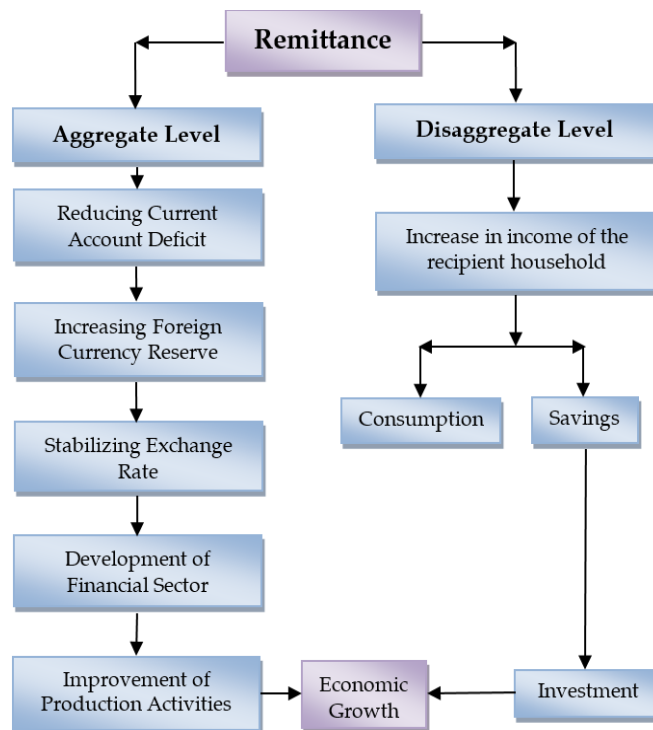
In the modern era, remittance has been appeared as a significant driving force of development for most of the developing countries, creating employment opportunities for the home workers to foreign countries. It supports a nation prominently to increase its national income and to alleviate poverty. Remittance is both positively and negatively related to the economic growth of any developing countries like Bangladesh. At the aggregate level, the inflow of remittance affects the economic growth positively through current account deficit, increasing foreign exchange reserves, stabilizing exchange rate, improving financial market and increasing the production activities.

On the other hand, the inflow of remittance has positive impact on economic growth in terms of consumption; savings and investment at disaggregate level. Even it can also reduce domestic macroeconomic volatility thereby encouraging greater domestic investment. Remittance

increases educational spending (Admas et al, 2003). Remittance has a positive impact on growth due to increasing saving rate.

We can see the relationship between remittance and economic growth by following figure-

Figure 1: Relationship between remittance and economic growth



Source: Created by the author

Remittance has a direct impact on the Bangladesh. The increasing flow of remittance to Bangladesh contributes to rapid growth of its economy, creates income opportunities, provides better living condition and facilitates infrastructural development.

Objectives of the Study

The main objective of the study is to identify the contribution of remittance to the economic growth of Bangladesh. The other objectives are:

- To estimate the share of investment, savings in total remittance received.
- To identified the impact of remittance on macroeconomic issues of Bangladesh.
- To find out the source of foreign remittance, nature of foreign remittance and their impact on balance of payment of Bangladesh.
- To suggest for increasing foreign remittance and liberalize the procedural difficulties and flaws.

REVIEW OF THE LITERATURE

There are many studies in remittance literature that has analyzed the relationship between workers' remittances

and economic growth. Studies that examined the relationship between remittances and GDP growth show mixed results. Majority of the existing studies illustrate the positive, direct and indirect, growth effect of remittances especially for the developing countries.

Akter S. (2016) conducted a study on remittance inflows and its contribution to the economic growth of Bangladesh. This paper investigated the impact of workers' remittance on economic growth through time series empirical regression and correlation analysis. The study finds that there is strong positive relationship between workers' remittances and GDP. Therefore, workers remittance is an important factor in the economic development of Bangladesh.

Chowdhury I. A. (2014) conducted a study on the impacts of remittance on the socio-economic condition of Bangladesh. This paper particularly explains the impacts of remittance on the socioeconomic condition of Bangladesh. The paper is written based on secondary sources, published documents on the impacts of remittance. The paper reveals that remittance has both positive and negative impacts on the socioeconomic condition of Bangladesh. However, the positive impacts are more influential than negative ones.

Rao and Hassan (2012) conducted a study on 40 high remittance recipient countries using a System GMM panel data analysis. This paper analyzed the direct growth effects of remittances and the growth effects of the channels through which remittances may affect growth by treating as conditioning variables. The study finds that remittances indirectly facilitate economic growth by increasing the ratio of Broad Money (M2) to GDP.

Siddique and Selvanathan (2012) conducted a study on remittance and economic growth on major South Asian countries (i.e., Bangladesh, India and Sri Lanka). This article investigated the causal link between remittances and economic growth by employing the Granger causality test under a Vector Auto Regression (VAR) framework using time series data over a 25-year period from 1980-2005. The empirical analysis identifies that remittances have a mixed response with the economic growth.

Das and Chowdhury (2011) investigated long run relationship between remittances and GDP of 11 top remittance-recipient developing countries including Bangladesh. They applied latest developed econometric techniques, i.e., panel co-integration and pooled mean group (PMG) approach. The results support a positive long run relationship between remittances and GDP. However, the magnitude of the remittance-GDP coefficient is quite small. Their result also implies that developing countries should formulate policies to divert this external resource into more productive sectors.

Paul and Das (2011) conducted a study on Bangladesh (from 1979 to 2009, a relatively liberalized regime) to

examine the remittance-GDP interaction in both the long run and short run with a comprehensive approach by applying unit root tests, co integration tests and specially the vector error correction (VEC) model to get the estimates on the co-integrating vector and short-run dynamics. The Study finds a long run positive relationship between remittances and GDP.

Jawaid and Raza (2014) is a study conducted by International Organization for Migration (IOM) on the effect of workers' remittances and its volatility on economic growth of five South Asian countries. This study investigated the effect of workers' remittances and its volatility on economic growth of five South Asian countries by employing long time series data from 1975 to 2009. The results confirm a significant positive long run relationship between remittances and economic growth in India, Bangladesh, Sri Lanka and Nepal, but a significant negative relationship in Pakistan.

Study on Bangladesh by Datta and Sarkar (2014), attempted to analyze the impact of remittances on economic growth, using time series econometric techniques, specifically, the auto regressive distributed lag (ARDL) framework taking only two variables remittance and GDP under consideration. The findings of this study show that there is a possibility of a long-run relationship between remittances and GDP, but there is no predictive causal relationship, neither in the short-run nor in long-run.

Giuliano and Ruiz-Arranz (2005) conducted a study with International Monetary Fund (IMF) on the impact of remittance to growth. The study analyzed over 100 countries data. This paper analyzed the relationship between remittances and growth and its interaction with the financial development of the recipient country. The study was conducted by using a Generalized Method of Moments (GMM) approach independent of the particular measure of financial sector development. The study used a newly constructed cross-country data series for remittances covering 73 developing countries over the period 1975-2002. It was found that remittances have promoted growth in less financially developed countries. The results suggest that remittances help to alleviate credit constraints on the poor, substitute for the lack of financial development, improve capital allocation, and therefore accelerate economic growth. The findings suggest that remittances can promote growth.

Ratha and Mohapatra, (2007) prepared a note for "G8 outreach event on remittance" to identify the macro-economic impact of remittances on development and concluded that remittances are the most important source of finance. In many developing countries, they are the biggest source of external financing and they also help in reducing poverty as well as they can increase standards of leaving of the people.

METHODOLOGY OF THE STUDY

This paper is fully based on secondary information. The relevant secondary data are collected from Bangladesh Statistics Department and Research Department of Bangladesh Bank (Central Bank of Bangladesh), Bangladesh Bureau of Statistics (BBS), Bangladesh Informatics Division (SID), Bangladesh Bank Bulletin, Economic Trend, Bangladesh Economic Review, Ministry of planning, Bangladesh Economic Update, various articles, Publications of the World Bank, several books, and web-sites, journal report etc. were also considered.

REMITTANCE FROM THE GLOBAL PERSPECTIVE

Over the last few decades, the flow of remittance has been persistently increasing across the globe. However, some of the developing countries like India, China, Mexico, and Philippines etc. hold the major share of entire remittance of the world. Despite the growth in remittance flows overall to developing countries, the recent global economic recession has made remittance flows a bit slow-moving to some regions. Europe and Central Asia and Sub-Saharan Africa have been especially affected, while South Asia and the Middle East and North Africa remain fairly better. Table-1 explains the flow of remittance of the top 10 countries during 2008-2015.

Table 1: Top 10 remittance (in billion US\$) receipt countries

Country	Year							
	2008	2009	2010	2011	2012	2013	2014	2015
India	49.98	49.20	53.48	62.50	68.82	69.97	70.97	72.20
China	47.49	41.60	52.46	61.58	57.99	59.49	61.49	63.90
Philippines	18.63	19.96	21.56	23.05	24.61	26.70	27.90	29.70
France	26.04	16.06	19.46	22.56	22.05	23.34	23.94	24.60
Mexico	16.28	22.08	22.08	23.59	23.37	23.02	24.50	25.70
Nigeria	19.21	18.37	19.82	20.62	20.63	20.89	20.88	20.89
Egypt	8.69	7.15	12.45	14.32	19.24	17.83	19.83	20.40
Germany	8.94	12.34	12.79	14.52	15.14	15.20	16.60	17.50
Bangladesh	10.97	10.74	11.28	12.96	14.24	13.86	15.10	15.80
Belgium	10.42	10.44	10.29	10.98	10.16	11.11	11.11	11.10

Source: World Bank. Data access on April 24, 2016.

Table 1 depict that in 2015, India and China, the two economic giant of Asia, received the largest amount of remittance followed by Philippines, France and Mexico respectively, while Bangladesh earns about US\$15.80 billion securing tenth position. India and China are likely to gradually reduce the export of natural persons with their continued growth creating an opportunity for other countries including Bangladesh to export more persons.

REMITTANCE FLOWS TO BANGLADESH

Evidence shows that Bangladeshi citizens started migration temporarily to other countries in mid- 1970s. Since then, the cumulative number of migrants has been progressively increasing though there observed some fluctuations also. At present, there are almost a total of 8.6 million Bangladesh migrants who are spread over the world in different countries. About two lakh and fifteen

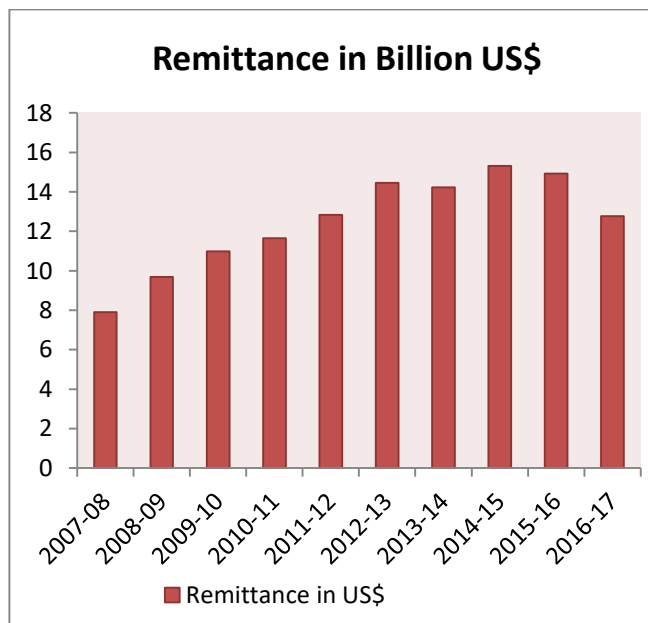
thousand Bangladeshi have migrated to abroad during July-September 2017.

Table 2: Flow of remittance in Bangladesh during 2007-08 to 2016-17

Fiscal Year	Remittance
	(In Billion US\$)
2007-08	7.91
2008-09	9.69
2009-10	10.99
2010-11	11.65
2011-12	12.84
2012-13	14.46
2013-14	14.23
2014-15	15.32
2015-16	14.93
2016-17	12.77

Source: Bangladesh Bank. 2016

Figure 2: Remittance flow in Bangladesh during 2007-08 to 2016-17



Source: Bangladesh Bank. 2016

Table 2 shows the remittance flow in billion US\$ during 2007-08 to 2016-17. It is evident from the table that in 2014-15 fiscal year total remittance was recorded 15.32 billion US\$, which was approximately doubled in absolute term from 2007-08 by 7.91 billion US\$. However, remittance flow has reduced in 2016-17 fiscal year to 12.77 billion US\$ as compared to 2015-16 fiscal year, which was 14.93 billion US\$. That means the remittance in the 2016-17 fiscal year is the lowest in the last five years, according to the latest Bangladesh Bank data.

Country-wise remittance inflows in Bangladesh

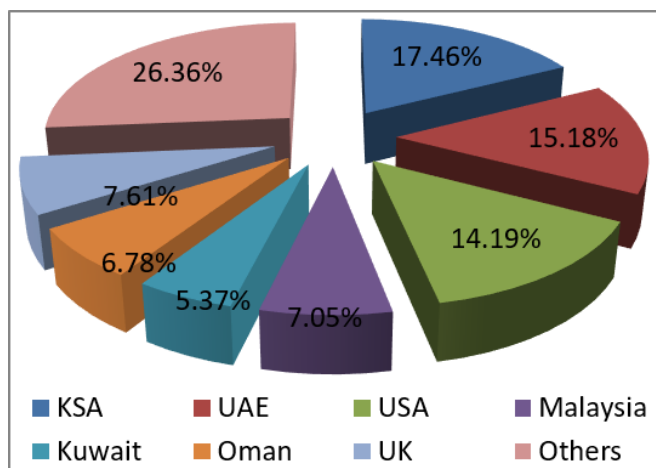
Remittance earning in Bangladesh has come from all over the world. Maximum people of Bangladesh have migrated in Gulf countries, about two-third of remittance have come

from these countries. Among them maximum remittance come from KSA, UAE, Qatar, Oman, Bahrain, Kuwait etc. As a single country KSA, UAE and USA are the top remittance sending countries. The World Bank report titled "Migration and Development Brief April, 2016", finds that, Bangladesh attained the 8th position in 2015 among the world's top ten remittance earner countries and 3rd in South Asian region. Now we can see some data on country wise remittance inflows in FY 2016-17.

Table 3: major country wise remittance inflows (in billion US\$) in Bangladesh, FY 2016-17

Major Countries	Remittance Inflows in Billion US\$
KSA	2.86
UAE	2.61
Qatar	0.74
Oman	1.13
Kuwait	1.28
United Kingdom	1.07
Italy	0.69
Malaysia	1.18
Singapore	0.37
USA	2.17

Figure 3: Major country-wise share (%) of remittance inflows I total remittance inflows: July-September 2017



Source: Statistics Department & Foreign Exchange Department, 2016. Bangladesh Bank

We can observe that maximum remittance in FY 2016-17 has come from KSA. It was about 2.86 billion US\$. UAE and USA are in 2nd and 3rd position respectively. 2.61 billion US\$ has come from UAE and 2.17 billion US\$ has come from USA. Moreover, remittance has come from all over the world. Bangladeshi government has made some immigration policies migrate Bangladeshi worker to other countries, especially for Malaysia.

Country-wise remittance inflow during July-September 2017 shows that the largest amount of remittance has been received from KSA (USD 591.99 million), which is 17.5 percent of total remittance inflows (Figure-3), followed by UAE (15.2 percent), USA (14.2 percent), United Kingdom

(7.6 percent), Malaysia (7.1 percent), Oman (6.8 percent), Kuwait (5.4 percent) and other countries (26.4 percent).

REMITTANCE AND ITS IMPACT ON MACROECONOMIC ISSUES

Investment, Savings and Expenditure in Selected Heads (In Taka) as Proportion to the Remittance

In this section we can see the investment, savings and expenditure in selected heads (in taka) as proportion to the total remittance received by the households in 2016 based on the survey report of Statistics Informatics Division (SID). The main objective of the survey was to investigate the investment invested directly from the remittance; savings from remittance; expenditure in selected heads as proportion to the remittance received in 2015 by the remittance receiving households. Survey was conducted in all district level.

Generally savings is a common characteristic of the households in Bangladesh. They usually save from the precautionary objective. However, they do savings not only to meet unpredicted expenditure but also to do investment. But neither all savers become investors nor all savings are invested. So, there is a divergence between saving and investment that are made out of remittance. Here we examine only the expenditure in some selected heads for productive purposes, such as- purchase of industry, business entities, shop etc; dwelling house/ flat purchase; land purchase; expenditure on own/ joint industry, business, shop; purchase of share/ bond; MLM; purchase of gold/ diamond jewelry; repayment of loan; land mortgage etc.

Table 3: Distribution of Investment, Savings and Expenditure in Selected Heads (In Taka) as proportion to Remittance RRHH by Division, 2016

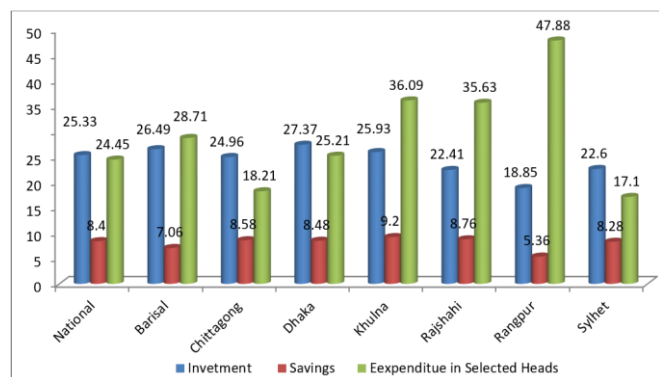
Division	Average Investment (In Taka)	Average savings (In Taka)	Average Expenditure (In Taka)
National	76546.50	25386.45	73879.46
Barisal	75713.90	20174.41	82064.18
Chittagong	74401.31	25560.82	54247.00
Dhaka	98469.36	20528.64	90712.86
Khulna	60484.25	21464.12	84166.95
Rajshahi	54442.06	21287.70	86551.12
Rangpur	44194.47	12559.41	112243.67
Sylhet	75288.30	27570.00	56962.77

Here RRHH means Remittance Receiving Households

Source: Survey report on Remittance (SID) 2016. Bangladesh Bureau of Statistics

So we can see Dhaka invest most from remittance than any other district, it was 98469.36 Taka. Sylhet is in highest position in case of savings, it was 27570.00 Taka and Rangpur is in highest position in case of expenditure, it was 112243.67 Taka. Now we can observe the share of investment, savings and expenditure as percentage of total remittance.

Figure 3: Investment, Savings, Expenditure in Selected Heads as percentage of Remittance by Divisions, 2016



Source: Survey report on Remittance (SID) 2016. Bangladesh Bureau of Statistics

These figures are significantly dissimilar across the divisions. However, the highest figure is recorded in Rangpur (72.08%), which, so far, indicates that consumption spending from remittance in Rangpur is comparatively low. On the other hand, the total figure of investment, savings and expenditure in selected heads is the lowest in Sylhet, 47.98%, which perhaps implies that consumption spending from remittance in this division is moderately high.

Total investment, savings and the expenditure in selected heads of the remittance receiving households as percentage share of total remittance are shown in Table-3. The survey reveals that at national level, out of total remittance received by the RRHHs in 2015, 58.18% is used in investment, savings and to meet the expenditures in selected heads while the rest portion (41.82%) is likely used to meet the food and non-food consumption expenditures.

Remittance as percentage of GDP, Export and Import and Its Growth

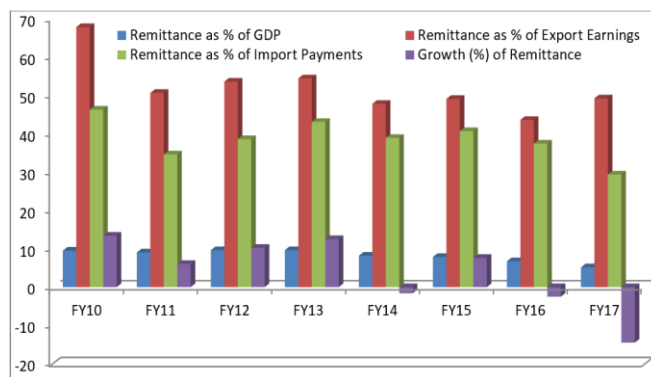
Remittance inflow to Bangladesh experienced 552.3 percent growth in FY13 over FY03 and the size of yearly remittance inflow in FY13 is more than twenty three times over the inflow of FY95. Contribution of remittance inflow to GDP is also rising. The share of remittance inflow in GDP for Bangladesh was 7.5 percent in FY07 which has reached to 9.6 percent in FY13. It stood at 5.17 percent in FY17.

Table 4: Remittance as % of GDP, Export, Import and its Growth

Fiscal Year	Remittance as % of GDP	Remittance as % of Export Earnings	Remittance as % of Import Payments	Growth (%) of Remittance
FY10	9.52	67.80	46.29	13.40
FY11	9.05	50.64	34.61	6.03
FY12	9.63	53.58	38.59	10.24
FY13	9.64	54.43	43.07	12.51
FY14	8.21	47.78	38.91	-1.61
FY15	7.85	49.08	40.67	7.64
FY16	6.74	43.59	37.42	-2.51
FY17	5.17	49.22	29.36	-14.48

Source: Quarterly report on Remittance (July-September) 2017; Bangladesh Bank

Figure 4: Remittance as % of GDP, Export, Import and its Growth



Source: Quarterly report on Remittance (July-September) 2017; Bangladesh Bank

Above table shows the remittance as percentage of GDP, export, import and growth of Bangladesh economy. In fiscal year 2010 remittance as percentage of GDP, export earnings, import payments and growth rate was 9.52, 67.80, 46.29 and 13.40 respectively. In recent years, remittance growth rate is decreased by 14.48 percent to USD 12769.5 million in FY2017 compared to USD 14931.16 million of FY 2016. It is 5.17 of GDP earning 49.2 percent of total export earnings and 29.4 percent of import payments in FY 2017.

CONCLUSION AND POLICY RECOMMENDATIONS

Remittance is an enormous source of foreign exchange earnings in Bangladesh. It has emerged as a key driver of economic growth and poverty reduction. It can help to improve a country’s development prospects, maintain macroeconomic stability and mitigate the impact of adverse shocks. The analysis of the study indicates that in recent year’s remittance growth decreased though migration grew gradually.

On the other hand, remittance is also very sensitive to the GDP of the six host countries. In fact, it is really tough for Bangladesh to maintaining the rising trend in remittances in the face of low wages and decreasing demand of migration in the labor importing countries. However, Bangladesh has to strive hard to maintain its commendable liaison record with the labor-importing countries, especially in the Middle East and Malaysia.

As remittance brings both positive and negative impacts to the socioeconomic condition of Bangladesh and the positive impacts are more effective than the negative one, the government of Bangladesh and other relevant associations need to consider with due importance.

- For government, several rule and regulation favorable to the migrants and remittance flow should be formulated.
- Several investment opportunities can be created so that the remittances of transnational migrants can be utilized properly.

- Government Organizations (GOs) as well as Non-Government Organizations (NGOs) should consider the interest of international migrants and work for making congenial environment of sending money to the country. They can consider bilateral agreements with the destination countries so that the interests of the migrants can be promoted.
- The related institutions should be concerned about the rights of migrant workers so that they can get favorable environment from the beginning of the migration to the returning phases.
- In additions government should introduce provisions of sending money with low cost as well as it can make sure that at the time of collecting remittance in the home the sender and receiver are not required to pay extra fees.
- Above all, NGOs can launch awareness programs for the families of the remittance recipient families so that they can be provided with guidelines of proper utilization of remittance.
- Finally, researchers should consider the prospects of remittance in respect to the development of Bangladesh and should work on to find out the problems and prospects related to international migrants and their earning remittances.

Therefore, remittance is very vital for the acceleration of economic growth in Bangladesh. Remittance has some problems also but they are very negligible in comparison to its overall benefit. So, government, concerned authorities and the people of Bangladesh have to take proper care about remittance considering its importance in our economy.

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