

## **Foreign Exchange Dealings; Bangladesh Perspective**

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### **Abstract**

*This study examine the overall foreign exchange position of Bangladesh, highlight the policy regarding foreign trade, finding the reasons for high trade deficit, the contribution of remittance to the foreign currency reserve and to identify the foreign exchange market participant of Bangladesh. The country's economic growth, which has been stable for several years, is driven by wire transfers from emigrant workers and by revenue obtained from the exports clothes. Bangladeshi workers in abroad have a greater contribution to the foreign currency reserve of the country having a growth of 10.26 percent in the fiscal 2011-12. The amount of remittance during the period was \$ 12,846.05 million. Bangladesh's import needs are extensive; thus the rapid incensement of exports is in need of attention. To facilitate the imports financing and to trim down the country's reliance on foreign aid, the Government of Bangladesh should introduce some realistic activity to enhance foreign exchange earnings. However, the global trade scenario has uncovered structural boundaries of the Bangladesh economy, posing a variety of challenges for the country that has underdeveloped technology and a low capital base. The country has substantial reserves of natural gas, which constitute the bulk of the revenue. Factors that fuel domestic demand are agriculture and industrial investments in the private sector. An efficient management of these resources can play a crucial role to attract foreign direct investment (FDI) in the export based industries, and then the country will be relaxed from the large trade deficit. Rapid population growth, general political strikes, poor infrastructures, weak financial system and inefficient public sector, as well as a resistance to exploiting the country's rich natural resources and a limited availability of capital, are all factors restricting economic growth of the country.*

### **1. Introduction**

International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history (see Silk Road, Amber Road), it's economic, social, and political importance has been

on the rise in recent centuries. Trade has a significant value to the total developmental effort and national growth of all economies including Bangladesh. It particularly plays a crucial role in the development plan of Bangladesh where foreign exchange scarcity constitutes a critical bottleneck. Export trade can largely meet 'foreign exchange gap', and export growth would increase the import capacity of the country that, in turn, would increase industrialization, as well as overall economic activities. Bangladesh's import needs are substantial; hence the need to rapidly increase exports is immediate. In order to finance the imports and also to reduce the country's dependence on foreign aid, the Government of Bangladesh has been trying to enhance foreign exchange earnings through planned and increased exports. However, the global trade scenario has exposed structural limitations of the Bangladesh economy, posing a variety of challenges for the country that has underdeveloped technology and a low capital base (Rahman 2007). Though some previous researcher have worked in the selected area but there is a lack of guidance for the business owner who willing to start business regarding export and import. In addition to this foreign investor and researcher may also be benefited.

## **2. Objectives Of The Study**

- I. To identify the various foreign exchange dealings between Bangladesh and rest of the world.
- II. To discover the reasons for high trade deficit of the country.
- III. To diagnosis the condition of balance of payment and foreign reserve.
- IV. To present the effects of recent exchange rate instability to the foreign exchange dealings of Bangladesh.

## **3. Literature Review**

Huchet-Bourdon and Korinek (2011) have conducted a study to examine the effects of exchange rate volatility on international trade flows in some selected countries like China, the Euro area and the United States in two specific sectors, agriculture and manufacturing & mining. The study has found that the exchange volatility impacts trade flows slightly. Exchange rate levels, on the other hand, affect trade in both agriculture and manufacturing and mining sectors but do not explain in their entirety the trade imbalances in the three countries examined. Nuroğlu and Kunst (2012) have reviewed a study on "The effects of exchange rate volatility on international trade flows: evidence from panel data analysis and fuzzy approach" to find out the impact of exchange rates and their volatility on bilateral trade flows among European countries from 1964 to 2003 with the help of panel data analysis and a fuzzy approach. They have shown a hypothesis in the study that the effects of exchange rate volatility on trade flows can be approximated by the fuzzy logic and it can be used as a complement to statistical models. Especially in some cases where there is no data or the data is missing. If there is some background information about the topic studied then the Fuzzy

logic can give the user an approximate results. Clark Tamirisa and Wei with Sadikov and Zeng (2004) have a study on Exchange Rate Volatility and Trade Flows to examine the effect of exchange rate and their volatility on trade flows on behalf of IMF. In the study, there is no robust evidence of a large negative effect of exchange rate volatility on trade. This suggests that, from the perspective of enhancing trade, exchange rate volatility is not likely to be a major policy concern. This does not rule out the possibility that large exchange rate volatility could affect an economy through other channels. Hodge (2005) has shown a comparative study on The Effect of Exchange Rate Volatility on Trade and Employment: A Brief Review of the Literature. The concern of the study was to examine the relationship of exchange rate volatility between international trade and employment or unemployment in the countries concerned. The evidence suggests that exchange rate volatility has only a small effect on international trade, and this weakens the case for a strong effect of volatility on employment since changes in the trade balance are the channel via which changes in exchange rates are transmitted to growth and employment. Cheong, Mehari, Pattichis and Williams (2002) have their study on Exchange rate volatility and UK Exports: Implication for EMU Membership. The findings of the study indicate that, exchange rate uncertainty depresses international trade for the major manufacturing categories analyzed. This recommendation from the finding lends support to the proposition that adoption of the euro by the UK would enhance the export performance of the country. McKenzie (1999) has reviewed a study on The Impact of Exchange Rate Volatility on International Trade Flows to identify the issues that have a contribution to the development of the debate and to examine whether any general direction for consensus may be found. Gomes, Takami and Brandi (2008) have studied on Foreign Exchange Volatility Information: an investigation of real-dollar exchange rate having an aim to verify whether contains useful information about unexpected large magnitude returns. The results of the study indicate that implied volatilities indeed provide useful information on unusual returns and also work as a useful forecaster for observed volatility. Adubi and Okunmadewa, (1999) have found significant findings by conducting a study on Price, exchange rate volatility and Nigeria's agricultural trade flows: A dynamic analysis. The result of the study indicates that the volatility, frequency and instability of the exchange rate movements since the beginning of the floating exchange rate raise a concern about the impact of such movements on agricultural trade flows. Ahmed (2009) has conducted a study on Exchange Rate Volatility and International Trade Growth: Evidence from Bangladesh. The study result shows that exchange rate volatility has a negative and major effect both in short run and long run with Western European and North American countries. There also have a negative and significant relationship between exchange rate volatility and the international trade growth.

#### 4. Methodology of the Study

A survey has been conducted to collect primary data as needed in the study. The primary data, namely types & determinants of risk; techniques to measure risk and so on have been collected through a structured questionnaire. In the questionnaire, both the open ended and closed ended options have been considered. For this study, fifty related professionals, Individuals and authorized body namely Bangladesh Export Processing Zone Authority, BGMEA, Bangladesh Bank have been selected for the study purpose. Some secondary data have been used in the study related to the Foreign Exchange Dealings in Case of Bangladesh. The data related to Foreign Currency Reserve, Remittance, Balance of Payment, Inflation and some others have collected from different financial and non-financial source like Bangladesh Bank (BB), Investment Board of Bangladeshis.

#### 5. Findings And Analysis

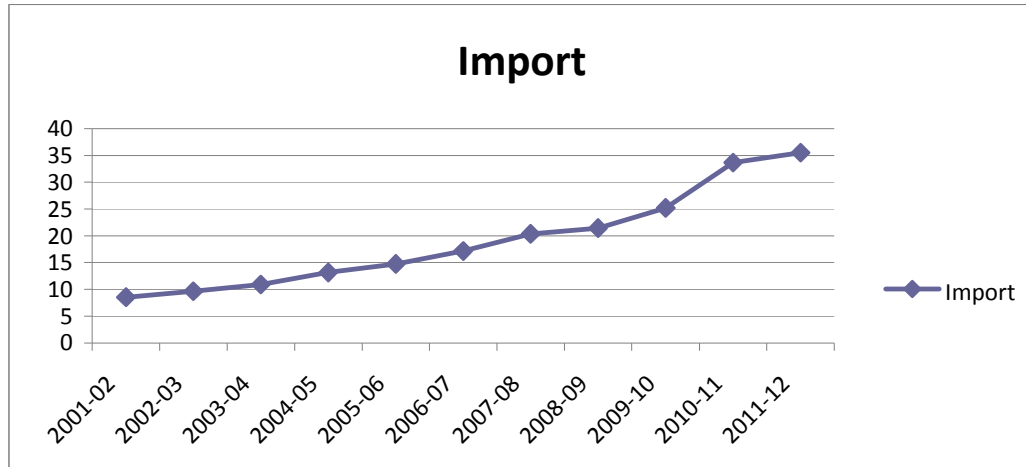
##### 5.1 Position of Import

**Table 1: Position of Import over the Year**

Year	Import (Billion US \$ )
2002-03	9.66
2003-04	10.90
2004-05	13.15
2005-06	14.75
2006-07	17.16
2007-08	20.37
2008-09	21.44
2009-10	25.21
2010-11	33.65
2011-12	35.51

*Source: Bangladesh Bank*

In the chart below, the amount of import is shown with respective year. The financial year 2001-02 had an import amounting US\$ 8.54 billion. Over the ages, the overall import of the country is still higher than that of export and the difference has been wider between them. Total import becomes US\$ 35.51 billion in the financial year 2011-12. The country is facing a pressure on its balance of payment because of the high import.



*Figure 5.2: Import Trend over the Year*

## 5.2 Position of Exports

**Table 5.4 Export Position over the Year**

Year	Export (Billion US \$)
2002-03	6.55
2003-04	7.60
2004-05	8.65
2005-06	10.53
2006-07	12.18
2007-08	14.11
2008-09	15.57
2009-10	14.76
2010-11	20.31
2011-12	22.84

*Source: Bangladesh Bank*

In the chart below, the amount export is shown with respective year. The financial year 2001-02 had an export amounting US\$ 5.99 billion which had a downward trend compared to import. Total import becomes US\$ 35.51 billion in the financial year 2011-12 and export becomes US\$ 22.84 billion. The country can get relaxed having a high export trend in its balance of payment.

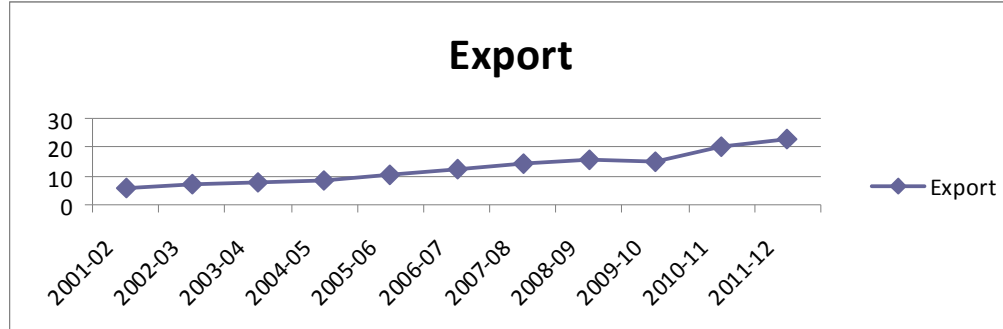


Figure 5.3: Export trend over the year

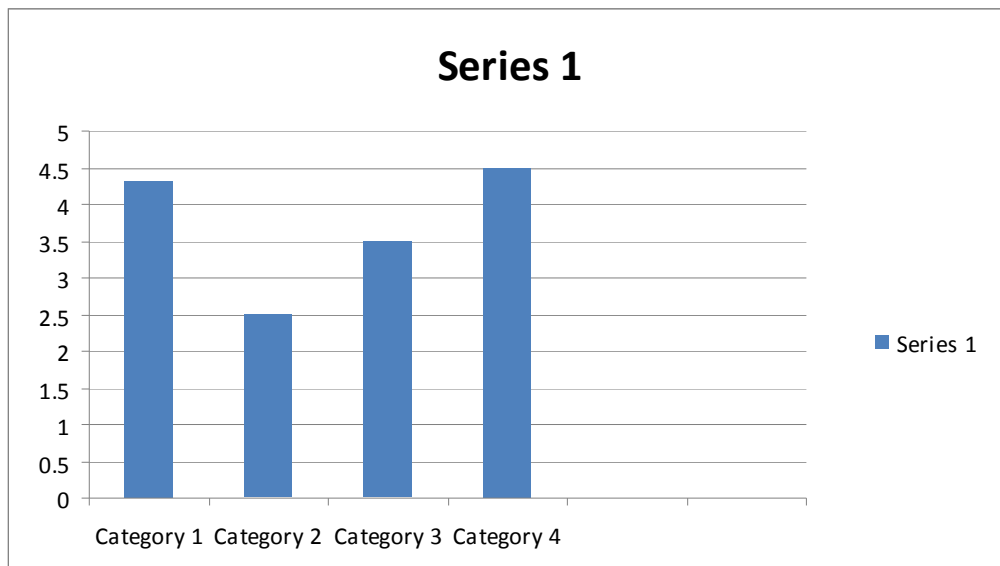
### 5.3 Position of Remittance

Table 5.7: Yearly data of Wage Earners Remittance

Year/Mont	Remittances	
	In million US dollar	In million Taka
2012-2013*	5012.23	290640.82
2011-2012	12843.43	1018827.79
2010-2011	11650.32	829928.90
2009-2010	10987.40	760109.59
2008-2009	9689.26	666758.50
2007-2008	7914.78	542951.40
2006-2007	5998.47	412985.29
2005-2006	4802.41	322756.80
2004-2005	3848.29	236469.70
2003-2004	3371.97	198698.00
2002-2003	3061.97	177288.20
2001-2002	2501.13	143770.30

Source: Bangladesh Bank

The wage earners' remittance to Bangladesh now constitute the single largest source of foreign exchange earnings and this has been playing a critical role in assuaging the foreign exchange constraint and advocating the balance of payments, enabling imports of capital goods and raw materials for industrial production. A massive outflow of Bangladeshi migrant workers to the countries, particularly in Middle East, East Asia and Europe are playing an important role to continue the growth of remittance inflow. At the micro level of the country, remittances have resulted in higher standard of living of the workers family.



*Figure 5.4: Remittance growth in million US\$ over 6 years*

#### **5.4 Bangladesh Balance Of Payments**

The balance of payments of Bangladesh for 2011-12 shows a negative figure of Trade Balance that is US\$ -7995 million and US\$ -7744 in the previous financial year. The current account balance in financial year 2011-12 is US\$ 1630 million and US\$ 885 million in the previous year. The capital account balance recorded a decreasing trend in current fiscal compared to that of previous fiscal which is US\$ 469 million in 2011-12 and US\$ 642 million in session 2010-11. The financial account also has a negative balance of US\$ -955 million in 2011-12 where the contribution of Foreign direct investment (net) is US\$ 995 million and Portfolio investment (net) is US\$ 198 million and the financial account balance in 2010-11 was US\$ -1920 million. Overall balance in 2011-12 shows US\$ 494 million which is a positive figure compared to negative balance of 2010-1 US\$ -656 million.

**Table 5.9:** Position of Balance of Payments

(In million US\$)			
Items	2010-11 July-June	2011-12 July-June	% Changes 3 over 2
1	2	3	4
<b>Trade balance</b>	-7744	-7995	
Export f.o.b.(including EPZ)	22592	23992	6.2
Of which : Readymade garments	17914	19090	6.56
Import f.o.b (including EPZ)	30336	31987	5.44
<b>Services</b>	-2369	-2566	
Credit	2573	2684	4.31
Debit	4942	5250	6.23
<b>Primary income</b>	-1454	-1508	
Credit	124	195	57.26
Debit	1578	1703	7.92
Of which: Official interest payments	345	373	
<b>Secondary income</b>	12452	13699	
Official transfers	103	105	
Private transfers	12349	13594	10.08
Of which : Workers' remittances(current a/c portion)	11650	12843	10.24
<b>Current Account Balance</b>	885	1630	
<b>Capital account</b>	642	469	
Capital transfers	642	469	
Others	0	0	
<b>Financial account</b>	-1920	-955	
Foreign direct investment (net)	775	995	28.39
Portfolio investment (net)	-28	198	
Other investment (net)	-2667	-2148	
Medium and long-term (MLT) loans	1032	1460	41.47
MLT amortization payments	739	789	6.77
Other long term loans (net)	-101	-57	
Other short term loans (net)	531	242	



Trade credit (net)	-2569	-1450	
Other assets	-661	-1606	
DMBs and NBDCs (net)	-160	52	
Assets	452	443	
Liabilities	292	495	
<b>Errors and omissions</b>	-263	-650	
<b>Overall Balance</b>	-656	494	
<b>Reserve Assets</b>	656	-494	
Bangladesh Bank (net)	656	-494	
Assets*	-481	293	
Liabilities	175	-201	
<b>Memorandum Items :</b>	10538	10636	
Gross reserves (before valuation adjustments)			
Valuation Adjustment During the Period	-374	272	
Gross reserves (after valuation adjustments)	10912	10364	
In months of imports of goods and services	3.71	3.3	
ODs to ADs and Reserve held at OBUs	269	-568	

*Source: Statistics Department, Bangladesh Bank.*

## 6. Conclusion

Despite the structural limitations of the Bangladesh economy, the export sector performed well over the decade. The export growth rate of Bangladesh was higher than the export growth rate of the world and the SAARC countries. The import growth rate of Bangladesh was also higher than that of the world and the SAARC countries during the 1980s and 1990s. Bangladesh's import share as percentage of world and SAARC countries' imports has also increased over the years. The export composition of Bangladesh has been changing over the years. The share of primary commodities has decreased, and that of manufactured commodities has increased over the years. In terms of growth rate the performance of manufactured commodities is better than that of primary commodities. The analysis of import composition revealed that import share of principal primary commodities has declined while that of principal industrial and capital goods has slightly increased over the past years. The import growth rate for principal industrial goods is the highest, followed by capital goods and principal primary goods in FY 1999-2000 and 2001-01. The import share of consumer goods and materials is around two-thirds of total imports and that of capital goods and materials is around one-third of total import over the years. Though import payments also increased with export earnings, the import growth was not as robust as export growth. The striking features

for the strong balance of payment of Bangladesh are remittance and export earnings. But the main concern of the country is increasing trade deficit with India and China. To address it, there is no alternative but to initiate incensement of export without duties on it. New markets for the country's exports must also be explored to secure more stability in the export sector. To reduce the dependence on imported inputs for the readymade garments and knitwear industries, Bangladesh must make massive investments in both yarn and fabric manufactures. This would create forward and backward linkages; and current trade deficit would improve.

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